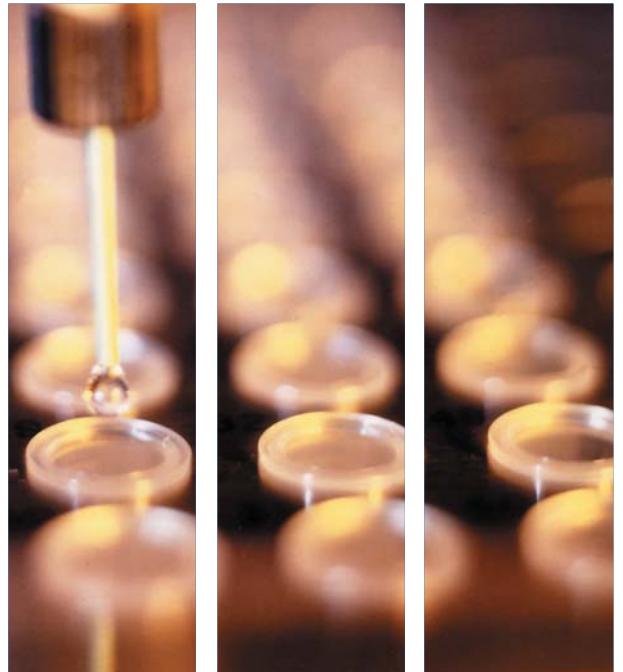


3<sup>rd</sup> Interim Report  
January – September 2007



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## Dear Shareholders,

Both operating segments continued to perform well in the third quarter of 2007. Along these lines, MorphoSys's revenues in the third quarter increased by 24%, and operating profit by 48%, compared to the same period of the prior year.

In our Therapeutic Antibodies segment, the most important event of the quarter was an IND filing by our partner Novartis on one of our joint projects. As you may remember, we signed this partnership in May 2004, and have with the IND filing, achieved completion within three years' time, a clear demonstration of the reliability, speed and quality of our HuCAL platform and the commitment of our partner Novartis. The Novartis program became the fourth HuCAL-based antibody to enter clinical development – another signal that our partnered antibody product pipeline is maturing.

Looking at our Research Antibodies segment AbD during the same quarter, we were able to demonstrate the synergies arising from the interaction of both operating segments within MorphoSys, the Research Antibodies and Therapeutic Antibodies segments. In that vein, shortly after the end of the third quarter, we announced a therapeutic antibody collaboration with Genesis Research and Development Corporation. Approximately one year ago, Genesis ordered a HuCAL antibody from AbD Serotec against the target FGFR5. Based on the antibody's promising attributes, Genesis requested a therapeutic license from MorphoSys for HuCAL antibodies against this target. This is the first antibody delivered from the AbD segment that has evolved into a therapeutic development project and the third therapeutic antibody partnership which stems from a commercial relationship on the AbD segment side of our business.

Technologically speaking, MorphoSys achieved extended patent protection for its core HuCAL antibody technology in the form of a new US patent which covers HuCAL's modular design at the DNA level, providing solid product claim protection in the USA.

We remain firmly convinced of the considerable long-term growth potential of our platform and we thank you for your continued interest and support.



Dave Lemus  
Chief Financial Officer  
MorphoSys AG

# Interim Group Management Report: January 1 – September 30, 2007

## Industry Overview

Against the backdrop of a volatile economic climate, biotechnology companies stocks performed with mixed results. As an example, Genentech achieved strong revenues with Herceptin, Rituxan, and Lucentis; however, these were offset by soft Avastin sales. Moreover, the sector as a whole experienced multiple clinical and regulatory setbacks including Spectrum and GPC's ODAC (Oncologic Drugs Advisory Committee) panel negative decision on Satraplatin as well as Anadys's discontinuation of its HCV program.

## The MorphoSys Share

During the third quarter, the biotechnology sector experienced decreased company valuations, particularly in Germany. Over the quarter, MorphoSys's share value decreased by 14% and the Prime Biotechnology Index by 8%, while the TecDAX rose by 4%.

Year-to-date, MorphoSys's stock price decreased by 20% and the Prime Biotechnology Index by 2%, while the TecDAX increased by 29%, mainly reflecting positive performance by solar-energy companies. The US NASDAQ biotechnology index increased by 12%.

## Financial Analysis

### Revenues

Compared to the same period in the previous year, Group revenues increased by 13% to € 44.1 million in the first nine months of 2007 (September 30, 2006: € 39.0 million). The increase is due to higher levels of funded research, licensing fees and success-based fees as well as stronger revenues in the AbD segment. Revenues arising from the Therapeutic Antibodies segment accounted for 66% or € 29.2 million of total revenues while the AbD segment generated 34% (€ 14.9 million) of the total.

Geographically, 37%, or € 16.5 million, of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies or non-profit organizations located in North America and 63%, or € 27.6 million, with companies located in Europe and Asia. This compares to 37% and 63%, respectively, in the same period of the prior year.

### *Therapeutic Antibodies Segment*

Revenues arising from the Therapeutic Antibodies segment comprised € 21.4 million in funded research and licensing fees (2006: € 19.7 million) as well as € 7.8 million success-based payments (2006: € 6.3 million), representing 27% of total therapeutic antibodies revenues.

Approximately 68% of therapeutic antibodies revenues and 45% of total revenues arose from the Company's three largest alliances with Novartis, Centocor and Schering (September 30, 2006: Novartis, Centocor and Roche, 66% and 44%, respectively).

#### *Antibodies Direct – AbD Segment*

Compared to the same period in the previous year, AbD segment's revenues increased by 15%, or € 1.9 million, to € 14.9 million in the first nine months of 2007. The largest part of revenues (approx. 81%), or € 12.1 million, was generated with catalog and industrial customers, while custom manufacture antibodies contributed 15% or € 2.2 million.

As of September 30, 2007, orders in the amount of € 0.6 million were classified as backorders in the segment.

#### **Operating Expenses**

For the first nine months of 2007, total operating expenses increased by 19% to € 37.2 million. The rise in operating expenses of € 6.0 million was impacted by R&D expenses increasing by 34% or € 4.0 million, S, G&A expenses increasing by 11% or € 1.4 million and cost of goods sold (COGS) increasing by 9% or € 0.5 million. Total purchase price allocation (PPA) effects on operating profit amounted to € 1.0 million compared to € 1.2 million in the same period of the prior year.

Stock-based compensation expenses are embedded in COGS, S, G&A and R&D expense amounts. Stock-based compensation for the first nine months of 2007 amounted to € 1.0 million (September 30, 2006: € 1.0 million) and is a non-cash charge.

#### *Cost of Goods Sold*

COGS is composed of the AbD segment's cost of goods sold during the first three quarters. COGS rose to € 6.0 million in Q3 2007, compared to € 5.5 million in the same period of the prior year. This rise in COGS mainly resulted from higher sales levels during the current year.

#### *Research and Development Expenses*

Costs for research and development increased by € 4.0 million to € 15.7 million (September 30, 2006: € 11.7 million) mainly due to higher expenses for product and technology development and personnel costs. The two proprietary products currently being internally developed by MorphoSys are MOR103 and MOR202.

#### *Sales, General and Administrative Expenses*

Sales, general and administrative expenses amounted to € 15.5 million compared to € 14.0 million in the same period of the previous year. This change was mainly impacted by higher costs for external services, higher personnel costs due to increased accruals for variable compensation as well as by increased expenses for infrastructure, in particular in the AbD Group companies.

#### **Cost by Expenditure Type**

For the first nine months of 2007, personnel costs amounted to € 14.1 million (September 30, 2006: € 12.4 million) or 38% of total operating expenses, thus representing the largest cost block within operating expenses in the first three quarters of 2007.

Expenses for external services, representing the second-largest block by cost type, mainly included external lab funding, consulting fees and marketing expenses and amounted to € 6.1 million (September 30, 2006: € 3.3 million) or 16% of total operating expenses.

Material costs mainly consisted of consumables, materials and goods employed and accounted for € 4.9 million (September 30, 2006: € 4.1 million) or 13% of total operating expenses.

#### **Non-operating Items**

Non-operating income amounted to € 0.9 million (September 30, 2006: expenses of € 0.5 million) and mainly changed as a result of increased interest income, gains from foreign exchange derivatives and decreased interest expenses compared to the same period in 2006. Profit before taxes amounted to € 7.8 million (September 30, 2006: profit before taxes of € 7.4 million).

#### **Taxes**

Expenses for current and deferred taxes in the amount of € 2.9 million (September 30, 2006: € 1.2 million) were recognized for the first nine months of 2007. Compared to the previous year, this change mainly derived from the utilization of the deferred tax asset on tax loss carry-forwards established in 2006 and from increased costs of capital raising measures which also resulted in deferred tax expenses.

#### **Operating Profit / Net Profit**

Group operating profit amounted to € 6.9 million in the first nine months of 2007 (September 30, 2006: € 7.8 million). Earnings before interest and taxes (EBIT) amounted to € 7.3 million, compared to an EBIT of € 7.4 million in the same period of the previous year.

A net profit after taxes of € 4.9 million was achieved for the first nine months of 2007, compared to a net profit after taxes of € 6.1 million in the same period of 2006. The resulting basic net profit per share for the nine months ended September 30, 2007, amounted to € 0.69 (nine months ended September 30, 2006: basic net profit per share of € 0.95).

#### **Liquidity / Cash Flows**

Cash inflow from operations amounted to € 6.5 million for the first nine months of 2007 (September 30, 2006: € 15.7 million). Investing activities resulted in a cash outflow of € 6.6 million whereas the cash inflow from financing activities amounted to € 32.0 million.

As of September 30, 2007, the Company held € 105.0 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2006 balance of € 66.0 million. Funds were held in three high-quality financial institutions, predominately in short-term maturity money funds and short-term deposit accounts.

#### **Assets**

Total assets rose by € 40.8 million to € 168.6 million as of September 30, 2007, compared to € 127.8 million as of December 31, 2006, mainly as a result of cash generated from the capital increase in May 2007 and cash generated from operations.

**Liabilities**

In the first nine months of 2007, current liabilities slightly increased from € 18.3 million as of December 31, 2006, to € 18.4 million. This change primarily arose from an increase in current deferred revenues which was partly offset by a decrease in accounts payable. Deferred revenues rose due to payments deriving from contracts signed in the current year and in previous years.

During the first nine months of 2007, the increase of total non-current liabilities by € 1.8 million to € 11.3 million was mainly impacted by non-current deferred revenues, resulting from contracts signed in the current and in previous years.

**Equity**

Total stockholders' equity amounted to € 138.8 million as of September 30, 2007, compared to € 100.1 million as of December 31, 2006.

As of September 30, 2007, the total number of shares issued amounted to 7,376,890, of which 7,350,158 were outstanding, compared to 6,715,322 and 6,686,160 as of December 31, 2006, respectively.

The increase of shares outstanding by 663,998 shares arose from the capital increase against cash successfully placed in May 2007 and from the conversion of bonds issued to employees as well as from exercised options. In the first nine month of 2007, 2,430 of the exercised options related to shares provided by treasury stock. Treasury shares were reduced accordingly, amounting to 26,732 shares as of September 30, 2007.

**Capital Expenditure**

MorphoSys's investment in property, plant and equipment amounted to € 0.9 million for the first nine months of 2007 and decreased by € 0.2 million compared to the same period of the prior year. Depreciation of property, plant and equipment for the first nine months of 2007 accounted for € 1.1 million, compared to € 1.4 million for the first nine months of 2006.

During the first nine months of 2007, the Company invested € 0.7 million in intangible assets (September 30, 2006: € 0.3 million). Amortization of intangibles amounted to € 2.1 million and increased by € 0.1 million in comparison to the first nine months of 2006.

## Human Resources

**Number and Qualification of Employees**

On September 30, 2007, the MorphoSys Group employed 297 people (December 31, 2006: 279). On average, the MorphoSys Group employed 289 people for the first nine months of 2007 (Q3 2006: 259).

Of the 297 employees, 165 worked in research and development and 132 in sales, general and administration (December 31, 2006: 155 and 124, respectively). On September 30, 2007, a total of 75 of MorphoSys's employees had a Ph.D. degree (December 31, 2006: 59).

Of the 297 employees, 169 worked for the Therapeutic Antibodies segment and 128 for the AbD segment (December 31, 2006: 158 and 121, respectively).

On September 30, 2007, MorphoSys had two apprenticeship positions (December 31, 2006: 1).

## Annual Shareholders' Meeting and Share Split

At the Annual Shareholders' Meeting in May 2007, MorphoSys's shareholders approved a three-for-one stock split with a 99.8% approval rate. Although it represented the clear wish of shareholders as evidenced by the proposal's approval rate, a judge in the Munich commercial register did not register the resolution because of an intermediate issuance of new shares shortly before the Annual Shareholders' Meeting 2007. MorphoSys's notary submitted an appeal to the judge's decision. The respective appellate court, however, followed the opinion that the share split and the various capital increases as resolved in the Ordinary Shareholders' Meeting 2007 could only be registered and therefore become only legally valid if the adjustment of the new share figures (based on the interim capital raising measure) were approved again by the shareholders.

The appellate court did not follow our legal counsel's reasoning, and, consequently, the share-split (topic 5 of the AGM agenda), topic 7 (increase of the Authorized Capital 2006-I pursuant to § 5 para. 5 of the Articles), topic 9 (creation of a new Conditional Share Capital 2007-I pursuant to § 5 para. 6 b of the Articles) as well as topic 10 (increase of the Conditional Share Capital 2003-III pursuant to § 5 para. 6 d of the Articles) will not be registered into the commercial register.

As the existing share capitals, prior to such proposed increases, remain in place, the Management decided not to call an extraordinary Shareholders' Assembly for timing and cost reasons, and will therefore intend to register only the non-affected topics of the agenda.

## Research & Development / Alliance Management

The following represents the progress made within the third quarter of 2007:

### **Therapeutic Antibodies Segment**

At the end of September 2007, MorphoSys had 50 active antibody programs ongoing, of which two are proprietary programs (MOR103 and MOR202). Of the 48 partnered antibody programs, four programs are in phase 1 clinical development, 20 in pre-clinical development, and 24 in the research phase.

#### *Proprietary Antibody Development*

The development of MOR103 and MOR202 remain on track. For MOR103, MorphoSys anticipates to file all necessary documents to start a European phase 1 trial in the fourth quarter of 2007.

#### *Novartis*

In September 2007, MorphoSys announced that a HuCAL GOLD-derived fully human antibody against an undisclosed target molecule in the therapeutic area of oncology has been advanced to a phase 1 clinical trial. This Investigational New Drug (IND) application filing, resulting from MorphoSys's collaboration with Novartis, triggered a clinical milestone payment to MorphoSys.

#### *Novoplant*

In July 2007, the agreement with Novoplant GmbH has run out as scheduled. The collaboration with Novoplant was signed in June 2004 for the development of therapeutic antibodies in animal health applications. Under the three-year agreement, Novoplant received a license for the development and commercialization of therapeutic antibodies as feed components for use in veterinary medicine. Novoplant paid a technology access fee to MorphoSys in addition to annual licensing fees.

### **AbD Segment**

#### *Genesis Research and Development Corporation*

MorphoSys and New Zealand-based Genesis Research and Development Corporation Ltd. signed a research collaboration in September 2007. Under the terms of the agreement, Genesis will continue to use HuCAL-based antibodies originally generated by the MorphoSys business unit AbD Serotec against the human fibroblast growth factor receptor FGFR5 for target validation and preclinical 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.

### **Intellectual Property**

In September 2007, MorphoSys announced that the U.S. Patent & Trademark Office has granted a fifth US patent stemming from MorphoSys's base HuCAL (Human Combinatorial Antibody Library) patent family, providing extended protection to MorphoSys's core technology.

The new patent (US 7,264,963) captures HuCAL's modular design at the DNA level, providing solid product claim protection in the USA.

## Risks and Opportunities

Risks and opportunities for the MorphoSys Group have not changed materially from the discussion included in the Annual Report 2006 and the 2<sup>nd</sup> Interim Report 2007.

## Outlook

MorphoSys confirmed its financial guidance during the Q2 2007 results presentation. On a Group level, the Company estimates revenues between € 60 million and € 65 million and the operating profit to be between € 7 million and € 10 million.

# Consolidated Statements of Operations (IFRS) – unaudited

Note	Three Months Ended 09/30/2007 €	Three Months Ended 09/30/2006 €	Nine Months Ended 09/30/2007 €	Nine Months Ended 09/30/2006 €
	<b>15,483,364</b>	<b>12,506,075</b>	<b>44,090,092</b>	<b>39,029,423</b>
<b>Revenues</b>				
<b>Operating Expenses</b>				
Cost of Goods Sold	2 1,869,610	1,477,432	6,039,854	5,468,970
Research and Development	5,194,777	3,830,999	15,684,241	11,714,563
Sales, General and Administrative	4,991,327	4,922,831	15,468,539	14,011,651
<b>Total Operating Expenses</b>	<b>12,055,714</b>	<b>10,231,262</b>	<b>37,192,634</b>	<b>31,195,184</b>
<b>Profit from Operations</b>	<b>3,427,650</b>	<b>2,274,813</b>	<b>6,897,458</b>	<b>7,834,239</b>
Interest Income	334,531	6,706	546,042	42,761
Interest Expense	2,513	39,455	7,772	115,598
Other Income / (Expenses), Net	339,256	(320,337)	364,717	(410,091)
<b>Profit before Taxes</b>	<b>4,098,924</b>	<b>1,921,727</b>	<b>7,800,445</b>	<b>7,351,311</b>
Income Tax Expense	1,259,494	315,277	2,925,264	1,201,887
<b>Net Profit</b>	<b>2,839,430</b>	<b>1,606,450</b>	<b>4,875,181</b>	<b>6,149,424</b>
Basic Net Profit per Share	0.39	0.24	0.69	0.95
Diluted Net Profit per Share	0.38	0.24	0.68	0.93
Shares Used in Computing Basic Net Profit per Share	7,350,158	6,641,128	7,037,253	6,502,307
Shares Used in Computing Diluted Net Profit per Share	7,431,549	6,725,419	7,138,995	6,588,373

See accompanying notes to the Interim Consolidated Financial Statements.

## Consolidated Balance Sheets (IFRS)

Note	September 30, 2007 unaudited €	December 31, 2006 €
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	35,670,948	3,765,320
Available-for-sale Financial Assets	69,290,170	62,260,552
Accounts Receivable	8,099,482	3,699,386
Other Receivables	358,054	110,734
Inventories, Net	3,840,437	3,511,405
Prepaid Expenses and Other Current Assets	2,256,785	2,096,991
Assets Classified as Held for Sale	918,842	664,108
<b>Total Current Assets</b>	<b>120,434,718</b>	<b>76,108,496</b>
Non-current Assets		
Property, Plant and Equipment, Net	6,139,160	6,894,112
Patents, Net	1,625,886	1,950,154
Licenses, Net	6,869,036	7,776,374
Software, Net	706,243	243,813
Know-how and Customer Lists, Net	4,023,248	4,834,289
Goodwill	26,989,074	27,002,591
Deferred Tax Asset	185,954	1,455,723
Other Assets	1,589,873	1,577,570
<b>Total Non-current Assets</b>	<b>48,128,474</b>	<b>51,734,626</b>
<b>Total Assets</b>	<b>168,563,192</b>	<b>127,843,122</b>

See accompanying notes to the Interim Consolidated Financial Statements

	Note	September 30, 2007 unaudited €	December 31, 2006 €
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts Payable		8,536,918	10,455,799
Current Portion of Licenses Payable		101,787	126,382
Provisions and Tax Liabilities		992,043	1,082,042
Current Portion of Deferred Revenue		8,811,840	6,648,107
<b>Total Current Liabilities</b>		<b>18,442,588</b>	<b>18,312,330</b>
<b>Non-current Liabilities</b>			
Provisions, Net of Current Portion		62,763	62,763
Deferred Revenue, Net of Current Portion		8,189,027	6,216,007
Convertible Bonds Due to Related Parties		81,743	38,371
Deferred Tax Liability		2,963,220	3,162,332
<b>Total Non-current Liabilities</b>		<b>11,296,753</b>	<b>9,479,473</b>
<b>Stockholders' Equity</b>			
Common Stock, € 3.00 Par Value:			
Ordinary Shares Authorized (12,729,785 and 12,729,785 for 2007 and 2006, respectively)			
Ordinary Shares Issued (7,376,890 and 6,715,322 for 2007 and 2006, respectively)			
Ordinary Shares Outstanding (7,350,158 and 6,686,160 for 2007 and 2006, respectively)			
Treasury Stock (26,732 and 29,162 shares for 2007 and 2006, respectively), at Cost			
	3	22,120,859	20,135,263
Additional Paid-in Capital	3	154,876,631	123,878,001
Accumulated Other Comprehensive Income		2,274,462	1,359,948
Accumulated Deficit		(40,448,101)	(45,321,893)
<b>Total Stockholders' Equity</b>		<b>138,823,851</b>	<b>100,051,319</b>
<b>Total Liabilities and Stockholders' Equity</b>		<b>168,563,192</b>	<b>127,843,122</b>

See accompanying notes to the Interim Consolidated Financial Statements.

## Consolidated Statements of Changes in Stockholders' Equity (IFRS) – unaudited

	Common Stock	
	Shares	€
<b>Balance as of January 1, 2006</b>	<b>6,025,863</b>	<b>18,077,589</b>
Compensation Related to the Grant of Stock Options and Convertible Bonds	-	-
Exercise of Options and Convertible Bonds Issued to Related Parties	70,566	211,698
Capital Increase against Contribution in Kind, Net of Issuance Cost of € 35,013	208,560	625,680
Capital Increase, Net of Issuance Cost of € 470,031 (Net of Deferred Tax)	384,338	1,153,014
<b>Other Comprehensive Income:</b>		
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	-	-
Foreign Currency Loss from Consolidation	-	-
Net Profit for the Period	-	-
<b>Comprehensive Income</b>	<b>-</b>	<b>-</b>
<b>Balance as of September 30, 2006</b>	<b>6,689,327</b>	<b>20,067,981</b>
<b>Balance as of January 1, 2007</b>	<b>6,715,322</b>	<b>20,145,966</b>
Result Incurred Through Restructuring of Affiliates	-	-
Compensation Related to the Grant of Stock Options and Convertible Bonds	-	-
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Cost of € 9,350 (Net of Deferred Tax)	9,380	28,140
Exercise of Options from Treasury Stock Issued to Related Parties	-	-
Capital Increase against Contribution in Kind, Net of Issuance Cost of € 1,054,860 (Net of Deferred Tax)	652,188	1,956,564
<b>Other Comprehensive Income:</b>		
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	-	-
Effect from Equity-related Recognition of Deferred Taxes	-	-
Foreign Currency Loss from Consolidation	-	-
Net Profit for the Period	-	-
<b>Comprehensive Income</b>	<b>-</b>	<b>-</b>
<b>Balance as of September 30, 2007</b>	<b>7,376,890</b>	<b>22,130,670</b>

See accompanying notes to the Interim Consolidated Financial Statements

Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Deficit	Total Stock- holders' Equity
Shares	€	€	€	€	€	€
<b>29,162</b>	<b>(10,703)</b>	<b>96,412,849</b>	<b>584,679</b>	<b>293,184</b>	<b>(51,349,827)</b>	<b>64,007,771</b>
-	-	988,529	-	-	-	988,529
-	-	1,904,794	-	-	-	2,116,492
-	-	7,994,547	-	-	-	8,620,227
-	-	15,479,996	-	-	-	16,633,010
-	-	-	347,019	-	-	347,019
-	-	-	-	(126,394)	-	(126,394)
-	-	-	-	-	6,149,424	6,149,424
-	-	-	<b>347,019</b>	<b>(126,394)</b>	<b>6,149,424</b>	<b>6,370,049</b>
<b>29,162</b>	<b>(10,703)</b>	<b>122,780,715</b>	<b>931,698</b>	<b>166,790</b>	<b>(45,200,403)</b>	<b>98,736,078</b>
<b>29,162</b>	<b>(10,703)</b>	<b>123,878,001</b>	<b>1,066,790</b>	<b>293,158</b>	<b>(45,321,893)</b>	<b>100,051,319</b>
-	-	-	-	-	(1,389)	(1,389)
-	-	1,051,719	-	-	-	1,051,719
-	-	348,935	-	-	-	377,075
(2,430)	892	-	-	-	-	892
-	-	29,597,976	-	-	-	31,554,540
-	-	-	1,446,873	-	-	1,446,873
-	-	-	(135,531)	-	-	(135,531)
-	-	-	-	(396,828)	-	(396,828)
-	-	-	-	-	4,875,181	4,875,181
-	-	-	<b>1,311,342</b>	<b>(396,828)</b>	<b>4,875,181</b>	<b>5,789,695</b>
<b>26,732</b>	<b>(9,811)</b>	<b>154,876,631</b>	<b>2,378,132</b>	<b>(103,670)</b>	<b>(40,448,101)</b>	<b>138,823,851</b>

## Consolidated Statements of Cash Flows (IFRS) – unaudited

For the Period Ended September 30	Note	2007 €	2006 €
<b>Operating Activities</b>			
Net Profit		4,875,181	6,149,424
<b>Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:</b>			
Non-cash Charges from PPA		416,019	564,886
Depreciation and Amortization of Tangible and Intangible Assets		3,197,523	2,875,872
Income Tax Benefit		(349,987)	(399,584)
Net Gain on Sales of Financial Assets		(418,861)	(579,070)
Unrealized Net (Gain) / Loss on Derivative Financial Instruments		(276,015)	23,032
Loss / (Gain) on Sale of Property, Plant and Equipment		4,661	(1,116)
Recognition of Deferred Revenue		(13,901,295)	(11,511,737)
Stock-based Compensation		1,040,830	980,609
<b>Changes in Operating Assets and Liabilities:</b>			
Accounts Receivable		(4,479,770)	(575,498)
Prepaid Expenses and Other Assets		159,565	(1,288,127)
Accounts Payable and Provisions		(1,817,244)	2,205,237
Licenses Payable		(24,595)	137,785
Other Liabilities		(3,430)	(407,130)
Deferred Revenue		18,038,047	17,510,371
<b>Cash Generated from Operations</b>		<b>6,460,629</b>	<b>15,684,954</b>
Interest Paid		(3,280)	(14,525)
<b>Net Cash Provided by Operating Activities</b>		<b>6,457,349</b>	<b>15,670,429</b>

See accompanying notes to the Interim Consolidated Financial Statements.

For the Period Ended September 30	Note	2007 €	2006 €
<b>Investing Activities:</b>			
Purchases of Financial Assets		(15,312,285)	(33,846,867)
Proceeds from Sales of Financial Assets		10,225,742	20,776,366
Purchases of Property, Plant and Equipment		(868,845)	(1,101,307)
Proceeds from Disposals of Property, Plant and Equipment		71,328	8,668
Additions to Intangibles		(755,202)	(312,997)
Acquisition of Serotec, Net of Cash Acquired		-	(21,172,502)
<b>Net Cash Used in Investing Activities</b>		<b>(6,639,262)</b>	<b>(35,648,639)</b>
<b>Financing Activities:</b>			
Proceeds from the Issuance of Equity		32,609,400	17,103,041
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		387,317	2,116,491
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		43,372	10,407
Purchases of Derivative Financial Instruments		(91,500)	(93,650)
Proceeds from the Disposal of Derivative Financial Instruments		121,993	19,237
Net Cost of Share Issuance		(1,064,210)	(505,044)
<b>Net Cash Provided by Financing Activities</b>		<b>32,006,372</b>	<b>18,650,482</b>
Effect of Exchange Rate Differences on Cash		81,169	(68,279)
Increase / (Decrease) in Cash and Cash Equivalents		31,905,628	(1,396,007)
<b>Cash and Cash Equivalents at the Beginning of the Period</b>		<b>3,765,320</b>	<b>4,017,029</b>
<b>Cash and Cash Equivalents at the End of the Period</b>		<b>35,670,948</b>	<b>2,621,022</b>

See accompanying notes to the Interim Consolidated Financial Statements

# Notes to the Interim Consolidated Financial Statements – unaudited

The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), IAS 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board (IASB), London, in consideration of the interpretations of the Standing Interpretations Committee (SIC), the International Financial Reporting Interpretations Committee (IFRIC) and the IFRS adopted by the European Commission.

The consolidated financial statements for the period ended September 30, 2007, include MorphoSys AG, MorphoSys IP GmbH, MorphoSys USA, Inc., MorphoSys UK Ltd. (former Serotec Ltd.), MorphoSys US, Inc. (former Serotec, Inc.), MorphoSys AbD GmbH (former Serotec GmbH), Oxford Biotechnology Ltd., and Poole Real Estate Ltd. (former Biogenesis UK Ltd.), together referred to as the “Group”.

## 1 Changes in Accounting Policies

The accounting policies applied for the financial statements as of December 31, 2006 have been used throughout the first nine months of 2007, except for the following changes:

### **Basis of Consolidation**

All business combinations are accounted for using the purchase method according to IFRS 3 “Business Combinations”, whereby identifiable assets and liabilities assumed are measured initially at their fair value. Any excess of the purchase price over the amounts allocated is recognized as goodwill. The goodwill is subject to a regular review for possible impairment. In January 2007, the accounting for the purchase price allocation in connection with the Serotec acquisition – hitherto only provisional – had been completed according to IFRS 3.62.

### **Corporation Tax Reform**

The German “Bundesrat” decided on July 6, 2007 about the corporation tax reform 2008. As part of the regulations becoming effective as of January 1, 2008 the corporation tax rate will be reduced from 25% to 15% with a moderate rise in the effective trade income tax rate. One of the refinancing measures is a limit with regard to the deductibility of business expenses. These new regulations will have effects on the Group and are recognized within this interim financial report.

## 2 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group consists of the following main business segments:

### Therapeutic Antibodies

MorphoSys possesses one of the leading technologies in the generation of human antibody therapeutics and bespoke antibody research projects. The Company makes use of its technology in collaborations with internationally renowned pharmaceutical and biotechnology companies as well as on its own account.

### AbD – Antibodies Direct

The research antibodies business leverages MorphoSys' core technological capabilities in the design and manufacture of antibodies for research purposes. It commercializes HuCAL technology focusing on the custom generation of research antibodies for partners on an individual basis.

### Geographical Segments

In presenting information on the basis of geographical segments, segment revenues are based on the geographical location of the customers.

For the Nine Months Period Ended September 30 (in 000's €)	Therapeutic Antibodies		AbD		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Revenues</b>	<b>29,182</b>	<b>26,055</b>	<b>14,908</b>	<b>12,974</b>	-	-	<b>44,090</b>	<b>39,029</b>
Cost of Goods Sold	-	-	6,040	5,469	-	-	6,040	5,469
<b>Segment Result</b>	<b>13,141</b>	<b>13,997</b>	<b>(574)</b>	<b>(1,214)</b>	<b>(5,670)</b>	<b>(4,949)</b>	<b>6,897</b>	<b>7,834</b>
Interest Income	-	-	-	-	-	-	546	43
Interest Expense	-	-	-	-	-	-	8	116
Other Income / (Expenses), Net	-	-	-	-	-	-	365	(410)
<b>Profit before Taxes</b>	-	-	-	-	-	-	<b>7,800</b>	<b>7,351</b>
Income Tax Expense	-	-	-	-	-	-	2,925	1,202
<b>Net Profit</b>	-	-	-	-	-	-	<b>4,875</b>	<b>6,149</b>

For the Three Months Period Ended September 30 (in 000's €)	Therapeutic Antibodies		AbD		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Revenues</b>	<b>10,474</b>	<b>8,509</b>	<b>5,009</b>	<b>3,997</b>	-	-	<b>15,483</b>	<b>12,506</b>
Cost of Goods Sold	-	-	1,870	1,477	-	-	1,870	1,477
<b>Segment Result</b>	<b>5,028</b>	<b>4,569</b>	141	(580)	(1,741)	(1,714)	<b>3,428</b>	<b>2,275</b>
Interest Income	-	-	-	-	-	-	335	7
Interest Expense	-	-	-	-	-	-	3	40
Other Income / (Expenses), Net	-	-	-	-	-	-	339	(320)
<b>Profit before Taxes</b>	-	-	-	-	-	-	<b>4,099</b>	<b>1,922</b>
Income Tax Expense	-	-	-	-	-	-	1,260	316
<b>Net Profit</b>	-	-	-	-	-	-	<b>2,839</b>	<b>1,606</b>

The following table shows the split of the Company's consolidated revenues by geographical markets:

For the Period ended September 30 (in 000's €)	2007	2006
Europe and Asia	26,435	24,405
USA and Canada	16,503	14,384
Other	1,152	0,240
<b>Total</b>	<b>44,090</b>	<b>39,029</b>

### 3 Changes in Stockholders' Equity

#### Common Stock

On September 30, 2007, the common stock of the Company was € 22,130,670 (December 31, 2006: € 20,145,966). An increase of € 1,956,564 arose as a result of a capital increase executed in May 2007. Through the conversion and exercise of 9,380 convertible bonds and options issued to management and employees, common stock increased by € 28,140 in the first nine months of 2007. Treasury stock amounted to € 9,811 (December 31, 2006: € 10.703).

#### Additional Paid-in Capital

On September 30, 2007, additional paid-in capital amounted to € 154,876,631 (December 31, 2006: € 123,878,001). The total increase of € 30,998,630 is due to stock-based compensation in the amount of € 1,051,719 including the equity portion of convertible bonds granted as well as € 29,597,976 from a capital increase in May 2007. A further increase of € 348,935 arose from the exercise and conversion of convertible bonds and stock options issued to related parties.

## 4 Changes in Convertible Bonds and Stock Options

In the first three quarters of 2007, convertible bonds were granted under the 2002 Plan with terms identical to the 2002 convertible bonds grants. On January 15, 2007, 13,873 convertible bonds were granted to Management Board members and 38,945 convertible bonds were granted to employees of MorphoSys AG. In the third quarter of 2007, 60,000 stock options were granted to employees under the 2002 Plan with terms identical to the 2002 stock options grants.

## 5 Directors' Dealings

The table below shows the shares, stock options and convertible bonds as well as the changes of ownership of the same, which were held by the Management Board and the Supervisory Board during the first nine months of 2007:

Shares	01.01.2007	Additions	Forfeitures	Sales	30.09.2007
<b>Management Board</b>					
Dr. Simon E. Moroney	113,461	-	-	-	113,461
Dave Lemus	-	-	-	-	-
Dr. Marlies Sproll	35	-	-	-	35
<b>Total</b>	<b>113,496</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113,496</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	2,500	-	-	-	2,500
Prof. Dr. Jürgen Drews <sup>1</sup>	-	2,430	-	-	2,430
Dr. Walter Blättler <sup>2</sup>	-	-	-	-	673
Dr. Daniel Camus	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-
Prof. Dr. Andreas Plückthun <sup>3</sup>	59,300	-	-	-	59,300
Dr. Geoffrey N. Vernon	-	-	-	-	-
<b>Total</b>	<b>61,800</b>	<b>2,430</b>	<b>-</b>	<b>-</b>	<b>64,903</b>

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

2) Entered as per May 16, 2007; shares were bought by Dr. Blättler prior to election to the Supervisory Board

3) Retired as per May 16, 2007

**Stock Options**

	01.01.2007	Additions	Forfeitures	Exercises	30.09.2007
<b>Management Board</b>					
Dr. Simon E. Moroney	83,000	-	-	-	83,000
Dave Lemus	48,000	-	-	-	48,000
Dr. Marlies Sproll	26,250	-	-	-	26,250
<b>Total</b>	<b>157,250</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,250</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	-	-	-	-	-
Prof. Dr. Jürgen Drews <sup>1</sup>	2,430	-	-	2,430	-
Dr. Walter Blättler <sup>2</sup>	-	-	-	-	-
Dr. Daniel Camus	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-
Prof. Dr. Andreas Plückthun <sup>3</sup>	-	-	-	-	-
Dr. Geoffrey N. Vernon	-	-	-	-	-
<b>Total</b>	<b>2,430</b>	<b>-</b>	<b>-</b>	<b>2,430</b>	<b>-</b>

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

**Convertible Bonds**

	01.01.2007	Additions	Forfeitures	Exercises	30.09.2007
<b>Management Board</b>					
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
<b>Total</b>	<b>14,248</b>	<b>13,873</b>	<b>-</b>	<b>-</b>	<b>28,121</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	-	-	-	-	-
Prof. Dr. Jürgen Drews	-	-	-	-	-
Dr. Walter Blättler <sup>2</sup>	-	-	-	-	-
Dr. Daniel Camus	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-
Prof. Dr. Andreas Plückthun <sup>3</sup>	-	-	-	-	-
Dr. Geoffrey N. Vernon	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

2) Entered as per May 16, 2007

3) Retired as per May 16, 2007

## 6 Transactions with Related Parties

In July 2006, the Company entered into consulting agreements with the former member of its Supervisory Board Prof. Dr. Andreas Plückthun and a further scientist of the University of Zurich, Switzerland. According to the agreements, the consultants shall provide consulting services in the antibody and scaffold field.

# Imprint

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