

GALAPAGOS

Limited Liability Company
Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium
Company number: 0466.460.429
RLE Mechelen
(the “**Company**”)

Special report of the Board of Directors in accordance with Article 596 and 598 of the Belgian Companies Code

Cancellation of the preferential subscription rights of the existing shareholders in the framework of Warrant Plan 2014

1 Introduction: subject matter of this report

This report is established on 25 July 2014 by the Board of Directors of the Company in accordance with the provisions of articles 596 and 598 of the Belgian Companies Code.

In accordance with said articles, the subject matter of this report is to provide justification for the proposal to cancel the preferential subscription rights for the benefit of the individuals mentioned in this report. The preferential subscription rights will be cancelled in connection with the issuance of warrants relating to new shares that will in all aspects be identical to the existing shares of the Company. This issuance of warrants will be implemented by the Board of Directors within the framework of the authorized capital as renewed by the Extraordinary Shareholders’ Meeting of the Company of 23 May 2011. In this context, the Board of Directors further refers to the report the Board has established on the date hereof in accordance with article 583 of the Belgian Companies Code.

The Board of Directors proposes to issue, within the framework of the authorized capital, a maximum of 666,760 naked warrants in the framework of the Warrant Plan 2014.

This report elaborates on the proposed exercise price of the warrants and the financial consequences of the proposed transaction for the Company’s shareholders. The Company will ask its Statutory Auditor to provide his report in accordance with articles 596 and 598 of the Belgian Companies Code, in connection with this matter.

2 Explanation in connection with the authorized capital

The Company’s Extraordinary Shareholders’ Meeting has resolved on 23 May 2011 to renew the authorization to the Board of Directors with respect to the use of the authorized capital. By this renewed authorization the Board was authorized to increase the share capital in one or more times with an amount of 142,590,770.44 Euro. This authorization is split in two tranches. The authorization with respect to the first tranche of 25% (35,647,692.61 Euro) of the authorized capital can be used by the Board of Directors by normal resolution. The authorization with respect to the second tranche of 75% (106,943,077.83 Euro) of the authorized capital can only be used upon unanimous resolution of the Board of Directors in which all directors are present or represented. Furthermore, this second tranche can only be used in the context of the following purposes:

- (i) the entire or partial financing of a transaction through the issue of new shares of the Company, whereby “transaction” is defined as a merger or acquisition (in shares or cash), a corporate partnership, and an in-licensing deal,

- (ii) the issue of warrants in the framework of the remuneration policy for employees, directors and independent consultants of the Company and its subsidiaries, and
- (iii) the defence of the Company against a hostile take-over bid, and
- (iv) strengthening of the cash position of the company.

The renewed authorization to use the authorized capital is valid for a period of five years as from 23 May 2011. The Board of Directors may, in the context of the authorized capital, issue shares with or without voting rights. The Board may also issue convertible bonds or warrants. The Board may issue shares as consideration for contributions in cash or in kind, with or without a share issue premium. If the Board asks a share issue premium, such premium shall be booked on a non-available reserve account. Such account can only be reduced or transferred after a decision of an extraordinary shareholders' meeting of the Company adopted in the manner required for amending the articles of association.

The Board may, within the authorized capital, limit or cancel the preferential subscription rights of the existing shareholders but only in the interest of the Company. Furthermore, the Board has the authority to cancel the preferential subscription rights of the existing shareholders for the benefit of certain persons, other than employees of the Company or its subsidiaries.

On 3 September 2012 the Board of Directors a first time partially used its renewed authorization for the use of the authorized capital, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2012, which, after final establishment of the acceptances, relates to maximum 481,140 new shares to be issued. The new shares to be issued under the Warrant Plan 2012 will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as issuance premium. By the issuance of the Warrant Plan 2012 the Board used 2,602,967.40 Euro of the authorized capital, as indeed said warrants can result in the issuance of maximum 481,140 new shares, to be multiplied with the then current fractional value of (rounded up) 5.41 Euro per share.

On 29 April 2013 the Board of Directors a second time partially used its renewed authorization for the use of the authorized capital, with cancellation of the preferential subscription rights, for a private placement of 2,696,831 new shares at 20.00 Euro per share, resulting in an increase of the share capital with €14,589,855.71 (plus issuance premium of €39,346,764.29).

On 16 May 2013 the Board of Directors partially used its renewed authorization for the use of the authorized capital a third time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2013, which, after final establishment of the acceptances, relates to maximum 602,790 new shares to be issued. The new shares to be issued under the Warrant Plan 2013 will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as issuance premium. By the issuance of the Warrant Plan 2013 the Board used 3,261,093.90 Euro of the authorized capital, as indeed said warrants can result in the issuance of maximum 602,790 new shares, to be multiplied with the then current fractional value of (rounded up) 5.41 Euro per share.

On 18 September 2013 the Board of Directors partially used its renewed authorization for the use of the authorized capital a fourth time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2013 (B), which, after final establishment of the acceptances, relates to maximum 75,000 new shares to be issued. The new shares to be issued under the Warrant Plan 2013 (B) will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as issuance premium. By the issuance of the Warrant Plan 2013 (B) the Board used 405,750 Euro of the authorized capital, as indeed said warrants can result in the issuance of maximum 75,000 new shares, to be multiplied with the then current fractional value of (rounded up) 5.41 Euro per share.

On the date of this report, an aggregate amount of 20,859,667.01 Euro of the authorized capital is used, as a result of which 121,731,103.43 Euro of the authorized capital is still available.

The currently proposed conditional capital increase, under the authorized capital and with cancellation of the preferential subscription rights, by the in principle decision of the Board to issue maximum 666,760 warrants in the framework of the Warrant Plan 2014, is therefore still within the limits of the first tranche of 25% of the total authorization of the authorized capital, taking into account the current accounting par value of €5.41 per share.

3 Issuance price and exercise price of the warrants

In connection with the proposed issuance of the warrants no issuance price will be paid. The warrants will be granted for free to the beneficiaries of the plan.

As the shares of the Company are listed or traded on a regulated market at the date of the offer, the exercise price of the warrants for an offer to an employee will, at the election of the Board of Directors, at least be equal to (a) the closing price of the share of the Company on the last trading day preceding the date of the offer, or (b) the average of the closing price of the share of the Company during the last thirty (30) days preceding the date of the offer. For an offer to a consultant or a director, the exercise price will, in accordance with article 598 of the Belgian Companies Code, at least amount to the average of the closing price of the share of the Company during the last thirty (30) days preceding the date of the offer. The exercise price shall in no event be lower than the accounting par value (rounded up to the higher eurocent) of the shares on the date of the issuance of the warrants.

4 Financial consequences of the transaction for the shareholders

4.1 Concerning the evolution of the share capital and the profit sharing

The share capital of the Company, at the date of this report, amounts to 163,802,508.04 Euro and it is represented by 30,280,344 shares, each share representing an equal part of the share capital.

In the event that warrants of the Warrant Plan 2014 would be exercised during their exercise term, the share capital of the Company will be increased by 5.41 Euro per exercised warrant.

In the event all 666,760 warrants to be issued under the Warrant Plan 2014 would be exercised and, consequently, 666,760 new shares would be issued, a dilution will occur (taking into account the number of shares at the date of this report) for the existing shares in the profit of the Company of (rounded off) 2.15%.

In 2002, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013 the Company already approved several warrant plans under which warrants are still outstanding. The exercise of all warrants still outstanding under these plans can possibly lead to the creation of up to 2,911,978 additional shares. In the event all these warrants, granted and still capable of exercise, would be exercised, the dilution resulting from the present issuance of warrants will be of maximum (rounded off) 1.97%.

At the date of this report no warrants are available for offering under the already existing warrant plans of the Company.

As the exercise price of the warrants under the Warrant Plan 2014 cannot be lower than the accounting par value of the share of the Company, the exercise of these (maximum) 666,760 warrants will have no effect on the accounting par value of the share.

4.2 Effect on the equity of the Company

In the event all 666,760 warrants would be exercised, there would be an increase of the equity of the Company for an amount equal to the product of 666,760 and the exercise price per warrant, provided, however, that this increase cannot be lower than 3,607,171.60 Euro (being the number of warrants multiplied by (rounded up) 5.41 Euro, i.e. the accounting par value of the share of the Company at the date of this report). If the exercise price of a warrant is higher than the equity value per share and the

warrant is *de facto* exercised, there would be a positive effect on the equity value per share for the existing shareholders.

The amount of the increase of the equity will depend on the applicable exercise price and the number of exercised warrants, which makes it impossible at this time to make an accurate assessment of the possible financial consequences of the issuance and the potential exercise of these warrants for the existing shareholders. Consequently, a number of simulations have been prepared on the basis of hypothetical exercise prices. These simulations are attached to this report as [Annex 1](#) and reflect the impact of the exercise of these warrants of the Company's equity based on hypothetical exercise prices.

4.3 Potential financial dilution resulting from the possible future issuance of shares emanating from the exercise of warrants under the Warrant Plan 2014

To the extent that the issuance price of the new shares that will possibly be issued as a result of the exercise of warrants under the Warrant Plan 2014 is lower than the market price of the shares at the moment of the issuance, the existing shareholders will be confronted with a financial dilution as in such case the warrant holders subscribe to new shares at a lower price than the existing shares. This dilution is calculated by subtracting the value per share after the issuance of the new shares from the market price of the share at the moment of the issuance of the new shares. The result is then brought in relation to the original market price.

For simulation purposes, the market capitalization of the Company was calculated on the basis of the number of shares outstanding as per 4 July 2014 (being the date of the last issuance of new shares by the Company) and the average of the closing price of the share of the Company during the month of June 2014 (30-day period), being €15.38 (rounded). On this basis, the market capitalization of the Company amounts to €465,408,887.28.¹ If the warrants to be issued under Warrant Plan 2014 have an exercise price of €15.37 minus 10%, these 666.760 warrants could be exercised at €13.83, for an aggregate exercise price of €9,221,290.80. The market capitalization after the aggregate capital increase (including issuance premium) resulting from the exercise of all 666.760 warrants to be issued under the Warrant Plan 2014 would thus amount to €474,630,178.08 and the total number of outstanding shares would amount to 30,947,104. Hence, the price per share would then amount to €15.34, which is lower than the average closing price of the share of the Company during the month of June 2014 (30-day period), i.e. €15.37, resulting in a potential financial dilution of 0.20%.

4.4 Other accounting (IFRS) and financial consequences of the offering of warrants

At the occasion of the acceptance of the offered warrants the Company will determine a fair value for the warrants based on actuarial methods that are commonly used for this purpose and this fair value will be accounted for over the vesting period of the warrants in accordance with the relevant warrant plan. This fair value can only be determined at the date of acceptance of the warrants. It will be determined taking into account the following parameters: (i) the market price of the share of the Company at the date of the offer; (ii) the exercise price of the warrants; (iii) the expected volatility of the share of the Company; and (iv) the exercise term of the warrants (i.e. 8 years).²

5 Motivation for the cancellation of the preferential subscription rights

The Board of Directors of the Company anticipates that the granting of warrants to employees, directors and an independent consultant active within the Company or its subsidiaries will result in an enhanced motivation of the beneficiaries of these warrants and that it will stimulate a sharpened attention for the interests of the Company and its shareholders.

¹ Being 30,280,344 shares times €15.37 per share.

² For reference purposes: under Warrant Plan 2013, after acceptance by the beneficiaries, a total of 602,790 warrants was issued, representing a total warrant cost of €3.815.801 under IFRS 2.

6 Individuals, other than employees, for whose benefit the preferential subscription rights are cancelled

Under the Warrant Plan 2014, the following number of warrants will be offered to persons who are no employees of the Company and/or of its subsidiaries:

- Mr Onno van de Stolpe (executive director and CEO): 100,000 warrants;
- Dr Raj Parekh (non-executive director): 5,400 warrants;
- Dr Werner Cautreels (independent non-executive director): 3,780 warrants;
- Dr Harrold van Barlingen (non-executive director): 2,520 warrants;
- Mr Howard Rowe (independent non-executive director): 2,520 warrants;
- Dr Vicki Sato (independent non-executive director): 2,520 warrants;
- Ms Katrine Bosley (independent non-executive director): 2,520 warrants; and
- Dr Piet Wigerinck (independent consultant / CSO): 40,000 warrants.

The offer of warrants to directors was approved by the Annual Shareholders' Meeting held on 29 April 2014.

Made and approved on 25 July 2014.

For the Board of Directors of the Company,

[Signed]

Onno van de Stolpe
Director

[Signed]

Harrold van Barlingen
Director

Annex 1 Simulations

A Current situation, before issuance of the new warrants - Basic	
	Equity ⁽³⁾ in €
Amount represented by 1 share	5.66
Total	171,380k
B Situation before issuance of the new warrants - Fully diluted⁽⁴⁾	
	Equity ⁽³⁾ in €
Amount represented by 1 share	6.18
Total	205,084k
C Situation after issuance of the new warrants with an exercise price of €13.00 - Fully diluted⁽⁵⁾	
	Equity ⁽³⁾ in €
Amount represented by 1 share	6.31
Total	213,751k
D Situation after issuance of the new warrants with an exercise price of €14.50 - Fully diluted⁽⁵⁾	
	Equity ⁽³⁾ in €
Amount represented by 1 share	6.34
Total	214,752k
E Situation after issuance of the new warrants with an exercise price of €16.00 - Fully diluted⁽⁵⁾	
	Equity ⁽³⁾ in €
Amount represented by 1 share	6.37
Total	215,752k

³ As starting point for the calculation of the net assets on a fully diluted basis, the net assets of Galapagos NV on a consolidated basis under IFRS per 31 December 2013 was taken, after correction for the capital increase that occurred on 10 April 2014 and 4 July 2014.

⁴ Assuming that all 2,911,978 outstanding granted warrants are exercised, resulting in the issuance of 2,911,978 new shares, as a result of which the share capital of Galapagos NV would be represented by 33,192,322 shares (being the sum of (i) the 30,280,344 shares outstanding as at the date of the report to which this annex is attached and (ii) the relevant 2,911,978 new shares).

⁵ Assuming that (i) all 2,911,978 outstanding granted warrants are exercised (see remark (4)) and (ii) all new warrants are granted and exercised.