

## Galapagos NV

Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium  
Enterprise number: 0466.460.429 – RLE Mechelen

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

#### Cancellation of the preferential subscription rights of the existing shareholders in the framework of the issuance of up to 2,389,347 shares

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#### 1. Subject-matter of the report

This report is drafted by the Board of Directors of the limited liability company ("*naamloze vennootschap*") Galapagos (hereinafter the "**Company**") in accordance with the provisions of Article 596 of the Belgian Companies Code (hereinafter the "**Companies Code**"). This report pertains to the cancellation of the preferential subscription rights of the existing shareholders of the Company in favor of a large group of local and foreign investors, who will be contacted on 19 October 2010 by ABN AMRO BANK NV (the Netherlands) and KBC SECURITIES (Belgium) in connection with an accelerated book building offer, and possibly also during the days following the aforementioned offer, but at the latest on 5 November 2010. The preferential subscription rights will be cancelled in connection with a contemplated capital increase within the scope of the authorized capital, subject to the condition precedent of subscription and realization of the capital increase. A maximum number of 2,389,347 Company shares will be issued in the framework of this capital increase.

In accordance with Article 596 of the Companies Code, this report explains and justifies the cancellation of the preferential subscription rights in connection with the contemplated capital increase. This report explains and justifies in particular the issue price of the new shares and the financial consequences of the issuance of the new shares for the existing shareholders.

This report should be read together with the report of the statutory auditor of the Company, Deloitte Bedrijfsrevisoren, a civil company having the form of a cooperative limited liability company ("*coöperatieve vennootschap met beperkte aansprakelijkheid*"), represented by Mr. Gert Vanhees, and drafted in accordance with Article 596 of the Companies Code.

#### 2. Explanation regarding the authorized capital

On 2 June 2009, the extraordinary shareholders' meeting of the Company decided to renew the Board of Directors' power of attorney to use the authorized capital. This power of attorney authorized the Board of Directors to increase the share capital once or several times with up to EUR 115,068,666.45. This authorization 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) 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 defence against a hostile take-over, and (iv) strengthening the Company's cash position.

The power of attorney for 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.

At the occasion of increasing the share capital within the limits of the authorized capital, the board of directors may, in the interest of the Company, restrict or cancel the preferential subscription rights of the shareholders, even if such restriction or cancellation is made in favor of one or more persons that are not employees of the Company or its subsidiaries.

As at the date of this report, the Board of Directors has already made use of the renewed power of attorney regarding the use of the authorized capital at two occasions.

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, as a result of which the increase of the share capital amounted to 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.

The up to 2,389,347 new shares to be issued in connection with the transaction described in this report 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 new shares. The difference between the fractional value and the issue price shall be booked as issuance premium. Hence, the envisaged capital increase by issuing up to 2,389,347 new shares allows for the share capital to be increased with up to EUR 12,926,367.27, i.e. maximum 2,389,347 shares times EUR 5.41 (i.e. the fractional value per share as at the date of this report, rounded up) and the account "issuance premiums" with an amount equal to maximum the number of new shares to be issued, multiplied with the difference between the issue price of the new shares and the aforementioned fractional value. The envisaged capital increase therefore falls within the scope of the aforementioned first slice of 25% of the power of attorney in relation to the use of the authorized capital.

### **3. Identity of the beneficiary of the cancellation of the preferential subscription rights**

The Board of Directors proposes to cancel the preferential subscription rights in favor of a large group of local and foreign investors, who will be contacted on 19 October 2010 by ABN AMRO BANK NV (the Netherlands) and KBC SECURITIES (Belgium) in connection with an accelerated

book building offer, and possibly also during the days following the aforementioned offer, but at the latest on 5 November 2010. The preferential subscription rights will be cancelled in connection with a contemplated capital increase within the scope of the authorized capital, subject to the condition precedent of subscription and realization of the capital increase.

In connection with this accelerated book building offer, the members of the Board of Directors shall not subscribe to the proposed capital increase.

#### **4. Proposed issuance**

In accordance with a temporary provision in the articles of association regarding the authorised capital, the Board of Directors intends to increase the Company's share capital with an amount of up to EUR 12,926,367.27, i.e. up to 2,389,347 shares times EUR 5.41 (i.e. the fractional value per share as at the date of this report, rounded up), and the account "issuance premiums" with a maximum amount equal to the number of shares to be issued multiplied with the difference between the issue price of the new shares and the aforementioned fractional value. This capital increase shall be realized by issuing up to 2,389,347 new shares, the issue price of which shall be fixed at EUR 11.50 (at least) per share in connection with the aforementioned private offering. The maximum number of new shares that will be issued by means of this capital increase represents just below 10% of the total number of the Company's outstanding shares right before the issue date.

If not all new shares offered are subscribed to, the capital increase can nevertheless take place, up to all or part of the subscriptions received by the Company for a price equal to or higher than the issue price fixed by the Board of Directors and subject to a decision of the Board of Directors to do so.

Even if all new shares offered are subscribed to, if necessary, the capital increase can take place for a smaller number of shares than the number of subscriptions received by the Company for a price equal to or higher than the issue price fixed by the Board of Directors and subject to a decision of the Board of Directors to do so.

For the avoidance of doubt, the board of directors can also decide not to carry out the capital increase, even if all or part of the shares are subscribed to.

The subscription period shall commence on 19 October 2010 at the earliest and shall be closed on 5 November 2010. However, during the subscription period, the board of directors of the Company is authorized to increase the share capital of the Company prematurely, up to the number of subscriptions received by the Company until then. The board of directors may also decide to extend, shorten or prematurely close the subscription period, also if the shares were not or only partly subscribed to.

#### **5. Issue price of the new shares**

The investment banks appointed by the board of directors, i.e. ABN AMRO BANK NV (the Netherlands) and KBC SECURITIES (Belgium), shall initiate an accelerated book building procedure with a large group of local and foreign (professional) investors, who must be approached by the investment bank(s) during the subscription period with a view to sounding them out about their interest to subscribe to the new shares to be issued in connection with a private offering.

The new shares to be issued shall be subscribed to in cash. The issue price shall be at least equal to the current fractional value of the existing shares, i.e. EUR 5.41 per share. The board of directors shall fix the amount of the issuance premium and hence, also the final issue price (fractional value plus the issuance premium) on the basis of the results of the aforementioned accelerated book building procedure. As the case may be, the final issue price may be lower

than the (average) closing price of the Company's shares on the day prior to (or during 30 days prior to) the date of subscription or the issue date of the new shares.

From the final issue price, an amount equal to the fractional value of the Company's shares prior to the capital increase (i.e. EUR 5.41 per share or up to EUR 12,926,367.27 in total) shall be allocated to the Company's share capital, it being understood that the balance shall be booked as issuance premium. The issuance premium shall constitute a guarantee for third parties, in the same manner as the share capital, and shall be booked on an unavailable account. Such reserve account may only be reduced or deleted from the accounts following a decision of the shareholders' meeting, deciding in the same manner as required for an amendment of the articles of association.

## **6. Rights attached to the new shares**

The new shares shall be dematerialized shares or registered no par value shares; they shall have the same rights and benefits as the existing shares of the Company. They will bear the same dividend rights as the existing shares of the Company. Hence, the new shares shall share in the results of the financial year starting on 1 January 2010. After having issued the new shares, the Company shall file an application to list up to 2,389,347 new shares with NYSE Euronext Brussels and NYSE Euronext Amsterdam. The newly issued shares shall not benefit from the VVPR regime (an advantageous tax system with a reduced withholding tax percentage).

## **7. Justification of the cancellation of the preferential subscription rights of the shareholders**

In connection with the capital increase and the issuance of the new shares, the board of directors shall cancel the preferential subscription rights of the existing shareholders of the Company.

The board of directors has decided not to issue any shares with preferential subscription rights for the existing shareholders.

The cancellation of the preferential subscription rights of the existing shareholders enables the investment banks appointed by the board of directors to offer the new shares directly to a large group of (institutional) investors in Belgium and abroad, who will be approached by the investment bank(s) during the subscription period with a view to sounding them out about their interest to subscribe to the new shares to be issued in connection with a private offering.

First of all, this may enable the Company to expand its existing shareholder structure, both nationally and internationally, which can be beneficial both for the stability of the Company's shareholder structure and for the liquidity of trading the Company's shares. This can be both in the interest of the existing shareholders and of the Company with a view to subsequent capital transactions.

Second, it may enable the Company to strengthen the Company's image amongst institutional investors, both nationally and internationally. This may be beneficial for the further development of the Company's activities.

Third, the Board of Directors is of the opinion that it is not expedient to carry out the envisaged transactions by means of a public offering of shares. Such a public offering is not only expensive, but also requires much more preparation (at least 3 months), as a result of which the Company might miss a potential window of opportunity, currently existing, to attract funds on the capital market.

The board of directors believes that the envisaged capital increase, even with cancellation of the preferential subscription rights, is both in the Company's interest and in the interest of the existing shareholders, because the capital increase will allow the Company to attract new funds quickly and in a cost-effective manner and because expanding the shareholder basis of the

Company should contribute to increasing the liquidity of the Company's shares on the markets in the long run.

The board of directors shall use the new financial means to strengthen the Company's cash reserve in the light of the further implementation of the Company's strategy. More specifically, the proceeds of the capital increase shall be used for potential acquisition opportunities.

## **8. Financial consequences of the transaction for the shareholders**

### *8.1 As to the evolution of the share capital and share in the profits*

Currently, the Company's share capital in accordance with the articles of association amounts to EUR 129,252,393.80; it is represented by 23,893,480 shares. Each share represents 1/23,893,480th part of the Company's share capital. On the basis of the outstanding warrants, up to 2,756,168 additional shares may be issued.

Due to the fact that the current capital increase will lead to the issuance of up to 2,389,347 new shares, this will result in a dilution of up to 9.09% in relation to all existing shares as at the date of this report. In case the shares that could be issued after having exercised all outstanding warrants are also taken into account, the issuance of up to 2,389,347 new shares will result in a dilution of up to 8.23%.

### *8.2 Impact on the Company's book equity*

By issuing up to 2,389,347 new shares, the Company's book equity shall increase. The increase shall be equal to the product of the new number of shares to be issued in connection with the transaction as described in this report and the issue price of those new shares.

### *8.3 Financial dilution following the issuance*

To the extent that the issue price of the new shares 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 new shareholders 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.

## **9. Appointment of an auditor ("*bedrijfsrevisor*")**

The Board of Directors has instructed the Company's Statutory Auditor, the civil company CVBA Deloitte Bedrijfsrevisoren, represented by Mr. Gert Vanhees, to draft a special report in accordance with Article 596 of the Companies Code. For further information please refer to the Statutory Auditor's report.

Done and approved in Brussels, on 19 October 2010.

For the Board of Directors,

(signature)

Onno van de Stolpe  
Director

(signature)

Harrold van Barlingen  
Director