



Antibody Alliance – MorphoSys AG & Galapagos NV – Conference Call Text

November 26, 2008

The spoken word shall prevail

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Welcome all to the audio web cast regarding the new alliance in antibodies announced today by MorphoSys and Galapagos. I will be taking us through today's event.

I would like to remind everyone that we will be making forward looking statements during today's audio conference. The forward looking statements include remarks concerning future developments and possible changes in the industry and competitive environment. Because those forward looking statements involve risks and uncertainties, actual results may differ materially from the results expressed or implied in these statements.

Today's speakers will be Onno Van de Stolpe, Chief Executive of Galapagos and Simon Moroney, Chief Executive Officer of MorphoSys. They will take you through the background on both companies, the deal rationale, the markets for antibodies, and the structure of the deal.

I would now like to invite Onno to take the floor and start the presentation.

Onno Van de Stolpe, CEO, Galapagos NV

Thank you, Elizabeth.

I am very pleased to kick off this presentation; Simon will follow with his part of the alliance. What we are discussing today is a strategic alliance between two equal partners where we are going to develop novel antibodies in bone and joint disease. This is based on proprietary targets which Galapagos has identified and will identify going forward, and on the technology that MorphoSys has in designing and developing therapeutic antibodies. We are developing this for areas with a huge unmet medical need with great market potential. As we will be discussing in this presentation, there is a strong rationale of both companies to enter this alliance.

Let's first talk about Galapagos. Its strength can be addressed in 5 points:

We now have a clinical pipeline with a number of products and our first product Nanocort® being in the clinic followed by two more products next year. We have top-tier pharma partners with GSK and Lilly and Johnson and Johnson that help us to increase our R&D towards the clinic. We have a leading service division BioFocus DPI that is growing and has returned to profitability this year. We have shown solid and growing revenues over the years. We anticipate that to continue. It's very important in the current climate: we don't need cash in the next year. We have said that we are comfortable with our cash position throughout 2010.

Let's go back to the basis of Galapagos and focus on the core technology of the company which basically is based on targets, proteins in the human body that we identify that are causative for various diseases. If you look at this picture, you see an x-ray of a healthy hand and a hand that is deformed because of rheumatoid arthritis. The difference between a healthy individual and a person with a disease can be one protein, one target that is too much or too little present in that individual. If you identify that specific protein, correct the level of it, you can cure the disease and that has been the foundation theory of Galapagos and that is how we have built the company.

We have set up a target discovery engine around a platform that uses adenoviruses, the common cold virus to introduce human genes sequences into human cells. The common cold virus is very infectious, that is why many people have a cold right now. We have used that specific characteristic of the virus to shuttle pieces of human DNA into human cells. We do not do that in vivo situations, but in a micro-titer dish where we make a layer of human cells and then actually introduce the virus in the cell. By removing one by one a specific protein out of that cell so we can see what the effect of that cell is in a specific disease state. Through a number of subsequent steps we can then identify novel targets, novel proteins that are responsible for that specific disease.

The whole technology platform is patented and has proven very successful in a number of disease areas. Galapagos has focused this discovery platform in bone and joint programs in rheumatoid arthritis, in bone metastasis, arthritis and osteoporosis. If you look at the key drivers there we now have early and later stage programs. We are working on both novel targets as well as established targets. We have internal programs as well as partnered programs, and we clearly have some top-tier alliances that help us moving these programs forward.

The novel targets have been the basis of three alliances that Galapagos signed in 2006 and 2007. The first one was with GSK in the area of osteoarthritis. We signed in October last year a very large one with Janssen Pharmaceutica, a subsidiary of J&J, in rheumatoid arthritis and in December last year we signed an alliance with Lilly in the area of osteoporosis.

Our strategy with regard to our research and development is that we focus our internal efforts in the bone and joint diseases but that we establish risk sharing alliances with pharma partners to finance the growth of our R&D expenses. With our target discovery platform we want to leverage that outside the bone and joint diseases, outside small molecules as well; today's alliance with MorphoSys is a very important step where we are adding antibodies to our small molecule approach. Clearly we will not stop here, we are also going to look for other alliances in other therapeutic areas where we will identify other small molecule targets for other partners and bring targets towards the clinic in other therapeutic indications.

The rationale we have for entering in this alliance is that it gives us access to probably the world's premiere antibody platform and the expertise that MorphoSys has, we have done a broad review of the antibody companies around the world, and selected MorphoSys as the best partner for Galapagos. We believe that by entering in this alliance we can maximize the value of our targets, rather than out-licensing them to a partner that would then continue to develop antibodies with it. We believe that the real value is to bring the antibodies into the clinic where we take a risk but also get a share of the revenues going forward.

To add antibodies to our small molecule pipeline is a sensible approach to reduce the total risk of our portfolio, broadening our portfolio as well. Antibodies are an area of rapid growth in the pharmaceutical sector. They represent serious value to pharma companies, and they give us an opportunity to get blockbusters in the bone and joint diseases, parallel to our small molecule programs.

Clearly with this alliance in antibodies in bone and joint, we believe that we are further establishing our leadership position in this therapeutic area, and we are clearly on track to become the leader in bone and joint discovery. With that I would like to hand over to Simon.

Simon Moroney, CEO, MorphoSys AG

Thank you, Ono, and also from me a warm welcome to today's conference call. I am delighted to be able to participate in this call today, and even more delighted to be able to enter in what we feel is a very exciting alliance with Galapagos; I will spend a few minutes describing our involvement and background from the MorphoSys perspective, starting with a look at our strengths. Clearly MorphoSys brings to this alliance broad therapeutic antibody generation expertise, most importantly allied with the ability to optimize those antibodies. We have a long track record of successful antibody alliances with some of the leading companies in the industry as you will see. We have with our platform HuCAL we believe the strongest technology available to make antibodies that are suited for therapeutic application. From a financial point of view, through those alliances, we have very secure future cash flows coming from our pharma partners which give us the ability to plan for the longer term.

Looking briefly at the HuCAL technology; HuCAL stands for the Human Combinatorial Antibody library. This is a unique technology for the generation of fully human antibodies, and what is unique about it is shown on the slide that you can see on the webcast; the fact that the antibodies are encoded by a modular gene library. This gene library was constructed synthetically by our scientists. In constructing it they introduced a modular feature which enables us to exchange the CDRs which encode the binding regions of the antibodies at will. The entire collection comprises in excess of 15 billion fully human antibodies, and we can utilize this modular construction to optimize the antibodies for particular applications. The work we have done today has been based on the HuCAL GOLD version of the library, the next generation version of this library HuCAL PLATINUM is about to be finalized and will be most likely the basis for the work that we do in this alliance with Galapagos.

Moving to the next slide; to understand where the HuCAL technology fits in the spectrum of antibody technologies that are currently available, I think this chart is very descriptive. We have seen over the last 15 years or so a transition from left to right on the chart, from the original mouse antibodies on the left via the chimeric and humanised antibodies to today a couple of technologies, which are able to produce fully human antibodies. At the same time we have seen a transition from the lower part of the chart to the top of the chart. With HuCAL we have the ability to engineer antibodies to very, very precise specifications, and this is proving to be increasingly important in a therapeutic setting.

To give you an idea of why that is important, the next slide sets out the relevance of engineering in this business vs. serendipity. In the old days, when the very first generation of antibodies was made with the hope of turning them into drugs, mice were immunized, and there was a belief that an antibody could directly be a drug. Today, as we have more and more target understanding, we

know that the antibody has to fulfill certain specific requirements to be a drug. The first of these requirements which is now widely accepted is that the antibody should be fully human to avoid or minimize immunogenic reactions. We then often have a long wish list of criteria that the antibody should fulfill. It should recognize a particular antigen, perhaps even cross-react with a second antigen but definitely not recognize a related third antigen. It should have a high affinity for its target. It should perhaps block a particular function, perhaps inhibit the binding of the particular substrate to the target whereas allow the binding of a second substrate to that target and its composition may need to be also precisely defined.

The more we understand about targets, the more we can define precisely the properties of the antibody drug should have against that target. HuCAL is uniquely able to deliver antibodies that fulfill these diverse and multiple criteria. The technology has been very successfully commercialized in a number of collaborations with some of the leading pharmaceutical companies in the world.

On next slide you see a list of those companies that are currently using the HuCAL technology in their R&D to generate HuCAL-based drugs. Currently there are some 55 therapeutic programs using the HuCAL technology ongoing at these companies.

One of the advantages we find ourselves in is that we have a very strong financial position. Through our alliances, most particularly, our largest alliance with Novartis, MorphoSys has secured over 400 million Euros in future revenues. In addition to that secure 400 million Euros, we have a very lucrative milestone and royalty upside. These strong sustainable cash flows that the company has enable us now to channel a higher level of investment into proprietary development activities. Today's announcement is for us a very important part of our future product development strategy.

In addition the company has over 125 million Euros of cash on the balance sheet. That is not earmarked for operational purposes but for potential investments in other pipeline components in order to further strengthen the pipeline.

The rationale for us to enter this collaboration: we were very keen to enter an alliance with a company that we felt brought high quality targets to the table. Of course, with the antibody technology that we possess we have one part of the equation under our control. What we don't have is our own target discovery capability and in surveying the space we were the opinion that Galapagos has the best target discovery capability and disease know how in an area that is of great interest to us and which is particularly relevant for antibody based therapeutics.

It was an opportunity to, jointly with Galapagos, access novel antibody targets in disease areas where we see a high unmet medical need and it really complements our ongoing development efforts in the area of inflammation, particularly our lead program MOR103 which is currently in phase 1 for clinical trials.

That is a brief summary of MorphoSys and why we find this as a great opportunity for us. I would like to hand back to Onno now for a detailed description of the opportunity around antibodies.

Onno Van de Stolpe, CEO Galapagos

Thank you, Simon. If we look at antibodies without going into too much detail, antibodies are in a wide variety present in the human body. 1 to 2 billion different antibodies are there. They are there to basically fight against all kinds of diseases that happen in the human body. They can attach to pathogens like bacteria, viruses but also to other molecules like proteins. The antibodies have all the same basic structure, the Y shape with a region that is part of the antibody that is identical and all antibodies with a variable region that determines the specificity, and as Simon has explained, can be engineered to specifically identify the protein that is the target of that specific antibody. By doing that, develop the drug that you are looking for.

If you look at the market, antibodies are clearly at a fast growth pace compared to the rest of the pharmaceutical products. The current market is about 460 billion for the total pharmaceutical sales, of which antibodies take a share of about 6 %, being 26 billion dollars. That is anticipated to grow to 50 billion dollars, 9% in 2013. The fast growing part of the pharmaceutical sales is one of the reasons why it is so exiting to be in that specific market segment.

Why are antibodies growing so rapidly? One of the reasons is that they really use the human immune system against diseases as the basis for the drugs. Because it is a human system, the immunogenicity is much lower than with small molecule drugs. The chance that your body would actually have adverse events to the drug being supplied is much smaller than with small molecule drugs. Antibodies are stable proteins and have a long half life so they are easy to store and dose. These are clearly attractive drugs to develop. The functionality can be tailored so that we can make very specific antibodies targeting the disease you are looking for.

If you look at the growth of the antibody space, there are 5 blockbusters in the market which we will discuss in more detail. A number of products are on the brink of being approved and new antibodies are in development. This market is growing to 50 billion by 2013 and there is place for many more antibodies in that arena.

If you look at current antibodies, the majority is in two therapeutic areas: oncology and immunology and inflammation and is dominated by a couple of products from biotech companies that are now marketed by big pharma, and biotech together: Remicade and Johnson & Johnson is one of the largest and most successful antibodies, selling about 5 billion per year. It is for rheumatoid arthritis

as well as for other inflammatory diseases. You see that there is also a substantial segment of about 20% that are other antibodies that have been approved and are on the market.

If you look at antibodies versus small molecules: both approaches have advantages and disadvantages. The specificity for a target is lower for small molecules which has the risk of side effects when you dose it to a patient. Antibodies are very specific, having less risk on side effects. Small molecules are easier to dose to patients. It's a pill you take daily or twice daily whereas with antibodies you will have to have an injection or IV application which is done by specialist doctors whereas small molecules can be applied by family doctors. The sales force of these products is therefore different: with a family doctor you will need a large sales force to address these physicians whereas with antibodies you can focus on the hospital market which means a smaller sales force.

The costs for manufacturing of antibodies are in general higher than small molecules. That's the advantage of small molecules. Clearly the price flexibility is an advantage for antibodies: there is no generic competition, it's a new area of research so the pricing level of antibodies is very high whereas there is always a pressure on small molecules at pricing levels.

One advantage about MorphoSys as well as for us and that is important: the speed to the clinic. With small molecules there is clearly a longer path than with antibodies in general. It is anticipated as going from a target to entering the clinic will take about 7 years whereas antibodies can get into the clinic in a 4 to 5 year time frame. We see that as an additional benefit of entering this field with our targets that we can get into the clinic faster than if we would start with novel targets today in small molecule approaches.

We chose to focus this antibody approach in bone and joint because it is still a rapidly growing market because of the aging population and it is highly underserved with the current drugs. Market estimates of the bone and joint area are in the range of 20 billion. What is interesting is that in the rheumatoid arthritis field antibodies are already well established with TNF alpha blockers and also in osteoporosis now the first blockbuster antibody being developed by Amgen is getting close to the market, Denosumab®, so it is an area receptive to antibodies as therapeutic agents.

If you look at the biological blockbusters that are currently being marketed in bone and joint diseases, you see that these are some of the highest selling drugs worldwide with Enbrel® leading with 5.3 billion and Remicade® is second with 5 billion. These are massive numbers and only a very few small molecule drugs have higher worldwide sales than these antibodies.

As a last slide, let's take a look at how the alliance actually works. Both parties bring in all the technology we have to make the alliance successful which means that Galapagos brings-in its proprietary targets, its disease models that we have in the bone and joint disease whereas MorphoSys brings its antibody technology to generate and produce the antibodies and test them.

This will go throughout the alliance. Galapagos will start with further target discovery. For novel targets, we have selected 3 to start the alliance but we envision more targets entering the alliance going forward. Both Galapagos and MorphoSys will continue in this alliance from the target validation with the antibodies all the way through completion of a phase 2a clinical trial. At that point we envision partnering these programs with a big pharma company, becoming responsible for later stage clinical trials as well as the market introduction and the marketing. In this alliance both partners will share costs equally and revenues equally. That is a very attractive option. As I said at the beginning of the presentation, it's really a win-win situation for both partners. We get access to premiere antibody technology and MorphoSys gets access to premiere targets. It's a combination that maximizes the value for the partners and hopefully generates shareholder value for both companies. We have said that initially we will focus on the bone and joint diseases. It is not excluded that in the future we will expand beyond bone and joint diseases and also start developing antibodies for other therapeutic indications where Galapagos by then has built a disease knowledge that would help moving these programs forward.

Question & Answer Session:

Operator: The first question is from Mr. Jan De Kerpel from KBC Securities. Please go ahead, Sir.

Jan De Kerpel, KBC Securities: Hello and congratulations to both companies for the deal. Onno, a question for you: is this an exclusive deal? Is it exclusive on the targets and also is the collaboration with MorphoSys an exclusive one in terms of getting access to antibodies or would you consider also other antibody generating companies to work together?

Onno Van de Stolpe: The deal is exclusive with respect to the targets that enter the alliance, alike with small molecules, the moment you start working on a target that becomes part of the alliance, we will not work on that target for any other company, neither for ourselves, the same is true on the MorphoSys side. We will not exclude that we might do antibody deals through BioFocus, DPI with other partners. We have lots of targets, not all the targets will enter the alliance. I don't see Galapagos entering any other antibody alliance deals in the foreseeable future. We have all the trust in MorphoSys as a partner. If there are further targets that both parties feel we should enter into the alliance, it makes sense to do that in this specific structure.

Jan De Kerpel: Another question for Onno: could you give us some information regarding the spending you foresee in the coming 2-3 years in this alliance for Galapagos?

Onno Van de Stolpe: We haven't given any specifics but as you are aware, when these programs move towards pre-clinical and clinical tests, the costs will go up substantially. We will start with about 7 FTEs next year, so 7 people working on this program. At some point this will clearly be increasing cost when the antibody part, especially the production of antibodies will start to kick in but that is not envisioned for 2009. For 2009 it's still a relatively modest investment from us that is anticipated to increase over the subsequent years. We have thought about entering an antibody alliance for quite a while, and we have budgeted this in our R&D spending for the coming years and in our financial picture regarding cash needs and cash supplies going forward in 09 and 2010.

Jan De Kerpel: A question to Simon: you have a lot of money coming through your collaborations and also have a lot of cash on the bank. Why didn't you simply go to BioFocus DPI and struck a kind of R&D service deal where they would do the target discovery for you, fee for service you would pay them and then take it from there onwards.

Simon Moroney: We feel this is an ideal structure: a joint alliance of this sort, 50/50 is really the ideal structure for such an alliance. It has the advantage of course that both companies share expenditures, that means that there is not one company carrying all the cost of the program. Most importantly, it allows us to access each other's skills and expertise. We don't claim to be experts in target discovery and target validation. We have a growing expertise in development, particularly as it relates to antibodies, but we see at Galapagos really attractive disease understanding and

knowledge and expertise that were much more efficient to access through such an alliance than it would have been to build up ourselves internally. We feel that this kind of alliance where both parties' interests are absolutely aligned is the ideal structure for us.

Operator: The next question is from Ms. Cornelia Thomas of WestLB, please go ahead.

Cornelia Thomas, West LB: I have similar questions: Simon, how is your spending on this program going to look like, what have you budgeted for.

Simon Moroney: By definition the costs are shared. Onno said they planned an investment of roughly 7 people next year then obviously our costs are roughly going to match that in 2009. Beyond that, we don't give specific figures at this stage, but if the collaboration is productive, which we expect and hope, then our costs will ramp. Having said that, this is for us a part of our propriety development planning, our pipeline planning. It is of course possible given the security of our cash flows coming out of the alliances, for us to make rather long term plans and assumptions about how that pipeline will develop. Without going into specific numbers, we feel confident we can hold up our end of the alliance in the longer term and as it continues to ramp in terms of size of its output.

Cornelia Thomas: So you have already budgeted it for 2009?

Simon Moroney: Absolutely.

Cornelia Thomas: Two more questions to either of you. The first three targets you have selected for your partnership: you didn't give any details. I was just wondering if there were, if they could be disclosed, what sort of molecules, what particular indications or targets? What sort of time are you envisaging for those antibodies to go into the clinic?

Onno Van de Stolpe: With regard to the targets; we haven't disclosed the targets. They are proprietary to Galapagos. We discussed with MorphoSys a number of targets. We started with 10, selecting them during very serious scientific debates. Both companies felt comfortable with taking forward 3 targets. That had to do with the scientific evidence that these targets play a major role in these diseases. Of course also the IP position that Galapagos holds on the targets. There were a number of criteria that were used in selecting the targets. We will not disclose these targets in the foreseeable future.

Simon Moroney: Over the years, we have looked at a lot of targets for antibody programs, both in conjunction with our partners of course, bringing targets to us, but also in sourcing targets for our own pipeline. We have also talked to target sourcing companies in the past. I must say the attrition in considering targets was extremely high. Most targets we look at have simply not met our criteria

for starting an antibody program against them. With Galapagos we saw for the first time a combination of science and target capabilities, added to the intellectual property position built around the targets that was for us absolutely compelling. The first 3 targets that have been looked at here were of course the highest on the list that we considered in this discussion with Galapagos and we are very excited about them.

We hope that two small companies working together can be fast and efficient. One parameter I would like to mention is the Novartis program that is currently in clinical trials, emerged from our collaboration and is targeting indeed a component is a bone disease, namely DKK1, which is a signaling molecule. From starting that program with Novartis, taking it to the clinic took 3 years. If we could achieve that kind of speed I would be very happy but we would certainly be aiming to get the first programs through discovery, pre-clinic and potentially into the clinic within perhaps a 3 to 4 year time frame. That would be our hope but there is of course no guarantee but it should be achievable.

Cornelia Thomas: One more question for Onno: how are you going to decide which targets you come up with will be chosen for this particular partnership versus other partnerships you might consider or have?

Onno Van de Stolpe: There is a clear differentiation between targets that are relevant for small molecule intervention and antibodies. There is a very small overlap in targets that could work for both. We have in our collection of viruses that are at the basis of target discovery, a set that specifically addresses small molecule target and a set that addresses antibody targets. What we did with MorphoSys is share with them all the antibody targets we had identified in the bone and joint diseases and discussed with them which were the best targets to go forward with. That is how we will approach it going forward. We develop assays, do target discovery specifically for antibody target and share them with a joint steering committee that consists of both MorphoSys and Galapagos people, and select targets from that. What our service division BioFocus DPI can do, they can screen the collection in specific assays that the customer demands, but that's really a fee-for-service activity and that can yield targets that are exclusive to the partner that sources such a screen.

Operator: The next question is from Tony Sergeant of Kempen & Co., please go ahead.

Sachin Soni, Kempen & Co.: A question regarding the focus on bone and joint disease: why do you think you'll have a strategic positioning in front of already human antibodies, focusing on this area, which are very close to the market?

Onno Van de Stolpe: There are clearly a number of antibodies in the RA field that focus on TNF-alpha inhibition which is one approach to the disease, which also has a number of setbacks. Only 70% of the patients react to TNF-alpha treatment; there are a number of interleukins being developed and reaching the market which have different approaches to target disease. Our antibodies are completely independent of these approaches and will have a new mechanism of action to address these disease areas. We strongly believe that there is a huge opportunity for antibodies with a new mode-of-action targeting bone and joint diseases. This area has just started to develop. For instance in osteoarthritis, there is clearly no disease modifying small molecule drug nor antibody that is anywhere close to approval. Those areas are wide open. If you now look at what excitement is around Denosumab® which is being developed for osteoporosis and bone metastasis, within the world, and the potential markets that are addressed by this specific antibody, you see the potential of this area. This is not being at all exhausted.

Operator: The next question is from Elmar Kraus from DZ Bank, please go ahead.

Dr. Elmar Kraus, DZ Bank:

A question for Onno: how do you select the targets for MorphoSys and the other partners where you have alliances with, some big names in pharma. Is that on the basis of antibody targets, or do you have any restrictions in that field?

Onno Van de Stolpe:

Good question. What we did in the bone and joint alliances is basically provide an array of small molecule targets, available for small molecule intervention with these partners. We selected the targets out of that pool. Target selection has almost been completed for 2 out of the 3 alliances that have been completed – one is still in the process, the Lilly one – but clearly these targets are completely separate from this because the antibody targets have not been part of any of the alliances that we have signed. They could not select antibody targets in those alliances. They were all small molecules. We kept specifically the antibody rights to these disease areas, outside the alliances so that we could move into an alliance now with MorphoSys to explore and develop it.

Operator: The next question is from Yasir Al-Wakeel from Crédit Suisse, please go ahead.

Yasir Al-Wakeel, Crédit Suisse: Congratulations to Simon and Ono. A quick question to Simon: is there any correlation between the degree of engineering and the level of human antibodies?

Simon Moroney: No, and an important thing to notice about the technology is that the engineering refers to the replacement of the CDRs in an antibody, but at all times in that process, the humanness of the framework and of the CDRs is maintained. The CDRs that we replace all reflect

the human repertoire so that at all stages, both the initial antibody and the optimized antibody, has a immuno acid sequence that very, very closely resembles the germ line sequence and therefore they should be no correlation at all between the degree with which the antibody is engineered and its immunogenicity.

Operator: The next question is from Thomas Schiessle from EquiTS, please go ahead.

Thomas Schiessle, EQUI.TS: A question to Simon: in the light of the attrition rates for antibody development, there must be quite impressive queue in the future, and if it comes to new project out of the joint venture...is there enough room for new targets coming out of the Galapagos engine to feed the pipeline of new projects in the future?

Simon Moroney: What happens if too many projects are successful? Is that your question?

Thomas Schiessle: That's the optimistic version of the question. The pessimistic is, are there enough targets coming out of the Galapagos identification process?

Simon Moroney: We actually think that the opposite may be the problem. Based on what we've seen we think there will be more than enough targets and the alliance may get to the happy position of having to pick between candidate molecules to move forward which would be a nice problem to have. Our pipeline here at MorphoSys will not be based just on this alliance. We have as you know our two existing programs moving forward. We have announced this year a co-development program with Novartis, the first exercise of several options we have with them, plus this co-development alliance, and we foresee other programs as well that will be announced in the months to come. We are quite sure we are going to have more than enough, either sole or joint targets flowing into our pipeline to sustain a very attractive proprietary program.

Thomas Schiessle: Could you be more specific on the selection process in this steering committee: on what parameters are you defining if it comes to joint development program.

Simon Moroney: As with all of these things, we look at a combination of criteria, those include scientific consideration about the precise role of the target or its involvement in a particular disease process, medical issues of course, associated with how resulting drugs could be developed, and precisely what indications could it be developed in, and how the clinical trials would look, along with the usual intellectual property, competitive and commercial aspects to do with the market the drug is targeted at, the competition situation at the time the drug becomes available – the usual issues that we and Galapagos consider when starting a new program.

Operator: We have a follow-up question from Mr. Jan De Kerpel from KBC Securities. Please go ahead, Sir.

Jan De Kerpel, KBC Securities: Onno, moving into antibodies, will that require additional investment to gain expertise in that area or do you consider that the in-house knowledge and expertise that you have is sufficient?

One of the reasons Simon said he wanted to collaborate with Galapagos was that the expertise in bone and joint disease that Galapagos has, and is trying to built up alliances with other big pharma partners... I hear you are also saying you have an interest in moving into other areas, sometimes speaking about diabetes; respiratory diseases... are you not becoming too diversified if you would leave the bone and joint disease area? What would be the rationale to do that?

Onno Van de Stolpe: On additional expertise: we do not anticipate building up traditional expertise for this alliance because both parties will do what they are good at: we will continue doing target discovery, and the target validation, using our systems, but also the in vivo models we have developed and have in house for the bone and joint programs. We will not start developing any expertise in the area of antibodies. That will remain completely with MorphoSys and we just work together and transfer material if needed for the program. That is not in the planning to build up expertise and invest in that.

Are we spreading to thin by moving to other therapeutic areas? I think this is something we watch very carefully. What we are good at is setting up disease models using primary human cells and then finding relevant targets that are responsible, causative for that specific disease. We can do that outside the bone and joint disease. We have experienced that now in the alliance with GSK and in the metabolic area we have some very exciting data that has attracted a lot of attention from pharma. What we will probably not do is move into phase 2 clinical trials with programs outside bone and joint disease. If we sign another strategic alliance with big pharma, it is probably going to end earlier in the development track because we don't want to build-up the disease knowledge necessary to bring products into the clinic other than the safety testing of the molecule. In that respect we will also rely more heavily with regard to the disease models, the animal models on the partner going forward.

It is clearly an issue that we debate internally – what can we do to maximize the value of our target discovery and drug discovery capabilities without spreading too thin with regard to disease expertise.

Operator: There are no more questions at this time. Thank you very much and goodbye.

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