

Financial Statements

FINANCIAL STATEMENTS

67	CONSOLIDATED STATEMENT OF OPERATIONS (IFRS)
68	CONSOLIDATED BALANCE SHEET (IFRS)
70	CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (IFRS)
72	CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

74	ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	89	GOODWILL
79	SEGMENT REPORTING	89	ACCOUNTS PAYABLE
81	CASH AND CASH EQUIVALENTS	90	PROVISIONS AND TAX LIABILITIES
82	FINANCIAL ASSETS	90	FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
82	ACCOUNTS RECEIVABLE	92	STOCKHOLDERS' EQUITY
82	OTHER RECEIVABLES	93	CONVERTIBLE BONDS
83	PREPAID EXPENSES, TAX RECEIVABLES, OTHER CURRENT ASSETS AND INVENTORIES	95	STOCK OPTIONS
84	PROPERTY, PLANT AND EQUIPMENT	97	PERSONNEL EXPENSES
86	INTANGIBLE ASSETS	98	INCOME TAXES
88	OTHER ASSETS	100	EARNINGS PER SHARE
89	INVESTMENT PROPERTY	102	OPERATING LEASES
89	ASSETS CLASSIFIED AS HELD FOR SALE	102	CONTINGENCIES
		103	RELATED PARTIES
		106	CORPORATE GOVERNANCE
		106	RESEARCH AND DEVELOPMENT AGREEMENTS
		110	DETAILED ROLL-FORWARD FIXED ASSETS (IFRS) – APPENDIX 1
		110	CHART OF CONSOLIDATED EQUITY – APPENDIX 2
		112	RESPONSIBILITY STATEMENT
		113	AUDITOR'S REPORT



Consolidated Statement of Operations (IFRS)

in €	Note	2008	2007
Revenues	1R	71,645,341	61,962,008
Operating Expenses			
Cost of Goods Sold	2	7,138,484	7,947,128
Research and Development		27,599,615	22,237,173
Sales, General and Administrative		20,484,400	24,759,882
Total Operating Expenses		55,222,499	54,944,183
Profit from Operations		16,422,842	7,017,825
Interest Income		1,485,760	904,704
Interest Expense		6,468	10,956
Other Income, Net		83,598	1,306,036
Profit before Taxes		17,985,732	9,217,609
Income Tax (Expense), Benefit	21	(4,832,379)	2,257,421
NET PROFIT		13,153,353	11,475,030
Basic Net Profit per Share	22	0.59	0.54
Diluted Net Profit per Share	22	0.59	0.53
Shares Used in Computing Basic Net Profit per Share	22	22,216,677	21,347,670
Shares Used in Computing Diluted Net Profit per Share	22	22,326,917	21,633,303

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

in €	Note	2008	2007
ASSETS			
Current Assets			
Cash and Cash Equivalents	3, 16	40,113,727	48,407,064
Available-for-sale Financial Assets	4, 16	97,752,015	58,491,852
Accounts Receivable	5, 16	4,211,258	9,461,832
Tax Receivables	7	1,122,495	1,023,762
Other Receivables	6	109,900	138,903
Inventories, Net	7	3,521,451	3,833,208
Prepaid Expenses and Other Current Assets	7	2,563,030	1,163,521
Assets Classified as Held for Sale	12	722,036	346,330
Total Current Assets		150,115,912	122,866,472
Non-current Assets			
Property, Plant and Equipment, Net	8	3,967,405	4,229,043
Patents, Net	9	1,199,267	1,594,749
Licenses, Net	9	15,377,995	16,430,881
Software, Net	9	663,964	632,453
Know-how and Customer Lists, Net	9	2,492,537	3,686,512
Goodwill	9, 13	26,672,397	26,953,864
Investment Property	11	0	1,602,558
Deferred Tax Asset	21	1,720,750	4,948,435
Prepaid Expenses and Other Assets, Net of Current Portion	7, 10	1,082,665	1,767,579
Total Non-current Assets		53,176,980	61,846,074
TOTAL ASSETS		203,292,892	184,712,546

See accompanying Notes to the Consolidated Financial Statements



in €	Note	2008	2007
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	14, 16	11,616,376	13,440,778
Licenses Payable	16	450,969	131,326
Provisions and Tax Liabilities	15	881,999	476,548
Current Portion of Deferred Revenue	1R	14,453,680	15,345,863
Total Current Liabilities		27,403,024	29,394,515
Non-current Liabilities			
Provisions, Net of Current Portion	15	117,839	62,763
Deferred Revenue, Net of Current Portion	1R	11,193,421	7,049,474
Convertible Bonds Due to Related Parties	18	48,670	79,065
Deferred Tax Liability	21	2,542,750	2,589,280
Total Non-current Liabilities		13,902,680	9,780,582
Stockholders' Equity	17, 18, 19		
Common Stock, €1 Par Value;			
Ordinary Shares Authorized (42,759,630 and 38,189,355 for 2008 and 2007, respectively)			
Ordinary Shares Issued (22,478,787 and 22,160,259 for 2008 and 2007, respectively)			
Ordinary Shares Outstanding (22,398,891 and 22,080,063 for 2008 and 2007, respectively)			
Treasury Stock (79,896 and 80,196 shares for 2008 and 2007, respectively), at Cost		22,469,013	22,150,448
Additional Paid-in Capital		158,523,363	155,376,343
Reserves		1,689,711	1,858,910
Accumulated Deficit		(20,694,899)	(33,848,252)
Total Stockholders' Equity		161,987,188	145,537,449
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		203,292,892	184,712,546

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock	
	Shares	€
BALANCE AS OF JANUARY 1, 2007	20,145,966	20,145,966
Result Incurred Through Restructuring of Affiliates	0	0
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Cost of €9,350 (Net of Deferred Tax)	57,729	57,729
Exercise of Options from Treasury Stock Issued to Related Parties	0	0
Capital Increase against Contribution in Cash, Net of Issuance Cost of €1,215,656 (Net of Deferred Tax)	1,956,564	1,956,564
Reserves:		
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	0	0
Effect from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Loss from Consolidation	0	0
Net Profit for the Year	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2007	22,160,259	22,160,259
BALANCE AS OF JANUARY 1, 2008	22,160,259	22,160,259
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties Net of Issuance Cost of €15,500	318,528	318,528
Reserves:		
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Loss from Consolidation	0	0
Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2008	22,478,787	22,478,787

See accompanying Notes to the Consolidated Financial Statements; all numbers are presented under the assumption that the share split would have taken place on January 1, 2007.



Statement of Operations · Balance Sheet · Statement of Changes in Stockholders' Equity ·
Statement of Cash Flows · Notes to the Financial Statements

Treasury Stock		Additional Paid-in Capital €	Revaluation Reserve €	Translation Reserve €	Accumulated Deficit €	Total Stock- holders' Equity €
Shares	€					
87,486	(10,703)	123,878,001	1,066,790	293,158	(45,321,893)	100,051,319
0	0	0	0	0	(1,389)	(1,389)
0	0	1,430,406	0	0	0	1,430,406
0	0	630,756	0	0	0	688,485
(7,290)	892	0	0	0	0	892
0	0	29,437,180	0	0	0	31,393,744
0	0	0	1,304,584	0	0	1,304,584
0	0	0	(130,046)	0	0	(130,046)
0	0	0	0	(675,576)	0	(675,576)
0	0	0	0	0	11,475,030	11,475,030
0	0	0	1,174,538	(675,576)	11,475,030	11,973,992
80,196	(9,811)	155,376,343	2,241,328	(382,418)	(33,848,252)	145,537,449
80,196	(9,811)	155,376,343	2,241,328	(382,418)	(33,848,252)	145,537,449
0	0	1,039,035	0	0	0	1,039,035
(300)	37	2,107,985	0	0	0	2,426,550
0	0	0	2,021,136	0	0	2,021,136
0	0	0	(98,492)	0	0	(98,492)
0	0	0	0	(2,091,843)	0	(2,091,843)
0	0	0	0	0	13,153,353	13,153,353
0	0	0	1,922,644	(2,091,843)	13,153,353	12,984,154
79,896	(9,774)	158,523,363	4,163,972	(2,474,261)	(20,694,899)	161,987,188

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2008	2007
OPERATING ACTIVITIES			
Net Profit		13,153,353	11,475,030
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Non-cash Charges from PPA		178,851	547,769
Impairment of Assets		867,131	176,878
Depreciation and Amortization of Tangible and Intangible Assets		5,238,185	4,470,172
Income Tax Benefit		(465,447)	(580,317)
Net Gain on Sales of Financial Assets		(1,022,873)	(1,333,651)
Unrealized Net Loss/(Gain) on Derivative Financial Instruments		39,144	(474,734)
Loss/(Gain) on Sale of Property, Plant and Equipment/Intangible Assets		(12,702)	37,833
Recognition of Deferred Revenue		(33,631,336)	(20,775,489)
Stock-based Compensation		1,039,036	1,419,515
Changes in Operating Assets and Liabilities:			
Accounts Receivable		5,102,007	(5,877,999)
Prepaid Expenses, Other Assets and Tax Receivables		3,169,357	(4,092,265)
Accounts Payable and Provisions		614,663	(2,534,689)
Licenses Payable		319,643	4,944
Other Liabilities		(2,150,763)	4,086,203
Deferred Revenue		36,883,100	30,306,712
Cash Generated from Operations		29,321,349	16,855,912
Interest Paid		0	4,967
Interest Received		(1,486,190)	(906,372)
Income Taxes Paid		812,414	1,110,547
NET CASH PROVIDED BY OPERATING ACTIVITIES		28,647,573	17,065,054

See accompanying Notes to the Consolidated Financial Statements



in €	Note	2008	2007
INVESTING ACTIVITIES			
Purchases of Financial Assets		(47,783,024)	(16,311,410)
Proceeds from Sales of Financial Assets		12,018,161	22,745,022
Purchases of Property, Plant and Equipment		(1,616,948)	(1,057,368)
Proceeds from Disposals of Property, Plant and Equipment		327,082	410,085
Purchases of Intangible Assets		(2,265,621)	(10,950,279)
Proceeds from Disposals of Intangibles		7,055	0
NET CASH USED IN INVESTING ACTIVITIES	16	(39,313,295)	(5,163,950)
FINANCING ACTIVITIES			
Proceeds from the Issuance of Equity		0	32,609,400
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		2,442,049	698,727
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(30,395)	40,694
Purchases of Derivative Financial Instruments	6	(75,000)	(91,500)
Proceeds from the Disposal of Derivative Financial Instruments	6	170,359	538,065
Net Cost of Share Issuance		(15,500)	(1,225,005)
NET CASH PROVIDED BY FINANCING ACTIVITIES	16	2,491,513	32,570,381
Effect of Exchange Rate Differences on Cash		(119,128)	170,259
(Decrease)/Increase in Cash and Cash Equivalents		(8,293,337)	44,641,744
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		48,407,064	3,765,320
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		40,113,727	48,407,064

See accompanying notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

① ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND ORGANIZATION

MorphoSys AG (the “Company” or “MorphoSys”) is a biotechnology company using combinatorial biology for drug discovery with the principal objective of developing and commercially exploiting new enabling technologies across a broad scientific spectrum. The Company was founded in July 1992 as a German limited liability company. In June 1998, MorphoSys became a German stock corporation. In March 1999, the Company went public on Germany’s Neuer Markt, the stock exchange designated for high-growth enterprises. On January 15, 2003, MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange.

CONSOLIDATED COMPANIES

The Company has four wholly owned subsidiaries (together referred to as the “MorphoSys Group”):

MorphoSys USA, Inc., was incorporated in the United States on February 16, 2000. The subsidiary’s purpose was to assist the Company in the sale and licensing of MorphoSys AG products. MorphoSys USA, Inc., substantially ceased its operations in November 2002.

MorphoSys IP GmbH was incorporated in Munich, Germany, on November 6, 2002. The subsidiary’s purpose is to purchase, maintain and administer certain intangible assets of the MorphoSys Group. The Company’s operations are physically located on the premises of MorphoSys AG, and operations commenced on December 31, 2002.

Serotec Ltd. with its subsidiaries Serotec, Inc., Serotec GmbH and Oxford Biotechnology Ltd. (together referred to as the “Serotec Group”) was acquired by MorphoSys in January 2006 and became a wholly owned subsidiary of MorphoSys AG. The Serotec Group has been integrated within MorphoSys’s existing AbD segment. The purchase price of approximately £ 20 million (approx. € 29.3 million) was paid in cash (£ 14 million or € 20.5 million) and the remainder in 208,560 new MorphoSys shares from a capital increase against contribution in kind.

Serotec Ltd. and Serotec, Inc., were renamed MorphoSys UK Ltd. and MorphoSys US, Inc., as of January 2007. Serotec GmbH was renamed MorphoSys AbD GmbH as of March 2007.

In January 2005, MorphoSys acquired Biogenesis Ltd., Poole, UK, and Biogenesis, Inc., New Hampshire, USA, for a total consideration of £ 5.25 million less net debt of approximately £ 0.7 million. Biogenesis UK was first renamed MorphoSys UK Ltd. and in 2007 again renamed Poole Real Estate Ltd. Biogenesis, Inc., was renamed MorphoSys US, Inc., and merged into Serotec, Inc. The merged entity resumed the name MorphoSys US, Inc.

In 2008, the Company applied § 264 paragraph 3 of the German Commercial Code (HGB). For this reason, no separate financial statements for 2007 were published in the Bundesanzeiger for MorphoSys IP GmbH.

GENERAL INFORMATION

The consolidated financial statements for the year ended December 31, 2008, were authorized for issuance in accordance with a resolution of the Management Board on February 9, 2009. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Mr. Dave Lemus (Executive Vice President and Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer) and Dr. Arndt Schottelius (Chief Development Officer).

The Supervisory Board is represented by Dr. Gerald Möller (Chairman, Chairman of the Remuneration & Nomination Committee), Prof. Dr. Jürgen Drews (Deputy Chairman, Remuneration & Nomination Committee), Dr. Daniel Camus (Audit Committee), Dr. Metin Colpan (Remuneration & Nomination Committee), Dr. Walter Blättler and Dr. Geoffrey N. Vernon (Chairman of the Audit Committee). The Supervisory Board is empowered to amend the financial statements after the resolution of the Management Board.

The registered offices of the MorphoSys AG headquarters are located at Lena-Christ-Str. 48 in 82152 Martinsried/Planegg, Germany.

SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF ADOPTION

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards (IFRS) requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.



IFRS 2 "SHARE-BASED PAYMENT"

IFRS 2 "Share-based Payment" requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions") or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Group refers to the expense associated with employees' as well as management boards' and supervisory boards' share options and other share-based incentives by using an option pricing model. In accordance with IFRS 2.54, the Group has applied IFRS 2 to equity-settled awards granted on or after January 1, 1999. In accordance with IFRS 2.56, options granted prior to January 1, 1999, are therefore not expensed. All information is nonetheless disclosed in line with IFRS 2.44 and 2.45. Further details are given in the Notes to the Consolidated Financial Statements – sections 18 and 19.

IFRS 3 "BUSINESS COMBINATIONS", IAS 36

"IMPAIRMENT OF ASSETS" AND IAS 38 "INTANGIBLE ASSETS"

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. IFRS 3 requires that all business combinations are accounted for using the purchase method, whereby identifiable assets acquired 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.

The useful economic life of an intangible asset is generally assessed at the level of individual assets as having either a finite or an indefinite life. The Company has not identified any asset with an indefinite life. Intangible assets with finite lives are amortized over their useful lives. Amortization periods and methods for intangible assets with finite useful economic lives are reviewed annually or earlier where an indicator of impairment exists.

Receivables, liabilities, provisions, income and expenses, and profits between consolidated companies are eliminated on consolidation.

NEW STANDARDS EFFECTIVE IN 2008

- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group has been applying IFRIC 14 from January 1, 2008, but the standard is currently not applicable to the Group as there are no defined benefit assets and funding requirements.
- The interpretations IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", IFRIC 12 "Service Concession Arrangements" and IFRIC 13 "Customer Loyalty Programmes" are not relevant to the Group's operations.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2009, or later periods, but have not been early adopted by the Group:

- IAS 23 (Amendment) "Borrowing Costs" (effective from January 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from January 1, 2009, but the standard is currently not applicable to the Group as there are no qualifying assets.
- IFRS 8 "Operating Segments" (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 "Disclosures about Segments of an Enterprise and Related Information". The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from January 1, 2009.
- Other standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group include IAS 1 (Revised) Presentation of Financial Statements, IFRS 2 (Amendment) Share-based Payment, IAS 32 (Amendment) Financial Instruments: Presentation, IFRS 1 (Amendment) First-time adoption of IFRS, IAS 27 (Revised) Consolidated and Separate Financial Statements, IFRS 3 (Revised) Business Combinations, IFRS 5 (Amendment) Non-current Assets Held-for-sale and Discontinued Operations, IAS 23 (Amendment) Borrowing Costs, IAS 28 (Amendment) Investments in Associates, IAS 36 (Amendment) Impairment of Assets, IAS 38 (Amendment) Intangible Assets, IAS 19 (Amendment) Employee Benefits, IAS 39 (Amendment) Financial Instruments: Recognition and Measurement, IAS 1 (Amendment) Presentation of Financial Statements and IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

B) STATEMENT OF COMPLIANCE

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

The consolidated financial statements of the Company for the year ended December 31, 2008, comprise the Company and its subsidiaries (together referred to as the "MorphoSys Group").

C) BASIS OF PRESENTATION

The consolidated financial statements are presented in euro, which is the functional currency for the MorphoSys Group. They are prepared on the historical cost basis, except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments, available-for-sale financial assets and certain licenses (Cambridge Antibody Technology Ltd. [CAT] and XOMA Ireland Ltd.). All figures in this report are rounded either to the nearest euro, thousand euros or million euros.

IAS 27 "Consolidated and Separate Financial Statements" shall be applied for annual periods beginning on or after January 1, 2005. The Company decided to adopt IAS 27 for all financial statements beginning January 1, 2003. The accounting policies have been applied consistently by Group entities in accordance with IAS 27.28.

D) BASIS OF CONSOLIDATION

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements in accordance with IAS 27.24. Unrealized losses are eliminated in the same way as unrealized gains but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Please see the Notes to the Consolidated Financial Statements - section 1A, IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" for further details.

E) FOREIGN CURRENCY TRANSLATION

IAS 21 "The Effects of Changes in Foreign Exchange Rates" defines the accounting for transactions and balances in foreign currencies. Transactions in foreign currencies are translated at the foreign exchange rate as of the date of the transaction. Foreign exchange rate differences arising on these translations are recognized in the statement of operations. On the balance sheet date, assets and liabilities are translated at the closing rate, and income and expenses are translated at the average exchange rate for the period. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Any foreign exchange rate differences deriving from these translations are recorded in the statement of operations. Any further foreign exchange rate differences on a Group level are recognized in the translation reserve (equity).

F) INTEREST

MorphoSys uses interest rates to calculate fair values. For stock-based compensation calculation, MorphoSys uses for convertible bonds the interest rate of a German government bond with a duration of two years at grant date and for stock options the interest rate of a German government bond with a duration of three years at grant date.

G) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks. In accordance with IAS 39.9, all derivative financial instruments are held for trading and recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value, which is their quoted market price as of the balance sheet date. Since the derivatives were not designated for hedge accounting, any resulting gain or loss is recognized in the statement of operations. According to the Group's foreign currency hedging policy, future cash flows with a high probability and receivables which are definite and collectable within a twelve-month period will be hedged.

H) CASH AND CASH EQUIVALENTS

The Company considers all cash at bank, in hand and short-term deposits with an original maturity of three months or less to be cash or cash equivalents. The Company invests its cash in deposits with three major German financial institutions, namely Dresdner Bank, HypoVereinsbank and Deutsche Bank.

I) NON-DERIVATIVE FINANCIAL INSTRUMENTS

All non-derivative financial instruments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment for instruments not at fair value through profit or loss.

The Company accounts for its investments in debt and equity securities in accordance with IAS 39. The management determines the proper classifications of financial assets at the time of purchase and re-evaluates such designations as of each balance sheet date. As of December 31, 2008, and as of December 31, 2007, some financial assets held by the Group have been also classified as available for sale. These financial assets are recognized or derecognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in the revaluation reserve within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the statement of operations.

As of each balance sheet date, these financial assets are examined, whether objective evidence of an impairment exists (for example significant financial difficulties of the debtor, significant changes in the technological, economical or legal environment as well as the relevant market of the debtor). With regard to equity securities held by the Company, a significant or prolonged decline in fair value is considered as objective evidence for a potential impairment.

If in a subsequent period the fair value increases, the impairment loss is reversed with the amount of reversal included in revaluation reserve for equity securities and in the statement of operations for debt securities.

**J) ACCOUNTS RECEIVABLE**

Accounts receivable are stated at their cost less any allowance for doubtful accounts (see below) and impairment losses (see [accounting policy N*](#)).

The allowance for doubtful accounts is based on the management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there is deterioration in a major customer's creditworthiness or if actual defaults are higher than the historical experience, the management's estimates of the recoverability of amounts due to the Company could be adversely affected. Based on the management's assessment, allowances in the amount of €73,579 as of December 31, 2008, and €65,498 as of December 31, 2007, were recognized. The Company does not require collateral from customers for accounts receivable in the AbD segment. The amount of collaterals held as of December 31, 2008, was not material.

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

K) INVENTORY

Inventories are stated on a FIFO basis (first in, first out) at the lower of manufacturing/acquisition costs and net realizable value. Manufacturing costs of self-produced inventories comprise all costs which are directly attributable and an appropriate portion of overheads. Inventories can be classified into raw material/consumables, work in progress and finished goods.

L) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation (see also the Notes to the [Consolidated Financial Statements - section 8*](#)) and impairment losses (see [accounting policy N](#)). Replacements and improvements are capitalized while general repairs and maintenance are charged to expenses as incurred. Assets are depreciated over their expected useful lives using the straight-line method. Leasehold improvements are depreciated over the estimated useful lives of the assets using the straight-line method.

M) INTANGIBLE ASSETS**MA) RESEARCH AND DEVELOPMENT**

Research costs are expensed as incurred. Development costs are expensed as incurred (IAS 38.5 and IAS 38.11-38.23).

MB) PATENT COSTS

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see [accounting policy N](#)). Capitalized costs principally relate to the costs of legal counsel. Patent costs are amortized on a straight-line basis over the lower of the estimated useful life of the patent (ten years) and the remaining patent term. Amortization commences when the patent is issued. The Company's patents covering its proprietary HuCAL technology were granted

in Australia in October 2000, in the United States of America in October 2001 and in Europe in June 2002. Further patent applications are pending in Canada, Japan and other jurisdictions.

MC) LICENSE RIGHTS

The Company acquired license rights by making up-front license payments, paying annual maintenance fees and making sublicense payments to third parties. The Company amortizes up-front license payments on a straight-line basis over the estimated useful life of the acquired license (ten years). The amortization period and the amortization method are reviewed at each balance sheet date (IAS 38.104). Annual maintenance fees are amortized over the term of each annual agreement. Sublicense payments are amortized on a straight-line basis over the life of the contract or the estimated useful life of the collaboration for those contracts without a stipulated term.

MD) SOFTWARE

Software is stated at cost less accumulated amortization (see below) and impairment losses (see [accounting policy N](#)). Amortization is charged to the statement of operations on a straight-line basis over the estimated useful life of three to five years. Software is amortized from the date it is available for use.

ME) KNOW-HOW AND CUSTOMER LISTS

MorphoSys established a purchase price allocation (PPA) required by IFRS 3 "Business Combinations". Intangible assets identified consist of customer lists, know-how as well as customer relationships and distributors.

MF) GOODWILL

The goodwill recognized is partly attributable to expected synergies to be achieved as well as to the skills of the acquired workforce.

MG) SUBSEQUENT EXPENDITURE

Subsequent expenditure on capitalized intangible assets is only capitalized when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

N) IMPAIRMENT

The management evaluates the carrying amount of the Group's financial and non-financial assets for potential impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If any indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the recoverable amount is less than the carrying amount of an asset. Impairment losses are recognized in the statement of operations.



SEE P. 78



SEE P. 84

The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss in respect of a financial asset is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. With respect to other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

O) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

P) TRADE AND OTHER PAYABLES

Trade and other payables are stated at their repayment amounts. Payables with repayment dates exceeding one year are discounted to their net present values.

Payables of uncertain timing or amount are shown as provisions.

Q) CONVERTIBLE BONDS

The Company issued convertible bonds to the Management Board and to employees of the Group under application of IAS 32 and IAS 39. In accordance with IAS 32.28, the equity portion of a bond has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bond. The remaining value is recognized as stock-based compensation. The Company applies the provisions of IFRS 2 "Share-based Payment" for all convertible bonds granted to the Management Board and the employees of the Group.

R) REVENUE RECOGNITION

The Company's revenues include technology access fees and fees derived from research and development collaboration agreements predominantly with companies based in Europe and the United States.

Revenues related to non-refundable technology access fees, subscription fees and license fees are deferred and recognized on a straight-line basis over the relevant periods of the agreement, generally the research term or the estimated useful life of the collaboration for those contracts without a stipulated term unless a more accurate means of recognizing revenue is available. Research and development collaboration service fees are recognized in the period when the services are provided. Milestone revenues are recognized upon achievement of certain criteria.

Investment grants from governmental agencies for the support of specific research and development projects for which cash has been received are recorded as revenues to the extent the related expenses have been incurred. Under the terms of the investment grants, the governmental agencies generally have the right to audit the use of the payments received by the Company.

In accordance with IAS 18.21, 18.25 and IAS 20.18, the total consideration in revenue arrangements with multiple deliverables will be allocated among the separately identifiable components based on their respective fair values under application of IAS 18.20, and the applicable revenue recognition criteria will be considered separately for each of the separate components.

Deferred revenues represent revenues received but not yet earned as per the terms of the contracts.

Grant revenues have been recognized in the amount of €20,153 in 2008 (2007: €0.2 million).

S) EXPENSES

SA) COST OF GOODS SOLD

Cost of goods sold comprises the cost of manufactured products and the acquisition cost of purchased goods which have been sold.

SB) STOCK-BASED COMPENSATION

The Company applies the provisions of IFRS 2 "Share-based Payment" which obligates the Company to record the estimated fair value for



stock options and other awards at the measurement date as a compensation expense over the period in which the employees render the services associated with the award. Stock-based compensation expenses for the full year 2008 amounted to € 1,039,035 (prior year: € 1,419,515) and were shown in COGS, S, G&A and R&D expenses for the period.

SC) OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in the statement of operations on a straight-line basis over the term of the lease. According to SIC-15, all incentives for the agreement of an operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset. The aggregate benefit of incentives are recognised as a reduction of rental expense over the lease term on a straight-line basis.

T) INTEREST INCOME

Interest income is recognized in the statement of operations as it occurs, taking into account the effective yield on the asset.

U) INTEREST EXPENSE

Borrowing costs are expensed when incurred.

V) INCOME TAXES

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable with respect to previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

W) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to management and employees.

② SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged in providing products or services and that 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 and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intersegment pricing is determined on an arm's length basis according to the Group transfer pricing policy.

The Group consists of the following two 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 international pharmaceutical and biotechnology companies as well as on its own account.

ANTIBODIES DIRECT – ABD

The ABD segment leverages MorphoSys's core technological capabilities in the design and manufacture of antibodies for research purposes. It commercializes the HuCAL technology, focusing on the custom generation of research antibodies for partners on an individual basis. The segment generates sales from custom antibodies as well as catalog antibodies and industrial bulk production.

GEOGRAPHICAL SEGMENTS

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

in 000's €	Therapeutic Antibodies		AbD		Unallocated		Elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
REVENUES, TOTAL	54,323	43,103	18,216	19,608	0	0	(894)	(749)	71,645	61,962
External Revenues	54,323	43,103	17,322	18,859	0	0	0	0	71,645	61,962
Intersegment Revenues	0	0	894	749	0	0	(894)	(749)	0	0
TOTAL OPERATING EXPENSES	28,748	27,863	17,852	20,195	9,516	7,635	(894)	(749)	55,222	54,944
Cost of Goods Sold	0	0	7,138	7,947	0	0	0	0	7,138	7,947
Other Operating Expenses	27,854	27,114	10,714	12,248	9,516	7,635	0	0	48,084	46,997
Intersegment Costs	894	749	0	0	0	0	(894)	(749)	0	0
SEGMENT RESULT	25,575	15,240	364	(587)	(9,516)	(7,635)	0	0	16,423	7,018
Interest Income	0	0	0	0	0	0	0	0	1,486	905
Interest Expense	0	0	0	0	0	0	0	0	6	11
Other Income/ (Expenses), Net	0	0	0	0	0	0	0	0	83	1,306
PROFIT BEFORE TAXES	0	0	0	0	0	0	0	0	17,986	9,218
(Expense)/Income Tax Benefit	0	0	0	0	0	0	0	0	(4,833)	2,257
NET PROFIT	0	0	0	0	0	0	0	0	13,153	11,475
Current Assets	1,930	7,255	8,790	8,431	139,395	107,180	0	0	150,115	122,866
Non-Current Assets	2,382	2,019	31,177	35,013	19,618	24,814	0	0	53,177	61,846
TOTAL SEGMENT ASSETS	4,312	9,274	39,967	43,445	159,013	131,994	0	0	203,292	184,713
Current Liabilities	14,106	15,253	2,771	3,362	10,526	10,780	0	0	27,403	29,395
Non-Current Liabilities	11,193	7,050	1,020	1,742	1,689	989	0	0	13,902	9,781
Stockholders' Equity	0	0	0	0	161,987	145,537	0	0	161,987	145,537
TOTAL SEGMENT LIABILITIES AND EQUITY	25,299	22,303	3,791	5,104	174,202	157,307	0	0	203,292	184,713
Capital Expenditure	3,491	11,250	324	724	70	41	0	0	3,885	12,015
Depreciation & Amortization	3,202	2,165	1,222	1,558	819	750	0	0	5,243	4,473



A segment result is defined as segment revenues less operating segment expenses. As a compensation for therapeutic revenues generated from contracts that had been originally initiated by the AbD segment, the Therapeutic Antibodies segment granted a compensatory fee of €0.9 million (prior year: €0.7 million) to the AbD segment for 2008 as a result of the revenue sharing agreement established between the two segments in 2007. Impairment losses of €0.4 million (prior year: €0) and €0.5 million (prior year: €0.2 million) have been recognized for the Therapeutic Antibodies segment and the AbD segment, respectively.

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

in 000's €	2008	2007
Europe and Asia	53,652	38,260
USA and Canada	16,390	22,099
Other	1,603	1,603
TOTAL	71,645	61,962

The following table shows the split of the Company's assets by geographical segment:

in 000's €	2008	2007
Germany	194,126	174,636
UK	7,414	8,414
USA	1,753	1,663
TOTAL	203,293	184,713

The following table shows the split of the Company's capital expenditure by geographical segment:

in 000's €	2008	2007
Germany	3,696	11,368
UK	147	612
USA	42	35
TOTAL	3,885	12,015

3 CASH AND CASH EQUIVALENTS

in 000's €	2008	2007
Bank Balances and Cash in Hand	40,114	46,382
Term Deposits	842	2,275
Restricted Cash	(842)	(250)
CASH AND CASH EQUIVALENTS	40,114	48,407

The €0.8 million (prior year: €0.3 million) restricted cash paid for the headquarter building in Munich and Oxford is a rent deposit.

④ FINANCIAL ASSETS

Financial assets classified as available-for-sale consist of the following as of December 31, 2008 and 2007:

in 000's €	Maturity	Cost	Gross Unrealized Holding		Realized Holding Gains	Market Value
			Gains	Losses		
DECEMBER 31, 2008						
DB Money Cash	Daily	92,073	5,786	0	0	97,859
Restricted Cash						(107)
TOTAL						97,752
DECEMBER 31, 2007						
DB Money Cash	Daily	56,388	3,219	0	0	59,607
Restricted Cash						(1,115)
TOTAL						58,492

The gross unrealized holding gains of €5,785,889 for the year ended December 31, 2008, and €3,218,916 for the year ended December 31, 2007, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2008, the Group recorded gains of €1,022,873 in the statement of operations on the sale of financial assets, which had previously been recognized in equity (2007: €1,333,651). The €0.1 million (prior year: €1.1 million) restricted cash is a rent deposit.

For further details on accounting for financial assets, see also the Notes to the Consolidated Financial Statements - section 11*.

⑤ ACCOUNTS RECEIVABLE

All accounts receivable are non-interest-bearing and are generally due on a 30- to 45-day term. On December 31, 2008 and 2007, accounts receivable included unbilled amounts of €971,686 and €1,031,250 respectively.

⑥ OTHER RECEIVABLES

According to the Company's hedging policy, expected future cash flows with a high probability and definite foreign currency receivables which are collectable within a twelve-month period are reviewed for hedging. These derivatives are shown as other receivables with their fair values. 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, 2008, no option or forward contracts are outstanding. At the beginning of the year, the Company entered into one option contract that was due in December 2008 with a realized loss of €75,000. As of December 31, 2007, one option contract was outstanding in the notional amount of €1,125,000 or US\$ 1,462,500 due February 2008 with a fair market value of €130,163. Additionally, two forward contracts were outstanding as of December 31, 2007, in the notional amount of US\$ 10,700,000 due February 2008. The fair market value of these contracts as of December 31, 2007, was €4,340. Changes in fair values and realized gains were recognized as other income and amounted to €39,144 of losses for the financial year 2008 (prior year: €0.5 million income).



SEE P. 76



7 PREPAID EXPENSES, TAX RECEIVABLES, OTHER CURRENT ASSETS AND INVENTORIES

Prepaid expenses, both the current and the non-current portion, mainly include prepaid sublicense fees of €0.2 million as of December 31, 2008, (2007: €0.4 million) and other prepayments in the amount of €1.7 million as of December 31, 2008 (2007: €0.9 million).

Tax receivables amounted to €1.1 million as of December 31, 2008, (2007: €1.0 million) and mainly comprised receivables in connection with withholding tax on capital gains.

Other current assets amount to €0.7 million (2007: €0.2 million) and mainly include receivables from value-added tax.

Inventories of €3.5 million (2007: €3.8 million) are mainly located in Oxford, UK; Raleigh, North Carolina, USA, and Martinsried, Germany. As of December 31, 2008, inventories comprised raw materials, consumables and supplies in the amount of €2.8 million (prior year: €3.4 million), work in progress in the amount of €0.1 million (prior year: €0.2 million) and finished goods of €0.6 million (prior year: €0.2 million). As of December 31, 2008, the inventory reserve amounted to €1.6 million (prior year: €1.7 million) and is included in Cost of Sales. Inventories carried at fair value less cost to sell amount to €0 (prior year: €0). In 2008, raw materials, consumables and changes in finished goods and work in progress recognized as Cost of Sales amounted to €5.4 million (prior year €5.7 million).

⑧ PROPERTY, PLANT AND EQUIPMENT

in 000's €	Land and Buildings	Office and Labora- tory Equipment	Furniture and Fixtures	Totals
Cost				
JANUARY 1, 2008	1,074	7,906	2,116	11,096
Additions	0	1,482	160	1,642
Disposals	0	(112)	0	(112)
Foreign Exchange Variance	(261)	(180)	(92)	(533)
DECEMBER 31, 2008	813	9,096	2,184	12,093
Accumulated Depreciation				
JANUARY 1, 2008	137	5,404	1,326	6,867
Depreciation Charge for the Year	57	1,200	249	1,506
Write-Offs for the Year	0	0	0	0
Disposals	0	(108)	0	(108)
Foreign Exchange Variance	(33)	(69)	(37)	(139)
DECEMBER 31, 2008	161	6,427	1,538	8,126
Carrying Amount				
JANUARY 1, 2008	937	2,502	790	4,229
DECEMBER 31, 2008	652	2,669	646	3,967
Cost				
JANUARY 1, 2007	3,023	7,399	2,219	12,641
Additions	78	867	129	1,074
Disposals	(1,786)	(308)	(185)	(2,279)
Foreign Exchange Variance	(241)	(52)	(47)	(340)
DECEMBER 31, 2007	1,074	7,906	2,116	11,096
Accumulated Depreciation				
JANUARY 1, 2007	100	4,506	1,141	5,747
Depreciation Charge for the Year	65	1,186	229	1,480
Write-Offs for the Year	0	0	0	0
Disposals	(21)	(272)	(33)	(326)
Foreign Exchange Variance	(7)	(16)	(11)	(34)
DECEMBER 31, 2007	137	5,404	1,326	6,867
Carrying Amount				
JANUARY 1, 2007	2,923	2,893	1,078	6,894
DECEMBER 31, 2007	937	2,502	790	4,229

Currency translation effects for property, plant and equipment held in foreign currency were minor as of December 31, 2008.



Statement of Operations · Balance Sheet · Statement of Changes in Stockholders' Equity ·
Statement of Cash Flows · Notes to the Financial Statements

As of December 31, 2007, land and building located in Brentwood, New Hampshire, USA, in the total amount of €0.3 million were classified as held for sale and included in the current assets section of the AbD segment. The property was sold in August 2008 to a third party and the transaction resulted in a minor loss.

As of December 31, 2008, land and building located in Poole, UK in the amount of €722,036 is classified as held for sale.

The depreciation charge is included in the following line items of the statement of operations:

in 000's €	2008	2007
Research and Development	917	898
Sales, General and Administrative (Depreciation)	496	491
Sales, General and Administrative (Write-off)	0	0
Cost of Goods Sold	103	109
TOTAL	1,516	1,498

As of December 31, 2008, minor foreign exchange effects were recognized for the assets acquired and were accounted as translation reserve in equity.

For more detailed information, see [Appendix 1*](#).



SEE P. 110

9 INTANGIBLE ASSETS

in 000's €	Patents	Licenses	Software	Know-How and Customer List	Goodwill	Total
Cost						
JANUARY 1, 2008	3,955	22,815	2,281	5,960	26,954	61,965
Additions	103	1,743	398	0	0	2,244
Disposals	(72)	(48)	(28)	0	0	(148)
Foreign Exchange Variance	0	(129)	(56)	(1,055)	(282)	(1,522)
DECEMBER 31, 2008	3,986	24,381	2,595	4,905	26,672	62,539
Accumulated Amortization						
JANUARY 1, 2008	2,361	6,384	1,649	2,273	0	12,667
Amortization Charge for the Year	498	2,339	305	492	0	3,634
Write-Offs for the Year	0	350	0	0	0	350
Disposals	(72)	(46)	(2)	0	0	(120)
Foreign Exchange Variance	0	(24)	(21)	(353)	0	(398)
DECEMBER 31, 2008	2,787	9,003	1,931	2,412	0	16,133
Carrying Amount						
JANUARY 1, 2008	1,594	16,431	632	3,687	26,954	49,298
DECEMBER 31, 2008	1,199	15,378	664	2,493	26,672	46,406
Cost						
JANUARY 1, 2007	3,845	12,741	1,669	6,478	27,003	51,736
Additions	110	10,202	628	0	0	10,940
Disposals	0	(85)	(6)	0	0	(91)
Foreign Exchange Variance	0	(43)	(10)	(518)	(49)	(620)
DECEMBER 31, 2007	3,955	22,815	2,281	5,960	26,954	61,965
Accumulated Amortization						
JANUARY 1, 2007	1,895	4,965	1,425	1,643	0	9,928
Amortization Charge for the Year	466	1,467	227	764	0	2,924
Write-Offs for the Year	0	0	0	0	0	0
Disposals	0	(42)	0	0	0	(42)
Foreign Exchange Variance	0	(6)	(3)	(134)	0	(143)
DECEMBER 31, 2007	2,361	6,384	1,649	2,273	0	12,667
Carrying Amount						
JANUARY 1, 2007	1,950	7,776	244	4,835	27,003	41,808
DECEMBER 31, 2007	1,594	16,431	632	3,687	26,954	49,298

Currency translation effects for intangibles held in foreign currency amounted to €0.1 million as of December 31, 2008 (2007: €0.1 million).



The amortization charge is included in the following line items of the statement of operations:

in 000's €	2008	2007
Research and Development	2,938	2,285
Research and Development (Write-off)	350	0
Sales, General and Administrative	629	563
Cost of Goods Sold	160	127
TOTAL	4,077	2,975

As of December 31, 2008, an impairment loss of €350,000 was recognized for licenses acquired in the Therapeutic Antibodies segment.

As of December 31, 2008, minor foreign exchange effects were recognized for the assets acquired and were accounted for as translation reserve in equity.

The Company has entered into the following license agreements covering certain patented technologies and disease-related target molecules which are capitalized (non-capitalized license agreements have not been disclosed in detail):

DYAX CORP., USA

In November 2007, the Company signed a licensing agreement with Dyax Corp. covering a broad patent portfolio relating to antibodies and other proteins. The agreement grants MorphoSys a fully paid-up license to a variety of phage 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.

As of December 31, 2008, the license had a remaining amortization period of approximately nine years.

SCA VENTURES, INC., USA

In December 1999, the Company concluded a nonexclusive product-derived license agreement with SCA Ventures, Inc., USA, in which the Company obtained a nonexclusive license from SCA Ventures in order to design, discover, develop, make, use, sell, offer for sale and import HuCAL-derived products under SCA Ventures' patent rights to single-chain antibodies. The Company may use SCA Ventures' licensed technologies for the research and discovery of novel therapeutic agents and targets and may sublicense the technologies to its commercial partners. The Company may terminate this agreement for any reason upon six months' prior written notice to SCA Ventures. The Company pays an up-front license fee in addition to annual maintenance and transfer fees.

As of December 31, 2008, the license had a remaining amortization period of one year.

BIOSITE DIAGNOSTICS, INC., USA

In January 2000, the Company signed a collaboration agreement with Biosite Diagnostics, Inc., under which the Company received a royalty-bearing, nonexclusive, worldwide license to patents owned by Biosite and the XOMA Corporation covering certain technologies relating to the display and screening of multi-chain antibodies. The Company may use the licensed technologies for research and discovery of novel therapeutic agents and targets, and may sublicense the technologies to its commercial partners.

Unless terminated earlier, the term of this agreement shall be the later of the expiration of the parties' respective obligations to pay royalties and the expiration of the last patent right licensed by one party to the other. The Company pays an up-front technology access fee in addition to annual maintenance and transfer fees.

As of December 31, 2008, the license had a remaining amortization period of one year.

GENENTECH, INC., USA

In May 2000, the Company concluded a license agreement with Genentech, Inc., granting the Company rights under Genentech's patents relating to the monovalent phage display-screening technology. The Company may use the licensed technologies for research and discovery of novel therapeutic agents and targets, and may sublicense the technology to its commercial partners. The Company pays an up-front technology access fee in addition to annual maintenance and transfer fees.

As of December 31, 2008, the license had a remaining amortization period of approximately one and a half years.

XOMA IRELAND LTD., IRELAND

In February 2002, the Company concluded a cross-license agreement for antibody-related technologies with XOMA Ireland Ltd. Pursuant to the agreement, MorphoSys paid €1.1 million to XOMA, with a second installment of €4.6 million due September 2002. At the Company's option, the second installment could be paid in cash or with new shares of the Company's common stock equivalent to €5.5 million. The Company recorded €2.5 million as a charge to research and development expenses in the year 2002. The remaining €3.2 million represents the value of the license received. It has been capitalized as an intangible asset and is amortized over its expected useful life of ten years.

In October 2002, the Company exercised the option to pay the second installment with 363,466 new shares of its common stock, which was determined with reference to the market price of the Company's common stock at the time of the notice. The Company recorded a charge to interest expense of €0.7 million at the time the shares were issued in May 2003 as a consequence of exercising this option.

As of December 31, 2008, the license had a remaining amortization period of four years.

CAMBRIDGE ANTIBODY TECHNOLOGY LTD. (CAT), UK

In December 2002 and effective July 2003, the Company entered into a license and settlement agreement with CAT. The settlement agreement covers MorphoSys's past, present and future use as well as the commercialization of all versions of its HuCAL libraries and all patents in the past disputes between the two companies. This includes the litigation in the United States regarding CAT's Griffiths, McCafferty, Winter II and Winter/Lerner/Huse patents as well as oppositions launched by MorphoSys at the European Patent Office against CAT's Winter II and McCafferty patents.

As of December 31, 2008, the license had a remaining amortization period of five years.

CRUCCELL N.V., THE NETHERLANDS

In August 2006, MorphoSys AG signed a second PER.C6® license agreement with Dutch biotechnology company Crucell N.V. and a biopharmaceutical manufacturing agreement with its technology partner DSM Biologics. The license agreements allow MorphoSys to use the PER.C6® cell line in the production of clinical-grade material for the development of its proprietary therapeutic antibody program MOR103. PER.C6®, a human-derived production cell line, combines the advantages of high productivity with - in contrast to other, animal-derived production cell lines - a human glycosylation pattern of the resulting antibody product and thus was considered to be very well suited for the production of HuCAL-derived human antibodies in high yields.

As of December 31, 2008, the license had a remaining amortization period of eight years.

In March 2008, MorphoSys signed an additional PER.C6® license and manufacturing agreement with Crucell and DSM Biologics expanding the rights to use the PER.C6® cell line in the production of clinical grade material for the development of the Company's proprietary therapeutic cancer antibody program MOR202.

As of December 31, 2008, the license had a remaining amortization period of nine years.

UNIVERSITY OF MELBOURNE, AUSTRALIA

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.

On November 25, 2008, the U.S. Patent & Trademark Office (USPTO) issued U.S. Patent No. 7,455,836, which is exclusively licensed to MorphoSys under the parties' license agreement and covers key anti-inflammatory uses of antibodies against GM-CSF. The patent stems from a provisional patent application filed in the USPTO in 2000 by the University of Melbourne. This new patent provides MorphoSys with broad protection for its proprietary antibody program MOR103 in the United States, which is by far the largest market for RA drugs.

Other license agreements, which currently are not being disclosed, were signed in connection with the expansion of MorphoSys's proprietary pipeline to provide access to novel disease-related target molecules.

⑩ OTHER ASSETS

The Company has classified certain items in other assets that are not available for use in its operations as restricted cash (see Notes to the Consolidated Financial Statements – section 3). As of December 31, 2008 and 2007, the Company had commitments of €0.9 million and €1.4 million for guarantees issued as well as €48,670 and €79,065 respectively for convertible bonds issued to employees.



11 INVESTMENT PROPERTY

As of December 31, 2007, investment property comprised the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK, (AbD segment) that have been leased out to third parties under operating leases. As the lease agreement was terminated in December 2008 and management intends to sell the property in the next twelve months to a third party, a reclassification to assets-held-for sale was necessary.

For the period ended December 31, 2008, an amount of €0.2 million was recognized as rental income in the statement of operations. Investment property is measured at depreciated cost and is depreciated straight-line at a 2% depreciation rate. In 2008 there were no costs directly attributable to investment property.

12 ASSETS CLASSIFIED AS HELD FOR SALE

As of December 31, 2008, assets classified as held for sale comprise the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK, (AbD segment) with a net book value of €722,036. Efforts to sell the property have commenced and a sale is expected within one year. An external, independent real estate company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, has valued the property in the fourth quarter 2008. Due to a price decline on the real estate market, an impairment loss of €0.5 million on the remeasurement of the property to the lower of its carrying amount and its fair value less costs to sell has been recognized in profit and loss in other operating expenses.

As of December 31, 2007, assets classified as held for sale in the amount of €0.3 million comprised property of the subsidiary MorphoSys US, Inc., in Brentwood, New Hampshire, USA (AbD Segment). The property was sold in 2008 and the transaction resulted in a minor loss.

13 GOODWILL

As of October 31, 2008, goodwill was tested as required by IAS 36.134. On the basis of the cash-generating unit, the AbD segment, the value in use was determined to be reasonably higher than the carrying amount. In addition, a detailed sensitivity analysis was done. Based on the updated outlook to cash flows for the upcoming five years, the value in use was calculated as follows: beta factor of 1.1, income tax rate of 36%, WACC* of 8.92% and a conservative growth rate of 3% of perpetual annuity. The sensitivity analysis was performed with different assumptions.

No impairment loss was deemed necessary if the perpetual growth rate decreases from 3% to 0%, or if the WACC increases from 8.92% to 10%, 11% or 12%. The values assigned to the assumptions represent Management's estimates of future trends and are based on internal planning scenarios as well as external sources.

14 ACCOUNTS PAYABLE

Accounts payable are non-interest-bearing and are normally settled within 30 days.

Accounts payable are listed in the table below:

in 000's €	2008	2007
Accounts Payable	1,216	1,289
Accrued Expenses	9,802	11,621
Other Liabilities	598	531
TOTAL	11,616	13,441

Accounts payable include accruals, which mainly contain accrued expenses for payments to employees and management of €2.9 million (2007: €2.0 million). Also included in accrued expenses are amounts for outstanding invoices including consulting fees in the amount of €2.3 million (2007: €5.6 million), external lab funding of €1.3 million (2007: €0.6 million), €2.4 million for license compensation (2007: €2.5 million), €0.3 million for Supervisory Board members' compensation (2007: €0.3 million), €0.2 million for audit fees and costs related thereto (2007: €0.2 million) and €0.3 million for legal services (2007: €0.4 million).

At the Company's Annual Shareholders' Meeting in May 2008, the Supervisory Board was authorized to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (since October 1, 2008: KPMG AG Wirtschaftsprüfungsgesellschaft) as its auditor. In 2008 and 2007, the auditing company and its partner companies within the international KPMG network were remunerated by MorphoSys in the amount of €207,887 and €312,972, including audit fees of €193,199 (2007: €228,071), audit-related fees of €13,970 (2007: €45,936), fees for tax consultancy of €0 (2007: €5,000) and fees for other services of €718 (2007: €33,965). Accrued expenses for audit fees in the amount of €166,019 (2007: €141,211) are included in these figures. The change in total audit fees in 2008 compared to 2007 included a release of accrued audit fees in the amount of €30,000.



In 2008, the auditing company and its partner companies included in KPMG Europe LLP were remunerated by MorphoSys in the amount of €162,294 including audit fees of €151,518, audit-related fees of €10,059, fees for tax consultancy of €0 and fees for other services of €718.

The fees in 2007 for KPMG AG Wirtschaftsprüfungsgesellschaft amounted to €196,328, including audit fees of €144,572, audit-related fees of €45,936, fees for tax consultancy of €5,000 and fees for other services of €820.

15 PROVISIONS AND TAX LIABILITIES

As of December 31, 2008 and 2007, the Company recorded provisions and tax liabilities of €1.0 million and €0.5 million, respectively.

Provisions for taxes mainly comprise expenses for income tax. Provisions remain uncertain with respect to their amounts as of December 31, 2008, and are expected to be settled in 2009.

Provisions changed during the financial year 2008 as follows:

in 000's €	01/01/2008	Additions	Utilized	Released	12/31/2008
Taxes	476	777	371	0	882
Other Obligations	63	118	0	63	118
TOTAL	539	895	371	63	1,000

16 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

In addition to the risks highlighted in the Management Report, the Company has identified the following risks:

CREDIT AND LIQUIDITY RISK

Financial instruments that potentially subject the Company to concentrations of credit and liquidity risk consist primarily of cash, cash equivalents, marketable securities and accounts receivable. The Company's cash and cash equivalents are principally denominated in euros and US dollars. Marketable securities are placed in high-quality securities. Cash, cash equivalents and marketable securities are maintained principally with three high-quality financial institutions in Germany. The Company continually monitors its positions with and the credit quality of the financial institutions, which are counterparties to its financial instruments, and does not anticipate nonperformance.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. However, the Company's revenues and accounts receivable are subject to credit risk as a result of customer concentration. The Group's most significant customer accounts for €1.8 million of the trade receivables carrying amount at December 31, 2008 (2007: €3.8 million). This customer individually accounted for approximately 43% of the Group's 2008 accounts receivable balance. In addition, three customers individually accounted for 50%, 7% and 6% of the Company's total revenues in the year 2008. On December 31, 2007, one customer accounted for 40% of the prior year's accounts receivable balance and three customers individually accounted for 25%, 14% and 8% of the Company's revenues in 2007. Based on the management's assessment, allowances of €73,579 and €65,498 in relation to the AbD business segment were necessary as of December 31, 2008 and 2007. The carrying amount of financial assets represents the maximum credit exposure.



The maximum exposure for credit risk for trade receivables at the reporting date by geographic region was:

in €	2008	2007
Europe and Asia	2,862,293	6,504,707
USA and Canada	1,317,226	2,775,052
Other	31,739	182,073
TOTAL	4,211,258	9,461,832

The ageing of trade receivables at the reporting date was as follows:

in €; A/R are due in	2008 0 (30) days	2008 30 (60) days	2008 60 + days	2008 Total
Accounts Receivable	3,703,447	443,967	137,423	4,284,837
Allowance for impairment	0	0	(73,579)	(73,579)
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR IMPAIRMENT	3,703,447	443,967	63,844	4,211,258

in €; A/R are due in	2007 0 (30) days	2007 30 (60) days	2007 60 + days	2007 Total
Accounts Receivable	8,546,578	822,362	158,390	9,527,330
Allowance for impairment	0	0	(65,498)	(65,498)
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR IMPAIRMENT	8,546,578	822,362	92,892	9,461,832

The contractual maturities and the related contractual cash flows of financial liabilities are within one year. The convertible bonds due to related parties in the amount of €0.1 million have a term until December 31, 2009 (prior year: €0.1 million, until December 31, 2009). For derivative financial instruments and the related timing and amount of cash inflows and outflows, we refer to the Notes to the Consolidated Financial Statements – Section 6*.

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, and will affect the Group's income or the value of its holdings in financial instruments. The Group is exposed to currency and interest rate risk.

CURRENCY RISK

The Group accounts are administered in euros. While the expenses of MorphoSys are predominantly paid in euros, a significant part of the revenues depends on the current exchange rate of the US dollar and the euro. The Company examines the necessity of hedging foreign exchange transactions to minimize currency risk during the year and addresses this risk by using derivative financial instruments.



The Group's exposure to foreign currency risk was as follows based on carrying amounts:

as of December 31, 2008; in €	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	38,306,089	85,704	1,721,934	0	40,113,727
Available-for-sale Assets	97,752,016	0	0	0	97,752,016
Trade Receivables	1,995,096	1,738,197	418,663	59,302	4,211,258
Trade and License Payables	(1,149,401)	(160,695)	(345,065)	(11,567)	(1,666,728)
TOTAL	136,903,800	1,663,206	1,795,532	47,735	140,410,273

as of December 31, 2007; in €	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	46,650,873	1,009,294	746,897	0	48,407,064
Available-for-sale Assets	57,293,734	0	1,198,118	0	58,491,852
Trade Receivables	6,921,385	1,908,302	509,663	122,482	9,461,832
Trade and License Payables	(507,286)	(270,394)	(620,898)	(21,603)	(1,420,181)
TOTAL	110,358,706	2,647,202	1,833,780	100,879	114,940,567

A 10 percent increase of the euro against the USD as of December 31, 2008, would have decreased earnings by €0.2 million (assumed that interest rates remain constant) (prior year: decrease of €0.3 million). A 10 percent weakening of the euro against the USD would have increased earnings by €0.2 million (prior year: increase of €0.3 million). A 10 percent increase of the euro against the GBP as of December 31, 2008 would have decreased earnings by €0.2 million (assumed that interest rates remain constant) (prior year: decrease €0.1 million). A 10 percent weakening of the euro against the GBP would have increased earnings by €0.2 million (prior year: increase €0.2 million).

If the foreign exchange rates for the USD against the euro and the GBP against the euro would have remained constant at the average rate of 2007, total group revenues would have been higher in the amount of € 1.5 million (prior year: € 1.0 million).

INTEREST RATE RISK

The exposure of the Group to changes in interest rates relates mainly to investments in available-for-sale securities. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these investments. The risk of a decrease in fair value is limited due to fair value guarantees given by the issuing financial institutions in addition to the fact that all financial instruments in these respective money market funds have short maturity durations. The guarantees are renewed every six months. With regard to the liabilities shown in the balance sheet, the Group is currently not subject to significant interest rate risks.

FAIR VALUES

The carrying value of financial assets and liabilities such as cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market prices (see *Notes to the Consolidated Financial Statements – section 4*)*. The fair value of license payables is determined by the effective interest method. Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

17 STOCKHOLDERS' EQUITY

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There is no change in policies to previous financial years.

COMMON STOCK

On December 31, 2008, the common stock of the Company including treasury shares amounted to €22,478,787. This represented an increase of €318,528 compared to December 31, 2007 (€22,160,259). Each share of common stock is entitled to one vote. The increase arose as a result of the conversion and exercise of 318,528 convertible bonds and options issued to employees.



* SEE P. 82



On December 31, 2007, the common stock of the Company amounted to €22,160,259. An increase of €1,956,564, or 1,956,564 shares, was the result of a capital increase executed in May 2007. Through the conversion and exercise of 57,729 convertible bonds and options issued to employees, common stock increased by an additional €57,729 in 2007.

On December 31, 2008, treasury shares amounted to €9,774 (79,896 shares) compared to €9,811 (80,196 shares) on December 31, 2007.

AUTHORIZED CAPITAL

On May 14, 2008, the Annual Shareholders' Meeting authorized the Company to increase Authorized Capital I by 1,382,796 shares to create a maximum of 8,864,103 new shares of Authorized Capital I (December 31, 2007: 7,481,307 shares).

Also approved was an increase to Authorized Capital II of 2,216,025 shares to create a maximum of 2,216,025 new shares of Authorized Capital II (December 31, 2007: completely consumed).

CONDITIONAL CAPITAL

In 2008, a total of 15,495 shares were raised from Conditional Capital I through the exercise of options by employees, increasing the subscribed capital by €15,495. Furthermore, 133,350 shares were raised from Conditional Capital II through the exercise of options by employees and board members, increasing the subscribed capital by €133,350, and 75,783 shares were raised from Conditional Capital IV through the exercise of convertible bonds by employees and board members, increasing the subscribed capital by €75,783. Finally, 93,900 shares were raised from Conditional Capital V through the exercise of options by employees and board members, increasing the subscribed capital by €93,900.

In 2007, a total of 7,500, 900, 29,229 and 20,100 shares had been raised from Conditional Capital I, II, IV and V respectively with subscribed capital increasing by €7,500, €900, €29,229 and €20,100 from respective Conditionals.

On May 14, 2008, the Annual Shareholders' Meeting authorized the Company to create additional shares for Conditional Capital V up to a maximum of 1,439,415 and to create shares for a new Conditional Capital VI up to a maximum of 450,000 shares, respectively.

DIVIDENDS

Dividends may only be declared and paid from the accumulated retained earnings (after deduction of certain reserves) shown in the Company's annual German statutory accounts. Such amounts differ from the total of additional paid-in capital and accumulated deficit as shown in the accompanying consolidated financial statements as a result of the adjustments made to present the consolidated financial statements in accordance with IFRS. The Company's German statutory accounts showed taxable income in 2008; however, as of December 31, 2008 and 2007, they reflected no accumulated earnings available for distribution and the Company's ability to pay dividends will therefore depend upon its future earnings.

ADDITIONAL PAID-IN CAPITAL

On December 31, 2008, additional paid-in capital amounted to €158,523,363 (December 31, 2007: €155,376,343). The total increase of €3,147,020 is due to stock-based compensation in the amount of €1,039,035. A further increase of €2,107,985 arose from the exercise and conversion of options and convertible bonds in the year 2008.

In 2007, the additional paid-in capital had increased by €31.5 million resulting from stock-based compensation of €1,430,406 as well as €29,437,180 as a result of the capital increase in May 2007. A further increase of €630,756 came from the exercise and conversion of options and convertible bonds in the year 2007.

18 CONVERTIBLE BONDS

At the Company's Annual Shareholders' Meeting in July 2001, the Company had been authorized to issue up to 900,000 non-interest-bearing convertible bonds with a par/nominal value of €0.33 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 450,807 shares until April 30, 2010, each. On January 15, 2006, 115,254 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds was €14.71.

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 non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (i.e., €0.33 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 €0.33 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 cannot be exercised beyond December 31, 2008.

The exchange price for the convertible bonds issued in the year 2006 was €14.71, 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 2008, 75,783 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. Of these, 42,744 bonds were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 25*. As of December 31, 2008, all convertible bonds granted in 2006 expired. The nominal value of €0.33 each was paid back to all those concerned.

In the year 2007, an additional grant to Management Board members and employees was made under the 2002 Plan, with terms identical to the 2002 stock convertible bonds grants. On January 15, 2007, 158,454 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is €18.37, 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, 2008 and 2007, is represented as follows:

	Convertible Bonds	Weighted-Average Price (€)
OUTSTANDING ON JANUARY 1, 2007	114,543	14.71
Granted	158,454	18.37
Exercised	(29,229)	14.71
Forfeited	(6,573)	18.32
Expired	0	-
OUTSTANDING ON DECEMBER 31, 2007	237,195	17.05
OUTSTANDING ON JANUARY 1, 2008	237,195	17.05
Granted	0	-
Exercised	(75,783)	14.71
Forfeited	(12,552)	18.06
Expired	(8,400)	14.71
OUTSTANDING ON DECEMBER 31, 2008	140,460	18.37

Convertible bonds exercisable on December 31, 2008 and 2007, amounted to 140,460 and 85,224 shares, respectively. The weighted-average exercise prices of exercisable convertible bonds were €18.37 and €14.71 on December 31, 2008 and 2007, respectively.



SEE P. 103 ET SEQ.



The following table presents the weighted average price and information about the contractual life for significant convertible bond groups outstanding on December 31, 2008:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number of Exercisable	Weighted Average Exercise Price
€3.33 - €9.99	0	-	-	0	-
€10.00 - €18.37	140,460	1.00	€18.37	140,460	€18.37
	140,460	1.00	€18.37	140,460	€18.37

The following table presents the weighted-average price and information about the contractual life for significant convertible bond groups outstanding on December 31, 2007:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number of Exercisable	Weighted Average Exercise Price
€3.33 - €14.70	85,224	1.00	€14.70	85,224	€14.70
€14.71 - €18.37	151,971	2.00	€18.37	0	-
	237,195	1.64	€17.05	85,224	€14.70

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 and IAS 32.28. The equity portion of the bonds has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bonds. The remaining value is recognized as stock-based compensation. The compensation expense recorded in 2008 and 2007 in connection with convertible bonds was €0 and €699,261, respectively.

19 STOCK OPTIONS

1998 EMPLOYEE STOCK OPTION PROGRAM

Effective June 15, 1998, the Company introduced an incentive stock option plan ("1998 Plan") which provides for the grant of options to purchase shares of the Company's common stock to key employees and members of the Company's Management Board. The 1998 Plan authorized the grant of options to personnel for 288,225 shares of the Company's common stock in the form of 136,350 registered warrants, each equal to one share of common stock, and 151,875 shares deliverable upon exercise of non-warrant option rights. The Company reserved 166,050 common shares plus 205,950 shares of treasury stock for stock options. All option rights granted under this 1998 Plan have a ten-year term.

Each warrant entitles the holder to receive one share. Upon exercise of a warrant, the exercise price, which equals the fair value of the shares on the date of grant, is due and payable. Warrant holders can exercise up to the full amount of warrants six months after the date of grant. Warrant

holders also have the right to sell them. The warrants or shares obtained upon exercise vest annually on a graded basis over three years.

The non-warrant option rights are granted by the Company to the employee by way of an option agreement. For all grants commencing after June 1998, a two-year holding period is required after the date of grant, after which the holder of non-warrant option rights can exercise up to the amount of vested option rights.

For the years 2008 and 2007, 15,495 and 14,790 options from the 1998 Plan were exercised respectively. Unexercised stock options granted in 1998 expired in 2008.

1999 EMPLOYEE STOCK OPTION PROGRAM

Effective July 21, 1999, the Company amended the incentive stock option plan ("1999 Plan") authorizing the additional grant of options to employees for up to 900,750 shares, arising from Conditional Capital, and deliverable upon exercise of non-warrant option rights. On October 31, 1999, a grant of 294,300 shares was made to Company employees, the Management Board and the Supervisory Board. The option rights are nontransferable and 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 amount of vested option rights, on condition that the value of the underlying stock has appreciated 10% per annum, cumulatively, in the year of exercise. On October 14, 2004, the Management Board and the Supervisory Board decided to extend the exercise period of 164,700 options granted to employees and the Management Board until October 31, 2009.

In the year 2003, an additional grant to Management Board members was made under the 1999 Plan, with terms identical to the 1999 stock option grants. 108,000 options were granted on July 1, 2003, to Management Board members of MorphoSys AG. As of July 1, 2008, this option grant expired.

In the year 2008, an additional grant to employees was made under the 1999 Plan, with terms identical to the 1999 stock option grants. 29,070 options were granted on January 25, 2008, to employees of MorphoSys AG.

For the years 2008 and 2007, 133,350 and 900 options from the 1999 Plan were exercised respectively. Of these, 129,000 options were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 25.

2002 EMPLOYEE STOCK OPTION PROGRAM

Effective June 6, 2002, the Company amended the incentive stock option plan (“2002 Plan”) authorizing the additional grant of options to employees for up to 223,668 shares, arising from Conditional Capital, and deliverable upon exercise of non-warrant option rights. The terms are very similar to those of the “1999 Employee Stock Option Program”. On May 16, 2003; May 11, 2004; May 11, 2005; May 17, 2006; and May 14, 2008, the Annual General Meeting authorized the Company to grant additional 110,673, 176,448, 222,051, 345,246 and 521,454 shares respectively under the “2002 Employee Stock Option Program” with identical terms.

In the year 2003, grants to employees were made under the 2002 Plan, with terms identical to the 1999 and 2002 stock option grants. 7,500 options and 45,000 options were granted to employees of MorphoSys AG on January 15, 2003, and July 1, 2003, respectively. As of January 15, 2008, and July 1, 2008, these grants expired.

On January 15, 2004, 105,000 options were granted to employees with terms identical to the 1999, 2002 and 2003 stock option grants.

In the year 2005, an additional grant to Management Board members and employees were made under the 2002 Plan, with terms identical to the 2002 stock option grants. 292,074 options were granted on July 1, 2005, to Management Board members and employees of MorphoSys.

In the year 2006, grants to employees and a member of the Management Board were made under the 2002 Plan, with terms identical to the 1999 and 2002 stock option grants. 120,000 options and 22,500 options were granted to employees and the Management Board of MorphoSys AG on January 15, 2006, and July 1, 2006, respectively.

On July 1, 2007, 180,000 options were granted to employees under the 2002 Plan with terms identical to the prior years’ stock option grants.

In the year 2008, grants to employees and members of the Management Board were made under the 2002 Plan, with terms identical to the 1999 and 2002 stock option grants. 283,335 options and 92,664 options were granted to employees and Management Board of MorphoSys AG on January 25, 2008, and October 1, 2008, respectively.

For the years 2008 and 2007, 93,900 and 20,100 options from the 2002 Plan were exercised. Of these, 3,750 options were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 25.

A summary of the activity under the Company’s employee incentive stock option plans for the years ended December 31, 2008 and 2007, is represented as follows:

	Shares	Weighted-Average Price (€)
OUTSTANDING ON JANUARY 1, 2007	717,135	8.91
Granted	180,000	16.10
Exercised	(35,790)	7.51
Forfeited	(16,875)	14.71
Expired	(3,000)	19.84
OUTSTANDING ON DECEMBER 31, 2007	841,470	10.35
OUTSTANDING ON JANUARY 1, 2008	841,470	10.35
Granted	405,069	13.33
Exercised	(243,045)	5.46
Forfeited	(43,590)	14.63
Expired	(1,350)	5.83
OUTSTANDING ON DECEMBER 31, 2008	958,554	12.66

Stock options exercisable on December 31, 2008 and 2007, amounted to 292,950 and 392,595 shares respectively. The weighted average exercise prices of exercisable stock options were €9.93 and €6.77 on December 31, 2008 and 2007, respectively.



The following table presents the weighted average price and information about the contractual life for significant option groups outstanding on December 31, 2008:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number of Exercisable	Weighted-Average Exercise Price
€3.63 – €9.99	91,200	0.74	€6.58	91,200	€6.58
€10.00 – €16.10	867,354	3.20	€13.30	201,750	€11.44
	958,554	2.97	€12.66	292,950	€9.93

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on December 31, 2007:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number of Exercisable	Weighted-Average Exercise Price
€3.63 – €6.66	168,795	0.72	€3.94	142,545	€3.96
€6.67 – €9.99	148,050	1.83	€6.93	148,050	€6.93
€10.00 – €13.33	219,000	2.50	€10.45	102,000	€10.45
€13.34 – €16.10	305,625	3.94	€15.48	0	-
	841,470	2.55	€10.35	392,595	€6.77

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 “Share-based Payment”. Compensation expense recorded in 2008 and 2007 in connection with stock options was €1,039,036 and €720,254 respectively.

The fair value of the options issued in 2008 was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3.57%; dividend yield of 0%; 43% expected volatility based on historic data; and an expected option life of 3.0 years. For option grants in 2007, the following assumptions were made: risk-free interest rate of 4.45%; dividend yield of 0%; 42% expected volatility; and the same option life as in 2008. The weighted-average fair value of options granted during 2008 and 2007 is estimated to be €4.39 and €5.36, respectively.

Option valuation models require the input of highly subjective assumptions. Because changes in the subjective input assumptions can materially affect the fair value estimate, the management does not consider that the existing models necessarily provide a reliable single measure of the fair value of its employee stock options.

20 PERSONNEL EXPENSES

in 000's €	2008	2007
Wages and Salaries	17,779	15,727
Social Security Contributions	2,609	2,500
Stock-based Compensation Expense	1,039	1,420
Temporary Staff (External)	87	91
Other	1,023	490
TOTAL	22,537	20,228

The average number of employees during the year ended December 31, 2008, was 312 (2007: 291). Of the 334 employees as of December 31, 2008, 191 worked in research and development and 143 in sales, general and administration (December 31, 2007: 164 employees in R&D, and 131 employees in S, G&A). Expenses for defined contribution plans amounted to €0.1 million in 2008 (prior year: €0).

21 INCOME TAXES

The Company and its German subsidiaries MorphoSys IP GmbH and MorphoSys AbD GmbH are subject to corporate tax, solidarity surcharge and trade tax. As part of the corporation tax reform 2008 becoming effective as of January 1, 2008, the corporation tax rate was reduced from 25% to 15% with a constant solidarity surcharge of 5.5% and a moderate rise in the effective trade tax rate from 9.6% to 10.5%. With regard to affiliated companies in foreign countries, income tax rates of 30% and 39% apply to the UK and the USA, respectively.

The income tax for the current fiscal year comprises as follows:

in 000's €	2008	2007
Current Tax Expense (Thereof Income Tax Expense Accounted Directly in Equity According to IAS 32.35: (in 000's €) 0; 2007: 438	(2,029)	(1,809)
Deferred Tax Expense/Benefit	(2,803)	4,066
Total Income Tax	(4,832)	2,257
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(1,622)	(978)

Deferred taxes are recognized only to the extent that it is more likely than not that the related tax benefits will be realized. As of December 31, 2007, the Company recognized deferred tax assets in the net amount of €4.9 million due to business expectations for the financial years 2008 to 2012. In 2008, these deferred tax assets have been released in the amount of €2.6 million due to utilized tax losses and in the amount of €0.7 million resulting from the change in temporary differences between IFRS and tax balance sheet.

Last year's assessment with regard to the usability of deferred tax assets has not changed for 2008 but can change dependent on the income situation of future years and may result in higher or lower valuation allowances.

The following table reconciles the expected income tax expense to the actual income tax expense presented in the consolidated financial statements. To calculate the statutory income tax expense in fiscal year 2008, the combined income tax rate of 26.33% (2007: 36%) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge, and amounts to 15.83% plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300% for municipal trade tax, which amounts to 10.50%, taking into account that the trade tax is no longer deductible in the calculation of corporate tax.



in 000's €	2008	2007
PROFIT BEFORE INCOME TAXES	17,986	9,218
Expected Tax Rate	26.33%	36.00%
EXPECTED INCOME TAX	(4,736)	(3,318)
TAX EFFECTS RESULTING FROM		
Deferred Income Tax Arising from the Recognition of DTA* on Previously Unrecognized DTA with Regard to Future Reversal of Differences Between IFRS and Tax Balance Sheet	0	2,072
Non-recognition of DTA on Current Year Tax Losses	0	(167)
First-time Recognition of DTA on Tax Loss Carry-forwards	0	3,580
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA on Tax Loss Carry-forwards	319	236
Stock-based Compensation	(274)	(511)
Non-tax-deductible Items	(102)	(149)
Tax Exempts	57	0
Tax Rate Differences	9	295
Prior Year Taxes	101	131
Other Effects	(206)	88
ACTUAL INCOME TAX	(4,832)	2,257

* Deferred Tax Asset

As of December 31, 2008, the remaining tax loss carry-forwards amounted to €4.1 million for corporation tax and to €3.2 million for trade tax, respectively. Tax loss carry-forwards may be carried forward indefinitely and in unlimited amounts. From 2004 onwards, German tax law has restricted the offset of taxable income against existing tax loss carry-forwards to an amount of € 1.0 million plus 60% of taxable income above € 1.0 million. According to the German Corporation Tax Act (Körperschaftsteuergesetz, KStG), taxes may be carried forward indefinitely. The deduction of tax losses carried forward is excluded if the Company loses its tax identity. A company is deemed to have lost its tax identity if the two following criteria are met cumulatively: (i) more than 50% of the shares in the Company have been transferred, and (ii) the Company continues or relaunches its operations with predominantly new assets (Sec. 8, Para. 4 of the KStG, applicable until December 31, 2007). With effect on equity transfers, this provision is to be replaced in application of the Act on Corporate Tax Reform by section 8c, of the German Corporation Tax Act. Any transfer of between 25% and 50% of the subscribed capital triggers the partial, any transfer of more than 50% triggers the total elimination of tax losses carried forward. The continuation of operations with predominantly new assets is no longer relevant. The regulation on tax loss carry-forwards (both Sec. 8 Para. 4 of the KStG and Sec. 8 c of the KStG) is generally regarded as uncertain for companies taxable in Germany. The Company has not been subject to tax audits for the fiscal years 2004 to 2008.

Significant components of the deferred tax assets and liabilities are as follows:

in 000's €	DTA 2008	DTA 2007	DTL 2008	DTL 2007
Intangible Assets	1,397	2,110	1,838	2,276
Non-recognition of DTA on Intangible Assets	0	0	0	0
Property, Plant and Equipment	0	0	25	37
Land	0	0	0	160
Building	0	0	0	73
Inventory	58	77	0	5
Advanced Payments	0	0	0	0
Receivables and Other Assets	0	0	0	18
Treasury Stock	3	0	0	0
Prepaid Expenses and Deferred Charges	0	1	1	0
Short-term Securities Investments	0	0	1,523	848
Other Accrual/Provisions	0	25	5	66
Trade Accounts Payable	1	0	5	4
Bonds, thereof Convertible	0	0	0	0
Other Liabilities	0	0	0	0
Tax Losses	1,117	3,633	0	0
	2,576	5,846	3,397	3,487

Due to the fiscal unity of MorphoSys AG and MorphoSys IP GmbH, an amount of €0.9 million (prior year: €0.9 million) of deferred tax assets (DTA) and deferred tax liabilities (DTL) have been netted in the balance sheet. Deferred tax liabilities in the amount of €1.6 million (prior year: €0.8 million) have been recognized directly in equity. The amount relates to the revaluation of available-for-sale financial assets.

22 EARNINGS PER SHARE

Due to the share split as of December 23, 2008, the number of shares issued was split in the ratio 1:3. All periods in this financial report are presented according to IAS 33 under the assumption that the share split would have taken place as of January 1, 2007.

The calculation of basic profit per share is based on the net profit for the year of € 13,153,353 (2006: € 11,475,030) and the weighted-average number of shares of common stock outstanding for the respective years (2008: 22,216,677; 2007: 21,347,670).



The weighted-average number of shares of common stock was calculated as follows:

	2008	2007
SHARES ISSUED ON JANUARY 1	22,160,259	20,145,966
Effect of Treasury Shares Held	(80,196)	(87,486)
Effect of Shares Issued in January	7,188	21,828
Effect of Shares Issued in February	5,118	8,979
Effect of Shares Issued in March	51,375	1,200
Effect of Shares Issued in April	5,322	0
Effect of Shares Issued in May	3,768	1,255,551
Effect of Shares Issued in June	14,139	399
Effect of Shares Issued in July	2,577	0
Effect of Shares Issued in August	39,567	0
Effect of Shares Issued in September	3,063	0
Effect of Shares Issued in October	27	0
Effect of Shares Issued in November	2,121	0
Effect of Shares Issued in December	2,349	1,233
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	22,216,677	21,347,670

The diluted profit per share is calculated taking into account the Company's potential common shares from outstanding stock options and convertible bonds.

The table below illustrates the reconciliation from basic to diluted earnings per share (amounts in euros, except for per share data):

	2008	2007
Numerator		
Net Profit of the Year	13,153,353	11,475,030
Denominator		
Weighted-Average Shares Used for Basic EPS	22,216,677	21,347,670
Dilutive Shares Arising from Stock Options	110,240	285,633
Dilutive Shares Arising from Convertible Bonds	0	0
TOTAL DENOMINATOR	22,326,917	21,633,303
Earnings per Share (in €)		
Basic	0.59	0.54
Diluted	0.59	0.53

23 OPERATING LEASES

The Company leases facilities and equipment on long-term operating leases. Total rent expense amounted to €1,887,430 and €1,770,942 for the years ended December 31, 2008 and 2007, respectively. In January 2004, MorphoSys amended the existing lease agreement for its facilities. The new lease agreement will expire in September 2009. From September 2009 onwards, MorphoSys has the possibility to extend the lease agreement annually for one year. A yearly increase will be settled by the “Verbraucherindex for Germany”.

Future minimum payments under non-cancellable operating leases, insurances and other services are as follows:

in 000's €	2008	2007
Up to One Year	2,958	2,876
Between One and Five Years	4,058	3,577
More than Five Years	3,488	5,942
TOTAL	10,504	12,395

The Company's total expenses due to operating leases, insurances and other services in the years ended December 31, 2008 and 2007, totaled approximately €3,208,165 and €3,200,067 respectively.

24 CONTINGENCIES

The management is not aware of any matters that could give rise to any material liability to the Company that would have a material adverse effect on the Company's financial condition or results of operations.



25 RELATED PARTIES

The Group has related party transactions with its management and with members of the Supervisory Board. In addition to the cash remuneration, the Company has issued stock options and convertible bonds to the Management Board. 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 members of the Management Board and the Supervisory Board during the year 2008:

SHARES

	01/01/2008	Additions	Forfeitures	Exercises	12/31/2008
MANAGEMENT BOARD					
Dr. Simon E. Moroney	340,383	66,000	0	0	406,383
Dave Lemus	300	0	0	0	300
Dr. Arndt Schottelius*	0	0	0	0	0
Dr. Marlies Sproll	105	0	0	0	105
TOTAL	340,788	66,000	0	0	406,788
SUPERVISORY BOARD					
Dr. Gerald Möller	7,500	0	0	0	7,500
Prof. Dr. Jürgen Drews	7,290	0	0	0	7,290
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	16,809	0	0	0	16,809

* Appointed as CDO as per December 29, 2008

STOCK OPTIONS

	01/01/2008	Additions	Forfeitures	Sales	12/31/2008
MANAGEMENT BOARD					
Dr. Simon E. Moroney	249,000	110,445	0	66,000	293,445
Dave Lemus	144,000	66,267	0	63,000	147,267
Dr. Arndt Schottelius*	0	0	0	0	0
Dr. Marlies Sproll	78,750	66,267	0	3,750	141,267
TOTAL	471,750	242,979	0	132,750	581,979
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	0	0	0	0	0

* Appointed as CDO as per December 29, 2008

CONVERTIBLE BONDS

	01/01/2008	Additions	Forfeitures	Exercises	12/31/2008
MANAGEMENT BOARD					
Dr. Simon E. Moroney	33,744	0	0	17,097	16,647
Dave Lemus	28,119	0	0	14,247	13,872
Dr. Arndt Schottelius*	0	0	0	0	0
Dr. Marlies Sproll	22,500	0	0	11,400	11,100
TOTAL	84,363	0	0	42,744	41,619
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	0	0	0	0	0

* Appointed as CDO as per December 29, 2008



Compensation for both the Management Board and the Supervisory Board consisted of fixed and variable components as well as other compensatory benefits. 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. Total compensation for the Supervisory Board excluding reimbursements of travel expenses amounted to €292,500 in 2008 (2007: €298,500). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD

in €	Fixed Compensation		Variable Compensation		Other Compensatory Benefits		Total Compensation	
	2008	2007	2008	2007	2008	2007	2008	2007
Dr. Simon Moroney	343,125	320,250	240,188	198,360	105,246	83,882	688,559	602,492
Dave Lemus	241,313	225,225	168,919	140,049	129,167	113,309	539,399	478,583
Dr. Arndt Schottelius*	1,222	0	0	0	123,893	0	125,115	0
Dr. Marlies Sproll	231,660	211,860	158,895	124,146	75,689	56,356	466,244	392,362
TOTAL	817,320	757,335	568,002	462,555	433,995	253,547	1,819,317	1,473,437

*Appointed as CDO as per December 29, 2008

SUPERVISORY BOARD

in €	Fixed Compensation		Variable Compensation		Total Compensation	
	2008	2007	2008	2007	2008	2007
Dr. Gerald Möller	57,000	40,000	21,500	35,000	78,500	75,000
Prof. Dr. Jürgen Drews	42,000	30,000	9,500	19,000	51,500	49,000
Dr. Walter Blättler*	27,000	14,622	10,500	12,000	37,500	26,622
Dr. Daniel Camus	28,500	25,000	13,500	21,000	42,000	46,000
Dr. Metin Colpan	28,500	25,000	9,500	16,000	38,000	41,000
Prof. Dr. Andreas Plückthun**	0	8,878	0	4,500	0	13,378
Dr. Geoffrey N. Vernon	30,000	26,500	15,000	21,000	45,000	47,500
TOTAL	213,000	170,000	79,500	128,500	292,500	298,500

* Entered as per May 16, 2007

** Retired as per May 16, 2007

At the Annual Shareholders' Meeting on May 17, 2006, phantom stocks were granted to all members of the 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 members of the Supervisory Board 1,500 stock appreciation rights each.

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

26 CORPORATE GOVERNANCE

The Company issued its statement according to section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made accessible to stockholders accordingly on December 10, 2008.

27 RESEARCH AND DEVELOPMENT AGREEMENTS

The Company has a significant number of research and development agreements relating to its discovery and development strategy. The following is a brief description of these agreements, which have had, or may have, a significant financial impact in future years (in alphabetical order). For partnerships signed or amended significantly during the 2008 fiscal year, please also refer to the section **Commercial Development*** of the Management Report.

ASTELLAS PHARMA INC.

MorphoSys and Astellas Pharma Inc., 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, Astellas had 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 annual user fees during the life span of the agreement. In February 2008, Astellas decided to extend the current collaboration between the two companies for four more years until March 2012.

During the term of the agreement, Astellas will have continued access to the MorphoSys HuCAL GOLD library at its research site in Tsukuba, Japan. Additionally, Astellas has the option to start antibody projects during the life time of the agreement. Under the optional collaboration component of the alliance, MorphoSys will utilize its HuCAL GOLD antibody library to generate novel HuCAL antibodies against targets provided by Astellas. Subsequently, Astellas will be responsible for preclinical and clinical development of these compounds, as well as the ensuing marketing of resulting products. For projects initiated under the collaboration, MorphoSys stands to receive research funding, plus licensing and milestone payments, as well as royalties on end-product sales.

In July 2008, Astellas exercised a preexisting option to use MorphoSys's proprietary RapMAT technology for faster antibody optimization as part of the existing technology transfer agreements between the two companies. As a result, MorphoSys receives annual user fees for the RapMAT technology in addition to user fees for the HuCAL platform.

BAYER SCHERING PHARMA AG

The active collaboration with Bayer Schering Pharma AG was concluded by the end of 2007. Several therapeutic antibody programs are currently in development and could result in future development-dependent milestone payments and royalties on product sales.

BOEHRINGER INGELHEIM PHARMA GMBH & CO. KG

MorphoSys and Boehringer Ingelheim signed a collaboration in the field of therapeutic antibodies in February 2003. In the context of the agreement, MorphoSys received the exclusive, global license for certain patents owned by or under the control of Boehringer Ingelheim. In exchange, Boehringer Ingelheim received exclusive licenses for therapeutic antibodies against two undisclosed target molecules.

In February 2005, both companies agreed to expand the existing cooperation involving both research and therapeutic applications. Under the new contract, Boehringer Ingelheim acquired an option to receive several exclusive licenses on new therapeutic antibody programs. Additionally, Boehringer Ingelheim obtained access to MorphoSys's HuCAL GOLD library for research purposes at a number of its research facilities, e.g. Boehringer Ingelheim's site in Vienna, Austria. Under the terms of the agreement, MorphoSys receives a technology access fee, annual license fees and optional R&D funding over the five-year collaboration term. For therapeutic antibodies emerging from the collaboration, Boehringer Ingelheim will pay milestone fees and royalties to MorphoSys.

In November 2006, MorphoSys and Boehringer Ingelheim expanded their collaboration with a new cancer-related antibody program. Boehringer Ingelheim exercised an option for optimizing a therapeutic HuCAL antibody and acquired an exclusive license for this project. The antibody identified by Boehringer Ingelheim at its research site in Vienna is directed against a cancer disease-related target molecule.

In June 2008, Boehringer Ingelheim exercised a preexisting option to use MorphoSys's proprietary RapMAT technology for faster antibody optimization as part of the existing technology transfer agreements between the two companies. As a result, MorphoSys receives annual user fees for the RapMAT technology in addition to user fees for the HuCAL platform.

CENTOCOR, INC.

The active collaboration with Centocor, Inc., a wholly owned subsidiary of US pharmaceutical company Johnson & Johnson, was concluded by the end of 2007. Presently, several therapeutic antibody programs are in different stages of development in several indications and could result in future development-dependent milestone payments and royalties on product sales. The most advanced compound within this collaboration is currently in a phase 2 clinical trial in an immunology indication and a phase 1 clinical trial in oncology patients.



SEE P. 32 ET SEQ.



DAIICHI SANKYO COMPANY, LIMITED

In March 2006, MorphoSys and Sankyo Company, Limited, a wholly owned subsidiary of Japanese pharmaceutical company Daiichi Sankyo Company, Limited, entered into a license agreement and therapeutic antibody collaboration for an initial two-year term with the option of an extension of up to three more years. Under the terms of the agreement, Daiichi Sankyo committed to start one therapeutic antibody program with MorphoSys and received an option for up to five further programs. In March 2008, the collaboration was extended until March 2011. The extension triggered an additional up-front payment and resulted in increased research funding for MorphoSys. During the term of the agreement, Daiichi Sankyo will have continued access to MorphoSys's HuCAL GOLD library at its research site in Tokyo. Additionally, MorphoSys will apply its proprietary HuCAL GOLD technology to generate antibodies against targets provided by Daiichi Sankyo.

ELI LILLY AND COMPANY

In September 2005, MorphoSys signed a cross-license agreement with Eli Lilly and Company on the use of certain recombinant protein technologies. Under the agreement, MorphoSys received a license under the Kauffman patent estate to generate and screen certain recombinant peptide and protein libraries and to commercialize any resulting products. The agreement also provided Lilly with access to the MorphoSys HuCAL GOLD technology for Lilly's internal research and development programs. For any therapeutic antibodies Lilly develops under the agreement, it will pay MorphoSys exclusive license fees, success fees, milestone payments and royalties on end products. The agreement was part of a settlement to resolve patent litigation initiated by Applied Molecular Evolution (AME), a wholly owned subsidiary of Lilly, involving several US patents of the Kauffman patent family.

F. HOFFMANN-LA ROCHE AG

MorphoSys and F. Hoffmann-La Roche AG based in Basel, Switzerland, announced the signing of an agreement in September 2000 under which the companies collaborate on the development of human therapeutic antibodies for a Roche biological target associated with Alzheimer's disease. The HuCAL-antibodies target abnormal buildups of amyloid beta-protein in cerebral tissue, which are typical of Alzheimer's patients, and are intended to help remove them.

Under the terms of the collaboration, MorphoSys selected several antibodies from its HuCAL library against the Alzheimer target amyloid beta-peptide, hitting the first two milestones in December 2000 and March 2001. In achieving these two milestones, MorphoSys delivered a series of HuCAL antibodies which were shown to bind selectively to the Roche target in human Alzheimer brain tissue sections. In July 2002, MorphoSys achieved another milestone. MorphoSys generated HuCAL antibodies demonstrating high-affinity binding to the Roche target in both *in vitro* assays and in an Alzheimer's animal model. In January 2006, Roche filed all necessary applications to commence a European phase 1 clinical trial for the HuCAL-derived antibody program R1450 to treat Alzheimer's disease. Recruitment for the phase 1 clinical trial with the HuCAL-derived antibody to treat Alzheimer's disease is completed.

In the context of the collaboration, MorphoSys is eligible to receive development-related milestone payments and royalties on any marketed products emerging from the collaboration.

Expanding on the relationship in Alzheimer's disease, MorphoSys and Roche announced a new collaboration to develop new therapeutic antibodies in oncology in March 2006. Roche will elect two new target molecules against which MorphoSys will generate antibodies using its HuCAL GOLD technology.

GALAPAGOS NV

In November 2008, MorphoSys and Galapagos NV announced the launch of a long-term codevelopment alliance aimed at discovering and developing antibody therapies based on novel modes of action in bone and joint disease, including rheumatoid arthritis, osteoporosis and osteoarthritis.

The alliance spans all activities from target discovery through to completion of proof of concept clinical trials of novel therapeutic antibodies. Following proof of concept in human clinical trials, programs will be partnered for subsequent development, approval and marketing. Both companies will contribute their core technologies and expertise to the alliance. Galapagos will provide antibody targets implicated in bone and joint disease in addition to its adenoviral target discovery platform to discover further targets for antibody development. MorphoSys will contribute its HuCAL antibody technologies to generate fully human antibodies directed against these targets. Under the terms of the agreement, Galapagos and MorphoSys will share the research and development costs, as well as all future revenues equally.

GENEFONTIER CORPORATION

Building on a 2004 marketing agreement, MorphoSys and Tokyo-based GeneFrontier Corp. announced the expansion of their existing alliance on two occasions during the course of 2007. Under the terms of the current agreements, GeneFrontier utilizes MorphoSys's HuCAL GOLD antibody library to generate novel HuCAL antibodies against targets provided by leading Japanese research institutes and universities. For this purpose, the HuCAL antibody technology was installed at GeneFrontier's research laboratories within a research facility in Tokyo. GeneFrontier provides MorphoSys with annual license fees for access to the HuCAL technology.

GENESIS RESEARCH AND DEVELOPMENT CORPORATION LTD

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

IMMUNOGEN, INC.

In September 2000, MorphoSys entered into a cooperation with US-based biopharmaceutical company ImmunoGen focused on the development of human antibodies for the treatment of cancer. The active collaboration with ImmunoGen was concluded in 2006. MorphoSys is eligible to receive development-related milestone payments and royalties on any marketed products emerging from the collaboration.

MERCK & CO., INC.

In December 2005, MorphoSys signed a five-year license agreement with US pharmaceutical company Merck & Co., Inc. for the use of MorphoSys's HuCAL GOLD and AutoCAL technologies in research and development of human therapeutic antibodies. Furthermore, the agreement enables Merck to develop up to ten HuCAL-derived therapeutic antibodies in a range of indications. MorphoSys receives an up-front payment, annual user fees and R&D funding. MorphoSys is also eligible to receive license and milestone payments on projects in clinical development, and royalties on any end products emerging from the collaboration.

NOVARTIS AG

MorphoSys and Novartis AG started working together in 2004 in a collaboration that has so far resulted in multiple active therapeutic antibody programs across various diseases and the first IND filing in September 2007 – just three years after initiation. In December 2007, MorphoSys and Novartis substantially enlarged their previous relationship and forged one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. Based on a ten-year term, committed annual payments total 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. Additionally, 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 codevelopment 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.

ONCOMED PHARMACEUTICALS, INC.

MorphoSys and US-based biopharmaceutical company OncoMed Pharmaceuticals, Inc. announced in June 2006 the signing of a license agreement on the use of MorphoSys's HuCAL technology in the research and development of human therapeutic antibodies for the treatment of various cancers, including breast, lung, colon and prostate by targeting cancer stem cells. In June 2008, the collaboration was extended until the June 2010. OncoMed Pharmaceuticals is discovering and developing mono-clonal antibodies and proteins capable of destroying "cancer stem cells", a recently discovered type of cell believed to seed the growth of cancers and underlie cancer's ability to spread and take root in tissues. OncoMed is at the forefront of applying research from the University of Michigan to isolate, purify, and analyze cancer stem cells. Under the terms of the agreement, MorphoSys grants OncoMed access to its proprietary antibody library HuCAL GOLD for use by OncoMed in its drug discovery programs. The contract includes an option for OncoMed to develop up to five HuCAL-derived therapeutic antibodies. MorphoSys received an up-front payment and receives annual user fees during the life span of the agreement.

**PFIZER, INC.**

In December 2003, MorphoSys entered into a collaboration with US pharmaceutical company Pfizer, Inc. for the development of therapeutic antibodies. In December 2006, the collaboration with Pfizer was expanded until the end of 2011. The extension triggered a one-time payment from Pfizer to MorphoSys. MorphoSys uses its HuCAL GOLD library to generate therapeutic antibodies against multiple targets from Pfizer. Pfizer is responsible for the preclinical and clinical development and the subsequent marketing of resultant products. The potential value to MorphoSys in committed funding and potential developmental milestone payments on future products is in excess of US\$ 100 million, not including royalties.

PROCHON BIOTECH LTD.

An agreement between MorphoSys and ProChon Biotech Ltd., an Israeli biotechnology company and spin-off of the Weizmann Institute, was signed in May 2000. Under the agreement, MorphoSys applied its innovative HuCAL antibody library to generate human antibodies against a human growth factor receptor associated with various skeletal disorders including achondroplasia, the most common form of human dwarfism, as well as certain cancers. MorphoSys is eligible to receive development-related milestone payments and royalties on any marketed products emerging from the collaboration.

SCHERING-PLOUGH CORPORATION

In May 2006, MorphoSys and Schering-Plough Corporation signed a license agreement for the use of MorphoSys's HuCAL GOLD technology in the research and development of human therapeutic antibodies. The collaboration has a maximum term of five years until 2011 and may be extended by Schering-Plough after each single year. Under the terms of the agreement, MorphoSys grants access to its proprietary antibody library to Schering-Plough for use in its drug discovery programs at its research site in Palo Alto, California. Furthermore, the contract provides Schering-Plough with the option to develop HuCAL-derived therapeutic antibodies against up to ten disease-related targets. According to the agreement, MorphoSys will receive an up-front payment, annual user fees and optional R&D funding. For therapeutic antibody projects undertaken by Schering-Plough, MorphoSys is eligible to receive license and milestone payments related to the successful advancement of projects in clinical development, and royalties on HuCAL antibodies developed under the agreement.

SHIONOGI & CO., LTD.

MorphoSys AG and Japanese pharmaceutical company Shionogi & Co., Ltd. signed a three-year license agreement on the use of MorphoSys's HuCAL technology in September 2005. In September 2008, the partnership was extended for three additional years. Under the terms of the agreement, MorphoSys grants Shionogi access to its HuCAL GOLD antibody library for use in Shionogi's pharmaceutical drug discovery programs. During the three-year term of the agreement, Shionogi will have access to the MorphoSys HuCAL GOLD library for research purposes at one of its research sites. In return, MorphoSys received an up-front payment and receives annual user fees during the life span of the agreement.

APPENDIX I: DETAILED ROLL-FORWARD FIXED ASSETS (IFRS) – MORPHOSYS GROUP

in €	Acquisition and Production Cost				
	01/01/2008	Additions	Disposals	f/x Variance	12/31/2008
I. PROPERTY AND EQUIPMENT					
Land and Buildings	1,073,843	0	0	(260,558)	813,285
Office and Laboratory Equipment	7,906,282	1,481,506	111,997	(179,573)	9,096,218
Furniture and Fixtures	2,116,223	159,968	288	(92,233)	2,183,670
	11,096,348	1,641,474	112,285	(532,364)	12,093,173
II. INTANGIBLE ASSETS					
Patents	3,955,302	102,613	71,841	0	3,986,074
Software	2,280,641	397,841	27,942	(55,651)	2,594,889
Know-how and Customer List	5,959,793	0	0	(1,055,208)	4,904,585
License Rights	22,815,141	1,743,531	48,167	(129,242)	24,381,263
Goodwill	26,953,864	0	0	(281,467)	26,672,397
	61,964,741	2,243,985	147,950	(1,521,568)	62,539,208

APPENDIX 2: CHART OF THE CONSOLIDATED ENTITY AS OF DECEMBER 31, 2008

Name and Corporate Seat of the Company	Currency	Exchange Rate on Dec. 31, 2008: One Unit of Euro in Foreign Currency
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)		
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US\$	1.40272
MorphoSys IP GmbH, Munich, Germany	€	-
MorphoSys UK Ltd., Oxford, UK	£	0.96256
MorphoSys US, Inc., Raleigh, North Carolina, USA	US\$	1.40272
MorphoSys AbD GmbH, Düsseldorf, Germany	€	-
Poole Real Estate Ltd., Poole, UK	£	0.96256



Statement of Operations · Balance Sheet · Statement of Changes in Stockholders' Equity ·
Statement of Cash Flows · Notes to the Financial Statements

Accumulated Depreciation						Net Book Values	
01/01/2008	Additions	Write-Off	Disposals	f/x Variance	12/31/2008	12/31/2008	12/31/2007
136,581	56,577	0	0	(33,140)	160,018	653,267	937,262
5,404,341	1,200,050	0	107,654	(69,162)	6,427,575	2,668,642	2,501,941
1,326,383	249,004	0	201	(37,011)	1,538,175	645,495	789,840
6,867,305	1,505,631	0	107,855	(139,313)	8,125,768	3,967,404	4,229,043
2,360,553	498,093	0	71,839	0	2,786,807	1,199,267	1,594,749
1,648,188	304,765	0	1,570	(20,457)	1,930,925	663,964	632,453
2,273,280	491,446	0	0	(352,679)	2,412,048	2,492,537	3,686,512
6,384,260	2,339,291	(350,000)	46,247	(24,036)	9,003,267	15,377,996	16,430,881
0	0	0	0	0	0	26,672,397	26,953,864
12,666,281	3,633,595	(350,000)	119,656	(397,172)	16,133,047	46,406,161	49,298,461

Share of Capital %	Share Capital in Foreign Currency	Total Assets in Foreign Currency	Total Liabilities in Foreign Currency	Total Revenue in Foreign Currency	Profit/Loss in Foreign Currency
100	2,000	18,091	11,434	0	1,869
100	25,000	5,996,312	6,732,832	3,814,278	434,901
100	100	7,379,276	3,813,487	8,950,124	845,482
100	50,000	2,924,430	1,630,975	8,772,853	1,160,256
100	25,000	1,267,522	275,794	3,225,157	100,457
100	200	1,133,166	86,443	0	17,310