

GALAPAGOS

Limited Liability Company
Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium
Company number: 0466.460.429
RLE Antwerp, division Mechelen

(the "Company")

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 the framework of Warrant Plan 2016 (B)

1 Introduction: subject matter of this report

This report is established on 20 January 2017 by the Board of Directors of the Company in accordance with the provisions of article 596 of the Belgian Companies Code.

In accordance with said article, the subject matter of this report is to provide justification for the proposal to cancel the preferential subscription rights for the benefit of an employee of a subsidiary of the Company. 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 26 April 2016. 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 150,000 naked warrants in the framework of Warrant Plan 2016 (B).

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 article 596 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 26 April 2016 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 49,726,531.42 Euro.

The renewed authorization to use the authorized capital is valid for a period of five years as from the date of publication of this authorization in the Annexes to the Belgian State Gazette. 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 1 June 2016, the Board of Directors partially used its renewed authorization for the use of the authorized capital a first time, with cancellation of the preferential subscription rights, for the issuance of Warrant Plan 2016 and Warrant Plan 2016 RMV, which (after acceptance by the beneficiaries) relate to an aggregate maximum of 634,250 new shares to be issued. The new shares to be issued under Warrant Plan 2016 and Warrant Plan 2016 RMV 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 Warrant Plan 2016 and Warrant Plan 2016 RMV the Board used up to 3,431,292.50 Euro of the authorized capital, as indeed said warrants can result in the issuance of maximum 634,250 new shares, to be multiplied with the then current fractional value of (rounded up) 5.41 Euro per share.

As a result, 46,295,238.92 Euro of the authorized capital is still available on the date of this report.

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 150,000 warrants in the framework of Warrant Plan 2016 (B), is therefore still within the limits of the total authorization of the authorized capital, taking into account the current accounting par value of 5.41 Euro 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 beneficiary of the plan.

The exercise price of the warrants 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 Euronext Amsterdam and Brussels on the last trading day preceding the date of the offer, or (b) the average of the price of the share of the Company on Euronext Amsterdam and Brussels 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 250,187,166.48 Euro and it is represented by 46,256,078 shares, each share representing an equal part of the share capital.

In the event that warrants of Warrant Plan 2016 (B) 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 150,000 warrants to be issued under Warrant Plan 2016 (B) would be exercised and, consequently, 150,000 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) 0.32%.

In 2002, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 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 3,466,407 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) 0.30%.

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 Warrant Plan 2016 (B) cannot be lower than the accounting par value of the share of the Company, the exercise of these (maximum) 150,000 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 150,000 warrants would be exercised, there would be an increase of the equity of the Company for an amount equal to the product of 150,000 and the exercise price per warrant, provided, however, that this increase cannot be lower than 811,500 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 Warrant Plan 2016 (B)

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 Warrant Plan 2016 (B) 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 holder subscribes 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 28 November 2016 (being the date of the most recent issuance of new shares by the Company) and the average of the price of the share of the Company during the 30-day period preceding 13 December 2016 (being the date of the preparation of the simulation), being 55.64 Euro (rounded). On this basis, the market capitalization of the Company amounts to 2,573,489,940 Euro¹. If the warrants to be issued under Warrant Plan 2016 (B) have an exercise price of 55.64 Euro minus 10%, these 150,000 warrants could be exercised at 50.07 Euro, for an aggregate exercise price of 7,510,821 Euro. The market capitalization after the aggregate capital increase (including issuance premium) resulting from the exercise of all 150,000 warrants to be issued under Warrant Plan 2016 (B) would thus amount to 2,581,000,761 Euro and the total number of outstanding shares would amount to 46,406,078. Hence, the price per share would then amount to 55.62 Euro, which is lower than the average price of the share of the Company during the 30-day period preceding 13 December 2016, i.e. 55.64 Euro, resulting in a potential financial dilution of 0.03%.

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

¹ Being 46,256,078 shares times the 30-day average price per share on Euronext Amsterdam and Brussels.

Company at the date of acceptance of the warrants by the beneficiaries; (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 this employee will result in an enhanced motivation of the beneficiary and that it will stimulate a sharpened attention for the interests of the Company and its shareholders.

Made and approved on 20 January 2017.

[Signature page follows]

² Assuming that all 150,000 warrants to be offered under Warrant Plan 2016 (B) are accepted by the beneficiary and considering an exercise price of 55.64 Euro (the average of the price of the share of the Company during the 30-day period preceding 13 December 2016, being the date of the preparation of the simulation), and a share price at acceptance date by the beneficiary assumed to be equal to the last closing price of the share on 12 December 2016, or 55.60 Euro, and taking into consideration the volatility of the share, an exercise term of eight years and actuarial methods commonly used for this purpose, the Board estimates that the total warrant cost for this Warrant Plan 2016 (B) would amount to approximately 3,698,260 Euro under IFRS 2. For reference purposes: under Warrant Plans 2016 and 2016 RMV, after acceptance by the beneficiaries, a total of 634,250 warrants were issued, representing a total estimated warrant cost of 11,685,906 Euro under IFRS 2.

For the Board of Directors of the Company,

Onno van de Stolpe
Director

Harrold van Barlingen
Director

Annex 1 Simulations

A Current situation, before issuance of the new warrants - *Basic*

	Equity ⁽³⁾ in Euro
Amount represented by 1 share	15.34
Total	709,592,891

B Situation before issuance of the new warrants - *Fully diluted*⁽⁴⁾

	Equity ⁽³⁾ in Euro
Amount represented by 1 share	16.16
Total	803,377,636

C Situation after issuance of the new warrants with an exercise price of 50 Euro - *Fully diluted*⁽⁵⁾

	Equity ⁽³⁾ in Euro
Amount represented by 1 share	16.26
Total	810,877,636

D Situation after issuance of the new warrants with an exercise price of 55 Euro - *Fully diluted*⁽⁵⁾

	Equity ⁽³⁾ in Euro
Amount represented by 1 share	16.27
Total	811,627,636

E Situation after issuance of the new warrants with an exercise price of 60 Euro - *Fully diluted*⁽⁵⁾

	Equity ⁽³⁾ in Euro
Amount represented by 1 share	16.29
Total	812,377,636

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 30 September 2016 was taken, as adjusted for the capital increase of 28 November 2016.

⁴ Assuming that all 3,466,407 outstanding granted warrants are exercised, resulting in the issuance of 3,466,407 new shares, as a result of which the share capital of Galapagos NV would be represented by 49,722,485 shares (being the sum of (i) the 46,256,078 shares outstanding as at the date of the report to which this annex is attached and (ii) the relevant 3,466,407 new shares).

⁵ Assuming that (i) all 3,466,407 outstanding granted warrants are exercised (see remark (4)) and (ii) all new warrants are granted and exercised.