Financial statements

Consolidated interim financial statements for the first quarter 2019

Unaudited condensed consolidated interim financial statements for the first three months of 2019

Consolidated statements of income and comprehensive income (unaudited)

Consolidated income statement

	Three months ended 31 March	
(thousands of €, except per share data)	2019	2018
Revenues	33,047	37,907
Other income	7,872	6,931
Total revenues and other income	**40,919**	**44,838**
Research and development expenditure	(83,195)	(69,765)
General and administrative expenses	(9,221)	(6,697)
Sales and marketing expenses	(1,746)	(413)
Total operating expenses	**(94,161)**	**(76,875)**
Operating loss	**(53,242)**	**(32,036)**
Financial income	6,999	1,610
Financial expenses	(2,345)	(6,794)
Loss before tax	**(48,588)**	**(37,221)**
Income taxes	(68)	(62)
Net loss	**(48,656)**	**(37,283)**
Net loss attributable to:		
Owners of the parent	(48,656)	(37,283)
Basic and diluted loss per share	**(0.89)**	**(0.73)**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated statement of comprehensive income / loss (-)

	Three months ended 31 March	
(thousands of €)	2019	2018
Net loss	**(48,656)**	**(37,283)**
Items that may be reclassified subsequently to profit or loss:		
Translation differences, arisen from translating foreign activities	267	(3)
Other comprehensive income / loss (-), net of income tax	**267**	**(3)**
Total comprehensive income / loss (-) attributable to:		
Owners of the parent	(48,389)	(37,286)

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated statements of financial position
(unaudited)

(thousands of €)	31 March 2019	31 December 2018
Intangible assets	6,497	3,632
Property, plant and equipment	49,542	23,137
Deferred tax assets	2,511	2,514
Non-current R&D incentives receivables	76,029	73,443
Other non-current assets	6,377	7,919
Non-current assets	**140,956**	**110,645**
Trade and other receivables	15,347	18,609
Current R&D incentives receivables	11,645	11,203
Cash and cash equivalents	1,222,901	1,290,796
Other current assets	9,351	8,244
Current assets	**1,259,244**	**1,328,851**
Total assets	**1,400,200**	**1,439,496**
Equity and liabilities		
Share capital	237,348	236,540
Share premium account	1,280,452	1,277,780
Other reserves	(735)	(735)
Translation differences	(1,290)	(1,557)
Accumulated losses	(340,020)	(297,779)
Total equity	**1,175,755**	**1,214,249**
Retirement benefit liabilities	3,851	3,764
Non-current lease liabilities	20,409	–
Other non-current liabilities	736	1,578
Non-current liabilities	**24,996**	**5,342**
Current lease liabilities	4,580	–
Trade and other liabilities	69,880	68,928
Current tax payable	1,168	1,175
Current deferred income	123,822	149,801
Current liabilities	**199,450**	**219,905**
Total liabilities	**224,445**	**225,247**
Total equity and liabilities	**1,400,200**	**1,439,496**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated cash flow statements
(unaudited)

	Three months ended 31 March	
(thousands of €)	**2019**	2018
Net loss of the period	**(48,656)**	**(37,283)**
Adjustment for non-cash transactions	5,524	11,057
Adjustment for items to disclose separately under operating cash flow	(1,517)	(530)
Adjustment for items to disclose under investing and financing cash flows	(3)	–
Change in working capital other than deferred income	(2,294)	20,482
Decrease in deferred income	(25,979)	(34,458)
Cash used in operations	**(72,925)**	**(40,732)**
Interest paid	(327)	(500)
Interest received	1,565	1,428
Corporate taxes paid	(11)	–
Net cash flows used in operating activities	**(71,698)**	**(39,804)**
Purchase of property, plant and equipment	(2,103)	(1,192)
Purchase of intangible fixed assets	(1,201)	(340)
Proceeds from disposal of property, plant and equipment	1	1
Acquisition of financial assets held at fair value through profit or loss	(177)	–
Proceeds from sale of financial assets held at fair value through profit or loss	82	–
Net cash flows used in investing activities	**(3,398)**	**(1,531)**
Payment of lease liabilities	(1,248)	(19)
Proceeds from capital and share premium increases from exercise of warrants	3,481	3,924
Net cash flows generated in financing activities	**2,233**	**3,905**
Decrease in cash and cash equivalents	**(72,863)**	**(37,430)**
Cash and cash equivalents at beginning of the period	**1,290,796**	**1,151,211**
Decrease in cash and cash equivalents	**(72,863)**	**(37,430)**
Effect of exchange rate differences on cash and cash equivalents	**4,968**	**(5,595)**
Cash and cash equivalents at end of the period	**1,222,901**	**1,108,186**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Consolidated statements of changes in equity
(unaudited)

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accumul. losses	Total
On 1 January 2018	**233,414**	**993,025**	**(1,754)**	**(1,260)**	**(211,441)**	**1,011,983**
Change in accounting policy (modified retrospective application IFRS 15)					(83,220)	(83,220)
Change in accounting policy (modified retrospective application IFRS 9)				619	(619)	–
Restated total equity at 1 January 2018	**233,414**	**993,025**	**(1,754)**	**(641)**	**(295,279)**	**928,766**
Net loss					(37,283)	(37,283)
Other comprehensive loss			(3)			(3)
Total comprehensive loss	**–**	**–**	**(3)**	**–**	**(37,283)**	**(37,286)**
Share-based compensation					3,943	3,943
Exercise of warrants	1,613	2,311				3,924
On 31 March 2018	**235,027**	**995,336**	**(1,757)**	**(641)**	**(328,620)**	**899,345**
On 1 January 2019	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,779)**	**1,214,249**
Change in accounting policy (modified retrospective application IFRS 16)					416	416
Restated total equity at 1 January 2019	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,363)**	**1,214,665**
Net loss					(48,656)	(48,656)
Other comprehensive income			267			267
Total comprehensive income / loss (-)	**–**	**–**	**267**	**–**	**(48,656)**	**(48,389)**
Share-based compensation					6,000	6,000
Exercise of warrants	808	2,673				3,481
On 31 March 2019	**237,348**	**1,280,452**	**(1,290)**	**(735)**	**(340,020)**	**1,175,755**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the unaudited consolidated interim financial statements for the first three months of 2019

Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and as issued by the IASB. The condensed consolidated interim financial statements do not contain all information required for an annual report and should therefore be read in conjunction with Galapagos' annual report 2018.

The condensed consolidated interim financial statements were subject to a limited review by the statutory auditor, but have not been audited.

Significant accounting policies

There were no significant changes in accounting policies applied by us in these condensed consolidated interim financial statements compared to those used in the most recent annual consolidated financial statements of 31 December 2018, except for the adoption of new standards and interpretations described below.

- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)

The nature and the effect of these changes were taken into consideration, and the above amendments affected the condensed consolidated interim financial statements as follows:

We adopted IFRS 16 on 1 January 2019, in accordance with the transitional provisions of IFRS 16, using the modified retrospective approach. Consequently, the cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as at 1 January 2019, with no restatement of the comparative figures.

On adoption of IFRS 16, we recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17. These liabilities were measured at the present value of the remaining lease payments and discounted using our incremental borrowing rate as of 1 January 2019. Our weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.55%.

The differences between our total operating lease commitments as reported in note 25 of our consolidated financial statements of 31 December 2018 and the total lease liabilities recognized in our statement of financial position as at 1 January 2019 are summarized below.

(thousands of €)	
Operating lease commitments disclosed as at 31 December 2018	**27,704**
Less: discounting effect using the lessee's incremental borrowing rate at the date of initial application	(1,223)
Less: other	(569)
Lease liability recognized as at 1 January 2019	**25,912**
Of which are:	
current lease liabilities	4,516
non-current lease liabilities	21,396

The change in accounting policy affected the statement of financial position as at 1 January 2019 as follows:

(thousands of €)	1 January 2019
Property, plant and equipment (right-of-use assets)	26,406
Other current assets (prepaid expenses)	(494)
Effect on total assets	**25,912**
Accumulated losses	416
Lease liabilities (current and non-current)	25,912
Deferred income	(416)
Effect on total equity and liabilities	**25,912**

We applied the following practical expedients, as permitted by IFRS 16, on transition date:

- Reliance on the previous definition of a lease (as provided by IAS 17) for all contracts that existed on the date of initial application;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous instead of performing an impairment review;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

Other new standards and interpretations applicable for the annual period beginning on 1 January 2019 did not have any impact on our condensed consolidated interim financial statements.

We have not early adopted any other standard, interpretation, or amendment that has been issued but is not yet effective.

Change in accounting policies with effect from 1 January 2019 as a result of the adoption of IFRS 16:

Whereas until the end of 2018, we made a distinction between finance leases (presented on the balance sheet) and operating leases (off-balance sheet commitments), we recognized as from 1 January 2019 right-of-use assets on the balance sheet and corresponding lease liabilities (measured on a present value basis). These liabilities reflect the expected lease payments to be made in the future, estimated at the commencement date of the leases. After initial recognition, these lease liabilities are measured at amortized cost.

The right-of-use assets (mainly comprising the initial lease liability) are measured at cost and depreciated over their useful life on a straight-line basis. The right-of-use assets are presented in the statement of financial position under the caption “Property, plant and equipment” and the lease liabilities are presented as current and non-current lease liabilities.

Each lease payment is allocated between the lease liability and financial expenses.

Management judgments and estimates

Preparing interim financial statements in compliance with IFRS requires management to make judgments and estimates and to use assumptions that may significantly influence the reported amounts of assets and liabilities, the notes on contingent assets and liabilities on the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates. We refer to our annual report 2018, except for the judgments and estimates as a result of the application of IFRS 16.

Details of the unaudited condensed consolidated interim results

Revenues and other income

Revenues

The following table summarizes our revenues for the three months ended 31 March 2019 and 2018.

	Three months ended 31 March	
(thousands of €)	2019	2018
Recognition of non-refundable upfront payments and license fees	**20,231**	**25,824**
Gilead collaboration agreement for filgotinib	19,787	23,874
AbbVie collaboration agreement for CF	444	1,950
Milestone payments	**5,302**	**8,809**
Gilead collaboration agreement for filgotinib	4,834	4,891
AbbVie collaboration agreement for CF	468	3,918
Reimbursement income	**5,136**	**192**
Novartis collaboration agreement for MOR106	4,680	–
AbbVie collaboration agreement for CF	456	192
Other revenues	**2,378**	**3,081**
Fee-for-services revenues	2,312	3,019
Other	66	63
Total revenues	**33,047**	**37,907**

Revenues (€33.0 million for the first three months of 2019 vs €37.9 million for the first three months of 2018) were lower due to lower over time recognition in revenue of the upfront payments and milestone payments related to the filgotinib program with Gilead, as well as for the CF program as we are transitioning the activities to AbbVie. This was partly compensated by higher reimbursement income mainly from Novartis in the scope of our collaboration for MOR106.

For the first three months of 2019, €24.6 million of deferred income related to the Gilead collaboration agreement was recognized in revenue in function of costs incurred, applying the percentage of completion method. This consisted of the over time revenue recognition of (i) €17.3 million related to the upfront license fee, (ii) €2.5 million related to the deferred income triggered by the accounting treatment of the share subscription agreement under IAS 39 Financial Instruments: recognition and measurement, at the time of signing of the agreement in 2015, and (iii) €4.8 million related to milestone payments. The outstanding balance of deferred income from the Gilead collaboration agreement at the end of March 2019 amounted to €121.2 million all reported as current deferred income, as we expect to reach, at the end of 2019, the predetermined level of development study costs further described hereafter.

In December 2015, we entered into a license and collaboration agreement to co-develop filgotinib with Gilead in rheumatoid arthritis, Crohn's disease, ulcerative colitis and other indications. We are responsible for funding 20% of the associated global development costs of the program. We have retained certain mechanisms to give us cost protection as filgotinib advances in clinical development. We can defer our portion of the global co-development study costs if they exceed a predetermined level, which we expect to reach at the end of 2019, and this deferment would be credited against future milestones, royalties or profit sharing at our option. If there are no future amounts to be paid by Gilead, we will not be obligated to make any payments to Gilead for such deferment.

For the first three months of 2019, €0.9 million of deferred income related to the AbbVie collaboration agreement was recognized in revenue in function of costs incurred, applying the percentage of completion method. This consisted of the over time revenue recognition of (i) €0.4 million related to the upfront license fees, and (ii) €0.5 million related to milestone payments. The outstanding balance deferred income from the AbbVie collaboration agreement at the end of March 2019 amounted to €2.3 million, all reported as current deferred income.

For the first three months of 2019, €4.7 million of reimbursement income was recognized as revenue related to our R&D activities in the scope of our collaboration agreement with Novartis and MorphoSys for MOR106.

Other revenues

Other revenues amounting to €2.4 million mainly consisted of service revenues from our fee-for-service business for €2.3 million.

Other income

The following table summarizes our other income for the three months ended 31 March 2019 and 2018.

	Three months ended 31 March	
(thousands of €)	**2019**	2018
Grant income	351	549
Other income	7,520	6,382
Total other income	**7,872**	**6,931**

Total other income increased to €7.9 million in the first three months of 2019 compared to €6.9 million in the first three months of 2018, mainly driven by higher income from R&D incentives.

Results

We realized a net loss of €48.7 million for the first three months of 2019, compared to a net loss of €37.3 million in the first three months of 2018.

We reported an operating loss amounting to €53.2 million for the first three months of 2019, compared to an operating loss of €32.0 million for the first three months of 2018.

Our R&D expenditure in the first three months of 2019 amounted to €83.2 million, compared to €69.8 million in the first three months of 2018. This planned increase was mainly due to an increase of €5.5 million in subcontracting costs primarily related to our IPF program and other proprietary programs. Furthermore, personnel costs increased explained by a planned headcount increase and higher costs related to warrant plans as a result of the increase of the Galapagos share price.

The table below summarizes our R&D expenditure for the three months ended 31 March 2019 and 2018, broken down by program.

	Three months ended 31 March	
(thousands of €)	**2019**	2018
Filgotinib program (partnered)	(14,400)	(15,265)
CF program (partnered)	(1,343)	(11,761)
IPF program on GLPG1690 (proprietary)	(20,013)	(8,960)
OA program on GLPG1972 (partnered)	(3,861)	(2,233)
AtD program on MOR106 (partnered)	(5,490)	(4,494)
Other	(38,088)	(27,051)
Total R&D expenditure	**(83,195)**	**(69,765)**

Our G&A and S&M expenses were €11.0 million in the first three months of 2019, compared to €7.1 million in the first three months of 2018. This increase mainly resulted from higher personnel costs due to a planned headcount increase as well as higher costs for warrant plans as a result of the increase of the Galapagos share price.

Net financial income in the first three months of 2019 amounted to €4.7 million compared to net financial expenses of €5.2 million in the first three months of 2018, and was primarily attributable to €5.0 million of unrealized exchange gain on our cash position in U.S. dollars (€5.6 million of unrealized exchange loss on our cash position in U.S. dollars in the first three months of 2018).

Segment information

We have two reportable segments: R&D and our fee-for-service business Fidelta, located in Croatia.

	Segment information for the three months ended 31 March 2019			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	**Group**
External revenue	30,735	2,312		33,047
Internal revenue		1,481	(1,481)	–
Other income	7,865	7		7,872
Revenues & other income	**38,600**	**3,800**	**(1,481)**	**40,919**
Segment result	**(46,967)**	**(276)**		**(47,242)**
Unallocated expenses[1]				(6,000)
Operating loss				**(53,242)**
Financial (expenses)/income				4,655
Result before tax				**(48,588)**
Income taxes				(68)
Net loss				**(48,656)**

(1) Unallocated expenses consist of expenses for warrant plans under IFRS 2 Share based payments.

	Segment information for the three months ended 31 March 2018			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	34,888	3,019		37,907
Internal revenue		2,175	(2,175)	–
Other income	6,931			6,931
Revenues & other income	**41,819**	**5,194**	**(2,175)**	**44,838**
Segment result	**(29,424)**	**1,330**		**(28,093)**
Unallocated expenses(1)				(3,943)
Operating loss				**(32,036)**
Financial (expenses)/income				(5,184)
Result before tax				**(37,221)**
Income taxes				(62)
Net loss				**(37,283)**

(1) Unallocated expenses consist of expenses for warrant plans under IFRS 2 Share based payments.

The basis of accounting for any transactions between reportable segments is consistent with the valuation rules and with transactions with third parties.

Liquid assets position

Cash and cash equivalents totaled €1,222.9 million on 31 March 2019.

A net decrease of €67.9 million in cash and cash equivalents was recorded during the first three months of 2019, compared to a net decrease of €43.0 million during the first three months of 2018. This net decrease was composed of €76.3 million of operational cash burn, offset by (i) €3.5 million of cash proceeds from capital and share premium increase from exercise of warrants in the first three months of 2019 and (ii) €5.0 million of unrealized positive exchange rate differences.

Cash and cash equivalents amounted to €1,222.9 million at the end of March 2019 and comprised cash and cash at banks, short term bank deposits and money market funds that are readily convertible to cash and are subject to an insignificant risk of changes in value. Our cash management strategy may allow short term deposits with an original maturity exceeding three months while monitoring all liquidity aspects. Cash and cash equivalents comprised €649.8 million of term deposits with an original maturity longer than three months but which are available upon one month notice period. Cash at banks were mainly composed of savings accounts and current accounts. We maintain our bank deposits in highly rated financial institutions to reduce credit risk. Cash invested in highly liquid money market funds represented €199.1 million and aim at meeting short-term cash commitments, while reducing the counterparty risk of investment.

	31 March	31 December
(thousands of €)	2019	2018
Cash at banks	373,965	358,016
Term deposits	649,822	733,537
Money market funds	199,114	199,243
Total cash and cash equivalents	**1,222,901**	**1,290,796**

On 31 March 2019, our cash and cash equivalents included $298.8 million held in U.S. dollars which could generate foreign exchange gains or losses in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR.

Finally, our balance sheet held R&D incentives receivables from the French government *(Crédit d'Impôt Recherche)*, to be received in four yearly tranches, and R&D incentives receivables from the Belgian Government, for a total of €87.7 million as at 31 March 2019.

Capital increase

On 31 March 2019, Galapagos NV's share capital was represented by 54,614,791 shares. All shares were issued, fully paid up and of the same class. The below table summarizes our capital increases for the quarter ended 31 March 2019.

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants	Closing share price on date of capital increase
On 1 January 2019	54,465,421	236,540	1,277,780	1,514,320		
20 March 2019: exercise of warrants	149,370	808	2,673	3,481	23.30	90.32
On 31 March 2019	54,614,791	237,348	1,280,452	1,517,801		

Note to the cash flow statement

	Three months ended 31 March	
(thousands of €)	2019	2018
Adjustment for non-cash transactions		
Depreciation and amortization	2,758	1,197
Share-based compensation	6,000	3,943
Increase in retirement benefit obligations and provisions	87	78
Unrealised exchange gains (-) /losses and non-cash other financial expenses	(4,777)	5,716
Fair value adjustment financial assets held at fair value through profit or loss	1,455	123
Total adjustment for non-cash transactions	**5,524**	**11,057**
Adjustment for items to disclose separately under operating cash flow		
Interest expense	237	208
Interest income	(1,822)	(800)
Tax expense	68	62
Total adjustment for items to disclose separately under operating cash flow	**(1,517)**	**(530)**
Adjustment for items to disclose under investing and financing cash flows		
Gain on sale of assets	(3)	–
Total adjustment for items to disclose under investing and financing cash flows	**(3)**	–
Change in working capital other than deferred income		
Decrease / increase (-) in inventories	2	(14)
Decrease / increase (-) in receivables	(1,239)	12,928
Increase / decrease (-) in payables	(1,057)	7,568
Total change in working capital other than deferred income	**(2,294)**	**20,482**

Contingencies and commitments

Contractual obligations and commitments

We entered into lease agreements for offices, laboratories and cars. As a consequence of the adoption of IFRS 16 Leases, on 1 January 2019, lease obligations in the scope of the new standard are presented as lease liabilities in the statements of financial position and no longer disclosed separately as off-balance sheet commitments.

We also have certain purchase commitments principally with CRO subcontractors and certain collaboration partners.

On 31 March 2019 we had outstanding obligations for purchase commitments, which become due as follows:

(thousands of €)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Purchase commitments	229,290	137,148	77,139	13,377	1,625

In addition to the table above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. The contractual cost sharing commitment amounted to €62.7 million at 31 March 2019 for which we have direct purchase commitments of €20.7 million at 31 March 2019 reflected in the table above.

Contingent liabilities and assets

We refer to our annual report 2018 for a description of our contingent liabilities and assets as no material change is to be disclosed for the first three months of 2019.

Events after the end of the reporting period

On 10 April 2019, the board of directors of Galapagos approved "Warrant Plan 2019," a warrant plan intended mainly for the employees of the company and its subsidiaries, and also for directors and an independent consultant of the company, and "Warrant Plan 2019 RMV," a warrant plan intended for the employees of its French subsidiary, Galapagos SASU, within the framework of the authorized capital. Under these warrant plans, 2,070,000 warrants were created, subject to acceptances, and offered to the beneficiaries of the plans. The offer of warrants to directors remains subject to approval of the annual shareholders' meeting of 30 April 2019. The warrants have an exercise term of eight years as of the date of the offer and have an exercise price of €95.11 (the average closing price of the share on Euronext Amsterdam and Brussels during the thirty days preceding the date of the offer). In principle, the warrants are not transferable and cannot be exercised prior to 1 January 2023. Each warrant gives the right to subscribe to one new Galapagos share.

Approval of interim financial statements

The interim financial statements were approved by the board of directors on 23 April 2019.