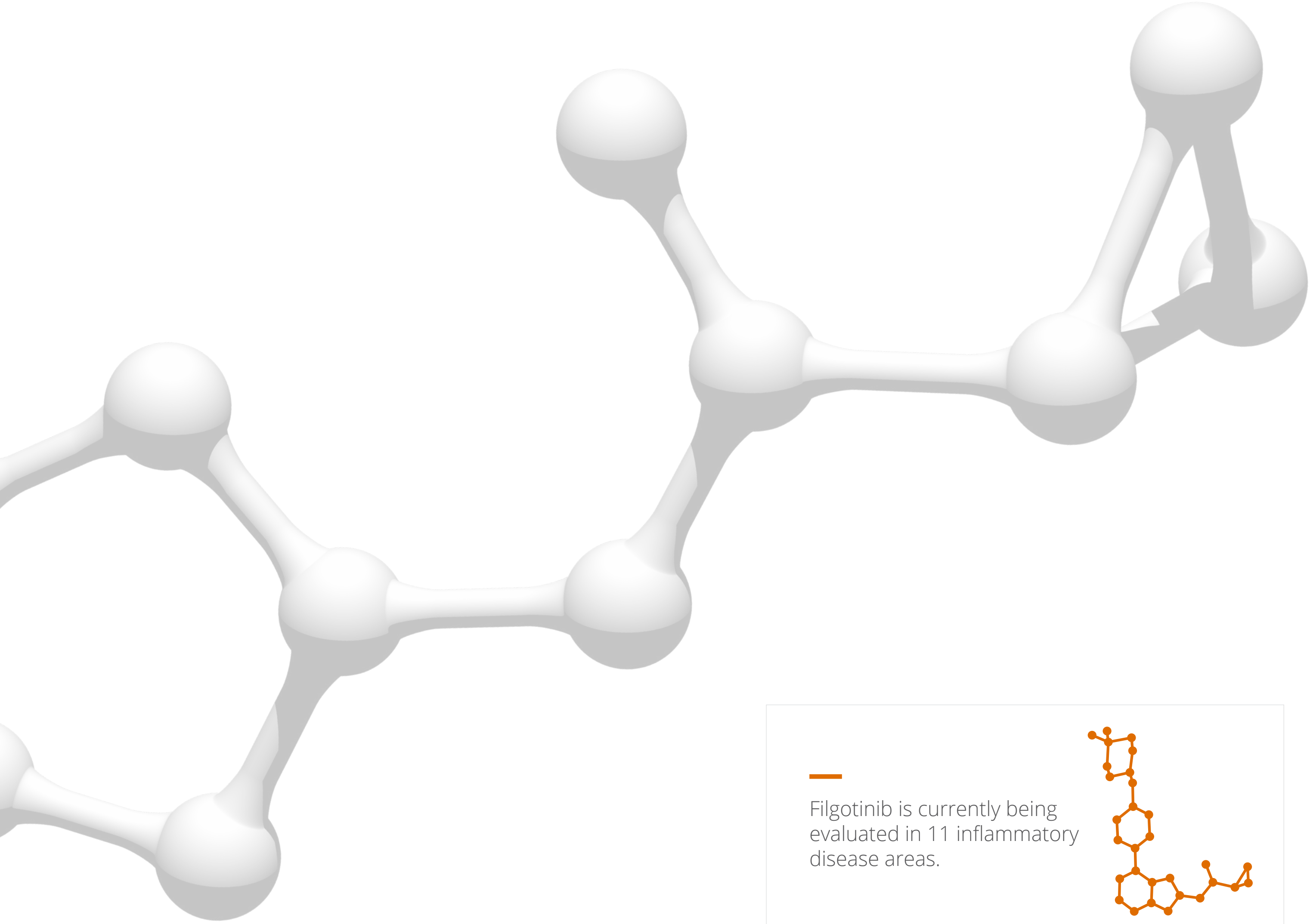
Financial statements

Unaudited condensed consolidated interim financial statements for the first nine months of 2018



Filgotinib is currently being evaluated in 11 inflammatory disease areas.

Unaudited condensed consolidated interim financial statements for the first nine months of 2018

Consolidated statements of income and comprehensive income
(unaudited)

Consolidated income statement

	Third quarter of		Nine months ended 30 September	
(thousands of €, except share and per share data)	**2018**	2017	**2018**	2017
Revenues	94,874	26,945	182,457	87,870
Other income	8,334	6,378	22,623	18,484
Total revenues and other income	**103,208**	**33,323**	**205,080**	**106,354**
Research and development expenses	(80,314)	(56,313)	(231,758)	(149,226)
General and administrative expenses	(9,725)	(5,853)	(24,925)	(17,783)
Sales and marketing expenses	(898)	(808)	(1,912)	(1,898)
Total operating expenses	**(90,937)**	**(62,974)**	**(258,595)**	**(168,907)**
Operating gain / loss (–)	**12,271**	**(29,651)**	**(53,515)**	**(62,552)**
Financial income	2,558	1,344	10,667	3,663
Financial expenses	(467)	(8,232)	(1,708)	(26,805)
Gain / loss (–) before tax	**14,362**	**(36,539)**	**(44,557)**	**(85,694)**
Income taxes	480	(69)	343	(161)
Net gain / loss (–)	**14,841**	**(36,608)**	**(44,215)**	**(85,855)**
Net gain / loss (–) attributable to:				
Owners of the parent	14,841	(36,608)	(44,215)	(85,855)
Basic gain / loss (–) per share	**0.29**	**(0.73)**	**(0.86)**	**(1.75)**
Diluted gain / loss (–) per share	**0.28**	**(0.73)**	**(0.86)**	**(1.75)**

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

Consolidated statement of comprehensive income / loss (–)

(thousands of €)	Third quarter of 2018	Third quarter of 2017	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Net gain / loss (–)	**14,841**	**(36,608)**	**(44,215)**	**(85,855)**
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of available-for-sale financial assets	–	(253)	–	(62)
Translation differences, arisen from translating foreign activities	5	(253)	156	(569)
Other comprehensive income / loss (–), net of income tax	**5**	**(506)**	**156**	**(631)**
Total comprehensive income / loss (–) attributable to:				
Owners of the parent	14,846	(37,114)	(44,059)	(86,486)

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

Consolidated statements of financial position

(unaudited)

	30 September	31 December
(thousands of €)	2018	2017
Assets		
Intangible assets	2,058	2,495
Property, plant and equipment	18,113	16,692
Deferred tax assets	2,525	1,978
Non-current R&D incentives receivables	68,755	64,001
Non-current restricted cash	1,226	1,158
Other non-current assets	2,474	2,303
Non-current assets	**95,151**	**88,627**
Inventories	280	279
Trade and other receivables	25,314	27,966
Current R&D incentives receivables	11,692	11,782
Cash and cash equivalents	1,343,668	1,151,211
Current restricted cash	2,014	–
Other current assets	7,432	6,409
Current assets	**1,390,400**	**1,197,647**
Total assets	**1,485,551**	**1,286,274**
Equity and liabilities		
Share capital	235,672	233,414
Share premium account	1,276,284	993,025
Other reserves	(641)	(1,260)
Translation differences	(1,598)	(1,754)
Accumulated losses	(321,495)	(211,441)
Total equity	**1,188,222**	**1,011,983**
Pension liabilities	3,818	3,582
Provisions	57	65
Other non-current liabilities	1,269	1,597
Non-current deferred income	23,083	97,348
Non-current liabilities	**28,227**	**102,592**

(thousands of €)	30 September 2018	31 December 2017
Finance lease liabilities	–	9
Trade and other payables	80,721	47,122
Current tax payable	855	865
Accrued charges	867	1,159
Current deferred income	186,659	122,544
Current liabilities	**269,102**	**171,699**
Total liabilities	**297,329**	**274,291**
Total equity and liabilities	**1,485,551**	**1,286,274**

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

Consolidated cash flow statements

(unaudited)

	Nine months ended 30 September	
(thousands of €)	2018	2017
Cash and cash equivalents at beginning of year	**1,151,211**	**973,241**
Net loss	(44,215)	(85,855)
Adjustments for:		
Tax income (–) / tax expense	(343)	161
Net financial income (–) / expense	(8,958)	23,142
Depreciation of property, plant and equipment	2,843	2,701
Amortization of intangible fixed assets	1,973	510
Net realized loss on foreign exchange transactions and other financial expenses paid	(352)	(503)
Share-based compensation	18,001	11,697
Decrease in provisions	(8)	(8)
Increase in pension liabilities	236	214
Loss on disposal of financial asset held at fair value through profit or loss	3	
	(30,820)	**(47,942)**
Increase in inventories	(1)	(3)
Increase in receivables	(3,317)	(8,240)
Increase in payables	30,371	16,464
Decrease in deferred income	(93,370)	(47,180)
Cash used in operations	**(97,137)**	**(86,901)**
Interest paid	(1,026)	(42)
Interest received	3,252	903
Income taxes paid	(7)	(191)
Net cash flows used in operating activities	**(94,918)**	**(86,231)**
Purchase of property, plant and equipment	(4,259)	(2,986)
Purchase of and expenditure in intangible fixed assets	(1,533)	(233)
Proceeds from disposal of property, plant and equipment	1	–
Decrease in restricted cash	–	6,453
Proceeds from sale of financial asset held at fair value through profit or loss	134	372
Net cash flows generated / used (–) in investing activities	**(5,657)**	**3,605**

	Nine months ended 30 September	
(thousands of €)	2018	2017
Repayment of obligations under finance leases and other debts	(6)	(50)
Proceeds from capital and share premium increases, gross amount	296,188	363,924
Issue costs paid related to capital and share premium increases	(15,008)	(15,790)
Proceeds from capital and share premium increases from exercise of warrants	5,261	4,935
Net cash flows generated in financing activities	**286,435**	**353,018**
Effect of exchange rate differences on cash and cash equivalents	**6,596**	**(24,777)**
Increase in cash and cash equivalents	**192,456**	**245,615**
Cash and cash equivalents at end of the period	**1,343,668**	**1,218,856**

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

Consolidated statements of changes in equity

(unaudited)

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accumul. losses	Total
On 1 January 2017	**223,928**	**649,135**	**(1,090)**	**(1,000)**	**(112,272)**	**758,701**
Net loss					(85,855)	(85,855)
Other comprehensive income			(569)	(62)		(631)
Total comprehensive income			**(569)**	**(62)**	**(85,855)**	**(86,486)**
Share-based compensation					11,697	11,697
Issue of new shares	23,331	340,593				363,924
Share issue costs	(15,837)					(15,837)
Exercise of warrants	1,770	3,165				4,935
On 30 September 2017	**233,192**	**992,893**	**(1,659)**	**(1,062)**	**(186,432)**	**1,036,932**
On 31 December 2017	**233,414**	**993,025**	**(1,754)**	**(1,260)**	**(211,441)**	**1,011,983**
Change in accounting policy (modified retrospective application IFRS 15)					(83,220)	(83,220)
Change in accounting policy (modified retrospective application IFRS 9)				619	(619)	–
Restated total equity at 1 January 2018	**233,414**	**993,025**	**(1,754)**	**(641)**	**(295,280)**	**928,764**
Net loss					(44,215)	(44,215)
Other comprehensive income			156	–		156
Total comprehensive income			**156**	**–**	**(44,215)**	**(44,059)**
Share-based compensation					18,001	18,001
Issue of new shares	16,021	280,167				296,188
Share issue costs	(15,932)					(15,932)
Exercise of warrants	2,169	3,092				5,261
On 30 September 2018	**235,672**	**1,276,284**	**(1,598)**	**(641)**	**(321,495)**	**1,188,222**

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

Notes to the unaudited consolidated interim financial statements for the first nine months of 2018

Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and as issued by the IASB. The condensed consolidated interim financial statements do not contain all information required for an annual report and should therefore be read in conjunction with Galapagos' Annual Report 2017.

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

Significant accounting policies

There were no significant changes in accounting policies applied by us in these condensed consolidated interim financial statements compared to those used in the most recent annual consolidated financial statements of 31 December 2017, except for the adoption of new standards and interpretations described below.

- IFRS 15 Revenue from Contracts with Customers, and clarifications on this IFRS (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments, and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018)

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

IFRS 15 Revenue from Contracts with Customers.

We adopted IFRS 15 on 1 January 2018, using the modified retrospective transition method. The adoption of the new standard resulted in a timing difference of revenue recognition between prior accounting standards and IFRS 15. The cumulative effect of initially applying the new revenue standard was recognized as an adjustment to the opening balance of accumulated deficit and deferred income.

To determine revenue recognition for arrangements that we determine are within the scope of IFRS 15, we perform the following five steps: (i) identify the contract; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; (v) recognize revenue when (or as) the entity satisfies a performance obligation.

As a consequence of the adoption of the new IFRS standard on 1 January 2018, our consolidated accumulated losses and deferred income were both increased for an amount of €83.2 million, reflecting the impact of the new standard on the revenue recognition of the considerations received related to our ongoing license and collaboration agreements. Differences in accounting treatment compared to the former standard were identified for (i) the milestones payments previously received in the scope of our license and collaboration agreement for filgotinib with Gilead, and (ii) the upfront and milestone payments received related to the license and collaboration agreement with AbbVie for cystic fibrosis, which were fully recognized in revenue in the previous years under the former applicable IFRS standard. The collaboration agreement with AbbVie for cystic fibrosis was modified in 2016. Under IAS 18 this modification was accounted for as a separate contract. However, based on the contract modification guidance under IFRS 15 we determined that the upfront payment should be recognized over the term of the modified contract. Finally, the deferred income balance related to the license fee received from Servier in the scope of our license and collaboration agreement in the field of osteoarthritis was fully reclassified to equity as a consequence of the adoption of the new standard. We refer to the revenues disclosure for further detail.

IFRS 9 Financial Instruments. The only financial instrument held by the company subject to change in accounting treatment following the adoption of IFRS 9 – Financial Instruments, was the equity investments in a French biotech company classified as available-for-sale financial asset. At 31 December 2017, our balance sheet held shares of this company which were acquired in 2016. The closing price of the share on Euronext as at the end of the year 2017 led to cumulative fair value loss amounting to €0.6 million recognized in other comprehensive income following the accounting treatment applied under IAS 39. Following the adoption of the new IFRS standard on 1 January 2018, and considering that the financial asset should be classified and measured at fair value, with changes in fair value recognized in profit or loss, the cumulative fair value loss of €0.6 million previously recognized in other comprehensive income was reclassified to accumulated losses. Fair value gain amounting to €0.2 million was additionally recognized in profit or loss for the first nine months of 2018.

Other new standards and interpretations applicable for the annual period beginning on 1 January 2018 did not have any impact on our condensed consolidated interim financial statements.

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

Management judgments and estimates

Preparing interim financial statements in compliance with IFRS requires management to make judgments and estimates and to use assumptions that may significantly influence the reported amounts of assets and liabilities, the notes on contingent assets and liabilities on the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates. We refer to note 3 of our 2017 annual report, except for revenue recognition under the new standard IFRS 15 adopted on 1 January 2018, which is described below.

Evaluating the criteria for revenue recognition under license and collaboration agreements requires management's judgement to assess and determine the following:

- The nature of the contractual performance obligations and whether they are distinct or should be combined with other performance obligations.
- The pattern of transfer of each promised license and/or R&D activities identified in the contract, sometimes using input or output methods which are based on key assumptions such as forecasted costs and development timelines of our license and collaboration agreements for the assessment of satisfaction of the performance obligation.

The above may significantly influence our financial statements.

We applied the five step model detailed in IFRS 15 to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met. The positions taken in applying this standard are detailed below.

The substance of our current arrangements is that Galapagos is licensing certain of its intellectual property to collaboration partners and conducts research and development ("R&D") activities. Such activities result in a service that is the output of Galapagos' ordinary activities. We generate revenue through a number of these arrangements which include license fees, milestone payments, reimbursement income and future sales based milestones and sales based royalties. We assessed that the revenues from our current material licensing and collaboration agreements are in the scope of IFRS 15.

Collaboration with Gilead

We concluded as follows:

- We assessed that there is one single performance obligation under the new standards of 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 transaction price of our agreement with Gilead 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 only when achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues as our program is still in Phase 3 of development.
- 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 percentage of costs incurred for this program that are completed each period (percentage of completion method).
- Costs reimbursements received from Gilead are to be recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of our stake of the R&D activities of our ongoing license and collaboration agreements.

Collaboration with AbbVie

We concluded as follows:

- We assessed that there is one single performance obligation under the new standards of IFRS 15: the transfer of a license combined with performance of R&D activities. This is because we considered that the license is not capable of being distinct and is not distinct in the context of the contract.
- The transaction price of our agreement with AbbVie 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 only when achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues as our program is still in Phase 1 & 2 of development.
- 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 could be recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of our stake of the R&D activities of our ongoing license and collaboration agreements.

Collaboration with Servier

The deferred income balance on 31 December 2017 related to the license fee received from Servier in the scope of our license and collaboration agreement in the field of osteoarthritis (€5.4 million) was fully reclassified to equity as a consequence of the adoption of the new standard. Any increase in the transaction price from future potential development and regulatory milestones, sales based milestones and royalties, will be allocated to the license which was transferred at a point in time and will be fully recognized as revenue at a point in time when achieved, as we assessed that the license confers a right to use the intellectual property to Servier.

Collaboration with Novartis

We concluded as follows:

- We assessed that there are two distinct performance obligations under the new standards of IFRS 15: the transfer of a license and the performance of R&D activities. This is because we considered that the license is capable of being distinct and is distinct in the context of the contract.
- The transaction price of our agreement with Novartis 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 only when achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues as our program is still in Phase 2 of development. In addition, the agreed consideration for the R&D activities that Galapagos will still perform up until the end of the Phase 2 of clinical development was also included in the transaction price.
- The transaction price has been allocated to each of the two distinct performance obligations based on our assessment of their relative stand-alone selling price, this for the R&D activities and using the residual approach to allocate the remainder of the transaction price to the license. Revenues are recognized at a point in time for the transaction price allocated to the transfer of the license as we assessed that the license confers a right to use the intellectual property to Novartis. For the transaction price allocated to the second performance obligation, the R&D activities, revenues are recognized over the estimated service period based on a pattern that reflects the transfer of our services to complete satisfaction of this performance obligation.
- We have chosen an input model to measure the satisfaction of the performance obligation of the R&D activities that considers a percentage of costs incurred for this program that are completed each period (percentage of completion method).
- Costs reimbursements received from Novartis will be recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of the performance of the R&D activities.

Seasonality

The impact of seasonality or cyclicality on our operations is not regarded as applicable to the unaudited condensed consolidated interim financial statements.

Details of the unaudited condensed consolidated interim results

Revenues and other income

Revenues

The following table summarizes our revenues for the nine months ended 30 September 2018 and 2017.

	Nine months ended 30 September	
(thousands of €)	**2018**	2017
Recognition of non-refundable upfront payments and license fees	124,616	53,526
Milestone payments	46,219	25,918
Reimbursement income	3,872	2,319
Other revenues	7,750	6,108
Total revenues	**182,457**	**87,870**

The following table summarizes the revenue recognition of the upfront payments, license fees and milestones payments for the nine months ended 30 September 2018 and 2017, as well as the impact of the adoption of IFRS 15. The revenues recognized for the nine months ended 30 September 2018 are presented under the IFRS 15 standard as well as under the former applicable IAS 18 standard, with a comparison to the first nine months of 2017 under the former applicable IAS 18 standard.

				IAS 18		IFRS 15	IFRS 15	IAS 18	IAS 18	IFRS 15
Agreement	Consideration	Consideration	Collaboration start date	Outstanding balance in deferred income as at 31 December 2017	Deferred income reclassified from equity following adoption of IFRS 15	Outstanding balance in deferred income as at 1 January 2018	Revenue recognized, nine months ended 30 September 2018	Revenue recognized, nine months ended 30 September 2018	Revenue recognized, nine months ended 30 September 2017	Outstanding balance in deferred income as at 30 September 2018
	(thousands of $)	(thousands of €)		(thousands of €)						
Revenue recognition of considerations received prior to 31 December 2017										
Gilead collaboration agreement for filgotinib – Upfront payment	300,000	275,558	January 2016	187,449	–	187,449	63,384	63,384	46,632	124,066
Gilead collaboration agreement for filgotinib – Subscription agreement(*)	N.A.	39,003	January 2016	26,532	–	26,532	8,971	8,971	6,600	17,561
Servier collaboration agreement for osteoarthritis – License fee	N.A.	6,000	June 2010	5,362	(5,362)	–	–	1,149	293	–
AbbVie collaboration agreement for CF – Upfront payment	45,000	34,001	September 2013	–	14,872	14,872	4,761	–	–	10,111
Total upfront payments and license fees:				**219,343**	**9,510**	**228,853**	**77,116**	**73,504**	**53,526**	**151,737**
Gilead collaboration agreement for filgotinib – Milestone payments	70,000	64,435	January 2016	–	43,832	43,832	14,821	–	9,354	29,011
AbbVie collaboration agreement for CF – Milestone payments	77,500	68,310	September 2013	–	29,878	29,878	9,565	–	16,564	20,313
Total milestones:				**–**	**73,710**	**73,710**	**24,387**	**–**	**25,918**	**49,324**
Total:				**219,343**	**83,220**	**302,563**	**101,502**	**73,504**	**79,444**	**201,061**

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

				IAS 18		IFRS 15	IFRS 15	IAS 18	IAS 18	IFRS 15
Agreement	Consideration	Consideration	Collaboration start date	Outstanding balance in deferred income as at 31 December 2017	Deferred income reclassified from equity following adoption of IFRS 15	Outstanding balance in deferred income as at 1 January 2018	Revenue recognized, nine months ended 30 September 2018	Revenue recognized, nine months ended 30 September 2018	Revenue recognized, nine months ended 30 September 2017	Outstanding balance in deferred income as at 30 September 2018
	(thousands of $)	(thousands of €)		(thousands of €)						
Revenue recognition of considerations in the nine months ended 30 September 2018										
Novartis collaboration agreement for MOR106 – Upfront payment	N.A.	47,500	September 2018				47,500			–
Total upfront payments and license fees:							**47,500**			**–**
Gilead collaboration agreement for filgotinib – Milestone payments	15,000	12,418	January 2016				6,827			5,591
AbbVie collaboration agreement for CF – Milestone payments	10,000	8,548	September 2013				6,006			2,542
Servier collaboration agreement for osteoarthritis – Milestone payment	N.A.	9,000	June 2010				9,000			–
Total milestones:							**21,833**			**8,133**
Total:							**69,333**			**8,133**
Grand total: upfront payments and license fees and milestones							**170,835**			**209,194**

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

The adoption of IFRS 15 Revenue from contracts with customers resulted in a timing difference of revenue recognition between IAS 18 and IFRS 15 which negatively impacted the accumulated losses and increased the amount of deferred income (contract liabilities) by an amount of €83.2 million, as shown in the table above (column "Deferred income reclassified from equity following adoption of IFRS 15"). We elected the modified retrospective method for the transition which foresees that prior period figures remain as reported under the previous standard and the cumulative effect of applying IFRS 15 is recognized as an adjustment to the opening balance of equity as at the date of initial application (beginning of the year 2018).

For the first nine months of 2018, €94.0 million of deferred income related to the Gilead collaboration agreement were recognized in revenue under IFRS 15 in function of costs incurred, applying the percentage of completion method. This revenue recognition consisted of (i) €63.4 million related to the upfront license fee, (ii) €9.0 million related to the deferred income triggered by the accounting treatment of the share subscription agreement under IAS 39 Financial Instruments: recognition and measurement, (iii) €14.8 million related to milestone payments received prior to 31 December 2017, and (iv) €6.8 million related to milestone payments received in the first nine months of 2018. The outstanding balance of deferred income from the Gilead collaboration agreement at the end of September 2018 amounted to €176.2 million of which €16.5 million was reported as non-current deferred income.

For the first nine months of 2018, €20.4 million of deferred income related to the AbbVie collaboration agreement were recognized in revenue under IFRS 15 in function of costs incurred, applying the percentage of completion method. This revenue recognition consisted of (i) €4.8 million related to the upfront license fee, (ii) €9.6 million related to milestone payments received in previous years and (iii) €6.0 million related to milestones achieved in the first nine months of 2018. The outstanding balance of deferred income from the AbbVie collaboration agreement at the end of September 2018 amounted to €33.0 million of which €6.6 million was reported as non-current deferred income.

As of the end of the reporting period of the first nine months of 2018, no conclusion had been reached with regard to the review of our collaboration with AbbVie. Consequently, our revenue recognition method remained unchanged.

On 19 July 2018, MorphoSys and Galapagos announced signing of a global exclusive license agreement with Novartis covering the development and commercialization of the joint program MOR106, a monoclonal antibody directed against IL-17C, which will be developed further in atopic dermatitis (AtD) and potentially other indications. MorphoSys and Galapagos received equal share of an upfront payment of €95 million and are entitled to potential future milestone payments of up to approximately €850 million plus royalties up to low-teens to low-twenties. Novartis will bear all future research, development, manufacturing and commercialization costs related to MOR106.

For the first nine months of 2018 the upfront payment received from Novartis of €47.5 million related to the MOR106 program and the milestone payment of €9.0 million related to the collaboration agreement for osteoarthritis with Servier, were fully recognized in revenue.

Other revenues

Other revenues mainly consisted in service revenues from our fee-for-service business for €7.7 million, as reported under the segment information disclosure below.

Other income

The following table summarizes our other income for the nine months ended 30 September 2018 and 2017.

	Nine months ended 30 September	
(thousands of €)	2018	2017
Grant income	1,314	690
Other income	21,309	17,794
Total other income	**22,623**	**18,484**

Other income increased to €22.6 million for the first nine months of 2018 from €18.5 million for the first nine months of 2017, mainly driven by higher income from R&D incentives.

Segment information

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

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

(1) Unallocated expenses consist of expenses for warrant plans under IFRS 2 Share based payments.
(2) Financial results and taxes information are not being provided to management in our management reporting as segment results and therefore, their aggregate amount is disclosed at the level of the group in our segment reporting.

	Segment information for the nine months ended 30 September 2017			
(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	81,830	6,040		87,870
Internal revenue		4,024	(4,024)	–
Other income	18,469	14		18,484
Revenues & other income	**100,299**	**10,078**	**(4,024)**	**106,354**
Segment result	**(50,774)**	**(81)**		**(50,855)**
Unallocated expenses[1]				(11,697)
Operating loss				**(62,552)**
Financial (expenses) / income[2]				(23,142)
Result before tax				**(85,694)**
Income taxes[2]				(161)
Net loss				**(85,855)**

(1) Unallocated expenses consist of expenses for warrant plans under IFRS 2 Share based payments.
(2) Financial results and taxes information are not being provided to management in our management reporting as segment results and therefore, their aggregate amount is disclosed at the level of the group in our segment reporting.

The basis of accounting for any transactions between operating segments is consistent with transactions with third parties.

Liquid assets position

Cash and cash equivalents totaled €1,343.7 million on 30 September 2018.

Cash and cash equivalents at 30 September 2018 comprised cash and cash at banks, short term bank deposits and money market funds that are readily convertible to cash and are subject to an insignificant risk of changes in value. Our cash management strategy may allow short term deposits with an original maturity exceeding three months while monitoring all liquidity aspects. Cash and cash equivalents comprised €626.8 million of term deposits with an original maturity longer than three months but which are available upon one month notice period. Cash at banks were mainly composed of savings accounts and current accounts. We maintain our bank deposits in highly rated financial institutions to reduce credit risk. Cash invested in highly liquid money market funds represented €149.4 million and aim at meeting short-term cash commitments, while reducing the counterparty risk of investment.

	30 September	31 December
(thousands of €)	**2018**	**2017**
Cash at banks	567,506	288,052
Term deposits	626,776	713,446
Money market funds	149,382	149,711
Cash on hand	3	3
Total cash and cash equivalents	**1,343,668**	**1,151,211**

On 30 September 2018, our cash and cash equivalents included $231.0 million held in U.S. dollars which could generate foreign 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.

Finally, our balance sheet held R&D incentives receivables from the French government (*Crédit d'Impôt Recherche*) amounting to €36.2 million as of 30 September 2018, to be received in four yearly tranches. Our balance sheet also held R&D incentives receivables from the Belgian Government amounting to €44.3 million as at 30 September 2018.

Capital increase

On 30 September 2018, Galapagos NV's share capital was represented by 54,299,136 shares. All shares were issued, fully paid up and of the same class. The below table summarizes our capital increases for the nine-month period ended 30 September 2018.

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants	Closing share price on date of capital increase
On 1 January 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)		(15,008)		(15,008)		
Offering expenses still to be paid at 30 September 2018		(924)		(924)		
Total U.S. public offering	2,961,373	89	280,167	280,256		99.68
On 30 September 2018	54,299,136	235,672	1,276,284	1,511,956		

Contingencies and commitments

Contractual obligations and commitments

We entered into lease agreements for office and laboratories which qualify as operating leases. We also have certain purchase commitments principally with contract research organizations and certain collaboration partners.

On 30 September 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	27,925	4,724	9,391	6,597	7,213
Purchase commitments	195,518	119,792	66,228	9,498	–
Total contractual obligations & commitments	**223,442**	**124,515**	**75,619**	**16,095**	**7,213**

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

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

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 €88.5 million at 30 September 2018 (€129.0 million at 31 December 2017), for which we have direct purchase commitments of €5.0 million at 30 September 2018 (€10.1 million at 31 December 2017) reflected in the tables above.

Contingent liabilities and assets

We refer to our annual report 2017 for contingent liabilities and assets.

Related party transactions

On 19 April 2018, the members of the board of directors and the executive committee were offered new warrants under Warrant Plan 2018, subject to acceptance. The final number of accepted warrants under Warrant Plan 2018 was enacted by notary deed on 24 August 2018. Under Warrant Plan 2018, the warrants have an exercise term of eight years as of the date of the offer. The exercise price of the warrants is €79.88. Each warrant gives the right to subscribe for one new Galapagos share. As regards the directors, the warrants vest over a period of 36 months at a rate of 1/36th per month. As regards the other beneficiaries, the warrants vest only and fully on the first day of the fourth calendar year following the calendar year in which the grant was made. The warrants are not transferable and can in principle not be exercised prior to 1 January 2022.

The table below sets forth the number of warrants accepted under Warrant Plan 2018 by each member of the board and executive committee in office during the first nine months of 2018:

Name	Title	Number of 2018 warrants accepted
Onno van de Stolpe	Chief Executive Officer; Executive director	100,000
Raj Parekh	Non-executive director; Chairman of the board	15,000
Werner Cautreels	Non-executive director	7,500
Harrold van Barlingen(*)	Non-executive director	–
Howard Rowe	Non-executive director	7,500
Katrine Bosley	Non-executive director	7,500
Christine Mummery	Non-executive director	7,500
Mary Kerr	Non-executive director	7,500
Piet Wigerinck	Chief Scientific Officer	60,000
Bart Filius	Chief Operating Officer; Chief Financial Officer	80,000
Andre Hoekema	Chief Business Officer	50,000
Walid Abi-Saab	Chief Medical Officer	60,000

(*) Dr. Van Barlingen's mandate as director of Galapagos NV ended on 24 April 2018.

During the first nine months of 2018, there were no changes to related party transactions disclosed in the 2017 annual report that potentially had a material impact on the financials of the first nine months of 2018.

Events after the end of the reporting period

On 3 October 2018, 135,485 warrants were exercised at various exercise prices, resulting in a share capital increase (including issuance premium) of €2.0 million and the issuance of 135,485 new shares. On 3 October 2018, Galapagos NV's share capital was represented by 54,434,621 shares. All shares were issued, fully paid up and of the same class.

Approval of interim financial statements

The interim financial statements were approved by the board of directors on 22 October 2018.