

## YE2008 – Press Conference and Analyst Meeting

The spoken word shall prevail.

### **Speaker: Dr. Claudia Gutjahr-Löser, Head of Corporate Communications & IR**

It is my pleasure to welcome all of you to our annual conference. My name is Claudia Gutjahr-Löser and I am Head of Corporate Communications and Investor Relations at MorphoSys. I would like to thank you for your interest and participation at our conference today. With me are Dr. Simon Moroney, our CEO, and Dave Lemus, our CFO. It is a special honor for me to introduce Dr. Arndt Schottelius today, our new Chief Development Officer. As you may know from our press release, Arndt has joined us at the end of 2008 and took over the responsibility for the preclinical and clinical development of our proprietary development activities. Arndt will later give an outlook on our plans and will be around after the presentation if you want to talk to him personally.

### **Slide 2: Agenda**

Today, we will present the Company's annual results for 2008. We have planned approximately one hour for the presentation. Simon will start with a review of 2008 and Dave will give you an overview about the financial results of 2008, and present the guidance for 2009. That followed, Arndt will give you an update on our proprietary development plans. Before we start with the questions and answers session, Simon will speak about the outlook for 2009 and beyond.

At the end of our presentation, we will take questions that this conference audience and those participants listening-in on the phone may have. For the participants of the conference call, you can view the slides on our corporate website.

### **Slide 3: Safe Harbour**

Before we start, we want to remind you that during this conference we will present and discuss certain forward-looking statements concerning the development of MorphoSys's core technologies, the progress of its current research programs and the initiation of additional programs. Should actual conditions differ from the Company's assumptions, actual results and actions may differ from those anticipated. You are therefore cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

### **Slide 4: Agenda**

I now would like to hand over to Simon Moroney, our CEO, who will start with his summary of the year 2008.

**Speaker: Dr. Simon Moroney, CEO of MorphoSys AG**

Thank you Claudia, and also from me, a warm welcome to our year-end results conference 2008.

**Slide 5: Success Factors**

MorphoSys is in excellent health and is ideally positioned for future growth. Before reviewing the year just ended, I would like to start by commenting on the factors and decisions that have brought us to this favorable position.

We have a great technology that is robust, and proven as a source of exciting drug candidates. We have exploited this technology to enter a number of lucrative partnerships with pharmaceutical companies as a means of maximizing the number of products based on our technology which will come to the market. This strategy has put us in a very strong financial position, with respect to both our balance sheet and our current and future cash flows. This strength now provides the basis for substantially increased investment in proprietary products and technology to drive further growth and value generation.

My review of 2008 will look at four areas – developments on the corporate front, our partnered discovery business, proprietary drug development and last but not least, our AbD research antibodies segment.

**Slide 6: Dr. Arndt Schottelius**

Following on from Claudia, I'd like to welcome a new face to you, namely Dr Arndt Schottelius, our newly appointed Chief Development Officer. Arndt joined us right at the end of the year from Genentech in South San Francisco. At Genentech, his focus was on the development of inflammatory and immunological antibody drugs. He directed a number of early development programs in immunology, tissue growth and repair, and, most recently, was involved in the late-stage development of the antibodies Rituximab and Ocrelizumab. Prior to joining Genentech, he was at Berlex Biosciences in California and Schering AG in Berlin. He has a strong pedigree in medicine and immunology and at MorphoSys has assumed responsibility for all preclinical and clinical development. We're delighted to have him on board. This is a particularly important appointment for us and strengthening the company's management was a significant corporate achievement for us in 2008. As you will hear more about later, we are absolutely committed to building the company's value through our proprietary pipeline, Arndt shares this vision and he will play a major role in making it reality.

**Slide 7: Financial Strength in the Downturn**

The second point I would like to highlight under the topic of corporate progress is our strong financial profile. This is particularly important in the current economic crisis. Many of you have commented on the excellent performance of our share price in 2008, when we out-performed not only our peer companies but also all of the relevant indexes. This should come as no surprise when the following factors are taken into account:

- First, with over € 130 million of cash, we are extremely secure at a time when many companies in our industry face critical questions over their very survival;

- Second, an operating cash-flow of € 29 million shows that the business is in very good shape, and is all but immune from the current downturn;
- Third, through contractually secured partnerships, we have well in excess of € 400 million of future revenue secured;
- Fourth, on top of this secure revenue, is a very substantial potential upside in the form of milestone and royalty payments.

As you will see later in the presentation, during 2008 a number of institutional investors, notably in the United States, recognized the distinct and almost unique positioning of MorphoSys, and took positions in the stock, significantly changing the overall profile of our shareholder base.

### **Slide 8: Value through Strong Partnerships**

At the heart of our success is the partnered discovery business, which is built on alliances with a number of the world's leading pharmaceutical companies. Our alliance with Novartis is progressing extremely well and has further increased its very positive financial impact on the company. The major expansion of our relationship with Novartis in December 2007 marked the end of our pursuit of this type of fee-for-service deal. Nevertheless, during 2008, five of our partners exercised pre-existing options to extend their relationships with us, indicated by the red dots on the chart. This is of course the best possible evidence that they are happy with the technology and the collaboration. It also shows that we are not dependent on just one partner to fill our pipeline. In concrete terms, these extensions have the potential to add at least 15 new drug programs to our pipeline. We continue to work closely with all of our partners, with the goal of maximizing the number of HuCAL-based compounds that will become medicines to treat patients.

### **Slide 9: Partnered Pipeline: 55 Programs Ongoing**

A good indicator of the strength of our business and the future value potential of MorphoSys is the status of our partnered pipeline. During 2008 this grew 10 %, to a total of 55 programs. Of particular importance was the increase in the number of preclinical programs, as many of these will lead to clinical candidates in the months and years ahead. This number increased from 23 to 29 in 2008. With regard to our risk profile, we continue to be well-positioned, since these 55 programs are ongoing with multiple companies in over 7 distinct indications. No two programs are the same.

### **Slide 10: Partnered HuCAL Antibodies in the Clinic**

Looking at the most advanced compounds, there are now three partnered programs in clinical trials. The first we'll cover here is the anti-amyloid- $\beta$  antibody for treating Alzheimer's disease that we made for Roche. This antibody now has an official name, which is Gantenerumab. The antibody is in Phase 1 clinical trials, and Roche designed the study in such a way that it could potentially deliver hints of efficacy in addition to safety and tolerability. The study is in mild-to-moderate Alzheimer's patients, and comprises single dose and ascending dose arms. We can now confirm that both arms of the trial have completed recruitment, and can also announce that the antibody shows *in vivo* behavior typical of a human antibody.

The second partnered therapeutic in the clinic is BHQ880, an anti-DKK1 antibody that inhibits the activity of osteoclasts, the cells that are responsible for bone resorption. In 2008, Novartis conducted a Phase 1 study, and have now moved on to a Phase 1/2 trial in multiple myeloma patients. While the initial goal is to see effects on osteolytic bone disease associated with myeloma, this program has potential in other bone-related disorders, including, for example, osteoporosis.

The third compound is being developed by Centocor against a target that is involved in both cancer and immunological indications. Centocor first conducted a Phase 1 study in cancer patients, on the back of which they started a Phase 2 trial in the immunological indication in November of last year. This thereby became the first HuCAL antibody to move into Phase 2 clinical trials and the first to be developed in two indications in parallel, creating the potential for higher milestone payments and royalty returns from one target.

We are of course eagerly awaiting the data that will come from each of these trials in patients, as they promise to provide the first direct evidence that HuCAL antibodies will be effective medicines. Please remember however that, while pressing our partners as much as we can, we have no control over communication surrounding these programs, and are dependent on them for public information on progress.

### **Slide 11: Proprietary Product Pipeline: Three Programs Ongoing**

I would like to turn now to our proprietary pipeline. Here also, significant advances were made during 2008. As this chart shows, we have increased our activity, adding new discovery projects to the existing pipeline of MOR103 and MOR202. Our focus remains on cancer and inflammation and the new programs with Novartis and Galapagos illustrate that co-development will be a part of our strategy.

### **Slide 12: MOR103 – Enriched IP and Scientific Package**

Arndt will talk in more detail about MOR103, our antibody against GM-CSF, its potential and our plans for its development, but I want to mention briefly the progress we made with this program in 2008. The Phase 1, healthy volunteer study started, as planned in the spring. Recruitment went smoothly and having seen no safety issues in the first 5 dosing cohorts, we took the opportunity to add two additional cohorts at higher doses, to increase our flexibility in designing subsequent clinical trials. We are currently analyzing the data from the Phase 1 study, which we will report in the second quarter of this year.

In November, we published some of the preclinical data we generated in this program. Very importantly, in December a US patent was granted on an application from the University of Melbourne covering inhibitors of GM-CSF for the treatment of inflammatory diseases. We have an exclusive license on this US patent, which, when added to the intellectual property we have on the antibody itself, gives us a strong proprietary position around the entire program.

### **Slide 13: Additional Proprietary Activities**

Regarding the other programs, MOR202, our antibody against CD38 for the treatment of multiple myeloma is now in preclinical development. In 2008, we entered a manufacturing agreement with Crucell and DSM for production of clinical material.

We see co-development as an attractive way of adding to our proprietary pipeline while accessing know-how and targets to which we would otherwise not have access. As a part of our strategic alliance with Novartis, we have a number of co-development options. The first of these was exercised in 2008 when we picked a target that had been identified by Novartis. This program is funded by Novartis and therefore cost-neutral for us until such time as a formal development candidate is selected. Thereafter, we can elect to continue as a true co-development partner, and if so, elect to carry a share of the costs on a stepped scale up to 50%, in return for the same share of profits on a marketed drug.

In November of last year, we entered a co-development alliance with Galapagos. We are interested in securing access to novel targets against which therapeutic antibodies could be directed, and were very impressed by Galapagos's target discovery as well as its know-how in the areas of bone and joint disease. We have together picked three targets that will be the basis for the first collaborative programs, and we expect this alliance to provide the input for a number of the programs in our pipeline over the years ahead.

### **Slide 14: HuCAL PLATINUM –Brighter than GOLD**

Turning to technology, at the end of last year we formally released our new PLATINUM version of the HuCAL library. PLATINUM is superior to its predecessor GOLD in several respects. First, it is a much larger collection, comprising 45 billion human antibodies in comparison to the 12 billion in GOLD. The library was designed using the most up-to-date database of human antibody gene sequences, which is much more complete than the version that we used more than 12 years ago to design GOLD. The increased size and quality of the library were expected to lead to more successful antibody generation, and first experiments with PLATINUM have borne this out. For example, we get on average a 25-fold higher diversity of binders from PLATINUM than we do with GOLD, affinity constants are an average of 4-fold higher, and production rates are an average of three-fold higher. We see diversity as a particularly important point. More and more evidence is emerging that therapeutic effects depend on precisely where an antibody binds to a target. Only by generating a range of antibodies that bind to distinct epitopes on a given target can we be sure that we have properly assessed the therapeutic potential of that target. In this regard, we see increased diversity as perhaps the most important feature of the PLATINUM library. Overall, we expect the new library to enable us to generate better quality drug candidates, faster than was possible with GOLD.

It is appropriate to reflect on the enormous success of our GOLD technology so far. In summary, HuCAL GOLD is the basis for more than 50 ongoing therapeutic antibody programs, and well over 1000 paid research projects. Most importantly, its contribution to our value is not over – we expect a significant number of GOLD-derived therapeutic antibodies will become marketed medicines, and if so, the resulting milestone and royalty revenues will dwarf the revenues that the technology has brought us to date.

### **Slide 15: Company Pipeline – Continued Progress**

I would like to conclude the review of our therapeutic segment with a look at how our total pipeline, comprising partnered and proprietary programs, has progressed. The total number of programs has grown at a compounded rate of 20 % per annum over the last four years. Importantly, the maturity has also increased significantly. Whereas in 2005, 33 % of the programs were in preclinical development or beyond, today that number is 60 %.

### **Slide 16: AbD Serotec – Highlights & Challenges**

I would like to turn now to the research products segment of our business. Here the picture in 2008 was a little more mixed than within the therapeutic segment, for a number of reasons. On the positive side, the unit made the all-important transition to profitability. This was achieved despite some very strong adverse currency effects, as well as a write-down on former Biogenesis property in Poole that was brought about by the economic crisis in the UK. Nevertheless, costs are well under control, and without the effects just referred to, the unit would have achieved a considerably better result. We reached a significant milestone when Phadia introduced to the market the first diagnostic kit comprising a HuCAL antibody. This we hope to be the first of many – we are currently working with more than 20 diagnostics companies, generating HuCAL antibodies for specific diagnostic applications.

In our core catalog business, we introduced 5000 new products into our catalog via an agreement with another supplier. We expect this expansion to benefit the business in the months and years ahead, but it was not sufficient to help us grow this sub-segment in 2008. In addition to the adverse currency effects I mentioned, an additional challenge was a weakening of the market for research antibodies. Looking at our largest market, the United States, the biggest source of research funding is the National Institutes of Health, and their budget has been flat for the last three years. This has impacted directly on research programs and therefore the spending on reagents such as antibodies.

### **Slide 17: Dieter Feger**

A recent and important development has been the appointment of Dieter Feger to head the unit. Dieter joins us from Abbott Diagnostics, where he headed global marketing for their biggest franchise, infectious diseases. Dieter has a very strong background in both sales and marketing, and his arrival at MorphoSys underscores our desire to sharpen the commercial focus, and also to increase our efforts on the diagnostics side of the business.

### **Slide 18: Agenda**

That concludes my review of 2008. Dave will now take you through the financial review.

**Speaker: Dave Lemus, CFO of MorphoSys AG**

Thank you, Simon. In opening, I'm again pleased to say this year, that 2008 was another very positive year for us. Despite the great challenges facing the global economy at the end of 2008, we were during the year, at least financially speaking, relatively unaffected by these events.

Let's start the financial review with some details about our revenues.

**Slide 19: Revenues Breakdown 2008**

As you can see from the slide above, the next chart shows the revenue split between our two operating segments.

Revenues of the MorphoSys Group for the full year 2008 increased by 16 % to € 71.6 million, which was slightly below the lower end of our guidance of € 73 million - € 76 million. The reasons for this in just one minute.

Revenues from the Therapeutic Antibodies segment increased by 26 % to € 53.4 million. This increase was mainly due to higher levels of funded research and licensing fees, as opposed to increasing milestones.

The AbD segment contributed about a quarter of total Group revenues, with total sales of € 18.2 million. Sales decreased by 7 % over the prior year, and as such remained behind our most recent guidance of approximately € 19 million for the full year. The main reason for the decline was related to currency exchange effects, or more specifically, the adverse effects of British Pound and US Dollar positions versus Euro. Also effecting sales was a challenging overall market environment in the research antibody space. Assuming the same average foreign exchange rates of 2007, revenues in the AbD segment would have amounted to € 19.7 million in 2008.

**Slide 20: Revenues Therapeutic Antibodies Segment**

Let's have a closer look at the top line of the two segments.

Funded Research grew by 7 % to € 16.7 million, a change of € 1.1 million over the previous year. Note that we define partnered projects revenues which are fully paid by our partners, as Funded Research.

License fees nearly doubled in comparison to 2007, amounting to € 26.8 million in 2008. The main driver here was the Novartis collaboration, signed in December 2007.

Compared to the previous year, success-based payments decreased by € 2.2 million to a total of € 9.9 million in 2008. Recall that success-based payments include milestones payments, and this year's main milestone payments include Phase 1 and 2 milestones from Centocor. Although in 2008, our success-based payments went down compared to the previous year's levels; we believe the long-term trend for success-based payments is upwards, not least based on the fact that we have a record number of preclinical projects in our partnered pipeline.

### **Slide 21: AbD Sales Mix**

Sales in the AbD segment showed a more mixed picture. Growth of the custom monoclonal subunit was 7 %. Although this conforms to, or slightly outperforms overall market growth, some of the marketing & distribution agreements we have signed in the last couple of years lagged somewhat behind our expectations. That being said, we see continued demand in our offering and interesting opportunities, especially in the diagnostics market. Last year you may recall that the first HuCAL antibody was marketed in a diagnostic kit.

In contrast to be the custom monoclonals segment, the catalog unit decreased by 4%. The adverse development of the US dollar and the British pound had a significant impact on sales was definitely a contributing factor here.

However, where we saw the strongest reduction, about 20%, is in our industrial business, or what we call our OEM business. Recall that in this subsegment, we deliver antibodies in bulk to single customers- for example - we provide an antibody for a diagnostics flu kit. Therefore, one supplier can have a large impact on sales overall in this business – either upwards, as in previous years, or downwards, as was the case in 2008.

### **Slide 22: Operating Expenses (Group)**

Let's move to operating expenses.

Total operating expenses increased by less than 1 % to € 55.2 million. The big picture here is: the increase in R&D expenses of approximately 24 % was almost fully offset by lower S; G&A expenses, and lower cost of goods sold.

In 2008, total COGS decreased by 10 %. The decline in COGS is mainly a result of two factors: first and foremost, we had lower sales and secondly, in 2008 inventories connected with the Serotec acquisition were now fully depreciated, therefore contributing less expense to COGs.

Sales, general and administrative expenses decreased by 17 % to € 20.5 million. The main reason for the decrease was lower costs for external services more specifically, consulting fees in connection with the Novartis deal in 2007. Marketing expenses, arising predominantly from the AbD segment, also decreased somewhat in comparison to the previous year.

Costs for research and development increased from EUR 22.2 million to € 27.6 million. This change resulted from higher personnel costs in the Therapeutic Antibodies segment, mainly associated with increases in proprietary drug development and partnered activities, as well as from increased costs for intangibles in connection with the patent portfolio in-licensed from Dyax in 2007. A little bit more detail as it relates to our proprietary programs, you can see in our next slide.

### **Slide 23: Expenditure on Proprietary Programs**

Investment in proprietary product and technology development increased by 26 % in 2008 over the prior year. As we guided to in the third quarter last year, this was due to our expanding the MOR103 phase 1 trial with two additional dosage groups. Arndt will talk to this point later in his part. This decision led to shift of activities, which were originally planned for 2008, into 2009. Correspondingly this had the effect of shifting those costs from 2008 into 2009. Going forward,

our expenses of course will continue focus very much on proprietary drug development, as we feel that much of the company's future value is in the form of this activity.

#### **Slide 24: Results by Segment**

Let's review the results of our current two segments. As stated in our press release this morning, the partnered business is doing very well and achieved a high operating margin in 2008 almost 47 %. As we said earlier, Therapeutic antibody revenues last year were mainly driven by higher levels of license fees and funded research. Operating expenses of the Therapeutic Antibodies segment remained nearly unchanged and amounted to € 27.8 million, including € 7.7 million of investments in proprietary R&D. The resulting operating segment result was a strong € 25.6 million.

Also on a positive note, the Research Antibodies segment turned the corner to profitability for its first full year, in 2008. Having said that, overall AbD Group sales declined by 7 %, again, mainly the result of adverse foreign exchange effects. Still, progress was made with our gross profit margins, which increased by 1 % to 61 %. Additionally, despite the fact that the segment result was negatively impacted by a one-time, non-cash impairment charge of € 0.5 million for the ex-Biogenesis building in the UK, it still achieved profitability of 2%. Stripping out the effects of that one time impairment charge, we would have reached our targeted operating profit margin of approximately 5 %, which we had given for guidance.

#### **Slide 25: Non-operating Items and Taxes (Group)**

Let's continue with non-operating items.

Underneath our profit from operations of € 16.4 million, non-operating income amounted to € 1.6 million and mainly decreased compared to last year, as a result of lower gains from foreign exchange derivatives, and lower realized gains from marketable securities.

That combined to result in a profit before taxes of € 18.0 million.

For 2008, EBIT and EBITDA, amounted to € 16.5 million, and € 21.9 million, respectively.

On profits, one has to pay taxes. MorphoSys reported tax expense in the amount of € 4.8 million for 2008. Of this amount, net deferred tax expenses amounted to € 2.8 million, and current tax expenses related to € 2.0 million of the total. As we are on that topic, please note the last of our deferred tax assets which had been built up in previous years, will be very possibly utilized in 2009, so expect that the current tax rates to go up in years after 2009.

In summary, MorphoSys achieved a record net profit of 13.2 million Euros for the full year 2008. The resulting diluted net income per share for the full year 2008 amounted to 59 Cent per share, compared to an EPS of 53 Cent per share last year. By the way, all these numbers reflect our 3-for-1 stock split, implemented at the end of 2008.

#### **Slide 26: Consolidated Balance Sheets (Group)**

Current assets increased by approximately € 27 million, mainly as a result of cash generated from operations of 29 million. That helped boost MorphoSys's cash position from approximately EUR 106 million to € 137 million at the end of 2008.

The only other significant changes in assets in 2008 related to the release of deferred tax assets amounting to € 3.2 million, and the re-classification of real estate property in Poole, England, from investment property in 2007, to assets classified as held for sale in 2008.

### **Slide 27: Secure Cash Investments**

As we have gotten quite a few questions about our cash investments since the financial crisis has started, I would like to use the opportunity to add a word to our cash position and our investment policy.

We hold the majority of our cash and available-for-sales financial assets with two, major, German financial institutions. Our investment approach has always been on the conservative side, with the majority of our investments in highly rated, short term money-market-like investments, as well as daily available money market funds. Moreover, one institution guarantees its investment with us to a certain level of capital.

Let's move to the next slide, liabilities.

### **Slide 28: Balance Sheet – Liabilities (Group)**

In 2008, current liabilities decreased to € 27.4 million. This change primarily arose from a decrease in accounts payable by € 1.8 million.

The increase of total non-current liabilities to € 13.9 million was mainly impacted by an increase in non-current deferred revenues in the amount of € 4.2 million.

### **Slide 29: Shareholding Structure**

Let's quickly recap how share capital changed during the year. During 2008, about 318K new shares resulted from the exercise of stock options and convertible bonds issued to employees and management. No capital increases beyond this were conducted in 2008.

On December 23, 2008, a 3-for-1 stock split was implemented. All numbers given in my speech, the press release and the financial report fully reflect this measure. As a result, at year-end 2008, the total number of shares issued was roughly 22.5 million shares.

Based on continued IR activities during 2008, we were pleased to be able to increase our international shareholder base. As you can see from the chart, strategic holders continue to comprise Novartis, with approx. 7%, AstraZeneca, with approx. 5%. Management and Supervisory Board ownership was approx. 2.5%. The remaining free float is 88%.

Geographically speaking, our largest shareholder base is in Germany, our home market, which comprises 15% of our institutional holdings, followed by the US with 11%, the UK with 8% and Switzerland with 6%. On that note, we see an increasing interest from institutional biotech investors, attracted by the growing visibility of our own, and partnered, product pipeline.

### **Slide 30: Employees**

As my final slide prior to giving an outlook on guidance, I would like to give a brief summary of headcount at MorphoSys. At the end of the year 2008, the MorphoSys Group employed 334

employees, compared to 295 employees at year-end 2007. Of the 334 employees, 201 worked in the Therapeutic Antibodies segment and 167 in the AbD segment. As you can see the big increase came from our beefing up of the therapeutics side of our business in Germany, in connection with the expansion of our proprietary product development activities here.

By the way, for those coming to visit us in Munich, we have during the course of the year rented additional temporary office and lab space, just around the corner in Martinsried. As our current building simply doesn't allow us to squeeze more employees in, we are presently occupying a second site in Martinsried to accommodate the new hires done in 2008, and anticipated in 2009.

That concludes my review for the year 2008. I'd like to continue with the financial outlook for 2009.

### **Slide 31: Guidance 2009**

As is usual for our YE press conference, we would now like to use the occasion to give our financial guidance for the fiscal year 2009.

As a more long term goal, we strive to grow our top line somewhere between 10-20% per year. As it relates to our bottom line, we strive to remain profitable, albeit, as is the case for this year, that does not necessarily translate into a year on year increase for profits every year.

More specifically for 2009, In terms of Group Guidance, we project total group revenues of approximately € 80 million to € 85 million. Total Group operating profit is expected to come in at somewhere between € 8 million to € 11 million. Achieving exactly that level, of course, is very dependent on the timely execution of all product development activities we have planned for the year. As was the case in 2008, product development activities which are delayed, even with good reason, may cause developmental spend to be less. That being said, based on our present plans, we expect total expenditures to come in at approximately EUR 18 – 20 million.

For the partnered therapeutics activities, we anticipate approximately € 10 million worth of success-based payments. As it relates to the AbD business, we expect revenues at approximately € 20 million, with a profit level at least as high as the level achieved in percentage terms, as was the case in 2008.

### **Slide 32: Agenda**

That concludes the financial analysis of 2008 and the guidance for 2009, and I would now like to hand over to Arndt for his outlook on our proprietary product development activities.

Thank you very much for your attention.

**Speaker: Dr. Arndt Schottelius, CDO of MorphoSys AG**

Thank you, Dave. I'm delighted to speak here today and shed some more light on our plans for the expansion of our proprietary development activities.

**Slide 33: Our Vision for Drug Development**

First, I would like to spend some thoughts on our vision for drug development. Our ultimate goal is to develop innovative drugs to improve patients' lives. While highlighting the word 'innovative' in that aspect, rest assured that the choice for any drug target and program we engage in will be based on a thorough analysis and rests on a sound validity of the respective target biology. To be successful as a drug developer in the long run, we are committed to building an excellent development organization capable of producing valuable drug candidates and reproducing that success sustainably. In the built-up of this team we will rely on two factors; we will continue to build up expertise internally – I have found an excellent and highly committed development staff at MorphoSys – but we will also consolidate our current teams and make use of our attractiveness as an employer in Europe and abroad to hire top talent from other companies and countries. You may have seen that we presented Dr. Ulrich Moebius as our new Head of Preclinical Development and Project Management just recently. Ulrich combines broad academic research experience in multiple disciplines and indications from his time at the DKFZ and the Dana-Farber Cancer Institute with an extensive drug development expertise from his time at Medigene. We are also looking to hire an equally experienced Head of Clinical Development and will update you on this position during the course of the year.

**Slide 34: Our Approach to Proprietary Development**

Why do we think we are in a good position to make our vision a reality? First of all, with the HuCAL antibody libraries – including the latest version HuCAL PLATINUM – we have a superior source of antibody drugs at hand. The technology has been widely accepted by the top20 pharmaceutical companies and allowed us to secure a long-term commitment by Novartis under very lucrative terms for our Company. The partnership business model has provided MorphoSys with a strong financial backing both in terms of quantity and in terms of visibility of future cash flows to build a substantial proprietary pipeline.

With MorphoSys in a strong position and committed to expand its proprietary activities, what is the situation in terms of demand for new drugs? In our opinion, the need for new innovative drugs is still substantial. Demand is likely to increase not least due to the substantial need for Big Pharma to replenish their pipelines and compensate the revenue losses from once-blockbusters coming off patent. Our goal thus is to deliver innovative drugs in the areas of inflammation, autoimmune diseases and oncology.

How do we approach product development at MorphoSys? It will be a focused R&D-driven process, with Research and Development teams working together in a strongly interwoven fashion. I am personally convinced that sharing ideas, providing feedback and even constructive criticism throughout the whole drug developing process between the R&D departments is crucial and will result in a higher probability of success for our programs. Marlies Sproll, our

CSO, as well as Simon, Dave and I share the strong conviction that our R&D organization should be set up with this ideal in mind.

### **Slide 35: Four Building Blocks Will Support Expansion of MorphoSys's Proprietary Pipeline**

MorphoSys's approach to expanding its proprietary pipeline is currently based on four building blocks.

The first component is the existing programs MOR103 and MOR202, both with potential to work as a drug in several indications. It is our current plan to develop both antibodies in several indications until clinical proof-of-concept. Basically, we foresee to out-license the compounds on the basis of convincing data, showing efficacy in patients. In this audience I do not need to mention the favorable terms we could achieve at this stage of development.

The second pillar of our strategy is the co-development activities we can pursue together with Novartis. You may remember that this was a key component of our deal with Novartis. We see these options as a great opportunity to develop new antibody drugs side by side with one of the leading pharmaceutical companies in the world. On a sliding scale up to 50% we can choose our level of commitment for each individual program. This feature adds another layer of flexibility in terms of cost planning. In addition, we can decide to co-detail, which means co-marketing in certain European countries.

In order to build a sustainable pipeline, we intend to start several new proprietary development programs each year. In 2009, we intend to add a total number of up to five proprietary programs to our pipeline. We will focus on oncology, inflammation and other disease areas with a high unmet medical need. In these areas we will continue to build internal expertise as we see these markets as still underserved, giving us the opportunity to provide innovative new treatment approaches with better safety profiles. We have established a small team of Target Scouts internally which focuses on the identification of attractive targets with therapeutic value. Before we choose a target for a proprietary development program, we extensively analyze the commercial potential, the IP situation and the competitive landscape and challenge the scientific concept of the approach and the target biology unbiased and without any reservation. Only targets which pass this test will be chosen as a basis for *de novo* starts. These targets may be in-licensed from third parties or public targets, which we have identified and where we think that the competitive landscape is still manageable – for example because a target has been overlooked as we think was the case for GM-CSF/MOR103. Another source of new programs will be co-development opportunities such as the Galapagos collaboration. Our ultimate goal is to establish a continuous flow of new INDs.

Last but not least we are interested in in-licensing opportunities or in the acquisition of interesting antibody programs. This would help to advance our pipeline faster, and we see that the current market situation may provide us with interesting opportunities.

Let's take a closer look at the first of these four building blocks, namely the two existing programs MOR103 and MOR202.

### **Slide 36: GM-CSF – A Promising Target**

When I first looked at the MOR103 program I was intrigued by the target biology and sound scientific rationale for GM-CSF as a very promising approach to tackle inflammation and autoimmune disorders.

GM-CSF is a well-studied molecule. It is a cytokine which was originally named for its ability to generate granulocyte and macrophage colonies from precursor cells in the bone marrow. More recently, GM-CSF has been shown to control the behavior of various cell types, including macrophages and neutrophils, particularly during inflammatory reactions.

The right side of the slide illustrates how blockade of GM-CSF signaling through its receptor can have a positive effect on a number of mechanisms that contribute to inflammation and tissue damage.

Amongst the blood cells recruited to the site of inflammation are neutrophils and macrophages, which GM-CSF stimulates in a number of ways. Thus GM-CSF acts as an inflammatory mediator, leading to an increased production of pro-inflammatory cytokines such as TNF-alpha and IL-6, chemokines such as IL-8 which trigger migration of further cells to the site of inflammation and proteases and oxygen species which ultimately lead to tissue damage and joint destruction in rheumatoid arthritis. By neutralizing GM-CSF, the antibody MOR103 is intended to reduce undesired proliferation and activation of inflammatory neutrophils and macrophages and thereby blocking these damaging inflammatory events. Blocking the effects of GM-CSF may also reduce the T- and B-cell response involved in the pathogenesis of many inflammatory diseases such as rheumatoid arthritis or multiple sclerosis.

There is specific clinical and preclinical evidence that points towards GM-CSF playing a pivotal role in inflammation. First is the observation that administration of therapeutic GM-CSF was found to worsen arthritic symptoms in RA patients and an animal model. GM-CSF depletion, in contrast, using a monoclonal antibody or in a Knock-out condition demonstrated beneficial effects in animal models of inflammatory disease.

Taken together, these data support the development of GM-CSF monoclonal antibody therapy in different inflammatory diseases such as rheumatoid arthritis, multiple sclerosis or COPD and asthma.

### **Slide 37: Overall Validation – Experimental Evidence**

We have generated promising first data for the MOR103 program in the course of 2008 and I will come to that in a minute. But first I would like to highlight the solid experimental evidence available in the research community that validates the GM-CSF approach in general.

First, there are two research results that underline our strategy in the first indication RA. Administration of a GM-CSF-neutralizing antibody can reduce inflammation and cartilage destruction in the collagen-induced arthritis mouse model. Similar results were shown with the streptococcal cell wall induced arthritis model, basically the same model we used for the data presented on the next slide.

Looking beyond RA, I would like to highlight the following scientific findings which point to the potential for a GM-CSF approach in other indications. As it relates to Asthma and COPD,

treatment with a GM-CSF-neutralizing antibody in the ovalbumin asthma model significantly reduced increased airway hyperresponsiveness, a characteristic feature of asthma, and also inhibited airway inflammation. Second, macrophage infiltration of the lung, TNF-alpha and matrix protein MMP9 release was reduced by an anti-GM-CSF antibody in the LPS-induced lung inflammation model.

Two findings from multiple sclerosis research I would like to mention briefly are that GM-CSF deficient mice are resistant to developing Experimental Autoimmune Encephalomyelitis, or EAE for short. Additionally, anti-GM-CSF antibody treated mice recovered from EAE after administration pre- and post-disease onset.

Taken together, these observations strongly support the hypothesis that targeting GM-CSF could be an effective therapy for RA. Further data indicate that GM-CSF is also a potential target to treat other inflammatory diseases, including multiple sclerosis, asthma and chronic obstructive pulmonary disease.

### **Slide 38: MOR103: Preclinical Results Arthritis Model**

The preclinical data we have generated with our HuCAL-based antibody MOR103 blends quite nicely into that overall package of preclinical proof of concept which I have just summarized.

The preclinical data we have presented for the streptococcal cell wall-induced arthritis rat model in 2008 showed that MOR103 inhibits the signs and symptoms of an established experimental model of RA *in vivo*, in a dose-dependent manner.

The way this model works is that the antibody is administered once in a range of concentrations at 10, 20 and 50 mg/kg, two hours before the RA-like symptoms are induced via intra-articular administration of bacterial cell wall fragments to male Wistar rats in the right knee.

Knee joint swelling is assessed by uptake of a radioactive isotope into the affected joint, which serves as the readout parameter. A significant dose dependent reduction of knee joint swelling was observed on days 1 and 2. This experimental model of a RA is a very acute model and thus deliberately only two days are monitored.

This was the most compelling set of *in vivo* data we presented from the preclinical analysis. On a side note, I would like to address a question concerning the performance of MOR103 against the positive control Dexamethasone. Looking at that data one has to bear in mind that the antibody MOR103 has a much lower affinity for the rat homologue than the human GM-CSF. Thus the therapeutic effect we see in that rat model is by far not comparable to what we could expect in a human patient. In contrast, for Dexamethasone as a synthetic glucocorticoid, the species is more or less irrelevant.

In order to wrap up the rest of the preclinical *in vivo* data not shown here I would like to highlight, that joint histopathology revealed a reduced influx of inflammatory cells into the affected synovium and consistently, synovial fluid cytokine levels, namely IL6 and IL1 $\beta$  were lowered as well.

In terms of drug safety, no relevant toxicity effects were observed in a standard repeat dose rhesus monkey study.

In addition to the preclinical *in vivo* data I have just mentioned, some of our preclinical *in vitro* data on the MOR103 antibody characteristics were published in the Journal Molecular Immunology in November 2008. Of particular note is the extraordinarily high affinity and neutralizing potency of the antibody for its target, human GM-CSF. This, we believe, may turn out to be a major advantage for a resulting drug, both in terms of efficacy as well as dosage, both of which are important factors in a drug for chronic disease.

### **Slide 39: Proprietary Programs – Outlook 2009**

What will happen in 2009 with regard to the development of MOR103 and MOR202?

The phase 1 clinical trial for MOR103 in healthy volunteers has been completed and is currently in the analysis stage. The final data will be reported in the second quarter of 2009. The start of a phase 1b/2a study in rheumatoid arthritis patients is planned for the second half of 2009.

Additional preclinical investigations of MOR103 in animal models for other inflammatory diseases are currently being conducted. In 2009, it is our goal to conclude the decision making process on a second indication for MOR103, based on efficacy in these disease models.

With regard to the cancer program MOR202, formal preclinical development is ongoing. In 2009, toxicology studies will be conducted to support regulatory filing for a phase 1/2a clinical trial. Additional models of multiple myeloma have been identified to further evaluate MOR202 for this disease, and we will add some additional data to our package during the course of the year. Furthermore, we will start preclinical efficacy studies in a second indication. Cell line preparation and production is ongoing, the resulting antibody material will be used for animal safety testing in preparation for phase 1/2a clinical testing, which is expected to start in 2010.

Manufacturing of antibody material for both MOR103 and MOR202 for clinical studies and non-clinical safety studies, respectively, will continue during the course of 2009.

### **Slide 40: Commitment to Proprietary Development**

One of the main reasons for my decision to join MorphoSys was the prospect of becoming a member of a strong management team, and the opportunity, to build an innovative and sustainable antibody development pipeline. We in the executive team share a strong commitment to further expand the proprietary development activities. As I mentioned at the onset, we want to improve treatment options for patients to improve their quality of life. In addition to this vision, we have the clear goal to build shareholder value. MorphoSys was built thoroughly by its management team, and with the same diligence we will build a proprietary pipeline, which will lead the Company to the next chapter of its development.

We will leverage the expertise gathered from the vast array of partnered drug discovery projects and exploit the long-standing experience of MorphoSys in the area of antibody development, based on a proven technology and world-class partners.

In addition, a key focus for me over the coming months will be to hone the development strategy for each program individually and for the entire portfolio with our ultimate goal in mind to build a sustainable proprietary pipeline.

**Slide 41: Agenda**

That concludes my part of the presentation, and I would now like to hand back to Simon for the operational outlook for 2009. Thank you very much for your attention.

**Speaker: Dr. Simon Moroney, CEO of MorphoSys AG**

Thanks Arndt. At the beginning of today's presentation, I talked about the factors and our strategy for MorphoSys's success to date. I'd like to focus now on the factors that will drive our growth in the months and years to come.

The Company's value will increasingly be linked to the products that will emerge from the application of our proprietary technology. HuCAL-based therapeutic and diagnostic products will be lucrative drivers of future revenue. Most importantly, the levels of revenue and profit that we're aiming for are well beyond those we are currently delivering. For us as management, the question is not so much how to deliver 10 %-20 % top or bottom line growth in the next 2-3 years, it is rather how can we double or triple these numbers in the years beyond.

**Slide 42: Solid Platform for Future Growth**

We are convinced that this can be achieved by focusing on:

1. Doing all we can to support the further expansion and maturation of our partnered pipeline,
2. Advancing our existing proprietary pipeline, while adding new programs, and
3. Growing the AbD business, investing internally where necessary, particularly in the diagnostics field.

I'll talk a little bit about each of these areas in turn.

**Slide 43: Partnered Discovery**

The partnered therapeutics business is the financial engine that funds our proprietary activities. We expect this segment of our business to continue its strong growth in 2009, and for it to be the main driver of the company's revenue increase. This year, we expect the partnered pipeline to mature further as programs progress forwards in development. We expect the total number of programs to increase, driven by the commencement of up to 20 new programs by our current partners. We expect new antibodies to enter clinical trials, and our best current estimate is that there could be between 2 and 4 additional INDs from various partners during the course of this year.

In terms of the status of the partnerships themselves, one is up for renewal, namely that with Schering-Plough. That collaboration could run for a further two years if Schering-Plough chooses to exercise a pre-existing option to extend that falls in May of this year. At this stage, we have no knowledge of whether that option will be exercised or not. All other collaborations are scheduled to continue through 2009.

**Slide 44: Proprietary Product Pipeline: Projected Status Year-End 2009**

Turning to our proprietary development, as a major driver of our future value, this will receive increased attention during 2009. This chart shows you the status that we anticipate by year-end.

As Arndt has told you, MOR103 is on track to enter a Phase 1b/2a trial in rheumatoid arthritis patients in the second half of this year. We also anticipate having completed the ongoing preclinical studies which will guide our selection of potential additional indications for the development of the compound. Looking beyond this year, we expect to have observed a Phase

2 signal in the RA trial before the end of 2010, and therefore to be in a position to partner the program in 2011. Depending on the preclinical data we generate in other indications, such a partnership may provide us with the option to retain development rights beyond RA. We're taking a flexible view of the possibilities, and will make a final decision on how to proceed once data is in hand.

For MOR202, we expect to have completed manufacturing, and preclinical toxicity studies to enable submission of a clinical trial application in 2010. Beyond the two lead programs, the pipeline will be expanded via the addition of up to 5 new programs. For two of these, namely MOR203 and MOR205, the targets have been selected and the programs are underway.

I would like to mention here that in-licensing and/or acquisition may offer opportunities to build the pipeline more quickly. For this reason, we are running a project internally that is surveying all therapeutic antibodies in preclinical development or beyond. Predicting major in-licensing or acquisition transactions is almost impossible and therefore we give no guidance on what we may achieve here. But I wanted to highlight that we are actively working on such opportunities, and you should therefore not be surprised if we announce such a deal. To be clear, the objective would be to use our balance sheet and potentially also new shares to secure one or more therapeutic antibodies which would increase the value of our pipeline.

#### **Slide 45: Clinical Pipeline**

Overall, taking both partnered and proprietary development into account, this chart shows the historical and expected progression of the clinical pipeline. By year-end 2009, we could expect to see 8 HuCAL antibodies in clinical development, up from 4 currently. Illustrating the growing maturity as well as breadth of the pipeline, at least 3 of these 8 could be in Phase 2 clinical trials, including our own program MOR103.

Reference was made earlier to the change in our investor base. We are seeing a strong demand in our stock from biotech-focused US investors. The reasons are clear – biotech investors know that, being on the cusp of reporting efficacy data in humans in any one of a number of programs, our valuation could climb very quickly, and they don't want to miss out on the uplift.

#### **Slide 46: AbD Serotec: The Business**

Turning to our AbD segment, we're confident that the unit can and will do better. The HuCAL-based custom segment is increasingly focused on diagnostics projects, where we see the opportunity to participate in product sales via royalties. The catalog segment is very dependent on public and private budgets. Noteworthy here is President Obama's commitment to increasing the US Government's investment in scientific research. The recently announced stimulus package included over US\$ 20 billion in additional research spending, 40 % of which is earmarked for NIH research grants. This is an encouraging development that we expect to work through into our market. In the OEM space, one of the tasks for the new management will be to broaden our customer base, so as not to be reliant on the relatively few orders we currently support with bulk material.

Overall for AbD, we project revenues to increase by a healthy 10 %, reaching approximately € 20 million. Although we could use the increased revenue to deliver a higher profit margin, we

would like to invest in strengthening our sales performance and systems, the result of which will be an operating profit margin for the unit similar to last year.

#### **Slide 47: Goals 2009**

Putting all this together, here are our Company goals for 2009.

Corporate:

- We expect revenues of € 80 to € 85 million, and an operating profit of € 8 to € 11 million,

Partnered Discovery:

- We foresee somewhere between 2 and 4 INDs from our partners, and up to 20 new program starts,

Proprietary Development:

- We will report Phase 1 data for MOR103 in the second quarter and commence a Phase 2 study in RA patients in the second half of the year,
- In addition, we will start up to 5 new programs in our key focus areas cancer and inflammation,

AbD:

- We expect revenues of € 20 million, up 10 % over last year, and
- Operating margin of about 2 %, roughly the same as last year.

#### **Slide 48: Future Value Creation**

Finally, I want to bring the presentation to an end by emphasizing that MorphoSys is extremely well-positioned to build value for its shareholders. The key points here are:

- First: our strong balance sheet makes us largely independent of the capital markets. In today's environment this is a rare advantage to have.
- Second: our free cash-flow is fully sufficient to fund all of our proprietary development. With revenues growing at a steady 10 %-20 % per annum for the next few years, we have the ability to build a strong pipeline of proprietary medicines.

Overall, we are convinced that MorphoSys has the substance to become one of the industry's leading biotech companies, with a rich pipeline of drugs and other products developed from our proprietary technology. We're on track to achieving this goal and look forward to keeping you informed of our progress.

#### **Slide 50: Question & Answer Session**

That concludes the presentation – thank you for your attention. I'd now like to hand back to Claudia, who will moderate the Q&A session.

**Speaker: Dr. Claudia Gutjahr-Löser, Head of Corporate Communications**

Thank you very much, Arndt, Dave and Simon. I would like to open the forum now for your questions. May I have your first question, please?

**Cornelia Thomas, WestLB:** A number of questions. Simon, you mentioned that R1450, whatever its new name is now, behaves as an antibody is expected to behave. Could you specify that a little bit? Just wondering what that means?

Then a few questions for Dave. Tax rate going into 2009, you said that the last credits would come through in 2009. Could you give us a bit of guidance on that? And also, the guidance was for EUR20 million for the AbD segment. I'm just wondering how realistic that is, given that you still are likely to see adverse currency effects in 2009, and that even on constant currency, the unit didn't grow in terms of revenues in 2008?

**Dr. Simon Moroney:** Okay, thanks Cornelia, let me start. Regarding the Alzheimer antibody, Gantenerumab, or R1450, there's not a lot we can say about this, because Roche is very cautious about what they say in the public domain. So all we can say is that it has the behavior that you would expect of a human antibody in human patients. And my personal assumption is that they're referring to the pharmacokinetics, for example, that it has the half life that you would expect a human antibody to have in humans, which is two weeks.

But again, that's my interpretation of this very general statement that Roche has made to us about the behavior of the antibody. Put another way, it doesn't have any surprising short-half-life or they're not seeing, apparently, any surprising bad behavior.

**Dave Lemus:** Cornelia, to answer your financial questions, the first one on the tax rate, when one looks at a tax rate, one needs to consider that there's two elements to the tax rate. One is the expense that we actually show on our books as tax expense. That in fact is different from what we actually pay as cash to the tax offices in the world. So I would characterize the tax rate as being composed of something called deferred taxes and current taxes.

So the total tax rate, which includes both, was this year approximately 30% and will continue to be approximately 30% going forward. And that results out of the blended rates of Germany, the UK and the US.

What I was referring to is: as we go through or when we deplete our net loss operating-carry-forwards that will effectively mean that the deferred portion of taxes goes down to essentially close to zero and the current tax rate, which is the equivalent of what we pay as cash, will go up. So the actual cash that we pay for taxes, what I was referring to, the overall tax rate expense, per se, will be basically unchanged.

As it relates to the question about AbD segment goals, we actually have taken the opportunity, in early January we constructed our budgets back in October to revisit the exchange rate effects. Two things I would say about that.

Number one, I feel that the exchange rate that we have used for Pound and Dollar very much reflect what I see in the market as consensus rates for the full year. So I feel reasonably confident that we have an accurate rate. The second thing I would say is that you have to keep in mind that the negative effect of having adverse currency effect on the top line is you have less top line. The slight positive is we also have expenses associated with those foreign

exchange currencies to the same effect. So although sales may go down, our expenses go correspondingly down also.

But to answer your question directly, now, do we feel confident that we can hit the AbD goals? I would say yes. We've gone back and revisited the budget on the back of the performance in 2008. We've revised the foreign exchange effect, we've lowered it down, we think there's quite a bit of operating cushion and to be able to achieve that, we've had the new head of the unit that Simon talked about, Dieter Feger, look over those numbers. We feel confident that those numbers will be hit.

**Cornelia Thomas:** Can I just ask one more question, Simon? With regards to the -I know you don't really know about the partnered antibody programs - but when data might come up from those. Just wondering, if they are even planning to publish Phase-I-data or if they're just going to sort of move it quietly into Phase II? What's your feeling there?

**Dr. Simon Moroney:** We also don't know the answer to that. We, as I said, we try and push them to be able to talk about those programs at whatever level, but we're at their mercy. We're in the hands of those companies, as to whether they decide to say something or not.

And those decisions vary, frankly, and they're driven by things like driving recruitment for example. If the company feels they want to drive recruitment faster by increasing awareness around the program, then they choose to say more about it. But those we've found are decisions that are sort of taken over time, over which we have no influence at all and which we can't predict. So it's very hard for us to say that, unfortunately. We would love to be able to tell you as much as we could about these programs, but we're very much in the hands of our partners.

**Dr. Hans Frohnmeyer, LLBW:** A couple of questions from my side. Do you expect continuous steady growth of revenues from 10 % to 20 % in the next couple of years? Could you elaborate a bit on the growth drivers, not in 2009, but generally where this growth is coming from?

Then on the 2009 guidance, what I find out is that your milestones expectations seem to be the same as in 2008, roughly EUR 10 millions, despite the number of preclinical programs seems to be much higher right now. What are the reasons for that? Could you give us more details on that?

And in addition, your operating profit guidance of EUR 8 million to EUR 11 million seems to be pretty cautious. I would like to have more details maybe on that.

Maybe a last question on the clinical programs. It looks like that the MOR202 directly goes into Phase-I/II. Is that correct? And what are the reasons for that? And in addition, could you give us more details on the Phase-II-trial of MOR103, on the study design? Thank you.

**Dave Lemus:** Perhaps I'll start with the answer to the financial questions.

The one that I think didn't come entirely unexpectedly was the cautious statement about guidance. And I think it's important for us to kind of differentiate between what we budget and what we expect to achieve and what actually ends up happening. And I think in my speech, I try to address the point by saying that we budget activities in proprietary product development, for example, that we expect to happen during the year.

Now, if those activities don't happen, and that was the case in 2008, they often may not happen for good reason, and in the case of 2008, the reason why our proprietary product development expense didn't achieve what we expected it to be, or didn't come out the way we expected it, was due to the fact that we decided to build in more flexibility into our product development plans going forward for that product by adding new cohorts to our clinical Phase-I-trial.

So based on the current planning, we feel that the budget is accurate. Now we have a new CDO here who has looked over the activities and I'm going to leave it to him when he answers certain parts of the next question, to tell you that he believes that that find is accurate and that we will fulfill those activities during the year.

So I think the bottom line is: we are not building any kind of buffer or cushion into that. I think it serves nobody's purpose to do that. And we give our best estimate of what the numbers will be. This year, and I believe last year, the activities were simply not done in accordance to what the plan was.

Okay. The other question that related to financials was: what are the growth drivers of revenue for the next couple of years, which I think is also associated with your milestones question. Because I think they're one and the same.

Our expectations of milestones were somewhat beneath where we expected them to be. Only slightly below. That being said, what we could imagine contributing to growth of top line revenues for the next couple of years would be, number one, additional milestones. So we still have a very large preclinical pipeline. We expect those milestones to increase in absolute terms and in percentage terms of our revenue.

Number two, we have not yet achieved the full steam, so to speak, of the Novartis agreement. So there is still some additional revenue, which we would expect, emerging from that agreement, before we reach some type of steady state with it.

And last, but not least, as we start to talk about medium-term growth, so the next 3 to 5 years, then we're starting to talk actually very large amounts and very large upsides in the form of out-licensing Phase-II-programs.

**Dr. Simon Moroney:** Arndt, do you want talk about the MOR202 Phase-I/II and the MORE103 design?

**Dr. Arndt Schottelius:** So let me start with the I/IIa-design, multiple myeloma, for oncology. Let me just preface that the planning is in very early stages. You know, we haven't gone into very much detail, but it's not unusual for a multiple myeloma trial to go actually in a combined I/IIa-phase, which would be kind of a classical design. Obviously the objectives, as usual, would be first safety, PK (Pharmacokinetics) and then probably also some hints of efficacy there.

In terms of the trial design, while I can't share much detail for the Phase Ib/IIa, but when we plan to initiate it in the second half of this year, this would be a multiple dose, dose escalating, obviously, for the first time in patients. And again, with the main objectives, to look at safety in RA patients, tolerability, also look at PK, but also at first signs of clinical efficacy.

**Yasir Al-Wakeel, Credit Suisse:** Hello and congratulations on a good set of numbers. I'd just like to ask one question on the partnered antibody drugs that you have ongoing. I realize it may well be difficult to give an answer on this, but what's your working assumption as to when we

might get Phase-II-proof of the concept data? And in particular for the Centocor antibody? Would it be right in assuming that it's unlikely to happen prior to 2010? Thank you.

**Dr. Simon Moroney:** Your question is specifically about the Centocor antibody. Remember that that antibody has been in cancer patients in a Phase-I-trial and has gone now into a Phase-II-trial in immunological indication.

**Yasir Al-Wakeel:** Yes.

**Dr. Simon Moroney:** As Arndt has talked about cancer trials and patients, there is the possibility to see into the efficacy of Phase-I because you're in patients. So that I wouldn't rule out.

As for the likely timing of an efficacy signal in the Phase-II immunological indication, as you know, they've just started in November of last year. We don't know how long that trial is going to run, but I think if it was to produce an efficacy signal this year, it would be certainly tight in terms of timing if not actually falling in 2010.

**Yasir Al-Wakeel:** Thank you.

**Holger Blum, Deutsche Bank:** Three questions.

Firstly, on AbD, for the guidance, does it include any upside from the stimulus package? Or would it be then something like 50% upside potential on top over two years? If you just look at the stimulus?

Second question would be on your comment about M&A given that you can finance your proprietary pipeline out of your cash flow? And having such a big cash pile, you just mentioned, you might issue shares. I wonder at what kind of level or cash level you would decide to do something like that and how likely a major transaction would be?

And third point would be more on a personal note to Arndt. What are your first experiences of the first weeks, what is now on your agenda? Are you positively or negatively surprised so far, coming to MorphoSys?

**Dr. Simon Moroney:** Maybe just to start with the question about the stimulus package. As Dave mentioned, the budgeting for this process was done prior to the announcement of the stimulus package that happened very recently. And so that hasn't been factored in at all. And it's, you know, I think it would be almost impossible to factor that in because we don't know how that's going to actually feed directly into people ordering antibodies.

All we mentioned is that we think that the climate, especially in the US, is more favorable for research now than it was under the previous administration. And we think that is a general positive for that side of our business.

In terms of issuing shares for acquisition, here I just wanted to highlight the fact that a potential acquisition may be effected by cash or potentially a mixture of cash and shares. We don't know yet because we don't have a specific target in mind, we don't have a specific deal on the table. And we don't have a valuation that we know we're going to have to pay here.

But we just want to highlight the fact that we have this possibility to pay either in cash or in a mixture of cash and shares, so that overall we have significant firepower to be able to carry out an acquisition.

Now, of course, any transaction that we would do would have to stand the test of financial reasonableness. It goes without saying that the value of the assets that we would acquire would have to, in our view, be worth it. So, you know, speculating as to how such a transaction could look, how much cash, how much shares and so on is absolutely premature at this stage.

**Dr .Arndt Schottelius:** So thanks for that question. Which part should I start? So, you know, I feel very energized, actually, excited as I said, about coming here. And obviously one of the things that attracted me was the scientific strength of the program, the strong leadership team, so to that extent, I, you know, we work really tightly as a team and follow the same strategy and beliefs in terms of making a sustainable and successful organization.

What I found, I found a very committed and also experienced development staff. Obviously we have some needs to hire new expertise, additional. We'll do that from building internally and getting new staff top down from the outside. I've been very excited that just recently, three weeks ago actually, we had the arrival of Uli Möbius, who's our new Head of Pre-clinical Development and Project Management, a very central position. So that part was strengthened.

I also pointed out: I'm looking for a new Head of Clinical Development with the same expertise. This year, that will be one of my top priorities, to strengthen that part. And also strengthen the leadership of the teams. I strongly believe in strong leaders that really take the molecules in hand and are champions and drive it forward on all aspects. So we are certainly consolidating the teams in that respect.

And just to answer, you know I'm- I feel very energized. There's nothing negative I can think of. There are certainly areas where we want to build up as we have committed and we have made some progress and we'll be hopefully able to report to you in the remaining of the year.

**Gary Waanders, Nomura Code:** Just a question on the antibody in-licensing activity that you might envisage, do you have any preference for where antibodies might come from? What sort of antibodies that would be: chimeric, fully human? I mention fully human, it's got to be your religion. But would you stick with that? Are there disease areas that you're focusing on? And what sort of magnitude of development then and fee would you envisage? Is it clinical stage only? And are we talking multiple millions of Euros?

**Dr. Simon Moroney:** Okay. First of all, in terms of the format of the antibody, I think beyond chimeric is how I would characterize that. We, as you said, the religion is that chimeric is a too old technology for us. So I think humanized we would consider and human we would obviously consider, but chimeric: we believe, there could be an increasing risk in the future that chimeric antibodies may struggle to get approved by the regulatory authorities. So that's specifically what we're looking for, humanized or later, so to speak.

In terms of the indication focus, cancer and inflammation continue to be the focus areas of what we're looking for. And in terms of kind of sweet spot, I would characterize that as late preclinical development through Phase-I.

Now remember that our strategy is to take antibodies to proof of concept in man and then look to partner them. So given that, it doesn't really make sense or it wouldn't make sense for us to acquire an antibody in Phase-II or in late Phase-II-development and then partner it some months later. And so again the sweet spot is a bit earlier than that, which also has the advantage that we are less in competition with pharma, for example. Pharma tends to look a

little bit further downstream than where we're looking, which we think should give us higher chances, of course, of getting our hands on something interesting.

**Dr. Elmar Kraus, DZ Bank:** I have a couple of questions, more strategic and I'd like to follow the questions from before. Arndt, when you were talking about innovative drugs, do you restrict yourself to antibodies or are the antibody-like drugs also name of the game?

And the next question would be to Simon. You mentioned that you think about increasing your diagnostic focus. Can you shed a bit more light on what that might mean in terms of acquisitions or technologies or machines or whatever?

And another question for Dave, can you just give a rough guidance on how you would allocate R&D costs between MOR103 and 202 in the years to come? Thanks.

**Dr. Arndt Schottelius:** So maybe I'll start with the first question. You know, based on our platform, we are clearly focused on antibodies right now. Obviously there are other innovative drugs and they're certainly not only limited to monoclonal antibodies. This is our focus, building up the internal proprietary pipeline.

In terms of in-licensing candidates, Simon, please jump in; I think we would be open to other, you know, similar molecules, proteins as well. Even though I think one of the focuses is still the antibody platform.

**Dr. Simon Moroney:** Coming to part two of the question, regarding diagnostics. I mentioned that we're increasingly working with diagnostic companies on the AbD side of the business. And the opportunity here is there are many diagnostic opportunities for specific assays, for example, which are not well served by existing antibodies.

There are certain analytes that you just cannot make decent antibodies against in mice, for example. And that's an ideal opportunity for the HuCAL technology to make an antibody that is highly specific, perhaps for a particular steroid or a particular metabolite of a drug or whatever it may be. So these are coming to work with us to get indirect access to the HuCAL technology.

Our new Head of the Unit, Dieter Feger, of course, comes from Abbott Diagnostics; he's a real diagnostics man. He's been with them for 20 years. And he's looking and thinking, and he's only been there six weeks, so this is early days, but he's looking and thinking about ways where we could add a bit more value, rather than just making an antibody and handing it over to some diagnostics company, perhaps where we could create the assay itself.

So the antibody and the other components that form the main value part of a kit when that eventually comes to market. So if you like, taking a step or two further downstream than we are at the moment, comparable to what we're doing on the therapeutic side. I mean, what we're doing on the therapeutic side is nothing more than that. Going further downstream, based on an existing capability.

**Dave Lemus:** I think part three of the question was the split of costs between MOR103 and 202 and others. I would imagine for the next two years, the costs will be very much weighted towards MOR103 by virtue of the fact that we will have a Phase-II ongoing and potentially another indication also. So thereby, just by virtue of the fact that it's further along than the other projects means that probably we'll have a much higher spend than the others.

That being said, MOR202 will see a ramp up in costs this year because we are producing the clinical material for the anticipated entry into Phase-I in 2010.

I think the other five or so pre-clinical projects will be relatively minor in comparison to those.

**Daniel Wendorff, Commerzbank:** A few questions, if I may, and two on the therapeutic antibody side. You mentioned 20 new program starts during the course of 2009. I wonder, is this mainly related to the Novartis agreement? And if so, how would the potential milestones relating to that look like. I guess that follows an earlier question regarding your milestone guidance for 2009 and you mentioned that you plan to show your proprietary R&D development as a sort of separate segment. I wonder from when on we can expect that.

And then a follow on questions on the AbD segment, your profit margin and guidance for 2009 appears quite conservative to me, given that you're very confident regarding sales growth and that you even had a one-off effect in 2008. I wonder if you could shed some light on that.

And lastly, what are your expectations for total headcount towards the end of this year, if all your plans go according to your own thoughts there? Thank you.

**Dr. Simon Moroney:** So let me start there. The 20 new starts, yes, of course we've mentioned Novartis is our biggest partner; they are the biggest source of the programs. And so, they will be a major contributor to that 20. As before, unfortunately, we're not at liberty to say exactly how many programs we're working with them on and how many new programs get added at what rate. So I think it's fair to assume that the majority of those will come from Novartis.

Let me take the one about the profit guidance for 2009 being conservative because it relates to some of the activities we're doing there. As I said during the speech, we're taking the opportunity to invest more in the unit. We think its performance can be improved by investing in certain systems internally and investing in strengthening the sales and marketing team. And we feel that if we take the time and the opportunity to do that this year, we'll be much better positioned to grow at a more interesting rate in the years ahead. So if you like, this is kind of a consolidation year or an investment year for AbD, which we feel is much more valuable in the long run to do that now rather than to not make those necessary investments, simply to report a somewhat higher profit this year for the unit.

The headcount question and then I'm going to hand over to Dave for your point about the separating out of the segment reporting. We've said that we expect to hire up to 40-odd new people for the company as a whole. Most of those people will be in Munich and most of them will be in R&D. As you've heard from Arndt, he's in the process of building up his area. But also for the new discovery programs that we're starting for ourselves and also for our partners, we obviously need hands to do that work. So the majority of those 40-odd people will be R&D people.

**Dave Lemus:** As it relates to the proprietary drug segment, a potential new third segment at MorphoSys, again, what does it mean? What it essentially would mean would be to hive out the proprietary drug activities that we do within currently the therapeutic antibody segment.

We are currently looking at that. Whether we end up doing it or not - and it probably will end up being dictated by what we're required to do under IFRS - whether we do it or not, we will maintain at least the level of transparency we have, relating to proprietary drug development, if

not increase it. So whether we have a third segment or not, you'll still get, in essence, the same amount of information that we currently give, at least.

**Martin Possienke, Equinet:** Let me have another try on AbD. I guess you did an impairment test by the end of the year and if I read correctly, no goodwill was amortized. So maybe you can tell us the key assumptions? Because I guess with the 2 % EBIT margin and practically no growth, goodwill impairment would be necessary, so there must be some other key assumptions in there for the margin level. I mean, what is your mid-term assumption in this goodwill test?

**Dave Lemus:** Okay. Maybe just a clarification point. The impairment that we saw in AbD had nothing to do with a goodwill impairment of any type, but rather we had a building, which was left over from our acquisition of Biogenesis, which we were actually renting out. By virtue of the fact that we no longer rent that building out and one can sell it, meant that we needed to make a fair value estimation of that building. And the difference in the fair value between what we had on our books and what the market said it was at the end of 2008 was in fact the impairment. So it had nothing to do with the income prospects of the unit, per se.

As it relates to the assumptions that we, or the parameters, rather, that we use in building up our impairment tests, if I'm not mistaken, it's actually inside the report. On page 71, you see under section 13, the WACC that we end up using, the perpetual growth assumptions that we end up using and all the other calculations that you could imagine would be in there.

**Martin Possienke:** Yes, just the margin is missing.

**Dave Lemus:** Okay. In terms of gross margin, I think it's fair to say that the history has shown that a 60 % gross margin is reasonable and I think you could assume that that's the case. I think it's fair to say that we expect an improvement over the current margin that we have. As Simon mentioned, the margin for 2009 is somewhat impacted by the investments we intend to make in that segment going forward.

So I think without nailing myself to a particular number, or giving away competitive information, I think we'll leave it at that: that simply the margin is expected to increase. But I would also say that in doing the impairment test, we had quite a bit of cushion between what we expect the carrying value to be versus the fair market value or the carrying value of the unit, so the value and use of the unit.

**Dr. Simon Moroney:** Let me just make a general comment about AbD. We're absolutely convinced that this unit can be a significant growth provider for MorphoSys. We have a distinct technology. We have a unique technology. There's nobody out there in this field who's applying a technology as powerful as HuCAL. And this is opening up new opportunities for us.

We feel we haven't done a great job of exploiting all of those opportunities yet. We've taken steps in terms of hiring new management who brings specific experience to help us to build that unit. And we're absolutely committed to have that unit not just proceed along at market rates, but to do better than the market. To grow beyond the market.

And we think we can do that. Why? Because we have a unique technology platform, which can provide novel products for opportunities that are out there. So we don't see this as an also ran or a, you know, a sort of less favored cousin or something of the business, by no means. We feel it has potential and we want to enable it to fulfill its potential.

**Speaker: Dr. Claudia Gutjahr-Löser, Head of Corporate Communications**

Ok. If there are no further questions here or from the conference call then I would like to conclude today's conference. We thank you all for your participation.

Good Bye.

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