



Report of the statutory auditor

Statutory auditor's report to the shareholders' meeting of Galapagos NV for the year ended 31 December 2018 – Consolidated financial statements

The original text of this report is in Dutch

In the context of the statutory audit of the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report. This report includes our report on the consolidated financial statements and the other legal and regulatory requirements. These parts should be considered as integral to the report.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 25 April 2017, in accordance with the proposal of the board of directors issued upon recommendation of the audit committee. Our mandate will expire on the date of the shareholders' meeting deliberating on the financial statements for the year ending 31 December 2019. We have performed the statutory audit of the consolidated financial statements of Galapagos NV for 13 consecutive years. We are the statutory auditor of Galapagos NV for 19 consecutive years.

Report on the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 1 439 496 (000) EUR and the consolidated statement of comprehensive income shows a loss for the year then ended of 29 155 (000) EUR.

In our opinion, the consolidated financial statements give a true and fair view of the group's net equity and financial position as of 31 December 2018 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA), as applicable in Belgium. In addition, we have applied the International Standards on Auditing approved by the IAASB applicable to the current financial year, but not yet approved at national level. Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Revenue recognition for R&D license and collaboration agreements

Revenue for the year ended December 31, 2018 amounts to 289 million EUR, of which 279 million EUR relates to revenue from R&D license and collaboration agreements. These R&D license and collaboration agreements include multiple promises with consideration in the form of upfront payments, developmental milestone payments, reimbursement income, sales-based milestones and royalties. Management has performed a detailed assessment of all R&D license and collaboration agreements to determine the proper revenue accounting treatment under IFRS 15. The determination of revenue recognition for these contracts is complex and required significant management judgment in the following areas:

- Determination of whether the R&D license and collaboration agreement and any subsequent amendment was within the scope of IFRS 15 and whether the agreement should be considered by itself or together with other agreements entered into at or near the same time with the same customer.
- Identification of the distinct performance obligations.
- Determination of the transaction price, taking into account the variable consideration components.
- Allocation of the transaction price to the distinct performance obligations.
- Determination of whether the performance obligations were met at a point in time or over time.
- Appropriateness of the measurement method used to determine the amount of revenue recognized for performance obligations recognized over time.

How our audit addressed the key audit matters

Our audit procedures to address all relevant assumptions for revenue recognition included the following:

- We tested the effectiveness of controls over the determination of the revenue accounting treatment for new and existing R&D license and collaboration agreements that were evaluated by management under IFRS 15.
- We read all R&D license and collaboration agreements and management's accounting position papers to understand the terms of each contract and evaluate management's conclusions.
- We tested the accuracy of the adjustment recorded on January 1, 2018 to reflect the cumulative effect of the adoption of IFRS 15 under the modified retrospective approach by recalculating the adjustment and comparing the inputs to the accounting conclusions taken by management in their position papers.

In relation to management's critical judgments in the determination of revenue recognition for each R&D license and collaboration agreement, our audit procedures included the following, among others:

Determination of whether contracts were in the scope of IFRS 15

- We read the key terms of each contract to understand the nature of the R&D license and collaborations agreements and the responsibilities of each party in the contract. We consulted with our IFRS specialists to evaluate whether the collaboration agreements were within the scope of IFRS 15.

Identification of distinct performance obligations

- We tested management's identification of distinct performance obligations by evaluating whether the underlying license, services, or both were highly interdependent and interrelated. We read minutes of steering committees meetings and management's position papers to understand the customer's intended use of the licenses and R&D services in each collaboration.



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Determination of the transaction price, including variable consideration

- We compared the transaction prices to the consideration expected to be received based on current rights and obligations specified in the R&D license and collaboration agreements and any modifications that were agreed upon with the customers. We considered industry practice in the determination of the most likely amount of any variable consideration.

Allocation of the transaction price to distinct performance obligations

- To the extent an R&D license and collaboration agreement did not represent a single distinct performance obligation, we tested the allocation of the transaction price to each distinct performance obligation by comparing the relative standalone selling prices to the selling prices of similar R&D services. This involved a comparison against internal R&D rates as well as observable market prices.

Determination of point in time vs. over time revenue recognition

- We read the terms and conditions of each R&D license and collaboration agreement and consulted with our IFRS specialists to assess whether continuous transfer of control to the customer occurred as progress was made toward fulfilling each identified performance obligation.

Appropriateness of the measurement method used to determine revenue recognized over time

- We evaluated management's use of an input model based on percentage of costs incurred to determine revenue recognition by comparing actual costs incurred to development plans and budgets in order to assess whether the percentage of completion method represents the progress made towards fulfilling the performance obligation.
- We tested the progress of each R&D license and collaboration agreement and the corresponding revenue recognized as of December 31, 2018 by interviewing project and finance management, reading minutes of steering committees, and analyzing project management reporting.

Responsibilities of the board of directors for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of consolidated financial statements in Belgium.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes any public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, and other matters disclosed in the annual report on the consolidated financial statements.



Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (revised in 2018) to the International Standards on Auditing (ISA) as applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements and other matters disclosed in the annual report on the consolidated financial statements, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other matters disclosed in this report

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for the period ended 31 December 2018 and it has been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our statutory audit of the consolidated financial statements we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement. We do not express and will not express any kind of assurance on the annual report.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in the the directors' report on the consolidated financial statements that is part of section Corporate Social Responsibility. The ambition of the company is to report the non-financial information in the future in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards (SRS) and European Federation of Financial Analysts Societies Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation. We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with this Global Reporting Initiative (GRI) Sustainability Reporting Standards (SRS) and European Federation of Financial Analysts Societies Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation. Furthermore, we do not express any assurance on individual elements that have been disclosed in this non-financial information.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the group during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

- This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Zaventem, 29 March 2019

The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL

Represented by Gert Vanhees