

GALAPAGOS NV

Limited Liability Company ("*Naamloze Vennootschap*")
Generaal De Wittelaan L11 A 3, 2800 Mechelen, Belgium
Enterprise number: 0466.460.429
RLE Mechelen

Special Report of the Board of Directors in accordance with Article 596 of the Belgian Companies Code

Cancellation of the preferential subscription rights of the existing shareholders in connection with the issuance of warrants for the benefit of an employee of a subsidiary of Galapagos NV

1. Introduction: subject-matter of this report

This report is drafted on 23 December 2010 by the Board of Directors of the limited liability company ("*naamloze vennootschap*") Galapagos (the "**Company**") in accordance with the provisions of Article 596 of the Belgian Companies Code ("**BCC**").

In accordance with these provisions, this report pertains to the justification of the proposal to cancel the preferential subscription rights for the benefit of the person described in this report. The preferential subscription rights will be cancelled in connection with the issuance of warrants relating to new shares that that will be equal in all respects to the existing shares of the Company. This issuance of warrants will be carried out by the Board of Directors within the framework of the authorized capital, as renewed by the Company's extraordinary shareholders' meeting of 2 June 2009. In this context, the Board of Directors further refers to the report it has established on the date hereof in accordance with Article 583 BCC.

The Board of Directors proposes to issue up to **75,000** naked warrants as part of the **Warrant Plan 2010 (C)**, within the framework of the authorized capital.

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 (Deloitte Bedrijfsrevisoren, represented by Mr. Gert Vanhees) to draw up its report in respect of this matter as well, in accordance with Article 596 BCC.

2. Explanation regarding the authorized capital

On 2 June 2009, the Company's extraordinary shareholders' meeting decided to renew the Board of Directors' power of attorney regarding the use of the authorized capital. This renewed power of attorney authorized the Board of Directors to increase the share capital in one or more times with an amount of up to EUR 115,068,666.45. This competence is divided into two slices. The Board of Directors can use its authority in respect of a first slice of 25% (EUR 28,767,166.61) of the authorized capital by means of a simple decision. The authority in respect of the second slice of 75% (EUR 86,301,499.84) of the authorized capital may only be used following the adoption of a unanimous decision of the Board of Directors, at which occasion all directors must be present or represented. Moreover, this second slice may only be used in connection with the following purposes:

- (i) full or partial financing of a transaction by means of the issuance of new shares of the Company, "transaction" being defined as a merger or an acquisition (in shares or in cash), a corporate partnership and an in-licensing deal,
- (ii) the issuance of warrants in connection with the remuneration policy for employees, directors and independent consultants of the Company and its subsidiaries, and
- (iii) the Company's defense against a hostile take-over, and
- (iv) strengthening the Company's cash position.

The renewed power of attorney regarding the authorized capital is valid for a period of five years as of 2 June 2009. Within the scope of the authorized capital, the Board of Directors can issue shares with or without voting rights. The Board of Directors may also issue convertible bonds or warrants. The Board of Directors may issue shares as a consideration for contributions in cash or in kind, with or without an issuance premium. In case the Board of Directors requests an issuance premium, the latter shall be booked on an unavailable reserve account. Such reserve account may only be reduced following a decision of an extraordinary shareholders' meeting of the Company, deciding in the same manner as required for an amendment of the articles of association.

Within the limits of the authorized capital, the Board of Directors may restrict or cancel the preferential subscription rights of the existing shareholders only in the interest of the Company. Moreover, the Board of Directors has the authority to cancel the preferential subscription rights of the existing shareholders in favor of certain persons that are not employees of the Company or its subsidiaries.

On 21 October 2009, the Board of Directors (partially) used the renewed power of attorney regarding the use of the authorized capital for the first time, and cancelled the preferential subscription rights, at the occasion of the private issuance of 2,125,925 new shares (EUR 8.55 per share), as a result of which the share capital was increased with EUR 11,543,772.75 (plus the issuance premium of EUR 6,632,886.00).

On 27 April 2010, the Board of Directors (partially) used the renewed power of attorney regarding the use of the authorized capital for the second time, and cancelled the preferential subscription rights, at the occasion of the issuance of the Warrant Plan 2010, which –following the final establishment of acceptations- relates to up to 506,500 new shares, to be issued. The new shares, to be issued under the Warrant Plan 2010, shall only be booked as share capital for the amount of the fractional value. "Fractional value" means the fractional value of the existing shares on the issuance date of the warrants. The difference between the fractional value and the issue price shall be booked as issuance premium. Hence, by issuing the Warrant Plan 2010, the Board of Directors already used EUR 2,740,165.00 of the authorized capital. The aforementioned warrants can lead to the issuance of up to 506,500 new shares, to be multiplied by the fractional value at that time of (rounded up) EUR 5.41 per share.

On 22 October 2010, the Board of Directors (partially) used the renewed power of attorney regarding the use of the authorized capital for the third time, and cancelled the preferential subscription rights, at the occasion of a private placement 2,389,347 new shares (EUR 12.00 per share), as a result of which the share capital was increased with EUR 12,926,367.27 (plus the issuance premium of EUR 15,745,796.73).

Due to the three aforementioned transactions, to date, the Board of Directors has already used its power of attorney in respect of the authorized capital for an amount of EUR 27,210,305.02.

The currently proposed capital increase, subject to a condition precedent, within the limits of the authorized capital and with cancellation of the preferential subscription rights, under the decision of principle of the Board of Directors to issue up to 75,000 warrants in connection with the Warrant Plan 2010 (C) therefore stills falls within the scope of the first slice of 25% of the overall power of attorney in connection with the authorized capital, considering the fractional value per share of EUR 5.41.

3. Issue and exercise price of the warrants

In connection with the proposed issuance of warrants, no issue price is determined. The warrants shall be granted for free to the participant of the Warrant Plan 2010 (C).

Since the Company Shares will be listed or traded on a regulated market at the date of the offer, the exercise price (at the Board of Directors' choice) shall be equal to (a) the closing price of the Company's shares on the last trading day prior to the date of the offer or (b) the average closing price of the Company's shares of the last thirty (30) days prior to the offer date. The exercise

price shall in no event be lower than EUR 5.41, i.e. the fractional value (rounded up to the higher euro cent) of the shares on the issuance date of the warrants.

4. Financial consequences of the transactions for the shareholders

4.a As to the evolution of the share capital and share in the profits

As at the day of this report, the Company's share capital amounts to EUR 142,590,770.44 and is represented by 26,358,984 shares, each share representing 1/26,358,984th part of the share capital.

If all warrants are exercised during their term, the Company's share capital will be increased with EUR 5.41 per exercised warrant.

If all 75,000 warrants issued under the Warrant Plan 2010 (C) would be exercised and hence, 75,000 new shares would be issued, there will be a dilution (taking into account the number of shares as at the date of this report) with respect to the existing shares in the Company's profits of (rounded) 0.28%.

In 2002, 2005, 2006, 2007, 2008, 2009 and 2010, the Company already approved several warrant plans. Warrants are still outstanding under these warrant plans. Exercising all outstanding warrants under these plans may potentially lead to the creation of 2,660,161 additional shares. Should all these warrants granted and still to be exercised, indeed be exercised, the dilution as a result of the present issuance of Warrants will be (rounded) 0.26% at the most.

As at the date of the present report, no more warrants are available to be offered under the Company's already existing warrant plans.

Since the exercise price of the warrants under the Warrant Plan 2010 (C) cannot be lower than the fractional value of the Company's shares, exercising these (up to) 75,000 warrants shall not have an impact on the fractional value of the share.

4.b Impact on the Company's book equity

Should all 75,000 warrants be exercised, the Company's book equity shall increase. The increase shall be equal to the product of 75,000 and the exercise price per warrant. If the exercise price of a warrant is higher than the book equity value per share and the warrant is indeed exercised, this will have a positive impact on the book equity value per share for the existing shareholders.

4.c Potential financial dilution following the potential future issuance of shares resulting from the exercise of the warrants under the Warrant Plan 2010 (C)

To the extent that the issue price of the new shares, which, as the case may be, will be issued as a result of the exercise of warrants under the Warrant Plan 2010 (C), is lower than the market price of the shares at the time of issuance, the existing shareholders shall experience a financial dilution, because in that case, the warrant holders subscribe to new shares for a lower price than the existing shares. This dilution is calculated by deducting the value per share after the issuance of the new shares from the market price per share at the time of the issuance of the new shares. Subsequently, the result is put in proportion with the initial market price.

4.d Other accounting (IFRS) and financial consequences of offering the warrants

If the warrants are accepted, the Company shall determine a market value (fair value) for the warrants on the basis of the common actuarial cost methods and this market value will be charged to the accounts and spread over the period of the provision of services expected from the warrant holders in order to permanently acquire all warrants offered to them (vesting period), 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 calculated on the basis of the following parameters: (i) the price of the Company's share at the date of the offer; (ii) the exercise price of the warrants; (iii) the expected volatility of the Company's share; and (iv) the exercise period of the warrants (i.e. 8 years).

5. Explanation for the cancellation of the preferential subscription rights

The Board of Directors of the Company expects that granting warrants to this staff member working for the Company or its subsidiaries will result in an increased motivation of the beneficiary of these warrants and that this will create a more intense focus on the interests of the Company and the shareholders.

6. Other persons than employees, for whose benefit the preferential subscription rights are cancelled

Under the Warrant Plan 2010 (C), no warrants are issued to other persons than employees.

Done and approved on 23 December 2010.

On behalf of the Board of Directors of the Company,

(signature)

(signature)

Onno van de Stolpe
Director

Ferdinand Verdonck
Director