



Report of the statutory auditor

Statutory auditor's report to the shareholders' meeting of Galapagos NV for the year ended 31 December 2019 - 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 14 consecutive years. We are the statutory auditor of Galapagos NV for 20 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 2019, 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 6 068 609 (000) EUR and the consolidated statement of comprehensive income shows a profit for the year then ended of 149 845 (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 2019 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.

Determination and allocation of the transaction price as a result of the Transformative Research and Development Collaboration – Refer to Notes 2, 4, 6, and 24 to the financial statements

Key Audit Matter Description

The Company entered into a Transformative Research and Development Collaboration with Gilead (“the Collaboration”), resulting in the receipt of an upfront payment of EUR 3.65 billion and an equity investment of EUR 960 million, including the proposed issuance of warrant A and warrant B (jointly referred to as “the Financial Instruments”) by the Company to Gilead, subject to shareholder approval. The timing of this being recognized prior to shareholder approval was a critical judgement as it impacted the determination of the transaction price and whether the transaction was within the scope of *IFRS 9 – Financial Instruments*.

As part of the IFRS-15 analysis, the Company concluded the transaction price was impacted by the Subscription Agreement, including contractual warrant A and warrant B that had been entered into simultaneously. The Company identified three performance obligations capable of being distinct in the context of the contract, for which the stand-alone selling price was determined, using valuation models, including both observable and unobservable inputs. The revenue related to these performance obligations is recognized either at a point in time or over time, based on the Company’s conclusion on the satisfaction of the respective performance obligation-patterns.

The evaluation of the reasonableness of management’s estimates and assumptions related to these specific critical judgements and accounting estimates require a high degree of auditor judgement and a significant degree of extra audit effort, including the need to involve our accounting and valuation Specialists.

The determination of the transaction price, together with the allocation to those distinct performance obligations and the subsequent revenue recognition pattern is complex and required critical judgements in the following areas:

Determination of the transaction price

- Interdependency between the Financial Instruments and the transaction price in the Collaboration

Identification of distinct performance obligations

- Assessment of the existence of a significant financing component related to the Drug Discovery Platform.

Allocation of the transaction price to the distinct performance obligations

- Determination of the stand-alone selling price of GLPG1690, including the appropriateness of the valuation model and the unobservable inputs.
- Determination of the stand-alone selling price of the Filgotinib amendment, including the appropriateness of the margin, being a non-cash consideration, included in the cost-plus margin approach.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to address all critical judgements related to the Collaboration included reading the Subscription Agreement, Option, License and Collaboration Agreement and the First Amendment to the License and Collaboration Agreement and management’s accounting position paper to understand the terms of each contract and evaluate management’s conclusions.



In relation to management's critical judgements related to the Collaboration, our audit procedures included the following:

Determination of the transaction price

- We tested the effectiveness of controls over the determination of the transaction price, as part of management's controls over the application of *IFRS 15 – Revenue from Contracts with Customers* and *IFRS 9 – Financial Instruments*, including the interdependency of the Financial Instruments.
- With the assistance of our accounting Specialists, we evaluated the impact of the interdependency and the timing of recognition of the Financial Instruments (*IFRS 9 – Financial instruments*) on the transaction price in the Collaboration (*IFRS 15 – revenue from Customers*), including the impact of subsequent re-measurement of these Financial instruments on the transaction price.

Identification of distinct performance obligations

- We tested the effectiveness of controls over the identification of distinct performance obligations, as part of management's controls over the application of *IFRS 15 – Revenue from Contracts with Customers*, including those controls addressing the existence of a significant financing component.
- We tested management's identification of distinct performance obligations by evaluating whether the underlying goods, services, or both were highly interdependent and interrelated and the absence of a significant financing component for the Drug Discovery Platform performance obligation. We read minutes of committee meetings and management's position papers to understand the customer's intended use of the licenses and other obligations included in the Collaboration and whether or not the elements included in the Collaboration give rise to a significant financing component for the Drug Discovery Platform performance obligation.

Allocation of the transaction price to the distinct performance obligations

- We tested the effectiveness of controls over the allocation of the transaction price to the distinct performance obligations, including management's controls over the valuation of GLPG1690 and the Filgotinib amendment.
- With the assistance of our valuation Specialists, we evaluated the reasonableness of the (i) valuation methodology and (ii) unobservable inputs of most significance to the valuation, being estimated market share and size, peak sales and probability of success, used to determine the stand-alone selling price by comparing our independent estimates, derived from external data on the disease area and competitive landscape, to those included by management in the valuation model of GLPG1690. We performed sensitivity analysis on the variances identified to determine whether the Company's valuation was within an acceptable range.
- We tested management's valuation methodology on the Filgotinib amendment, by assessing the appropriateness of the non-cash consideration, being the increased involvement in the global strategy of filgotinib and the broader commercialization role in the Benelux and EU5 countries, reflected as margin in the cost-plus-margin approach. We have read minutes of committee, management position papers, and have inquired with management, in order to (i) understand management basis for conclusion on the appropriateness of the non-cash consideration, (ii) assess any contradictory evidence.

Fair Value Measurement of the Financial Instruments arising from the Collaboration – Refer to Notes 2, 4, 6, and 9 to the financial statements

Key Audit Matter Description

As a result of the Collaboration, the Company committed to issue warrant A and warrant B, jointly referred to as "the Warrants", to Gilead.

As the fair value measurement of the Warrants is based on complex models and unobservable inputs, these are classified as Level 3 assets or liabilities.

The valuation of the Warrants classified as Level 3 is inherently subjective, and involves the use of complex models, including the Longstaff-Schwartz Monte Carlo model, and various unobservable inputs, including the discount for lack of marketability and estimated strike price.



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Given management uses complex models and unobservable inputs to estimate the fair value of Level 3 assets and liabilities, this required a high degree of auditor judgement and a significant incremental audit effort, including the need to involve our valuation Specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures included the following:

- We tested the effectiveness of controls over management's valuation of the Warrants, including those related to assessing the appropriateness of the unobservable inputs and the valuation model applied.
- With the assistance of our valuation Specialists, we (i) evaluated the appropriateness of the valuation model, (ii) evaluated the appropriateness of unobservable inputs determined by management (discount for lack of marketability), and (iii) developed independent fair value estimates.

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.

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. The scope of the audit of annual accounts does not comprise any assurance regarding the future viability of the company nor regarding the efficiency or effectiveness demonstrated by the board of directors in the way that the company's business has been conducted or will be conducted.

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;



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- 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 those charged 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 those charged with 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 those charged with 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 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 information disclosed in the annual report on the consolidated financial statements

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 that same year and has been established in accordance with the requirements of article 3:32 of the Code of companies and associations.



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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.

The non-financial information as required by article 3:32, § 2 of the Code of companies and associations, has been disclosed in the directors' report on the consolidated financial statements that is part of section Corporate Social Responsibility. This non-financial information has been established by the company in accordance with the Sustainable Development Goals ("SDGs"). In accordance with article 3:80, §1, 5° of the Code of companies and associations we do not express any opinion on the question whether this non-financial information has been established in accordance with these SDGs.

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 3:65 of the Code of companies and associations, 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, 27 March 2020

The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL

Represented by Gert Vanhees