

ANNUAL REPORT 2007

Turning
Technology
into Products

morphosys
Engineering the Medicines of Tomorrow

Turning Technology into Products

MorphoSys's proprietary HuCAL GOLD antibody library is the foundation of the Company's success. This technology, which can deliver an unlimited number of human antibodies, provides MorphoSys with a vast range of product opportunities in the therapeutics, diagnostics and research markets.

MorphoSys is entering an exciting phase of its corporate development; an increasing number of drug candidates, developed solely by the Company or with its pharmaceutical partners, are poised to enter the clinical trial process in which these potential products could demonstrate initial efficacy in patients. The value of these opportunities is not only that of the resulting milestone payments, which represent pure profit for the Company, but also the increasing potential that a HuCAL-based therapeutic will reach the market. With its strategy to increase its focus on proprietary drug development, MorphoSys will continue to expand its financial share in future products.

Key Figures (IFRS)

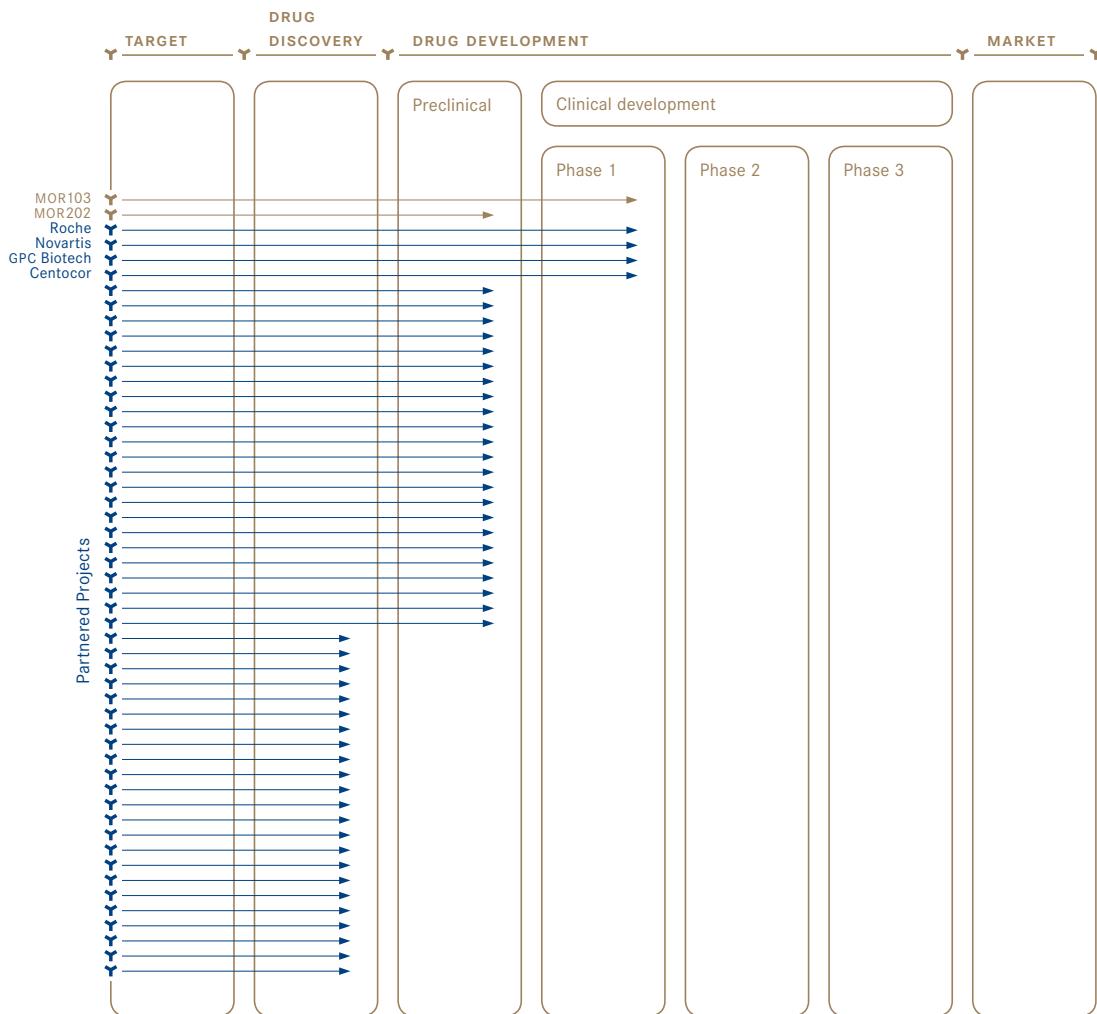
MORPHOSYS GROUP (in million €, if not stated otherwise)

	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
RESULTS					
Revenues	62.0	53.0	33.5	22.0	15.3
Cost of Goods Sold	7.9	8.0	2.5	0.9*	-
R&D Expenses	22.2	17.5	14.0	11.4*	9.0*
S,G&A Expenses	24.8	21.4	10.8	7.5*	7.2*
Personnel Expenses (Excluding Stock-based Compensation)	18.8	18.1	10.8	9.1	7.5
Capital Expenditure	12.0	4.0	0.7	1.7	0.7
Depreciation	1.5	1.5	0.9	0.7	0.5
Amortization of Intangible Assets	3.7	3.4	2.7	2.0	1.5
Profit/(Loss) from Operations	7.0	6.2	6.2	0.6	(3.1)
EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)	13.3	10.3	8.6	3.2	(0.4)
EBIT (Earnings before Interest, Taxes)	8.3	5.4	5.3	0.5	(2.5)
Net Profit/(Loss)	11.5	6.0	4.7	0.3	(3.1)
BALANCE SHEET					
Total Assets	184.7	127.8	80.1	55.8	42.9
Cash, Cash Equivalents and Available-for-sale Financial Assets	106.9	66.0	53.6	37.2	23.2
Intangible Assets	22.3	14.8	12.4	12.8	14.5
Total Liabilities	39.2	27.8	16.1	16.4	15.6
Stockholders' Equity	145.5	100.1	64.0	39.4	27.3
Equity Ratio (in %)	79%	78%	80%	71%	64%
MORPHOSYS SHARE					
Number of Shares Issued	7,386,753	6,715,322	6,025,863	5,438,852	4,901,332
Net Profit/(Loss) per Share (Diluted) (in €)	1.59	0.93	0.83	0.05	(0.72)
Dividend (in €)	-	-	-	-	-
Share Price (in €)	48.30	54.37	41.32	38.10	11.14
PERSONNEL DATA					
Total Group Employees (Number)	295	279	172	132	95
Germany (Number)	192	183	145	132	95
Other Countries (Number)	103	96	27	-	-
Revenues per Employee	0.21	0.19	0.19	0.17	0.16

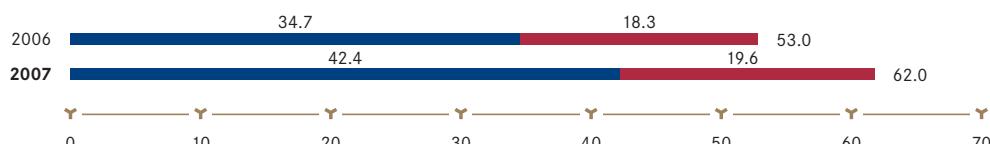
* Excluding stock-based compensation

Product Pipeline

MORPHOSYS'S PRODUCT PIPELINE AS OF DECEMBER 31, 2007



THERAPEUTIC ANTIBODIES/ABD REVENUE SPLIT (in million €)



• Therapeutic Antibody Segment • AbD

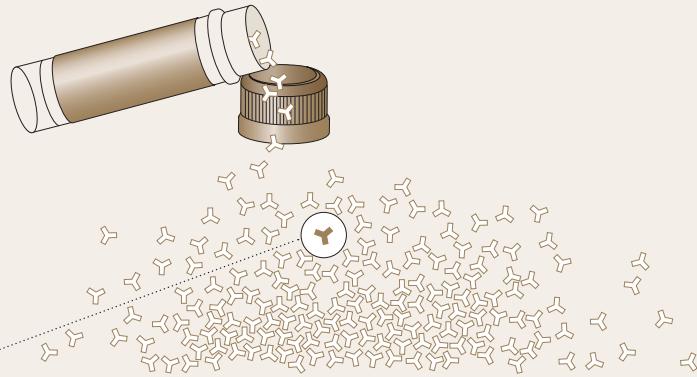
ENGINEERING THE MEDICINES OF TOMORROW

MorphoSys has developed HuCAL GOLD into a leading technology for the production of fully human antibodies. The Company uses its proprietary technology in two areas: for the development of novel therapeutics and research antibodies.

In the therapeutic segment, MorphoSys has created a strong market position and validated its technology through several corporate partnerships. The Company is currently involved in more than 50 different partnered therapeutic development programs in addition to its two internal programs targeting rheumatoid arthritis and cancer. Proprietary drug development offers very significant potential for the Company. During 2007, MorphoSys has set the course to maximize this potential.

All currently marketed antibody therapeutics are based on the research results of the past years and decades. Scientists worldwide are now working on the medicines of the future. Through its involvement in the research antibody market, MorphoSys is securing its access to innovative therapeutic approaches and opening up new opportunities, for example, in disease diagnosis.

THERAPEUTIC ANTIBODIES



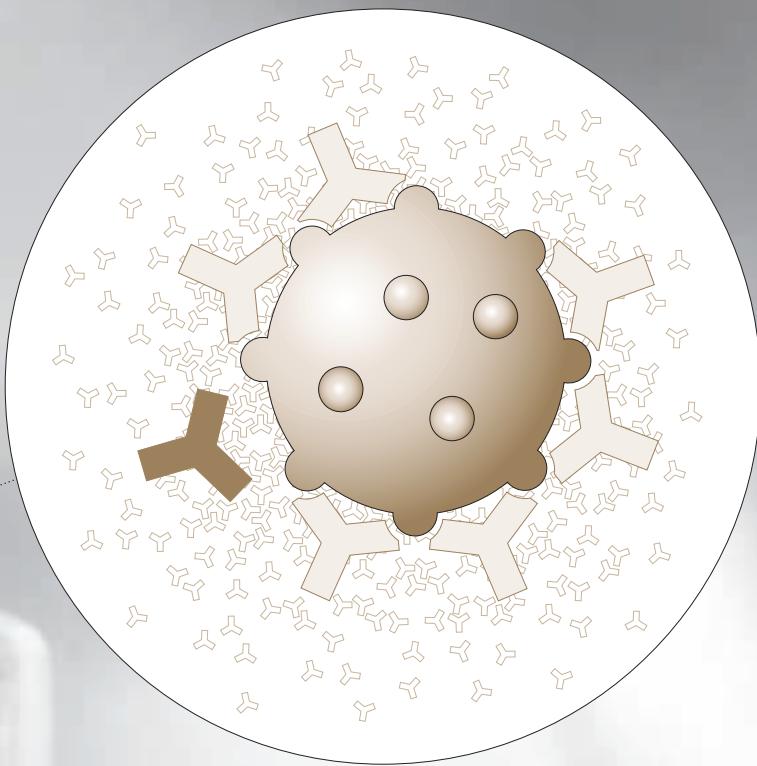
Antibody-based therapeutics have significantly improved treatment options for many serious and life-threatening diseases such as rheumatoid arthritis and cancer.

MORPHOSYS IS DEVELOPING A LARGE NUMBER OF THERAPEUTIC COMPOUNDS, BOTH INTERNALLY AND WITH PARTNERS. THE FUTURE WILL BE CHARACTERIZED BY MANY PRODUCTS BASED ON MORPHOSYS'S TECHNOLOGY.

Antibodies are well established as an innovative class of therapeutics. In patients, antibodies signal the human immune system that disease-causing elements, such as bacteria, viruses or cancerous cells, are present and then aid in their destruction. Selectively targeted, antibodies also avoid the damaging over-stimulation of the immune system.







ANTIBODIES FLAG CANCER CELLS FOR DESTRUCTION

Cancer cells are often differentiated from normal cells by specific cell-surface markers. These markers represent a point of attack for an antibody-based therapy. Antibodies bind to this receptor and signal the immune system of the presence of a disease-causing cell.

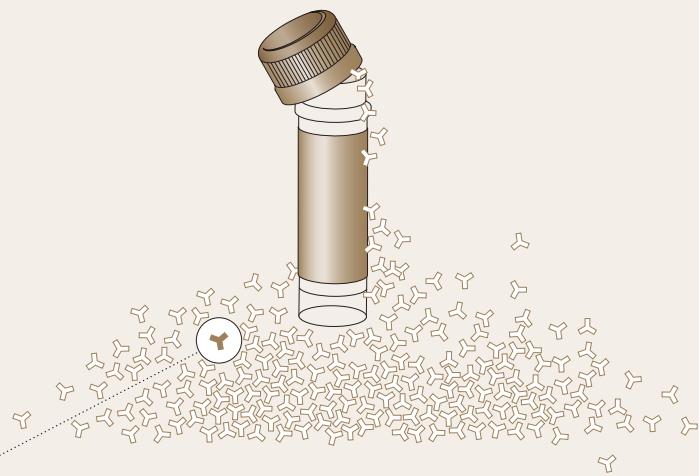
Therapeutic antibodies represent the most successful class of drugs developed by biotechnology and remain the fastest growing market within the pharmaceutical industry.

IN 2007, THE 20 MARKETED THERAPEUTIC ANTIBODIES TOGETHER PRODUCED APPROXIMATELY 25 BILLION US\$ IN REVENUE.



Over the last several years, MorphoSys has created a broad pipeline of drug candidates in partnership with leading pharmaceutical companies. Due to the financial support made possible by its strategic alliance with Swiss pharmaceutical giant Novartis, MorphoSys intends to intensify its own internal drug development efforts. Through this, the Company will increase its share of the financial benefits of successfully developed therapeutics.

ANTIBODIES IN RESEARCH



For decades, antibodies have been critical to scientific research and discovery. They remain one of the most widely used molecular tools in the lab.

IN THE PAST, RESEARCH ANTIBODIES WERE ALMOST ENTIRELY PRODUCED FROM ANIMALS. MORPHOSYS'S TECHNOLOGY CAN REPLACE THIS ANTIQUATED SYSTEM.

Due to their ability to selectively bind to other substances, in particular specific components of proteins, antibodies are ideal “detectives” to locate and prove the presence of even minuscule amounts of target molecules. A portion of all research antibodies in use could therefore be useful for diagnostic or therapeutic applications.





morphosis



ANTIBODIES AS MOLECULAR SEARCH ENGINES

In a test procedure, scientists can analyze the entire protein configuration of a cell. Antibodies mark the relevant proteins for the experiment. The missing or altered amount of the protein produces an indication of the function of the protein under examination.

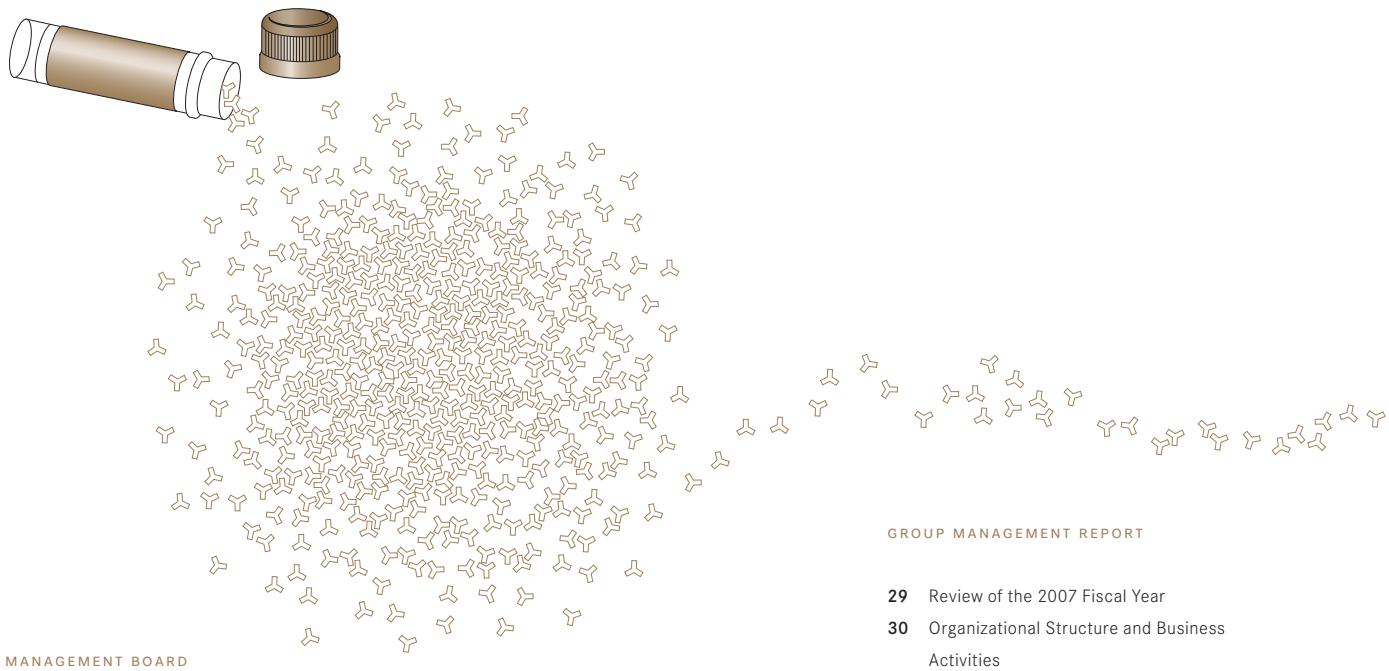
The research antibody market is currently in technological and structural transition. MorphoSys sees this as an exciting opportunity for further growth.

ON A YEARLY BASIS, RESEARCHERS WORLDWIDE INVEST APPROXIMATELY ONE BILLION EUROS IN RESEARCH ANTIBODIES.
MORPHOSYS INTENDS TO ESTABLISH ITSELF AS THE WORLD LEADER IN THIS MARKET.



MorphoSys's business segment AbD Serotec has become an established name in the market for research antibodies. AbD is the only provider of novel research antibodies created through modern technology and not animal-based processes. The primary competitive advantages of this technology include speed and flexibility in the choice of products.

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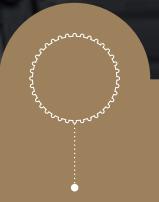
Management Board of MorphoSys AG



DR. MARLIES SPROLL
Chief Scientific Officer



DR. SIMON E. MORONEY
Chief Executive Officer



DAVE LEMUS
Executive Vice President
Chief Financial Officer

Letter to the Shareholders

Dear Shareholders,

After a year of extraordinary success for our business, I'm delighted to present to you the MorphoSys Annual Report for 2007.

In this past year, the Company has reached a new stage of its development. The large-scale expansion of our corporate relationship with the Swiss pharmaceutical giant Novartis was the year's most important event. This new deal, signed in December, offers us unprecedented value-building opportunities and transforms our prospects for future growth. Nevertheless, the cornerstones of our business strategy remain exactly as before, namely the development of antibody-based medicines as well as the expansion of our proprietary HuCAL technology into the research tool market.

Our partnered therapeutic development business is at the heart of this strategy. Partnership deals form the basis of our current financial success and the programs pursued within these partnerships will deliver growth in the years ahead. The large number of programs in partnered development - 50 at year-end - is not only a great achievement in and of itself, but speaks also to the quality of our proprietary technology and broad antibody expertise. During the year, the partnered pipeline was substantially strengthened, as two further product candidates reached the clinic, bringing the total number of HuCAL-based therapeutic antibodies being tested in humans to four. One of these two programs emerged from our existing collaboration with Novartis, a clear illustration of the progress of the partnership, in that this drug candidate reached the clinic only three years after the original deal was signed.

Our partnerships with some of the world's leading pharmaceutical companies have produced a critical mass of HuCAL-based drug projects that is already generating a growing income stream in the form of milestone payments and, in the medium to long term, will provide lucrative royalty revenues. The extremely solid financial foundation that we have thereby created is now enabling us to focus on building value further via more creative corporate partnerships with pharmaceutical and biotech companies. The new deal with Novartis exemplifies this.

Why is the extended collaboration with Novartis so important? Our objective in entering this landmark deal was twofold: first, to generate enough free cash flow to finance our own drug development activities, and second, to lock in all the benefits of our partnered drug discovery model for the long term. We achieved both objectives in a deal that not only dwarfs our other relationships, but is also one of the biggest in the entire industry. The alliance will generate committed payments totaling over US\$ 600 million.



“The large-scale expansion of our relationship with Novartis was the year’s most important event.” Dr. Simon E. Moroney, Chief Executive Officer

A reasonable estimate of milestone payments takes the total deal value to over US\$ 1 billion. Equally importantly, the multitude of drug programs that will be pursued over the course of the collaboration means that our HuCAL product pipeline will expand substantially, and the potential for future royalty flows to MorphoSys will grow exponentially. It should not be forgotten that our other partnerships will continue as planned, thereby adding to the strength and depth of our pipeline. This strategy allows us to maintain one of the lowest risk profiles in the industry while simultaneously capturing a very high level of growth potential.

With our partnered drug discovery activities secure, we are now turning our attention to investing the free cashflow that the business is generating to create even more value. There is no dispute that the greatest value creation in the pharmaceutical industry is achieved by proprietary drug development. Armed with a powerful, proprietary technology for generating antibodies, the most proven class of biotherapeutics in the industry, MorphoSys is ideally positioned to build its drug pipeline. Our goal is to create an attractive, independent future for the Company in which we can continue to build value for all of our shareholders.

As planned, we filed a clinical trial application for our lead project, MOR103 for the treatment of rheumatoid arthritis, at the end of 2007. Because of the competitive therapeutic area that this program addresses, we have until recently released very few details about the compound. Early in 2008, we announced that the target molecule against which MOR103 is directed is GM-CSF. At the same time, we disclosed an exclusive license agreement on a fundamental US patent covering the blockade of GM-CSF as a means of treating inflammatory diseases. We expect this license to give MorphoSys an exclusive position on marketing rights for therapeutic antibodies targeting GM-CSF in the United States, which is by far the largest market for arthritis treatments.

Our AbD Serotec research antibody segment continues to be an important component of our business. Due to our activities in this market, recognition of the power of the HuCAL technology has increased dramatically. This has allowed us to sign key collaborations with medically focused research institutes, an example of which is our relationship with the Burnham Institute in the US, one of the most highly regarded organizations of its kind worldwide. Furthermore, our agreement with Genesis Research & Development, a New Zealand-based company, exemplifies an important synergy between AbD Serotec and our therapeutic antibody segment. Genesis sourced a research antibody from AbD Serotec, and subsequently showed that this antibody has potential as a therapeutic agent. When Genesis approached us for a license, we were able to negotiate a co-development option. In other words, what started as a normal customer relationship for AbD Serotec has been transformed into a potential joint development program for MorphoSys.

The alliance with Novartis will generate committed payments totaling over US\$ 600 million. A reasonable estimate of milestone payments takes the total deal value to over US\$ 1 billion.

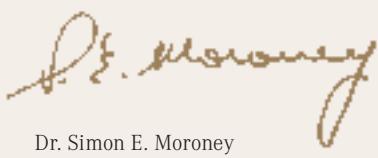
The Company's financial performance in 2007 was its best ever. Total revenue reached € 62 million, operating performance passed € 7 million and net profit exceeded € 11.5 million, all records for MorphoSys. The therapeutic segment showed particularly strong performance. Although the AbD Serotec segment fell somewhat short of its financial targets for the year, the unit was cash-generative, and continued to outgrow the market. Overall, with its secure cash flows and strong balance sheet, the Company is in better financial shape than ever.

Our share price benefited greatly from the announcement of our alliance with Novartis. Despite the recognition that this deal brought, over the entire year, the shares suffered against the backdrop of high-profile product development failures at other companies, which weighed heavily on market sentiment and affected all biopharmaceutical stocks. As a result, our shares underperformed in the market: on the last trading day of 2007, the stock was 12% down for the year, while the technology index of the Frankfurt Stock Exchange, the TecDAX, achieved 30% growth.

Nevertheless, the Company's achievements during the year enable us to look forward with confidence. The New Year brings with it a new era for MorphoSys. While we will continue to profit from the steady advance of our partnered drug development pipeline, we intend to devote more attention to our internal drug development efforts in the future. The primary example of this is the progress we foresee for our lead compound MOR103, which we expect to move through phase 1 clinical trials during 2008. We recognize that proprietary drug development requires increased investment, but that won't cause us to deviate from the disciplined financial management that has brought us to our current position of strength.

I am convinced that we have set the course for the Company's future in this last business year, more so than any year in our past. I extend my thanks to all our employees worldwide for their impressive contributions, their confidence and their creativity. I would also like especially to thank you, our shareholders, for your commitment and trust in our Company. I'm sure you'll join me in wishing the Company an even more successful year in 2008.

Sincerely yours,



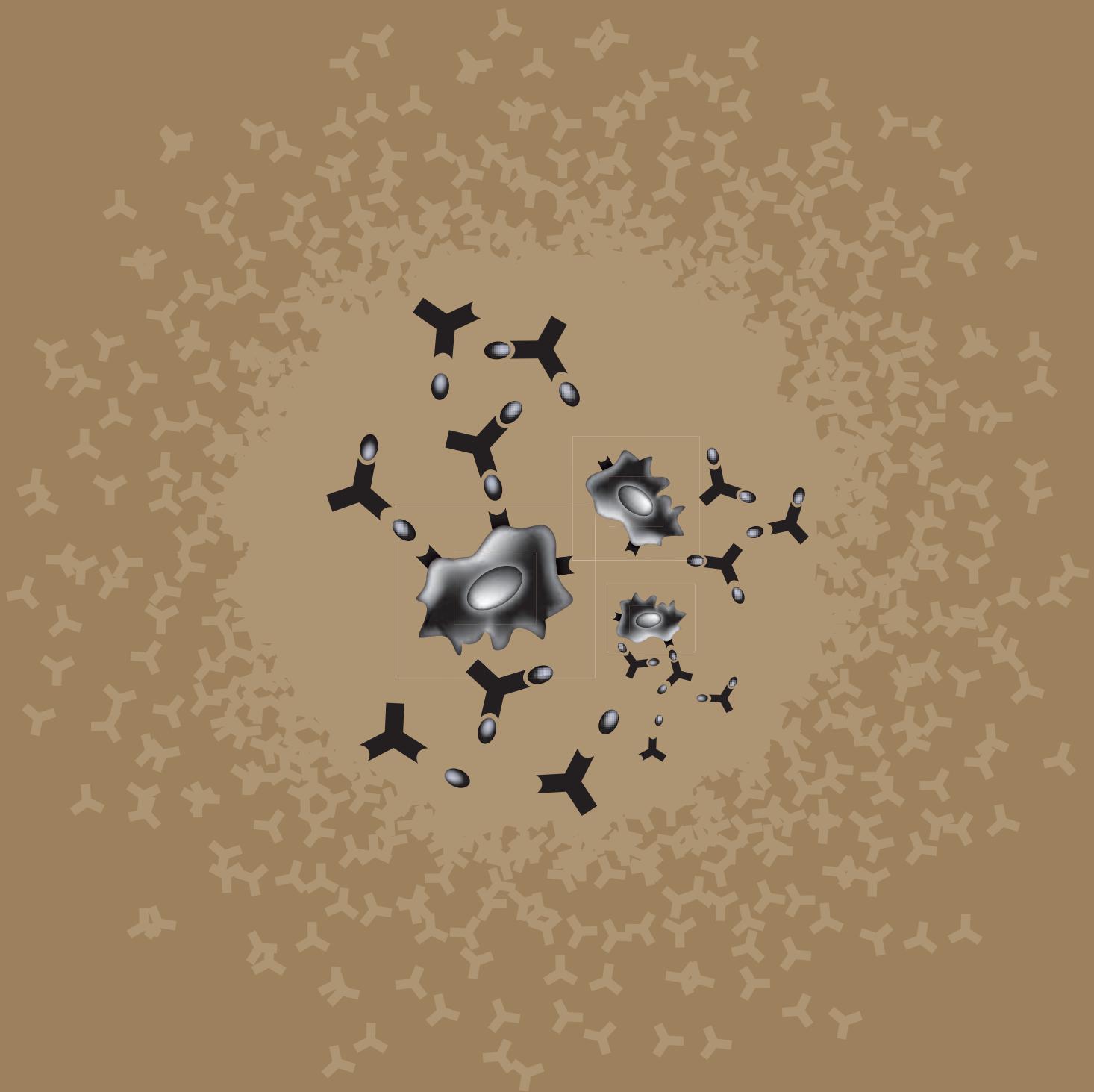
Dr. Simon E. Moroney
Chief Executive Officer





“MOR103 is a very exciting program, which may lead to a new way to treat rheumatoid arthritis.”

In December 2007, MorphoSys submitted a clinical trial application to initiate a phase 1 trial using the HuCAL-derived antibody MOR103, which is targeted for the treatment of rheumatoid arthritis. The trial will be conducted in approximately 50 healthy volunteers to evaluate safety and tolerability as well as the pharmacokinetics of the drug candidate. Following this trial, MorphoSys plans to evaluate the clinical efficacy in patients. | DR. STEFAN STEIDL, ASSOCIATE DIRECTOR, RESEARCH & DEVELOPMENT



THE MORPHOSYS ANTIBODY MOR103 binds to its target molecule, the messenger GM-CSF, and thus inhibits the activation and proliferation of inflammatory macrophages and neutrophils in the diseased joint. Ideally, the antibody will act early to prevent many pathogenic processes related to rheumatoid arthritis.

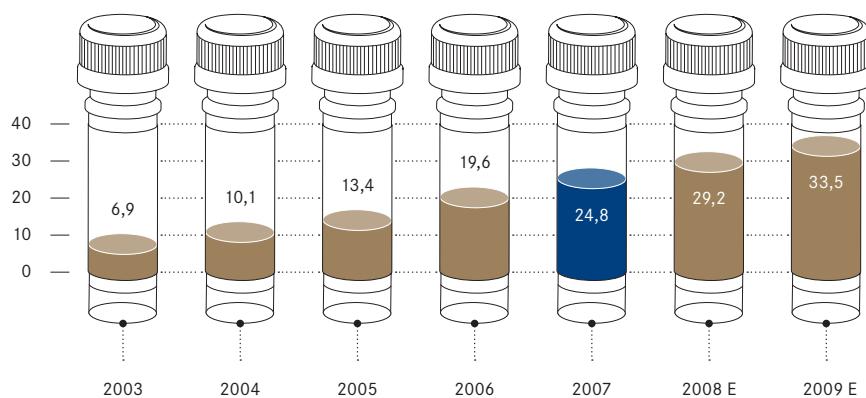
Market and Strategy

ANTIBODIES – INNOVATIVE THERAPEUTICS AND ESSENTIAL RESEARCH TOOLS

Therapeutic antibodies represent several of the most successful drugs produced by the biotechnology industry. Antibody-based medicines have contributed significantly to improved therapeutic outcomes for severe and life-threatening diseases. In addition, antibodies are critical tools for scientific research and are the core of modern diagnostic medicine. MorphoSys has leveraged its proprietary technologies and its broad antibody expertise to establish a leading position in its core markets – the discovery of new antibody therapeutics, and antibody-based research products.

The therapeutic antibody market remains one of the fastest-growing segments in the pharmaceutical industry, with a growth rate of approximately 30% per year. The 20 antibody-based drugs already on the market are targeted to achieve combined sales of US\$ 25 billion in 2007. Due to increased life expectancy for people living in industrialized nations and the growing understanding of disease, the need for antibody technologies and innovative therapeutics remains very high. Medical experts believe that there continues to be a large number of unexplored opportunities for new therapeutic approaches using antibodies.

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



Source: Datamonitor

Using the Company's core technology for its own proprietary drug development represents the highest potential for value creation.

MorphoSys's goal is to increase the value of its pipeline, and therefore of the Company, through expanded activity in internal product development. The Company's objective is to be highly selective in entering candidates into its internal pipeline.

MorphoSys maintains a two-pronged strategy in the therapeutic antibody market, namely: partnered drug development and internal development of novel therapeutics. MorphoSys also benefits from a large number of development programs through multiple corporate alliances. In addition, the Company has laid the groundwork to advance its own proprietary drug development. This combination enables a balance between optimized financial participation in successful new projects and, in parallel, protection from the risks inherent in modern drug development.

The research antibody market is an attractive market for MorphoSys due to the fact that scientists worldwide spend an estimated € 1 billion per year for these research tools. Based on the emphasis placed on scientific research by Western nations, and in particular by growing markets in Asia, MorphoSys expects an increasing demand for research antibodies.

Over the last three years, MorphoSys has successfully built a research antibody business and established the brand AbD Serotec among the world's leading suppliers for this class of lab tools. The custom antibody generation business, historically the initial motivation to establish this segment, has outperformed the market in particular and achieved growth rates in excess of 20% annually. In addition, the Company expects that the combination of the therapeutic and research antibody businesses will produce beneficial synergies, for example, as a source of and the ability to convert successful research antibody relationships into more financially advantageous diagnostic antibody business opportunities.



PARTNERED DRUG DEVELOPMENT – A SECURE FINANCIAL BASE

MORE INFORMATION AT
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MorphoSys has created a substantial pipeline of highly promising drug candidates* by signing and successfully advancing collaborations with a diverse group of partners across the pharmaceutical and biotechnology industry. At the end of 2007, MorphoSys and its partners had a total of 50 therapeutic antibody programs underway. Of this number, four drug candidates are



in clinical testing, with an additional 23 in preclinical evaluation, several of which should enter the clinic in 2008. Due to milestone payments and royalties, this pipeline is expected to produce an attractive revenue flow over the next several years.

For all projects resulting from partnered collaboration, MorphoSys incurs no corporate risk, because the partner covers all costs. Nevertheless, MorphoSys profits from successful development in the form of milestone payments that range from € 9 million to € 12 million per program. Should a drug candidate reach the market and achieve product sales, MorphoSys will benefit from a percentage of sales through royalty payments on net sales of products in the mid-single-digit range.

In 2007, the Company decided to identify an appropriate pharmaceutical partner to pursue a broader relationship that would significantly increase the Company's value over the next few years. Such an alliance was intended to do two things. First, to secure the future of the Company's partnered discovery business and second, to provide enough free cash flow to further finance the Company's independent drug development activities. In December 2007, MorphoSys entered a major strategic alliance with Novartis* which achieved both of these goals. The agreement extends far beyond all other corporate partnerships that the Company has signed over its 15-year history and represents one of the most comprehensive research partnerships ever signed in the pharmaceutical industry.

Under the agreement, which is slated to continue until 2017, both companies will focus on initiating a large number of antibody development programs. This effort, which also allows for the potential to initiate new programs within MorphoSys's existing partnerships, should increase the total pipeline exponentially over the next few years. Not only does this enhance the potential that multiple HuCAL-based therapeutics will reach the market, it will also increase MorphoSys's financial flexibility based on the achievement of success-based milestone payments. The Company will continue to maximize the opportunities presented by its current partnerships, but in the future, MorphoSys will place more emphasis on the further expansion of its proprietary drug development programs.



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PROPRIETARY THERAPEUTICS – OPTIMIZING PIPELINE VALUE

Due to the progress made by the partnered portion of its business, MorphoSys has the financial resources to increase its investment in internal drug development and therefore raise the value of the Company substantially. The new alliance with Novartis in particular provides both contractually committed as well as success-based payments that fundamentally change MorphoSys's ability to expand its internal therapeutic development efforts and accelerate the progress. MorphoSys's stated goal is to increase the value of its pipeline, and therefore of the Company, through expanded activity in internal product development.



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Using the Company's **core technology*** for its own proprietary drug development represents the highest potential for value creation. For each product that MorphoSys advances itself into the clinic, the Company has the opportunity for a substantially higher rate of financial benefit through out-licensing or co-development with an external partner as for those products that begin under a partnered collaboration. The Company's objective is to be highly selective in entering candidates into its internal pipeline.

In addition, MorphoSys will seek to increase the value of its pipeline through exercising the option to co-develop specific programs under the new agreement with Novartis and accessing specific marketing and distribution rights within the framework of co-developed projects. As part of the Novartis agreement, MorphoSys has the option to take part in the later development of multiple projects, even though Novartis will cover a portion of the costs for the early stages of development. For those programs in which MorphoSys chooses to participate in co-development, the Company can decide to share costs and profits, with the financial component reflecting the level of investment.

Through this mix of partnered programs, co-financed co-development and internal therapeutic development, the Company has created one of the most attractive risk profiles in the biopharmaceutical industry. As opposed to other companies where the growth potential is based on one or two drug candidates, MorphoSys has a broad foundation of promising drug development opportunities. Across the biotechnology industry, MorphoSys sees this as an extremely sustainable business model.



SEE GLOSSARY P. 144

The current internal drug development pipeline includes two programs: MOR103, an antibody to treat **rheumatoid arthritis***, and MOR202, a compound that targets blood-borne cancers. As anticipated at the beginning of 2007, MOR103 is ready to enter the clinic as of year-end. At the same time, the Company has achieved a solid patent coverage for MOR103, and generated encouraging data for MOR202 in cancer. With these achievements, the Company has created a strong foundation for generating further value with the internal pipeline.

ABD SEROTEC – NEW MARKETS AND THE SEARCH FOR THE MEDICINES OF TOMORROW



SEE GLOSSARY P. 144

The research antibody market is in a phase of technological and structural transition. Until only recently, antibody products were developed using antiquated, animal-based technologies. MorphoSys is convinced that in the medium to long term, animal-based methods will be completely replaced by *in vitro** approaches like HuCAL GOLD, and therefore sees itself at the forefront of this transition. Within this context, MorphoSys sees the revenue growth for its HuCAL-based research antibodies as an important trend for the coming years.

The synergies inherent in MorphoSys's business model are based on the opportunity to convert AbD Serotec customers whose first exposure to the Company's core technology through the research antibody business will encourage them to bring higher value-added projects, such as diagnostics, to MorphoSys. In the past, this approach has been demonstrated twice as it relates to therapeutics with the Japanese pharmaceutical company Astellas in 2007 and US-based pharmaceutical giant Merck, Inc., in 2006. Both companies based their decision to initiate a therapeutic partnership with MorphoSys on their positive research antibody experience with HuCAL and AbD Serotec.

Going forward, MorphoSys's primary objective is to use this synergy to gain access to currently investigated or yet undiscovered therapeutic approaches and innovative therapeutic molecules, thereby increasing the opportunities to expand the internal pipeline through co-development partnerships, for instance. In 2007, the Company finalized an agreement with the New Zealand biotechnology company Genesis Research, also a former customer of AbD Serotec. The agreement provides MorphoSys with a co-development option on the Zyrogen development program focused on a HuCAL-generated therapeutic antibody against the target molecule FGFR5, a receptor of the human fibroblast growth factor, which has been implicated in several different autoimmune and bone-related diseases. Both partners will decide on the further development of the project based on data that will be produced in the course of the collaboration.

MorphoSys is advancing comprehensive use of the technology within the research community, for example with the well-regarded US-based Burnham Institute as well as several Japanese research institutions in order to leverage the technology to identify new potential therapeutic targets. The Burnham Institute has access to new research antibodies developed by AbD Serotec for identifying and further defining novel target molecules with therapeutic potential. In return, MorphoSys receives all commercial rights for resulting antibodies. These antibodies can become part of the AbD Serotec product range as well as being used for therapeutic or diagnostic applications. MorphoSys intends to continue to promote this network among of HuCAL users at medically focused research institutions.



ANTIBODIES IN THE FIGHT AGAINST RHEUMATOID ARTHRITIS

MorphoSys's most advanced internal development program is MOR103 – a therapeutic HuCAL antibody for the treatment of rheumatoid arthritis. Approximately four to six million people worldwide suffer from this disease. The MorphoSys antibody MOR103 attacks a central node in the network of disease-mediating factors and could potentially inhibit and/or limit the destruction of joints triggered by the disease, including hand, knee, shoulder, foot, and hip joints. In 2008, MorphoSys will begin clinical development of this antibody with tests in healthy volunteers.

Rheumatoid arthritis (RA) is a chronic inflammatory autoimmune disease, thought to be caused by a disorder of the immune system. The immune system is usually able to distinguish between the body's own tissues and foreign bodies such as viruses or bacteria, but occasionally it mistakenly recognizes the body's own healthy cells as foreign. In RA, this process mainly occurs in a membrane called the synovial membrane, which surrounds every mobile joint in the human body and creates a protective, fluid-filled sac around the joint.

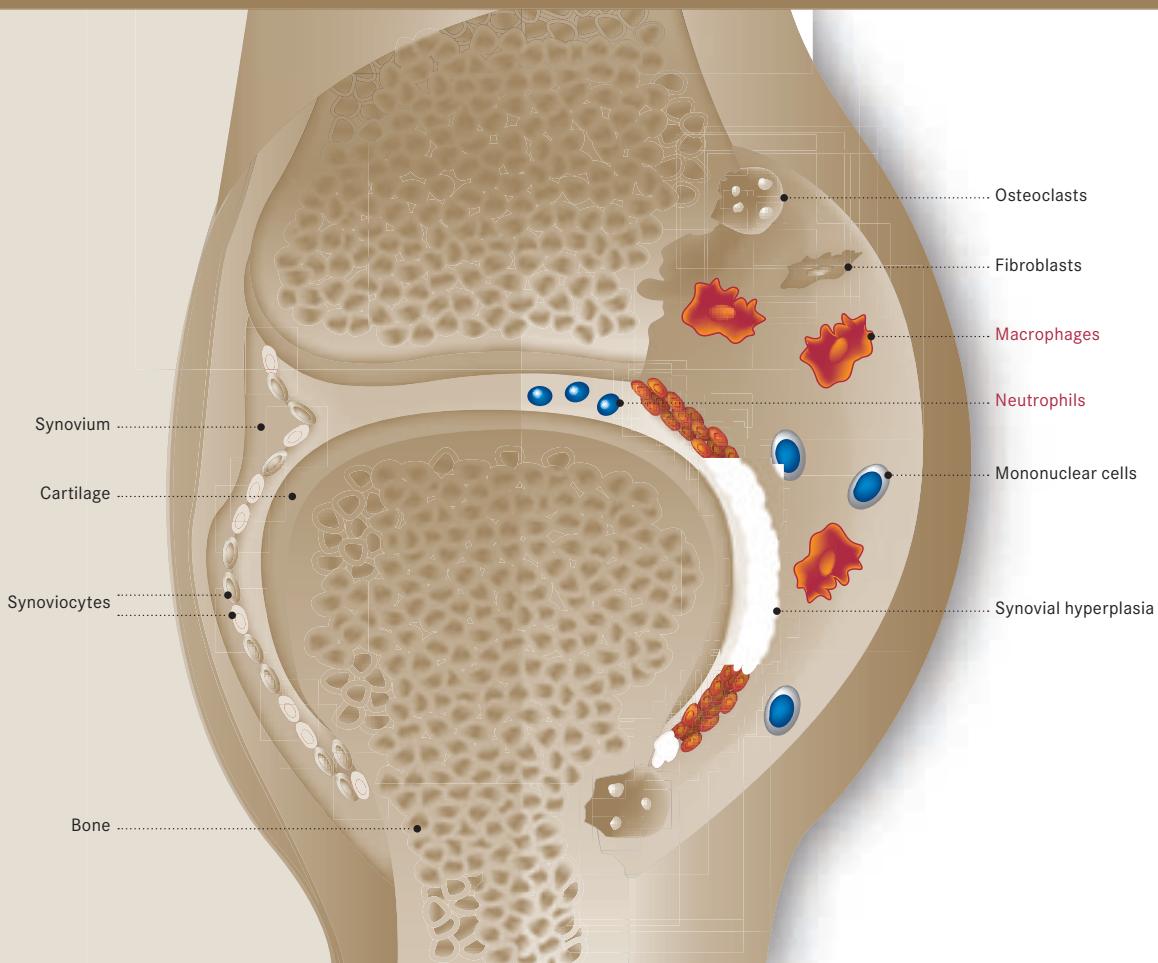
In the diseased joint, disruption of the normal inflammation process results in a significant chronic swelling and ultimately leads to destruction of the cartilage and bone tissue as well as progressive deformation of the joint. Damage can also occur throughout the whole body, including the skin, blood vessels, heart, lungs, and muscles. A wide range of immune cells builds up in the joint, which causes further progression of the disease by stimulating the production of various signalling molecules. MorphoSys's drug candidate aims to disrupt this chain of events.

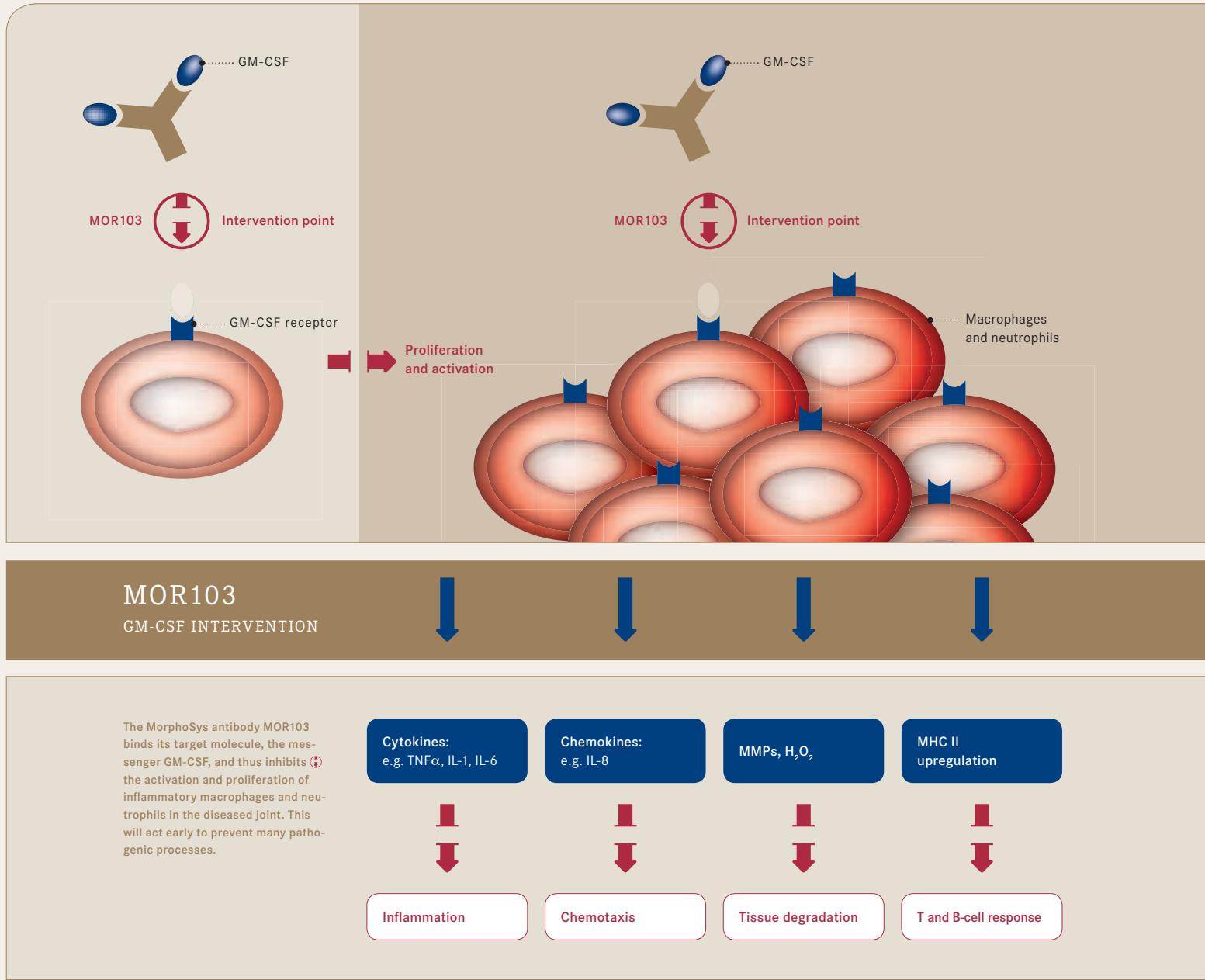
NORMAL

RHEUMATOID



Many types of immune cell accumulate in a diseased joint. The cell types, macrophages and neutrophils, which are activated by the messenger GM-CSF, play a key role in the progression of the disease, which in the late stages increasingly affects bone and cartilage tissue.





The target molecule GM-CSF, a growth factor for white blood cells that is bound by MOR103, plays a key role in the disease process that destroys joints. GM-CSF is part of the natural immune and inflammatory cascade, but is also an inflammatory mediator in autoimmune processes such as RA. In inflamed joints where GM-CSF is found in high levels, it also contributes strongly to the release of other signalling

molecules. GM-CSF binds to its complementary receptor on the surface of specific immune cells in the joint, stimulating their activation and proliferation. Two categories of white blood cells that are activated in this process, the neutrophils and the macrophages, act directly to increase the production of a complex network of pro-inflammatory and pathogenic molecules in surrounding tissues, as well as



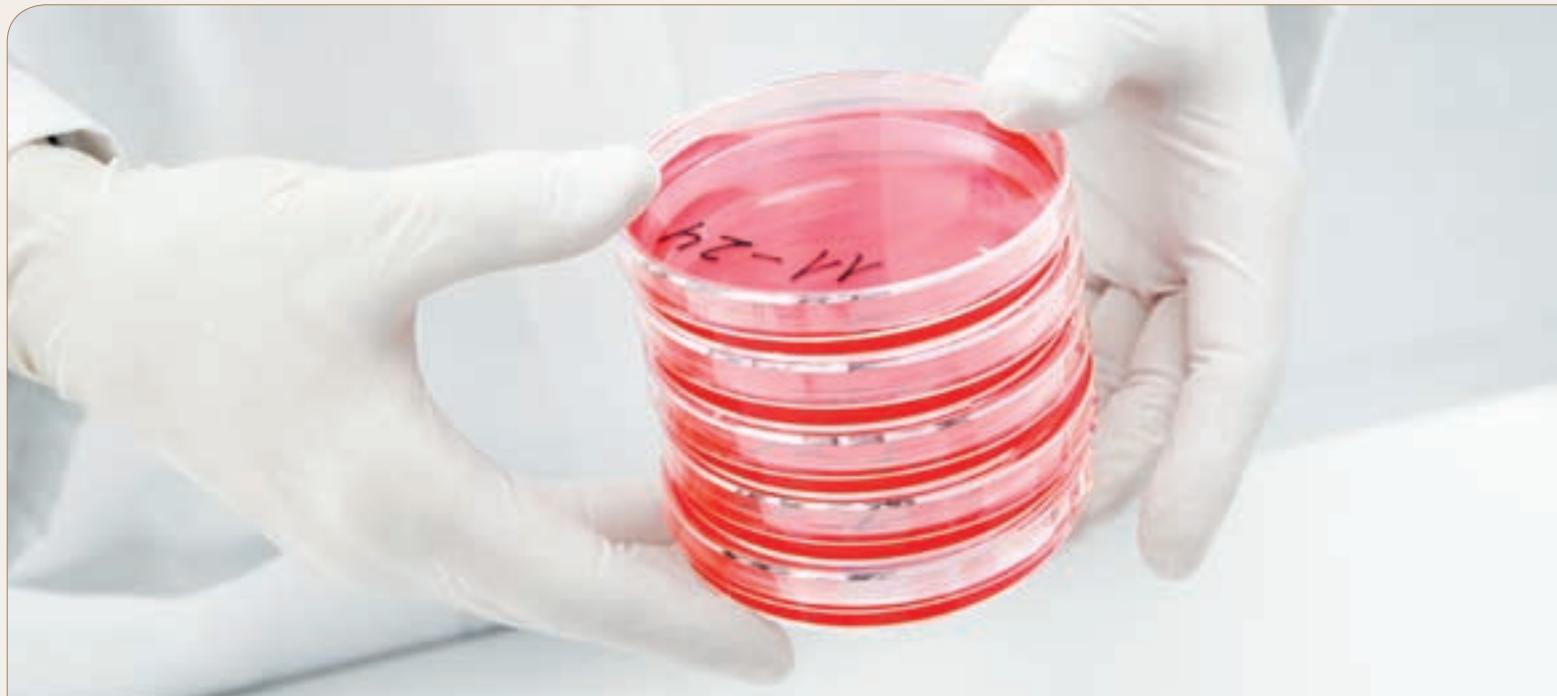
further increasing the immune reaction by activating B and T cells. These processes create an increasing vicious circle that ultimately leads to increased destruction of the joint. The HuCAL-derived antibody MOR103 acts to neutralize GM-CSF, which should reduce the unwanted dispersal and activation of the inflammatory immune cells in the diseased joint and in this way attempts to disrupt the inflammatory cycle.

There is specific scientific evidence that points towards GM-CSF playing a pivotal role in RA. Injection of GM-CSF was found to worsen arthritic symptoms in RA patients. On the other hand, mice unable to produce the protein GM-CSF are resistant to the induction of autoimmune diseases. Additionally, the number of macrophages in an inflamed joint is directly correlated with the extent of the joint damage in human RA patients, which further validates this target molecule. Finally, MorphoSys's antibody MOR103 itself has already shown various promising results in two animal models of RA.

CONVINCING SCIENTIFIC RESULTS IN A STRONG MARKET POSITION

The market for drugs for the treatment of rheumatoid arthritis shows very strong growth. In 2004, worldwide sales figures for modern biopharmaceutical drugs to treat RA were in the region of US\$ 6 billion. The market is expected to increase further to US\$ 14 billion in 2009, and is a highly competitive sector in the pharmaceutical industry.

There is currently no cure for RA. In recent years, drugs developed through biotechnology – among them other therapeutic antibodies – have greatly improved the treatment options. Despite this recent progress, the demand for additional improved treatment methods remains huge. The MOR103 approach mirrors that of the most successful class of anti-inflammatory agents known to date, namely the group of substances that neutralize the soluble cytokine TNF (tumor necrosis factor-alpha). In this regard,



MOR103 is expected to belong to the class of immuno-suppressive agents, albeit exhibiting a distinct mechanism of action compared to the anti-TNFs. Therapeutics with new mechanisms of action are high on the wish list of most practicing rheumatologists.

To further improve the competitive position of MOR103, MorphoSys has built up a strong position in intellectual property for its program. MorphoSys announced an agreement with the University of Melbourne in 2007, providing the Company with exclusive access to rights covering the use of inhibitors of GM-CSF, under a US patent application and its progeny. Scientists Professor John Hamilton and Professor Gary Anderson, whose discoveries are covered in the patent application, have been leaders for many years in the field of basic GM-CSF biology and understanding the role of this target molecule in the progression of RA. Their fundamental work in this area is

increasingly acknowledged as the basis for targeted anti-GM-CSF therapy.

As per evaluation by MorphoSys AG, the license acquired by MorphoSys can lead to exclusive marketing rights for therapeutic antibodies targeting GM-CSF in the USA. The USA represents the lion's share of the market for drugs to treat RA. In addition to the licensing of this patent, MorphoSys has filed additional patent applications for the HuCAL-derived antibody MOR103.

The important scientific basis, the new mode of action, and the previously available data on the target molecule GM-CSF combine to increase MorphoSys's confidence in MOR103 as an attractive candidate in its portfolio for the treatment of RA. Above all, the strong patent position and the low level of direct competition suggest that the approach has significant economic potential.



INTERVIEW WITH PROF. DR. HARALD BURKHARDT

JOHANN WOLFGANG GOETHE-UNIVERSITÄT, FRANKFURT AM MAIN, GERMANY



Prof. Dr. Burkhardt serves as Professor of Rheumatology and Head of the Division of Rheumatology at the University of Frankfurt. During his career he participated in a variety of late-stage clinical studies of biologicals such as TNF-blocking agents, IL-1 receptor antagonists and the therapeutic antibody Rituximab® for the treatment of RA, and other inflammatory indications.

There are drugs already on the market for the treatment of RA. Do you really think that more are needed?

Prof. Dr. Burkhardt | In my opinion there is still a substantial unmet medical need, because fewer than 25% of patients achieve a sustained remission, which is the best achievable state of an RA-patient under presently available treatment options. A large group of patients do not benefit at all from current treatments and there are safety concerns associated with long-term use of existing anti-TNF therapies. These considerations are strong incentives that drive the search for new treatment options, particularly for drugs with innovative modes of action such as MOR103.

Why is the target molecule GM-CSF a promising starting point for treatment of RA?

Prof. Dr. Burkhardt | Antibodies that neutralize GM-CSF could constitute a new generation of medicines that reduce inflammation with greater beneficial effects. Scientific results point to a fundamental role of GM-CSF in critical pathogenic pathways of rheumatoid arthritis that are currently not adequately addressed by the available drugs. Above all, the effect of GM-CSF is rather restricted to particular locations, such as the inflamed joints, whereas usually it plays only a minor role in the rest of the body. This could reduce the likelihood of unwanted side effects from treatment.

What potential do you see for the treatment of other inflammatory conditions?

Prof. Dr. Burkhardt | The target molecule GM-CSF plays distinct roles in the immune system and consequently could be a target for a wide range of anti-inflammatory therapies. The antibody MOR103 could also have potential for the treatment of other diseases such as psoriasis, multiple sclerosis, chronic bronchitis, or asthma, but new research has to be performed to establish its therapeutic use in each disease entity.

The MorphoSys Share

The year 2007 was marked by a number of high-profile product setbacks, which weighed heavily on market sentiment and affected all German biotech stocks. Against this difficult backdrop, the MorphoSys share suffered as well, falling 12 % for the year, but nonetheless significantly outperformed all other German bio-therapeutic stocks.

KEY DATA FOR THE MORPHOSYS SHARE

		2003	2004	2005	2006	2007
Total Stockholders' Equity	in million €	27.3	39.4	64.0	100.1	145.5
Number of Shares Issued (Total)	shares	4,901,332	5,438,852	6,025,863	6,715,322	7,386,753
Market Capitalization	in million €	55	207	249	365	357
Closing Price (Xetra) End of December	€	11.14	38.10	41.32	54.37	48.30
High	€	13.42	43.49	44.69	55.20	59.49
Low	€	6.51	10.65	28.20	35.10	34.40
Average Daily Trading Volume	€	334,021	1,448,640	1,440,103	2,405,525	2,918,278
Dividend	€	-	-	-	-	-
EPS (Diluted)	€	(0,72)	0.05	0.83	0.93	1.59

STOCK PERFORMANCE INFLUENCED BY NEGATIVE INDUSTRY SENTIMENT

During the 2007 fiscal year, the MorphoSys stock price decreased by 12 %, while the TecDAX index increased by 30 %. Key factors contributing to the underperformance in comparison to the index were on the one hand the positive development of solar energy companies' stocks, and on the other hand several prominent failures and investor disappointments within the German biotechnology sector, leading to a massive flow of funds out of the sector. Additional factors included the sub-prime mortgage crisis in the US, and the associated fears in the capital markets about a worldwide economic downswing. At the end of the fiscal year, MorphoSys's market capitalization amounted to approximately € 357 million (December 31, 2006: € 365 million).

Further details of the stock's performance are shown in the following chart.

THE MORPHOSYS SHARE (January 2, 2007 = 100 %)

During 2007, the MorphoSys stock price decreased by 12%, while the TecDAX increased by 30%, and the NASDAQ Biotechnology Index by 5%.



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INDEX MEMBERSHIP AND LIQUIDITY

Since September 2004, MorphoSys has continuously been a member of the TecDAX* index, which includes the 30 largest technology stocks on the Frankfurt Stock Exchange. At the end of 2007, the Company occupied the 24th position based on market capitalization (December 31, 2006: 26th place) and 21st place based on trading volume (December 31, 2006: 15th place).

Stock liquidity remained relatively high. The average daily trading volume was € 2.9 million per day – an increase of 21% (2006: € 2.4 million), which represented an average of 18% of outstanding shares traded per month. Stock volatility increased to 49% in 2007 compared to 41% in 2006.

STOCKHOLDER BASE

The countries with the highest percentage of MorphoSys shares are traditionally in Europe, namely Germany, Switzerland, the United Kingdom and France. From the analysis of the stockholder structure, the Company gathers important information which is used to further optimize the regional focus of investor relations activities.

In May 2007, MorphoSys successfully placed 652,188 shares with international institutional investors in Europe (mainly France and Germany) and in North America, at a price of € 50.00 per share. Through the issue, the Company raised gross proceeds of approximately € 32.6 million.

At the end of 2007, the two largest shareholders held – according to the Company's latest information – approximately 12% of shares. Novartis Pharma AG held approximately 7% of total shares, which were acquired as part of the strategic partnership with MorphoSys in May 2004. AstraZeneca held a further 5% of total shares.

The free float, which is generally taken into account in the weighting of MorphoSys's stock in stock indices, is 88% of the capital stock.

KEY DATA FOR THE MORPHOSYS SHARE IN 2007	
Deutsche Börse, Prime Standard, Frankfurt	
Securities Identification Number	663 200
International Securities Identification Number	DE0006632003
Stock Exchange Abbreviation	MOR
Reuters	MORG.DE
Bloomberg	MOR GR
Index membership	TecDAX, and others

INVESTOR RELATIONS: CONTINUITY AND TRANSPARENCY

The Company further optimized investor relations efforts in 2007; the focus was on targeted investor relations as well as further improvement of the online information service via the corporate website.

Over the course of the year, more than 150 investor meetings were held in ten countries. The Management Board presented MorphoSys's business model and strategy at a total of 16 international investor conferences.

MorphoSys's corporate website provides all stakeholders with a high degree of transparency of all investor relations activities. Financial reports, presentations and publications are available online and for downloading. Analysts' and investors' meetings, conference calls, the Annual Press Conference and Annual Shareholders' Meeting are available in video or audio format and also as podcasts. There are also several sections with detailed information on the MorphoSys stock, financial guidance, corporate governance and the Annual Shareholders' Assembly.

As of December 31, 2007, 14 analysts regularly produced analyst reports on the Company's progress, as compared to twelve in the previous year. As of that year-end date, analyst coverage of MorphoSys remained primarily positive, with ten stating "Buy" or the equivalent, one "Sell" or the equivalent, and three "Hold" or the equivalent (2006: nine "Buy," three "Sell" and one "Hold"). In January 2008, Commerzbank initiated a research coverage with a "Buy" rating.

Y LIST OF ANALYSTS (IN ALPHABETICAL ORDER) Y

B. Metzler seel. Sohn & Co. KGaA
Berenberg Bank
Commerzbank**
Credit Suisse First Boston
Deutsche Bank AG
Dutton Associates
DZ Bank AG
Equinet Institutional Services AG
Landesbank Baden-Württemberg
MIDAS Research GmbH
Sal. Oppenheim*
SG Securities
VISCARDI Securities GmbH
Vontobel
WestLB AG

* Added in 2007

** Added in January 2008

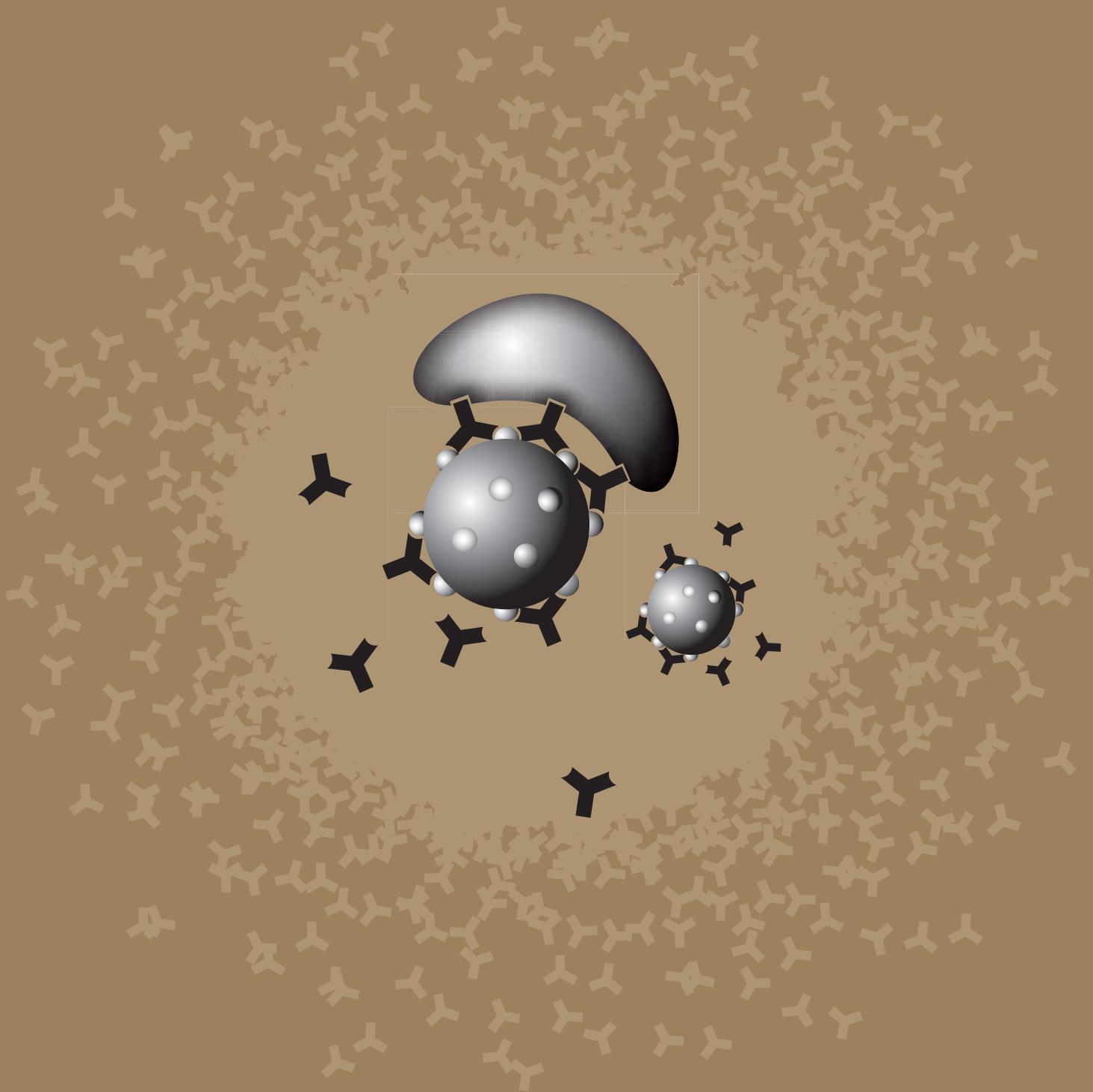
A black and white photograph of a woman with short, light-colored hair and glasses, wearing a white lab coat over a dark turtleneck. She is standing in what appears to be a laboratory or medical facility, leaning against a large, dark machine with two white rectangular components on top. The word "morphosis" is printed on the left pocket of her lab coat.

morphosis



“For the MOR202 project MorphoSys employees have invested blood, sweat and tears – literally!”

In 2008, MorphoSys will begin formal preclinical testing for MOR202, and upon completion, the antibody should be ready to start clinical studies in 2010. The antibody is designed to treat several types of blood cancer, in particular multiple myeloma. The first lab tests for MOR202 were in fact conducted using blood samples from healthy volunteer MorphoSys employees. | BETTINA SWOBODA, SENIOR TECHNICAL ASSISTANT



THE MORPHOSYS ANTIBODY MOR202 binds to a target cell-surface molecule, CD38, which is present in large quantities on the surface of specific blood cancer cells. Once attached to the receptor, the antibody thereby marks the cancer cells as dangerous and recruits other immune cells to fight them.

Group Management Report

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

REVIEW OF THE 2007 FISCAL YEAR

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

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

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

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

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

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

ORGANIZATIONAL STRUCTURE AND BUSINESS ACTIVITIES

ORGANIZATIONAL STRUCTURE AND GLOBAL PRESENCE

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

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

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

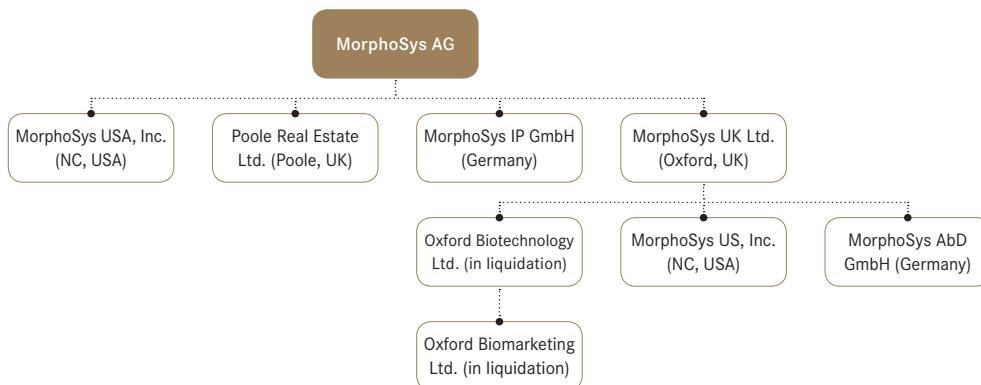
The research antibody segment AbD Serotec is also present in Martinsried through both administrative functions and through efforts to generate new research antibodies based on the HuCAL technology, related historically to the Antibodies by Design business initiative. MorphoSys's second-largest site is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



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

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



PRODUCTS AND MARKETS

THERAPEUTIC ANTIBODIES SEGMENT

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

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

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

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

ABD SEGMENT

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

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



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

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

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

PROCUREMENT

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

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

PRODUCTION

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

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



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

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

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

ENVIRONMENTAL PROTECTION

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

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

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

QUALITY MANAGEMENT

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



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

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

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

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

JOB SAFETY

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



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

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

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

INFORMATION TECHNOLOGY

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

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

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

PATENTS AND LICENSES

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

GROUP MANAGEMENT & SUPERVISION

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



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

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

REGULATORY ENVIRONMENT

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

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

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

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

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

VALUE-BASED MANAGEMENT

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

STRATEGY

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

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

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

SYNERGIES

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

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

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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



MORE INFORMATION AT
WWW.MORPHOSYS.COM

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

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

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

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

PERFORMANCE MANAGEMENT

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

NON-FINANCIAL PERFORMANCE INDICATORS

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

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

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

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

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

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

FINANCIAL PERFORMANCE INDICATORS

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

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

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

THE MANAGEMENT'S GENERAL ASSESSMENT OF BUSINESS PERFORMANCE

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

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



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

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

COMPARISON OF THE ACTUAL BUSINESS RESULTS WITH FORECASTS

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

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

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

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

MACROECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT

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

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

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

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

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

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

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

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

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



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

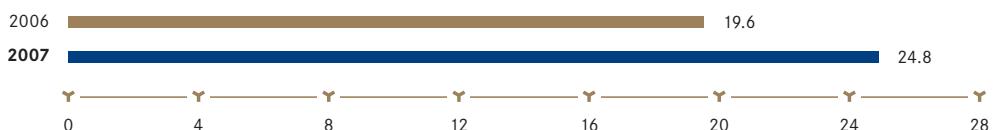
During 2007, the pharmaceutical sector continued its underperformance. The FTSE Global Pharma index was flat, while the FTSE All World index was up 10 %. In 2007, the US NASDAQ Biotechnology Index increased by 5 %. With regard to the antibody sector, an index summarizing the performance of leading antibody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

COMMERCIAL DEVELOPMENT

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

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

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



THERAPEUTIC ANTIBODIES SEGMENT

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



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ASTELLAS PHARMA INC.

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

BAYER SCHERING PHARMA AG

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

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

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

CENTOCOR, INC.

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

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

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

GENEFRONTIER CORPORATION

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

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

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

GENESIS RESEARCH AND DEVELOPMENT CORPORATION LTD.

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

NOVARTIS AG

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

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

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

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



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XOMA TECHNOLOGIES LTD.

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

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

ABD SEGMENT

MEDICAL RESEARCH COUNCIL

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



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

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

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

THERMO FISHER SCIENTIFIC, INC.



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

RESEARCH AND DEVELOPMENT

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

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



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PATENTS AND LICENSES

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

LICENSE AGREEMENT WITH DYAX CORP.

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

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

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



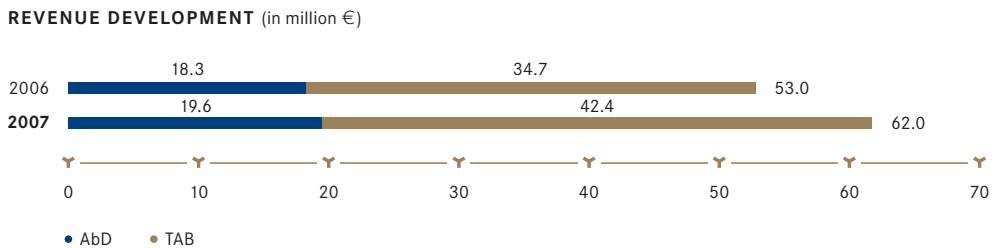
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RESULTS OF OPERATIONS, FINANCIAL SITUATION, ASSETS AND LIABILITIES

REVENUES

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

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



THERAPEUTIC ANTIBODIES SEGMENT

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

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

ANTIBODIES DIRECT – ABD SEGMENT

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

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

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

OPERATING EXPENSES

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

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

COST OF GOODS SOLD

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

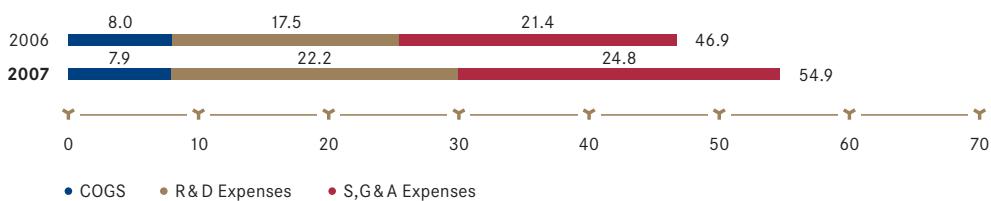
RESEARCH AND DEVELOPMENT EXPENSES

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

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

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

DEVELOPMENT OF OPERATING EXPENSES (in million €)



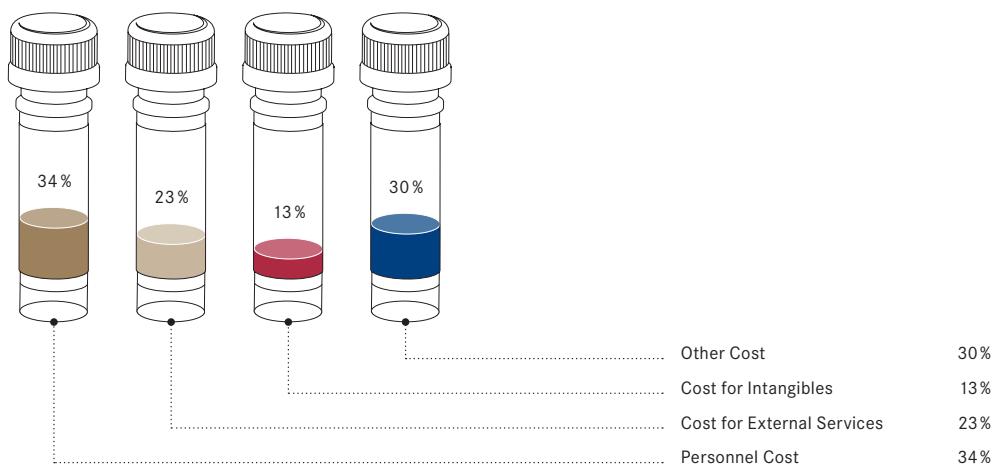
COST BY EXPENDITURE TYPE

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

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

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

COST BY EXPENDITURE TYPE



NON-OPERATING ITEMS

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

TAXES

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

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

OPERATING PROFIT/NET PROFIT

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

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

LIQUIDITY/CASH FLOWS

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

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

ASSETS

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

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

LIABILITIES

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

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

EQUITY

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

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

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

CAPITAL EXPENDITURE

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

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

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

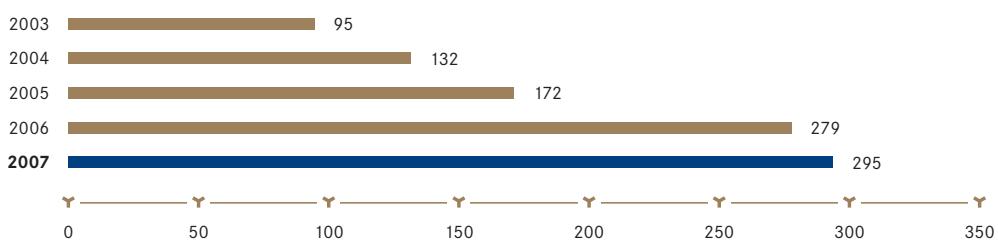
HUMAN RESOURCES

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

NUMBER OF EMPLOYEES

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

GROUP HEADCOUNT DEVELOPMENT



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

EMPLOYEES BY SEGMENT AND FUNCTION

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

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

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

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

EMPLOYEES BY REGION

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

QUALIFICATION, TRAINING AND EDUCATION

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

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

LONG-TERM PERFORMANCE-RELATED COMPENSATION

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

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

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



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

REMUNERATION REPORT

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

REMUNERATION OF THE MANAGEMENT BOARD

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

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

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

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

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

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

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

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

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

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

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

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

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

REMUNERATION OF THE SUPERVISORY BOARD

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

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

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

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

¹ Entered as per May 16, 2007

² Retired as per May 16, 2007

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

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

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

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

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

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

EQUITY-BASED COMPENSATION FOR THE MANAGEMENT BOARD

STOCK OPTIONS AND CONVERTIBLE BONDS

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

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



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

STOCK OPTION PROGRAMS

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

CONVERTIBLE BOND PROGRAMS

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



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

INFORMATION REQUIRED UNDER TAKEOVER LAW

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

COMPOSITION OF CAPITAL STOCK

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

SHAREHOLDINGS EXCEEDING 10 % OF THE VOTING RIGHTS

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

AUTHORIZATION OF THE MANAGEMENT BOARD TO ISSUE SHARES

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

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

- a) Pursuant to § 5 para. 5 of the Articles of Association and with the approval of the Supervisory Board, the Management Board is authorized to increase the Company's share capital during the time period until April 30, 2011, in the amount of up to € 7,481,307 and by issuing 2,493,769 young bearer shares with no-par value for contribution in cash and/or in kind on one or several occasions (Authorized Capital I). The Management Board may, with the approval of the Supervisory Board, exclude the preemptive rights of the shareholders under the following conditions:
 - i) in the case of a capital increase in cash, to the extent that such exclusion is necessary to avoid fractional shares; or
 - ii) in the case of a capital increase in kind, to the extent that the young shares are used for the acquisition of companies, shareholdings in companies, patents, licenses or other industrial property rights, or of assets which constitute a business in their entirety; or
 - iii) in the case of a capital increase in cash, to the extent that young shares shall be placed at a stock exchange in context with a listing.
- b) Pursuant to § 5 para. 6 b of the Articles of Association, the Company's share capital shall be conditionally increased by an amount of up to € 5,488,686, divided into up to 1,829,562 bearer shares with no-par value (Conditional Capital III). The conditional capital increase shall only be accomplished (i) to the extent that owners of options and/or convertible bonds make use of their option and/or conversion rights issued by the Company until April 30, 2011, in accordance with the resolution of the Annual Shareholders' Meeting or (ii) to the extent that owners fulfill their duties to convert. The same shall apply to owners of options and/or convertible bonds issued by domestic or foreign affiliates which are totally owned by the Company.
- c) Furthermore, there exists a Conditional Capital I in the amount of up to € 39,285 (§ 5 para. 4 of the Articles of Association), a Conditional Capital II in the amount of up to € 643,425 (§ 5 para. 6 a of the Articles of Association), a Conditional Capital IV in the amount of up to € 1,364,532 (§ 5 para. 6 c of the Articles of Association) and a Conditional Capital V in the amount up of € 1,011,861 (§ 5 para. 6 d of the Articles of Association). These conditional share capitals may be used for the issuance of option and conversion rights to members of the Management Board and to employees of the Company or of its affiliates.

AUTHORIZATION OF THE MANAGEMENT BOARD TO REPURCHASE STOCK

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

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

CHANGE OF CONTROL PROVISIONS

KEY AGREEMENTS SUBJECT TO CONDITIONS

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

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

CHANGE OF CONTROL PROVISIONS FOR MANAGEMENT BOARD MEMBERS

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

RISKS AND OPPORTUNITIES

RISK MANAGEMENT AND CONTROLLING

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

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

RISKS

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

GENERAL RISKS

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

PRODUCT DEVELOPMENT RISKS

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

ACQUISITION RISKS

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

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

RISKS FROM COMPETITION AND TECHNOLOGICAL CHANGE

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

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

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

PRODUCT RISKS

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

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

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

DEPENDENCE ON HEALTHCARE AND PHARMACEUTICAL SPENDING

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

INTELLECTUAL PROPERTY RISKS

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

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

FINANCING RISKS

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

CURRENCY AND INTEREST RATE RISKS

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

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

DEPENDENCE ON KEY PERSONNEL

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

OTHER RISKS

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

OVERALL ASSESSMENT OF THE RISK SITUATION

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

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

OPPORTUNITIES

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

GENERAL STATEMENT ON OPPORTUNITIES

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

MARKET OPPORTUNITIES

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

THERAPEUTIC ANTIBODIES

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

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

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

RESEARCH ANTIBODIES

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

ACQUISITION OPPORTUNITIES

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

SUBSEQUENT EVENTS

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

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

OUTLOOK AND FORECAST

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

STRATEGIC OUTLOOK

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

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

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

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

EXPECTED ECONOMIC DEVELOPMENT

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

EXPECTED DEVELOPMENT OF THE PHARMACEUTICALS SECTOR

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

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

EXPECTED COMMERCIAL DEVELOPMENT

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

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

EXPECTED RESEARCH AND DEVELOPMENT

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

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

EXPECTED FINANCIAL DEVELOPMENT

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

EXPECTED EARNINGS SITUATION

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

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

DIVIDENDS

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

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

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT

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

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

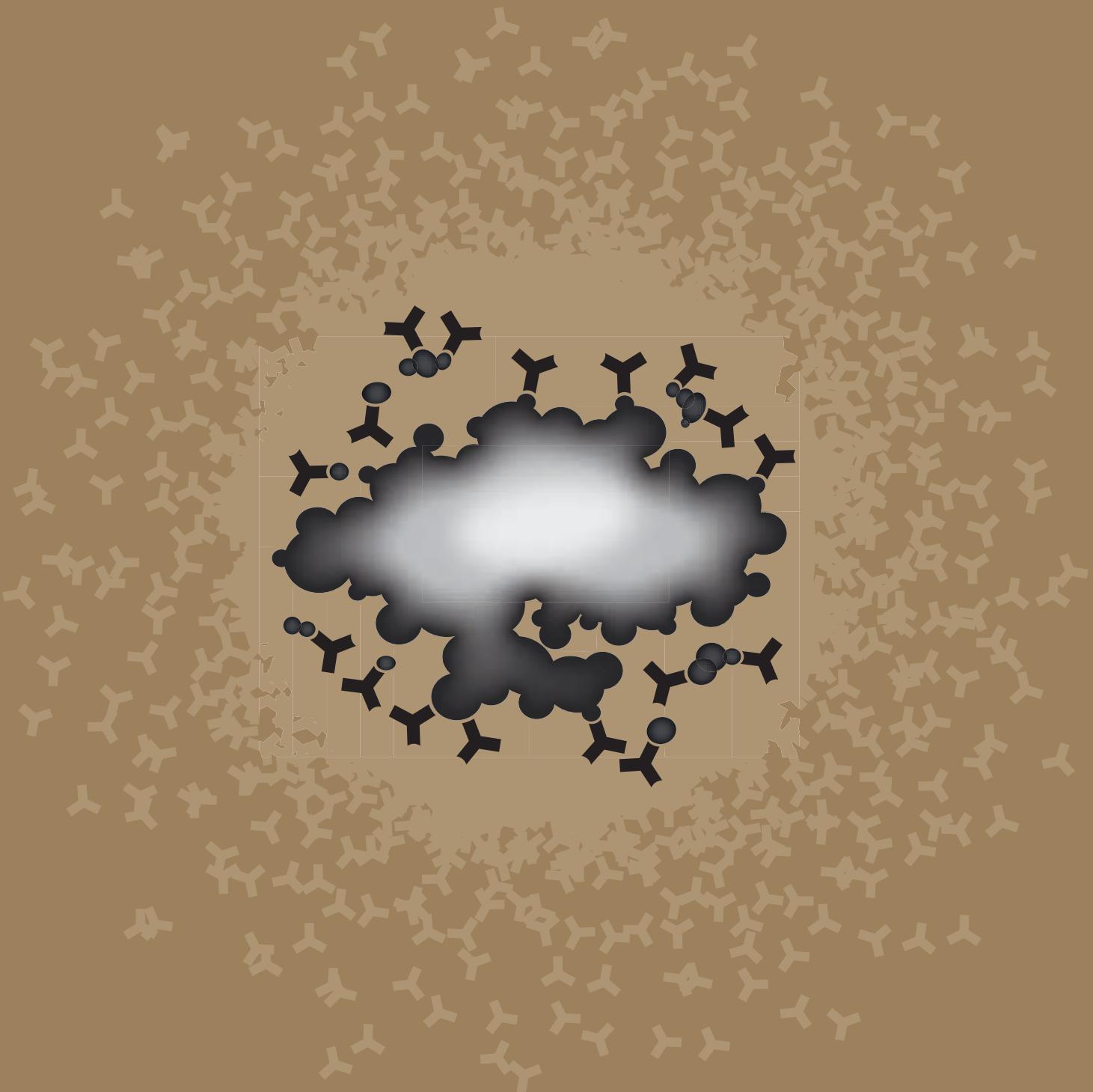




“We are proud of our work on the R1450 project and the part that it may play in the battle against Alzheimer’s disease.”

As part of MorphoSys’s collaboration with Roche, the Company’s researchers identified and optimized a HuCAL-based antibody to combat the target molecule amyloid beta. In 2006, Roche began clinical development of the antibody, which then advanced into two separate phase I clinical trials in Alzheimer’s patients in 2007.

The first trial results could be available in 2008. | DR. CHRISTINE ROTHE, SENIOR MANAGER ALLIANCE MANAGEMENT



ROCHE'S HUCAL-BASED ANTIBODY R1450 is targeted against the amyloid beta protein in brain tissue, the key hallmark of Alzheimer's disease. The reduction of this protein's growth in brain tissue, which is often referred to as 'plaque,' is viewed by the international Alzheimer research community as a very exciting approach for treatment. The reduction or removal of the plaque may be directly related to the increase in mental capabilities.

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Consolidated Statement of Operations (IFRS)

in €	NOTE	2007	2006
Revenues	1R	61,962,008	53,031,172
Operating Expenses			
Cost of Goods Sold	2	7,947,128	7,978,641
Research and Development		22,237,173	17,458,347
Sales, General and Administrative		24,759,882	21,418,416
Total Operating Expenses		54,944,183	46,855,404
Profit from Operations		7,017,825	6,175,768
Interest Income		904,704	60,241
Interest Expense		10,956	143,197
Other Income/(Expenses), Net		1,306,036	(806,924)
Profit before Taxes		9,217,609	5,285,888
Income Tax Benefit	21	2,257,421	742,046
NET PROFIT		11,475,030	6,027,934
Basic Net Profit per Share	22	1.61	0.94
Diluted Net Profit per Share	22	1.59	0.93
Shares Used in Computing			
Basic Net Profit per Share	22	7,115,890	6,379,046
Shares Used in Computing			
Diluted Net Profit per Share	22	7,211,101	6,469,839

See accompanying Notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

in €	NOTE	2007	2006
ASSETS			
Current Assets			
Cash and Cash Equivalents	3, 16	48,407,064	3,765,320
Available-for-sale Financial Assets	4, 16	58,491,852	62,260,552
Accounts Receivable	5, 16	9,461,832	3,699,386
Tax Receivables	7	1,023,762	199,951
Other Receivables	6	138,903	110,734
Inventories, Net	7	3,833,208	3,511,405
Prepaid Expenses and Other Current Assets	7	1,163,521	1,897,040
Assets Classified as Held for Sale	12	346,330	664,108
Total Current Assets		122,866,472	76,108,496
Non-current Assets			
Property, Plant and Equipment, Net	8	4,229,043	6,894,112
Patents, Net	9	1,594,749	1,950,154
Licenses, Net	9	16,430,881	7,776,374
Software, Net	9	632,453	243,813
Know-how and Customer Lists, Net	9	3,686,512	4,834,289
Goodwill	9	26,953,864	27,002,591
Investment Property	11	1,602,558	0
Deferred Tax Asset	21	4,948,435	1,455,723
Prepaid Expenses and Other Assets, Net of Current Portion	7, 10	1,767,579	1,577,570
Total Non-current Assets		61,846,074	51,734,626
TOTAL ASSETS		184,712,546	127,843,122

See accompanying Notes to the Consolidated Financial Statements

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Y in €	NOTE	2007	2006
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	14, 16	13,440,778	10,455,799
Licenses Payable	14, 16	131,326	126,382
Provisions and Tax Liabilities	15	476,548	1,082,042
Current Portion of Deferred Revenue	1R	15,345,863	6,648,107
Total Current Liabilities		29,394,515	18,312,330
Non-current Liabilities			
Provisions, Net of Current Portion	15	62,763	62,763
Deferred Revenue, Net of Current Portion	1R	7,049,474	6,216,007
Convertible Bonds Due to Related Parties	18	79,065	38,371
Deferred Tax Liability	21	2,589,280	3,162,332
Total Non-current Liabilities		9,780,582	9,479,473
Stockholders' Equity	17, 18, 19		
Common Stock, € 3.00 Par Value;			
Ordinary Shares Authorized (12,729,785 and 12,729,785 for 2007 and 2006 respectively)			
Ordinary Shares Issued (7,386,753 and 6,715,322 for 2007 and 2006 respectively)			
Ordinary Shares Outstanding (7,360,021 and 6,686,160 for 2007 and 2006 respectively)			
Treasury Stock (26,732 and 29,162 shares for 2007 and 2006 respectively), at Cost		22,150,448	20,135,263
Additional Paid-in Capital		155,376,343	123,878,001
Reserves		1,858,910	1,359,948
Accumulated Deficit		(33,848,252)	(45,321,893)
Total Stockholders' Equity		145,537,449	100,051,319
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		184,712,546	127,843,122

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	COMMON STOCK	
	SHARES	€
BALANCE AS OF JANUARY 1, 2006	6,025,863	18,077,589
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties	96,561	289,683
Capital Increase against Contribution in Kind, Net of Issuance Cost of € 32,060	208,560	625,680
Capital Increase, Net of Issuance Cost of € 472,884	384,338	1,153,014
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, 2006	6,715,322	20,145,966
Result Incurred through the 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)	19,243	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)	652,188	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	7,386,753	22,160,259

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TREASURY STOCK		ADDITIONAL PAID-IN CAPITAL	REVALUATION RESERVE	TRANSLATION RESERVE	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
SHARES	€	€	€	€	€	€
29,162	(10,703)	96,412,849	584,679	293,184	(51,349,827)	64,007,771
0	0	1,250,891	0	0	0	1,250,891
0	0	2,739,618	0	0	0	3,029,301
0	0	7,997,500	0	0	0	8,623,180
0	0	15,477,143	0	0	0	16,630,157
0	0	0	623,420	0	0	623,420
0	0	0	(141,309)	0	0	(141,309)
0	0	0	0	(26)	0	(26)
0	0	0	0	0	6,027,934	6,027,934
0	0	0	482,111	(26)	6,027,934	6,510,019
29,162	(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
(2,430)	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
26,732	(9,811)	155,376,343	2,241,328	(382,418)	(33,848,252)	145,537,449

Consolidated Statement of Cash Flows (IFRS)

in €	NOTE	2007	2006
OPERATING ACTIVITIES:			
Net Profit		11,475,030	6,027,934
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Non-cash Charges from PPA		724,647	699,709
Depreciation and Amortization of Tangible and Intangible Assets		4,470,172	4,251,545
Income Tax Benefit		(580,317)	(524,615)
Net Gain on Sales of Financial Assets		(1,333,651)	(667,534)
Unrealized Net Gain on Derivative Financial Instruments		(474,734)	(18,372)
Loss/(Gain) on Sale of Property, Plant and Equipment/Intangible Assets		37,833	(28,929)
Recognition of Deferred Revenue		(20,775,489)	(15,981,692)
Stock-based Compensation		1,419,515	1,242,971
Changes in Operating Assets and Liabilities:			
Accounts Receivable		(5,877,999)	1,140,530
Prepaid Expenses, Other Assets and Tax Receivables		(4,092,265)	(2,894,480)
Accounts Payable and Provisions		(2,534,689)	2,060,891
Licenses Payable		4,944	(885,851)
Other Liabilities		4,086,203	593,509
Deferred Revenue		30,306,712	20,423,400
Cash Generated from Operations		16,855,912	15,439,016
Interest Paid		4,967	20,480
Interest Received		(906,372)	(60,099)
Income Taxes Paid		1,110,547	949,330
NET CASH PROVIDED BY OPERATING ACTIVITIES		17,065,054	16,348,727

See accompanying Notes to the Consolidated Financial Statements

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⌚ in €	NOTE	2007	2006
INVESTING ACTIVITIES:			
Purchases of Financial Assets		(16,311,410)	(33,848,867)
Proceeds from Sales of Financial Assets		22,745,022	22,778,680
Purchases of Property, Plant and Equipment		(1,057,368)	(3,548,865)
Proceeds from Disposals of Property, Plant and Equipment		410,085	38,850
Additions to Intangibles		(10,950,279)	(425,931)
Acquisition of Serotec, Net of Cash Acquired		0	(21,172,502)
NET CASH USED IN INVESTING ACTIVITIES	16	(5,163,950)	(36,178,635)
FINANCING ACTIVITIES:			
Proceeds from the Issuance of Equity		32,609,400	17,103,041
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		698,727	3,029,301
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		40,694	(11,843)
Purchases of Derivative Financial Instruments	6	(91,500)	(93,650)
Proceeds from the Disposal of Derivative Financial Instruments	6	538,065	31,006
Net Cost of Share Issuance		(1,225,005)	(504,945)
NET CASH PROVIDED BY FINANCING ACTIVITIES	16	32,570,381	19,552,910
Effect of Exchange Rate Differences on Cash		170,259	25,289
Increase/(Decrease) in Cash and Cash Equivalents		44,641,744	(251,709)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3,765,320	4,017,029
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		48,407,064	3,765,320

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 2007, 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, 2007, were authorized for issuance in accordance with a resolution of the Management Board on February 11, 2008. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Mr. Dave Lemus (Executive Vice President and Chief Financial Officer) and Dr. Marlies Sproll (Chief Scientific Officer).

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- ☒ Statement of Cash Flows
- ☒ Notes to the Financial Statements

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 headquarters of MorphoSys AG 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 recognized 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 the Management Board's and Supervisory Board's 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 2007

- IFRS 7 "Financial Instruments: Disclosures" and the complementary amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures" introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the Group's financial instruments or the disclosures relating to taxation and trade and other payables.

- IFRIC 8 “Scope of IFRS 2” requires the consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group’s financial statements.
- IFRIC 10 “Interim Financial Reporting and Impairment” states that the impairment losses recognized in interim financial statements on goodwill and investments in equity instruments and in financial assets carried at cost must not be reversed at subsequent interim or annual financial statements. This standard does not have any impact on the Group’s financial statements.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2007, but are not relevant to the Group’s operations:

- IFRS 4 “Insurance Contracts”;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”;
- IFRIC 9 “Reassessment of Embedded Derivatives.”

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

The following standards, amendments to and interpretations of existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after January 1, 2008, or later periods, but have not been adopted early 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.
- 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 will apply 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.
- Other standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group include IAS 1 revised, IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions,” IFRIC 12 “Service Concession Arrangements” and IFRIC 13 “Customer Loyalty Programmes”.

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) and the IFRS adopted by the European Commission.

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The consolidated financial statements of the Company for the year ended December 31, 2007, comprise the Company and its subsidiaries (together referred to as the "MorphoSys Group").

C) BASIS OF PRESENTATION

The financial statements are presented in euros, which is the functional currency for the MorphoSys Group. They are prepared on the historical cost basis except the following assets and liabilities that 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 are 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 translation reserve (equity).

F) INTEREST

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

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, 2007, and as of December 31, 2006, the financial assets held by the Group have been 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 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.

The Company considers a decline in the fair value of available-for-sale financial assets which is longer than six months in duration to be deemed other than temporary unless specific facts and circumstances indicate otherwise. 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.

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

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 € 65,498 as of December 31, 2007, and € 189,103 as of December 31, 2006, were recognized. The Company does require collateral from customers for accounts receivable in the AbD segment. The amount of collaterals held as of December 31, 2007, was not material.

K) INVENTORY

Inventories are stated on a FIFO basis 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 materials/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.

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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 sub-license 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.

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 previously recognized 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 employees of the Group.

R) REVENUErecognition

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

Revenues related to nonrefundable 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.

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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 in 2007 amounted to € 0.2 million (2006: € 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 2007 amounted to € 1,419,515 (2006: € 1,242,971) 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 recognized as an integral part of the net consideration agreed for the use of the leased asset. The aggregate benefit of incentives are recognized 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 Group transfer policy.

General and administrative expenses are allocated to the respective business segments by applying an allocation key using the headcount. Intangibles attributable to both segments are allocated using revenues.

Segment capital expenditures are the total cost incurred during the period to acquire property, plant and equipment as well as intangible assets other than goodwill.

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 for 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.

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	THERAPEUTIC ANTIBODIES		ABD		UNALLOCATED		ELIMINA- TION		CONSOLIDATED	
in 000's €	2007	2006	2007	2006	2007	2006	2007	2007	2006	
REVENUES, TOTAL	43,103	34,713	19,608	18,318	0	0	(749)	61,962	53,031	
External Revenues	43,103	34,713	18,859	18,318	0	0	0	61,962	53,031	
Intersegment Revenues	0	0	749	0	0	0	(749)	0	0	
TOTAL OPERATING EXPENSES	27,863	18,124	20,195	21,746	7,635	6,985	(749)	54,944	46,855	
Cost of Goods Sold	0	0	7,947	7,979	0	0	0	7,947	7,979	
Other Operating Expenses	27,114	18,124	12,248	13,767	7,635	6,985	0	46,997	38,876	
Intersegment Costs	749	0	0	0	0	0	(749)	0	0	
SEGMENT RESULT	15,240	16,589	(587)	(3,428)	(7,635)	(6,985)	0	7,018	6,176	
Interest Income	0	0	0	0	0	0	0	905	60	
Interest Expense	0	0	0	0	0	0	0	11	143	
Other Income/(Expenses), Net	0	0	0	0	0	0	0	1,306	(807)	
PROFIT BEFORE TAXES	0	0	0	0	0	0	0	9,218	5,286	
Income Tax Benefit	0	0	0	0	0	0	0	2,257	742	
NET PROFIT	0	0	0	0	0	0	0	11,475	6,028	
Current Assets	7,255	1,895	8,431	8,649	107,180	65,564	0	122,866	76,108	
Non-current Assets	2,019	2,064	35,013	36,967	24,814	12,704	0	61,846	51,735	
TOTAL SEGMENT ASSETS	9,274	3,959	43,445	45,616	131,994	78,268	0	184,713	127,843	
Current Liabilities	15,253	6,476	3,362	4,426	10,780	7,410	0	29,395	18,312	
Non-current Liabilities	7,050	6,216	1,742	2,483	989	781	0	9,781	9,480	
Stockholders' Equity	0	0	0	0	145,537	100,051	0	145,537	100,051	
TOTAL SEGMENT LIABILITIES AND EQUITY	22,303	12,692	5,104	6,909	157,307	108,242	0	184,713	127,843	
Capital Expenditure	11,250	2,128	724	1,863	41	13	0	12,015	4,005	
Depreciation & Amortization	2,165	1,735	1,558	1,868	750	651	0	4,473	4,254	

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 € 0.7 million to the AbD segment for 2007 as a result of the revenue-sharing agreement established between the two segments in 2007.

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

	in 000's €	2007	2006
Europe and Asia		38,260	32,793
USA and Canada		22,099	19,935
Other		1,603	303
TOTAL		61,962	53,031

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

	in 000's €	2007	2006
Germany		174,636	117,338
UK		8,414	9,040
USA		1,663	1,465
TOTAL		184,713	127,843

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

	in 000's €	2007	2006
Germany		11,368	2,154
UK		612	1,808
USA		35	43
TOTAL		12,015	4,005

3 CASH AND CASH EQUIVALENTS

	in 000's €	2007	2006
Bank Balances and Cash in Hand		46,382	3,577
Term Deposits		2,275	438
Restricted Cash		(250)	(250)
CASH AND CASH EQUIVALENTS		48,407	3,765

The € 250,000 restricted cash paid for the headquarters in Martinsried near Munich is a rent deposit.

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4 FINANCIAL ASSETS

Financial assets consist of the following as of December 31, 2007 and 2006:

in 000's €	MATURITY	GROSS UNREALIZED HOLDING			REALIZED HOLDING GAINS	MARKET VALUE
		COST	GAINS	LOSSES		
DECEMBER 31, 2007						
DB Money Cash	daily	56,388	3,219	0	0	59,607
Restricted Cash						(1,115)
						58,492
DECEMBER 31, 2006						
DB Money Cash	daily	61,598	1,888	0	0	63,486
Restricted Cash						(1,225)
						62,261

The gross unrealized holding gains of € 3,218,916 for the year ended December 31, 2007, and € 1,887,656 for the year ended December 31, 2006, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2007, the Group recorded gains of € 1,333,651 in the statement of operations on the sale of financial assets, which had previously been recognized in equity (2006: € 667,533). The € 1.1 million restricted cash paid for the headquarter of MorphoSys UK Ltd. 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, 2007 and 2006, accounts receivable included unbilled amounts of € 1,031,250 and € 133,333 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, 2007, one option contract was outstanding in the notional amount of € 1,125,000 or US\$ 1,462,500 (2006: € 1,562,500 or US\$ 1,921,875) due February 2008. The fair market value of the contract as of December 31, 2007, was € 130,163 (2006: € 106,334). Additionally, two forward contracts were outstanding in the notional amount of US\$ 10,700,000 (2006: US\$ 0) due February 2008. The fair market value of these contracts as of December 31, 2007, was € 4,340 (2006: € 0). This was recorded in other receivables on the balance sheet. The time of expected cash flows regarding option contracts and forward contracts equals the due date.

Changes in fair values and realized gains were recognized as other income and amounted to € 0.5 million for the 2007 financial year (2006: € 18,557). As of December 31, 2007, the unsettled contract premium for derivatives entered into in January 2007 amounted to € 41,500 (2006: € 75,700).

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 € 0.4 million as of December 31, 2007 (2006: € 0.1 million), and other prepayments in the amount of € 0.9 million as of December 31, 2007 (2006: € 1.2 million).

Tax receivables amounted to € 1.0 million (2006: € 0.2 million) as of December 31, 2007, and mainly comprised receivables in connection with withholding tax on capital gains.

Other current assets amount to € 0.2 million (2006: € 0.5 million) and mainly include receivables from value-added tax.

Inventories of € 3.8 million (2006: € 3.5 million) are mainly located in Oxford, UK; Raleigh, USA, and Martinsried, Germany. As of December 31, 2007, inventories comprised raw materials, consumables and supplies in the amount of € 3.4 million (2006: € 3.1 million), work in progress in the amount of € 0.2 million (2006: € 0.1 million) and finished goods of € 0.2 million (2006: € 0.3 million). As of December 31, 2007, the inventory reserve amounted to € 1.7 million (2006: € 1.1 million) and is included in cost of sales. Inventories carried at fair value less cost to sell amount to € 0 (2006: € 0). In 2007, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to € 5.7 million (2006: € 6.0 million).

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8 PROPERTY, PLANT AND EQUIPMENT

in 000's €	LAND AND BUILDINGS*	OFFICE AND LABORATORY EQUIPMENT	FURNITURE AND FIXTURES	TOTAL
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
 Cost				
JANUARY 1, 2006	2,247	5,334	1,881	9,462
Additions	1,487	2,322	613	4,422
Disposals*	(697)	(257)	(265)	(1,219)
Foreign Exchange Variance	(14)	0	(10)	(24)
DECEMBER 31, 2006	3,023	7,399	2,219	12,641
 Accumulated Depreciation				
JANUARY 1, 2006	10	3,783	972	4,765
Depreciation Charge for the Year	66	909	229	1,204
Write-offs for the Year	57	60	204	321
Disposals	(33)	(247)	(265)	(545)
Foreign Exchange Variance	0	1	1	2
DECEMBER 31, 2006	100	4,506	1,141	5,747
 Carrying Amount				
JANUARY 1, 2006	2,237	1,551	909	4,697
DECEMBER 31, 2006	2,923	2,893	1,078	6,894

* Including reclassification to Investment Property (see Note 11) and to Assets Classified as Held for Sale (see Note 12)

Currency translation effects for property, plant and equipment held in foreign currency were minor as of December 31, 2007.

As of December 31, 2007, land and buildings 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. Land and buildings located in Oxford, UK, presented as assets classified as held for sale as of December 31, 2006 (€ 0.2 million), were sold in December 2007 (see Note 12).

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

in 000's €	2007	2006
Research and Development	898	625
Sales, General and Administrative (Depreciation)	491	528
Sales, General and Administrative (Write-off)	0	317
Cost of Goods Sold	109	48
TOTAL	1,498	1,518

As of December 31, 2007, 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.

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9 INTANGIBLE ASSETS

	PATENTS	LICENSES	SOFTWARE	KNOW-HOW AND CUSTOMER LIST	GOODWILL	TOTAL
in 000's €						
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
Cost						
JANUARY 1, 2006	3,795	12,140	1,392	2,313	4,137	23,777
Additions	50	605	277	4,194	22,783	27,909
Disposals	0	(4)	0	0	0	(4)
Foreign Exchange Variance	0	0	0	(29)	83	54
DECEMBER 31, 2006	3,845	12,741	1,669	6,478	27,003	51,736
Accumulated Amortization						
JANUARY 1, 2006	1,434	3,683	1,260	827	0	7,204
Amortization Charge for the Year	461	1,286	132	816	0	2,695
Write-offs for the Year	0	0	33	0	0	33
Disposals	0	(4)	0	0	0	(4)
Foreign Exchange Variance	0	0	0	0	0	0
DECEMBER 31, 2006	1,895	4,965	1,425	1,643	0	9,928
Carrying Amount						
JANUARY 1, 2006	2,361	8,457	132	1,486	4,137	16,573
DECEMBER 31, 2006	1,950	7,776	244	4,835	27,003	41,808

Currency translation effects for intangibles held in foreign currency amounted to € 0.1 million as of December 31, 2007 (2006: € 0.1 million).

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

	in 000's €	2007	2006
Research and Development		2,285	2,131
Sales, General and Administrative (Depreciation)		563	505
Sales, General and Administrative (Write-off)		0	33
Cost of Goods Sold		127	67
TOTAL		2,975	2,736

As of December 31, 2007, 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 which are capitalized (noncapitalized 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, 2007, the license had a remaining amortization period of approximately ten 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, 2007, the license had a remaining amortization period of two years.

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.

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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, 2007, the license had a remaining amortization period of two years.

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, 2007, the license had a remaining amortization period of approximately two-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, 2007, the license had a remaining amortization period of five 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, 2007, the license had a remaining amortization period of six years.

CRUCELL 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. Production of clinical-grade material is a relevant step to keep to the timeline for this project.

As of December 31, 2007, 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. MorphoSys expects that the license obtained from the University of Melbourne will lead to market exclusivity for therapeutic antibodies targeting GM-CSF in the US for inflammatory disorders, once a favorable US patent is granted.

For further information, see Appendix 1.

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, 2007 and 2006, the Company had commitments of € 1,365,095 and € 1,475,182 for guarantees issued as well as € 79,065 and € 38,371 respectively for convertible bonds issued to employees.

11 INVESTMENT PROPERTY

Investment property comprises the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK, that are leased out to third parties under operating leases. The lease contains an initial noncancelable period of two years. No contingent rents are charged.

The carrying amount of the property amounts to € 1.6 million (reclassified from property, plant and equipment). As the Group decided to sublet the property, a change in classification to investment property was necessary in 2007. For the period ended December 31, 2007, an amount of € 0.3 million was recognized as rental income in the statement of operations. Investment property is measured at depreciated cost. No valuation by an independent valuer has been prepared as of December 31, 2007. The buildings are depreciated straight-line at a 2% depreciation rate. In 2007, there were no costs directly attributable to investment property. The fair value of the investment property is not reliably determinable on a continuing basis because comparable market transactions are infrequent and alternative reliable estimates of fair value (for example cash flow projections) are not available.

The future minimum lease payments under the noncancelable lease amount to € 0.3 million (maturity less than one year) and € 0.3 million (maturity between one and five years).

12 ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale in the amount of € 0.3 million (2006: € 0.7 million) comprise property of the subsidiary MorphoSys US, Inc., in Brentwood, New Hampshire, USA. 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, valued the property in the fourth quarter of 2007. An impairment loss of € 0.2 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.

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In December 2007, MorphoSys sold its property of the subsidiary MorphoSys UK Ltd. located in Kidlington, UK. As of December 31, 2006, an amount of € 0.2 million had been classified as held for sale for this item. The transaction resulted in a minor gain.

13 PURCHASE PRICE ALLOCATION

In 2005 and 2006, MorphoSys established purchase price allocations (PPA) required by IFRS 3 "Business Combinations" under IFRS accounting. The Company assigned PriceWaterhouseCoopers for the identification and valuation of assets acquired. IFRS permits the adjustment of fair value amounts identified within twelve months post-acquisition without affecting the Group's profits. As of December 31, 2007, no fair value adjustments had been identified.

As of October 31, 2007, 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. Therefore, no detailed sensitivity analysis was deemed necessary. Based on the updated outlook to cash flows for the upcoming five years, the value in use was calculated as follows: beta factor of 1.49, income tax rate of 36%, WACC of 11.15% and a conservative growth rate of 3% of perpetual annuity. The values assigned to the assumptions represent the 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. License payables are partly settled within 30 days.

The liabilities are listed in the table below:

in 000's €	2007	2006
Accounts Payable	1,289	3,326
Accrued Expenses	11,621	6,376
Other Liabilities	531	754
of which Taxes	379	670
of which Related to Social Security	0	0
TOTAL	13,441	10,456

Accounts payable include accruals, which mainly contain accrued expenses for payments to employees and the Management of € 2.0 million (2006: € 1.8 million). Also included in accrued expenses are amounts for outstanding invoices including consulting fees in the amount of € 5.6 million (2006: € 2.2 million), external lab funding of € 0.6 million (2006: € 0.2 million), € 2.5 million for license compensation (2006: € 1.5 million), € 0.3 million for Supervisory Board members' compensation (2006: € 0.2 million), € 0.2 million for audit fees and costs related thereto (2006: € 0.2 million) and € 0.4 million for legal services (2006: € 0.2 million).

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

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

15 PROVISIONS

As of December 31, 2007 and 2006, the Company recorded provisions of € 539,311 and € 1,144,805 respectively.

Provisions for taxes mainly comprise expenses for income tax. Provisions remain uncertain with respect to their amounts as of December 31, 2007, and are expected to be settled in 2008.

Provisions changed during the 2007 fiscal year as follows:

in 000's €	01/01/2007	ADDITIONS	UTILIZED	RELEASED	12/31/2007
Taxes	1,004	1,068	1,117	479	476
Other Obligations	141	6	78	6	63
TOTAL	1,145	1,074	1,195	485	539

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 non-performance.

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 € 3.8 million of the trade receivables carrying amount at December 31, 2007 (2006: € 0.8 million). This customer individually accounted for approximately 40 % of the Group's 2007 accounts receivable balance. In addition, three customers individually accounted for 25 %, 14 %, and 8 % of the Company's total revenues in 2007.

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On December 31, 2006, one customer accounted for 20% of the prior year's accounts receivable balance and three customers individually accounted for 25%, 12%, and 5% of the Company's revenues in 2006. Based on the Management's assessment, allowances of € 65,498 and € 189,103 in relation to the AbD business segment were necessary as of December 31, 2007 and 2006. 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 €		2007
Europe and Asia	6,504,707
USA and Canada	2,775,052
Other	182,073
TOTAL		9,461,832

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

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 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. For derivate financial instruments and the related timing and amount of cash inflows and outflows, see the Notes to the Consolidated Financial Statements - section 6.

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.

MARKET RISK

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

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

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 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 in the euro against the US dollar as of December 31, 2007, would have decreased earnings by € 0.3 million (assuming that interest rates remain constant). A 10 percent weakening of the euro against the US dollar would have increased earnings by € 0.3 million. A 10 percent increase in the euro against the British pound as of December 31, 2007, would have decreased earnings by € 0.1 million (assuming that interest rates remain constant). A 10 percent weakening of the euro against the British pound would have increased earnings by € 0.2 million.

If the foreign exchange rates for the US dollar against the euro and the British pound against the euro had remained constant at the average rate of 2006, total Group revenues would have been higher in the amount of € 1.0 million.

INTEREST RATE RISK

The exposure of the Group to changes in interest rates relates mainly to investments in available-for-sale debt 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. These 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

COMMON STOCK

On December 31, 2007, the common stock of the Company including treasury shares amounted to € 22,160,259. This represented an increase of € 2,014,293 compared to December 31, 2006 (€ 20,145,966). Each share of common stock is entitled to one vote. An increase of € 1,956,564, or 652,188 shares, arose as a result of a capital increase executed in May 2007. Through the conversion and exercise of 19,243 convertible bonds and options issued to employees, common stock increased by an additional € 57,729 in 2007.

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

On December 31, 2007, treasury shares amounted to € 9,811 (26,732 shares), compared to € 10,703 (29,162 shares) on December 31, 2006.

AUTHORIZED CAPITAL

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

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

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

CONDITIONAL CAPITAL

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

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

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

ANNUAL SHAREHOLDERS' MEETING AND SHARE SPLIT

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

DIVIDENDS

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

ADDITIONAL PAID-IN CAPITAL

On December 31, 2007, additional paid-in capital amounted to € 155,376,343 (December 31, 2006: € 123,878,001). The total increase of roughly € 31.5 million is due to stock-based compensation in the amount of € 1,430,406, including the intrinsic

value of convertible bonds granted as well as € 29,437,180 from a capital increase in May 2007. An increase of € 630,756 arose from the exercise and conversion of options and convertible bonds in the year 2007.

In 2006, the additional paid-in capital increased by € 27.5 million resulting from stock-based compensation of € 1,250,892 as well as € 7,997,500 (including € 32,060 issuance costs) as a result of the capital increase against contribution in kind stemming from the Serotec acquisition and € 15,477,143 (including costs in connection with the transaction of € 756,916) stemming from a capital increase on March 29, 2006, netted by a deferred tax asset of € 284,032. A further increase of € 2,739,618 came from the exercise and conversion of options and convertible bonds in the year 2006.

18 CONVERTIBLE BONDS

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

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

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

The beneficiaries may only exercise the conversion rights after the expiration of a waiting period of one year after the grant date. Each convertible bond with a nominal value of € 1.00 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exchange price. The convertible bonds cannot be exercised beyond December 31, 2008.

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

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

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

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

In the year 2007, an additional grant to 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, 52,818 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is € 55.10, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

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

	CONVERTIBLE BONDS	WEIGHTED-AVERAGE PRICE (€)
OUTSTANDING ON JANUARY 1, 2006	49,541	38.40
Granted	38,418	44.12
Exercised	(49,351)	38.40
Forfeited	(237)	44.12
Expired	(190)	38.40
OUTSTANDING ON DECEMBER 31, 2006	38,181	44.12
 OUTSTANDING ON JANUARY 1, 2007	 38,181	 44.12
Granted	52,818	55.10
Exercised	(9,743)	44.12
Forfeited	(2,191)	54.95
Expired	0	-
OUTSTANDING ON DECEMBER 31, 2007	79,065	51.15

Convertible bonds exercisable on December 31, 2007 and 2006, amounted to 28,408 and 0 shares respectively. The weighted-average exercise prices of exercisable convertible bonds were € 44.12 and € 0 on December 31, 2007 and 2006, respectively.

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
€ 10.00 - € 44.12	28,408	1.00	€ 44.12	28,408	€ 44.12
€ 44.13 - € 55.10	50,657	2.00	€ 55.10	0	-
	79,065	1.64	€ 51.15	28,408	€ 44.12

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 2007 and 2006 in connection with convertible bonds was € 699,261 and € 535,635 respectively. The fair value of the convertible bonds issued in 2007 was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 3.95%; dividend yield of 0%; 40.00% expected volatility based on historic data; and an expected life of 2 years. The weighted-average fair value of bonds granted during 2007 is accordingly estimated to be € 14.02.

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 convertible bonds.

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 96,075 shares of the Company's common stock in the form of 45,450 registered warrants, each equal to one share of common stock, and 50,625 shares deliverable upon exercise of non-warrant option rights. The Company reserved 55,350 common shares plus 68,650 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 2007 and 2006, 4,930 and 2,445 options from the 1998 Plan were exercised respectively.

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 300,250 shares, arising from Conditional Capital, and deliverable upon exercise of non-warrant option rights. On October 31, 1999, a grant of 98,100 shares was made to Company employees, the Management Board and the Supervisory Board. The option rights are non-transferable 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 54,900 options granted to employees and the Management Board until October 31, 2009.

In the year 2002, additional grants to employees were made under the 1999 Plan with terms identical to the 1999 stock option grants. 5,500 options were granted on January 15, 2002, to employees of MorphoSys AG. As of January, 15, 2007, the unexercised options expired.

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In the year 2003, additional grants to Management Board members were made under the 1999 Plan, with terms identical to the 1999 stock option grants. 36,000 options were granted on July 1, 2003, to Management Board members of MorphoSys AG.

For the years 2007 and 2006, 300 and 31,265 options from the 1999 Plan were exercised respectively.

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 74,556 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, and May 17, 2006, the Annual Shareholders' Meeting authorized the Company to grant additional 36,891, 58,816, 74,017 and 116,957 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. 2,500 options and 15,000 options were granted to employees of MorphoSys AG on January 15, 2003, and July 1, 2003, respectively.

On January 15, 2004, 35,000 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 was made under the 2002 Plan, with terms identical to the 2002 stock option grants. 97,358 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. 40,000 options and 7,500 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, 60,000 options were granted to employees under the 2002 Plan, with terms identical to the prior year's stock option grants.

For the years 2007 and 2006, 6,700 and 13,500 options from the 2002 Plan were exercised.

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

	SHARES	WEIGHTED-AVERAGE PRICE (€)
OUTSTANDING ON JANUARY 1, 2006	251,459	23.34
Granted	47,500	43.80
Exercised	(47,210)	24.03
Forfeited	(10,604)	31.35
Expired	(2,100)	44.27
OUTSTANDING ON DECEMBER 31, 2006	239,045	26.73
OUTSTANDING ON JANUARY 1, 2007	239,045	26.73
Granted	60,000	48.30
Exercised	(11,930)	22.54
Forfeited	(5,625)	44.12
Expired	(1,000)	59.51
OUTSTANDING ON DECEMBER 31, 2007	280,490	31.05

Stock options exercisable on December 31, 2007 and 2006, amounted to 130,865 and 88,670 shares respectively. The weighted-average exercise prices of exercisable stock options were € 20.30 and € 17.83 on December 31, 2007 and 2006, respectively.

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 EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
€ 10.88 - € 19.99	56,265	0.72	€ 11.82	47,515	€ 11.87
€ 20.00 - € 29.99	49,350	1.83	€ 20.80	49,350	€ 20.80
€ 30.00 - € 39.99	73,000	2.50	€ 31.35	34,000	€ 31.35
€ 40.00 - € 48.30	101,875	3.94	€ 46.43	0	-
	280,490	2.55	€ 31.05	130,865	€ 20.30

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 "Share-based Payment." Compensation expense recorded in 2007 and 2006 in connection with stock options was € 720,254 and € 707,336 respectively.

The fair value of the options issued in 2007 was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4.45%; dividend yield of 0%; 42% expected volatility based on historic data; and an expected option life of 3.0 years. For option grants in 2006, the following assumptions were made: risk-free interest rate of 2.89%; dividend yield of 0%; 55% to 60% expected volatility; and the same option life as in 2007. The weighted-average fair value of options granted during 2007 and 2006 is estimated to be € 16.09 and € 18.33 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 €	2007	2006
Wages and Salaries	15,727	15,890
Social Security Contributions	2,500	1,612
Stock-based Compensation Expense	1,420	1,243
Temporary Staff (External)	91	22
Other	490	601
TOTAL	20,228	19,368

The average number of employees during the year ended December 31, 2007, was 291 (2006: 265). Of the 295 employees as of December 31, 2007, 164 worked in research and development and 131 in sales, general and administrative (December 31, 2006: 155 employees in R&D, and 124 employees in S,G&A).

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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. Since 2001, a corporate tax rate of 25 % plus 5.5 % solidarity surcharge applies. Considering the multiplier rate ("Hebesatz") of 300 % for municipal trade tax (for MorphoSys AG and MorphoSys IP GmbH), the trade tax rate amounts to approximately 13.04 % of the taxable income and is deductible in the calculation of the corporate tax. With regard to affiliated companies in foreign countries, income tax rates of 30 % and 39 % apply to the UK and the USA respectively.

The German Bundesrat passed the 2008 corporation tax reform on July 6, 2007. As part of the regulations becoming effective as of January 1, 2008, the corporation tax rate will be reduced from 25 % to 15 %, with a constant solidarity surcharge of 5.5 % and a moderate rise in the effective trade tax rate from 9.6 % to 10.5 %. One of the refinancing measures is a limit with regard to the deductibility of business expenses. These new regulations will have an effect on the Group and are recognized within this financial report.

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

in 000's €	2007	2006
Current Tax Expense (thereof Income Tax Expense Accounted Directly in Equity According to IAS 32.35: 438; 2006: 284)	(1,809)	(1,177)
Deferred Tax Benefit	4,066	1,919
Total Income Tax	2,257	742
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(978)	(821)

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 amount of € 4.9 million due to business expectations for the financial years 2008 to 2012.

The recognition of deferred tax assets on previously unrecognized deferred tax assets amounted to € 5.6 million (2006: € 2.1 million). The current assessment with regard to the usability of deferred tax assets can change dependent on the income situation of future years and may result in higher or lower valuation allowances.

The following table reconciles the statutory income tax expense to the actual income tax expense presented in the consolidated financial statements. To calculate the statutory income tax expense in the 2007 fiscal year, the combined income tax rate of 36% (2006: 36%) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge, and amounts to 26.38% plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300% for municipal trade tax, which amounts to 9.60%, taking into account that the trade tax is deductible in the calculation of the corporate tax.

	in 000's €	2007	2006
PROFIT BEFORE INCOME TAXES			
Expected Tax Rate		9,218	5,286
EXPECTED INCOME TAX		36%	36%
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		(3,318)	(1,903)
Non-recognition of DTA on Current Year Tax Losses		2,072	919
First-time Recognition of DTA on Tax Loss Carry-forwards		(167)	0
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA on Tax Loss Carry-forwards		3,580	1,186
Stock-based Compensation		236	1,309
Non-tax-deductible Items		(511)	(448)
Tax Rate Differences		(149)	(235)
Prior Year Taxes		295	(31)
Other Effects		131	0
ACTUAL INCOME TAX		88	(55)
		2,257	742

* Deferred tax asset

In 2006, no deferred tax asset was reported for corporate tax loss carry-forwards in the amount of € 14.5 million and German trade tax loss carry-forwards in the amount of € 13.8 million. The remaining tax loss carry-forwards amounted to € 13.9 million for corporation tax and € 13.2 million for trade tax, respectively, as of December 31, 2007. As of the balance sheet date, € 3.6 million of previously unrecognized tax losses were

recognized as deferred tax assets since the Management considered it probable that future taxable profits will be available against which the tax losses can be utilized. The Management revised its estimates of future profitability as a consequence of the closing of the Novartis cooperation. The tax loss carry-forwards may be carried forward indefinitely and in unlimited amounts. From 2004 onwards, German tax law restricts the

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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. As of December 31, 2006, no deferred tax asset with regard to future reversal of differences between IFRS and the tax balance sheet in the amount of € 2.7 million had been recognized. The deferred income tax benefit arising from the recognition of DTA on previously unrecognized DTA with regard to the future reversal of differences between IFRS and the tax balance sheet amounted to € 2.1 million as of December 31, 2007.

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

in 000's €	DTA 2007	DTA 2006	DTL 2007	DTL 2006
Intangible Assets	2,110	3,858	2,276	3,020
Non-recognition of DTA on Intangible Assets	0	(2,673)	0	0
Property, Plant and Equipment	0	41	37	80
Land	0	0	160	277
Buildings	0	0	73	132
Inventory	77	219	5	184
Advanced Payments	0	7	0	0
Receivables and Other Assets	0	0	18	56
Prepaid Expenses and Deferred Charges	1	3	0	0
Short-term Securities Investments	0	0	848	679
Other Accruals/Provisions	25	34	66	1
Trade Accounts Payable	0	0	4	15
Bonds, there of Convertible	0	0	0	14
Other Liabilities	0	2	0	0
Tax Losses	3,633	1,261	0	0
	5,846	2,752	3,487	4,458

Due to the fiscal unity of MorphoSys AG and MorphoSys IP GmbH, an amount of € 0.9 million of deferred tax assets and deferred tax liabilities have been netted in the balance sheet. Deferred tax liabilities in the amount of € 0.8 million have been recognized directly in equity. The amount relates to the revaluation of available-for-sale financial assets. Income taxes recognized directly in equity amount to € 0.4 million and relate to the costs of the capital increase in 2007.

22 EARNINGS PER SHARE

The calculation of basic profit per share is based on the net profit for the year of € 11,475,030 (2006: € 6,027,934) and the weighted-average number of shares of common stock outstanding for the respective years (2007: 7,115,890; 2006: 6,379,046).

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

	2007	2006
SHARES ISSUED ON JANUARY 1	6,715,322	6,025,863
Effect of Treasury Shares Held	(29,162)	(29,162)
Effect of Shares Issued in January	7,276	162,990
Effect of Shares Issued in February	2,993	9,136
Effect of Shares Issued in March	400	203,299
Effect of Shares Issued in April	0	525
Effect of Shares Issued in May	418,517	172
Effect of Shares Issued in June	133	0
Effect of Shares Issued in July	0	1,342
Effect of Shares Issued in August	0	1,221
Effect of Shares Issued in September	0	518
Effect of Shares Issued in October	0	2,626
Effect of Shares Issued in November	0	174
Effect of Shares Issued in December	411	342
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	7,115,890	6,379,046

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

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

	2007	2006
Numerator:		
Net Profit of the Year	11,475,030	6,027,934
Denominator:		
Weighted-average Shares Used for Basic EPS	7,115,890	6,379,046
Dilutive Shares Arising from Stock Options	95,211	90,793
Dilutive Shares Arising from Convertible Bonds	0	0
TOTAL DENOMINATOR	7,211,101	6,469,839
Earnings per Share (in €):		
Basic	1.61	0.94
Diluted	1.59	0.93

23 OPERATING LEASES

The Company leases facilities and equipment on long-term operating leases. Total rent expense amounted to € 1,770,942 and € 1,672,888 for the years ended December 31, 2007 and 2006, 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 noncancelable operating leases, insurances and other services are as follows:

The Company's total expenses due to operating leases, insurances and other services in the years ended December 31, 2007 and 2006, totaled € 3,200,067 and € 2,896,961 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.

in 000's €	2007	2006
Up to One Year	2,876	2,921
Between One and Five Years	3,577	5,263
More than Five Years	5,942	7,229
TOTAL	12,395	15,413

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 2007:

SHARES

	01/01/2007	ADDITIONS	FORFEITURES	SALES	12/31/2007
MANAGEMENT BOARD					
Dr. Simon E. Moroney	113,461	0	0	0	113,461
Dave Lemus ¹	100	0	0	0	100
Dr. Marlies Sproll	35	0	0	0	35
TOTAL	113,596	0	0	0	113,596
SUPERVISORY BOARD					
Dr. Gerald Möller	2,500	0	0	0	2,500
Prof. Dr. Jürgen Drews ²	0	2,430	0	0	2,430
Dr. Walter Blättler ³	0	0	0	0	673
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Prof. Dr. Andreas Plückthun ⁴	59,300	0	0	0	59,300
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	61,800	2,430	0	0	64,903

¹⁾ Held by his spouse

²⁾ Prof. Dr. Drews exercised his options and held the shares received

³⁾ Entered as per May 16, 2007; shares were bought by Dr. Blättler prior to election to the Supervisory Board

⁴⁾ Retired as per May 16, 2007

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STOCK OPTIONS

	01/01/2007	ADDITIONS	FORFEITURES	EXERCISES	12/31/2007
MANAGEMENT BOARD					
Dr. Simon E. Moroney	83,000	0	0	0	83,000
Dave Lemus	48,000	0	0	0	48,000
Dr. Marlies Sproll	26,250	0	0	0	26,250
TOTAL	157,250	0	0	0	157,250
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews ¹	2,430	0	0	2,430	0
Dr. Walter Blättler ²	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Prof. Dr. Andreas Plückthun ³	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	2,430	0	0	2,430	0

¹⁾ Prof. Dr. Drews exercised his options and held the shares received²⁾ Entered as per May 16, 2007³⁾ Retired as per May 16, 2007**CONVERTIBLE BONDS**

	01/01/2007	ADDITIONS	FORFEITURES	EXERCISES	12/31/2007
MANAGEMENT BOARD					
Dr. Simon E. Moroney	5,699	5,549	0	0	11,248
Dave Lemus	4,749	4,624	0	0	9,373
Dr. Marlies Sproll	3,800	3,700	0	0	7,500
TOTAL	14,248	13,873	0	0	28,121
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler ¹	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Prof. Dr. Andreas Plückthun ²	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	0	0	0	0	0

¹⁾ Entered as per May 16, 2007²⁾ Retired as per May 16, 2007

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 € 298,500 in 2007 (2006: € 259,000). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD

	FIXED COMPENSATION		VARIABLE COMPENSATION		OTHER COMPENSATORY BENEFITS		TOTAL COMPENSATION	
in €	2007	2006	2007	2006	2007	2006	2007	2006
Dr. Simon Moroney	320,250	290,000	198,360	139,024	83,882	77,313	602,492	506,337
Dave Lemus	225,225	204,750	140,049	104,973	113,309	99,456	478,583	409,179
Dr. Marlies Sproll	211,860	181,500	124,146	13,052	56,356	46,347	392,362	240,899
TOTAL	757,335	676,250	462,555	257,049	253,547	223,116	1,473,437	1,156,415

SUPERVISORY BOARD

	FIXED COMPENSATION		VARIABLE COMPENSATION		TOTAL COMPENSATION	
in €	2007	2006	2007	2006	2007	2006
Dr. Gerald Möller	40,000	40,000	35,000	24,500	75,000	64,500
Prof. Dr. Jürgen Drews	30,000	30,000	19,000	11,000	49,000	41,000
Dr. Daniel Camus	25,000	25,000	21,000	20,000	46,000	45,000
Dr. Metin Colpan	25,000	25,000	16,000	7,500	41,000	32,500
Prof. Dr. Andreas Plückthun ¹	8,878	23,500	4,500	7,500	13,378	31,000
Dr. Geoffrey N. Vernon	26,500	26,500	21,000	18,500	47,500	45,000
Dr. Walter Blättler ²	14,622	0	12,000	0	26,622	0
TOTAL	170,000	170,000	128,500	89,000	298,500	259,000

¹⁾ Entered as per May 16, 2007

²⁾ Retired as per May 16, 2007

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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 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.

In 2006, MorphoSys entered into consulting agreements with the former member of the Supervisory Board Prof. Dr. Andreas Plückthun and another scientist of Prof. Dr. Plückthun's research team at the University of Zurich, Switzerland, ending December 2008. According to the agreements, the consultants shall provide consulting services in the antibody and scaffold fields. Under this agreement, Prof. Dr. Andreas Plückthun may receive payments of up to € 14,000 per year, depending on the extent to which the Company draws on his consultancy. In 2007, no payments were made to Prof. Dr. Plückthun and his research team. The sponsored research agreement with the University of Zurich, represented by Prof. Dr. Andreas Plückthun, was terminated by the end of 2006.

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

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 19, 2007.

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 alphabetical order). For partnerships signed or amended significantly during the 2007 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, MorphoSys grants Astellas access to its HuCAL GOLD antibody library for use in its internal pharmaceutical drug discovery programs. In return, MorphoSys received an up-front payment and will receive annual user fees during the life span of the agreement. The agreement may have a duration of up to five years.

BAYER SCHERING PHARMA AG

The active collaboration with Bayer Schering Pharma AG (Germany/USA) was concluded by the end of 2007. Under the terms of the previous agreement, Bayer Schering paid annual license fees for access to MorphoSys's technologies as well as support for research and development conducted at MorphoSys. 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 (Germany/USA) signed a collaboration in the field of therapeutic antibodies in February 2003. In exchange for certain target rights for ICAM-1 (inter-cellular adhesion molecule-1), Boehringer Ingelheim received exclusive licenses for therapeutic antibodies against two undisclosed target molecules. In November 2003 and August 2004, Boehringer Ingelheim exercised these options for the development of therapeutic antibodies against target molecules involved in cardiovascular diseases and inflammatory diseases.

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 current agreement, MorphoSys received a technology access fee, and receives 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 total, several therapeutic antibody programs are currently in development and could result in future development-dependent milestone payments and royalties on product sales.

CENTOCOR, INC.

The active collaboration with Centocor, Inc. (USA), a wholly owned subsidiary of Johnson & Johnson, was concluded by the end of 2007. Under the terms of the previous agreement, Centocor paid annual license fees for access to MorphoSys's technologies as well as support for research and development conducted at MorphoSys. 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.

DAIICHI SANKYO COMPANY, LIMITED

In March 2006, MorphoSys and Sankyo Company, Limited, a wholly owned subsidiary of Daiichi Sankyo Company, Limited, (Japan) 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. During the lifetime of the agreement, Daiichi Sankyo will have access to the MorphoSys 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. In 2007, Daiichi Sankyo initiated one therapeutic antibody program with MorphoSys and has an option for further programs. If extended after the initial two-year period, the contract provides Daiichi Sankyo with access to additional MorphoSys capabilities, such as target validation, antibody optimization and pre-clinical development. Such an extension would trigger an additional up-front payment and result in increased research funding for MorphoSys.

ELI LILLY AND COMPANY

In September 2005, MorphoSys AG signed a cross-license agreement with US pharmaceutical company Eli Lilly and Company ("Lilly") for 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 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 licensing 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.

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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. Under the terms of the collaboration, MorphoSys selected several antibodies from its HuCAL library against the Alzheimer target amyloid beta-peptide, which forms abnormal build-ups in cerebral tissue. These build-ups are typical of Alzheimer's patients, and the antibody is intended to help remove them.

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. The applications filing to commence clinical trials triggered a clinical milestone payment from Roche to MorphoSys. At year-end 2007, phase 1 clinical testing of the antibody was ongoing. In the context of the development program R1450, MorphoSys may receive additional 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 additional therapeutic antibodies in oncology in March 2006. Roche may elect two new target molecules against which MorphoSys will generate antibodies using its HuCAL GOLD technology. 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.

GENEFRONTIER CORPORATION

Building on a 2004 marketing agreement, MorphoSys and Tokyo-based GeneFrontier Corp. (Japan) 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.

GPC BIOTECH AG

An agreement between MorphoSys and GPC Biotech AG (Germany) was signed in April 1999. In the context of its partnership with GPC Biotech, MorphoSys selected and optimized a fully human antibody against a GPC Biotech target molecule by using its HuCAL technology. The antibody 1D09C3 is aimed at the selective recognition and destruction of activated, reproducing MHC class II-positive tumor cells – including those in B-cell and T-cell lymphomas.

In February 2005, MorphoSys announced that GPC Biotech had commenced a phase 1 clinical trial with the cancer antibody 1D09C3. In total, the clinical trials involved three different sites in Europe and first commenced at the Oncology Institute of Southern Switzerland (IOSI), a world-renowned oncology center that has been involved in numerous previous phase 1 studies. At year-end 2007, phase 1 clinical testing of the antibody was ongoing. In the context of the collaboration, MorphoSys may receive additional development-related milestone payments and royalties on any marketed products emerging from the collaboration.

IMMUNOGEN, INC.

In September 2000, MorphoSys entered into a cooperation with ImmunoGen, Inc. (USA), focused on the development of human antibodies for the treatment of cancer. In the cooperation, MorphoSys applied its HuCAL technology to discover and optimize fully human antibodies against an unspecified ImmunoGen cell-surface target associated with a number of forms of cancer. In the context of the collaboration, MorphoSys may receive additional development-related milestone payments and royalties on any marketed products emerging from the collaboration. The active term of the collaboration was concluded in May 2006.

MERCK & CO., INC.

In December 2005, MorphoSys AG 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 the research and development of human therapeutic antibodies. The agreement enables Merck to develop up to ten HuCAL-derived therapeutic antibodies in a range of indications. MorphoSys received an up-front payment and receives 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 (Switzerland/USA) 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 10-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.

ONCOMED PHARMACEUTICALS, INC.

In June 2006, MorphoSys AG and US-based biopharmaceutical company OncoMed Pharmaceuticals, Inc., announced 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 cancer by targeting cancer stem cells. OncoMed Pharmaceuticals is discovering and developing monoclonal 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. 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 initial two-year contract includes an option for OncoMed to develop HuCAL-derived therapeutic antibodies. MorphoSys received an up-front payment and receives annual user fees.

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PFIZER, INC.

In December 2003, MorphoSys and the US pharmaceutical company Pfizer, Inc., entered an initial five-year collaboration for the development of therapeutic antibodies. In December 2006, both parties agreed on an early expansion of their collaboration until the end of 2011. The extension triggered a one-off payment from Pfizer to MorphoSys. Under the extended agreement, Pfizer has the option to begin new therapeutic antibody projects with MorphoSys, resulting in an increased level of programs to be performed within the collaboration. MorphoSys is using its HuCAL GOLD library to generate therapeutic antibodies against multiple targets from Pfizer. Pfizer will carry out the pre-clinical and clinical development and the subsequent marketing of resultant products. The potential value to MorphoSys in research funding and potential developmental milestone payments increased to more than 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 also eligible to milestone payments on projects in clinical development and royalties on any end products emerging from the collaboration.

SCHERING-PLough CORPORATION

In May 2006, MorphoSys AG and the US pharmaceutical company Schering-Plough Corporation signed an initial two-year license agreement. Under the terms of the agreement, which also provides Schering-Plough with the option of an extension of up to three more years, MorphoSys grants access to its proprietary antibody library HuCAL GOLD to Schering-Plough for use in its drug discovery programs at one research site. Furthermore, the contract provides Schering-Plough with the option to develop HuCAL-derived therapeutic antibodies against up to ten disease-related targets. MorphoSys received an up-front payment, and receives 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 Shionogi & Co., Ltd. (Japan), signed a three-year license agreement on the use of MorphoSys's HuCAL technology in September 2005. Under the terms of the agreement, MorphoSys granted 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 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. The agreement is scheduled to expire in September 2008.

APPENDIX 1: DETAILED ROLL-FORWARD FIXED ASSETS (IFRS) – MORPHOSYS GROUP

in €	01/01/2007	ACQUISITION AND PRODUCTION COST			12/31/2007
		ADDITIONS	DISPOSALS	FX VARIANCE	
I. PROPERTY AND EQUIPMENT					
Land and Buildings	3,023,390	78,088	1,786,568	(241,067)	1,073,843
Office and Laboratory Equipment	7,398,495	866,796	308,414	(50,595)	7,906,282
Furniture and Fixtures	2,219,251	129,174	185,213	(46,989)	2,116,223
	12,641,136	1,074,058	2,280,195	(338,651)	11,096,348
II. INTANGIBLE ASSETS					
Patents	3,844,555	110,747	0	0	3,955,302
Software	1,668,580	627,564	5,572	(9,931)	2,280,641
Know-how and Customer List	6,478,449	0	0	(518,656)	5,959,793
License Rights	12,740,965	10,201,676	84,815	(42,685)	22,815,141
Goodwill	27,002,591	0	0	(48,727)	26,953,864
	51,735,140	10,939,987	90,387	(619,999)	61,964,741

APPENDIX 2: CHART OF THE CONSOLIDATED ENTITY AS OF DECEMBER 31, 2007

NAME AND CORPORATE SEAT OF THE COMPANY	CURRENCY	EXCHANGE RATE ON DEC. 31, 2007 ONE UNIT OF EURO IN FOREIGN CURRENCY	
		US\$	€
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)			
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US\$	1.44370	-
MorphoSys IP GmbH, Munich, Germany	€	-	-
MorphoSys UK Ltd., Oxford, UK	£	0.72900	-
MorphoSys US, Inc., Raleigh, North Carolina, USA	US\$	1.44370	-
MorphoSys AbD GmbH, Düsseldorf, Germany	€	-	-
Poole Real Estate Ltd., Poole, UK	£	0.72900	-

* Before elimination of intercompany transactions

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ACCUMULATED DEPRECIATION					NET BOOK VALUES		
01/01/2007	ADDITIONS	WRITE-OFF	DISPOSALS	FX VARIANCE	12/31/2007	12/31/2007	12/31/2006
100,299	65,339	0	21,017	(8,040)	136,581	937,262	2,923,091
4,505,279	1,185,725	0	272,219	(14,444)	5,404,341	2,501,941	2,893,216
1,141,446	228,889	0	33,247	(10,705)	1,326,383	789,840	1,077,805
5,747,024	1,479,953	0	326,483	(33,189)	6,867,305	4,229,043	6,894,112
1,894,401	466,152	0	0	0	2,360,553	1,594,749	1,950,154
1,424,767	226,831	0	0	(3,410)	1,648,188	632,453	243,813
1,644,160	763,625	0	0	(134,505)	2,273,280	3,686,512	4,834,289
4,964,591	1,467,027	0	42,215	(5,143)	6,384,260	16,430,881	7,776,374
0	0	0	0	0	0	26,953,864	27,002,591
9,927,919	2,923,635	0	42,215	(143,058)	12,666,281	49,298,459	41,807,221

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*
	IN FOREIGN CURRENCY*	CURRENCY*	CURRENCY*	CURRENCY*	CURRENCY*
100	2,000	16,122	41,335	0	(11,667)
100	25,000	9,027,482	10,198,903	4,085,127	426,415
100	100	6,600,360	3,880,052	8,616,010	353,549
100	50,000	2,702,416	2,569,216	9,157,873	(593,594)
100	25,000	1,415,705	524,433	3,551,777	469,330
100	200	1,137,010	107,598	0	106,530

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Martinsried/Planegg, February 11, 2008



Dr. Simon E. Moroney
Chief Executive Officer

Mr. Dave Lemus
Chief Financial Officer



Dr. Marlies Sproll
Chief Scientific Officer

Auditor's Report

We have audited the consolidated financial statements prepared by the MorphoSys AG, Martinsried, comprising the balance sheet, the statement of operations, the statement of Cash Flows, the statement of changes in stockholders' equity and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch; "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual

financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 12, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Lauer
Maurer
Wirtschaftsprüfer
[German Public Auditor]

Rahn
Rahn
Wirtschaftsprüfer
[German Public Auditor]

Corporate Governance Report

MorphoSys has always given responsible and transparent corporate governance a high priority, continually aiming to enhance value on a sustainable basis. Corporate governance is a central issue for all areas of the MorphoSys Group.

The Management Board – on behalf of itself and the Supervisory Board – reports in the following document on corporate governance at MorphoSys in accordance with section 3.10 of the German Corporate Governance Code.

CORPORATE GOVERNANCE ON MORPHOSYS' WEBSITE
Continually updated information regarding corporate governance* can be found at www.morphosys.com

GERMAN CORPORATE GOVERNANCE CODE

The aim of the German Corporate Governance Code is to make Germany's corporate governance rules transparent for both national and international investors, thus strengthening confidence in the management of German corporations. On June 14, 2007, the German Corporate Governance Code was amended by resolution of the Government Commission charged with its administration. The revised form affects mainly the issues of severance payments for management board members and the supervisory board nomination committee.

CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

Recently in 2007, MorphoSys Group Board of Management and Supervisory Board again addressed the question of code compliance, particularly in light of the new recommendations issued on June 14. The resulting Declaration of Conformity was published in December 2007 and posted on MorphoSys's website along with previous declarations.

Since 2003, MorphoSys has published an extensive Corporate Governance Report each year, including the *Remuneration Report**, which discloses the compensation of the Management Board and the Supervisory Board.

DECLARATION OF CONFORMITY

At the meeting on December 12, 2007, the Management Board and the Supervisory Board approved the following Declaration of Compliance pursuant to sec. 161 of the German Stock Corporation Act (AktG):



MORE INFORMATION AT
WWW.MORPHOSYS.COM



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MorphoSys AG complies and will comply with the recommendations of the German Corporate Governance Code – in the version of June 14, 2007 – with the following exceptions:

- The stock option program for the Board of Management does not provide a cap for unforeseen developments within the meaning of Code Sec. 4.2.3, since the reasonableness of the amount of stock options for the Board of Management has already been considered at the time of the grant.
- The present D&O insurance policy at MorphoSys AG includes a deductible for Management and Supervisory Board members (Code sec. 3.8, para. 2), the magnitude of which however, may be at a level which does not comply with the requirements of the German Corporate Governance Code.

With these two exceptions, MorphoSys AG has complied with the German Corporate Governance Code in the time period since its Declaration of Compliance of December 2006.

Martinsried/Planegg, December 12th 2007
MorphoSys AG

FOR THE MANAGEMENT BOARD

Dr. Simon Moroney	Dave Lemus
Chief Executive Officer	Chief Financial Officer

Dr. Marlies Sproll
Chief Scientific Officer

FOR THE SUPERVISORY BOARD

Dr. Gerald Möller
Chairman

TWO-TIER BOARD SYSTEM: MANAGEMENT AND SUPERVISORY BOARDS

The two-tier system, required by the German Stock Corporation Act, provides a strict separation of management and supervision. The responsibilities of both boards are clearly defined by the law, the articles of association and the terms of reference. The Boards work closely together in the interest of the Company; their joint goal is to increase the shareholder value on a sustainable basis.

MANAGEMENT BOARD

The Management Board of MorphoSys AG consists of three members and has one chairman.

Terms of reference regulate the allocation of areas of responsibility and the cooperation within the Management Board.

- Dr. Simon E. Moroney, Chief Executive Officer, is responsible for the business segment AbD – Antibodies Direct, Business Development, Intellectual Property and Licensing as well as Human Resources.
- Mr. Dave Lemus, Chief Financial Officer, is responsible for Controlling and Accounting, Corporate Development, Treasury, Corporate Legal, Corporate Communications and Investor Relations as well as Technical Operations including IT.
- Dr. Marlies Sproll, Chief Scientific Officer, is responsible for Research and Development as well as Alliance Management.

The Management Board members have no additional mandates concerning the supervisory boards of other publicly listed companies. Dr. Moroney acts as an advisor for Complex Biosystems GmbH, Heidelberg, Germany and became in 2007 a member of the Supervisory Board of ProtAffin, Graz, Austria. Mr. Lemus was elected and serves presently as Treasurer of the Munich International School. In 2007, Dr. Sproll was elected as a member of the Board of Bio Deutschland e.V. All positions were approved by the Supervisory Board.

SUPERVISORY BOARD

The role of the 6-member Supervisory Board is to oversee and advise the Board of Management. The current Supervisory Board consists of professionally qualified members, representing the Company's shareholders. Pursuant to its rules of procedures, and to fulfil its duties, the Supervisory Board has formed the following Committees:

COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES

	END OF TERM	MEMBERSHIP IN THE FOLLOWING COMMITTEES	
		AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
Dr. Gerald Möller, Chairman	2008		X (Chairman)
Prof. Dr. Jürgen Drews, Deputy Chairman	2011		X
Dr. Walter Blättler ¹	2011		
Dr. Daniel Camus	2008	X	
Dr. Metin Colpan	2008		X
Prof. Dr. Andreas Plückthun ²	-		
Dr. Geoffrey N. Vernon	2008	X (Chairman)	

¹ Entered as per May 16, 2007

² Retired as per May 16, 2007

Information about additional mandates held by members of the Supervisory Board in supervisory bodies of other companies and detailed information on the work of the Supervisory Board is contained under the chapter entitled "Supervisory Board Report".*

To avoid a possible conflict of interest between his activities as a Supervisory Board member of MorphoSys AG and as member of the Board of Directors of Molecular Partners AG (Switzerland), Prof. Andreas Plückthun has resigned from his office effective at the end of the Annual Shareholders' Meeting in 2007. The Company's shareholders appointed Dr. Walter A. Blättler as Prof. Plückthun's successor.

DIRECTORS' HOLDINGS

The ownership of MorphoSys AG shares or related financial instruments by Management Board and Supervisory Board members exceeds 1 % of the shares issued by the Company. For the disclosure of Company stocks held or financial instruments relating to them, please refer to section 25 of the Notes to the Consolidated Financial Statements.* This list separately shows all the stocks, stock options and convertible bonds held by each member of the Management Board and the Supervisory Board.



SEE PAGE 136



SEE PAGE 120

DIRECTORS' DEALINGS

Under the Securities Trading Act (Wertpapierhandelsgesetz), the Members of the Management and Supervisory Board of MorphoSys AG, as well as persons who have a "close relationship" with such members, are obligated to report trading in MorphoSys stock. During the fiscal year 2007, no such transactions took place.

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting took place on May 16, 2007, in Munich. Approximately 28% of total voting stock was represented at the meeting, slightly down from the attendance in 2006 (approximately 30%). MorphoSys assisted the shareholders in the use of proxies and arranged the appointment of a representative to exercise shareholders' voting rights in accordance with instructions. This representative was also available at any time during the Annual Shareholders' Meeting. MorphoSys provided a webcast of the Management Board's speech online.

RISK MANAGEMENT

Detailed information about MorphoSys' risk management system can be found on page 63 et seq. of this report. The systematic risk management activities, performed as part of the Company's value-based Group management approach, identify and assess risks at an early stage and minimize risk exposure.

CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

A financial calendar lists the dates on which financial reports are released. Providing this kind of transparency as well as timely information for the shareholders is a high priority for the Management Board and the Supervisory Board. In that vein, MorphoSys has set itself the goal of exceeding the regulations of the German Corporate Governance Code and reports its year-end results within 60 days and the quarterly results within 30 days of the end of the respective periods.

As part of investor relations activities, MorphoSys holds regular meetings with analysts and institutional investors. In addition to an annual press conference and analyst meeting, conference calls are organized to coincide with the publication of the quarterly figures. MorphoSys strictly adheres to the concept that no shareholder receives preferential information. All corporate communications are conducted in a manner to provide all investors, including individual investors, the same level of information. For example, all investor presentations are published on the [corporate website](#).*

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Stock exchange-listed companies in the EU must apply international financial reporting standards (IFRS). The MorphoSys Group applies IFRS since the fiscal year 2004. The Financial Statements of MorphoSys AG are prepared in accordance with the German Commercial Code (HGB).

The Audit Committee prepares its proposal on the selection of the Company's external auditors. The Annual Shareholders' Meeting appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as auditor for the 2007 fiscal year. In order to ensure the auditors' autonomy, the Audit committee obtained a declaration of independence from the auditors.



Supervisory Board Report

During the fiscal year 2007, the Supervisory Board focused intensively on the Company's development and prospects as well as on a number of specific issues such as the strategic partnership with Novartis.

During 2007 the Supervisory Board monitored the conduct of MorphoSys's business and acted in an advisory capacity according to statutory provisions and the Articles of Association. The Supervisory Board was directly involved in all decisions of fundamental significance for the Company.

We performed these functions on the basis of detailed written and oral reports received from the Management Board, which contained up-to-date and comprehensive information regarding all relevant topics. Where the actual course of business deviated from plans and targets, this was explained to us in detail and examined by us on the basis of the documents presented. Outside the Supervisory Board meetings, as the Chairman of the Supervisory Board, I was personally in regular contact with the Management Board and especially with the Chief Executive Officer, Dr. Simon E. Moroney and was kept informed about the current business situation and key business transactions. In this way, the Supervisory Board was kept continuously informed about the Company's intended business strategy, corporate planning (including financial, investment and human resources planning), the earnings performance as well as the state of the business and the situation in the Company and the Group as a whole.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

The Supervisory Board focused chiefly on the Company's strategic development and the process of the search for a strategic partner, as successfully concluded in December 2007, which allows the Company to focus even more on

value generation through increased spending for product development, while maintaining its favourable risk/reward profile. Additionally, we discussed the updated multi-year business plan, progress reports for the two operating business units, the annual budget for 2008, corporate governance topics, and mergers and acquisitions opportunities. To the extent that corporate law or the existing Management Board Rules of Procedure require approval for certain actions to be taken by the Management Board, e.g. for the capital increase in May 2007 and the strategic collaboration with Novartis in December 2007, such approvals were given by the Supervisory Board itself or its sub-committees after detailed examination and discussion.

Eleven regular Supervisory Board meetings were held in fiscal year 2007. Between meetings, the Executive Board kept us constantly informed about all projects and plans of particular importance to the Company. Where necessary, we passed resolutions by written vote.

For all Supervisory Board meetings, all members of the Supervisory Board received extensive written reports well in advance of each meeting, which were prepared by the Management Board with the input of the respective departments. These reports were sufficiently comprehensive to analyze the relevant topics of the agenda of the Supervisory Board meetings and to pass the required resolutions.

The development of revenues, earnings and employment in the Group and both segments, the financial situation and all major investment projects were the subject of regular deliberations at the ordinary meetings.



“On behalf of my colleagues on the Supervisory Board, I would like to thank the Management Board and the employees of all Group subsidiaries for their work, which has contributed to another successful fiscal year for MorphoSys.”

Dr. Gerald Möller, Chairman of the Supervisory Board

The Management Board reported regularly on the progress of the proprietary antibody development and the ongoing technology development efforts, as well as progress made in the process for a strategic partnership. In several meetings we discussed possible deal structures, future corporate strategies as well as merger and acquisition possibilities. Further key topics of the meetings were the capital increase in May 2007, the approval of the financial statements, the appointment of the auditor, the budget for 2008, and the business development issues such as approval for terms and conditions of new collaborations and the in-licensing of the patent portfolio from Dyax. All term sheets for transactions that were material to the Company were reviewed and approved by the Supervisory Board. At its meetings in May to December 2007, the Supervisory Board considered and evaluated in detail the different potential partners for the competitive process that led to the new collaboration with Novartis.

Presently, two different committees exist: the Audit Committee and the Remuneration & Nomination Committee. The composition of these committees can be found in the Corporate Governance chapter of this Annual Report. The Audit Committee met six times, dealing mainly with accounting issues, the quarterly financial statements and the annual financial statements. The auditor attended two meetings of the Audit Committee and informed its members of the audit results. The Remuneration & Nomination Committee met five times and concerned itself with topics relating to the remuneration system and the level of compensation for the Manage-

ment Board. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

ANNUAL SHAREHOLDERS' ASSEMBLY

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

The appellate court did not follow our legal counsel's reasoning, and, consequently, the respective resolutions of the Annual Shareholders' Meeting haven't been registered into the commercial register. As the existing share capitals, prior to such proposed increases, remain in place, the Management decided not to call an extraordinary Shareholders' Assembly for timing and cost reasons, and will therefore register only the non-affected topics of the agenda.

ELECTION OF NEW SUPERVISORY BOARD MEMBERS

During the Annual Shareholders' Meeting 2007, the MorphoSys's shareholders appointed Dr. Walter A. Blättler, formerly Executive Vice President, Science and Technology of ImmunoGen, Inc., to the MorphoSys Supervisory Board. Dr. Blättler replaces Prof. Dr. Andreas Plückthun, Professor of Biochemistry, University of Zurich. Prof. Andreas Plückthun, co-founder and long-standing member of the Supervisory Board of MorphoSys has previously resigned from his office effective at the end of the Annual Shareholders' Meeting in 2007. I would like to take the opportunity, on behalf of the Supervisory Board, to thank Prof. Plückthun for his support and valuable contributions to the successful development of the Company.

CORPORATE GOVERNANCE

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account the amendments made to the German Corporate Governance Code in June 2007. In the meeting on December 12, 2007, the Management and Supervisory Boards issued a new Declaration of Conformity, which is also included in the Corporate Governance chapter of this annual report and is also permanently available to shareholders on MorphoSys's website. As stated in the Declaration of Conformity approved by the Supervisory Board, MorphoSys complies with all but two of the Code's recommendations.

As a part of an on-going process, the Supervisory Board also questioned the effectiveness of its own work.

For more detailed information regarding corporate governance issues, please refer to the corporate governance and remuneration report of this Annual Report.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements and the management report of MorphoSys AG in accordance with HGB (German GAAP) and the consolidated financial statements and the Group management report of the MorphoSys Group (MorphoSys AG including its affiliates) on the basis of IFRS in accordance with Art. 315a HGB for the period January 1, 2007, to December 31, 2007, prepared by the Management Board, were audited by KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Munich. The audit contract had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting on May 16, 2007. The auditor issued an unqualified audit opinion.

The auditors have audited the MorphoSys Group's consolidated financial statements and the annual financial statements of MorphoSys AG as well as the management reports for the Group and MorphoSys AG according to HGB. Additionally, the Company's system for internal control/risk management was also subjected to audit. The consolidated financial statements were audited according to German and international standards (IFRS). The auditor confirmed that the consolidated annual financial statements are an accurate and fair reflection of the financial situation, the result of business activity, and the Group's cash flow, in accordance with the accounting principles as defined by IFRS.

The focus of this year's audit of the financial statements and the management report of MorphoSys AG was the structure, implementation and effectiveness of internal controls in the procurement process as well as the structure, implementation and effectiveness of internal controls relating to Counsel Licensing & Intellectual Property and the completeness of accounts payable trade

and accruals for outstanding invoices as well as the accurate recognition of the operating revenues. The focus for the 2007 audit of the consolidated financial statements and the Group management report of the MorphoSys Group was the process of preparing the consolidated financial statement, the accuracy of the annual financial statements included in the consolidated financial statements, capital consolidation and the determination of deferred taxes.

The audit reports and the financial statement documentations were sent to all Supervisory Board members in good time. The audit report and the financial statements of the consolidated financial statements and the Group management report of the MorphoSys Group were discussed intensively during the Audit Committee Meeting on February 21, 2008 and at the meeting of the Supervisory Board Meeting on February 21, 2008. The audit report and the financial statements and the management report of the MorphoSys AG were the subject of intense discussion at the Audit Committee Meeting on March 12, 2008, and at the subsequent meeting of the Supervisory Board Meeting on March 12, 2008. At the respective meetings, the auditor took part in the discussion of

the financial statements. He reported on the main results of its audits and was available to the Supervisory Board to answer questions and provide supplementary information. After our final review, the Supervisory Board approved the financial statements without objection or amendment and thus adopted them.

On behalf of my colleagues on the Supervisory Board, I would like to thank the Management Board and the employees of all Group subsidiaries for their work, which has contributed to another successful fiscal year for MorphoSys.

Martinsried/Planegg, March 12, 2008



Dr. Gerald Möller
Chairman of the Supervisory Board

Senior Management Group



① **DR. GÜNTER WELLNHOFER**
Head of Technical Operations

② **SILVIA DERMIETZEL**
Head of Global Human
Resources

③ **DR. BERNHARD ERNING**
Head of Treasury & Corporate
Development

④ **DR. CLAUDIA GUTJAHR-LÖSER**
Head of Corporate Communi-
cations & Investor Relations

⑤ **KLAUS DE WALL**
Head of Finance & Accounting

⑥ **STEVE YODER**
General Counsel

⑦ **DR. BARBARA KREBS-POHL**
Head of Business Development

⑧ **DR. HARALD WATZKA**
Head of Alliance Management



9 DR. ROBERT FRIESEN 14 TIM BERNARD
Head of Pre-clinical & Early Clinical Head of Global Sales, AbD Serotec
Development

10 DR. RALF OSTENDORP
Senior Director,
Research & Development

11 DR. MARKUS ENZELBERGER
Senior Director,
Research & Development

12 DR. ARMIN WEIDMANN
Director,
Research & Development

13 DR. MARGIT URBAN
Senior Director,
Research & Development

14 TIM BERNARD
Head of Global Sales, AbD Serotec

15 DR. ACHIM KNAPPIK
Head of Research & Development,
AbD Serotec

16 JOANNE CROWE
Head of Sales & Marketing,
AbD Serotec

17 DIETER LINGELBACH
Division Head, AbD Serotec

Without Picture:

ANDREW LANE
Scientific Affairs & Licensing
Manager, AbD Serotec

BRENDA HAYES
Serotec Group Financial Controller,
AbD Serotec

Supervisory Board of MorphoSys AG



DR. GERALD MÖLLER
(Chairman)

Heidelberg, Germany
Managing Director,
HBM BioCapital
Management GmbH

PROF. DR. JÜRGEN DREWS
(Deputy Chairman)

Feldafing, Germany,
and Naples, USA
Managing Partner, Bear Stearns
Health Innoventure Fund LLC

**MEMBER OF THE
SUPERVISORY BOARD OF:**
BioAgency AG, Germany
(Chairman)
Brahms AG, Germany
(Chairman)
Invendo Medical GmbH
(former STM GmbH, Germany)
(Chairman)
Febit Holding GmbH, Heidelberg
(Chairman)
MTM AG, Germany (Chairman)
4sigma*, Bermuda (Chairman)
Bionustks PLC*, UK (Director)
Find Foundation*, Switzerland
(Chairman)
Pelikan Technologies, Inc.*
USA (Chairman)
Vivacta Ltd.*, UK (Director)

**MEMBER OF THE
SUPERVISORY BOARD OF:**
GPC Biotech AG, Germany
(Chairman)
Bear Stearns Health Innoventure
Fund LLC, New York (Consultant)
Human Genome Sciences, Inc.*;
USA (Board Member)

* Membership in comparable domestic and foreign supervisory boards
of commercial enterprises

**DR. WALTER BLÄTTLER**

(Member since May 16, 2007)

DR. DANIEL CAMUS

(Member)

DR. METIN COLPAN

(Member)

DR. GEOFFREY N. VERNON

(Member)

Brookline, USA

Consultant to HealthCare

Ventures, Cambridge, USA and

Edmund de Rothschild Investment

Partners, Paris, France

Paris, France

Senior Executive Vice

President and CFO,

Electricité de France

Venlo, The Netherlands

Supervisory Director,

Qiagen N.V.

Tavistock, UK

Executive Chairman,

Ziggus Holding Ltd.

No other Supervisory Board
memberships**MEMBER OF THE
SUPERVISORY BOARD OF:**

- EnBW, Germany
- Dalkia Holding*, France
- EDF International*, France
(Chairman)
- EDF Energy Group*, UK
(Chairman)
- Edison spa*, Italy
- Transalpina de Energia SRL*,
Italy
- Valéo*, France

**MEMBER OF THE
SUPERVISORY BOARD OF:**

- GPC Biotech AG, Germany
- GenPat 77*, Germany (Director)
- Qiagen NV*, Netherlands

**MEMBER OF THE
SUPERVISORY BOARD OF:**

- Advanced Medical Solutions
Ltd.*, UK
- Apitope Technology Ltd.*, UK
- Cornwall Farmers Ltd.*, UK
- Genable Ltd.*, Ireland
- Medpharm Ltd.*, UK
- Talia Technology Ltd.*, Israel
- Tyratech Inc.*, USA
- XL TechGroup GP LLC*, USA
- XL TechGroup Inc.*, USA
- Ziggus Holdings Ltd.*, UK

PROF. DR. ANDREAS PLÜCKTHUN

Zurich, Switzerland

Professor of Biochemistry,

University of Zurich

Member of the Supervisory Board
of MorphoSys AG
until May 16, 2007

Glossary

A

ADR – American Depository Receipt; an ADR is issued by a U.S. depository bank and represents one or more shares of a foreign stock or a fraction of a share

Affinity – Binding strength between binding partners, e.g. antibody/antigen

Amyloid-beta – target molecule in Alzheimer's disease therapy; main constituent of amyloid plaques in the brains of Alzheimer's disease patients

Antigen – Foreign substance stimulating antibody production; binding partner of antibody

Antibody – Proteins of the immune system that recognize antigens thereby triggering an immune response

Antibody library – A collection of genes that encode corresponding human antibodies

Autoimmune disease – Disease caused by an immune response by the body against one of its own tissues, cells, or molecules

C

Cash flow – Key performance indicator in the cash flow statement used to assess the financial and earning capacity

COGS – Cost of goods sold; costs for antibody material produced by the AbD segment

Corporate Governance – System of relations between the shareholders, Board of Directors and management of a company

E

E.coli – Certain species of bacteria

EMEA – European Medicines Agency

Eukaryote – A cell with distinct nucleus, in comparison to prokaryote

Expression – Conversion of genetic information in a corresponding protein

F

FDA – Food and Drug Administration; U.S. Federal Agency for the Supervision of Food and Drugs

G

Gene – Part of DNA encoding a defined structure (e.g. a protein) or a function

Genome – Total DNA of an organism (genes, genetic signalling structures as well as additional DNA sections)

Glycosylation – The modification of a protein by adding sugar molecules to particular amino acids in the protein

GM-CSF – Granulocyte colony-stimulating factor; underlying target molecule of MOR103 program

Gold standard – Best and most reliable method or technology currently available; industry standard

Goodwill – An intangible asset that reflects the value of a company's name and reputation, its customer relations, and other factors influencing its standing and competitiveness

GRS study – Annual German Biotechnology Industry Remuneration Study

H

HGB – German accounting standards

HuCAL – Human Combinatorial Antibody Library. Proprietary antibody library enabling rapid generation of specific human antibodies for all applications

Human – Of human origin

Hybridoma – Fused cancer and immune cell used for antibody production

I

IFRS – International Financial Reporting Standards; Future EU-wide standards produced by the IASB

Immunization – Generation of antibodies by administering antigen

in-vitro – in a test tube

in-vivo – in a living organism

IPO – Initial Public Offering; first time a company offers its shares to the public

L

Library – Here – collection of a multitude of different molecules (gene library, peptide library, protein, especially antibody library) for screening and/or selection

Life sciences – All branches of science that study all organisms, especially living ones

Lymphoma – Certain form of blood cancer

O

Osteoclast – A type of bone cell that removes bone tissue

R

RA – Abbreviation for Rheumatoid Arthritis

S

S,G&A – sales, general and administrative

P

PEGylation – Process of covalent attachment of poly ethylene glycol polymer chains to another molecule, normally a drug or therapeutic protein

Peptide – Short chain of amino acids

Phage – Abbreviation for bacteriophage, a virus that infects bacteria

Phage-display-technology – Screening technology; presentation of peptides/proteins of surface of phages

Preclinic – Preclinical stage of drug development; tests in animal models as well as in laboratory essays

Protein – Polymer consisting of amino acids, e.g., antibodies, enzymes

Proteome – Protein complement expressed by a genome

M

Market capitalization – Value of a company's outstanding shares, as measured by shares times current price

M&A – Mergers & Acquisitions

Milestone – Predefined events relating to the development of the substance into a drug

Monoclonal antibody – Homogeneous antibody originating from a single clone, produced by hybridoma cell

Multiple myeloma – Type of cancer that develops in a subset of white blood cells called plasma cells formed in the bone marrow

Multiple sclerosis – Disease of the central nervous system characterized by the destruction of nerve fibers

T

Target – target molecule for therapeutic intervention, e.g. on surface of diseased cell

TecDAX – Index of the thirty largest technology companies listed at the Frankfurt Stock Exchange

TNF-alpha – Tumor necrosis factor-alpha; cytokine involved in systemic inflammation in RA patients

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February 29, 2008 (subjects unrelated to financials)

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marks of MorphoSys AG.

Highlights 2007



MORPHOSYS INAUGURATES NEW FACILITIES IN OXFORD

MorphoSys opens its new UK headquarters in Kidlington, North Oxford. The new facility acts as the new UK headquarters for the MorphoSys research antibody segment operating under the AbD Serotec brand. The official opening ceremony is performed by UK Minister of State for Science and Innovation, Malcolm Wicks.



SEARCH FOR NEW THERAPEUTIC TARGETS IN JAPAN

Building on a 2004 marketing agreement, MorphoSys and the Tokyo-based GeneFrontier Corp. announce the expansion of their existing alliance during the course of 2007. In the future, GeneFrontier will act as a hub and allow MorphoSys to benefit from the research results of leading research institutes in Japan.



THIRD PHARMACEUTICAL ALLIANCE IN JAPAN

MorphoSys and Astellas Pharma, Japan's second largest pharmaceutical company, enter into a license agreement for the use of MorphoSys's HuCAL technology. The agreement may have a duration of up to five years. Astellas has the option to start several antibody projects during the lifetime of the agreement.



MORPHOSYS RAISES EQUITY

MorphoSys successfully places approximately 650,000 shares to international institutional investors in Europe and North America, at a price of € 50.00 per share. The Company raises gross proceeds of approximately € 32 million, raising the Company's cash balance to over € 100 million. The funds are earmarked for future strategic transactions.

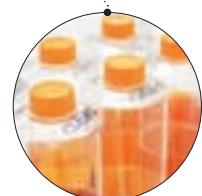
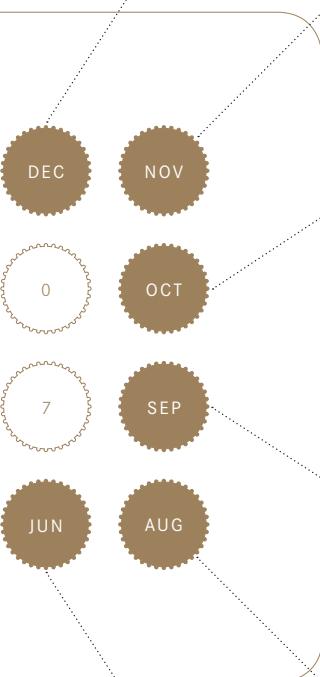


DR. WALTER BLÄTTLER APPOINTED TO SUPERVISORY BOARD

At the Annual Shareholders' Meeting, the Company's shareholders confirm the appointment of Dr. Walter Blättler, formerly Executive Vice President Science and Technology of ImmunoGen, Inc., to the MorphoSys Supervisory Board. During his time with ImmunoGen, the company introduced several antibody-based drugs into clinical development.

LANDMARK DEAL WITH NOVARTIS

MorphoSys and Novartis forge one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. Financial terms include committed payments in excess of US\$ 600 million over the 10-year lifetime of the agreement.



DEVELOPMENT OF NEW ANTIBODY PLATFORM TECHNOLOGY

MorphoSys sets out to develop the most advanced approach to therapeutic antibody generation seen in the life sciences industry to date. The Company unveils a multi-year technology development program which will lead to an enhanced version of its antibody generation platform, including an upgrade of its antibody library HuCAL GOLD to an enhanced version, HuCAL Platinum. The new technology suite will enable the Company to significantly shorten selection timelines for therapeutic antibodies by providing direct access to fully human IgG antibodies.

MORPHOSYS REALIZES BUSINESS SYNERGIES

As a further example of the synergies arising between MorphoSys's two business segments, New Zealand-based Genesis Research, a former AbD Serotec customer, decides to collaborate with MorphoSys for the development of a therapeutic project. Genesis will continue to use HuCAL-based antibodies originally generated by AbD against a target molecule, which is implicated in various diseases. Based on the scientific data generated by Genesis during the collaboration, the parties will discuss further development of the therapeutic program.

FIRST CLINICAL MILESTONE IN NOVARTIS COLLABORATION

The fourth HuCAL GOLD-derived fully human antibody advancing to a phase 1 clinical trial also marks the first IND filing for a therapeutic program within MorphoSys's partnership with Novartis. To reach this stage just three years after the initiation of the collaboration is an outstanding achievement and underscores the effectiveness and productivity of this highly interactive alliance.

MORPHOSYS CELEBRATES ITS 15TH ANNIVERSARY

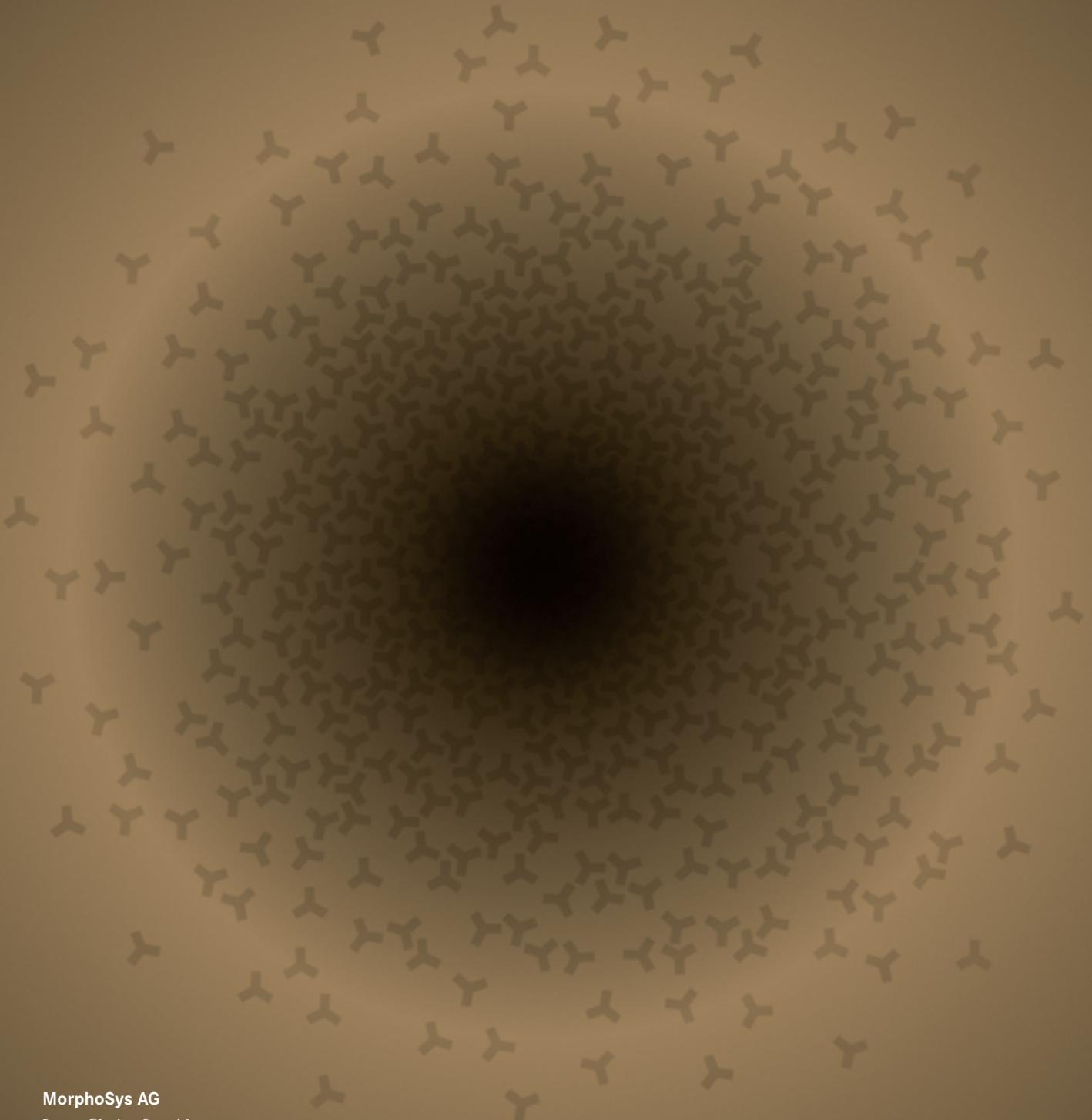
Founded in Martinsried near Munich in 1992, MorphoSys has successfully established itself as a leading European biopharmaceutical company and a main source of innovative antibody-based drugs worldwide. The 15th fiscal year of the Company will be regarded as the most successful year in the Company's history to date.

THIRD HUCAL-BASED ANTIBODY ENTERS CLINICAL TRIALS

MorphoSys announces that Centocor has filed all necessary documentation to initiate a phase 1 clinical trial with a HuCAL-derived fully human antibody in oncology. This achievement marks the third antibody developed with MorphoSys's core technology to enter human clinical trials and triggers a clinical milestone payment to MorphoSys.

Financial Calendar

February 28, 2008	Year-End 2007 Results Analyst Meeting and Press Conference Frankfurt am Main, Germany
April 29, 2008	Three Months' Report Publication
May 14, 2008	Annual Shareholders' Meeting Munich, Germany
July 29, 2008	Six Months' Report Publication
October 30, 2008	Nine Months' Report Publication



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