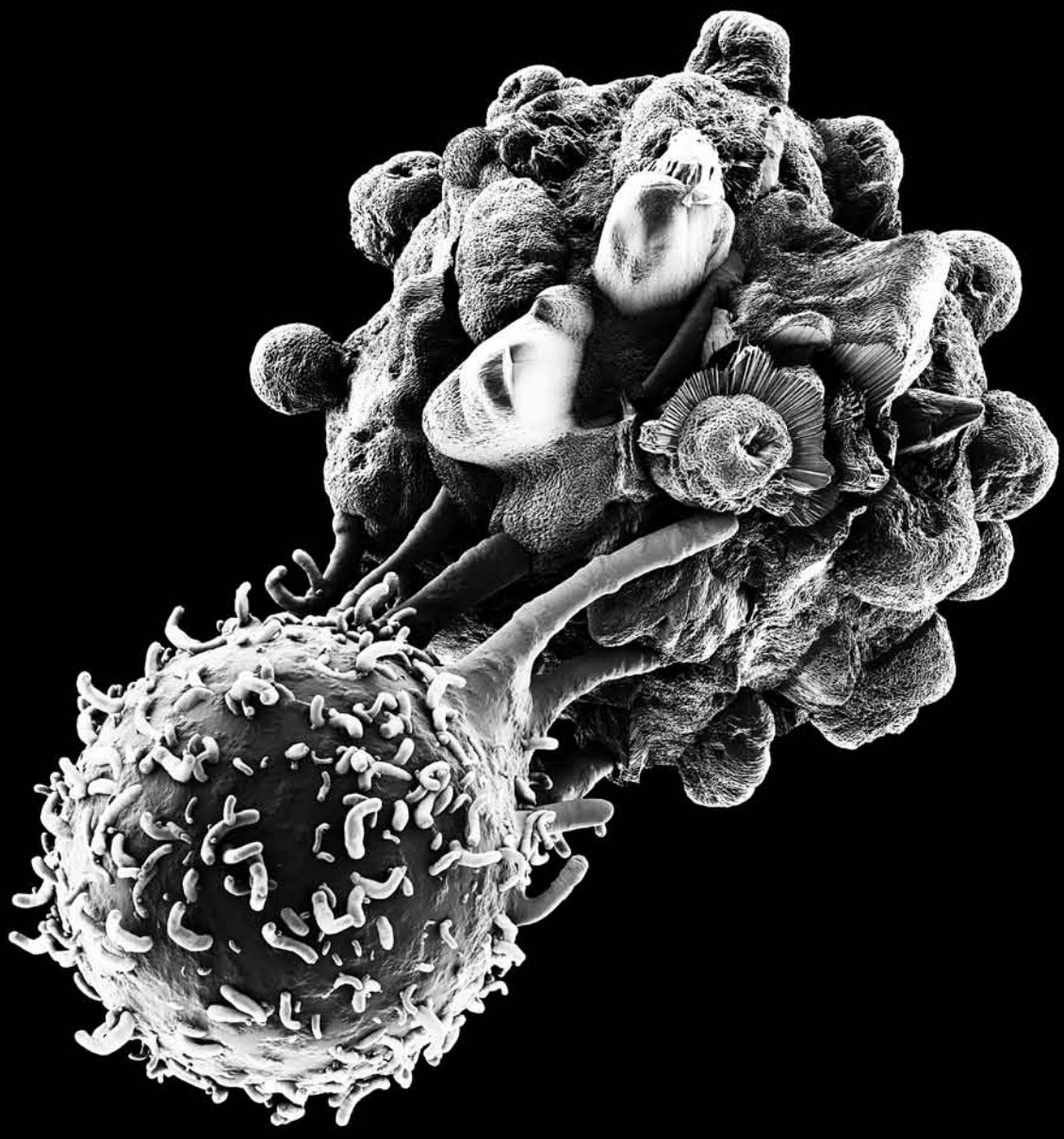
Annual Report 2010

Antibodies for Life



morphosys

Engineering the Medicines of Tomorrow

Key Figures (IFRS)

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

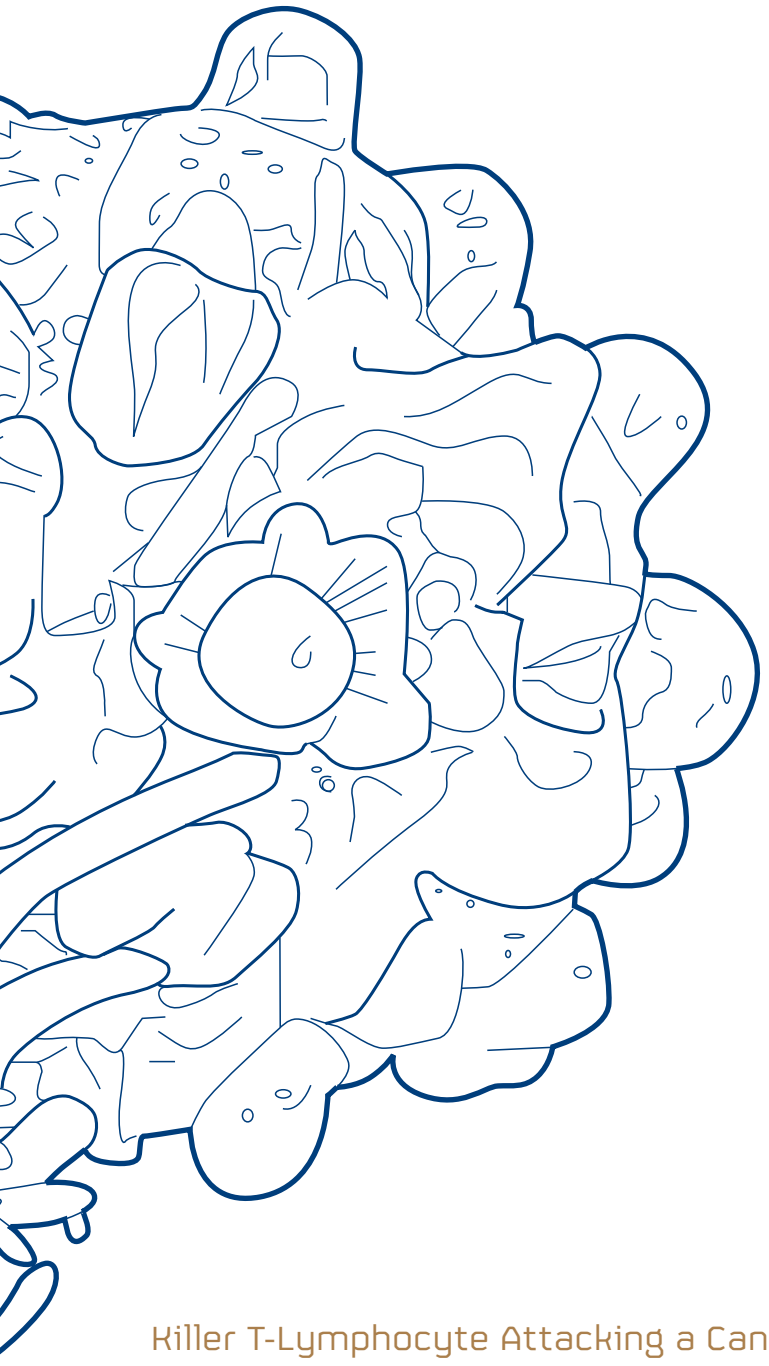
	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
RESULTS					
Revenues	87.0	81.0	71.6	62.0	53.0
Cost of Goods Sold	7.3	6.7	7.1	7.9	8.0
R&D Expenses	46.9	39.0	27.6	22.2	17.5
S, G&A Expenses	23.2	23.9	20.5	24.8	21.4
Personnel Expenses (Excluding Stock-based Compensation)	29.6	26.1	21.5	18.8	18.1
Capital Expenditure	13.8	3.8	3.8	12.0	4.0
Depreciation	2.1	1.6	1.5	1.5	1.5
Amortization of Intangible Assets	4.0	3.8	4.8	3.7	3.4
Profit from Operations	9.8	11.4	16.4	7.0	6.2
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	19.2	18.1	21.9	13.3	10.3
EBIT (Earnings Before Interest and Taxes)	13.1	12.8	16.5	8.3	5.4
Net Profit	9.2	9.0	13.2	11.5	6.0
BALANCE SHEET					
Total Assets	212.6	206.1	203.3	184.7	127.8
Cash, Cash Equivalents and Available-for-sale Financial Assets	108.4	135.1	137.9	106.9	66.0
Intangible Assets	69.2	17.4	19.7	22.3	14.8
Total Liabilities	26.6	32.2	41.3	39.2	27.8
Stockholders' Equity	185.9	173.9	162.0	145.5	100.1
Equity Ratio (in %)	87%	84%	80%	79%	78%
THE MORPHOSYS SHARE					
Number of Shares Issued	22,890,252	22,660,557	22,478,787	22,160,259	20,145,966
Earnings per Share, Diluted (in €)	0.40	0.40	0.59	0.53	0.31
Dividend (in €)	–	–	–	–	–
Share Price (in €)	18.53	17.04	18.75	16.10	18.12
PERSONNEL DATA					
Total Group Employees (Number)	464	404	334	295	279
Germany (Number)	370	301	236	192	183
Other Countries (Number)	94	103	98	103	96

Antibodies for Life

Human antibodies patrol the human body searching specifically for pathogens tagging these for a "natural therapy" through the immune system. Human evolution has constantly optimized antibodies over millions of years to serve one key purpose: to protect life. MorphoSys is committed to tapping the potential of antibodies and to further expanding the spectrum of possible applications for the sake of patients. With currently some 80 distinct drugs in research and development, MorphoSys has one of the broadest antibody pipelines in the biotechnology industry. Seventeen compounds are already being evaluated in clinical development and being tested as options for treatment of severe and, in many cases, life-threatening diseases.

Modern diagnostics offer additional fields of application for MorphoSys's technologies and products. Beyond the conventional disease diagnosis, diagnostic tools also play an increasingly important role in the development of new drugs and in many therapy decisions. MorphoSys's technologies are ideally positioned at the nexus of these areas and the Company expects a number of new opportunities for collaboration with the diagnostics industry. The medical and commercial potential of antibodies in modern research, diagnostics and medicine continues to be enormous. MorphoSys has developed industry-leading technological solutions for the generation of antibodies and continues to refine these methods in order to bring the best-possible antibody products into clinical application. Therapeutic antibodies developed by MorphoSys promise to considerably improve the quality of patients' lives in the years ahead.

Contents



Killer T-Lymphocyte Attacking a Cancer Cell

The human immune system uses various strategies to fight diseases. This year's cover of our annual report depicts a killer t-lymphocyte (lower left) attacking a larger cancer cell, which as a consequence triggers the programmed cell death of the target cell. Initiating, directing and controlling this and many other processes is the goal of many biotechnology companies. MorphoSys's approach in this regard is to identify the right disease-relevant target molecules and specific antibodies for a therapeutic intervention.

LEGEND

SEE GLOSSARY ..... ADDITIONAL INFORMATION ..... CROSS-REFERENCE .....

* ? SEE GLOSSARY P. 98

* @ MORE INFORMATION AT WWW.MORPHOSYS.COM

* » SEE PAGE 80

Management Board of MorphoSys AG

Dr. Simon E. Moroney – Chief Executive Officer

Dave Lemus – Chief Financial Officer

Dr. Marlies Sproll – Chief Scientific Officer

Dr. Arndt Schottelius – Chief Development Officer

Letter to the Shareholders

Dear Shareholders,

The year 2010 was one of great achievement for MorphoSys. We made extraordinary progress in our pipeline, expanded our technology platform and, in addition to these strategic advances, the Company delivered very good financial results from operations. Our success clearly illustrates the attractiveness of our business model.

Nowhere was the Company's progress more evident than in our pipeline of therapeutic antibodies. The number of compounds in clinical development more than doubled during 2010, from eight at the beginning of the year to 17 by the end. Well over 1,000 patients and volunteers will have been administered HuCAL antibodies by the time the ongoing trials are completed. This is not only a compelling indicator of the success of our strategy in commercializing our technology, but a reminder of the contribution we will make to human healthcare. Among these programs are a number of potential blockbusters in indications as diverse as cancer, asthma and Alzheimer's disease, to name just a few.

In our Proprietary Development segment, we now have two programs in the clinic. The first patient was dosed in the phase 1b/2a rheumatoid arthritis trial of our lead compound MOR103 in January 2010. We're very excited about this program, and look forward to completion of the trial in 2011. MOR103's commercial potential was boosted during the year when we achieved encouraging preclinical data in multiple sclerosis, which will become the second indication for clinical development of MOR103 when we start a phase 1b safety study in the second half of 2011.

In June 2010, we added a second clinical candidate to our proprietary portfolio by in-licensing the antibody MOR208 from Xencor. This program is now in clinical development in the United States, the initial focus being on chronic lymphocytic leukemia. This highly promising addition to our portfolio of drugs incorporates a proprietary Xencor modification that makes it an exciting potential new treatment for cancer.

We expect MOR202 to become our third fully-owned antibody in the clinic during 2011, following the filing of a clinical trial application in December 2010. Rounding off the Proprietary Development segment are several discovery-stage programs, our co-development alliance with Galapagos and two active co-development programs with Novartis.

We also had a year of substantial achievement within the Partnered Discovery segment. No fewer than eight INDs were filed, by five different partners, during 2010. In addition, two partnered programs progressed from phase 1 to phase 2, bringing the number of partnered programs in phase 2 clinical trials to five. We eagerly look forward to clinical data from these programs, which we hope should provide the clearest evidence that HuCAL antibodies are destined to become successful drugs. Altogether, 15 partner programs are in clinical trials, a number that we expect to grow given the abundance of preclinical and discovery programs currently ongoing.

MorphoSys's success has a lot to do with our unique antibody technology platform, at the heart of which is HuCAL. Our commitment to maintaining our technological leadership was illustrated during 2010 by our acquisition of Sloning BioTechnology GmbH. Sloning's world-leading technology for building protein libraries was quickly turned into a new antibody optimization platform called *arYla*. We expect *arYla* to transform the way antibodies are optimized, increasing both speed and success rates. The Sloning acquisition promises to open up a new world of partnering opportunities, as was evidenced by the agreement we entered into with Pfizer just weeks after the Sloning transaction.

The AbD Serotec unit felt the effects of the financial slowdown, especially in its European home market. Although revenues did not grow as originally expected, the structural improvements that we have implemented were reflected in an improved operating profit margin of 6 %. The AbD Serotec segment is well positioned for an attractive future in the diagnostic segment where our antibody platform has the potential to deliver clearly differentiated diagnostic products. Collaborations are ongoing with over 20 diagnostic companies, and the first diagnostic kit based on a HuCAL antibody should reach the market in 2011.

Our Group operating profit of € 10 million exceeded expectations. The result is impressive, especially considering that it includes a 37 % increase in proprietary R&D investment to approximately € 27 million. In 2011, we expect revenue growth above 20 % and will remain profitable while continuing to invest strongly in proprietary R&D. Our ability to continue to expand our partnered product pipeline, develop

"Nowhere was the Company's progress more evident than in our pipeline of therapeutic antibodies. The number of compounds in clinical development more than doubled during 2010, from eight at the beginning of the year to 17 by the end."

an exciting portfolio of proprietary products and still achieve consistently good financial results makes MorphoSys almost unique in our industry. Cash is also an important strategic strength of MorphoSys. As illustrated by both the Xencor in-licensing agreement and the Sloning acquisition, our strong balance sheet enabled us to move quickly to acquire valuable assets.

MorphoSys enters 2011 stronger than ever before. I look forward to continued progress in our pipeline of proprietary and partnered antibody drugs, and to a year where our revenues will exceed € 100 million for the first time in the Company's history. Our progress would not be possible without the hard work, dedication and creativity of our employees, to whom I am extremely grateful.

Thanks also to you, our shareholders, for your continued support. I am sure you will join me in wishing the Company a successful 2011.

Dr. Simon E. Moroney
Chief Executive Officer

The MorphoSys Share

During the 2010 fiscal year, MorphoSys's stock price increased by 9 %, outperforming the TecDAX index, which showed only a moderate annual growth of 4 %. The NASDAQ biotechnology index rose by 14 % in 2010.

KEY DATA FOR THE MORPHOSYS SHARE

(as of December 31 of each year)

		2010	2009	2008	2007	2006
Total Stockholders' Equity	In € million	185.9	173.9	162.0	145.5	100.1
Number of Shares Issued (Total)		22,890,252	22,660,557	22,478,787	22,160,259	20,145,996
Market Capitalization	In € million	424	386	421	357	365
Closing Price (Xetra)	€	18.53	17.04	18.75	16.10	18.12
Average Daily Trading Volume	In € million	1.1	1.3	1.9	2.5	1.9

The stock's performance benefited in particular from the acquisition of Sloning, the agreement with Pfizer and the multiple milestones that were reached in the final month of the year. Overall, the MorphoSys share price is beginning to reflect the Company's solid progress in building one of the most extensive antibody pipelines in the industry, together with a profitable and convincing business model.

LIQUIDITY AND INDEX MEMBERSHIP

The average daily trading volume of MorphoSys's stock was € 1.1 million per day, compared to an average trading volume of € 1.3 million per day in the previous year. MorphoSys consolidated its strong position in the TecDAX* index, which includes the 30 largest technology stocks on the Frankfurt Stock Exchange. At the end of 2010, the Company was able to improve its position based on market capitalization* to place 16 (year-end 2009: 17th place) and occupied 23rd position based on trading volume (year-end 2009: 19th position).

STOCKHOLDER BASE

The free float according to Deutsche Börse AG, which is generally taken into account in the weighting of MorphoSys's stock in stock indices, was 88 % of the share capital at year-end 2010.

Please visit our website* for the most recent information on investor relations.

* SEE GLOSSARY P. 98

* SEE GLOSSARY P. 98

* MORE INFORMATION AT WWW.MORPHOSYS.COM

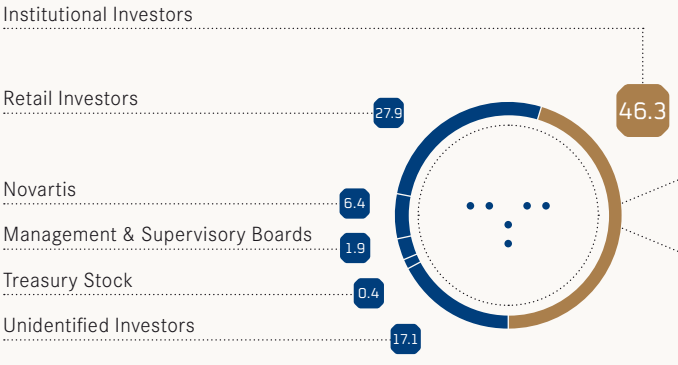
THE MORPHOSYS SHARE

(January 4, 2010 = 100 %)

SHAREHOLDER STRUCTURE

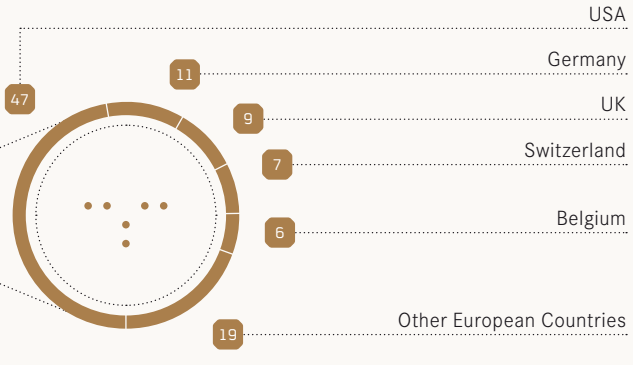
Shareholdings by Investor Type

(in %)



Geographic Split of Institutional Holdings

(in %)



Armed Antibodies to Treat Cancer

Chemotherapy and radiation therapy are standard treatments in the battle against cancer. However, substances that help to destroy proliferating tumor cells can also damage healthy tissue. Immunoconjugates, antibodies carrying a highly effective toxic or radioactive payload, are intended to transport the cytotoxin directly to the cancer cell.

MorphoSys's partner Bayer HealthCare Pharmaceuticals is currently evaluating the HuCAL-derived cancer antibody as a conjugate BAY 79-4620 (CA9-ADC) in a phase 1 clinical trial against various solid tumors such as lung cancer.

Antibodies linked to a cytotoxin bind to the tumor marker carbonic anhydrase 9 (CA9) on the surface of the cancer cell. The cell membrane invaginates, transporting both antibody and cytotoxin into the cell, where specific enzymes should cleave the link between antibody and cytotoxin and release the active ingredient. The cytotoxin attaches itself to the tubulins and blocks them, thus preventing cell division. This should trigger the self-destruction of the cancer cell.

Group Management Report

In 2010, MorphoSys showed solid financial performance and was able to increase the value of its proprietary product portfolio through significant R&D investments. MorphoSys's Partnered Discovery segment continued to perform very well with eight clinical milestones met during the course of the year. As a result, total Group revenues were up by 7 % from the prior year to € 87 million. Because of the significant increase in proprietary R&D investment, operating profit decreased as expected by 14 % to € 9.8 million. Regarding the research and diagnostic antibodies segment AbD Serotec, the segment's performance improved compared to the previous year in a challenging market environment.

Business Environment and Activities

ECONOMIC DEVELOPMENT

In 2010, global recovery following the downturn from the financial crisis continued. The US economy grew by 2.4 % in 2010. However, the lack of employment growth was seen as the "weakest link" of the economic recovery.

In the euro zone, several countries faced significant debt difficulties, most notably Greece and Ireland. In total, the economy of the nations sharing the euro grew only slightly by 1.7 % in 2010, according to OECD estimates. The German economy grew by approximately 3.7 % in 2010.

According to current estimates, global GDP grew by 3.6 % in 2010, compared with a decrease of 1.4 % in the prior year.

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

The global pharma growth rate in 2010 amounted to approximately 4 % to 6 %, according to IMS Health. Emerging markets like China and India showed substantially higher growth rates of approximately 14 % to 17 %.

Antibody-related transactions remained high on the agenda of pharmaceutical companies. Significant technology licensing deals included two agreements struck by MacroGenics with Boehringer Ingelheim and Pfizer respectively, covering bispecific antibodies and ImmunoGen's collaboration with Novartis covering immunoconjugates.

Noteworthy product licensing deals included two alliances in the area of inflammatory diseases between Eli Lilly and Incyte Corporation and AstraZeneca and Rigel Pharmaceuticals respectively. Both deals covered mid-stage clinical compounds to treat inflammatory conditions such as rheumatoid arthritis (RA) and featured significant upfront payments of over € 10 million to the respective biotech partner.

With regard to antibodies in clinical development, Roche and Biogen Idec's decision to suspend development of Ocrelizumab® for use in arthritis stood out. The decision came after an independent monitoring board evaluated safety risks as outweighing benefits observed in patients. Danish antibody company Genmab published its results with Zalutumumab®, an antibody targeting an epidermal growth factor receptor, which failed to reach the primary endpoint in a phase 3 trial in head and neck cancer.

At the end of 2010, the number of therapeutic antibodies on the market increased to 27. During the course of the year, the FDA* approved Actemra®, an IL-6 receptor-blocking rheumatoid arthritis treatment, in the USA and Amgen's Prolia™ (Denosumab), a monoclonal antibody

* ? SEE GLOSSARY P. 98

to treat osteoporosis. Mylotarg®, a monoclonal anti-CD33 antibody used to treat acute myeloid leukemia (AML), was withdrawn from the market in 2010. Total revenues generated by monoclonal antibody sales in 2010 amounted to approximately US$ 37 billion.

With regard to mergers and acquisitions and consolidation, 2010 was another very active year for the pharmaceutical and biotechnology sector. Most noteworthily, Johnson & Johnson acquired Crucell and Sanofi-Aventis announced its plans to acquire Genzyme during 2010. Other transactions such as Abbott's acquisition of Facet Biotech or Cephalon's move to acquire Ception Therapeutics were in part motivated by mid-stage therapeutic antibody candidates developed by the target companies. In the research antibody market, German Merck KGaA acquired Millipore, one of the largest providers of research tools including antibody-based reagents, for about €5 billion.

During 2010, the pharmaceutical sector underperformed the overall stock market. The FTSE Global Pharma index was up by 7.6%, while the FTSE All World was up by 10.4%. The DAXsubsector biotechnology index, currently comprising 14 publicly listed German biotechnology companies, fell by 5.2%, while the NASDAQ biotechnology index increased by 14%. Against that backdrop, MorphoSys's stock showed solid performance. The MorphoSys share price gained 9% during the year, while the TecDAX gained only 4%.

REGULATORY ENVIRONMENT

The healthcare sector in which MorphoSys is operating is highly regulated. Both therapeutic and diagnostic products require complex approval from regulatory authorities such as Europe's EMA* (European Medicines Agency) or the US FDA (Food and Drug Administration) before being able to enter the market. The number of approved drugs decreased in 2010 compared to the year before. While MorphoSys's partners are solely responsible for regulatory affairs within the partnered development programs, MorphoSys is in charge of all regulatory requirements related to its proprietary development programs.

Increasingly, generic competition is challenging the biotechnology landscape since several drug patents are going to expire in the coming years. In 2010, the EMA published draft guidance on biosimilar antibody drugs*, while regulatory preparations in the USA are still ongoing. These guidelines, which will be formally adopted after May 2011, generally demand regulatory control for biosimilar monoclonal antibodies in the development process. They propose that regulatory authorities make case-by-case decisions relating to the development process, for example, to what extent clinical studies are required or what kind of post-marketing analysis should be conducted. The entry barriers for biosimilar monoclonal antibodies in Europe are therefore likely to remain quite high.

ORGANIZATIONAL STRUCTURE AND BUSINESS ACTIVITIES

ORGANIZATION AND GLOBAL PRESENCE OF THE MORPHOSYS GROUP

MorphoSys's business is split into three operating segments. The Partnered Discovery segment develops drug candidates for commercial partners. This segment is the foundation of the Company's success and manages partnerships with several renowned biotechnology and pharmaceutical companies involving 65 distinct therapeutic programs. The Proprietary Development segment is focused on developing proprietary therapeutic antibody candidates, mainly targeting cancer and inflammation. The goal of this segment is to take innovative antibody drugs to clinical proof of concept before partnering, thereby creating additional value for the Company. MorphoSys's third operating segment, AbD Serotec, delivers high-quality antibodies to the research and diagnostic markets.

BUSINESS ACTIVITIES OF THE MORPHOSYS GROUP

MorphoSys's headquarters are located in Martinsried near Munich, Germany. The Group's corporate functions are centralized at this facility. In addition to that, the Company has a facility in Puchheim near Munich and a sales office in Düsseldorf, Germany, as well as offices in Oxford, England, and Raleigh, North Carolina, USA.

LEGAL STRUCTURE OF THE MORPHOSYS GROUP

GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG is a German stock corporation listed on the Frankfurt Stock Exchange in the Prime Standard segment and heads the MorphoSys Group.

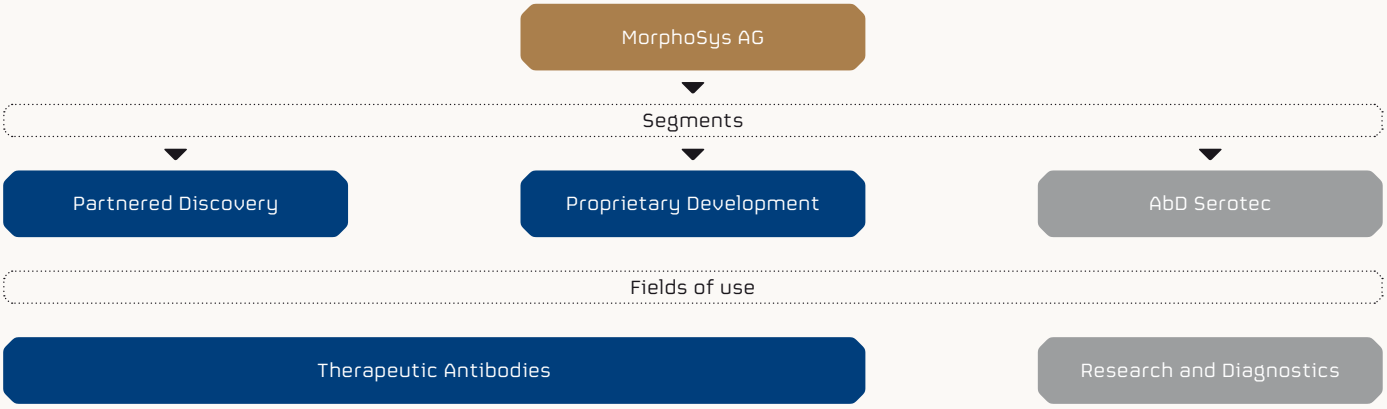
MorphoSys AG has a dual-board structure in accordance with the German Stock Corporation Act. The Company is managed by a four-member Management Board. The Management Board members are appointed and directed by the Supervisory Board. For more information regarding management and supervision as well as corporate governance in general, please see the Corporate Governance Report* on page 28.

The Senior Management group, composed of 14 people, represents the different MorphoSys departments and completes the MorphoSys management team.

* SEE GLOSSARY P. 98

* SEE PAGE 28 ET SEQ.

BUSINESS ACTIVITIES OF THE MORPHOSYS GROUP



BUSINESS ACTIVITIES AND MARKETS BY SEGMENT

PARTNERED DISCOVERY

The partnered business is a key driver of MorphoSys's commercial success and contributes significantly to the Company's product pipeline, which is one of the broadest pipelines in the industry. MorphoSys's series of industry-leading technologies for the research and optimization of therapeutic antibody drug candidates forms the basis of the Company's Partnered Discovery segment. The healthcare market is constantly looking for innovative products and MorphoSys successfully applies its technologies in extensive partnerships with pharmaceutical and biotechnology companies. Each development program is fully financed by the respective partner; MorphoSys profits from successful development in the form of milestone payments and stands to earn royalties on product sales. The Company's alliance with Novartis dating from 2007 is one of the largest agreements in the industry, securing revenues for MorphoSys through funded research and license fees in the amount of approximately €40 million per year until 2017, plus potential milestone payments and royalties on marketed products deriving from this alliance.

There are only a small number of established providers in the sector for therapeutic antibody technologies. MorphoSys remains one of the most renowned providers of highly validated antibody technologies and, in 2010, further strengthened its technological leadership in the industry by acquiring Sloning BioTechnology GmbH, a German biotechnology company developing new methods of synthetic biology. Just a few weeks after this acquisition, MorphoSys demonstrated its partnering abilities when the Company's new subsidiary signed a non-exclusive license and technology transfer agreement with Pfizer relating to Sloning's Slonomics® technology platform for the fabrication of highly diverse gene and protein libraries.

This successful development is reflected by the revenue increase of the Partnered Discovery segment over the last three years:

STRONG REVENUE GROWTH FROM THE PARTNERED DISCOVERY SEGMENT

in € million	2010	2009	2008
	66.3	61.7	54.3

PROPRIETARY DEVELOPMENT

Over the last two years, MorphoSys has built a highly competitive development team with the aim of developing innovative antibody products. With these capabilities and this experience in-house, the Company is able to generate even more value, adding to the standard fee-for-service business of the Partnered Discovery segment. The focuses of internal know-how and expertise and thus key target areas for MorphoSys's researchers and developers are inflammatory and autoimmune diseases as well as oncology.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory disorders such as rheumatoid arthritis (RA), multiple sclerosis (MS) or psoriasis* are a substantial burden in social and economic terms. However, despite the significance of these diseases and intensive global research, there have been relatively few innovative breakthroughs in their cause, treatment or cure thus far.

A promising therapeutic target for the treatment of various inflammatory disorders is GM-CSF*. MorphoSys's lead compound MOR103 is a fully human HuCAL-derived antibody directed against this target. The program is currently undergoing a clinical phase 1b/2a trial in rheumatoid arthritis, the largest single market in the area of inflammatory diseases. Additionally, MorphoSys expects to start a phase 1b trial in a second indication, namely multiple sclerosis, in the second half of 2011.

ONCOLOGY

The oncology market includes a large number of heterogeneous indications demonstrating a wide range of unmet medical needs and incidence rates. Today, there are more products in the oncology development pipeline than in any other, with a huge number of new oncology products set to launch within the next few years. While new players are entering the market, established pharmaceutical companies are re-engineering their organizations in order to tap emerging opportunities.

MorphoSys is currently developing two proprietary compounds against cancer. One is MOR202, a fully human HuCAL-based antibody against CD38*, a therapeutic target for the treatment of multiple myeloma and potentially certain leukemias. MorphoSys expects to start a phase 1/2a trial with MOR202 in patients with relapsed/refractory myeloma in the first half of 2011.

The second proprietary development program MorphoSys is pursuing in this area is MOR208 (XmAb®5574), which MorphoSys in-licensed from Xencor in June 2010. The program is currently in a phase 1 trial in chronic lymphocytic leukemia (CLL).

ABD SEROTEC – RESEARCH AND DIAGNOSTIC ANTIBODIES

MorphoSys's third operating segment is AbD Serotec, providing antibodies for scientific research and modern clinical diagnostics. AbD Serotec is one of the top 20 antibody providers in the field of research and diagnostics, allowing the immediate online purchase of more than 14,000 products via its catalog business. The HuCAL*-based generation of new antibodies made to order is significantly faster than the current market standard, even when producing antibodies in larger quantities on behalf of diagnostic customers. AbD Serotec's custom services facility is able to serve customers with specific antibody development challenges. The business unit currently has relationships with more than 20 diagnostic companies and its antibodies are trusted by many thousands of researchers.

According to a study by BCC Research, the worldwide diagnostic market for monoclonal antibodies has a compound annual growth rate of 7 % and is expected to be worth US$ 9 billion by the end of 2012.

Strategy and Performance Management

STRATEGY

The Company's unique HuCAL (Human Combinatorial Antibody Library) technology comprises several billion different fully human antibodies. Through the successful commercialization of this and other proprietary technologies, MorphoSys has become a leader in the field of antibodies. Technology development remains a central part of the Company's strategy, as illustrated by the acquisition of Sloning BioTechnology GmbH in October 2010.

Increasingly, the Company's comprehensive pipeline is taking center stage. By maximizing the number of programs based on its technologies, MorphoSys increases its future upside potential and reduces the risk which always accompanies the development of new medicines. End of 2010, the list of product candidates developed by the Company's partners comprised 65 programs, forming one of the broadest antibody pipelines in the industry.

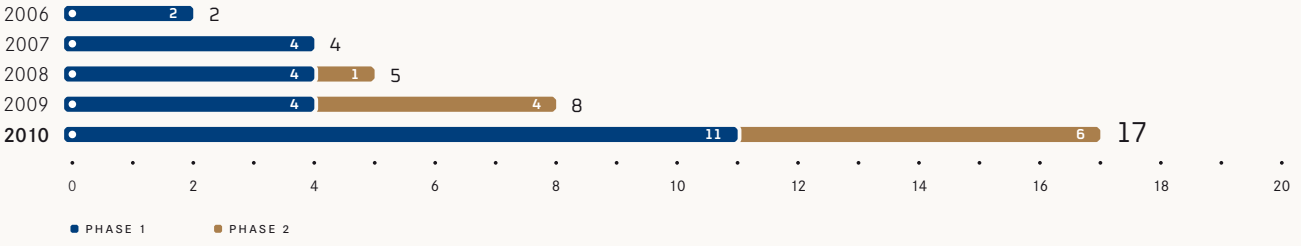
* ? SEE GLOSSARY P. 98

DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

in € million	2010	2009	2008	2007	2006
MORPHOSYS GROUP					
Group revenues	87.0	81.0	71.6	62.0	53.0
Group profit from operations	9.8	11.4	16.4	7.0	6.2
PARTNERED DISCOVERY*					
Segment revenues	66.3	61.7	54.3	–	–
Segment result	42.7	39.6	34.4	–	–
PROPRIETARY DEVELOPMENT*					
Segment revenues	1.8	1.0	0	–	–
Segment result	(24.5)	(18.3)	(8.9)	–	–
ABD SEROTEC					
Segment revenues	20.2	19.3	18.2	19.6	18.3
Segment result	1.2	1.0	0.4	(0.6)	(3.4)

* The Partnered Discovery and Proprietary Development segments were introduced in 2009

NUMBER OF PARTNERED AND PROPRIETARY CLINICAL PROGRAMS AT YEAR-END



MorphoSys receives secured payments from its partners in the form of technology license fees, R&D funding, success-based milestones and, dependent on product sales after product approval, royalties*. The cash flows generated by the Partnered Discovery segment are predominantly reinvested in proprietary drug development activities, which have a much greater financial upside than programs initiated by partners. The goal of the Proprietary Development segment is to take proprietary compounds to clinical proof of concept before out-licensing to a pharmaceutical company for late-stage development and marketing. Although proprietary development requires increased investments, MorphoSys adheres to its intention of remaining profitable and thus independent from the capital markets as a source of financing.

* ? SEE GLOSSARY P. 98

AbD Serotec's growing penetration of the diagnostics market puts MorphoSys in a strong position to benefit from the growing importance of diagnostics during the development of drugs and in conjunction with their use in the market. An array of alliances with pharma and diagnostic companies is of strategic importance for MorphoSys, with its technologies at the nexus of these two industries.

PERFORMANCE MANAGEMENT

Financial and non-financial performance indicators and appropriate measures to enhance sustainable value are the key elements of MorphoSys's management system.

FINANCIAL PERFORMANCE INDICATORS

MorphoSys measures its operational business performance mainly on the basis of two financial indicators, namely revenues and profit from operations. For all segments, the performance is measured on a monthly basis; budget planning for the current fiscal year is reviewed and updated quarterly. Once a year, a long-term plan covering the next five years is prepared.

NON-FINANCIAL PERFORMANCE INDICATORS

The non-financial performance indicators such as progress in research and development and human resources are described in detail in the following chapters. The most obvious benchmark for the successful development of MorphoSys is its expanding and maturing clinical pipeline.

Human Resources

The people working at MorphoSys are the Company's most important asset. In 2010, MorphoSys expanded its scientific workforce. Following the acquisition of Sloning BioTechnology GmbH, MorphoSys decided to keep the skills and know-how of 25 Sloning employees and to integrate them into the Company's workforce.

NUMBER OF EMPLOYEES

The number of employees increased by 15 % in 2010. On December 31, 2010, the MorphoSys Group employed 464 people worldwide (December 31, 2009: 404), of which 148 held a PhD (December 31, 2009: 121). On average, the MorphoSys Group employed 435 people in 2010 (2009: 375).

QUALIFICATION, TRAINING AND EDUCATION

MorphoSys attaches great importance to the training and personal development of its employees. Therefore, the Company contributes to the education of interested young people by offering vocational training in-house. In 2010, MorphoSys hired a trainee for the IT department and two trainees as future biology laboratory technicians. Three technical assistants were submitted for and successfully passed trainer qualification examinations run by the German Chamber of Commerce and Industry (IHK) as part of MorphoSys's commitment to ensuring that trainees consistently receive the level of support and motivation they need.

Moreover, MorphoSys invests in its employees through demand-oriented and tailor-made internal and external advanced training and development programs. The Company especially offers development opportunities to employees in the research and product development areas as well as those in various management positions.

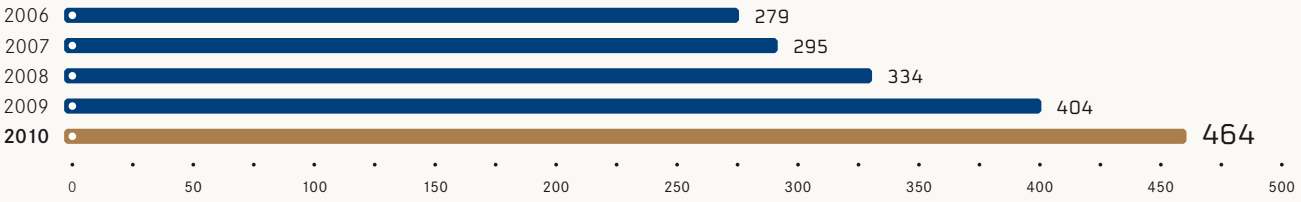
COMPENSATION

For MorphoSys, an appropriate compensation of its workforce is essential, in order to attract and retain the best employees and executives. The Company seeks to offer highly competitive salaries; therefore, all salaries are benchmarked within the biotechnology sector and with other industries on a yearly basis.

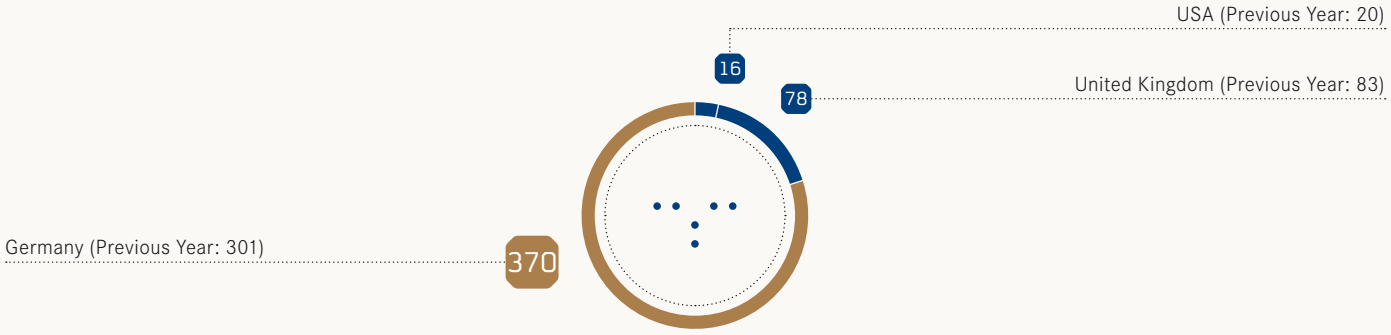
MID-TERM AND LONG-TERM PERFORMANCE SCHEMES

Each employee has the chance to contribute to and at the same time to participate in the success of MorphoSys. The Company's employees share in the operational and financial development of the Company through a performance-based bonus system which is based on the achievement of personal, departmental and Company goals. In addition to this performance-related compensation, the employees share in the Company's success through equity-based and profit participation programs.

GROUP HEADCOUNT DEVELOPMENT



EMPLOYEES BY REGION



EMPLOYEES BY SEGMENT* AND FUNCTION

	2010	2009
TOTAL EMPLOYEES	**464**	**404**
Proprietary Development segment	100	71
Partnered Discovery segment	183	144
AbD Serotec segment	142	148
Employees in R&D	309	248
Employees in S, G&A	155	156

* Remainder of total headcount is not allocated to a specific operating segment.

Research and Development

PROPRIETARY DEVELOPMENT – THREE PROGRAMS IN CLINICAL TRIALS IN 2011

In 2010, MorphoSys substantially broadened and advanced its proprietary product portfolio in cancer and inflammatory diseases. With MOR103, MOR208 and MOR202, three proprietary compounds will be evaluated in clinical trials in 2011. In total, the Company had eight internally developed drug candidates at the end of 2010, supplemented by two co-development programs with Novartis. Additionally, as part of the alliances with Galapagos and Absynth Biologics, several novel disease-related target molecules in bone and joint diseases and infectious diseases are currently in validation studies and could result in additional therapeutic programs in 2011.

MorphoSys's lead development program, MOR103, a fully human HuCAL antibody targeting GM-CSF, is currently being tested in a phase 1b/2a clinical study in patients with active rheumatoid arthritis (RA). Enrollment of patients in the phase 1b/2a clinical trial started in January 2010. The randomized, double-blind, placebo-controlled, dose-escalation trial is being conducted at multiple clinical centers in four European countries, namely Germany, the Netherlands, Bulgaria and Poland. Patients with active RA, despite having undergone previous therapy, will each receive four infusions of either the HuCAL-derived antibody MOR103 or a placebo in three ascending-dose cohorts. The primary endpoint of the trial is to determine the safety and tolerability of multiple doses of up to 1.5 mg/kg of MOR103 in these patients. Secondary outcome measures will evaluate pharmacokinetics, immunogenicity and the drug's potential to improve clinical signs and symptoms of RA as measured by the reduction of synovitis and bone edema as well as American College of Rheumatology (ACR) and European League Against Rheumatism (EULAR28) response criteria and patient-reported outcomes. MorphoSys expects to have final data from this trial in the first half of 2012.

In November 2010, MorphoSys disclosed multiple sclerosis as the second indication for MOR103. The decision is based on a compelling scientific rationale and promising preclinical data. MorphoSys expects to start a phase 1b trial in multiple sclerosis with MOR103 in the second half of 2011.

In line with the strategy of expanding its proprietary drug development activities, MorphoSys in-licensed a therapeutic antibody program from Xencor, Inc., a California-based biotechnology company focused on high antibody-dependent cellular cytotoxicity (ADCC*) cancer therapies using antibodies with a proprietary modification to the Fc portion of the antibody. MorphoSys has secured a worldwide, exclusive license for the anti-CD19* therapeutic antibody XmAb®5574, which now carries the internal code MOR208. The compound is currently being evaluated in a phase 1 clinical trial in the USA. The trial is designed to assess the drug's safety, tolerability, pharmacokinetic profile and preliminary anti-tumor activity in chronic lymphocytic leukemia (CLL) patients. The open-label, multi-dose, single-arm, dose-escalation study is expected to enroll 30 patients suffering from relapsed or refractory CLL*.

With regard to the MOR202 cancer program, MorphoSys continued preclinical evaluation and toxicology studies to prepare the clinical development of this anti-CD38* antibody. In November 2010, MorphoSys filed a clinical trial application (CTA) to initiate a phase 1/2a trial with MOR202 in patients with relapsed/refractory myeloma in Europe and the Company expects to dose the first patient in the first half of 2011.

Additionally, MorphoSys formed a research collaboration with Klinikum rechts der Isar, the university hospital of Munich Technical University. The collaboration receives public funding of approximately € 1 million from the German Federal Ministry of Education and Research (BMBF). As part of the program, the Company plans to explore relevant biomarkers for the anti-CD38 approach. The program is part of Munich's "m^4 - Personalized Medicine and Targeted Therapies - a New Dimension in Drug Development in the Munich Region" biotechnology initiative, which received high-tech cluster status in a German government funding competition in 2010.

PARTNERED DISCOVERY – FIFTEEN CLINICAL PROGRAMS

MorphoSys's partnered pipeline significantly matured during 2010, with several programs moving into and advancing through clinical development. In 2010, eight new partnered programs within the alliances with Novartis (three programs), Centocor Ortho Biotech (two programs), Boehringer Ingelheim, OncoMed Pharmaceuticals and Pfizer advanced into phase 1 clinical trials*. Additionally, Novartis achieved clinical proof of concept with an undisclosed HuCAL-based antibody in a phase 1/2 study. Patients treated with the antibody showed clear improvement of disease parameters. At the end of 2010, Roche started a phase 2 clinical trial with Gantenerumab, a HuCAL antibody against amyloid-beta* for the treatment of Alzheimer's disease.

At year-end 2010, MorphoSys's partnered therapeutic antibody pipeline consisted of 65 active antibody development programs (unchanged from 65 at the beginning of the year), of which five were in phase 2 clinical trials, ten in phase 1, 20 in preclinical development and 30 in discovery stage.

* ? SEE GLOSSARY P. 98

PARTNERED DISCOVERY – TECHNOLOGY DEVELOPMENT

In 2010, MorphoSys made significant progress in strengthening its proprietary technology platform. In October 2010, MorphoSys announced the acquisition of Sloning BioTechnology GmbH, a German biotechnology company developing new methods of synthetic biology. The transaction made MorphoSys the sole source of Sloning's state-of-the-art Slonomics® technology, which dramatically improves the assembly and quality of protein libraries. The acquisition directly resulted in a new technology platform called *arYla*, which was unveiled in November. The Company plans to use *arYla* to accelerate antibody optimization, with the goal of generating superior therapeutic and diagnostic candidates faster and more cost-effectively than is currently possible. *arYla* will be used to optimize a range of properties critical to the successful development of a therapeutic or diagnostic antibody. MorphoSys thereby expects to improve the generation of drug candidates such that one in every two projects started will reach clinical development.

ABD SEROTEC

In 2010, AbD Serotec demonstrated significant progress using the HuCAL-based technology platform to generate custom-made monoclonal antibodies for research and diagnostic use. Over the course of the last four years, AbD Serotec has gradually improved technical success rates year-on-year, from 80 % in 2006 to 98 % in 2009. This was mainly achieved through a high degree of automation in many aspects of the antibody generation process, by optimizing protocols and finally through the implementation of HuCAL PLATINUM, the latest and most powerful version of MorphoSys's antibody libraries. The success rates achieved by AbD Serotec are significantly higher than the average success rate usually seen in the industry with animal-based methods of around 75 %.

Intellectual Property

In 2010, the Company continuously consolidated and extended the patent position for its development programs, including the lead program MOR103 and the in-licensed antibody MOR208 (XmAb5574) from Xencor, and its expanding technology portfolio, representing essential value-drivers for MorphoSys.

The strong intellectual property portfolio around HuCAL and other technologies in key pharmaceutical markets around the world has been complemented by a growing patent estate in Asia and the USA. Several antibody-technology-related patent applications covering various aspects of MorphoSys's core technologies were filed and granted throughout the world. To be more precise, in 2010, extended HuCAL-related patent protection has been granted in Japan, and the US Patent and Trademark Office approved a new patent providing extended protection for the Company's CysDisplay technology.

In October 2010, MorphoSys acquired German biotechnology company Sloning BioTechnology GmbH and became the sole supplier of their technologies. These technologies as well are covered by several patent families. The key patents do not expire before late 2023.

Currently, the Company is prosecuting more than 40 different proprietary patent families worldwide, in addition to numerous patent families the Company is pursuing in cooperation with its partners.

Commercial Development

PARTNERED DISCOVERY – NEW TECHNOLOGY PLATFORM FORMS BASIS FOR ADDITIONAL PARTNERSHIPS

In October 2010, MorphoSys announced the acquisition of Sloning BioTechnology GmbH, a private German biotechnology company developing new methods of synthetic biology. Sloning's shareholders received a onetime € 19 million cash payment upon signing.

Based on the Sloning platform, MorphoSys was able to secure a long-term alliance with Pfizer in December 2010. The non-exclusive license and technology transfer agreement covers the installation and use of Sloning's technology platform Slonomics at Pfizer's subsidiary Rinat in South San Francisco as well as technical support. In return, the MorphoSys subsidiary receives an upfront payment and stands to receive annual license fees over the patent lifetime of the Slonomics technology platform. The new collaboration with Pfizer brought an immediate return on investment from the acquisition of Sloning for MorphoSys's shareholders.

As another direct result of the transaction, MorphoSys launched a novel antibody optimization platform called *arYla* in November 2010. MorphoSys intends to apply the technology in its own programs as well as within existing and new partnerships.

PROPRIETARY DEVELOPMENT – NEW PROGRAM AGAINST DRUG-RESISTANT MRSA INFECTIONS

MorphoSys's proprietary drug development remains focused on the indications cancer and inflammatory diseases. However, in September 2010, MorphoSys announced an additional proprietary development program against novel infectious disease targets. As part of this initiative, MorphoSys has signed a license and collaboration agreement with UK-based Absynth Biologics, providing access to

novel target molecules associated with *Staphylococcus aureus* infections including MRSA* (methicillin-resistant *S. aureus*). MorphoSys will generate antibodies which Absynth will test in relevant disease models. MorphoSys is solely responsible for the development and partnering of the resulting compounds. Absynth has received an upfront payment and is eligible for development-dependent milestone payments and royalties.

Absynth's genomics-based approach allows identification of previously overlooked targets, such as bacterial components which are crucial to the organism, conserved across different bacterial strains and accessible for antibodies. Absynth has demonstrated that monoclonal antibodies against the targets in-licensed by MorphoSys inhibit the growth of *S. aureus* and recruit the human immune system to eliminate bacteria. Absynth has filed patent applications on all targets involved in the collaboration.

MorphoSys's goal is to create a valuable package of proprietary targets together with high-affinity antibodies, supported by compelling data, which will allow the Company to partner the program for subsequent development. The targets identified by Absynth provide a unique opportunity to generate value rather quickly and create out-licensing opportunities much earlier than in the areas of cancer and inflammation.

ABD SEROTEC – EXCLUSIVE PRODUCTS IN KEY AREAS

In 2010, AbD Serotec continued to expand its customer relationships in key focus areas and signed a number of exclusive license agreements covering key products in their offering. In the diagnostics market, AbD Serotec secured an exclusive worldwide license to a key diagnostic antibody from University College London. The antibody, targeting the parathyroid hormone (PTH), forms the basis of an existing relationship between AbD Serotec and a leading diagnostic company which markets clinical parathyroid hormone assays. PTH is the most important regulator of calcium levels in the human body. Measurement of PTH is important in determining the cause of excessively high or low calcium levels and is a valuable diagnostic tool during parathyroid surgery.

On the research side of the business, in September 2010, AbD Serotec secured an exclusive worldwide manufacturing license to key research antibodies from VU University Medical Center, Amsterdam. The deal strengthened AbD Serotec's position as the primary source of reagents for studying the innate immune system. In November 2010, AbD Serotec secured a similar license agreement with the Institute of Cancer Research, London, strengthening its position as source of core reagents to study cell proliferation and cell kinetics.

Sustainability and Corporate Social Responsibility

Besides their financial merits, the business activities at MorphoSys are measured by their impact on the environment and society. While the Company is always acting towards maximising its shareholders' value, it also keeps in mind the principles of a sustainable corporate development.

MorphoSys aims at improving the treatment of life-threatening diseases with the aid of its proprietary technologies as well as own and partnered development activities. The demand for innovative therapeutics to improve patients' quality of life is constantly increasing and this in turn allows the Company to expand its business. Although novel drugs such as therapeutic antibodies are still expensive medical products today, they have the potential to lower total healthcare costs in the long run, an important factor in meeting the healthcare needs of an aging population.

With regard to the development process of antibodies, MorphoSys's fully *in-vitro*-based technologies represent a genuine, fast and cost-effective alternative to animal-based methods.

Each year, the Company's staff supports local charitable nonprofit organizations with private donations. In 2010, MorphoSys's employees donated € 1,065 to the Mukoviszidose e.V.

QUALITY MANAGEMENT

All pharmaceutical products, including clinical trial materials, must be manufactured in compliance with established quality standards to ensure the safety of patients. MorphoSys has a continuously improving quality management system in place, not only in order to comply with regulatory requirements but also to guarantee a constantly high quality of investigational medicinal products used within MorphoSys's own development programs. MorphoSys is a sponsor of clinical trials in humans and holds a manufacturing license for the release of clinical trial material, which requires adherence to international and national regulatory standards such as cGMP* (current Good Manufacturing Practice) and GCP* (Good Clinical Practice).

AbD Serotec's manufacturing site in the UK, MorphoSys UK Ltd., Oxford, is accredited to the quality management standard ISO (International Organization for Standardization) 9001:2008 and ISO 13485:2003. The US site of AbD Serotec in Raleigh is also accredited to ISO 9000:2008.

* ? SEE GLOSSARY P. 98

PROCUREMENT

MorphoSys's research activities and antibody material production require raw materials, mostly standard laboratory material, and equipment from external suppliers. Adequate stock prevents delivery bottlenecks and eliminates the Company's dependence on certain suppliers. The procurement department at MorphoSys continuously monitors the international markets with regard to safe, high-quality materials at favorable conditions and pools its supplies wherever applicable. Preferred contracts for strategic materials are medium and long-term in order to avoid a wide price spread. Thanks to this precaution, MorphoSys has not experienced any difficulties to date regarding the procurement process.

ENVIRONMENTAL PROTECTION

Environmental protection, high quality and safety standards are key values for MorphoSys. The Company is continuously striving to improve its operational efficiency in this regard, by implementing energy-saving measures, reviewing the waste disposal system and reducing the volume of raw materials used in the production process, for example.

MorphoSys is not subject to direct rules other than regulation generally applicable to businesses of its kind, including laws and guidelines applicable to environmental matters, such as the handling and disposal of hazardous waste. The Company's research and development activities involve only small amounts of hazardous materials and chemicals, and their application and disposal is continuously monitored and evaluated.

Furthermore, MorphoSys is exploiting measures to reduce its greenhouse gas emissions in the interest of the environment, although the biotechnology industry *per se* is not a carbon-intensive sector. MorphoSys's business unit AbD Serotec has agreed on a carbon-offsetting scheme regarding its product shipments with its courier services partner. For each product shipment, the carbon footprint is calculated and corresponding carbon offsets are purchased from ClimateCare on AbD Serotec's behalf. Those carbon offsets are reinvested by ClimateCare in projects related to reforestation, renewable energy and energy efficiency projects.

In 2010, MorphoSys again participated in the Carbon Disclosure Project to inform investors of its greenhouse gas emissions and climate change strategies.

HEALTH AND SAFETY ACTIVITIES

Quality at MorphoSys also includes safety and health aspects of the Company's working environment, which is particularly essential for the research and development department. All R&D employees receive an initial medical checkup, which is repeated every three years. In addition, they have the opportunity to be vaccinated against hepatitis A and B. All employees are offered regular eye examinations.

Results of Operations, Financial Situation, Assets and Liabilities

REVENUES

Compared to the same period in the previous year, Group revenues increased by 7 % to € 87.0 million (2009: € 81.0 million). This increase is due to a combination of higher levels of funded research and licensing fees in the Partnered Discovery segment as well as revenues from funded research in the Proprietary Development segment. A further increase in revenues derived from stronger sales in the AbD Serotec segment. Revenues arising from the Partnered Discovery and Proprietary Development segments accounted for 78 % or € 68.0 million (2009: 77 % or € 62.7 million) of total segment revenues, while the AbD Serotec segment generated 23 % or € 20.2 million of the total segment revenues (2009: 24 % or € 19.3 million).

Geographically, 19 % or € 16.5 million of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies and non-profit organizations located in North America and 81 % or € 70.5 million with companies located in Europe and Asia. This compares to 18 % and 82 %, respectively, in the same period of the prior year.

PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Segment revenues arising from the Partnered Discovery segment comprised € 57.2 million in funded research and licensing fees (2009: € 48.6 million) plus € 9.1 million in success-based payments (2009: € 13.1 million), representing 13 % of total Partnered Discovery and Proprietary Development revenues. Segment revenues arising from the Proprietary Development segment included € 1.8 million in funded research (2009: € 1.0 million). Approximately 87 % of Partnered Discovery and Proprietary Development revenues and 68 % of total revenues arose from the Company's three largest alliances with Novartis, Daiichi Sankyo and Pfizer (2009: Novartis, Daiichi Sankyo and Merck & Co., 84 % and 65 %, respectively).

Assuming constant foreign exchange rates at the average rate of 2009, segment revenues in the Partnered Discovery and Proprietary Development segments would have remained unchanged.

ABD SEROTEC SEGMENT

Compared to the same period of the previous year, AbD Serotec segment's revenues increased by 5%, or €0.9 million, to €20.2 million in 2010 (2009: €19.3 million). Assuming constant foreign exchange rates at the average rate of 2009, revenues in the AbD Serotec segment would have amounted to €19.6 million.

As of December 31, 2010, orders in the amount of €0.7 million were classified as back orders in the segment (2009: €0.5 million).

OPERATING EXPENSES

Total operating expenses in 2010 increased by approximately 11% over the previous year to €77.4 million (2009: €69.6 million). The change in operating expenses of €7.8 million was due to research and development (R&D) expenses increasing by 20% or €7.9 million and COGS increasing from €6.7 million to €7.3 million while sales, general and administrative (S, G&A) expenses decreased by 3% to €23.2 million. Total purchase price allocation (PPA) effects on operating profit amounted to €0.8 million (2009: €0.5 million).

Operating expenses increased by 7% to €23.6 million (2009: €22.1 million) in the Partnered Discovery segment and by 37% to €26.5 million (2009: €19.3 million) in the Proprietary Development segment. In the AbD Serotec segment, operating expenses increased by 3% to €18.9 million (2009: €18.4 million) and would have amounted to €18.4 million under the assumption of constant foreign exchange rates at the average rate of 2009.

Stock-based compensation expenses are embedded in COGS, S, G&A and R&D expense amounts. Stock-based compensation in 2010 amounted to €2.1 million (2009: €1.7 million) and is a non-cash charge.

COST OF GOODS SOLD

COGS is composed of the AbD Serotec segment's cost of goods sold in 2010 and, compared to the same period of the prior year, increased by 9% from €6.7 million to €7.3 million, which was due to an increase in personnel-related costs and material costs as well as foreign exchange effects.

RESEARCH AND DEVELOPMENT EXPENSES

In 2010, expenses for research and development increased by €7.9 million to €46.9 million (2009: €39.0 million). This was mainly due to higher personnel costs (2010: €17.9 million; 2009: €14.8 million), increased costs for external lab funding (2010: €13.3 million; 2009: €10.5 million), as well as higher material costs (2010: €4.0 million; 2009: €2.3 million). In 2010, the Company incurred costs for proprietary product development (including allocations for segment purposes) in the amount of €26.5 million (2009: €19.3 million). Costs for technology development amounted to €2.1 million (2009: €0.7 million) and were partly allocated to proprietary product development, but mainly accounted for in the Partnered Discovery segment.

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Compared to the same period of the previous year, sales, general and administrative expenses slightly decreased by 3% or €0.7 million to €23.2 million (2009: €23.9 million).

OTHER OPERATING INCOME

Other operating income increased by €0.1 million to €0.2 million in 2010 and comprised grant income from governmental agencies.

NON-OPERATING ITEMS

In 2010, non-operating items included mainly finance income of €4.1 million (2009: €2.0 million), other expense of €1.2 million (2009: €0.7 million) and other income of €0.5 million (2009: €0.4 million). Finance income mainly comprised realized gains from marketable securities.

TAXES

In 2010, the Company reported income tax expense in the amount of €4.0 million. This line item mainly included current tax expense from Group entities.

OPERATING PROFIT/NET PROFIT

Group operating profit in 2010 amounted to €9.8 million (2009: €11.4 million). Earnings before interest and taxes (EBIT) amounted to €13.1 million, compared to an EBIT of €12.8 million in the previous year. The Partnered Discovery and Proprietary Development segments showed an operating profit of €42.7 million (2009: €39.6 million) and an operating loss of €24.5 million (2009: operating loss of €18.3 million), respectively. In the AbD Serotec segment, operating profit increased to €1.2 million (2009: €1.0 million) and would have remained unchanged under the assumption of constant foreign exchange rates using foreign exchange rates of the previous year.

A net profit after taxes of €9.2 million was achieved in 2010, compared to a net profit after taxes of €9.0 million in the same period of the prior year. The resulting basic net profit per share for 2010 amounted to €0.41 (2009: €0.40).

Antibodies with Enhanced Effector Function

Therapeutic antibodies can be optimized in order to elicit an increased immune response through antibody-dependent cell-mediated cytotoxicity, or ADCC for short. This process represents a key mechanism in the destruction of cancer cells. Small modifications to the antibody's Fc region can result in a much higher tumor cell-killing potency as compared to standard cancer antibodies.

In June 2010, MorphoSys AG and US-based biopharmaceutical company Xencor signed a worldwide exclusive license and collaboration agreement for the antibody MOR208. The antibody is currently being evaluated in a phase 1 trial in patients with chronic lymphocytic leukemia in the USA.

B-cell malignancies afflict more than 150,000 patients in the seven major markets each year. MOR208 has been engineered to possess significantly enhanced antibody-dependent cell-mediated cytotoxicity. Its target molecule CD19 is expressed more broadly and earlier in B-cell development than CD20, the target of the blockbuster cancer drug Rituxan.

LIQUIDITY/CASH FLOWS

Net cash inflow from operations in 2010 amounted to € 2.5 million (2009: cash outflow of € 1.0 million). Investing activities resulted in a cash outflow of € 2.0 million (2009: cash inflow of € 0.6 million), whereas financing activities resulted in a cash inflow of € 2.3 million (2009: cash inflow of € 1.4 million).

As of December 31, 2010, the Company held € 108.4 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2009 balance of € 135.1 million.

ASSETS

Total assets increased by € 6.5 million to € 212.6 million as of December 31, 2010, compared to € 206.1 million as of December 31, 2009. Current assets decreased by € 23.1 million, mainly as a result of a decrease in marketable securities in the amount of € 29.6 million which were sold for the financing of the acquisition of Sloning BioTechnology GmbH in the fourth quarter of 2010 and the in-licensing of a compound from Xencor in the second quarter of 2010. The decrease in marketable securities was partly offset by an increase in accounts receivable by € 3.9 million and an increase in cash and cash equivalents by € 2.9 million.

Compared to December 31, 2009, non-current assets increased by € 29.5 million, mainly as a consequence of the acquisition of Sloning and the in-licensing of a compound from Xencor (intangible assets under development). The increase in patents by € 9.5 million is mainly impacted by technology capitalized in connection with the purchase price allocation according to IFRS 3 for the Sloning acquisition. The purchase price allocation for Sloning also resulted in additional goodwill in the amount of € 7.4 million. The capitalization of a deferred tax asset on tax loss carry-forwards of Sloning increased this line item by € 2.7 million.

LIABILITIES

In 2010, current liabilities decreased from € 24.3 million as of December 31, 2009, to € 21.4 million as of December 31, 2010, arising mainly from a decrease in current deferred revenue in the amount of € 5.4 million. This decrease was partly offset by an increase in accounts payable by € 1.5 million and an increase in provisions by € 1.0 million mainly due to tax liabilities.

Non-current liabilities decreased by € 2.6 million to € 5.3 million in 2010, mainly impacted by a decrease in non-current deferred revenue of € 4.9 million resulting from the reclassification of long-term deferred revenue to short-term deferred revenue in 2010. This effect was partly offset by an increase in deferred tax liabilities by € 2.2 million, mainly a consequence of assets identified in the purchase price allocation for Sloning.

EQUITY

Total stockholders' equity amounted to € 185.9 million as of December 31, 2010, compared to € 173.9 million as of December 31, 2009 and mainly increased due to the net profit in the amount of € 9.2 million generated in 2010, stock-based compensation of € 2.2 million and the exercise of options and convertible bonds amounting to € 2.6 million. These effects were partly offset by movements in reserves of € 2.2 million.

As of December 31, 2010, the total number of shares issued amounted to 22,890,252 of which 22,810,356 were outstanding, compared to 22,660,557 and 22,580,661 as of December 31, 2009, respectively.

The increase of 229,695 shares outstanding arose from exercised options and convertible bonds issued to both the Management Board and employees.

CAPITAL EXPENDITURE

MorphoSys's investment in property, plant and equipment focused mainly on lab equipment and amounted to € 2.3 million in 2010, compared to € 2.6 million in the same period of the prior year. Depreciation of property, plant and equipment in 2010 accounted for € 2.1 million compared to € 1.6 million in 2009.

In 2010, the Company invested € 11.5 million in intangible assets (2009: € 1.2 million). This investment mainly included the in-licensing of a compound from Xencor. Amortization of intangibles amounted to € 4.0 million in 2010 and slightly increased in comparison to the prior year (2009: € 3.8 million).

CREDIT RATING

MorphoSys is currently not rated by any rating agencies.

Comparison of the Actual Business Results with Forecasts

2010 again has been a very successful business year for MorphoSys. Although the business environment remained challenging, the Company managed to continue along its promising path of becoming one of the world's leading antibody developers.

	2010 Goals	2010 Achievements
Financials	Group revenues of € 91 – 94 million (increased in December from initially € 89 – 93 million)	Group revenues of € 87.0 million*
	Operating profit of € 13 – 16 million (increased in December from initially € 5 – 9 million)	Operating profit of € 9.8 million*
Proprietary R&D	Complement current team	Team fully recruited. Results of proprietary R&D activities become increasingly evident
	Ongoing recruitment of RA patients for phase 1b/2a study with MOR103	Recruitment of RA patients ongoing – Final data expected in H1 2012
	Expand pipeline to up to 10 proprietary programs, including co-development opportunities	Pipeline now comprises 10 proprietary programs, including 2 co-development programs with Novartis
Partnered Pipeline	4 – 6 partnered INDs	8 partnered INDs, each triggering milestone payments, have been achieved
	Clinical data from ongoing phase 2 trials	Number of partnered clinical programs in phase 2 increased to 5 programs, up from 3 at the end of 2009; no clinical phase 2 data were reported thus far
Clinical Pipeline	Further expansion of clinical pipeline	The number of programs in clinical studies has more than doubled, from 8 programs in 2009 to 17 programs in 2010
AbD Serotec	Further penetration of diagnostics market	AbD Serotec has collaborations with more than 20 diagnostic companies ongoing
	Segment revenues of € 21 – 22 million	Segment revenues of € 20.2 million
	Profit margin of 5 – 8 %	Profit margin of 6 %

* The deviation from guidance issued by the Company on December 10, 2010 (revenues of € 91 – 94 million and operating profit of € 13 – 16 million) is related to the final accounting treatment of the Pfizer deal signed in December 2010. This accounting treatment has no impact on the overall economics of the agreement with Pfizer, or on any cash flows arising from the deal.

The Management's General Assessment of Business Performance

The Management Board again sees a solid performance of MorphoSys in 2010. The majority of the Company goals have been met, with all business segments contributing to this positive development. Group revenues remained slightly under initial expectations, as a result of new commercial agreements having a lower impact on revenues than had been expected.

The highest value was generated by the Company's Partnered Discovery segment. Based on the positive financial performance of this business segment, MorphoSys continued to invest in its proprietary drug development activities, with an increase of R&D spend of 37 % over 2009. The efforts of the two therapeutic segments resulted in a doubling number of active clinical programs, significantly enhancing the Company's value. Nevertheless, despite increased investments in proprietary development, the Company showed solid operating profits, above initial expectations.

MorphoSys's product pipeline continued to grow and mature. With eight partnered INDs, even the Company's initial expectations of four to six programs for 2010 have been exceeded and the proprietary programs, including two programs in clinical trials, evolve successfully. Especially the in-licensing of the anti-CD19 antibody from Xencor, now MOR208, further strengthened MorphoSys's proprietary clinical pipeline. For MOR202, a clinical trial application was filed in Q4 of 2010, and clinical trials are expected to commence during the first half of 2011.

AbD Serotec did not fully meet its growth expectations due to a challenging market environment. Especially in Europe, the economic crisis influenced customer demand. The segment continued its expansion into the diagnostic sector, with several feasibility studies ongoing. In 2011, the first diagnostic kit with a HuCAL antibody is expected to enter the market.

In total, the MorphoSys Group continued to show top-line growth of 7 % and remained profitable with an operating profit of € 9.8 million, despite significantly increased investment into proprietary R&D.

Corporate Governance Report

To the MorphoSys Group, corporate governance builds the framework for the management and supervision of a company, including its organization, commercial principles and regulatory and monitoring measures. The internal guidelines at MorphoSys are aligned with the German Corporate Governance Code, which contains internationally recognized standards for good and responsible governance. The aim of such transparent and coherent management principles is to strengthen the confidence of the financial markets, business partners, employees and the public in the Company.

In order to guarantee good corporate governance, open and comprehensive communication on a regular basis is a guiding principle for the Management and Supervisory Boards of MorphoSys AG. The underlying two-tier system required by the German Stock Corporation Act explicitly differentiates between management and supervision. The responsibilities of both boards are clearly defined by law, by the Articles of Association and the rules of procedure. MorphoSys AG's boards work together closely and act and decide in the best interest of the Company; their dedicated goal is to sustainably increase the Company's value.

DECLARATION ABOUT CORPORATE MANAGEMENT IN ACCORDANCE WITH SEC. 289A HGB FOR THE 2010 BUSINESS YEAR

A description of the principles of corporate management and the Declaration of Conformity pursuant to sec. 161 of the German Stock Corporation Act (Aktiengesetz – AktG) can be found on MorphoSys's corporate website*.

INTERNAL CONTROLS

INTRODUCTION

MorphoSys updated its documentation regarding the internal control system that was established and used over the years for maintaining adequate internal control over financial reporting. In accordance with sec. 289 (5) and sec. 315 (2), para. 5 of the HGB (German Commercial Code), MorphoSys described the key characteristics of its accounting-related internal control system that ensures that all controls are in place to be able to report the financial figures as precisely as possible. These internal controls over financial reporting are documented and structured based on the most commonly used COSO framework ("Internal Control – Integrated Framework") as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS* (International Financial Reporting Standards) as adopted by the European Union.

Also, projections relating to future periods are not part of the internal control system.

DESCRIPTION OF THE INTERNAL CONTROL SYSTEM AT MORPHOSYS

Internal control over financial reporting, i.e. control activities performed in the financial statement close process, is part of the Company-wide internal control system. The control environment comprises the following elements:

- General policies and guidelines applicable to all employees as well as
- Processes that include controls for reporting adequate figures in the financial statements.

RISK ASSESSMENT

MorphoSys regards risk management as an activity directed towards identifying, evaluating and mitigating risks (to an acceptable level) as well as monitoring identified risks. Risk management entails organized activity to manage uncertainty and threats and involves people following procedures and using tools in order to ensure conformance with the risk management policy.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

* SEE GLOSSARY P. 98

MorphoSys has a risk identification and evaluation process in place encompassing all business risks, in particular those which may put the existence of the Company at risk.

INFORMATION AND COMMUNICATION

MorphoSys uses ERP (enterprise resource planning) software to make information available for processes and internal control procedures and for reporting purposes. Furthermore, regular communication takes place between the finance teams, local entities and finance headquarters.

Considering the relevance of its information systems, MorphoSys has IT policies in place, governing the use of information technology and communication media in order to reduce any outside risk. Furthermore, a communication policy is in place which defines classification for the distribution of internal documents to make sure that any information is distributed to an adequate audience. Wherever applicable, parameters of applications and systems are set in such a way that the security of information is enhanced.

CONTROL ACTIVITIES

MorphoSys has implemented control activities in all of its processes, wherever there is an unmitigated risk of (unwarranted or intentional) errors and misstatements. The head of each functional department is responsible for the application of the respective controls in her/his area of responsibility.

Control activities at MorphoSys – including the internal control over financial reporting in the narrower sense – are based on the following general principles:

- Control activities are based on policies and procedures, including a general "presentation and signature policy" which is applicable to all processes and governs authorization and approval levels.
- Documentation of transactions is required, where applicable.
- Segregation of duties (four eyes principle) is implemented where applicable, e.g. between the purchasing and finance departments.
- Information systems are secured by access controls at various levels.

Control activities include both controls before the fact, which are designed to avoid errors and misstatements, as well as controls being performed after the fact, which are designed to detect errors.

MONITORING

MorphoSys tested the compliance with its internal controls with the assistance of an external consultant in 2010. The results have been discussed within the Management Board and will be presented to the Supervisory Board.

DIRECTORS' HOLDINGS

The members of the Management Board and the Supervisory Board own more than 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 28* (Related Parties) of the Notes to the Consolidated Financial Statements. This list details all 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 MorphoSys AG's Management Board and Supervisory Board and persons who have a "close relationship" with such members are obligated to disclose any trading in MorphoSys stock.

In the reporting year, we received the following notifications pursuant to sec. 15a of the WpHG. Each sale of shares listed below was preceded directly by the exercise of stock options to purchase an identical number of shares.

* SEE PAGE 83 ET SEQ.

Sales of the stock options were in conjunction with the scheduled expiration of these bonds in 2010 and 2011.

Member of the Management Board	Function	Date of Transaction in 2010	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price in €	Transaction Volume in €*
Dr. Arndt Schottelius	CDO	January 26	Purchase	500	17.00	8,500.00
Dr. Arndt Schottelius	CDO	March 26	Purchase	500	16.375	8,187.50
Dr. Simon E. Moroney	CEO	July 08	Sale	108,000	14.30	1,544,400.00
Dave Lemus	CFO	July 09	Sale	7,305	15.19	110,962.95
Dr. Marlies Sproll	CSO	December 13	Purchase	3,000	14.71**	44,130.00
Dr. Marlies Sproll	CSO	December 13	Sale	58,569	17.81	1,043,113.89
Dr. Marlies Sproll	CSO	December 14	Sale	13,431	17.26	231,819.06

* Differences due to rounding
** Strike price of stock options

PREVENTING CONFLICTS OF INTEREST

Members of both boards are obliged to avoid any actions that could cause conflicts of interest with their functions at MorphoSys AG. Such transactions or ancillary activities of the Management Board have to be immediately reported to and approved by the Supervisory Board. The Supervisory Board in turn shall inform the Annual Shareholders' Meeting of any conflicts of interest which have occurred along with their solutions. In 2010, Dr. Gerald Möller disclosed his conflict of interest in connection with the negotiations with Sloning BioTechnology GmbH. Dr. Möller is investment advisor at HBM Partners, one of the major investors in Sloning BioTechnology GmbH. Dr. Möller did not participate in any of the Supervisory Board's discussions regarding the acquisition.

ANNUAL GENERAL MEETING

The Annual General Meeting took place in Munich on May 21, 2010. Approximately 35 % of total voting stock was represented at the meeting, a decrease compared to the attendance in 2009 (approximately 46 %). 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 until the end of the general debate of the Annual General Meeting. MorphoSys's shareholders approved all management proposals put to vote at the meeting. MorphoSys provided an online webcast of the Management Board's presentation and published all documents in a timely manner on the Company's website*.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

RISK MANAGEMENT

The Management Board ensures responsible risk handling at all times and keeps the Supervisory Board informed about existing risks and their development. This part of corporate governance includes an appropriate risk management and risk control system in the Company. Detailed information about the opportunities and risks* at MorphoSys can be found on page 36 et seqq. of this report. The systematic risk management activities, performed as part of the Company's value-based management approach, identify and assess risks at an early stage and minimize risk exposure. As conditions change, the Company's risk management system is developed further.

CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

Transparency and an open dialog are important principles for MorphoSys's communication policy. The Company strictly adheres to the concept that no shareholder receives preferential information. Therefore, all communication activities are aimed at providing shareholders with the same level of information at the same time.

A decisive part of MorphoSys's relations with its investors are frequent meetings with analysts and institutional investors at road shows and in one-on-one discussions. Conference calls accompany the publication of the quarterly figures to enable immediate queries on the development of the Company for analysts and investors. In 2010, MorphoSys hosted for the first time a R&D day in London and New York to provide an extensive update on its partnered pipeline, proprietary portfolio and recent technology developments.

* SEE PAGE 36 ET SEQ.

The Company's presentations at on-site events are accessible for any interested party on the corporate website. Video and audio recordings of key events can be replayed on the website at any time and transcripts of the conference calls are provided in English and German.

MorphoSys's financial calendar lists the dates of all regular financial publications and the next Annual General Meeting well in advance. MorphoSys's boards attach great importance to transparent and timely information for all shareholders. Hence, MorphoSys even exceeds the requirements of the German Corporate Governance Code by reporting its year-end results within 60 days and the quarterly results within 30 days of the end of the respective reporting periods.

DIVERSITY

Diversity and its conscious promotion with the aim of enhancing a company's success is becoming more and more critical in today's global business environment. The stakeholders's individuality is a valuable asset for MorphoSys. To limit opportunity based on gender, race, age, lifestyle or political affiliation would limit MorphoSys's potential achievements as a company. Having a broad mix of people helps to understand different perspectives, to be open to others' ideas and promotes a high level of mutual respect within the Company.

In 2010, the German Corporate Governance Code recommended that the Supervisory Board should specify concrete objectives regarding its composition which also take into account diversity aspects, in particular according adequate importance to the inclusion of women. Since there were no elections to MorphoSys's Supervisory Board at the time of the introduction of this recommendation, the Supervisory Board will address this issue in 2011 (see the Declaration of Compliance on our corporate website*)

FINANCIAL STATEMENT AUDIT BY KPMG

MorphoSys prepares its consolidated financial statements and quarterly financial statements in accordance with International Financial Reporting Standards (IFRS). MorphoSys AG's financial statements are prepared in accordance with the German Commercial Code (HGB). The Audit Committee of the Supervisory Board proposes the selection of the Company's external auditor. At the Annual General Meeting, KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2010 fiscal year. In order to ensure the auditor's autonomy, the Audit Committee obtained a declaration of independence from the auditor.

REMUNERATION REPORT

The Remuneration Report reflects the applicable provisions of the laws relating to the disclosure of the remuneration of the Management Board members and the respective principles of the German Corporate Governance Code.

REMUNERATION OF THE MANAGEMENT BOARD

GENERAL

The aggregate annual compensation paid to Management Board members consists of several components. These include a fixed compensation, a yearly cash bonus based on the achievement of company and individual goals, a medium- and long-term incentive component and additional benefits. Each year, the structure and appropriateness of the aggregate annual compensation packages are reviewed by the Remuneration & Nomination Committee. The amount of compensation payable to the Management Board members is dependent in particular on the achievement of the duties and goals of the individual Management Board member, and on the business situation, success and prospects of the Company relative to its competitive environment. The aggregate annual compensation packages are compared to the outcome of a comparative international industry study carried out in 2010 by an internationally acclaimed consultancy firm on the specific instructions of the Supervisory Board. Other available international benchmark sources are also taken into consideration. The adjustments to the aggregate annual compensation packages are adopted by the plenum of the Supervisory Board. The last occasion on which the salaries of the Management Board members were adjusted was in July 2010.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

OVERVIEW

In the 2010 fiscal year, the total cash remuneration paid to the members of the Management Board amounted to €2,216,976 (previous year: €2,081,756). The table below shows a detailed breakdown of the compensation paid to the members of the Management Board:

	Fixed Compensation		Variable Compensation		Other Compensatory Benefits		Total Compensation	
in €	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Simon E. Moroney	368,498	356,011	208,570	192,246	130,178[1]	124,198	707,246	672,455
Dave Lemus	259,157	250,375	152,902	135,203	156,639[2]	141,055	568,698	526,633
Dr. Arndt Schottelius	231,000	220,000	132,594	118,800	90,158[3]	84,513	453,752	423,313
Dr. Marlies Sproll	249,623	241,164	146,778	130,229	90,879[4]	87,963	487,280	459,356
TOTAL	**1,108,278**	**1,067,550**	**640,844**	**576,478**	**467,854**	**437,728**	**2,216,976**	**2,081,756**

[1] Includes €103,844 annual contributions to private pension fund and allowances for insurances (prior year: €101,555)
[2] Includes €74,605 annual contributions to private pension fund and allowances for insurances (prior year: €72,743)
[3] Includes €68,837 annual contributions to private pension fund and allowances for insurances (prior year: €66,753)
[4] Includes €72,371 annual contributions to private pension fund and allowances for insurances (prior year: €70,695)

NON-PERFORMANCE-RELATED COMPENSATION

The non-performance-related compensation consists of the fixed compensation and additional benefits which primarily encompass 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 or another form of pension schemes ("Altersversorgung"). MorphoSys pays the monthly contribution to these funds or other kind of pension scheme. These payments amount to a maximum of 10% of the annual fixed salary of each Management Board member plus tax contribution and are included in the non-performance-related compensation. In addition, all Management Board members participate in a pension scheme which was established in cooperation with Allianz Pensions-Management e.V. Allianz Pensions-Management e.V. serves as a so-called "Unterstützungskasse", which means pension commitments have to be fulfilled by Allianz Pensions-Management e.V.

PERFORMANCE-RELATED COMPENSATION

Each Management Board member is eligible to receive performance-related compensation in the form of an annual cash bonus payment. Such bonus payments are dependent on the achievement of Company-related and individual goals, which are determined by the Supervisory Board at the beginning of each fiscal year. The Company-related goals account for up to two thirds of the payment and are based on the operating performance of the Company as measured by revenues and net income, progress in the proprietary pipeline and other measures including performance of the Company's stock, or the completion and/or extension of important collaborations. Individual goals account for up to one third of the payment and comprise operational objectives which the Management Board member is responsible for fulfilling. At the end of the year, the Supervisory Board evaluates the level of attainment of the Company and the individual goals and sets the bonus payment accordingly. The bonus for the 2010 fiscal year will be paid out in March 2011.

LONG-TERM INCENTIVIZING COMPENSATION

The long-term performance-related remuneration consists of convertible bonds and stock options pursuant to the respective incentive plans as resolved by the Annual General Meeting.

The current employee convertible bond programs provide for the issuance of non-interest-bearing convertible bonds with a par/nominal value of €0.33 each to employees and to the Management Board members. The beneficiaries may only exercise the conversion rights following the expiration of a waiting period of four years 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, exercising of the convertible bonds is subject to the performance target that the value of the underlying stock should have exceeded the stock price at the time of the grant by at least 10% on any one trading day before the exercise.

In 2011, MorphoSys plans to switch to a long-term incentive program based on the issuance of performance shares. The respective underlying shares will be bought back by the Company from the stock market, based on the resolution of the 2010 Annual Shareholders' Meeting. Under the new long-term incentive plan each member of the Management Board will be allocated a certain number of stocks on an annual basis. Such stocks are subject to a four-year lock-up period. After the lapse of the lock-up period, the allocated stocks will finally be granted to the relevant member of the Management Board subject to his/her achievement of predefined success criteria and therewith become exercisable.

For a more detailed description of the various stock option and convertible bond programs currently in operation, see sections 17 and 18* of the Notes to the Consolidated Financial Statements.

The Supervisory Board decides each year on the number of stock options or convertible bonds to be allocated to the Management Board members. According to Company policy covering equity-based compensation programs, stock options or convertible bonds may only be issued on two preset dates each year. In 2010, 157,800 convertible bonds were granted to members of the Management Board. The value of convertible bonds granted to members of the Management Board attributable to the 2010 fiscal year totaled € 1,050,948 (2009: granting of 244,200 stock options and 90,000 convertible bonds with a total value of € 1,420,109). For further details see also Employee Convertible Bond Program in section 17* of the Notes to the Consolidated Financial Statements.

In 2010, members of the Management Board purchased MorphoSys shares and exercised stock options, which were subsequently partly sold. All transactions were reported in accordance with legal requirements and published on the Company's website*.

VARIA

No credit, loan 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.

ACT ON THE APPROPRIATENESS OF MANAGEMENT BOARD REMUNERATION

In order to ensure the conformity of Management Board compensation with the Act on the Appropriateness of Management Board Remuneration ("Gesetz zur Angemessenheit der Vorstandsvergütung" – VorstAG), the Supervisory Board conducted a detailed review of the compensation system for the Management Board members in 2009 and 2010. This review included the commissioning of a comparative study by an independent recognized consultant as well as discussions with external consultants and was completed in 2010. Following the review some amendments to the service agreements of the Management Board members were implemented prior to the lapse of the transition period of the Act on the Appropriateness of Management Board Remuneration.

CONVERTIBLE BONDS GRANTED TO THE MANAGEMENT BOARD IN 2010

Member of the Management Board	Number of Convertible Bonds	Strike Price in €	Grant Date	Expiry Date	Fair Value of One Convertible Bond in €	Fair Value at The Time of the Grant in €
Dr. Simon E. Moroney	58,800	16.79	Apr 1, 2010	Dec 31, 2015	6.66	391,608
Dave Lemus	33,000	16.79	Apr 1, 2010	Dec 31, 2015	6.66	219,780
Dr. Arndt Schottelius	33,000	16.79	Apr 1, 2010	Dec 31, 2015	6.66	219,780
Dr. Marlies Sproll	33,000	16.79	Apr 1, 2010	Dec 31, 2015	6.66	219,780

* SEE PAGE 74 ET SEQ.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

NON-REAPPOINTMENT/NON-PROLONGATION

The service agreements of the Management Board members provide that 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. Such severance payment shall be offset against any salary payments received in the event of a leave of absence of a Management Board member. If the Management Board member's service contract is terminated by death, his/her spouse or life partner is entitled to the monthly fixed salary for the month of death and the following twelve months. In the event that (i) MorphoSys transfers its assets or material parts of its assets to a non-affiliated third party, (ii) MorphoSys is merged into a non-affiliated third party or (iii) a shareholder holds more than 30 % of the voting rights of 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 for two years, whichever is greater. Furthermore, in such a case, all granted stock options and convertible bonds shall be treated as immediately vested.

CHANGE IN MANAGEMENT BOARD COMPOSITION

In September 2010, the Company concluded mutual agreements with its Chief Financial Officer, Mr. Dave Lemus, regarding the ending of his more than 13 years of serving as MorphoSys CFO, and subsequent seamless transfer of his functions to a successor. Pursuant to these agreements Mr. Lemus is entitled to the contractually agreed compensation under his service agreement until 30 June 2011. Further, Mr. Lemus shall receive a contractually agreed further payment equal to his fixed gross annual salary in the amount of € 264,238 plus a bonus calculated as the average bonus in the years 2009 and 2010 in the amount of € 144,053. Additionally, Mr. Lemus's unvested portion of outstanding stock options granted for the years 2008 and 2009 has been vested prematurely.

REMUNERATION OF THE SUPERVISORY BOARD

The compensation of the members of the Supervisory Board is based on the provisions of the Articles of Association, the current version of which was adopted by the stockholders at the Annual General Meeting on May 21, 2010 and the respective resolutions of the stockholders at the Annual General Meetings regarding the remuneration of the members of the Supervisory Board. In 2010, the members of the Supervisory Board received a fixed compensation and an attendance fee per board and committee meeting attended. The overall compensation takes into account the responsibilities and range of tasks of the Supervisory Board members as well as the economic situation and performance of the Company.

In the 2010 fiscal year, the members of the Supervisory Board received a total of € 382,750 (2009: € 374,333), excluding reimbursement of travel expenses. This amount consists of fixed remuneration and variable compensation (attendance fees).

The table below shows a detailed breakdown of the compensation paid to the Supervisory Board:

	Fixed Compensation		Variable Compensation		Total Compensation	
in €	2010	2009	2010	2009	2010	2009
Dr. Gerald Möller	70,000	57,000	22,000	40,722	92,000	97,722
Prof. Dr. Jürgen Drews	57,750	43,278	15,000	27,778	72,750	71,056
Dr. Walter Blättler	39,500	29,556	18,000	11,000	57,500	40,556
Dr. Daniel Camus	36,500	28,500	19,000	28,333	55,500	56,833
Dr. Metin Colpan	36,500	28,500	10,000	21,333	46,500	49,833
Dr. Geoffrey N. Vernon	39,500	30,000	19,000	28,333	58,500	58,333
TOTAL	279,750	216,834	103,000	157,499	382,750	374,333

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, 2010, the Company's share capital amounted to €22,890,252.00 and is divided into 22,890,252 no-par value bearer shares. With the exception of 79,896 Company-held 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 sec. 21 of the German Securities Trading Act (WpHG). There are no owners of shares with privileged rights or other rights resulting in 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 Management Board members. The Supervisory Board may appoint a Chief Executive Officer and one or several representatives of the CEO. Pursuant to sec. 20 of the Articles of Association, amendments to 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 Company-held 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 up to April 30, 2013, by the amount of up to €8,864,103.00 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 are placed on 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 up to April 30, 2013, by the amount of up to €2,216,025.00 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 €5,488,686.00, 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 by 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 exist Conditional Capital 1999-I in the amount of up to €90,729.00 (sec. 5 para. 6a of the Articles of Association), Conditional Capital 2003-II in the amount of up to €820,464.00 (sec. 5 para. 6c of the Articles of Association), Conditional Capital 2008-II in the amount of up to €1,115,691.00 (sec. 5 para. 6d of the Articles of Association), and Conditional Capital 2008-III in the amount of up to €450,000.00 (sec. 5 para. 6e of the Articles of Association). These conditional 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

The authorization to repurchase treasury stock as provided by the resolution of the 2008 ordinary Annual General Meeting had expired on October 31, 2009. It was replaced by a resolution of the 2010 ordinary Annual General Meeting authorizing the Company to buy back up to 10 % of its existing share capital (i. e. up to 2,289,025 shares) by April 30, 2015.

CHANGE OF CONTROL PROVISIONS

KEY AGREEMENTS SUBJECT TO CONDITIONS

In 2007, the Company and Novartis Pharma AG extended their original 2004 collaboration agreement in the field of pharmaceutical research. According to this agreement, should 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 collaboration agreement.

A change in control is considered to be 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 collaboration agreement by Novartis Pharma AG could significantly affect future cash flows of the Company.

CHANGE OF CONTROL PROVISIONS FOR MANAGEMENT BOARD MEMBERS

After a change of control transaction, each member of the Management Board is allowed to 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

MorphoSys has established a comprehensive and effective system to identify, assess, communicate and manage risks across its business units, legal entities, 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. Risk evaluations are carried out twice a year using a systematic process to ensure all major risks are taken into account for MorphoSys's different business units as well as on corporate level. All risks have been clearly assigned to responsible managers that are (depending on the significance of the risk) often members of MorphoSys's Senior Management group. Risks are evaluated considering their quantifiable impact on the MorphoSys Group without having any control measures in place compared to having the mitigation processes established. MorphoSys differentiates between rather short-term risks that would hit the Group within the next twelve months and more long-term, strategic risks that are especially important for MorphoSys's proprietary development programs with development timelines between 10 and 15 years. The risk management report is discussed among the Management Board and in the Supervisory Board. To ensure that the risk management process is always state of the art, it is also challenged on a regular basis with external consultants and discussed with the auditor. In addition to the regular risk management process, ad hoc occurring risks are discussed and countermeasures taken on a short-term notice basis.

RISKS

MorphoSys operates on a global basis and, even more importantly, its customers and the end markets of its antibodies are affected by developments all around the world. Due to the nature of its industry, it is impossible to completely avoid any risks. MorphoSys carefully chooses the industries it operates in and takes risks that are in line with its corporate strategy. The business, financial conditions, operating results and future prospects of MorphoSys may be materially adversely affected by each of these risks.

SHORT-TERM 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. MorphoSys's top short-term risks include mostly risks resulting from not reaching revenues as expected, derived from existing business with partners or from new product offerings that are constantly developed. MorphoSys considers its biggest short-term risks to be not reaching its projected revenues and profitability levels as a result of missing development milestones

in partnered projects, preventing milestone payments. While it is not in MorphoSys's power to reach these milestone events, the Company uses a standard process of regularly monitoring the progress of each developed compound at a partner company and regularly reports the status. Therefore, deviations from projections can be taken into account early on and included in the regular quarterly updates of MorphoSys's financial projections. Furthermore, when fewer deals are executed than planned (or on lower terms than projected) is considered a risk for the future of MorphoSys. To minimize these risks, MorphoSys maintains strong relationships with its partners and discusses market developments and typical terms through all relevant means, e.g. market intelligence, customers and experts. This is done on a constant basis and forms the basic element of the projections of revenues for the therapeutic segments.

IP risks are also considered to be highly relevant for products that are developed using MorphoSys's proprietary technologies. To mitigate risks such as potential lawsuits filed by third parties concerning the Company's technology platform or requiring additional third-party licenses to practice the technology platform, MorphoSys continuously searches and analyzes published patents and patent applications, monitoring relevant hits and developing design-around strategies for potentially relevant patents before they are issued. Thus, the freedom to operate its proprietary technology platform is secured and the Company prides itself on the success the strategy has generated over the years.

LONG-TERM RISKS

The major long-term risks for MorphoSys are considered to be in the Company's proprietary development pipeline. MorphoSys increased its investment into its clinical and preclinical programs over the last years, but failure of these programs prior to partnering as a result of data not showing convincing effects on clinical activities is considered to be an inherent risk of these activities. While MorphoSys cannot ensure that data shown by its programs will always demonstrate positive results with respect to the indications and treatments tested, the greatest care is used in the design of clinical development plans. These are to be state of the art, ensuring the best chance of displaying data with results that are significant and sufficient to convince the regulatory bodies and potential partners of the likely success of the program in question. While these risks might not necessarily need to be taken into account on a short-term basis and are not likely to endanger the survival of MorphoSys as a Group, they would hurt its long-term prospects of becoming a leading drug developer and partnering valuable products at advanced clinical stages with its pharma partners, thereby generating value for its shareholders and other stakeholders.

GENERAL STATEMENT ABOUT MORPHOSYS'S GROUP RISKS

According to our current assessment of the MorphoSys Group's risks, we do not see any negative deviations from the statements given in other chapters of the annual report. We consider the risks to be manageable and the survival of the MorphoSys Group not to be endangered at the time of the current report. That statement is true for all relevant single entities and for the MorphoSys Group. Assuming no further deterioration of the global business as well as the financial and regulatory environment, MorphoSys considers itself well prepared to meet all future challenges.

OPPORTUNITIES

Thanks to its internationally-oriented strategic positioning, MorphoSys has many 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 Serotec segment strives to increase its market share for research and diagnostic antibodies.

MorphoSys's antibody technologies offer key advantages for the development and optimization of therapeutic antibodies, which should lead in the long-term to higher success probabilities and lower attrition rates in the drug development process. In the research and diagnostics fields, the technologies also offer significant advantages for the development of antibodies for use as reagents in research and diagnostics.

Antibodies to Treat Multiple Myeloma

Multiple myeloma is a cancer of plasma cells, a type of white blood cells responsible for the production of antibodies. Collections of abnormal cells accumulate in bones, where they cause bone lesions, and in the bone marrow, where they interfere with the production of normal blood cells. Multiple myeloma is considered the second most common hematological malignancy.

MorphoSys expects to run a phase 1 clinical trial with MOR202 in 2011. Additionally, MorphoSys joined forces with Klinikum rechts der Isar, the university hospital of Munich Technical University, to explore biomarkers relevant to the anti-CD38 approach.

MOR202 is directed against CD38, a membrane-bound protein that is a promising therapeutic target for the treatment of multiple myeloma. The antibody binds to its target and signals the immune system to attack the cancer cells. In preclinical studies, MOR202 effectively killed multiple myeloma cells from primary patient tumor material.

GENERAL STATEMENT ON OPPORTUNITIES

Due to increased life expectancy for people living in industrialized nations and the growing understanding of diseases, 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 fully human antibodies have been launched in recent years, which are changing therapeutic approaches and improving the quality of life for patients. In addition, due to strong competition from generics, almost all pharmaceutical companies are increasing their commitment to biologics such as human antibodies. Therapeutics based on biologicals are not as exposed to generics competition as small molecules, mainly because the manufacturing of the compounds is much more complex. To fill development pipelines, all major pharmaceutical players have made major commitments to biological therapies. Therefore, the demand for antibodies and the interest of the industry in this class of drugs have sharply increased over the last 12 to 36 months, clearly underpinned by several acquisitions and large licensing agreements in this field. The use of antibodies as therapeutics as well as for research purposes and diagnostic applications represents sustainable growth opportunities for MorphoSys.

MARKET OPPORTUNITIES

MorphoSys believes that its HuCAL and *arYla* antibody platforms can be applied to make products that address significant unmet medical needs and provide new research and diagnostic tools cheaper and faster.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By participating in drug development with multiple partners, MorphoSys has effectively improved its risk profile. With 65 therapeutic antibody development programs currently ongoing with its partners, the chance that MorphoSys will participate financially in one or more marketed drugs is becoming more and more likely.

MorphoSys will continue to expand its partnered antibody pipeline. In addition, MorphoSys may sign additional fee-for-service partnerships in the area of infectious diseases and partnerships on novel technology platforms such as Slonomics and *arYla*.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

With its partners, especially Novartis, providing a secure cash flow over the coming years, MorphoSys is able to additionally strengthen its proprietary pipeline. The Company will continue to expand its proprietary pipeline with *de novo* starts and additional co-development programs. Furthermore, the Company is looking for in-licensing opportunities for interesting targets and potential drug candidates.

While MorphoSys is taking on more risk when developing proprietary compounds, the reward for promising drug candidates is higher than in the partnered segment. The pharmaceutical industry is likely to further increase its in-licensing activities in order to refill their pipelines and replace key drugs losing patent protection.

ABD SEROTEC

Antibodies are important components of scientific research and modern diagnostic practice. According to a BioCompare study carried out in 2009, around 20 % of the overall diagnostics market is represented by antibody-based products today, generating global revenues in the amount of approximately US$ 8 billion. In 2010, AbD Serotec significantly advanced into this promising sector by signing several new supply agreements with diagnostic companies. There is an increasing demand for diagnostics, which are used to identify patient sub-populations that would benefit from treatment with a particular drug or to monitor the success of a treatment.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and in new technologies to remain at the forefront of technological leadership. This technological progress may enable the Company to further expand its roster of partners and to increase the speed and success rates of its partnered and proprietary drug development programs.

ACQUISITION OPPORTUNITIES

MorphoSys has demonstrated its ability to complete acquisitions and to use such transactions to accelerate its growth. In 2010, MorphoSys proved this point by acquiring Sloning BioTechnology GmbH and signing a significant license agreement for the thereby acquired Slonomics technology a few weeks later. MorphoSys may again use an acquisition strategy to increase its market share and to access patents and licenses for proprietary technology and drug development, thereby augmenting strong organic growth.

Subsequent Events

There were no events requiring disclosure.

Outlook and Forecast

The MorphoSys Group develops novel antibodies for therapeutic, diagnostic and research applications.

The Group's main focus is on applying its technologies in rapidly growing, innovation-driven sectors of the healthcare market. The Company's management intends to continue to expand MorphoSys's proprietary drug development activities by taking advantage of opportunities in the therapeutics area. Moreover, MorphoSys seeks to enlarge its market share within the research and diagnostics fields, the latter of which in particular represents a largely untapped market for the Company's technologies.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT

The Company owns established and validated technologies. In the therapeutics area, commercialization of these technologies contributes secure cash flows from long-term partnerships with large pharmaceutical companies. The Company's strategic focus is to apply its technologies to build a broad and sustainable pipeline of innovative antibody drug candidates within these collaborations and from its own development activities. Through its AbD Serotec segment, the Company has a wide customer network. The AbD Serotec segment is well positioned in the diagnostics market, providing innovative antibodies to open up new diagnostic applications.

Its stable cash flows and the strong cash position allow the Company to build up its business through investments in proprietary drug and technology development.

The Management Board expects the following developments for MorphoSys in the relevant markets:

- MorphoSys continues to invest in technology development to remain at the forefront of the antibody field. The Company expects to sign additional commercial collaborations based on its proprietary technologies in combination with those recently secured in the acquisition of Sloning BioTechnology GmbH.
- The demand for antibodies as new treatment modality remains high, allowing the Company to expand its pipeline of therapeutic antibodies within its partnerships and on its own account.
- The pharmaceutical industry continues to look for in-licensing opportunities to gain access to promising product candidates. If clinical proof of concept of a proprietary drug candidate is reached, lucrative deal terms could be achieved.
- The AbD Serotec segment is now increasingly focusing on diagnostic applications using MorphoSys's technologies. New technology for antibody generation has had very little impact on the market for diagnostic antibodies to date. The ability to make superior antibodies for diagnostic applications makes AbD Serotec increasingly attractive for this market segment. AbD Serotec's management is confident about future growth prospects based on existing research collaborations with a number of leading diagnostics companies.

STRATEGIC OUTLOOK

MorphoSys's business model is built on its proprietary technologies including HuCAL and recently launched *arYla*.

The development of therapeutic antibodies within partnerships will continue to be a significant part of MorphoSys's strategy. The Company's therapeutic pipeline is expected to expand and mature over the coming years. The extraordinary breadth of this pipeline promises to yield a significant number of marketed therapeutic antibodies in the years ahead.

Within its Proprietary Development segment, the Company is committed to developing therapeutic antibodies in the areas of inflammation and oncology for its own account. In the near term, the plan is to take proprietary drug candidates to clinical proof of concept before seeking a commercial partner. The proprietary portfolio will be enlarged by starting *de novo* programs, and also by securing access to interesting targets and product candidates through additional in-licensing activities. The addition of MOR208 to the Company's portfolio was a good example of this. To diversify its proprietary pipeline, MorphoSys will pursue additional co-development projects within its alliances with Novartis and Galapagos, and potentially with other biotechnology or pharmaceutical companies.

The Partnered Discovery segment generates secured cash flows from MorphoSys's long-term alliances. For the foreseeable future, MorphoSys will continue to invest the majority of these cash flows in broadening and strengthening its Proprietary Development segment. Growth in this area is expected as existing drug programs progress, through new fee-for-service partnerships in the area of infectious diseases and by commercialization of new technologies, including those secured via acquisitions such as Sloning.

The AbD Serotec segment is striving to increase its market share within the research and diagnostics fields. AbD Serotec's management intends to concentrate on high-value applications of the HuCAL technology, especially in the area of diagnostics.

EXPECTED ECONOMIC DEVELOPMENT

The global economic upturn is expected to continue in 2011. In a preview of its economic report for 2011 early in December, the United Nations said it expects the world economy to grow by 3.1 % in 2011 and 3.5 % in 2012. However, due to the ending of numerous stimulus programs and the need to consolidate government budgets, global economic growth in 2011 will be weaker than in 2010. Risks to economic growth lie in a possible sharper slowdown of the US economy, exchange rate developments, the debt crisis in many countries, the continuing pressing need for write-downs in the banking sector and the price situation regarding raw materials.

The pharmaceutical and healthcare industries have historically been relatively immune to economic downturns, due to a continuously increasing demand for innovative treatments. Nevertheless, pharmaceutical companies are facing challenges such as low R&D productivity, government-imposed price erosions and patent expiries.

EXPECTED DEVELOPMENT OF THE LIFE SCIENCES SECTOR

The pharmaceutical industry is facing unprecedented challenges. Expiring patents, lack of new product supply and cost pressure from healthcare reforms in Europe and the USA all combine to place the industry under increasing pressure. According to IMS Health, drugs generating sales of around US$ 135 billion will lose their patent protection by 2013. This is the largest decrease in the industry's history. The world pharmaceutical market in total has a size of about US$ 800 billion.

Within the biotechnology industry, the access to capital will remain one of the main issues. While in 2010 the stock market climate for biotechnology companies improved overall in the USA, the window for IPOs in Europe is still closed. In general, the expectations for 2011 are again more positive. The need to add innovative therapies to the pipelines of the larger pharmaceutical companies could further increase M&A activities, partnering deals and licensing, a development that has already gained speed in 2009 and 2010.

EXPECTED COMMERCIAL DEVELOPMENT

With the Novartis deal ensuring a steady cash flow stream over the coming years and new commercial opportunities arising from the Sloning acquisition, MorphoSys will continue to concentrate on broadening its partnered and proprietary development pipelines. Within the Partnered Discovery segment, the number of programs is expected to continue to grow. The Company anticipates starting, on average, approximately ten new partnered programs per annum for the next several years.

The Company's management sees many opportunities to expand its proprietary development activities: *de novo* program starts, in-licensing of existing product candidates as well as co-development opportunities with Novartis, Galapagos and/or additional partners all offer attractive opportunities.

With regard to MOR103, the most advanced development program in MorphoSys's proprietary pipeline, the Company expects final data from the ongoing phase 1b/2a trial in the first half of 2012. Assuming the clinical trial proceeds as planned and proof of concept can be demonstrated, a partnership deal could be struck in the same year. In 2011, MorphoSys plans to start a safety study for MOR103 in a second indication, namely multiple sclerosis. In parallel, preparations for a pharmacokinetic study of a subcutaneous formulation are ongoing. Out-licensing of the other proprietary compounds is not planned before 2013.

The AbD Serotec segment strives to continously outgrow the market. Despite the global economic downturn, the management of AbD Serotec predicts growth rates for the coming years of approximately 10 % at constant exchange rates. In 2011, profit margins will decrease in comparison to 2010 due to an increase in personnel-related costs and investments in infrastructure, nevertheless it is expected that segment profit margins will continue to increase in the following years.

EXPECTED PERSONNEL DEVELOPMENT

MorphoSys will continue to expand its proprietary and partnered development capabilities by adding additional expertise and personnel. The rate of growth will, however, be less than in 2010.

EXPECTED RESEARCH AND DEVELOPMENT

The Company's R&D budget for proprietary drug development will continue to rise, roughly in line with the increase in revenues. In 2011, MorphoSys plans to invest between €40 million and €45 million in proprietary product and technology development. The majority of this investment will be channeled into the clinical and preclinical development activities for the most advanced drug candidates. The trend of increasing investments is expected to continue in 2012 and the years thereafter, although the size of such increases will depend on the status of the Company's drug pipeline and revenue development. Notwithstanding this, the Company is committed to remaining profitable.

The Company's proprietary pipeline activities in 2011 are projected to comprise:

- Completion of recruitment of rheumatoid arthritis patients for the phase 1b/2a study for its lead compound MOR103
- Filing of CTA for a phase 1b safety study in multiple sclerosis as second indication for MOR103
- Start of enrollment of multiple myeloma patients in a phase 1b/2 study for MOR202
- Ongoing enrollment of CLL/SLL patients in the phase 1b/2 trial for MOR208, sponsored by Xencor, Inc.

For 2011, no further expansion of the proprietary pipeline is planned. At the end of 2011, the Company expects up to ten proprietary compounds in total.

Regarding AbD Serotec, profitable growth based on innovative products and services is the central objective for the unit. The diagnostic industry offers the most attractive opportunities for growth and will therefore increasingly be the focus of the unit's activities. In 2010, several feasibility studies were conducted which could lead to conclusion of larger collaborations in 2011 and 2012.

EXPECTED FINANCIAL AND LIQUIDITY DEVELOPMENT

MorphoSys's management strives to achieve average annual revenue growth in excess of 10% in 2011 and 2012. For 2011, management anticipates total Group revenue growth in excess of 20%, namely at least €105 million. In the future, revenue growth will become more dependent on the out-licensing of proprietary products such as MOR103, MOR208 and MOR202, as well as on increasing milestone payments and royalties as partnered HuCAL antibodies are developed further and will enter the market. The revenue split between the Company's therapeutic antibodies segments and the AbD Serotec segment is anticipated to shift slightly towards the therapeutic side of the business in 2011 compared to the prior year.

The Partnered Discovery segment represents a highly profitable business unit. Long-term alliances will provide the Company with secured cash flows for at least the next six years.

On the basis of the Management Board's current planning, total Group operating expenses are expected to increase in 2011 and 2012, subject to corresponding revenue increases. S, G&A expenses are expected to increase only slightly. MorphoSys plans to increase its investments in its proprietary antibody pipeline, particularly in MOR103, MOR208 and MOR202, additional *de novo* discovery programs and co-development alliances.

On the basis of current planning, MorphoSys expects to remain profitable on an operating level in 2011 and 2012. For 2011, the Company anticipates an operating profit of at least €10 million and to maintain profitability in 2012.

AbD Serotec showed revenue growth in 2009 and 2010, with a profit margin of around 5% and 6%, respectively. For 2011, management anticipates revenues of approximately €22 million, while the profit margin will experience a one-off decrease due to an increase in personnel-related costs and investments in infrastructure. COGS is anticipated to increase in line with sales of the AbD Serotec segment, whereas segmental operating expenses are expected to increase only slightly. For 2012, at constant foreign currency rates, management expects the segment to show annual revenue growth rates of at least 10% with increasing margins.

At the end of the 2010 fiscal year, MorphoSys's cash position amounted to €108.4 million. Despite the more difficult conditions resulting from the global financial crisis, MorphoSys's financing is solid. MorphoSys sees its strong cash position as an asset which can be used to accelerate future growth through strategic transactions. The in-licensing of MOR208 and the acquisition of Sloning BioTechnology GmbH are good examples of this.

DIVIDENDS

For the first time, MorphoSys's German statutory accounts showed accumulated earnings available for distribution. Nevertheless, in common with standard practice in the biotechnology industry, MorphoSys does not anticipate paying a dividend for the foreseeable future. Any profit generated by the business shall be substantially reinvested in the operation of its business, mainly in the area of proprietary drug development, in order to create further shareholder value and growth opportunities. Nonetheless, the Company does plan to purchase shares from the market to support a new long-term incentive program for management.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2011 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*.

* SEE PAGE 36 ET SEQ.

Contents Consolidated Financial Statements

Consolidated Statement of Operations (IFRS)

in €	Note	2010	2009
Revenues	1T, 20	87,036,308	80,968,414
Operating Expenses			
Cost of Goods Sold	2	7,284,211	6,743,836
Research and Development		46,899,723	38,967,305
Sales, General and Administrative		23,226,029	23,910,845
Total Operating Expenses		77,409,963	69,621,986
Other Operating Income	1U	222,418	55,667
Profit from Operations		9,848,763	11,402,095
Finance Income	22	4,123,286	2,001,573
Finance Expenses	22	33,881	9,538
Other Income	22	469,547	372,372
Other Expenses	22	1,236,159	732,762
Profit before Taxes		13,171,556	13,033,740
Income Tax Expenses	23	3,975,256	4,069,645
Net Profit		9,196,300	8,964,095
Basic Net Profit per Share	24	0.41	0.40
Diluted Net Profit per Share	24	0.40	0.40
Shares Used in Computing Basic Net Profit per Share	24	22,656,233	22,464,757
Shares Used in Computing Diluted Net Profit per Share	24	22,786,536	22,559,164

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Comprehensive Income (IFRS)

in €	2010	2009
Net Profit	9,196,300	8,964,095
Change in Unrealized Gains and Losses on Available-for-sale Securities	(3,580,703)	(1,066,905)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit or Loss)	(3,854,337)	(1,668,056)
Deferred Taxes	942,799	280,916
Change in Unrealized Gains and Losses on Available-for-sale Securities, Net of Deferred Taxes	(2,637,904)	(785,989)
Effects from Equity-related Recognition of Deferred Taxes	(5,622)	(6,788)
Foreign Currency Gain from Consolidation	448,445	486,184
Comprehensive Income	7,001,219	8,657,502

See accompanying Notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

in €	Note	2010	2009
ASSETS			
Current Assets			
Cash and Cash Equivalents	3, 15	44,118,451	41,255,316
Available-for-sale Financial Assets	4, 15	64,304,041	93,883,571
Accounts Receivable	5, 15	15,009,326	11,156,559
Tax Receivables	7	499,323	794,855
Other Receivables	6	522,520	257,550
Inventories, Net	7	4,135,446	3,990,238
Prepaid Expenses and Other Current Assets	7	3,104,340	3,481,709
Assets Classified as Held-for-Sale	11	813,011	771,798
Total Current Assets		132,506,458	155,591,596
Non-current Assets			
Property, Plant and Equipment, Net	8	6,189,865	4,996,804
Patents, Net	9	10,285,264	789,798
Licenses, Net	9	12,118,924	13,780,534
Intangible Assets under Development	9	10,513,100	0
Software, Net	9	505,328	712,482
Know-how and Customer Lists, Net	9	1,685,978	2,083,633
Goodwill	9, 12	34,099,485	26,742,173
Deferred Tax Asset	23	2,991,391	221,534
Prepaid Expenses and Other Assets, Net of Current Portion	7, 10	1,658,040	1,172,041
Total Non-current Assets		80,047,375	50,498,999
TOTAL ASSETS		**212,553,833**	**206,090,595**

See accompanying Notes to the Consolidated Financial Statements

in €	Note	2010	2009
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	13, 15	15,614,905	14,106,352
Licenses Payable	15	134,617	100,746
Tax Liabilities	14, 23	2,144,674	1,426,760
Provisions	14	275,000	0
Current Portion of Deferred Revenue	1T	3,181,605	8,618,250
Total Current Liabilities		21,350,801	24,252,108
Non-current Liabilities			
Provisions, Net of Current Portion	14	43,344	43,344
Deferred Revenue, Net of Current Portion	1T	690,756	5,579,610
Convertible Bonds Due to Related Parties	17	127,593	32,670
Deferred Tax Liability	23	4,419,245	2,248,498
Total Non-current Liabilities		5,280,938	7,904,122
Stockholders' Equity	16, 17, 18		
Common Stock			
Ordinary Shares Authorized (41,935,950 and 42,400,635 for 2010 and 2009, respectively)			
Ordinary Shares Issued (22,890,252 and 22,660,557 for 2010 and 2009, respectively)			
Ordinary Shares Outstanding (22,810,356 and 22,580,661 for 2010 and 2009, respectively)			
Treasury Stock (79,896 and 79,896 shares for 2010 and 2009, respectively), at Cost		22,880,478	22,650,783
Additional Paid-in Capital		166,388,083	161,631,268
Reserves		(811,963)	1,383,118
Accumulated Deficit		(2,534,504)	(11,730,804)
Total Stockholders' Equity		185,922,094	173,934,365
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**212,553,833**	**206,090,595**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock		
	Shares	€	
BALANCE AS OF JANUARY 1, 2009	**22,478,787**	**22,478,787**	
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 Costs of €0	181,770	181,770	
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 Gain from Consolidation	0	0	
Net Profit for the Period	0	0	
Comprehensive Income	0	0	
BALANCE AS OF DECEMBER 31, 2009	**22,660,557**	**22,660,557**	
BALANCE AS OF JANUARY 1, 2010	**22,660,557**	**22,660,557**	
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 Costs of €15,500	229,695	229,695	
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 Gain from Consolidation	0	0	
Net Profit for the Period	0	0	
Comprehensive Income	0	0	
BALANCE AS OF DECEMBER 31, 2010	**22,890,252**	**22,890,252**	

See accompanying Notes to the Consolidated Financial Statements

	Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Deficit	Total Stock-holders' Equity
	Shares	€	€	€	€	€	€
	79,896	**(9,774)**	**158,523,363**	**4,163,972**	**(2,474,261)**	**(20,694,899)**	**161,987,188**
	0	0	1,743,344	0	0	0	1,743,344
	0	0	1,364,561	0	0	0	1,546,331
	0	0	0	(785,989)	0	0	(785,989)
	0	0	0	(6,788)	0	0	(6,788)
	0	0	0	0	486,184	0	486,184
	0	0	0	0	0	8,964,095	8,964,095
	0	**0**	**0**	(792,777)	486,184	8,964,095	8,657,502
	79,896	**(9,774)**	**161,631,268**	**3,371,195**	**(1,988,077)**	**(11,730,804)**	**173,934,365**
	79,896	**(9,774)**	**161,631,268**	**3,371,195**	**(1,988,077)**	**(11,730,804)**	**173,934,365**
	0	0	2,150,655	0	0	0	2,150,655
	0	0	2,606,160	0	0	0	2,835,855
	0	0	0	(2,637,904)	0	0	(2,637,904)
	0	0	0	(5,622)	0	0	(5,622)
	0	0	0	0	448,445	0	448,445
	0	0	0	0	0	9,196,300	9,196,300
	0	**0**	**0**	(2,643,526)	448,445	9,196,300	7,001,219
	79,896	**(9,774)**	**166,388,083**	**727,669**	**(1,539,632)**	**(2,534,504)**	**185,922,094**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2010	2009
OPERATING ACTIVITIES:			
Net Profit		9,196,300	8,964,095
Adjustments to Reconcile Net Profit to Net Cash Provided by/(Used In) Operating Activities:			
Non-cash Charges from PPA		44,000	0
Impairment of Assets		0	31,277
Depreciation and Amortization of Tangible and Intangible Assets		6,120,325	5,348,950
Net Gain on Sales of Financial Assets		(3,979,920)	(1,717,095)
Unrealized Net Loss on Derivative Financial Instruments		496,181	126,304
Loss/(Gain) on Sale of Property, Plant and Equipment/Intangible Assets		254,744	(2,493)
Recognition of Deferred Revenue		(37,598,056)	(31,967,141)
Stock-based Compensation		2,123,296	1,736,472
Income Tax Expense		3,974,358	4,061,569
Changes in Operating Assets and Liabilities:			
Accounts Receivable		(3,618,508)	(6,916,122)
Prepaid Expenses, Other Assets and Tax Receivables		(1,055,955)	(1,232,465)
Accounts Payable and Provisions		(554,604)	(2,442,953)
Licenses Payable		33,871	(350,223)
Other Liabilities		1,862,884	3,817,865
Deferred Revenue		27,272,556	20,517,900
Cash Generated from Operations		4,571,472	(24,060)
Interest Paid		(27,143)	(3,537)
Interest Received		148,117	284,535
Income Taxes Paid		(2,160,368)	(1,235,969)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		**2,532,078**	**(979,031)**

See accompanying Notes to the Consolidated Financial Statements

in €	Note	2010	2009
INVESTING ACTIVITIES:			
Purchases of Financial Assets		(20,783,313)	(11,787,200)
Proceeds from Sales of Financial Assets		50,692,950	16,223,311
Purchases of Property, Plant and Equipment		(2,323,416)	(2,586,142)
Proceeds from Disposals of Property, Plant and Equipment		0	7,335
Purchases of Intangible Assets		(11,486,644)	(1,231,572)
Acquisitions, Net of Cash Acquired	27	(18,095,650)	0
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES	**15**	**(1,996,073)**	**625,732**
FINANCING ACTIVITIES:			
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		2,851,597	1,546,332
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		80,586	(16,000)
Purchases of Derivative Financial Instruments	6	(649,650)	(173,304)
Proceeds from the Disposal of Derivative Financial Instruments	6	9,176	47,000
Net Cost of Share Issuance		(15,500)	0
NET CASH PROVIDED BY FINANCING ACTIVITIES	**15**	**2,276,209**	**1,404,028**
Effect of Exchange Rate Differences on Cash		50,921	90,860
Increase in Cash and Cash Equivalents		2,863,135	1,141,589
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**41,255,316**	**40,113,727**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**44,118,451**	**41,255,316**

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 five 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 into MorphoSys's existing AbD Serotec 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. Oxford Biotechnology Ltd. was dissolved in the financial year 2009.

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.

On October 7, 2010, MorphoSys acquired 100% of the shares in Sloning BioTechnology GmbH, a private company located in Puchheim near Munich, Germany. The purchase price of approximately €19 million was paid in cash. Sloning, founded in 2001, is a biotechnology company developing new methods of synthetic biology. The transaction makes MorphoSys the sole source of Sloning's state-of-the-art Slonomics® technology, which dramatically improves the assembly and quality of protein libraries. By integrating Sloning into its existing Partnered Discovery segment, MorphoSys expects to improve the generation of drug candidates such that one in every two projects started reaches clinical development.

In 2010, the Company applied sec. 264 para. 3 of the German Commercial Code (HGB). For this reason, no separate financial statements for 2009 were published in the Bundesanzeiger for MorphoSys IP GmbH.

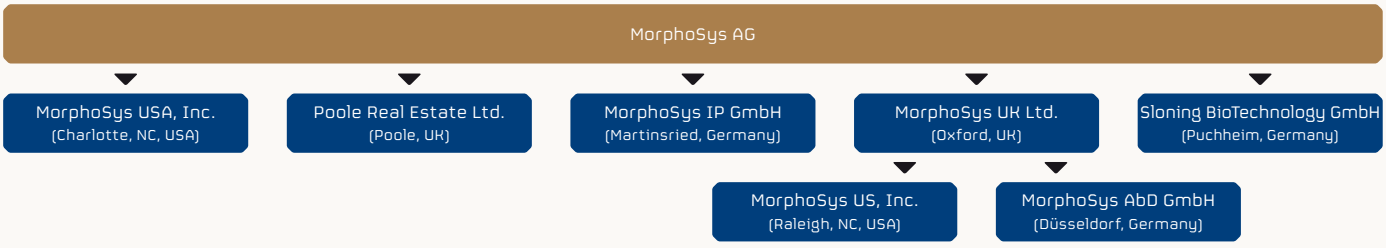
GENERAL INFORMATION

The consolidated financial statements for the year ended December 31, 2010, were authorized for issuance in accordance with a resolution of the Management Board on February 7, 2011. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), 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, Science & Technology Committee), Dr. Daniel Camus (Audit Committee), Dr. Metin Colpan (Remuneration & Nomination Committee), Dr. Walter Blättler (Chairman of the Science & Technology Committee) 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, 82152 Martinsried/Planegg, Germany.

LEGAL STRUCTURE OF THE MORPHOSYS GROUP



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 the accompanying notes. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

IFRS 2 "SHARE-BASED PAYMENT"

IFRS 2 "Share-based Payment" requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions") or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Group refers to the expense associated with employees' as well as 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 17, 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 acquisition method.

For acquisitions between January 1, 2004, and January 1, 2010, goodwill represented the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of the acquisition.

For acquisitions on or after January 1, 2010, the Group measured goodwill at the acquisition date as the fair value of the consideration transferred plus the recognized amount of any non-controlling interests in the acquiree plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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 being amortized over their useful lives to the extent that they are available-for-use. 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.

* SEE GLOSSARY P. 98

* SEE PAGE 74 ET SEQ.

NEW STANDARDS EFFECTIVE IN 2010

- IFRS 3 "Business Combinations" (effective from July 1, 2009) and consequential amendments to IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures" are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared to the previous version of IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of operations. There is a choice on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. IFRS 3 has been applied to the acquisition of Sloning BioTechnology GmbH.
- IAS 27 (Revised) "Consolidated and Separate Financial Statements" requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognized in profit or loss. IAS 27 (revised) has had no impact on the current period, because there have been no transactions with non-controlling interests.
- IFRS 5 (Amendment) "Non-current Assets Held-for-Sale and Discontinued Operations" in which the amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held-for-sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.
- IAS 36 (Amendment) "Impairment of Assets", effective January 1, 2010, which clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8 "Operating Segments" (that is, before the aggregation of segments with similar economic characteristics).
- Several changes were made to various IFRS and IFRIC in the context of the annual improvements project in order to clarify and amend existing standards, namely IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS MANDATORY FOR THE FIRST TIME FOR THE FINANCIAL YEAR BEGINNING JANUARY 1, 2010, BUT CURRENTLY NOT RELEVANT FOR THE GROUP

The following standards, amendments to existing standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on January 1, 2010, but they are currently not relevant for the Company:

- IFRIC 17 "Distribution of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers"
- IFRIC 9 "Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IAS 1 (Amendment) "Presentation of Financial Statements"
- IFRS 2 (Amendments) "Group Cash-settled Share-based Payment Transactions"
- IFRS 5 (Improvements to IFRS 2008; Amendments to IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations)
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING JANUARY 1, 2010, AND NOT ADOPTED EARLY

The following standards, amendments and interpretations to existing standards have been published but are not effective for the financial year beginning January 1, 2010, and have not been adopted early by the Group:

- IFRS 9 "Financial Instruments" which is the first step in the process of replacing IAS 39 "Financial Instruments: Recognition and Measurement". The standard is not applicable until January 1, 2013, but is available for early adoption. However, it has not yet been endorsed by the European Commission.
- IAS 24 (Revised) "Related Party Disclosures" which is mandatory for periods beginning on or after January 1, 2011, while early adoption is permitted. The standard has been endorsed by the European Commission on January 5, 2011.
- "Classification of Rights Issues" (Amendment to IAS 32) which is mandatory for periods beginning on or after February 1, 2010. The standard has been endorsed by the European Commission on January 5, 2011.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" which is mandatory for periods beginning on or after July 1, 2010. The standard has been endorsed by the European Commission on January 5, 2011.
- "Prepayments of a Minimum Funding Requirement" (Amendments to IFRIC 14) which is mandatory for periods beginning on or after January 1, 2011. The standard has been endorsed by the European Commission on January 5, 2011.

B) CHANGE IN ESTIMATES

As of June 1, 2010, the Company estimates that certain success criteria for a cooperation will be met earlier than planned. This change in accounting estimate is applied prospectively and had a financial impact of € 2.2 million (additional revenues) in 2010. Revenue in 2011 is adversely affected in the amount of € 1.1 million, which has been reflected in preparing the budget for 2011.

C) 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) and 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, 2010, comprise the Company and its subsidiaries (together referred to as the "MorphoSys Group").

D) BASIS OF PRESENTATION AND CHANGE IN PRESENTATION

The consolidated financial statements are presented in euros, 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 and available-for-sale financial assets. All figures in this report are rounded either to the nearest euro, thousand euros or million euros.

In 2010, the presentation of grant income from governmental agencies and thus presentation within the statement of operations has been changed as the Company expects such income to become material in the next years. Previously, grant income had been presented within operating revenue due to materiality reasons. Starting in the fourth quarter of 2010, grant income is presented as "Other Operating Income" and amounted to €222,418 for the year 2010. To show comparative information for 2009 as requested by IAS 1.41, grant income accounted for in the AbD segment in the amount of €55,667 has been reclassified from operating revenue to other operating income. For further details, please see note 1U*.

In 2010, presentation of statement of cash flows from operations has been adjusted. "Interest Paid" and "Taxes Paid" are now shown with a negative prefix, wheras "Interest Received" is shown with a positive prefix. Also, the new item "Income Tax Expense" in "Adjustements to Reconcile Net Profit to Net Cash Provided by/(Used In) Operating Activities" has replaced the former "Income Tax Benefit" to reconcile the tax amounts shown in the statement of operations to cash flow. Finally, withholding tax on capital gains is now included in "Taxes Paid". These changes lead to an adjustment in "Changes in Operating Assets and Liabilities" in the lines "Prepaid Expenses, Other Assets and Tax Receivables", "Accounts Payable and Provisions" and "Other Liabilities". To show comparative information, these adjustments have been applied to the 2009 figures respectively.

E) 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 27.20. 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.

F) BUSINESS COMBINATIONS

The Group applies IFRS 3 (revised) "Business combinations" (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of operations. All acquisition-related costs are expensed.

G) 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).

H) 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 five 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.

I) 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 fair value. 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 collectible within a twelve-month period will be hedged.

J) CASH AND CASH EQUIVALENTS

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

Guarantees granted for rent deposits and commitments for convertible bonds issued to employees have been classified in other assets as restricted cash as they are not available-for-use in the Company's operations.

K) NON-DERIVATIVE FINANCIAL INSTRUMENTS

All non-derivative financial instruments are initially recognized at fair value, 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.

* SEE PAGE 60

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, 2010, and as of December 31, 2009, some financial assets held by the Group have also been classified as available-for-sale. These financial assets are recognized or derecognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in 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 (please see section P* for further details).

Guarantees granted for rent deposits have been collateralized with available-for-sale financial assets and have been classified in other assets as restricted cash as they are not available-for-use in the Company's operations.

L) ACCOUNTS RECEIVABLE

Accounts receivable are measured at amortized cost less any impairment (e.g. allowance for doubtful accounts (see accounting policy P*).

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

M) INVENTORY

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

N) 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 P*). 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.

O) INTANGIBLE ASSETS

OA) RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. In general, development costs are expensed as incurred (IAS 38.5 and IAS 38.11–38.23). Development costs are recognized as an intangible asset when the criteria of IAS 38.21 (probability of expected future economic benefits, reliability of cost measurement) are met and if the entity can demonstrate the requirements of IAS 38.57.

OB) PATENT COSTS

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy P*). 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. Technology as identified in the purchase price allocation for the acquisition of Sloning BioTechnology GmbH is stated at acquisition-date fair value less accumulated amortization (useful life of ten years).

OC) LICENSE RIGHTS

The Company acquired license rights by making upfront 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.

OD) SOFTWARE

Software is stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy P*). 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.

OE) KNOW-HOW AND CUSTOMER LISTS

MorphoSys established a purchase price allocation (PPA) as required by IFRS 3 "Business Combinations". Intangible assets identified consist of technology (useful life of 15 years), customer lists (useful life of 17 years), know-how (useful life of eight years) and customer relationships (useful life of ten years) and distributors (useful life of 16 years) and are stated at acquisition date fair value less accumulated amortization.

OF) INTANGIBLE ASSETS UNDER DEVELOPMENT

This item contains an upfront payment from the in-licensing of a compound for the Proprietary Development segment. The asset is stated at cost and is not yet available-for-use, therefore not subject to amortization. As of the balance sheet date, the asset has been tested for impairment as required by IAS 36.

OG) GOODWILL

The goodwill recognized is partly attributable to expected synergies to be achieved and to the skills of the acquired workforce. Goodwill is regularly tested for impairment as required by IAS 36 (please see note 12* for further details).

OH) 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.

* SEE PAGE 59 * SEE PAGE 66 ET SEQ. * SEE PAGE 69

P) IMPAIRMENT

PA) NON-DERIVATIVE FINANCIAL ASSETS

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

RECEIVABLES:

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

AVAILABLE-FOR-SALE FINANCIAL ASSETS:

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

PB) NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available-for-use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future post-tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

Q) 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.

R) TRADE AND OTHER PAYABLES, PROVISIONS

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

Payables of uncertain timing or amount are shown as provisions.

S) 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.

T) REVENUE RECOGNITION

The Company's revenues include license and milestone fees, service fees and revenue for the sale of goods.

LICENSE AND MILESTONE FEES

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. If all of the criteria of IAS 18.14 are met, revenue is recognized in full. Milestone fees are recognized upon achievement of certain criteria.

SERVICE FEES

Research and development collaboration service fees are recognized in the period when the services are provided.

SALE OF GOODS

Revenue from the sale of goods in the AbD Serotec segment is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

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.

U) GOVERNMENT GRANTS

Grants from governmental agencies for the support of specific research and development projects for which cash has been received are recorded as a separate item - "Other Operating Income" - in profit or loss on a systematic basis to the extent the related expenses have been incurred. Under the terms of the grants, the governmental agencies generally have the right to audit the use of the payments received by the Company.

V) EXPENSES

VA) 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.

VB) 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.

VC) OPERATING LEASE PAYMENTS

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

W) INTEREST INCOME

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

X) INTEREST EXPENSE

Borrowing costs are expensed when incurred.

Y) 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.

Z) 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

The Group applies IFRS 8 “Operating Segments” (effective from January 1, 2009). IFRS 8 requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. As of June 30, 2009, the Group implemented a third operating segment, Therapeutic Antibodies – Proprietary Development. The corresponding items of segment information for prior periods have been restated on a reasonable basis of allocations.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity’s chief operating decision maker and for which discrete financial information is available.

Segment information is presented in respect of the Group’s operating segments. The operating segments are based on the Group’s management and internal reporting structure. Segment results and assets include items directly attributable to a segment and 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 three operating segments:

PARTNERED DISCOVERY

MorphoSys possesses one of the leading technologies for the generation of human antibody therapeutics. The Company commercially exploits this technology via partnerships with multiple pharmaceutical and biotechnology companies. All activities related to these collaborations and the major part of technology development are reflected in this segment.

PROPRIETARY DEVELOPMENT

This segment involves all activities relating to proprietary therapeutic antibody development. Presently, this includes the Company’s three lead compounds in its proprietary product portfolio, MOR103, MOR202 and MOR208, as well as five programs in the discovery phase and two pre-development programs with Novartis. In June 2010, MorphoSys in-licensed an anti-CD19 program from Xencor. The program was renamed MOR208. The Company currently plans to out-license proprietary compounds after proof of concept.

ABD SEROTEC

The AbD Serotec segment leverages MorphoSys’s core technological capabilities in the design and manufacture of antibodies for research and diagnostic purposes. It commercializes the HuCAL technology, focusing on the generation of bespoke research antibodies for its customers. The segment also generates sales from catalog antibodies and bulk/industrial production of antibodies.

ENTITY-WIDE DISCLOSURE

In presenting entity-wide disclosures, segment revenues are based on the geographical location of the customers and segment assets on the geographical location of the assets.

For the Twelve-month Period Ended December 31 (in 000's €)	Partnered Discovery		Proprietary Development	
	2010	2009	2010	2009
REVENUES, TOTAL	**66,267**	**61,669**	**1,771**	**1,012**
External Revenues	66,267	61,669	1,771	1,012
Intersegment Revenues	0	0	0	0
TOTAL OPERATING EXPENSES	**23,559**	**22,094**	**26,510**	**19,297**
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	22,688	21,170	26,219	19,178
Intersegment Costs	871	924	291	119
OTHER OPERATING INCOME	**13**	**0**	**191**	**0**
SEGMENT RESULT	**42,721**	**39,575**	**(24,548)**	**(18,285)**
Finance Income	0	0	0	0
Finance Expenses	0	0	0	0
Other Income	0	0	0	0
Other Expenses	0	0	0	0
PROFIT BEFORE TAXES	**0**	**0**	**0**	**0**
Income Tax Expenses	0	0	0	0
NET PROFIT	**0**	**0**	**0**	**0**
Current Assets	13,192	9,499	1,719	1,160
Non-current Assets	29,072	10,320	16,847	5,450
TOTAL SEGMENT ASSETS	**42,264**	**19,819**	**18,566**	**6,610**
Current Liabilities	6,611	12,210	4,617	3,008
Non-current Liabilities	3,450	5,579	0	0
Stockholders' Equity				
TOTAL SEGMENT LIABILITIES AND EQUITY	**10,061**	**17,789**	**4,617**	**3,008**
Capital Expenditure	1,197	1,525	11,580	841
Depreciation and Amortization	2,691	2,470	1,199	823

	AbD Serotec		Unallocated		Elimination		Group	
	2010	2009	2010	2009	2010	2009	2010	2009
	20,160	**19,330**	**0**	**0**	**(1,162)**	**(1,043)**	**87,036**	**80,968**
	18,998	18,287	0	0	0	0	87,036	80,968
	1,162	1,043	0	0	(1,162)	(1,043)	0	0
	18,945	**18,371**	**9,557**	**10,903**	**(1,162)**	**(1,043)**	**77,409**	**69,622**
	7,284	6,744	0	0	0	0	7,284	6,744
	11,661	11,627	9,557	10,903	0	0	70,125	62,878
	0	0	0	0	(1,162)	(1,043)	0	0
	18	**56**	**0**		**0**	**0**	**222**	**56**
	1,233	**1,015**	**(9,557)**	**(10,903)**	**0**	**0**	**9,849**	**11,402**
	0	0	0	0	0	0	4,123	2,002
	0	0	0	0	0	0	34	9
	0	0	0	0	0	0	470	372
	0	0	0	0	0	0	1,237	733
	0	**0**	**0**	**0**	**0**	**0**	**13,171**	**13,034**
	0	0	0	0	0	0	3,975	4,070
	0	**0**	**0**	**0**	**0**	**0**	**9,196**	**8,964**
	10,725	9,024	106,870	135,909	0	0	132,506	155,592
	31,287	31,814	2,842	2,915	0	0	80,048	50,499
	42,012	**40,838**	**109,712**	**138,824**	**0**	**0**	**212,554**	**206,091**
	3,777	3,818	6,346	5,216	0	0	21,351	24,252
	665	905	1,166	1,420	0	0	5,281	7,904
			185,922	173,935	0	0	185,922	173,935
	4,442	**4,723**	**193,434**	**180,571**	**0**	**0**	**212,554**	**206,091**
	482	783	553	682	0	0	13,812	3,831
	1,261	1,128	1,015	922	0	0	6,166	5,343

A segment result is defined as segment revenues less operating segment expenses. As a compensation for Partnered Discovery revenues generated from contracts that had originally been initiated by the AbD Serotec segment, the Partnered Discovery segment granted a compensatory fee of € 0.9 million (prior year: € 0.9 million) to the AbD Serotec segment for 2010 as a result of the revenue-sharing agreement established between the two segments in 2007. In 2010, revenues in the AbD Serotec segment comprised intersegment revenues with the Proprietary Development segment in the amount of € 0.3 million (2009: € 0.1 million) which resulted from the sale of antibodies. In 2009, a minor impairment loss was recognized in the AbD Serotec segment.

The Groups's major customers are all related to the Partnered Discovery segment. The most significant customer accounts for € 9.4 million of the trade receivables carrying amount at December 31, 2010 (2009: € 9.0 million). Three customers individually accounted for € 47.2 million, € 8.9 million, and € 3.3 million of the revenues in the year 2010 and were mainly attributed to the Partnered Discovery segment. In 2009, three customers individually accounted for € 41.8 million, € 8.3 million, and € 2.8 million of the revenues and were mainly attributed to the Partnered Discovery segment.

In 2010, other operating expenses in "unallocated" mainly included personnel-related costs (2010: € 4.7 million; 2009: € 5.7 million), costs for external services (2010: € 2.1 million; 2009: € 2.5 million) and infrastructure costs (2010: € 1.1 million; 2009: € 0.9 million). Current assets in "unallocated" mainly consisted of cash, cash equivalents and available-for-sale financial assets (2010: € 104.9 million; 2009: € 133.0 million). Current liabilities in "unallocated" mainly comprised accounts payable (2010: € 4.6 million; 2009: € 4.1 million) as well as provisions (2010: € 1.7 million; 2009: € 1.1 million).

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

in 000's €	2010	2009
Germany	4,702	6,865
Europe and Asia	64,889	58,043
USA and Canada	16,504	14,807
Other	941	1,253
TOTAL	**87,036**	**80,968**

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

in 000's €	2010	2009
Germany	202,111	197,405
UK	8,748	7,329
USA	1,695	1,357
TOTAL	**212,554**	**206,091**

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

in 000's €	2010	2009
Germany	13,508	3,520
UK	280	290
USA	24	21
TOTAL	**13,812**	**3,831**

3 Cash and Cash Equivalents

in 000's €	2010	2009
Bank Balances and Cash in Hand	44,118	41,255
Term Deposits	959	883
Restricted Cash	(959)	(883)
CASH AND CASH EQUIVALENTS	**44,118**	**41,255**

The € 1.0 million (2009: € 0.9 million) of restricted cash paid for the headquarters buildings in Munich, Puchheim and Oxford is a rent deposit.

4 Financial Assets

Financial assets classified as available-for-sale consist of the following as of December 31, 2010 and 2009:

			Gross Unrealized Holding			
in 000's €	Maturity	Cost	Gains	Losses	Realized Holding Gains	Market Value
DECEMBER 31, 2010						
DB Money Cash	daily	63,424	1,138	0	0	64,562
Restricted Cash						(258)
TOTAL						**64,304**
DECEMBER 31, 2009						
DB Money Cash	daily	89,354	4,719	0	0	94,073
Restricted Cash						(189)
TOTAL						**93,884**

The gross unrealized holding gains of € 1,138,281 for the year ended December 31, 2010, and € 4,718,984 for the year ended December 31, 2009, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2010, the Group recorded gains of € 3,979,920 in the statement of operations on the sale of financial assets, which had previously been recognized in equity (2009: € 1,717,095). The € 0.3 million (2009: € 0.2 million) of restricted cash is a rent deposit.

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

5 Accounts Receivable

All accounts receivable are non-interest-bearing and are generally due on a 30- to 45-day term. On December 31, 2010 and 2009, accounts receivable included unbilled amounts of € 2,104,854 and € 1,757,338, respectively. The Company does require collateral from customers for accounts receivable in the AbD Serotec segment. The amount of collaterals held as of December 31, 2010, was not material.

Based on the management's assessment, in 2010 a net gain from the reversal of impairment losses in the amount of € 4,400 was recognized in the statement of operations for allowances for doubtful accounts (2009: net gain of € 53,344).

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 collectible within a twelve-month period are reviewed for hedging. These derivatives are shown as other receivables with their fair values. Starting in 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, 2010, two option contracts in the nominal amounts of each $ 10 million (2009: € 0) are outstanding, for which an unrealized loss of € 0.3 million has been recognized in profit and loss. At the beginning of the year, the Company entered into eleven option contracts that were due during the financial year 2010 with a realized loss of € 0.2 million (2009: loss of € 0.1 million). Realized losses were recognized as other expenses.

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, 2010 (2009: € 0.3 million), and other prepayments in the amount of € 2.2 million as of December 31, 2010 (2009: € 2.2 million).

Tax receivables amounted to € 0.5 million as of December 31, 2010 (2009: € 0.8 million) and mainly comprised receivables in connection with withholding tax on capital gains.

Inventories of € 4.1 million (2009: € 4.0 million) are located in Oxford, UK, in Raleigh, USA, in Martinsried, Germany, and in Puchheim, Germany. As of December 31, 2010, inventories comprised raw materials, merchandise, consumables and supplies in the amount of € 0.9 million (prior year: € 2.0 million), work in progress of € 0.3 million (prior year: € 0.1 million) and finished goods of € 2.9 million (prior year: € 1.9 million). As of December 31, 2010, the inventory reserve amounted to € 2.8 million (prior year: € 2.2 million) and the movement to prior year's inventory reserve is included in COGS. Inventories carried at fair value less cost to sell amount to € 0 (prior year: € 0). In 2010, raw materials, consumables and changes in finished goods and work in progress recognized as COGS amounted to € 5.6 million (prior year: € 5.2 million).

* SEE PAGE 57

8 Property, Plant and Equipment

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Totals
Cost				
JANUARY 1, 2010	**869**	**11,542**	**2,339**	**14,750**
Additions	0	2,266	58	2,324
Additions from Business Combination	0	1,164	36	1,200
Disposals	0	(614)	(1)	(615)
Foreign Exchange Variance	47	46	28	121
DECEMBER 31, 2010	**916**	**14,404**	**2,460**	**17,780**
Accumulated Depreciation				
JANUARY 1, 2010	**226**	**7,793**	**1,734**	**9,753**
Depreciation Charge for the Year	57	1,921	162	2,140
Write-offs for the Year	0	0	0	0
Disposals	0	(362)	0	(362)
Foreign Exchange Variance	11	30	18	59
DECEMBER 31, 2010	**294**	**9,382**	**1,914**	**11,590**
Carrying Amount				
JANUARY 1, 2010	**643**	**3,749**	**605**	**4,997**
DECEMBER 31, 2010	**622**	**5,022**	**546**	**6,190**
Cost				
JANUARY 1, 2009	**813**	**9,096**	**2,184**	**12,093**
Additions	0	2,418	168	2,586
Disposals	0	(9)	(32)	(41)
Foreign Exchange Variance	56	37	19	112
DECEMBER 31, 2009	**869**	**11,542**	**2,339**	**14,750**
Accumulated Depreciation				
JANUARY 1, 2009	**161**	**6,427**	**1,538**	**8,126**
Depreciation Charge for the Year	54	1,356	207	1,617
Write-offs for the Year	0	2	5	7
Disposals	0	(11)	(26)	(37)
Foreign Exchange Variance	11	19	10	40
DECEMBER 31, 2009	**226**	**7,793**	**1,734**	**9,753**
Carrying Amount				
JANUARY 1, 2009	**652**	**2,669**	**646**	**3,967**
DECEMBER 31, 2009	**643**	**3,749**	**605**	**4,997**

As of December 31, 2010, land and buildings located in Poole, UK, in the amount of €813,011 (prior year: €771,798) is classified as held-for-sale. No borrowing costs have been capitalized during the period. No restrictions on title, and property, plant and equipment were pledged as security for liabilities. The Company recognized expenditure in property, plant and equipment in the amount of €0.5 million in the course of construction. No signficant contractual commitments for the acquisition of property, plant and equipment have been entered into as of the reporting date.

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

in 000's €	2010	2009
Research and Development	1,354	1,013
Sales, General and Administrative (Depreciation)	687	526
Sales, General and Administrative (Write-off)	0	7
Cost of Goods Sold	100	83
TOTAL	**2,141**	**1,629**

As of December 31, 2010, minor foreign exchange effects were recognized for the assets acquired and were accounted as translation reserve in equity.

9 Intangible Assets

in 000's €	Patents	Licenses	Intangible Assets under Development	Software	Know-how and Customer List	Goodwill	Total
Cost							
JANUARY 1, 2010	**4,148**	**24,781**	**0**	**2,955**	**5,107**	**26,742**	**63,733**
Additions	221	612	10,513	140	0	0	11,486
Additions from Business Combination	10,080	0	0	22	0	7,352	17,454
Disposals	0	0	0	(3)	0	0	(3)
Foreign Exchange Variance	0	32	0	12	312	5	361
DECEMBER 31, 2010	**14,449**	**25,425**	**10,513**	**3,126**	**5,419**	**34,099**	**93,031**
Accumulated Amortization							
JANUARY 1, 2010	**3,358**	**11,001**	**0**	**2,243**	**3,022**	**0**	**19,624**
Amortization Charge for the Year	806	2,295	0	368	516	0	3,985
Write-offs for the Year	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Foreign Exchange Variance	0	10	0	9	195	0	214
DECEMBER 31, 2010	**4,164**	**13,306**	**0**	**2,620**	**3,733**	**0**	**23,823**
Carrying Amount							
JANUARY 1, 2010	**790**	**13,780**	**0**	**712**	**2,085**	**26,742**	**44,109**
DECEMBER 31, 2010	**10,285**	**12,119**	**10,513**	**506**	**1,686**	**34,099**	**69,208**
Cost							
JANUARY 1, 2009	**3,986**	**24,381**	**0**	**2,595**	**4,905**	**26,672**	**62,539**
Additions	162	736	0	347	0	0	1,245
Disposals	0	(367)	0	0	0	0	(367)
Foreign Exchange Variance	0	31	0	13	202	70	316
DECEMBER 31, 2009	**4,148**	**24,781**	**0**	**2,955**	**5,107**	**26,742**	**63,733**
Accumulated Amortization							
JANUARY 1, 2009	**2,787**	**9,003**	**0**	**1,931**	**2,412**	**0**	**16,133**
Amortization Charge for the Year	571	2,341	0	302	497	0	3,711
Write-offs for the Year	0	0	0	0	31	0	31
Disposals	0	(350)	0	0	0	0	(350)
Foreign Exchange Variance	0	7	0	10	82	0	99
DECEMBER 31, 2009	**3,358**	**11,001**	**0**	**2,243**	**3,022**	**0**	**19,624**
Carrying Amount							
JANUARY 1, 2009	**1,199**	**15,378**	**0**	**664**	**2,493**	**26,672**	**46,406**
DECEMBER 31, 2009	**790**	**13,780**	**0**	**712**	**2,085**	**26,742**	**44,109**

As of December 31, 2010, intangible assets under development were tested as required by IAS 36. No impairment was deemed necessary.

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

in 000's €	2010	2009
Research and Development	3,097	2,914
Research and Development (Write-off)	0	31
Sales, General and Administrative	666	648
Cost of Goods Sold	218	159
TOTAL	**3,981**	**3,752**

As of December 31, 2009, a minor impairment loss was recognized for intangible assets in the AbD Serotec segment.

As of December 31, 2010, minor foreign exchange effects were recognized for the assets acquired and were accounted for as translation reserve in equity.

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 and 4*). As of December 31, 2010 and 2009, the Company had commitments of € 1.3 million and € 1.1 million for guarantees issued as well as € 113,256 and € 32,670 respectively for convertible bonds issued to employees.

11 Assets Classified as Held for Sale

As of December 31, 2010, assets classified as held for sale comprise the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK (AbD Serotec segment) with a net book value of € 813,011 (prior year: € 771,798). In 2010, intense efforts to sell the property did not succeed. However, efforts for a commercialisation will be intensified in 2011 by searching for a potential buyer in a wider area 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 of 2010. No impairment was deemed necessary in the 2010 financial year.

12 Goodwill

As of October 31, 2010, the goodwill attributed to the AbD Serotec segment was tested as required by IAS 36. On the basis of the cash-generating unit, the AbD Serotec segment, the value in use was determined to be higher than the carrying amount by approximately € 5.0 million. 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 1.18, income tax rate of 31 %, WACC of 8.50 % (2009: 8.92 %) and a growth rate of 2 % of the perpetual annuity. The cash flow projections assume average yearly increases in revenues of approximately 10 % in the next years. The major underlying key assumption for the cash flow projections is the expansion of the current customer base. AbD Serotec's management intends to concentrate on high-value applications of the HuCAL technology, especially in the area of diagnostics. The values of the underlying key assumption have been determined by using both internal sources (past experience) and external sources of information (market intelligence, financial reports). The sensitivity analysis was performed with different assumptions and variables. An impairment loss of approximately € 1 million would occur if the perpetual growth rate should decrease from 2 % to 0 % or if the WACC is increased to 9.5 %. An impairment loss of approximately € 2 million would occur if future cash flows should be reduced by 15 %. 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.

The goodwill (as determined in the purchase price allocation) resulting from the acquisition of Sloning BioTechnology GmbH was attributed to the Partnered Discovery segment. As of December 31, 2010, this goodwill was tested as required by IAS 36. On the basis of the cash-generating unit, the technology development team within the Partnered Discovery segment, the value in use was determined to be higher than the carrying amount. In addition, a detailed sensitivity analysis was done. The cash flow projections are mainly based on the key assumption that the technology presently developed is highly beneficial for current and new customers and will result in a number of new deals. The values of the underlying key assumption have been determined by using both internal sources (past experience) and external sources of information (market intelligence). The sensitivity analysis was performed with different assumptions and variables. No impairment loss was deemed necessary if the perpetual growth rate should decrease from 2 % to 0 %, if future cash flows should be reduced by 20 % or if the WACC is increased from 8.22 % to 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.

13 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 €	2010	2009
Accounts Payable	2,148	831
Accrued Expenses	12,800	12,725
Other Liabilities	667	550
TOTAL	**15,615**	**14,106**

Accrued expenses include mainly accruals for payments to employees and management of € 4.1 million (2009: € 3.9 million), amounts for outstanding invoices in the amount of € 2.4 million (2009: € 2.9 million), external lab fund-

* » SEE PAGE 64 ET SEQ.

ing of €3.6 million (2009: €2.3 million), €2.2 million for license compensation (2009: €3.3 million), €0.1 million for Supervisory Board members' compensation (2009: €0.1 million), €0.2 million for audit fees and costs related thereto (2009: €0.2 million) and €0.2 million for legal services (2009: €0.1 million).

At the Company's Annual General Meeting in May 2010, the Supervisory Board was authorized to appoint KPMG AG Wirtschaftsprüfungsgesellschaft as its auditor. In 2010 and 2009, the auditing company and its partner companies within the international KPMG network were remunerated by MorphoSys in the amount of €307,162 and €249,667, including audit fees of €241,072 (2009: €239,898), audit-related fees of €59,943 (2009: €9,000), fees for tax consultancy of €0 (2009: €0) and fees for other services of €6,147 (2009: €768). Accrued expenses for audit fees in the amount of €172,068 (2009: €141,807) are included in these figures.

In 2010, the auditing company and its partner companies included in KPMG Europe LLP were remunerated by MorphoSys in the amount of €268,179 (2009: €211,785), including audit fees of €202,088 (2009: €202,017), audit-related fees of €59,943 (2009: €9,000), fees for tax consultancy of €0 (2009: €0) and fees for other services of €6,147 (2009: €768).

14 Provisions and Tax Liabilities

As of December 31, 2010 and 2009, the Company recorded provisions and tax liabilities of €2.5 million and €1.5 million, respectively.

Tax liabilities mainly comprise expenses for income tax. Provisions and tax liabilities remain uncertain with respect to their amounts as of December 31, 2010, and are expected to be settled in 2011.

Provisions and tax liabilities changed during the 2010 financial year as follows:

in 000's €	01/01/2010	Additions	Utilized	Released	12/31/2010
Taxes	1,427	1,396	677	1	2,145
Other Obligations	43	283	0	8	318
TOTAL	**1,470**	**1,679**	**677**	**9**	**2,463**

15 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, derivative financial asets and accounts receivable. The Company's cash and cash equivalents are principally denominated in euros, US dollars and pounds sterling. Marketable securities are placed in high-quality securities. Cash, cash equivalents and marketable securities are maintained principally with three high-quality financial institutions in Germany. The Company continually monitors its positions with, and the credit quality of, the financial institutions, which are counterparties to its financial instruments, and does not anticipate non-performance.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are based on external ratings. 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 accounted for €9.4 million of the trade receivables carrying amount as of December 31, 2010 (2009: €9.0 million). This customer

individually accounted for approximately 62 % of the Group's 2010 accounts receivable balance. In addition, three customers individually accounted for 54 %, 10 %, and 4 % of the Company's total revenues in the year 2010. On December 31, 2009, one customer had accounted for 80 % of the prior year's accounts receivable balance and three customers individually had accounted for 52 %, 10 %, and 3 % of the Company's revenues in 2009. Based on the management's assessment, allowances of € 15,835 and € 20,235 in relation to the AbD Serotec business segment were necessary as of December 31, 2010 and 2009. 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 €	2010	2009
Europe and Asia	12,186,914	10,439,419
USA and Canada	2,822,412	721,779
Other	0	(4,639)
TOTAL	**15,009,326**	**11,156,559**

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

in €; A/R are due in	2010 0–30 days	2010 30–60 days	2010 60 + days	2010 Total
Accounts Receivable	14,013,200	434,349	577,612	15,025,161
Allowance for Impairment	0	0	(15,835)	(15,835)
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR IMPAIRMENT	**14,013,200**	**434,349**	**561,777**	**15,009,326**

in €; A/R are due in	2009 0–30 days	2009 30–60 days	2009 60 + days	2009 Total
Accounts Receivable	10,770,919	336,553	69,322	11,176,794
Allowance for Impairment	0	0	(20,235)	(20,235)
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR IMPAIRMENT	**10,770,919**	**336,553**	**49,087**	**11,156,559**

The maximum exposure for credit risk of derivative financial assets at the reporting date amounted to € 0.1 million (prior year: € 0). The maximum exposure for credit risk of financial guarantees (rent deposits) at the reporting date amounted to € 1.3 million (prior year: € 1.1million).

The contractual maturities and the related contractual cash flows of financial liabilities are within one year and five years, respectively. The convertible bonds due to related parties have a term until December 31, 2011 (€ 0.03 million), and December 31, 2015 (prior year: € 0.1 million).

MARKET RISK

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

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 rates of the US dollar and the pound sterling. The Company examines the necessity of hedging foreign exchange transactions to minimize currency risk during the year and addresses this risk by using derivative financial instruments.

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

as of December 31, 2010; in €	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	41,209,349	1,302,992	1,606,110	0	44,118,451
Available-for-sale Assets	64,304,041	0	0	0	64,304,041
Trade Receivables	12,354,868	2,116,494	502,878	35,086	15,009,326
Trade and License Payables	(1,650,593)	(89,465)	(543,343)	692	(2,282,709)
TOTAL	**116,217,665**	**3,330,021**	**1,565,645**	**35,778**	**121,149,109**

as of December 31, 2009; in €	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	40,413,546	182,287	659,483	0	41,255,316
Available-for-sale Assets	93,883,571	0	0	0	93,883,571
Trade Receivables	8,987,085	1,660,995	386,262	122,217	11,156,559
Trade and License Payables	(319,985)	(267,072)	(330,213)	(13,981)	(931,251)
TOTAL	**142,964,217**	**1,576,210**	**715,532**	**108,236**	**145,364,195**

Different foreign exchange rates and their impact on assets and liabilities have been simulated in a detailed sensitivity analysis in order to determine resulting effects in the statement of operations. A ten percent increase of the euro against the US dollar as of December 31, 2010, would have decreased earnings by €0.3 million (assuming that interest rates remain constant) (prior year: decrease of €0.1 million). A ten percent weakening of the euro against the US dollar would have increased earnings by €0.3 million (prior year: increase of €0.2 million). A ten percent increase of the euro against the British pound as of December 31, 2010, would have decreased earnings by €0.1 million (assuming that interest rates remain constant) (prior year: decrease of €0.1 million). A ten percent weakening of the euro against the British pound would have increased earnings by €0.2 million (prior year: increase of €0.1 million).

If the foreign exchange rates for US dollar against the euro and the British pound against the euro had remained constant at the average rate of 2009, total Group revenues would have been lower in the amount of €0.6 million (prior year: lower by €0.4 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 VALUE HIERARCHY AND VALUATION METHODS

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 (Hierarchy Level 1, quoted prices in active markets; see Notes to the Consolidated Financial Statements - section 4*). None of the financial assets and liabilities are categorized in Level 2 or 3. The fair value of licenses payable 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. There were no transfers from one fair value hierarchy level to another in 2010 and 2009.

* SEE PAGE 65

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Balance Sheet, are as follows:

December 31, 2010 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available-for-Sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	3		44,118			44,118	44,118
Receivables	5		15,009			15,009	15,009
Forward Exchange Contracts Used for Hedging	6	144				144	144
Available-for-sale Financial Assets	4			64,304		64,304	64,304
		144	**59,127**	**64,304**	**0**	**123,575**	**123,575**
Convertible Bonds – Liability Component	17				(128)	(128)	(128)
Trade and License Payables	13				(2,283)	(2,283)	(2,283)
		0	**0**	**0**	**(2,411)**	**(2,411)**	**(2,411)**

December 31, 2009 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available-for-Sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	3		41,255			41,255	41,255
Receivables	5		11,157			11,157	11,157
Forward Exchange Contracts Used for Hedging	6	0				0	0
Available-for-sale Financial Assets	4			93,884		93,884	93,884
		0	**52,412**	**93,884**	**0**	**146,296**	**146,296**
Convertible Bonds – Liability Component	17				(33)	(33)	(33)
Trade and License Payables	13				(931)	(931)	(931)
		0	**0**	**0**	**(964)**	**(964)**	**(964)**

16 Stockholders' Equity

Concerning capital management, the Management 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. At present, management and employees can participate in the Company's returns by way of long-term performance-related remuneration which consists of convertible bonds and stock options pursuant to the respective incentive plans as resolved by the Annual General Meeting. In 2011, MorphoSys plans to switch to a long-term incentive program based on the issuance of performance shares which are finally granted in the event that certain predefined success criteria are achieved. The respective underlying shares will be bought back by the Company from the stock market, based on the resolution of the Annual Shareholders' Meeting 2010.

There were no changes in the Company's approach to capital management during the year.

COMMON STOCK

On December 31, 2010, the common stock of the Company including treasury shares amounted to €22,890,252. This represented an increase of €229,695 compared to December 31, 2009 (€22,660,557). Each share of common stock is entitled to one vote. The increase arose as a result of the conversion and exercise of 229,695 convertible bonds and options issued to the Management Board and to employees.

On December 31, 2009, the common stock of the Company had amounted to €22,660,557. An increase of €181,770, or 181,770 shares, was the result of the conversion and exercise of options in 2009.

On December 31, 2010, treasury shares amounted to €9,774 (79,896 shares) and remained unchanged compared to December 31, 2009.

AUTHORIZED CAPITAL

Unused Authorized Capital I remained unchanged on December 31, 2010, compared to December 31, 2009, to create a maximum of 8,864,103 new shares.

Unused Authorized Capital II remained unchanged on December 31, 2010, compared to December 31, 2009, to create a maximum of 2,216,025 new shares.

CONDITIONAL CAPITAL

In 2010, a total of 3,441 shares were raised from Conditional Capital II through the exercise of options by employees, increasing the subscribed capital by €3,441. Furthermore, 3,600 shares were raised from Conditional Capital IV through the exercise of convertible bonds by employees, increasing the subscribed capital by €3,600 and 222,654 shares were raised from Conditional Capital V through the exercise of options by employees and Management Board members, increasing the subscribed capital by €222,654.

In 2009, a total of 80,700 and 101,070 shares had been raised from Conditional Capital II and V respectively with subscribed capital increasing by €80,700 and €101,070 from respective Conditional Capitals.

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 2010; however, as of December 31, 2009, they reflected no accumulated earnings available for distribution.

ADDITIONAL PAID-IN CAPITAL

On December 31, 2010, additional paid-in capital amounted to €166,388,083 (December 31, 2009: €161,631,268). The total increase of €4,756,815 is due to stock-based compensation in the amount of €2,150,655, including the intrinsic value of convertible bonds. A further increase of €2,606,160 arose from the exercise and conversion of options and convertible bonds in the year 2010.

In 2009, the additional paid-in capital had increased by €3,107,905, resulting from stock-based compensation of €1,743,344 and €1,364,561 from the exercise and conversion of options in the year 2009.

17 Convertible Bonds

In the year 2010, 3,600 convertible bonds were exercised and converted into shares.

On April 1, 2010, 352,800 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is €16.79, 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. 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 exercise price. The beneficiaries may exercise the conversion rights only after the expiration of a waiting period of four years from grant date. The exercise of the conversion rights is only possible if on one trading day during the lifetime of the convertible bond the stock exchange price of one share has amounted to at least 110% of the exercise price at grant date. The convertible bonds cannot be exercised beyond December 31, 2015. In the event of non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (€0.33 per bond/share). The Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

A summary of the activity under the Company's employee incentive convertible bonds plan for the years ended December 31, 2010 and 2009, is represented as follows:

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2009	**140,460**	**18.37**
Granted	101,000	12.81
Exercised	0	0
Forfeited	(2,000)	12.81
Expired	(140,460)	18.37
OUTSTANDING ON DECEMBER 31, 2009	**99,000**	**12.81**
OUTSTANDING ON JANUARY 1, 2010	**99,000**	**12.81**
Granted	352,800	16.79
Exercised	(3,600)	12.81
Forfeited	0	0
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2010	**448,200**	**15.94**

Convertible bonds exercisable on December 31, 2010 and 2009, amounted to 95,400 and 0 shares, respectively. The weighted-average exercise price of exercisable convertible bonds was €12.81 on December 31, 2010.

The following table presents the weighted-average price and information about the contractual life for significant convertible bond groups outstanding on December 31, 2010:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
€10.00 – €12.99	95,400	1.00	€12.81	95,400	€12.81
€13.00 – €17.00	352,800	5.00	€16.79	0	€0.00
	448,200	**4.15**	**€15.94**	**95,400**	**€12.81**

The following table presents the weighted-average price and information about the contractual life for significant convertible bond groups outstanding on December 31, 2009:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
€3.33 – €9.99	0	0	€0.00	0	€0.00
€10.00 – €12.81	99,000	2.00	€12.81	0	€0.00
	99,000	**2.00**	**€12.81**	**0**	**€0.00**

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 2010 and 2009 in connection with convertible bonds was €989,416 and €263,938, respectively.

The fair value of convertible bonds issued in 2010 was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 2.19 %; dividend yield of 0 %; 42.0 % expected volatility based on historic data; and an expected life of five years. The weighted-average fair value of bonds granted during 2010 is estimated to be €6.66 accordingly.

18 Stock Options

The general terms and conditions of stock option plans that existed at any time during the period are presented in the following table; all options are to be settled by physical delivery of shares:

Grant Date/Employees Entitled	Granted Stock Options	Vesting Period	Vesting Conditions (Share Price in Comparison to Strike Price)	Contractual Life of Options
July 1, 2007 to employees	180,000	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
January 25, 2008 to Management Board and employees	283,335	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
January 25, 2008 to employees	29,070	2 years 50%, 3 years 75%, 4 years 100%	Cumulative increase of more than 10% per annum	5 years
October 1, 2008 to employees	92,664	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
April 1, 2009 to Management Board and employees	422,200	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years

For the years 2010 and 2009, 3,441 and 80,700 options from the 1999 Plan were exercised respectively. For the years 2010 and 2009, 222,654 and 101,070 options from the 2002 Plan were exercised respectively. Of these, 190,305 options were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 28*.

A summary of activity under the Company's employee incentive stock option plans for the years ended December 31, 2010, and 2009, is represented as follows:

	Shares	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2009	**958,554**	**12.66**
Granted	422,200	12.81
Exercised	(181,770)	8.51
Forfeited	(46,997)	13.69
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2009	**1,151,987**	**13.33**
OUTSTANDING ON JANUARY 1, 2010	**1,151,987**	**13.33**
Granted	0	0.00
Exercised	(226,095)	12.41
Forfeited	(1,875)	10.45
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2010	**924,017**	**13.56**

* SEE PAGE 83 ET SEQ.

Stock options exercisable on December 31, 2010 and 2009, amounted to 294,953 and 269,055 shares, respectively. The weighted-average exercise prices of exercisable stock options were € 14.41 and € 13.22 on December 31, 2010 and 2009, respectively.

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on December 31, 2010:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
€ 10.00 – € 12.99	422,603	3.20	€ 12.81	9,183	€ 12.80
€ 13.00 – € 13.99	271,299	2.07	€ 13.03	134,234	€ 13.03
€ 14.00 – € 17.00	230,115	1.90	€ 15.57	151,536	€ 15.73
	924,017	**2.54**	**€ 13.56**	**294,953**	**€ 14.41**

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on December 31, 2009:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
€ 3.63 – € 9.99	0	0.00	€ 0.00	0	€ 0.00
€ 10.00 – € 12.99	543,224	3.39	€ 12.30	117,180	€ 10.45
€ 13.00 – € 16.10	608,763	2.72	€ 14.24	151,875	€ 15.35
	1,151,987	**3.04**	**€ 13.33**	**269,055**	**€ 13.22**

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 "Share-based Payment". Compensation expense recorded in 2010 and 2009 in connection with stock options was € 1,119,543 and € 1,472,534, respectively.

19 Stock Appreciation Rights (SARs)

On October 1, 2010, 15,000 stock appreciation rights (SARs) were granted to employees of MorphoSys AG with terms and conditions identical to the convertible bond grant from April 1, 2010. Convertible bonds are to be settled by physical delivery of shares, while SARs are settled in cash. The exercise price for the SARs on December 31, 2010, was € 18.53. The fair value was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 2.16 %; dividend yield of 0 %; 42.0 % expected volatility based on historic data; and an expected life of five years. The weighted-average fair value of SARs granted in 2010 is estimated to be € 7.34 and has to be re-measured on a quarterly basis. The compensation expense recorded in 2010 was € 14,337 and a non-current liability in the amount of € 14,337 was accounted for accordingly. The SARs cannot be exercised beyond June 30, 2016.

20 Revenues

In 2010, the Company's revenues included revenues from license and milestones fees in the amount of € 41.8 million (2009: € 42.3 million), revenues from services fees in the amount of € 28.0 million (2009: € 22.3 million) and revenues from the sale of goods in the amount of € 16.5 million (2009: € 15.7 million).

21 Personnel Expenses

in 000's €	2010	2009
Wages and Salaries	25,117	21,339
Social Security Contributions	4,011	3,297
Stock-based Compensation Expense	2,123	1,736
Temporary Staff (External)	89	112
Other	353	1,364
TOTAL	**31,693**	**27,848**

The average number of employees during the year ended December 31, 2010, was 435 (2009: 375). Of the 464 employees as of December 31, 2010, 309 worked in research and development and 155 in sales, general and administration (December 31, 2009: 248 employees in R&D and 156 employees in S, G&A). As of December 31, 2010, 183 employees worked in the Partnered Discovery segment, 100 in the Proprietary Development segment, 142 employees in the AbD Serotec segment and 39 were unallocated (December 31, 2009: 144 employees in the Partnered Discovery segment, 71 in the Proprietary Development segment 148 in the AbD Serotec segment and 41 employees were unallocated). The expenses for defined contribution plans amounted to €0.3 million in 2010 (prior year: €0.3 million).

22 Non-operating Income and Expenses

Non-operating income and expenses includes the following items:

in 000's €	2010	2009
Interest Income	143	285
Gain On Marketable Securities	3,980	1,717
Finance Income	4,123	2,002
Interest Expenses	(34)	(10)
Finance Expenses	(34)	(10)
Gain On Exchange	440	274
Miscellaneous Income	30	99
Other Income	470	373
Loss on Exchange	(499)	(468)
Loss on Derivatives	(496)	(126)
Miscellaneous Expenses	(241)	(138)
Other Expenses	(1,236)	(732)
TOTAL	**3,323**	**1,633**

23 Income Taxes

The Company and its German subsidiaries MorphoSys IP GmbH, MorphoSys AbD GmbH and Sloning BioTechnology GmbH are subject to corporate tax, solidarity surcharge and trade tax. The Company's corporation tax rate remained constant at 15%, the same applies to the solidarity surcharge of 5.5% and the effective trade tax rate of 10.5%. With regard to affiliated companies in foreign countries, income tax rates of 28% and 37% apply to the UK and the USA, respectively.

The income tax for the current fiscal year is comprised as follows:

in 000's €	2010	2009
Current Tax Expense (Thereof Regarding Prior Years: k€(16); 2009: k€51)	(4,094)	(2,572)
Deferred Tax Income/ Deferred Tax (Expense)	119	(1,498)
Total Income Tax	(3,975)	(4,070)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(411)	(1,348)

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 2010, the combined income tax rate of 26.33% (2009: 26.33%) 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%.

in 000's €	2010	2009
Profit Before Income Taxes	13,172	13,034
Expected Tax Rate	26.33%	26.33%
Expected Income Tax	(3,468)	(3,432)
Tax Effects Resulting from:		
Stock-based Compensation	(555)	(464)
Non-tax-deductible Items	(114)	(116)
Tax Rate Differences	(21)	1
Prior Year Taxes	113	(75)
Other Effects	70	16
Actual Income Tax	(3,975)	(4,070)

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, 2008, the Company had recognized deferred tax assets in the net amount of € 1.6 million due to business expectations for the financial years 2009 to 2013. In 2009, these deferred tax assets were fully released in the remaining amount of € 1.0 million due to utilized tax losses and in the amount of € 0.6 million resulting from the change in temporary differences between IFRS and the tax balance sheet. As of December 31, 2009, the tax loss carry-forwards for corporation tax and for MorphoSys AG's trade tax have been fully utilized. MorphoSys AG has been subject to tax audits for the financial years 2004 to 2007 and tax loss carry-forwards have been confirmed in their recognized amount.

As of December 31, 2010, deferred tax assets on tax loss carry-forwards in the amount of € 2.7 million have been recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2011 to 2015. No deferred tax assets were reported for part of the corporate tax loss carry-forwards in the amount of € 5.4 million and trade tax loss carry-forwards in the amount of € 5.1 million as the usability of these tax loss carry-forwards is deemed uncertain due to the regulations described hereinafter. The tax loss carry-forwards may be carried forward indefinitely and in unlimited amounts. From 2004 onwards, German tax law restricts 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 both of the following criteria are met cumulatively: (a) more than 50 % of the shares in the company have been transferred and (b) the company continues or re-launches its operations with predominantly new assets (section 8 para. 4 KStG, applicable until December 31, 2007). With effect on equity transfers, this provision has been 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 elimination of tax losses carried forward, while any transfer of more than 50 % triggers the total elimination. The continuation of operations with predominantly new assets is no longer relevant. The regulation on tax loss carry-forwards (both section 8 para. 4 KStG and section 8c KStG) is generally regarded as uncertain for companies taxable in Germany.

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

in 000's €	DTA* 2010	DTA* 2009	DTL** 2010	DTL** 2009
Intangible Assets	0	689	4,043	1,677
Non-recognition of DTA on Intangible Assets	0	0	0	0
Property, Plant and Equipment	0	0	66	41
Land	0	0	0	0
Building	0	0	0	0
Other Equipment, Furnitures, Fixtures	61	8	0	0
Inventory	230	220	0	0
Advanced Payments	0	0	0	0
Receivables and Other Assets	0	0	8	0
Treasury Stock	0	3	0	0
Prepaid Expenses and Deferred Charges	0	2	7	0
Short-term Securities Investments	0	0	300	1,243
Other Accrual/Provisions	0	0	4	5
Trade Accounts Payable	4	0	0	1
Bonds, thereof Convertible	0	0	0	0
Other Liabilities	0	0	0	0
Tax Losses	2,701	19	0	0
	2,996	**941**	**4,428**	**2,967**

* Deferred Tax Asset
** Deferred Tax Liability

Due to the fiscal unity of MorphoSys AG and MorphoSys IP GmbH, deferred tax assets and deferred tax liabilities have been netted in the amount of €0 in the balance sheet (prior year: €0.7 million). Deferred tax liabilities in the amount of €0.4 million (prior year: €1.3 million) have been recognized directly in equity. The amount relates to the revaluation of available-for-sale financial assets.

At December 31, 2010, a deferred tax liability for temporary differences related to an investment in a subsidiary was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

24 Earnings Per Share

The calculation of basic profit per share is based on the net profit for the year of €9,196,300 (2009: €8,964,095) and the weighted-average number of shares of common stock outstanding for the respective years (2010: 22,656,233; 2009: 22,464,757).

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

	2010	2009
SHARES ISSUED ON JANUARY, 1	**22,660,557**	**22,478,787**
Effect of Treasury Shares Held	(79,896)	(79,896)
Effect of Shares Issued in January	14,167	12,938
Effect of Shares Issued in February	0	0
Effect of Shares Issued in March	1,162	0
Effect of Shares Issued in April	0	0
Effect of Shares Issued in May	0	0
Effect of Shares Issued in June	0	0
Effect of Shares Issued in July	52,848	12,295
Effect of Shares Issued in August	703	24,843
Effect of Shares Issued in September	0	5,569
Effect of Shares Issued in October	2,702	4,400
Effect of Shares Issued in November	0	5,821
Effect of Shares Issued in December	3,990	0
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**22,656,233**	**22,464,757**

The diluted profit per share is calculated by 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 per share data):

	2010	2009
Numerator		
Net Profit for the Year	9,196,300	8,964,095
Denominator		
Weighted-average Shares Used for Basic EPS	22,656,233	22,464,757
Dilutive Shares Arising from Stock Options	110,569	81,535
Dilutive Shares Arising from Convertible Bonds	19,734	12,872
TOTAL DENOMINATOR	**22,786,536**	**22,559,164**
Earnings per Share (in €)		
Basic	0.41	0.40
Diluted	0.40	0.40

25 Operating Leases

The Company leases facilities and equipment on long-term operating leases. Total rent expense amounted to €2,342,528 and €2,238,004 for the years ended December 31, 2010 and 2009, respectively. Significant leasing contracts mainly related to the buildings rented in Martinsried (Germany), Oxford (UK), Düsseldorf (Germany), Raleigh (USA) and Puchheim (Germany). The main part of these contracts can be renewed on an annual or quarterly basis. Some agreements can be terminated early.

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

in 000's €	2010	2009
Up to One Year	4,031	3,743
Between One and Five Years	4,958	4,360
More than Five Years	1,672	2,732
TOTAL	**10,661**	**10,835**

The Company's total expenses due to operating leases, insurances and other services in the years ended December 31, 2010 and 2009, totaled €3,518,477 and €3,575,262 respectively.

26 Contingencies

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

In the event that certain milestones in the Proprietary Development segment will be achieved, e.g. the filing of an application for an investigational new drug (IND) with regard to specific targets, milestone payments to licensors may be triggered. However, given the uncertainty regarding the timing and achievement of such milestones, no further details are disclosed.

In the event that certain milestones in the Partnered Discovery segment will be achieved by the respective partner, e.g. the filing of an application for an investigational new drug (IND) with regard to specific targets or the transfer of technology, milestone payments to the Company may be triggered. However, given the uncertainty regarding the timing and achievement of such milestones, no further details are disclosed.

In the first quarter of 2011, the achievement of a milestone for the transfer of technology to one of the Company's partners is expected, and the Company anticipates to receiving a double-digit million euro payment for this milestone.

27 Business Combinations

On October 7, 2010, the Company acquired 100% of the share capital of the private German company Sloning BioTechnology GmbH, Puchheim, Germany, for a one-off €19 million cash payment.

Sloning BioTechnology GmbH is a company developing new methods of synthetic biology and will make MorphoSys the sole source of Sloning's state-of-the-art Slonomics technology, which improves the assembly and quality of protein libraries. By integrating Slonomics into its existing antibody technology platform, MorphoSys expects to improve the generation of drug candidates such that one in every two projects started reaches clinical development.

The acquired business contributed revenues of €0.3 million and a net loss of €0.8 million to the Group for the period from October 7, 2010 to December 31, 2010.

If the acquisition had occurred on January 1, 2010, management estimates that consolidated revenue of the Group would have been €88.4 million and consolidated net profit would have been €7.5 million.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to intangible assets and inventories had applied from January 1, 2010, together with the consequential tax effects.

The consideration transferred includes cash in the amount of € 18,765,811 plus a post-acquisition purchase price adjustment in the amount of € 51,325 which was paid in cash shortly after the balance sheet date. No contingent consideration was agreed upon.

The identifiable assets and liabilities as of October 7, 2010, arising from the acquisition are as follows:

	Carrying amount	Fair value adjustment	Fair value
Cash and Cash Equivalents	721	0	721
Trade and Other Receivables	155	0	155
Prepaid Expenses an Other current assets	57	0	57
Inventories	746	44	790
Property, Plant and Equipment	1,200	0	1,200
Patents and Technology	0	10,080	10,080
Software	22	0	22
Deferred Tax Asset	2,496	0	2,496
Other Non-current Assets	39	0	39
Trade and Other Payables	(357)	0	(357)
Borrowings	(799)	0	(799)
Deferred Tax Liabilities	(96)	(2,843)	(2,939)
FAIR VALUE OF NET ASSETS			**11,465**
Goodwill on Acquisition			7,352
CONSIDERATION PAID			**18,817**
Cash (acquired)			721
NET CASH OUTFLOW			**18,096**

Goodwill was recognized as a result of the acquisition as follows:

in 000's €	Fair value
TOTAL CONSIDERATION TRANSFERRED	**18,817**
Fair Value of Identifiable Net Assets	(11,465)
Goodwill	7,352

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the Company into the Group's existing Partnered Discovery segment and partly to the skills of the acquired workforce. None of the goodwill is expected to be deductible for income tax purposes.

There were no acquisitions in the year ended December 31, 2009.

The Group incurred acquisition-related costs of € 0.2 million, relating mainly to external legal advisory fees and due diligence fees. All acquisition-related costs have been included in administrative expenses in the Group's profit and loss statement.

28 Related Parties

The Group has related party transactions with its Management Board members 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 tables below show 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 2010:

SHARES

	01/01/2010	Additions	Forfeitures	Sales	12/31/2010
MANAGEMENT BOARD					
Dr. Simon E. Moroney	416,385	0	0	0	416,385
Dave Lemus	5,400	0	0	0	5,400
Dr. Arndt Schottelius	500	1,000	0	0	1,500
Dr. Marlies Sproll	105	3,000	0	0	3,105
TOTAL	**422,390**	**4,000**	**0**	**0**	**426,390**
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**

STOCK OPTIONS

	01/01/2010	Additions	Forfeitures	Exercises	12/31/2010
MANAGEMENT BOARD					
Dr. Simon E. Moroney	299,445	0	0	108,000	191,445
Dave Lemus	110,172	0	0	7,305	102,867
Dr. Arndt Schottelius	90,000	0	0	0	90,000
Dr. Marlies Sproll	177,867	0	0	75,000	102,867
TOTAL	**677,484**	**0**	**0**	**190,305**	**487,179**
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**

CONVERTIBLE BONDS

	01/01/2010	Additions	Forfeitures	Exercises	12/31/2010
MANAGEMENT BOARD					
Dr. Simon E. Moroney	30,000	58,800	0	0	88,800
Dave Lemus	30,000	33,000	0	0	63,000
Dr. Arndt Schottelius	0	33,000	0	0	33,000
Dr. Marlies Sproll	30,000	33,000	0	0	63,000
TOTAL	**90,000**	**157,800**	**0**	**0**	**247,800**
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**

Convertible bonds granted to the Management Board in 2010:

Member of the Management Board	Number of Convertible Bonds	Strike Price in €	Grant Date	Expiry Date	Fair Value of One Convertible Bond in €	Fair Value at The Time of the Grant in €
Dr. Simon E. Moroney	58,800	16.79	Apr 1, 2010	Dec 31, 2015	6.66	391,608
Dave Lemus	33,000	16.79	Apr 1, 2010	Dec 31, 2015	6.66	219,780
Dr. Arndt Schottelius	33,000	16.79	Apr 1, 2010	Dec 31, 2015	6.66	219,780
Dr. Marlies Sproll	33,000	16.79	Apr 1, 2010	Dec 31, 2015	6.66	219,780

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 € 382,750 in 2010 (2009: € 374,333). 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 €	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Simon E. Moroney	368,498	356,011	208,570	192,246	130,178	124,198	707,246	672,455
Dave Lemus	259,157	250,375	152,902	135,203	156,639	141,055	568,698	526,633
Dr. Arndt Schottelius	231,000	220,000	132,594	118,800	90,158	84,513	453,752	423,313
Dr. Marlies Sproll	249,623	241,164	146,778	130,229	90,879	87,963	487,280	459,356
TOTAL	**1,108,278**	**1,067,550**	**640,844**	**576,478**	**467,854**	**437,728**	**2,216,976**	**2,081,756**

* The total remuneration figures shown for 2010 and 2009 include the corresponding bonus accruals for 2010 and 2009. The 2010 bonus will be paid out in March 2011.

SUPERVISORY BOARD

	Fixed Compensation		Variable Compensation		Total Compensation	
in €	2010	2009	2010	2009	2010	2009
Dr. Gerald Möller	70,000	57,000	22,000	40,722	92,000	97,722
Prof. Dr. Jürgen Drews	57,750	43,278	15,000	27,778	72,750	71,056
Dr. Walter Blättler	39,500	29,556	18,000	11,000	57,500	40,556
Dr. Daniel Camus	36,500	28,500	19,000	28,333	55,500	56,833
Dr. Metin Colpan	36,500	28,500	10,000	21,333	46,500	49,833
Dr. Geoffrey N. Vernon	39,500	30,000	19,000	28,333	58,500	58,333
TOTAL	**279,750**	**216,834**	**103,000**	**157,499**	**382,750**	**374,333**

At the Annual General Meeting on May 17, 2006, phantom stocks had been granted to all members of the Supervisory Board. The Chairman of the Supervisory Board had 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. The phantom stocks were exercised in 2009; an amount of €80,000 is included in variable compensation for 2009.

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

29 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 the Company's website* on December 22, 2010.

30 Research and Development Agreements

The Company has a significant number of research and development agreements relating to its discovery and development strategy. In the majority of cases upfront payments at signature, annual license payments in exchange for access to MorphoSys's technologies, development-dependent milestone payments and royalties on product sales are standard terms of these agreements. 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).

ABSYNTH BIOLOGICS

In September 2010, MorphoSys announced a new proprietary development program against novel infectious disease targets. As part of this initiative, MorphoSys has signed a license and collaboration agreement with UK-based Absynth Biologics, providing access to novel target molecules associated with *Staphylococcus aureus* infections including MRSA* (methicillin-resistant *S. aureus*). MorphoSys will generate antibodies using its proprietary HuCAL PLATINUM antibody library which Absynth will test in relevant disease models. MorphoSys will be solely responsible for the development and partnering of the resulting compounds. Absynth has received an upfront payment and is eligible for development-dependent milestone payments and royalties.

Absynth's genomics-based approach allows identification of previously overlooked targets, such as bacterial components which are crucial to the organism, conserved across different bacterial strains and accessible for antibodies. Absynth has demonstrated that monoclonal antibodies against the targets in-licensed by MorphoSys inhibit the growth of *S. aureus* and recruit the human immune system to eliminate bacteria via phagocytosis. Absynth has filed patent applications on all targets involved in the collaboration.

ASTELLAS PHARMA, INC.

MorphoSys and Astellas Pharma entered into a license agreement for the use of MorphoSys's HuCAL technology in March 2007. In February 2008, Astellas decided to extend the current collaboration between the two companies for four more years until 2012.

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. Bayer Schering Pharma is currently evaluating one HuCAL-based program in clinical trials, namely the HuCAL-derived antibody-drug conjugate BAY79-4620 in the therapeutic area of oncology.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

* SEE GLOSSARY P. 98

BOEHRINGER INGELHEIM PHARMA GMBH & CO. KG

The active collaboration with Boehringer Ingelheim was concluded in 2010 but therapeutic programs initiated during the course of the active collaboration can continue development and result in future milestone payments and royalties on product sales. In December 2010, Boehringer Ingelheim has filed all necessary documentation to initiate a phase 1 clinical trial with a HuCAL-based antibody. This achievement triggered a clinical milestone payment to MorphoSys.

CENTOCOR ORTHO BIOTECH, INC.

The active collaboration with Centocor Ortho Biotech, Inc. (formerly known as: Centocor, Inc.), a wholly owned subsidiary of US pharmaceutical company Johnson & Johnson, 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. The most advanced compound within this collaboration, namely CNTO888, is currently in a phase 2 clinical trial in an immunology indication and a second phase 2 clinical trial in oncology patients. In 2010, MorphoSys announced that it has received two milestone payments from Centocor Ortho Biotech in connection with the initiation of two phase 1 clinical trials using HuCAL-derived antibodies, namely CNTO3157, in the therapeutic area of asthma and a second undisclosed program. In total, Centocor Ortho Biotech is currently evaluating five HuCAL-based programs in clinical trials.

DAIICHI SANKYO COMPANY LTD.

In March 2006, MorphoSys and Sankyo Company Limited (part of the joint holding 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. In March 2008, the collaboration was extended until March 2011. The extension triggered an additional up-front payment.

In October 2009, MorphoSys announced the formation of a new alliance with Daiichi Sankyo in the discovery and development of therapeutic antibodies for hospital-acquired infections. Daiichi Sankyo became MorphoSys's first collaborator for HuCAL PLATINUM-based drug discovery in the field of infectious diseases. Daiichi Sankyo agreed also to fund the development of certain infectious disease specific technology at MorphoSys, which will be used to identify the most effective antibody-based drugs.

F. HOFFMANN-LA ROCHE

MorphoSys and F. Hoffmann-La Roche 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. 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. A phase 1 clinical trial program to evaluate safety and tolerability of the HuCAL-derived antibody program R1450/Gantenerumab in Alzheimer's disease patients was operationally concluded by Roche in 2009. In 2010, Roche advanced this compound into phase 2 clinical trials.

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.

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 and all future revenues equally.

GENEFRONTIER CORPORATION/KANEKA

Under the terms of a therapeutic target sourcing collaboration signed in 2007, GeneFrontier may utilize 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 pays compensation for access to HuCAL GOLD.

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. The agreement enables Merck to develop up to ten HuCAL-derived therapeutic antibodies in a range of indications. The active collaboration was concluded, as planned, at the end of 2010.

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 expanded 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.

In 2009, Novartis has committed to a ten-year term of the strategic alliance. The decision was based on the successful achievement by MorphoSys of certain predefined improvements in its proprietary technologies. The collaboration will run until 2017 and may be extended by Novartis for an additional two years beyond that time under the same financial terms and conditions. The most advanced compound within this collaboration, BHQ880, is currently in a phase 2 clinical trial in oncology. During the course of 2010, Novartis advanced three HuCAL-based programs into clinical trials bringing up the total number of HuCAL-derived antibodies in clinical development with Novartis to five.

ONCOMED PHARMACEUTICALS, INC.

The active collaboration with US-based biopharmaceutical company OncoMed Pharmaceuticals Inc. was concluded in 2010 but therapeutic programs initiated during the course of the active collaboration can continue development and result in future milestone payments and royalties on product sales. In December 2010, OncoMed has filed all necessary documentation to initiate a phase 1 clinical trial with a HuCAL-based antibody, namely OMP-59R5. This achievement triggered a clinical milestone payment to MorphoSys.

PFIZER, INC.

The active collaboration with Pfizer based on the HuCAL technology platform was concluded in 2010 but therapeutic programs initiated during the course of the active collaboration can continue development and result in future milestone payments and royalties on product sales. In December 2010, Pfizer has filed all necessary documentation to initiate a phase 1 clinical trial with a HuCAL-based antibody. This achievement triggered a clinical milestone to MorphoSys.

Additionally, MorphoSys and Pfizer signed a non-exclusive license and technology transfer agreement based on a new technology platform in 2010. The agreement covers the installation, training and use of the technology platform Slonomics for fabrication of highly-diverse gene and protein libraries at Pfizer's subsidiary Rinat Neuroscience Corp. in South San Francisco. MorphoSys's subsidiary Sloning BioTechnology GmbH received an upfront payment and stands to receive annual license fees over the patent lifetime of the Slonomics technology platform. MorphoSys acquired Sloning BioTechnology GmbH and its technology portfolio including Slonomics in October 2010.

PROCHON BIOTECH LTD.

The active collaboration with ProChon Biotech Ltd. was concluded but therapeutic programs initiated during the course of the active collaboration can continue development and result in future milestone payments and royalties on product sales. Under the original 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, and certain cancers.

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 will run its full term until mid 2011. Schering Plough was acquired by Merck & Co., Inc. during the course of 2009.

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 allowing Shionogi the use of the MorphoSys HuCAL GOLD library for research purposes at one of its research sites. In April 2009, MorphoSys and Shionogi entered into an agreement under which Shionogi was allowed to test HuCAL PLATINUM, the latest and most powerful MorphoSys antibody library. Shionogi found the new library to be considerably better and now has the right to use HuCAL PLATINUM for research purposes at one of its sites. In return, MorphoSys receives a higher annual user fee during the remaining life span of the agreement.

XENCOR, INC.

In June 2010, MorphoSys AG and US-based biopharmaceutical company Xencor, Inc. signed a worldwide exclusive license and collaboration agreement. The agreement provided MorphoSys with an exclusive worldwide license to XmAb5574/MOR208 for the treatment of cancer and other indications. As part of the agreement, the companies will collaborate on the phase 1 trial in patients with chronic lymphocytic leukemia in the US. MorphoSys will be solely responsible for further clinical development after successful completion of the phase 1 clinical trial. Xencor has received an upfront payment of US$ 13 million (approx. € 10.5 million), and will be eligible to receive development-, regulatory- and commercialization-related milestone payments and tiered royalties based on product sales.

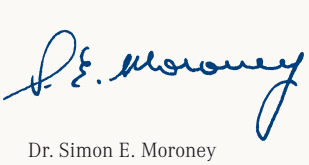
Appendix 1: Chart of the Consolidated Entity as of December 31, 2010

Name and Corporate Seat of the Company	Local Currency	Exchange Rate on Dec. 31, 2010, one Unit of Euro in Local Currency	
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)			
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US $	1.31944	
MorphoSys IP GmbH, Munich, Germany	€	–	
MorphoSys UK Ltd., Oxford, UK	£	0.85485	
MorphoSys US, Inc., Raleigh, North Carolina, USA	US $	1.31944	
MorphoSys AbD GmbH, Düsseldorf, Germany	€	–	
Poole Real Estate Ltd., Poole, UK	£	0.85485	
Sloning BioTechnology GmbH, Puchheim, Germany	€	–	

31 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 7, 2011



Dr. Simon E. Moroney
Chief Executive Officer

Mr. Dave Lemus
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

	Share of Capital %	Share Capital in Local Currency	Total Assets in Local Currency	Total Liabilities in Local Currency	Total Revenue in Local Currency	Profit/Loss in Local Currency
	100	2,000	3,948	0	0	(1,155)
	100	25,000	197,485	161,984	3,343,800	353,952
	100	100	7,570,937	2,523,075	10,773,699	1,162,195
	100	50,000	2,651,265	1,082,255	8,760,805	337,627
	100	25,000	1,660,408	471,971	4,310,313	(281,309)
	100	200	922,043	2,559	0	(47,941)
	100	951,660	5,082,415	1,477,830	300,793	(578,904)

Auditor's Report

We have audited the consolidated financial statements prepared by MorphoSys AG, Martinsried, comprising the balance sheet, the statement of operations, the statement of comprehensive income, 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, 2010. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a (1) of the 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 sec. 317 of the HGB (Handelsgesetzbuch; "German Commercial Code") and generally accepted German 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 IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to sec. 315a (1) of the 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 21, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Pastor	Rahn
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Supervisory Board Report

The most important topics in 2010 were the development and strengthening of MorphoSys's portfolio of drug candidates and the acquisition of Sloning BioTechnology GmbH. With the in-licensing of Xencor's CD19 antibody, the Company was able to double the number of proprietary clinical programs, and with MOR202 a third program will start clinical development in the first half of 2011. With the acquisition of the private company Sloning BioTechnology GmbH, MorphoSys added a very innovative technology for gene synthesis, a move which supports our ongoing technology advancements and will help to add additional partners to the existing roster of leading pharmaceutical and biotechnology companies. The partnered pipeline showed strong progress with eight new programs entering clinical development – a record for the Company. At the end of 2010, 17 antibody programs were in clinical testing.

CONTINUOUS DIALOG WITH THE MANAGEMENT BOARD

During 2010, the Supervisory Board continued to perform with great care the monitoring and advisory functions for which it is responsible under the law and the Articles of Association. We regularly advised the Management Board on the management of the Company and continuously observed and supervised its conduct of business. The Supervisory Board was intensively involved from an early stage in all decisions of significance for the Company. Together with the Management Board, we determined the Company's strategic approach. In 2010, the majority of our discussions focused on the Company's proprietary therapeutic antibody drug development plans as well as on in-licensing and acquisition opportunities to accelerate the growth and increase the value of MorphoSys.

In the periods between meetings of the full Supervisory Board and the committees, as the Chairman of the Board, I personally maintained 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.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

Eight Supervisory Board meetings were held in the 2010 fiscal year. Between meetings, the Management Board kept us constantly informed about all projects and plans of particular importance to the Company. All events of importance to the Company were discussed in detail by the committees and the Supervisory Board plenum on the basis of reports by the Management Board. 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 of the Company and the Group as a whole.

When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented. The Managing Board regularly provided us with timely and comprehensive information on Company planning and business operations as well as on the strategic development and current state of the Company. Deviations from business plans were explained to us in detail.

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

and the development of its business, its financial situation, the personnel situation, development projects and fundamental issues of corporate planning and strategy. They were sufficiently comprehensive to explain the challenges and progress of MorphoSys. These reports were the basis for the analysis of the relevant topics at the Supervisory Board meetings and for passing the required resolutions.

The Supervisory Board dealt at length with the overall commercial situation of MorphoSys, the development of revenues, earnings, investments and employment in the Group and its three business segments. 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, ongoing technology development efforts and the progress of the AbD Serotec segment.

Three committees deliberated on various aspects of the Company's business in 2010: the Audit Committee, the Remuneration & Nomination Committee, and the Science & Technology Committee. The composition of these committees can be found in the Declaration about Corporate Management on MorphoSys's website*. The Audit Committee met seven 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 formally once and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board. The committee members also liaised in the search for a successor to Mr. Dave Lemus as Chief Financial Officer and took part in interviews with candidates. The Science & Technology Committee met six times, focusing on the Company's technology and drug development plans, target selection and start of new development programs, interim results from ongoing studies, and the design of the planned and current clinical trials. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

In 2010, one conflict of interest occurred. In my function as investment advisor at HBM Partners, one of the major investors in Sloning BioTechnology GmbH, I reported a conflict of interest regarding the planned acquisition of Sloning. I did not participate in any discussions regarding the planned acquisition, nor receive any reports or minutes during the due diligence and offer period.

No Supervisory Board member was absent from more than two meetings. With one exception, the committee meetings were fully attended.

CORPORATE GOVERNANCE AND MANAGEMENT BOARD COMPENSATION

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account amendments made to the German Corporate Governance Code in May 2010. Detailed information on Corporate Governance* and the remuneration system* can be found on pages 28 – 36 of the Management Report.

On December 22, 2010, 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 four of the Code's recommendations.

JENS HOLSTEIN TO SUCCEED DAVE LEMUS AS CHIEF FINANCIAL OFFICER

In September 2010, the Company concluded mutual agreements with its Chief Financial Officer, Mr. Dave Lemus, regarding the ending of his more than 13 years of serving as MorphoSys's CFO, and the subsequent seamless transfer of his functions to a successor. On behalf of both the Supervisory Board and the Management Board, I would like to express my heartfelt thanks to Mr. Dave Lemus for his commitment to helping build MorphoSys over the past thirteen years. His contributions have been central in making the company as successful as it is today. We wish him all the very best for the future.

We are very pleased to welcome Mr. Jens Holstein as new Chief Financial Officer, who will be a key member of the Management Board of MorphoSys. Mr. Holstein has an outstanding track record and brings international business experience, which will be important for the Company as it continues its growth as one of Europe's leading biopharmaceutical companies.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements and the management report of MorphoSys AG are in accordance with the 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 sec. 315a of the HGB for the period of January 1, 2010, to December 31, 2010, 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 21, 2010. The auditor issued an unqualified audit opinion.

* MORE INFORMATION AT WWW.MORPHOSYS.COM
* SEE PAGE 28 ET SEQ.
* SEE PAGE 31 ET SEQ.

"We are very pleased to welcome Mr. Jens Holstein as new Chief Financial Officer. Mr. Holstein's international business experience will be important for the Company as it continues its growth as one of Europe's leading biopharmaceutical companies."

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 the MorphoSys AG according to the HGB and German auditing standards. The auditor confirmed that the consolidated annual financial statements are an accurate and fair reflection of the financial situation, the result of business activity, and the Group's cash flow, in accordance with the accounting principles as defined by IFRS.

The focus of the 2010 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, especially the accounting treatment of the acquisition of Sloning BioTechnology GmbH including the related purchase price allocation, methods of foreign currency translation, determination and impairment test of goodwill, determination of current and deferred taxes, the accuracy of segment reporting as well as the reasonableness of the disclosures regarding future development of the Group in the Group Management Report.

The focus of this year's audit of the financial statements and the management report of MorphoSys AG was the process of preparing the financial statements, the design, implementation and effectiveness of internal controls in the procurement process as well as the design, implementation and effectiveness of internal controls relating to Counsel Licensing & Intellectual Property, the completeness of trade accounts payable and accruals for outstanding invoices, the accurate recognition of the operating revenues, impairment of financial assets and the reasonableness of the disclosures regarding future development of the Company in the management report.

The audit reports and the financial statement documentation were sent to all Supervisory Board members with a sufficient amount of lead time for review. The audit report as well as the consolidated financial statements and the MorphoSys Group Management Report were intensively discussed at the Audit Committee meeting on February 22, 2011, and at the Supervisory Board meeting on the same day. The audit report as well as the financial statements and the management report of MorphoSys AG were the subject of detailed discussion at the Audit Committee meeting on March 10, 2011, 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. The Supervisory Board has also reviewed the proposal of the Management Board for the use of the 2010 earnings; the Supervisory Board is in accordance with this recommendation.

The Supervisory Board would like to thank the members of the Management Board and the employees of all MorphoSys companies for their great commitment and outstanding achievements over the past fiscal year.

Martinsried/Planegg, March 10, 2011

Dr. Gerald Möller
Chairman of the Supervisory Board

Supervisory Board of MorphoSys AG

Dr. Gerald Möller
Chairman

Heidelberg, Germany

Member of the Supervisory Board of:

- BioAgency AG, Germany (Chairman)
- febit holding AG, Germany (Director)
- Illumina, Inc., USA (Director)
- Invendo Medical GmbH*, Germany (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

Cureggia, Switzerland, and Feldafing, Germany

Member of the Supervisory Board of:

- Agennix AG, Germany
- Human Genome Sciences, Inc.,* USA

Dr. Walter Blättler
Member

Brookline, MA, USA

No other Supervisory Board memberships

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

Dr. Daniel Camus
Member

Paris, France

Member of the Supervisory Board of:

- SGL Carbon, Germany
- Valéo,* France
- Vivendi SA, France

Dr. Metin Colpan
Member

Essen, Germany

Member of the Supervisory Board of:

- Qalovis GmbH,* Germany
- Qiagen NV,* the Netherlands

Dr. Geoffrey N. Vernon
Member

Sampford Barton, UK

Member of the Supervisory Board of:

- Advanced Medical Solutions,* UK (Chairman)
- Apitope International NV,* UK (Chairman)
- Genable Ltd.,* Ireland (Chairman)
- Veryan Medical Ltd., UK
- XL TechGroup, Inc,* USA (Chairman)
- Ziggus Holdings Ltd.,* UK (Chairman)

Senior Management Group of MorphoSys AG

Sascha Alilovic
Head of Corporate Development, Legal Affairs, Compliance & Treasury

Silvia Dermietzel
Head of Global Human Resources

Dieter Feger
Head of AbD Serotec

Dr. Barbara Krebs-Pohl
Head of Business Development

Klaus de Wall
Head of Finance & Accounting

Dr. Markus Enzelberger
Head of Discovery Alliances & Technologies

Dr. Claudia Gutjahr-Löser
Head of Corporate Communications & Investor Relations

Dr. Ulrich Moebius
Head of Preclinical Development & Project Management

Dr. Ralf Ostendorp
Head of Protein Sciences

Dr. Margit Urban
Head of Target and Antibody Discovery

Dr. Armin Weidmann
Head of Quality Assurance & Regulatory Affairs






Dr. Lisa Rojkjaer
Head of Clinical Development

Dr. Harald Watzka
Head of Alliance Management

Dr. Günter Wellnhofer
Head of Technical Operations

Glossary

A

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

ADCC – Antibody-dependent cell-mediated cytotoxicity; a mechanism of cell-mediated immunity whereby an effector cell of the immune system actively destroys a target cell that has been bound by specific antibodies

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

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

CD38 – Therapeutic target for the treatment of multiple myeloma and certain leukemias

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

CLL – Chronic lymphocytic leukemia; most common type of cancer of the blood and bone marrow, affecting the B-cells

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

E

EMA – European Medicines Agency

F

FDA – Food and Drug Administration; US federal agency for the supervision of food and drugs

G

GCP – Good clinical practice; an international ethical and scientific quality standard for designing, conducting, recording and reporting trials that involve the participation of human subjects

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

GMP – Good management 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

H

HGB – German accounting standards

HuCAL – Human Combinatorial Antibody Library. Proprietary antibody library enabling rapid generation of specific human antibodies for all applications (explanation of GOLD/PLATINUM)

Human – Of human origin

I

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

Immunization – Generation of antibodies by administering antigen

In-vitro – In a test tube

In-vivo – In a living organism

L

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

M

Macrophage – White blood cell that ingests foreign material. Macrophages are key players in the immune response to foreign invaders such as infectious microorganisms

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

MRSA – Methicillin-resistant Staphylococcus aureus; type of bacteria that is resistant to certain antibiotics and causes severe infections; occurs most frequently among patients in healthcare settings

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

N

NIH – National Institutes of Health; part of the US Department of Health and Human Services, the primary federal agency for conducting and supporting medical research

O

Osteolysis – Dissolution or degeneration of bone tissue through disease

P

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, non-contagious autoimmune disease which affects the skin and joints

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

R

RapMAT – Maturation process; proprietary technology of MorphoSys

R&D – Research and development

Reagent – A substance used in research and diagnostic applications

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

Index

P

Q

R

S

T

V

W

Masthead

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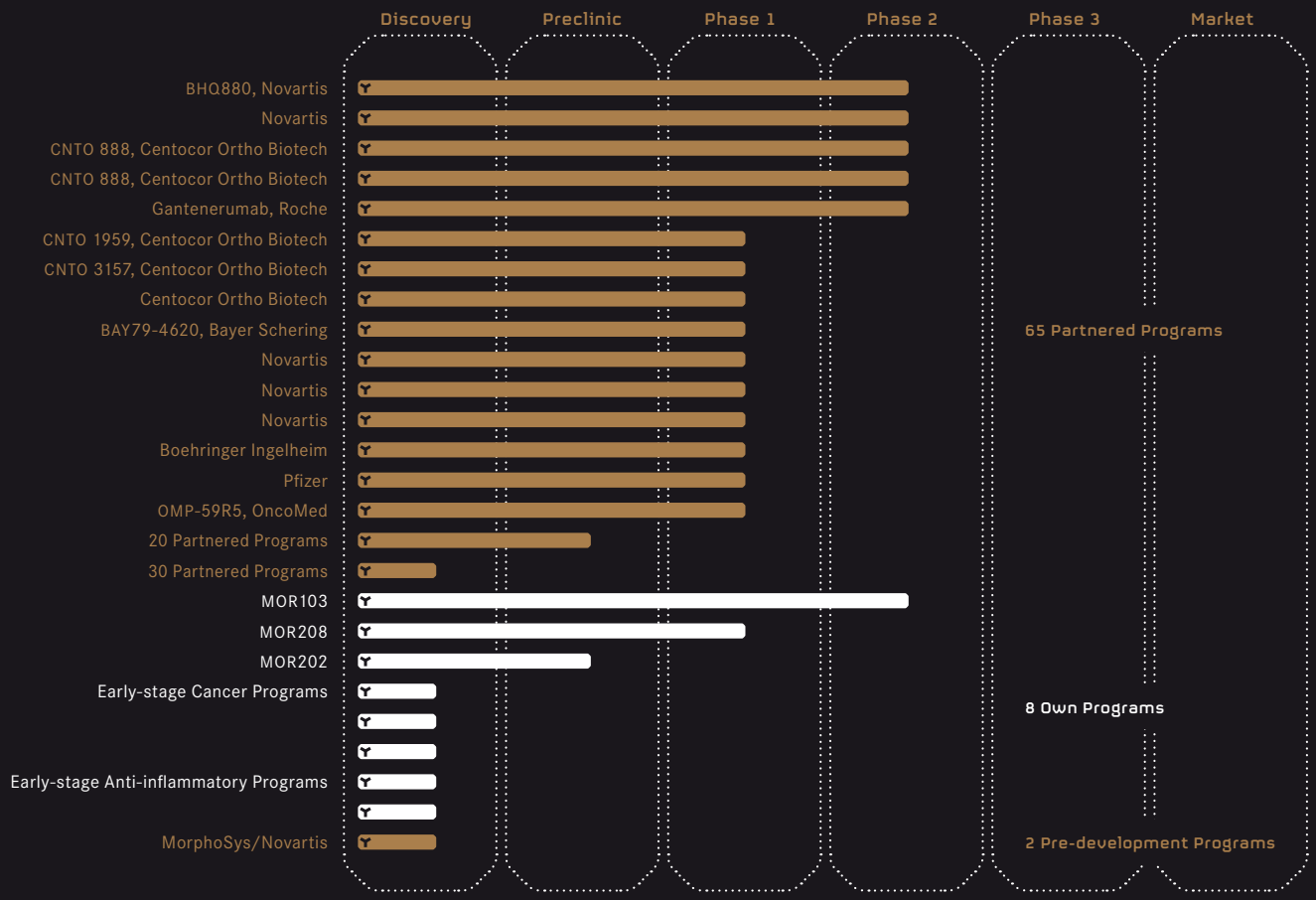
Product Pipeline

MORPHOSYS'S PRODUCT PIPELINE AS OF DECEMBER 31, 2010



Financial Calendar

February 24, 2011	Publication of 2010 Year End Results
April 29, 2011	Publication of 2011 Three Months' Report
May 19, 2011	2011 Annual Shareholders' Meeting in Munich
July 29, 2011	Publication of 2011 Six Months' Report
October 28, 2011	Publication of 2011 Nine Months' Report

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