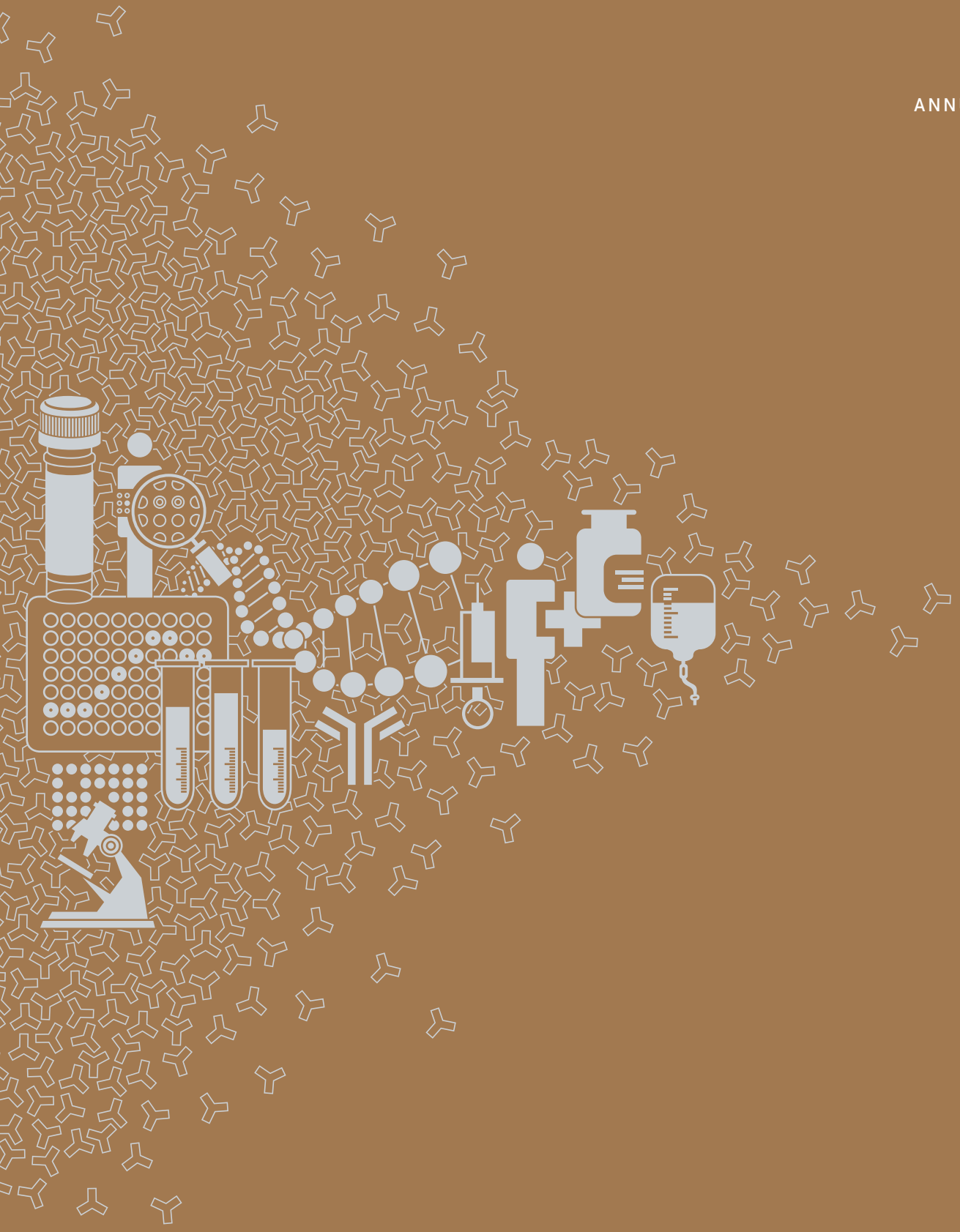
ANNUAL REPORT 2008



morphosys

Engineering the Medicines of Tomorrow

Turning Technology into Products

MorphoSys's proprietary HuCAL 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. Based on the successful commercialization of its technologies and a comprehensive thera peutic antibody pipeline established with partners, MorphoSys is ideally positioned to build additional shareholder value by advancing its proprietary drug development activities. The Company plans to establish a rich proprietary pipeline in oncology and inflammatory diseases based on the well established and widely proven HuCAL technology, while enjoying the tail wind from its partner pipeline programs further advancing into clinical trials. With its strategy to increase its focus on proprietary drug development, MorphoSys will continue to expand its financial share in future HuCAL based products.

Key Figures (IFRS)

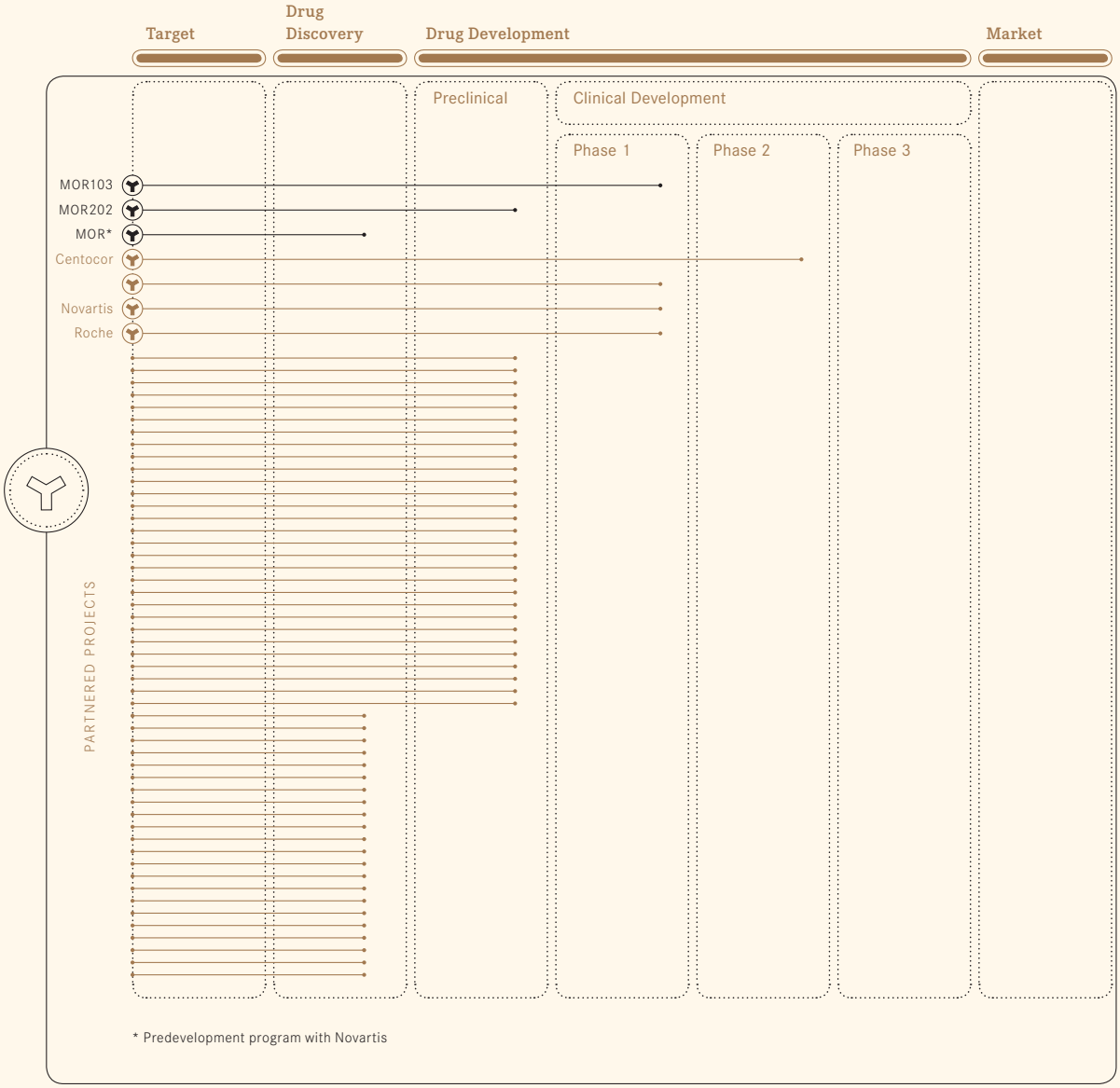
MORPHOSYS GROUP (in €million, if not stated otherwise)

	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004
RESULTS					
Revenues	71.6	62.0	53.0	33.5	22.0
Cost of Goods Sold	7.1	7.9	8.0	2.5	0.9*
R&D Expenses	27.6	22.2	17.5	14.0	11.4*
S,G&A Expenses	20.5	24.8	21.4	10.8	7.5*
Personnel Expenses (Excluding Stock-based Compensation)	21.5	18.8	18.1	10.8	9.1
Capital Expenditure	3.8	12.0	4.0	0.7	1.7
Depreciation	1.5	1.5	1.5	0.9	0.7
Amortization of Intangible Assets	4.8	3.7	3.4	2.7	2.0
Profit from Operations	16.4	7.0	6.2	6.2	0.6
EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)	21.9	13.3	10.3	8.6	3.2
EBIT (Earnings before Interest and Taxes)	16.5	8.3	5.4	5.3	0.5
Net Profit	13.2	11.5	6.0	4.7	0.3
BALANCE SHEET					
Total Assets	203.3	184.7	127.8	80.1	55.8
Cash, Cash Equivalents and Available-for-sale Financial Assets	137.9	106.9	66.0	53.6	37.2
Intangible Assets	23.7	22.3	14.8	12.4	12.8
Total Liabilities	41.3	39.2	27.8	16.1	16.4
Stockholders' Equity	162.0	145.5	100.1	64.0	39.4
Equity Ratio (in %)	80%	79%	78%	80%	71%
MORPHOSYS SHARE					
Number of Shares Issued	22,478,787	22,160,259	20,145,966	18,077,589	16,316,556
Earnings per Share, Diluted (in €)	0.59	0.53	0.31	0.28	0.02
Dividend (in €)	–	–	–	–	–
Share Price (in €)	18.75	16.10	18.12	13.77	12.70
PERSONNEL DATA					
Total Group Employees (Number)	334	295	279	172	132
Germany (Number)	236	192	183	145	132
Other Countries (Number)	98	103	96	27	–

* Excluding stock-based compensation

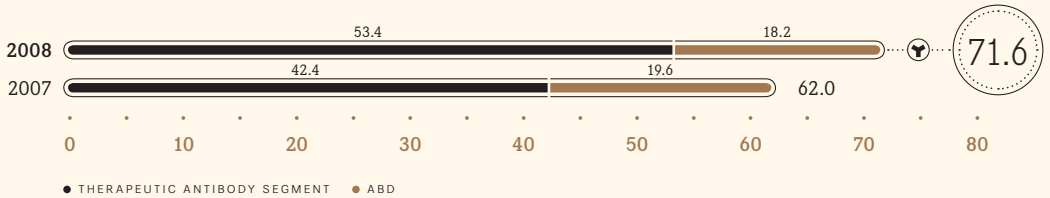
Product Pipeline

MORPHOSYS'S PRODUCT PIPELINE AS OF DECEMBER 31, 2008



* Predevelopment program with Novartis

REVENUE DEVELOPMENT (in € million)

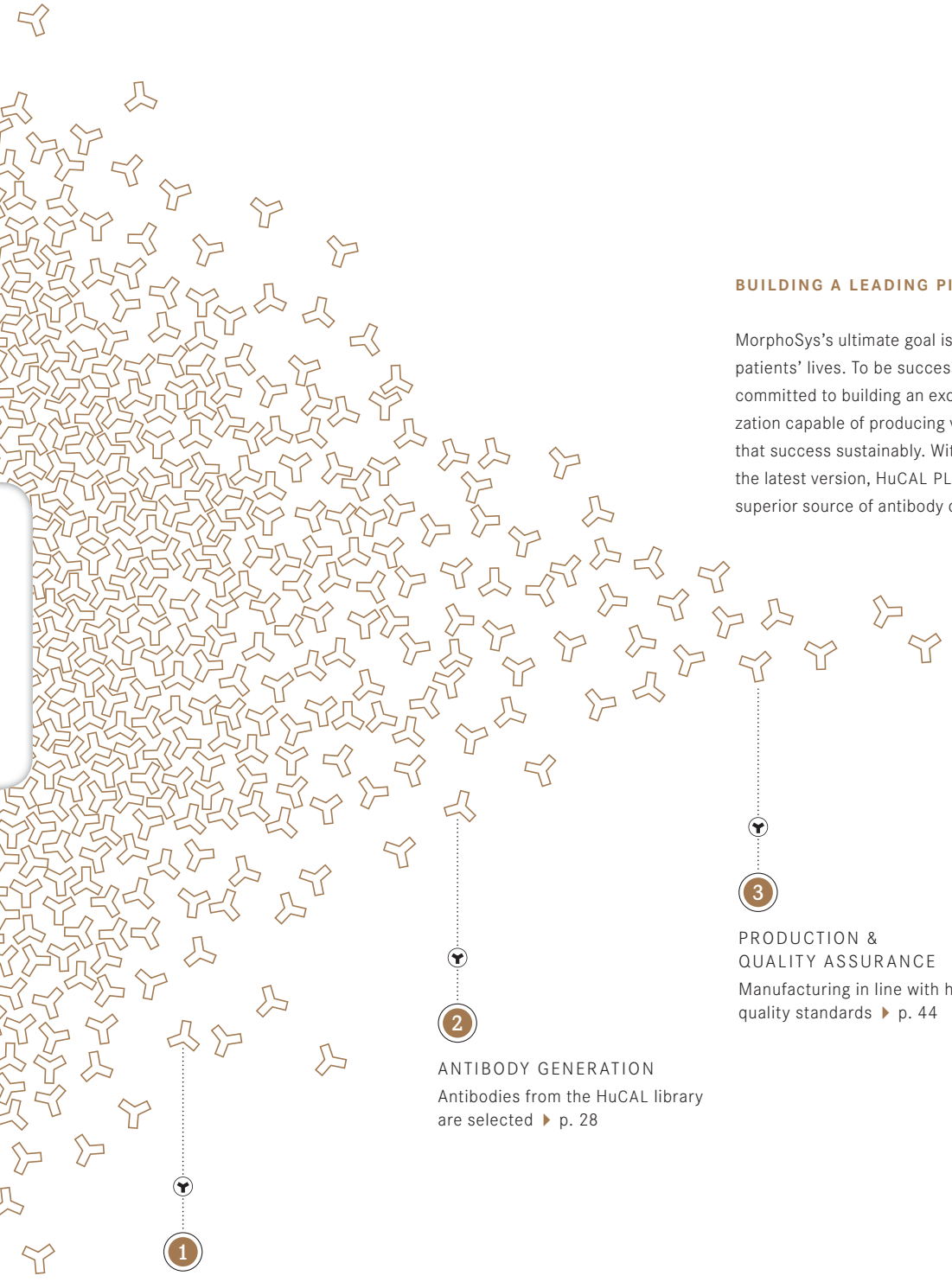


Engineering the Medicines of Tomorrow

MorphoSys has established HuCAL as a leading technology for the development of fully human antibodies. The Company uses its proprietary technology in two areas: for the development of novel therapeutics as well as research and diagnostic antibodies.

In the therapeutic segment, MorphoSys has created a strong market position and validated its tech nology through several corporate partnerships. The Company is currently involved in more than 50 different partnered therapeutic development programs in addition to a rapidly growing number of internal programs targeting inflammation and cancer. Proprietary drug development offers very significant potential for the Company. MorphoSys is committed to exploiting this potential and build ing the Company s value.

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 involve ment in the research antibody market, MorphoSys is securing its access to innovative therapeutic approaches and opening up new opportunities, for example, in disease diagnosis.



BUILDING A LEADING PIPELINE OF ANTIBODY DRUGS

MorphoSys's ultimate goal is to develop innovative drugs to improve patients' lives. To be successful as a drug developer, the Company is committed to building an excellent research and development organization capable of producing valuable drug candidates and reproducing that success sustainably. With the HuCAL antibody libraries – including the latest version, HuCAL PLATINUM – MorphoSys's scientists have a superior source of antibody drugs at hand.

1

TARGET SCOUTING

The search for innovative target molecules ▸ p. 12

2

ANTIBODY GENERATION

Antibodies from the HuCAL library are selected ▸ p. 28

3

PRODUCTION & QUALITY ASSURANCE

Manufacturing in line with high quality standards ▸ p. 44

4

CLINICAL DEVELOPMENT

Clinical trials provide data on safety and efficacy ▸ p. 64

Contents

LEGEND

SEE GLOSSARY * 
SEE GLOSSARY P. 128

CROSS-REFERENCE * 
SEE P. 82

ADDITIONAL INFORMATION * 
MORE INFORMATION AT WWW.MORPHOSYS.COM

Management Board of MorphoSys AG

DAVE LEMUS
Chief Financial Officer

DR. SIMON E. MORONEY
Chief Executive Officer

DR. MARLIES SPROLL
Chief Scientific Officer

DR. ARNDT SCHOTTELIUS
Chief Development Officer

Dear Shareholders,

Following a year in which MorphoSys continued its successful execution of the Company's business strategy, I am pleased to present you with our 2008 Annual Report.

In 2008, our partnered discovery activities were once more the main driver of the Company's growth. Our alliance with Novartis is developing well and has further increased its very positive financial impact on the Company. So far, two developments have become overtly visible within this collaboration. The first therapeutic antibody resulting from the cooperation, BHQ 880, has recently entered a phase 1b/2a clinical study in cancer patients. Second, we have selected an initial therapeutic antibody program that we intend to develop jointly with Novartis. These are just two examples of the numerous positive developments within this collaboration. At the start of 2009, the team of MorphoSys scientists financed by Novartis was once again expanded.

In addition to the close collaboration with Novartis, we also succeeded in renewing several other business relationships with our existing partners. In 2008, five of our partners had options under the terms of the original agreements of either terminating or renewing their collaborations with us. The decision taken in all cases was for renewal, so that Astellas, Boehringer Ingelheim, Daiichi Sankyo, OncoMed and Shionogi now continue to make use of our technologies for research and drug development.

The financial strength provided by our business model gives us planning security and makes us largely immune to the turbulence triggered by the financial crisis. It also enables us to create added value for our shareholders at a time when most biotechnology enterprises are cutting back on their research plans due to their need to reduce costs. Interesting opportunities are emerging from the

"The financial strength provided by our business model gives us planning security and makes us largely immune to the turbulence triggered by the financial crisis." Dr. Simon E. Moroney, Chief Executive Officer

relative financial weakness of the biotechnology sector for companies such as MorphoSys which are in a strong financial position.

The value of our Company will in future increasingly grow in line with the maturity of our pipeline of antibody drugs. According to plan, we brought our lead product MOR103 through the first phase of clinical development in 2008 and will present the results of the study in the second quarter of 2009. The next milestone for this program will be the launch of a phase 2 study in the second half of the year. Once sound data concerning the effectiveness of the drug in patients are available, we intend to partner the program with a financially strong and committed pharmaceutical company. Such a partnership would represent a new and extremely lucrative form of value creation for our Company. The basis for such a deal is an attractive package of scientific and medical evidence of the product's potential as well as compelling commercial prospects for the program.

With regard to the further development of our technology, the year 2008 was dominated by HuCAL PLATINUM, the latest and best version of our antibody library, which we released in December. The preceding version, HuCAL GOLD, was and remains a very successful tool for drug development. Thanks to our partnerships with pharmaceutical companies, we have successfully commercialized HuCAL GOLD

The value of our Company will in future increasingly grow in line with the maturity of our pipeline of antibody drugs. According to plan, we brought our lead product MOR103 through the first phase of clinical development in 2008 and will present the results of the study in the second quarter of 2009. The next milestone for this program will be the launch of a phase 2 study in the second half of the year.

of our technology and so far generated more than €200 million in revenues in the form of license and success-based payments and research services. Of course, this sum represents only the tip of the iceberg if one bears in mind that in future we will receive a share in the revenues of all HuCAL GOLD-based antibody drugs. HuCAL PLATINUM retains the positive aspects of its predecessor and has undergone an all-round improvement. It is a refined version of our antibody library and will form the basis of our future drug development.

We made an important step in strengthening our drug development capability by appointing Dr. Arndt Schottelius as Chief Development Officer. Arndt's wealth of experience in drug development acquired most recently during his time with the leading US biotechnology pioneer Genentech will support us in expanding our in-house pipeline. I'm delighted that we have succeeded in attracting such an experienced drug developer, and also see this step as a reflection of the strength of our reputation in the industry.

Our AbD Serotec research antibody segment made the all-important transition to profitability, despite adverse currency effects and a one-time property write-down charge. Revenues lagged somewhat behind our expectations as the market for research antibodies no longer displayed the momentum seen in previous years due to a slowdown in public and private research budgets. We were, however, successful

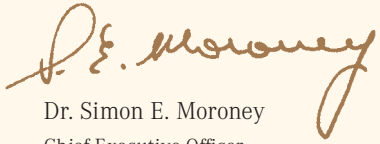
in securing new customers in the diagnostics industry, an area of the healthcare sector that we see as increasingly interesting. We expect this trend to continue further in 2009 and for the segment as a whole to return to revenue growth.

At the corporate level, we were able to maintain the strong financial performance seen over the past few years while, importantly, increasing investment in our internal pipeline. Total revenues reached € 71.6 million and operating profit came to € 16.4 million – two new records for MorphoSys. Viewed overall, with its secure cash flows and strong balance sheet, the Company is in better financial shape than ever. On the basis of this very healthy financial situation, we plan to accelerate in-house drug development over the next year and to invest € 18 to € 20 million into this important future value driver.

Our share price has demonstrated very gratifying stability during this time of financial crisis. On the last trading day of 2008, the stock was up 16 % for the year while the technology index of the Frankfurt Stock Exchange, the TecDAX, lost 48 % of its value over the course of the year.

We have successfully pursued our intended course in this past business year and view the future with optimism. I would like to thank all our employees worldwide for their impressive commitment, confidence and creativity. I would also especially like to thank you, our shareholders, for your trust in our Company.

I am sure you will join me in wishing the Company an even more successful year in 2009.



Dr. Simon E. Moroney
Chief Executive Officer
Munich, March 2009

Letter to the Shareholders

With its secure cash flows and strong balance sheet, the Company is in better financial shape than ever. On the basis of this very healthy financial situation we plan to accelerate in-house drug development over the next year and to invest € 18 to € 20 million into this important future value driver.

Interview with Dr. Arndt Schottelius

CHIEF DEVELOPMENT OFFICER OF MORPHOSYS AG

By naming Dr. Arndt Schottelius Chief Development Officer and adding his expertise to the Management Board, MorphoSys is significantly strengthening its in-house therapeutic antibody development programs. Before joining the Company as the fourth Management Board member, he directed early development in immunology and clinical phase 3 studies of anti CD20 antibodies, targeted against rheumatoid arthritis, for the leading US biotechnology corporation Genentech.

Dr. Schottelius. After nine years of research and development in the USA, what were your main reasons for accepting the position of Chief Development Officer at MorphoSys?

The first thing that interested me was the task of establishing a new paradigm at MorphoSys that would significantly enhance its development as a company. I was already familiar with MorphoSys from my time at Schering and while in the USA, I observed the Company's development as well as the general progress of the biotechnology and pharmaceutical landscape in Germany. I strongly believe that, as a part of what is already an outstanding international management team, we can take the step from being a company with leading antibody technology to becoming a company with a strong antibody pipeline.

What indicates that MorphoSys will be successful in establishing its own in-house drug development?

What I find most noteworthy is everyone's firm conviction about taking this step and becoming more active in HuCAL-based drug development. In addition, I don't think we should underestimate the experience that MorphoSys scientists have already gained from numerous partnership programs: which target molecules can be addressed well with antibodies, what the best antibodies in our library are, and what the final results of the projects with partners were. The ability to answer those questions represents organically grown experience that can be unbelievably valuable, and it is a resource very few companies have when starting their own pipeline – just as rare as the existence of an established pipeline of partnership programs to finance their own activities.

Which HuCAL technology strength would you say is the most important?

The very fact that MorphoSys has its own technology, which has been validated through partnerships and functions as a source of drug candidates, is promising. Scientists at other pharmaceutical developers often have to ask themselves at least two fundamental questions: do I trust my approach, the target molecule and my understanding of its importance for pathogenesis, and do I trust the technology that produced the active agent, my compound? MorphoSys has already taken care of one of the variables in that equation. By now, it's generally accepted that every disease-relevant target molecule must be seen as a molecule containing several approaches for therapy. The true art is targeting the right target molecule at

the right spot – that is how opportunities for new, innovative therapeutic approaches are created. To do this, you need a technology that delivers highly diversified antibody candidates with therapeutic properties. With the completion of HuCAL PLATINUM, MorphoSys has once again established a leading system in antibody research for this purpose.

What are the biggest hurdles to overcome in successfully developing a drug?

For me, the close interaction between the research and development departments throughout the entire drug development process is crucial for overall success. As we continue to establish MorphoSys's internal development department, we will especially emphasize creating a structure in which research and development cooperate on an equal footing. That sounds obvious, but especially in large companies it's not a given. My first position at Genentech, for example, had been a newly created position with the main objective of building a bridge between research and development.

Your most recent position was directing major phase 3 studies for the antibody drugs Rituximab and Ocrelizumab. Both therapeutics are geared toward the treatment of inflammatory diseases. Where do you see MorphoSys's lead program, MOR103, positioned in this market?

As is well-known, the market for rheumatoid arthritis is competitive. I wouldn't advise any new company to try to become active at this point with a "me too" approach. At the same time, the need for medications with new therapeutic approaches remains high. In my opinion, MorphoSys's MOR103 program represents a very promising approach for treating rheumatoid arthritis and potentially alleviating other inflammatory diseases. It is an innovative approach that makes a great deal of scientific sense and that has already been well validated through preclinical and clinical findings. In addition, we also believe that the target molecule GM-CSF was wrongly somewhat overlooked – meaning that the competition in this area is comparatively small. By cooperating with the University of Melbourne and developing our own know-how in inflammatory diseases, we've established a deep understanding for the biology of this target molecule.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

The MorphoSys Share

MorphoSys's stock continued to perform well, especially in the second half of the reporting year and clearly outperformed its peers. Against the difficult backdrop of a global recession, the MorphoSys share nonetheless gained 16 % during the year, while the TecDAX lost 48 %.

KEY DATA FOR THE MORPHOSYS SHARE (as of December 31 of each year)

		2008	2007	2006	2005	2004
Total Stockholders' Equity	In € million	162.0	145.5	100.1	64.0	39.4
Number of Shares Issued (Total)*		22,478,787	22,160,259	20,145,996	18,077,589	16,316,556
Market Capitalization	In € million	421	357	365	249	207
Closing Price (Xetra)*	€	18.75	16.10	18.12	13.77	12.70
High*	€	18.75	19.83	18.40	14.90	14.50
Low*	€	12.18	11.47	11.70	9.40	3.55
Average Daily Trading Volume	In € million	1.9	2.5	1.9	1.0	0.95

* All numbers are presented ex-split

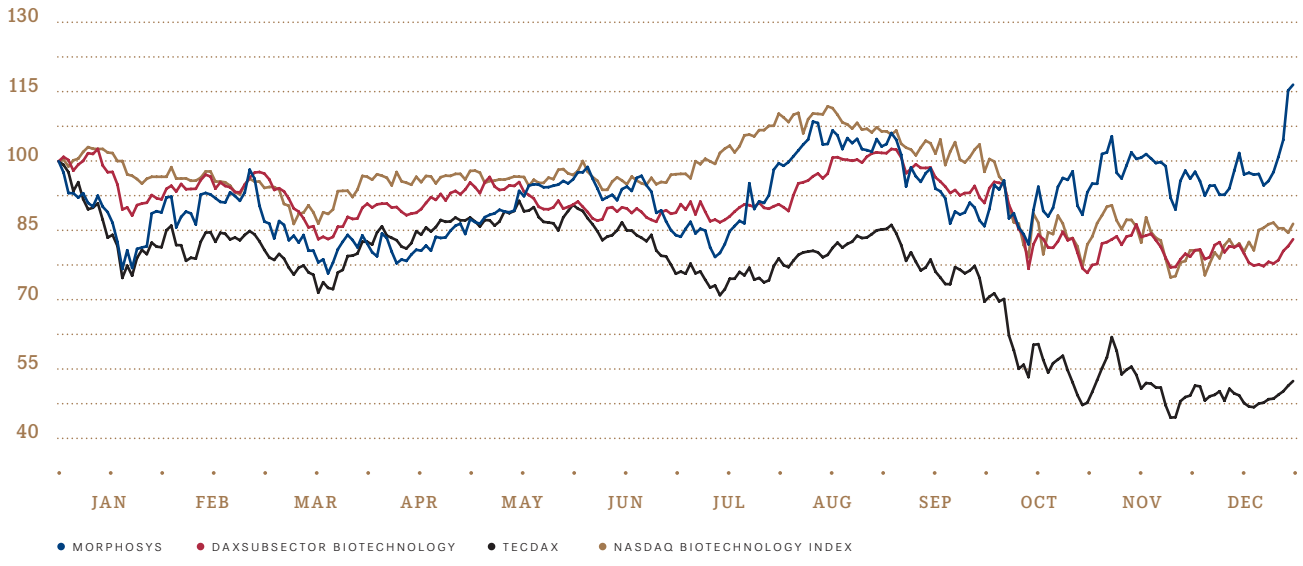
STOCK PERFORMANCE BASED ON OPERATIONAL SUCCESS

During the 2008 fiscal year, the MorphoSys stock price increased by 16 %, while the TecDAX index decreased by 48 %. Key factors contributing to the outperformance in comparison to the TecDAX index were on the one hand the positive development of MorphoSys's business, and on the other hand the sub-prime mortgage crisis in the US, and the associated fears in the capital markets about a worldwide economic downswing, which had a negative effect on many branches other than pharma and biotechnology. As a result, the MorphoSys share was the best-performing stock in the TecDAX index in 2008.

Not only did the MorphoSys stock show an out-performance in comparison to the TecDAX, but also to most of its biotechnology peers. The DAXsubsector Biotechnology of the Frankfurt Stock Exchange decreased by 17 %, and the US-American NASDAQ biotechnology index declined by 12 %. MorphoSys's research collaborations with multiple pharma companies pro-

vide a stable source of income independent of the economic environment. MorphoSys's business model and the Company's very solid financial condition were highly appreciated by investors in a volatile market.

THE MORPHOSYS SHARE (January 2, 2008 = 100%)



LIQUIDITY AND INDEX MEMBERSHIP

The average daily trading volume was €1.9 million per day – a decrease of 24% compared to the previous year (2007: €2.5 million). This was in line with the overall stock market, which showed reduced trading volumes. The average daily turnover of the TecDAX, for example, decreased by 13%.

MorphoSys solidified its position as a member of the TecDAX index, which includes the 30 largest technology stocks on the Frankfurt stock exchange. At the end of 2008, the Company improved its ranking within the index, and occupied the 12th position based on market capitalization* (December 2007: 24th place) and 20th place based on trading volume (December 2007: 21st place).

* SEE GLOSSARY P. 128

SHAREHOLDER BASE

At the end of 2008, MorphoSys performed a shareholder identification study. The results validated the Company's emphasis on international investor relations activities, as the study revealed an increasingly international shareholder base.

The countries with the highest percentage of MorphoSys shares are traditionally in Europe. Germany comprises the largest shareholding, accounting for approximately 15 % of the total shares outstanding. Due to intensified investor relations activities, the United States now comprises MorphoSys's second-largest shareholder base with approximately 11 % of the total shares outstanding, followed by the United Kingdom with approximately 8 %.

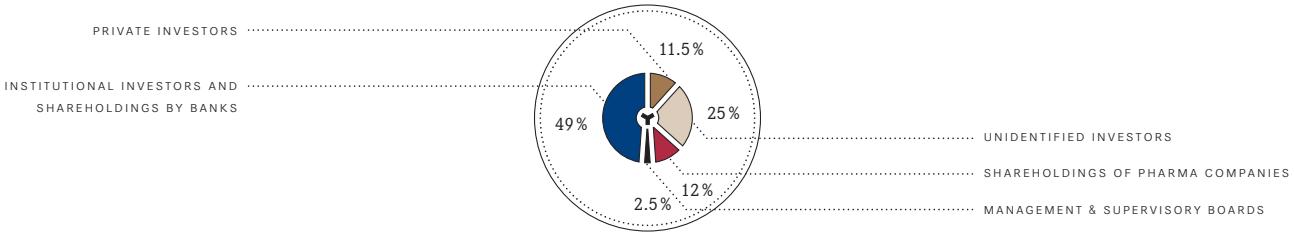
At the end of 2008, the two largest shareholders held – according to the Company's latest information – approximately 12 % of its shares. Novartis Pharma AG held approximately 7 % of total shares, which were acquired as part of the strategic partnership signed with MorphoSys in May 2004. AstraZeneca held a further 5 % of total shares. In November 2008, the US-based Massachusetts Mutual Life Insurance Company reported that its voting share in MorphoSys exceeded the threshold of 3 % and amounted to 3.04 %, or 680,574 shares.

Members of the Management Board and the Supervisory Board held approximately 2.5 % of total shares.

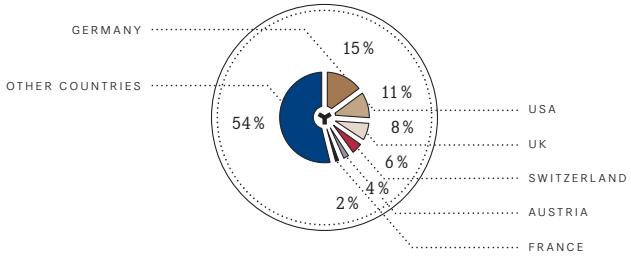
The free float, which is generally taken into account in the weighting of MorphoSys's stock in stock indices, was 88 % of the capital stock at year-end 2008.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

SHAREHOLDER STRUCTURE



REGIONAL DISTRIBUTION OF INVESTORS



STOCK SPLIT

On December 23, 2008, the three-for-one stock split of the MorphoSys share, which was resolved by the Company's shareholders at the Annual General Meeting on May 14, 2008, was implemented. By implementing the stock split, all existing shares of MorphoSys were divided into three shares, with a corresponding adjustment to the most recently quoted price. Following the split, each shareholder automatically owned three shares for each share previously held. The stock split is expected to increase accessibility of the stock to various investors, which should improve the liquidity of the MorphoSys stock. In the week after the share split, the Company's market capitalization increased by approximately 15 %.

INVESTOR RELATIONS AND ANALYST COVERAGE

Investor relations on the Internet is becoming increasingly important. MorphoSys's corporate website provides comprehensive and up-to-date information. To further improve the online presence, the 2008 Annual Report will be published not only in print form and as a PDF file, but also as an HTML version*. This will enable faster access to the specific area of interest and allows the integration and cross-linking of other sections of the corporate website. Please visit our website for the most recent information about the Company's progress at www.morphosys.com.

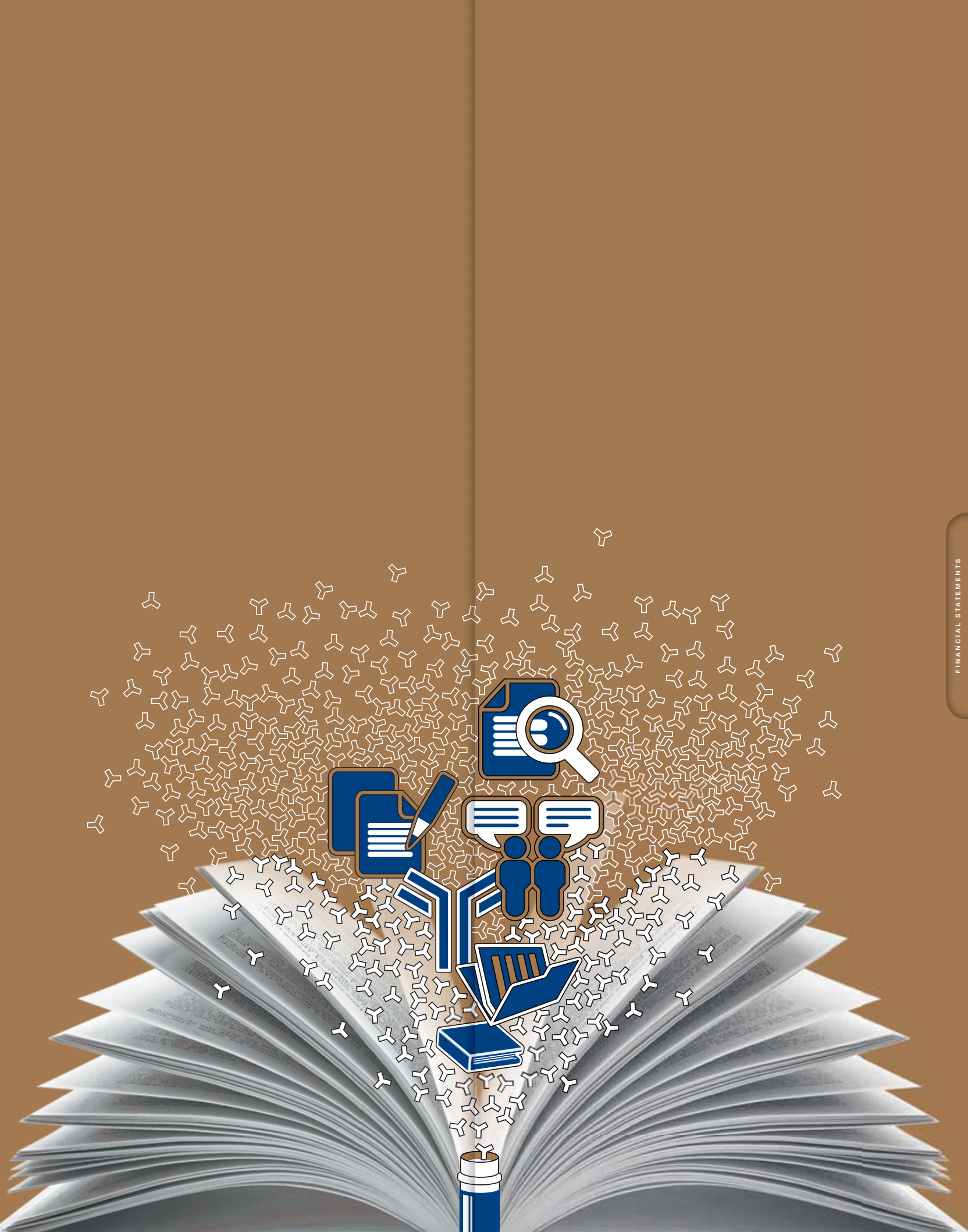
MORPHOSYS SHARE KEY DATA

Deutsche Börse, Prime Standard, Frankfurt am Main	
German Security Code	663 200
ISIN (International Securities Identification Number)	DE0006632003
Stock Exchange Abbreviation	MOR
Reuters	MORG.DE
Bloomberg	MOR GR
Index Membership	TecDAX, DAXsubsector Biotechnology, and others

1 TARGET SCOUTING

MorphoSys relies on multiple sources to access novel disease-related target molecules and to expand its proprietary pipeline. A dedicated team of target scouts focuses on the identification of attractive targets with therapeutic potential as a means to generate further value for the Company.

MORPHOSYS EMPLOYEES FROM DIFFERENT DEPARTMENTS ANALYZE THE TARGET BIOLOGY OF GM-CSF, THE BASIS OF THE COMPANY'S MOR103 PROGRAM.



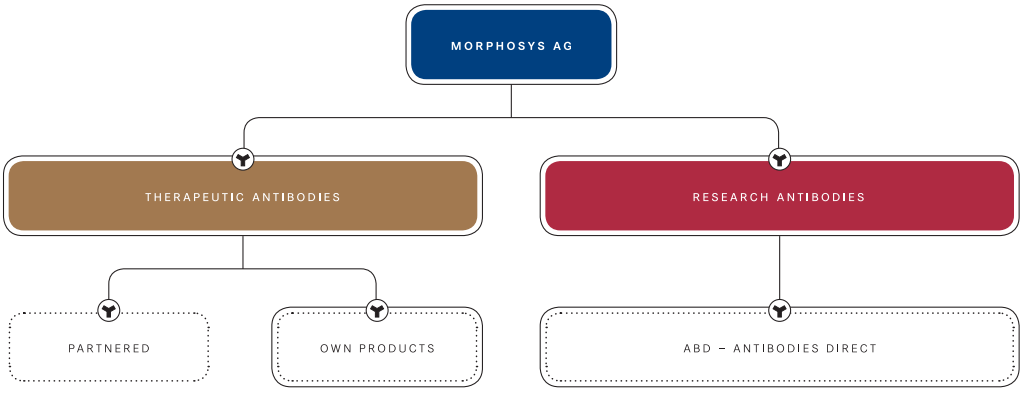
“Choosing the right strategy for a disease-specific intervention is crucial and forms the basis of every therapeutic program MorphoSys decides to initiate. At MorphoSys, selecting these target molecules is done with the highest care and diligence.”

DR. ANDREAS BÜLTMANN, SENIOR SCIENTIST, TARGET SCOUTING

Group Management Report

In 2008, MorphoSys showed continued progress with regard to the expansion and advancement of its proprietary pipeline activities. The Company increased its investment in proprietary drug and technology development by 26 % year-on-year to € 7.7 million. The Company's alliances within the pharmaceutical and biotechnology industry, including its largest collaboration with Novartis, have shown solid progress. The Research Antibodies segment AbD achieved a positive segment result for the first time, however, on the basis of lower than anticipated revenues. Total Group revenues were up by 16 % from the prior year to € 71.6 million and operating profit increased by 134 % to € 16.4 million.

BUSINESS ACTIVITIES OF THE MORPHOSYS GROUP



ORGANIZATIONAL STRUCTURE AND BUSINESS ACTIVITIES

ORGANIZATIONAL STRUCTURE AND GLOBAL PRESENCE

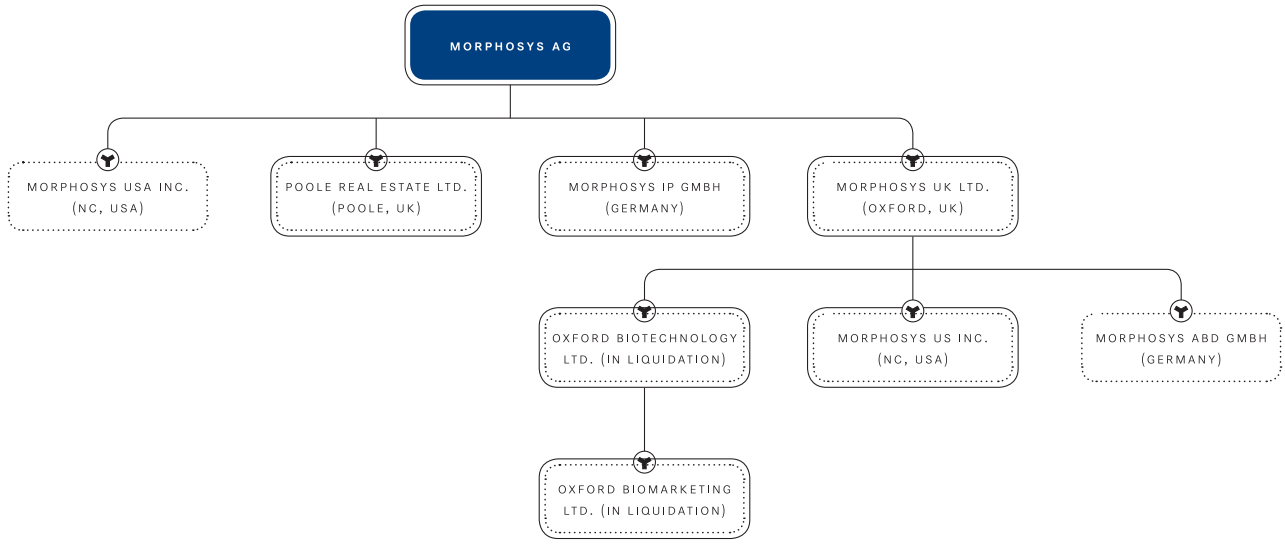
MorphoSys has pursued its business in two operating segments since 2004. One segment, the Therapeutic Antibodies segment, develops drug candidates on behalf of commercial partners as well as increasingly for MorphoSys's own proprietary product pipeline. MorphoSys's second operating unit, the Research Antibodies segment, delivers high-quality antibodies to the research and diagnostics markets under the brand name AbD Serotec.

MorphoSys is present in several locations throughout Europe and the USA. The Company's facilities include the MorphoSys headquarters in Martinsried near Munich, Germany, the sales office in Düsseldorf, Germany, the Company's second-largest site in Oxford, England, and offices near Raleigh,

*

SEE GLOSSARY P. 128

LEGAL STRUCTURE OF THE MORPHOSYS GROUP



North Carolina, USA. MorphoSys's Therapeutic Antibodies segment activities are entirely based at the Company's headquarters in Martinsried. Activities include generation and functional characterization of product candidates for the pharmaceutical and biotechnology industries as well as generation and development of product candidates for the Company's internal development pipeline. All Group corporate S, G&A (selling, general & administrative) functions are centralized in Martinsried (Germany).

The Research Antibodies segment AbD is also present in Martinsried through both administrative functions and through the custom monoclonal business, which generates new research antibodies based on HuCAL technology*. The majority of AbD Serotec's activities and staff are located in Oxford, England. The activities at this location are primarily focused on manufacturing and characterization of antibodies to be used as research reagents, and international sales and marketing functions for all regions excluding the US. All European antibody sales activities are managed by the AbD's office in Düsseldorf, Germany.

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

* SEE P. 114

GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG is a German stock corporation and is managed by the Management Board, which was composed of three members throughout the majority of the 2008 fiscal year with a fourth member, Dr. Arndt Schottelius, Chief Development Officer, added in December 2008. In line with the dual board structure, these members are appointed and overseen 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.

The rationale behind creating the position and appointing a new Chief Development Officer was to accommodate the Group's expanding therapeutic antibody development activities, including preclinical and clinical drug development.

The senior management group of 13 people, representing all departments, complements the management team. The Research Antibodies segment is headed by a managing director reporting directly to the CEO. At the beginning of 2009, MorphoSys appointed a new head of AbD Serotec, namely Dieter Feger, who joined MorphoSys from Abbott Diagnostics, USA, a global leader in the area of *in vitro* diagnostics.

PRODUCTS AND MARKETS

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 valuable 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.

THERAPEUTIC ANTIBODIES: MARKETS BY TECHNOLOGIES

As a provider of innovative drug development technologies and therapeutic antibody drug candidates, MorphoSys's main market is represented by pharmaceutical and biotechnology companies in industrial countries.

The market for therapeutic antibodies is highly competitive. On the basis of the 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 and Dyax (both USA), and Ablynx (Belgium), and alternative scaffold-based therapy, such as Molecular Partners (Switzerland), Affibody (Sweden), and Archemix (USA).

Today, a significant number of the top 20 pharmaceutical companies work with MorphoSys's technologies to discover and develop new antibody drugs. Additionally, MorphoSys was able to secure a long-term commitment from Swiss pharmaceutical company Novartis. This commercial agreement alone, which was signed in December 2007, provides MorphoSys with secured revenues in excess of €40 million per year through funded research and license fees. MorphoSys has thereby achieved one of the goals the Company set itself several years ago, namely to become the partner of choice for pharmaceutical companies developing antibody drugs.

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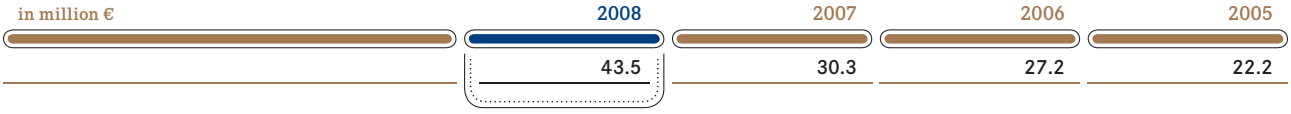
SEE GLOSSARY P. 128

REVENUES FROM FUNDED RESEARCH AND LICENSE FEES



THERAPEUTIC ANTIBODIES: MARKETS BY DISEASE AREAS

Due to the Company's long-term alliance with Novartis and its decision to intensify its proprietary drug development activities, the competitive landscape MorphoSys sees itself in is about to change in the years ahead and will increasingly comprise companies with competing drugs and drug development programs in the disease areas MorphoSys is targeting. With regard to indications, the main focus of MorphoSys's proprietary development activities will remain in the area of inflammatory and autoimmune diseases as well as oncology.

INFLAMMATORY DISEASES

MorphoSys's current lead compound MOR103 has potential as a treatment in several inflammatory indications, with rheumatoid arthritis representing the biggest single market. Sales of anti-rheumatic drugs exceeded US $ 10 billion in 2007, exceeding drug sales in any other autoimmune diseases. As with any large market in the pharmaceutical industry, rheumatoid arthritis (RA) is an area that is subject to intense competition. Biologics, dominated by the anti-TNF* drugs Enbrel®, Remicade® and Humira®, which together generate roughly 95 % of biologics sales, comprise the biggest single group of existing therapies in this market.

The commercial opportunity arises for three reasons. First, less than one-quarter of patients are presently being adequately treated. Second, a majority of patients who do respond to treatment become non-responders after one to two years. And third, the safety profile of the anti-TNF therapies remains a concern. This means that the vast majority of the five to six million RA patients worldwide are in need of better therapeutic alternatives.

ONCOLOGY

The second indication MorphoSys is currently active in is oncology. Oncology is a very broad, diverse and fragmented disease area and the market for cancer drugs is highly competitive. Therapeutic antibodies are a well-established class of drugs in this market for treating various forms of cancer. The Company currently develops MOR202 in multiple myeloma* and has elected target molecules to start two additional fully owned programs for the treatment of cancer.

STATUS OF THE CURRENT DRUG PIPELINE

The partnered therapeutic antibody pipeline continued its overall growth to reach a total of 55 programs at the end of 2008. Of these programs, one drug candidate advanced into a phase 2 clinical trial during 2008. In total, the number of partnered therapeutic antibodies in clinical trials at year-end was four. The number of programs in preclinical development increased from 23 to 29, and the number of research programs amounted to 22 at the end of 2008 (2007: 23 programs).

"In 2008, MorphoSys initiated a phase 1 clinical trial using MOR103 for the treatment of rheumatoid arthritis. The phase 1 trial in healthy volunteers has been completed and is currently in the analysis stage."

Additionally, MorphoSys continues to develop proprietary therapeutic antibody candidates in the areas of inflammation and oncology. The Company's proprietary antibody pipeline currently consists of two fully owned programs, namely MOR103 and MOR202. During 2008, two cancer targets for additional proprietary programs were already selected.

Complementing its portfolio of fully owned programs, MorphoSys has secured several co-development options in its partnership with Novartis. In 2008, MorphoSys exercised its first option to participate in the development of a therapeutic antibody program. The agreement provides MorphoSys with the option to enter formal co-development of the program, sharing up to 50 % of costs and profits.

MOR103 is a fully human HuCAL-derived antibody directed against GM-CSF, a therapeutic target for the treatment of various inflammatory disorders. In 2008, MorphoSys initiated a phase 1 clinical trial using MOR103 for the treatment of rheumatoid arthritis. The phase 1 trial in healthy volunteers has been completed and is currently in the analysis stage.

MOR202 is a fully human HuCAL antibody directed against CD38, a therapeutic target for the treatment of multiple myeloma and certain leukemias. During 2008, the Company advanced this program into formal preclinical development.

As a result of the alliance signed with Galapagos in November 2008, an initial set of three targets has been selected for validation through disease-specific *in vitro* and *in vivo* testing with antibodies provided by MorphoSys. If these studies are successful, the alliance will select antibody programs for preclinical and clinical development. Under the terms of the agreement, Galapagos and MorphoSys will share the research and development costs, as well as all future revenues, equally.

ABD SEGMENT

MorphoSys's research antibody division AbD offers more than 13,000 antibodies and immunological reagents, as well as custom monoclonal antibodies developed from the MorphoSys HuCAL library, and large and small-scale antibody production and conjugation services. The segment generates sales in more than 50 different countries; the main markets are Austria, Benelux, France, Germany, Scandinavia, Switzerland, the UK and the USA (in alphabetic order).

Since the launch 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 number 11 worldwide for customer recognition.

In structural terms, the research antibodies 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 as the UK-based Abcam, which has specialized in the commercialization of research antibodies.

PATENTS AND LICENSES

In 2008, the Company significantly strengthened the patent position for its lead development program MOR103 and added additional layers of protection for its expanding technology portfolio, making many new patent filings covering its proprietary programs and innovative technology. MorphoSys filed numerous patent applications for new proprietary platform technologies, including the latest version of its core technology, HuCAL PLATINUM. Currently, the Company is prosecuting about thirty different proprietary patent families worldwide, which comes in addition to approximately thirty patent families the Company is pursuing in cooperation with its partners.

* SEE P. 86

* SEE GLOSSARY P. 128

For further information regarding patents and licenses, please refer to the Notes to the Consolidated Financial Statements – section 9*.

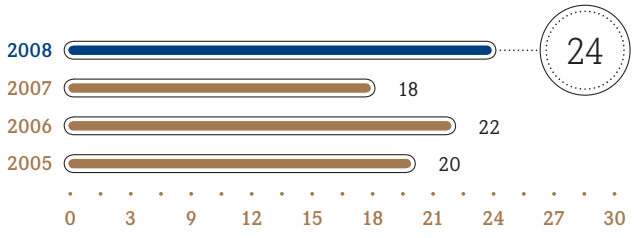
REGULATORY ENVIRONMENT

MorphoSys operates in the healthcare sector, which is 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 preclinical 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.

In the USA, the FDA approved more new drugs in 2008 than in any of the previous three years. The agency approved 24 "first-of-a-kind" drugs last year, compared with 18 in 2007, 22 in 2006 and 20 in 2005, in addition to authorizing other applications for new formulations or new uses for treatments already on the market.

NUMBER OF FDA APPROVALS



In order to further reduce the time it takes for the FDA to review regulatory filings, the agency strengthened its drug division last year with the addition of more than 800 employees. The FDA reported that the average time it takes for the agency to approve new drugs declined to 1.1 years from 2005 to 2007.

QUALITY MANAGEMENT

As MorphoSys is increasing its proprietary therapeutic activities, a quality assurance system was implemented during 2007 and further consolidated in 2008. Additionally, the Company has received a manufacturing license from the Bavarian government, allowing MorphoSys to release clinical trial material for clinical studies as a sponsor.

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

All pharmaceutical products, including clinical trial materials, must be manufactured to reach adequate safety, quality and efficacy to ensure the safety of patients. Furthermore, international ethical and scientific quality standards must be adhered to for designing, conducting, recording, and reporting clinical trials that involve participation of human subjects. Therefore, strict guidelines and international and national regulatory standards such as GLP (good laboratory practice), GMP (good manufacturing practice)*, GCP (good clinical practice), and ISO (International Organization for Standardization) must be met for all personnel and processes involved. MorphoSys meets all necessary regulatory standards to act as a sponsor for its proprietary clinical trials.

* SEE GLOSSARY P. 128

AbD Serotec's manufacturing site – MorphoSys UK Ltd., Oxford – is certified to the quality management standard ISO 9001:2000 and, since May 2008, to ISO 13485:2006 for "The design, development, manufacture and supply of high quality immunological reagents including custom-specific products for the diagnostic and research markets". The quality system installs a documented and controlled management system for the production of standardized quality products and services with the aim of maximizing customer satisfaction. The customer can therefore be confident that they will receive high-quality products and related services from AbD Serotec that consistently meet customer and regulatory requirements.

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 to the greatest extent 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.

Total costs for raw materials and supplies are currently not considered as material in comparison to total R&D costs and therefore no further breakdown is provided.

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.

MORE INFORMATION AT
WWW.JPMORGANCLIMATECARE.COM

The biotechnology industry, the sector in which MorphoSys is active, is not a carbon-intensive sector. MorphoSys is exploiting measures to further reduce its greenhouse gas emissions in the interests of the environment. MorphoSys's business unit AbD Serotec participates in a carbon offsetting scheme related to product shipments. Under the terms of the agreement, AbD Serotec's courier services partner calculates the carbon footprint for each AbD Serotec product shipment, and purchases carbon offsets at ClimateCare* on AbD Serotec's behalf. ClimateCare invests the carbon offsets in a variety of projects such as reforestation, renewable energy and energy efficiency projects.

JOB SAFETY

A healthy and safe working environment is a high priority for MorphoSys. An initial medical checkup is performed for all new employees in 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 in the R&D department receive a medical checkup. For the employees in the S, G&A department, a regular eyesight test is offered. In 2008, the Company decided to create a new position, Manager Health & Safety, specifically to further improve working conditions for its employees.

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 Company's value by applying its proprietary technologies to discovering and developing innovative new therapeutic agents. By combining partnerships with proprietary development programs, the Company optimizes its financial participation in the lucrative returns these innovative new medicines will bring. Despite the increasing investment required, the Company intends to remain profitable, thereby retaining the ability to grow without relying on raising new finance from the capital markets.

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. In 2007, the Company undertook to increase its proprietary drug development efforts and phase out its partnered discovery efforts. At the same time, the decision was reached to secure a single large strategic partnership in order to (i) secure all the benefits of the partnered discovery business for the long-term and (ii) fund the Company's own product development. This resulted in the Company entering a broad and long-term collaboration with Novartis in December 2007, which secures partnered pipeline growth for the years ahead. MorphoSys decided not to sign new fee-for-service partnerships, but to increase its efforts to develop proprietary antibody therapeutics. Proprietary compounds, once developed to a stage where clinical proof-of-concept is achieved, can be out-licensed to partners on valuable terms and would generate more value for MorphoSys than programs pursued with partners from the outset.

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 2008, AbD added more than 5,000 new products to its catalog. Additionally, MorphoSys continues to offer custom-made monoclonal antibodies based on HuCAL technology.

"By combining partnerships with proprietary development programs, the Company optimizes its financial participation in the lucrative returns these innovative new medicines will bring."

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. MorphoSys could get access to therapeutic antibody candidates against new targets, which are discovered by customers of the AbD segment. For this reason, MorphoSys actively promotes the uptake of its technology in the research community.

A recent example of this synergy was provided in 2008 with a broad alliance with the Leibniz-Institut für Molekulare Pharmakologie (FMP) covering the use of fully human recombinant research antibodies and commercialization of resulting products. Under the terms of the agreement, the FMP will receive access to novel HuCAL-based research antibodies from MorphoSys's AbD Serotec unit to identify and validate target molecules with potential medical applications. MorphoSys retains commercialization rights for all antibodies emerging from the collaboration both as research antibody tools distributed via the AbD Serotec sales catalog and in therapeutic or diagnostic applications.

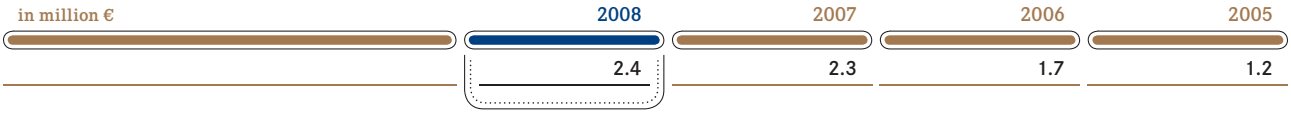
SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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 stakeholders.

MorphoSys's technologies have the potential to help improve treatment options for life-threatening diseases within an aging population. The demand for innovative therapeutics that help to ameliorate patients' quality of life is constantly increasing and allows the Company to expand its business. Although innovative drugs represent premium-priced medical products, they have the potential to lower total healthcare costs in the long run.

In the research antibody markets, MorphoSys's technologies, which are fully *in vitro*-based, represent a genuine, fast and cost-effective alternative to animal-consuming methods.

GROWTH OF ABD'S CUSTOM BUSINESS (NON-ANIMAL-BASED RESEARCH ANTIBODY SALES)



* MORE INFORMATION AT WWW.MORPHOSYS.COM

* MORE INFORMATION AT WWW.KINDER-RHEUMASTIFTUNG.DE

* MORE INFORMATION AT WWW.KINDERZENTRUM-MUENCHEN.DE

In May 2008, MorphoSys donated a total of € 10,000 to the children's rheumatism trust Kinder-Rheumastiftung*, an organization which initiates and supports projects that promote studies and research into new possibilities of treating rheumatoid arthritis in children. In Germany, some 50,000 children and young people are affected by an acute rheumatic illness.

At the end of each year, the employees of MorphoSys AG support local charitable non-profit organizations with private donations. In 2008, MorphoSys's staff donated approximately € 1,700 to Kinderzentrum München*, an organization supporting families with children suffering from chronic and life-threatening diseases.

PERFORMANCE MANAGEMENT

An integrated control concept, financial and non-financial performance indicators, and measures to enhance efficiency and growth are the 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 2008 financial year, the key performance indicators (KPI) against which MorphoSys measured the success of its strategy comprised indicators of pipeline development.

In 2008, the partnered therapeutic antibody pipeline increased by five programs to a total of 55 antibody development projects, a record high in the Company's history. During the year, one program advanced into phase 2 clinical trials, and the number of programs in the preclinical phase increased to 29 projects. One clinical program, the therapeutic antibody 1D09C3 developed within the partnership with GPC Biotech AG, was stopped by the partner in 2008.

For its proprietary development programs, MorphoSys achieved its goal of advancing its lead program MOR103 through a phase 1 clinical trial. The second program MOR202 progressed as planned into formal preclinical development. Two additional cancer targets were selected in 2008.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Therapeutic Segment	2008	2007	2006	2005
NUMBER OF PARTNERED THERAPEUTIC ANTIBODY PROJECTS	**55**	**50**	**43**	**29**
Phase 2	1	–	–	–
Phase 1	3	4	2	1
Preclinical development	29	23	14	7
Research	22	23	27	21
NUMBER OF PROPRIETARY THERAPEUTIC ANTIBODY PROJECTS	**3**	**2**	**2**	**4**
Phase 1	1	–	–	–
Preclinical development	1	2	2	3
Research	1*	–	–	1

* Joint predevelopment program with Novartis

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 here.

FINANCIAL KEY PERFORMANCE INDICATORS

in million €	2008	2007	2006	2005
MORPHOSYS GROUP				
Group revenues	71.6	62.0	53.0	33.5
Group profit from operations	16.4	7.0	6.2	6.2
THERAPEUTIC ANTIBODIES SEGMENT				
Revenues	53.4	42.4	34.7	29.1
Segment result	25.6	15.2	16.6	14.8
ABD SEGMENT				
Revenues	18.2	19.6	18.3	4.3
Segment result	0.4	(0.6)	(3.4)	(2.9)

Revenues in the AbD Serotec segment decreased by 7% to € 18.2 million. Revenues were strongly affected by the unfavorable development of the exchange rates of the US dollar and the British pound. The segment did however reach profitability, achieving a profit margin of 2%. The goal of an operating profit margin of 5% to 10% was not met, mainly due to lower than anticipated revenues as well as a one-time impairment for property owned by Poole Real Estate Ltd. in Poole, England (former Biogenesis Ltd.).

THE MANAGEMENT'S GENERAL ASSESSMENT OF BUSINESS PERFORMANCE

In the opinion of the Management Board, MorphoSys demonstrated a solid performance in 2008. The Company achieved the majority of its primary goals set at the beginning of 2008. Both business segments contributed to this development.

The Therapeutic Antibodies segment remained the main value driver of the Company. Based on the financial performance of this business, the Company was able to further increase its investment in proprietary drug development activities by 26% compared to 2007, the area in which the Management sees the best opportunity for future value generation.

The overall financial performance of the AbD segment improved and the segment did achieve break-even in 2008 while missing the expected profit margin of 5% to 10%, mainly due to lower than expected sales and a one-time impairment on real estate property in the UK. The main reasons for lower than anticipated revenues were adverse foreign exchange rates and reduced sales levels due to the weaker market conditions. Overall, a slowdown in market growth to 4% to 6% was observed in the market for research antibodies.

Overall, the MorphoSys Group again improved its operating result and significantly increased its net income despite increased investment into proprietary R&D.

The proprietary pipeline advanced as planned. MOR103 entered phase 1 of clinical development in April 2008. The phase 1 clinical trial for MOR103 in healthy volunteers has been completed and is currently in the analysis stage. The final data will be reported in Q2 2009.

With the launch of the latest version of its HuCAL technology, HuCAL PLATINUM, 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 the majority of its targets set at the beginning of the year.

In the therapeutic segment, both partnered business and the proprietary pipeline showed solid progress. MorphoSys achieved its goals of ten new therapeutic antibody program launches with partners in 2008, which resulted in an overall growth in the pipeline of five programs in total. The Company recorded one clinical phase 1 and one clinical phase 2 milestone with partners in 2008. All partners having pre-existing options exercisable in 2008 to extend their collaborations with MorphoSys, elected to exercise the options.

With regard to its proprietary drug development plans, the development process of the MOR103 and MOR202 programs remained on track. In March 2008, MorphoSys announced the signing of a PER.C6® license agreement with Dutch biotechnology company Crucell NV and technology partner DSM Biologics. This license agreement allows MorphoSys to use the PER.C6® cell line in the production of clinical-grade material for the development of its proprietary therapeutic cancer antibody program MOR202. In 2008, DSM started to produce clinical-grade MOR202 material. For MOR103, the phase 1 study in healthy volunteers was started in April 2008 and is currently in the analysis stage.

Additionally, the Company has worked out a budget and plan to advance the pipeline expansion in 2009.

The positive financial development of the therapeutic segment more than compensated for the somewhat lower growth of the research segment. Growth rates in the research antibody market showed an overall decrease worldwide. Against that backdrop, the AbD unit did achieve its goal of a positive operating result, and reported a positive segment result of €0.4 million, which includes a non-cash impairment charge on the former Biogenesis UK building in Poole in the amount of €0.5 million. However, the segment missed the aspired profit margin of 5% to 10%.

Operationally, the AbD segment continued to show progress. A new target sourcing deal was signed with Berlin-based Leibniz-Institut für Molekulare Pharmakologie (FMP) to access new therapeutic targets and research products. Additionally, AbD expanded its footprint in the diagnostics industry with the first entry of a HuCAL-based antibody in a diagnostic kit marketed by one of AbD Serotec's customers, namely Swedish diagnostics company Phadia AB.

FINANCIAL TARGETS FOR 2008

in million €	2007	Target 2008[1]	Result 2008	Goal Achieved
GROUP REVENUES	**62.0**	**73 – 76**	**71.6**	**NO**
Hereof AbD segment	19.6	19	18.2	NO
GROUP OPERATING PROFIT	**7.0**	**15 –16**	**16.4**	**YES**
Profit margin AbD	–	5% – 10%	2%	NO

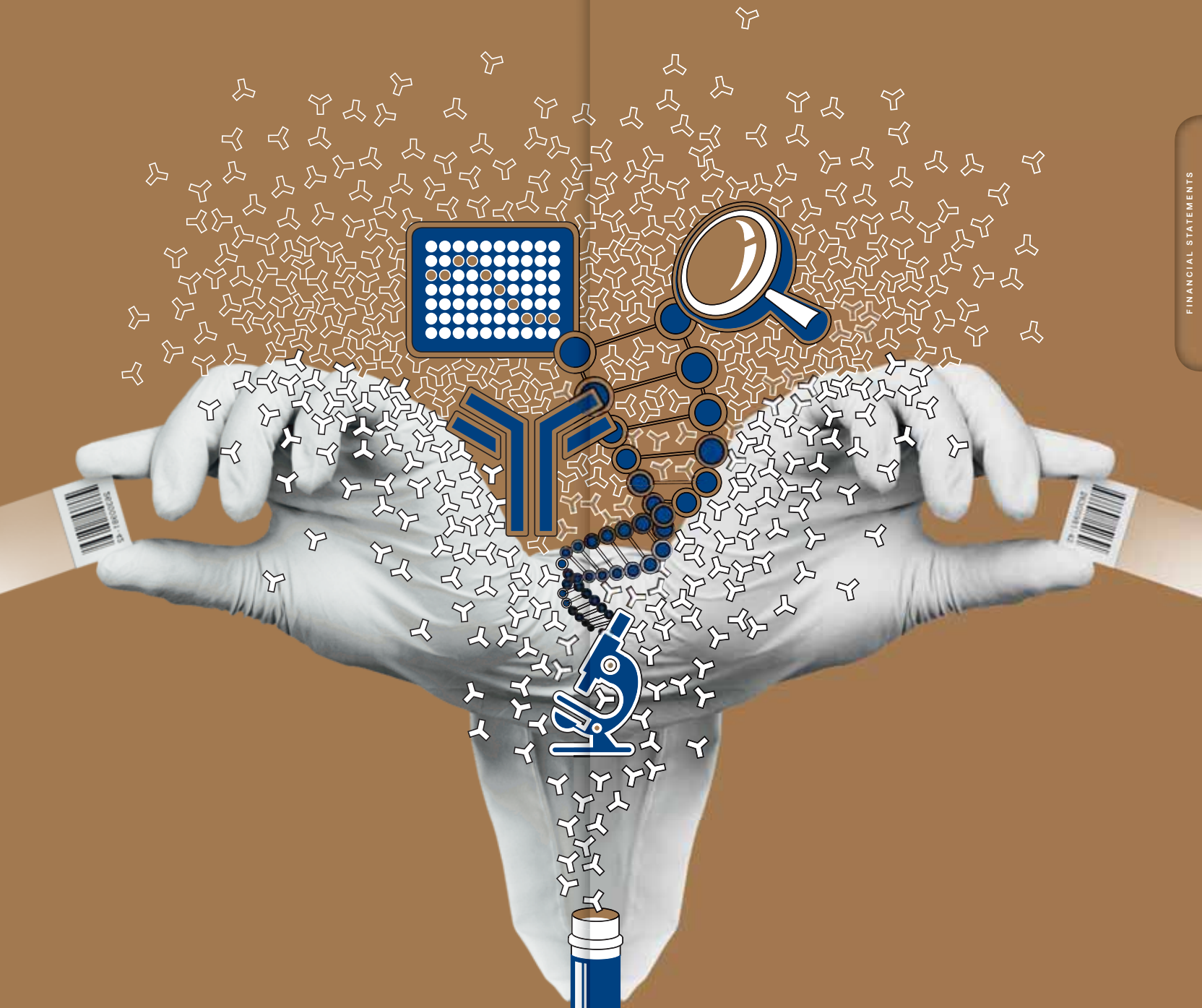
[1] Original guidance was updated on the occasion of MorphoSys's Q3 results. The revenue target was narrowed from € 73 to € 77 million; revenues guidance for AbD was decreased from originally € 20 million; profit guidance was increased from originally € 9 to € 11 million due to lower than expected costs for proprietary R&D.

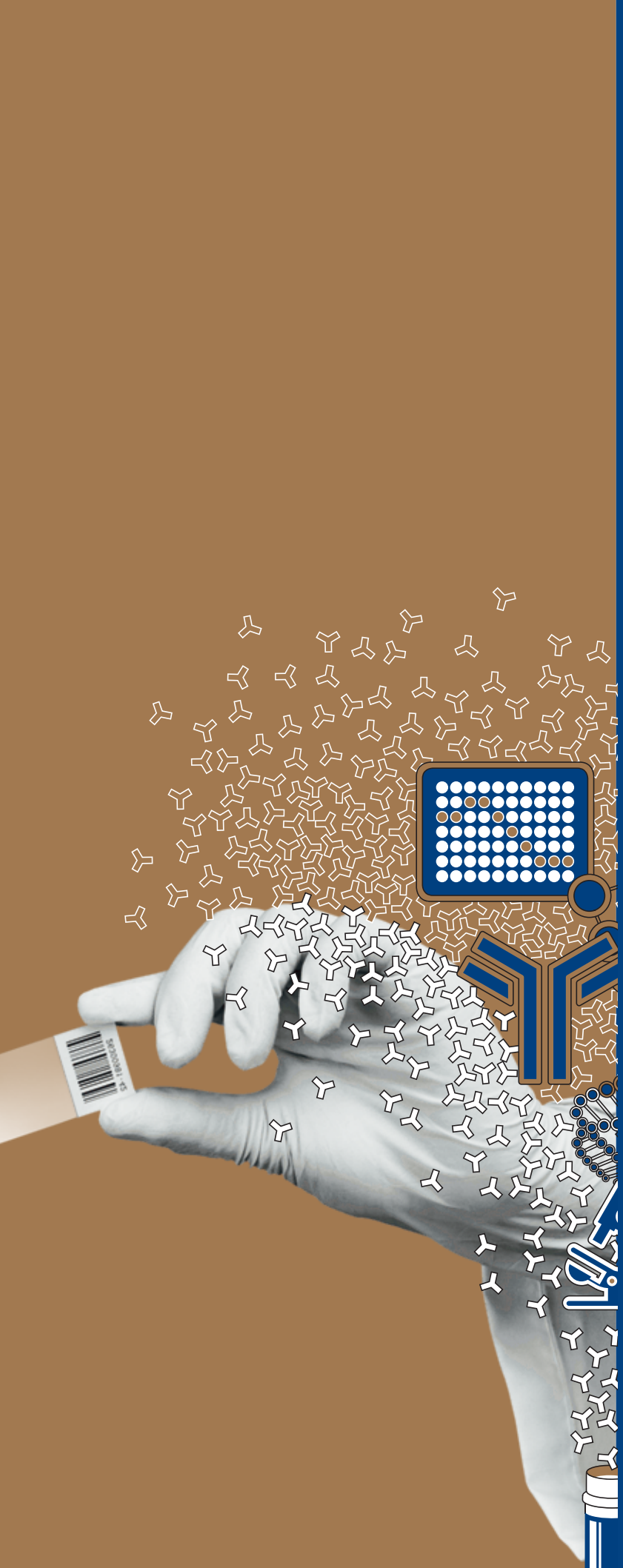
OPERATIONAL TARGETS FOR 2008

	Goal Achieved
VISIBLE NEWSFLOW FROM PROPRIETARY PIPELINE	
Start MOR103 phase 1 trial	YES
Publish MOR103 preclinical results	YES
Manufacture MOR202 clinical material	YES
Co-development deals	YES
PROGRESS IN PARTNERED ANTIBODY PIPELINE	
1-2 partner INDs	YES
Clinical data from ongoing phase 1 programs	YES
PARTNERING	
Extension of partnerships through preexisting options	YES
ABD SEGMENT	
Additional collaboration agreement for access to targets	YES
Increase diagnostic customer base	YES

Few biopharmaceutical companies can rely on a proven and established technology platform to expand their proprietary pipeline. MorphoSys has a new, superior source of antibody drugs at hand, namely HuCAL PLATINUM – the largest and highest quality version of its antibody libraries.

MORPHOSYS'S SCIENTISTS IDENTIFY PROMISING DRUG CANDIDATES USING THE COMPANY'S HUCAL ANTIBODY LIBRARY.





“Our HuCAL technology represents a unique tool for drug development and can deliver potential antibody drug candidates against an extremely broad spectrum of target molecules. The technology has been widely accepted by pharmaceutical companies and has generated several clinical development candidates so far.”

DR. BEATE DIEFENBACH-STREIBER, ASSOCIATE DIRECTOR, DISCOVERY ALLIANCES AND TECHNOLOGIES

* SEE GLOSSARY P. 128

MACROECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT

In 2008, the world GDP increased by 2.5% according to the latest estimates. In the USA, the continuing crisis on the housing market, a decline in business spending and weak private consumption meant that domestic demand was virtually stagnant. Exports, on the other hand, increased significantly on the back of the weak US dollar.

In the euro zone, the economic situation also worsened. After a strong start to 2008, economic growth slowed in the further course of the year to just 1.2% overall. The German economy performed slightly better. Higher inflation dampened private consumption, while business spending and exports rose modestly.

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

The global pharma growth rate in 2008 amounted to approximately 5% according to IMS Health. During 2008, the fundamental challenges the pharmaceutical industry faces remained unchanged. Pipeline and pricing pressure, government regulations, patent expiration and resulting generic drug entries including biosimilars* continue to be major challenges for the industry. The pharmaceutical industry is expected to increase activities to refill and strengthen its pipeline with innovative therapies to meet these challenges.

As with most industries in 2008, the impacts of the financial crisis on the healthcare sector as well as the influence of the new Obama administration in the US were major discussion points.

The first reaction of many pharmaceutical companies to the financial crisis was a reduction of staff. Activities to refill drug pipelines, such as collaboration and in-licensing agreements as well as M&A transactions, have not yet been negatively affected. According to a study performed by West LB, the industry experienced more than 140 mergers and acquisitions in 2008. With 30 larger transactions, M&A* activities were on the same level as in 2007, while the average volume of deals increased in 2008 compared to previous years.

As in the previous two years, therapeutic antibodies remained center stage in the pharmaceutical industry with several acquisitions of antibody-related biotechnology companies by large pharmaceutical companies and comprehensive strategic transactions in 2008. First and foremost, Eli Lilly acquired ImClone in an all-cash transaction, valuing the antibody drug maker at about US$ 6.5 billion and Swiss pharmaceutical company Roche decided to fully acquire Genentech, bidding US$ 42.5 billion for the remaining 44% of the US biotech group. This transaction, although not executed during the course of the year, was the largest M&A transaction communicated in the healthcare sector in 2008. In Germany, Japanese pharmaceutical company Daiichi Sankyo acquired Munich-based antibody development company U3 Pharma for €150 million.

Additionally, the industry recorded several antibody-related alliances and product-based licensing deals including the Sanofi-Aventis agreement with Dyax Corp., the partnership between PDL Biopharma and Bristol-Myers Squibb to jointly develop a multiple myeloma antibody, the alliance of ThromboGenics and BioInvent with Roche, to develop an anticancer antibody as well as the agreement between NycoMed and Immunomedics to develop a humanized anti-CD20* antibody for the treatment of rheumatoid arthritis.

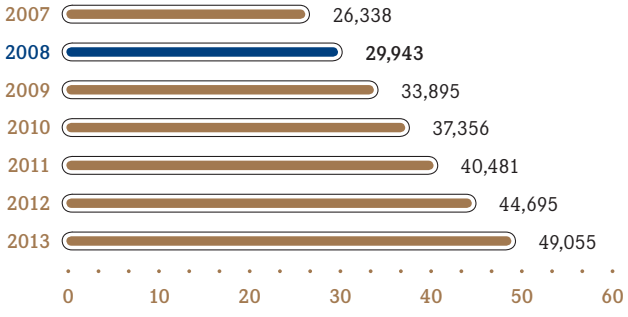
US $ 30 billion

"The 22 therapeutic antibodies currently on the market achieved total sales of approximately US $ 30 billion."

At the end of 2008, the number of therapeutic antibodies on the market increased to 22 with one new antibody-based treatment approved by the FDA during the course of the year, namely for UCB Pharma's Cimzia®, a treatment for Crohn's disease*. Additional products including Amgen's potential blockbuster therapy Denosumab® could be approved to enter the market in 2009.

The 22 therapeutic antibodies currently on the market achieved total sales of approximately US $ 30 billion. The sector remained the fastest-growing segment within the pharmaceutical industry with a solid revenue increase of 14 % over the prior year. Increased sales of marketed antibodies and broadened indications for existing antibody therapies in oncology and inflammatory diseases contributed to that growth.

SALES OF MARKETED THERAPEUTIC ANTIBODIES 2007-2013
(Datamonitor, in million US$)



* SEE GLOSSARY P. 128

With regard to therapeutic antibodies in late-stage development, Elan and Wyeth reported mixed preliminary results from a phase 2a trial of Bapineuzumab®, a therapeutic antibody to treat Alzheimer's disease. Amgen's Denosumab®, a therapeutic antibody to treat osteoporosis* in postmenopausal women showed positive results in several phase 3 studies leading finally to Amgen's filing for marketing approval in December 2008.

Market approval of Ustekinumab® on the other hand, a human monoclonal antibody in phase 3 development by Centocor, Inc., for the treatment of moderate to severe plaque psoriasis, was delayed rather significantly after the FDA required additional data.

With regard to product safety, four cases of a serious and potentially fatal brain infection called progressive multifocal leukoencephalopathy (PML)* linked to the use of the marketed multiple sclerosis and Crohn's disease drug Tysabri® were reported during the course of 2008. One additional case of PML was linked to the use of the marketed drug Raptiva®, a treatment of chronic plaque psoriasis.

During 2008, the pharmaceutical sector outperformed the overall market. The FTSE Global Pharma index was down only 15 %, while the FTSE All World was down 44 %. As a result of a challenging environment on the global stock markets and several setbacks in the life science sector, biotechnology shares showed an overall negative stock performance in 2008. The DAXsubsector biotechnology index, comprising 14 publicly listed German biotechnology companies, decreased by 17 %, while the NASDAQ biotechnology index declined by 12 %. Against that backdrop, MorphoSys stock showed in contrast a strong outperformance of its peers. The MorphoSys share gained 16 % during the year, while the TecDAX decreased by 48 %.

* SEE P. 106

COMMERCIAL DEVELOPMENT

MorphoSys uses its HuCAL technology for the development of therapeutic antibodies and antibodies for use in research and diagnostic applications. In the Therapeutic Antibodies segment, MorphoSys has shown an outstanding track record in establishing and expanding existing partnerships over the years. This track record continued in 2008.

THERAPEUTIC ANTIBODIES SEGMENT

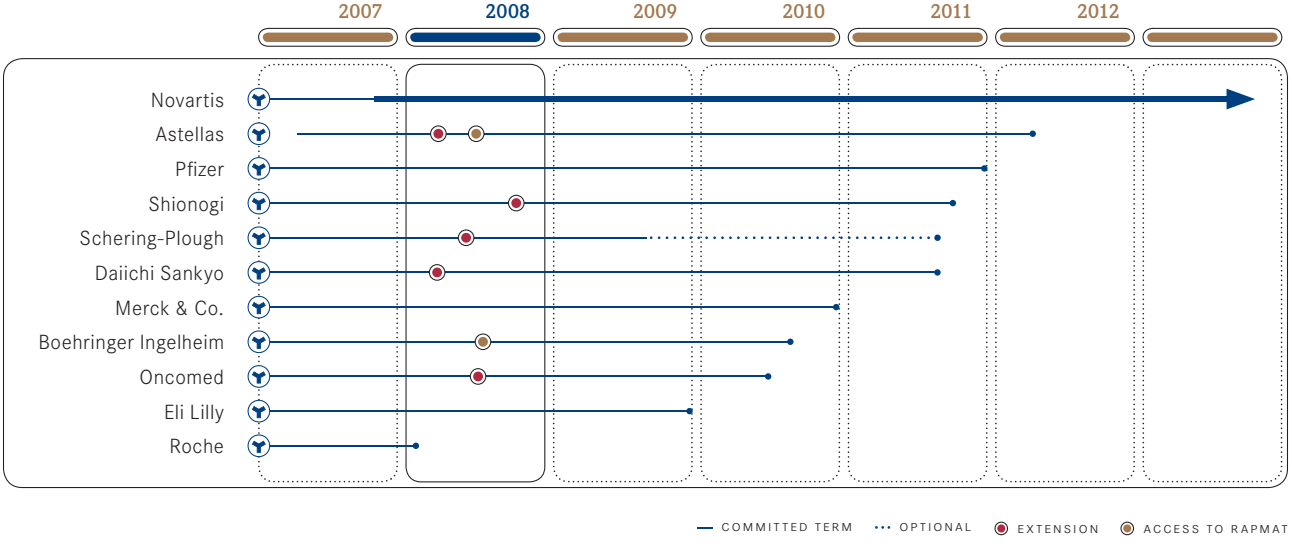
At the end of 2008, MorphoSys had 18 active antibody collaborations in place with companies from the pharmaceutical or biotechnology sector. The following partnerships were established, expanded or concluded in the 2008 fiscal year. For an overview of all partnerships, please refer to the Notes to the Consolidated Financial Statements – section 27*.

EXPANSION OF EXISTING FEE-FOR-SERVICE ALLIANCES

Following the decision to increase its focus on proprietary drug development, MorphoSys will not pursue new fee-for-service discovery deals of the type the Company has signed in the last several years. Notwithstanding this decision, MorphoSys continues to work closely with its existing partners. During the course of 2008, a number of these partners, namely Astellas Pharma, Daiichi Sankyo, OncoMed Pharmaceuticals and Schering-Plough, had the ability to extend the collaboration term using preexisting options. All of these partners decided in favor of continuing the collaboration with MorphoSys. As laid out in the 2007 agreement with Novartis, the size of the R&D team at MorphoSys dedicated to the Novartis collaboration was significantly increased in early 2008.

As a result of these expansions, the collaborations with OncoMed, Astellas and Daiichi Sankyo will run their full terms. The collaboration with Schering-Plough may be extended after each year until 2011.

OVERVIEW OF FEE-FOR-SERVICE PARTNERSHIPS



* SEE GLOSSARY P. 128

OVERVIEW OF FEE-FOR-SERVICE PARTNERSHIPS

All partners will continue to have access to MorphoSys's proprietary antibody library HuCAL GOLD. Under the extended agreements, MorphoSys continues to receive annual user fees for access to its HuCAL platform from these partnerships. In one case, the extension triggered an additional payment and resulted in increased research funding for MorphoSys. The contracts continue to provide these partners with various options to develop and commercialize HuCAL-derived therapeutic antibodies, in which case MorphoSys would receive exclusive license fees and milestone payments as well as royalties.

CO-DEVELOPMENT ACTIVITIES IN 2008

GALAPAGOS

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

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

NOVARTIS

In September 2008, MorphoSys announced that it has exercised its first option to participate in the development of a therapeutic antibody program within its collaboration with Novartis. In a first predevelopment step, Novartis will fund the companies' joint efforts until the program reaches formal preclinical development. The predevelopment agreement provides MorphoSys with the option to enter into formal co-development for the respective program with Novartis. MorphoSys has the ability to decide what proportion of the development costs the Company will carry, and is entitled to the same share of profits on a resulting drug.

EXPANDED TECHNOLOGY TRANSFER AGREEMENTS

In July 2008, MorphoSys announced that Astellas and Boehringer Ingelheim triggered their pre-existing options to use MorphoSys's proprietary RapMAT technology for faster antibody optimization as part of the existing technology transfer agreements. As a result, MorphoSys installed the RapMAT technology module alongside the existing installations of the antibody library HuCAL GOLD at Astellas's research site in Tsukuba, Japan, and Boehringer Ingelheim's research site in Vienna, Austria. Under the extended agreements, MorphoSys will receive annual user fees for the RapMAT technology and continues to receive annual user fees for access to its HuCAL platform.

RESEARCH ALLIANCES

EXTENSION OF R&D PARTNERSHIP WITH SHIONOGI

In September 2008, MorphoSys announced that Shionogi & Co., Ltd., in Osaka, Japan, elected to extend its current license agreement covering the use of MorphoSys's HuCAL technology in drug discovery for three additional years. Under the terms of the agreement, Shionogi will continue to have the right to use MorphoSys's proprietary antibody library HuCAL GOLD for research purposes at one of its research sites. MorphoSys will receive annual user fees from Shionogi for access to the HuCAL technology.

"In July 2008, AbD Serotec's customer Phadia AB, a world leader in autoimmunity and allergy testing, implemented a series of HuCAL-based recombinant antibodies in its marketed autoimmune tests."

TARGET SOURCING AGREEMENTS

Building on relationships MorphoSys has in place with leading, medically focused research institutes in Japan and the US, in April 2008 the Company signed a broad alliance with the Leibniz-Institut für Molekulare Pharmakologie, Berlin, covering the use of fully human recombinant research antibodies and the commercialization of the resulting products. Under the terms of the agreement, the Leibniz-Institut will receive access to novel HuCAL-based research antibodies from MorphoSys's AbD Serotec unit to identify and validate target molecules with potential medical applications. MorphoSys retains commercialization rights for all antibodies emerging from the collaboration both as research antibody tools distributed via the AbD Serotec sales catalog and as therapeutic or diagnostic applications.

ABD SEGMENT

E2V BIOSENSORS

In September 2008, AbD Serotec and its customer e2v biosensors, a subsidiary of e2v technologies plc, launched a research program to establish e2v's proprietary biosensor system Visucare™, a novel detection technology for biomarkers using a single-antibody immunoassay. The Visucare™ system will be used for protein quantification in point-of-care and near-patient testing. e2v biosensors and AbD Serotec began an initial project in September 2006, bringing together e2v's novel platform technology and AbD's leading recombinant antibody technology HuCAL. AbD Serotec has since generated a series of specifically designed recombinant antibodies suitable for e2v to perform feasibility studies showing proof of concept of the Visucare™ approach.

INTEGRATED BIOTHERAPEUTICS

In July 2008, AbD Serotec announced that its customer, US-based Integrated BioTherapeutics, Inc., (IBT), received a five-year, NIH research grant to develop human antibody therapeutics against staphylococcal enterotoxin B, a bacterial-derived toxin. The project is a continuation of a biodefense-related project initiated by USAMRIID, an organization of the US Army Medical Research and Materiel Command, in September 2006, using AbD Serotec's custom monoclonal antibody services. Under the terms of the agreement, IBT will use a selection of HuCAL-based antibodies originally generated by AbD Serotec against staphylococcal enterotoxin B in *in vitro* and *in vivo* experiments to identify lead neutralizing candidates and is expected to order additional antibody material as well as other services offered by AbD Serotec.

PHADIA

In July 2008, AbD Serotec's customer Phadia AB, a world leader in autoimmunity and allergy testing, implemented a series of HuCAL-based recombinant antibodies in its marketed autoimmune tests Varelisa™ and EliA™. Phadia became the first diagnostic company to introduce recombinant antibodies in an autoimmune screening platform. AbD Serotec, MorphoSys's division for research and diagnostic antibodies, receives license fees and will continuously supply Phadia with recombinant antibody material.

PROTEOMIKA

In March 2008, MorphoSys's AbD Serotec business unit received a multiple research antibody order from Proteomika SL, a Spanish biotechnology company specializing in biomarker discovery. Proteomika has ordered novel, HuCAL-based, research antibodies against a broad range of target molecules in addition to the production of antigen material at AbD Serotec. The order ranks Proteomika among the largest customers for custom monoclonal services provided by AbD Serotec.

* SEE GLOSSARY P. 128

SIGMA-ALDRICH

In February 2008, MorphoSys and Sigma-Aldrich signed a collaboration agreement to design, produce and distribute unique recombinant research antibodies using MorphoSys's proprietary HuCAL technology. MorphoSys's AbD Serotec unit will develop and qualify unique antibodies from MorphoSys's proprietary HuCAL GOLD library against a committed number of targets identified and supplied by Sigma-Aldrich. Sigma-Aldrich will offer the HuCAL-based recombinant research antibodies for use in research applications through its powerful and unique online sales platforms Antibody Explorer™ and Your Favorite Gene Search™. The contract supports MorphoSys's goal to introduce a growing number of HuCAL research antibodies into the market, and will provide the research community with access to HuCAL-based antibodies through Sigma-Aldrich's strong distribution network and market presence.

RESEARCH AND DEVELOPMENT

In 2008, MorphoSys continued to invest in technology and proprietary drug development.

TECHNOLOGY DEVELOPMENT

MorphoSys places high priority on advancing its technology platform, with the goal of enabling generation of the best possible HuCAL-based antibodies for research, diagnostic and therapeutic applications.

In December 2008, MorphoSys announced the successful completion of a new proprietary antibody library, HuCAL PLATINUM. HuCAL PLATINUM contains several significant improvements in comparison to the previous GOLD version of the HuCAL library. The new library is based on the genetic information of approximately 45 billion different fully human antibodies. The increased library size and other features have so far yielded up to a 25-fold greater diversity of initial binders compared with the previous library version. This improvement provides an even wider range of promising antibody drug candidates to choose from an initial screen of the library. Additionally, certain sequence motifs on the DNA and protein-level identified as responsible for potentially limiting expression rates have been eliminated or significantly reduced. In total, these sequence updates so far been able to double average expression rates of antibodies in the IgG format selected from the HuCAL PLATINUM library and promise to shorten the time to completion of entire antibody generation programs. As before, all resulting HuCAL antibodies retain a fully human composition. The new library is completely compatible with established screening and selection methods developed by MorphoSys.

Additional technology modules of the MorphoSys antibody technology suite currently in development will build on the strengths of the new HuCAL library and provide even faster and more direct access to high-affinity antibody drug candidates in the full IgG format.

PROPRIETARY PIPELINE

FIRST DATA ON MOR103

During the course of 2008, MorphoSys published initial biophysical and preclinical data for its most advanced proprietary drug development program MOR103, a fully human HuCAL antibody directed against GM-CSF for the treatment of inflammatory disorders. MOR103 is currently being tested in a phase 1 clinical trial to assess safety, tolerability and the pharmacokinetics* of this antibody.

Preclinical data published in September 2008 in the journal "Molecular Immunology" show that MOR103 is able to block disease-relevant processes such as GM-CSF-dependent cell proliferation as well as signal transduction *in vitro*. Additionally, the publication describes that MorphoSys was able to achieve a 5,000-fold increase in affinity and a 2,000-fold increase in potency compared to the parental antibody using

"The preclinical and biophysical data provide strong supporting evidence for MOR103 as a treatment for rheumatoid arthritis."

its established optimization technology. With a resulting affinity – or binding strength – of 400 femtomolar, MOR103 represents the first known anti-GM-CSF agent with a subpicomolar affinity for its target. Targeting antigens such as GM-CSF, which are present only at low concentrations in patients, will require antibodies with low picomolar to subpicomolar affinities in order to reach efficacy *in vivo* at low dose levels. The high affinity is also expected to lead to a beneficial dosing regimen and cost of goods advantage.

Additionally, the antibody exhibited very high target specificity, with no undesired cross-reactivity to other pro-inflammatory cytokines such as IL-3, IL-4, IL-5 or M-CSF nor any non-specific binding to a panel of human tissues. MOR103 also recognizes rat and rhesus GM-CSF, both helpful criteria with regard to the development process.

Complementing the data package, MorphoSys released preclinical data in November 2008 showing that MOR103 also inhibits the signs and symptoms of RA *in vivo*, in a dose-dependent manner. The study used the established streptococcal cell wall-induced arthritis model in rats. The antibody was administered in a range of concentrations, and brought about significant reduction of knee joint swelling and improvement in joint histopathology in a dose-dependent manner. In addition, significantly reduced cytokine levels and white blood cell influx were observed in the synovium surrounding the joints. No relevant toxicity effects were observed in a standard repeat-dose rhesus monkey study.

The preclinical and biophysical data provide strong supporting evidence for MOR103 as a treatment for rheumatoid arthritis (RA), and formed the basis for the phase 1 clinical trial.

PARTNERED PIPELINE

FIRST COMPOUND IN A PHASE 2 CLINICAL TRIAL

In December 2008, MorphoSys's licensing partner, Centocor R&D, Inc., enrolled the first patient in a phase 2 clinical trial with a HuCAL-derived fully human antibody. The new trial is in an immunology indication. A separate phase 1 clinical trial using the same antibody in oncology patients was initiated in 2007 and is ongoing. This achievement marks the first antibody developed with MorphoSys's core technology to enter a phase 2 clinical trial as well as the first antibody being investigated in a second indication. Indication broadening is at the heart of the commercial success of several antibody therapies currently on the market. For MorphoSys, additional indications represent further value for the partnered drug pipeline leading to higher clinical milestones and royalty-based income. The initiation of the phase 2 trial and the IND in a new indication triggered two clinical milestone payments to MorphoSys.

PRODUCTION

Complementing the development of optimized HuCAL libraries over the last 15 years, MorphoSys has simultaneously established several in-house antibody manufacturing platforms serving the requirements of the project teams in research, discovery and preclinical testing. These platforms facilitate the production of a large number of antibodies selected from HuCAL at high-throughput in the microgram to milligram scale and provide preclinical 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 setup has been chosen so that it can be used by external contract manufacturing organizations (CMO) under regulated environments (GMP) as well. Furthermore, initial in-house characterization and process development activities provide the CMOs with valuable information for the large-scale manufacture of the antibodies, shortening formal development time.

In recent years, MorphoSys has in-licensed and co-developed various innovative protein 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. For the production of full IgGs, MorphoSys predominantly used the HKB11 and PER.C6 cell lines.

During the course of 2008, MorphoSys and Wacker Chemie AG have intensified their cooperation in the use of Wacker's bacterial secretion technology. The two companies have signed a new agreement precisely defining areas of use and production limits under which MorphoSys can continue to use the secretion system on a research scale. As a result, MorphoSys will now be able to use the Wacker technology for both the early development phase of therapeutic projects as well as the production of diagnostic and research antibodies. If the agreed quantity limits are exceeded at MorphoSys, Wacker is able to provide a seamless transition to large-scale manufacturing services.

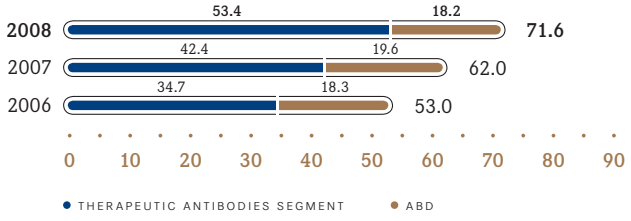
RESULTS OF OPERATIONS, FINANCIAL SITUATION, ASSETS AND LIABILITIES

REVENUES

Compared to the same period in the previous year, Group revenues increased by 16 % to € 71.6 million in 2008 (2007: € 62.0 million). The increase is mainly due to higher levels of funded research and licensing fees. Revenues arising from the Therapeutic Antibodies segment accounted for 75 % or € 53.4 million (2007: € 42.4 million) of total revenues while the AbD segment generated 25 % (€ 18.2 million) of the total (2007: € 19.6 million).

Geographically, 23 %, or € 16.4 million, of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies or non-profit organizations located in North America and 77 %, or € 55.2 million, with companies located mainly in Europe and Asia. This compares to 36 % and 64 %, respectively, in the same period of the prior year.

DEVELOPMENT OF GROUP REVENUES (in million €)



THERAPEUTIC ANTIBODIES SEGMENT

Revenues arising from the Therapeutic Antibodies segment comprised € 43.5 million in funded research and licensing fees (2007: € 30.3 million) as well as € 9.9 million success-based payments (2007: € 12.1 million), representing 19 % of total Therapeutic Antibodies revenues. Approximately 84 % of Therapeutic Antibodies revenues and 62 % of total revenues arose from the Company's three largest alliances with Novartis, Daiichi Sankyo, and Centocor (2007: 67 % and 46 %, respectively, with Novartis, Centocor, and Bayer Schering).

Assuming constant foreign exchange rates at the average rate of 2007, revenues in the Therapeutic Antibodies segment would have remained essentially unchanged at € 53.4 million.

* SEE GLOSSARY P. 128

ANTIBODIES DIRECT – ABD SEGMENT

Compared to the previous year, AbD segment's revenues decreased by 7 %, or € 1.4 million, to € 18.2 million in 2008 (2007: € 19.6 million). The main reasons for this decline in revenues included adverse foreign exchange effects, and weaker than expected markets for research antibodies. Assuming the average foreign exchange rates of 2007, revenues in the AbD segment would have amounted to € 19.7 million.

The largest part of revenues (approx. 82 %), or € 14.9 million, was generated with catalog and industrial customers, while custom manufactured antibodies contributed 13 % or € 2.4 million.

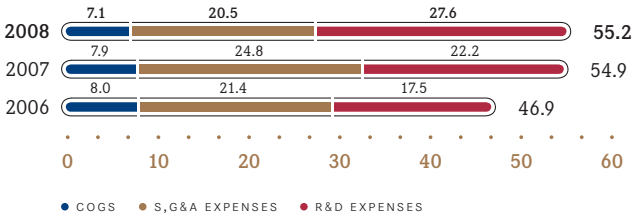
As of December 31, 2008, orders in the amount of € 2.3 million were classified as back orders in the segment (2007: € 0.7 million).

OPERATING EXPENSES

Compared to 2007, total operating expenses slightly increased by less than 1 % to € 55.2 million in 2008 (2007: € 54.9 million). The increase in research and development (R&D) expenses of € 5.4 million was almost fully offset by lower sales, general and administrative (S, G&A) expenses, and by lower cost of goods sold (COGS). Total purchase price allocation (PPA) effects on operating profit amounted to € 1.2 million (2007: € 1.5 million) including an impairment on the former Biogenesis UK property in Poole, presented as an asset held for sale, in the amount of € 0.5 million.

Stock-based compensation expenses are embedded in COGS*, S, G&A and R&D expense amounts. Stock-based compensation in 2008 amounted to € 1.0 million (2007: € 1.4 million) and is a non-cash charge.

DEVELOPMENT OF OPERATING EXPENSES (in million €)



COST OF GOODS SOLD

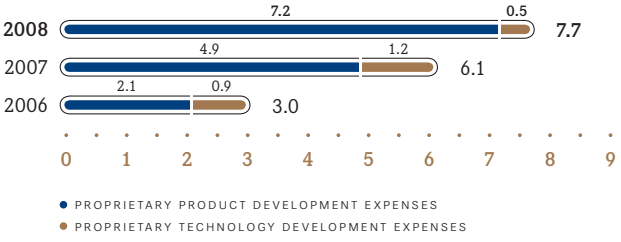
COGS is composed of the AbD segment's cost of goods sold in 2008 and – compared to the prior year – decreased from € 7.9 million to € 7.1 million. The decline in COGS is mainly a result of two factors: lower sales and the fact that in 2008 inventories connected with the Serotec acquisition are now fully depreciated and, therefore, did not impact COGS to the same extent as in 2007.

RESEARCH AND DEVELOPMENT EXPENSES

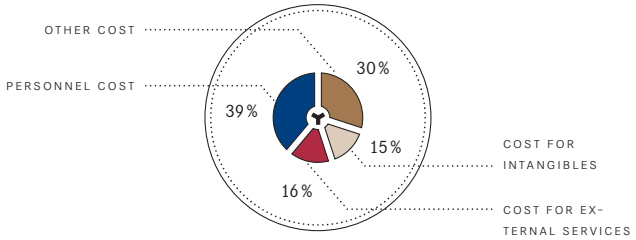
Costs for research and development increased by € 5.4 million to € 27.6 million (2007: € 22.2 million). This change resulted from higher personnel costs in the Therapeutic Antibodies segment, mainly associated with increases in proprietary drug development and partnered activities (2008: € 10.8 million; 2007: € 8.5 million), as well as from increased costs for intangibles in connection with the patent portfolio in-licensed from Dyax in 2007 (2008: € 6.0 million; 2007: € 4.8 million). Additionally, expenses for external services, which relate primarily to proprietary drug development, increased by € 0.8 million compared to the previous year. The two proprietary products currently being internally developed by MorphoSys are MOR103 and MOR202.

In 2008, the Company incurred costs for proprietary product and technology development amounting to € 7.2 million and € 0.5 million, respectively (2007: € 4.9 million and € 1.2 million).

PROPRIETARY R&D EXPENSES (in million €)



COST BY EXPENDITURE TYPE



SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Sales, general and administrative expenses amounted to € 20.5 million compared to € 24.8 million in the previous year. This change was mainly impacted by lower costs for external services (2008: € 4.0 million; 2007: € 8.6 million), or more specifically, consulting fees in connection with the Novartis deal in 2007. Marketing expenses, arising predominantly from the AbD segment, decreased in comparison to the previous year (2008: € 0.7 million; 2007: € 1.0 million). Marketing activities comprised email and online advertising, print advertising, as well as international trade shows.

COST BY EXPENDITURE TYPE

In 2008, personnel costs (excluding stock-based compensation) amounted to € 21.5 million (2007: € 18.8 million) or 39 % 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, amounted to € 9.0 million (2007: € 12.8 million) or 16 % of total operating expenses.

Costs for intangibles accounted for € 8.2 million (2007: € 7.0 million) or 15 % of total operating expenses and mainly consisted of expenses for licenses (2008: € 3.7 million; 2007: € 3.7 million), amortization of licenses capitalized (2008: € 2.4 million; 2007: € 1.5 million) as well as amortization of intangible assets identified in connection with the acquisitions of Biogenesis and Serotec (2008: € 0.6 million; 2007: € 0.8 million).

NON-OPERATING ITEMS

Non-operating income amounted to € 1.6 million (2007: € 2.2 million) and mainly changed as a result of lower gains from foreign exchange derivatives and lower gains from marketable securities. Profit before taxes amounted to € 18.0 million (2007: € 9.2 million).

TAXES

In total, the Company reported tax expenses in the amount of € 4.8 million for 2008. This line item is mainly impacted by deferred tax expenses of € 3.3 million, deferred tax income of € 0.5 million and current tax expenses of € 2.0 million.

Deferred tax expenses mainly derived from the amortization of deferred tax assets built on tax loss carry-forwards (€ 2.6 million) and on temporary differences (€ 0.7 million) in 2007. These deferred tax expenses were partly offset by deferred tax income in the amount of € 0.4 million arising from the amortization of deferred tax liabilities in connection with previous acquisitions.

OPERATING PROFIT/NET PROFIT

Group operating profit amounted to € 16.4 million in 2008 (2007: € 7.0 million). Earnings before interest and taxes (EBIT) amounted to € 16.5 million, compared to an EBIT of € 8.3 million in the previous year. The Therapeutic Antibodies segment accounted for an operating profit of € 25.6 million (2007: € 15.2 million) whereas the operating profit for the AbD segment amounted to € 0.4 million (2007: loss of € 0.6 million).

A net profit after taxes of € 13.2 million was achieved in 2008, compared to a net profit after taxes of € 11.5 million in 2007. The resulting basic net profit per share for 2008 amounted to € 0.59 (2007: € 0.54).

LIQUIDITY/CASH FLOWS

Cash inflow from operations amounted to € 28.6 million for 2008 (2007: € 17.1 million). Investing activities resulted in a cash outflow of € 39.3 million (2007: € 5.2 million) whereas the cash inflow from financing activities, mainly arising from stock option program exercises, amounted to € 2.5 million (2007: € 32.6 million).

As of December 31, 2008, the Company held € 137.9 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2007 balance of € 106.9 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 € 18.6 million to € 203.3 million as of December 31, 2008, compared to € 184.7 million as of December 31, 2007. Current assets increased by € 27.2 million mainly as a result of cash generated from operations which was offset by a decrease in accounts receivable of € 5.3 million.

In 2008, non-current assets decreased by € 8.6 million as a consequence of released deferred tax assets amounting to € 3.2 million, the re-classification of the property in Poole, England, from investment property in 2007 to assets classified as held for sale in 2008, as well as of the amortization of capitalized intangibles associated with prior acquisitions (€ 1.2 million in total) and licenses (€ 1.0 million).

LIABILITIES

In 2008, current liabilities decreased from € 29.4 million as of December 31, 2007, to € 27.4 million. This change primarily arose from a decrease in accounts payable by € 1.8 million.

In 2008, the increase of total non-current liabilities by € 4.1 million to € 13.9 million was mainly impacted by an increase in non-current deferred revenues (€ 4.2 million), resulting from contracts signed in the current year and in previous years.

CREDIT RATING

A credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation. MorphoSys is currently not being rated by rating agencies due to the relatively low importance of credit in the financing situation of the Group.

EQUITY

Total stockholders' equity amounted to € 162.0 million as of December 31, 2008, compared to € 145.5 million as of December 31, 2007, resulting in an equity ratio of 79.7 % (2007: 78.8 %).

As of December 23, 2008, the Company implemented a 3-for-1 stock split of the MorphoSys share, which was resolved by the Company's shareholders at the Annual General Meeting on May 14, 2008.

As of December 31, 2008, the total number of shares (post stock split) issued amounted to 22,478,787, of which 22,398,891 were outstanding, compared to 22,160,259 and 22,080,063 as of December 31, 2007, respectively.

The increase of shares outstanding by 318,528 shares arose from the conversion of bonds issued to employees as well as from exercised options. In 2008, 300 of the exercised options related to shares provided by treasury stock. Treasury shares were reduced accordingly, amounting to 79,896 shares as of December 31, 2008.

CAPITAL EXPENDITURE

MorphoSys's investment in property, plant and equipment amounted to € 1.6 million for 2008 and increased by € 0.5 million compared to the prior year due to higher investments in lab and office equipment (€ 1.5 million) in 2008. Depreciation of property, plant and equipment for the 2008 fiscal year accounted for € 1.5 million, compared to € 1.5 million for 2007.

In 2008, the Company invested € 2.2 million in intangible assets (2007: € 11.0 million), mainly for the purchase of licenses (€ 1.7 million) and software (€ 0.4 million). Amortization of intangibles amounted to € 3.7 million and increased by € 0.7 million in comparison to 2007.

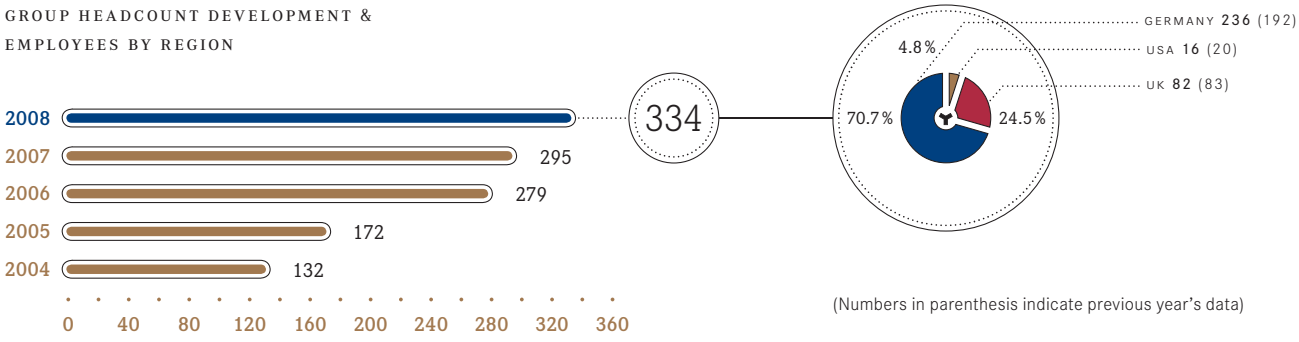
HUMAN RESOURCES

Since the Company's foundation, a strong corporate culture and a good working atmosphere have been established at MorphoSys. A highly skilled and motivated team of employees is the key to MorphoSys's success. MorphoSys traditionally attaches great importance to the development and education of its employees.

NUMBER OF EMPLOYEES

The number of employees rose significantly in the 2008 fiscal year. On December 31, 2008, the MorphoSys Group employed 334 people worldwide (December 31, 2007: 295), an increase of 13 % from the end of the previous year. The biggest personnel growth occurred in the Therapeutic Antibodies segment. On average, the MorphoSys Group employed 312 people in 2008 (2007: 291).

GROUP HEADCOUNT DEVELOPMENT &
EMPLOYEES BY REGION



(Numbers in parenthesis indicate previous year's data)

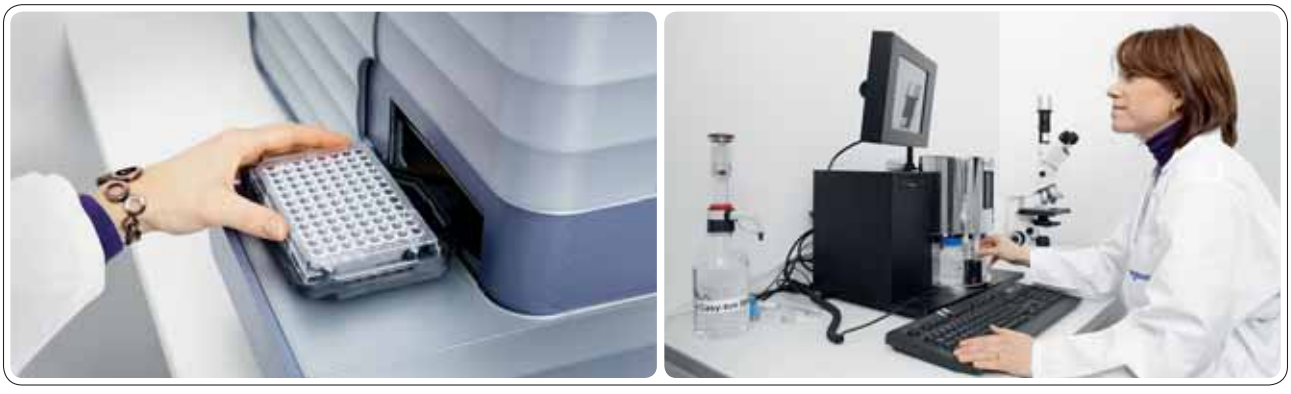
EMPLOYEES BY SEGMENT AND FUNCTION

	2008	2007
TOTAL EMPLOYEES	**334**	**295**
Therapeutic Antibodies segment	201	167
AbD segment	133	128
Employees in R&D	191	164
Employees in S, G&A	143	131

Average sales per employee remained unchanged to the previous year at €0.21 million. MorphoSys's personnel costs (excluding stock-based compensation) amounted to €21.5 million in 2008, 14% up on the previous year. The average costs per employee were approximately €64,000 (2007: €64,000).

On December 31, 2008, MorphoSys had two apprenticeship positions (December 31, 2007: 2).

In 2008, R&D staff members supervised two diploma theses.



QUALIFICATION, TRAINING AND EDUCATION

MorphoSys takes professional development very seriously. 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, and a working environment that encourages enthusiasm and collaboration among departments and between the Company's different locations.

91 employees of MorphoSys's workforce held a PhD degree (December 31, 2007: 75).

SCIENTIFIC INTERACTIONS AND KNOWLEDGE SHARING

The scientific staff of MorphoSys interacts on various occasions to exchange views, troubleshoot scientific and methodical problems, and update each other on the latest scientific findings in the antibody space and the disease areas MorphoSys is active in. The Company actively fosters these activities to preserve the vivid biotech culture that makes small biotech companies successful.

LONG-TERM PERFORMANCE-RELATED COMPENSATION

Attractive compensation is a key factor in attracting and retaining employees and executives. 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 2008, an additional profit participation scheme was introduced for employees of MorphoSys AG other than Management Board and senior management, allowing employees to participate in the Company's operational and financial performance. Members of the Management Board and Senior Management Group were granted stock options in 2008.

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

3 PRODUCTION & QUALITY ASSURANCE

Complementing the constant improvement of its core antibody technology, MorphoSys has established various in-house antibody manufacturing platforms or acquired access to production systems at external partner companies. These platforms provide for the effective and safe manufacturing of therapeutic antibody drug candidates.

WORK IN ANTIBODY PRODUCTION FOLLOWS STRICT GUIDELINES AND REGULATORY STANDARDS MUST BE MET FOR ALL PERSONNEL AND PROCESSES INVOLVED.

"MorphoSys is committed to implementing state-of-the-art production technologies which meet the highest standards for quality, productivity and safety of the resulting compounds. Moreover, MorphoSys demands these standards from all its partners involved in antibody production and clinical development."

DR. ANDREAS POPP, ASSOCIATE DIRECTOR, PROTEIN SCIENCES

* SEE GLOSSARY P. 128

REMUNERATION REPORT

The Remuneration Report reflects the Management Board Compensation Disclosure Law and 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 occasion on which salaries were adjusted was in June 2008.

The total annual salary of the members of the Management Board comprises the fixed components plus other compensatory benefits, which encompass primarily the use of company cars, allowances for health, social care and invalidity insurances as well as special allowances and benefits received for 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. In addition, a new pension scheme was established during 2008 in cooperation with Allianz-Pensions-Management e. V. Allianz serves as so called “Unterstützungskasse” which means pension commitments have to be fulfilled by Allianz.

Additionally, each member receives a performance-related cash bonus payment. The bonus scheme was changed during 2008. Such payments are now only dependent on Company-related goals (in previous years, individual goals were also agreed), 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. The bonus shown in the respective annual report covers goals achieved in the previous business year.

In the 2008 fiscal year, the total cash remuneration paid to the members of the Management Board amounted to € 1,819,317 (previous year: € 1,473,437). The table below shows the detailed and individualized compensation for the Management Board in 2008:

*

SEE P. 49

COMPENSATION OF THE MANAGEMENT BOARD

in €	Fixed Compensation	Performance-related Compensation	Other Compensatory Benefits	Total Compensation 2008
Dr. Simon E. Moroney	343,125	240,188	105,246[2]	688,559
Mr. Dave Lemus	241,313	168,919	129,167[3]	539,399
Dr. Arndt Schottelius[1]	1,222	-	123,893[4]	125,115
Dr. Marlies Sproll	231,660	158,895	75,689[5]	466,244

[1] Dr. Arndt Schottelius was appointed as Chief Development Officer as of December 29, 2008
[2] Includes €86,810 annual contributions to private pension fund and allowances to insurances
[3] Includes €61,060 annual contributions to private pension fund and allowances to insurances
[4] Includes €0 annual contributions to private pension fund and allowances to insurances
[5] Includes €58,626 annual contributions 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 General Meeting. These are outlined in the "Equity-based Compensation for the Management Board"* section below.

In 2008, 242,979 stock options were granted to members of the Management Board. The value of the stock options granted to members of the Management Board under the stock option plan of 2002 attributable to the 2008 fiscal year totaled € 1,037,520 (2007: Granting of 41,619 convertible bonds with a total value of € 191,447).

During 2008, members of the Management Board exercised convertible bonds and stock options, and subsequently sold the new shares. All transactions were reported as legally required and published on the Company's website.

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.

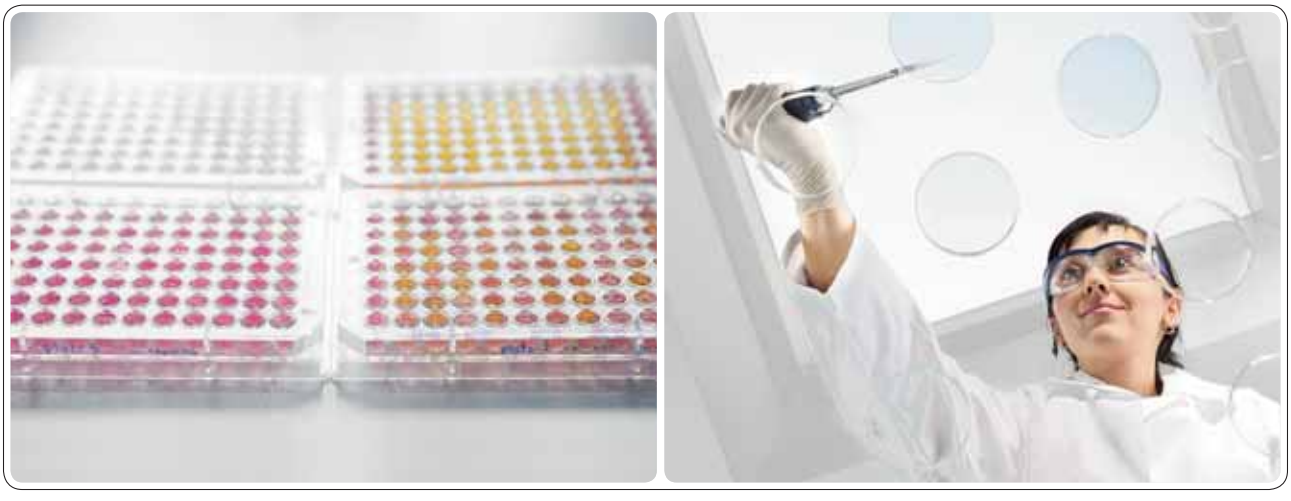
The service contracts for the Chief Executive Officer Dr. Simon E. Moroney, the Chief Financial Officer Mr. Dave Lemus and the Chief Scientific Officer Dr. Marlies Sproll were extended in June 2008 for another three years. Dr. Arndt Schottelius was appointed Chief Development Officer on December 29, 2008. His service agreement has a term of 2.5 years. As additional incentive for joining the Company, MorphoSys compensated Dr. Schottelius for lost benefits from his previous position with a non-recurring signing bonus and the reimbursement of relocation costs, which will only be payable in the business year starting on January 1, 2009.

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 year's 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. In case MorphoSys (i) transfers its assets or material parts of its assets to a non-affiliated third party, (ii) is merged into a non-affiliated third party or (iii) a shareholder holds more than 30% of the voting rights for MorphoSys, 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 General Meeting on May 14, 2008. In accordance with the German Corporate Governance Code, members of the Supervisory Board receive fixed and 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 2008 fiscal year, the members of the Supervisory Board received a total of € 292,500 (2007: € 298,500), excluding reimbursement of travel expenses. This amount consists of fixed remuneration and variable compensation (attendance fees).



* SEE P. 95 ET SEQ.

The table below shows the detailed compensation for the Supervisory Board in 2008:

COMPENSATION OF THE SUPERVISORY BOARD

in €	Fixed Compensation	Variable Compensation	Total Compensation
Dr. Gerald Möller, Chairman	57,000	21,500	78,500
Prof. Dr. Jürgen Drews, Deputy Chairman	42,000	9,500	51,500
Dr. Walter Blättler	27,000	10,500	37,500
Dr. Daniel Camus	28,500	13,500	42,000
Dr. Metin Colpan	28,500	9,500	38,000
Dr. Geoffrey N. Vernon	30,000	15,000	45,000

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 2008 fiscal year, no additional phantom stocks were granted to the Supervisory Board members.

No 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.

Since the implementation of equity-based compensation programs at MorphoSys AG, stock options or convertible bonds may only be issued on two pre-set dates each year. The following overview shows the number of stock options issued in 2008 to members of the Management Board (see also 2002 Employee Stock Option Program, section 19* of the Notes to the Consolidated Financial Statements) and their potential current value. In 2008, no convertible bonds or stock options were granted to members of the Management Board.

* SEE P. 93 ET SEQ.

EQUITY-BASED COMPENSATION FOR THE MANAGEMENT BOARD

Member of the Management Board	Number of Stock Options	Strike Price in €	Grant Date	Expiry Date	Fair Value of One Stock Option in €	Fair Value at time of the Grant in €
Dr. Simon E. Moroney	110,445	13.03	Jan. 25, 2008	Jan. 25, 2013	4.27	471,600
Mr. Dave Lemus	66,267	13.03	Jan. 25, 2008	Jan. 25, 2013	4.27	282,960
Dr. Arndt Schottelius[1]	–	–	–	–	–	–
Dr. Marlies Sproll	66,267	13.03	Jan. 25, 2008	Jan. 25, 2013	4.27	282,960

[1] Dr. Arndt Schottelius was appointed as Chief Development Officer as of December 29, 2008

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 grant date, 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 2001 provides the issuance of non-interest-bearing convertible bonds with a par/nominal value of €0.33 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 €0.33 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.

For a more detailed description of the various stock option 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 Sec. 315 Para. 4 of the German Commercial Code (HGB).

COMPOSITION OF CAPITAL STOCK

As of December 31, 2008, the Company's share capital amounted to €22,478,787 and is divided into 22,478,787 no-par value bearer shares. With the exception of 79,896 own shares, all issued shares are exclusively common shares with voting rights. The Management Board is not aware of any restrictions on 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 or indirect shareholding in the Company which exceeds 10 % of the voting rights.

APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS, AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to Sec. 6 of the Company's Articles of Association, the Management Board shall consist of at least two members, with the Supervisory Board defining the number of members of the Management Board. The Supervisory Board may appoint a Chief Executive Officer and one or several representatives of the CEO. Pursuant to Sec. 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.

AUTHORIZATION OF THE MANAGEMENT BOARD TO ISSUE SHARES

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 Sec. 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, 2013, in the amount of up to € 8,864,103 and by issuing 8,864,103 young bearer shares with no-par value for contribution in cash and/or in kind on one or several occasions (Authorized Capital 2008-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 Sec. 5 Para. 6 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, 2013, in the amount of up to € 2,216,025 and by issuing 2,216,025 young bearer shares with no-par value for contribution in cash (Authorized Capital 2008-II). The Management Board may, with the approval of the Supervisory Board, exclude the preemptive rights of the shareholders under the following conditions:
   (i) to the extent that such exclusion is necessary to avoid fractional shares; or
   (ii) the issuance price for the new shares is not substantially below the stock exchange price quoted for existing shares at the time of the issuance.

c) Pursuant to Sec. 5 Para. 6b 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 5,488,686 bearer shares with no-par value (Conditional Capital 2006-I). 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 General 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 wholly owned by the Company.

d) Furthermore, there exists a Conditional Capital 1998-I in the amount of up to € 39,285 (Sec. 5 Para. 4 of the Articles of Association), a Conditional Capital 1999-I in the amount of up to € 643,425 (Sec. 5 Para. 6 a of the Articles of Association), a Conditional Capital 2003-II in the amount of up to € 1,364,532 (Sec. 5 Para. 6 c of the Articles of Association), a Conditional Capital 2008-II in the amount up of € 1,533,315 (Sec. 5 Para. 6 d of the Articles of Association), and a Conditional Capital 2008-III in the amount of € 450,000 (Sec. 5 Para. e 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

e) According to the resolution of the ordinary 2008 Annual General Meeting, 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, 2009. 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 acquisition of 30 % or more of the voting rights in the Company in accordance with Sec. 29 and Sec. 30 of the German Takeover Act ("Wertpapiererwerbs- und Übernahmegesetz – WpÜG"). Such 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 Board and Supervisory Board. 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 in 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 diagnostic 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. There is a potential risk that revenues and earnings in the research antibody segment might not reach the levels expected by management.

PRODUCT DEVELOPMENT RISKS

MorphoSys is committed to generating therapeutic antibodies for its commercial partners and 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 preclinical studies and clinical trials in humans as well as regulatory approval prior to commercialization. There are many difficulties and uncertainties inherent in new product research and development. There is a high rate of failure inherent in the research to develop new drugs to treat diseases. Bringing a pharmaceutical compound from the discovery phase to market may take a decade or more and failure can occur at any point in the process after significant funds have been invested. As a result, there is a significant risk that funds invested in our own product pipeline or our partnered programs will not generate financial returns. The most significant risks include unexpected delays in product development, decreasing out-licensing terms, such as milestone payments and royalty rates, decreasing expected peak sales and increasing attrition rates.

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. Preclinical and ongoing phase 1 and 2 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. Acquisitions 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, 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 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. There is a potential risk that our main customers, licensees and partners reduce expected future funding for product development due to consolidation in the business or governmental reforms. There will be negative financial impact on the Company if our main customers are acquired by other pharmaceutical companies and reduce their focus on antibody product development or file for insolvency. 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 or phase 3 compounds, as opposed to less advanced product candidates still in preclinical stages. Consequently, the products in MorphoSys's pipeline may not reach a sufficiently advanced stage of development to be of interest to these pharmaceutical companies for some time. Therefore, the Company can offer no assurance that there will be a guaranteed revenues stream from current collaborations.

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, as well as the success of existing collaborations in generating revenues (e. g. licensing fees, milestone payments and royalties). The costs of the preclinical and 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 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, as required, the foreign exchange risks.

Interest income earned on our available-for-sale financial assets is affected by changes in the relative level of market interest rates. Cash, cash equivalents and marketable securities are maintained principally with three 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, safety, operational and other applicable statutory or industrial guidelines, and has implemented functions to comply with all of these effectively at each of its 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 and 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 own product development, 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 diagnostic antibodies. MorphoSys is confident that the Company's HuCAL technology offers key advantages for customers in the research antibody and diagnostics markets.

GENERAL STATEMENT ON OPPORTUNITIES

Due to increased life expectancy for people living in industrialized nations and the growing understanding of disease, the need for innovative therapeutics and enabling technologies remains very high. 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

10 years

"At the end of 2007, MorphoSys signed a large strategic collaboration with Novartis, providing MorphoSys with committed payments over the next ten years."

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 and 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 more cheaply 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 acquisition of several competitors. Only a few independent 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 55 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.

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. In the currently challenging economic climate, the Company is in a stronger position to negotiate value-generating transactions compared to the majority of biotechnology companies facing financial shortage. This may lead to transactions under attractive deal terms.

SUBSEQUENT EVENTS

There were no events requiring disclosure.

OUTLOOK AND FORECAST

MorphoSys is focusing on developing fully human antibodies and intends to further expand its position in the lucrative market for its products in the years to come. The Company's management intends to further broaden its proprietary drug development activities to take advantage of attractive opportunities in the therapeutics area. Moreover, MorphoSys seeks to enlarge its market share within the research and diagnostics fields, the latter of which represents a particularly attractive market for the Company's technologies.

STRATEGIC OUTLOOK

MorphoSys's business model is principally based on its proprietary technology HuCAL, which is being exploited not only for the development of innovative drugs, but also for research and diagnostics applications. Since 2004, MorphoSys has pursued its business in two operating segments, namely the Therapeutic Antibodies segment, comprising all partnered and proprietary drug development activities, as well as the Research Antibodies segment, including all research activities. Looking forward and on the basis of current planning, MorphoSys intends to conduct its business in three operating segments. In 2009, MorphoSys will introduce a third segment, to take advantage of the growing importance and different nature of the Company's proprietary drug development activities in contrast to its business activities with partner companies.

Within the Therapeutic Antibodies segment, MorphoSys will invest a portion of its secured cash flows from its long-term development alliances to enlarge and strengthen the third segment, the Company's proprietary pipeline. The Company is committed to developing therapeutic antibodies for its own account by taking drug candidates, in most circumstances, to clinical proof of concept before seeking a commercial partner. The proprietary pipeline will not only be enlarged by starting *de novo* programs, but also by securing access to interesting targets or drug candidates through in-licensing activities and potentially M&A. To diversify its proprietary pipeline, MorphoSys may start co-development projects for HuCAL antibodies with other biotechnology or pharmaceutical companies.

In addition, the development of therapeutic antibodies within MorphoSys's partnerships will continue. 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.

In the AbD segment, revenue growth is somewhat lower than previously expected. The global economic downturn and unfavorable development of exchange rates decelerated growth rates. Nevertheless, MorphoSys expects to expand its market share in the research antibody market, with a specific focus on diagnostics products. The Company expects that profit margins will continue to increase, as economies of scale start to pay off.

EXPECTED ECONOMIC DEVELOPMENT

According to the European commission, world GDP is expected to expand by less than 1 % in 2009, resulting in a recession in the global economy. Global GDP growth could accelerate again modestly in 2010.

The US government has published plans to launch a US $ $ 825 billion economic recovery plan. The German government has taken similar actions and approved a stimulus package of € 50 billion. Currently, it is not possible to assess the extent to which the economic recovery plans introduced by the US and European governments will alleviate the global economic downturn.

In general, the pharmaceutical and biotechnology sectors are relatively insulated from the economic cycle as these sectors are among the last to be affected by a slowdown in consumer demand.

MORE INFORMATION AT
WWW.BIO.ORG

MORE INFORMATION AT
HTTP://EC.EUROPA.EU/

EXPECTED DEVELOPMENT OF THE LIFE SCIENCES SECTOR

According to IMS Health, the global pharmaceutical market is expected to grow between 4.5 % and 5.5 % next year and is expected to stay in a corridor ranging from 5 % to 8 % in the years ahead. Emerging pharma markets such as China, India and Russia are expected to outgrow the traditional markets at a combined growth rate of 14 % to 15 %.

Access to capital will be one of the main issues for public and private biotech companies in 2009. It is generally expected that the public stock markets will essentially be closed for at least the first half of 2009. That, coupled with low financing in 2008, may mean that many companies will become short of cash. According to Thomson Reuters, there was an outflow of more than US$ 700 million of investor money from the biotech companies tracked in just the short period between the end of September and the first week of December 2008. In a recent article in the trade journal BioCentury, it was pointed out that there are at least 17 public biotech companies with ongoing phase 3 trials, that have less than a year of remaining cash. According to the US trade group Biotechnology Industry Organization (BIO)*, more than one-third of the 370 publicly traded American biotechnology companies have less than six months' cash on hand.

Currently, it is not possible to assess the extent to which the economic recovery plans will affect the biotechnology and pharmaceutical industry. As a first example, the Norwegian government made explicit provision for life sciences and innovation research within the national US$ 2.87 billion stimulus package. The biotechnology component of the stimulus is valued at just under US$ 418 million.

The need to add innovative therapies into the pipelines of mature developers will keep most innovative biotechnology companies in the running for a wide variety of deals. Those trends could keep biotech buffered from the worst effects of an economic downturn. Increasing M&A activities, partnering deals and out-licensing activities will be ways out of cash and financing constraints. Nevertheless, the number of smaller biotech companies going out of business will be higher than in previous downturns.

The pharmaceutical industry is likely to further increase its investment in R&D in order to replace key drugs losing patent protection with new product launches. According to the 2008 EU Industrial R&D Investment Scoreboard*, a survey of R&D investment data from 2,000 EU and non-EU companies, the pharmaceutical and biotechnology sector reinforced its top position in R&D investment in 2008. The sector accounted for more than 19 % of the R&D investments made by all participating companies. Several pharmaceutical companies showed a particularly strong increase in R&D investment (partly due to acquisitions): e. g. Schering-Plough (+ 33.7 %), AstraZeneca (+ 29.8 %), Roche (+ 25.9 %) and Novartis (+ 21.1 %).

EXPECTED COMMERCIAL DEVELOPMENT

With the Novartis deal ensuring a steady stream of cash flows over the coming years, MorphoSys will concentrate on strengthening its proprietary pipeline. The Company will now focus more on in-licensing activities for interesting targets or innovative development programs, as well as co-development opportunities. In most cases, after clinical proof of concept, the development candidates will be out-licensed to partners. For MOR103, the most advanced development program in MorphoSys's pipeline, out-licensing is envisioned for 2011/2012, although unexpected development events could change this timeline.

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

EXPECTED PERSONNEL DEVELOPMENT

As part of the expansion of its proprietary and partnered development efforts, MorphoSys intends to further build its Research & Development teams. As a result, the Company expects to hire more than 40 new employees in 2009, predominantly within R&D departments at the Group's headquarters in Munich, Germany. Accordingly, R&D expenses will increase strongly in 2009.

EXPECTED RESEARCH AND DEVELOPMENT

The Company's R&D budget for proprietary drug and technology development will more than double to between € 18 million and € 20 million in 2009. The majority of this investment will be channeled into clinical and preclinical development activities for MOR103 and MOR202. The trend of increasing investments will continue in 2010 and the years thereafter, although the size of such increases will depend on the status of the Company's drug pipeline as well as revenue development. Notwithstanding this, the Company is committed to remaining profitable.

The Company's proprietary pipeline activities in 2009 are projected to comprise:

- The start of a phase 1b/2a clinical trial in rheumatoid arthritis for its lead compound MOR103;
- Finalizing the evaluation of MOR103 in a second indication and preparation for an additional phase 2 clinical trial;
- Formal preclinical development and manufacturing of clinical-grade material for MOR202;
- The addition of up to five proprietary *de novo* programs to its pipeline, one of which has already been started recently;
- One predevelopment program with Novartis; the predevelopment agreement provides MorphoSys with the option to enter a formal co-development for the respective program;
- Validation of three targets together with Galapagos which might be the subject of therapeutic antibody programs in the future.

As a result of the planned activities, MorphoSys's proprietary pipeline at year-end could consist of up to eight programs in total, including one co-development program with Novartis – up from two fully owned and one co-development program in 2008.

In 2008, MorphoSys launched the latest version of its proprietary antibody platform, HuCAL PLATINUM. Nevertheless, investment into technology development will continue in 2009 and subsequent years, to maintain MorphoSys's technology leadership within the human antibodies field.

€ 137.9 million

"At the end of the 2008 fiscal year, MorphoSys's cash position amounted to € 137.9 million."

Regarding AbD, profitable growth based on innovative products and services is the central objective for the unit. The HuCAL custom monoclonal antibody business offers the most attractive opportunities for growth and therefore will remain at the heart of the unit's activities. Furthermore, the unit will increasingly focus on diagnostics applications, as HuCAL has many advantages over traditional animal immunization approaches in generating superior diagnostic products.

EXPECTED FINANCIAL AND LIQUIDITY DEVELOPMENT

Therapeutic antibodies represent a well-established and rapidly growing class of drugs, and MorphoSys is benefiting from this trend. MorphoSys's Therapeutic Antibodies segment has been highly profitable in the past, evidenced by a strong operational cash flow. Long-term alliances will provide the Company with secured cash flows over the next decade. In the years to come, MorphoSys anticipates increasing its spending for proprietary drug development, more than doubling its spending in 2009. Despite this increase, the Company is committed to remaining profitable.

AbD Serotec made the all-important transition to profitability in 2008. Management expects the unit to return to an increasing top-line in 2009, but intends to increase investment in certain areas in order to best prepare the unit to deliver above-market growth in 2010 and beyond.

At the end of the 2008 fiscal year, MorphoSys's cash position amounted to € 137.9 million. MorphoSys sees its strong cash position as an asset which can be used to accelerate future growth through acquisitions, potentially in all segments of its business. Despite the more difficult conditions resulting from the global financial crisis, MorphoSys's financing is solid.

EXPECTED EARNINGS SITUATION

MorphoSys's management strives to achieve total revenue growth averaging between 15 % and 20 % in the years to come. In the future, revenue growth will become more dependent on out-licensing of proprietary products such as MOR103, as well as from increasing milestone payments and royalties, as partnered HuCAL antibodies move through development and come to the market. The revenue split between the Company's Therapeutic Antibodies segment and the AbD segment is anticipated to remain similar in 2009 to that of the prior year.

On the basis of the Management Board's current planning, expenses are expected to increase in 2009 and 2010, subject to corresponding revenue increases. In upcoming years, MorphoSys will increase its investment in proprietary drug development in order to further develop its proprietary antibody pipeline, which will include investments in MOR103 and MOR202, additional *de novo* discovery programs as well as co-development programs. COGS are anticipated to increase corresponding to sales of the AbD segment.

S, G&A expenses are expected to increase slightly. On the basis of current planning, MorphoSys expects to remain profitable on an operating level in 2009 and 2010. For 2009, the Company anticipates a profit albeit less than in 2008 due to strongly increased investment in proprietary product development. This is in line with Management's commitment to building the Company's pipeline, and thereby maximizing shareholder value.

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 additional paid-in capital and accumulated deficit as shown in the accompanying consolidated financial statements as a result of the adjustments made to present the consolidated financial statements in accordance with IFRS. The Company's German statutory accounts showed taxable income in 2008; however, as of December 31, 2008, and 2007, they reflected no accumulated earnings available for distribution, and the Company's ability to pay dividends will therefore 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 substantially reinvested in the operation of its business in order to create further growth opportunities.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT

The current economic crisis does affect MorphoSys to a lesser extent than the majority of its peer companies. The Company is profitable and has a strong cash position, allowing strategic acquisitions or in-licensing of compounds. We expect the following developments for MorphoSys in the relevant markets:

The demand for new treatment options remains high, allowing the Company to expand its therapeutic antibody development pipeline within its partnerships and for its own account.

The market for research and diagnostics antibodies is affected by the economic downturn and public and private spending on antibodies as research tools are not expected to increase in 2009. The largest source of grant funding in the United States is the National Institutes of Health, whose spending is expected to remain flat in 2009, while R&D budgets of small and mid-size companies will likely be reduced. Furthermore, exchange rates may have a negative effect on the segment. Nevertheless, MorphoSys's management is confident that the AbD segment can return to organic growth, increasing the Company's market share.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2009 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.

4 CLINICAL DEVELOPMENT

In 2008, MorphoSys advanced its first proprietary compound, the anti-inflammatory drug candidate MOR103, into a phase 1 clinical trial. MorphoSys plans to further advance the clinical validation of its lead compound and start a European phase 2 clinical trial with patients in the second half of 2009.

SCIENTIFIC AND DEVELOPMENT TEAMS INTERACT AT EVERY LEVEL OF THE DEVELOPMENT PROCESS.

“The successful clinical validation of our compounds represents a major step towards commercializing them and finally bringing new treatments to patients. Rheumatoid arthritis is still an area with a high unmet medical need and our lead compound MOR103 represents a novel approach in this area.”

AMGAD SHEBL, M.B.B.CH AIN SHAMS UNIVERSITY,
SENIOR MANAGER MEDICAL AFFAIRS

Financial Statements

Consolidated Statement of Operations (IFRS)

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

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

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

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

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

Consolidated Statement of Cash Flows (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

See accompanying notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND ORGANIZATION

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

CONSOLIDATED COMPANIES

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

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

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

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

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

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

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

GENERAL INFORMATION

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF ADOPTION

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

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

IFRS 2 "SHARE-BASED PAYMENT"

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

IFRS 3 "BUSINESS COMBINATIONS", IAS 36 "IMPAIRMENT OF ASSETS" AND IAS 38 "INTANGIBLE ASSETS"

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. IFRS 3 requires that all business combinations are accounted for using the purchase method, whereby identifiable assets acquired and liabilities assumed are measured initially at their fair value. Any excess of the purchase price over the amounts allocated is recognized as goodwill. The goodwill is subject to a regular review for possible impairment.

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

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

NEW STANDARDS EFFECTIVE IN 2008

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

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

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

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

B) STATEMENT OF COMPLIANCE

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

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

C) BASIS OF PRESENTATION

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

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

D) BASIS OF CONSOLIDATION

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

E) FOREIGN CURRENCY TRANSLATION

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

F) INTEREST

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

G) DERIVATIVE FINANCIAL INSTRUMENTS

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

H) CASH AND CASH EQUIVALENTS

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

I) NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

J) ACCOUNTS RECEIVABLE

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

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

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

K) INVENTORY

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

L) PROPERTY, PLANT AND EQUIPMENT

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

M) INTANGIBLE ASSETS

MA) RESEARCH AND DEVELOPMENT

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

MB) PATENT COSTS

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy N). Capitalized costs principally relate to the costs of legal counsel. Patent costs are amortized on a straight-line basis over the lower of the estimated useful life of the patent (ten years) and the remaining patent term. Amortization commences when the patent is issued. The Company's patents covering its proprietary HuCAL technology were granted in Australia in October 2000, in the United States of America in October 2001 and in Europe in June 2002. Further patent applications are pending in Canada, Japan and other jurisdictions.

MC) LICENSE RIGHTS

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

MD) SOFTWARE

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

ME) KNOW-HOW AND CUSTOMER LISTS

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

MF) GOODWILL

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

MG) SUBSEQUENT EXPENDITURE

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

N) IMPAIRMENT

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

* SEE P. 78

* SEE P. 84

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

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

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

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

O) SHARE CAPITAL

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

P) TRADE AND OTHER PAYABLES

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

Payables of uncertain timing or amount are shown as provisions.

Q) CONVERTIBLE BONDS

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

R) REVENUE RECOGNITION

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

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

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

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

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

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

S) EXPENSES

SA) COST OF GOODS SOLD

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

SB) STOCK-BASED COMPENSATION

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

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

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

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

U) INTEREST EXPENSE
Borrowing costs are expensed when incurred.

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

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

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

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

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

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

(2) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged in providing products or services and that is subject to risks and returns that are different from those of other segments.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intersegment pricing is determined on an arm's length basis according to the Group transfer pricing policy.

The Group consists of the following two main business segments:

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

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

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

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

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

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

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

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

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

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

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

(3) CASH AND CASH EQUIVALENTS

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

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

4 FINANCIAL ASSETS

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

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

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

For further details on accounting for financial assets, see also the Notes to the Consolidated Financial Statements – section 1I*.

5 ACCOUNTS RECEIVABLE

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

6 OTHER RECEIVABLES

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

As of December 31, 2008, no option or forward contracts are outstanding. At the beginning of the year, the Company entered into one option contract that was due in December 2008 with a realized loss of €75,000. As of December 31, 2007, one option contract was outstanding in the notional amount of €1,125,000 or US$ 1,462,500) due February 2008 with a fair market value of €130,163. Additionally, two forward contracts were outstanding as of December 31, 2007, in the notional amount of US$ 10,700,000 due February 2008. The fair market value of these contracts as of December 31, 2007, was €4,340. Changes in fair values and realized gains were recognized as other income and amounted to €39,144 of losses for the financial year 2008 (prior year: €0.5 million income).

* SEE P. 76

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

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

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

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

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

(8) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

For more detailed information, see Appendix 1*.

* SEE P. 110

(9) INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

XOMA IRELAND LTD., IRELAND

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

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

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

CAMBRIDGE ANTIBODY TECHNOLOGY LTD. (CAT), UK

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

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

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. PER.C6®, a human-derived production cell line, combines the advantages of high productivity with – in contrast to other, animal-derived production cell lines – a human glycosylation pattern of the resulting antibody product and thus was considered to be very well suited for the production of HuCAL-derived human antibodies in high yields.

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

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

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

UNIVERSITY OF MELBOURNE, AUSTRALIA

During 2007, MorphoSys signed an agreement with the University of Melbourne providing MorphoSys with exclusive access to all rights under a US patent application and its progeny covering certain uses of inhibitors of the human cytokine GM-CSF (granulocyte-macrophage colony-stimulating factor). GM-CSF is the target molecule for MorphoSys's proprietary MOR103 antibody program for the treatment of rheumatoid arthritis (RA) and other inflammatory diseases.

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

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

(10) OTHER ASSETS

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

(11) INVESTMENT PROPERTY

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

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

(12) ASSETS CLASSIFIED AS HELD FOR SALE

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

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

(13) GOODWILL

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

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

(14) ACCOUNTS PAYABLE

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

Accounts payable are listed in the table below:

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

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

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

* SEE GLOSSARY P. 128

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

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

(15) PROVISIONS AND TAX LIABILITIES

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

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

Provisions changed during the financial year 2008 as follows:

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

(16) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

CREDIT AND LIQUIDITY RISK

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

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

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

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

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

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

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

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

MARKET RISK

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

CURRENCY RISK

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

* SEE P. 82

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

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

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

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

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

INTEREST RATE RISK

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

FAIR VALUES

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

(17) STOCKHOLDERS' EQUITY

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

COMMON STOCK

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

* SEE P. 82

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

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

AUTHORIZED CAPITAL

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

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

CONDITIONAL CAPITAL

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

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

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

DIVIDENDS

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

ADDITIONAL PAID-IN CAPITAL

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

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

(18) CONVERTIBLE BONDS

At the Company's Annual Shareholders' Meeting in July 2001, the Company had been authorized to issue up to 900,000 non-interest-bearing convertible bonds with a par/nominal value of €0.33 each to employees and members of the Management Board of the Company and its affiliates until June 30, 2006. The preemptive rights of the stockholders were excluded. On May 16, 2003, and May 11, 2005, the Annual Shareholders' Meeting had authorized the Company to grant an additional 450,807 shares until April 30, 2010, each. On January 15, 2006, 115,254 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds was €14.71.

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

The conversion rights may only be exercised if the termination of the employment agreement with the owner of the convertible bonds has not been declared at the time of exercise and a mutual termination agreement has not been entered into. In the event of non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (i.e., €0.33 per bond/share).

The beneficiaries may only exercise the conversion rights after the expiration of a waiting period of one year after the grant date. Each convertible bond with a nominal value of €0.33 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exchange price. The convertible bonds cannot be exercised beyond December 31, 2008.

The exchange price for the convertible bonds issued in the year 2006 was €14.71, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

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

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

In the year 2008, 75,783 bonds of the 2006 grant were converted into shares of ordinary no-par value common stock with the same amount by employees of the Company. Of these, 42,744 bonds were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 25*. As of December 31, 2008, all convertible bonds granted in 2006 expired. The nominal value of €0.33 each was paid back to all those concerned.

In the year 2007, an additional grant to Management Board members and employees was made under the 2002 Plan, with terms identical to the 2002 stock convertible bonds grants. On January 15, 2007, 158,454 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is €18.37, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

A summary of the activity under the Company's employee incentive convertible bonds plan for the years ended December 31, 2008 and 2007, is represented as follows:

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

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

* SEE P. 103 ET SEQ.

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

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

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

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

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

(19) STOCK OPTIONS

1998 EMPLOYEE STOCK OPTION PROGRAM

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

Each warrant entitles the holder to receive one share. Upon exercise of a warrant, the exercise price, which equals the fair value of the shares on the date of grant, is due and payable. Warrant holders can exercise up to the full amount of warrants six months after the date of grant. Warrant holders also have the right to sell them. The warrants or shares obtained upon exercise vest annually on a graded basis over three years.

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

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

1999 EMPLOYEE STOCK OPTION PROGRAM

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

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

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

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

2002 EMPLOYEE STOCK OPTION PROGRAM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(20) PERSONNEL EXPENSES

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

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

(21) INCOME TAXES

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

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

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

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

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

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

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

* Deferred Tax Asset

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

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

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

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

(22) EARNINGS PER SHARE

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

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

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

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

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

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

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

23 OPERATING LEASES

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

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

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

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

24 CONTINGENCIES

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

(25) RELATED PARTIES

The Group has related party transactions with its management and with members of the Supervisory Board. In addition to the cash remuneration, the Company has issued stock options and convertible bonds to the Management Board. The table below shows the shares, stock options and convertible bonds, as well as the changes of ownership of the same, which were held by members of the Management Board and the Supervisory Board during the year 2008:

SHARES

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

* Appointed as CDO as per December 29, 2008

STOCK OPTIONS

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

* Appointed as CDO as per December 29, 2008

CONVERTIBLE BONDS

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

* Appointed as CDO as per December 29, 2008

Compensation for both the Management Board and the Supervisory Board consisted of fixed and variable components as well as other compensatory benefits. In the event of a non-reappointment and non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one annual fixed salary. Total compensation for the Supervisory Board excluding reimbursements of travel expenses amounted to €292,500 in 2008 (2007: €298,500). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD

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

*Appointed as CDO as per December 29, 2008

SUPERVISORY BOARD

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

* Entered as per May 16, 2007
** Retired as per May 16, 2007

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

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

26 CORPORATE GOVERNANCE

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

27 RESEARCH AND DEVELOPMENT AGREEMENTS

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

ASTELLAS PHARMA INC.

MorphoSys and Astellas Pharma Inc., Japan's second-largest ethical pharmaceutical company, entered into a license agreement for the use of MorphoSys's HuCAL technology in March 2007. Under the terms of the agreement, Astellas had access to its HuCAL GOLD antibody library for use in its internal pharmaceutical drug discovery programs. In return, MorphoSys received an up-front payment and annual user fees during the life span of the agreement. In February 2008, Astellas decided to extend the current collaboration between the two companies for four more years until March 2012.

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

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

BAYER SCHERING PHARMA AG

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

BOEHRINGER INGELHEIM PHARMA GMBH & CO. KG

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

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

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

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

CENTOCOR, INC.

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

* SEE P. 32 ET SEQ.

DAIICHI SANKYO COMPANY, LIMITED

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

ELI LILLY AND COMPANY

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

F. HOFFMANN-LA ROCHE AG

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

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

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

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

GALAPAGOS NV

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

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

GENEFRONTIER CORPORATION

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

GENESIS RESEARCH AND DEVELOPMENT CORPORATION LTD

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

IMMUNOGEN, INC.

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

MERCK & CO., INC.

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

NOVARTIS AG

MorphoSys and Novartis AG started working together in 2004 in a collaboration that has so far resulted in multiple active therapeutic antibody programs across various diseases and the first IND filing in September 2007 – just three years after initiation. In December 2007, MorphoSys and Novartis substantially enlarged their previous relationship and forged one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. Based on a ten-year term, committed annual payments total more than US$ 600 million in technology access, internalization fees and R&D funding, excluding reimbursement of R&D costs related to early-stage development activities. Total payments under the agreement, including committed payments and probability-weighted success-based milestones, contingent upon successful clinical development and market approval of multiple products, could potentially exceed US$ 1 billion, assuming the collaboration successfully runs its maximum term. In addition to these payments, MorphoSys would also be entitled to royalty payments and/or profit sharing on any future product sales. Additionally, MorphoSys also has options to participate in certain development activities in various programs, with part of the early-stage costs being funded by Novartis. Under the codevelopment options, MorphoSys may elect to participate in these projects through cost and profit-sharing with financial participation reflecting its level of investment in the respective programs.

ONCOMED PHARMACEUTICALS, INC.

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

PFIZER, INC.

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

PROCHON BIOTECH LTD.

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

SCHERING-PLOUGH CORPORATION

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

SHIONOGI & CO., LTD.

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

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

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

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

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

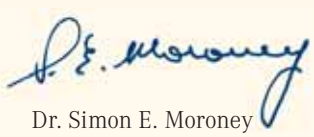
	Accumulated Depreciation						Net Book Values	
	01/01/2008	Additions	Write-Off	Disposals	f/x Variance	12/31/2008	12/31/2008	12/31/2007
	136,581	56,577	0	0	(33,140)	160,018	653,267	937,262
	5,404,341	1,200,050	0	107,654	(69,162)	6,427,575	2,668,642	2,501,941
	1,326,383	249,004	0	201	(37,011)	1,538,175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

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

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 9, 2009



Dr. Simon E. Moroney
Chief Executive Officer

Dave Lemus
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development 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, 2008. 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 10, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(previously KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

[Original German version signed by:]

Maurer
Wirtschaftsprüfer
[German Public Auditor]

Rahn
Wirtschaftsprüfer
[German Public Auditor]

Corporate Governance Report

Corporate governance is a central issue for all areas of the MorphoSys Group. It is based on the German Corporate Governance Code, which has become an established benchmark in Germany.

In the following document, the Management Board – on its own behalf as well as that of the Supervisory Board – reports on corporate governance at MorphoSys in accordance with sec. 3.10 of the German Corporate Governance Code.

CORPORATE GOVERNANCE ON MORPHOSYS'S WEBSITE

Continually updated information regarding corporate governance can be found on MorphoSys's website*.

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 6, 2008, the German Corporate Governance Code was amended by resolution of the Government Commission charged with its administration. The Code Commission changed the former suggestions on the so-called severance payment cap into recommendations; MorphoSys already complied with these provisions in the prior year, when they were still suggestions.

MORE INFORMATION AT
WWW.MORPHOSYS.COM

CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

In 2008, MorphoSys's Management Board and Supervisory Board again addressed the question of code compliance, particularly in light of the new recommendations issued on June 6, 2008. The resulting Declaration of Conformity was published in December 2008 and posted on MorphoSys's website along with previous declarations.

DECLARATION OF CONFORMITY

At their meetings on December 10, 2008 the Board of Management and the Supervisory Board approved the following Declaration of Compliance pursuant to sec. 161 of the German Stock Corporations Act (AktG):

MorphoSys AG complies and will comply with the recommendations of the German Corporate Governance Code – in the version of June 6, 2008 – 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 exceptions, MorphoSys AG has complied with the German Corporate Governance Code in the time period since its Declaration of Compliance of December 2007.

Martinsried/Planegg, December 10, 2008
MorphoSys AG

FOR THE MANAGEMENT BOARD:

Dr. Simon Moroney
Chief Executive Officer

Dave Lemus
Chief Financial Officer

Dr. Marlies Sproll
Chief Scientific Officer

FOR THE SUPERVISORY BOARD:

Dr. Gerald Möller
Chairman

TWO-TIER BOARD SYSTEM: MANAGEMENT BOARD AND SUPERVISORY BOARD

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 law as well as by the articles of association and the rules of procedure. 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 four members and has one chairman. Rules of procedure regulate the allocation of areas of responsibility and the cooperation within the Management Board. Dr. Arndt Schottelius was appointed as of December 29, 2008. The areas of responsibility and the rules of procedure were subsequently updated.

- Dr. Simon E. Moroney, Chief Executive Officer, is responsible for the business segment AbD – Antibodies Direct, intellectual property and licensing, corporate legal, corporate communications and investor relations, as well as human resources.
- Mr. Dave Lemus, Chief Financial Officer, is responsible for finance, accounting and controlling, corporate development, treasury and technical operations including IT.
- Dr. Arndt Schottelius, Chief Development Officer, is responsible for preclinical and clinical development of MorphoSys's proprietary development programs.
- Dr. Marlies Sproll, Chief Scientific Officer, is responsible for the research department, including target scouting and antibody discovery, technology development and alliance management.

MORE INFORMATION AT
WWW.BIODEUTSCHLAND.ORG

The Management Board members have no additional mandates concerning the supervisory boards of other publicly listed companies. Dr. Moroney acts as member of the Supervisory Board of ProtAffin AG, Graz, Austria. Mr. Lemus was elected and serves presently as Treasurer of the Munich International School and in 2008 became Non-Executive Director of Axela, Inc., Toronto, Canada. Dr. Sproll serves 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 six-member Supervisory Board of MorphoSys AG is to oversee and advise the Management Board. The current Supervisory Board consists of professionally qualified members, representing the Company's shareholders. Pursuant to its rules of procedure and to fulfill its duties, the Supervisory Board mandated the following Committees in 2008:

COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES:

		Membership in the following committees	
	End of Term	Audit Committee	Remuneration & Nomination Committee
Dr. Gerald Möller, Chairman	2012		X (Chairman)
Prof. Dr. Jürgen Drews, Deputy Chairman	2011		X
Dr. Walter Blättler	2011		
Dr. Daniel Camus	2012	X	
Dr. Metin Colpan	2012		X
Dr. Geoffrey N. Vernon	2012	X (Chairman)	

* SEE P. 103 ET SEQ.

Dr. Gerald Möller, Dr. Daniel Camus, Dr. Metin Colpan and Dr. Geoffrey Vernon were all reappointed by the Annual General Meeting in May 2008. After the re-election, Dr. Möller was confirmed as Chairman of the Supervisory Board.

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".

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.

DIRECTORS' DEALINGS

Under the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of the Management Board and the 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.

In 2008, MorphoSys reported the following purchases/sales of the Company's shares pursuant to sec. 15a of the WpHG. Each sale of shares listed below was preceded directly by the exercise of stock options/convertible bonds to purchase an identical number of shares. Dr. Moroney exercised 66,000 stock options and kept the shares.

Member of the Management Board	Function	Date of Transaction in 2008	Type of Transaction	Number of Stocks/Derivatives*	Share Price in €*	Transaction Volume in €**
Dr. Simon E. Moroney	CEO	March 27	Purchase	66,000	€3.627 (strike price of stock options)	239,360
Mr. Dave Lemus	CFO	August 18	Sale	10,500	€17.059 (average)	179,116
Mr. Dave Lemus	CFO	August 19	Sale	28,500	€16.853 (average)	480,320
Mr. Dave Lemus	CFO	August 20	Sale	7,200	€16.604 (average)	119,546
Mr. Dave Lemus	CFO	August 21	Sale	8,400	€16.627 (average)	139,667
Dr. Marlies Sproll	CSO	August 26	Sale	15,150	€16.357 (average)	247,638
Mr. Dave Lemus	CFO	August 29	Sale	9,750	€16.633 (average)	162,175
Mr. Dave Lemus	CFO	September 2	Sale	4,497	€16.983 (average)	76,374
Mr. Dave Lemus	CFO	November 4	Sale	8,400	€16.487 (average)	138,488
Dr. Simon E. Moroney	CEO	December 15	Sale	17,097	€15.542 average)	265,716

* All numbers are presented under the assumption that the share split would have taken place on January 1, 2008.
** All differences due to rounding

Sales of the above convertible bonds/stock options were in conjunction with the scheduled expiration of these bonds in 2008/2009.

ANNUAL GENERAL MEETING

The Annual General Meeting took place in Munich on May 14, 2008. Approximately 26 % of total voting stock was represented at the meeting, slightly down from the attendance in 2007 (approximately 28 %). 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 General Meeting. MorphoSys provided an online webcast of the Management Board's presentation.

RISK MANAGEMENT

The Management Board ensures that an appropriate risk management and risk control system is in place in the Company and keeps the Supervisory Board informed about existing risks and their development. Detailed information about MorphoSys's risk management system can be found on page 53 et seq. of this report. The systematic risk management activities identify and assess risks at an early stage and minimize risk exposure.

CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

MorphoSys places a very high priority on transparency and communication and strictly adheres to the concept that no shareholder receives preferential information. All corporate communications activities are conducted in a manner to provide all investors, including individual investors, the same level of information. As part of its 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. All the presentations prepared for these events and also for road shows and investors' meetings are freely accessible on the internet. Video and audio recordings of key events can also be replayed on our website, and transcripts of the conference calls are provided in English as well as the German translation.

A financial calendar lists the dates on which financial reports will be released. Providing this kind of transparency and 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 reporting periods.

FINANCIAL STATEMENT AUDIT BY KPMG

In line with European Union requirements, MorphoSys prepares its consolidated financial statements and quarterly reports in accordance with International Financial Reporting Standards (IFRS). The financial statements of MorphoSys AG are prepared in accordance with the German Commercial Code (HGB).

The Audit Committee proposes the selection of the Company's external auditors. The Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for the 2008 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 2008, the Supervisory Board focused intensively on the Company's proprietary therapeutic antibody drug development plans to accelerate the growth and value of MorphoSys.

Throughout 2008, 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 fundamental, strategic decisions impacting 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. When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented. Outside the Supervisory Board meetings, as the Chairman of the Supervisory Board, I personally continued to be in regular contact with the Management Board and especially with the Chief Executive Officer, Dr. Simon Moroney, and was kept informed about the current business situation and key business transactions. I also took the opportunity to talk directly to members of the senior management group. Thus, 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, which the Supervisory Board felt was particularly important during this time of global financial uncertainty for all industries. Specifically, the Supervisory Board and management held a meeting with one of the Company's main financial institutions to understand fully the security of the Company's cash position.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

Following the successful establishment of the Company's substantially expanded alliance with Novartis in December 2007, the Supervisory Board focused chiefly on the Company's strategic plan to develop a robust proprietary therapeutic antibody drug pipeline, complementing its partnered therapeutic antibody and AbD Serotec units. In particular, the Supervisory Board approved a strategic plan for the next five years, with proprietary drug development according to this plan intended to contribute heavily to the overall value of the Company over that time. Before approving this plan, which was presented by the Management Board after having been intensively prepared by key Company personnel and external consultants, the Supervisory Board debated the investment requirements, bearing in mind the future free cash flow projections of the partnered therapeutic antibody and the AbD Serotec units, while taking into consideration drug development attrition rates and envisioned out-licensing objectives. We also continuously reviewed progress reports for the operating business units, and assessed merger and/or acquisition opportunities.

"I would like to welcome Dr. Schottelius to the Company and wish him well in this important position, as the Company commits itself to creating value by expanding its proprietary drug pipeline." Dr. Gerald Möller, Chairman of the Supervisory Board

Seven Supervisory Board meetings were held in fiscal year 2008. 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. No Supervisory Board member was absent from more than one meeting.

The Management Board provided us with 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 contained detailed information on the state of the Company, the development of the business and its financial situation, the personnel situation, development projects and fundamental issues of corporate planning and strategy, and were sufficiently comprehensive to understand the challenges and progress of MorphoSys. These reports were the basis for the analysis of 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 meetings.

The Management Board reported regularly on the progress of the existing partnerships, proprietary antibody development and ongoing technology development efforts.

Two different committees existed in 2008: 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 three meetings of the Audit Committee and informed its members of the audit results. The Remuneration & Nomination Committee met once and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board as well as with the appointment of the Chief Development Officer. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

During 2008, no conflict of interest occurred.

* SEE P. 114

* SEE P. 46 ET SEQ.

ANNUAL GENERAL MEETING

At the Annual General Meeting in May 2008, MorphoSys's shareholders approved a three-for-one stock split with a 94.5 % majority. Two complaints were filed during the second quarter and, because the Company believed these claims had no merit, the Company filed counterclaims on that basis. Prior to the court reaching any conclusion on the merits, all claims were subsequently withdrawn and the share split was successfully implemented on December 23, 2008.

ELECTION OF NEW CHIEF DEVELOPMENT OFFICER

In December 2008, the Supervisory Board appointed Dr. Arndt Schottelius to the Management Board as Chief Development Officer, underscoring the Company's commitment to strengthening its proprietary antibody drug pipeline. Dr. Schottelius, who joined MorphoSys from Genentech, Inc., South San Francisco, is responsible for coordinating the Group's expanding therapeutic antibody development activities including preclinical and clinical drug development. During his career, he has established a successful track record of advancing therapeutics from late stage research into clinical development as well as directing late-stage clinical development studies for antibodies, mainly in inflammation. I would like to take the opportunity, on behalf of the Supervisory Board, to welcome Dr. Schottelius to the Company and wish him well in this newly created and extremely important position, as the Company commits itself to creating value by expanding its proprietary drug pipeline.

CORPORATE GOVERNANCE

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account any amendments made to the German Corporate Governance Code in June 2008. To ensure continued good governance policies, we retained external counsel to advise us on updates to the laws concerning corporate governance and the role of the Supervisory Board. In the meeting on December 10, 2008, the Management and Supervisory Boards issued a new Declaration of Conformity, which is 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 ongoing process, the Supervisory Board also questioned the effectiveness of its own work, through the use of a written evaluation form, the results of which were openly discussed among the Supervisory Board members.

For more detailed information regarding corporate governance issues, please refer to the corporate governance* and remuneration sections* 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 of January 1, 2008, to December 31, 2008, prepared by the Management Board, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. The

audit contract had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 14, 2008. The auditor issued an unqualified audit opinion.

The auditor has 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 an audit. The consolidated financial statements were audited according to German and international reporting 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 for the 2008 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, the determination of deferred taxes and impairment test for the goodwill and for the assets of Poole Real Estate, a subsidiary of MorphoSys AG.

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 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 audit reports and the financial statement documentations were sent to all Supervisory Board members with a sufficient amount of lead time for review. 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 24, 2009, and at the Supervisory Board Meeting on the same day. The audit report and the financial statements and the management report of MorphoSys AG were the subject of detailed discussion at the Audit Committee Meeting on March 11, 2009, and at the subsequent Supervisory Board Meeting on the same day. At the respective meetings, the auditor took part in the discussion of the financial statements. He reported on the main results of his 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 11, 2009

Dr. Gerald Möller
Chairman of the Supervisory Board

Senior Management Group

KLAUS DE WALL
Head of Finance & Accounting

SILVIA DERMIETZEL
Head of Global Human Resources

DR. MARKUS ENZELBERGER
Head of Discovery Alliances & Technologies

DR. BERNHARD ERNING
Head of Treasury & Corporate Development

DIETER FEGER
Head of Division AbD Serotec

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

DR. BARBARA KREBS-POHL
Head of Discovery, Predevelop ment & Portfolio Management

DR. RALF OSTENDORP
Head of Protein Sciences & Quality Assurance

DR. MARGIT URBAN
Leader Department Unit

DR. HARALD WATZKA
Head of Alliance Management

DR. ARMIN WEIDMANN
Head of Quality Assurance & Regulatory Affairs

DR. GÜNTER WELLENHOFER
Head of Technical Operations

STEVE YODER
General Counsel
Head of Licensing & IP

Supervisory Board of MorphoSys AG

DR. GERALD MÖLLER
(Chairman)

Heidelberg, Germany
Managing Director,
HBM BioCapital Management GmbH

MEMBER OF THE SUPERVISORY BOARD OF:

- BioAgency AG, Germany (Chairman)
- Brahms AG, Germany (Chairman)
- febit holding AG, Germany (Chairman)
- Invendo Medical GmbH, Germany (formerly STM GmbH) (Chairman)
- MTM AG, Germany (Chairman)
- 4sigma,* Bermuda (Chairman)
- Bionostics, Inc.,* USA (Director)
- Find Foundation,* Switzerland (Chairman)
- Pelikan Technologies, Inc.,* USA (Chairman)
- VIVACTA Ltd.,* UK (Director)

PROF. DR. JÜRGEN DREWS
(Deputy Chairman)

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

MEMBER OF THE SUPERVISORY BOARD OF:

- GPC Biotech AG, Germany (Chairman)
- Bear Stearns Health Innoventure Fund LLC,* USA (Consultant)
- Human Genome Sciences, Inc.,* USA

DR. WALTER BLÄTTLER
(Member)

Brookline, New Hampshire, USA
Consultant to HealthCare Ventures and Edmund de Rothschild Investment Partners

No other Supervisory Board memberships

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

DR. DANIEL CAMUS
(Member)

Paris, France
Senior Executive Vice President
and CFO, Electricité de France

MEMBER OF THE SUPERVISORY BOARD OF:

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

DR. METIN COLPAN
(Member)

Venlo, the Netherlands
Supervisory Director, Qiagen N.V.

MEMBER OF THE SUPERVISORY BOARD OF:

- CellAct, Germany (formerly GenPat77)
- GPC Biotech AG, Germany
- Qalovis GmbH, Germany
- Qiagen NV,* the Netherlands

DR. GEOFFREY N. VERNON
(Member)

Sampford Barton, UK
Executive Chairman, Ziggus Holding Ltd.

MEMBER OF THE SUPERVISORY BOARD OF:

- Advanced Medical Solution,* UK
- Apitope International NV,* UK
- Cornwall Farmers Ltd.,* UK
- Genable Ltd.,* Ireland
- Medpharm Ltd.,* UK
- Tyratech, Inc.,* UK (Chairman)
- Veryan Medical Ltd.,* UK
- XL TechGroup GP, LLC,* USA
- XL TechGroup, Inc,* USA
- Ziggus Holdings Ltd.,* UK

Glossary

A

Adenovirus – Certain type of virus. Most infections with adenovirus result in infections of the upper respiratory tract

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

B

Biomarker – Substance used as an indicator of a biological state. Can be objectively measured and evaluated as an indicator of pharmacological responses to a therapeutic intervention

Biosimilars – Term used to describe officially approved new versions of innovator biopharmaceutical products, following patent expiry

C

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

CD20 – Therapeutic target for the treatment of B-cell lymphomas and leukemias

CDO – Chief Development Officer; executive function within a company

Clinical trial – Clinical trials allow safety and efficacy data to be collected for new drugs or devices. Depending on the type of product and the stage of its development, investigators enroll healthy volunteers and/or patients into small pilot studies initially, followed by larger-scale studies in patients

CMO – Contract manufacturing organization; term used in the pharmaceutical industry for a firm whose expertise lies in manufacturing the biologics for market

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

Corporate citizenship – Form of corporate self-regulation integrated into a business model, which means adhering to laws and complying with certain standards

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

Crohn's disease – An autoimmune disease caused by the immune system attacking the gastrointestinal tract and producing inflammation

Cytokine – A protein that acts as a chemical messenger to stimulate cell migration

E

EMEA – European Medicines Agency

Expression – Conversion of genetic information in a corresponding protein

F

FDA – Food and Drug Administration; US 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

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

GMP – Good manufacturing practice; term for the control and management of manufacturing and quality control testing of pharmaceutical products and medical devices

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 Commercial Code

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

Human – Of human origin

I

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

IgG – Immunoglobulin G; class of antibody, most abundant immunoglobulin, constituting 75 % of serum immunoglobulins in humans

Immunization – Generation of antibodies by administering antigen

IND – Investigational new drug; application, by which a company files a request with FDA for permission to expose its experimental drug to patients or healthy volunteers in clinical trials

in vitro – in a test tube

in vivo – in a living organism

L

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

M

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

M&A – Mergers and acquisitions

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

Monoclonal antibody – Homogenous 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

O

Osteoarthritis – A group of diseases and mechanical abnormalities entailing degradation of joints and bones

Osteoporosis – A bone disease that leads to an increased risk of fracture

P

Phage – Abbreviation for bacteriophage, a virus that infects bacteria

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

Pharmacokinetics – Determination of the fate of substances administered externally to a living organism

Plaque psoriasis – Most common form of psoriasis, a chronic, noncontagious autoimmune disease which affects the skin and joints

PML – Progressive multifocal leukoencephalopathy; rare and potentially fatal viral disease that is characterized by progressive damage or inflammation of the white matter of the brain

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

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

Q

QA – Quality assurance; a set of activities intended to ensure that products (goods and/or services) satisfy customer requirements in a systematic, reliable fashion

R

RapMAT – Maturation process; proprietary technology of MorphoSys

R&D – Research and development

Reagent – A substance used in research and diagnostic applications

Recombinant – Formed by (re)combination of parts of one or different starting DNA molecules

Rheumatoid arthritis – Inflammatory disease of the joints; abbreviation: RA

Royalties – Percentage share of ownership of the revenue generated by drug products

S

S, G&A – Sales, general and administrative

Specificity – Property of antibodies, for example, to discriminate between different, but similar, antigens

T

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

TecDAX – Index of the 30 largest technology companies listed on the Frankfurt Stock Exchange

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

W

WACC – Weighted average cost of capital; the rate that a company is expected to pay to finance its assets

Index

L

M

N

O

P

Q

R

S

T

W

Imprint

MORPHOSYS AG
Lena-Christ-Str. 48
82152 Martinsried/Planegg
Germany
Phone: +49-89-89927-0
Fax: +49-89-89927-222
www.morphosys.com

CORPORATE COMMUNICATIONS
Dr. Claudia Gutjahr-Löser
Head of Corporate Communications & IR
Phone: +49-89-89927-122
Fax: +49-89-89927-5122
E-mail: gutjahr-loeser@morphosys.com

Mario Brkulj
Senior Manager Corporate Communications & IR
Phone: +49-89-89927-454
Fax: +49-89-89927-5454
E-mail: brkulj@morphosys.com

CONCEPT AND DESIGN
3st kommunikation GmbH, Mainz

PHOTOS
Andreas Pohlmann, Munich
Karsten Thormaehlen, Frankfurt am Main

TRANSLATION AND EDITORIAL SUPPORT
EVS GmbH, Offenbach
FinKom, Gesellschaft für
Finanzkommunikation, Usingen
Friedrich & Friends, Hamburg
Gretchen L.P. Schweitzer, Munich

TYPESETTING AND LITHOGRAPHY
Knecht GmbH, Ockenheim

PRINTER
Societäts Druckerei GmbH, Mörfelden-Walldorf

COPY DEADLINE
February 20, 2009 (subjects unrelated to financials)

Highlights 2008

01

MOR 103 PROGRAM REMAINS ON TRACK

Just a few weeks after disclosing the target molecule GM-CSF, which builds the basis for MorphoSys's proprietary program MOR103, clinical development begins. This is followed by the presentation of the first preclinical data and the grant of a key patent in the US in November 2008. In retrospect, MorphoSys significantly strengthened the project over the course of 2008 – both scientifically and commercially.

02

MORPHOSYS EXTENDS PARTNERSHIP WITH ASTELLAS

Japanese pharmaceutical company Astellas is the first of several partners to extend their alliance with MorphoSys, expanding its access to MorphoSys's technology platforms in June to include the RapMAT system. The collaboration is now in effect until March 2012. Over the course of the year, Daiichi Sankyo, Schering-Plough, OncoMed and Shionogi follow this example and also extend their collaborative agreements with MorphoSys.

03

ABD EXPANDS CUSTOMER BASE

MorphoSys business unit AbD Serotec receives an extensive research antibody order from Spanish biotechnology company Proteomika, a specialist in biomarker discovery. The order makes Proteomika one of AbD Serotec's principal clients in the area of custom-made monoclonal antibodies and services.

04

MORPHOSYS BROADENS ITS TARGET SOURCING NETWORK

MorphoSys forms a comprehensive research alliance with the Berlin-based Leibniz-Institut für Molekulare Pharmakologie. The agreement broadens the Company's network with leading research institutions in order to gain access to new research projects and to innovative target molecules with medical applications.

05

SCHERING-PLOUGH EXTENDS PARTNERSHIP WITH MORPHOSYS

The US pharmaceutical corporation Schering-Plough is the third party to extend its alliance with MorphoSys in 2008. By the end of the year, all partners who could choose to let their partnership with MorphoSys expire or to have it renewed decide in favor of extending the cooperation and maintaining their access to HuCAL technology.

06

FIRST HUCAL-BASED PROJECTS TO TARGET CANCER STEM CELLS

The US biopharmaceutical company OncoMed Pharmaceuticals extends its cooperation with MorphoSys and initiates two new antibody projects targeting cancer cells. OncoMed is regarded as a pioneer in cancer stem cell research. The destruction of cancer stem cells poses a completely new approach to the treatment of cancer.

07

FIRST HUCAL ANTIBODIES TO BE IMPLEMENTED IN DIAGNOSTIC TESTS

Swedish diagnostic company Phadia is the first AbD Serotec customer to use HuCAL-based antibodies in one of its marketed diagnostic testing systems. The development is a significant step forward for MorphoSys's antibody technology in the field of diagnostics and represents an important operative milestone for the AbD unit.

09

NOVARTIS CONTRACT EXPANDED

The ten-year alliance with Novartis develops well over the course of 2008. An obvious example of this is MorphoSys's decision to elect a therapeutic antibody program for a potential co-development. As a first step, Novartis will be funding the companies' joint activities until the program reaches formal preclinical development.

10

PROJECTED PROFITS INCREASED

Positive business performance and lower-than-expected research costs lead to an increase in the full-year profit guidance. Rather than the originally projected operating profit of € 9 to € 11 million, MorphoSys ends the business year with profits in excess of € 16 million.

11

RESEARCH ALLIANCE WITH GALAPAGOS

MorphoSys and Belgium-based biotechnology company Galapagos agree to form a long-term alliance for cooperative medical therapies. The alliance provides MorphoSys with access to a proven target discovery platform – a system that has not been available to MorphoSys until now – as well as to Galapagos' expertise in inflammatory bone and joint diseases, such as rheumatoid arthritis, osteoporosis and osteoarthritis.

12

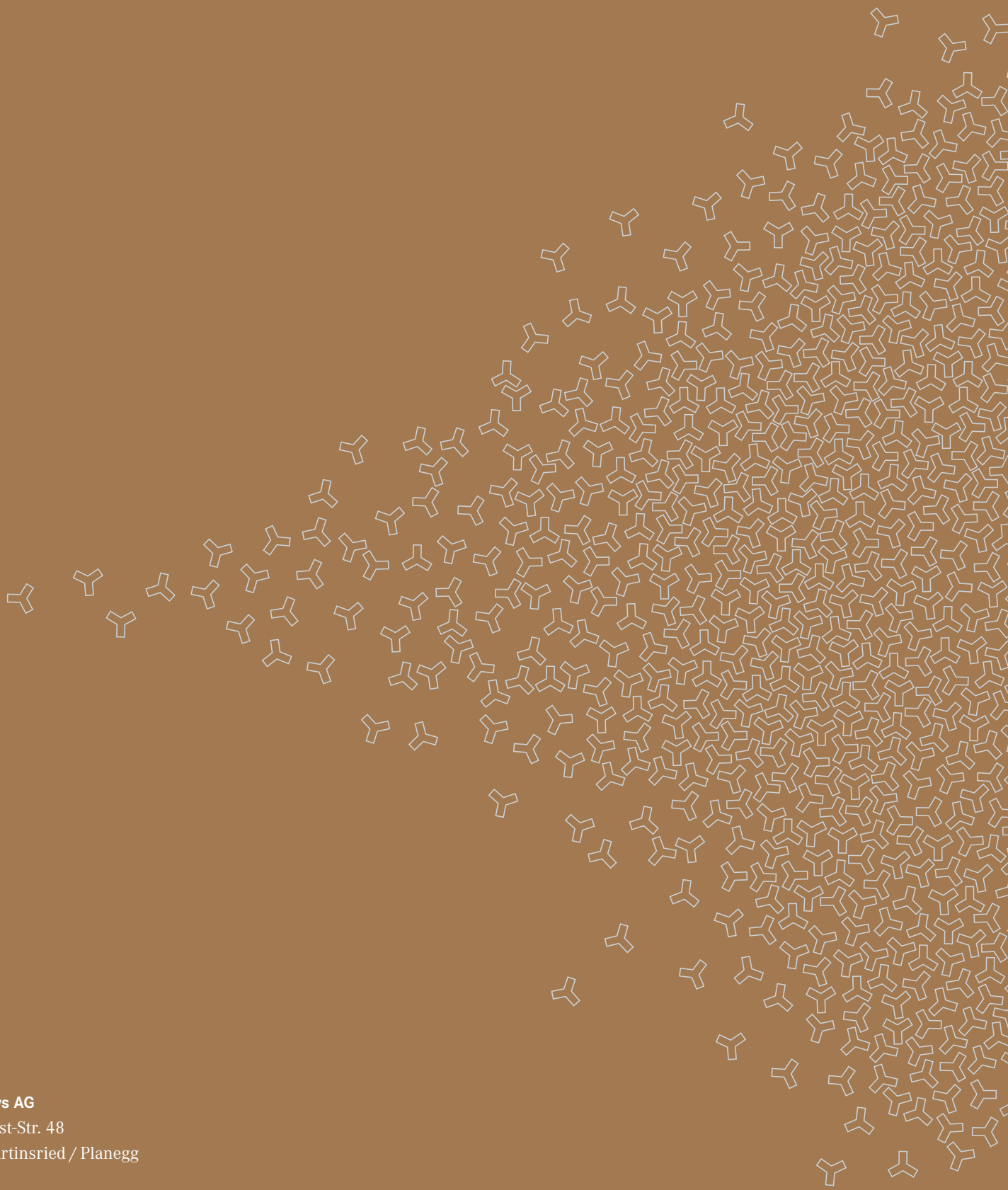
EVENTFUL CONCLUSION TO 2008

MorphoSys makes yet another innovative advance in manufacturing recombinant antibodies with the presentation of its new antibody technology, HuCAL PLATINUM. The most recent version of MorphoSys's antibody library offers a completely refurbished system for therapeutic development and research tools that perform even better than those of its predecessor, HuCAL GOLD.

The first therapeutic antibody program developed with partners enters phase 2 clinical trials. MorphoSys's partner Centocor, a subsidiary of US-based pharmaceutical corporation Johnson & Johnson, is now testing a HuCAL-based antibody for its effectiveness against cancer and against an immune-related disease.

Financial Calendar

February 26, 2009	2008 Year-End Results Analyst Meeting and Press Conference Frankfurt am Main, Germany
April 28, 2009	Interim Report January–March 2009
May 13, 2009	Annual General Meeting Munich, Germany
July 29, 2009	Interim Report January–June 2009
October 28, 2009	Interim Report January–September 2009



MorphoSys AG
Lena-Christ-Str. 48
82152 Martinsried / Planegg
Germany
Phone: +49-89-89927-0
Fax: +49-89-89927-222
www.morphosys.com