

FINAL TRANSCRIPT

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Aug. 12. 2008 / 8:00AM, CRXL.F.PK - Q2 2008 Crucell Earnings Conference Call

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PRESENTATION

Operator

Welcome to the second-quarter 2008 results for Crucell conference call. My name is Sarah, and I will be your coordinator for today's conference.

For the duration of the call, you will be on listen-only. However, at the end of the call, you will have the opportunity to ask questions. (Operator Instructions)

I am now handing you over to Oya Yavuz, Director of Corporate Communications and Investor Relations, to begin today's conference.

Oya Yavuz - *Crucell NV - IR Director*

Thanks, Sarah. Thank you all for joining us today. I'd like to welcome you to our second-quarter 2008 results presentation. This afternoon's presentation will be given to you by our CEO, Ronald Brus, and our CFO, Leon Kruimer. Also present here is our COO, Cees de Jong, who will give an update on our operational excellence program, "Healthy Ambition". The presentation will be followed by a Q&A session and is also being simultaneously audio webcast via our Web site.

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You should all have our press release from this morning. I'd kindly like to ask you to read the forward-looking statement which is on Slide 2 of the presentation.

With that, I would like to hand over to Ronald, who will start by giving you a business review of the second quarter. Thank you.

Ronald Brus - *Crucell NV - President, CEO*

Thank you, Oya. Good afternoon, ladies and gentlemen, and for those who are listening in from the United States, good morning.

I'd like to start immediately with Slide 4, where we have depicted the business highlights for the quarter. We have recorded record monoclonal antibody production yields on our human cell line, and it went as far as 27 g per liter bioreactive space. We've observed continued strong growth of our pediatric and travel vaccines, and particularly we saw very strong sales of Quinvaxem, our pediatric vaccine for five childhood diseases.

Our rabies cocktail had entered in a second Phase II study in the Philippines, and the results of the United States Phase II rabies study are expected to come out in October. We closed several nonexclusive STAR license deals, (technical difficulty) program "Healthy Ambition" is being rolled out at full steam. The target savings are EUR30 million by the end of 2009, and the initial net cost savings of EUR3 million are expected to come in already the second half of 2008.

I'd like to bring you to Slide 5, which depicts our second-quarter results. In the second quarter, ladies and gentlemen, we had a growth of 51% of total revenues and other operating income. What is depicted in the pie in the middle of the page, you see the product sales constituted EUR48 million in total for the quarter, of which 56% was in the pediatric arena and about 30% in the travel and endemic arena.

I'd like to bring you to Slide 6, which depicts our products in the pipeline. You see that we have a pretty full pipeline that we believe is offering an excellent scope for long-term growth.

I will go over some of the programs in detail later on in the presentation, but I'd first like to start telling you about the record yields that were derived on our PER.C6 cell line, and you see that on Slide 7.

Basically, what we were able to do, together with DSM, is to continue to let the cells live longer in the reactive space, and we do that using a proprietary technology that we call XD. Well, doing so, the yields that are typically on a mammalian cell line in the range of 3 g per liter are going up now to a total of 27 g per liter.

I'd like to explain to you why we feel that is an important achievement. Sales and the use of monoclonal antibodies for certain indications is hampered by the fact that the price to produce a certain human monoclonal is extremely high. As a ballpark figure, we say the price for 1 g of a monoclonal antibody is around \$1,000.

Being capable of increasing the yield about tenfold will significantly reduce and open up a scope of new potential indications for monoclonal antibodies, such as rabies and such as influenza. Therefore, we are extremely pleased with this collaboration with DSM in which we were capable of bringing the yield so high.

Then I'd like to go to Page 8 which are second-quarter results with respect to the products I highlighted. Product sales in the second quarter of '08 were EUR48.4 million, which is a growth of around 50% compared to the same quarter of 2007, in which it was EUR32.2 million. It's representing sales of pediatric vaccines, around 56%, endemic vaccines around 30%, and other products 15%.

In the pediatric arena, we particularly saw a very strong growth in the second quarter. That was specifically driven by excellent sales and performance of our lead product, Quinvaxem.

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In the travel and endemic, we see continued good growth compared to the second quarter of 2007. That was particularly driven by Epaxal and Dukoral. We see a significant [intact] demand and geographical expansion potential, and that's what we are exactly aiming for for the time to come.

Let me first discuss with you our lead program, Quinvaxem. That's depicted on Page 9. As we said earlier in our call after the first quarter, Quinvaxem is doing particularly well. We have secured contracts worth \$360 million. These contracts go to the end of 2009.

We noticed that Panacea was awarded contracts worth US\$34 million today from UNICEF. We are pleased with the recent developments because we see that in the perspective of our \$130 million contract that we secured in the first quarter of this year. We feel that the \$34 million that Panacea was rewarded could (inaudible) out to be 10 million doses.

We are pleased that we continue to see very strong growth and very strong demand, and we just want to reiterate that we are quite bullish about the developments of Quinvaxem for the coming years. Therefore, we reiterate that the 2008 sales for Quinvaxem will be significantly above the ones of 2007.

When we go to Slide 10, I would like to go over some of the pipeline highlights, especially rabies, rabies that we partnered with Sanofi Pasteur. The rabies study in the United States has been final with respect of subject enrollment and is completed because all subjects are already out, and we are talking about 140 patients. Now, we will announce the results in an October 1 meeting in Atlanta.

The study in the Philippines that we started earlier this year is over half of its way with respect to subject enrollment. We anticipate to complete subject enrollment and have the last patient out of the study already before year-end. We will report on the results of this study as quickly as we can.

Also, on tuberculosis, enrollment and study results are very encouraging. The CD8 immune responses that we found in the first studies using our new vaccines against tuberculosis were second to none -- were unparalleled. We initiated a third study in the United States, and also there recruitment goes very well.

Finally, what I'd like to discuss is a new, novel antibody against influenza. We have demonstrated that it provided immediate protection in neutralizing the broadest range of H5N1 strains in all preclinical models. Those results we feel demonstrated the very interesting potential for pandemic preparedness.

What we are currently doing is setting up a study and having [halfway] with this study to demonstrate the efficacy of this new approach with an antibody compared to the gold standard, Tamiflu. We did that because we feel, at this moment in time, Tamiflu is being considered to be the gold standard in the prevention of this disease, and also is being considered to be the gold standard in the treatment of such disease.

In our study, we will compare our antibody given before and four days after the challenge, with multiple doses of Tamiflu. We were looking forward to the results based on the initial results that we saw in our preclinical models -- that we could really taper the disease quite well.

I'd like to go to Page 11 to talk about the recent agreements. What you notice, that there were a lot of STAR agreements signed with Celltrion, with Toyobo and with Bioceros, and also in the PER.C6 arena, we did an additional deal with (inaudible) together with DSM to Avid BioServices.

With that, I would like to hand it over to Cees de Jong who will talk you through the progress that we have made in our "Healthy Ambition" program, and then I will conclude later on with the final slide. Cees, please?

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Cees de Jong - *Crucell NV - COO*

Thank you, Ronald. I'd like to take you immediately to Sheet 13, and remind you of the drivers that we have to start the operational excellence program that we call "healthy ambition." After the considerable expansion of the work force, the number of locations and the complexity within the Company, there were three drivers for the operational excellence program.

First of all, we wish to achieve synergies from further integration of locations and functions. Secondly, we envisage possibilities to create more competitive cost position, and particularly through complexity reduction. The third driver was that we saw an opportunity to focus on true lean operations. And all of that to create a better cash generator for the biotech pipeline.

Now, on Sheet 14, I'd like to explain to you how we have completed the analysis and validated the savings in the five work streams. As I will go along, you will hear me talk that some of the implementations have already started. At the end of this day, I explained to you that we work in five streams. Let me touch upon each of them.

In procure-to-pay, we have now confirmed significant opportunity to reduce our third-party spend, as our spend base is highly fragmented and under-leveraged, and in addition to the implementation of several global policies, will optimize our external spend. To drive the savings in the procurer-to-pay area, we have strengthened our internal procurement function already. Under overhead, the actions are more or less straightforward -- rightsizing of capacities and organizational models in the various corporate functions. Some of the identified measures have been implemented already, and other initiatives are being rolled out.

Then, in marketing and sales and business development, we have identified opportunities for further efficiency in the way we run our marketing and selling. Of course, we want to do so whilst maintaining our very good product sales growth. Some of the measures have already been announced, and for others we are preparing the rollout.

In addition (inaudible) under marketing and sales, we have identified or determined how to optimize our product portfolio and reduce our cost to serve, hence improve our margins. Now, the full effects of such product portfolio optimization are only expected towards the end of next year.

In manufacturing and supply chain, we have validated significant savings, and in part, of course, manufacturing and supply chain will be benefiting from the reduced product portfolio complexity but also there are opportunities in several business processes for optimization. This includes selective outsourcing of non-core functions or positions. As a consequence, working capital will decrease. Also, to drive implementation in the manufacturing and supply chain area, we have strengthened our operations leadership function.

Last but definitely not least, in realignment, we assessed our production capacity utilization and validated opportunities for rationalization. In addition thereto, there will be selective divestments. We are currently bringing the team together to drive the implementation of these various programs in the realignment area.

Let me take you to Sheet 15, and tell you what this all will bring. I think it's fair to say that we have now carried out a rigorous review of all our business processes. This will lead to product portfolio optimization; this will lead to process and infrastructure optimization, (inaudible) rationalization and, as said, a further integration and streamlining of various functions. As a result, and such results to be achieved by the end of 2009, we will achieve a run rate of cost savings of 15% on the 2007 cost base and excluding R&D, or in other words, a saving of EUR30 million. We expect about 40% of such savings to have an impact on gross operating margin and about 60% thereof in SG&A. In addition to thereto and Ron already alluded to, the initial net cost savings in the second half of 2008 will be EUR3 million.

With that, I'd like to hand back to Ronald.

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Ronald Brus - *Crucell NV - President, CEO*

Thank you, Cees. I'd like to go immediately to my concluding Slide, number 16.

I think, with what we have seen in the first half here, that Crucell is well on its way to keep its promise of accelerating growth. We have very strong vaccine sales and we're looking forward to double-digit growth going forward. We'll continue broadly licensing our technologies and pursue key partnerships. On top of that, there will be a very strong focus on progress in clinical development, such as tuberculosis, influenza, and rabies. Finally, our full-steam rollout of our operational excellence should bear its first fruits in the second half of this year.

With that, I would like to hand it over to Leon Kruimer, who will discuss the financial results with you.

Leon Kruimer - *Crucell NV - CFO*

Thank you, Ronald. If you would join me on Page 18, which highlights the end of the second quarter financially, during the second quarter, our top line grew 51% to a total of EUR59.6 million. That compares to a total of EUR39.4 million in the comparable quarter last year. Actually, in current currencies, the growth would have been higher, 63%, so the difference accounts for basically the depreciation of the dollar vis-à-vis the euro.

We saw strong pediatric sales, but also higher sales in our travel vaccines and higher license fees. In other words, virtually every line in our revenue section, we saw a very healthy growth from quarter to quarter.

The increase in license revenues is mostly driven by the milestone payments for the commencement of two Phase II rabies studies.

Our gross margins amount to 36%. That's 3 percentage points lower than in the comparable quarter 2007, mostly due to a variation in product mix. Our gross margins in the second half of 2008 are expected to be positively influenced by especially the sales of our flu product, Inflexal V, which is mostly shipped for the biggest part in the third and some in the fourth quarter.

Our net loss narrowed to by 57% to EUR7.9 million. That compares to EUR18.2 million in the comparable quarter in 2007, so a very nice decrease in the loss recorded.

Cash and cash equivalents came in just under EUR107 million. The deterioration of the cash flow and working capital is expected and is due to the seasonality of the business, building up our inventories for flu but also building up our inventories for some travel vaccine and Quinvaxem for sales in the second half of the year.

The net cash used in operating activities, finally, was EUR18 million. That is EUR8 million higher than the EUR10.2 million in the comparable quarter in 2007 and again accounted for the mostly increase in inventories and accounts receivable, somewhat offset by an increase in accounts payable.

On Page 19, we see an abbreviated income statement for the first half year, the first six months of 2008. Total revenues and operating income combined is just over EUR107 million, EUR107.5 million, significantly above the level of EUR74.5 million in the first half year of 2007.

If we just go to the total revenue, which excludes government grants and other income, it's EUR99 million, and that's a 45% growth over last year. Gross margins come in at EUR37.6 million or 38% of revenue for the first half year. That compares to EUR21.8 million or 6 percentage points higher than last year.

The operating expenses have gone down to EUR59.5 million versus EUR66.2 million. The loss for the period amended to EUR16.9 million or \$0.26 per share. On a cents-per-share basis, the decrease in loss amounts to 54%.

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If you go to the same picture on Page 20, but now only look at the second quarter, the topline revenues and operating income there is EUR59.6 million. Total revenue, again excluding grants and other income, is EUR56.2 million. Gross margin amounts to EUR20.4 million or 36%. As said, the decrease of 3 points in gross margin is mostly due to product mix in the particular period, the second quarter that we're looking at.

Operating expense is slightly below the same quarter last year, EUR33.5 million. Loss for the period -- EUR7.9 million or \$0.12 per share. Again, on a cents-per-share basis versus last year, we are talking about a 57% decrease narrowing of the loss.

Page 21 details for the second quarter the sources of revenue and other operating income. First of all, if we look at revenues, the biggest chunk of that of course, as Ronald already said, is product sales. It accounts for 48.4% and is divided by pediatric vaccines, travel vaccines and other. Pediatric vaccines is 56% of it, and again there the big driver is Quinvaxem.

License revenue came out at EUR5.5 million, more than tripling of the same amount in the same quarter last year, again mostly because of milestones on the progress, good progress of our development programs.

Service fees amount to EUR2.3 million, slightly lower between the EUR3.2 million last year. I must say that is to be expected because, as products move into the clinic, right, the contribution for pure research from partners decreases.

Other operating income consists of grants, which are EUR0.2 million compared to EUR2.1 million last year. This is mostly due to timing and the specific recognition of the grant revenue as it comes in. It does not signal a structural decrease in grants that a company receives.

Other consists of -- went up significantly and there we account for the R&D contributions to programs that are essentially ours and for which we have not transferred the IP rights to partners or to other parties that we have licensed. The total then of all these items comes out to EUR59.6 million.

Please join me to Page 22 which details the cost of goods sold distributed between costs of (inaudible) goods sales and the cost of service fees. If you could see, the vast majority, as expected, would be the cost of product sales, EUR34 million, and the total with the [EUR1.7] million in service fees amounts to EUR35.8 million.

In the operating expenses on Page 23, R&D has increased slightly to EUR17.6 million, quarter-on-quarter. This is mostly due to the timing and the specific pattern of expenses during the year.

Selling, general and administrative have decreased to EUR15.9 million. The reduction is taking place both in selling and marketing costs as well as general and administrative costs. There was no impairment. The total of these operating expenses amounted to EUR33.5 million.

On Page 24, as you are used to the details on the cash flow, operating activities have used EUR80.0 million in cash. That is up from last year same-quarter and basically can be explained for the largest part by the increase in inventories that we've built up during the year-to-date, and again also for flu a significant part to be sold in the third or fourth quarter.

Investing activities brought in EUR1.3 million, financing activities EUR2.5 million. There was a small amount which is comparable to last year, which is an exchange rate effect on the cash holdings of the Company. The total net decrease in cash therefore is EUR15 million.

Cash and cash equivalents as of June 30 is EUR106.9 million. At the beginning of the year, it was EUR163.2 million. To give you a flavor of last year at the same time, it was EUR130.8 million.

On Page 25, my concluding slide, which talks about the phasing of revenue and the outlook for the rest of the year, which we basically repeat, as we've done before, we expect the combined full year 2008 revenue, total revenue and other operating

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income to be 20% in constant currencies. We expect higher margins compared to 2007. For your recollection, 2007 overall was 34%.

The phasing of revenues and operating income will be very much, we expect, like it was in 2007. In other words, the first two quarters account usually for approximately a third to 40% of our revenues. The bulk of our revenue comes in in Q3 and Q4. That is not in the least due to the seasonality brought on by our flu shot business.

Cash flow and working capital we expected to significantly deteriorate in the first half, which has happened again due to the seasonality of the business and building of working capital. We expect that to reverse in the next two quarters. The negative cash flow that we've realized in the first half but also in the first nine months we expect to reverse in the final quarter of 2008, and we expect to end the year with positive overall cash flow.

With that, I'd like to give it back to Oya, who will lead the question-and-answer session.

Oya Yavuz - *Crucell NV - IR Director*

So yes, thanks, Leon. We will take questions now. Please limit yourself to one question per caller, and if you could please state your name and affiliation clearly, thank you all. I will turn it to the operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Mutlu Gundogan, RBS.

Mutlu Gundogan - *RBS - Analyst*

Good afternoon. This is Mutlu Gundogan at RBS. I have just one question. On the milestones going forward, can you talk a little bit about news flow and milestones that we can expect in the remainder of the year?

Cees de Jong - *Crucell NV - COO*

Mutlu, thank you. One of the most important things is, when you start clinical studies, that you also finalize them. You can expect milestones and milestone payments for finalizing several clinical studies for the remainder of the year. Particularly, I am thinking about influenza, our agreement with Sanofi Pasteur. We are pretty confident that there's a milestone coming.

But we are also talking about rabies, two clinical studies that we will be in a phase that could generate milestone payments from them. So those are, I think, the most important ones.

Other important events are going to be our continuous growth, what we believe, of our product portfolio that's doing extremely well. Especially, we are looking forward to generate more and more sales (inaudible). I must add that is despite the fact that we see some competition coming from Panacea. I'd like to take this question to discuss that at it with you, and that has to do with the following fact.

Maybe you have noticed that Panacea was rewarded with about a reward of 10 million doses. I think you need to put that in perspective with what we've been rewarded, and that's EUR130 million in a quarter of this year, EUR130 million. If you calculate that back, you see that it's an entirely different amount and number. Second, what's important to note is that you can see that

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the world is switching towards liquid vaccines. So with respect to our market share in this growing market, we are very confident that the future looks pretty bright for Quinvaxem.

Now, it has surprised us a bit that Panacea was only awarded 10 million doses, and we do not know exactly the cause, why that was so low. We are pleased with that event, and for us, it just strengthens our belief that we are contributing tremendously with Quinvaxem in this arena of (inaudible) vaccines.

That was it, Mutlu. Thanks.

Mutlu Gundogan - *RBS - Analyst*

Okay.

Operator

Jan Van den Bossche, Petercam.

Jan Van den Bossche - *Petercam - Analyst*

Yes, Jan Van den Bossche, Petercam. Working further down the question of what you said earlier on Panacea, Ronald, the strong increase in pediatric vaccines in the second quarter, as you said, was largely driven by Quinvaxem sales in Q2. Is that also the explanation for the 3 percentage point decline in the gross margin that we've seen in the year-over-year gross margin comparison? Do you think that the sales of pediatric vaccine in the second quarter is a good run rate, I would say, for the second-half contributions (technical difficulty) Q3 and Q4, or do you expect, as you said, to benefit further from this growing market also already in Q3 and Q4 of this year? Thank you.

Leon Kruimer - *Crucell NV - CFO*

Jan, this is Leon Kruimer. The prominence of Quinvaxem as a percentage of our total product sales has indeed an affect on the overall margin, right? You've got to realize, which is very, very important, that Quinvaxem is basically sold to one major customer worldwide by a very, very focused small sales organization with very little support. So overall, from an overall perspective, sales of Quinvaxem are very, very profitable to us. As a matter of fact, they are probably among our most profitable products.

So although the gross margin, gross product margin after cost of goods sold, is impacted, right, it is a boom to the Company as a whole.

Jan Van den Bossche - *Petercam - Analyst*

Okay.

Operator

Peter Welford, Lehman Brothers.

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Peter Welford - *Lehman Brothers - Analyst*

I've got a question regarding the Inflexal V product. I think this is really a point of clarification. Did I hear correctly from Leon that the sales would mostly this year be weighted towards Q3, or it was weighted towards the second half of the year? Because I know it always does change somewhat from year to year, depending on how easy it is to manufacture the strains and how you've managed to get on manufacturing your products and then delivering it.

Cees de Jong - *Crucell NV - COO*

Let me answer that question. This is Cees. Sales of Inflexal will be throughout the second half of the year, so both in Q3 and Q4, and manufacture of the product has largely been completed.

Peter Welford - *Lehman Brothers - Analyst*

Okay, that's great. Thank you.

Operator

Marcel Wijma, SNS Securities.

Marcel Wijma - *SNS Securities - Analyst*

Yes, good afternoon. Earlier this year, you announced that you achieved record yields of PER.C6. What impacts do you see, if any, on the number of licenses and the fee price per license? Do you expect to increase your license fee on PER.C6? Thank you.

Ronald Brus - *Crucell NV - President, CEO*

Marcel, this is Ronald Brus. I think there are two things here to discuss. First of all, as you might know, we are using PER.C6 for a lot of our own internal programs. Reducing the cost of goods for us is an extremely important goal to achieve, so programs like rabies, influenza but also other things that are in our pipeline, will very much benefit from a reduced cost of goods realized with a PER.C6 (inaudible).

Second, what we do see now is that, given the record yields, there is very strong interest from Big Pharma to see how we have achieved this, why it's possible that these cells are producing so much. Indeed, we expect a very nice stream of licenses coming in for the next half.

With respect to the license price, we do have a kind of a politic here where we say, okay, the policy is as follows. If we can contribute in a major way to a pharmaceutical company that can bring a product to the market that it could otherwise not bring to the market, we will price our PER.C6 technology accordingly to the economical benefit that we realize for such a company.

So the better we are with respect by reducing cost of goods, the more avenues we open for other companies to go into. For example, the infectious disease arena with products, we see that the opportunities for PER.C6 will rise.

Operator

Fabian Smeets, Rabo Securities.

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Fabian Smeets - *Rabo Securities - Analyst*

I have a question regarding the "Healthy Ambition" program. It is said that you want to optimize your product portfolio. What could be the more practical impact of this? Does this also mean out-licensing products, selling them, something in the order of this?

Cees de Jong - *Crucell NV - COO*

Thanks for the question, Fabian. This is Cees. No, we will not be as bold as out-licensing whole products. However, when we look in our product portfolio, we've, in a number of cases, got multiple presentations of single products, or in various of our products, we manufacture in some very small lots.

When we talk about product portfolio rationalization, it is all about standardizing our offering and making sure that small lots and small orders are being manufactured in the most efficient way.

Fabian Smeets - *Rabo Securities - Analyst*

Okay.

Operator

Oscar Izeboud, Kempen & Co.

Oscar Izeboud - *Kempen & Co - Analyst*

Good afternoon, gentlemen. I have another question on your margins. I was wondering that the contract that came in in Q1 this year has different terms with UNICEF than the contract you had in December 2006. Meaning, can you see in the contracts from UNICEF that there is competition for -- from companies such as Panacea?

Cees de Jong - *Crucell NV - COO*

Thank you, Oscar. I don't think we should disclose the terms of the contracts that we have with important customers as UNICEF, but let me say that the demand for pentavalent vaccines is truly accelerating as more and more countries are implementing the [HIP] vaccination. That means the entry of the two new competitors was expected by us and indeed should not significantly affect our Quinvaxem sales plans.

Oscar Izeboud - *Kempen & Co - Analyst*

So volumes can go up but prices could come down?

Cees de Jong - *Crucell NV - COO*

As said, the entry of the two players does not significantly affect our sales plans, and I don't think we should discuss volumes or prices specifically for these products.

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Oscar Izeboud - *Kempen & Co - Analyst*

Okay, thank you very much.

Operator

Jan Van den Bossche, Petercam.

Jan Van den Bossche - *Petercam - Analyst*

Yes, on the "Healthy Ambition" plan, Cees, you mentioned during your part of the presentation that the net cost saving in 2008 second half would be EUR3 million, implying that there is kind of a notion of gross saving and some kind of provision. Can you confirm that this is a right interpretation and give some flavor on what you expect to take in terms of provisions coming to your EUR3 million net number for second half?

Cees de Jong - *Crucell NV - COO*

Jan, you are correct; there is a notion of gross and net savings, and the amount mentioned for the second half of 2008, the EUR3 million, was a net amount. The full-year restructuring (technical difficulty) to achieve the full EUR30 million will probably be less than EUR5 million.

Jan Van den Bossche - *Petercam - Analyst*

EUR5 million of provisions taken partly in '08 and partly in '09 then?

Cees de Jong - *Crucell NV - COO*

That's correct.

Jan Van den Bossche - *Petercam - Analyst*

Okay. Can you give any indication how this partition will be timed? I would imagine that most of it would come in 2008.

Cees de Jong - *Crucell NV - COO*

Yes, I don't think we should give such partition, Jan. That's too much detail.

Jan Van den Bossche - *Petercam - Analyst*

Okay, no problem. Thanks.

Operator

Marcel Wijma, SNS Securities.

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Marcel Wijma - SNS Securities - Analyst

Yes. Again, I've got, if I may, two questions. One is regarding the cash outflow. If I'm correct, the cash outflow for the first half year was EUR57 million, of which EUR21 million went to the suppliers for the inventories. Can you tell me where the rest went to?

My other question is from a different level. Your partner, DSM, stated in the past some statements about the size of the protein market being about EUR50 billion and that with PER.C6 there was a possibility to get like a share of this market of around 20% to 25%. Do you have any statements on this? Thank you.

Leon Kruimer - Crucell NV - CFO

Marcel, this is Leon Kruimer. On the cash flow, I think the most useful is if you would look at a cash flow statement for the six months included in the press release, which in short gives you, from operations, plus non-cash items, a reversal of non-cash items, give you an amount of -4.5. Approximately EUR45 million is due to changes in working where the vast majority is accounted for by increase in inventories, EUR28 million, very minor from investments, and a small amount invested in financing activities. So that's how you get to your EUR56 million outflow for the first six months.

Ronald Brus - Crucell NV - President, CEO

Okay, Marcel, I will take the question with respect to the market on proteins and monoclonal antibodies that are produced on mammalian systems. I think it's all good to know that the lion's share of proteins and monoclonal antibodies today is produced on a cell line that's called Chinese hamster ovary cells. These cells were for the first time used by Genentech in the early/mid '70s, and they were just cells that were used in the laboratories to express certain parts of DNA. Now, that has become, in a period of 30 years or 35 years, more or less the gold standard for the industry.

What you currently see is that old cell line is generating monoclonal antibodies and proteins for the vast majority of products throughout the world. Even if you look at, for example, competition in China, you see that they are all using these Chinese hamster ovary cells. Also, some of the companies that are producing or want to produce biogeneric drugs are using those Chinese hamster ovary cells.

Now, one of the things that everyone should realize is that the technology (inaudible) is not proprietary for any company. That means it is basically in the public domain and everyone can start with it.

Another important thing that everyone should realize is that [CHO] cell technology has an experience of about 30 to 35 years in which companies were capable of going up with the yields in the matter like they did, up to now record yields on [CHO] that go up to, let's say, 10 g per liter.

We, together with DSM, are using the PER.C6 cells because we believe it's better to produce human monoclonals but also human proteins on a human platform and add human post-translation modifications to those molecules. On top of that, the experience of DSM with respect to economic production on cell systems and (inaudible) systems has significantly contributed to a system now that we can offer to the world that shows and demonstrates really record yields.

Now, looking at the entire market and knowing how conservative the pharmaceutical industry is, we understand that it will take some time until people will really sign up PER.C6 as the method and technology of choice to produce their monoclonals and proteins. As you might know, if you switch from Chinese hamster ovary cells for a product like erythropoietin to PER.C6, you need to do a full-fledged clinical protocol and a full-fledged clinical program again, so that warrants that these companies will continue to produce the products that are currently on the market, on the current systems.

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We are especially interested in tapping into new products. That's where we set out our goal to get a significant share of the market with respect to new products that are coming out of the pipelines of the industries, and we feel there that PER.C6 is the system of choice.

Now, we do not control, however, the progress that those companies are making with their programs. And we just see that some of those programs are going faster than others, but we see that we are making tremendous progress with the ultimate yields. Since prices are under pressure, we believe that there is a very good chance that PER.C6 can achieve a reasonable share in the market and that market is growing extremely fast. Whether or not it's 20% or 25% all-new products that are coming to the market is hard to say, but it is an aim that we've set out ourselves to do, to bring PER.C6 to all big companies in the world.

Operator

Tony Campbell, Knott Partners.

Tony Campbell - Knott Partners - Analyst

Good morning. I'm going to give you two questions. The first question -- when do you expect to develop a 6-in-1 vaccine? My second part of the question is at what point should we expect you to increase your guidance for this year?

Ronald Brus - Crucell NV - President, CEO

Thank you, Tony. This is Ronald. I was already afraid that you would ask those questions.

Let me first start with the first one, and that is when are we going to develop a 1-in-6 vaccine. Basically, what it will entail is Quinvaxem plus another antigen that we will likely dissolve in the liquid, so that there is -- instead of a pentavalent vaccine, we now have six antigens in one shot.

We are not going to tell you how the development is going to go because of competitive reasons, but yes, we are working on such an approach and we will continue to work on such an approach because we feel that we are actually quite good in formulating these kind of different kind of challenges.

Now, you might appreciate that we were the first who came out with a liquid with five antigens, so we'd also like to be the first to come out with a complicated complex of six antigens.

Now, the second question is, are you -- and when are you going to (technical difficulty) basically the guidance for the year? We had a very good first quarter, we had an even better second quarter, but like Leon had stipulated earlier, for us, the first of two quarters are basically one third of the entire year. Now, we notice that there's a lot of uncertainties in the world, and we feel it's prudent to keep our guidance the way it is today.

You will appreciate that, if the results of Q3 are as such that -- are as good as the Q2, then we might feel that it's important to go back to the market, but then we can really act upon something and then the guidance that we will give you is a guidance that is a realistic guidance based on a fair amount of experience over the year.

Now, it's just too early, too many uncertainties, and we like to be, at this moment in time, really on the conservative side. Thank you.

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Tony Campbell - Knott Partners - Analyst

Thank you.

Operator

Oscar Izeboud, Kempen & Co.

Oscar Izeboud - Kempen & Co - Analyst

Yes, one short question on the seasonal flu vaccine you are developing with Sanofi -- the trial started late in 2007 for the flu vaccine season, and results are probably due. Do you have any idea or is there any forum where you expect to publish the results of this trial, of this Phase II trial?

Ronald Brus - Crucell NV - President, CEO

Oscar, you know that Sanofi holds its cards very close to the chest. We are not free to tell you about these kind of things that are very important for Sanofi because their flu sales are about \$1 billion-plus a year. What I can tell you is that we expect a milestone payment of Sanofi Pasteur based on the results of this trial the next quarter.

Oscar Izeboud - Kempen & Co - Analyst

One more quick question if I may? Cees de Jong mentioned selective divestments on one of his slides. Could you give us some more color on what these selective divestments could be?

Cees de Jong - Crucell NV - COO

Yes, sure, Oscar. What you should think about is plots of land and/or buildings that will no longer be needed on the individual sites that will be divested.

Oscar Izeboud - Kempen & Co - Analyst

But that would -- that you would subscribe to the EUR30 million in savings or profits that you would make?

Cees de Jong - Crucell NV - COO

In part, we will be able to fund some of the program from this, yes.

Oscar Izeboud - Kempen & Co - Analyst

Okay, thank you.

Operator

Peter Welford, Lehman Brothers.

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Peter Welford - *Lehman Brothers - Analyst*

Hello. I'd like to follow-up with two questions if I can. Firstly, on the financials, could you possibly give us some sort of breakdown of the vaccine and the protein businesses? I know you did that in the first quarter. I wonder if anything will be available for Q2 to give us an idea of the split between those two.

Secondly, on the press release, you talk about the H9N2 virosomal flu vaccine. Again, I was just asking for some clarity on the paragraph that talks about that there. Am I right in understanding that your virosomal vaccine had inferior immunogenicity response but you saw better tolerability with your product and that is then going to form the basis of going into the further trials? Could you just I guess go to a bit more detail on what exactly the results from that trial were? Thank you.

Ronald Brus - *Crucell NV - President, CEO*

Peter, this is Ronald. I will take the second question. Like others, we've been able to demonstrate that if you use [crude] material and you add aluminum to that [crude] material and especially with the, let's say, the cleanness of the solution that you inject in humans, if you add aluminum to a not-so-clean formulation, you get a better response for this specific flu strain.

It's not just us that's been able to demonstrate, and that's also in other cases been demonstrated by I think Sanofi, has also been demonstrated by Glaxo. So indeed, you are absolutely right in the conclusion of what you just observed.

For the second question, we got back to you or Leon, what would you suggest?

Oya Yavuz - *Crucell NV - IR Director*

Peter, I will get back to you after the call on that.

Peter Welford - *Lehman Brothers - Analyst*

Thank you very much.

Ronald Brus - *Crucell NV - President, CEO*

(multiple speakers)

Peter Welford - *Lehman Brothers - Analyst*

Yes, thank you.

Operator

Jan Van den Bossche, Petercam.

Jan Van den Bossche - *Petercam - Analyst*

Yes, two final questions from my side -- first of all, on the Ebola program, the trial is still blinded. Could you give any indication when you expect results from this trial to become available? Secondly, and that's financial housekeeping -- on the cash flow

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statement, there was a EUR3 million cash inflow in the investing activities line, proceeds from financial assets. Can you give any clarification on what this inflow represents and some more detail on that line, please? Thank you.

Ronald Brus - *Crucell NV - President, CEO*

Jan, this is Ronald. I will answer the first question with respect to clarity and timelines and events with respect to Ebola. As I have indicated earlier also after the first quarter, we are absolutely pleased to give you right timelines, etc., for the things that we are totally ourselves in control for. Once we do things with organizations like the NIH or the American government, we need to step back a bit with what we can promise you.

So far, the trial results, although they are still in a blinded fashion, indicate that there's no problems with the vaccines and you could even see immune responses, but we cannot give you a final answer on when we're going to come out with the results, because we are not really at the steering wheel here and would rather talk about the programs that we have like rabies and the others, like tuberculosis, where we know we are at the steering wheel and we can really come up with firm dates to tell you why. Our experiences with that organization is that it's better not to give you the dates because they always tend to slip a bit.

For the second question, I will give the floor to Leon.

Leon Kruimer - *Crucell NV - CFO*

Jan, the inflow from that financing is very simple. It is basically a deposit which was invested for periods of longer than 90 days that has now become current -- less than 90 days. Therefore, it is not listed or classified as a current investment but classified as cash.

Jan Van den Bossche - *Petercam - Analyst*

Okay, that's clear. Thanks.

Oya Yavuz - *Crucell NV - IR Director*

All right, that was the last question, I'm told, so also on behalf of management, thank you very much for joining us today. If you have any further questions, please contact me. Thank you. Bye.

Ronald Brus - *Crucell NV - President, CEO*

Bye-bye.

Operator

Thank you for attending today's conference. You may now replace your handsets.

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