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, Galapagos Biopharma Belgium BV, Galapagos Real Estate 1 BV and Galapagos Real Estate 2 BV (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos B.V., Galapagos Biopharma Netherlands B.V. and Galapagos Real Estate Netherlands 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); Galapagos Biotech Ltd. (Cambridge, UK); Galapagos Biopharma Germany GmbH (München, Germany); Galapagos Biopharma Spain S.L.U. (Madrid, Spain) and Galapagos Biopharma Italy S.r.l. (Milan, Italy).

Our operations had 1,003 employees as at 31 December 2019 working in the operating facilities in Mechelen (the Belgian headquarters), the Netherlands, France, Croatia, Switzerland, the United States and United Kingdom.

2. Summary of significant transaction

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

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

We received an upfront payment €3,569.8 million ($3.95 billion) and a €960.1 million ($1.1 billion) equity investment from Gilead. On 6 November 2019 Gilead exercised warrant A, which resulted in an additional equity investment of €368.0 million. We will use the proceeds to expand and accelerate our research and development programs. We identified the following three performance obligations: (i) the transfer of an extended license on GLPG1690, (ii) the granting of exclusive access to our drug discovery platform (i.e. the IP, technology, expertise and capabilities) during the collaboration period and exclusive option rights on our current and future clinical programs after Phase 2 (or, in certain circumstances, the first Phase 3 study) outside Europe and (iii) an increased cost share from 20/80 to 50/50 on the global development activities of filgotinib, until we reach the new, increased, joint predetermined level of costs, as a result of the revised license and collaboration agreement. As part of the collaboration, Gilead also received option rights for GLPG1972, a Phase 2b candidate for osteoarthritis, in the United States. We refer to the Critical accounting judgments and key sources of estimation uncertainty section (note 4) explaining critical judgments in applying accounting policies.

Gilead also proposed two individuals for our board of directors, which were nominated during the special general meeting of shareholders of 22 October 2019.

Terms of the collaboration

We will fund and lead all discovery and development autonomously until the end of Phase 2. After the completion of a qualifying Phase 2 study (or, in certain circumstances, the first Phase 3 study), Gilead will have the option to acquire a license to the compound outside Europe. If the option is exercised, we and Gilead will co-develop the compound and share costs equally. Gilead will maintain option rights to our programs through the 10-year term of the collaboration. This term can be extended for up to an additional three years thereafter for those programs, if any, that have entered clinical development prior to the end of the collaboration term. On top, a final term extension can be granted in certain circumstances. If GLPG1690 is approved in the United States, Gilead will pay us an additional $325 million regulatory milestone fee.

For GLPG1972, after the completion of the ongoing Phase 2b study in osteoarthritis, Gilead has the option to pay a $250 million fee to license the compound in the United States. If certain secondary efficacy endpoints for GLPG1972 are met, Gilead will pay us up to an additional $200 million. Following opt-in on GLPG1972, we are eligible to receive up to $550 million in regulatory and sales based milestones. For all other programs resulting from the collaboration, Gilead will make a $150 million opt-in payment per program and will owe no subsequent milestones. We will receive tiered royalties ranging from 20-24% on net sales of all our products licensed by Gilead in all countries outside Europe as part of the agreement.

Filgotinib collaboration

Under the revised agreement, we will have greater involvement in filgotinib's global strategy and participate more broadly in the commercialization of the product in Europe, providing the opportunity to build a commercial presence on an accelerated timeline. We and Gilead will co-commercialize filgotinib in France, Germany, Italy, Spain and the United Kingdom and retain the 50/50 profit share in these countries that was part of the original filgotinib license agreement, and under the revised agreement, we will have an expanded commercial role. We will be the lead commercialization party for filgotinib in France, Italy and Spain for rheumatology indications and Gilead will be the lead commercialization party for gastro indications. In Germany and the United Kingdom, Gilead will lead the rheumatology indications and Galapagos will lead the gastro indications. We retain exclusive commercialization responsibility in Belgium, the Netherlands and Luxembourg, where the 50/50 profit share also applies. The companies will share future global development costs for filgotinib equally until a predetermined level, in lieu of the 80/20 cost split provided by the original agreement. Other terms of the original license agreement remain in effect, including the remaining $640 million in development and regulatory milestones, sales-based milestone payments of up to $600 million and tiered royalties ranging from 20-30% payable in territories outside of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. In addition, we achieved two milestones in December 2019 totaling $30 million.

Terms of the equity investment

As part of the research and development collaboration Gilead also entered into a share subscription agreement with us. Gilead's equity investment consisted of a subscription for new Galapagos shares at a price of €140.59 per share, representing at 14 July 2019 a 20% premium to Galapagos' 30-day, volume-weighted average price. This equity subscription took place at closing of the transaction, on 23 August 2019 and increased Gilead's stake in Galapagos from approximately 12.3% to 22.04% of the then issued and outstanding shares in Galapagos. In addition, the extraordinary general meeting of shareholders of 22 October 2019 approved the issuance of warrant A and initial warrant B allowing Gilead to further increase its ownership of Galapagos to up to 29.9% of the company's issued and outstanding shares. The initial warrant B has a term of five years and an exercise price per share equal to the greater of (i) 120% multiplied by the arithmetic mean of the 30-day daily volume weighted average trading price of Galapagos' shares as traded on Euronext Brussels and Euronext Amsterdam, and (ii) EUR 140.59. Subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders.

This extraordinary general meeting of shareholders shall take place between 57 and 59 months of the closing of the subscription agreement and this warrant will have substantially similar terms, including as to exercise price, to the initial warrant B. The agreement also includes a 10-year standstill restricting Gilead's ability to propose a business combination with or acquisition of Galapagos or increase its stake in Galapagos beyond 29.9% of the company's issued and outstanding shares, subject to limited exceptions. On 6 November 2019 Gilead exercised warrant A and increased its ownership in Galapagos to 25.10% of the then outstanding shares. Gilead further increased its ownership to 25.84% at 31 December 2019.

3. 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 2019

- IFRS 16 Leases

The above new applicable standard affected the consolidated financial statements as follows:

IFRS 16 Leases

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

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

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

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

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

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

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

- Reliance on the previous definition of a lease (as provided by IAS 17) for all contracts that existed on the date of initial application;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous instead of performing an impairment review;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- No recognition of right-of-use assets and liabilities for leases of low value assets.

We refer to our updated accounting policy on leases as a result of the adoption of IFRS 16.

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

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2019

A number of new standards are effective for annual periods beginning on or after 1 January 2020 with earlier adoption permitted. However we have not early adopted new or amended standards in preparing our consolidated financial statements. Of the standards that are not yet effective, we expect no standard to have a material impact on our financial statements in the period of initial application.

- IFRS 17 Insurance contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)
- Amendments to References to the Conceptual Framework in IFRS Standards (applicable for annual periods beginning on or after 1 January 2020)
- Definition of a Business (Amendments to IFRS 3) (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Definition of Material (Amendments to IAS 1 and IAS 8) (applicable for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (applicable for annual periods beginning on or after 1 January 2020)
- Amendments to IAS 1 Presentation of Financial statements: Classification of liabilities as current or non-current (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)

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 direct the relevant activities 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.

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. Because of risks and uncertainties inherent to the regulatory authorizations and to the development process itself, management estimates that the conditions for capitalization are not met until we obtain regulatory approval from the competent authorities.

Currently we don't own products that have obtained regulatory approval and this has resulted in all development costs being recognized as an expense in the period in which they are incurred.

Intellectual property, which comprises patents, licenses and rights, is measured at purchase cost and is amortized on a straight-line basis over the estimated useful life as from the time they are available for use generally 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. Intangible assets with an indefinite useful life and intangible assets which are not yet available for use are tested for impairment annually, and whenever there is an indication that the asset might be impaired.

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 of assets over their useful lives, using the straight-line method, on the following bases:

- Installation & machinery: 3 – 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.

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. We do not actively use currency derivatives to hedge planned future cash flows, nor do we make use of forward foreign exchange contracts, outside of the Gilead transaction, fully settled at 31 December 2019. Additionally, we don't have financial debts at 31 December 2019.

(i) Financial assets

Financial assets are initially recognized either at fair value or at their transaction price. All recognized financial assets are subsequently measured at either amortized cost or fair value under IFRS 9 on the basis of both our business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

- a financial asset that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding is measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option;
- a financial asset that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, is measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated at FVTPL under the fair value option;
- all other financial assets are measured at FVTPL;

A financial asset is classified as current when the cash flows expected to flow from the instrument mature within one year.

We derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or we transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

We classify non-derivative financial assets into the following categories:

- financial assets at fair value through profit or loss (equity instruments, current financial investments and cash equivalents)
- financial assets at amortized cost (receivables and cash and cash equivalents).

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss if we manage such investments and make purchase and sale decisions based on their fair value in accordance with our investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend income, are recognized in profit or loss.

Equity instruments

We hold investments in equity instruments, which based on IFRS 9, are designated as financial assets at fair value through profit or loss, which qualify for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

Current financial investments

Current financial investments include financial assets measured at fair value through profit or loss and comprise short term bond funds that have a maturity equal or less than 12 months, and money market funds.

Cash equivalents measured at fair value through profit or loss

Cash equivalents measured at fair value through profit or loss may comprise short-term deposits, bonds and money market funds that are readily convertible to cash and are subject to an insignificant risk of changes in value. These financial assets are used by us in the management of our short-term commitments.

Financial assets at amortized cost

Receivables

Receivables are designated as financial assets measured at amortized cost. They are initially measured either at fair value or at transaction price, in the absence of a significant financing component.

All receivables are subsequently measured in the balance sheet at amortized cost, which generally corresponds to nominal value less expected credit loss provision.

Receivables mainly comprise trade and other receivables and current/non-current R&D incentives receivables.

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

Cash

Cash are financial assets measured at amortized cost and comprise cash balances and short-term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their value and are used by us in the management of our short-term commitments.

Cash equivalents measured at amortized costs

Cash equivalents measured at amortized cost comprise short-term deposits that are readily convertible to cash and are subject to an insignificant risk of changes in value. These financial assets are used by us in the management of our short-term commitments.

Cash and cash equivalents exclude restricted cash, which is presented in the line other non-current assets in the statement of financial position.

(ii) Financial liabilities

Financial liabilities are initially measured either at fair value or at their transaction price. Subsequent to initial recognition, financial liabilities are measured at amortized cost.

Financial liabilities mainly comprise trade and other liabilities.

Trade and other liabilities are comprised of liabilities that are due less than one year from the balance sheet date and are in general not interest bearing and settled on an ongoing basis during the financial year. They also include accrued expense related to our research and development project costs.

We derecognize a financial liability when our contractual obligations are discharged, cancelled or expire.

(iii) Financial instruments: derivative assets/liabilities

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

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

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 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 use 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 financial result 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 non-refundable upfront fees received in connection with collaboration and license agreements. We also generate revenue from our fee-for-service activities.

The revenue recognition policies can be summarized as follows:

We recognize revenue when our customer obtains control of promised goods or services, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for agreements that we determine are within the scope of IFRS 15, we perform the following five steps:

(i) identify the contract

In our current agreements with customers we are mainly transferring licenses on our IP and in some cases this is combined with access rights and/or providing research and development services and/or cost sharing mechanisms. In some cases our collaborations also include an equity subscription component. If this is the case, we analyze if the criteria to combine contracts, as set out by IFRS 15, are met.

(ii) identify the performance obligations in the contract

Depending on the type of the agreement, there can be one or more distinct performance obligations under IFRS 15. This is based on an assessment of whether the promises in an agreement are capable of being distinct and are distinct from the other promises to transfer goods and/or services in the context of the contract. For some of our agreements we combine the transfer of the license with the performance of research and development activities because we consider that the license is not capable of being distinct and is not distinct in the context of the contract.

(iii) determine the transaction price

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

a/ License fees or upfront payments

If the license to our intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, we recognize revenues from non-refundable upfront fees allocated to the license at the point in time the license is transferred to the customer and the customer has the right to use the license.

For licenses that are bundled with other promises, we utilize judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time. If over time, revenue is then recognized based on a pattern that best reflects the transfer of control of the service to the customer.

b/ Milestone payments other than sales based milestones

A milestone payment is only included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We estimate the amount to be included in the transaction price using the most likely amount method, where milestone payments are included in the transaction price upon achievement of the milestone event. The transaction price is then allocated to each performance obligation on a stand-alone selling price basis, for which we recognize revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, we re-evaluate the probability of achievement of such milestones and any related constraint, and, if necessary, adjust our estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

c/ Reimbursement income for R&D services

Collaboration and license agreements may include reimbursement or cost sharing for research and development services: such as outsourcing costs and payment for full-time equivalents at contractual rates. R&D services are performed and satisfied over time given that the customer simultaneously receives and consumes the benefits provided by us.

Such costs reimbursements received are recognized in revenues when costs are incurred and agreed by the parties when we are acting as a principal in the scope of our stake of the R&D activities. If the later condition is not fulfilled, costs reimbursements are accounted for as a decrease of the related expenses.

d/ Sales based milestone payments and royalties

License and collaboration agreements include sales-based royalties, including commercial milestone payments based on the level of sales, and the license has been deemed to be the predominant item to which the royalties relate. Related revenue is recognized as the subsequent underlying sales occur.

(iv) allocate the transaction price to the performance obligations in the contract

We allocate the transaction price to each performance obligation identified in the contract based upon stand-alone selling price. The stand-alone selling price of each performance obligation is estimated by using one of the following methods: adjusted market assessment approach, the expected cost plus a margin approach or the residual approach. If management assesses that there is only one single performance obligation, the entire transaction price would be allocated to this performance obligation.

(v) recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized when our customer obtains control of the goods and/or services foreseen in the contracts. The control can be transferred over time or at a point in time – which results in recognition of revenue over time or at a point in time.

In case of revenue recognition over time, we use either an input model that considers estimates of the percentage of total research and development costs that are completed each period compared to the total estimated costs (percentage of completion method) or we apply an output method to measure the progress of the satisfaction of the underlying performance obligation. In other cases, depending on specific circumstances, we recognize revenue on a straight-line basis over the estimated term of the performance obligation.

We refer to note 6 for detailed information per agreement and to our Critical judgments in applying accounting policies for more information.

Contract costs

Contract costs are those costs we incur to obtain a contract with a customer that we would not have incurred if the contract has not been obtained and are capitalized as intangible assets only if they are expected to be recoverable. Capitalized contract costs are amortized on a systematic basis that reflects the pattern of transfer of the related promised goods or services to the customer. Costs that we would have incurred regardless of whether the contract is obtained or those costs that are not directly related to obtaining a contract would not be capitalized.

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.

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

(I) Bonuses which were granted for performance years until 2018

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.

(II) Bonuses which were granted for performance year 2019 and beyond

The executive committee members, together with other senior managers are eligible to receive a bonus based on achievement of personal and corporate objectives. This bonus is paid in cash.

Share-based payments

a/ Equity-settled 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.

b/ Long-term incentive plans in RSU's (Restricted Stock Units)

Executive committee members and other employees were granted RSU's in 2019. An RSU is a grant that takes the form of a promise that employees will receive Galapagos stock in the future and it will be payable, at the company's discretion in cash or in shares, upon completion of a certain vesting period. Each RSU reflects the value of one Galapagos share.

The RSU's are measured based on the average share price over the 30-calendar day period preceding the measurement date. We recognize the corresponding expense and liability over the vesting period. The fair value of the liability is re-measured at each reporting date because currently it is management's intention to settle the RSU's in cash.

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 specific to the liability.

Leases

As explained in the beginning of this note, we adopted IFRS 16 on 1 January 2019, resulting in a change in our accounting policy.

Accounting policy as from 1 January 2019

All leases are accounted for by recognizing a right-of-use asset and a corresponding lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, we will apply the incremental borrowing rate. The lease payments can include fixed payments, variable payments that depend on an index or rate known at the commencement date, expected residual value guarantees, termination penalties and extension option payments or purchase options if we are reasonably certain to exercise this option.

After initial recognition, the lease liability will be measured at amortized cost using the discount rate determined at commencement and will be re-measured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options.

At the commencement date, the right-of-use assets are measured at cost, comprising the amount of the initial lease liability, initial direct costs and the expected dismantling and removing costs (when we incur an obligation for these costs), less any lease incentives received from the lessors.

After initial recognition, the right-of-use assets are measured at cost and depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis. The right-of-use assets will be adjusted for any re-measurements of the lease liability as a result of lease modifications. The right-of-use assets are subject to impairment testing if there is an indicator for impairment, as for property, plant and equipment. The right-of-use assets are presented in the statement of financial position under the caption “Property, plant and equipment” and the lease liabilities are presented as current and non-current lease liabilities.

In determining the lease term, we consider all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. We only include extension options (or periods after termination options) in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within our control.

Each lease payment is allocated between the liability and financial expenses. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Accounting policy until 1 January 2019

Until the end of 2018, leases of property, plant and equipment were classified as either finance or operating leases.

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

Assets held under finance leases were 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. These assets held under finance leases were depreciated over their useful lives on the same bases as owned assets or, where shorter, over the term of the related lease agreement. The corresponding liability to the lessor was included in the balance sheet as a finance lease obligation. The payments were 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 was recognized in the income statement, unless it was directly attributable to the corresponding asset, in which case it was capitalized.

Rents paid on operating leases were 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 were also spread on a straight-line basis over the lease term.

Impairment

(i) Financial assets

The impairment loss of a financial asset measured at amortized cost is calculated based on the expected loss model.

For trade receivables, in the absence of a significant financing component, the loss allowance is measured at an amount equal to lifetime expected credit losses. Those are the expected credit losses that result from all possible default events over the expected life of those trade receivables.

Impairment losses are recognized in the consolidated income statement.

(ii) Property, plant and equipment 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.

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. We don't report assets and liabilities by segment as this information is not regularly provided to the chief operating decision maker. We have only two segments (see note 5).

4. Critical accounting judgments and key sources of estimation uncertainty

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.

The following are the critical judgments 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

Accounting for warrant A and warrant B granted to Gilead

Warrant A and warrant B were granted to Gilead in combination with the signing of the collaboration agreement on 14 July 2019. As the issuance of warrants A and B was subject to the approval of our shareholders, management concluded that a financial instrument as defined under IAS 32 could not be recognized until such an approval was received. We considered that the transaction price included a premium paid by Gilead (through the upfront payment) to acquire the warrants in the future, upon approval by the shareholders.

On 23 August 2019, the closing date of the transaction, we received from Gilead the upfront payment that included a premium for the future issuance of the warrants. In accordance with IFRS 15, on 23 August 2019, we recorded a contract liability ('warrant issuance liability') for the expected value of the warrants. We measured both warrants at fair value and recognized a warrant issuance liability at closing of the transaction for the same amount (as part of the current deferred income line). This liability is re-measured at each reporting period with a corresponding impact on the allocation of the transaction price to the performance obligation relating to the drug discovery platform until the time the warrants are approved and issued.

The issuance of warrant A and initial warrant B was approved by the extraordinary general meeting of shareholders of 22 October 2019. Upon issuance of warrant A and initial warrant B, on 22 October 2019, the part of the contract liability related to the warrant A and initial warrant B was reclassified into a financial liability (derivative) measured at fair value through profit or loss in accordance with IFRS 9.

Had management concluded warrant A and warrant B could have been recognized as derivatives upon closing of the transaction changes in the fair value of the derivatives would have been recognized through profit and loss rather than as an adjustment to the transaction price. This would have resulted in an increase of fair value re-measurement for the warrants by €12.9 million (fair value gain), and a decrease of the deferred income at 31 December 2019 by €28.6 million, resulting in a decrease in revenue recognized in current period by €0.5 million.

As of 31 December 2019 subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders.

IFRS 15 – Revenue recognition Gilead

Our critical judgments were as follows:

Determination of the total transaction price

- In connection with this agreement with Gilead, we recognized a deferred income and an offsetting current financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement because it is considered to be part of the overall consideration received for the three performance obligations. It has been allocated to the drug discovery platform and will be recognized as revenue over the next ten years. Had we concluded that the equity subscription should be accounted for as a separate transaction the entire amount of €85.6 million would have been additionally recorded as equity and future revenue reduced by the same amount.

Performance obligation: License on GLPG1690

- The transaction price allocated to this performance obligation reflects our assessment of the stand-alone selling price of this performance obligation and was valued based on a discounted cash flow approach including, amongst others, assumptions on the estimated market share and size, peak sales and probability of success. Changes in these assumptions would have impacted the estimate of the stand-alone selling price of this performance obligation. This would have resulted in a reallocation of the transaction price between this performance obligation, for which revenue is recognized at a point in time, and the drug discovery platform, for which revenue is recognized on a straight-line basis over ten years.
- After granting the license for GLPG1690, we share further development costs equally with Gilead. Gilead is not assessed as a customer but as a collaboration partner, as such this part of the collaboration is not in scope of IFRS 15. Any cost reimbursement from our collaboration partner is not recognized as revenue but accounted as a decrease of the related expenses. Had management concluded that the transaction was within scope of IFRS 15, the reimbursement from our collaboration partner for the year ended 31 December 2019 of €17.7 million would have been presented as revenue instead of an offset of the related expenses.

Performance obligation: Filgotinib amendment

- The standalone selling price of the filgotinib amendment was determined through the cost-plus-margin approach. Management estimated that an appropriate margin is indirectly embedded in the increased involvement in the global strategy of filgotinib and the broader commercialization role in the Benelux and EU5 countries. Had a different margin been estimated the transaction price allocated to the performance obligation from the filgotinib amendment would have been different with a corresponding adjustment to the revenue allocated to the drug discovery platform. This would have resulted in a reallocation of revenue between current periods and future periods, given the transaction price allocated to the performance obligation from the filgotinib amendment will be recognized over a shorter period as compared to the 10-year recognition pattern of the transaction price allocated to the drug discovery platform.

Financing component

There are two performance obligations determined in the agreement with Gilead for which the period between the transfer of the promised goods/services to Gilead and the payment of the underlying consideration by Gilead exceeds one year, being the performance obligation relating to the drug discovery platform and the performance obligation resulting from the filgotinib amendment. Although the consideration paid for the drug discovery platform will be recognized over a period of 10 years as from receipt of the funds, management concluded not to consider any financing component for this performance obligation as the granting of an exclusive access and option rights on day one is the predominant value of the drug discovery platform performance obligation. As a consequence, management has considered it is only appropriate to adjust the part of the transaction price that was allocated to the filgotinib performance obligation, for the time value of money. Had no financing component

been applied for the performance obligation resulting from the filgotinib amendment, this would have resulted in a decrease of €6.9 million in interest expenses, a decrease in revenue recognition of €11.8 million and a decrease in current and non-current deferred income of €4.9 million for the year ended 31 December 2019.

5. Segment information

The group has two reportable segments, R&D and fee-for-service business.

Segment information for the year 2019

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	834,901	10,084		844,985
Internal revenue		6,742	(6,742)	–
Other income	50,905	–		50,905
Revenues & other income	**885,806**	**16,826**	**(6,742)**	**895,890**
Segment result	**407,464**	**1,125**		**408,589**
Unallocated expenses[1]				(38,297)
Operating profit				**370,292**
Financial (expenses)/income				(220,233)
Result before tax				**150,060**
Income taxes				(214)
Net profit				**149,845**

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

Segment information for the year 2018

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	278,666	10,170		288,836
Internal revenue		8,508	(8,508)	–
Other income	29,000	9		29,009
Revenues & other income	**307,666**	**18,687**	**(8,508)**	**317,845**
Segment result	**(19,734)**	**1,751**		**(17,983)**
Unallocated expenses[1]				(26,824)
Operating loss				**(44,807)**
Financial (expenses)/income				15,598
Result before tax				**(29,209)**
Income taxes				(50)
Net loss				**(29,259)**

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

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 2019 our operations were mainly located in Belgium, Croatia, France and the Netherlands and our top 3 customers represented 98.8% of the revenues. Our client base in 2019 and 2018 included nine of the largest pharmaceutical companies in the world.

Following table summarizes our revenues by destination of customer:

	Year ended 31 December	
(thousands of €)	2019	2018
North America	795,605	117,609
Europe	49,018	171,113
Asia Pacific	362	114
Total revenues	**844,985**	**288,836**

Following table summarizes our revenues by major customers:

	Year ended 31 December			
	2019		2018	
	(thousands of €)	%	(thousands of €)	%
Gilead				
North America[(1)]	793,873	94%	116,640	40%
Europe[(1)]	(4,570)	-1%	7,793	3%
AbbVie				
Europe	26,356	3%	89,936	31%
Novartis				
Europe	19,177	2%	55,218	19%
Servier				
Europe	–	0%	9,000	3%
Total revenues from major customers	**834,836**	**99%**	**278,587**	**96%**

(1) Following the contract amendment, the revenue recognized for filgotinib for the year ended 31 December 2019 included a negative catch-up effect of €245.9 million on closing date resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

As of 31 December 2019, we held €203 million of non-current assets (€110 million in 2018) distributed as follows:

- Belgium: €133 million (€64 million in 2018)
- France: €54 million (€36 million in 2018)
- The Netherlands: €8 million (€4 million in 2018)
- Croatia: €7 million (€5 million in 2018)
- Switzerland: €1 million (nil in 2018)

The increase in non-current assets was mainly explained by (i) an increase in property, plant & equipment explained by new acquisitions in 2019 but also by the recognition of right-of-use assets following the adoption of IFRS 16 Leases, (ii) an increase in intangible assets due to new acquisitions and capitalization of contract costs linked to the collaboration agreement with Gilead, and (iii) an increase in non-current R&D incentives receivables (see note 16).

6. Total revenues and other income

Revenues

The following table summarizes details of revenues for the years ended 31 December 2019 and 2018 by collaboration and by category of revenue: upfront payments and license fees, milestone payments, reimbursement income, and other revenues.

Disaggregation of revenues

	Year ended 31 December			
(thousands of €)	Over time	Point in time	2019	2018
Recognition of non-refundable upfront payments and license fees			**812,058**	**196,486**
Gilead collaboration agreement for GLPG1690		✓	666,968	–
Gilead collaboration agreement for filgotinib[1]	✓		62,602	96,809
Gilead collaboration agreement for drug discovery platform	✓		80,918	–
AbbVie collaboration agreement for CF	✓		1,569	52,176
Novartis collaboration agreement for MOR106		✓	–	47,500
Milestone payments			**2,878**	**73,394**
Gilead collaboration agreement for filgotinib[1]	✓		(21,187)	27,623
AbbVie collaboration agreement for CF	✓		24,065	36,771
Servier collaboration agreement for osteoarthritis		✓	–	9,000
Reimbursement income			**19,900**	**8,722**
Novartis collaboration agreement for MOR106	✓		19,177	7,718
AbbVie collaboration agreement for CF	✓		723	989
Other reimbursement income				16
Other revenues			**10,150**	**10,233**
Fee-for-services revenues	✓		10,084	10,170
Other revenues			66	63
Total revenues			**844,985**	**288,836**

(1) Following the contract amendment, the revenue recognized for filgotinib for the year ended 31 December 2019 included a negative catch-up effect of €245.9 million on closing date resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

The upfront payment received from Gilead in connection with the Option, License and Collaboration agreement signed on 14 July 2019 of €3,569.8 million ($3.95 billion) and the impact of the initial valuation of the derivative financial instrument triggered by the share subscription agreement with Gilead were allocated to the performance obligations identified as follows:

(thousands of €)	
Upfront consideration received	3,569,815
Impact initial valuation of share subscription	85,601
	3,655,416
Less:	
Warrant issuance liabilities	
Warrant A	(43,311)
Initial warrant B	(2,545)
Subsequent warrant B	(16,184)
	3,593,376
Allocation to performance obligations	
GLPG1690	666,967
Filgotinib additional consideration[1]	641,663
Drug discovery platform (10 years)	2,284,747

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

On the closing date of the transaction (23 August 2019) we concluded that the upfront payment implicitly included a premium for the future issuance of warrant A and initial and subsequent warrant B. The expected value of the warrants to be issued is treated as a contract liability ("warrant issuance liability") and reducing the transaction price until approval date of the issuance of the underlying warrants. As from approval date, the allocation of the upfront payment to the respective warrant becomes fixed and future changes in the fair value of the respective warrant will be recognized in profit or loss. As such, the part of the upfront payment allocated to the warrant A and initial warrant B reflects the fair value of these financial liabilities at the warrant approval date (22 October 2019). The value allocated to the subsequent warrant B reflects the fair value of the underlying liability at 31 December 2019 since this warrant is not yet approved for issuance.

A summary of all current contracts with customers is given below:

Collaboration with Gilead

On 14 July 2019 we and Gilead announced that we had entered into a 10-year global research and development collaboration. Through this agreement, Gilead gained exclusive access to our innovative portfolio of compounds, including six molecules currently in clinical trials, more than 20 preclinical programs and a proven drug discovery platform. We refer to note 2 Summary of significant transaction for more detailed information.

As part of this deal, our existing license and collaboration agreement for filgotinib with Gilead was also amended. Under this revised filgotinib agreement, we have greater involvement in filgotinib's global strategy and participate more broadly in the commercialization of the product in Europe, providing the opportunity to build a commercial presence on an accelerated timeline.

We concluded as follows:

Determination of the total transaction price

- In connection with this agreement with Gilead, we recognized a deferred income and an offsetting current financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement because it is considered to be part of the overall consideration received for the three performance obligations.

- We considered that the transaction price included a premium paid by Gilead (through the upfront payment) to acquire warrants (warrant A and warrant B) in the future, upon approval by the shareholders. We measured both warrants at fair value and recognized a warrant issuance liability at closing of the transaction for the same amount (as part of the current deferred income line). This liability is re-measured at each reporting period with a corresponding impact on the allocation of the transaction price to the performance obligation relating to the drug discovery platform.

Financing component

- There are two performance obligations determined in the agreement with Gilead for which the period between the transfer of the promised goods/services to Gilead and the payment of the underlying consideration by Gilead exceeds one year, being the performance obligation relating to the drug discovery platform and the performance obligation resulting from the filgotinib amendment. Although the consideration paid for the drug discovery platform will be recognized over a period of 10 years as from receipt of the funds, management concluded not to consider any financing component for this performance obligation as the granting of an exclusive access and option rights on day one is the predominant value of the drug discovery platform performance obligation. As a consequence, management has considered it is only appropriate to adjust the part of the transaction price that was allocated to the filgotinib performance obligation, for the time value of money.

License on GLPG1690

- The transaction price allocated to this performance obligation reflects our assessment of the stand-alone selling price of this performance obligation and was valued based on a discounted cash flow approach including, amongst others, assumptions on the estimated market share and size, peak sales and probability of success.
- This performance obligation is completely satisfied at 31 December 2019. As such, future milestones (other than sales based milestones) payments will be included and recognized in the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur. Future royalties will be recognized as revenue as the subsequent underlying sales occur.
- After granting the license for GLPG1690, we will share Phase 3 costs equally with Gilead. Any cost reimbursement from Gilead is not recognized as revenue but accounted as a decrease of the related expenses.

Filgotinib amendment

- There is one single performance obligation under IFRS 15: the transfer of a license combined with performance of R&D activities. This is because we considered that the license is not distinct in the context of the contract.
- The standalone selling price of the filgotinib amendment was determined through the cost-plus-margin approach. Management estimated that an appropriate margin is indirectly embedded in the increased involvement in the global strategy of filgotinib and the broader commercialization role in the Benelux and EU5 countries.
- The transaction price is currently composed of a fixed part, being an upfront license fee and a variable part, being milestone payments and cost reimbursements for R&D activities delivered. Milestone payments are included in the transaction price of the arrangement to the extent that it is highly probable that a significant reversal of revenue will not occur. Sales based milestones and sales based royalties are a part of the arrangement but are not yet included in our revenues as our program is still in Phase 3 of development.
- Revenues are recognized over time through satisfaction of the performance obligation. The "cost-to-cost" input model is applied to measure the progress of the satisfaction of this performance obligation. The predetermined level of costs has increased compared to the original agreement and as a result, the percentage of completion has decreased leading to the recognition in revenue of a negative cumulative catch-up effect in 2019.
- We expect to recognize revenues from the current transaction price over time in future periods until satisfaction of this performance obligation based on the cost-to-cost model.

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

- The revenue allocated to the drug discovery platform will be recognized over time as Gilead receives exclusive access to our drug discovery platform and option rights on our current and future pipeline as well as R&D activities during the collaboration term. Management concluded that an equal spread over the collaboration period is the most reliable and appropriate recognition method.
- Management assessed the appropriate period over which to recognize the drug discovery platform revenue to be 10 years. This is because we granted exclusive rights over a 10-year period. However, if at the end of the 10-year period, some programs in existence as of this time would have reached the clinic (i.e. IND filed with regulatory authorities), the rights for those specific programs may be extended, for a maximum of three years. We will reassess this critical estimate at each year-end based on the evolution of our pipeline.

Collaboration with Servier

In 2010 we signed a license and collaboration agreement with Servier in the field of osteoarthritis. Any increase in the transaction price from future potential development and regulatory milestones, sales based milestones and royalties, will be allocated to the license and will be fully recognized as revenue at a point in time when achieved, as our performance obligation towards Servier has been fully satisfied.

The contract signed with Servier on 8 May 2018 takes over the terms of the previous agreement but additionally includes the framework of a joint Phase 2 clinical trial program in which both parties collaborate, share costs and mutually exchange services. We concluded that this contract modification was not in the scope of IFRS 15 because there is a mutual exchange of services between Servier and us, Servier is not assessed as a customer but as a collaboration partner. Any cost reimbursement from our collaboration partner is not recognized as revenue but accounted for as a decrease of the related expenses.

Collaboration with Novartis

Together with our collaboration partner MorphoSys, we closed a license agreement with Novartis for MOR106 in July 2018. MorphoSys and we received an equal share of an upfront payment of €95 million and were entitled to potential future milestone payments and royalties. Novartis would bear all future research, development, manufacturing and commercialization costs related to MOR106. Costs reimbursements received from Novartis were recognized in revenues when costs were incurred and agreed by the parties as we were acting as a principal in the scope of the performance of the R&D activities.

On 28 October 2019, we announced the end of the clinical development program of MOR106 in AtD.

On 17 December 2019, Novartis sent us a termination notice, informing us of its decision to terminate the agreement in its entirety. The notice period for such termination is still ongoing, but we expect that such termination will become effective later this year.

Collaboration with AbbVie

We concluded as follows for the related revenue recognition:

- There was one single performance obligation under IFRS 15: the transfer of a license combined with performance of R&D activities. This was because we considered that the license was not capable of being distinct and was not distinct in the context of the contract.
- The transaction price of our agreement with AbbVie was composed of a fixed part, being upfront license fees, and a variable part, being milestone payments and cost reimbursements for R&D activities delivered. Milestone payments were only included in the transaction price to the extent that it was highly probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is subsequently resolved. Given the nature of our industry, we only consider this once the milestone event is achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues.

- The transaction price has been allocated to the single performance obligation and revenues have been recognized over the estimated service period based on a pattern that reflects the transfer of the license and progress to complete satisfaction of the R&D activities. This is because we considered that there is a transformational relationship between the license and the R&D activities to be delivered.
- We have chosen an input model to measure the satisfaction of the single performance obligation that considers a percentage of costs incurred for this program that are completed each period (percentage of completion method).
- Costs reimbursements received from AbbVie were recognized in revenues when costs were incurred and agreed by the parties as we were acting as a principal in the scope of our stake of the R&D activities of these license and collaboration agreements.
- The second amended and restated collaboration agreement signed on 24 October 2018 was assessed to be a contract modification including a change in scope and in pricing as the remaining goods or services were not distinct and form part of the single performance obligation that was partially satisfied at the date of the contract modification. We concluded that we must account for this second amended and restated collaboration agreement as if it was part of the existing contract and recognized an adjustment to reflect the contract modification on the transaction price and on the measure of progress towards satisfaction of the performance obligation.

The performance obligation related to this agreement is considered being fully satisfied at 31 December 2019.

Other income

The following table summarizes other income for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Grant income	6,549	1,609
R&D incentives	43,923	26,912
Other	433	488
Total other income	**50,905**	**29,009**

The majority of the grant income was related to grants from a Flemish agency and the national government, representing approximately 99% of all reported grant income in 2019 (2018: 95%). 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. In 2019, we also received a grant of €5.5 million from the National Institute for Health and Disability Insurance. This grant aims to incentivize innovative Belgian biotech companies who are performing research and development activities in order to identify new medicines.

R&D incentives income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €12.4 million of other income for the year ended 31 December 2019 compared to €9.3 million for the year ended 31 December 2018
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €21.7 million of other income for the year ended 31 December 2019 compared to €11.3 million for the year ended 31 December 2018
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and the Netherlands, representing €9.9 million of other income for the year ended 31 December 2019 compared to €6.3 million for the year ended 31 December 2018

7. 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 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Personnel costs	(124,260)	(81,352)
Subcontracting	(249,926)	(197,644)
Disposables and lab fees and premises costs	(23,880)	(25,525)
Depreciation	(10,874)	(5,655)
Other operating expenses	(18,380)	(12,699)
Total research and development expenditure	**(427,320)**	**(322,875)**

The R&D expenditure increase reflects the increase of our investments to advance our R&D programs. This increase was principally due to:

- Increased R&D personnel costs were explained by an enlarged workforce following the growth in our R&D activities as well as an exceptional bonus following the successful closing of the Gilead transaction
- The increase in subcontracting costs is mainly due to increased expenditure in our partnered programs with Gilead, including our increased cost share for filgotinib. Moreover expenditures have further increased as we advance our IPF program, our OA program GLPG1972, our Toledo program and our other programs.
- Premises costs decreased and depreciation expenses increased due to the accounting treatment related to the adoption of IFRS 16 (the effect of IFRS 16 on the depreciation expenses amounted to €5.3 million)
- Other operating expenses increased in line with the increase of the R&D staff.

The table below summarizes our research and development expenditure for the years ended 31 December 2019 and 2018, broken down by program:

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Filgotinib program	(100,032)	(66,138)
IPF program on GLPG1690	(75,951)	(72,718)
OA program on GLPG1972	(19,958)	(15,751)
Toledo program	(47,204)	(20,967)
CF program	(3,897)	(30,137)
AtD program on MOR106	(24,051)	(14,999)
Other programs	(156,227)	(102,165)
Total research and development expenditure	**(427,320)**	**(322,875)**

General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Personnel costs and directors fees	(51,906)	(25,495)
Depreciation	(1,513)	(513)
Legal and professional fees	(11,775)	(4,284)
Other operating expenses	(8,506)	(5,339)
Total general and administrative expenses	**(73,701)**	**(35,631)**

The increase in our general and administrative expenses in 2019 was mainly due to a planned increase in the staff supporting the growth of the company, as well as an exceptional bonus following the successful closing of the Gilead transaction, costs related to the RSU plans granted in 2019 and additional legal and professional fees.

Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Personnel costs	(7,558)	(2,282)
Depreciation	(61)	–
External outsourcing costs	(15,722)	(1,284)
Other operating expenses	(1,236)	(580)
Total sales and marketing expenses	**(24,577)**	**(4,146)**

The increase in our sales and marketing expenses in 2019 is mainly explained by an increase in personnel costs due to recruitments, as well as related increase in outsourcing costs. The latter was mainly due to €8.2 million of expenses relating to our 50/50 cost share mechanism with Gilead for expenses incurred in preparation for the co-promotion activities for filgotinib.

8. Staff costs

The table below summarizes the number of our employees on 31 December 2019 and 2018:

	2019	2018
Number of employees on 31 December	1,003	725
Total	**1,003**	**725**

The average number of employees during the years 2019 and 2018 was:

	Year ended 31 December	
	2019	2018
Executive officers	5	5
Research and development	667	553
Corporate and support	193	119
Total	**865**	**677**

Their aggregate remuneration comprised:

	Year ended 31 December	
(thousands of €)	2019	2018
Wages and salaries	(116,408)	(61,619)
Social security costs	(16,858)	(11,003)
Retirement benefit costs	(4,715)	(2,994)
Other personnel costs	(39,109)	(27,375)
Total personnel costs	**(177,090)**	**(102,991)**

The other personnel costs mainly related to costs for warrants granted of €32.5 million (2018: €21.3 million). For the costs of warrants granted, see note 28.

9. Fair value re-measurement of share subscription agreement and warrants granted to Gilead

Total fair value re-measurement for the year ended 31 December 2019 can be split up as follows:

	Year ended 31 December
(thousands of €)	2019
Fair value re-measurement of the share subscription agreement	(142,350)
Fair value re-measurement of warrant A	(35,642)
Fair value re-measurement of initial warrant B	(3,653)
Total fair value re-measurement of share subscription agreement and warrants	**(181,644)**

Gilead share subscription agreement

On 23 August 2019, the closing date of the contract, Gilead made a €960.1 million equity investment in Galapagos NV by subscribing to 6,828,985 new ordinary shares at a price of €140.59 per share, including issuance premium. The equity subscription was accounted for as a financial asset at signing date of the contract on 14 July 2019 and changes in fair value were recorded through profit or loss until closing date, when the financial liability was derecognized.

We recognized a fair value loss of €142.4 million, which reflects the increase in the Galapagos share price between signing and closing of the Gilead agreement. On 23 August 2019, the fair value of the financial liability amounting to €56.7 million was derecognized through the share premium account in equity.

(thousands of €)	2019
Fair value of financial asset at signing date	**85,601**
Change in fair value recorded in profit or loss	(142,350)
Fair value of financial liability at closing date	**(56,749)**
Derecognition at closing date	56,749
Fair value on 31 December 2019	**–**

Gilead warrants A and B

We measured the warrants (warrant A and initial and subsequent warrant B) at fair value and recognized a warrant issuance liability at closing date of the transaction. Upon approval of the issuance of warrant A and initial warrant B on 22 October 2019 (warrant approval date) the variable consideration was re-measured with a corresponding impact on the transaction price allocated to the performance obligation relating to our drug discovery platform, and the warrant issuance liability became a financial liability measured at fair value with changes through profit or loss as from that moment.

Warrant A has been valued using a standard option model (Black & Scholes Merton). The input data used in the model were derived from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued, applied discount for lack of marketability). On 6 November 2019 Gilead exercised warrant A and as such increased its ownership in Galapagos to 25.10% of the then outstanding shares.

Between the warrant approval date and the exercise of warrant A our share price increased significantly, resulting in a fair value loss of €35.6 million recognized in profit or loss. On 6 November 2019 the related financial liability, amounting to €79.0 million was derecognized through the share premium account in equity.

Management assessed that the financial liability relating to this warrant A had no remaining fair value at 31 December 2019 mainly because Gilead further increased its ownership to 25.84% at 31 December 2019.

(thousands of €)	2019
Fair value of financial liability at warrant approval date	**(43,311)**
Change in fair value recorded in profit or loss	(35,642)
Derecognition at warrant A exercise date	78,953
Fair value on 31 December 2019	**–**

The issuance of initial warrant B was approved on 22 October 2019 by the extraordinary general meeting of shareholders and is not yet exercised by Gilead at 31 December 2019. The fair value measurement of this financial liability is categorized as level 3 in the fair value hierarchy. Initial warrant B has been valued on the basis of a Longstaff-Schwartz Monte Carlo model. The input data used in the model were derived from market observations

(volatility, discount rate and share price) and from management estimates (number of shares to be issued and applied discount for lack of marketability). The recognized fair value loss of €3.7 million is mainly the result of an increase in the implied volatility of our share price and our share price itself between the warrant approval date and year-end. The fair value of the financial liability related to the initial warrant B amounts to €6.2 million on 31 December 2019.

The financial liability will be re-measured at fair value at each reporting period.

(thousands of €)	2019
Fair value of financial liability at warrant approval date	**(2,545)**
Change in fair value recorded in profit or loss	(3,653)
Fair value on 31 December 2019	**(6,198)**

The fair value of the financial liability related to the initial warrant B of €6.2 million at 31 December 2019 is presented as current financial instrument, in the section current liabilities, in our consolidated statement of financial position.

Subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders and is therefore still presented as warrant issuance liability in our deferred income (we refer to note 24 for more information). Subsequent warrant B has been valued on the basis of a Longstaff-Schwartz Monte Carlo model. The input data used in the model were derived from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued and applied discount for lack of marketability).

10. Other financial income/expenses

The following table summarizes financial income and expense for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	2019	2018
Other financial income:		
Interest income	14,306	5,219
Effect of discounting long term R&D incentives receivables	93	199
Currency exchange gain	850	11,027
Fair value gain on financial assets held at fair value through profit or loss	5,355	1,203
Fair value gain on current financial investments	611	
Gain upon sale of financial assets held at fair value through profit or loss	2	668
Other finance income	264	19
Total other financial income	**21,482**	**18,335**
Other financial expenses:		
Interest expenses	(1,302)	(780)
Effect of discounting long term deferred income	(6,900)	
Currency exchange loss	(47,769)	(1,174)
Fair value loss on current financial investments	(3,700)	
Other finance charges	(400)	(782)
Total other financial expenses	**(60,071)**	**(2,737)**
Total net other financial expenses (-)/income	**(38,589)**	**15,598**

The currency exchange loss in 2019 primarily related to a realized currency exchange loss of €34.9 million on the U.S. dollars upfront payment from Gilead and an unrealized exchange loss of €10.6 million on deposits and current financial investments held in U.S. dollars. We have cash, cash equivalents and current financial investments 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.

The decrease in currency exchange gain was due to a currency exchange gain in 2018 of €10.1 million on our cash and cash equivalents held in U.S. dollar. Net exchange loss amounted to €46.9 million for the year ended 31 December 2019, compared to a net exchange gain of €9.9 million for the year ended 31 December 2018.

Interest expenses were related to interests on term deposits and on lease of buildings and cars. Other financial expense for 2019 also includes €6.9 million of costs linked to the accounting for a financing component embedded in the upfront consideration received from Gilead in connection with the revised agreement for filgotinib.

For the year ended 31 December 2019, fair value gain on financial assets held at fair value through profit or loss consisted of positive effects from the fair value re-measurement of financial assets classified as equity investments which qualify for level 1 fair value measurement based upon the closing price of such securities at each reporting date. The fair values loss on the current financial investments reflects the effect of the re-measurement at fair value of our money market funds denominated in EUR at 31 December 2019. These fair value losses are mainly the result of the negative returns on the EUR denominated money market funds.

11. Income taxes

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	2019	2018
Current tax	(1,372)	(584)
Deferred tax	1,158	535
Income taxes	**(214)**	**(50)**

Current tax was related to corporate income taxes for subsidiaries operating on a cost plus basis.

Deferred tax income 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 consolidated statement of financial position as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Current tax payable	2,037	1,175
Total tax liabilities	**2,037**	**1,175**

On 31 December 2019, the tax liabilities were primarily related to 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 29.58% (2018: 29.58%) – 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 €)	2019	2018
Profit/loss (-) before tax	**150,060**	**(29,209)**
Income tax debit/credit (-), calculated using the Belgian statutory tax rate (29,58%) on the accounting income/loss (-) before tax (theoretical)	44,388	(8,640)
Tax expenses in income statement (effective)	**214**	**50**
Difference in tax expenses/income to explain	**(44,173)**	**8,690**
Effect of tax rates in other jurisdictions	831	411
Effect of non-taxable revenues	(13,079)	(11,558)
Effect of share-based payment expenses without tax impact	10,318	7,530
Effect of expenses/income (-) not subject to tax	53,270	382
Effect of non-tax-deductible expenses	795	945
Effect of recognition of previously non recognized deferred tax assets	(2,286)	(1,977)
Effect of tax losses (utilized) reversed	(136)	(150)
Effect from under or over provisions in prior periods	30	–
Effect of non-recognition of deferred tax assets	47,413	13,108
Effect of derecognition of previously recognized deferred tax assets	106	–
Effect of use of IID	(141,435)	–
Total explanations	**(44,173)**	**8,690**

Non-taxable revenues for the years ended 31 December 2019 and 2018 were related to non-taxable subsidies and tax credits. Expenses/income (-) not subject to tax for the year ended 31 December 2019 mainly consisted of the fair value re-measurement of the derivative financial liabilities related to share subscription agreement and the warrants granted to Gilead (see note 9). The use of the IID for the year ended 31 December 2019 referred to the "innovation income deduction" regime in Belgium. This 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 effective tax rate than other revenues. The effective tax rate can thus be reduced up to 4.4% (3.75% as of 1 January 2020).

12. 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 outstanding 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. The possible increase in the number of shares resulting from the outstanding initial warrant B has not been included in the calculation of the diluted income per share as at 31 December 2019 because they were antidilutive.

Income/loss (-) per share

	Year ended 31 December	
	2019	2018
Net profit/loss (-) attributable to owners of the parent (thousands of €)	**149,845**	**(29,259)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic income/loss (-) per share	57,614	52,113
Basic income/loss (-) per share (€)	**2.60**	**(0.56)**
Net profit/loss (-) attributable to owners of the parent (thousands of €)	**149,845**	**(29,259)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of diluted income/loss (-) per share	57,614	52,113
Number of dilutive potential ordinary shares	2,498	–
Diluted income/loss (-) per share (€)	**2.49**	**(0.56)**

As we reported a net loss in 2018, the outstanding warrants (specified in note 28) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share is the same for 2018.

13. Intangible assets

(thousands of €)	In process technology	Software & databases	Brands, licenses, patents & know-how	Contract cost	Total
Acquisition value					
On 1 January 2018	**7,061**	**7,496**	**1,525**	**–**	**16,082**
Additions		1,561	1,763		3,325
Sales and disposals	(7,061)	(20)	(569)		(7,650)
Translation differences		74			74
On 31 December 2018	**–**	**9,111**	**2,719**	**–**	**11,832**
Additions		5,463	2,453	15,384	23,300
Sales and disposals		(64)			(64)
Translation differences		31			31
On 31 December 2019	**–**	**14,541**	**5,172**	**15,384**	**35,099**
Amortization and impairment					
On 1 January 2018	**5,561**	**6,514**	**1,509**	**–**	**13,587**
Amortization	417	681	9		1,107
Impairment	1,083				1,083
Sales and disposals	(7,061)	(20)	(569)		(7,650)
Translation differences		74			74
On 31 December 2018	**–**	**7,250**	**949**	**–**	**8,200**
Amortization		816	678	512	2,006
Sales and disposals		(63)			(63)
Translation differences		31			31
On 31 December 2019	**–**	**8,034**	**1,626**	**512**	**10,173**
Carrying amount					
On 31 December 2018	–	1,862	1,771	–	3,632
On 31 December 2019	**–**	**6,507**	**3,546**	**14,872**	**24,927**

New additions primarily related to the capitalization of contract costs related to the recent deal with Gilead, which are being amortized on a straight-line basis over a period of 10 years.

On 31 December 2019, our balance sheet did not hold any internally generated assets capitalized as intangible asset.

14. Property, plant and equipment

Fully owned

(thousands of €)	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
On 1 January 2018	**4,736**	**33,060**	**3,209**	**1,189**	**42,195**
Additions	275	4,674	1,039	4,404	10,392
Sales and disposals		(486)	(826)		(1,311)
Reclassifications		753	13	(766)	–
Translation differences		29	16		46
On 31 December 2018	**5,011**	**38,031**	**3,452**	**4,827**	**51,321**
Additions	273	6,382	649	15,076	22,380
Sales and disposals		(1,521)	(97)		(1,618)
Reclassifications		1,792	3	(1,795)	–
Reclassifications to right-of-use				(251)	(251)
Translation differences		(30)	22		(8)
On 31 December 2019	**5,284**	**44,655**	**4,028**	**17,856**	**71,823**
Depreciations and impairment					
On 1 January 2018	**2,342**	**20,495**	**2,407**	**258**	**25,502**
Depreciations	344	3,377	236	17	3,974
Sales and disposals		(485)	(826)		(1,310)
Translation differences		16	2		18
On 31 December 2018	**2,686**	**23,403**	**1,819**	**275**	**28,184**
Depreciations	394	4,018	399	7	4,818
Sales and disposals		(1,521)	(99)		(1,620)
Reclassifications to right-of-use				(251)	(251)
Translation differences		(15)			(15)
On 31 December 2019	**3,080**	**25,885**	**2,119**	**31**	**31,117**
Carrying amount					
On 31 December 2018	2,325	14,628	1,632	4,552	23,137
On 31 December 2019	**2,204**	**18,770**	**1,909**	**17,825**	**40,707**

Right-of-use

(thousands of €)	Land & building	Installation & machinery	Furniture, fixtures & vehicles	Total
Acquisition value				
On 1 January 2019	–	–	–	–
Change in accounting policy (modified retrospective application IFRS 16)	24,056	219	2,130	26,406
Restated balance on 1 January 2019	**24,056**	**219**	**2,130**	**26,406**
Additions	3,270	84	1,176	4,530
Reclassifications		251		251
Translation differences	38			38
On 31 December 2019	**27,364**	**554**	**3,307**	**31,225**
Depreciations and impairment				
On 1 January 2019	–	–	–	–
Depreciations	4,666	91	867	5,624
Reclassifications		251		251
Translation differences	4			4
On 31 December 2019	**4,670**	**342**	**867**	**5,879**
Carrying amount				
On 31 December 2019	**22,694**	**212**	**2,440**	**25,345**

Carrying amount on 31 December 2019

Property, plant and equipment fully owned	**40,707**
Right-of-use	25,345
Total property, plant and equipment	**66,052**

Due to adoption of IFRS 16 on 1 January 2019 we recognized an opening balance of right-of-use assets of €26.4 million on the balance sheet.

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.

15. Other non-current assets

Other non-current assets consisted of non-current restricted cash, financial assets held at fair value through profit or loss, and other non-current assets.

	31 December	
(thousands of €)	2019	2018
Non-current restricted cash	1,418	1,276
Financial assets held at fair value through profit or loss	11,275	6,000
Other non-current assets	1,399	643
Total other non-current assets	**14,091**	**7,919**

Restricted cash on 31 December 2019 was composed of bank guarantees on real estate lease obligations in Belgium and in the Netherlands for €0.9 million and €0.5 million respectively.

Financial assets held at fair value through profit or loss consisted of equity instruments of listed companies. We have no restrictions on the sale of these equity instruments and the assets are not pledged under any of our liabilities. These instruments are designated as financial assets held at fair value through profit or loss which qualify for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

Fair value changes on financial assets with fair value through profit or loss are recognized in other financial income/other financial expenses.

The table below illustrates these financial assets held at fair value through profit or loss as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Cost at 1 January	**4,818**	**2,373**
Acquisitions of the year	–	4,736
Disposals of the year	(82)	(2,291)
Cost at 31 December	**4,736**	**4,818**
Fair value adjustment at 1 January	**1,182**	**(619)**
Cancellation of fair value adjustment following disposal	2	598
Fair value adjustment of the year	5,355	1,203
Fair value adjustment at 31 December	**6,539**	**1,182**
Net book value at 31 December	**11,275**	**6,000**

16. Research and development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Non-current R&D incentives receivables	93,407	73,443
Current R&D incentives receivables	21,949	11,203
Total R&D incentives receivables	**115,356**	**84,646**

The increase in R&D incentives receivables is explained by additional R&D incentives reported in 2019 for €34.1 million (€12.4 million related to French R&D incentives and €21.7 million related to Belgian R&D incentives), by the release of discounting profit of €0.1 million, decreased by the setup of tax provision in France for €0.4 million and decreased by the payments received related to Belgian R&D incentives amounting to €3.0 million. The R&D incentives receivables are future expected refunds or tax deductions 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 2019.

Non-current R&D incentives receivables

	31 December 2019					
	Maturity date					
(thousands of €)	2021	2022	2023	2024	2025 – 2029	Total
French non-current R&D incentives receivables – discounted value	9,668	10,223	11,913			31,804
Belgian non-current R&D incentives receivables – discounted value	4,881	5,734	7,534	10,190	33,263	61,603
Total non-current R&D incentives receivables – discounted value	**14,549**	**15,957**	**19,447**	**10,190**	**33,263**	**93,407**

17. Trade and other receivables and other current assets

	31 December	
(thousands of €)	2019	2018
Trade receivables	39,603	9,206
Prepayments	292	142
Other receivables	14,114	9,261
Trade and other receivables	**54,009**	**18,609**
Inventories	255	276
Accrued income	4,443	3,863
Deferred charges	4,439	4,104
Other current assets	**9,138**	**8,244**
Total trade and other receivables & other current assets	**63,147**	**26,852**

Trade and other receivables increased due to the outstanding receivable as at 31 December 2019 of €17.8 million ($20 million) on Gilead related to a milestone for NDA filing in the United States related to filgotinib and the 50% cost reimbursement for GLPG1690 (€13.4 million) invoiced to Gilead under the cost sharing mechanism.

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 2019, we did not have any provision for expected credit losses.

18. Current financial investments

On 31 December 2019, our current financial investments amounted to €3,919.2 million compared to nil at 31 December 2018. These current financial investments include a short-term bond fund and money market funds. The short-term bond fund has a minimum recommended investment horizon of six months. The money market funds are highly liquid investments that can be readily convertible to cash and are subject to an insignificant risk of changes in value but they cannot be classified as cash equivalents because they are currently not used by us for meeting short-term cash commitments.

On 31 December 2019, our current financial investments included $850.5 million held in USD, which could generate a foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/USD exchange rate as our functional currency is EUR.

We refer to note 31 for more information on these current financial investments.

19. Cash and cash equivalents

	31 December	
(thousands of €)	2019	2018
Cash at banks	907,939	358,016
Term deposits	953,677	733,537
Money market funds	–	199,243
Total cash and cash equivalents	**1,861,616**	**1,290,796**

Cash and cash equivalents may 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 €953.7 million of term deposits which all had an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum three month notice period and without significant penalty. 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.

At 31 December 2019, our cash and cash equivalents included $656.9 million held in USD, which could generate a foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/USD exchange rate as our functional currency is EUR.

As at 31 December 2019, the money market funds were no longer classified as cash equivalents but as current financial investments because we no longer used them for meeting short-term cash commitments.

The net increase in cash and cash equivalents of €570.8 million consisted of a transfer to current financial investments of €198.9 million, negative unrealized exchange differences of €10.0 million, both compensated by an increase in cash and cash equivalents of €779.7 million. This latter was composed of (i) €3,162.8 million of operational cash flow, of which €3,497.1 million net operational cash inflow from the Gilead collaboration and €334.3 million operational cash burn, (ii) €955.6 million net cash proceeds related to the share subscription by Gilead and €368.0 million cash proceeds related to the exercise of warrant A by Gilead , (iii) €17.2 million of cash proceeds from capital and share premium increase from exercise of warrants in 2019, less (iv) the net increase in current financial investments of €3,723.9 million.

Operational cash burn (or operational cash flow if this performance measure is positive) and net cash inflow from the Gilead transaction are financial measures that are not calculated in accordance with IFRS. Operational cash burn/cash flow is defined as the increase or decrease in our cash and cash equivalents (excluding the effect of exchange rate differences on cash and cash equivalents), minus:

i. the net proceeds, if any, from share capital and share premium increases included in the net cash flows generated/used (–) in financing activities

ii. the net proceeds or cash used, if any, in acquisitions or disposals of businesses; the movement in restricted cash and movement in current financial investments, if any, included in the net cash flows generated/used (–) in investing activities.

This alternative performance measure is in our view an important metric for a biotech company in the development stage.

The following table presents a reconciliation of operational cash flow, net cash inflow from the Gilead transaction and the operational cash burn adjusted for the Gilead transaction, to the closest IFRS measures, for each of the periods indicated:

(thousands of €)	2019	2018
Increase in cash and cash equivalents (excluding effect of exchange differences)	779,710	129,497
Less:		
Net proceeds from capital and share premium increases	(1,340,842)	(287,881)
Increase in current financial investments	4,787,284	
Decrease in current financial investments	(1,063,344)	
Total operational cash flow/cash burn (-)	**3,162,809**	**(158,384)**
Upfront consideration received from Gilead	3,569,815	
Realized exchange loss on Gilead upfront	(34,853)	
Costs associated to the transaction with Gilead	(37,849)	
Net operational cash proceeds from the Gilead transaction	**3,497,113**	
Operational cash burn adjusted for Gilead transaction	**(334,304)**	

20. 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:

(thousands of €)	2019	2018
On 1 January	**236,540**	**233,414**
Share capital increase	55,189	19,090
Costs of capital increase	(4,447)	(15,964)
Share capital on 31 December	**287,282**	**236,540**
Aggregate share capital	349,789	294,600
Costs of capital increase (accumulated)	(62,507)	(58,060)
Share capital on 31 December	**287,282**	**236,540**

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 2018 and 31 December 2019 is as follows:

Date	Share capital increase new shares (in thousands €)	Share capital increase due to warrant exercise (in thousands €)	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 €)
1 January 2018				**50,937**	**275,510**
20 March 2018		1,613	298		
20 June 2018		556	103		
17 September 2018	16,021		2,961		
3 October 2018		733	135		
23 November 2018		167	31		
31 December 2018				**54,466**	**294,600**
1 January 2019				**54,466**	**294,600**
20 March 2019		808	149		
20 June 2019		1,127	208		
23 August 2019	36,945		6,829		
18 September 2019		1,632	302		
6 November 2019		14,162	2,618		
25 November 2019		515	95		
31 December 2019				**64,667**	**349,789**

On 31 December 2019, Galapagos NV's share capital amounted to €349,789 thousand, represented by 64,666,802 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 2019 and 2018.

(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 2019	**54,465,421**	**236,540**	**1,277,780**	**1,514,320**		
20 March 2019: exercise of warrants	**149,370**	**808**	**2,673**	**3,481**	**23.30**	**90.32**
20 June 2019: exercise of warrants	**208,310**	**1,127**	**3,198**	**4,325**	**20.76**	**113.55**
23 August 2019: share subscription by Gilead						
Ordinary shares (fully paid)	6,828,985	36,945	923,142	960,087		
Derecognition of financial liability from share subscription agreement			56,749	56,749		
Underwriter discounts and offering expenses (paid)		(4,447)		(4,447)		
Total share subscription by Gilead	**6,828,985**	**32,498**	**979,891**	**1,012,389**		**148.90**
18 September 2019	**301,745**	**1,632**	**5,043**	**6,675**	**22.12**	**145.25**
6 November 2019: exercise of warrant A by Gilead						
Exercise of warrant A	2,617,791	14,162	353,873	368,035		
Derecognition of financial liability related to warrant A			78,953			
Total exercise of warrant A by Gilead	**2,617,791**	**14,162**	**432,826**	**368,035**	**140.59**	**170.75**
25 November 2019: exercise of warrants	**95,180**	**515**	**2,172**	**2,687**	**28.23**	**172.95**
On 31 December 2019	**64,666,802**	**287,282**	**2,703,583**	**2,911,912**		

(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 2018	**50,936,778**	**233,414**	**993,025**	**1,226,439**		
20 March 2018: exercise of warrants	**298,184**	**1,613**	**2,311**	**3,924**	**13.16**	**83.72**
20 June 2018: exercise of warrants	**102,801**	**556**	**781**	**1,337**	**13.01**	**85.00**
17 September 2018: U.S. public offering						
ADSs (fully paid)	2,961,373	16,021	280,167	296,188		
Underwriter discounts and offering expenses (paid)		(15,964)		(15,964)		
Total U.S. public offering	**2,961,373**	**57**	**280,167**	**280,224**		**99.68**
3 October 2018: exercise of warrants	**135,485**	**733**	**1,281**	**2,014**	**14.86**	**94.32**
23 November 2018: exercise of warrants	**30,800**	**167**	**215**	**382**	**12.40**	**88.90**
On 31 December 2018	**54,465,421**	**236,540**	**1,277,780**	**1,514,320**		

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 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 authorized capital of Galapagos consists of two parts. A general authorization for capital increases up to 20% of the share capital at the time of convening the shareholders' meeting of 22 October 2019 (i.e. €67,022,402.04) was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 13 November 2019. A specific authorization for capital increases of more than 20% and up to 33% of the share capital at the time of the convening the shareholders' meeting of 25 April 2017 (i.e. €82,561,764.93), was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 31 May 2017. This specific part of the authorized capital can, however, only be used in a number of specific circumstances and upon a resolution of the board of directors that all independent directors (within the meaning of article 526ter of the Belgian Companies Code) approve. 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.

As of 31 December 2019, an amount of €67,022,402.04 still remained available under the general part of the authorized capital and an amount of €13,717,929.80 remained available under the specific part of the authorized capital.

21. Deferred tax

	31 December	
(thousands of €)	2019	2018
Recognized deferred tax assets and liabilities		
Assets	**4,205**	**2,514**
Liabilities	**–**	**–**
Deferred tax assets unrecognized	**289,833**	**223,377**
Deferred taxes in the consolidated income statement	**1,158**	**535**
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	1,537	1,973
Deferred tax expenses relating to use or derecognition of previously recognized deferred tax assets	(379)	(1,438)

The consolidated tax losses, innovation income deduction and investment deduction carried forward and the deductible temporary differences at 31 December 2019 amounted in total to €1,179.0 million, €4.2 million were related to unrecognized tax losses with expiry date between 2020 and 2028.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €374.1 million on 31 December 2019. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €7.2 million in Croatia and the United States with expiry date between 2020 and 2028. On 31 December 2019, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €307.7 million. In addition to the latter, Galapagos NV (Belgium) also benefits from the Belgian innovation income deduction regime which led to report, on 31 December 2019, a carried forward tax deduction amounting to €224.7 million that can also be offset against future statutory taxable results. In addition, Galapagos NV (Belgium) also has available investment deduction carried forward of €1 million (2018: €1 million) that can be offset against future taxable profits. There is no limit in time for the innovation income deduction and investment deduction carried forward.

With the exception of 2019, we have a history of losses. Excluding the impact of possible sales related revenues for filgotinib (which is subject to regulatory approval), we forecast to continue incurring taxable losses in the foreseeable future as we continue to invest in clinical and preclinical development programs and discovery platforms. Consequently, no deferred tax asset was set up as at 31 December 2019, 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 €4.2 million (2018: €2.5 million).

22. Lease liabilities

Due to adoption of IFRS 16 on 1 January 2019 we recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17.

	Lease payments		Present value of lease payments	
	31 December		31 December	
(thousands of €)	2019	2018	2019	2018
Lease liabilities				
Within one year	6,189		5,826	
In the second to fifth years inclusive	16,320		15,783	
After five years	3,844		3,775	
	26,353	–	25,384	–
Less future finance charges	969			
Present value of lease obligation	25,384	–		–
Less amount due for settlement within 12 months			5,826	
Amount due for settlement after 12 months			19,558	–

23. Trade and other liabilities

	31 December	
(thousands of €)	2019	2018
Trade and other liabilities	142,510	68,038
Other non-current liabilities	6,989	1,578
Accrued charges	923	890
Total trade and other liabilities	150,422	70,506

The increase in trade and other liabilities is mainly due to higher accrued trade liabilities on 31 December 2019, reflecting the intensification of our investments in our R&D programs, and increased cost sharing with our partner Gilead. The increase in other non-current liabilities is mainly due to a higher bonus provision caused by the increase in the Galapagos share price and RSU's granted during 2019.

24. Deferred income

The table below illustrates the deferred income captions in the balance sheet as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Deferred income related to contracts		
Gilead collaboration agreement for filgotinib	780,261	145,798
Gilead collaboration agreement for drug discovery platform (*)	2,220,013	–
AbbVie collaboration for CF	–	3,223
Deferred income related to contracts in our fee-for-service segment	362	471
Other deferred income (grants)	10	309
Total deferred income (long term & current)	3,000,646	149,801

(*) This amount comprises an issuance liability for subsequent warrant B of €16,184 thousand

The movement in the non-current and current deferred income is detailed in the table below.

(thousands of €)	Total	Gilead collaboration agreement for filgotinib	Gilead collaboration agreement for GLPG 1690	Gilead collaboration agreement for drug discovery platform[2]	AbbVie collaboration agreement for CF	Servier collaboration agreement for osteoarthritis	Deferred income related to contracts in our fee-for-service segment	Other
On 1 Januari 2018	***219,892***	**213,981**	**–**	**–**	**–**	**5,362**	**248**	**301**
Reclassified from equity following adoption of IFRS 15	*83,220*	43,832			44,749	(5,362)		
Upfront received	*38,874*				38,874			
Milestones received	*20,965*	12,417			8,548			
Revenue recognition of upfront	*(148,985)*	(96,809)			(52,176)			
Revenue recognition of milestones	*(64,394)*	(27,623)			(36,771)			
Other movements	*230*						223	7
On 31 December 2018	***149,801***	**145,798**	**–**	**–**	**3,224**	**–**	**471**	**308**
Upfront received and impact of initial valuation of share subscription	*3,655,416*	641,663	666,967	2,346,787				
Milestones received	*49,727*	27,317			22,410			
Significant financing component	*6,900*	6,900						
Revenue recognition of upfront	*(1,009,663)*	(260,207)	(666,967)	(80,918)	(1,570)			
Revenue recognition of milestones	*(51,156)*	(27,092)			(24,064)			
Catch-up effect on closing date[1]	*245,883*	245,883						
Other movements	*(46,262)*			(45,856)			(109)	(297)
On 31 December 2019	***3,000,646***	***780,261***	**–**	***2,220,013***	**–**	**–**	***362***	***10***

(1) Following the contract amendment, the revenue recognized for filgotinib for the year ended 31 December 2019 included a negative catch-up effect resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

(2) The upfront received and the outstanding balance at 31 December 2019 comprise the issuance liabilities for the warrants and the upfront payment allocated to the drug discovery platform. Other movements include the derecognition of warrant issuance liabilities through the share premium account.

We refer to note 6 for a detail of the allocation of the transaction price paid by Gilead.

25. Note to the cash flow statement

	31 December	
(thousands of €)	2019	2018
Adjustment for non-cash transactions		
Depreciation and amortization	12,448	5,081
Impairment loss	–	1,083
Share-based compensation expenses	38,297	26,757
Decrease (-)/increase in retirement benefit obligations and provisions	(156)	99
Unrealized exchange losses/gains (-) and non-cash other financial expenses	11,169	(10,063)
Discounting effect of deferred income	6,900	–
Fair value re-measurement of share subscription agreement and warrants	181,644	–
Net fair value adjustment current financial investments	3,081	–
Fair value adjustment financial assets held at fair value through profit or loss	(5,355)	(1,203)
Total adjustment for non-cash transactions	**248,027**	**21,753**
Adjustment for items to disclose separately under operating cash flow		
Interest expense	1,302	780
Interest income	(9,247)	(5,219)
Tax expense	214	50
Total adjustment for items to disclose separately under operating cash flow	**(7,731)**	**(4,389)**
Adjustment for items to disclose under investing and financing cash flows		
Gain on sale of financial assets held at fair value through profit or loss	(2)	(668)
Interest income on current financial investments	(5,059)	–
Total adjustment for items to disclose separately under investing and financing cash flow	**(5,061)**	**(668)**
Change in working capital other than deferred income		
Decrease in inventories	20	3
Increase in receivables	(67,263)	(76)
Increase in liabilities	79,940	19,996
Total change in working capital other than deferred income	**12,698**	**19,922**

26. Off-balance sheet arrangements

Contractual obligations and commitments

We entered into lease agreements for offices, laboratories and cars. As a consequence of the adoption of IFRS 16 Leases, on 1 January 2019, lease obligations in the scope of the new standard are presented as lease liabilities in the statements of financial position and no longer disclosed separately as off-balance sheet commitments. We refer to note 22 for a breakdown of our lease liabilities.

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

(thousands of €)	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Purchase commitments	**251,670**	175,006	70,675	5,989	–

At 31 December 2019 we were committed to two leases which have not yet started. The total future cash outflows for leases that had not yet commenced were as follows:

(thousands of €)	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Lease commitments not commenced	**8,986**	5,793	1,502	1,502	188

In addition we have engaged a property developer for the construction of the new building in Leiden.

On 31 December 2018, 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	**27,704**	4,722	10,024	6,234	6,724
Purchase commitments*	**222,033**	121,139	81,879	19,014	–
Total contractual obligations & commitments	**249,737**	**125,862**	**91,903**	**25,248**	**6,724**

* Subsequent to the issuance of our consolidated financial statements for the year ended 31 December 2018, we noted that the total of our purchase commitments as disclosed in note 25 to our consolidated financial statements for the year ended 31 December 2018 was understated by €22.5 million. In addition, the split based on the expected due date was not presented correctly. Management assessed the materiality of the errors from a quantitative and qualitative perspective and concluded that the correction was not material to our previously issued consolidated financial statements. We elected to adjust the historical consolidated financial information presented in this disclosure note to reflect the correction of this error. Since the revisions were not material, no amendments to previously filed reports were required. The total purchase commitments due within 1 year were understated by €14.6 million, those due within 1-3 year were understated by €29.2 million and the ones becoming due within 3-5 years were overstated by €21.3 million. Each affected item within this line relating to this correction has been adjusted.

In addition to the tables above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. The contractual cost sharing commitment amounted to €614.1 million at 31 December 2019 (€74.0 million at 31 December 2018), for which we have direct purchase commitments of €27.5 million at 31 December 2019 (€20.3 million at 31 December 2018) 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 was not achieved. 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 December 2015, we entered into a license and collaboration agreement to co-develop filgotinib with Gilead in rheumatoid arthritis, Crohn's disease, ulcerative colitis and other indications. Due to the revised license and collaboration agreement related to filgotinib, that became effective in August 2019, we are responsible for funding 50% of the associated global development costs of the program. We have retained a mechanism to give us cost protection as we are no longer obliged to bear any further costs if they exceed the joint predetermined level.

In addition, we are eligible to receive $640 million in development and regulatory milestones, sales-based milestone payments of up to $600 million and tiered royalties ranging from 20-30% payable in territories outside of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. In addition, we achieved two milestones in December 2019 totaling $30 million.

As a result of the Option, License and Collaboration agreement signed with Gilead in July 2019, we share further development costs for GLPG1690 equally with Gilead. We are also entitled to an additional milestone for GLPG1690 upon approval in the United States and we are eligible to receive tiered royalties ranging from 20-24% on net sales of GLPG1690 by Gilead in all countries outside Europe.

As explained in the summary of the significant transaction in note 2 to our consolidated financial statements, Gilead received exclusive option rights to acquire a license on compounds. Exercising such an option would trigger an opt-in payment, a 50-50 cost share mechanism for the future development activities, development and sales milestones and royalties.

28. 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.

The table below sets forth a summary of warrants outstanding and exercisable at 31 December 2019, per warrant plan:

Warrant plan	Allocation date	Expiry date	Exercise price (€)	Outstanding per 1 January 2019	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2019	Exercisable per 31 December 2019
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	29,374		(29,374)			–	–
2007 RMV	25.10.2007	24.10.2020	8.65	24,550		(9,570)			14,980	14,980
2008	26.06.2008	25.06.2021	5.60	77,100		(75,735)			1,365	1,365
2011	23.05.2011	22.05.2019	9.95	37,500		(37,500)			–	–
2012	03.09.2012	02.09.2020	14.19	110,040		(30,000)			80,040	80,040
2013	16.05.2013	15.05.2021	19.38	195,560		(75,126)			120,434	120,434
2014	25.07.2014	24.07.2022	14.54	347,560		(95,220)			252,340	252,340
2014 (B)	14.10.2014	13.10.2022	11.93	60,000		(60,000)			–	–
2015	30.04.2015	29.04.2023	28.75	515,053		(232,580)			282,473	282,473
2015 (B)	22.12.2015	21.12.2023	49.00	399,000		(69,500)			329,500	329,500
2015 RMV	22.12.2015	21.12.2023	49.00	97,500		(40,000)			57,500	57,500
2016	01.06.2016	31.05.2024	46.10	504,250					504,250	
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	
2018	19.04.2018	18.04.2026	79.88	1,097,745			(12,500)		1,085,245	
2018 RMV	19.04.2018	18.04.2026	79.88	137,500					137,500	
2019	10.04.2019	09.04.2027	95.11		1,504,940		(18,250)		1,486,690	
2019 RMV	10.04.2019	09.04.2027	95.11		194,750				194,750	
Total				**4,626,782**	**1,699,690**	**(754,605)**	**(30,750)**	**–**	**5,541,117**	**1,139,682**

	Warrants	Weighted average exercise price (€)
Outstanding on 31 December, 2017	**3,970,807**	**39.32**
Exercisable on 31 December, 2017	763,344	13.71
Granted during the period	1,235,245	79.88
Forfeited during the year	(12,000)	43.21
Exercised during the period	(567,270)	13.50
Expired during the year	–	
Outstanding on 31 December, 2018	**4,626,782**	**53.30**
Exercisable on 31 December, 2018	882,734	14.05
Granted during the period	1,699,690	95.11
Forfeited during the year	(30,750)	88.92
Exercised during the period	(754,605)	22.75
Expired during the year	–	
Outstanding on 31 December, 2019	**5,541,117**	**70.09**
Exercisable on 31 December, 2019	1,139,682	30.16

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

Warrant plans

	2019	2019 RMV	2018	2018 RMV
	10 April 2019	10 April 2019	19 April 2018	19 April 2018
Exercise Price (€)	95.11	95.11	79.88	79.88
Weighted average share price at acceptance date (€)	107.05	107.45	84.88	84.88
Weighted average fair value on the acceptance date (€)	40.04	40.05	38.39	38.39
Weighted average estimated volatility (%)	35.86	35.63	39.44	39.44
Weighted average expected life of the warrant (years)	6.02	6.00	8	8
Weighted average risk free rate (%)	(0.27)	(0.28)	0.51	0.51
Expected dividends	None	None	None	None

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

The weighted average estimated volatility is calculated on the basis of the implied volatility of the share price over the expected life of the warrants.

The weighted average expected life of the warrant is calculated as the estimated duration until exercise, taking into account the specific features of the plans.

Our share based compensation expense in 2019 amounted to €38,297 thousand (2018: €26,757 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2019 and 31 December 2018.

	31 December	
Category (in number of warrants)	**2019**	2018
Non-executive directors	222,600	216,780
Executive team	2,171,874	2,139,374
Other	3,146,643	2,270,628
Total warrants outstanding	**5,541,117**	**4,626,782**

The outstanding warrants at the end of the accounting period have an average exercise price of €70.09 (2018: €53.30) and a weighted average remaining expected life of 1,439 days (2018: 1,500 days).

29. Related parties

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

Gilead

Gilead is exercising significant influence over Galapagos as from the equity subscription on 23 August 2019. As a result of the equity subscription we received a transparency notification from Gilead on 28 August 2019 confirming they held 22.04% of the then issued and outstanding shares of Galapagos. The presumption of significant influence is also confirmed by the fact that Gilead has the right, for as long as it holds more than 20% of Galapagos' share capital, to appoint two Investor Board Designees to Galapagos' board of directors.

The following balances are outstanding at the end of the reporting period in relation to Gilead:

Relations with Gilead

	31 December
(thousands of €)	**2019**
Trade and other receivables	31,645
Trade and other payables	39,100

The trade and other receivables balances mainly relate to €13.4 million cost reimbursement for GLPG1690 and €18.2 million relating to the development milestone payment triggered by the NDA submission in December 2019. The outstanding liabilities mainly relate to the cross charges relating to the development of filgotinib in the fourth quarter of 2019 (€30.9 million) and €8.2 million related to sales and marketing expenses.

On 14 July 2019, we entered into a 10-year global research and development collaboration with Gilead. In connection with our entry into the option, license and collaboration agreement, we received an upfront payment of $3.95 billion (€3.6 billion) and a €960 million ($1.1 billion) equity investment from Gilead (see note 20). In connection with this share subscription agreement, we recognized a deferred income and an offsetting current financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement. In connection with entering into the option, license and collaboration agreement in July 2019, we also amended certain terms of our existing agreement with Gilead governing filgotinib.

In addition, the extraordinary general meeting of shareholders of 22 October 2019 approved the issuance of warrant A and initial warrant B to Gilead allowing them to further increase its ownership of Galapagos to up to 29.9% of the company's issued and outstanding shares. Subsequent warrant B is still subject to approval by

an extraordinary general meeting of shareholders. This extraordinary general meeting of shareholders shall take place between 57 and 59 months of the closing of the subscription agreement and this warrant will have substantially similar terms, including as to exercise price, to the initial warrant B. On 6 November 2019 Gilead exercised warrant A, which resulted in an additional equity investment of €368.0 million. By exercising warrant A Gilead increased its ownership in Galapagos to 25.10% of the then outstanding shares. Gilead further increased its ownership to 25.84% at 31 December 2019.

This has resulted in a total transaction price of €3,655 million that has been allocated to the three performance obligations and the warrant issuance liabilities (see note 6).

During 2019 we already recognized in revenue the entire transaction price allocated to the license on GLPG1690 (€667 million), €81 million relating to the performance obligation for the drug discovery platform and a total of €41 million representing the total impact on our revenues coming from the initial and amended filgotinib performance obligation. The latter consists of upfront payments and milestone payments that were recognized in accordance with the percentage of completion of the underlying performance obligation.

Furthermore, we recognized €17.7 million of cost reimbursements from Gilead with respect to the development of GLPG1690 as a decrease of the related expenses (on the line research and development expenditure). An amount of €72.0 million relating to cross charges from Gilead relating to filgotinib was recognized as expense on the line research and development expenditure.

Finally, we recognized €8.2 million of sales & marketing expenses relating to our 50/50 cost share mechanism with Gilead for expenses incurred in preparation for the co-promotion activities for filgotinib.

As at 31 December 2019 we have two outstanding performance obligations under IFRS 15 towards Gilead, being the performance obligation related to our drug discovery platform and the performance obligation relating to filgotinib. This results in an outstanding deferred income balance of €2.2 billion for the drug discovery platform (including the warrant issuance liability relating to subsequent warrant B) and €780 million for the performance obligation relating to filgotinib.

A detailed explanation of our transactions with Gilead in 2019 can be found in the section titled Agreements with major Galapagos NV shareholders. There are no other shareholders or other entities who, solely or jointly, control Galapagos or exercise significant influence over Galapagos.

Relationship and transactions with subsidiaries

Please see note 30 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 2019, 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. They provide their services to us on a full-time basis. On 31 December 2019, our board of directors consisted of eight members: Mr. Onno van de Stolpe, Dr. Raj Parekh,

Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Mary Kerr, Mr. Peter Guenter, Mr. Daniel O'Day and Dr. Linda Higgins. Dr. Werner Cautreels' and Dr. Christine Mummery's mandates as directors expired immediately after the annual shareholders' meeting of 30 April 2019.

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:

	Year ended 31 December	
	2019	2018
Remuneration of key management personnel:		
Thousands of € (except for the number of warrants and RSUs)		
Short-term benefits for executive committee members as a group	**14,129**	**2,909**
Gross salary	2,121	1,920
Employer social security on gross salary	61	125
Cash bonus	1,230	757
Exceptional bonus	10,500	–
Employer social security on exceptional bonus	108	–
Other short-term benefits	109	107
Long-term benefits for executive committee members as a group[1]	**1,874**	**1,812**
Board fees and other short-term benefits for directors		
Raj Parekh	90	92
Harrold van Barlingen[2]	–	15
Howard Rowe	55	53
Werner Cautreels[3]	15	48
Katrine Bosley	45	45
Christine Mummery[3]	13	40
Mary Kerr	45	46
Peter Guenter[4]	30	–
Daniel O'Day[5]	–	–
Linda Higgins[5]	–	–
Post-employment benefits[6]	**323**	**305**
Total benefits excluding warrants and RSUs[7]	**16,619**	**5,346**

(1) Only executive committee members are granted long-term benefits. Pursuant to the Senior Management Bonus Scheme, these consist of the deferred part of the bonus from 3 years ago
(2) Dr. Van Barlingen's director's mandate expired on 24 April 2018
(3) Director's mandate expired on 30 April 2019
(4) Mr. Guenter's director's mandate began on 30 April 2019
(5) Director's mandate began on 22 October 2019
(6) Only executive committee members are granted post-employment benefits
(7) For 2018, this amount excludes an amount of €20,1 thousand tax advisory services that is included in the amount of €107 thousand other short-term benefits
(8) This is the sum of the RSUs awarded during financial year 2019, excluding the RSUs representing the deferred portion of the bonus for 2019 (still to be granted). Only executive committee members were awarded RSUs

	Year ended 31 December	
	2019	2018
Number of warrants granted in the year		
Executive committee members as a group	315,000	350,000
Raj Parekh	15,000	15,000
Howard Rowe	7,500	7,500
Werner Cautreels[3]	–	7,500
Katrine Bosley	7,500	7,500
Christine Mummery[3]	–	7,500
Mary Kerr	7,500	7,500
Peter Guenter[4]	7,500	–
Daniel O'Day[5]	–	–
Linda Higgins[5]	–	–
Total number of warrants granted in the year	**360,000**	**402,500**
Total cost of warrants granted in the year	**14,236**	**15,507**
Number of RSUs granted in the year[8]	183,450	–
Total number of RSUs granted in the year	**183,450**	**–**

(1) Only executive committee members are granted long-term benefits. Pursuant to the Senior Management Bonus Scheme, these consist of the deferred part of the bonus from 3 years ago
(2) Dr. Van Barlingen's director's mandate expired on 24 April 2018
(3) Director's mandate expired on 30 April 2019
(4) Mr. Guenter's director's mandate began on 30 April 2019
(5) Director's mandate began on 22 October 2019
(6) Only executive committee members are granted post-employment benefits
(7) For 2018, this amount excludes an amount of €20,1 thousand tax advisory services that is included in the amount of €107 thousand other short-term benefits
(8) This is the sum of the RSUs awarded during financial year 2019, excluding the RSUs representing the deferred portion of the bonus for 2019 (still to be granted). Only executive committee members were awarded RSUs

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.

30. Consolidated companies as of 31 December 2019

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2019 vs 2018)
Biofocus DPI AG in liquidation	Switzerland	100%	
Galapagos Biopharma Belgium BV	Belgium	100%	100%
Galapagos Biopharma Netherlands B.V.	The Netherlands	100%	100%
Galapagos Biopharma Spain S.L.U	Spain	100%	100%
Galapagos Biopharma Italy S.r.l.	Italy	100%	100%
Galapagos Biopharma Germany GmbH	Germany	100%	100%
Galapagos Biotech Ltd.	United Kingdom	100%	
Galapagos BV	The Netherlands	100%	
Galapagos GmbH	Switzerland	100%	
Galapagos, Inc.	United States	100%	
Galapagos NV	Belgium	Parent company	
Galapagos Real Estate 1 BV	Belgium	100%	
Galapagos Real Estate 2 BV	Belgium	100%	
Galapagos Real Estate Netherlands B.V.	The Netherlands	100%	100%
Galapagos SASU	France	100%	
Fidelta d.o.o.	Croatia	100%	
Xenometrix, Inc. in liquidation	United States	100%	

In the course of 2019 we incorporated the following new legal entities: Galapagos Biopharma Belgium BV (Mechelen, Belgium), Galapagos Biopharma Netherlands B.V. and Galapagos Real Estate Netherlands B.V. (Leiden, the Netherlands); Galapagos Biopharma Germany GmbH (München, Germany); Galapagos Biopharma Spain S.L.U. (Madrid, Spain) and Galapagos Biopharma Italy S.r.l. (Milan, Italy).

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.

31. Financial risk management

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 no financial debt and have a strong cash and cash equivalents and current financial investments balance. We do not buy or trade financial instruments for speculative purposes.

Categories of financial assets and liabilities:

	31 December	
(thousands of €)	2019	2018
Financial assets held at fair value through profit or loss		
Equity instruments	11,275	6,000
Current financial investments	3,919,216	–
Financial assets at amortized cost		
Cash and cash equivalents	1,861,616	1,290,796
Restricted cash (current and non-current)	1,418	1,276
Trade & other receivables (excl prepayments)	53,717	18,467
Total financial assets	**5,847,242**	**1,316,539**
Financial liabilities held at fair value through profit or loss		
Current financial instruments	6,198	–
Financial liabilities at amortized cost		
Trade and other liabilities	142,510	68,038
Other non-current liabilities	6,914	1,502
Lease liabilities	25,384	–
Total financial liabilities	**181,006**	**69,540**

The carrying amounts of trade and other payables and trade and other receivables are considered to be the same as their fair values, due to their short-term nature.

Financial assets held at fair value through profit or loss

Financial assets held at fair value through profit or loss consisted of equity instruments of listed companies and current financial investments.

We have no restrictions on the sale of these equity instruments and the assets are not pledged under any of our liabilities. These instruments are classified as financial assets held at fair value through profit or loss which qualify 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.

Current financial investments include a short-term bond fund and money market funds in EUR and USD, which all classify for level 1 fair value measurement.

Liquidity risk

Current financial investments and cash and cash equivalents amounted to €5,780.8 million on 31 December 2019. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. 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.

All our current financial investments and cash and cash equivalents have only an insignificant liquidity risk as they are all convertible upon a maximum three month notice period and without incurring a significant penalty.

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 our receivables are considered collectable.

We applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. To measure the expected credit losses, receivables have been grouped based on credit risk characteristics and the days past due. The provision for expected credit losses was not significant given that there have been no credit losses over the last three years and the high quality nature of our customers.

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

	31 December	
(thousands of €)	2019	2018
60 – 90 days	87	236
90 – 120 days	–	12
more than 120 days	–	–

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. Our current financial investments are also kept within different financial institutions and include short-term bond funds and money market funds with credit ratings ranging from AAA to A- at the beginning of the investment. All of these current financial investments are investments in a basket of funds so there is no individual credit risk involved.

Interest rate risk

The only variable interest-bearing financial instruments are cash and cash equivalents and current financial investments. 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 and current financial investments.

Effect of interest rate fluctuation

A 100 basis points increase in interest rates at balance sheet date would have increased profit or loss, and equity, by approximately €57.8 million (2018: €12.9 million); a 100 basis points decrease in interest rates would have decreased profit or loss, and equity, by approximately €57.8 million (2018: €12.9 million).

Foreign exchange risk

We are exposed to foreign exchange risk arising from various currency exposures. Our principal 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.

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

	31 December	
(thousands of €)	2019	2018
Net book value		
Increase in Euros – U.S. Dollars	(133,373)	(27,200)
Increase in Euros – GB Pounds	113	100
Increase in Euros – CH Francs	538	208
Increase in Euros – HR Kunas	650	611
Increase in U.S. Dollars – GB Pounds	(894)	(923)

The exchange rate risk on the U.S. dollar is primarily related to our cash and cash equivalents and current financial investments 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 current financial investments, cash and cash equivalents, financial debt (as of 31 December 2019, we only have leasing liabilities), 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, the new commercial activities, 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.

32. Statutory auditor's remuneration

The statutory auditor's fees for carrying out his mandate at group level amounted to €1,406.8 thousand in 2019 (2018: €414.6 thousand). The fees for audit-related services executed by the statutory auditor, related to the performance of the audit or review of the company's affiliates financial statements, amounted to €29.2 thousand (2018: nil). Audit-related services executed by persons related to the statutory auditor for carrying out an auditor's mandate at the level of the Company's affiliates, amounted to €29.2 thousand in 2019 (2018: €27.5 thousand). Other fees related to audit-related fees, in particular related to legal assignments, which generally the auditor provides, amounted to €43.0 thousand in 2019 (2018: €92.1 thousand). Other fees related to non-audit services executed by the statutory auditor, in particular related to services provided ahead of the commercial phase, amounted to €148.2 thousand in 2019. Other fees related to non-audit services executed by persons related to the statutory auditor amounted to €46.6 thousand in 2019 and related to IT services (2018: €134.8 thousand). 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.

33. Events after balance sheet date

On 17 March 2020, 152,220 warrants were exercised (with an average exercise price of €35.18 per warrant), of which 15,000 warrants were exercised by our CEO, 15,000 warrants by other members of our executive committee, and 17,520 warrants by other members of our board of directors. This resulted in a share capital increase (including issuance premium) of €5,354,538.80 and the issuance of 152,220 new ordinary shares. The closing price of our share on 17 March 2020 was €141.40.

Our consolidated financial statements were approved by the board of directors and authorized for publication, on 24 March 2020. They were signed on behalf of the board of directors by:

(signed)

Onno van de Stolpe
Managing Director and CEO

24 March 2020