



Ablynx NV

Statutory auditor's report to the shareholders' meeting for the year ended
31 December 2017

The original text of this report is in Dutch

Statutory auditor's report to the shareholders' meeting of Ablynx NV for the year ended 31 December 2017

(Consolidated financial statements)

In the context of the statutory audit of the consolidated financial statements of Ablynx NV ("the company") and its subsidiary (jointly "the group"), we hereby submit our statutory audit report to you. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 27 April 2017, in accordance with the proposal of the board of directors as presented by the audit committee. Our mandate will expire on the date of the shareholders' meeting approving the financial statements for the year ending 31 December 2019. We have performed the statutory audit of the consolidated financial statements of Ablynx NV for 7 subsequent years.

Report on the audit of the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholder equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The balance sheet shows total assets of 389 848 (000) EUR and the consolidated statement of comprehensive income shows a consolidated loss for the year then ended of 108 532 (000) EUR.

In our opinion, the consolidated financial statements of Ablynx NV give a true and fair view of the group's net equity and financial position as of 31 December 2017 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). 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	How our audit addressed the key audit matters
<p>R&D expenses</p> <p>The research and development (“R&D”) expenses for the year 2017 mainly consist of payroll costs as well as invoices from third party suppliers and R&D collaboration partners. The R&D activities with these parties are documented in detailed agreements and are typically performed over an extended period. Allocation of these expenses to the appropriate reporting period based on the progress of the research and development projects involves judgement.</p> <p>The company’s disclosures about the research and development expenses are included in note 8.19 of the consolidated financial statements.</p>	<p>Our audit procedures included, among others, the review of agreements with suppliers and R&D collaboration partners and testing relevant controls in regard of the R&D process. In addition, we tested progress of R&D projects based on inquiry with project managers and inspection of supporting documentation in order to determine completeness, cut-off and nature of R&D expenses and valuation of the related accruals recorded. We also challenged management’s estimates based on its track record in setting up R&D progress accruals.</p>
<p>Financial instruments – convertible bond</p> <p>The company has issued a convertible bond, which is considered as a financial liability with an embedded derivative, accounted for as follows:</p> <ul style="list-style-type: none"> • Debt component recognised at amortised cost; • Embedded derivative accounted for at fair value. <p>The fair value of the embedded derivative is measured as the difference between the fair value of the total convertible bond and the fair value of the host debt. The fair value of the total convertible bond is based on Level 3 information. The fair value of the host debt is determined by discounting the contractual cash flows using an interest rate plus a market credit spread.</p> <p>The company’s disclosures about financial instruments are included in note 8.4 of the consolidated financial statements.</p>	<p>Our audit procedures included, among others, review of the fair value calculation of the convertible bond and challenging the assumptions used by management (e.g. credit spread used).</p>

Revenue recognition

Revenue recognition involves accounting for R&D collaboration agreements with multiple elements (combinations of licenses or options to license and R&D services), remunerated using a combination of upfront payments, milestone payments, reimbursement income and other revenues. The review of these R&D collaboration agreements is an important part of our audit because of the relatively more complex and industry specific nature and variety of these agreements.

The company's disclosures about revenue are included in note 8.18 of the consolidated financial statements.

We discussed revenue recognition principles with management and challenged their assumptions in this respect. 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 when recognizing milestone revenues. We verified documentation supporting the achievement of the milestones and determined whether the milestone amounts recognized were substantive and commensurate with the magnitude of the related achievement as defined in the applicable IFRS standard. We also considered and challenged the period over which up-front payments are recognized as revenues. 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 management estimates and judgements.

Cash, cash equivalents and other financial assets

Cash, cash equivalents and other financial assets consist of cash and term deposits (current and non-current). The nature and contractual terms of the financial assets determined the presentation on the balance sheet. We focused on this area as it is material to the consolidated financial statements.

The company's disclosures about cash, cash equivalents and other financial assets are included in note 8.9 and 8.10 of the consolidated financial statements.

We reconciled the bank balances to bank confirmations and recalculated the translation of foreign currencies held. In addition, our audit procedures included review of the classification of the cash, cash equivalents and other financial assets and any restriction on the use of the cash and cash equivalents.

Responsibilities of the board of directors for 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 an 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.

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 management;
- 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 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 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 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 auditor's report unless law or regulation precludes any public disclosure about the matter.

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Report on 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.

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), our responsibility is to verify, in all material respects, the director's 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 2017 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 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 and other information disclosed in the directors' report on the consolidated financial statements, i.e. sections:

- Corporate overview
- 1.1 Strategic highlights
- 1.5 Outlook 2018;

are 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. 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 1.6. Corporate governance statement. This non-financial information has been established by the company in accordance with the Belgian Corporate Governance Code. 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 Belgian Corporate Governance Code. Furthermore, we do not express any assurance on individual elements that have been disclosed in this non-financial information.

Statements regarding independence

- No prohibited non-audit services, as referred to by the law, have been performed and our audit firm and, if applicable, our network of audit firms, 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 consolidated financial statements, 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, 26 March 2018

The statutory auditor

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Burgerlijke vennootschap onder de vorm van een coöperatieve vennootschap met beperkte aansprakelijkheid /
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