Notes to the consolidated financial statements

1. General information

Galapagos NV is a limited liability company incorporated in Belgium and has its registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium. In the notes to the consolidated financial statements, references to "we", "us," "the group" or "Galapagos" include Galapagos NV together with its subsidiaries.

R&D

The R&D operations are specialized in the discovery and development of small molecules. Our ambition is to become a leading global biotechnology company focused on the development and commercialization of novel medicines. Our strategy is to leverage our unique and proprietary target discovery platform, which facilitates our discovery and development of therapies with novel modes of action.

The components of the operating result presented in the financial statements include the following companies: Galapagos NV (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos B.V. (Leiden, the Netherlands); Fidelta d.o.o. (Zagreb, Croatia); Galapagos, Inc. and its subsidiary Xenometrix, Inc. (United States); BioFocus DPI AG and Galapagos GmbH (Basel, Switzerland); and Galapagos Biotech Ltd. (Cambridge, UK).

Our operations have 600 employees working in the operating facilities in Mechelen (the Belgian headquarters), the Netherlands, France, Croatia, the United States and Switzerland.

2. Significant accounting policies

Our principal accounting policies are summarized below.

Basis of preparation and going concern assumption

The consolidated financial statements are prepared in accordance with the International Financing Reporting Standards (IFRS), as adopted by the EU. The consolidated financial statements provide a general overview of our activities and the results achieved. They give a true and fair view of our financial position, our financial performance and cash flows, on a going concern basis.

New standards and interpretations applicable for the annual period beginning on 1 January 2017

- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses (applicable for annual periods beginning on or after 1 January 2017)
- Amendments to IAS 7 Disclosure Initiative (applicable for annual periods beginning on or after 1 January 2017)
- Annual improvements to IFRS Standards (2014-2016) Cycle -Amendments to IFRS 12 (applicable for annual periods beginning on or after 1 January 2017)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2017

- IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers, and clarifications on this IFRS (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)
- IFRS 17 Insurance contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- IFRIC 23 Uncertainty over Income Tax Treatments (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IAS 40 Transfers of Investment Property (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- Annual improvements to IFRS Standards (2014-2016) Cycle (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Annual improvements to IFRS Standards (2015-2017) Cycle (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)

The new standards applicable did not have any impact on our financials.

Assessment of the impact of the adoption of IFRS 15 Revenue from Contracts with Customers (applicable for annual periods beginning on or after 1 January 2018) on the revenue recognition of our current material license and collaboration agreements.

The IASB has issued IFRS 15 Revenue from Contracts with Customers, with an effective date of 1 January 2018. It was endorsed by the EU in third quarter of 2016.

The IASB issued clarifications to IFRS 15 Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers, with an effective date of January 1, 2018. It was endorsed by EU in the fourth quarter of 2017. The clarifications address how to identify the performance obligations in a contract, how to determine whether a party involved in a transaction is a principal or an agent, how to determine whether a license provides the customer with a right to access or a right to use the entity's intellectual property, and added practical expedients to the transition requirements of IFRS 15.

Entities will apply a five step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met.

The company is currently still in process of reviewing all its research and development, license , and collaboration agreements to ascertain how IFRS 15 will impact the identification of performance obligations and the allocation of consideration to them. We have performed qualitative assessments of the consequences of IFRS 15, but our work is ongoing on this matter.

1. Identify the contracts

The substance of our current arrangements is that Galapagos is licensing its IP to collaborative partner entities and conduct research and development ("R&D") activities. Such activities result in a good or service that is an output of Galapagos' ordinary activities.

We generate revenue through a number of these arrangements which include license fees, milestone payments, reimbursement income and future sales based milestones and sales based royalties.

Certain revenues from our current material licensing and collaboration agreements are expected to be in the scope of IFRS 15.

2. Identify performance obligations

We are assessing whether it is possible to consider that there is one single combined performance obligation for certain arrangements in our material ongoing license and collaboration arrangements under the new standards of IFRS 15; the transfer of a license combined with performance of R&D activities. This is because we could consider that the license has no stand-alone value without Galapagos being further involved in the R&D collaboration and that there is interdependence between the license and the R&D activities to be provided. For certain arrangements, we could consider that there is a transformational relationship between the license and the R&D activities to be delivered. We could estimate that the Galapagos' activities during the R&D collaboration are going to significantly add to Intellectual Property (IP) and thereby the value of the programs.

Our work on this aspect of the IFRS 15 impact analysis is ongoing.

3. Determine the transaction price

We analyzed the transaction prices of our material ongoing license and collaboration agreements currently composed of upfront license fees, milestone payments and cost reimbursements for R&D activities being delivered. Sales based milestones and sales based royalties are part of certain of our arrangements but are not yet included in our revenues as our most advanced license and collaboration arrangement is entering into a late development phase. Transaction price must be re-assessed at each reporting period under IFRS 15.

4. Allocate the transaction price

An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price. The transaction price of certain of our arrangements could be allocated to a single combined performance obligation when the transfer of a license is considered to be combined with performance of R&D activities. Milestone payments are variable consideration that could be entirely allocated to a specific performance obligation or to a distinct good or service that forms part of a single performance obligation if certain criteria under IFRS 15 are met.

5. Recognize revenue

Revenue from certain arrangements could be recognized as Galapagos satisfies a single performance obligation.

We could recognize revenues allocated to a single performance obligation over the estimated service period based on a pattern that reflects the transfer of the license and R&D activities. The revenues recognized would reflect the level of activities each period. In this case, we would use an input model that considers estimates of the percentage of total R&D costs that are completed each period compared to the total estimated costs (% of completion method).

Milestone payments could be recognized in revenues only when the events triggering the payments are reached and in line with the recognition method of the performance obligations to which they are allocated.

Costs reimbursements could be recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of our stake of the R&D activities of our ongoing license and collaboration agreements.

The company is still investigating if cost sharing arrangements could potentially affect the income statement presentation.

Assessment of the impact of IFRS 15

Our assessment of the potential performance obligations under step 2 (and consequently step 4), and the presentation of the cost sharing aspects under step 5 are still ongoing as well as the conclusion as to whether any of our arrangements are outside the scope of IFRS 15. We are not able at this stage to provide a final estimate of the impact of the adoption of IFRS 15 on our consolidated financial statements.

We plan to adopt IFRS 15 on the effective date and elect the modified retrospective method for the transition which foresees that prior period figures remain as reported under the previous standard and the cumulative effect of applying IFRS15 is recognized as an adjustment to the opening balance of equity as at the date of initial application (beginning of current reporting period).

Assessment of the impact of the adoption of IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018) on our consolidated financial statements.

The IASB has issued IFRS 9 Financial Instruments, with an effective date of 1 January 2018, endorsed by the EU in the fourth quarter of 2016. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation.

Galapagos has performed its analysis of the adoption of IFRS 9 and determined it will not have a material impact on the consolidated financial statements. Galapagos will adopt IFRS 9 on the effective date.

IFRS 16 Leases

The IASB has issued IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019) currently awaiting EU endorsement. The standard requires that all leases be recognized in the balance sheet with a corresponding lease liability, except for short term assets and minor assets. IFRS 16 requires leased assets to be amortized over the lease term, and payments will be allocated between instalments on the lease obligation and interest expense. In addition, the presentation of the expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of the use assets and interest expense on lease liabilities.

We know that this new coming standard will have an impact on our consolidated financial statements in 2019 and we are currently evaluating the guidance to determine this impact. We plan to adopt IFRS 16 on the effective date.

Consolidated reporting

The consolidated financial statements comprise the financial statements of Galapagos NV and entities controlled by Galapagos NV. Control is achieved where Galapagos NV has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The results of subsidiaries are included in the income statement and statement of comprehensive income from the effective date of acquisition up to the date when control ceases to exist. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with our accounting policies. All intra-group transactions, balances, income and expenses are eliminated when preparing the consolidated financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by us in exchange for control of the acquired entity.

The acquired entity's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair value at the acquisition date.

Goodwill arising on business combinations is recognized as an asset and initially measured as excess of the cost of acquisition over our interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary less the value of the non-controlling interests at date of the acquisition. Goodwill is not amortized but tested for impairment on an annual basis and whenever there is an indication that the cash generating unit to which goodwill has been allocated may be impaired. Goodwill is stated at cost less accumulated impairment losses. An impairment loss recognized for goodwill is not reversed in a subsequent period.

In cases in which the acquirer's interest in the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities less the value of the non-controlling interests exceeds cost, all fair values and cost calculations are reassessed. In the event that an excess still exists, it is immediately recognized in the profit or loss statement.

Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from our development activities is recognized only if all of the following conditions are met:

- Technically feasible to complete the intangible asset so that it will be available for use or sale
- We have the intention to complete the intangible assets and use or sell it
- We have the ability to use or sell the intangible assets
- The intangible asset will generate probable future economic benefits, or indicate the existence of a market
- Adequate technical, financial and other resources to complete the development are available
- We are able to measure reliably the expenditure attributable to the intangible asset during its development

The amount capitalized as internally generated intangible assets is the sum of the development costs incurred as of the date that the asset meets the conditions described above.

Internally generated intangible assets are amortized on a straight-line basis over their estimated useful lives. If the recognition criteria for accounting as an intangible asset are not met, development costs are recognized as an expense in the period in which they are incurred.

Intellectual property, which comprises patents, licenses and rights, is measured internally at purchase cost and is amortized on a straight-line basis over the estimated useful life on the following bases:

- Customer relationships: 1 – 10 years
- In process technology: 3 – 5 years
- Software & databases: 3 – 5 years
- Brands, licenses, patents & know-how: 5 – 15 years

In the event an asset has an indefinite life, this fact is disclosed along with the reasons for being deemed to have an indefinite life.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment loss. Depreciation is recognized so as to write off the cost or valuation of assets over their useful lives, using the straight-line method, on the following bases:

- Installation & machinery: 4 – 15 years
- Furniture, fixtures & vehicles: 4 – 10 years

Any gain or loss incurred at the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in profit or loss.

Leasehold improvements

Leasehold improvements are depreciated over the term of the lease, unless a shorter useful life is expected.

Assets held under finance lease

Assets held under finance leases are depreciated over their useful lives on the same bases as owned assets or, where shorter, over the term of the related lease agreement.

Inventories

Inventories are valued at the lower of cost and net realizable value. The net realizable value represents the estimated sales price less all estimated costs for completion and costs for marketing, sales and logistics.

Cost of raw materials comprises mainly purchase costs. Raw materials are not ordinarily interchangeable, and they are as such accounted for using the specific identification of their individual cost.

Financial instruments

Financial assets and financial liabilities are recognized on our balance sheet when we become a party to the contractual provisions of the instrument. Hedging and derivatives have never been used: we do not actively use currency derivatives to hedge planned future cash flows, nor do we make use of forward foreign exchange contracts. However, at year-end 2015 and until 19 January 2016, an embedded derivative existed under the terms of the Gilead contract (see note 8).

Available-for-sale financial assets

The group applies IAS 39 for its equity instruments. At the time of purchase, management determines the financial instrument's classification and reviews this classification at each reporting date. The classification depends on the purpose of acquiring the financial instrument. As of 31 December 2017, some financial instruments held by the group were classified as "available-for-sale". These financial instruments are recognized or derecognized as of the date of settlement. Following their initial recognition, available-for-sale financial assets are measured at fair value, and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, otherwise disposed of or considered impaired, at which time the accumulated gain or loss is reported in profit and loss. Initial recognition at fair value is defined as the fair value of the consideration provided net of transaction costs. However, when investments in equity instruments do not have a quoted market price in an active market and the fair value cannot be reliably measured, those equity instruments are measured at cost.

Research and development incentives receivables

The R&D incentives receivables relate to refunds resulting from R&D incentives on research and development expenses in France and Belgium. Non-current research and development incentives receivables are discounted over the period until maturity date according to the appropriate discount rates.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value reduced by appropriate allowances for irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short term deposits and highly liquid investments. Cash and cash equivalents exclude restricted cash which is presented separately in the statement of financial position.

Trade payables

Trade payables bear no interest and are measured at their nominal value.

Taxation

Income tax in the profit or loss accounts represents the sum of the current tax and deferred tax.

Current tax is the expected tax payable on the taxable profit of the year. The taxable profit of the year differs from the profit as reported in the financial statements as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability-method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. As such, a deferred tax asset for the carry forward of unused tax losses will be recognized to the extent that is probable that future taxable profits will be available.

Foreign currencies

- Functional and presentation currency

  Items included in the financial statements of each of our entities are valued using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Euros, which is our functional and presentation currency.

- Transactions and balances in foreign currency

  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. We are using monthly transaction rates based on the closing exchange rates of the foreign currencies on the last business day of the month preceding the date of the transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at closing rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

  Non-monetary assets and liabilities measured at historical cost that are denominated in foreign currencies are translated using the exchange rate at the date of the transaction.

- Financial statements of foreign group companies

  The results and financial position of all our entities that have a functional currency different from Euro are translated as follows:

  - Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
  - Income and expenses for each income statement are translated at average exchange rates
  - All resulting cumulative exchange differences are recognized as a separate component of equity
  - Such cumulative exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of

Recognition of expenses linked to clinical trial milestones

We recognize expenses specifically linked to clinical trial milestones with regard to patient recruitment and patient treatment (i.e. completion), incurred in carrying out clinical trials, in line with actual patient recruitment or treatment at each period end, in reference to the milestone targets for patient recruitment or treatment.

This involves the calculation of clinical trial accruals at each period end, for which an estimation of the expected full clinical trial milestone cost is required, as well as the current stage of patient recruitment or treatment.

Clinical trials usually take place over extended time periods and typically involve a set-up phase, a recruitment phase and a completion phase which ends upon the receipt of a final report containing full statistical analysis of trial results. Accruals for patient recruitment and patient completion are prepared separately for each clinical trial in progress and take into consideration the stage of completion of each trial including the number of patients that have entered the trial and the number of patients that have been treated in the trial. In all cases, the full cost of each trial is expensed by the time the final report is received.

Revenue recognition

Revenues to date have consisted principally of milestones, license fees and upfront payments received in connection with collaboration and alliance agreements. We also generate revenue from our fee-for-service activities, and other operating income from various research and development incentives and grants.

Collaboration and alliance agreements with our commercial partners for research and development activities generally include non-refundable upfront fees; costs reimbursements; milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulatory or commercial milestones; license fees and royalties on sales.

The revenue recognition policies can be summarized as follows:

Upfront payments

Non-refundable, upfront payments received in connection with research and development collaboration agreements are deferred and recognized over the relevant, required periods of our involvement. The payments and our involvement relate to a contractually defined phase of the project. At inception, management estimates the period of our involvement as well as the cost involved in the project. Upfront payments are recognized over the estimated period of involvement, either on a straight line basis or based on the cost incurred under the project if such cost can be reliably estimated. Periodically we reassess the estimated time and our cost to complete the project phase and adjust the time period over which the revenue is deferred accordingly.

Milestone payments

Research milestone payments are recognized as revenues when achieved. In addition, the payments have to be acquired irrevocably and the milestone payment amount needs to be substantive and commensurate with the magnitude of the related achievement. Milestone payments that are not substantive, not commensurate or that are not irrevocable are recorded as deferred revenue. Revenue from these activities can vary significantly from period to period due to the timing of milestones.

Reimbursement income

Cost reimbursements resulting from license and collaboration agreements with our commercial partners are recognized as reimbursement income in revenue as the related costs are incurred and upon agreement by the parties involved. The corresponding expenses are included in research and development expenditure.

Cost reimbursements from collaboration in which we share equally in the risks and benefits associated with development of a specific drug with a collaboration partner are recognized as decrease of the related incurred research and development expenditure.

Licenses

Revenues from term licenses are spread over the period to which the licenses relate, reflecting the obligation over the term, to update content and provide ongoing maintenance. Revenues from perpetual licenses are recognized immediately upon sale to the extent that there are no further obligations.

Royalties

Royalty revenues are recognized when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the period in which the licensees are reporting the royalties to us through royalty reports, that is, royalty revenues are generally recognized in arrears, i.e. after the period in which sales by the licensees occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and such royalty revenues are typically reported in the same period in which we receive payment from our licensees.

Other income

Grants and R&D incentives

As we carry out extensive research and development activities, we benefit from various grants and R&D incentives from certain governmental agencies. These grants and R&D incentives generally aim to partly reimburse approved expenditures incurred in our research and development efforts and are credited to the income statement, under other income, when the relevant expenditure has been incurred and there is reasonable assurance that the grants or R&D incentives are receivable.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When we undertake our activities under joint operations, we as a joint operator recognize in relation to our interest in a joint operation:

- Our assets, including our share of any assets held jointly
- Our liabilities, including our share of any liabilities incurred jointly
- Our revenue from the sale of our share of the output arising from the joint operation
- Our share of the revenue from the sale of the output by the joint operation
- Our expenses, including our share of any expenses incurred jointly

We account for the assets, liabilities, revenues and expenses relating to our interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When we transact with a joint operation in which we are a joint operator (such as sale or contribution of assets), we are considered to be concluding the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in our consolidated financial statements only to the extent of other parties' interests in the joint operation.

When we transact with a joint operation in which we are a joint operator (such as purchase of assets), we do not recognize our share of the gains and losses until we resell those assets to a third party.

Equity instruments

Equity instruments issued by us are measured by the fair value of the proceeds received, net of direct issue costs.

Employee benefits

a/ Defined contribution plans

Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

b/ Defined benefit plans

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expenses or income
- Re-measurement

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in our defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or a reduction in future contributions to the plans. A liability for a termination benefit is recognized at the earlier of when we can no longer withdraw the offer of the termination benefit and when we recognize any related restructuring costs.

c/ Staff bonus plan

We recognize an expense in the income statement for staff bonus plans.

d/ Management bonus plan

The executive committee members, together with other senior managers, are eligible to receive bonuses under the Senior Management Bonus Scheme established in 2006. Pursuant to the rules of the Senior Management Bonus Scheme, 50% of the bonus is paid immediately around year-end and the payment of the remaining 50% is deferred for three years. The deferred 50% component is dependent on the Galapagos share price change relative to the Next Biotech Index (which tracks Euronext-listed biotech companies). The Galapagos share price and the Next Biotech Index at the start and end of the 3-year period is calculated by the average price over the preceding and last month of the 3-year period, respectively.

- If the Galapagos share price change is better than or equal to the change in the Next Biotech Index, the deferred bonus will be adjusted by the share price increase/decrease percentage and paid out
- If the Galapagos share price change is up to 10% worse than the change in the Next Biotech Index, 50% of the deferred bonus will be adjusted by the share price increase/decrease percentage and paid out, and the remainder will be forfeited
- If the Galapagos share price change is more than 10% worse than the change in the Next Biotech Index the deferred bonus will be forfeited

We recognize the possible payment of the deferred component of the Senior Management Bonus Scheme within three years at the moment that the bonus amount is determined, based on the fair value of the liability at each reporting period. The fair value of the liability is measured by use of the Monte Carlo valuation model taking into consideration (a) the average reference price of the Galapagos share and Next Biotech Index, (b) the average price of the reporting period of the Galapagos share and the Next Biotech Index, (c) the simulation of the evolution of the Galapagos share price and the Next Biotech Index based on their volatility and correlation until maturity of the bonus, (d) the applicable discount rates at the end of the reporting period and (e) the probability of the number of beneficiaries assumed to stay with us until maturity of the bonus. The changes in fair value are recognized in profit or loss for the period.

Share-based payments

We grant equity-settled incentives to certain employees, directors and consultants in the form of warrants. Equity-settled warrants are measured at fair value at the date of acceptance. The fair value determined at the acceptance date of the warrants is expensed over time until the end of the vesting period, based on our estimate of warrants that are expected to be exercised. Fair value is measured by use of the Black & Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Provisions

Provisions are recognized on the balance sheet when we have a present obligation as a result of a past event; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of the money and, when appropriate, the risk specified to the liability.

Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as our assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. The payments are divided proportionally between the financial costs and a diminution of the outstanding balance of the obligation, so that the periodic interest rate on the outstanding balance of the obligation would be constant. Interest is recognized in the income statement, unless it is directly attributable to the corresponding asset, in which case they are capitalized.

Rents paid on operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Impairment of tangible and intangible assets

At each balance sheet date, we review the carrying amount of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually, and whenever there is an indication that the asset might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset or cash generating unit is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss resulting from a sale of a subsidiary is recognized as income. In other cases impairment losses of goodwill are never reversed.

Net income/loss per share

Basic net income/loss per share is computed based on the weighted average number of shares outstanding during the period. Diluted net income per share is computed based on the weighted average number of shares outstanding including the dilutive effect of warrants, if any.

Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis; and do not include income tax items. We have only two segments (see note 4).

3. Critical accounting estimates and judgments

In the application of the accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Our estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revisions and future periods if the revision affects both current and future periods.

Drafting financial statements in accordance with IFRS requires management to make judgments and estimates and to use assumptions that 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.

The following are the critical judgments and estimates that we have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements presented elsewhere in this annual report.

Critical judgments in applying accounting policies

Revenue recognition

Evaluating the criteria for revenue recognition with respect to our research and development and collaboration agreements requires management's judgment to ensure that all criteria have been fulfilled prior to recognizing any amount of revenue. In particular, such judgments are made with respect to determination of the nature of transactions, whether simultaneous transactions shall be considered as one or more revenue-generating transactions, allocation of the contractual price (upfront and milestone payments in connection with a collaboration agreement) to several elements included in an agreement, and the determination of whether the significant risks and rewards have been transferred to the buyer. Collaboration agreements are reviewed carefully to understand the nature of risks and rewards of the arrangement. All of our revenue-generating transactions have been subject to such evaluation by management.

Critical accounting estimates

Share-based payments plans

We determine the costs of the share-based payments plans (our warrant plans) on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, for which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated expected life of the warrant and the volatility. The judgments made and the model used are further specified in note 29.

We determine the costs of the deferred component of the Senior Management Bonus Schemes on the basis of the fair value of the liability at each reporting period. Determining the fair value assumes choosing the most suitable valuation model for this liability, in which the characteristics of the Senior Management Bonus plans and the Galapagos share price change relative to the Next Biotech Index have a major influence. This assumes also the input into the valuation model of some relevant judgments, like the simulation of the evolution of the Galapagos share price and the Next Biotech Index based on their volatility and correlation until maturity of the bonus, the applicable discount rates at the end of the reporting period and the probability of the number of beneficiaries assumed to stay with us until maturity of the bonus.

Pension obligations

The cost of a defined pension arrangement is determined based on actuarial valuations. An actuarial valuation assumes the estimation of discount rates, estimated returns on assets, future salary increases, mortality figures and future pension increases. Because of the long term nature of these pension plans, the valuation of these is subject to important uncertainties. See note 28 for additional details.

Corporate income taxes

Significant judgment is required in determining the use of tax loss carry forwards. Deferred tax assets arising from unused tax losses or tax credits are only recognized to the extent that there are sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized. Management's judgment is that such convincing evidence is currently not sufficiently available except for two subsidiaries operating intercompany on a cost plus basis and our fee-for-service business and as such a deferred tax asset is therefore recognized.

At 31 December 2017, we had a total of approximately €338.6 million of statutory tax losses carried forward which can be compensated with future taxable statutory profits for an indefinite period except for an amount of €16.8 million in Switzerland, Croatia, the United States and the Netherlands with expiry date between 2018 and 2030. At 31 December 2017, the available tax losses carried forward in Belgium amounted to €262.1 million.

As a company active in research and development in Belgium, we also expect to benefit from the "innovation income deduction (IID)" in Belgium. The innovation income deduction regime allows net profits attributable to revenue from among others patented products (or products for which the patent application is pending) to be taxed at a lower rate than other revenues, i.e., 4.4% (3.75% as of 1 January 2020). The available IID carried forward amounted to €87.2 million at 31 December 2017. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. The first basket contains (in order of deduction) the non-taxable items (such as deductible gifts), current year dividends received deduction (DRD), grandfathered patent income deduction (PID), current year innovation income deduction (IID) and investment deduction. The second basket contains (in order of deduction and subject to the restrictions as mentioned hereunder) the current year notional income deduction (NID), DRD carry-forward, IID carry-forward, tax loss carry-forward, unlimited NID carry-forward and NID carry-forward subject to the 7-year limitation. The taxable base can be reduced without any limitation with the deductions contained in the first basket. Any remaining taxable basis below € 1 million can be fully compensated with deductions contained in the second basket. If the remaining taxable basis exceeds € 1 million, the excess above € 1 million can only be compensated with deductions of the second basket up to 70%.

4. Segment information

The group holds two reportable segments in 2016 and 2017, R&D and fee-for-service business.

Segment information for the year 2017

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	118,262	8,825		127,087
Internal revenue		5,104	(5,104)	–
Other income	28,815	15		28,830
Revenues & other income	**147,077**	**13,945**	**(5,104)**	**155,918**
Segment result	**(73,610)**	**86**		**(73,524)**
Unallocated expenses(1)				(16,278)
Operating loss				**(89,802)**
Financial (expenses) / income(2)				(25,705)
Result before tax				**(115,507)**
Income taxes(2)				(198)
Net loss				**(115,704)**

(1) The unallocated expenses of €16,278 thousand are composed of (a) €16,536 thousand of warrant costs, (b) €258 thousand of reduced cost from the IAS19R Employee Benefits reclassification of actuarial losses on long term defined post-employment benefit obligations, from profit or loss accounts to other comprehensive income. The above listed items are not presented to management in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our segment reporting.

(2) Financial results and taxes information are not being provided to management in our management reporting as segment results and therefore, their aggregate amount is disclosed at the level of the group in our segment reporting.

Segment information for the year 2016

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	121,616	7,903		129,519
Internal revenue		4,379	(4,379)	
Other income	21,922	171		22,093
Revenues & other income	**143,538**	**12,453**	**(4,379)**	**151,612**
Segment result	**1,138**	**(1,787)**		**(649)**
Unallocated expenses(1)				(10,841)
Operating loss				**(11,491)**
Financial (expenses) / income(2)				65,737
Result before tax				**54,246**
Income taxes(2)				(235)
Net income				**54,012**

(1) The unallocated expenses of €10,841 thousand are composed of (a) €11,034 thousand of warrant costs, (b) €193 thousand of reduced cost from the IAS19R Employee Benefits reclassification of actuarial losses on long term defined post- employment benefit obligations, from profit or loss accounts to other comprehensive income. The above listed items are not presented to management in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our segment reporting.

(2) Financial results and taxes are not information being provided to management in our management reporting as segment results and therefore, their aggregate amount is disclosed at the level of the group in our segment reporting.

Segment assets and liabilities are not information being provided to management on a recurring basis. This information is therefore not disclosed in our segment information.

Geographical information

In 2017 our operations were mainly located in Belgium, Croatia, France and the Netherlands.

In 2017 our top 10 customers represented 97% of the revenues. Our client base in 2017 and 2016 included seven of the largest pharmaceutical companies in the world.

Following table summarizes our revenues by destination of customer:

	Year ended 31 December	
(thousands of €)	2017	2016
North America	82,050	88,628
Europe	45,037	40,884
Asia Pacific	–	6
Total revenues	**127,087**	**129,519**

Following table summarizes our revenues by major customers:

	Year ended 31 December			
	2017		2016	
	(thousands of €)	%	(thousands of €)	%
Gilead				
North America	80,687	63%	87,813	68%
AbbVie				
Europe	34,049	27%	32,596	25%
Total revenues from major customers	**114,736**	**90%**	**120,409**	**93%**

Following table summarizes our revenues by destination of our entity:

	Year ended 31 December	
(thousands of €)	2017	2016
Galapagos NV (Belgium)	118,244	121,703
Galapagos SASU (France)	18	84
Fidelta d.o.o. (Croatia)	8,825	7,732
Total revenues	**127,087**	**129,519**

In 2017, we held €89 million of non-current assets (€76 million in 2016) distributed as follows:

- Belgium: €47 million (€37 million in 2016)
- France: €34 million (€31 million in 2016)
- Croatia: €4 million (€4 million in 2016)
- The Netherlands: €4 million (€4 million in 2016)

The increase in non-current assets was mainly explained by the increase in non-current R&D incentives receivables (see note 15).

5. Total revenues and other income

Revenues

The following table summarizes the revenues for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	2017	2016
Recognition of non-refundable upfront payments and license fees	71,971	30,257
Milestone payments	42,950	81,784
Reimbursement income	3,273	9,699
Other revenues	8,893	7,777
Total revenues	**127,087**	**129,519**

Total revenues decreased by €2.4 million, or 2%, to €127.1 million for the year ended 31 December 2017, from €129.5 million for the year ended 31 December 2016. The decrease in milestone payments and reimbursement income was partly compensated by an increase in revenue recognition of upfront payments, as explained below.

The global collaboration with Gilead foresees continuous involvement from us, since we will perform certain R&D activities in the development phase of the filgotinib program; therefore, management assessed that the upfront payment of $300 million (or €275.6 million) received in January 2016 from Gilead should be spread in function of the costs incurred for this program, applying the percentage of completion method. In the year ended 31 December 2017, €62.5 million revenues were recognized regarding this upfront payment, compared to €25.6 million in the year ended 31 December 2016.

In connection with the agreement with Gilead, we recognized a deferred income and an offsetting short-term financial asset (derivative) of €39 million upon signing of the share subscription agreement with Gilead, as required under IAS 39 Financial Instruments: recognition and measurement. We refer to note 8 for further details. The deferred income of €39 million will be recognized in function of the costs incurred for this program, applying the percentage of completion method, along with the upfront payment. In the year ended 31 December 2017, €8.8 million revenues were recognized in the income statement, compared to €3.6 million in the year ended 31 December 2016.

In July 2017, Servier exercised its option to license our compound in osteoarthritis which triggered a license fee payment of €6 million. Since we will perform certain R&D activities in the next development phase of the program, management assessed that the license fee payment should be spread over the next development phase on a straight line basis. In the year ended 31 December 2017, €0.6 million were recognized regarding this license fee revenue.

The following table summarizes the upfront payments recognition for years ended 31 December 2017 and 2016.

Agreement	Upfront received (thousands of $)	Upfront and license fees received (thousands of €)	Recognition as from	Revenue recognized, year ended 31 December 2017 (thousands of €)	Revenue recognized, year ended 31 December 2016 (thousands of €)	Outstanding balance in deferred income as at 31 December 2017 (thousands of €)
Gilead collaboration agreement for filgotinib	300,000	275,558	January 2016	62,488	25,621	187,449
Gilead collaboration agreement for filgotinib	N.A.	39,003[(1)]	January 2016	8,845	3,626	26,532
ThromboGenics license agreement for integrin antagonists	N.A.	1,000	April 2016		1,000	
Sirion Biotech license agreement for RNA interference (RNAi) technologies	N.A.	10	June 2016		10	
Servier collaboration agreement for osteoarthritis	N.A.	6,000	August 2017	638		5,362
Total recognition of non-refundable upfront payments & license fees				**71,971**	**30,257**	**219,343**

(1) deferred income of €39 million booked upon signing of the share subscription agreement with Gilead as required under IAS 39 Financial instruments: recognition and measurement

Milestone revenues decreased substantially by €38.8 million or 47%, to €43.0 million for the year ended 31 December 2017 compared to €81.8 million for the year ended 31 December 2016. This decrease can be mainly explained by the achievement in 2016 of an important milestone of $50 million (€45.7 million) for the initiation of the Phase 3 trial in CD in our filgotinib program. Milestones in 2017 and 2016 were related to the filgotinib program with Gilead and the CF program with AbbVie.

Reimbursement income decreased by €6.4 million or 66%, to €3.3 million for the year ended 31 December 2017 compared to €9.7 million for the year ended 31 December 2016, due to lower reimbursements in relation with the CF program with AbbVie and the filgotinib program with Gilead. The reimbursement of certain research and development costs for the year ended 31 December 2017 were related to our collaboration agreements with AbbVie and Servier.

Other revenues increased by €1.1 million, or 14%, to €8.9 million for the year ended 31 December 2017 compared to €7.8 million for the year ended 31 December 2016, principally due to higher revenues from fee-for-service activities.

Other income

The following table summarizes other income for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	**2017**	2016
Grant income	1,045	2,329
Other income	27,785	19,764
Total other income	**28,830**	**22,093**

Total other income was composed of grant income and other income and increased by €6.7 million, or 30%, from €22.1 million for the year ended 31 December 2016 to €28.8 million for the year ended 31 December 2017.

Grant income decreased by €1.3 million, or 55%, from €2.3 million for the year ended 31 December 2016 to €1.0 million for the year ended 31 December 2017. The majority of this grant income was related to grants from a Flemish agency, representing approximately 93% of all reported grant income in 2017 (2016: 88%). In many cases these carry clauses which require us to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets.

The decrease in grant income was more than offset by an increase in other income of €8.0 million, or 41%, from €19.8 million for the year ended 31 December 2016 to €27.8 million for the year ended 31 December 2017. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €10.3 million of other income for the year ended 31 December 2017 compared to €9.5 million for the year ended 31 December 2016
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €11.2 million of other income for the year ended 31 December 2017 compared to €5.8 million for the year ended 31 December 2016
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and the Netherlands, representing €5.3 million of other income for the year ended 31 December 2017 compared to €3.8 million for the year ended 31 December 2016

6. Operating costs

Operating result has been calculated after charging (–)/crediting:

Research and development expenditure

The following table summarizes research and development expenditure for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	**2017**	**2016**
Personnel costs	(59,950)	(42,315)
Subcontracting	(123,054)	(65,649)
Disposables and lab fees and premises costs	(22,277)	(20,414)
Other operating expenses	(13,221)	(11,196)
Total research and development expenditure	**(218,502)**	**(139,573)**

R&D expenditure increased by €78.9 million, or 57%, to €218.5 million for the year ended 31 December 2017, from €139.6 million for the year ended 31 December 2016, reflecting the increase of our investments to advance our partnered and proprietary R&D programs. This increase was principally due to:

- Increased R&D personnel costs of €17.6 million, or 42%, from €42.3 million for the year ended 31 December 2016 to €59.9 million for the year ended 31 December 2017, which was explained by an enlarged workforce, higher warrant costs and a higher payable for short term and long term management bonus, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext
- Increase in subcontracting costs by €57.4 million, or 87%, from €65.6 million for the year ended 31 December 2016 to €123.1 million for the year ended 31 December 2017 mainly due to increased spending in our RA and IBD program on filgotinib and increased spending on our CF program.
- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.9 million, or 9%, from €20.4 million for the year ended 31 December 2016 to €22.3 million for the year ended 31 December 2017
- Other operating expenses increased by €2.0 million, or 18%, from €11.2 million for the year ended 31 December 2016 to €13.2 million for the year ended 31 December 2017.

The table below summarizes our research and development expenditure for the years ended 31 December 2017 and 2016, broken down by research and development expenses under alliance and own funded research and development expenses.

	Year ended 31 December	
(thousands of €)	2017	2016
R&D under alliance	(122,663)	(71,980)
Galapagos funded R&D	(95,839)	(67,593)
Total R&D expenditure	**(218,502)**	**(139,573)**

We tracked all research and development expenditures against detailed budgets and allocated them by individual project. The table below summarizes our research and development expenditure for the years ended 31 December 2017 and 2016, broken down by program:

	Year ended 31 December	
(thousands of €)	2017	2016
Filgotinib program (partnered)	(53,212)	(22,376)
CF program (partnered)	(46,192)	(31,203)
IPF program on GLPG1690 (proprietary)	(16,190)	(7,129)
OA program on GLPG1972 (partnered)	(7,317)	(6,538)
AtD program on MOR106 (partnered)	(8,404)	(3,491)
Other	(87,187)	(68,836)
Total R&D expenditure	**(218,502)**	**(139,573)**

R&D expenditure under alliance increased by €50.7 million, or 70%, from €72.0 million for the year ended 31 December 2016 to €122.7 million for the year ended 31 December 2017, mainly due to increased R&D spending in our RA and IBD program on filgotinib (partnered with Gilead), and increased R&D spending on our CF program in collaboration with AbbVie. We increased our investments in our own funded portfolio by €28.2 million, or 42%, from €67.6 million for the year ended 31 December 2016 to €95.8 million for the year ended 31 December 2017, primarily because of intensified research investments in our proprietary programs on inflammation and fibrosis, as well as increased spending on our proprietary IPF program GLPG1690.

General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	2017	2016
Personnel costs and directors fees	(17,756)	(15,160)
Other operating expenses	(6,659)	(6,584)
Total general and administrative expenses	**(24,415)**	**(21,744)**

General and administrative expenses amounted to €21.7 million for the year ended 31 December 2016 and increased by €2.7 million, or 12%, to €24.4 million for the year ended 31 December 2017. This increase was principally due to higher personnel expenses, which increased by €2.3 million, or 23%, from €10.0 million for the year ended 31 December 2016 to €12.3 million for the year ended 31 December 2017, resulting from various effects, such as increased headcount and increased costs of share-based payments plans (our warrant plans) and increased payables for short and long term management bonus, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext.

Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	2017	2016
Personnel costs	(2,156)	(1,167)
Other operating expenses	(646)	(618)
Total sales and marketing expenses	**(2,803)**	**(1,785)**

Sales and marketing expenses increased by €1.0 million, or 57%, from €1.8 million for the year ended 31 December 2016 to €2.8 million for the year ended 31 December 2017. This increase was due to higher personnel expenses as in the second half of the year ended 31 December 2017, we started to build our commercial organization in order to prepare for the co-promotion activities with Gilead for filgotinib in the co-promotion territories. In addition, costs of share-based payments plans (our warrant plans) and payables for short and long term management bonus increased for the year ended 31 December 2017, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext.

7. Staff costs

The table below summarizes the number of our employees on 31 December 2017 and 2016:

	2017	2016
Number of employees on 31 December	600	508
Total	**600**	**508**

The average number of employees during the years 2017 and 2016 was:

	Year ended 31 December	
	2017	2016
Executive officers	5	4
Research and development	461	385
Corporate and support	90	79
Total	**556**	**468**

Their aggregate remuneration comprised:

	Year ended 31 December	
(thousands of €)	2017	2016
Wages and salaries	(46,677)	(34,857)
Social security costs	(9,081)	(7,328)
Pension costs	(2,175)	(1,728)
Other personnel costs	(16,465)	(9,617)
Total personnel costs	**(74,398)**	**(53,530)**

The other personnel costs mainly related to costs for warrants granted of €11.8 million (2016: €6.6 million). For the costs of warrants granted, see note 29.

8. Fair value re-measurement of share subscription agreement

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

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

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the share subscription agreement and 31 December 2015 resulted in a negative, non-cash fair value charge of €30.6 million in the financial results. The subsequent increase in the fair value of the financial asset resulting from the decrease in our share price between 1 January 2016 and 19 January 2016 resulted in a positive non-cash gain of €57.5 million in the financial result of 2016.

On 19 January 2016, the value of the financial asset at maturity amounted to €65.9 million, reflecting the share premium that Gilead paid above our closing share price on the day of the capital increase. This amount was composed of (1) the initial measurement on the day of entering into the share subscription agreement for an amount of €39 million which was reported in deferred income and (2) the subsequent re-measurements of the financial asset, reported as financial result under IAS 39 Financial Instruments: recognition and measurement: €30.6 million fair value loss reported in the year 2015 and €57.5 million fair value gain reported in the year 2016, together a net fair value gain of €26.8 million. This financial asset expired on the effective date of the share subscription agreement and was derecognized and recorded as part of the share premium account.

9. Other financial income/expenses

The following table summarizes other financial income and expense for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	2017	2016
Other financial income:		
Interest on bank deposit	3,045	1,614
Effect of discounting long term R&D incentives receivables	–	99
Currency exchange gain	1,797	8,150
Other finance income	34	87
Total other financial income	**4,877**	**9,950**
Other financial expenses:		
Interest expenses	(936)	(47)
Currency exchange loss	(29,176)	(1,453)
Other finance charges	(469)	(191)
Total other financial expense	**(30,582)**	**(1,692)**
Total other net financial expense (–) / income	**(25,705)**	**8,257**

Other financial expenses increased significantly by €28.9 million, from €1.7 million for the year ended 31 December 2016 to €30.6 million for the year ended 31 December 2017. This increase primarily related to a currency exchange loss of € 27.8 million on deposits held in U.S. dollars. Our cash and cash equivalents include cash held in U.S. dollars, which could generate foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR.

Interest expenses were related to interests on term deposits and on finance lease.

Other financial income decreased by €5.1 million, or 51% from €10.0 million for the year ended 31 December 2016 to €4.9 million for the year ended 31 December 2017. Interest income was related to interests on term deposits.

Net exchange loss amounted to €27.4 million for the year ended 31 December 2017, compared to a net exchange profit of €6.7 million for the year ended 31 December 2016.

10. Taxes

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(thousands of €)	2017	2016
Current tax	(218)	(466)
Deferred tax	20	231
Total income taxes	**(198)**	**(235)**

Current tax amounted to €0.2 million for the year ended 31 December 2017 and €0.5 million for the year ended 31 December 2016, and was related to corporate income taxes for subsidiaries operating on cost plus basis.

Deferred tax income of €0.02 million for the year ended 31 December 2017 and of €0.2 million for the year ended 31 December 2016 related to subsidiaries working on a cost plus basis and to our fee-for-service business.

Tax liabilities

The below table illustrates the tax liabilities related captions in the balance sheet as at 31 December 2017 and 2016.

	31 December	
(thousands of €)	2017	2016
Current tax payable	865	1,022
Total tax liabilities	**865**	**1,022**

On 31 December 2017, €0.9 million of tax liabilities were primarily related to one of our subsidiaries operating on a cost plus basis.

Taxes recognized in profit or loss

For the purpose of the disclosure below corporation tax was calculated at 34% (2016: 34%) – which is the tax rate applied in Belgium – on the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions was the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

	Year ended 31 December	
(thousands of €)	2017	2016
Income / loss (–) before tax	**(115,507)**	**54,246**
Income tax debit / credit (–), calculated using the Belgian statutory tax rate (34%) on the accounting income / loss (–) before tax (theoretical)	(39,261)	18,438
Tax expenses in income statement (effective)	**198**	**235**
Difference in tax expenses / income to explain	**39,458**	**(18,203)**
Effect of tax rates in other jurisdictions	14	163
Effect of non taxable revenues	(11,277)	(27,399)
Effect of consolidation entry without tax impact	5,419	3,533
Effect of non tax deductible expenses	404	856
Effect of recognition of previously non recognized deferred tax assets	(414)	(421)
Effect of tax losses (utilized) reversed	(763)	(655)
Effect of non recognition of deferred tax assets	45,895	5,720
Effect of change in tax rates	181	
Total explanations	**39,458**	**(18,203)**

The main difference between the theoretical tax and the effective tax for the year 2017 was primarily explained by the unrecognized deferred tax assets on tax losses carried forward for which we conservatively assess that it is not likely that these will be realized in the foreseeable future. The main difference between the theoretical tax and the effective tax for the year 2016 was primarily explained by non-taxable revenues which included the financial profit related to the fair value re-measurement of the share subscription agreement.

Non-taxable revenues for the years ended 31 December 2017 and 2016 were related to non-taxable subsidies and tax credits.

11. Income/loss (-) per share

Basic income/loss (–) per share is calculated by dividing the net income/loss (–) attributable to owners of the parent by the weighted average number of ordinary shares issued during the year. Diluted income/loss (–) per share is calculated based on the weighted average number of shares (diluted) also considering outstanding warrants, for which our average share price of the year was higher than the exercise price.

Income / loss per share

	Year ended 31 December	
	2017	2016
Net income / loss (–) attributable to owners of the parent (thousands of €)	**(115,704)**	**54,012**
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic income / loss (–) per share	49,479	45,696
Basic income / loss (–) per share (€)	**(2.34)**	**1.18**
Net income / loss (–) attributable to owners of the parent (thousands of €)	**(115,704)**	**54,012**
Number of shares (thousands)		
Weighted average number of shares for the purpose of diluted income / loss (–) per share	49,479	45,696
Number of dilutive potential ordinary shares	–	1,612
Diluted income / loss (–) per share (€)	**(2.34)**	**1.14**

As we reported a net loss in 2017, the outstanding warrants (specified in note 29) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share is the same for 2017.

Basic income per share of €1.18 and diluted income per share of €1.14 in 2016 are based on a net income for 2016 which was strongly influenced by the non-cash gain from the fair value re-measurement of the share subscription agreement with Gilead amounting to €57.5 million.

12. Intangible assets

(thousands of €)	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
Acquisition value				
On 1 January 2016	**5,561**	**7,318**	**1,512**	**14,392**
Additions		317	15	332
Sales and disposals		(508)	(4)	(512)
Translation differences		58	–	58
On 31 December 2016	**5,561**	**7,185**	**1,523**	**14,269**
Additions	1,500	623	2	2,125
Sales and disposals		(100)		(100)
Translation differences		(212)		(212)
On 31 December 2017	**7,061**	**7,496**	**1,525**	**16,082**
Amortization and impairment				
On 1 January 2016	**5,561**	**5,777**	**1,501**	**12,841**
Amortization		856	4	860
Sales and disposals		(509)	(5)	(514)
Translation differences		57		57
On 31 December 2016	**5,561**	**6,182**	**1,501**	**13,246**
Amortization		644	8	652
Sales and disposals		(99)		(99)
Translation differences		(212)		(212)
On 31 December 2017	**5,561**	**6,514**	**1,509**	**13,587**
Carrying amount				
On 31 December 2016		1,003	22	1,023
On 31 December 2017	**1,500**	**982**	**16**	**2,495**

The intangible assets increased by €1.5 million from €1.0 million at 31 December 2016, to €2.5 million at 31 December 2017. The amortization of €0.7 million was fully compensated by new additions for €2.1 million.

On 31 December 2017, our balance sheet did not hold any internally generated assets capitalized as intangible asset.

13. Property, plant and equipment

(thousands of €)	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
On 1 January 2016	**4,049**	**26,588**	**2,695**	**1,174**	**34,506**
Additions	296	3,325	210	627	4,458
Sales and disposals		(1,315)	(105)		(1,420)
Reclassifications	67	1,064	167	(1,299)	(1)
Translation differences		70	6	4	81
On 31 December 2016	**4,412**	**29,733**	**2,973**	**505**	**37,624**
Additions	324	3,178	246	1,564	5,312
Sales and disposals		(844)	(17)		(861)
Reclassifications		881		(881)	–
Translation differences		112	7	1	120
On 31 December 2017	**4,736**	**33,060**	**3,209**	**1,189**	**42,195**
Depreciations and impairment					
On 1 January 2016	**1,753**	**16,718**	**2,130**	**122**	**20,724**
Amortization	272	2,752	243	55	3,322
Sales and disposals		(1,315)	(100)		(1,415)
Reclassifications		67	(93)	26	–
Translation differences		29	5		34
On 31 December 2016	**2,025**	**18,252**	**2,184**	**203**	**22,663**
Amortization	316	3,027	234	55	3,633
Sales and disposals		(838)	(17)		(855)
Translation differences	1	53	7		61
On 31 December 2017	**2,342**	**20,495**	**2,407**	**258**	**25,502**
Carrying amount					
On 31 December 2016	2,387	11,481	789	302	14,961
On 31 December 2017	**2,394**	**12,565**	**802**	**930**	**16,692**

The property, plant and equipment increased from €15.0 million as at 31 December 2016 to €16.7 million as at 31 December 2017. This increase was mainly the result of new additions of €5.3 million, partly compensated by a depreciation charge of €3.6 million.

There are no pledged items of property, plant and equipment. There are also no restrictions in use on any items of property, plant and equipment.

14. Other non-current assets

On 15 July 2016, we invested €2.75 million in a French biopharmaceutical company developing new therapeutics for severe orphan and common neurological diseases, listed on Euronext. Galapagos has no restrictions on the sale of this equity investment and the asset is not pledged under any Galapagos' liabilities. This investment is classified as available-for-sale equity investment which qualifies for level 1 fair value measurement based upon the closing price of suchsecurities on Euronext at each reporting date.

Fair value changes on available-for-sale financial assets are recognized directly in equity, through the statement of changes in equity.

As of 31 December 2017, other non-current assets mainly consisted of available-for-sale equity investment described above re-measured at fair value of €1.8 million as follows.

(thousands of €)	Fair value of available-for-sale financial assets
Cost at 1st January 2017	2,750
Disposals of the year	(377)
Cost at 31 December 2017	**2,373**
Fair value adjustment at 1st January 2017	(399)
Reclassification of fair value adjustment to income statement following disposal	55
Fair value adjustment of the year	(275)
Fair value adjustment at 31 December 2017	**(619)**
Net book value at 31 December 2017	**1,754**

Part of this equity investment was sold in 2017 for €0.4 million. As of 31 December 2017, we had accumulated fair value losses amounting to €0.6 million, based on unadjusted quoted market price, in which €0.1 million was reclassified to profit and loss subsequent to the shares disposed and €0.3 million was additionally recognized in other comprehensive income for the year ended 31 December 2017, in our statement of financial position on the other reserves line within equity (see note 20.)

15. Research and development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet as at 31 December 2017 and 2016.

	31 December	
(thousands of €)	2017	2016
Non-current R&D incentives receivables	64,001	54,188
Current R&D incentives receivables	11,782	10,154
Total R&D incentives receivables	**75,783**	**64,342**

Total R&D incentives receivables increased by €11.4 million compared to 31 December 2016. This increase is explained by new R&D incentives reported in 2017 for €21.5 million (€10.3 million related to French R&D incentives and €11.2 million related to Belgian R&D incentives) less the payments received related to French R&D incentives amounting to €7.9 million and to Belgian R&D incentives amounting to €2.0 million. The R&D incentives receivables are future expected refunds resulting from R&D incentives on research and development expenses in France and Belgium. Non-current R&D incentives receivables are reported at their net present value and are therefore discounted over the period until maturity date.

The table below provides detailed information on the maturity of the non-current R&D incentives receivables reported in our balance sheet at 31 December 2017.

Non-current R&D incentives receivables

	31 December 2017					
	Maturity date					
(thousands of €)	2019	2020	2021	2022	2023–2027	Total
French non-current R&D incentives receivables – nominal value	8,622	9,340	10,025	–	–	27,986
French non-current R&D incentives receivables – discounted value	8,622	9,340	10,025	–	–	27,986
Belgian non-current R&D incentives receivables – nominal value	2,520	3,398	4,009	4,863	21,562	36,353
Belgian non-current R&D incentives receivables – discounted value	2,520	3,398	4,009	4,863	21,224	36,015
Total non-current R&D incentives receivables – nominal value	**11,141**	**12,738**	**14,034**	**4,863**	**21,562**	**64,339**
Total non-current R&D incentives receivables – discounted value	**11,141**	**12,738**	**14,034**	**4,863**	**21,224**	**64,001**

16. Restricted cash

	31 December	
(thousands of €)	2017	2016
Non-current restricted cash	1,158	1,098
Current restricted cash	–	6,570
Total restricted cash	**1,158**	**7,668**

Restricted cash amounted to €7.7 million on 31 December 2016, and decreased to €1.2 million on 31 December 2017. This decrease is mainly related to the full release of the €6.6 million escrow account containing part of the proceeds from the sale of the service division in 2014, after final agreement with Charles River was reached in the first quarter of 2017. This decrease was slightly offset by an increase in non-current restricted cash of €0.1 million due to additional bank guarantees with regard to the rental of supplementary office space for the Belgian premises.

Restricted cash on 31 December 2017 was composed of bank guarantees on real estate lease obligations in Belgium and in the Netherlands for €0.45 million and €0.7 million respectively.

17. Trade and other receivables and other current assets

	31 December	
(thousands of €)	2017	2016
Trade receivables	22,133	6,629
Prepayments	543	21
Other receivables	5,289	3,078
Trade and other receivables	**27,966**	**9,728**
Accrued income	2,584	3,617
Deferred charges	3,825	3,621
Other current assets	**6,409**	**7,239**
Total trade and other receivables & other current assets	**34,375**	**16,966**

Trade and other receivables increased by €18.3 million to €28.0 million as at 31 December 2017 compared to €9.7 million as at 31 December 2016. This was mainly due to two milestones achieved before year end 2017 in our CF collaboration with AbbVie which were accounted for $20 million (€ 17.0 million): respectively $10 million (€8.6 million) for the Phase 1 trial initiation with GLPG3221 and $10 million (€8.4 million) for the Phase 1 trial initiation with GLPG2851.

We consider that the carrying amount of trade and other receivables approximates their fair value. The other current assets mainly included accrued income from subsidy projects and deferred charges.

On 31 December 2017, we did not have any bad debt allowance.

18. Cash and cash equivalents

	31 December	
(thousands of €)	2017	2016
Cash at banks	288,052	357,630
Term deposits	713,446	515,632
Money market funds	149,711	99,977
Cash on hand	3	2
Total cash and cash equivalents	**1,151,211**	**973,241**

We reported a cash position of €1,151.2 million at the end of December 2017 compared to €973.2 million at year-end 2016. Net cash used in operating activities amounted to €147.0 million for the year ended 31 December 2017. The net cash used in investing activities amounted to €0.5 million for the year ended 31 December 2017. The net cash generated from financing activities amounted to €353.4 million for the year ended 31 December 2017, which can mainly be attributed to the public offering in the U.S. of Galapagos shares for which the cash proceeds from capital and share premium increases amounted to €348.1 million, net of issue costs. In addition, proceeds received on exercise of warrants contributed to cash generated in financing activities in 2017 for an amount of €5.3 million. Finally, €27.8 million of foreign currency exchange rate differences on our cash held in foreign currency negatively impacted the ending balance of our cash and cash equivalents.

Cash and cash equivalents comprise 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 monitors and optimizes our liquidity position. Our cash management strategy may allow short term deposits with an original maturity exceeding 3 months while monitoring all liquidity aspects. Cash and cash equivalents comprised €713.4 million of term deposits which all had an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum 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 €149.7 million and was aimed at meeting short-term cash commitments, while reducing the counterparty risk of investment.

On 31 December 2017, our cash and cash equivalents included $241.3 million held in U.S. dollars, which could generate a foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR. 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.

19. Share capital

The share capital of Galapagos NV, as set forth in the articles of association, reconciles to 'share capital' on the balance sheet as follows:

	31 December	
(thousands of €)	**2017**	2016
On 1 January	**223,928**	**185,399**
Share capital increase	25,323	38,798
Costs of capital increase	(15,837)	(269)
Share capital on 31 December	**233,414**	**223,928**
Aggregate share capital	275,510	250,187
Costs of capital increase (accumulated)	(42,096)	(26,259)
Share capital on 31 December	**233,414**	**223,928**

Costs of capital increases are netted against the proceeds of capital increases, in accordance with IAS 32 Financial instruments: disclosure and presentation.

History of share capital

The history of the share capital of Galapagos NV between 1 January 2016 and 31 December 2017 is as follows:

Date	Share capital increase new shares (in thousands of €)	Share capital increase warrants (in thousands of €)	Number of shares issued (in thousands of shares)	Aggregate number of shares after transaction (in thousands of shares)	Aggregate share capital after transaction (in thousands of €)
1 January 2016				**39,076**	**211,389**
19 January 2016	36,575		6,761		
1 April 2016		668	132		
19 May 2016		762	141		
19 September 2016		326	60		
28 November 2016		467	86		
31 December 2016				**46,256**	**250,187**
1 January 2017				**46,256**	**250,187**
6 April 2017		1,337	247		
21 April 2017	23,331		4,313		
20 June 2017		281	52		
21 September 2017		152	28		
23 November 2017		222	41		
31 December 2017				**50,937**	**275,510**

On 31 December 2017, Galapagos NV's share capital amounted to €275,510 thousand, represented by 50,936,778 shares. All shares were issued, fully paid up and of the same class.

All of the share issuances listed above were for cash consideration.

The below table summarizes our capital increases for the years 2017 and 2016.

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants (in € / warrant)	Closing share price on date of capital increase (in € / share)
On 1 January 2017	**46,256,078**	**223,928**	**649,135**	**873,063**		
6 April 2017: exercise of warrants	**247,070**	**1,337**	**2,697**	**4,034**	**16.33**	**84.60**
21 April 2017: U.S. public offering						
ADSs (fully paid)	4,312,500	23,331	340,593	363,924		81.34
Underwriter discounts and offering expenses (paid)		(15,790)		(15,790)		
Offering expenses still to be paid at 31 December 2017		(47)		(47)		
Total U.S. public offering	**4,312,500**	**7,494**	**340,593**	**348,087**		
20 June 2017: exercise of warrants	**52,030**	**281**	**350**	**632**	**12.14**	**70.66**
21 September 2017: exercise of warrants	**28,100**	**152**	**116**	**268**	**9.55**	**84.62**
23 November 2017: exercise of warrants	**41,000**	**222**	**132**	**354**	**8.63**	**77.53**
On 31 December 2017	**50,936,778**	**233,414**	**993,025**	**1,226,439**		

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants (in € / warrant)	Closing share price on date of capital increase (in € / share)
On 1 January 2016	**39,076,342**	**185,399**	**357,402**	**542,801**		
19 January 2016: share subscription from Gilead						
Ordinary shares (fully paid)	6,760,701	36,575	355,546	392,121		48.26
Derecognition of financial asset from share subscription agreement			(65,850)	(65,850)		
Capital increase expenses (fully paid)		(269)		(269)		
Total share subscription by Gilead	**6,760,701**	**36,306**	**289,696**	**326,002**		
1 April 2016: exercise of warrants	**131,695**	**668**	**741**	**1,409**	**10.70**	**36.64**
19 May 2016: exercise of warrants	**140,770**	**762**	**715**	**1,476**	**10.49**	**45.41**
19 September 2016: exercise of warrants	**60,320**	**326**	**277**	**603**	**10.00**	**58.62**
28 November 2016: exercise of warrants	**86,250**	**467**	**305**	**772**	**8.94**	**55.73**
On 31 December 2016	**46,256,078**	**223,928**	**649,135**	**873,063**		

Other information

	Ordinary shares	Total
Accounting par value of shares (€)	5.41	5.41

The board of directors is authorized for a period of five years starting from the date of publication in the Annexes to the Belgian State Gazette of the shareholders' resolution that granted the renewed authorization, being 31 May 2017, to increase the share capital of Galapagos NV within the framework of the authorized capital through contributions in kind or in cash, with limitation or cancellation of the shareholders' preferential subscription rights. Said authorization can be renewed. The board of directors is currently not authorized to increase the share capital after notification by the FSMA (Financial Services and Markets Authority) of a public takeover bid on Galapagos NV's shares.

The authorized capital as approved by the extraordinary shareholders' meeting of 25 April 2017 amounted to €82,561.8 thousand. As of 31 December 2017, €3,911.4 thousand of the authorized capital was used, so that an amount of €78,650.3 thousand still remained available.

20. Other reserves

Actuarial and other gains or losses recognized through other comprehensive income

	31 December	
(thousands of €)	2017	2016
On 1 January	**(1,000)**	**(18)**
Gain or loss (–) on defined benefit obligation recognized through OCI	(40)	(583)
Reclassification of loss on financial asset available for sale to income statement (after disposal)	55	
Loss on financial asset available for sale recognized through OCI	(275)	(399)
Other reserves on 31 December	**(1,260)**	**(1,000)**

Other reserves consisted of (1) a negative of €0.6 million, compared to a negative of €0.6 million in 2016, which was related to the re-measurement of defined benefit obligations recognized through OCI in line with IAS19R Employee Benefits, and (2) a negative of €0.6 million, compared to €0.4 million in 2016, related to the fair value adjustment on and sale of part of the available-for-sale equity investment (see note 14).

There were no tax effects applicable to the amounts included in other reserves.

Derivative financial instruments: currency derivatives

We do not actively use currency derivatives to hedge planned future cash flows. On the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that we have committed are nil (2016: nil).

On 31 December 2017 the fair value of our currency derivatives was nil (2016: nil).

See note 32 for further information on how we manage financial risks.

21. Translation differences

	31 December	
(thousands of €)	2017	2016
On 1 January	**(1,090)**	**(467)**
Translation differences, arisen from translating foreign activities	(664)	(623)
Translation differences on 31 December	**(1,754)**	**(1,090)**

Translation differences increased from a negative €1.1 million at the end of December 2016 to a negative of €1.8 million at the end of December 2017 mainly due to fluctuations of the GB pounds and the U.S. dollar exchange rates.

22. Deferred tax

	31 December	
(thousands of €)	**2017**	2016
Recognized deferred tax assets and liabilities		
Assets	**1,978**	**1,957**
Liabilities		
Deferred tax assets unrecognized	**164,079**	**128,377**
Deferred taxes in the consolidated statement of operations	**20**	**231**
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	414	421
Deferred tax expenses relating to change in tax rates	(181)	
Deferred tax expenses relating to use of previously recognized deferred tax assets	(213)	(190)

The investment deduction of €1 million (2016: €1 million) could give rise to deferred tax assets. There is no limit in time for the investment deduction. The amount of notional interest deduction that has been accumulated in the past (2016: €2.6 million) cannot be carried forward to 2018, the notional interest deduction of the year itself can also not be carried forward.

The consolidated unused tax losses carried forward at 31 December 2017 amounted to €567 million (2016: €385 million), €15.1 million were related to unrecognized tax losses with expiry date between 2018 and 2030.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €338.6 million on 31 December 2017. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €16.8 million in Switzerland, Croatia, the United States and the Netherlands with expiry date between 2018 and 2030. On 31 December 2017, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €262.1 million. In addition to the latter, Galapagos NV (Belgium) also benefits from the new Belgian innovation income deduction regime which led to report, on 31 December 2017, a supplementary carried forward tax deduction amounting to €87.2 million that can also be offset against future statutory taxable results. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. We refer to note 3 for more information.

We have a history of losses. Excluding the impact of possible upfront or milestone payments to be received from collaborations, we forecast to continue incurring taxable losses in the foreseeable future as we continue to invest in clinical and pre-clinical development programs and discovery platforms. Consequently, no deferred tax asset was set up as at 31 December 2017, except for two subsidiaries operating on a cost plus basis and for our fee-for-service business, for which deferred tax assets were recognized for €2.0 million (2016: €2.0 million).

23. Trade and other liabilities

	31 December	
(thousands of €)	**2017**	**2016**
Trade and other payables	47,122	31,209
Other current liabilities	–	60
Other non-current liabilities	1,597	2,469
Accrued charges	1,159	619
Total trade and other liabilities	**49,878**	**34,357**

Our trade and other liabilities, amounting to €49.9 million as of 31 December 2017, increased by €15.5 million compared to the €34.4 million reported as of 31 December 2016.

The trade and other payables, amounting to €47.1 million as of 31 December 2017, increased by €15.9 million compared to the €31.2 million reported as of 31 December 2016. This increase is mainly due to higher accrued trade payables on 31 December 2017, reflecting the intensification of our investments in our R&D programs.

24. Deferred income

	31 December	
(thousands of €)	**2017**	**2016**
Gilead collaboration agreement for filgotinib	187,449	249,937
Gilead collaboration agreement for filgotinib(1)	26,532	35,376
Servier collaboration agreement for osteoarthritis	5,362	–
Other deferred income	549	299
Total deferred income (long term & current)	**219,892**	**285,612**

(1) deferred income of €39 million booked upon signing of the share subscription agreement with Gilead as required under IAS 39 Financial instruments: recognition and measurement

Deferred income (long term and short term) amounted to €219.9 million at 31 December 2017 and decreased by €65.7 million compared to €285.6 million as at 31 December 2016. The outstanding deferred income balance at 31 December 2017 included €214.0 million related to filgotinib (€93.5 million classified as non-current deferred income), €5.4 million deferred income related to the license fee of Servier (€3.8 million classified as non-current deferred income) and €0.5 million deferred grant income.

On the one hand we had per 31 December 2015 a deferred income of €39 million due to the recognition of a deferred income upon signing of the share subscription agreement with Gilead (see note 8). On the other hand we received in January 2016 an upfront payment from Gilead for an amount of $300 million (or €276 million). The global collaboration with Gilead foresees continuous involvement from us, since we will perform certain R&D activities in the development phase of the filgotinib program; therefore, management assessed that both items of deferred income should be spread in function of the costs incurred for this program, applying the percentage of completion method. For the year ended 31 December 2017, €71.3 million were recognized in revenue (2016: €29.2 million), of which €8.8 million were related to the deferred income from the share subscription agreement and €62.5 million were related to the upfront payment.

In the third quarter of the year ended 31 December 2017, a license fee of €6.0 million was received from Servier in the scope of our collaboration agreement in the field of osteoarthritis, of which €0.6 million was recognized in revenue at the end of the year 2017. This deferred income will be recognized on a straight-line basis over the next phase of development, which is our estimated period of involvement.

25. Operating lease obligations

We entered into lease agreements primarily for offices and laboratories which qualify as operating leases.

Minimum lease payments under operating leases recognized in the income statement for the year

	Year ended 31 December	
(thousands of €)	**2017**	2016
Total minimum lease payments under operating leases	**4,799**	4,302

Our outstanding commitments for future minimum lease payments under operating leases are disclosed in the note 26. Off-balance sheet arrangements.

26. Off-balance sheet arrangements

Contractual obligations and commitments

We entered into lease agreements for our offices and laboratories which qualify as operating leases. We also have certain purchase commitments with CRO subcontractors and with collaboration partners principally.

On 31 December 2017, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

(thousands of €)	**Total**	Less than 1 year	1–3 years	3–5 years	More than 5 years
Operating lease obligations	26,346	4,150	7,820	6,010	8,366
Purchase commitments	65,246	53,010	11,233	1,002	–
Total contractual obligations & commitments	**91,592**	**57,160**	**19,053**	**7,012**	**8,366**

On 31 December 2016, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

(thousands of €)	**Total**	Less than 1 year	1–3 years	3–5 years	More than 5 years
Operating lease obligations	27,263	4,114	6,494	5,504	11,151
Purchase commitments	27,579	27,084	495	–	–
Total contractual obligations & commitments	**54,842**	**31,198**	**6,989**	**5,504**	**11,151**

In addition to the tables above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. This is disclosed in the Corporate Governance chapter of this report, under “Agreements with major Galapagos NV shareholders”. The contractual cost sharing commitment amounted to €129.0 million at 31 December 2017 (€199.0 million at 31 December 2016), for which we have direct purchase commitments of €10.1 million at 31 December 2017 (€2.0 million at 31 December 2016) reflected in the tables above.

27. Contingent assets and liabilities

On 13 March 2014, we announced the signing of a definitive agreement to sell the service division operations to Charles River Laboratories International, Inc., or CRL, for a total consideration of up to €134 million. CRL agreed to pay us an immediate cash consideration of €129 million. The potential earn-out of €5 million due upon achievement of a revenue target 12 months after transaction closing has not been obtained. Approximately 5%

of the total consideration, including price adjustments, was being held on an escrow account. Four claims were introduced by CRL, which have all been settled for a total amount of €1.3 million. The remaining balance of €6.6 million was released in full, as final agreement between the parties was reached in the first quarter of 2017.

Following the divestment, we remained guarantor until early February 2017 in respect of the lease obligations for certain U.K. premises. Finally, following common practice, we gave representations and warranties which are capped and limited in time (since 1 April 2016, CRL can only introduce a claim covered by the Tax Deed (during a period of 5 years), other claims related to the sale cannot be submitted anymore).

In the course of 2008, a former director of one of our subsidiaries sued for wrongful termination and seeks damages of €1.5 million. We believe that the amount of damages claimed is unrealistically high. On 29 January 2016, the court made a 1st degree judgment, dismissing all claims in full. In appeal, the 2nd degree court instructed the 1st degree court to conduct a new trial, which is currently pending. A first hearing was held on 24 January 2018, where a motion for a financial expertise was filed by the plaintiff. A decision on said motion is under consideration of the court and a further hearing will be scheduled. The timing of this further hearing can however not be predicted with any degree of certainty. Considering the defense elements provided to date, as well as the fact that so far the court has made no decision indicating that the claim would be sustained, our board and management evaluated the risk to be possible, but not likely. Accordingly, it was decided not to record any provision as the exposure was considered to be limited.

28. Retirement benefit plans

Defined contribution plans

We operate defined contribution systems for our qualifying employees (except for Belgium and France). The assets of the schemes are held separately from ours in designated pension plans. For defined contribution systems, we pay contributions to publicly or privately administered pension or insurance funds. Once the contribution is paid, we do not have any remaining obligation.

Defined benefit plans in Belgium

In view of the minimum returns guarantees, the Belgian plans classify as defined benefit plans. As at 31 December 2016 a net defined benefit obligation of €386.6 thousand was recorded, which decreased to a net defined benefit obligation of €169.4 thousand on 31 December 2017.

Actuarial gains and losses are recognized immediately in equity, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R Employee Benefits. They are not recycled subsequently. Actuarial gains of €53.9 thousand were recognized through other comprehensive income (OCI) at the end of 2017 (2016: €389.9 thousand of actuarial losses). The contributions to those plans that were due by the employer for the year ended 31 December 2017 and the year ended 31 December 2016, amounted respectively to €964.0 thousand and €528.0 thousand, of which €64.0 thousand was paid after 31 December 2017 (2016: €42.5 thousand). No contributions were made by the employees.

The plan assets as on 31 December 2017 consisted of €2,554.7 thousand (2016: €1,788.7 thousand) individual insurance reserves, which benefit from a weighted average guaranteed interest rate of 2.41% (2016: 2.82%).

Defined benefit plans in France

We use two defined benefit plans for the employees of our French entity. The defined benefit plans are not supported by funds.

The chemical and pharmaceutical industry's collective bargaining agreements require that our French entity pays a retirement allowance depending on the seniority of the employees at the moment they retire. The benefit obligations for these retirement allowances amounted to €2,046.8 thousand for 2017 (2016: €1,808.5 thousand). This increase was mainly due to changed actuarial assumptions (decrease of discount rate from 1.44% to 1.30%).

Additionally, there are also seniority premiums obligations in France. The provisions for these premiums amounted to €1,365.7 thousand on 31 December 2017 (on 31 December 2016: €1,324.9 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounted to €3,412.5 thousand on 31 December 2017 (2016: €3,133.4 thousand).

Actuarial gains and losses are recognized in equity, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R Employee Benefits. They are not recycled subsequently. Actuarial losses of €93.9 thousand were recognized through other comprehensive income (OCI) at the end of 2017 (2016: €193.2 thousand of actuarial losses).

Total amounts due by the group to the pension plans in 2017 were €2.2 million (2016: €1.7 million).

Obligations included in the balance sheet

	31 December	
(thousands of €)	**2017**	**2016**
Present value of funded defined benefit obligation	2,724	2,175
Plan assets	(2,555)	(1,789)
Deficit / surplus	169	387
Present value of unfunded defined benefit obligation	3,412	3,133
Liability included in the balance sheet	**3,582**	**3,520**

The present value of the gross obligation developed as follows

(thousands of €)	**2017**	**2016**
Opening balance	5,308	3,757
Current service cost	863	649
Actual taxes on contributions paid	(87)	(48)
Interest cost	87	82
Benefits paid	(157)	(119)
Actuarial gains (–) or losses due to experience adjustments	(100)	500
Actuarial gains (–) or losses due to experience adjustments related to new financial assumptions	222	432
Actuarial gains (–) or losses due to experience adjustments related to new demographic assumptions	–	56
Closing balance	**6,136**	**5,308**

The fair value of the plan assets developed as follows

(thousands of €)	2017	2016
Opening balance	(1,788)	(1,064)
Interest income on plan assets	(41)	(32)
Actual administration costs	3	2
Contributions from employer	(748)	(411)
Actual taxes on contributions paid	87	48
Plan assets gain during the period	(68)	(332)
Closing balance	**(2,555)**	**(1,788)**

The expected rate of return on the plan assets is 1.7%.

The fair value of the plan assets is the fair market value of the plan assets. The fair value of the plan assets was calculated as the reduced lump sums (received from the plan administrators) actualized with the assumptions set (discount rate and mortality tables). The total plan assets are equal to the fair value of the plan assets increased with the financing fund.

Amounts recognized in profit or loss for defined benefit plans are as follows

	Year ended 31 December	
(thousands of €)	2017	2016
Current service cost	863	649
Interest cost	87	82
Interest income	(41)	(32)
Administration expenses	3	2
Revaluations of net liability / net asset	14	73
Total expense	**926**	**773**

Obligation included in the balance sheet reconciles as follows

(thousands of €)	2017	2016
Opening balance	3,520	2,693
Real employer contributions	(748)	(411)
Total expense recognized in the income statement	926	773
Re-measurement on the net defined benefit liability	40	583
Benefits paid	(157)	(119)
Closing balance	**3,582**	**3,520**

The most important actuarial assumptions are

	31 December	
(%)	**2017**	**2016**
Weighted average discount rate	1.48%	1.60%
Expected salary increase	2.50%	2.50%
Inflation rate	1.86%	1.75%

The discount rate was based on the Merrill Lynch yields for AA rated Eurozone corporate bonds (bonds with maturity dates which correspond with the commitments). In addition to the above table, we used mortality tables issued by Belgian and French national institutions for statistics applicable respectively for the Belgian and the French population.

Breakdown of defined benefit obligation by type of plan participants:

	31 December	
(number of participants)	**2017**	**2016**
Active plan participants	324	267

Breakdown of defined benefit obligation by type of benefits:

	31 December	
(thousands of €)	**2017**	**2016**
Retirement and death benefits	4,770	3,983
Other post-employment benefits	1,366	1,325

Major categories of plan assets: fair value plan of assets:

	31 December	
(thousands of €)	**2017**	**2016**
Equity	153	89
Debt	2,402	1,698

Sensitivity analysis on weighted average discount rate: effect on gross obligation

	31 December
Obligation (thousands of €)	**2017**
Discount rate 0.98%	6,663
Discount rate 1.23%	6,393
Discount rate 1.48%	6,136
Discount rate 1.73%	5,895
Discount rate 1.98%	5,666

Sensitivity analysis on weighted average discount rate: effect on gross obligation

	31 December
Obligation (thousands of €)	**2016**
Discount rate 1.10%	3,792
Discount rate 1.35%	3,661
Discount rate 1.60%	3,520
Discount rate 1.85%	3,419
Discount rate 2.10%	3,312

29. Warrant plans

Presented below is a summary of warrant activities for the reported periods. Various warrant plans were approved for the benefit of our employees, and for directors and independent consultants of Galapagos NV. For warrant plans issued prior to 2011, the warrants offered to the employees and independent consultants vest according to the following schedule: 10% of the warrants vest on the date of the grant; an additional 10% vest at the first anniversary of the grant; an additional 20% vest at the second anniversary of the grant; an additional 20% vest at the third anniversary of the grant; and an additional 40% vest at the end of the third calendar year following the grant.

The warrants granted under warrant plans created from 2011 onwards vest at the end of the third calendar year following the year of the grant, with no intermediate vesting, with the exception of the warrants granted under Warrant Plan 2015 (B), Warrant Plan 2015 RMV, and Warrant Plan 2016 (B), which vest on the third anniversary of the notary deed enacting the acceptance and issuance of the warrants.

The warrants offered to directors vest over a period of 36 months at a rate of 1/36th per month.

Warrants cannot be exercised before the end of the third calendar year following the year of the grant, except for warrants granted under Warrant Plan 2015 (B), Warrant Plan 2015 RMV, and Warrant Plan 2016 (B), which become exercisable on the third anniversary of the notary deed enacting the acceptance and issuance of the warrants. In the event of a change of control over Galapagos NV, all outstanding warrants vest immediately and will be immediately exercisable.

After the reverse 4:1 share split approved by the extraordinary shareholders' meeting of 29 March 2005, four warrants under Warrant Plan 2002 Belgium entitle the warrant holder to subscribe for one ordinary share. For the warrant plans created from 2005 onwards, one warrant entitles the warrant holder to subscribe for one ordinary share. In the summaries and tables below, the numbers of warrants issued under Warrant Plan 2002 Belgium are divided by four to avoid confusion in entitlements and rights.

The table below sets forth a summary of warrants outstanding and exercisable at 31 December 2017, per warrant plan:

Warrant plan	Allocation date	Expiry date	Exercise price (€)	Outstanding per 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2017	Exercisable per 31 December 2017
2002 B	31.01.2005	30.01.2017	6.76	25,000		(25,000)			–	–
2005	04.07.2005	03.07.2018	6.91	90,000		(60,000)			30,000	30,000
2005	15.12.2005	14.12.2018	8.60	12,500		(5,000)			7,500	7,500
2006 BNL	04.05.2007	03.05.2020	9.22	7,500		(7,500)			–	–
2006 BNL	28.06.2007	27.06.2020	8.65	735					735	735
2006 BNL	21.12.2007	20.12.2020	7.12	1,050					1,050	1,050
2007	28.06.2007	27.06.2020	8.65	48,909					48,909	48,909
2007 RMV	25.10.2007	24.10.2020	8.65	37,650		(5,050)			32,600	32,600
2008	26.06.2008	25.06.2021	5.60	79,600		(2,500)			77,100	77,100
2009	01.04.2009	31.03.2017	5.87	7,500		(7,500)			–	–
2010	27.04.2010	26.04.2018	11.55	53,000		(10,500)			42,500	42,500
2011	23.05.2011	22.05.2019	9.95	59,100		(6,600)			52,500	52,500
2012	03.09.2012	02.09.2020	14.19	247,160		(37,270)			209,890	209,890
2013	16.05.2013	15.05.2021	19.38	432,240		(171,280)		(400)	260,560	260,560
2013 (B)	18.09.2013	17.09.2021	15.18	30,000		(30,000)			–	–
2014	25.07.2014	24.07.2022	14.54	536,660					536,660	
2014 (B)	14.10.2014	13.10.2022	11.93	150,000					150,000	
2015	30.04.2015	29.04.2023	28.75	517,053					517,053	
2015 (B)	22.12.2015	21.12.2023	49.00	399,000					399,000	
2015 RMV	22.12.2015	21.12.2023	49.00	97,500					97,500	
2016	01.06.2016	31.05.2024	46.10	514,250					514,250	
2016 RMV	01.06.2016	31.05.2024	46.10	120,000					120,000	
2016 (B)	20.01.2017	19.01.2025	62.50		150,000				150,000	
2017	17.05.2017	16.05.2025	80.57		595,500				595,500	
2017 RMV	17.05.2017	16.05.2025	80.57		127,500				127,500	
Total				**3,466,407**	**873,000**	**(368,200)**	**–**	**(400)**	**3,970,807**	**763,344**

	Warrants	Weighted average exercise price (€)
Outstanding on 31 December, 2015	**2,805,692**	**16.22**
Exercisable on 31 December, 2015	720,749	
Granted during the period	1,130,750	
Forfeited during the year	(48,500)	
Exercised during the period	(419,035)	
Expired during the year	(2,500)	
Outstanding on 31 December, 2016	**3,466,407**	**27.06**
Exercisable on 31 December, 2016	669,704	
Granted during the period	873,000	
Forfeited during the year	–	
Exercised during the period	(368,200)	
Expired during the year	(400)	
Outstanding on 31 December, 2017	**3,970,807**	**39.32**
Exercisable on 31 December, 2017	763,344	

The table below sets forth the inputs into the valuation of the warrants.

Warrant plans

	2017	2017 RMV	2016 (B)	2016	2016 RMV
	17 May	17 May	20 January	1 June	1 June
Exercise price (€)	80.57	80.57	62.50	46.10	46.10
Share price at acceptance date (€)	68.67	68.67	75.18	48.71	47.63
Fair value on the acceptance date (€)	26.85	26.80	37.27	21.95	21.16
Estimated volatility (%)	40.06	40.08	40.33	40.69	40.69
Time to expiration (years)	8	8	8	8	8
Risk free rate (%)	0.33	0.29	0.51	0	0
Expected dividends	None	None	None	None	None

The exercise price of the warrants is determined pursuant to the applicable provisions of the Belgian Companies Code.

The estimated volatility is calculated on the basis of the historical volatility of the share price over the expected life of the warrants, validated by reference to the volatility of a representative biotech index.

The time to expiration of the warrant is calculated as the estimated duration until exercise, taking into account the specific features of the plans.

The warrants were accounted for in accordance with International Financial Reporting Standard 2 on Share Based Payments. IFRS 2 takes effect for all warrants offered after 7 November 2002.

Our warrants expense in 2017 amounted to €16,536 thousand (2016: €11,034 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2017 and 31 December 2016.

	31 December	
Category (number of warrants)	**2017**	**2016**
Non-executive directors	216,060	165,240
Executive team	2,039,374	1,676,874
Other	1,715,373	1,624,293
Total warrants outstanding	**3,970,807**	**3,466,407**

The outstanding warrants at the end of the accounting period have an average exercise price of €39.32 (2016: €27.06) and a weighted average remaining expected life of 1,441 days (2016: 1,482 days).

30. Related parties

Relationship and transactions with entities with (joint) control of, or significant influence over, Galapagos

There are no shareholders or other entities who, solely or jointly, control Galapagos or exercise significant influence over Galapagos.

Relationship and transactions with subsidiaries

Please see Note 31 for an overview of the consolidated companies of the group, which are all wholly-owned subsidiaries of Galapagos NV.

Intercompany transactions between Galapagos NV and its subsidiaries, and amongst the subsidiaries, have been eliminated in the consolidation and are not disclosed in this note.

Relationship and transactions with key management personnel

Our key management personnel consists of the members of our executive committee and the members of our board of directors. All amounts mentioned in this section are based on expenses recognized in the financial statements for the relevant financial year.

Remuneration of key management personnel

On 31 December 2017, our executive committee had five members: Mr. Onno van de Stolpe, Mr. Bart Filius, Dr. Piet Wigerinck, Dr. Andre Hoekema and Dr. Walid Abi-Saab. On 31 December 2017, our board of directors consisted of eight members: Mr. Onno van de Stolpe, Dr. Raj Parekh, Dr. Werner Cautreels, Dr. Harrold van Barlingen, Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Christine Mummery and Dr. Mary Kerr.

Only the CEO is a member of both the executive committee and the board of directors. Our CEO does not receive any special remuneration for his board membership, as this is part of his total remuneration package in his capacity as member of the executive committee.

The remuneration package of the members of key management personnel comprises:

(thousands of €, except for the number of warrants)	Year ended 31 December 2017	2016
Remuneration of key management personnel:		
Short-term benefits[1]		
Executive committee members as a group	3,694	3,124
Raj Parekh[2]	91	73
Harrold van Barlingen	45	47
Howard Rowe	45	50
Werner Cautreels	55	56
Katrine Bosley	45	45
Christine Mummery	41	43
Mary Kerr[3]	41	18
Post-employment benefits[4]	248	228
Total benefits excluding warrants	**4,305**	**3,683**
Number of warrants granted in the year		
Executive committee members as a group	475,000	515,000
Raj Parekh	15,000	30,000
Harrold van Barlingen	7,500	15,000
Howard Rowe	7,500	15,000
Werner Cautreels	7,500	15,000
Katrine Bosley	7,500	15,000
Christine Mummery	7,500	15,000
Mary Kerr[3]	7,500	–
Total number of warrants granted in the year	**535,000**	**620,000**

(1) Includes for executive committee members: salaries, employer social security contributions, other short-term benefits; includes for board members: board fees, other short-term benefits.
(2) During the first four months of 2016, Dr. Parekh did not receive remuneration for his directors' mandate, but was compensated through a consultancy agreement with his management company, Parekh Enterprises Ltd. (consultancy fee of €20 thousand in 2016).
(3) Dr. Kerr joined the board on 26 July 2016.
(4) Only executive committee members are granted post-employment benefits.

Short-term employee benefits and board fees

The members of the executive committee provide their services to us on a full-time basis.

The five members of the executive committee (including the CEO) who were in function in the course of 2017 were paid an aggregate amount of € 1,638.71 thousand in remuneration and received an aggregate amount of € 1,908.81 thousand in bonuses (2016: €1,291.84 thousand in remuneration and €1,747.21 thousand in bonuses for the four members of the executive committee (including the CEO) who were in function in the course of 2016). The higher amounts in 2017 can be explained by the fact that the executive committee consisted of five members in 2017 compared to four members in 2016. The aggregate bonus amount for 2017 was composed of two parts: (i) an aggregate bonus of €692.06 thousand, being 50% of the bonus for performance over 2017 (paid in early January 2018), with the other 50% being deferred for 3 years, and (ii) an aggregate amount of €1,216.75 thousand as deferred part of the bonus for performance over 2014 (paid in early January 2018). The aggregate bonus amount for 2016 was composed of 2 parts: (i) an aggregate bonus of €573.05 thousand, being 50% of the bonus for performance over 2016 (paid in early January 2017), with the other 50% being deferred for 3 years, and (ii) an aggregate amount of €1,174.17 thousand as deferred part of the bonus for performance over 2013 (paid in early January 2017).

Other components of the remuneration of the executive committee members included contributions to health insurance schemes, company cars, tax advisory services and certain fringe benefits of non-material value.

Pursuant to the decision of the annual shareholders' meeting of 25 April 2017, Dr. Parekh received €90 thousand (€80 thousand as chairman of the board, and €10 thousand as chairman of the nomination and remuneration committee), Dr. Cautreels received €55 thousand (€40 thousand as non-executive director, €10 thousand as chairman of the audit committee and €5 thousand as member of the nomination and remuneration committee), Ms. Bosley, Mr. Rowe and Dr. Van Barlingen each received €45 thousand (€40 thousand as non-executive director and €5 thousand as member of the nomination and remuneration committee or audit committee) and Dr. Mummery and Dr. Kerr each received €40 thousand as non-executive director. Pursuant to the decision of the annual shareholders' meeting of 26 April 2016, Dr. Parekh received €70 thousand (or, taking into account €20 thousand received in consultancy fees for the first four months of 2016, an aggregate of €90 thousand: €80 thousand as chairman of the board and €10 thousand as chairman of the nomination and remuneration committee), Dr. Cautreels received €55 thousand (€40 thousand as non-executive director, €10 thousand as chairman of the audit committee and €5 thousand as member of the nomination and remuneration committee), Ms. Bosley, Mr. Rowe and Dr. Van Barlingen each received €45 thousand (€40 thousand as non-executive director and €5 thousand as member of the nomination and remuneration committee or audit committee) and Dr. Mummery received €40 thousand as non-executive director. Dr. Kerr, being appointed as non-executive director as from 26 July 2016, received €17 thousand as remuneration for the performance of her mandate during the remainder of 2016 pursuant to the decision of the special shareholders' meeting of 26 July 2016.

Dr. Parekh did not receive remuneration for his director's mandate in the first four months of 2016, but was instead compensated only through a consultancy agreement until 30 April 2016.

Finally, in 2017, a total amount of €2.7 thousand was paid as other short-term benefit for the non-executive directors (2016: €14.5 thousand). These benefits related to the payment of tax advisory services.

Post-Employment Benefits

The post-employment benefits to the members of the executive committee are granted under separate retirement benefit schemes, including pension schemes, post-employment life insurance and additional individual pension contributions.

Severance payments

The employment and management agreements of the members of the executive committee do not provide for severance compensation. They do not contain notice periods that exceed six months. However, Galapagos entered into undertakings with the members of the executive committee providing that, in case their contract with the group is terminated as a result of a change of control of Galapagos NV, they would be entitled to a severance compensation of 12 months' base salary for the Chief Executive Officer and nine months' base salary for the other executive committee members.

Warrants granted in 2017

In 2017, 37,500 warrants were granted to independent directors (2016: 60,000) and 22,500 warrants were granted to the other non-executive directors (2016: 45,000). The higher number of warrants granted in 2016 can be explained by the fact that the final acceptance and issuance of the warrants under Warrant Plan 2015 (B) took place in 2016, and these warrants are counted as warrants granted in 2016 along with the warrants granted under Warrant Plan 2016.

Other

No loans, quasi-loans or other guarantees were given by Galapagos NV or any of its subsidiaries to members of the board and of the executive committee. We have not entered into transactions with our key management personnel, other than as described above with respect to remuneration arrangements relating to the exercise of their mandates as members of the executive committee and the board of directors.

31. Consolidated companies as of 31 December 2017

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2017 vs 2016)
BioFocus DPI AG in liquidation	Switzerland	100%	
Discovery Partners International GmbH	Germany	0%	(100%)
Fidelta d.o.o.	Croatia	100%	
Galapagos Biotech Ltd. (formerly Inpharmatica Ltd.)	United Kingdom	100%	
Galapagos BV	The Netherlands	100%	
Galapagos GmbH	Switzerland	100%	100%
Galapagos NV	Belgium	Parent company	
Galapagos SASU	France	100%	
Galapagos, Inc. (formerly BioFocus, Inc.)	United States	100%	
Xenometrix, Inc.	United States	100%	

Our German subsidiary, Discovery Partners International GmbH, was liquidated in 2017. In the fourth quarter of 2017 we incorporated a new legal entity in Basel, Switzerland: Galapagos GmbH.

There are no significant restrictions on the group's ability to access or use assets, or settle liabilities, of one of the group's subsidiaries.

32. Financial risk management

See "Risk factors" for additional details on general risk factors.

Financial risk factors

Our financial risks are managed centrally. Our finance department coordinates the access to national and international financial markets and considers and manages continuously the financial risks concerning our activities. These relate to the financial markets risk, credit risk, liquidity risk and currency risk. There are no other important risks, such as interest rate risk on borrowings, because we have nearly no financial debt and have a strong cash position. We do not buy or trade financial instruments for speculative purposes.

Categories of financial assets and liabilities:

	31 December	
(thousands of €)	2017	2016
Financial assets		
Cash and cash equivalents	1,151,211	973,241
Restricted cash (current and non-current)	1,158	7,668
Trade receivables	22,133	6,629
R&D incentives receivables (current and non-current)	75,783	64,342
Financial assets available for sale	1,754	2,351
Other amounts receivable	5,289	3,078
Total financial assets	**1,257,329**	**1,057,309**
Financial liabilities		
Trade and other payables	47,122	31,269
Other non-current liabilities	1,597	2,469
Leasing debts	9	63
Tax payable	865	1,022
Total financial liabilities	**49,592**	**34,823**

Available-for-sale financial assets

On 15 July 2016, we invested €2.75 million in a French biopharmaceutical company developing new therapeutics for severe orphan and common neurological diseases, listed on Euronext. Galapagos has no restrictions on the sale of this equity investment and the asset is not pledged under any Galapagos' liabilities. This investment is classified as available-for-sale equity investment which qualifies for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

The market price of those shares might face fluctuations and might be affected by a variety of factors, such as the global economic situation, the business development of competitors, sector mergers and acquisitions; it is difficult to mitigate this risk.

Liquidity risk

Our consolidated balance sheet shows an amount of €211.4 million as accumulated losses on 31 December 2017. Our cash and cash equivalents amounted to €1,151.2 million on 31 December 2017. Cash used in operating activities amounted to €147.0 million for the year ended 31 December 2017. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. Based upon our current expected level of operating expenditures and our existing cash and cash equivalents, we believe that we will be able to fund our operating expenses and capital expenditure requirements at least for the next two to three years. We have no credit lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking into account our past track record, including the assumption that not all new projects that are being planned will be realized.

Credit risk

The term "credit risk" refers to the risk that counterparty will default on its contractual obligations resulting in financial loss for us.

The trade receivables consist of a limited amount of creditworthy customers, many of which are large pharmaceutical companies, spread over different geographical areas. To limit the risk of financial losses, we have developed a policy of only dealing with creditworthy counterparties.

We grant credit to our clients in the framework of our normal business activities. Usually, we require no pledge or other collateral to cover the amounts due. Management continuously evaluates the client portfolio for creditworthiness. All receivables are considered collectable, except for these for which a provision for doubtful debtors has been established.

Aging balance of receivables that are due, but that are still considered collectable

	31 December	
(thousands of €)	2017	2016
60–90 days		170
90–120 days	1	–
more than 120 days		54

Our cash and cash equivalents are invested primarily in saving and deposit accounts. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted at the beginning of the term.

Interest rate risk

The only variable interest-bearing financial instruments are cash and cash equivalents. Changes in interest rates may cause variations in interest income and expenses resulting from short term interest-bearing assets. Management does not expect the short term interest rates to decrease significantly in the immediate foreseeable future, which limits the interest exposure on our cash and cash equivalents.

Effect of interest rate fluctuation

A 100 basis points increase in interest rates at balance sheet date would have increased profit and loss, and equity, by approximately €11.5 million (2016: €10 million); a 100 basis points decrease in interest rates would have decreased profit and loss, and equity, by approximately €11.5 million (2016: €10 million).

Foreign exchange risk

We are exposed to foreign exchange risk arising from various currency exposures. Our functional currency is euro, but we receive payments from our main collaboration partners AbbVie and Gilead in U.S. dollars and acquire some consumables and materials in U.S. dollars, Swiss francs, GB pounds and Croatian kuna.

To limit this risk, we attempt to align incoming and outgoing cash flows in currencies other than EUR. In addition, contracts closed by our different entities are mainly in the functional currencies of that entity, except for the alliance agreements signed with AbbVie and Gilead for which payments are denominated in U.S. dollars.

In order to further reduce this risk, we implemented a netting system in the course of 2012, which restrains intra-group payments between entities with a different functional currency.

The exchange rate risk in case of a 10% change in the exchange rate amounts to:

	Year ended 31 December	
(thousands of €)	2017	2016
Net book value		
Increase in Euros – U.S. Dollars	(21,083)	(16,863)
Increase in Euros – GB Pounds	122	130
Increase in Euros – CH Francs	203	165
Increase in Euros – HR Kunas	(185)	(95)
Increase in U.S. Dollars – GB Pounds	(831)	(913)

The exchange rate risk on the U.S. dollar is primarily related to our cash and cash equivalents held in U.S. dollars.

Capital risk factors

We manage our capital to safeguard that we will be able to continue as a going concern. At the same time, we want to ensure the return to our shareholders through the results from our research and development activities.

Our capital structure consists of cash at bank and in hand and cash equivalents, financial debt (which currently we barely have: as of 31 December 2017, we have no financial debt other than finance leases), and equity attributed to the holders of our equity instruments, such as capital, reserves and results carried forward, as mentioned in the consolidated statement of changes in equity.

We manage our capital structure and make the necessary adjustments in the light of changes of economic circumstances, the risk characteristics of underlying assets and the projected cash needs of the current research and development activities.

The adequacy of the capital structure will depend on many factors, including scientific progress in the research and development programs, the magnitude of those programs, the commitments to existing and new clinical CROs, the ability to establish new alliance or collaboration agreements, the capital expenditures, market developments and any future acquisition.

Neither Galapagos NV nor any of its subsidiaries are subject to any externally imposed capital requirements, other than those imposed by generally applicable company law requirements.

33. Statutory auditor's remuneration

The statutory auditor's fees for carrying out his mandate at group level amounted to €310 thousand in 2017 (2016: €475.0 thousand). The fees for audit-related services executed by the statutory auditor, in particular other assurance engagements primarily related to the performance of the audit or review of the company's financial statements, amounted to €90.8 thousand in 2017 (2016: €186.0 thousand), of which €13.0 thousand related to legal assignments (2016: €6.2 thousand). Fees for persons related to the statutory auditor for carrying out an auditor's mandate at group level amounted to €40.0 thousand in 2017 (2016: €40.0 thousand). Other fees related to non-audit fees, in particular IT consulting fees, amounted to €40.5 thousand for the year 2017 (2016: nil). The audit committee and the board of directors are of the opinion that these non-audit services do not affect the independence of the statutory auditor in the performance of his audit. The abovementioned additional fees were fully approved by the audit committee in accordance with article 133 §6 of the Belgian Companies Code.

34. Events after balance sheet date

On 20 March 2018, 298,184 warrants were exercised (with an average exercise price of €13.16 per warrant). This resulted in a share capital increase (including issuance premium) of €3,924.2 thousand and the issuance of 298,184 new ordinary shares. The closing price of our share on 20 March 2018 was €83.72.

Our consolidated financial statements were approved by the board of directors and authorized for publication, on 20 March 2018. They were signed on behalf of the board of directors by:

(signed)

Onno van de Stolpe
Managing Director and CEO

20 March 2018