Financial statements

Consolidated interim financial statements for the first nine months of 2019

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

Consolidated statements of income and comprehensive income
(unaudited)

Consolidated income statement

	Third quarter of		Nine months ended 30 September	
(thousands of €, except share and per share data)	2019	2018	2019	2018
Revenues	633,934	94,874	725,719	182,457
Other income	10,020	8,334	26,744	22,623
Total revenues and other income	**643,954**	**103,208**	**752,463**	**205,080**
Research and development expenditure	(120,680)	(80,314)	(298,247)	(231,758)
General and administrative expenses	(28,565)	(9,725)	(51,497)	(24,925)
Sales and marketing expenses	(4,078)	(899)	(9,699)	(1,912)
Total operating expenses	**(153,323)**	**(90,937)**	**(359,442)**	**(258,595)**
Operating profit / loss (–)	**490,631**	**12,271**	**393,021**	**(53,515)**
Fair value re-measurement of share subscription agreement	(142,349)	–	(142,349)	–
Other financial income	34,755	2,558	40,405	10,667
Other financial expenses	(38,631)	(467)	(42,448)	(1,708)
Profit / loss (–) before tax	**344,405**	**14,362**	**248,630**	**(44,557)**
Income taxes	16,828	480	16,699	343
Net profit / loss (–)	**361,233**	**14,841**	**265,329**	**(44,215)**
Net profit / loss (–) attributable to:				
Owners of the parent	361,233	14,841	265,329	(44,215)
Basic gain / loss (–) per share	**6.26**	**0.29**	**4.77**	**(0.86)**
Diluted gain / loss (–) per share	**6.03**	**0.28**	**4.59**	**(0.86)**

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

Consolidated statement of comprehensive income / loss (–)

	Third quarter of		Nine months ended 30 September	
(thousands of €)	2019	2018	2019	2018
Net profit / loss (–)	**361,233**	**14,841**	**265,329**	**(44,215)**
Items that may be reclassified subsequently to profit or loss:				
Translation differences, arisen from translating foreign activities	238	5	290	156
Other comprehensive income / loss (–), net of income tax	**238**	**5**	**290**	**156**
Total comprehensive income / loss (–) attributable to:				
Owners of the parent	361,471	14,846	265,618	(44,059)

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

Consolidated statements of financial position
(unaudited)

(thousands of €)	30 September 2019	31 December 2018
Assets		
Intangible assets	23,492	3,632
Property, plant and equipment	61,883	23,137
Non-current deferred tax assets	19,406	2,514
Non-current R&D incentives receivables	89,965	73,443
Other non-current assets	5,993	7,919
Non-current assets	**200,739**	**110,645**
Trade and other receivables	32,642	18,609
Current R&D incentives receivables	9,746	11,203
Cash and cash equivalents	5,599,787	1,290,796
Other current assets	8,837	8,244
Current assets	**5,651,013**	**1,328,851**
Total assets	**5,851,752**	**1,439,496**
Equity and liabilities		
Share capital	272,605	236,540
Share premium account	2,268,585	1,277,780
Other reserves	(735)	(735)
Translation differences	(1,267)	(1,557)
Accumulated losses	(3,907)	(297,779)
Total equity	**2,535,281**	**1,214,249**
Retirement benefit liabilities	4,026	3,764
Non-current lease liabilities	19,661	–
Non-current deferred income	2,659,013	–
Other non-current liabilities	2,471	1,578
Non-current liabilities	**2,685,171**	**5,342**

(thousands of €)	30 September 2019	31 December 2018
Current lease liabilities	5,251	–
Trade and other liabilities	156,254	68,928
Current tax payable	1,032	1,175
Current deferred income	468,764	149,801
Current liabilities	**631,300**	**219,905**
Total liabilities	**3,316,472**	**225,247**
Total equity and liabilities	**5,851,752**	**1,439,496**

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

Consolidated cash flow statements
(unaudited)

	Nine months ended 30 September	
(thousands of €)	2019	2018
Net profit / loss (–) of the period	**265,329**	**(44,215)**
Adjustment for non-cash transactions	151,366	16,278
Adjustment for items to disclose separately under operating cash flow	(23,432)	(2,887)
Adjustment for items to disclose under investing and financing cash flows	(3)	3
Change in working capital other than deferred income	41,127	27,053
Increase / decrease (–) in deferred income	2,890,286	(93,370)
Cash generated / used (–) in operations	**3,324,674**	**(97,137)**
Interest paid	(901)	(1,026)
Interest received	5,129	3,252
Corporate taxes paid	(145)	(7)
Net cash flows generated / used (–) in operating activities	**3,328,758**	**(94,918)**
Purchase of property, plant and equipment	(17,322)	(4,259)
Purchase of intangible fixed assets	(5,465)	(1,533)
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	134
Net cash flows used in investing activities	**(22,881)**	**(5,657)**
Payment of lease liabilities	(3,834)	(6)
Proceeds from capital and share premium increases, gross amount	960,087	296,188
Issue costs paid related to capital and share premium increases	–	(15,008)
Proceeds from capital and share premium increases from exercise of warrants	14,480	5,261
Net cash flows generated in financing activities	**970,733**	**286,435**
Increase in cash and cash equivalents	**4,276,610**	**185,860**

(thousands of €)	Nine months ended 30 September 2019	2018
Cash and cash equivalents at beginning of the period	1,290,796	1,151,211
Increase in cash and cash equivalents	4,276,610	185,860
Effect of exchange rate differences on cash and cash equivalents	32,380	6,596
Cash and cash equivalents at end of the period	5,599,787	1,343,668

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	Accum. 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					(44,215)	(44,215)
Other comprehensive income			156			156
Total comprehensive income	**–**	**–**	**156**	**–**	**(44,215)**	**(44,059)**
Share-based compensation					18,001	18,001
Issue of new shares	16,021	280,167				296,188
Share issue costs	(15,932)					(15,932)
Exercise of warrants	2,169	3,092				5,261
On 30 September 2018	**235,672**	**1,276,284**	**(1,598)**	**(641)**	**(321,495)**	**1,188,222**
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 profit					265,329	265,329
Other comprehensive income			290			290
Total comprehensive income	**–**	**–**	**290**	**–**	**265,329**	**265,618**
Share-based compensation					28,128	28,128
Derecognition of financial liability from share subscription agreement		56,749				56,749
Issue of new shares	36,945	923,142				960,087
Share issue costs	(4,447)					(4,447)
Exercise of warrants	3,567	10,913				14,480
On 30 September 2019	**272,605**	**2,268,585**	**(1,267)**	**(735)**	**(3,907)**	**2,535,281**

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

Notes to the unaudited condensed consolidated interim financial statements for the first nine 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.

Summary of significant transaction

On 14 July 2019 we and Gilead announced that we have entered into a 10-year global research and development collaboration. Through this agreement, Gilead gained exclusive access to our innovative portfolio of compounds, including six molecules currently in clinical trials, more than 20 preclinical programs and a proven drug discovery platform.

The transaction was subject to certain closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and receipt of merger control approval from the Austrian Federal Competition Authority. On 23 August 2019 all approvals were obtained and the transaction was closed.

We were entitled to an upfront payment €3,569.8 million ($3.95 billion) and a €960.1 million ($1.1 billion) equity investment from Gilead on closing of the transaction. We will use the proceeds to expand and accelerate our research and development programs. We identified the following three performance obligations: (i) the transfer of an extended license on GLPG1690, (ii) the granting of exclusive access to our drug discovery platform (i.e. the IP, technology, expertise and capabilities) during the collaboration period and exclusive option rights on our current and future clinical programs after Phase 2 outside Europe and (iii) an increased cost share from 20/80 to 50/50 on the global future development activities of filgotinib, until we reach the new joint predetermined level of costs, as a result of the revised license and collaboration agreement. As part of the collaboration, Gilead also received option rights for GLPG1972, a Phase 2b candidate for osteoarthritis, in the United States. We refer to the management judgments and estimates section of this report explaining management's judgments and estimates made.

Gilead will also nominate two individuals to our board of directors. This appointment will be on the agenda of the special general meeting of shareholders that will take place on 22 October 2019.

Terms of the collaboration

We will fund and lead all discovery and development autonomously until the end of Phase 2. After the completion of a qualifying Phase 2 study, Gilead will have the option to acquire a license to the compound outside Europe. If the option is exercised, we and Gilead will co-develop the compound and share costs equally. Gilead will maintain option rights to our programs through the 10-year term of the collaboration and for up to an additional three years thereafter for those programs that have entered clinical development prior to the end of the collaboration term. If GLPG1690 is approved in the United States, Gilead will pay us an additional $325 million milestone fee. For GLPG1972, after the completion of the ongoing Phase 2b study in osteoarthritis, Gilead has the option to pay a $250 million fee to license the compound in the United States. If certain secondary efficacy endpoints are met, Gilead will pay us up to an additional $200 million. Following opt-in on GLPG1972, we are eligible to receive up to $550 million in regulatory and commercial milestones. For all other programs resulting from the collaboration, Gilead will make a $150 million opt-in payment per program and will owe no subsequent milestones. We will receive tiered royalties ranging from 20-24% on net sales of all our products licensed by Gilead in all countries outside Europe as part of the agreement.

Filgotinib collaboration

Under the revised agreement, we will have greater involvement in filgotinib's global strategy and participate more broadly in the commercialization of the product in Europe, providing the opportunity to build a commercial presence on an accelerated timeline. We and Gilead will co-commercialize filgotinib in France, Germany, Italy, Spain and the United Kingdom and retain the 50/50 profit share in these countries that was part of the original filgotinib license agreement, and under the revised agreement, we will have an expanded commercial role. We will be the lead commercialization party for filgotinib in France, Italy and Spain for rheumatology indications and Gilead will be the lead commercialization party for gastro indications. In Germany and the United Kingdom, Gilead will lead the rheumatology indications and Galapagos will lead the gastro indications. We retain exclusive commercialization responsibility in Belgium, the Netherlands and Luxembourg, where the 50/50 profit share also applies. The companies will share future global development costs for filgotinib equally until a predetermined level, in lieu of the 80/20 cost split provided by the original agreement. Other terms of the original license agreement remain in effect, including the remaining $1.27 billion in total potential milestones and tiered royalties ranging from 20-30% payable in territories outside of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom.

Terms of the equity investment

Gilead's equity investment consists of a subscription for new Galapagos shares at a price of €140.59 per share, representing at 14 July 2019 a 20% premium to Galapagos' 30-day, volume-weighted average price. This equity subscription took place at closing of the transaction, on 23 August 2019 and increased Gilead's stake in Galapagos from approximately 12.3% to 22.04% of the then issued and outstanding shares in Galapagos.

In addition, we intend to seek shareholder approval to issue two warrants allowing Gilead to further increase its ownership of Galapagos to up to 29.9% of the company's issued and outstanding shares. The agreement also includes a 10-year standstill restricting Gilead's ability to seek to acquire Galapagos or increase its stake in Galapagos beyond 29.9% of the company's issued and outstanding shares, subject to limited exceptions. The issuance of the two warrants will be on the agenda of the extraordinary general meeting of shareholders that will take place on 22 October 2019.

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 and the application of accounting policies that were previously not yet disclosed.

- 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.

New accounting policies as a result of recent transactions:

Financial instruments: derivative assets/liabilities

Financial assets and financial liabilities are recognized on our balance sheet when we become a party to the contractual provisions of the instrument.

Derivative assets and liabilities are initially measured at fair value. After initial measurement we will measure the derivatives at fair value through profit or loss.

These accounting policies are also expected to be reflected in our consolidated financial statements as at and for the year ending 31 December 2019.

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 and the judgments made as a consequence of accounting for the Option, License and Collaboration agreement, the revised collaboration agreement for filgotinib and the equity subscription agreement, each signed with Gilead, as described below.

Critical judgments in applying accounting policies

Accounting for warrant A and warrant B

As the issuance of warrants A and B is subject to the approval of our shareholders, management came to the judgmental view that a financial instrument as defined under IAS 32 shall not be recognized until such an approval is voted. The issuance of warrant A and initial warrant B will be on the agenda of the extraordinary general meeting of shareholders that will take place on 22 October 2019. On the closing date of the transaction (23 August 2019) we however received from Gilead the upfront payment that implicitly includes a premium for the future issuance of the warrants. In accordance with IFRS 15, management took the view that the expected value of the warrants to be issued shall be treated as a contract liability ("warrant issuance liability") reducing the transaction price. At the date the shareholders approve the issuance of the warrants, the contract liability becomes a financial liability (derivative) measured at fair value through profit or loss in accordance with IFRS 9.

IFRS 15 – Revenue recognition Gilead

Our critical judgments were as follows:

Determination of the total transaction price

- In connection with this agreement with Gilead, we recognized a deferred income and an offsetting short-term financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement because it is considered to be part of the overall consideration received for the three performance obligations.
- We considered that the transaction price included a premium paid by Gilead (through the upfront payment) to acquire warrants (warrant A and warrant B) in the future, upon approval by the shareholders. We measured both warrants at fair value and recognized a liability at closing of the transaction for the same amount (as part of the current deferred income line). This liability is re-measured at each reporting period with a corresponding impact on the allocation of the transaction price to the performance obligation relating to the drug discovery platform. At 30 September 2019, the value of the warrants amounted to €44.8 million for warrant A and €5.5 million for warrant B.

Performance obligation: License on GLPG1690

- The transaction price allocated to this performance obligation reflects our assessment of the stand-alone selling price of this performance obligation and was valued based on a discounted cash flow approach including, amongst others, assumptions on the estimated market share and size, peak sales and probability of success.
- After granting the license for GLPG1690, we will share Phase 3 costs equally with Gilead. We consider this part of the contract as a collaboration between us and Gilead which is not in scope of IFRS 15.

Performance obligation: Filgotinib amendment

- Revenues are recognized over time through satisfaction of the performance obligation. Management determined the "cost-to-cost" input model, previously applied, remains appropriate, considering the new joint predetermined cost level, to measure the progress of the satisfaction of this performance obligation. The predetermined level of costs has increased and as a result, the percentage of completion has decreased leading to the recognition in revenue of a negative cumulative catch-up in the third quarter of 2019.

Performance obligation: Access rights to the drug discovery platform, option rights and R&D activities

- Management determined that Gilead's right to opt-in on drug discovery platform programs at the end of Phase 2 (including GLPG1972), to obtain co-exclusive development and commercialisation rights for the optioned program outside Europe, did not represent a material right as the amounts payable to exercise such rights are estimated to represent fair value when comparing the terms of the contract to previous contracts concluded at arm's length. Therefore none of the upfront payment was allocated to such rights.
- The revenue allocated to the drug discovery platform will be recognized over time as Gilead receives exclusive access to our drug discovery platform and option rights on our current and future pipeline as well as R&D activities during the collaboration term. We assessed that the granting of exclusive access and option rights delivered over the entire period is the predominant component of the transaction price. Moreover, no budget (amounts and spread) nor performance measures were agreed regarding the R&D activities as we remain free to conduct those activities and spend on those activities at our own discretion. Finally, R&D platform investments (inputs) are difficult to predict accurately over the collaboration period. Therefore, input methods were not retained and management concluded that an equal spread over the collaboration period is the most reliable and appropriate recognition method. We also considered that Gilead is more interested in obtaining access to the output of our R&D activities over the collaboration period than in the input (which is why the input is not being reported upon or agreed between the parties). We considered that innovation output is not directly linked to the extent of the input hence we have not retained a cost input method to measure the progress of this performance obligation.

Critical accounting estimates

Recognition period for the performance obligation: Access rights to the drug discovery platform, option rights and R&D activities

Management assessed the appropriate period over which to recognize the drug discovery platform revenue to be 10 years. This is because we granted exclusive rights over a 10-year period. However, if at the end of the 10-year period, some programs in existence as of this time would have reached the clinic (i.e. IND filed with regulatory authorities), the rights for those specific programs may be extended, for a maximum of three years. We will re-assess this critical estimate at each year-end based on the evolution of our pipeline.

Details of the unaudited condensed consolidated interim results

Revenues and other income

Revenues

The following table summarizes our revenues for the nine months ended 30 September 2019 and 2018.

	Nine months ended 30 September			
(thousands of €)	Over time	Point in time	2019	2018
Recognition of non-refundable upfront payments and license fees			**709,819**	**124,616**
Gilead collaboration agreement for GLPG1690		✓	666,968	–
Gilead collaboration agreement for filgotinib (1)	✓		17,561	72,355
Gilead collaboration agreement for drug discovery platform	✓		23,922	–
AbbVie collaboration agreement for CF	✓		1,368	4,761
Novartis collaboration agreement for MOR106		✓	–	47,500
Milestone payments			**(7,932)**	**46,219**
Gilead collaboration agreement for filgotinib (1)	✓		(31,722)	21,648
AbbVie collaboration agreement for CF	✓		23,790	15,571
Servier collaboration agreement for osteoarthritis		✓	–	9,000
Reimbursement income			**16,437**	**3,872**
Novartis collaboration agreement for MOR106	✓		15,837	2,879
AbbVie collaboration agreement for CF	✓		600	989
Other reimbursement income			–	4
Other revenues			**7,395**	**7,750**
Fee-for-services revenues	✓		7,329	7,687
Other revenues			66	63
Total revenues			**725,719**	**182,457**

(1) Following the contract amendment, the revenue recognized for filgotinib includes a negative catch-up effect resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

Revenues (€725.7 million for the first nine months of 2019, compared to €182.5 million for the first nine months of 2018) were higher due to the revenue recognition of the upfront payment received in August 2019 from Gilead related to (i) the GLPG1690 program and (ii) the access and option rights to our drug discovery platform, offset by (iii) a negative catch-up effect for revenues related to previously received upfront and milestones due to the revised filgotinib collaboration agreement.

The transaction price received from Gilead of €3,569.8 million ($3.95 billion) and the impact of the initial valuation of the share subscription of €85.6 million recognized as a deferred income upon signing of the share subscription agreement with Gilead as required under IFRS 9 were allocated to the three performance obligations identified as follows:

(thousands of €)	
Upfront received	3,569,815
Impact of initial valuation of share subscription	85,601
	3,655,416
GLPG1690	666,968
Filgotinib additional consideration [1]	641,664
Warrant A	44,820
Warrant B	5,468
Drug discovery platform	2,296,496

(1) With regard to the additional consideration received for the extended cost sharing for filgotinib, we assume the existence of a significant financing component estimated to €44.5 million reflecting the time value of money on the estimated recognition period. We applied the accounting treatment foreseen under IFRS 15 for this additional component.

The outstanding balance of the current and non-current deferred income as at 30 September 2019 can be allocated as follows:

	30 September	31 December
(thousands of €)	2019	2018
Deferred income related to contracts		
Gilead collaboration agreement for filgotinib	803,714	145,798
Gilead collaboration agreement for drug discovery platform	2,272,574	–
Warrant A issuance liability	44,820	–
Warrant B issuance liability	5,468	–
AbbVie collaboration for CF	475	3,223
Deferred income related to contracts in our fee-for-service segment	481	471
Other deferred income (grants)	**245**	**309**
Total deferred income (long term & current)	**3,127,777**	**149,801**

For the first nine months of 2019, €15.8 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 amounting to €7.4 million mainly consisted of service revenues from our fee-for-service business.

Other income

Other income increased by €4.1 million, mainly driven by higher incentives income from the government for R&D activities.

Results

We realized a net profit of €265.3 million for the first nine months of 2019, compared to a net loss of €44.2 million in the first nine months of 2018.

We reported an operating profit amounting to €393.0 million for the first nine months of 2019, compared to an operating loss of €53.5 million for the first nine months of 2018.

Our R&D expenditure in the first nine months of 2019 amounted to €298.2 million, compared to €231.8 million in the first nine months of 2018. This planned increase was mainly due to an increase of €29.1 million in subcontracting costs primarily related to our IPF program, filgotinib and other programs. Furthermore, personnel costs increased explained by a planned headcount increase and higher costs related to bonuses and warrant plans as a result of the increase of the Galapagos share price.

The table below summarizes our R&D expenditure for the nine months ended 30 September 2019 and 2018, broken down by program.

	Nine months ended 30 September	
(thousands of €)	2019	2018
Filgotinib program (partnered)	(58,840)	(48,505)
CF program (partnered)	(3,028)	(25,743)
IPF program on GLPG1690 (partnered)	(58,552)	(45,932)
OA program on GLPG1972 (partnered)	(15,144)	(11,885)
AtD program on MOR106 (partnered)	(19,771)	(9,969)
Other	(142,912)	(89,724)
Total R&D expenditure	**(298,247)**	**(231,758)**

Our G&A and S&M expenses were €61.2 million in the first nine months of 2019, compared to €26.8 million in the first nine months of 2018. This increase mainly resulted from higher personnel costs due to a planned headcount increase as well as higher costs for bonuses and warrant plans as a result of the increase of the Galapagos share price.

We reported a non-cash fair value loss from the re-measurement of a derivative financial instrument triggered by the share subscription agreement with Gilead between signing and closing of the agreement amounting to €142.3 million. Such amount reflects the increase in the Galapagos share price between signing and closing of the Gilead agreement.

Net other financial loss in the first nine months of 2019 amounted to €2.0 million, compared to net other financial income of €9.0 million for the first nine months of 2018, which was primarily attributable €34.9 million realized exchange loss on the U.S. dollars upfront payment from Gilead, which was partly compensated by a €32.4 million of unrealized exchange gain on our cash position in U.S. dollars (compared to €6.6 million of unrealized exchange gain on our cash position in U.S. dollars in the first nine months of 2018).

We reported a tax income amounting to €16.7 million primarily from the recognition of deferred tax assets as a consequence of the deal with Gilead.

Segment information

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

	Nine months ended 30 September 2019			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	718,390	7,329		725,719
Internal revenue		5,548	(5,548)	–
Other income	26,737	7		26,744
Revenues & other income	**745,127**	**12,884**	**(5,548)**	**752,463**
Segment result	**419,963**	**1,186**		**421,149**
Unallocated expenses (1)				(28,128)
Operating profit				**393,021**
Financial (expenses)/income				(144,391)
Result before tax				**248,630**
Income taxes				16,699
Net profit				**265,329**

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

	Nine months ended 30 September 2018			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	174,770	7,687		182,457
Internal revenue		5,826	(5,826)	–
Other income	22,614	9		22,623
Revenues & other income	**197,384**	**13,522**	**(5,826)**	**205,080**
Segment result	**(38,186)**	**2,672**		**(35,514)**
Unallocated expenses (1)				(18,001)
Operating loss				**(53,515)**
Financial (expenses)/income				8,958
Result before tax				**(44,557)**
Income taxes				343
Net loss				**(44,215)**

(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 €5,599.8 million on 30 September 2019.

A net increase of €4,309.0 million in cash and cash equivalents was recorded during the first nine months of 2019, compared to a net increase of €192.5 million during the first nine months of 2018. This net increase was composed of (i) €3,302.0 million of operational cash flow, of which €3,535.0 million cash inflow from the Gilead collaboration and €233.0 million remaining cash outflow from operating activities, and (ii) €960.1 million cash proceeds related to the share subscription by Gilead, (iii) €14.5 million of cash proceeds from capital and share premium increase from exercise of warrants in the first nine months of 2019 and (iv) €32.4 million of unrealized positive exchange rate differences.

Cash and cash equivalents amounted to €5,599.8 million at the end of September 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 €899.0 million of term deposits that 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 €4,270.7 million and aim at meeting short-term cash commitments, while reducing the counterparty risk of investment.

	30 September	31 December
(thousands of €)	2019	2018
Cash at banks	430,035	358,016
Term deposits	899,028	733,537
Money market funds	4,270,724	199,243
Total cash and cash equivalents	**5,599,787**	**1,290,796**

On 30 September 2019, our cash and cash equivalents included $1,533.6 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. The foreign exchange loss (-) / gain in case of a 10% increase / decrease in the EUR/U.S. dollar exchange rate amounts to a loss of €135.4 million / gain of €135.4 million.

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 €99.7 million as at 30 September 2019.

Capital increase

On 30 September 2019, Galapagos NV's share capital was represented by 61,953,831 shares. All shares were issued, fully paid up and of the same class. The below table summarizes our capital increases for the period ended 30 September 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**
20 June 2019: exercise of warrants	**208,310**	**1,127**	**3,198**	**4,325**	**20.76**	**113.55**
23 August 2019: share subscription from Gilead						
Ordinary shares (fully paid)	6,828,985	36,945	923,142	960,087		148.90
Derecognition of financial liability from share subscription agreement			56,749	56,749		
Capital increase expenses not yet settled in cash at 30 September 2019		(4,447)		(4,447)		
Total share subscription by Gilead	**6,828,985**	**32,498**	**979,891**	**1,012,389**		
19 September 2019: exercise of warrants	**301,745**	**1,632**	**5,043**	**6,676**	**22.12**	**145.25**
On 30 September 2019	**61,953,831**	**272,605**	**2,268,585**	**2,541,190**		

Note to the cash flow statement

	Nine months ended 30 September	
(thousands of €)	2019	2018
Adjustment for non-cash transactions		
Depreciation and amortization	8,837	4,816
Share-based compensation	28,128	18,001
Increase in retirement benefit obligations and provisions	255	228
Unrealized exchange gains (–) /losses and non-cash other financial expenses	(32,272)	(6,512)
Discounting effect of deferred income	2,090	–
Fair value re-measurement share subscription agreement	142,349	–
Fair value adjustment financial assets held at fair value through profit or loss	1,979	(255)
Total adjustment for non-cash transactions	**151,366**	**16,278**
Adjustment for items to disclose separately under operating cash flow		
Interest expense	697	574
Interest income	(7,430)	(3,118)
Tax expense	(16,699)	(343)
Total adjustment for items to disclose separately under operating cash flow	**(23,432)**	**(2,887)**
Adjustment for items to disclose under investing and financing cash flows		
Gain / loss (–) on sale of assets	(3)	3
Total adjustment for items to disclose under investing and financing cash flows	**(3)**	**3**
Change in working capital other than deferred income		
Increase (–) / decrease in inventories	3	(1)
Increase in receivables	(28,142)	(3,317)
Increase in payables	69,265	30,371
Total change in working capital other than deferred income	**41,127**	**27,053**

Fair value measurements

Gilead share subscription agreement

On 23 August 2019, Gilead made a €960.1 million equity investment in Galapagos NV by subscribing to 6,828,985 new ordinary shares at a price of €140.59 per share, including issuance premium. The equity subscription was already accounted for as a financial asset at signing of the contract on 14 July 2019 and was subsequently remeasured at fair value through the income statement until 23 August 2019. The fair value measurement of this derivative financial instrument is categorized as a level 3 in the fair value hierarchy because of the following unobservable assumptions:

- Between the date that the deal is signed (14 July 2019) until the date the deal is complete, there was a firm commitment from Galapagos to issue the shares.
- At the initial valuation date (signing of the deal) it was assumed that the date when the deal would be completed was 15 September 2019. This was the forward date from where all the market data is taken from.

Fair value re-measurement of the Gilead share subscription agreement

(thousands of €)

Fair value of financial asset at inception	**85,601**
Movement of period 14 July -23 August 2019 (recognized in the income statement)	(142,350)
Fair value of financial liability per 23 August 2019	**(56,749)**
Derecognition of the financial liability through the share premium account on 23 August 2019	56,749
Fair value per 30 September 2019	**–**

The €56.7 million current financial liability from the share subscription agreement reflecting the difference between the price paid by Gilead compared to the closing price of our shares on 23 August 2019 was derecognized through share premium.

Gilead warrants A and B

We measured both warrants at fair value (level 3) and recognized a liability at inception of the agreement for the same amount (as part of the deferred income line). This variable consideration was remeasured at 30 September 2019 with a corresponding impact on the transaction price allocated to the performance obligation relating to our drug discovery platform.

The fair value of warrant A amounted to €44.8 million at 30 September 2019. The fair value of warrant B amounted to €5.5 million at 30 September 2019.

Warrant A

Warrant A have been valued using a standard option model (Black & Scholes Merton). The input data used in the model were coming from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued, applied discount for lack of marketability).

A change in the unobservable inputs would have the following effect on the fair value of warrant A at 30 September 2019:

- If the number of shares issued through the exercise of the warrant A would be increased by 100,000, the value of the warrant A would increase by €1.6m.
- If the discount for lack of marketability had been estimated at 10% instead of 15%, the value of the liability would have increased by €2.6m.

Warrant B

Warrant B issued to Gilead have been valued on the basis of a Longstaff-Schwartz Monte Carlo model. The input data used in the model were coming from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued, applied discount for lack of marketability).

A change in the unobservable inputs would have the following effect on the fair value of warrant B at 30 September 2019:

- If the number of shares issued through the exercise of the warrant B would be increased by 100,000, the value of the warrant B would increase by €0.1m.
- If the discount for lack of marketability had been estimated at 30% instead of 35%, the value of the liability would have increased by €0.4m.

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 30 September 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	231,717	144,682	69,723	16,406	906

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 €655.3 million at 30 September 2019 for which we have direct purchase commitments of €21.9 million at 30 September 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 except for the following changes as a result of the Gilead transaction.

As a result of the filgotinib amendment, we are now responsible for funding 50% (instead of the originally agreed 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 are not obligated to bear any further costs if they exceed a predetermined level.

As explained in the summary of the Gilead agreement in the beginning of this report, Gilead received exclusive option rights to acquire a license on compounds. Exercising such an option would trigger an opt-in payment, a 50-50 cost share mechanism for the future development activities, development and sales milestones and royalties. We are also entitled to an additional milestone for GLPG1690 upon approval in the United States.

Related party transactions

Gilead is exercising significant influence over Galapagos as from the equity subscription on 23 August 2019. As a result of the equity subscription we received a transparency notification from Gilead on 28 August 2019 confirming they held 22.04% of the then issued and outstanding shares of Galapagos. The presumption of significant influence is also confirmed by the fact that Gilead has the right, for as long as it holds more than 20% of Galapagos' share capital, to appoint two Investor Board Designees to Galapagos' board of directors. The appointment of Mr. Daniel O'Day and Dr. Linda Higgins as directors of the company is on the agenda of the special general meeting of shareholders taking place on 22 October 2019.

All transactions with Gilead are explained in this report.

The board of directors resolved, upon recommendation of the nomination and remuneration committee, in the meeting of 24 September 2019, to award all employees of Galapagos an exceptional bonus for the successful closing of the Gilead alliance transaction, amounting to approximately €30 million in aggregate. For executive committee members the bonus amounted to €10.5 million in cash payable in October 2019, and €10.5 million in Restricted

Stock Units (RSUs) granted in October 2019 (for an equivalent of 71,074 RSUs in aggregate). 50% of the RSUs have a vesting period of two years and 50% of the RSUs have a vesting period of three years. Each RSU reflects the value of one Galapagos share and will be payable, at the company's discretion in cash or in shares, upon vesting.

During the first nine months of 2019, there were no other related party transactions than those disclosed above and in the H1 2019 report that potentially had a material impact on the financials of the first nine months of 2019.

Events after the end of the reporting period

There were no adjusting events nor material non-adjusting events to be reported.

Approval of interim financial statements

The interim financial statements were approved by the board of directors on 21 October 2019.