

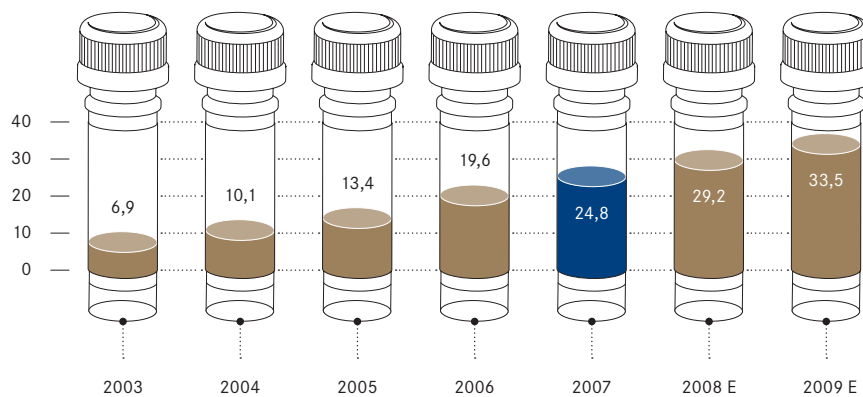
Market and Strategy

ANTIBODIES – INNOVATIVE THERAPEUTICS AND ESSENTIAL RESEARCH TOOLS

Therapeutic antibodies represent several of the most successful drugs produced by the biotechnology industry. Antibody-based medicines have contributed significantly to improved therapeutic outcomes for severe and life-threatening diseases. In addition, antibodies are critical tools for scientific research and are the core of modern diagnostic medicine. MorphoSys has leveraged its proprietary technologies and its broad antibody expertise to establish a leading position in its core markets – the discovery of new antibody therapeutics, and antibody-based research products.

The therapeutic antibody market remains one of the fastest-growing segments in the pharmaceutical industry, with a growth rate of approximately 30% per year. The 20 antibody-based drugs already on the market are targeted to achieve combined sales of US\$ 25 billion in 2007. Due to increased life expectancy for people living in industrialized nations and the growing understanding of disease, the need for antibody technologies and innovative therapeutics remains very high. Medical experts believe that there continues to be a large number of unexplored opportunities for new therapeutic approaches using antibodies.

SALES DEVELOPMENT OF MARKETED THERAPEUTIC ANTIBODIES (in US\$ billion)



Source: Datamonitor

Using the Company's core technology for its own proprietary drug development represents the highest potential for value creation.

MorphoSys's goal is to increase the value of its pipeline, and therefore of the Company, through expanded activity in internal product development. The Company's objective is to be highly selective in entering candidates into its internal pipeline.

MorphoSys maintains a two-pronged strategy in the therapeutic antibody market, namely: partnered drug development and internal development of novel therapeutics. MorphoSys also benefits from a large number of development programs through multiple corporate alliances. In addition, the Company has laid the groundwork to advance its own proprietary drug development. This combination enables a balance between optimized financial participation in successful new projects and, in parallel, protection from the risks inherent in modern drug development.

The research antibody market is an attractive market for MorphoSys due to the fact that scientists worldwide spend an estimated € 1 billion per year for these research tools. Based on the emphasis placed on scientific research by Western nations, and in particular by growing markets in Asia, MorphoSys expects an increasing demand for research antibodies.

Over the last three years, MorphoSys has successfully built a research antibody business and established the brand AbD Serotec among the world's leading suppliers for this class of lab tools. The custom antibody generation business, historically the initial motivation to establish this segment, has outperformed the market in particular and achieved growth rates in excess of 20% annually. In addition, the Company expects that the combination of the therapeutic and research antibody businesses will produce beneficial synergies, for example, as a source of and the ability to convert successful research antibody relationships into more financially advantageous diagnostic antibody business opportunities.



MORE INFORMATION AT
WWW.MORPHOSYS.COM

PARTNERED DRUG DEVELOPMENT – A SECURE FINANCIAL BASE

MorphoSys has created a substantial pipeline of highly promising drug candidates* by signing and successfully advancing collaborations with a diverse group of partners across the pharmaceutical and biotechnology industry. At the end of 2007, MorphoSys and its partners had a total of 50 therapeutic antibody programs underway. Of this number, four drug candidates are

Market and Strategy

Magazine

The MorphoSys Share



in clinical testing, with an additional 23 in preclinical evaluation, several of which should enter the clinic in 2008. Due to milestone payments and royalties, this pipeline is expected to produce an attractive revenue flow over the next several years.

For all projects resulting from partnered collaboration, MorphoSys incurs no corporate risk, because the partner covers all costs. Nevertheless, MorphoSys profits from successful development in the form of milestone payments that range from €9 million to €12 million per program. Should a drug candidate reach the market and achieve product sales, MorphoSys will benefit from a percentage of sales through royalty payments on net sales of products in the mid-single-digit range.

In 2007, the Company decided to identify an appropriate pharmaceutical partner to pursue a broader relationship that would significantly increase the Company's value over the next few years. Such an alliance was intended to do two things. First, to secure the future of the Company's partnered discovery business and second, to provide enough free cash flow to further finance the Company's independent drug development activities. In December 2007, MorphoSys entered a major strategic alliance with Novartis* which achieved both of these goals. The agreement extends far beyond all other corporate partnerships that the Company has signed over its 15-year history and represents one of the most comprehensive research partnerships ever signed in the pharmaceutical industry.



MORE INFORMATION AT
WWW.MORPHOSYS.COM

Under the agreement, which is slated to continue until 2017, both companies will focus on initiating a large number of antibody development programs. This effort, which also allows for the potential to initiate new programs within MorphoSys's existing partnerships, should increase the total pipeline exponentially over the next few years. Not only does this enhance the potential that multiple HuCAL-based therapeutics will reach the market, it will also increase MorphoSys's financial flexibility based on the achievement of success-based milestone payments. The Company will continue to maximize the opportunities presented by its current partnerships, but in the future, MorphoSys will place more emphasis on the further expansion of its proprietary drug development programs.

PROPRIETARY THERAPEUTICS – OPTIMIZING PIPELINE VALUE

Due to the progress made by the partnered portion of its business, MorphoSys has the financial resources to increase its investment in internal drug development and therefore raise the value of the Company substantially. The new alliance with Novartis in particular provides both contractually committed as well as success-based payments that fundamentally change MorphoSys's ability to expand its internal therapeutic development efforts and accelerate the progress. MorphoSys's stated goal is to increase the value of its pipeline, and therefore of the Company, through expanded activity in internal product development.



MORE INFORMATION AT
WWW.MORPHOSYS.COM

Using the Company's *core technology** for its own proprietary drug development represents the highest potential for value creation. For each product that MorphoSys advances itself into the clinic, the Company has the opportunity for a substantially higher rate of financial benefit through out-licensing or co-development with an external partner as for those products that begin under a partnered collaboration. The Company's objective is to be highly selective in entering candidates into its internal pipeline.

In addition, MorphoSys will seek to increase the value of its pipeline through exercising the option to co-develop specific programs under the new agreement with Novartis and accessing specific marketing and distribution rights within the framework of co-developed projects. As part of the Novartis agreement, MorphoSys has the option to take part in the later development of multiple projects, even though Novartis will cover a portion of the costs for the early stages of development. For those programs in which MorphoSys chooses to participate in co-development, the Company can decide to share costs and profits, with the financial component reflecting the level of investment.

Through this mix of partnered programs, co-financed co-development and internal therapeutic development, the Company has created one of the most attractive risk profiles in the biopharmaceutical industry. As opposed to other companies where the growth potential is based on one or two drug candidates, MorphoSys has a broad foundation of promising drug development opportunities. Across the biotechnology industry, MorphoSys sees this as an extremely sustainable business model.



SEE GLOSSARY P. 144

The current internal drug development pipeline includes two programs: MOR103, an antibody to treat *rheumatoid arthritis**, and MOR202, a compound that targets blood-borne cancers. As anticipated at the beginning of 2007, MOR103 is ready to enter the clinic as of year-end. At the same time, the Company has achieved a solid patent coverage for MOR103, and generated encouraging data for MOR202 in cancer. With these achievements, the Company has created a strong foundation for generating further value with the internal pipeline.



SEE GLOSSARY P. 144

ABD SEROTEC – NEW MARKETS AND THE SEARCH FOR THE MEDICINES OF TOMORROW

The research antibody market is in a phase of technological and structural transition. Until only recently, antibody products were developed using antiquated, animal-based technologies. MorphoSys is convinced that in the medium to long term, animal-based methods will be completely replaced by *in vitro** approaches like HuCAL GOLD, and therefore sees itself at the forefront of this transition. Within this context, MorphoSys sees the revenue growth for its HuCAL-based research antibodies as an important trend for the coming years.

The synergies inherent in MorphoSys's business model are based on the opportunity to convert AbD Serotec customers whose first exposure to the Company's core technology through the research antibody business will encourage them to bring higher value-added projects, such as diagnostics, to MorphoSys. In the past, this approach has been demonstrated twice as it relates to therapeutics with the Japanese pharmaceutical company Astellas in 2007 and US-based pharmaceutical giant Merck, Inc., in 2006. Both companies based their decision to initiate a therapeutic partnership with MorphoSys on their positive research antibody experience with HuCAL and AbD Serotec.

Going forward, MorphoSys's primary objective is to use this synergy to gain access to currently investigated or yet undiscovered therapeutic approaches and innovative therapeutic molecules, thereby increasing the opportunities to expand the internal pipeline through co-development partnerships, for instance. In 2007, the Company finalized an agreement with the New Zealand biotechnology company Genesis Research, also a former customer of AbD Serotec. The agreement provides MorphoSys with a co-development option on the Zyrogen development program focused on a HuCAL-generated therapeutic antibody against the target molecule FGFR5, a receptor of the human fibroblast growth factor, which has been implicated in several different autoimmune and bone-related diseases. Both partners will decide on the further development of the project based on data that will be produced in the course of the collaboration.

MorphoSys is advancing comprehensive use of the technology within the research community, for example with the well-regarded US-based Burnham Institute as well as several Japanese research institutions in order to leverage the technology to identify new potential therapeutic targets. The Burnham Institute has access to new research antibodies developed by AbD Serotec for identifying and further defining novel target molecules with therapeutic potential. In return, MorphoSys receives all commercial rights for resulting antibodies. These antibodies can become part of the AbD Serotec product range as well as being used for therapeutic or diagnostic applications. MorphoSys intends to continue to promote this network among of HuCAL users at medically focused research institutions.