

## Galapagos NV

Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium  
Company number: 0466.460.429 – RPR Mechelen

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### Special Report of the Board of Directors in accordance with article 604 of the Code of Companies

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Dear Shareholders,

In accordance with the provisions of article 604 of the Code of Companies, the Board of Directors of Galapagos NV ("Company" or "Galapagos") has the honor to report, in this special report, on the proposal that shall be made to the Extraordinary General Shareholders' Meeting to be convened on 26 April 2011 (or on 23 May 2011 in case the required quorum was not achieved at the first meeting) to renew and increase the authorization to the Board of Directors to increase the share capital of Galapagos in the framework of the authorized capital.

#### 1. Background

The Extraordinary General Shareholders' Meeting of March 29, 2005 has authorized the Board of Directors to increase the share capital of the Company for 3 specific purposes: (i) the financing of a transaction; (ii) the issue of warrants in the context of remuneration policies; (iii) the defence against a hostile takeover. This authorization was given for a period of 5 years. It has been renewed and increased by the Extraordinary General Shareholders' Meetings of January 6, 2006. It was further renewed and increased by the Extraordinary General Shareholders' Meeting of April 24, 2007 which also added a 4<sup>th</sup> specific purpose: (iv) to strengthen the cash position of the Company. It was further renewed and increased for a period of 5 years by the Extraordinary General Shareholders' Meeting of June 2, 2009. Under the current authorization, the share capital of the Company can be increased with maximum 25% compared to the share capital at the date of the convocation for the Extraordinary General Shareholders' Meeting of June 2, 2009, which was 115,068,666.45 euro. In addition, this authorization allows an increase of the share capital up to 100% compared to said share capital of 115,068,666.45 euro, provided that unanimous approval of all members of the Board is obtained.

Since June 2, 2009 through the date of this report, the authorized capital has been used as follows:

On October 21, 2009 the Board has used its authorization to increase the share capital in connection with the issue of 2,125,925 new shares in the context of a private placement subscribed by Fortis Bank (Nederland) NV, hence using 11,543,772.75 euro of the authorized capital (number of shares times fractional value of the Galapagos share).

On April 27, 2010 the Board has used its authorization to increase the share capital in connection with the issue of 506,500 warrants under the Warrant Plan 2010, hence using an additional 2,740,165.00 euro of the authorized capital (number of warrants times fractional value of the Galapagos share).

On October 22, 2010 the Board has used its authorization to increase the share capital in connection with the issue of 2,389,347 new shares in the context of a private placement subscribed by ABN AMRO Bank NV and KBC Securities NV, hence using 12,926,367.27 euro of the authorized capital (number of shares times fractional value of the Galapagos share).

On December 23, 2010 the Board has used its authorization to increase the share capital in connection with the issue of 75,000 warrants under the Warrant Plan 2010 (C), hence using an

additional 405,750.00 euro of the authorized capital (number of warrants times fractional value of the Galapagos share).

At the date of this report, a total amount of 27,616,055.02 euro of the authorized capital had been used, and consequently an amount of 87,452,611.43 euro remains available for use under the authorized capital, and approximately two years of its relevant use period have lapsed.

The Board has also given its in principle agreement for the issuance, under the authorized capital, of the Warrant Plan 2011, under which a maximum of 802,500 warrants would be issued, which would lead to an additional use of 4,341,525 euro of the authorized capital (number of warrants times fractional value of the Galapagos share).

## **2. Renewal and increase of the authorized capital**

(a) In accordance with the provisions of article 604 of the Company Code, the Board of Directors proposes to the Extraordinary General Shareholders' Meeting to be authorized for a period of five (5) years to increase the share capital in one or several times as set forth in the proposal reproduced in section (c) below.

(b) The board of directors intends to use such authorization in those circumstances where, in the interest of the company, a convocation of an Extraordinary General Shareholders' Meeting for a capital increase is not desirable, possible or expedient. Especially with the Company being publicly listed on Euronext Brussels and Euronext Amsterdam, the procedure of convoking a shareholders' meeting for a capital increase is indeed complex, expensive, lengthy and time consuming, which could be incompatible with the fluctuations on the capital markets or with certain business opportunities that could arise. Such situation could occur when the company wishes to permit (a) specific shareholder(s) to participate in its share capital or wishes to finance a certain transaction wholly or partially with the issue of new shares. A convocation of a shareholders' meeting could in such circumstances e.g. lead to a too early announcement of the relevant transaction. With such (and other) transactions the Board of Directors shall aim at a continuous growth of the Company, where appropriate and/or possible by means of financing with share capital, and to strengthen the capital basis of the Company by attracting strategic shareholders where possible. The Board of Directors can also use the authorized capital for the issue of warrants in connection with Company's remuneration policy for its and its subsidiaries' employees, directors and independent consultants. In case of a hostile take-over bid, the Board of Directors will be able to use the authorization if it is of the opinion that the strategy or development of the Company could be jeopardized; in this context the use of the authorized capital shall be limited to the extent permitted by law, i.e. that the number of shares issued under the authorized capital as a defence against a hostile take-over bid shall not exceed ten percent (10%) of the number of shares issued prior to such capital increase. The Board of Directors can also use the authorized capital, if, taking into account the best interest of the Company and with the aim of assuring/improving a solid cash position, it is used to strengthen the cash position of the Company.

(c) Taking into account the above considerations, the Board of Directors submits for approval to the Extraordinary General Shareholders' Meeting the following proposal to renew and increase the authorized capital and to amend the relevant section in the temporary provisions of the Articles of Association of the Company as follows:

### “(1) Authorized capital

The board of directors has been granted the authority to increase the share capital of the company, in accordance with articles 603 to 608 of the code of companies, in one or several times, to the extent set forth hereafter. This authorization is valid for a period of five years from the date of this authorization, *i.e.* [●] 2011.

Without prejudice to more restrictive rules set forth by law, the board of directors can increase the share capital of the company in one or several times with an amount up to

€35,647,692.61, i.e. 25% of the share capital existing at the time of the approval by the Board of Directors of the convocation for the general meeting granting this authorization.

Without prejudice to the previous paragraph and without prejudice to more restrictive rules set forth by law, the board of directors may increase the share capital of the company in one or several times with an amount up to €142,590,770.44, i.e. 100% of the share capital existing at the time of the approval by the Board of Directors of the convocation for the general meeting granting this authorization, upon a unanimous resolution of the board of directors at which all directors are present or represented and relating to (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 and/or cash), a corporate partnership, and an in-licensing deal, (ii) the issue of warrants in connection with company's remuneration policy for its and its subsidiaries' employees, directors and independent advisors, and (iii) the defence of the Company against a hostile take-over bid, and (iv) strengthen the cash position of the company. The maximum amount with which the share capital can be increased in the framework of the authorized capital as mentioned in this paragraph, is to be reduced by the amount of any capital increase realized in the framework of the authorized capital as mentioned in the previous paragraph.

The capital increases within the framework of the authorized capital may be achieved by the issue of shares (with or without voting rights, and where appropriate in the context of a warrant plan for the company's or its subsidiaries' personnel, directors and/or independent advisors), convertible bonds and/or warrants exercisable by contributions in cash or in kind, with or without a share issue premium, and also by the conversion of reserves including share premiums.

When increasing the share capital within the limits of the authorized capital, the board of directors may in the company's interest restrict or cancel the shareholders' preferential subscription rights, even if such restriction or cancellation is made for the benefit of one or more specific persons other than the employees of the company or its subsidiaries.

The board of directors can ask for a share issue premium when issuing new shares in the framework of the authorized capital. If the board of directors decides to do so, such share issue premium is to be booked on a non-available reserve account that can only be reduced or transferred by a decision of the general shareholders' meeting adopted in the manner required for amending the articles of association.

The board of directors is expressly authorized during a period of three years as of the date of the shareholders' meeting which granted this authorization, *i.e.* [●] 2011, to increase the company's share capital within the context of the authorized capital by contributions in kind or in cash with restriction or cancellation of the shareholders' preferential subscription rights, even after the Commission for Banking, Finance and Insurance has notified the company of a public take-over offer for the company's shares, provided that the relevant provisions of the code of companies are complied with, including that the number of shares issued under such capital increase does not exceed one tenth of the shares representing the capital of the company that is issued prior to such capital increase. The authorization referred to above may be renewed.

The board of directors is authorized to bring the company's articles of association in line with the capital increases which have been decided upon within the framework of the authorized capital, or to instruct a notary public to do so."

March 25, 2011.

On behalf of the Board of Directors of Galapagos NV,

(signed)

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Director

(signed)

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Director