



Galapagos NV

Statutory auditor's report to the shareholders' meeting for the year ended
31 December 2019 - Annual accounts

The original text of this report is in Dutch

Statutory auditor's report to the shareholders' meeting of Galapagos NV for the year ended 31 December 2019 - Annual accounts

In the context of the statutory audit of the annual accounts of Galapagos NV (the "company"), we hereby submit our statutory audit report. This report includes our report on the annual accounts 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 annual accounts for the year ending 31 December 2019. We have performed the statutory audit of the annual accounts of Galapagos NV for 20 consecutive periods.

Report on the annual accounts

Unqualified opinion

We have audited the annual accounts of the company, which comprises the balance sheet as at 31 December 2019 and the income statement for the year then ended, as well as the explanatory notes. The annual accounts show total assets of 6 003 492 (000) EUR and the income statement shows a profit for the year ended of 379 019 (000) EUR.

In our opinion, the annual accounts give a true and fair view of the company's net equity and financial position as of 31 December 2019 and of its results for the year then ended, in accordance with the financial reporting framework 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 annual accounts" section of our report. We have complied with all ethical requirements relevant to the statutory audit of the annual accounts 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 annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters | How our audit addressed the key audit matters |
|--|--|
| <p>Revenue recognition</p> <ul style="list-style-type: none"> Revenue recognition involves revenue from license and R&D collaboration agreements. These collaboration agreements include multiple promises with consideration in the form of upfront payments, developmental milestone payments, reimbursement income, sales-based milestones and royalties. The determination of revenue recognition for these R&D collaboration agreements were an important element in our audit because of the relatively more complex and industry specific nature and variety of these agreements. | <p>We discussed revenue recognition principles with Management. Our audit procedures included testing relevant controls in regard of revenue recognition. We read the relevant agreements to assess whether the company correctly applied the revenue recognition principles and we considered and challenged the reasonableness of the judgements made by Management in calculating recognized revenue.</p> <p>We tested a sample of transactions of revenue recognized in the income statement (revenue) and the balance sheet (deferred income) for accurate calculation and appropriate recognition based on the agreements, recognition principles and managements estimates and judgements.</p> <ul style="list-style-type: none"> The company's disclosures about the revenue recognition are included in VOL 6.10 and in the valuation rules related to revenue in VOL 6.19 of the annual accounts. |

Responsibilities of the board of directors for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of the annual accounts in accordance with the financial reporting framework applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the company'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 company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 the basis of these annual accounts.

During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of annual accounts 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 annual accounts, 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 company'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 company'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 annual accounts 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 company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual accounts, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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 annual accounts 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 annual accounts, for the documents to be filed according to the legal and regulatory requirements, for maintaining the company's accounting records in compliance with the legal and regulatory requirements applicable in Belgium, as well as for the company's compliance with the Companies Code, the Code of companies and associations and the company's articles of association.

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 annual accounts and other matters disclosed in the annual report, those documents to be filed according to the legal and regulatory requirements and compliance with certain obligations referred to in the Companies Code, the Code of companies and associations and the articles of association, as well as to report on these matters.

Aspects regarding the directors' report and other information disclosed in the annual report

In our opinion, after performing the specific procedures on the directors' report on the annual accounts, the directors' report on the annual accounts is consistent with the annual accounts for that same year and has been established in accordance with the requirements of article 3:5 and 3:6 of the Code of companies and associations.

In the context of our statutory audit of the annual accounts 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 annual accounts 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 3:6, § 4 of the Code of companies and associations, has been disclosed in the directors' report. This non-financial information has been established by the company in accordance with the Sustainable Development Goals ("SDGs"). In accordance with article 3:75, § 1, 6° 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.

Statement on the social balance sheet

The social balance sheet, to be filed at the National Bank of Belgium in accordance with article 3:12, § 1, 8° of the Code of companies and associations, includes, both in form and in substance, all of the information required by this Code and is free from any material inconsistencies with the information available to us in the context of our mission.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the company during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit of the annual accounts, as defined in article 3:65 of the Code of companies and associations, have been properly disclosed and disaggregated in the notes to the annual accounts.

Other statements

- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting is in accordance with the relevant legal and regulatory requirements.
- We do not have to report any transactions undertaken or decisions taken which may be in violation of the company's articles of association, the Companies Code or, as from 1 January 2020, the Code of companies and associations.
- This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) N° 537/2014.
- In accordance with article 523 of the Companies Code, we are required to report on the following operations which have been taken place since your last annual general meeting:
 - In connection with the board decision of 24 September 2019 on the proposed bonus for the CEO for the successful closing of the Gilead transaction, the procedure of article 523 of the Companies Code has been followed. The board of directors agreed on the total bonus of 5 million EUR. The board of directors considered that said bonus is a justified reward for the results achieved by the CEO. The bonus will have no material impact on the financial position of the company. The board shared the opinion of the remuneration committee that the proposed bonus is justified and reasonable.
 - In connection with the board decision of 17 December 2019 on the proposed salary increase, bonus and grant of RSUs to the CEO, the procedure of article 523 of the Companies Code has been followed. Given the actual level of achievement of the performance criteria to be entitled to a salary increase and a bonus (i.e. the corporate objectives for 2019) a bonus equal to 75% of his 2019 salary was awarded to the CEO and an equivalent number of RSUs to be granted under the Annual Long-Term Incentive Plan. The salary of the CEO was increased by 4% as of 2020. In addition, the grant of 25 000 RSUs under the RSU Retention Plan and 15 000 RSUs under the RSU Discretionary Plan, was ratified by the board of directors. The board of directors deemed the grant of RSUs to be an important tool in the retention of the CEO. The salary increase, bonus and RSUs grants will have no material impact on the financial position of the company. The board of directors shared the opinion of the remuneration committee that the salary increase, proposed bonus and RSU grants are justified and reasonable.

Zaventem, 27 March 2020

The statutory auditor

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Represented by Gert Vanhees

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