

Annual Financial Statements
as of December 31, 2007
and Management Report

MorphoSys AG
Martinsried

MorphoSys AG, Martinsried nearby Munich
Balance Sheet as of December 31, 2007

ASSETS	2007/31/12	2006/31/12
	EUR	EUR
A. FIXED ASSETS		
I. Intangible Assets		
Franchises, trademarks, patents, licences, and similar rights and licences to such rights	13,428,986	4,324,696
II. Tangible Assets		
1. Land, leasehold rights and buildings, including leasehold improvements	346,696	446,855
2. Other equipment, furniture and fixtures	2,179,701	2,631,374
	2,526,397	3,078,229
III. Financial Assets		
1. Shares in affiliated companies	38,558,527	38,112,563
2. Loans to affiliated companies	9,108,813	17,308,813
	47,667,340	55,421,376
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials, supplies and production materials	322,855	83,380
2. Work in progress	0	133,333
3. Advanced payments	0	19,240
	322,855	235,953
II. Receivables and Other Assets		
1. Trade accounts receivable due within one year EUR 7,633,216 (prior year: EUR 2,185,956)	7,633,216	2,185,956
2. Receivables due from affiliated companies	3,594,941	3,456,759
3. Other assets due after one year EUR 2,317 (prior year: EUR 3,803)	2,377,954	1,988,439
	13,606,111	7,631,154
III. Securities		
1. Treasury stock	9,811	10,703
2. Other securities	55,272,936	56,233,838
	55,282,747	56,244,541
IV. Cash on Hand and Cash in Banks	46,639,404	820,611
C. PREPAID EXPENSES	917,584	1,135,757
	180,391,424	128,892,317

**MorphoSys AG, Martinsried nearby Munich
Profit and Loss Statement for 2007**

	2007 EUR	2006 EUR
1. Sales	45,562,988	36,656,212
2. Cost of sales	<u>23,569,723</u>	<u>20,745,825</u>
3. Gross profit on sales	21,993,265	15,910,387
4. Selling expenses	1,652,535	1,324,094
5. General administration expenses	16,636,638	10,551,455
6. Other operating income	-911,776	-1,487,081
7. Other operating expenses	1,093,819	1,027,894
8. Expenses from transfer of losses	741,327	1,020,380
9. Income from other securities and loans presented under financial assets	-2,238,180	-1,883,996
thereof from affiliated companies	-1,060,457	-1,216,463
10. Other interest and similar income	-996,233	-98,003
thereof from affiliated companies	-110,356	-44,345
11. Interest and similar expenses	12,290	12,221
thereof to affiliated companies	<u>7,369</u>	<u>0</u>
12. Result from ordinary activities	6,002,845	5,443,423
13. Income tax	481,212	759,470
14. Other taxes	<u>0</u>	<u>174,062</u>
15. Net profit	5,521,633	4,509,891
16. Loss carried forward	-24,589,583	-29,099,474
17. Withdrawal from Treasury Stock	<u>891</u>	<u>0</u>
18. Accumulated deficit	<u><u>-19,067,059</u></u>	<u><u>-24,589,583</u></u>

MorphoSys AG, Martinsried, Munich

Notes to the Annual Financial Statements 2007

GENERAL REMARKS

These annual financial statements as presented were prepared in accordance with § 242 et seq and § 264 et seq of the German Commercial Code ("Handelsgesetzbuch, HGB") plus the relevant provisions of the German Stock Corporation Act ("Aktiengesetz, AktG") and the Company's Articles of Association. Shares in MorphoSys AG (the "Company") are listed for official trading on the Prime Standard segment of the German stock exchange.

The accounts have been prepared in accordance with the regulations for large corporations. The income statement was organized according to the cost of sales method in order to provide comparability with the consolidated annual group financial statements drawn up in accordance with IFRS.

ACCOUNTING POLICIES

The following accounting and valuation policies are used for the presentation of the annual financial statements:

Acquired intangible assets are carried at acquisition cost or fair values on the balance sheet. If subject to depletion, intangible assets are amortized as planned by applying their useful life (straight-line method).

Tangible assets are shown at acquisition cost and amortized (straight-line method) over the expected useful life at the rates permitted by German taxation law. Low-value items up to a value of € 410 are written off in the year of acquisition. Recognition of depreciation on additions to tangible assets starts at the month of acquisition.

Financial investments are presented at the lower of acquisition cost or allocated values.

The inventories are stated in accordance with § 253 paragraph 3 of the German Commercial Code (HGB) at a FIFO basis. Apart from customary retention of title, inventories are free of third-party's rights.

Receivables and other assets are shown at nominal value. Provisions and accruals are provided for all items, which are subject to risk. Receivables denominated in foreign currency are presented in accordance with the realization principle. Other short-term securities are shown at the lower of cost or market value in accordance with § 253 paragraph 3 of the German Commercial Code (HGB).

Other accruals provide all foreseeable risks, uncertain obligations and imminent losses from pending transactions.

Liabilities are valued at the repayment amount. Foreign currency liabilities are valued under the imparity principle.

Earnings from "Collaboration and Research Agreements" are shown as operating revenues on the basis of the terms of the agreement, taking into account the realization principle in accordance with § 252 paragraph 1 item 4 of the German Commercial Code (HGB) and in accordance with the accrual-based method (§ 250 paragraph 2 German Commercial Code (HGB)) on the basis of the duration of the agreements. Upfront fees paid on execution of agreements for access to MorphoSys technology (e.g. HuCAL or AutoCAL) are amortized over the period of the right of use granted. License fees are amortized over the term of the agreement.

Basis for the Euro Conversion of Foreign Currency Items

Foreign currency receivables are accounted for at the lower of the bank buying rate at the time of occurrence or at the balance sheet date.

Foreign currency liabilities are valued at the higher of bank selling rate at the time of occurrence or at the balance sheet date.

EXPLANATIONS REGARDING THE BALANCE SHEET

Fixed Assets

The development of the individual fixed asset items and the respective depreciation for the fiscal year are presented in the fixed asset roll-forward (Appendix 3).

Intangible Assets

Additions to the Intangible Assets are mainly due to purchased licenses, including the agreement with Dyax in November 2007, covering a broad patent portfolio.

The development of the individual intangible asset items and the respective amortization for the fiscal year are presented in the fixed asset roll-forward (Appendix 3).

Financial Assets

The change in Financial Assets results from a transfer of 0.4 Mio. € into the free capital reserves of MorphoSys UK Ltd. in 2007.

The equity investments are listed below in the "Chart of Share Ownership".

Chart of Share Ownership:

	Currency	Stake %	Equity in domestic currency	Profit/Loss for the Year in domestic currency
Foreign				
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US \$	100.00	(25,213)	(11,667)
Poole Real Estate Ltd., Poole, UK	£	100.00	1,029,412	106,530
MorphoSys UK Ltd., Oxford, UK	£	100.00	2,720,307	353,549
MorphoSys US Inc., Raleigh, North Carolina, USA (indirect investment via MorphoSys UK Ltd.)	US \$	100.00	133,199	(593,594)
Oxford Biotechnology Ltd., Oxford, UK (indirect investment via MorphoSys UK Ltd.)	£	100.00	(7,697)	0
Domestic				
MorphoSys AbD GmbH, Düsseldorf, Germany (indirect investment via MorphoSys UK Ltd.)	Euro	100.00	891,271	469,330
MorphoSys IP GmbH, Martinsried, Germany	Euro	100.00	23,891	-

The loan of € 9,108,813 (2006: € 17,308,813) to affiliated companies is mainly the result of the sale of the Company's internally created intangible assets (HuCAL and HuCAL GOLD) to MorphoSys IP GmbH ("IP GmbH") on December 31, 2002, and is presented as financial investment. The repayment is deferred on the basis of an interest-bearing loan with a remaining term of more than one year. During financial year 2007 unscheduled repayments amounted to 8.2 Mio. €.

Inventories

At the reporting date, inventories of € 322,855 (2006: € 235,953) consist of € 0 for unfinished products and advanced payments (2006: € 152,573) and €322,855 for raw materials / consumables (2006: € 83,380), which were stated differently to the previous year at a FIFO-basis as the requirements of § 240 paragraph 3 of the German Commercial Code (HGB) no longer apply for the company. The last stocktaking was performed on December 31, 2007.

Accounts Receivable and Other Assets

Based on management assessment, allowances in the amount of € 40,261 for 2007 (2006: € 91,176) were recognized. All accounts receivable are due within one year. Of other assets, € 2,317 (2006: € 3,803) of other assets have a remaining term of more than one year.

Furthermore, the Company has granted interest-bearing intercompany loans to its subsidiaries MorphoSys UK Ltd. (£ 1,470,000 and € 150,000) and MorphoSys US, Inc. (US \$ 299,415 from the merger with Biogenesis, Inc.) with remaining terms of less than one year.

Pledging for guarantees in the amount of € 1,115,095 and € 250,000 granted in prior years are separated and shown as other assets.

According to the Company's hedging policy, cash flows with a high probability and definite foreign currency receivables which are collectable within a twelve-month period are reviewed for hedging and shown as other receivables at cost. Starting 2003, MorphoSys entered into foreign currency options and forward contracts to hedge foreign exchange exposure related to US dollar accounts receivable.

As of December 31, 2007, two option contracts were outstanding in the notional amount of € 1,125,000 or US\$ 1,462,500 (2006: € 1,562,500 or US\$ 1,921,875) due in February 2008. As of December 31, 2007, unsettled contract premium for derivatives entered into in January 2007 amounted to € 41,500 (2006: € 75,700).

Treasury Stock

The Company's treasury stock of 2007 developed as follows:

	Number of Company Shares	Value of Company Shares in €
Carry-forward on January 1, 2007	29,162	10,703
Exercised Options	2,430	892
Final Stock on December 31, 2007	26,732	9,811

At the Annual Shareholders' Meeting on July 21, 1999, the Company was authorized to retain company shares until further notice with a total of € 31,827 not yet sold or accounted for. Shares can be issued as follows: up to 2,000 option rights to individual Supervisory Board members, up to 3,600 shares to the Chairman of the Supervisory Board and up to 18,227 option rights to MorphoSys employees.

In the amendment of the Supervisory Board decision on July 21, 1999, the Company was authorized to retain company shares until further notice up to a total of € 10,612 not yet sold or accounted for. Shares can be issued as follows: up to 1,500 option rights to individual Supervisory Board members and up to 2,500 shares to the Chairman of the Supervisory Board. Of the Company's own shares, 612 were being retained in order to issue option rights to employees of the MorphoSys Group.

In the amendment of the Annual Shareholders' Meeting decision on August 17, 1998, July 21, 1999 and May 30, 2000, the Company was authorized by the Annual Shareholders' Meeting decision on July 5, 2001 to retain until further notice 3,500 own shares as a result of the expiry of options in order to issue additional option rights to the newly elected member of the Supervisory Board in addition to the option rights granted at the Annual Shareholders' Meeting on July 21, 1999.

In the fiscal year 2007, 2,430 options from treasury stock in the amount of € 892 were exercised.

Securities

Marketable securities include treasury stock of € 9,811 (2006: € 10,703) as well as other marketable securities of € 55,272,936 (2006: € 56,233,838).

Capital Subscribed

As of December 31, 2007, the Company's share capital amounted to € 22,160,259 (2006: € 20,145,966), the equivalent of 7,386,753 (2006: 6,715,322) no-par value bearer shares.

An increase in share capital in 2007 by € 1,956,564 or 652,188 shares derived from the capital increase executed in May 2007. Through the conversion and exercise of 19,243 convertible bonds and options issued to employees, common stock increased by an additional € 57,729 in 2007.

On December 31, 2006, the common stock of the Company had been € 20,145,966. An increase of € 625,680, or 208,560 shares, was the result of a capital increase in connection with the Serotec acquisition executed on January 11, 2006. A capital increase executed on March 29, 2006, increased common stock by € 1,153,014, or 384,338 shares. Through the conversion and exercise of 96,561 convertible bonds and options issued to employees, common stock had increased by an additional € 289,683 in 2006.

In accordance with § 200 of the German Stock Corporation Act (AktG), the conditional share capital increases came into effect with the issuance of the new shares.

Authorized and Conditional Capital

On May 9, 2007, a total of 652,188 shares of Authorized Capital II were issued for a capital increase.

Unused Authorized Capital I remained unchanged on December 31, 2007, compared to December 31, 2006, to create a maximum of 2,493,769 new shares.

Authorized Capital II is completely consumed on December 31, 2007 (December 31, 2006: 652,188 shares).

In 2007, a total of 2,500 shares were raised from Conditional Capital I through the exercise of the same number of options by employees, increasing the subscribed capital by € 7,500. Furthermore, 300 shares were raised from Conditional Capital II through the exercise of the same number of options by employees, increasing the subscribed capital by € 900, and 9,743 shares were raised from Conditional Capital IV through the exercise of the same number of convertible bonds by employees, increasing the subscribed capital by € 29,229. Finally, 6,700 shares were raised from Conditional Capital V through the exercise of the same number of options by employees, increasing the subscribed capital by € 20,100.

In 2006, a total of 2,445, 31,265, 49,351 and 13,500 shares had been raised from Conditional Capital I, II, IV and V respectively with subscribed capital increasing by € 7,335, € 93,795, € 148,053 and € 40,500 from respective Conditional Capitals.

On May 17, 2006, the Annual Shareholders' Meeting authorized the Company to create additional shares for Conditional Capital III and V up to a maximum of 1,829,562 and 343,987 shares respectively.

Capital Surplus

In connection with the increase of capital stock as described above, Capital Reserve developed as follows:

	€
Status on January 1, 2007	111,852,104
Additions in Connection with the Capital Increase in May 2007	30,637,511
Additions in Connection with the Exercise of Convertible Bonds and Options	<u>640,106</u>
Status on December 31, 2007	<u><u>143,129,721</u></u>

Earnings Reserves

The earnings reserves are related to treasury stock of €9,811 (2006: € 10,703).

Accumulated Deficit

In connection with this year's income, Accumulated Deficit developed as follows:

	€
Accumulated Deficit on January 1, 2007	(24,589,583)
Net Profit for the Year	5,521,633
Withdrawal from Treasury Stock	<u>891</u>
Accumulated Deficit on December 31, 2007	<u><u>(19,067,059)</u></u>

Convertible Bonds

At the Company's Annual Shareholders' Meeting in July 2002, the Company had been authorized to issue up to 300,000 non-interest-bearing convertible bonds with a par/nominal value of € 1.00 each to employees and members of the Management Board of the Company and its affiliates until June 30, 2006. The preemptive rights of the stockholders were excluded. On May 16, 2003, and May 11, 2005, the Annual Shareholders' Meeting had authorized the Company to grant an additional 150,269 shares until April 30, 2010, each. On January 15, 2006, 38,418 convertible bonds had been granted to board members and employees of MorphoSys AG. The exercise price for the convertible bonds had been € 44.12.

The convertible bonds cannot be transferred or encumbered, other than through inheritance/death. In the event of inability to work, the Management Board can allow the transfer with good cause.

The conversion rights may only be exercised if the termination of the employment agreement with the owner of the convertible bonds has not been declared at the time of exercise and a mutual termination agreement has not been entered into. In the event of nonexercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (i.e., € 1.00 per bond/share).

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. The convertible bonds can not be exercised beyond December 31, 2008.

The exchange price for the convertible bonds issued in the year 2006 was € 44.12, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

The conversion rights can only be exercised if the stock exchange price on at least one day during the lifetime of the convertible bonds has amounted to 110% of the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

Shares which are issued by virtue of the conversion rights may participate in the profits of the Company for the first time in the business year for which no stockholders' resolution on the distribution of profits has been passed at the time of the issuance.

In the year 2007, 9,743 bonds of the 2006 grant were converted into shares of ordinary no-par value common stock with the same amount by employees of the Company.

In the year 2007, an additional grant to board members and employees was made under the 2002 Plan, with terms identical to the 2002 stock convertible bonds grants. On January 15, 2007, 52,818 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is € 55.10, representing the market price in the final XETRA auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

A summary of the activity under the Company's employee incentive convertible bonds plan for the years ended December 31, 2007 and 2006, is represented as follows:

	Convertible Bonds	Weighted-average Price €
Outstanding on January 1, 2006	49,541	38.40
Granted	38,418	44.12
Exercised	(49,351)	38.40
Forfeited	(237)	44.12
Expired	(190)	38.40
Outstanding on December 31, 2006	38,181	44.12
Outstanding on January 1, 2007	38,181	44.12
Granted	52,818	55.10
Exercised	(9,743)	44.12
Forfeited	(2,191)	54.95
Expired	-	-
Outstanding on December 31, 2007	79,065	51.15

Other Accruals

Accruals are recorded for all recognizable risks and uncertain liabilities. They mainly contain accruals for license and inventors compensation (€ 1,945,427; 2006: € 1,526,836), bonus payments (€ 1,429,320; 2006: € 1,325,688), expenses for external lab funding (€ 564,891; 2006: € 209,720), legal services (€ 410,472; 2006: € 185,000), Supervisory Board members' compensation (€ 331,792; 2006: € 245,375) and outstanding vacation (€ 304,222; 2006: € 275,000).

Liabilities

On November 20, 2002, the Company signed a control and profit pooling agreement with MorphoSys IP GmbH. Accordingly, losses of MorphoSys IP GmbH in the amount of € 0.7 million were transferred and shown as liabilities due to affiliated companies.

The residual maturity of liabilities is listed in the table below. All liabilities are unsecured.

Liabilities in EURO

Type	Remaining Term of Liabilities			Total	
	up to 1 year	1 to 5 years	more than 5 years	31.12.2007	31.12.2006
1. Bonds	28,408	50,657	-	79,065	
(Previous year)	-	38,371	-		38,371
2. Accounts Payable	4,695,157			4,695,157	
(Previous year)	1,187,470	-	-		1,187,470
3. Amounts due to Affiliated Companies	824,010	-	-	824,010	
(Previous year)	1,022,045	-	-		1,022,045
4. Other Liabilities	258,303			258,303	
(Previous year)	1,087,620	-	-		1,087,620
Of which Taxes	243,943	-	-	243,943	
(Previous year)	439,297	-	-		439,297

Contingencies/Other Financial Commitments

Other financial obligations arising from interest and leasing commitments are shown in thousands of € in the following table:

December 31, 2007

2008	2,102
2009	649
2010	68
2011	51
2012	29
Thereafter	-
	<u>2,899</u>

NOTES TO THE PROFIT AND LOSS STATEMENT

Revenues

Compared to the same period in the previous year, revenues for the full year 2007 increased by 24% to € 45.6 million (2006: € 36.7 million). Reasons for the increase included revenues arising from new deals and the inclusion of success-based payments from existing collaborations, which included clinical and research milestones achieved in 2007. The Company also recorded grant revenues, amounting to € 0.2 million (2006: € 0.2 million) during the reporting period. In 2007, the main part of revenues was generated with the following antibody collaborations: Astellas, Boehringer Ingelheim, Bristol-Myers Squibb, Centocor (Johnson & Johnson), Eli Lilly, F. Hoffmann-La Roche, Merck & Co., GeneFrontier, Novartis, Novopiant, OncoMed, Pfizer, Sankyo, Schering, Schering-Plough, and Shionogi. Revenues arising from the Therapeutic Antibodies segment accounted for € 42.4 million of total revenues in 2007, whereas the Research Antibodies segment contributed € 3.2 million to total revenues.

Of total sales revenues, € 7,617,421 (2006: € 4,091,251) were mainly generated from domestic sales and € 20,236,329 (2006: € 16,003,330) from sales abroad (USA, Canada, Southeast Asia). An amount of € 17,695,946 (2006: € 16,561,632) was generated from sales in other European countries.

Cost of Sales

Cost of sales of € 23,569,723 (2006: € 20,745,825) include costs for research and development which consist of personnel costs of € 7,980,209 (2006: € 7,816,415), costs of € 7,328,858 (2006: € 6,775,642) for intangible assets, material costs of € 2,165,377 (2006: € 1,907,526), costs of € 1,068,322 (2006: € 1,877,280) for infrastructure, € 4,202,063 for external services (2006: € 1,666,276) and other costs of € 824,893 (2006: € 702,686).

Selling Expenses

Selling expenses of € 1,652,535 (2006: € 1,324,094) consist of personnel costs of € 363,981 (2006: € 554,297), costs of € 723,570 (2006: € 552,921) for external services and other costs in an amount of € 564,984 (2006: € 216,876).

General Administrative Expenses

General administrative expenses of € 16,636,638 (2006: € 10,551,455) mainly consist of personnel costs of € 5,155,872 (2006: € 5,295,394) and costs for external services of € 8,145,188 (2006: € 3,150,659).

Personnel Expenses

Personnel expenses consist of wages and salaries amounting to € 11,353,468 (2006: € 11,670,002), social security contributions of € 1,422,980 (2006: € 1,349,563) as well as costs of € 139,701 (2006: € 133,018) for retirement schemes and other costs of € 583,914 (2006: € 513,523).

Material Costs

Material costs (€ 2,292,237; 2006: € 2,087,788) mainly consist of costs for consumables (€ 2,114,463; 2006: € 1,935,123) and for printing (€ 134,946; 2006: € 117,385).

Other Operating Income

Other operating income amounts to € 911,776 in contrast to € 1,487,081 in 2006 mainly due to gains from derivatives and stock options.

Other Operating Expenses

Other operating expenses account for € 1,093,819 (2006: € 1,027,894). These expenses mainly result from losses due to currency differences in an amount of € 893,884.

Expenses from transfer of losses

Due to a control and profit pooling agreement (effective from November 20, 2002) losses in the amount of € 741,327 (2006: € 1,020,380) are transferred from MorphoSys IP GmbH, Martinsried to MorphoSys AG, Martinsried.

Income from Other Securities and Loans Presented under Financial Assets

An income of € 2,238,180 from other securities and loans presented under financial assets (2006: € 1,883,996) consists of the interest on the loan granted to MorphoSys IP GmbH (€ 1,060,457; 2006: € 1,216,463). Furthermore, this item contains realized gains on marketable securities in the amount of € 1,177,723; 2006: € 667,533).

Other Interest and Similar Income

This item in the amount of € 996,233 (2006: € 98,003) mainly comprises the interest on loans granted to affiliated companies (€ 110,356; 2006: € 44,345) as well as interest income from cash in banks (€ 885,877; 2006: € 41,294).

Interest and Similar Expenses

Interest expense amounts to € 12,290 (2006: € 12,221) and has been included in "Other Interest and Similar Income" in the previous year.

OTHER INFORMATION

Supervisory Board

- Dr. Gerald Möller, Chemist, Heidelberg, Germany, Chairman, Chairman of the Remuneration & Nomination Committee (9)
(BioAgency AG; MTM AG; 4sigma; Pelikan Technologies, Inc.; Brahms AG; Invendo Medical GmbH; FIND Foundation, BIONUSTKS PLC, VIVACTA Ltd.)
- Prof. Dr. Jürgen Drews, Physician, Naples, USA and Feldafing, Germany, Deputy Chairman, Member of the Remuneration & Nomination Committee / Science & Technology Committee (3)
(GPC Biotech AG; Human Genome Sciences, Inc.; Bear Stearns Health Innoventure Fund LLC)
- Dr. Daniel Camus, Economist, Paris, France, Member, Member of the Audit Committee (7)
(EnBW AG; Dalkia Holding; EDF International; EDF Energy Group; Edison spa; Transalpina de Energia; Valéo)
- Dr. Metin Colpan, Chemist, Venlo, The Netherlands, Member, Member of the Remuneration & Nomination Committee / Science & Technology Committee (3)
(GPC Biotech AG; QIAGEN N.V.; GenPat77)
- Prof. Dr. Andreas Plückthun, Chemist, Zurich, Switzerland, Member, Chairman of the Science & Technology Committee (1)
(Molecular Partners AG) (retired as per May 16, 2007)
- Dr. Geoffrey N. Vernon, Pharmacist, Tavistock, UK, Member, Chairman of the Audit Committee (10)
(Advanced Medical Solution Ltd.; Ziggus Holdings Ltd.; Genable Ltd.; Talia Technology Ltd.; XL TechGroup GP, LLC; XL TechGroup, Inc.; Medpharm Ltd.; Apitope Technology Ltd.; Cornwall Farmers Ltd.; Tyratech Inc.)
- Dr. Walter Blättler, Chemist, Brookline, USA, Member (0) (entered as per May 16, 2007)

The figures in brackets refer to the membership in other supervisory boards or executive bodies similar to the supervisory board in Germany.

Corporate Governance

In July 2003, the Company decided to follow the guidelines for Corporate Governance according to the modified German Corporate Governance Code.

The Company issued its statement according to § 161 of the German Stock Corporation Act (AktG). This declaration has been published and made accessible to stockholders accordingly on December 19, 2007.

Management Board

- Dr. Simon E. Moroney, Chemist, Pöcking, Germany (Chief Executive Officer)
- Dave Lemus, CPA, Icking, Germany (Chief Financial Officer)
- Dr. Marlies Sproll, Biologist, Munich, Germany (Chief Scientific Officer)

Total Compensation of the Management Board and the Supervisory Board

Compensation for both the Management Board and the Supervisory Board consisted of fixed and variable components. Total compensation for the Supervisory Board excluding reimbursements of travel expenses amounted to € 298,500 in 2007 (2006: € 259,000). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

Management Board	Fixed Compensation		Variable Compensation		Other Compensatory Benefits		Total Compensation	
	2007	2006	2007	2006	2007	2006	2007	2006
	Dr. Simon E. Moroney	320,250	290,000	198,360	139,024	83,882	77,313	602,492
Dave Lemus	225,225	204,750	140,049	104,973	113,309	99,456	478,583	409,179
Dr. Marlies Sproll	211,860	181,500	124,146	13,052	56,356	46,347	392,362	240,899
Total	757,335	676,250	462,555	257,049	253,547	223,116	1,473,437	1,156,415

Supervisory Board	Fixed Compensation		Variable Compensation		Total Compensation	
	2007	2006	2007	2006	2007	2006
Dr. Gerald Möller	40,000	40,000	35,000	24,500	75,000	64,500
Prof. Dr. Jürgen Drews	30,000	30,000	19,000	11,000	49,000	41,000
Dr. Daniel Camus	25,000	25,000	21,000	20,000	46,000	45,000
Dr. Metin Colpan	25,000	25,000	16,000	7,500	41,000	32,500
Prof. Dr. Andreas Plückthun	8,878	23,500	4,500	7,500	13,378	31,000
Dr. Geoffrey N. Vernon	26,500	26,500	21,000	18,500	47,500	45,000
Dr. Walter Blättler	14,622	0	12,000	0	26,622	0
Total	170,000	170,000	128,500	89,000	298,500	259,000

At the Annual Shareholders' Meeting on May 17, 2006, phantom stocks were granted to all members of Supervisory Board. The Chairman of the Supervisory Board has received 2,500 stock appreciation rights, the Deputy Chairman 2,000 stock appreciation rights, and the other members of the Supervisory Board 1,500 stock appreciation rights each.

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.

In 2006, MorphoSys entered into consulting agreements with the former 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 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. 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.

In addition, the members of the Management Board and the Supervisory Board hold the following shares, options and convertible bonds of MorphoSys AG:

Shares	01/01/07	Additions	Forfeitures	Sales	12/31/07
Management Board					
Dr. Simon E. Moroney	113,461	-	-	-	113,461
Dave Lemus ⁴	100	-	-	-	100
Dr. Marlies Sproll	35	-	-	-	35
Total	113,596	-	-	-	113,596
Supervisory Board					
Dr. Gerald Möller	2,500	-	-	-	2,500
Prof. Dr. Jürgen Drews	-	2,430	-	-	2,430
Dr. Walter Blättler ²	-	673	-	-	673
Dr. Daniel Camus	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-
Prof. Dr. Andreas Plückthun ³	59,300	-	-	-	59,300
Dr. Geoffrey N. Vernon	-	-	-	-	-
Total	61,800	3,103	-	-	64,903
Stock Options	01/01/07	Additions	Forfeitures	Exercises	12/31/07
Management Board					
Dr. Simon E. Moroney	83,000	-	-	-	83,000
Dave Lemus	48,000	-	-	-	48,000
Dr. Marlies Sproll	26,250	-	-	-	26,250
Total	157,250	-	-	-	157,250
Supervisory Board					
Dr. Gerald Möller	-	-	-	-	-
Prof. Dr. Jürgen Drews ¹	2,430	-	-	2,430	-
Dr. Walter Blättler ²	-	-	-	-	-
Dr. Daniel Camus	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-
Prof. Dr. Andreas Plückthun ³	-	-	-	-	-
Dr. Geoffrey N. Vernon	-	-	-	-	-
Total	2,430	-	-	2,430	-
Convertible Bonds	01/01/07	Additions	Forfeitures	Exercises	12/31/07
Management Board					
Dr. Simon E. Moroney	5,699	5,549	-	-	11,248
Dave Lemus	4,749	4,624	-	-	9,373
Dr. Marlies Sproll	3,800	3,700	-	-	7,500
Total	14,248	13,873	-	-	28,121
Supervisory Board					
Dr. Gerald Möller	-	-	-	-	-
Prof. Dr. Jürgen Drews	-	-	-	-	-
Dr. Walter Blättler ²	-	-	-	-	-
Dr. Daniel Camus	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-
Prof. Dr. Andreas Plückthun ³	-	-	-	-	-
Dr. Geoffrey N. Vernon	-	-	-	-	-
Total	-	-	-	-	-

1) Prof. Dr. Drews exercised his options and held the shares received

2) Entered as per May 16, 2007

3) Retired as per May 16, 2007

4) Held by his spouse

Auditor Remuneration

At the Company's Annual Shareholders' Meeting in May 2007, the Company had been authorized to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as its auditor. In 2007 and 2006, the auditing company and its partner companies within the international KPMG network were remunerated by MorphoSys in the amount of € 312,972 and € 303,353, including audit fees of € 228,071 (2006: € 185,915), audit-related fees of € 45,936 (2006: € 110,658), fees for tax consultancy of € 5,000 (2006: € 6,230) and fees for other services of € 33,965 (2006: € 550). Accrued expenses for audit fees in the amount of € 141,211 (2006: € 159,419) are included in these figures.

The fees for KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft amounted to € 196,328 (2006: € 172,824), including audit fees of € 144,572 (2006: € 118,496), audit-related fees of € 45,936 (2006: € 47,548), fees for tax consultancy of € 5,000 (2006: € 6,230) and fees for other services of € 820 (2006: € 550).

Personnel

The average number of employees during the fiscal year:

	<u>2007</u>	<u>2006</u>
Employees	<u>179</u>	<u>159</u>

Dividends

Dividends may only be declared and paid from the accumulated retained earnings (after deduction of certain reserves). 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 depend upon its future earnings.

Martinsried, February 11, 2008

Management Board

MorphoSys AG, Martinsried**Roll-Forward of Fixed Assets**

	Aquisition and Production Cost			
	2007/01/01	Additions	Disposals	2007/31/12
	EUR	EUR	EUR	EUR
A. Fixed Assets				
I. Intangible Assets				
Franchises, trademarks, patents, licences, and similar rights and licencies to such rights	10,672,597	10,577,209	0	21,249,806
	<u>10,672,597</u>	<u>10,577,209</u>	<u>0</u>	<u>21,249,806</u>
II. Tangible Assets				
1. Land, leasehold rights and buildings, including leasehold improvements	1,118,157	11,663	0	1,129,820
2. Other equipment, furniture and fixtures	7,291,061	655,377	320,683	7,625,755
	<u>8,409,218</u>	<u>667,040</u>	<u>320,683</u>	<u>8,755,575</u>
III. Financial Assets				
1. Shares in affiliated companies	38,112,563	445,964	0	38,558,527
2. Loans to affiliated companies	17,308,813	0	8,200,000	9,108,813
	<u>55,421,376</u>	<u>445,964</u>	<u>8,200,000</u>	<u>47,667,340</u>
	<u>74,503,191</u>	<u>11,690,213</u>	<u>8,520,683</u>	<u>77,672,721</u>

Accumulated Depreciation				Net Book Values	
2007/01/01	Depreciation	Disposals	2007/31/12	2007/31/12	2006/31/12
EUR	EUR	EUR	EUR	EUR	EUR
6,347,901	1,472,919	0	7,820,820	13,428,986	4,324,696
671,302	111,822	0	783,124	346,696	446,855
4,659,687	1,081,991	295,624	5,446,054	2,179,701	2,631,374
5,330,989	1,193,813	295,624	6,229,178	2,526,397	3,078,229
0	0	0	0	38,558,527	38,112,563
0	0	0	0	9,108,813	17,308,813
0	0	0	0	47,667,340	55,421,376
11,678,890	2,666,732	295,624	14,049,998	63,622,723	62,824,301

MorphoSys AG, Martinsried

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. Revenues were up by 24 % from the prior year to € 45.6 million, and the result from ordinary activities increased by 10 % to € 6.0 million, including one-off advisory costs in connection with the Novartis alliance.

1 Review of the Fiscal Year 2007

During the fiscal year 2007, MorphoSys witnessed a continued high demand for its proprietary antibody technology HuCAL. MorphoSys AG employed 179 employees in average. 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.

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.

2 Organizational Structure and Business Activities

2.1 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.

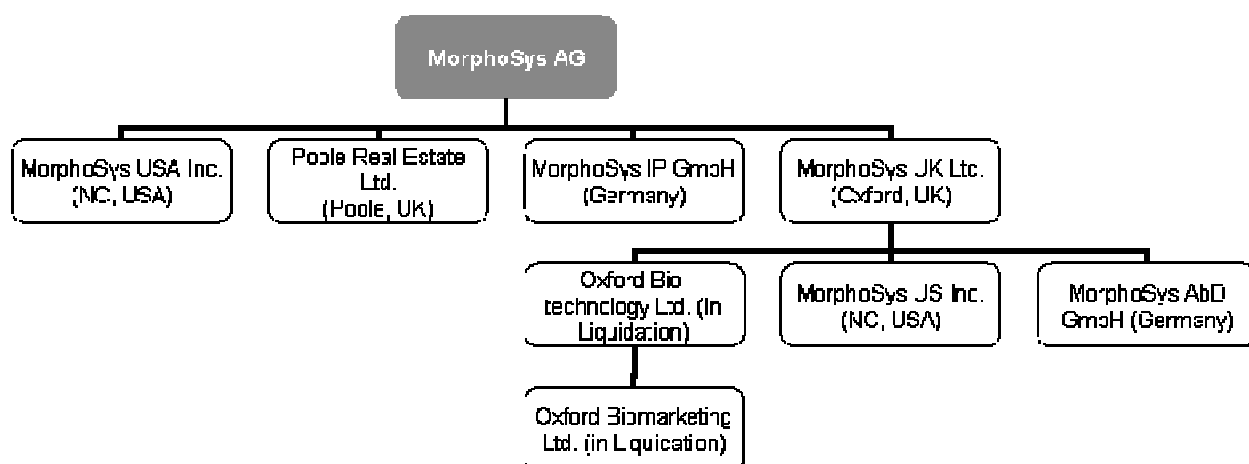
MorphoSys AG with its subsidiary companies is present in several locations throughout Europe and the USA. The three primary facilities include MorphoSys AG headquarters in the German biotechnology cluster Martinsried near Munich, newly opened labs in the academic center of Oxford, England and offices 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.

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. The subsidiary MorphoSys UK Ltd. 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 with the subsidiary MorphoSys US Inc. 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 at present 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.



2.2 Products and Markets

2.2.1 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 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) or Pieris (Germany). Due to the ongoing consolidation in the sector, MorphoSys's market position has improved, and allowed the Company to secure additional collaborations.

2.2.2 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, the 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 Fluor family of fluorescent dyes.

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 or Millipore, as well the UK-based Abcam, which has specialized on commercialization of research antibodies.

2.3 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 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.

2.4 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 predominately used the HKB11 cell 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.

2.5 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.

2.6 Quality Management

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

To produce materials for therapeutic or diagnostic use, strict guidelines and regulatory standards must be met for all involved 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 practices), GMP (good manufacturing processes) and GCP (good clinical practices).

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 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.

2.7 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.

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.

2.8 Information Technology

During 2007, MorphoSys has implemented a 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.

2.9 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.

2.10 Company's 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.

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.

2.11 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.

3 Value-based Management

The Company 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.

3.1 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.

3.1.1 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, 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.

3.1.2 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.

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.

3.2 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.

3.2.1 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 Business	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

3.2.2 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.

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

In million €	2005	2006	2007
MorphoSys AG			
Revenues	30.6	36.6	45.6
Therapeutic Business			
Revenues	29.1	34.7	42.4
AbD Business			
Revenues	1.5	1.9	3.2

3.3 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.

MorphoSys grew more strongly in the Therapeutics 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.

MorphoSys AG again improved its operating result and increased the net income.

With MOR103, the first proprietary antibody program is ready to start clinical development. This is the area, where 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.

4 Macroeconomic Development

4.1 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 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 %.

4.2 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 have not 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 Trasylo[®].

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 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.

In contrast to the American biotech sector, the stock performance of European biotechnology lagged in 2007. Particularly in Germany, investor sentiment toward 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 BioCentury 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 %.

5 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 the 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.

5.1 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).

5.1.1 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.

5.1.2 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.

5.1.3 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.

5.1.4 GeneFrontier 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.

5.1.5 Genesis Research

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.

5.1.6 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 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.

5.1.7 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.

5.2 AbD segment

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

5.2.2 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.

5.2.3 Thermo Fisher Scientific

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.

5.3 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 unequaled 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.

5.4 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.

5.4.1 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.

5.4.2 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.

6 Results of Operations, Financial Situation, Assets and Liabilities

6.1 Revenues

Compared to the same period in the previous year, revenues for the full year 2007 increased by 24 % to € 45.6 million (2006: € 36.7 million). Reasons for the increase included revenues arising from new deals and the inclusion of success-based payments from existing collaborations, which included clinical and research milestones achieved in 2007. The Company also recorded grant revenues, amounting to € 0.2 million (2006: €0.2 million) during the reporting period. In 2007, the main part of revenues was generated with the following antibody collaborations: Astellas, Boehringer Ingelheim, Bristol-Myers Squibb, Centocor (Johnson & Johnson), Eli Lilly, F. Hoffmann-La Roche, GeneFrontier, Merck & Co., Novartis, Novopiant, OncoMed, Pfizer, Sankyo, Schering, Schering-Plough, and Shionogi. Revenues arising from the Therapeutic Antibodies segment accounted for € 42.4 million of total revenues in 2007, whereas the Research Antibodies segment contributed € 3.2 million to total revenues. The Therapeutic Antibodies segment also includes all activities in the area of proprietary product development. Its total revenues enclose € 30.3 million funded research and license fees (2006: € 27.2 million), as well as € 12.1 million (2006: € 7.5 million) success-based payments (which include clinical milestones).

6.2 Cost of Sales

Cost of sales, which comprises mainly expenses for research and development, increased by € 2.9 million to € 23.6 million (2006: € 20.7 million). This change mainly derived from higher costs for intangibles and from higher costs for external services.

6.3 Selling Expenses

Selling expenses amounted to € 1.7 million (2006: € 1.3 million) and increased by € 0.4 million due to increased intercompany sales activity.

6.4 General Administrative Expenses

General administrative expenses increased by € 6.0 million to € 16.6 million (2006: € 10.6 million). This change arose as a consequence of higher expenses for external services and infrastructure costs.

6.5 Other Operating Income, Income from other securities and Other interest and similar income

Other operating income decreased from € 1.5 million to € 0.9 million mainly due to higher foreign currency gains in the previous year. Income from other securities and loans amounted to € 2.2 million. The increase of € 0.4 million is mainly due to higher realized gains on other securities. Other interest and similar income amounted to € 1.0 million and is a result of higher cash in banks due to the capital increase of May 2007.

6.6 Result from Ordinary Activities/Net Profit

All changes mentioned above resulted in an increase of the result from ordinary activities by € 0.6 million to € 6.0 million (2006: € 5.4 million). As a consequence of the minimum taxation and other legal requirements of the German tax authorities, the result from ordinary activities was reduced to a net profit of € 5.5 million (2006: €4.5 million).

6.7 Liquidity

Cash increased by € 45.8 million to € 46.6 million (2006: € 0.8 million) mainly due to the capital increase in May 2007 where the Company raised gross proceeds of approximately € 32.6 million.

6.8 Assets

Total assets increased by € 51.5 million to € 180.4 million at the end of 2007 in comparison to € 128.9 million in 2006. The main reason for this fluctuation was the cash inflow generated by the capital increase in May 2007. Intangible Assets increased due to higher investments in patents and licenses and Trade accounts receivable are higher than previous year due to the collaboration with Novartis. Intercompany loans decreased due to repayments of affiliated companies.

6.9 Accruals/Liabilities

Total liabilities increased by € 2.6 million to € 5.9 million, whereas accruals increased by € 0.6 million to € 5.9 million due to higher amounts of licences payable. The change in liabilities resulted mainly from increased trade accounts payable due to consulting fees in the fourth quarter 2007. Liabilities due to affiliated companies are resulting from the profit pooling agreement with MorphoSys IP GmbH (€ 0.7 million). Deferred income increased mainly due to amounts related to the Novartis agreement.

6.10 Equity

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 on December 31, 2006, respectively. As of December 31, 2007, the Company's shares comprise only ordinary shares. The increase in 2007 stockholders equity compared to the prior year arose largely from the issuance of 652,188 new shares following a capital increase against cash successfully placed in May 2007.

As of December 31, 2007 total equity amounted to € 146.2 million, resulting in an equity ratio of 81 %.

6.11 Investments

Investments in tangible assets amounted to € 0.7 million in 2007, compared to € 1.9 million in the previous year. Depreciation amounted to € 1.2 million (2006: € 0.9 million).

Amortization of intangible assets amounted to € 1.5 million for 2007 (2006: € 1.2 million). The Company made investments in intangible assets of € 10.6 million.

6.12 Financing

In May 2007, MorphoSys successfully placed 652,188 shares to international institutional investors in a private placement, at a price of € 50.00 per share. Through the issue the Company raised gross proceeds of approximately € 32.6 million. The proceeds from the capital increase are intended to be used for general purposes, proprietary product development and further acquisitions.

The company's financial position and profit situation at the time of preparation of the Annual Financial statements and the Management Report is in line with the Company's planning and expectations.

7 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 training and education of its employees.

7.1 Number of Employees

On December 31, 2007, the Company employed 183 people (full-time equivalents) (December 31, 2006: 174), an increase of 5 % from the end of the previous year. The biggest personnel growth occurred in the Therapeutic Antibodies segment. On average, the MorphoSys AG employed 179 people in 2007 (2006: 159).

Of the 183 employees, 145 worked in research and development and 38 in sales, general and administration (December 31, 2006: 139 employees in R&D, and 35 employees in S,G&A).

7.2 Qualification, Trainings and Education

Supporting science 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.

7.3 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 the 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.

8 Remuneration Report

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

8.1 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 is 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. Of the bonus payment, 30 % 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: € 1,155,415). 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.

8.2 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. 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.

8.3 Equity-based Compensation for the Management Board

8.3.1 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 and their potential current value. In 2007, no stock options were granted to members of the Management Board.

Member of the Management Board	Number of Convertible Bonds	Strike Price in €	Grant Date	Expiry Date	Fair Value of One Convertible Bond in €	Fair Value at the Time of the Grant in €
Dr. Simon E. Moroney	5,549	55.10	January 15, 2007	December 31, 2009	13.80	76,576
Mr. Dave Lemus	4,624	55.10	January 15, 2007	December 31, 2009	13.80	63,811
Dr. Marlies Sproll	3,700	55.10	January 15, 2007	December 31, 2009	13.80	51,060

8.3.2 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.

8.3.3 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.

9 Information Required Under Takeover Law

The following information is presented in accordance with Art. 289 para. 4 of the German Commercial Code (HGB).

9.1 Composition of Capital Stock

As of December 31, 2007, the Company's share capital amounted to € 22,160,259 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 of the German Securities Trading Act ("WpHG"). There are no owners of shares with privileged rights or other rights giving a right to control votes.

9.2 Shareholdings Exceeding 10 % of the Voting Rights

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

9.3 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.

9.4 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 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.

9.5 Change of Control Provisions

9.5.1 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.

9.5.2 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.

10 Risks and Opportunities

10.1 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 Board and the Supervisory Board. In addition, risks occurring at short notice are reported directly.

10.2 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.

10.2.1 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.

10.2.2 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.

10.2.3 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.

10.2.4 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.

10.2.5 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.

10.2.6 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 preclinical 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.

10.2.7 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.

10.2.8 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 on satisfactory terms or at all will be available to MorphoSys when needed. 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.

10.2.9 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 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 at least have 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 presently does not anticipate non-performance or non-payment risks.

10.2.10 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.

10.2.11 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 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.

10.2.12 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.

10.3 Opportunities

Thanks to its internationally oriented strategic positioning, MorphoSys has positive growth opportunities for the coming years. By expanding its expertise in 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 mid to long term, animal-based methods will be replaced by *in vitro* approaches such as the Company's HuCAL GOLD technology.

10.3.1 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 of generics companies, almost all pharmaceutical companies are increasing their commitment to biologics such as human antibodies. Therapeutics based on biologicals are not as much exposed to generics competition such 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 has 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.

10.3.2 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.

10.3.3 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.

11 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.

12 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 plans to enlarge its market share within the research and diagnostics field.

12.1 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 seeks 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 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.

12.2 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.

12.3 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 from 2002 through 2006, the industry brought 43 % fewer chemical-based drugs to market than in the last five years of the 1990's, 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.

12.4 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 will further expand its distribution network, in-licensing of new research antibodies, as well as new tools to increase and upgrade its range of services.

12.5 Expected Research and Development

MorphoSys expects to continue to invest into 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.

12.6 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.

12.6.1 Expected Earnings Situation for the MorphoSys AG

MorphoSys's management anticipates in the current fiscal year total group revenues growth of at least 15 % in comparison to 2007. For MorphoSys AG, revenues of € 54 million to € 58 million are anticipated. The revenue breakdown between the two segments is anticipated to remain relatively constant in 2008 compared to the prior year.

On the basis of management'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 AG 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.

12.7 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. The Company's 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.

12.8 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 assumptions. Future results may deviate from the expectations described in the outlook section. Major risks are discussed in the risk report.