



Galapagos NV

Statutory auditor's report to the shareholders' meeting for the year ended 31 December 2020 - 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 2020 - 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 28 April 2020, in accordance with the proposal of the supervisory board ("bestuursorgaan" / "organe d'administration") 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 2022. We have performed the statutory audit of the annual accounts of Galapagos NV for 21 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 2020 and the income statement for the year then ended, as well as the explanatory notes. The annual accounts show total assets of 5 559 171 (000) EUR and the income statement shows a loss for the year then ended of 195 971 (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 2020 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 supervisory board 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"> On 15 December 2020, the Company entered into a binding term sheet with Gilead Sciences, Inc. (“Gilead”) (the “December 2020 Amendment”) to amend the license and collaboration agreement for filgotinib previously signed with Gilead in August 2019 and to agree on the transfer of development, manufacturing, commercialization and certain other rights to filgotinib in Europe. The determination of the revenue recognition for the December 2020 Amendment is inherently complex and requires the Company to make a number of critical judgments. Also, the resulting determination of revenue is based on a percentage of completion calculation, whereby the Company is using various assumptions with respect to future development costs for filgotinib. <p>Because of its complexity and judgmental nature, this matter required significant audit attention.</p> <p>The company’s disclosures about revenue recognition are included in C 6.10 and C 6.20 of the statutory annual accounts. The valuation rules related to revenue are in C 6.19.</p> | <ul style="list-style-type: none"> We have read the binding term sheet and management’s accounting position paper to understand the terms of the December 2020 Amendment and evaluate management’s conclusions. We tested the effectiveness of controls over the accounting treatment of significant unusual transactions. With the assistance of our accounting specialists, we evaluated the critical judgments made by management in relation to the revenue recognition of this contract. We assessed the assumptions made in estimating the costs to complete the filgotinib development activities by comparing these with management’s past experience, external information (including information from Gilead) and other observable evidence and by performing sensitivities on the current year’s revenue recognition resulting from changes to these estimates. |
| <p>IT systems which impact financial reporting</p> <p>During the year, the group implemented various new IT systems, including a new ERP-system and a new reporting and consolidation system. These IT systems form a critical component of the group’s financial reporting activities and impact all account balances. The group places significant reliance on its IT systems and the associated controls.</p> <p>We have identified the IT systems, which impact financial reporting as a key audit matter because of the:</p> <ul style="list-style-type: none"> Implementation of new key IT systems during the year; | <p>With the assistance of our IT specialists, we performed the following risk assessment and audit procedures to test IT controls over the in scope IT systems, which are those systems that we considered key for financial reporting purposes:</p> <ul style="list-style-type: none"> Identified the IT risks for each IT system based on our understanding of the flows of transactions and the IT environment; Determined whether each general IT control, individually or in combination with other controls, is appropriately designed to address the associated IT risk; and Tested the effectiveness of the relevant general IT controls. |

- Reliance on these systems within the group;
- Importance of the IT controls over the systems to maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on system configured automated controls and system reports;
- Pervasive nature of these systems;
- Considerable involvement of our IT specialists; and
- Additional effort needed from the audit team to test compensating controls, evaluate management's mitigating or remediating actions or perform additional substantive testing in response to any unaddressed IT risks.

The key IT systems impact a range of business processes, including General Ledger, Procurement and Financial Consolidation.

We refer to the section "Risk management and internal control" of the Annual Report for the related management disclosure.

Where there were deficiencies in the IT controls, we tested additional manual business process controls that addressed the related IT risks. If no such manual business controls were identified, we performed additional testing such as evaluating management's mitigating actions or expanding the scope and nature of our direct testing procedures on the account balances that were impacted by these IT deficiencies.

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

The supervisory board 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 supervisory board 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 supervisory board 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 supervisory board 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 on 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 does not comprise any assurance regarding the future viability of the company nor regarding the efficiency or effectiveness demonstrated by the supervisory board 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 supervisory board;
- conclude on the appropriateness of the use of the going concern basis of accounting by the supervisory board 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 supervisory board

The supervisory board is responsible for the preparation and the content of the directors' report on the annual accounts, the statement of non-financial information attached to the directors' report on the annual accounts and other matters disclosed in the annual report, 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 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, the statement of non-financial information attached to the directors' 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 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 responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the annual accounts and other information disclosed in the annual report is free of material misstatements, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such a 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 that is part of the section on corporate social responsibility of the annual report (section "CSR Report"). This non-financial information has been established by the company in accordance with the United Nations' Sustainable Development Goals ("SDG's"). 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, including those relating to wages and training, 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 or 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.
- We have assessed the financial consequences for the company relating to the decisions taken in respect of the conflict of interest as described in the supervisory board's report.

Signed at Zaventem, 25 March 2021.

The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL

Represented by Nico Houthaeve

Deloitte.

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises

Coöperatieve vennootschap met beperkte aansprakelijkheid/Société coopérative à responsabilité limitée

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