

Group Management Report

2007 was the most successful year in the history of MorphoSys. First and foremost, MorphoSys was able to secure one of the industry's largest collaborations with Novartis, providing committed funding over the next 10 years in excess of € 410 million. Group revenues were up by 17% from the prior year to € 62.0 million, and operating profit increased by 13% to € 7.0 million, including one-off advisory costs in connection with the Novartis alliance.

REVIEW OF THE 2007 FISCAL YEAR

During the 2007 fiscal year, MorphoSys witnessed a continued high demand for its proprietary antibody technology HuCAL. At its headquarters in Germany and its subsidiaries in the UK and in the US, MorphoSys employed in total approximately 300 employees. The Company recorded the strongest business growth in the therapeutic antibodies segment.

On the operational level, the demand for MorphoSys's technology offerings was demonstrated by the collaborations signed during the year. First, in March 2007, the Company signed a therapeutic antibody collaboration with the second-largest Japanese pharmaceutical company Astellas. Furthermore, at the end of 2007, MorphoSys entered into a new 10-year collaboration agreement with Novartis, creating one of the biggest R&D alliances not only in the history of MorphoSys, but of the entire biotechnology industry.

The proprietary antibody programs MOR103 and MOR202 remained well on track. For MOR103, MorphoSys filed a CTA (clinical trial application) in December 2007. In addition, MorphoSys secured a strong IP position around the underlying target molecule for MOR103.

In 2006, MorphoSys started a multi-year technology development program which will lead to a significantly enhanced version of its antibody generation platform. To benefit this effort, the Company in-licensed a broad portfolio of antibody-related patents from Dyax in November 2007.

Financially speaking, in May 2007, MorphoSys successfully placed 652,188 shares with international institutional investors in Europe and North America, at a price of € 50.00 per share. Through the issue, the Company raised gross proceeds of approximately € 32.6 million, increasing its cash balance to over € 100 million. Furthermore, MorphoSys reported a tax benefit in the amount of € 2.3 million for 2007 due to capitalization of all tax loss carry-forwards.

Looking ahead, MorphoSys will continue to advance its two-segment business model. With the financial strength provided by the newly signed Novartis agreement, the Company intends to augment its own activities in proprietary drug development, while further broadening its partnered therapeutic antibody pipeline. The Research Antibodies segment is expected to grow and to increase its current market share.

ORGANIZATIONAL STRUCTURE AND BUSINESS ACTIVITIES

ORGANIZATIONAL STRUCTURE AND GLOBAL PRESENCE

Presently, MorphoSys conducts its business in two operating segments. One segment, the Therapeutic Antibodies unit, develops drug candidates for commercial partners as well as MorphoSys's own proprietary product pipeline. MorphoSys's second operating segment, the Research Antibodies unit, delivers high-quality antibodies to the research market, under the brand AbD Serotec.

MorphoSys is present in several locations throughout Europe and the USA. The three primary facilities for the Company include MorphoSys headquarters in the German biotechnology cluster Martinsried near Munich, newly opened labs in the academic center of Oxford, England, and offices in the technology region of Research Triangle Park near Raleigh, North Carolina, USA.

All MorphoSys's Therapeutic Antibodies segment activities are based in Martinsried. Research activities include development and functional characterization of product candidates for the pharmaceutical and biotechnology industries as well as for the Company's internal development pipeline. All Group corporate S,G&A* functions are centralized in Martinsried.

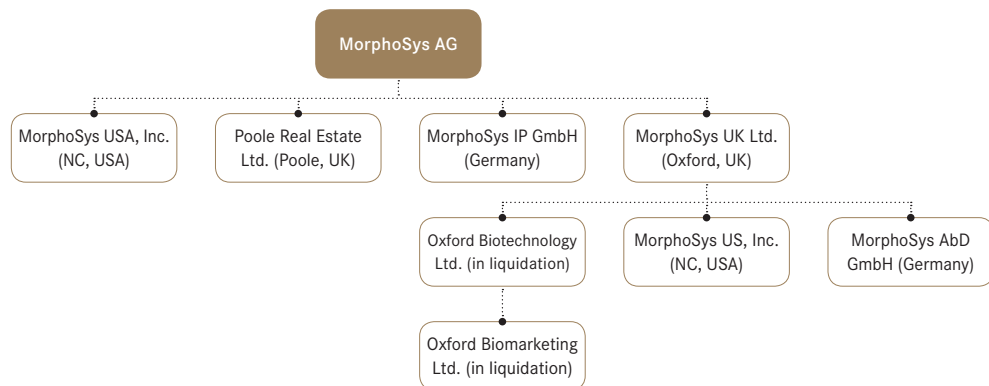


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The research antibody segment AbD Serotec is also present in Martinsried through both administrative functions and through efforts to generate new research antibodies based on the HuCAL technology, related historically to the Antibodies by Design business initiative. MorphoSys's second-largest site is located in Oxford, England, with 83 AbD Serotec employees. The research at this location is primarily focused on the development and characterization of antibodies to be used as research reagents, as well as international sales and marketing functions except for the US.

AbD Serotec is currently represented in the most important research antibody market, the USA, by a 20-person team based in Raleigh, North Carolina. At present, the primary function of this location remains marketing and sales support for the business; there are currently no research activities at this site.

The streamlining of the Group's corporate structure was accomplished during the year according to plan. The subsidiaries were merged and renamed in January 2007. In Germany, Serotec GmbH (Düsseldorf, Germany) was renamed MorphoSys AbD GmbH. In the UK, the former Biogenesis UK was first renamed MorphoSys UK Ltd. and in 2007 again renamed Poole Real Estate Ltd. Furthermore, Serotec Ltd. (Oxford, UK) was renamed MorphoSys UK Ltd. In the United States, the former Biogenesis, Inc. (Brentwood, New Hampshire) was merged into the former Serotec, Inc. (Raleigh, NC, USA), and subsequently renamed MorphoSys US, Inc.



PRODUCTS AND MARKETS

THERAPEUTIC ANTIBODIES SEGMENT

The partnered therapeutic antibody pipeline continued its growth to reach a total of 50 programs at the end of 2007. Of these programs, two candidates advanced to clinical development during 2007, bringing the number of antibody programs in phase 1 clinical trials at year-end to 4. The number of programs in pre-clinical development increased from 14 to 23 programs, and the number of research programs amounted to 23 at the end of 2007 (2006: 27 programs).

Additionally, MorphoSys continued to develop proprietary therapeutic antibody candidates in the area of inflammation and oncology. The Company's proprietary antibody pipeline currently consists of two programs, namely MOR103 and MOR202. In December 2007, MorphoSys submitted a clinical trial application (CTA) in the Netherlands to initiate a phase 1 clinical trial using the HuCAL-derived antibody MOR103 for the treatment of rheumatoid arthritis. The phase 1 trial is a randomized, double-blind, placebo-controlled, single-ascending dose trial and

will be conducted in healthy volunteers. The study will evaluate MOR103's safety and tolerability as well as the pharmacokinetics of escalating doses. MOR202 is a fully human HuCAL antibody directed against CD38, a therapeutic target for the treatment of multiple myeloma and certain leukemias. During 2007, the Company conducted further pre-clinical studies, which produced promising results in animal tumor models.

The market for therapeutic antibodies is highly competitive. On the basis of technologies used, MorphoSys's main competitors can broadly be classified in two categories, namely other antibody and antibody fragment technologies such as provided by Medarex, Dyax, Domantis (acquired by GSK) and Ablynx; and alternative scaffold-based immunotherapy, such as Molecular Partners (Switzerland) and Pieris (Germany). Due to the ongoing consolidation in the sector, MorphoSys's market position has improved, and allowed the Company to secure additional collaborations.

ABD SEGMENT

AbD (Antibodies Direct) is MorphoSys's research antibody division. The AbD Serotec brand was created in early 2006 to market the combined products and services of Antibodies by Design, Biogenesis, Serotec, and Oxford Biotechnology - representing more than 10,000 antibodies and immunological reagents, custom monoclonal antibodies developed from the MorphoSys HuCAL library, and large- and small-scale antibody production and conjugation services.

The AbD unit is collaborating with a couple of important licensing partners to further enlarge and improve the quality of its range of services. Amongst those partners is the Thermo Fisher Group providing technologies to prepare fluorescent reagents, Great Britain's Medical Research Council providing access to a broad range of **hybridoma*** cell lines as a source of research antibodies, and Molecular Probes, part of Invitrogen Corp., for access to the Alexa Flour family of fluorescent dyes.



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Since the start of the Research Antibodies segment AbD in 2004, rapid progress has been made in establishing the AbD Serotec unit as a leading supplier in the research antibody market. In a survey of the industry conducted by the company BioCompare at the beginning of 2007, AbD Serotec ranked No. 11 worldwide for customer recognition. Prior to the acquisitions, neither Serotec nor Antibodies by Design/Biogenesis were ranked in the top 20. AbD Serotec has made considerable progress since its foundation and continues to gain market share.

The research antibodies market is currently undergoing a period of technological change and consolidation. In structural terms, the market is very fragmented, with a large number of small providers. The main competitors are larger providers of research tools including antibodies such as Invitrogen and Millipore, as well as the UK-based Abcam, which has specialized in the commercialization of research antibodies.

Despite the fact that the segment did not fully achieve all of its financial goals set at the beginning of 2007, AbD Serotec has emerged as one of the leading suppliers of research antibodies. AbD Serotec is recognized as a high-quality research antibodies supplier, with superior products and reliable customer support.

PROCUREMENT

MorphoSys generally procures raw materials and supplies for its research activities and for the production of antibody material from external international suppliers. Most of the purchased materials are standard lab materials, provided by a large number of sellers. MorphoSys holds reserves to prevent supply bottlenecks and possible dependence on single providers. The main task of procurement is to purchase safe, high-quality materials at favorable conditions. To this end, the Company continually analyzes the international procurement markets and pools MorphoSys's needs worldwide as far as possible. The price of raw materials and supplies may vary substantially. Therefore, MorphoSys aims to secure strategic materials through medium- and long-term contracts, and has so far not experienced difficulties in obtaining sufficient amounts of raw materials and supplies at a reasonable cost.

Since the AbD segment actively competes with other providers of research antibodies worldwide, the Company seeks to reinforce the external distribution network with co-promotion and co-marketing arrangements.

PRODUCTION

Along with the evolution of optimized HuCAL versions over the last 15 years, MorphoSys has in parallel established several in-house manufacturing and analytics platforms serving the requirements of the project teams in both areas of research and discovery, as well as pre-clinical development. Those platforms facilitate the production of a large number of antibodies selected from HuCAL at high-throughput in the microgram to milligram scale and provide pre-clinical material (e.g. for initial animal studies) in the multigram scale. In order to provide a seamless transition from research applications to the production of clinical-grade material, the in-house expression systems have been chosen such that they can be used by external contract manufacturing organizations (CMO) under regulated environments (GMP) as well.

In recent years, MorphoSys has in-licensed and co-developed various innovative expression systems and has developed efficient production processes customized for the requirements described above. For the expression of antibody fragments, MorphoSys uses mainly bacterial expression systems. Production platforms have been generated e.g. based on Wacker's innovative *E. coli** secretion system and efficient *E. coli* production processes have been co-developed with Lonza. For the production of full IgGs, MorphoSys predominantly used the HKB11 cell



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line in-licensed from Bayer and the PER.C6® cell line from Crucell as the basis for the design of in-house platforms. Both cell lines are of human origin and allow the production of human antibodies in human cell lines. This concept has been followed for the first time in the MOR103 program, using human cell lines from the bench through clinical trials.

Besides selection of an appropriate expression system, the design of the overall manufacturing strategy is crucial as well. Efficient process development in production and testing activities (officially summarized as CMC – Chemistry, Manufacturing & Control) takes into consideration the key criteria in this field, which are speed, cost and quality. CMC determines the economy and quality of manufacturing, which is one of the most comprehensive steps in the entire development strategy. The major challenge here is to design a robust process reliably providing a safe pharmaceutical ingredient at acceptable costs. The ability to assure, over time, reproducible physical and chemical properties of an active pharmaceutical ingredient is critical for regulatory approval and therapeutic success.

For the production of clinical-grade material of MOR103, MorphoSys has signed a license agreement with the Dutch biotechnology company Crucell N.V. and a biopharmaceutical manufacturing agreement with Crucell's partner DSM Biologics.

ENVIRONMENTAL PROTECTION

MorphoSys is committed to environmental protection and high standards for quality and safety. All relevant environmental issues are regularly monitored and assessed. The Company's entire waste disposal system is continually reviewed and evaluated with respect to the potential for improvement.

MorphoSys is not subject to direct regulation other than regulation generally applicable to businesses of its kind. This includes various laws and regulations in effect in the different jurisdictions in which the Company operates, including laws and regulations applicable to environmental matters, such as the handling and disposal of hazardous waste. In total, the Company's research and development activities involve only small amounts of hazardous materials and chemicals.

The biotechnology industry, the sector in which MorphoSys is active, does not belong to the carbon-intensive sectors. MorphoSys is exploiting measures to further reduce its greenhouse gas emissions in the interests of the environment. The implementation of a video conferencing system for communication between the different sites of the MorphoSys Group and with our business partners has reduced the need to travel and meet in person.

QUALITY MANAGEMENT

Within the framework of the Company's quality management system, all business processes are continuously scrutinized and enhanced. Continuous improvement is an element of all of the Company's procedures.



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To produce materials for therapeutic or diagnostic use, strict guidelines and regulatory standards must be met for all personnel and processes involved. All pharmaceutical products, including clinical trial materials, must be manufactured so as to ensure that they comply with the requirements of market authorization and do not place patients at risk due to inadequate safety, quality or efficacy. Typical regulatory standards include protocols set out by the FDA* and EMEA*. Examples include ISO (international quality system), GLP (good laboratory practice), GMP (good manufacturing practice), and GCP (good clinical practice).

As MorphoSys is increasing its proprietary therapeutic activities, a quality assurance system was implemented during 2007. Additionally, the Company applied for a manufacturing license, allowing MorphoSys to release clinical trial material for MOR103 clinical studies as a sponsor. The manufacturing license was issued by the Bavarian government in January 2008.

Within the AbD segment, quality is the key to delivering a market-leading solution, and ISO9001:2000 accreditation, the worldwide quality standard, has been in place at Serotec Ltd. since December 1994 and at Serotec, Inc. since May 2003. This quality system provides a sound framework from which to operate, and all of these groups were successfully audited again during 2007.

AbD sells a group of “CE”-marked products that conform to the directives of the *in vitro* Medical Device Regulations and can be sold and used by customers as *in vitro* medical diagnostic devices. MorphoSys UK has updated quality systems during the year in compliance with the ISO13485:2006 standard, the standard for businesses involved in medical devices and *in vitro* diagnostic medical devices, and is expecting its initial formal audit and registration to this standard in the first half of 2008. It is planned that a number of manufacturing systems will be compliant with GMP standards in 2008.

JOB SAFETY

A healthy and safe working environment is a high priority for MorphoSys. An initial medical checkup is performed for all new employees of the research and development department. In addition, the Company offers all employees in research and development the option to be vaccinated against hepatitis A and B. Every three years, all employees of the R&D* department receive a medical checkup. For the employees of the S,G&A department, a regular eyesight test is offered.



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MorphoSys conducts its research in safety level “Bio I” and “Bio II” laboratories under strict observance of all relevant legal guidelines. Internal standards are more stringent than those guidelines which are legally required.

As part of the expert team of employees responsible for work safety, biological safety and fire prevention, there is one designated employee dedicated to work safety alone. This person is responsible for providing employees with regular training and updates to inform them of the latest guidelines. MorphoSys employees are familiar with all requirements relating to job safety, handling of hazardous materials as well as accident and fire prevention. During 2007, there were no industrial accidents.

Due to regular maintenance by internal employees, all laboratory equipment adheres to the highest possible standard of safety.

INFORMATION TECHNOLOGY

During 2007, MorphoSys has implemented new ERP (enterprise resource planning) software for its S,G&A functions. The new system is expected to further increase the efficiency of the ordering and accounting process.

A further core task during 2007 was to establish a new archiving solution for all corporate documents and business data, which fulfills all compliance requirements for clinical development.

To improve knowledge sharing and information exchange between all sites of the MorphoSys Group, the Company implemented a new intranet.

PATENTS AND LICENSES

In 2007, as the Company's patent portfolio continued to mature, the Company began pursuing national phase patent protection in numerous countries for its MOR103 and MOR202 programs, and filed numerous patent applications for new proprietary platform technologies. Currently, the Company is prosecuting about 20 different proprietary patent families worldwide, which is in addition to the numerous collaboration-based antibody patent families the Company is pursuing in cooperation with its partners.

GROUP MANAGEMENT & SUPERVISION

MorphoSys AG is a German stock corporation and is managed by the Management Board, which was composed of three members in financial year 2007. In line with the dual board structure, these members are appointed and monitored by the Supervisory Board which also provides advice on a regular basis. Further details regarding management and supervision as well as corporate governance can be found in the [Corporate Governance Report*](#) of the Annual Report.



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Pursuant to § 6 of the Company's Articles of Association, the Management Board shall consist of at least two members, whereas the Supervisory Board defines the concrete number of the members of the Management Board. The Supervisory Board may appoint a Chief Executive Officer and one or several representatives of the CEO. The members of the Management Board are elected by the Supervisory Board for a maximum term of office of five years. The Supervisory Board may dismiss a Management Board member with good cause prior to the termination of his term of office (§ 84 AktG).

Pursuant to § 20 of the Articles of Association, the Articles may be changed with a majority of more than 50% of the votes cast and of the share capital represented in the relevant shareholders' meeting, unless mandatory corporate law defines a different majority. This provision is in line with §§ 133 and 179 para. 2 sen. 2 AktG.

REGULATORY ENVIRONMENT

MorphoSys operates in the healthcare sector, which is particularly highly regulated. In particular, therapeutic and diagnostic products cannot be marketed without approval from regulatory authorities such as the EMEA or FDA. Therapeutic antibodies require thorough pre-clinical and clinical trials before they are approved for marketing.

For all partnered development programs, MorphoSys's partners are responsible for regulatory affairs. In contrast, MorphoSys is responsible for all regulatory requirements related to its proprietary development programs. At the end of 2007, MorphoSys filed a clinical trial application in the Netherlands.

Clinical trials involving new drugs are commonly classified into three phases. Before the start of a clinical trial, extensive pre-clinical studies are conducted. After the successful pre-clinical development, the drug development process will normally proceed through all three phases, which requires several years. If the drug successfully passes through phases 1, 2, and 3, it has to be approved by the competent authorities for use in the general population.

For pre-clinical and clinical studies, as well as for the approval process, MorphoSys is following current guidelines.

For research products, such provisions are less stringent, since the products are used for research purposes only.

VALUE-BASED MANAGEMENT

The Group is managed and controlled within the framework of a performance-based management system. The Management's objective is to systematically and continuously increase the value of the Company – through profitable growth and a focus on businesses which offer the best development opportunities in terms of competitiveness and performance.

STRATEGY

MorphoSys's strategy is aimed at extracting the maximum value from its proprietary technologies. Within its therapeutic antibody partnerships, MorphoSys receives technology license fees, R&D funding, success-based milestones and royalties, which are dependent on product sales after product approval.

MorphoSys's main goal on the therapeutic side of its business remains to create a broad antibody development pipeline. After the conclusion of the Novartis collaboration in December 2007, which secures pipeline growth for the years ahead, MorphoSys decided not to sign new fee-for-service partnerships, but increase its efforts to develop proprietary antibody therapeutics.

Within the AbD segment, MorphoSys aims to further increase its market share by constantly increasing its range of services via its catalog and its website. In 2007, AbD added 1,100 new products to its catalog. Additionally, MorphoSys continues to offer custom-made therapeutic antibodies based on the HuCAL technology.

SYNERGIES

HuCAL antibodies used as research tools to identify and validate disease-related target molecules bear the potential to act as diagnostic or therapeutic agents. The more research is performed using HuCAL antibodies, the more likely it is that lucrative commercial opportunities for MorphoSys will result, whether in the therapeutic or diagnostic field or in wider research applications. For this reason, MorphoSys actively promotes the uptake of its technology in the research community.

MorphoSys could get access to therapeutic antibody candidates against new targets, which are discovered by customers of the AbD segment. As a first example for this synergy, MorphoSys signed a collaboration with the New Zealand-based Genesis Research and Development Corporation Ltd.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

MorphoSys's technologies have the potential to help improve treatment options for life-threatening diseases within an aging population. The demand for innovative therapeutics which help to ameliorate patients' quality of life is constantly increasing and allows the Company to expand its business globally.



*
MORE INFORMATION AT
WWW.MORPHOSYS.COM

MorphoSys is dedicated to sustainability and corporate social responsibility, as is clearly described in *MorphoSys's credo**. The Management Board is convinced that responsible and effective environmental protection and good corporate citizenship are essential to entrepreneurial success and value generation for its stockholders.

In May 2007, MorphoSys decided to make a contribution of € 10,000 to the Ronald McDonald house in Munich. The donation is used to help families with hospitalized children before and after heart operations or transplants.

At the end of each year, the employees of MorphoSys AG support local charitable non-profit organizations with private donations. In 2007, MorphoSys's staff donated approximately € 3,400 to Elterninitiative Krebskranke Kinder München e.V., an organization supporting families with children suffering from cancer, and südSee Kinder- und Jugendhilfe e.V., an organization offering support for deprived children and adolescents.

In March 2007, MorphoSys sponsored an in-house voluntary characterization of potential bone marrow donors in partnership with the non-profit foundation Aktion Knochenmarkspende Bayern. Blood samples from more than 40 employees of MorphoSys were characterized and profiles added to the national bone marrow donor registry.

PERFORMANCE MANAGEMENT

An integrated control concept, financial and non-financial performance indicators together with measures to enhance efficiency and growth are key elements of our management system.

NON-FINANCIAL PERFORMANCE INDICATORS

MorphoSys's management uses various non-financial metrics in order to measure progress towards their organizational goals.

For the 2007 financial year, the KPIs (key performance indicators) against which MorphoSys measured the success of its strategy comprised pipeline development, as well as market share of the AbD segment.

In 2007, the partnered therapeutic antibody pipeline increased by seven new programs to a total of 50 antibody development projects, a record high in the Company's history. During the year, two new programs entered into clinical development, and the number of programs in the pre-clinical phase increased to 23 projects.

For its proprietary development programs, MorphoSys achieved its goal and filed the necessary application to start clinical development of its lead program MOR103. The second program MOR202 progressed as planned.

THERAPEUTIC SEGMENT	2005	2006	2007
Number of Partnered Therapeutic Antibody Projects	29	43	50
Phase 1	1	2	4
Pre-clinical Development	7	14	23
Research	21	27	23
Number of Proprietary Therapeutic Antibody Projects	4	2	2

The AbD segment continued to increase its market share during the last fiscal year. Segment revenues grew at the industry average of 7%, while the custom monoclonal antibody service grew in excess of 20%.

FINANCIAL PERFORMANCE INDICATORS

Operational business performance is measured on the basis of revenues and profit from operations. For both segments, the performance is measured monthly; budget planning for the current fiscal year is reviewed and updated on a quarterly basis. Furthermore, a mid-term planning scenario covering the upcoming years is updated on an annual basis.

The Company is presently reviewing additional key performance indicators beyond those listed above.

in million €	2005	2006	2007
MORPHOSYS GROUP			
Group Revenues	33.5	53.0	62.0
Group Profit from Operations	6.2	6.2	7.0
THERAPEUTIC SEGMENT			
Revenues	29.1	34.7	42.4
Segment Result	14.8	16.6	15.2
ABD SEGMENT			
Revenues	4.3	18.3	19.6
Segment Result	(2.9)	(3.4)	(0.6)

THE MANAGEMENT'S GENERAL ASSESSMENT OF BUSINESS PERFORMANCE

In the opinion of the Management Board, MorphoSys demonstrated positive performance in 2007. The Company achieved the majority of its primary goals set at the beginning of 2007. Both business segments contributed to this development.

MorphoSys grew more strongly in the Therapeutic Antibodies segment, the main value driver of the Company. The AbD segment continues to grow at market rates. The weakness of the US dollar impacted US-generated revenues negatively. The AbD segment did not achieve the expected operating profit, mainly due to higher than expected operating costs in the new building, and weaker than expected sales/marketing performance. However, management has significantly improved operational efficiency throughout the year, substantially reducing both COGS* and G&A expenses, and is optimistic about hitting its targets going forward.



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The MorphoSys Group again improved its operating result and significantly increased the net income.

With MOR103, the first proprietary antibody program is ready to start clinical development. This is the area in which the management sees the opportunity for future value generation. With the proprietary HuCAL technology, MorphoSys can offer improved treatment options and take advantage of new growth opportunities.

COMPARISON OF THE ACTUAL BUSINESS RESULTS WITH FORECASTS

During the course of the year, the Company reached most of its targets set at the beginning of the year.

in million €	2006	TARGET 2007	RESULT 2007	GOAL ACHIEVED
Group Revenues	53.0	60 – 65	62.0	✓
TAB Segment	34.7	2/3 of Group revenues	68%	✓
AbD Segment	18.3	1/3 of Group revenues	32%	✓
Group Operating Profit	6.2	7 – 10	7.0	✓

The positive development of the therapeutic segment compensated the somewhat lower growth of the research segment. The efforts to expand AbD sales and to increase the productivity of the sales organization as well as the finalization of key marketing tools such as the new catalog took longer than anticipated. Growth rates for the research antibodies showed an overall decrease worldwide, although AbD Group sales grew in line with the overall market growth rate. The AbD unit didn't achieve its goal of a positive operating result, and reported a negative segment result of € 0.6 million, which includes a non-cash impairment charge on the ex-Biogenesis US building in Brentwood in the amount of € 0.2 million.

MorphoSys achieved its goals of 50 partnered therapeutic antibody programs as well as the CTA filing for its proprietary compound MOR103. The anticipated new marketing alliance in the AbD segment wasn't concluded by year-end, partially as a result of the MorphoSys Management Board focusing on concluding the strategic collaboration with Novartis.

MACROECONOMIC DEVELOPMENT**ECONOMIC DEVELOPMENT**

During 2007, the economic environment was generally positive. According to the latest estimates, world GDP increased by 2.7%. Despite rising prices on the international energy markets and higher interest rates, global growth remained robust. However, the US real estate crisis and the related sub-prime crisis in the financial markets negatively impacted the world economy towards the end of the year.

In the euro zone, the positive economic trend continued in 2007, with a growth of 2.6% in GDP, which was in line with expectations. Of particular note was the continued upswing in Germany, which was driven mainly by exports, but also by strong investment activity and – to a lesser extent – by consumer spending. In 2007, the euro climbed 10% against the US dollar.

By contrast, in the US, GDP growth decreased to 2.2% in 2007, the weakest growth rate since 2002. The weak housing market brought about by the mortgage crisis has had a noticeable impact on the economy. Large write-downs by major banks relating to exposures to sub-prime mortgages led to uncertainty and turbulence in the capital markets. Such write-downs could amount to US\$ 300 – 400 billion worldwide. As a consequence, US consumer spending decreased significantly in the fourth quarter.

In general, global capital markets showed a positive performance during 2007. By way of comparison, the DAX and TecDAX indices improved by 22% and 30% respectively. The positive performance of the TecDAX was mainly driven by the performance of solar energy companies. The primary US stock exchange index, the Dow Jones, closed at 13,265 points at the end of the year, an increase of 7%. The Japanese Nikkei Index ended the year with a decrease of 12%.

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

In line with last year's expectation, the global pharma growth rate in 2007 amounted to 5% according to IMS Health and is expected to stay in a corridor ranging from 5% up to 8% in the years ahead. During 2007, the fundamental problems the pharmaceutical industry faces haven't changed. Pipeline and pricing pressure, government regulations, patent expiration and resulting generic drug entries including biosimilars continue to be major challenges for the industry. With regard to product failures both of marketed drugs and late-stage development programs, Pfizer had to stop the development of its cholesterol-lowering drug Torcetrapib®, Swiss-based Novartis suspended marketing and sales of Zelnorm®, a treatment for irritable bowel syndrome, due to increased risk of heart failure, and Germany's largest drug maker Bayer Schering had to recall its cardiac treatment Trasyol®.

However, the sector generated some success stories, including that of cervical cancer vaccine Gardasil® by US-based Merck, Inc., which was approved in 2006 and reached blockbuster status within its first full year on the market, generating sales of US\$ 1.5 billion in 2007. Other "first-in-class" drugs such as Merck's type 2 diabetes medication Januvia® have seen strong sales growth, underlining still attractive product opportunities in the healthcare sector.

As in the previous two years, pharmaceutical companies increased their activities in the biologics arena, particularly in the therapeutic antibody sector. Several big pharmaceutical companies broadened their access to antibody-based development programs as well as antibody-related technologies both through M&A transactions and comprehensive strategic transactions, such as Novartis's alliance with MorphoSys or Sanofi-Aventis's relationship with the US-based Regeneron, Inc. In 2007, Japan's fourth-largest drug maker Eisai acquired the US-based antibody company Morphotek, F. Hoffmann-La Roche acquired Therapeutic Human Polyclonals, Inc., and Astellas bought US-based AgenSys. AstraZeneca's acquisition of MedImmune, Inc., in an all-cash transaction valuing the company at US\$ 15.2 billion was partially motivated by access to the blockbuster antibody drug Synagis®.

At the end of 2007, the number of therapeutic antibodies on the market remained unchanged from the previous year. While no new antibody-based treatment was approved in 2007, the 20 therapeutic antibodies currently on the market achieved total sales of approximately US\$ 25 billion - representing the fastest-growing segment within the pharmaceutical industry with a solid revenue increase of 25% over the prior year's growth. Pickup in sales of antibodies which gained approval in 2006 such as Lucentis® (Genentech) and indication broadening of existing antibody therapies in oncology and inflammatory diseases contributed to that growth. With regard to therapeutic antibodies in late-stage development, UCB Pharma received a negative opinion from the European Medicines Agency (EMA) on its PEGylated antibody fragment Cimzia®, a modified anti-TNF* for the treatment of patients with Crohn's disease.



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In contrast to the American biotech sector, the stock performance of European biotechnology lagged in 2007. Particularly in Germany, investor sentiment towards biotechnology companies was negatively affected after the two high-profile phase 3 failures from German biotechnology companies. In Europe, 15 biotechnology companies went public, showing a mixed performance, with an average loss of 14% in comparison to the issuance price.

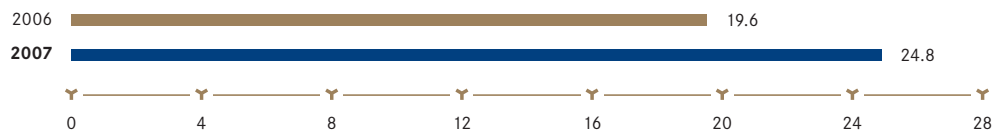
During 2007, the pharmaceutical sector continued its underperformance. The FTSE Global Pharma index was flat, while the FTSE All World index was up 10%. In 2007, the US NASDAQ Biotechnology Index increased by 5%. With regard to the antibody sector, an index summarizing the performance of leading antibody companies provided by the industry magazine Bio-Century decreased by 6% during 2007. The WestLB EU biotech index, comprising the 20 largest European biotechnology companies by total market cap, decreased in 2007 by 12%.

COMMERCIAL DEVELOPMENT

In the Therapeutic Antibodies segment, MorphoSys has shown an outstanding track record in establishing and expanding existing partnerships over the years, and more recently also in the AbD segment. MorphoSys uses its HuCAL technology for the development of therapeutic antibodies and research applications.

As a consequence of the Novartis collaboration extended at the end of 2007, MorphoSys will not pursue new fee-for-service discovery deals of the type the Company has signed in the last several years. These deals typically included payments for the identification and optimization of therapeutic antibodies by MorphoSys. MorphoSys will continue to work closely with its existing partners to ensure those collaborations are as successful and productive as possible. These collaborations will run their respective courses, but will not be subsequently renewed or expanded. Several of the partners still have the potential to initiate new HuCAL-based antibody development programs and the partnered pipeline is expected to continue to grow.

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



THERAPEUTIC ANTIBODIES SEGMENT

At the end of 2007, MorphoSys had ten active antibody collaborations in place with companies from the pharmaceutical or biotechnology sector. The following partnerships were established, expanded or concluded in the 2007 fiscal year (in alphabetical order). For an overview of all partnerships, please refer to the Notes to the Consolidated Financial Statements – section 27*.



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ASTELLAS PHARMA INC.

MorphoSys and Astellas Pharma Inc. (Tokyo, Japan), Japan's second-largest ethical pharmaceutical company, entered into a license agreement for the use of MorphoSys's HuCAL technology in March 2007. Under the terms of the agreement, MorphoSys grants Astellas access to its HuCAL GOLD antibody library for use in its internal pharmaceutical drug discovery programs. In return, MorphoSys received an up-front payment and will receive annual user fees during the life span of the agreement. The agreement may have a duration of up to five years.

BAYER SCHERING PHARMA AG

MorphoSys and Bayer AG (Germany/USA) signed a wide-ranging antibody collaboration in December 1999. The agreement encompassed a research collaboration and license agreement for the application of MorphoSys's proprietary technologies in a number of Bayer's research and development programs. The collaboration was extended for an additional four years in July 2001, and in December 2005, the collaboration was extended by another five years, with a termination option after the first collaboration year.

A strategic alliance was signed between MorphoSys and Schering AG (Germany) in December 2001. This collaboration was extended in December 2004 until the end of 2006, with the option of a further extension period of one year beyond this time frame.

After the acquisition of Schering AG by Bayer AG, the collaboration with Bayer was terminated, and all activities were consolidated under the Schering agreement, with a duration until the end of 2007. The collaboration expired at the end of 2007, but all existing therapeutic antibody projects will be continued.

CENTOCOR, INC.

MorphoSys and Centocor, Inc. (USA), a wholly owned subsidiary of Johnson & Johnson ("J&J"), signed a five-year agreement in December 2000. The objective of the cooperation between MorphoSys and Centocor is the development of fully human therapeutic antibodies in a broad range of indications. Furthermore, Centocor has access to HuCAL GOLD to isolate antibodies for research use. In December 2004, the agreement with Centocor was extended until the end of 2007.

Presently, this collaboration comprises several therapeutic antibody programs and a HuCAL-based research program.

The collaboration was concluded at the end of 2007, but all existing therapeutic antibody projects will be continued.

GENEFONTIER CORPORATION

In September 2004, MorphoSys and GeneFrontier (Japan) signed a strategic marketing agreement to access the Japanese life science market. To date, this marketing agreement has resulted in three alliances with the leading Japanese pharmaceutical groups Astellas, Daiichi Sankyo and Shionogi. In 2006, both parties expanded their marketing alliance to cover the generation of HuCAL-derived fully human antibodies for proteome research and target validation together with a renowned Japanese research organization as well as commercialization of any resulting antibody products.

In November 2007, MorphoSys initiated an additional therapeutic target-sourcing collaboration in Japan with GeneFrontier. The expansion of the existing alliance with GeneFrontier aims to increase MorphoSys's access to innovative, druggable therapeutic targets sourced from leading Japanese research institutes and universities, which will in turn further strengthen MorphoSys's

proprietary drug development capabilities. Under the terms of the agreement, research institutes in Japan will be offered access to HuCAL-based research antibodies against novel disease-related target molecules in exchange for commercialization rights. Antibodies for selected projects will be generated by GeneFrontier using MorphoSys's proprietary HuCAL antibody technology at its research laboratories in Tokyo. MorphoSys will have access to all research results and data around the selected research programs and the option to secure worldwide rights on such antibody programs.

GENESIS RESEARCH AND DEVELOPMENT CORPORATION LTD.

MorphoSys and New Zealand-based Genesis Research and Development Corporation Ltd. announced the signing of a research collaboration in October 2007. Under the terms of the agreement, Genesis uses HuCAL-based antibodies originally generated by the MorphoSys business unit AbD Serotec against the human fibroblast growth factor receptor FGFR5 for target validation and pre-clinical studies as part of its proprietary Zyrogen program. In this program, Genesis is investigating the development of therapeutic antibodies specific for the target molecule FGFR5, which is implicated in various autoimmune and bone-related diseases. Based on the scientific data generated by Genesis during the collaboration, the parties will discuss further development of the therapeutic program.

NOVARTIS AG

In December 2007, MorphoSys and Novartis AG (Switzerland/USA) forged one of the most comprehensive strategic alliances in the industry for the discovery and development of biopharmaceuticals. The deal is aimed at establishing a pipeline of innovative drugs, and combines MorphoSys's and Novartis's research and development capabilities. Novartis becomes MorphoSys's preferred collaborator for HuCAL-based drug discovery, allowing MorphoSys to progress to the next stage of its corporate development, which involves a greater focus on drug discovery and development within the Novartis alliance, and proprietary drug development, thereby substantially reducing MorphoSys's reliance on new or extended fee-for-service discovery deals. The expanded alliance also includes rights to co-detail co-developed products in specific territories through the creation of MorphoSys's own sales force. In addition to programs pursued jointly, Novartis has accelerated its plan to internalize MorphoSys's leading human antibody technology, HuCAL, at its research sites under the option agreed in the original contract.

MorphoSys and Novartis started working together in 2004 in a collaboration that has resulted to date in multiple active therapeutic antibody programs across various diseases and the first IND filing in 2007, just three years after initiation. The new agreement is built on the strong existing relationship between the partners.

Under the new agreement, Novartis will make a major long-term commitment to MorphoSys's HuCAL technology. The collaboration has a term of ten years. Novartis has the option to prolong the collaboration for a further two years or to conclude the alliance after seven years in certain limited circumstances. Over the lifetime of the agreement, the parties will engage in approximately double the annual number of therapeutic antibody discovery programs as compared to the previous alliance, encompassing a wide range of diseases. MorphoSys also has options to participate in certain development activities in various programs, with part of the early-stage costs being funded by Novartis. Under the co-development options, MorphoSys may elect to participate in these projects through cost and profit sharing, with financial participation reflecting its level of investment in the respective programs.

Based on a 10-year term, committed annual payments totaled more than US\$ 600 million in technology access, internalization fees and R&D funding, excluding reimbursement of R&D costs related to early-stage development activities. Total payments under the agreement, including committed payments and probability-weighted success-based milestones, contingent upon successful clinical development and market approval of multiple products, could potentially exceed US\$ 1 billion, assuming the collaboration successfully runs its maximum term. In addition to these payments, MorphoSys would also be entitled to *royalty payments** and/or profit sharing on any future product sales.



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XOMA TECHNOLOGIES LTD.

In February 2002, MorphoSys announced a cross-licensing agreement with XOMA Technologies Ltd. (Berkeley, CA, USA) for their antibody-related technologies. Under the agreement, MorphoSys and its partners received a license to use the XOMA antibody expression technology for developing antibody products (including Fab and scFv formats) using MorphoSys's phage display-based HuCAL antibody library. MorphoSys also received a license for the production of antibodies (including Fab and scFv formats) under the XOMA patents. XOMA received the right to use the HuCAL GOLD antibody library for target research and discovery purposes for five years, with an option to develop antibodies into therapeutics.

XOMA's access to the HuCAL GOLD antibody library ended in the last quarter of 2007, in accordance with the terms of the original agreement. MorphoSys's access to the licensed patents from XOMA is unaffected and continues under the terms of the original agreement.

ABD SEGMENT

MEDICAL RESEARCH COUNCIL

In March 2007, AbD Serotec significantly expanded its license agreement with MRC Technology (MRCT - UK), the technology transfer arm of Great Britain's Medical Research Council (MRC). The agreement, which provides AbD Serotec with access to a broad range of *hybridoma** cell lines as a source of research antibodies, was extended for a further five years, and includes additional products which were implemented in AbD Serotec's offering. The Medical Research Council is a



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national organization dedicated to improving human health in the UK and abroad. The MRC has 40 institutes, units and centers, and supports research across the entire spectrum of medical sciences, in universities and hospitals through research grants, funded research training and MRC career awards.

NATIONAL INSTITUTE OF DIABETES AND DIGESTIVE AND KIDNEY DISEASES (NIDDK)

In December 2007, scientists at the National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK) – part of the US National Institute of Health (NIH) – detected a new epitope on the HIV protein gp41 using antibodies generated by AbD Serotec from the MorphoSys HuCAL GOLD antibody library and demonstrated the antibody's capability to neutralize diverse laboratory-adapted B-strains of HIV-1 and primary isolates of subtypes A, B, and C. Their results have been published in the Journal of Virology.

THERMO FISHER SCIENTIFIC, INC.

In February 2007, AbD Serotec and Thermo Fisher Scientific, Inc. (USA), signed a co-marketing agreement covering the use of Thermo Scientific DyLight™ dyes in combination with AbD Serotec's research antibodies to prepare a series of fluorescent reagents*. The resulting products were made available through the AbD Serotec sales catalog. DyLight™ fluorescent dyes, available exclusively as part of Thermo Scientific's protein research product line, are an excellent alternative to other commercially available fluorescent dyes.



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RESEARCH AND DEVELOPMENT

In 2007, MorphoSys further invested in technology development. It is particularly important for MorphoSys to continuously optimize its technology platform, to ensure the highest possible success probabilities for HuCAL-based antibodies.

In November 2007, MorphoSys unveiled a multi-year technology development program which will lead to a significantly enhanced version of its antibody generation platform. The new system, which involves several technology components and maintains its modular construction, represents a technological breakthrough in the advancement of antibody library technology and will offer unequalled opportunities for antibody-based drug development. The new technology suite will include enhancements involving substantially faster and more direct access to high-affinity antibody drug candidates in the full IgG format compared to other antibody technologies on the market. The new technology platform will comprise an upgrade of MorphoSys's current antibody library HuCAL GOLD to an enhanced version, HuCAL Platinum™, as well as established screening and selection methods such as AutoCAL® and CysDisplay®, RapMAT® technology for faster antibody optimization, the AgX™ antigen* expression system and the SAS™ sequence analysis software and additional technology modules currently in development.



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PATENTS AND LICENSES

Once again, intellectual property (IP) played a prominent role in the Company's successful partnering track record; for example, exclusive access to specific platform technologies in certain areas was a key driver behind the Company-transforming deal with Novartis in December 2007.

LICENSE AGREEMENT WITH DYAX CORP.

In November 2007, MorphoSys in-licensed a broad patent portfolio from Dyax relating to antibodies and other proteins. The agreement grants MorphoSys a fully paid-up license to a variety of display-related patents from Dyax as well as other patents, including several relating to methods for displaying and selecting antibodies and other proteins through the use of alternative types of display. As part of the license agreement, MorphoSys gains the right to sublicense the patents in conjunction with its proprietary technology. The license agreement provides MorphoSys with flexibility for future technology development to further diversify its antibody technology portfolio and improve its offering for therapeutic, diagnostic and research customers.

EXCLUSIVE LICENSE TO KEY PATENT FOR MOR103 FROM THE UNIVERSITY OF MELBOURNE

During 2007, MorphoSys signed an agreement with the University of Melbourne providing MorphoSys with exclusive access to all rights under a US patent application and its progeny covering certain uses of inhibitors of the human cytokine GM-CSF (granulocyte-macrophage colony-stimulating factor). GM-CSF* is the target molecule for MorphoSys's proprietary MOR103 antibody program for the treatment of rheumatoid arthritis (RA) and other inflammatory diseases. MorphoSys expects that the license obtained from the University of Melbourne will lead to market exclusivity for therapeutic antibodies targeting GM-CSF in the US for inflammatory disorders, once a favorable US patent is granted.



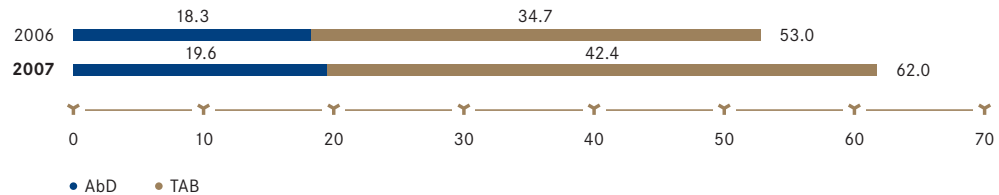
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RESULTS OF OPERATIONS, FINANCIAL SITUATION, ASSETS AND LIABILITIES

REVENUES

Compared to the same period in the previous year, Group revenues increased by 17% to € 62.0 million in 2007 (2006: € 53.0 million). The increase is due to higher levels of funded research, licensing fees and success-based fees as well as stronger revenues in the AbD segment. Revenues arising from the Therapeutic Antibodies segment (excluding the compensatory fee resulting from the revenue-sharing agreement) accounted for 68% or € 42.4 million (2006: € 34.7 million) of total revenues while the AbD segment generated 32% (€ 19.6 million) of the total (2006: € 18.3 million).

Geographically, 36%, or € 22.1 million, of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies or non-profit organizations located in North America, and 64%, or € 39.9 million, with companies located mainly in Europe and Asia. This compares to 38% and 62% respectively, in the same period of the prior year.

REVENUE DEVELOPMENT (in million €)**THERAPEUTIC ANTIBODIES SEGMENT**

Revenues arising from the Therapeutic Antibodies segment comprised € 30.3 million in funded research and licensing fees (2006: € 27.2 million) as well as € 12.1 million success-based payments (2006: € 7.5 million), representing 29% of total Therapeutic Antibodies revenues. Approximately 67% of Therapeutic Antibodies revenues and 46% of total revenues arose from the Company's three largest alliances with Novartis, Centocor and Bayer Schering (2006: Novartis, Centocor and Roche, 64% and 42% respectively).

Assuming constant foreign exchange rates at the average rate of 2006, revenues in the Therapeutic Antibodies segment would amount to € 43.1 million.

ANTIBODIES DIRECT - ABD SEGMENT

Compared to the previous year, the AbD segment's revenues increased by 7%, or € 1.3 million, to € 19.6 million in 2007 (2006: € 18.3 million). The largest part of revenues (approx. 85%), or € 16.6 million, was generated with catalog and industrial customers, while custom manufacture antibodies contributed 12% or € 2.3 million.

Assuming the average foreign exchange rates for 2006, revenues in the AbD segment would amount to € 19.9 million.

As of December 31, 2007, orders in the amount of € 0.7 million were classified as back orders in the segment (2006: € 2.5 million).

OPERATING EXPENSES

Compared to 2006, total operating expenses increased by 17% to € 54.9 million in 2007 (2006: € 46.9 million). The rise in operating expenses of € 8.0 million was impacted by research and development (R&D) expenses increasing by 27% or € 4.7 million and sales, general and administrative (S,G&A) expenses increasing by 16% or € 3.4 million, whereas the cost of goods sold (COGS) slightly decreased from € 8.0 to € 7.9 million. Total purchase price allocation (PPA) effects on operating profit amounted to € 1.5 million (2006: € 1.5 million), including an impairment on the ex-Biogenesis US building in Brentwood, presented as asset held for sale, in the amount of € 0.2 million.

Stock-based compensation expenses are embedded in COGS, S,G&A and R&D expense amounts. Stock-based compensation in 2007 amounted to € 1.4 million (2006: € 1.2 million) and is a non-cash charge.

COST OF GOODS SOLD

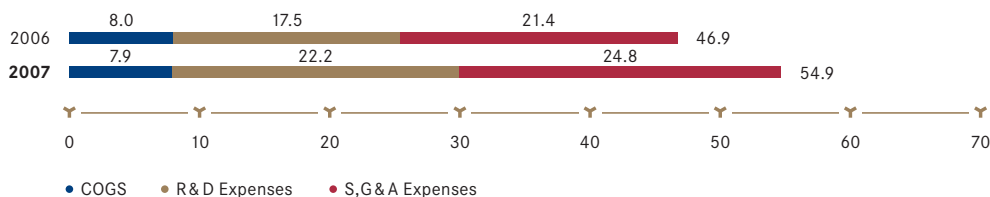
COGS is composed of the AbD segment's cost of goods sold in 2007 and – compared to the prior year – slightly decreased from € 8.0 to € 7.9 million. The relative percentage decline in COGS to revenues is mainly a result of savings generated in purchasing as well as of the fact that inventories identified in connection with the PPA for the Biogenesis acquisition are now fully depreciated and, therefore, did not impact COGS to the same extent as in the previous year.

RESEARCH AND DEVELOPMENT EXPENSES

Costs for research and development increased by € 4.7 million to € 22.2 million (2006: € 17.5 million) mainly due to higher personnel costs (2007: € 8.5 million; 2006: € 7.2 million). The two proprietary products currently being internally developed by MorphoSys are MOR103 and MOR202. In 2007, the Company incurred costs for proprietary product development and technology development in the amount of € 4.9 million and € 1.2 million respectively (2006: € 2.1 million and € 0.9 million).

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Sales, general and administrative expenses amounted to € 24.8 million compared to € 21.4 million in the previous year. This change was mainly impacted by higher costs for external services (2007: € 8.6 million; 2006: € 4.5 million), including consulting fees in connection with the Novartis deal.

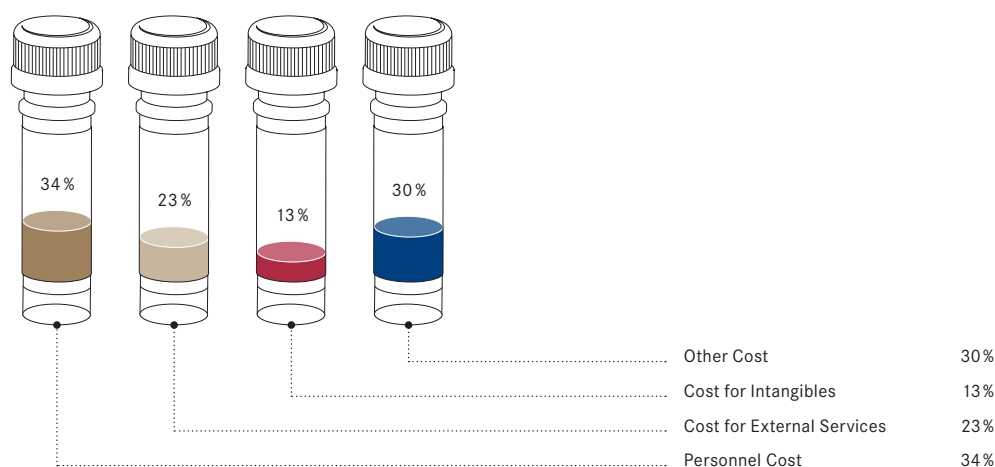
DEVELOPMENT OF OPERATING EXPENSES (in million €)**COST BY EXPENDITURE TYPE**

In 2007, personnel costs (excluding stock-based compensation) amounted to € 18.8 million (2006: € 18.1 million) or 34% of total operating expenses, thus representing the largest cost block within operating expenses.

Expenses for external services, representing the second-largest block by cost type, mainly included consulting fees (2007: € 6.9 million; 2006: € 2.1 million) and external lab funding (2007: € 4.0 million; 2006: € 1.6 million), and amounted to € 12.8 million (2006: € 6.1 million) or 23% of total operating expenses.

Costs for intangibles mainly consisted of expenses for licenses (2007: € 3.7 million; 2006: € 2.2 million), amortization of licenses capitalized (2007: € 1.5 million; 2006: € 1.2 million) as well as amortization of intangible assets identified in connection with the PPAs for Biogenesis and Serotec (2007: € 0.8 million; 2006: € 0.8 million), and accounted for € 7.0 million (2006: € 5.9 million) or 13% of total operating expenses.

COST BY EXPENDITURE TYPE



NON-OPERATING ITEMS

Non-operating income amounted to € 2.2 million (2006: expenses of € 0.9 million) and mainly changed as a result of increased interest income, increased gains from marketable securities, gains from foreign exchange derivatives and decreased interest expenses. Profit before taxes amounted to € 9.2 million (2006: € 5.3 million).

TAXES

In total, the Company reported a tax benefit in the amount of € 2.3 million for 2007. This line item is mainly impacted by deferred tax income of € 4.1 million and current tax expenses of € 1.8 million.

The deferred tax income derived from the capitalization of a deferred tax asset (DTA) of € 3.6 million on the full remaining tax loss carry-forwards due to expected taxable income in future periods. This income was partly offset by deferred tax expenses from the amortization of a DTA on tax loss carry-forwards established in 2006 (€ 1.2 million). Additional deferred tax income resulted from the recognition of DTA (€ 1.2 million) in 2007 on temporary differences and from € 0.6 million arising in conjunction with the amortization of deferred tax liabilities in connection with previous acquisitions.

OPERATING PROFIT/NET PROFIT

Group operating profit amounted to € 7.0 million in 2007 (2006: € 6.2 million). Earnings before interest and taxes (EBIT) amounted to € 8.3 million, compared to an EBIT of € 5.4 million in the previous year. The Therapeutic Antibodies segment accounted for an operating profit of € 15.2 million (2006: € 16.6 million), whereas the operating loss for the AbD segment amounted to € 0.6 million (2006: loss € 3.4 million).

A net profit after taxes of € 11.5 million was achieved in 2007, compared to a net profit after taxes of € 6.0 million in 2006. The resulting basic net profit per share for 2007 amounted to € 1.61 (2006: € 0.94).

LIQUIDITY/CASH FLOWS

Cash inflow from operations amounted to € 17.1 million for 2007 (2006: € 16.3 million). Investing activities resulted in a cash outflow of € 5.2 million (2006: € 36.2 million), whereas the cash inflow from financing activities amounted to € 32.6 million (2006: € 19.6 million).

As of December 31, 2007, the Company held € 106.9 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2006 balance of € 66.0 million. Funds were held in three high-quality financial institutions, predominantly in short-term maturity money funds and short-term deposit accounts.

ASSETS

Total assets rose by € 56.9 million to € 184.7 million as of December 31, 2007, compared to € 127.8 million as of December 31, 2006. Current assets increased by € 46.8 million, mainly as a result of cash generated from the capital increase in May 2007 (€ 32.6 million), cash generated from operations (€ 17.1 million) and increased accounts receivable (€ 5.8 million) due to new contracts signed in 2007.

In 2007, non-current assets increased by € 10.1 million as a consequence of licenses purchased in 2007 (€ 8.7 million), as well as of the build-up of deferred tax assets (€ 3.5 million).

LIABILITIES

In 2007, current liabilities increased from € 18.3 million as of December 31, 2006, to € 29.4 million. This change primarily arose from an increase in current deferred revenues (€ 8.7 million) due to payments deriving from contracts signed in the current year as well as in previous years, and an increase in accounts payable (€ 3.0 million) mainly associated with advisors' fees relating to the Novartis deal at year-end.

In 2007, the slight increase of total non-current liabilities by € 0.3 million to € 9.8 million was mainly impacted by an increase in non-current deferred revenues (€ 0.8 million), resulting from contracts signed in the current and in previous years. This effect was partly offset by a decrease in deferred tax liabilities (€ 0.6 million).

EQUITY

Total stockholders' equity amounted to € 145.5 million as of December 31, 2007, compared to € 100.1 million as of December 31, 2006, resulting in an equity ratio of 78.8 % (2006: 78.3 %).

As of December 31, 2007, the total number of shares issued amounted to 7,386,753, of which 7,360,021 were outstanding, compared to 6,715,322 and 6,686,160 as of December 31, 2006, respectively.

The increase in shares outstanding by 673,861 shares arose from the capital increase against cash successfully placed in May 2007 and from the conversion of bonds issued to employees as well as from exercised options. In 2007, 2,430 of the exercised options related to shares provided by treasury stock. Treasury shares were reduced accordingly, amounting to 26,732 shares as of December 31, 2007.

CAPITAL EXPENDITURE

MorphoSys's investment in property, plant and equipment amounted to € 1.1 million for 2007 and decreased by € 2.4 million compared to the prior year due to higher investments in lab and office equipment (€ 1.5 million) and leasehold improvements (€ 0.9 million) in 2006. Depreciation of property, plant and equipment for the fiscal year 2007 accounted for € 1.5 million, compared to € 1.5 million for 2006.

In 2007, the Company invested € 11.0 million in intangible assets (December 31, 2006: € 0.4 million). This increase was mainly impacted by the purchase of licenses. Furthermore, in 2007, new ERP software was implemented. Amortization of intangibles amounted to € 3.0 million and increased by € 0.3 million in comparison to 2006.

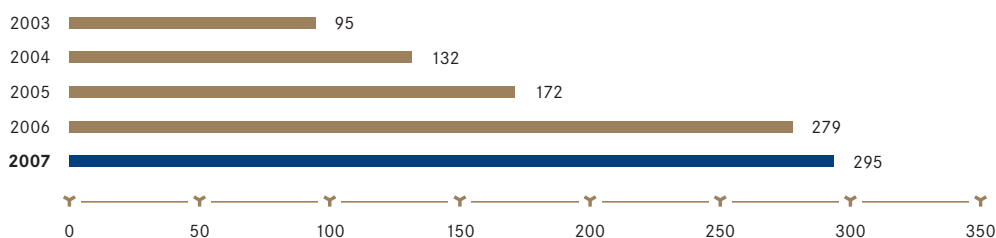
The Group's financial position and profit situation at the time of the preparation of the Consolidated Financial Statements and the Management Report is in line with the Group's planning and expectations.

HUMAN RESOURCES

A good working atmosphere, outstanding training and education opportunities as well as performance-related compensation form the basis of MorphoSys's success. MorphoSys traditionally attaches great importance to the training and education of its employees.

NUMBER OF EMPLOYEES

On December 31, 2007, the MorphoSys Group employed 295 people (full-time equivalents) worldwide (December 31, 2006: 279), an increase of 6% from the end of the previous year. The biggest personnel growth occurred in the Therapeutic Antibodies segment. On average, the MorphoSys Group employed 291 people in 2007 (2006: 265).

GROUP HEADCOUNT DEVELOPMENT

Of the 295 employees, 164 worked in research and development and 131 in sales, general and administration (December 31, 2006: 155 employees in R&D, and 124 employees in S,G&A).

EMPLOYEES BY SEGMENT AND FUNCTION

	2006	2007
TOTAL EMPLOYEES	279	295
Therapeutic Antibodies segment	158	167
AbD segment	121	128
Employees in R&D	155	164
Employees in S,G&A	124	131

Average sales per employee rose from € 0.20 million in 2006 to € 0.21 million in 2007.

MorphoSys's personnel costs (excluding stock-based compensation) amounted to € 18.8 million in 2007, 4% up on the previous year. The average costs per employee were approximately € 64,000 (2006: € 68,000).

On December 31, 2007, MorphoSys had two apprenticeship positions (December 31, 2006: 1). During 2007, three diploma theses were supervised by MorphoSys R&D staff members.

EMPLOYEES BY REGION

	2006	2007
TOTAL EMPLOYEES	279	295
Germany	183	192
UK	78	83
USA	18	20

QUALIFICATION, TRAINING AND EDUCATION

Supporting scientific and management education is a priority for MorphoSys. The Company offers career opportunities in the areas of research and product development as well as a variety of management positions. All employees enjoy a wide range of professional and personal development programs as well as a working environment that encourages enthusiasm and collaboration among departments and between the Company's different locations.

75 of MorphoSys's workforce held a Ph.D. degree (December 31, 2006: 59).

LONG-TERM PERFORMANCE-RELATED COMPENSATION

All MorphoSys employees presently participate in the operational and financial success of the Company. MorphoSys offers a performance-based bonus to all employees. This bonus supplements the existing remuneration system and opens up an additional performance incentive. Employee bonuses are based on the success of the Company and on personal performance. By setting personal goals, department goals and Company goals, each employee has the chance to contribute to the successful development of MorphoSys and to participate in its success.

In addition to the performance-related compensation, in 2007, all employees of MorphoSys AG participated in a stock option or convertible bond program as part of a long-term equity incentive scheme. The aim of this program is to give employees a long-term stake in the success of the Company.

Every year, all salaries are benchmarked within the biotechnology sector as well as other industries, to ensure adequate compensation standards.



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Further information on the stock option plan can be found in the Notes to the Financial Statements (see Notes to the Consolidated Financial Statements - section 19*).

REMUNERATION REPORT

The Remuneration Report reflects the Management Board Compensation Disclosure Law as well as the principles of the German Corporate Governance Code.

REMUNERATION OF THE MANAGEMENT BOARD

The overall annual compensation paid to Management Board members consists of a number of compensation components. These include fixed compensation, a bonus, a medium- and long-term incentive component as well as additional benefits. Each year, the structure and appropriateness of the total compensation packages are subject to a review by the Remuneration & Nomination Committee. Compensation is based in particular on the duties of the individual Management Board member, his/her personal performance and that of the Management Board, as well as on the business situation, success and prospects of the Company relative to its competitive environment. The complete compensation packages are compared to the outcome of the Annual German Biotechnology Industry Remuneration Study (GRS Study), and to other international benchmark sources. The adjustments to the compensation packages are adopted by the plenum of the Supervisory Board. The last date on which salaries were adjusted was in July 2007.

The total annual salary of the members of the Management Board comprises the fixed components plus additional other compensatory benefits, which encompass primarily the use of company cars, the reimbursement of travel and telephone costs, allowances for health, social care and invalidity insurances as well as special allowances and benefits received when working outside of the home country. Furthermore, all members of the Management Board participate in private pension funds. MorphoSys pays the monthly contribution to these funds. These payments are included here as other compensatory benefits and amount to 10% of the annual fixed salary of each Management Board member plus tax contribution. No additional pension plans are in place.

Additionally, each member receives a performance-related cash bonus payment. Such payments are dependent on individual goals and Company-related goals, which are determined by the Supervisory Board at the beginning of each fiscal year. The corporate performance targets reflect operating performance as measured by revenues and net income and other Company goals such as share performance, the successful integration of business units, or the completion and/or extension of important collaborations. At the end of the year, the Supervisory Board evaluates the level of attainment of these goals. The bonus is determined by the Supervisory Board on the basis of the Company's business development after due assessment of the circumstances. 30% of the bonus payment is dependent on personal goals; the other 70% depends on the extent to which the Company goals have been reached. The bonus shown in the respective annual report are bonus payments for the goals achieved in the previous business year.

In the 2007 fiscal year, the total cash remuneration paid to the members of the Management Board amounted to € 1,473,438 (previous year: € 1,156,415). The table below shows the detailed and individualized compensation for the Management Board in 2007:

in €	FIXED COMPENSATION	PERFORMANCE- RELATED COMPENSATION	OTHER COMPENSATORY BENEFITS	TOTAL COMPENSATION 2007
Dr. Simon E. Moroney	320,250	198,360	83,882 ¹	602,492
Mr. Dave Lemus	225,225	140,049	113,309 ²	478,583
Dr. Marlies Sproll	211,860	124,146	56,356 ³	392,362

¹ Includes € 65,105 annual contribution to private pension fund and allowances to insurances

² Includes € 43,196 annual contribution to private pension fund and allowances to insurances

³ Includes € 39,665 annual contribution to private pension fund and allowances to insurances

The long-term performance-related remuneration consists of convertible bonds and stock options under the plans as resolved by the Annual Shareholders' Meeting. These are outlined in the "Equity-based Compensation for the Management Board" section below.

In 2007, 13,873 convertible bonds were granted to members of the Management Board. The value of the convertible bonds granted to members of the Management Board under the 2002 convertible bond plan attributable to the 2007 fiscal year totaled € 191,447 (2006: € 676,399).

During 2007, none of the members of the Management Board exercised convertible bonds or stock options.

No credit or similar benefits were granted to members of the Management Board. In the year under review, the Management Board members received no benefits from third parties that were either promised or granted in view of their position as a member of the Management Board.

The service contracts for the Chief Executive Officer Dr. Simon E. Moroney and the Chief Financial Officer Mr. Dave Lemus have a term of three years each. Dr. Marlies Sproll was appointed as Chief Scientific Officer for the first time in November 2005; her respective service agreement has a term of two years, which was extended to June 2008. In the event of a non-reappointment and non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one annual fixed salary. If the service contract of a member of the Management Board is terminated by death, his/her spouse or partner for life is entitled to the monthly fixed salary for the month of death and the following twelve months. After a change of control transaction, each member of the Management Board is allowed to extraordinarily terminate his/her service contract and may demand the outstanding fixed salary for the remaining contractually provided term of contract, or two years, whichever is greater. Furthermore, in such a case, all granted stock options and convertible bonds shall be treated as immediately vested.

REMUNERATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is based on the provisions of the Articles of Incorporation, the current version of which was adopted by the stockholders at the Annual Shareholders' Meeting on May 17, 2006. In accordance with the German Corporate Governance Code, members of the Supervisory Board receive fixed as well as performance-related compensation. It takes into account the responsibilities and scope of tasks of the members of the Supervisory Board as well as the economic situation and performance of the Company.

In the 2007 fiscal year, the members of the Supervisory Board received a total of € 298,500 (2006: € 259,000), excluding reimbursement of travel expenses. This amount consists of fixed remuneration and variable compensation (attendance fees).

The table below shows the detailed compensation for the Supervisory Board in 2007:

in €	FIXED COMPENSATION	VARIABLE COMPENSATION	TOTAL COMPENSATION
Dr. Gerald Möller, Chairman	40,000	35,000	75,000
Prof. Dr. Jürgen Drews, Deputy Chairman	30,000	19,000	49,000
Dr. Walter Blättler ¹	14,622	12,000	26,622
Dr. Daniel Camus	25,000	21,000	46,000
Dr. Metin Colpan	25,000	16,000	41,000
Prof. Dr. Andreas Plückthun ²	8,878	4,500	13,378
Dr. Geoffrey N. Vernon	26,500	21,000	47,500

¹ Entered as per May 16, 2007

² Retired as per May 16, 2007

The German Corporate Governance Code proposes that remuneration of the Supervisory Board should also include components based on the long-term success of the Company. In 2006, the members of the Supervisory Board received a revenues-related compensation program in the form of a phantom stock program with a duration of three years in addition to the cash compensation.

A phantom stock is a claim on the Company to a cash payment of the difference between the stock exchange price at the end of the holding period and the exercise price. The holding period for phantom stocks is three years. An amount will only be paid if the Company's consolidated revenues during the vesting period show an average annual growth rate of at least 20%. In total, payments by the Company under this plan to the Supervisory Board as a whole must not exceed the amount of € 80,000 ("cap"). In the 2007 fiscal year, no additional phantom stocks were granted to the Supervisory Board members.

In 2006, MorphoSys entered into consulting agreements with the member of the Supervisory Board Prof. Dr. Andreas Plückthun and another scientist of Prof. Dr. Plückthun's research team at the University of Zurich, Switzerland, ending December 2008. According to the agreements,

the consultants shall provide consulting services in the antibody and scaffold fields. Under this agreement, Prof. Dr. Andreas Plückthun may receive payments of up to € 14,000 per year, depending on the extent to which the Company draws on his consultancy. In 2007, no payments were made to Prof. Dr. Plückthun and his research team. The sponsored research agreement with the University of Zurich, represented by Prof. Dr. Andreas Plückthun, was terminated by the end of 2006.

No other consultancy agreements with current or former members of the Supervisory Board are currently in place.

No members of the Management Board or the Supervisory Board were granted Company loans.

EQUITY-BASED COMPENSATION FOR THE MANAGEMENT BOARD

STOCK OPTIONS AND CONVERTIBLE BONDS

The Supervisory Board also decides each year on the number of stock options or convertible bonds to be allocated to the Management Board members. Members of the Management Board currently receive stock options only in the event of a new appointment or in the case of a renewal of a service agreement.

Since the implementation of equity-based compensation programs at MorphoSys AG, stock options or convertible bonds are only issued twice a year. The following overview shows the number of stock options issued in 2007 to members of the Management Board (see also “2002 Employee Convertible Bond Program,” section 18* of the Notes to the Consolidated Financial Statements) and their potential current value. In 2007, no stock options were granted to members of the Management Board.



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MEMBER OF THE MANAGEMENT BOARD	NUMBER OF CONVERTIBLE BONDS	STRIKE PRICE in €	GRANT DATE	EXPIRY DATE	FAIR VALUE OF ONE CON- VERTIBLE BOND in €	FAIR VALUE AT THE TIME OF THE GRANT in €
Dr. Simon E. Moroney	5,549	55.10	Jan. 15, 2007	Dec. 31, 2009	13.80	76,576
Mr. Dave Lemus	4,624	55.10	Jan. 15, 2007	Dec. 31, 2009	13.80	63,811
Dr. Marlies Sproll	3,700	55.10	Jan. 15, 2007	Dec. 31, 2009	13.80	51,060

STOCK OPTION PROGRAMS

The current stock option plan of 2002 provides for the issuance of nontransferable option rights to employees and to the Management Board. The option rights have a maximum life of five years. Additionally, a two-year holding period is required after the date of grant, after which the holder of the option rights can exercise up to the number of vested option rights, on the condition that the value of the underlying stock has exceeded the stock price at the time of the grant by at least 20% on one trading day before the exercise.

CONVERTIBLE BOND PROGRAMS

The current convertible bond program of 2002 provides the issuance of non-interest-bearing convertible bonds with a par/nominal value of € 1.00 each to employees and to the Management Board. The beneficiaries may only exercise the conversion rights after the expiration of a waiting period of one year after the grant date. Each convertible bond with a nominal value of € 1.00 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exchange price. Furthermore, the exercise of the convertible bonds is subject to the performance target that the value of the underlying stock has exceeded the stock price at the time of the grant by at least 10% on one trading day before the exercise.



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For a more detailed description of the various stock options and convertible bond programs currently in operation, see sections 18 and 19* of the Notes to the Consolidated Financial Statements.

INFORMATION REQUIRED UNDER TAKEOVER LAW

The following information is presented in accordance with art. 315 para. 4 of the German Commercial Code (HGB).

COMPOSITION OF CAPITAL STOCK

As of December 31, 2007, the Company's share capital amounted to € 22,160,259.00 and is divided into 7,386,753 no-par value bearer shares. With the exception of 26,732 own shares, all issued shares are exclusively common shares with voting rights. The Management Board is not aware of any restrictions of the voting rights or the right to transfer. This also applies to restrictions which may result from shareholders' agreements. The Company has not been notified of direct or indirect shareholdings in its share capital exceeding 10% of the voting rights pursuant to § 21 German Securities Trading Act ("WpHG"). There are no owners of shares with privileged rights or other rights giving a right to control votes.

SHAREHOLDINGS EXCEEDING 10 % OF THE VOTING RIGHTS

There is no direct shareholding in the Company which exceeds 10% of the voting rights.

AUTHORIZATION OF THE MANAGEMENT BOARD TO ISSUE SHARES

Pursuant to § 6 of the Company's Articles of Association, the Management Board shall consist of at least two members, with the Supervisory Board defining the concrete number of the members of the Management Board. The Supervisory Board may appoint a Chief Executive Officer and one or several representatives of the CEO. Pursuant to § 20 of the Articles, amendments of the Articles are subject to a majority of more than 50% of the share capital represented in a shareholders' meeting unless the law mandatorily requires a different majority.

The shareholders have provided the Management Board with the following authorizations to issue new shares or conversion rights or to purchase own shares:

- a) Pursuant to § 5 para. 5 of the Articles of Association and with the approval of the Supervisory Board, the Management Board is authorized to increase the Company's share capital during the time period until April 30, 2011, in the amount of up to € 7,481,307 and by issuing 2,493,769 young bearer shares with no-par value for contribution in cash and/or in kind on one or several occasions (Authorized Capital I). The Management Board may, with the approval of the Supervisory Board, exclude the preemptive rights of the shareholders under the following conditions:
 - i) in the case of a capital increase in cash, to the extent that such exclusion is necessary to avoid fractional shares; or
 - ii) in the case of a capital increase in kind, to the extent that the young shares are used for the acquisition of companies, shareholdings in companies, patents, licenses or other industrial property rights, or of assets which constitute a business in their entirety; or
 - iii) in the case of a capital increase in cash, to the extent that young shares shall be placed at a stock exchange in context with a listing.

- b) Pursuant to § 5 para. 6 b of the Articles of Association, the Company's share capital shall be conditionally increased by an amount of up to € 5,488,686, divided into up to 1,829,562 bearer shares with no-par value (Conditional Capital III). The conditional capital increase shall only be accomplished (i) to the extent that owners of options and/or convertible bonds make use of their option and/or conversion rights issued by the Company until April 30, 2011, in accordance with the resolution of the Annual Shareholders' Meeting or (ii) to the extent that owners fulfill their duties to convert. The same shall apply to owners of options and/or convertible bonds issued by domestic or foreign affiliates which are totally owned by the Company.

- c) Furthermore, there exists a Conditional Capital I in the amount of up to € 39,285 (§ 5 para. 4 of the Articles of Association), a Conditional Capital II in the amount of up to € 643,425 (§ 5 para. 6 a of the Articles of Association), a Conditional Capital IV in the amount of up to € 1,364,532 (§ 5 para. 6 c of the Articles of Association) and a Conditional Capital V in the amount up of € 1,011,861 (§ 5 para. 6 d of the Articles of Association). These conditional share capitals may be used for the issuance of option and conversion rights to members of the Management Board and to employees of the Company or of its affiliates.

AUTHORIZATION OF THE MANAGEMENT BOARD TO REPURCHASE STOCK

- d) According to the resolution of the ordinary Annual Shareholders' Meeting 2007, the Company may purchase own shares in the amount of up to 10 % of the share capital existing at the time of the said resolution. This authorization is valid until October 31, 2008. The Management Board may decide whether the shares shall be acquired as a purchase order in the stock market or by virtue of a public offer. The acquired own shares may be used for the following purposes:

- i) with the approval of the Supervisory Board, the shares may be redeemed; or
- ii) the shares may be used in order to fulfill conversion rights or option rights which have been granted by the Company or an affiliate; or
- iii) the own shares may be used as acquisition currency in context with the purchase of companies, shareholdings in companies, business assets, intellectual property rights or licenses.

CHANGE OF CONTROL PROVISIONS

KEY AGREEMENTS SUBJECT TO CONDITIONS

The Company and Novartis Pharma AG expanded their original 2004 cooperation agreement in the field of pharmaceutical research, which, in case certain changes in control occur involving certain types of companies, Novartis Pharma AG is permitted, but not obligated, to take several measures, including the partial or complete termination of the cooperation agreement.

A change in control is considered the holding of 30% or more of the voting rights in the Company in accordance with sec. 29 and 30 of the German Takeover Act (“Wertpapiererwerbs- und Übernahmegesetz - WpÜG”). The termination of the cooperation agreement by Novartis Pharma AG could affect future cash flows of the Company significantly.

CHANGE OF CONTROL PROVISIONS FOR MANAGEMENT BOARD MEMBERS

After a change of control transaction, each member of the Management Board is allowed to extraordinarily terminate his/her service contract and may demand the outstanding fixed salary for the remaining contractually provided term of contract or for two years, whichever is greater. Furthermore, in such a case, all granted stock options and convertible bonds shall be treated as immediately vested. The same applies to some of the directors of the Company to whom options or conversion rights have been granted.

RISKS AND OPPORTUNITIES

RISK MANAGEMENT AND CONTROLLING

In line with the German Corporate Sector Supervision and Transparency Act (“Gesetz zur Kontrolle und Transparenz im Unternehmensbereich - KonTraG”), MorphoSys has established a comprehensive and effective system to identify, assess, communicate and manage risks across its functions and operations. Risk management has the goal of identifying risks as early as possible, limiting business losses by means of suitable measures, and avoiding risks that pose a threat to the Company’s existence. Regular risk analyses at a corporate level are carried out in all the functional areas of the Company including R&D, S,G&A and the affiliates abroad. Twice a year, all members of the senior management group must consider the possible risks

within their respective fields of responsibility. All identified risks are quantified and significant changes of major risks are reported to the Management and Supervisory Boards. In addition, risks occurring at short notice are reported directly.

RISKS

MorphoSys AG operates on a global basis. Its business activities comprise different risks, which are relevant to many business functions. The business, financial condition and operating results of MorphoSys may be materially adversely affected by each of these risks.

GENERAL RISKS

MorphoSys is subject to the typical industry and market risks inherent to the development of fully human antibodies for use in research, diagnostics and therapy. It is known that the development of drugs takes 10 to 15 years, with high attrition rates. MorphoSys is minimizing these risks by partnering its products with pharmaceutical and biotechnology companies, which are responsible for clinical development and marketing. In general, there is a risk that none of the antibody products in MorphoSys's current antibody pipeline will be successfully developed. Within its second operating segment, the MorphoSys Group generates antibodies for research applications and diagnostics applications. There is a risk that those products will not fulfill the requirements of the customers, or that other products will be more favorably priced.

PRODUCT DEVELOPMENT RISKS

MorphoSys is committed to generating therapeutic antibodies for its commercial partners and increasingly for its own account. Thus, the Company's product pipeline comprises both partnered and proprietary therapeutic antibody development programs. These programs are subject to a number of risks of failure inherent in the development of medical therapies. Product candidates require pre-clinical studies and clinical trials in humans as well as regulatory approval prior to commercialization. To date, none of the Company's licensees or partners has commercialized a product based on MorphoSys's HuCAL technology, and HuCAL-derived therapeutics are not expected to be commercially available for a number of years. In addition, none of the HuCAL-derived product candidates has successfully completed all stages of clinical testing and regulatory approval procedures. Pre-clinical and ongoing phase 1 studies may not predict and do not ensure safety or efficacy in humans, and are not necessarily indicative of the results that may be achieved in pivotal clinical trials with humans.

ACQUISITION RISKS

In 2005 and 2006, MorphoSys acquired the Biogenesis Group and the Serotec Group, through which the Company has gained access to new distribution and sales channels. In the future, MorphoSys may acquire additional companies or technologies to increase market share and to complement existing business. Acquisition can expose the Company to risks associated with the assimilation of new technologies, operations, sites and personnel, the inability to generate

revenues to offset acquisition costs, the issuance of dilutive equity securities, the inability to maintain relationships with employees and customers, and the incurring of additional expenses associated with future amortization or impairment of acquired intangible assets or potential business. The failure to address the aforementioned risks may prevent the Company from achieving the anticipated benefits from the acquisitions within a reasonable time frame.

RISKS FROM COMPETITION AND TECHNOLOGICAL CHANGE

MorphoSys's business environment is characterized by rapid technological change and innovation as well as intense competition. Its competitors include established pharmaceutical, chemical and biotechnology companies possessing greater financial, technical, research and development, personnel, marketing and sales resources than those available to MorphoSys, and significantly more experience in developing, manufacturing, marketing and supporting new technologies and products. Moreover, certain research and academic institutions are also active in areas similar to those of MorphoSys.

There can be no assurance that competitors of the Company are not currently developing, or will not in the future develop, technologies and products that are equally or more effective, that have better side-effect profiles and/or are more economical as any current or future technology or product of the Company. Competing drugs may gain faster or greater market acceptance than the Company's drugs and medical advances or rapid technological development by competitors may result in the Company's drug candidates becoming non-competitive or obsolete before the Company is able to recover its research and development and commercialization expenses. If the Company or its drug candidates do not compete effectively, the Company's business would be materially adversely affected.

The first pharmaceutical product to reach the market is often at a significant advantage to later entrants, particularly since subsequent potential entrants must prove an advantage of their product over products already on the market. There is a risk that MorphoSys's competitors could succeed in developing technologies and products that are safer, less costly and more effective than its technologies or products. In addition, there is a risk that these technologies could produce products that reach the market earlier and could be more successful than those developed by MorphoSys.

PRODUCT RISKS

The marketing and sale of antibody products and services for certain applications entails a potential risk of product liability, and there can be no assurance that product liability claims will not be brought against the Company. MorphoSys currently carries global product liability insurance coverage. There can be no assurance, however, that the Company will be able to maintain such insurance at a reasonable cost and on reasonable terms or that such insurance will be adequate to protect MorphoSys against any or all potential claims or losses.

The Company is exposed to potential product liability claims that are inherent in clinical testing and could potentially be exposed to potential claims relating to the testing of drug candidates in human clinical trials. As the Company does not yet have a commercialized pharmaceutical product, it only maintains clinical trials insurance for its clinical trials.

Moreover, product liability claims may require significant financial and managerial resources, may cause harm to the Company's reputation if the market perceives its drug candidates to be unsafe or ineffective due to unforeseen side effects, and may limit or prevent the further development or commercialization of the Company's drug and drug candidates.

DEPENDENCE ON HEALTHCARE AND PHARMACEUTICAL SPENDING

MorphoSys is dependent on various sources of income, including, in particular, fees, milestone payments and royalties from licensees and partners, the financial condition of public treasuries and the financial markets, the government and governmental health authorities, research institutions, private health insurers and other organizations. Part of MorphoSys's revenues is derived from entering into collaborations with partners, including pharmaceutical companies. Many collaborative and/or out-licensing agreements provide for milestone payments and fees to be paid subject to the satisfaction of specific criteria. MorphoSys has no control over whether its partners or licensees will be able to meet such milestones, nor will MorphoSys be able to control whether products derived from its technology are being developed at all by its partners. Moreover, certain pharmaceutical companies may be more likely to seek to in-license products which have already reached a relatively advanced stage of development, such as phase 2 compounds, as opposed to less advanced product candidates still in pre-clinical stages. Consequently, the products in MorphoSys's pipeline may not reach a sufficiently advanced stage of development to be of interest to these pharmaceutical companies for some time. Therefore, the Company can offer no assurance that there will be a guaranteed revenues stream from current collaborations.

INTELLECTUAL PROPERTY RISKS

MorphoSys has been involved in legal proceedings in Germany and certain foreign jurisdictions, including the United States. These involve claims brought by and against it for license or patent infringement, which arose in the ordinary course of business. After the settlement of the litigation with Applied Molecular Evolution/Eli Lilly in September 2005, no significant patent litigation is pending. However, the field of recombinant antibody libraries and phage display, in which the Company is active, is relatively new, and the intellectual property position of the various parties involved is complex and litigious. Therefore, MorphoSys can offer no assurance

that further patent suits will not be brought by companies possessing existing patents or patents which have not yet been granted or which the Company is currently not aware of. Any such proceedings, if brought and subsequently decided against MorphoSys, could have an adverse material effect on the business, financial condition and operating results of MorphoSys.

FINANCING RISKS

MorphoSys's future capital requirements will continue to be substantial and will be dependent on many factors, including its ability to find licensees and to enter into satisfactory collaboration agreements, as well as the success of such collaborations in generating revenues (e.g. licensing fees, milestone payments and royalties). The costs of the pre-clinical testing of MorphoSys's products and technologies and the costs associated with filing, defending and enforcing patent rights may exceed the returns from these products. MorphoSys may also need to raise additional funds in future years. The Company can offer no assurance that adequate funds will be available to MorphoSys when needed on satisfactory terms or at all. If adequate funds are not available or are not available on acceptable terms, MorphoSys may have to reduce its expenditures for research and development, production or marketing. Any such development could have an adverse material effect on MorphoSys's business, financial condition and results of operations. If additional funds are raised by issuing shares, stockholders are likely to experience a dilution of their interests.

CURRENCY AND INTEREST RATE RISKS

The Group accounts are administered in euros. A significant portion of revenues and expenses are earned and incurred in currencies other than the euro. Although the euro is the most predominant currency, others, especially the US dollar, and the British pound, and to lesser degrees the Swiss franc and the Japanese yen may experience fluctuations in the exchange rate to the reporting currency of the euro, thus impacting financial results. The Company examines the necessity of hedging foreign exchange transactions to minimize the currency risk during the year and attempts to address these risks by establishing a program to hedge the foreign exchange risks as required.

Interest income earned on our available-for-sale financial assets is affected by changes in the relative level of market interest rates. The Company follows an investment policy which dictates that all investments must have at least an investment grade (BBB+) rating to qualify as an investment. Cash, cash equivalents and marketable securities are maintained principally with three high-quality financial institutions in Germany. The Company continually monitors its positions with, and the credit quality of, the financial institutions, which are counterparties to its financial instruments, and does not presently anticipate non-performance or non-payment risks.

DEPENDENCE ON KEY PERSONNEL

MorphoSys has not experienced any difficulties in attracting or retaining key management or scientific staff, but the continued ability to recruit and retain qualified skilled personnel is critical to the Company's success. Due to the intense competition for experienced scientists from numerous pharmaceutical and biotechnology companies and academic and other research institutions, there can be no assurance that MorphoSys will be able to attract and retain such personnel on acceptable terms. Planned activities will also require additional personnel, including management, with expertise in different areas. The inability to recruit such personnel or develop such expertise could have an adverse material impact on the Company's operations.

OTHER RISKS

Further, MorphoSys continuously monitors applicable environmental, health and safety, operational as well as other applicable statutory or industrial guidelines, and has implemented functions to comply with all of these effectively at each of our business locations. To minimize the manifold tax, corporate, employment, competition, IP and other legal frameworks, the Company's management bases decision making and the design of policies and processes on the advice of external as well as internal experts. There could be other risks beyond risks described here that MorphoSys currently either deems as insignificant or is not aware of at the time of this report.

OVERALL ASSESSMENT OF THE RISK SITUATION

MorphoSys's Management Board continuously analyzes potential risks, which include factors partly or wholly out of the Company's control, such as the overall development of national and global economies. Potential risks also include factors within the Company's control - such as operating risks - which can be anticipated and analyzed early by the risk management system. When necessary, counteractive measures can be introduced.

Based on the information available today, the most important risks are associated with major contracts and the performance of major customers.

OPPORTUNITIES

Thanks to its internationally oriented strategic positioning, MorphoSys has positive growth opportunities for the coming years. By expanding its expertise in the generation, characterization, production and clinical development of therapeutic antibodies, MorphoSys can systematically raise its profile in the healthcare sector. Additionally, the AbD segment strives to increase its market share for research and diagnostics antibodies. MorphoSys is confident that the research market as a whole is ready for a technological shift and that in the medium to long term, animal-based methods will be replaced by *in vitro* approaches such as the Company's HuCAL GOLD technology.

GENERAL STATEMENT ON OPPORTUNITIES

The growing demand for new treatment options will be met not only by using existing therapies, but also by new ones originating from advances in the understanding of the biology of disease and the application of new technologies. Innovative new products such as human antibodies have been launched in recent years, which are changing therapeutic approaches and are improving the quality of life for patients. In addition, due to strong competition among generics companies, almost all pharmaceutical companies are increasing their commitment to biologics such as human antibodies. Therapeutics based on biologicals are not as exposed to generics competition as small molecules, mainly because the manufacturing of the compounds is much more complex. To fill development pipelines, all major pharmaceutical players have made major commitments to biological therapies. Therefore, the demand for antibodies and the interest of the industry in this class of drugs have sharply increased over the last 12 to 24 months, clearly underpinned by several acquisitions and large licensing agreements in this field. The use of antibodies as therapeutics as well as for research purposes and diagnostics applications represents future growth opportunities for MorphoSys.

MARKET OPPORTUNITIES

MorphoSys believes that the HuCAL antibody platform can potentially be applied to make products that address significant unmet medical needs and provide new research tools cheaper and faster.

THERAPEUTIC ANTIBODIES

MorphoSys has established itself as one of the leading providers of fully human therapeutic antibodies. During the last three years, the scope of competition in the antibody field substantially decreased through the acquisitions of several competitors. Only a few companies offer technologies to develop fully human antibodies. During the last years, MorphoSys has established a strong international patent portfolio, and has secured its freedom to operate and to commercialize its technologies worldwide.

By participating in drug development with multiple partners, MorphoSys has effectively lowered its risk profile. With currently 50 therapeutic antibody development programs ongoing with its partners, the chance that MorphoSys will participate financially in one or more marketed drugs is much higher than if the Company concentrated on single development programs. At the end of 2007, MorphoSys signed a large strategic collaboration with Novartis, providing MorphoSys with committed payments over the next ten years. Within the collaboration, MorphoSys can pursue co-development options, allowing the Company to develop new antibody therapeutics together with an experienced pharma partner. The committed funding of the collaboration will allow MorphoSys to increase its spending for proprietary drug development.

Through in-licensing new target molecules, the Company seeks to expand and enhance its proprietary pipeline. After clinical proof of concept corresponding to a phase 2/2a study, MorphoSys strives to collaborate with companies with comprehensive expertise in late-stage clinical development and commercialization. By taking its two internal antibody programs MOR103 and MOR202 forward without a partner, the Company stands to benefit from more lucrative financial terms at such time when an alliance for further development is signed.

RESEARCH ANTIBODIES

Through the acquisitions of Biogenesis and Serotec, MorphoSys established itself within the top 20 of the worldwide leading providers of antibodies and antibody technologies for research and diagnostic applications. AbD Serotec has established a strong base from which to commercialize HuCAL-derived antibodies in the research and diagnostics markets. These markets have traditionally been served by antibodies derived from animals. MorphoSys intends to lead the transition to new *in vitro* technologies for antibody generation. In contrast to animal-based methods, *in vitro* technologies, such as the HuCAL library, offer greater speed, throughput and flexibility in antibody generation. From its current position as one of the leading suppliers in the European market, the Company expects to become one of the leading global players in this field.

ACQUISITION OPPORTUNITIES

MorphoSys has demonstrated its ability to complete acquisitions and to use such transactions to accelerate its growth. MorphoSys may use an acquisition strategy to augment strong organic growth as a means of increasing its market share, accessing patents and licenses for proprietary technology and drug development as well as other relevant assets.

SUBSEQUENT EVENTS

On January 16, 2008, MorphoSys disclosed that human cytokine GM-CSF (granulocyte-macrophage colony-stimulating factor) is the target molecule for the Company's proprietary MOR103 antibody program for the treatment of rheumatoid arthritis (RA). With MOR103, MorphoSys is developing the first fully human therapeutic antibody against that target in clinical trials, which is an innovative non-TNF treatment option for patients suffering from RA.

No other significant events of which the Company is aware took place between the closing date of December 31, 2007, and the Management Report finalization date of February 11, 2008.

OUTLOOK AND FORECAST

MorphoSys is one of the world's leading biotechnology companies focusing on fully human antibodies and intends to expand its position in the years to come. The Company's management expects to further develop its proprietary antibody pipeline, while increasing its focus towards the value-oriented development of proprietary compounds based on its HuCAL technology. Moreover, MorphoSys seeks to enlarge its market share within the research and diagnostics field.

STRATEGIC OUTLOOK

Looking forward and on the basis of current planning, MorphoSys intends to continue to conduct its business in two operating segments.

Within the Therapeutic Antibodies segment, MorphoSys will continue to provide its existing partners with therapeutic antibody candidates. The partnered therapeutic pipeline is expected to further mature and grow over the coming years, while attrition rates may increase due to the more advanced status of the development programs. After the signature of the strategic alliance with Novartis, MorphoSys will not sign additional fee-for-service therapeutic antibody partnerships with new pharmaceutical or biotechnology companies as in previous years.

Moreover, over the coming years, MorphoSys will seek to increase its proprietary antibody development activities. The expanded agreement with Novartis provides the Company with committed funding over the next decade, allowing MorphoSys to potentially raise its investments in proprietary drug development. Within the Novartis alliance, MorphoSys may elect to participate in certain co-development activities in various programs, with part of the early-stage costs being funded by Novartis. Additionally, MorphoSys may start co-development projects for HuCAL antibodies with other biotechnology or pharmaceutical companies.

In the AbD segment, revenue growth is expected to remain consistent with the prior year's growth rates. Web-based commercialization of products, with sophisticated technical services and customer support, plus an increase of products and services offered are expected to be the main growth drivers of organic growth for the segment.

EXPECTED ECONOMIC DEVELOPMENT

As a result of the US real estate crisis, the rise in worldwide interest rates and oil prices, the risks to weakening global growth have increased. According to the OECD (Organization for Economic Cooperation and Development), global economic growth will continue at a slightly slower pace. As regards Germany, economic upswing is expected to continue at 2.1% in 2008 and 1.6% in 2009.

EXPECTED DEVELOPMENT OF THE PHARMACEUTICALS SECTOR

More than three dozen blockbuster patents will lose patent protection over the coming years. Generic competition is expected to eliminate US\$ 67 billion from the top companies' annual US sales between 2007 and 2012. This fact is substantiated by falling research and development

productivity. During the years 2002 through 2006, the industry brought 43% fewer chemical-based drugs to market than in the last five years of the 1990s, despite more than doubling research and development spending. For this reason, new drugs based on biotechnology are very attractive due to low competition of generics. Currently, no regulatory pathway to approve generic biotech drugs exists in the US. Therefore, biotechnology companies and biotechnology drugs will remain interesting partnering or acquisition targets.

EXPECTED COMMERCIAL DEVELOPMENT

In contrast to previous years, when MorphoSys's business development activities concentrated mainly on new fee-for-service partnerships for the Company's HuCAL technology, MorphoSys will now focus more on in-licensing activities for new antibody development programs, as well as future out-licensing of proprietary drug programs upon clinical proof of efficacy.

The AbD segment intends to further expand its distribution network, the in-licensing of new research antibodies, as well as new tools to increase and upgrade its range of services.

EXPECTED RESEARCH AND DEVELOPMENT

MorphoSys expects to continue to invest in its proprietary HuCAL technology and has an ongoing multi-year technology development program in place which will lead to a significantly enhanced version of its antibody generation platform.

During the 2008 fiscal year, MorphoSys will seek to finalize the phase 1 trial for its proprietary compound MOR103, which will be the basis for phase 2 studies in patients, to prove clinical efficacy in humans. For MOR202, formal pre-clinical development is intended to be started in 2008, with the aim to start clinical development in 2009.

EXPECTED FINANCIAL DEVELOPMENT

Therapeutic antibodies belong to a well-established and rapidly growing class of drugs, and MorphoSys is benefiting from this trend. The Therapeutic Antibodies segment has been highly profitable in the past, evidenced by a strong operational cash flow. MorphoSys anticipates increasing its spending for proprietary drug development over the coming years. The AbD segment provided a positive cash flow in 2007, and MorphoSys intends to build on this result by seeking to achieve increased financial operating profit margins in future years.

EXPECTED EARNINGS SITUATION

MorphoSys's management anticipates total revenues growth of at least 15% in the current fiscal year in comparison to 2007. The revenue breakdown between the two segments is anticipated to remain relatively constant in 2008 compared to the prior year.

On the basis of the Management Board's current planning, expenses are expected to increase in 2008 and 2009. COGS is anticipated to increase corresponding to sales of the AbD segment. In upcoming years, MorphoSys will increase its investment in proprietary drug development in order to further develop its proprietary antibody pipeline, including MOR103 and MOR202. S,G&A expenses are expected to increase slightly. On the basis of current planning, MorphoSys will strive to remain profitable on an operating level in 2008 and 2009. For 2008, an overall operating profit exceeding that of 2007 is anticipated.

DIVIDENDS

Dividends may only be declared and paid from the accumulated retained earnings (after deduction of certain reserves) shown in the Company's annual German statutory accounts. Such amounts differ from the total of additional paid-in capital and accumulated deficit as shown in the accompanying consolidated financial statements as a result of the adjustments made to present the consolidated financial statements in accordance with IFRS. The Company's German statutory accounts showed taxable income in 2007; however, as of December 31, 2007, and 2006, they reflected no accumulated earnings available for distribution, and the Company's ability to pay dividends will therefore largely depend upon its future earnings.

For the upcoming year, MorphoSys does not anticipate paying a dividend. Any profit generated by the business shall be reinvested into the operation of its business in order to create further growth opportunities.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT

The demand for new treatment options remains high, allowing the Company to expand its therapeutic antibody development pipeline within its partnerships as well as for its own account. The market for research and diagnostics antibodies is currently undergoing a period of technological and structural upheaval. MorphoSys views these developments as strong incentives to remain active in the market and as an excellent opportunity for future growth.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2008 and beyond, and is based on Management Board assumptions. Future results may deviate from the expectations described in the outlook section. Major risks are discussed in the risk report.