Galapagos

Limited Liability Company ("*Naamloze Vennootschap*")
Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium
Company number: 0466.460.429
RPR Mechelen

Special Report of the Board of Directors in accordance with articles 596 and 598 of the Code of Companies

Cancellation of the preferential subscription rights of the existing shareholders in the framework of the issuance of warrants for the benefit of employees and independent consultants of Galapagos NV and its subsidiaries (Warrant Plan 2011)

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1. Introduction: subject matter of this report

This report is established on 1 April 2011 by the Board of Directors of Galapagos, a limited liability company (hereinafter the "**Company**"), in accordance with the provisions of articles 596 and 598 of the Code of Companies.

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 general shareholders' meeting of the Company of 2 June 2009. In this context, the Board of Directors further refers to the report the Board has established on the same day hereof in accordance with article 583 of the Code of Companies.

The Board of Directors proposes to issue, within the framework of the authorized capital, maximum **802,500** naked warrants in the framework of the **Warrant Plan 2011**.

This report elaborates on the proposed exercise price of the warrants and the financial consequences of the proposed transaction for the shareholders of the Company. The Company will ask its Statutory Auditor (Deloitte Bedrijfsrevisoren represented by Gert Vanhees) to provide his report in accordance with articles 596 and 598 of the Code of Companies, in connection with this matter.

2. Explanation in connection with the authorized capital

The extraordinary general shareholders' meeting of the Company has resolved on 2 June 2009 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 115,068,666.45 Euro. This authorization is split in two tranches. The authorization with respect to the first tranche of 25% (28,767,166.61 Euro) of the authorized capital can be used by the Board by normal resolution. The authorization with respect to the second tranche of 75% (86,301,499.84 Euro) of the authorized capital can only be used after a unanimous decision 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 2 June 2009. 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 booked on a non-available reserve account. Such account can only be reduced 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 21 October 2009 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 a private placement of 2,125,925 new shares at €8.55 per share, resulting in an increase of the share capital with €11,543,772.75 (plus issuance premium of €6,632,886.00).

On 27 April 2010 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 the issuance of the Warrant Plan 2010, which, after final establishment of the acceptances, relates to maximum 506,500 new shares to be issued. The new shares to be issued under the Warrant Plan 2010 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 2010 the Board used 2,740,165.00 Euro of the authorized capital, as indeed said warrants can result in the issuance of maximum 506,500 new shares, to be multiplied with the then current fractional value of (rounded up) 5.41 Euro per share.

On 22 October 2010 the Board of Directors a third 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 2,389,347 new shares at €12.00 per share, resulting in an increase of the share capital with €12,926,367.27 (plus issuance premium of €15,745,796.73).

On 23 December 2010 the Board of Directors a fourth 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 2010 (C), 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 2010 (C) 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 2010 (C) the Board used 405,750.00 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.

With the four above mentioned cases together, the Board of Directors has used, until today, an aggregate of €27,616,055.02 of the authorized capital.

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 802,500 warrants in the framework of the Warrant Plan 2011, is therefore still within the limits of the total authorization of the authorized capital, taking into account a fractional 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 on the date of the offer, the exercise price 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 an independent consultant the exercise price will, in accordance with article 598 of the Code of Companies, be established as being the average of the closing price of the share of the company during the last thirty (30) days preceding the date of the offer. In no event will the exercise price be lower than 5.41 euro, *i.e.* the fractional 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.a 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 142,874,773.80 Euro and it is represented by 26,411,480 shares, each share representing 1/26,411,480th part of the share capital.

In the event that warrants of the Warrant Plan 2011 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 802,500 Warrants issued under the Warrant Plan 2011 would be exercised and, consequently, 802,500 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) 2.95%.

In 2002, 2005, 2006, 2007, 2008, 2009 and 2010 the Company already approved different 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 2,655,152 additional shares. In the event all these warrants, granted and still capable of exercise, will be exercised, the dilution resulting from the present issuance of warrants will be of maximum (rounded off) 2.69%. It is also pointed out that the Board of Directors will propose to the Extraordinary General Shareholders' Meeting of 26 April 2011 (or of a later meeting with the same agenda in case the first meeting could not validly deliberate and decide because the required attendance quorum was not reached) to issue a Warrant Plan 2011 (B) for the benefit of the Directors of the Company, under which plan maximum 131,740 warrants may be offered; if this plan will *de facto* be created and all 131,740 warrants will be issued, the potential dilution resulting from the present issuance of Warrants under the Warrant Plan 2011 will be maximum (rounded off) 2.67%.

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 2011 cannot be lower than the fractional value of the share of the Company, the exercise of these (maximum) 802,500 warrants will have no effect on the fractional value of the share.

4.b Effect on the equity of the Company

In the event all 802,500 warrants will be exercised, there will be an increase of the equity of the Company for an amount equal to the product of 802,500 and the exercise price per warrant, provided, however, that this increase cannot be lower than 4,341,525.00 Euro (being the number of warrants multiplied by (rounded up) 5.41 Euro, *i.e.* the fractional value of the share of the Company at the date of this report), if all these warrants would be exercised. In the event the exercise price of a warrant is higher than the equity value per share and the warrant is *de facto* exercised, then there will be a positive effect on the equity value per share for the existing shareholders.

4.c Potential financial dilution resulting from the possible future issuance of shares emanating from the exercise of warrants under the Warrant Plan 2011

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 2011 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.

4.d 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).

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 and independent consultants 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.

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

Under the Warrant Plan 2011 25,000 warrants will be offered to Dr Piet Wigerinck (independent consultant / Senior Vice President Drug Development) and 25,000 warrants will be offered to Mr Guillaume Jetten (independent consultant / CFO).

Made and approved on 1 April 2011.

For the Board of Directors of the Company,

(signed)	(signed)
Director	Director