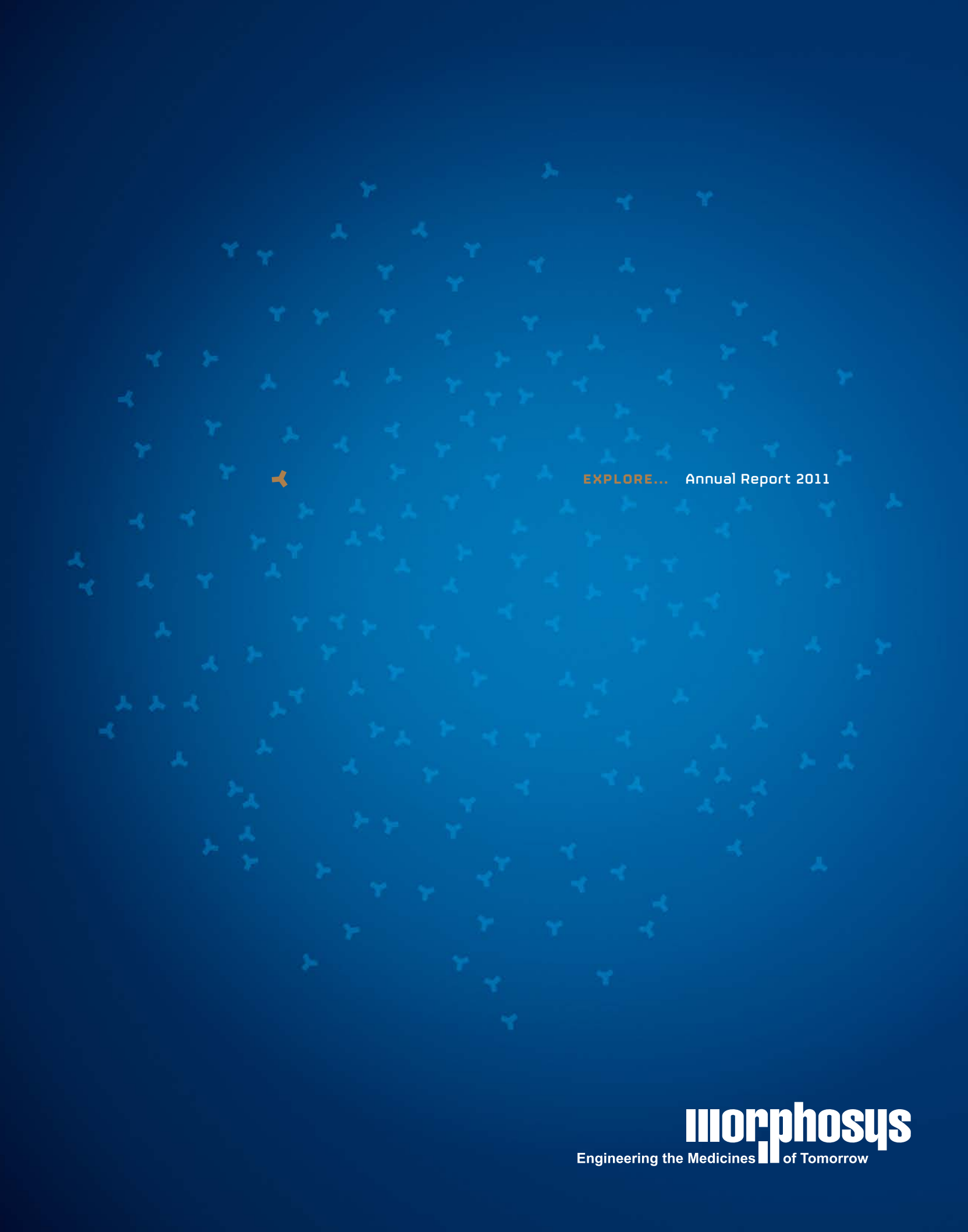
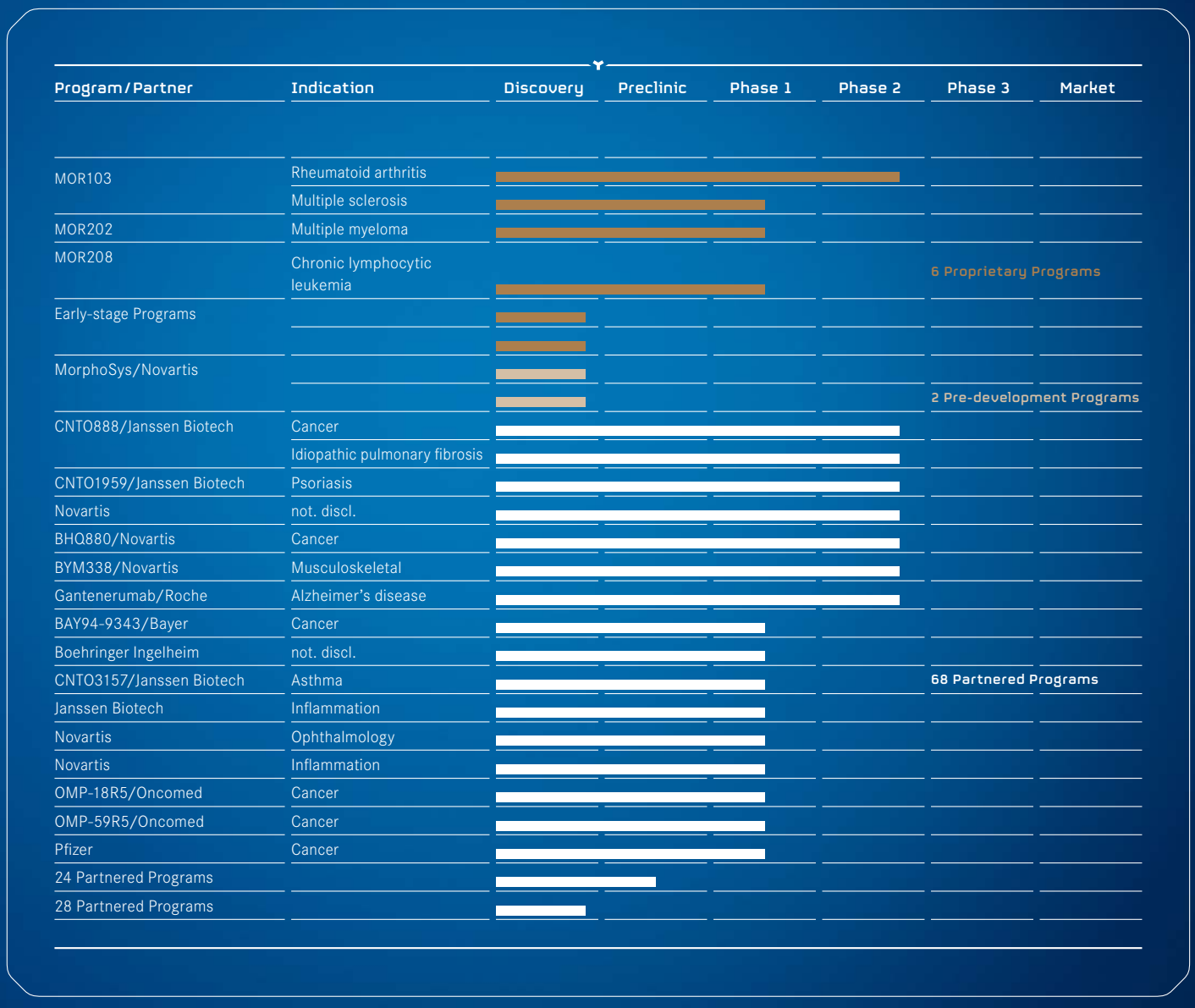

EXPLORE... Annual Report 2011
morphosys
Engineering the Medicines of Tomorrow

Product Pipeline

MORPHOSYS'S PRODUCT PIPELINE AS OF DECEMBER 31, 2011



EXPLORE...

As a biopharmaceutical company, MorphoSys is constantly exploring new therapeutic concepts to fight severe diseases, together with partners and on its own account. The way we do this is by developing superior technological solutions to generate antibodies, a central component of the human immune system. This approach has enabled us to build one of the broadest antibody drug pipelines in our industry, with some 70 ongoing programs and 20 candidates in clinical development.

Exploring the possibilities of antibodies beyond their therapeutic use is the key task of our AbD Serotec business unit. AbD Serotec is working with some 20 diagnostic customers to establish novel diagnostic tests based on HuCAL antibodies. In 2011, the first HuCAL-based diagnostic product entered the market and MorphoSys expects this trend to continue in the coming years.

Driven by pioneers, both scientists and entrepreneurs, with a remarkable exploratory spirit, antibodies have developed from unknown territory to a rich, flourishing hub in the pharmaceutical landscape. MorphoSys is committed to continue discovering new and better ways to generate these molecules and to turn them into successful products. Our Company has introduced a series of innovative antibody technologies, most recently Slonomics, arYla and our novel Ylanthia library. The latter will, we believe, set new standards for antibody generation in our industry over the next decade and beyond.

And the exploration continues...

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Management Board of MorphoSys AG

Letter to the Shareholders

Dear Shareholders,

In 2011, MorphoSys made exceptional progress in its key business activities. Our pipeline of therapeutic antibodies matured significantly into one of the richest and deepest in the industry. We have made major additions to our technology platform, and introduced a novel and superior antibody library called Ylanthia. Our solid financial performance once again illustrates the advantages of our business model.

Three programs, MOR103, MOR202 and MOR208, are currently the key assets in our Proprietary Development segment. Investment in these programs is our top priority, as they provide our best opportunity to generate substantial value for the Company. Across the three programs, we now have five clinical trials ongoing; a considerable expansion from the two studies at the beginning of 2011.

We continued the active phase 1b/2a trial with our lead candidate MOR103 in rheumatoid arthritis and are on track to report final data this year. The results will form the basis for partnering discussions to secure the subsequent development of the program. Multiple sclerosis became the second indication for the clinical development of MOR103 when we initiated a phase 1b study in December 2011. We also started a clinical trial evaluating the subcutaneous administration of MOR103. Both studies, the new indication and the subcutaneous administration option, could substantially increase the program's value for pharmaceutical partners. MOR208, our most advanced proprietary cancer program, is on track to report data from the ongoing phase 1 study in patients with CLL in the second half of the year. And MOR202, our HuCAL antibody for multiple myeloma, entered a phase 1/2a trial in 2011 and thus became our third fully owned antibody in the clinic.

Our Partnered Discovery segment continues to mature as more and more programs advance. Two new programs entered the clinic during 2011 and two partnered programs advanced from phase 1 into phase 2 trials. As the pipeline matures, the amount of data from individual programs that is publicly available increases.

As a result, investors have more visibility on our pipeline's prospects and its inherent value than ever before. By way of example, our partner Roche published data from the phase 1 trials of the HuCAL antibody gantenerumab. The data clearly illustrates the promise of this novel treatment for the huge unmet medical need that is Alzheimer's disease.

With regard to technology, 2011 was a truly remarkable year for MorphoSys. Our success today is based on the company's HuCAL antibody platform and our ability to build productive relationships around it. The full installation of HuCAL at the premises of Novartis in Basel in early 2011 was another significant milestone in the life cycle of this technology. With 19 programs in the clinic at the time of writing, HuCAL is the most successful antibody library technology in the industry.

Technology development, however, does not stand still. We believe that with new technology, even better antibody drugs can be developed. This is why we initiated an internal technology program with a dedicated team in 2008 to develop a next-generation antibody platform. The acquisition of Sloning BioTechnology in December 2010 catalyzed this process and paved the way for our novel technology platform, Ylanthia. We expect Ylanthia to set new standards for therapeutic antibody generation over the next decade and beyond. Commercial application will commence in 2012.

The transformation of our third segment, AbD Serotec, into a business unit increasingly focused on the diagnostic market is ongoing. The first HuCAL-based diagnostic tests entered the market in 2011, with more to come. Additionally, new deals based on our Slonomics platform for protein engineering, such as the agreement with Novozymes in industrial biotechnology, provide an attractive new revenue component in AbD Serotec's sales mix. In 2011, these positive developments compensated somewhat for a difficult market on the research reagent side of AbD's business, where the effects of a challenging economic environment were felt. In 2012, we expect AbD Serotec to increase its penetration of the diagnostic market, and the rollout of a new e-commerce platform to bring improvements in the research reagent business.

"Investors have more visibility on our pipeline's prospects and its inherent value than ever before."

The MorphoSys Group's financial performance was substantially influenced in 2011 by the technology milestone we reached in the Novartis alliance, resulting in a record level of success-based payments of € 32.7 million. Total revenues of € 100.8 million represented a strong double-digit growth rate compared to the previous year. Despite a 36 % increase in proprietary R&D investment to approximately € 37 million, we recorded an operating profit of € 12.2 million. Our balance sheet – our cash position increased to € 134.4 million – is one of the Company's greatest strengths, especially in the current poor financing environment. This strong cash position makes additional strategic transactions possible, such as the 2010 Sloning acquisition, which has already generated a significant return on investment through four new license agreements.

All in all, 2011 was a successful year for MorphoSys and 2012 promises to be even more exciting. We are eagerly awaiting clinical data from our lead program, MOR103. Positive data could provide the basis for a lucrative out-licensing deal. In addition, we await clinical proof of concept data for up to five partnered programs during the course of the year.

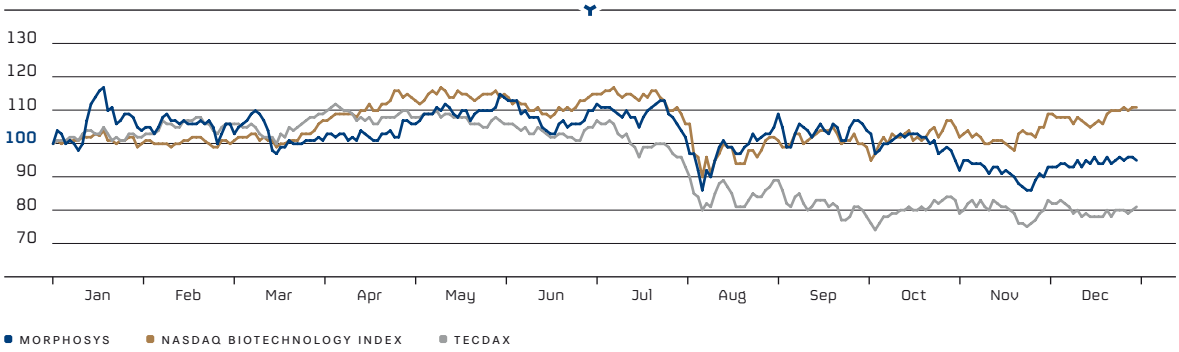
Our progress would not be possible without the hard work, dedication and creativity of our employees, to whom I am extremely grateful. Thanks also to you, our shareholders, for your continued support. I am sure you will join me in wishing the Company a successful 2012.

Dr. Simon E. Moroney
Chief Executive Officer

The MorphoSys Share

During the 2011 fiscal year, MorphoSys's stock price showed a 5 % decrease, while the German TecDAX index decreased by 19 %. The NASDAQ biotechnology index rose by 11 % in 2011.

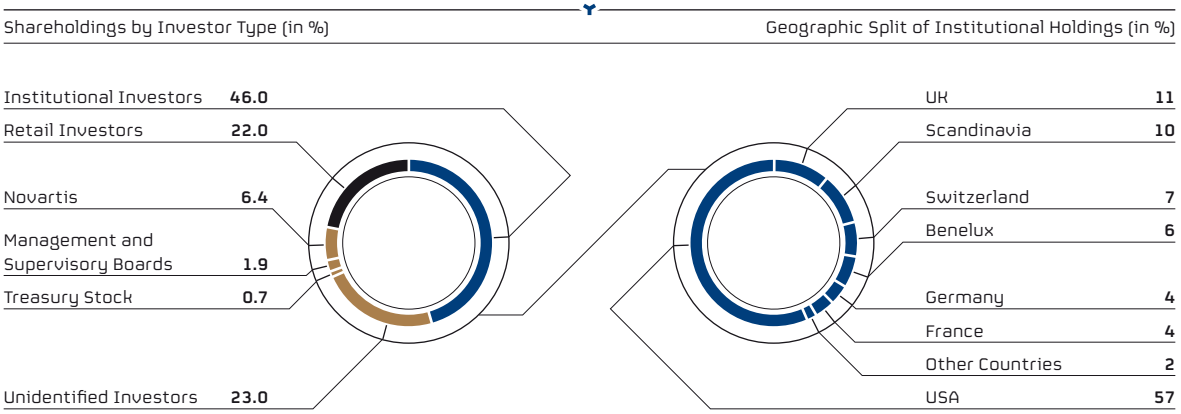
THE MORPHOSYS SHARE (January 1, 2011 = 100 %)



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

in € million (if not stated otherwise)		2011	2010	2009	2008	2007
Total Stockholders' Equity		197.1	185.9	173.9	162.0	145.5
Number of Shares Issued (Total)		23,112,167	22,890,252	22,660,557	22,478,787	22,160,259
Market Capitalization		405	424	386	421	357
Closing Price (Xetra)	in €	17.53	18.53	17.04	18.75	16.10
Average Daily Trading Volume		1.8	1.1	1.3	1.9	2.5

SHAREHOLDER STRUCTURE



The economic turbulence on the European market put pressure on the share price development of most companies. The performance of MorphoSys's stock was also influenced by the extremely volatile market situation.

LIQUIDITY AND INDEX MEMBERSHIP

The average daily trading volume of MorphoSys's stock increased to € 1.8 million per day, compared to an average trading volume of € 1.1 million per day in the previous year. MorphoSys further strengthened its position in the TecDAX index, which includes the 30 largest technology stocks on the Frankfurt Stock Exchange. At the end of 2011, the Company was able to improve its position based on market capitalization to 14 th place (year-end 2010: rank 16) and its position based on trading volume to 20 th place (year-end 2011: rank 23).

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 2011.

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

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EXPLORING THE POTENTIAL OF ANTIBODIES

SUCCESSFUL DRUG DEVELOPMENT TODAY IS A COMPLEX UNDERTAKING INVOLVING DIFFERENT ORGANIZATIONS AND COMPANIES. IT REQUIRES SUBSTANTIAL FINANCIAL INVESTMENT. BUT EVEN MORE SO, IT REQUIRES THE CREATIVITY, PERSISTENCE AND LONG-TERM COMMITMENT OF PEOPLE READY TO EXPLORE NEW AVENUES IN SCIENCE AND MEDICINE. MORPHOSYS'S LEAD ANTIBODY PROGRAM MOR103, WHICH IS IN CLINICAL DEVELOPMENT FOR RHEUMATOID ARTHRITIS AND MULTIPLE SCLEROSIS, IS A PRIME EXAMPLE OF THIS DEVELOPMENT PROCESS.


6
FORGE ALLIANCES
Build partnerships to bring the drug to market
5
DEVELOP THE COMPOUND
Advance the compound into the clinic
4
EVALUATE THE CONCEPT
Validate the concept in preclinical studies
3
BUILD RESEARCH NETWORKS
Strengthen the scientific and commercial basis
2
SELECT THE ANTIBODY
Screen for antibody candidates
1
CHOOSE THE TARGET
Understand the target biology

MorphoSys employees from different departments analyze the target biology of GM-CSF, the basis of the Company's MOR103 program.

STEP 1

CHOOSE THE TARGET

ANTIBODY DRUG DEVELOPMENT STARTS WITH QUESTIONS WHICH SOUND FAIRLY SIMPLE, BUT WHICH ARE CRITICAL FOR THE LATER SUCCESS OF A DRUG PROGRAM: WHICH MOLECULE IN THE HUMAN BODY SHOULD BE TARGETED WITH AN ANTIBODY? AND, HOW WILL THIS CHANGE THE COURSE OF A GIVEN DISEASE FOR THE BETTER?

MOR103 is a fully human HuCAL antibody directed against the target molecule granulocyte macrophage colony-stimulating factor, or GM-CSF for short. GM-CSF acts as a messenger between different parts of the human immune system. MorphoSys initiated the MOR103 program based on internal target scouting work and the scientific data generated by researchers around the world. GM-CSF was initially described as a growth factor for white blood cells. Professor John Hamilton from the University of Melbourne was the first to suggest that GM-CSF may promote inflammation as it acted on macrophages, a key cell type in chronic inflammation, to produce an enzyme which can damage tissues.

THE UNIVERSITY OF MELBOURNE

"We felt that blocking GM-CSF with an antibody could lead to a new treatment option for inflammatory diseases."

Professor John Hamilton, University of Melbourne

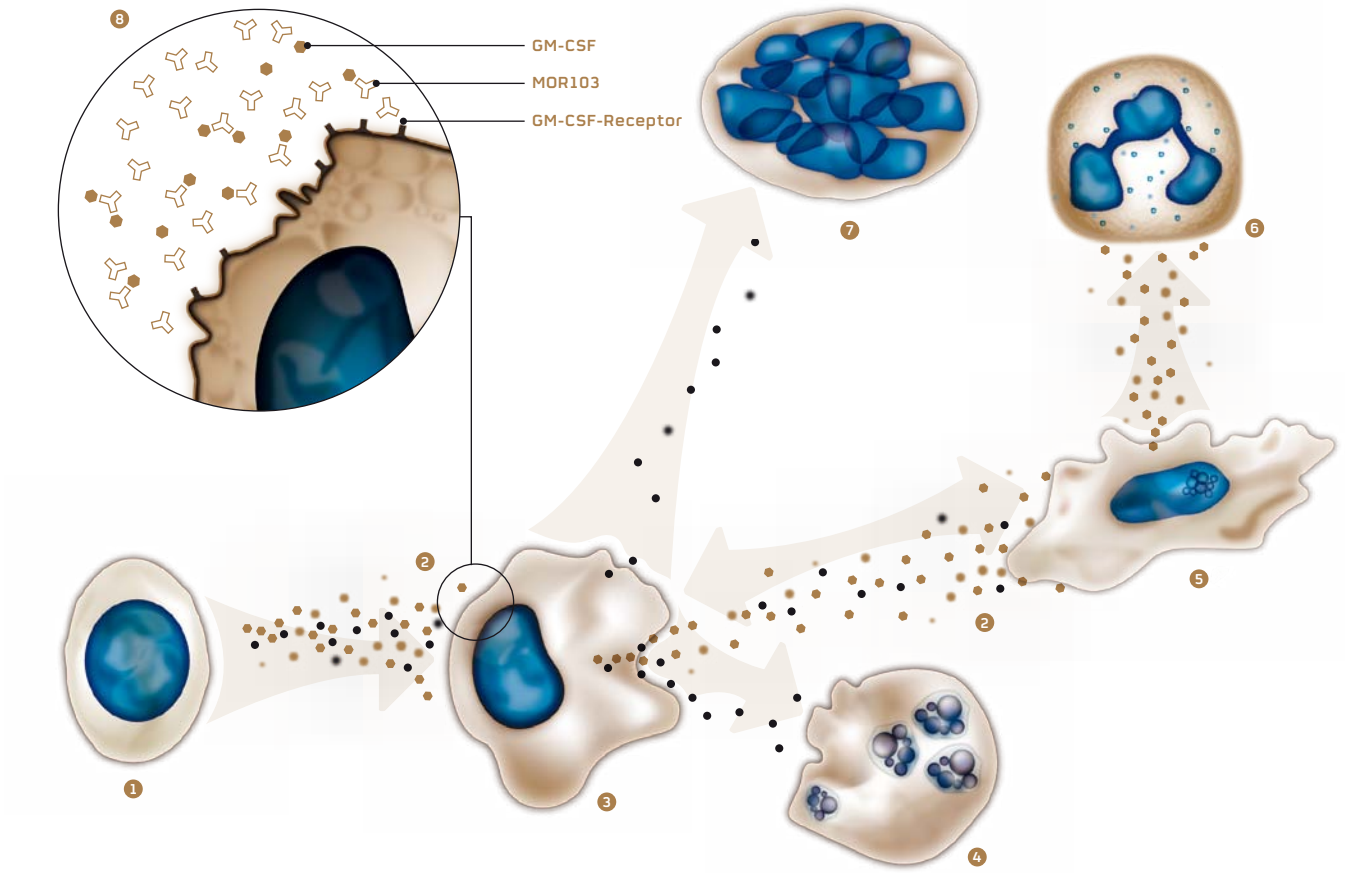
"My rather new hypothesis was that GM-CSF could indeed be important in inflammation in an additional way," Professor Hamilton recalls. "Macrophages are almost certainly a key producer of inflammatory cytokines such as IL-1 or TNF-alpha. These cytokines in turn seem to stimulate other cells in inflamed tissues to produce GM-CSF, which again acts on macrophages as a survival and activating factor. In the end, what you get is a sort of positive feedback loop worsening the inflammatory condition. We felt that blocking GM-CSF with an antibody could interrupt this vicious cycle, if you like, and lead to a new treatment option for inflammatory diseases." The subsequent research led by Professor Hamilton and Professor Gary Anderson provided direct evidence, using this approach in animal models, that GM-CSF was a central mediator of inflammatory diseases. Consequently, in 2000 the University of Melbourne filed a US patent application covering the use of GM-CSF inhibitors for the treatment of inflammatory disorders.

"Interestingly, this new interpretation of the molecule's biology has been rather overlooked by the industry," Hamilton concludes. The background information offered a significant development opportunity for MorphoSys, and only a few other companies are pursuing projects against the same target.

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

Dr. Arndt Schottelius, Chief Development Officer of MorphoSys AG

"It is our prime goal to explore and develop innovative and effective treatment regimes for patients. As a biotech company, you sometimes have to strike a balance between choosing a pathway and target that are validated to some degree, because you can't spend your limited resources on things that represent entirely unknown territory, but where the competitive landscape is still attractive, still manageable," says Dr. Arndt Schottelius, Chief Development Officer of MorphoSys AG. Schottelius joined MorphoSys as Chief Development Officer from Genentech in December 2008, when MOR103 was already moving towards the clinic in rheumatoid arthritis, or RA for short. One of his first tasks at MorphoSys was to carry out a full proprietary portfolio review in order to further strengthen the Company's development focus. "When I first looked at the MOR103 program, I was intrigued by the target biology and sound scientific rationale for GM-CSF as a novel and promising approach to tackling inflammation and autoimmune disorders," Schottelius recalls.



HOW MOR103 IS SUPPOSED TO INTERFERE WITH THE PRO-INFLAMMATORY CYTOKINE NETWORK IN RA

1 T cells
Support the activation of macrophages by producing cytokines including GM-CSF.

2 GM-CSF
Pro-inflammatory cytokine, which supports the recruitment of immune cells from the bone marrow, including neutrophils and macrophages, activates them and acts as a survival factor for these cell types.

3 Macrophages
GM-CSF activates macrophages and leads to proliferation of this cell type. Since macrophages produce other pro-inflammatory cytokines, an inflammatory cascade begins.

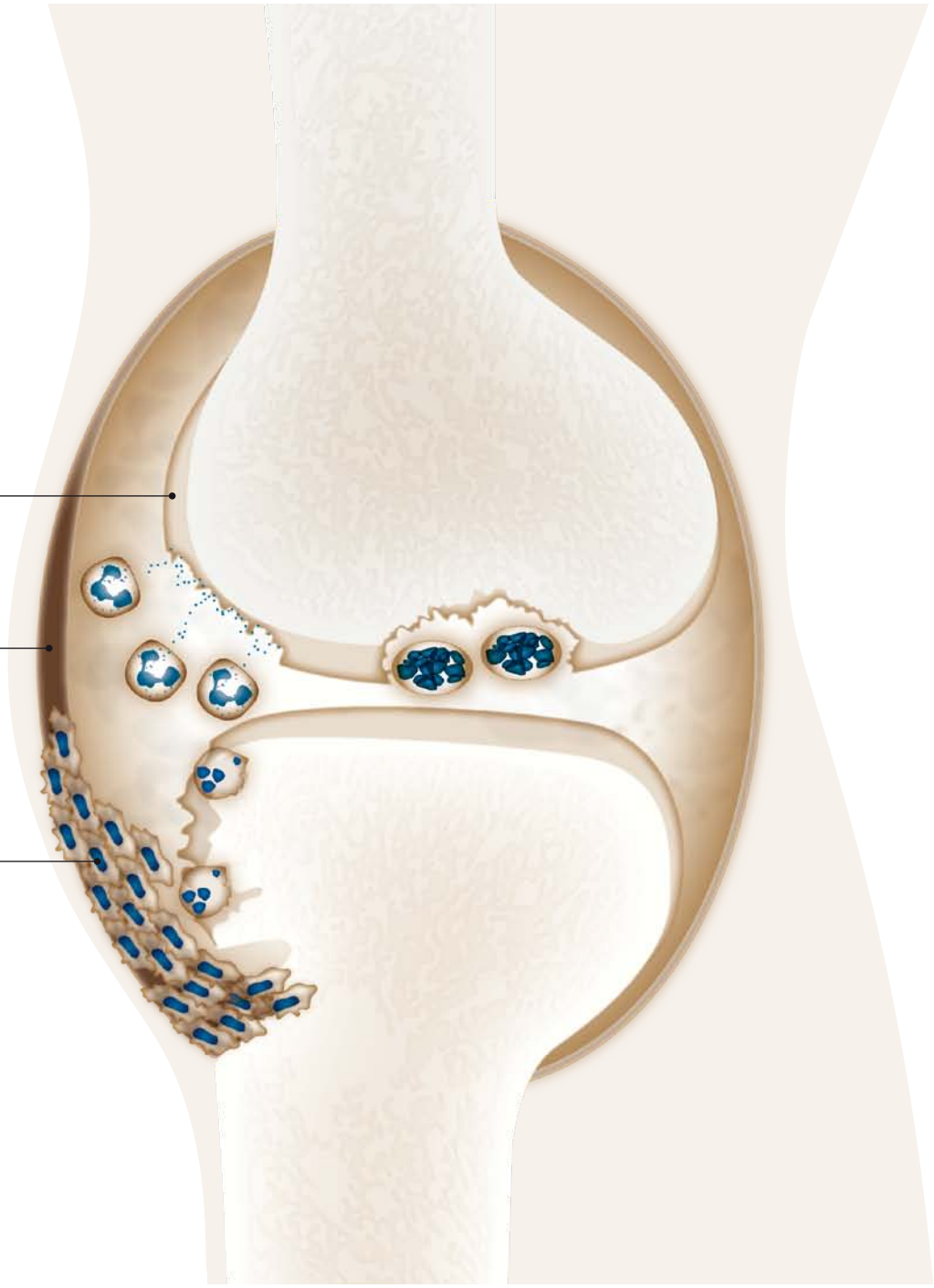
4 Osteoclasts
Osteoclasts are specialized cells that resorb bone material. In RA, these cells are overly activate, resulting in lesions and holes in the bone, which is subsequently infiltrated by cell layers resulting from the aggressive proliferation of synovial fibroblasts.

5 Synovial Fibroblasts
The synovial membrane in RA patients is inflamed and consists of multiple layers of synovial fibroblasts, as well as macrophages, which multiply at an abnormal rate. The resulting tissue, called pannus, infiltrates bone and cartilage tissue. As the disease progresses, the aggressive expansion of the pannus is a main reason for the joint becoming deformed.

6 Neutrophils
Being a part of the innate immune system, neutrophils' main function is to internalize and destroy microorganisms. In RA, they produce and release substances that attack cartilage tissue in the diseased joints.

7 Chondrocytes
Under the influence of certain cytokines, chondrocytes switch to degrading the cartilage matrix.

8 MOR103
The MorphoSys antibody MOR103 binds its target molecule GM-CSF, and thus inhibits the activation and proliferation of inflammatory macrophages and neutrophils in the diseased joint. Using this approach several pathogenic processes could be prevented early on.



Many types of immune cells accumulate in a diseased joint. The cell types which are activated by the cytokine GM-CSF play a key role in the development of the disease. Along with disease progression, bone and cartilage tissue is increasingly affected.

"When used as a drug, the high affinity of MOR103 is expected to lead to a beneficial dosing regimen and cost of goods advantage."

Dr. Stefan Steidl, Director Pharmacology at MorphoSys

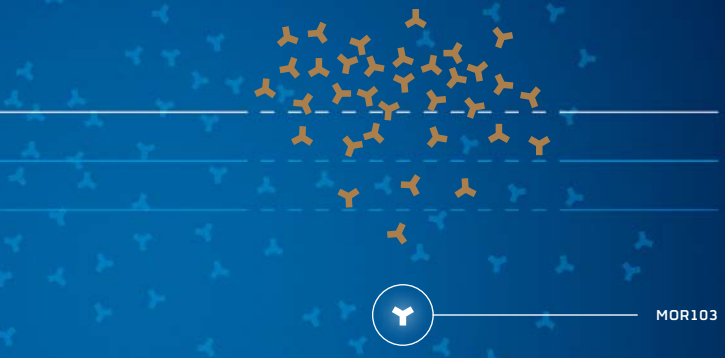
STEP 2

SELECT THE ANTIBODY

AFTER THE DECISION WAS MADE TO INITIATE A THERAPEUTIC PROJECT AGAINST GM-CSF, THE NEXT CHALLENGE FOR MORPHOSYS'S SCIENTISTS WAS TO IDENTIFY THE BEST ANTIBODY CANDIDATE FROM ITS PROPRIETARY ANTIBODY LIBRARY.

The MOR103 antibody, like almost all of MorphoSys's pipeline projects today, was sourced from the Company's HuCAL antibody platform. HuCAL, which stands for Human Combinatorial Antibody Library, uses a unique concept to isolate a target-specific antibody from the entire human antibody repertoire and optimize the molecule for therapeutic applications, if needed. "Using our unique optimization routine, we were able to achieve a 5,000-fold increase in binding strength and a 2,000-fold increase in potency compared to the first selected

The MOR103 antibody was isolated from the HuCAL antibody library according to different criteria such as binding strength, specificity, stability and solubility.



antibody we got out of the library," says Dr. Stefan Steidl, Director Pharmacology at MorphoSys and one of the Company's scientists who worked on the MOR103 program from the very beginning. "This antibody is still one of the best candidates in terms of binding strength we have ever isolated from our library and it represents, to the best of our knowledge, the first anti-GM-CSF agent with a subpicomolar affinity for its target," Steidl comments. "When used as a drug, the high affinity of MOR103 is expected to lead to a beneficial dosing regimen and cost of goods advantage."

MorphoSys scientists isolate and characterize drug candidates from the Company's antibody library for both its proprietary as well as for partnered programs.

STEP 3

BUILD RESEARCH NETWORKS

RESEARCHERS AT THE UNIVERSITY OF MELBOURNE HAVE PLAYED A LEADING ROLE IN CHARACTERIZING THE FUNCTION OF GM-CSF AS A CENTRAL MEDIATOR OF INFLAMMATORY DISEASES. IN 2007, MORPHOSYS SIGNED AN AGREEMENT WITH THE UNIVERSITY, PROVIDING THE COMPANY WITH AN EXCLUSIVE LICENSE FOR A KEY PATENT FAMILY.

"While we initiated the project completely on our own, ideas to forge a scientific partnership with the University of Melbourne existed quite early on," says Dr. Marlies Sproll, Chief Scientific Officer of MorphoSys. A key reason for this consideration was a US patent application covering the use of inhibitors of GM-CSF which the University of Melbourne had filed in 2000. This patent offered the prospect of market exclusivity in the USA for a company with an anti-GM-CSF therapeutic antibody for the treatment of diseases such as rheumatoid arthritis.

"The US market is currently by far the largest for RA drugs, with an estimated patient population of more than one million."

Dr. Marlies Sproll, Chief Scientific Officer of MorphoSys AG

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"The US market is currently by far the largest for RA drugs, with an estimated patient population of more than one million. We felt that gaining access to such a patent could be a very attractive addition to the MOR103 package, bearing in mind that we would most likely partner it at some stage further down the road," adds Sproll, who also supervises the intellectual property department of the Company.

In 2006, when this patent application was yet to be granted by the US patent office, MorphoSys approached the University of Melbourne seeking to exclusively license it. A face-to-face meeting was organized in late 2006 between MorphoSys executives and the University's inventors. MorphoSys's plans for the GM-CSF program, the very potent fully human anti-GM-CSF antibody with high affinity for its target and the Company's financial strength were key assets in these discussions. Finally, a license agreement was announced in January 2008. Signing the license was, however, just the start of this fruitful relationship. Both parties continued to work together closely and the University's patent was successfully granted by the US patent office in late 2008, a significant milestone for the relationship. In July 2009, the parties further expanded their relationship to investigate new therapeutic applications for MorphoSys's MOR103 program.

MorphoSys scientists use various *in vitro* assays to validate drug candidates for subsequent development steps.

MorphoSys is able to produce antibody material sufficient for initial studies at its premises in Martinsried near Munich.

STEP 4

EVALUATE THE CONCEPT

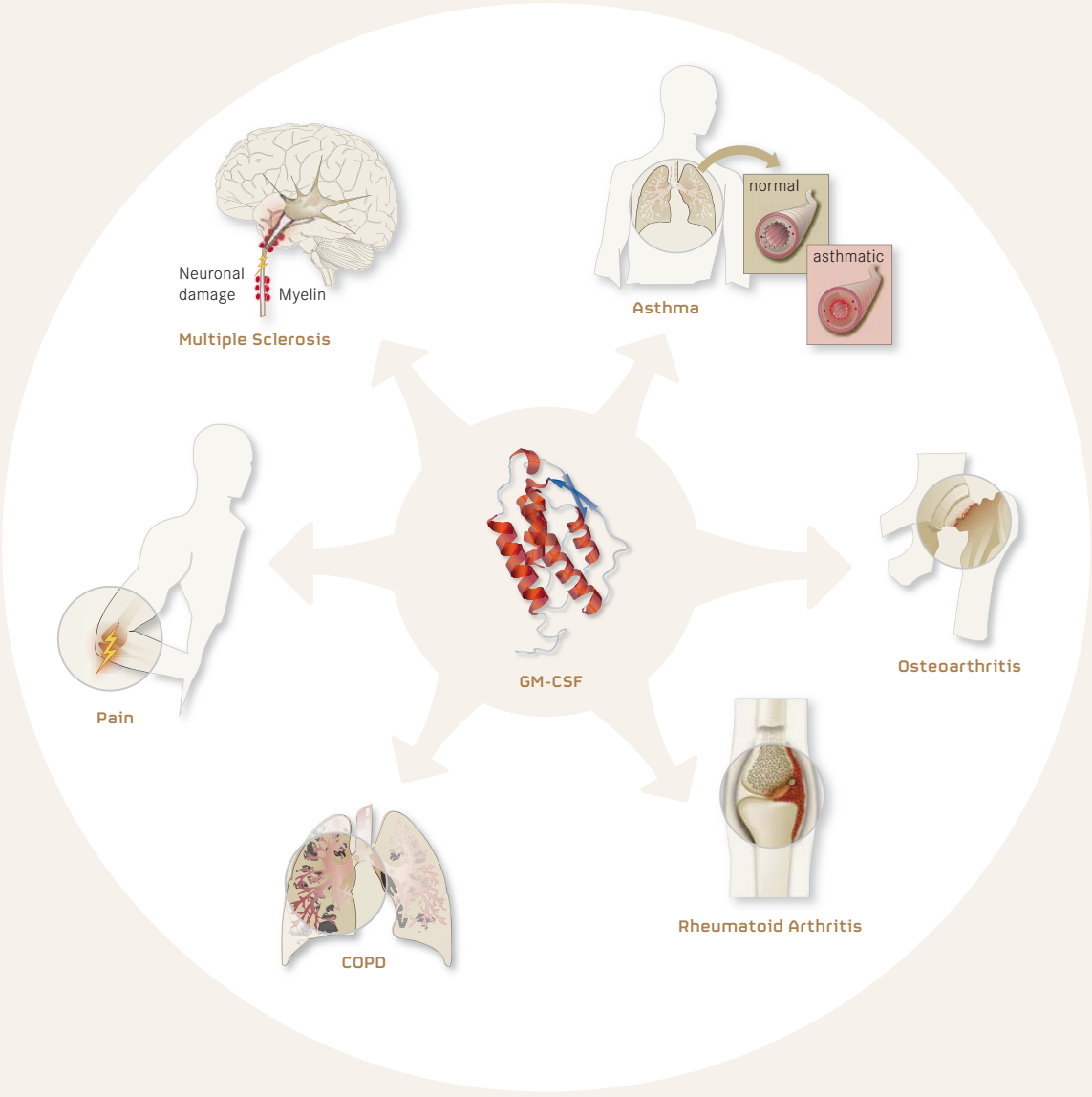
BEFORE A DRUG CANDIDATE CAN BE TESTED IN HEALTHY VOLUNTEERS AND PATIENTS, THE UNDERLYING HYPOTHESIS HAS TO BE EVALUATED IN PRECLINICAL STUDIES, WHICH MEANS IN LABORATORY ASSAYS AND, SUBSEQUENTLY, IN ANIMAL MODELS.

MorphoSys used an established arthritis model in rats to generate the preclinical data for MOR103, which was presented at a scientific conference in late 2008. The antibody was administered in a range of concentrations and brought about significant reduction of knee joint swelling and improvement in joint histopathology in a dose-dependent manner. In addition, significantly reduced cytokine levels and white blood cell influx, both typical for RA, were observed in the tissue surrounding the joints.

"These findings supported our understanding of the target biology of GM-CSF," comments Dr. Ulrich Moebius, Head of Preclinical Development and Project Management at MorphoSys, who joined the Company in 2008. "When a program has advanced into clinical trials, preclinical development usually continues, and that was no different with MOR103." In the meantime, MorphoSys has generated additional preclinical data in rheumatoid arthritis as well as in multiple sclerosis, which became the second indication the drug is now pursued in. "Given the target biology of GM-CSF, it was pretty clear to us that the compound has therapeutic potential in other indications within the inflammatory disease spectrum," Moebius adds.

"Given the target biology of GM-CSF, it was pretty clear to us that the compound has therapeutic potential in other indications within the inflammatory disease spectrum."

Dr. Ulrich Moebius, Head of Preclinical Development and Project Management



The cytokine GM-CSF plays a central role in the inflammatory immune response cascade. Abnormal functioning of this cascade, and increased GM-CSF levels in particular, have been associated with a number of autoimmune and inflammatory diseases, including severe asthma, chronic obstructive pulmonary disease (COPD), rheumatoid arthritis, multiple sclerosis and others. This breadth of activity makes GM-CSF an attractive therapeutic target to treat a variety of inflammatory diseases.

MorphoSys has established a strong network of clinical research organizations and clinical investigators to evaluate the MOR103 antibody in patients.

STEP 5

DEVELOP THE COMPOUND

FOLLOWING PRECLINICAL VALIDATION, A NEW DRUG CANDIDATE HAS TO PASS THROUGH THREE STAGES OF CLINICAL DEVELOPMENT BEFORE MARKET APPROVAL CAN BE GAINED. SIGNIFICANT INVESTMENT AND SEVERAL YEARS OF DEVELOPMENT ARE NECESSARY TO BRING A DRUG TO MARKET.

The clinical development of the compound commenced in 2008 with the start of a phase 1 clinical study in healthy volunteers in the Netherlands. Evaluating a new compound in healthy volunteers first is a common practice in the pharmaceutical industry for anti-inflammatory compounds. Having established a solid safety profile, the program was cleared by regulatory bodies and ethic committees to be evaluated in a subsequent Phase 1b/2a clinical trial in several European countries and in January 2010, the first RA-patient received the MOR103 antibody. While the primary goal is to evaluate the safety of MOR103 in patients, the Company hopes to detect first hints of efficacy as well.

"With incorporating magnetic resonance imaging, or MRI for short, we are using the most sensitive imaging technique to detect inflammatory changes in the joints," explains Dr. Schottelius. "We know that the natural progression of the disease starts with inflammation and swelling of the soft tissue and then spreads to bone and cartilage. Synovitis, the inflammation and swelling of the tissues lining the joints and bone edema, which basically represents an influx of cells and water into the bone, are what we call pre-erosive lesions. These precursors to the actual bone erosions that, typically, occur later at the same locations, can only be seen using MRI and are not detected by X-ray. Another important goal in our development program is to explore accompanying biomarkers for MOR103,


Rheumatoid arthritis can affect any joint in the human body. Wrists, fingers, knees, feet and ankles are the most commonly affected.

MorphoSys applies magnetic resonance imaging (MRI) in its ongoing RA-trial, an imaging technique that is more sensitive than X-ray analysis.

which should help before the initiation of therapy to identify those patients, who will benefit most from a treatment with the antibody. Enabling a more personalized therapeutic intervention through the discovery and development of such biomarkers is increasingly important for the pharmaceutical industry."

During 2011, the trial was advanced significantly, which will enable MorphoSys to present data in 2012 and form the basis for partnering discussions.

"We know that the natural progression of the disease starts with inflammation and swelling of the soft tissue and then spreads to bone and cartilage."

Dr. Arndt Schottelius, Chief Development Officer of MorphoSys AG

STEP 6

FORGE ALLIANCES

MORPHOSYS IS DEVELOPING A PROPRIETARY PORTFOLIO OF INNOVATIVE THERAPEUTIC ANTIBODIES TO TREAT CANCER AND INFLAMMATORY DISEASES. THE COMPANY PLANS TO DEVELOP THESE COMPOUNDS TO CLINICAL PROOF OF CONCEPT BEFORE PARTNERING.

Late-stage clinical development is very cost-intensive, especially in large indications such as rheumatoid arthritis. A study protocol for a phase 3 trial in this indication could easily involve more than a thousand patients to achieve statistical relevance. Thus, MorphoSys intends to partner the MOR103 program based on positive clinical results before entering the later stages of clinical development. Licensing deals today are a common practice in the pharmaceutical arena, since big pharma's need to replenish their pipelines is often met by the strengths of biopharmaceutical companies to provide innovative new drug candidates. The search for new alliances is handled by MorphoSys's Business Development unit. "Through our multiple drug discovery alliances, MorphoSys has gained many years of deal making and alliance management expertise," comments Dr. Barbara Krebs-Pohl, Head of Business Development at MorphoSys. "We can tap this established network of pharma relationships to create awareness for our proprietary compounds. Our MOR103 program is already on the radar screens of several potential partners, which is not unusual as such but clearly represents significant interest in our program. There is strong interest in our industry for anti-inflammatory compounds with a novel mechanism of action".

With its scientific foundations initially explored in the early 90's, the MOR103 program has already come a long way. The compound is now well on its way to be further developed as a novel and promising therapy for the treatment of different inflammatory diseases.

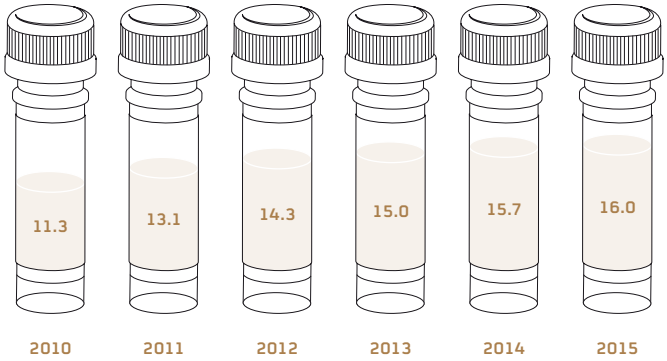
"Our MOR103 program is already on the radar screens of several potential partners. There is strong interest in our industry for anti-inflammatory compounds with a novel mechanism of action."

Dr. Barbara Krebs-Pohl, Head of Business Development at MorphoSys

RHEUMATOID ARTHRITIS AFFECTS ABOUT 1 % OF THE WORLD'S POPULATION. STILL, MANY PATIENTS DO NOT RECEIVE ADEQUATE TREATMENT.

Growing Market Unmet Need

Sales of biological RA treatments (in billion USD)



Source: Datamonitor

In 2010, biological treatments against rheumatoid arthritis achieved sales of $11bn in the seven major markets. Market growth is estimated to reach $16bn by 2015, with a compound annual growth rate (CAGR) of 7 %, and the need for innovative therapies remains high.

GROUP MANAGE-MENT REPORT

Group Management Report

2011 was a year of solid progress for MorphoSys. The product pipeline, the Company's main long-term value driver, advanced well and comprised 20 clinical programs and 76 programs in total at year-end. Despite external headwinds caused by the European sovereign debt crisis combined with a global economic instability, the Company was able to sustain strong investment in technology and product development, and achieved a solid financial profit. The Proprietary Development segment made outstanding progress and three new clinical trials were initiated. MorphoSys's Partnered Discovery segment recorded significant milestone payments throughout the year, and with the publication of first clinical data, the success of its programs became increasingly visible. The performance of this segment, together with the results of the research and diagnostic antibodies segment AbD Serotec, created a stable financial foundation for MorphoSys. The Company's ability to invest in proprietary research and development while remaining profitable continues to be an important component of its business model.

Operations and Business Environment

Organizational Structure

ORGANIZATION AND GLOBAL PRESENCE OF THE MORPHOSYS GROUP

MorphoSys AG and its subsidiaries develop and commercialize high-quality antibodies for therapeutic as well as for research and diagnostic applications based on the Company's industry-leading proprietary technologies. MorphoSys operates in three business segments. Partnered Discovery generates significant value for the Company by developing drug candidates for commercial partners. This segment handles various therapeutic development programs in alliances with renowned biotechnology and pharmaceutical companies. The second segment, Proprietary Development, also operates in the therapeutic market. The goal of this segment is to develop innovative therapeutic antibodies and to take these proprietary drug candidates to clinical proof of concept before partnering. MorphoSys's third operating segment, AbD Serotec, maintains successful business relations with the research and diagnostics market, supplying public and industrial research institutions with premium antibodies.

The MorphoSys Group has five locations worldwide and is represented in the important international biotechnology markets of Europe and the USA. MorphoSys AG, as the holding company of the MorphoSys Group, oversees central group functions including accounting, controlling, human resources, legal, intellectual property, corporate communications and investor relations. The management of these corporate functions is centralized at MorphoSys's headquarters in Martinsried near Munich, Germany. The Company's own R&D facilities are located there too, as well as at sites in Puchheim near Munich and Kidlington near Oxford, United Kingdom. MorphoSys's international sales are handled by its offices in Germany, the United Kingdom and in Raleigh, North Carolina, United States.

FIG. 1: ORGANIZATIONAL STRUCTURE OF THE MORPHOSYS GROUP

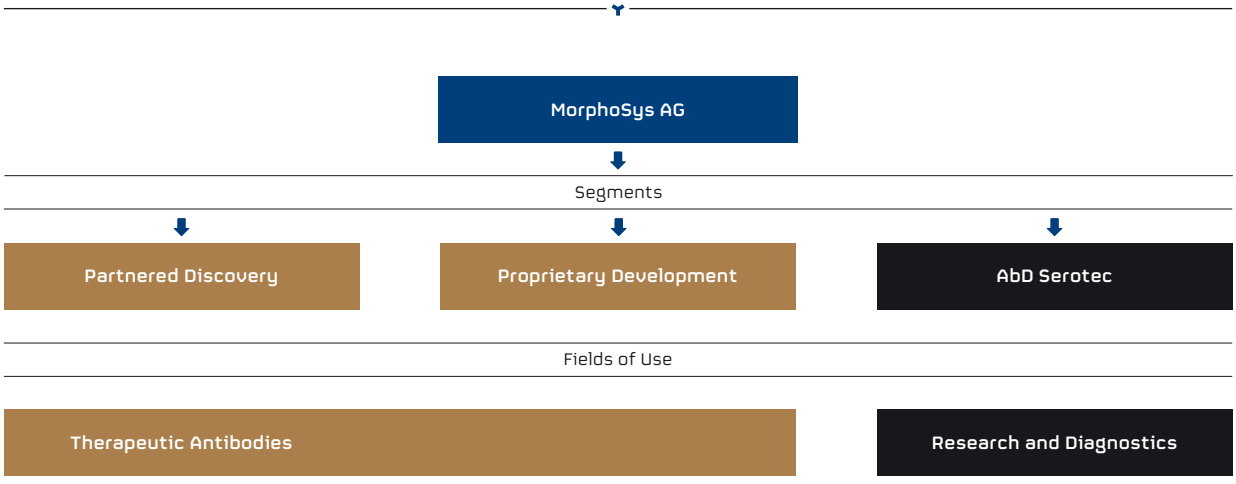
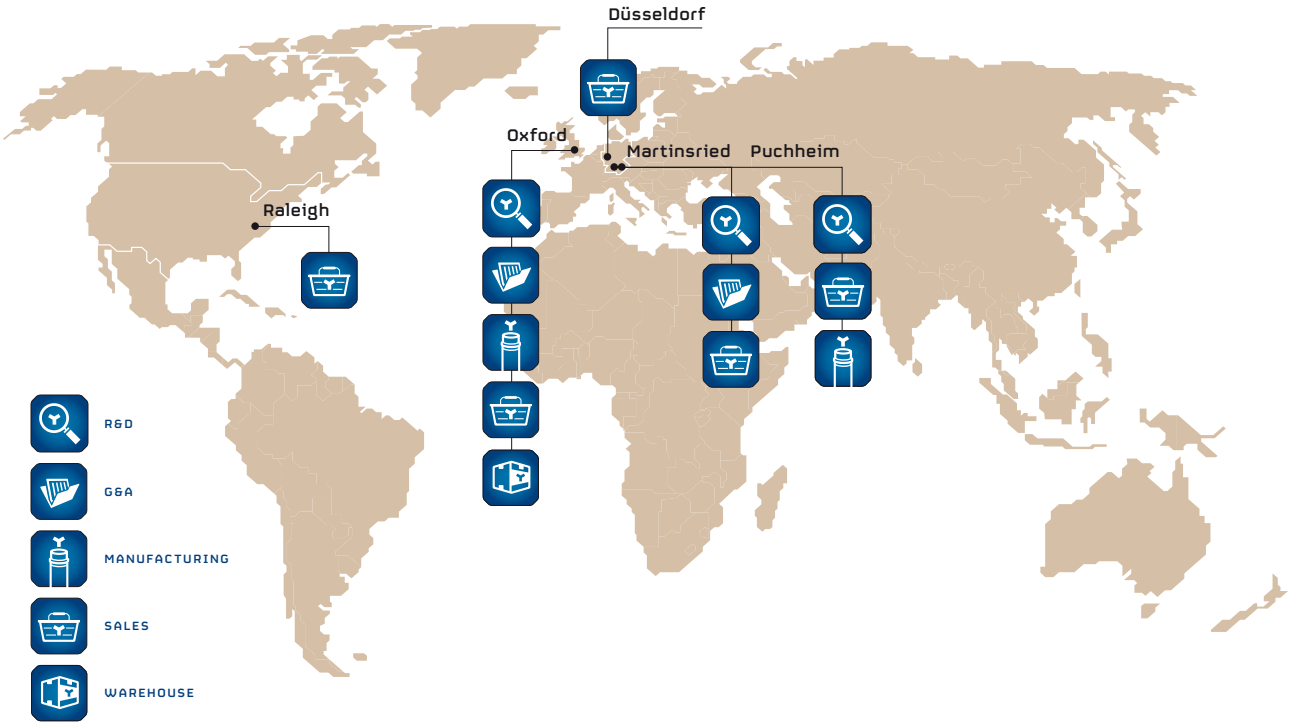


FIG. 2: WORLDWIDE LOCATIONS OF THE MORPHOSYS GROUP



MorphoSys carefully considers locational advantages such as good infrastructure, a qualified workforce, political support for biotechnology and life sciences, synergies resulting from cooperation with regional research institutes, and a broadly based environment of suppliers in order to support its future growth objectives.

LEGAL STRUCTURE OF THE MORPHOSYS GROUP

GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG, a German stock corporation listed in the Prime Standard segment on the Frankfurt Stock Exchange, heads the MorphoSys Group. In accordance with the German Stock Corporation Act, MorphoSys AG has a dual-board structure. The Company is managed by a Management Board whose four 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 81. The Senior Management Group, composed of 13 people, represents the different MorphoSys departments and completes the MorphoSys management team. In the year under review, there have been no changes to the legal structure of the MorphoSys Group or its entities compared to the year before.

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NEW MEMBER OF THE MANAGEMENT BOARD

In the first quarter of 2011, MorphoSys announced a change to its Management Board, with Jens Holstein joining the Company from Fresenius Kabi. He succeeded Dave Lemus both as Chief Financial Officer of MorphoSys AG and as a member of the Management Board (Vorstand). Jens Holstein took up his position on May 1, 2011.

BUSINESS ACTIVITIES

MORPHOSYS TECHNOLOGIES

MorphoSys's protein engineering capabilities are the foundation of its success. The Company's most successful technology to date is the HuCAL platform, a collection of several billion distinct, fully human antibodies for the *in vitro* generation of highly specific antibodies. This recombinant antibody technology has enabled the generation of therapeutic and diagnostic antibodies, including those binding to difficult antigens, for over ten years now. The resulting product pipeline is one of the industry's broadest and is continuously progressing. Currently, 76 therapeutic HuCAL-derived programs are in development, with several antibodies thereof being studied in multiple indications.

Through the acquisition of Sloning BioTechnology GmbH in October 2010, MorphoSys has become the sole source of Slonomics, a technology which dramatically improves the assembly and quality of protein libraries. The fully automated genetic engineering platform utilizes sets of double-stranded DNA triplets for the controlled fabrication of highly diverse combinatorial gene libraries. This combinatorial technology enables researchers to increase the success rate of their screening for new and optimized therapeutic antibodies, proteins or industrial enzymes.

In December 2011, MorphoSys unveiled the next-generation antibody technology, Ylanthia. Being one of the industry's largest antibody libraries to date, it uses a novel concept for the *in vitro* generation of highly specific and fully human antibodies. The unique Ylanthia technology was specifically conceived and designed to overcome current limitations in therapeutic antibody development, such as poor biophysical properties or limited diversity. If required, antibodies from the Ylanthia library can be additionally optimized using Slonomics technology. This feature distinguishes Ylanthia from the HuCAL platform, which relies on a modular gene design and preformed cassettes for antibody optimization.

MORPHOSYS IN THE THERAPEUTIC MARKET

MorphoSys is a leading provider of superior antibody technologies in the therapeutic market, above all through HuCAL, one of the most successful antibody libraries in the industry. The Company addresses the market through alliances with pharmaceutical and biotechnology companies, as well as through proprietary development activities. As a biopharmaceutical company, MorphoSys has an outstanding profile as it is able to finance all proprietary R&D activities through its own cash flows while recording solid operating profits.

COMPETITIVE LANDSCAPE

The market for therapeutic antibodies is still one of the most valuable and fastest-growing in human healthcare. Driven by acquisitions, there has been a rising concentration on a small number of key technology providers over the past few years. Pharmaceutical and biotechnology companies are striving to gain access to new pipeline opportunities through M&A and in-licensing activities. This need for innovative product replenishment offers great prospects for companies like MorphoSys which are able to develop progressive antibody technology platforms. A major challenge however, especially for smaller biotechnology developers in this field, are the limited financial capacities.

According to research company Datamonitor, more than 300 monoclonal antibody candidates are in clinical development, with an equal number of programs (around 140 each) in phase 1 and phase 2 clinical development, 37 candidates in late-stage (phase 3) clinical development, and 3 candidates in preregistration. Oncology accounts for the highest number of programs in clinical development, with around half of all programs of the development process. After oncology, the second-largest therapy area includes autoimmune and inflammatory diseases, with a total of 70 monoclonal antibodies in clinical development. The third-best represented therapy area is infectious diseases with a total of 26 programs in phase 1 clinical trials.

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From a commercial point of view, the market for monoclonal antibody drugs is extremely lucrative, amounting to US$ 41 billion in 2010 for 30 marketed antibody drugs, with the top five products alone generating revenues of around US$ 31 billion and a projected compound annual growth rate of 8.2 % until 2016.

The dominant position of the five leading products is likely to be weakened over the next few years by promising new therapies such as Amgen's Prolia®/Xgeva® (denosumab) franchise, Bristol-Myers Squibb's Yervoy® (ipilimumab), and Human Genome Sciences's and GlaxoSmithKline's Benlysta® (belimumab), which are expected to account for additional market sales growth. Also, emerging technologies such as antibody-drug conjugates (ADCs), bispecific and trifunctional antibodies, domain antibodies, nanobodies and Fc-engineered antibodies will foster diversity in the antibody market.

Broken down into the most active companies in terms of clinical programs worldwide, Roche and its subsidiary Genentech are leading the monoclonal antibody sector today. However, companies such as Amgen, Bristol-Myers Squibb or Novartis are expected to play an equally important role in the mid to long term. In the markets addressed, the need for improved therapies and innovative treatments for patients not responding to traditional methods is high and still growing. Companies like MorphoSys have realized this trend and consequently focus their R&D activities on highly innovative technologies and programs promising to generate better and safer drugs.

TAB. 1: TOP 5 MONOCLONAL ANTIBODY DRUGS

Generic Name	Brand®	Company	Indications (FDA/EMA approved)	Revenues in US$ billion (2010)
Infliximab	Remicade	J&J, Merck, Mitsubishi Tanabe	Rheumatoid Arthritis, Ulcerative Colitis, Crohn's Disease, Psoriasis, Psoriatic Arthritis, Ankylosing Spondylitis	6.6
Rituximab	Rituxan	Roche	Non-Hodgkin Lymphoma, Chronic Lymphocytic Leukemia, Rheumatoid Arthritis	6.6
Bevacizumab	Avastin	Roche	Colon Cancer, Non-small Cell Lung Cancer, Renal Cell Carcinoma	6.2
Adalimumab	Humira	Abbott	Rheumatoid Arthritis, Psoriasis, Juvenile Idiopathic Arthritis, Crohn's Disease, Psoriatic Arthritis, Ankylosing Spondylitis	6.1
Trastuzumab	Herceptin	Roche	Breast Cancer, Gastric Cancer	5.2

Source: Datamonitor

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TAB. 2: PARTNERED DISCOVERY SEGMENT'S SHARE OF TOTAL REVENUES*

in € million	2011	2010	2009	2008	2007
Revenues Partnered Discovery	79.3	66.3	61.7	54.3	-
% of total revenues	79%	76%	76%	76%	-

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

PARTNERED DISCOVERY

MorphoSys's Partnered Discovery segment applies the Company's proprietary technologies for the research, development and optimization of therapeutic antibody drug candidates in extensive partnerships with pharmaceutical and biotechnology companies. While the development costs are borne by the respective partner, MorphoSys profits from successful programs in the form of milestone payments and potential royalties on product sales.

The Company's largest alliance is the one forged with Novartis in 2007, a pharmaceutical partner with a steadily growing biologics pipeline. This cooperation alone has safeguarded MorphoSys revenues through funded research and license fees totaling more than €40 million per year until 2017, plus potential milestone payments and royalties on marketed products.

MorphoSys's partnered programs target major indications with huge market potential. The partnered pipeline is continuously advancing and promising data from clinical trials is strengthening confidence in the Company's technologies and scientific abilities.

PROPRIETARY DEVELOPMENT

MorphoSys is committed to generating value above and beyond its Partnered Discovery segment by developing innovative proprietary antibody products. The focus is on indications such as inflammatory and autoimmune diseases, as well as infectious diseases and oncology. The first clinical trial data supports the great potential of MorphoSys's proprietary drugs. A solid patent position around the programs and technologies adds to the Company's standing in the biotechnology market.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory and autoimmune disorders are a substantial social and economic burden, affecting millions of people worldwide. According to BCC Research, the global market for autoimmune treatments reached a total size of around US$ 38 billion by the end of 2011 and is expected to grow even further. MorphoSys's most advanced program, MOR103, targets GM-CSF, a key player in the pathophysiology of inflammatory diseases. The drug is currently undergoing a clinical phase 1b/2a trial for rheumatoid arthritis (RA), and a second trial for multiple sclerosis (MS) was started in 2011. The RA market bears great commercial opportunities; more than 80% of the arthritis drug market already consists of biologic therapies and the overall market is constantly growing, with a total value of around US$ 12 billion in 2010. A large number of patients are still not receiving adequate treatment, however, and the unmet medical need is high.

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TAB. 3: MARKET DATA ON SELECTED PARTNERED PROGRAMS IN CLINICAL PHASE 2

Program Name	MorphoSys Partner	Indication	Market Potential
Gantenerumab	Roche	Alzheimer's Disease (AD)	– High unmet medical need due to lack of disease-modifying drugs – High potential market growth rate due to aging population, earlier and improved diagnosis and the emergence of accompanying immunotherapies that will be prescribed in addition to existing treatments – Expected CAGR over the next few years: 10.7%, with a total market size of around US$ 11.8 billion in 2018
BHQ 880	Novartis	Multiple Myeloma (MM)	– Most frequent cancer affecting the skeleton – Reversing bone destruction is a major issue in myeloma treatment – BHQ880 could help restore bone formation – Market will be increasingly saturated with effective treatments; development opportunities lie in improvement of survival rates and reduced toxicities – Market size will nearly double over the next few years to around US$ 5.3 billion in 2018
CNTO888	Janssen Biotech	Idiopathic Pulmonary Fibrosis (IPF)	– Most common interstitial lung disease, with 100,000 patients and more than 30,000 new cases per year in the USA alone – Significant unmet medical need: IPF is still a uniformly fatal disease, with an estimated median survival time of two to five years – Only one approved drug (Esbriet) for IPF so far – Market is expected to grow extremely strongly – at a CAGR of 50.2% over the next few years to reach a total size of around US$ 1.9 billion in 2018

Source: Datamonitor, GlobalData, The Pharma Letter

MOR103 has the potential to be first in class among anti-GM-CSF antibodies. Other advanced programs in development are MedImmune's mavrilimumab (CAM-3001), a human monoclonal antibody targeting the GM-CSF receptor, which is currently being evaluated in a phase 2 clinical trial, and Micromet's MT203, another human antibody against GM-CSF. MedImmune is part of pharmaceutical company AstraZeneca, and Micromet's MT203 is already partnered with Takeda. Clinical data generated with mavrilimumab, which was published in 2011, provided clinical validation of the targeted pathway. Several transactions in the RA area in recent years underline the interest of pharmaceutical companies in novel biological treatments.

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Regarding the MS market, many disease-modifying treatments are quite cost-intensive. Biologics already represent the largest class of disease-modifying therapies, both by sales and by number of approved therapies. The current top-selling MS drugs generate combined annual sales of about US$ 11 billion and the market is expected to grow. Following a period in which biologics transformed the MS market, the small molecules segment, which currently makes up more than 30 % of the market, is expected to see a renaissance in the next three to four years. However, differences in course and severity of MS result in a large segmentation with various subtypes, i.e. relapsing/remitting forms, primary and secondary progressive forms, etc., which offers different entry routes for new therapeutic agents.

Over the next couple of years, a new class of oral drugs, known as JAK inhibitors, is expected to contribute significantly to the anti-inflammatory market. JAK inhibitors block the action of proteins called Janus-associated kinases which are involved in cell-signaling. The first JAK inhibitor for rheumatoid arthritis, Pfizer's tofacitinib, is expected to gain approval by the FDA in 2012.

INFECTIOUS DISEASES

MorphoSys initiated an early infectious disease program against drug-resistant MRSA (methicillin-resistant *S. aureus*) infections in 2010. As part of this initiative, MorphoSys signed a license and collaboration agreement with UK-based Absynth Biologics, providing access to novel target molecules associated with *Staphylococcus aureus* infections, including MRSA. MorphoSys generated antibodies using its proprietary HuCAL PLATINUM antibody library. These antibodies are currently being further validated. MorphoSys will be solely responsible for the development and partnering of the resulting compounds.

Hospital-acquired or nosocomial infections are a growing public health concern and are associated with increasing levels of mortality. The Centers for Disease Control and Prevention estimates that, in the United States alone, about 1.7 million nosocomial infections and 99,000 associated deaths occur each year. These infections are caused by microorganisms including drug-resistant MRSA. In the United Kingdom, *S. aureus* accounts for almost half of all hospital-acquired infections.

ONCOLOGY

The ability of monoclonal antibodies to bind to specific antigens has led to their dominant position in the area of targeted cancer therapies, and the global market for innovative biological therapies in cancer treatment is constantly growing at a very high speed. More precisely, the biotherapy segment is forecast to almost double in size by 2014, eventually exceeding US$ 50 billion in the next five to ten years, according to BCC Research.

MorphoSys has advanced two proprietary cancer programs, namely MOR202 and MOR208, into clinical development in the last two years. MorphoSys's antibody MOR208 is currently undergoing a clinical phase 1 study against chronic lymphocytic leukemia (CLL). Its immunotherapeutic target, CD19, is of particular interest for many B-cell-derived cancers. The therapeutic market for B-cell malignancies is about US$ 4 – 5 billion according to research firm Decision Resources. Existing biologics therapies against B-cell malignancies, including the blockbuster product Rituxan®, target the cell marker CD20. Due to the target molecule being expressed on a broader range of B-cell subsets – compared to CD20 – anti-CD19 antibodies are considered to be potentially more effective. In addition, MOR208 is also improved by a modification of the constant Fc-part of the antibody, leading to increased cellular cytotoxicity (ADCC).

From a commercial perspective, the market for B-cell cancer therapies is promising due to the need for alternative and more effective treatment options. The current competitive landscape in this area is marked by efforts towards technological improvements, and better efficacy and safety profiles. The most advanced competitive anti-CD19 antibody is Micromet's BiTE antibody blinatumomab (MT103), which is currently being evaluated in phase 2 studies in acute lymphoblastic leukemia (ALL). Other clinical programs against the same target are pursued by, among others, AstraZeneca/MedImmune and Sanofi/Immunogen.

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MorphoSys's antibody MOR202 is being developed against multiple myeloma (MM), targeting CD38. Despite being a relatively small oncology indication in terms of incidence, the MM market has logged impressive sales in recent years. Significant achievements in clinical practice and the launches of efficacious premium-priced drugs have driven market expansion, but untapped market potential remains for treatments that can improve the survival rate and reduce side effects compared to currently available agents. Despite major improvements in terms of survival, the disease is only rarely curable and the majority of patients relapse. As a result, alternative treatments like those targeting surface antigen CD38 are especially sought-after. Besides MOR202, other development programs targeting CD38 are Genmab's daratumumab (HUMAX-CD38), a human monoclonal antibody currently involved in a phase 1/2 study and SAR650984, a humanized antibody in a phase 1 clinical trial. The latter antibody has been developed in a research alliance between ImmunoGen and Sanofi, another successful example of the commercialization opportunities for biological agents.

INFLUENCING FACTORS

The healthcare sector in general is faced with serious cost-cutting measures worldwide due to the economic turbulence. Although medical treatment will always be needed and the demand for new therapeutic regimens is constantly growing, financial cuts can slow down the progress of the sector, especially regarding drug pipeline growth which requires extensive and costly research and development activities. As a result of their economic rescue plans, governments throughout Europe and the USA are also tightening controls of healthcare provisions, carefully reviewing the general reimbursement of drugs.

As is already the case with small-molecule drugs, generic competition due to expiring drug patents is now also increasingly challenging the biopharmaceutical industry. The technological barriers to copying biological drugs, however, will remain high. Still, many drug developers, mainly from Europe and Asia, are entering this market now, thereby increasing the pressure on traditional biotechnology companies. According to a market analysis from Datamonitor, the worldwide market for biosimilars will grow from just US$ 243 million in 2010 to US$ 3.7 billion by 2015.

MORPHOSYS IN THE RESEARCH AND DIAGNOSTICS MARKET

In its third operating segment, MorphoSys provides antibodies under the AbD Serotec brand for life science research and modern clinical diagnostics. AbD Serotec's sales model is based on a comprehensive catalog business with currently more than 15,000 immediately available products and is complemented by the production of antibodies in larger quantities on behalf of diagnostic customers.

COMPETITIVE LANDSCAPE

Driven by technological advancements, the market for *in vitro* diagnostics (IVD) in particular, has experienced significant growth in recent years. The demand for biomarker-based tests is making up a large part of this development, and molecular diagnostics are seen as the fastest-growing segment. The total IVD market, mainly dominated by North America, Europe and Japan, was worth US$ 44 billion in 2010 and is estimated to grow by around 18 % until 2013.

AbD Serotec currently has relationships with more than 20 diagnostic companies. The first diagnostic test kits using HuCAL antibodies as a key component entered the market in 2011.

INFLUENCING FACTORS

The sector for research and diagnostic antibodies also faces challenges in the form of legislative decisions on healthcare infrastructure in general, and depends to a large extent on public research funding through grants. As a result, the highest growth potential for IVD products is currently being seen in countries like Brazil, Russia, India and China, where public health is strongly supported by government initiatives.

Being driven by positive developments in technology and innovation means that the market is influenced by success stories, although not to the same extent as in the therapeutic sector.

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SIGNIFICANT CORPORATE DEVELOPMENT ACTIVITIES IN 2011

In 2011, several events had a major impact on the Company's business performance:

- MorphoSys completed the installation of its HuCAL antibody platform at the Novartis Institutes for BioMedical Research in Basel, Switzerland; this triggered a significant technology milestone payment to MorphoSys.
- The therapeutic antibody pipeline containing partnered and proprietary products advanced further and comprised 20 clinical programs and 76 programs in total at year-end. The Proprietary Development segment in particular recorded significant progress in terms of its most advanced programs MOR103 in RA and MOR208 in CLL and two further proprietary programs, MOR202 in multiple myeloma and MOR103 in multiple sclerosis, started clinical development. MorphoSys now has four proprietary antibody programs in the clinic. In order to increase the focus on the most promising programs, several early stage programs were suspended. Regarding the partnered side of the business, two partners, namely OncoMed Pharmaceuticals and Bayer HealthCare Pharmaceuticals, each initiated a new phase 1 clinical trial with a HuCAL-derived antibody, triggering milestone payments to MorphoSys. One other phase 1 program under a license from MorphoSys was stopped by Bayer HealthCare during the course of 2011, but Bayer HealthCare kept the exclusive license for the respective target.
- The integration of Sloning BioTechnology GmbH into the MorphoSys Group was successfully completed early in the year, both regarding the implementation of the technologies and the integration of Sloning's workforce.
- Following a commercial license agreement with Proteomika, the first diagnostic kits containing HuCAL antibodies entered the market.
- At the end of the year, MorphoSys launched its latest antibody technology, Ylanthia, a library with more than 100 billion preselected, high-quality human antibodies, which is expected to set new standards for therapeutic antibody generation in the pharmaceutical industry. Its commercial application will commence in 2012.

For detailed information about the progress of MorphoSys's business activities in the year under review, see the Research & Development section on page 53 as well as Commercial Development on page 56.

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Strategy and Performance Management

STRATEGY

MorphoSys pursues a business model which has proven to be highly successful. Based on the commercial success of its alliances with pharmaceutical and biotechnological companies, the Company has the financial strength to reinvest a large part of its profits into proprietary research and development, fostering the ever-growing product pipeline while maintaining profitability. This strategy of building a broad pipeline of innovative products promises substantial long-term value for the Company's shareholders.

MorphoSys is committed to engineering the medicines of tomorrow by developing proprietary antibody technologies and applying these to generate innovative products. Commercial agreements relating to its unique HuCAL library build the foundation of MorphoSys's leading position in the antibody industry, and technology development remains at the forefront of the Company's strategy, as illustrated by the acquisition of Sloning BioTechnology GmbH in October of 2010, and the launch of its latest antibody platform, Ylanthia, in December 2011.

With the help of MorphoSys's proprietary technologies, promising new antibody therapeutics as well as research and diagnostic antibodies are being developed. In order to reduce development-inherent risks, MorphoSys pursues a two-fold strategy in the therapeutic market. The Partnered Discovery segment generates optimized therapeutic antibodies for pharmaceutical partners. In 2011, the list of product candidates developed by the Company's partners grew to 68 programs, forming one of the broadest antibody pipelines in the industry. The Proprietary Development segment uses the same technology platform for the Company's own account, the objective being to realize an even greater financial upside than is possible with partnered programs. In this segment, drug candidates will be taken to clinical proof of concept before out-licensing them to a pharmaceutical or biotechnology company for late-stage development and marketing.

Regarding the financial rationale behind this strategy, MorphoSys receives secured payments from its partners in the form of technology license fees and R&D funding plus success-based milestones and royalties on product sales. The cash flows generated by the Partnered Discovery segment are reinvested to a large extent in proprietary drug development activities. Thanks to its successful development and commercialization strategy throughout the past few years, MorphoSys has the financial strength to remain independent from the capital markets. Backed by a very healthy cash position of € 134.4 million, MorphoSys, unlike most other biotechnology companies, does not have to look for strategic financing alternatives. Although proprietary development requires substantial investments, MorphoSys is adhering to its intention of remaining profitable. The combination of flourishing product alliances and selected in-house development activities together with a stringent cost-controlling process builds the basis for the Company's future success, thereby increasing the long-term value for MorphoSys's shareholders.

In order to fully exploit the potential of its antibody technologies and products, MorphoSys not only serves the therapeutic market but also the market for research and diagnostic antibodies, through its AbD Serotec segment. In particular, the unit's growing penetration of the diagnostics market positions MorphoSys to benefit from the burgeoning importance of diagnostics in human healthcare. Several research and development alliances with world-class research institutes throughout 2011 have proven the leading position of MorphoSys in this market. Despite economic headwinds in the industry and negative currency effects, AbD Serotec achieved a slightly higher profit margin than was expected at the beginning of the year.

In 2011, the Company concentrated on strengthening its corporate development internally, and no decisions on external opportunities were taken. With regards to future business development, MorphoSys is closely monitoring the biotechnology industry in order to secure sustainable growth through potential technology acquisitions and in-licensing activities.

PERFORMANCE MANAGEMENT

The declared goal of MorphoSys is to increase shareholder value through innovative technologies, sustainable pipeline growth and ongoing profitability, the latter protecting the Company from being dependent on external funding. The Company uses a defined set of financial and non-financial indicators to monitor the translation of its strategic decisions into business operations and to initiate appropriate countermeasures if necessary.

FINANCIAL PERFORMANCE INDICATORS

Regarding financial measurement criteria, the operational business performance of MorphoSys is mainly evaluated using key performance drivers such as revenues and profit from operations. Performance is tracked on a monthly basis for every segment; budget planning for the current fiscal year is reviewed and updated quarterly. Once a year, a long-term plan covering the next three years is prepared. A thorough cost analysis measuring the Company's performance in line with its financial targets and in comparison to prior periods is carried out on an ongoing basis. S, G&A and R&D expenses are particularly carefully evaluated.

Furthermore, MorphoSys's financial performance is impacted by factors like milestone and license payments, cost of goods sold (COGS), operational cash flow, liquidity and working capital. Those indicators are also regularly evaluated and compared, focusing on cash management, exposure to foreign exchange effects and investment opportunities. The value of investments is calculated with the use of discounted cash flow models.

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NON-FINANCIAL PERFORMANCE INDICATORS

In an emerging industry like biotechnology, purely financial information shows an incomplete picture of a company's value-creation activities and may appear to be unrelated to its stock price. MorphoSys is committed to growing the Company's value by maintaining its position as a provider of industry-leading antibody technologies and by expanding and advancing its pipeline of therapeutic drug candidates. The Company's success in executing this strategy is most clearly seen in the development of its product pipeline, especially in respect of the number of programs in clinical trials.

Technological advancements are another indicator of MorphoSys's success. The recent launches of unique platforms, each of them setting new quality standards in the industry, illustrate the innovative potential of the Company.

TAB. 4: DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

in million €	2011	2010	2009	2008	2007
MORPHOSYS GROUP					
Group revenues	100.8	87.0	81.0	71.6	62.0
Group profit from operations	12.2	9.8	11.4	16.4	7.0
PARTNERED DISCOVERY*					
Segment revenues	79.3	66.3	61.7	54.3	–
Segment result	55.7	42.7	39.6	34.4	–
PROPRIETARY DEVELOPMENT*					
Segment revenues	2.4	1.8	1.0	0	–
Segment result	(32.2)	(24.5)	(18.3)	(8.9)	–
ABD SEROTEC					
Segment revenues	19.3	20.2	19.3	18.2	19.6
Segment result	1.0	1.2	1.0	0.4	(0.6)

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

FIG. 3: CLINICAL PIPELINE AT YEAR-END

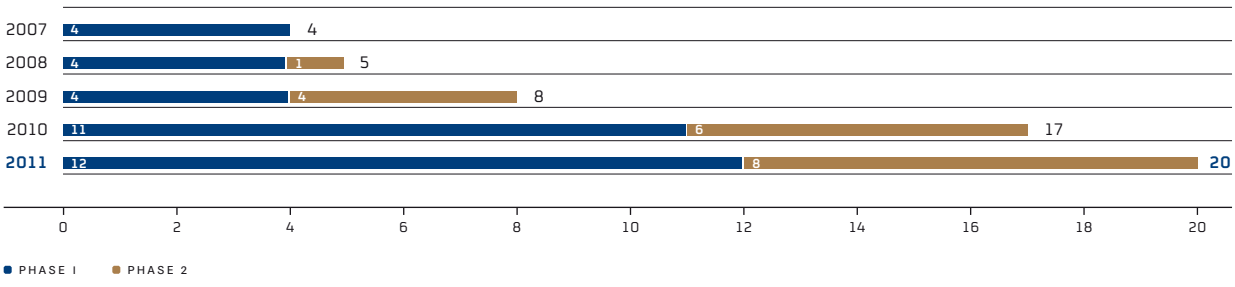
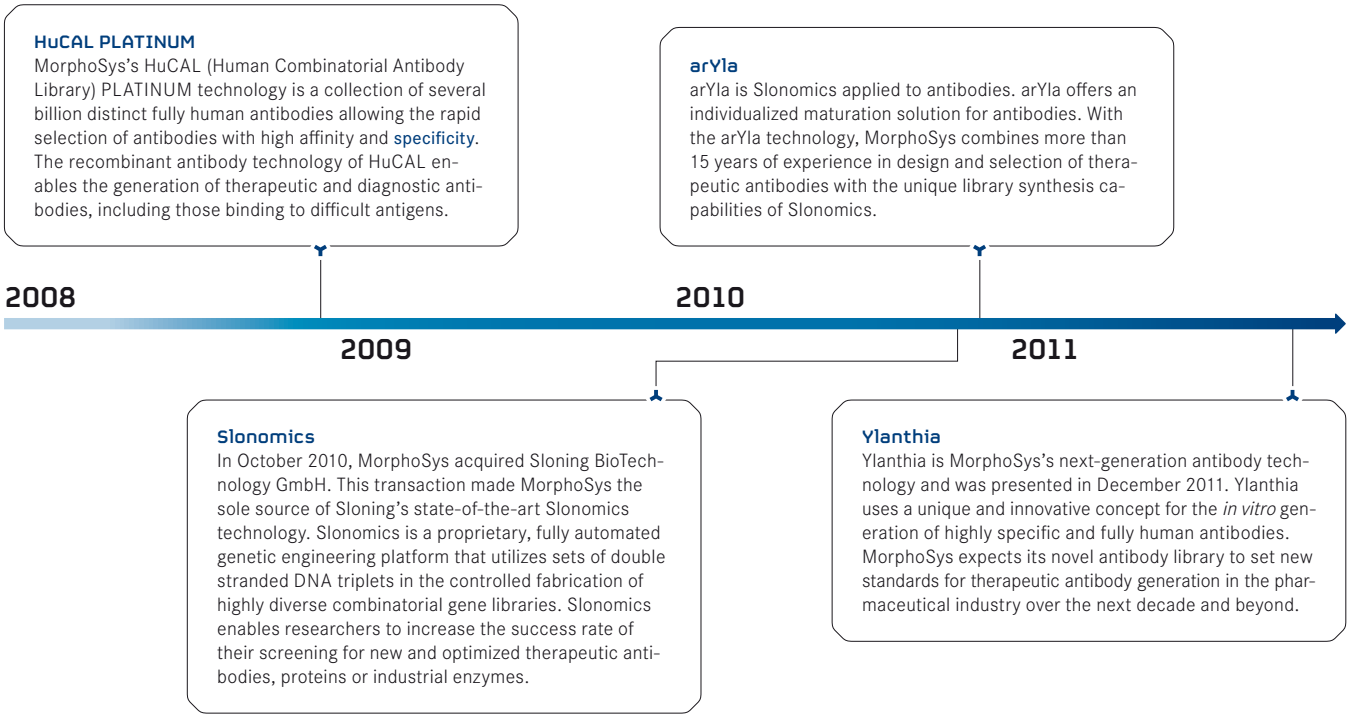


FIG. 4: OVERVIEW OF MORPHOSYS'S LATEST TECHNOLOGIES



In 2011, the first diagnostic kit to be based on HuCAL antibodies made at AbD Serotec, MorphoSys's business unit for research and diagnostic antibodies, was brought to the market by Proteomika. The development of diagnostic products based on MorphoSys's technologies is an important driver of the future success of this segment.

A more detailed description of the Company's progress is given in the R&D activities section on page 53. The stable development is also reflected in the workforce numbers (see section on Human Resources on page 57). Several additional key elements translate MorphoSys's sustainability strategy into operational performance. They are described in more detail in the Sustainability Report starting on page 66.

EARLY INDICATORS

In addition to this, MorphoSys monitors early indicators relating to both the Company and the macroeconomic environment on a monthly basis. At Company level, this means scientific and economic data relating to the progress of each program for the therapeutic side of the business as well as sales volume statistics for AbD Serotec. Regarding early macroeconomic indicators, MorphoSys examines general market data derived from external economic and financial studies, in particular with regards to industry transactions, changes of regulatory parameters and the availability of research grants.

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Development of the Business Environment

In 2011, the European sovereign debt crisis took center stage. Several nations, most notably Greece, but also Italy, Spain, Portugal, Ireland and France, came under political and economic pressure. A package of measures designed to prevent the collapse of member economies was implemented. This included the enlargement of the European Financial Stability Facility (EFSF), a special-purpose vehicle financed by members of the euro zone to combat the crisis. The economy of the nations who had adopted the euro grew on average by approximately 1.6% in 2011, according to OECD estimates.

Although the focus was on Europe, the United States has a growing budget deficit too. In August 2011, the USA experienced a downgrade of their AAA credit rating by Standard & Poor's for the first time in history. The US economy grew approximately 1.6% in 2011. Japan suffered from an earthquake, the resulting tsunami and the Fukushima nuclear disaster early in the year. Japan's economy shrank approximately 0.5% in 2011. The emerging markets, including China, India, Brazil and Russia, maintained solid growth in 2011.

CURRENCY EXCHANGE FACTORS

MorphoSys's revenues are predominantly generated in US dollars, euros and British pounds, while its cost base is predominantly realized in euros and British pounds. The turbulence in Europe led to very high volatility in exchange rates. During 2011, MorphoSys's top-line results were significantly influenced by foreign exchange effects. A detailed description of the impact on the Company's top line can be found in the Financial Analysis on page 59.

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTORS

According to IMS Health, the global pharmaceutical industry grew by between 5 and 7% in 2011, representing sales of approximately US$ 880 billion. The US market, which is expected to remain the single-largest pharma market, is slated to grow by between 3 and 5% from US$ 320 billion to US$ 330 billion. As far as other developed markets are concerned, Japan is expected to grow by between 5 and 7% in 2011. Major European markets like the UK, Germany, France, Italy and Spain are expected to deliver combined growth of 3%. Emerging pharmaceutical markets, consisting of 17 countries, are slated to grow in the range of 15% to 17% in 2011, representing sales of between US$ 170 billion and US$ 180 billion. China, which is now the third-largest market in the world, is expected to grow by between 25 and 27% to more than US$ 50 billion in 2011.

The pharmaceutical industry continues to face significant challenges due to top-selling products losing patent protection and facing generic competition. The term "patent cliff" is used to describe the cumulative patent expirations of blockbuster pharmaceutical drugs from 2009 to 2015 and the effect of this on the pharmaceutical industry. The patent cliff peaked in 2011 with the patent expiry of the antipsychotic medication Zyprexa® and the cholesterol lowering prescription drug Lipitor®, among others. Drugs with sales of more than US$ 30 billion had to face generic competition in 2011, with Lipitor® accounting for US$ 11 billion alone. In total, blockbusters with combined annual sales of around US$ 170 billion will go off-patent by 2015. At the same time, many pharmaceutical companies have struggled with R&D productivity, unable to fill the resulting holes in their pipelines.

While historically generic competition mainly affected chemically-derived drugs, generic versions of biopharmaceuticals, so-called biosimilars, are starting to pick up. In the USA, Obama's deficit-reduction plan released late September included a proposal to reduce the market exclusivity offered to brand-name biologics drugs to seven years, down from the 12 years set out in the 2010 federal healthcare legislation. The government is looking to bring this proposal into effect from 2012. Due to the complexity of biopharmaceuticals – including antibodies – regulatory requirements and market entry barriers are considered much higher than for generic versions of small molecule drugs.

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Despite these challenges, the pharmaceutical industry today is still well funded. The three largest companies in the USA, Johnson & Johnson, Pfizer and Merck, currently have more than US$ 50 billion in cash and cash equivalents. According to the annual statements of the world's largest pharmaceutical companies, which provide the lion's share of the world's research budgets, the top ten players saw a collective jump of more than 10% in R&D investment despite considerable cuts in a number of R&D operations in 2011.

Venture capital investment in the US life science sector slightly increased to total more than US$ 4.7 billion in the USA according to the National Venture Capital Association and PricewaterhouseCoopers, and decreased to € 856 million in Europe according to Dow Jones VentureSource. The largest investment round in 2011, a € 100 million placement, was secured by Danish antibody company Symphogen.

The academic research sector predominantly depends on government funding. Public research budgets remained by and large solid in 2011. Funding for the National Institutes of Health (NIH) in the USA continued to be positively influenced by the 2009 American Recovery and Reinvestment Act, under which the NIH received US$ 10.4 billion in one-time spending on top of its roughly US$ 30 billion annual budget. With regard to the emerging research markets, China announced plans to invest heavily in science and technology, with a focus on biotechnology.

DEVELOPMENT WITHIN THE ANTIBODY SECTOR

At the end of 2011, the number of therapeutic antibodies on the market increased to 30. During the course of the year, the FDA approved Benlysta® (belimumab) to treat patients with systemic lupus erythematosus, Yervoy® (ipilimumab) to treat patients with late-stage (metastatic) melanoma and Adcetris® (brentuximab vedotin), an antibody-drug conjugate, to treat Hodgkin lymphoma and a rare lymphoma known as systemic anaplastic large-cell lymphoma. Total revenues generated by monoclonal antibody sales in 2011 amounted to approximately US$ 45 billion, according to research company Datamonitor.

Deals comprising antibody technologies and products remained high on the agenda of the pharmaceutical industry and included agreements from companies such as Biotest, Wilex and Micromet.

Following the approval of Adcetris® and positive clinical trial results with similar compounds known as antibody-drug conjugates (ADCs), this product class has attracted significant interest from pharmaceutical companies. MorphoSys's antibody libraries can deliver the antibody component for this class of drugs – a portion of partner programs today are already ADCs – and thus the Company could benefit from increased demand in this area.

Additionally, antibodies continue to expand into new indications, such as cholesterol management, where Sanofi/Regeneron and Amgen are currently pursuing later-stage antibody drug candidates for lowering harmful cholesterol, potentially reducing the risk of heart attacks.

REGULATORY ENVIRONMENT

The healthcare sector is highly regulated in terms of market access, pricing and reimbursement. The US Food and Drug Administration (FDA) approved 35 novel medicines in the 2011fiscal year – slightly up from last year's number. Almost half of the 35 new drugs approved in 2011 were done so under priority review. Under this program, the FDA aims to complete its review of safety and effectiveness in six months.

The agency has also shown flexibility regarding clinical trials. Clinical requirements for many of the newly approved drugs were streamlined to permit smaller, shorter, or fewer studies than previously required. According to FDA Commissioner Margaret Hamburg, the agency approved several drugs on the basis of single-arm studies or studies with very small patient populations.

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In Germany, a new law regulating the reimbursement of drugs within the national health care system called AMNOG (*Arzneimittelneuordnungsgesetz*) came into force. The new legislation represents a major change for the local pharmaceutical market since the former system gave companies a lot of freedom in prescription drug pricing. Following marketing authorization, the drugmaker will now determine the price for new and innovative medicines for the first year after launch. Following an assessment on whether the product offers an additional benefit or not, the price of the new medicine will be negotiated between the Federal Association of Health Insurance Funds and the company in the case of an additional benefit. In the event that no additional benefit can be determined, the new medicine will be part of the lower fixed-price system ("Festbetragssystem"). AMNOG is likely to favor innovative drugmakers, and place more emphasis on evidence-based medicine.

Research and Development

Research and development is essential to MorphoSys's business success. The Company's expertise in antibody technology and drug development has attracted a significant number of commercial partners, both in the pharmaceutical and the diagnostic industries. In 2011, the Company invested roughly 36 % of its revenues, or € 36.7 million, in proprietary R&D, up from 32 %, or € 28.1 million, in 2010. Roughly three quarters of MorphoSys personnel were dedicated to research and development on behalf of partners and for the Company's own account. MorphoSys considers innovation to be a key component of sustainability because it can reduce the amounts of materials and resources used. MorphoSys strives to embed this and other sustainability concepts into its R&D processes for a more responsible innovation culture. More details can be found in the Sustainability Report on page 66.

RESEARCH AND DEVELOPMENT WITH PARTNERS

MorphoSys's R&D activities on behalf of partners are focused on the generation and characterization of high-quality antibody drug candidates. Through these activities, MorphoSys has established a therapeutic antibody pipeline with a range of partners.

During the 2011 fiscal year, this partnered pipeline increased from 65 to 68 active antibody development programs in total, of which 16 programs are currently in clinical development, 24 in preclinical development, and 28 in research (not including two co-development candidates with Novartis). The net increase of three programs in total resulted from nine new program starts and six programs terminated during the course of 2011.

In line with the Company's expectations for 2011, two new programs with partners entered phase 1 clinical trials, triggering clinical milestone payments to MorphoSys.

In April 2011, MorphoSys announced that it received a milestone payment from OncoMed Pharmaceuticals in connection with the FDA's approval of a clinical trial application for a HuCAL-derived antibody. The antibody, OMP-18R5, which targets the Wnt signaling pathway, will be evaluated in a phase 1 trial in the USA in patients with advanced solid tumors. OMP-18R5 is part of OncoMed's collaboration with Bayer HealthCare Pharmaceuticals.

In September 2011, Bayer HealthCare Pharmaceuticals initiated a phase 1 clinical trial with the HuCAL-derived antibody-drug conjugate BAY 94-9343 in the therapeutic area of oncology. The program BAY 94-9343 is directed against the target molecule mesothelin. Mesothelin is highly expressed on mesotheliomas and on ovarian and pancreatic tumors.

One clinical program, more precisely the antibody-drug conjugate BAY 79-4620, was stopped during the course of 2011. This conjugate was in clinical development at Bayer HealthCare under a license from MorphoSys. Bayer HealthCare intends to keep the exclusive license for antibodies against the respective target, since the associated antibody may be used in other programs. As a result, MorphoSys reclassified the license-related research and development activities as preclinical.

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Two partners advanced programs from phase 1 to phase 2 clinical trials. Novartis, with the program BYM338, a HuCAL-based antibody to treat musculoskeletal diseases, and Janssen Biotech, with CNTO1959, a HuCAL-based antibody to treat psoriasis, each advanced drugs into phase 2 clinical trials. In addition, several studies were initiated with HuCAL-antibodies that had entered clinical development in previous years, bringing the total number of clinical trials, either running or completed, with HuCAL-based antibodies up to 30.

In terms of clinical results emerging from HuCAL-based therapeutics, 2011 saw the first of what the Company expects to be an increasing number of events. MorphoSys's partner Roche published the first amyloid imaging data from the HuCAL-based Alzheimer's disease program gantenerumab. The data, published in the Archives of Neurology, demonstrated a dose-dependent reduction of amyloid beta in the brains of patients treated with the monoclonal antibody, while amyloid load increased in patients on placebo. The program is currently being evaluated in phase 2 clinical trials.

Preclinical data for the antibody program CNTO888, developed by MorphoSys's partner Janssen Biotech (formerly Centocor Ortho Biotech), was published in *Nature*. The data presented in this paper links multiple prometastatic processes in breast cancer to the production of the chemokine CCL2, the underlying target of the CNTO888 program, in tumor cells. According to the authors, the findings could aid the development of new therapeutics to prevent breast cancer metastasis, the main cause of breast cancer mortality in Western women, and could point to a new indication for CNTO888. The program is currently being evaluated in phase 2 clinical trials.

PROPRIETARY R&D ACTIVITIES – PRODUCT DEVELOPMENT

MorphoSys's product-related proprietary R&D activities are focused on evaluating and developing antibody drug candidates to a stage where lucrative out-licensing deals with pharmaceutical partners can be signed.

The clinical compounds and main value drivers in MorphoSys's current proprietary portfolio are:

- MOR103 – a fully human monoclonal HuCAL antibody being developed in rheumatoid arthritis (RA) and multiple sclerosis (MS);
- MOR208 – a humanized, Fc-optimized monoclonal antibody being developed in chronic lymphocytic leukemia; and
- MOR202 – a fully human monoclonal HuCAL antibody being developed in multiple myeloma.

In 2011, MorphoSys consolidated its clinical development portfolio, advancing one new proprietary program into clinical trials, namely the anti-cancer compound MOR202, and initiating two additional clinical trials for its anti-inflammatory compound MOR103.

Regarding the clinical development of MOR103 in the first indication, RA, MorphoSys remained on track to report trial results from the phase 1b/2a clinical trial in 2012. In June 2011, MorphoSys amended the clinical trial design for this study. The amended trial design aimed to recruit approximately 92 patients (from the previous number of 135). As is the case with many RA trials, recruitment was slower than originally anticipated. Based on feedback from its investigators, the Company identified ways to optimize enrollment by improving the study plan without changing the validity or statistical basis of the study. Assuming a positive outcome of the trial, MorphoSys intends to initiate out-licensing discussions in 2012.

With regard to the clinical development of MOR103 in the second indication, MS, MorphoSys initiated a phase 1b safety study at the end of 2011. The randomized, multicenter, multi-dose study will evaluate the safety of MOR103 in patients with multiple sclerosis. The trial will enroll approximately 30 patients in clinical centers in Germany, Poland and the United Kingdom. Data for this trial is expected to be available in 2013.

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In addition to a second indication, a subcutaneous formulation of MOR103 is also being developed to increase its commercial potential. To this end, MorphoSys initiated a bioavailability study to evaluate a subcutaneous formulation of MOR103 as an alternate administration route. Enrollment for this trial is expected to be completed in 2012.

The clinical development of MOR208, an antibody program in-licensed from Xencor Inc. in 2010, remained on track. The program was evaluated in an open-label, multi-dose, single-arm, phase 1 dose-escalation study in the USA during the course of 2011. The estimated primary completion date of this trial is in H1 2012.

In early September, MorphoSys announced that the first patient in a phase 1/2a clinical trial of its cancer antibody, MOR202, had been dosed. The open-label, multicenter, dose-escalation study will evaluate the safety and preliminary efficacy of MOR202 in patients with relapsed or refractory multiple myeloma. Patients are being treated with different doses of the HuCAL-derived antibody. There are also plans to evaluate the safety of MOR202 in combination with approved therapy. Preclinical studies presented at the 2011 Annual Meeting of the American Society of Clinical Oncology (ASCO) demonstrated enhanced cytotoxic activity of MOR202 in combination with either Velcade® (bortezomib) or Revlimid® (lenalidomide), supporting the clinical trial design.

The clinical trial is anticipated to include up to 82 patients and will be conducted in several centers in Germany and Austria. The primary endpoints of the trial are to determine the safety and tolerability of multiple doses of MOR202 in patients. Secondary outcome measures will evaluate pharmacokinetics and the preliminary efficacy of this antibody.

MorphoSys is committed to a strategy of building value by developing proprietary therapeutic products. Currently, the three clinical programs, MOR103, MOR208 and MOR202 are the main focus of attention. Behind these, several promising programs are progressing, and in order to increase the resources put behind these newer programs, in 2011, several other early stage programs were suspended. MorphoSys is very fortunate to be able to pursue a portfolio of proprietary programs, support its broad partnered pipeline, and still remain profitable.

PROPRIETARY R&D ACTIVITIES – TECHNOLOGY DEVELOPMENT

MorphoSys's proprietary R&D in technology is focused on enabling the generation of even better antibody products, faster than is currently possible. Technologically, the full implementation of the Slonomics platform, which was acquired in Q4 2010, and work on a new antibody library called Ylanthia took center stage in 2011. The Slonomics platform is now fully integrated into internal R&D processes to develop therapeutic and diagnostic antibodies for partners and on MorphoSys's own behalf. When used in an antibody context and combined with HuCAL, MorphoSys's other technology platform in this field, Slonomics, becomes arYla.

In December 2011, MorphoSys presented its latest antibody library, called Ylanthia, at a key scientific conference. The Ylanthia antibody library is based on a completely new concept for generating and optimizing human antibodies. The technology's uniqueness derives from its incorporation of Slonomics. In contrast to HuCAL, Ylanthia is not restricted to predefined antibody gene cassettes and discards the principle of optimization through modularity in favor of a de novo generation of antibody sub-libraries. MorphoSys expects the Ylanthia library to have significant advantages over HuCAL, resulting in therapeutic and diagnostic antibodies which are superior in many respects to those which derive from extant technologies.

RESEARCH AND DEVELOPMENT IN THE ABD SEROTEC SEGMENT

Research activities at MorphoSys's AbD Serotec business unit are aimed at gaining access to new products in core research markets, such as veterinary research, innate immunity, neuroscience and stem cell antibodies. More details on the individual research alliances can be found on the Company's website.

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ADDITIONAL INFORMATION
WWW.MORPHOSYS.COM

In July 2011, AbD Serotec entered into a research and supply agreement with the Department of Cancer Immunology and AIDS at the Dana-Farber Cancer Institute in Boston. Dana-Farber is engaged in research activities as part of a project funded by the Defense Advanced Research Projects Agency (DARPA) of the United States Department of Defense to develop transient immunity against life-threatening viral infections. AbD Serotec will provide research tools using MorphoSys's proprietary Slonomics technology platform. AbD Serotec will receive financial compensation and has preferred access to commercialization rights for products generated during the collaboration.

In October 2011, AbD Serotec entered into an agreement with the Moredun Research Institute and the Roslin Institute at The University of Edinburgh to establish a broad range of research reagents in the veterinary research arena. The project is funded through an Industrial Partnership Award from the Biotechnology and Biological Sciences Research Council (BBSRC) as part of a joint initiative with the Scottish government's Rural and Environment Science and Analytical Services Division (RESAS). Over the three-year term of the grant, the Moredun Research Institute and the Roslin Institute combined will receive funding of nearly £ 1 million.

Commercial Development

PROPRIETARY DEVELOPMENT

In March 2011, MorphoSys and Boehringer Ingelheim announced a biopharmaceutical manufacturing agreement for therapeutic antibodies. The agreement covers the process development and manufacturing of additional clinical material for MorphoSys's proprietary MOR208 program and other drug candidates. By adding an additional supplier to the proprietary development setup, MorphoSys aims to prevent any bottlenecks in clinical trial supply in the years ahead, an important part of the Company's sustainable production policy. Additionally, establishing a commercial manufacturing process with Boehringer Ingelheim early in the development of MOR208 is expected to increase the value of this program.

PARTNERED DISCOVERY

In February 2011, MorphoSys announced the receipt of a technology milestone payment from Novartis in connection with the completion of the installation of its HuCAL antibody platform at Novartis Institutes for BioMedical Research in Basel, Switzerland. The milestone arose in connection with an option for Novartis in the 2004 agreement to internalize the HuCAL technology and comprises a double-digit, million-euro payment to MorphoSys. The collaboration between the companies is otherwise unaffected by the achievement of the milestone, and the number of active programs to be pursued by Novartis, as well as the number of MorphoSys employees working on Novartis's projects, remains unchanged. The milestone had a significant effect on MorphoSys's 2011 revenues.

In April 2011, MorphoSys announced the formation of a new alliance with US-based biotechnology company, ContraFect, in the discovery and development of therapeutic antibodies for infectious diseases. Under the terms of the five-year agreement, ContraFect receives access to the HuCAL PLATINUM antibody library and to AutoCAL at its facility in New York. Payments under the agreement include committed annual license fees in addition to success-based development milestones. MorphoSys also stands to receive royalties on sales of marketed drug products emerging from the collaboration.

The therapeutic antibody collaboration with Daiichi Sankyo, signed in March 2006, was concluded in the first quarter of 2011. The infectious disease collaboration between the two companies was concluded in May 2011. The license agreement with Schering-Plough, which was acquired by Merck & Co. in 2009, was also concluded in 2011.

ABD SEROTEC

In May 2011, Proteomika, a Spanish biotechnology company specializing in biomarker discovery and a subsidiary of the Progenika Group, signed a commercial license agreement for seven diagnostic HuCAL antibodies from MorphoSys's AbD Serotec business unit. To generate these antibodies, AbD Serotec applies MorphoSys's HuCAL GOLD and HuCAL PLATINUM antibody technologies. Proteomika will implement these antibodies in their PROMONITOR® kits. AbD Serotec will receive royalties on product sales. Proteomika launched the first PROMONITOR® kits containing HuCAL antibodies for use in the routine clinical monitoring of biological therapies in the second quarter of 2011.

AbD Serotec continues to have commercial relationships with a number of pharmaceutical companies that have worked with HuCAL in the past. In these relationships, HuCAL is used as a research tool rather than as a source of therapeutic antibody candidates. The collaborations are run by the Company's AbD Serotec business unit and revenues are recorded in this segment.

In August 2011, MorphoSys amended its existing license agreement with Merck & Co., Inc. to include the use of its HuCAL GOLD technology in the field of vaccines. Under the terms of the agreement, Merck has been granted access to HuCAL GOLD for research purposes, with the option to upgrade to MorphoSys's latest proprietary antibody library HuCAL PLATINUM. MorphoSys's research and diagnostic antibody segment, AbD Serotec, will receive annual user fees from Merck for access to the HuCAL technology and license fees for clinical monitoring reagents.

In November 2011, MorphoSys announced that it had expanded its license agreement with Shionogi & Co., Ltd. The expanded agreement covers the use of MorphoSys's HuCAL antibody technology and additional proprietary technology modules for research in drug discovery for three additional years. Under the terms of the agreement, Shionogi will continue to have the right to use MorphoSys's patented antibody library, HuCAL PLATINUM, for research purposes at one of its research sites. MorphoSys receives annual user fees from Shionogi for access to the technologies.

In December 2011, Novozymes A/S, the world leader in bio-innovation and industrial enzymes, signed a multi-year licensing and technology transfer agreement with MorphoSys. The agreement provided Novozymes with a non-exclusive license to use MorphoSys's proprietary Slonomics technology to develop novel, predominantly enzymatic products within the industrial biotechnology sector. Novozymes became the first industrial biotechnology company to have access to the Slonomics technology.

Human Resources

GROUP HEADCOUNT DEVELOPMENT

The source of MorphoSys's success is its creative workforce, which shows a rich variety of skills and capabilities. On December 31, 2011, 446 people were working for the Company worldwide (December 31, 2010: 464), of which 147 held a PhD (December 31, 2010: 148). On average, the MorphoSys Group employed 459 people in 2011 (2010: 435).

The Company offers competitive salaries based on a yearly benchmarking process relating to the biotechnology sector and other industries. Additionally, MorphoSys's employees are compensated through a performance-related bonus system based on their achievement of individual and Company goals. Equity-based and profit-participation programs involve the employees in the operational and financial development of the Company. A detailed look at the workforce development and the Company's focus on attracting and maintaining its employees can be found in the Sustainability Report on page 66.

CHANGE IN MANAGEMENT BOARD COMPOSITION

On February 24, 2011, MorphoSys announced that Jens Holstein will succeed Dave Lemus both as Chief Financial Officer of MorphoSys AG and as a member of the Management Board (Vorstand). Dave Lemus stepped down from his position as CFO with the Company in March 2011 to pursue other opportunities. Jens Holstein was appointed as Chief Financial Officer as of May 1, 2011, and joined MorphoSys from Fresenius Kabi AG, where he most recently served as Regional CFO for Europe/Middle East and as Managing Director of Fresenius Kabi Deutschland GmbH. Over nearly 16 years at Fresenius, he held a variety of financial and general management positions. Before that, he had spent several years in the consulting industry working in Frankfurt and London.

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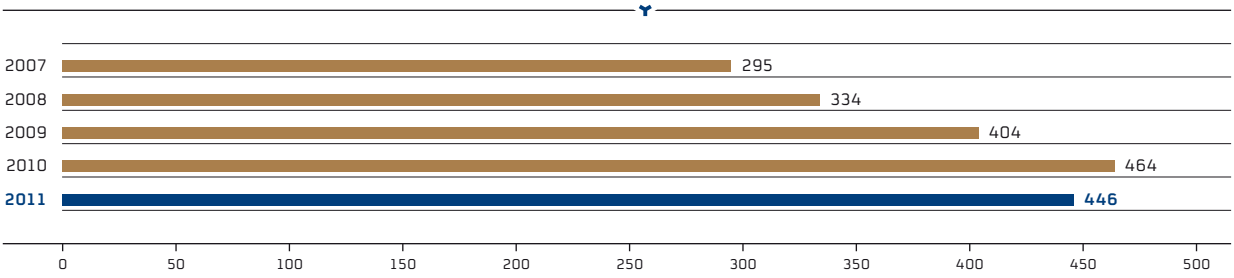
FIG. 5: TOTAL HEADCOUNT OF THE MORPHOSYS GROUP



TAB. 5: EMPLOYEES BY REGION

	2011	2010
Germany	352	370
United Kingdom	74	78
USA	20	16
TOTAL HEADCOUNT AS OF DECEMBER 31	**446**	**464**

TAB. 6: EMPLOYEES BY SEGMENT* AND FUNCTION

	2011	2010
TOTAL EMPLOYEES	**446**	**464**
Proprietary Development segment	67	100
Partnered Discovery segment	199	183
AbD Serotec segment	140	142
Employees in R&D	301	309
Employees in S, G&A	145	155

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

Results of Operations, Financial Situation and Balance Sheet

Revenues

Compared to the same period in the previous year, Group revenues increased by 16% to €100.8 million (2010: €87.0 million). This increase was mainly a result of higher levels of success-based fees, namely a technology milestone payment from Novartis in connection with completing the installation of the HuCAL antibody platform at Novartis Institutes for BioMedical Research in Basel, Switzerland. As expected, funded research and licensing fees in the Partnered Discovery segment decreased compared to the same period in the previous year, as did revenues in the AbD Serotec segment.

Revenues arising from the Partnered Discovery and Proprietary Development segments, before elimination of inter-segment effects, accounted for 81% or €81.7 million (2010: 78% or €68.0 million) of total revenues, while the AbD Serotec segment generated 19% or €19.3 million of the total segment revenues (2010: 23% or €20.2 million).

Geographically, 12% or €12.4 million of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies and non-profit organizations located in North America and 88% or €88.4 million with companies mainly located in Europe and Asia. This compares to 19% and 81%, respectively, in the same period of the prior year. The relatively higher contribution of European revenues to Group revenues mainly reflects the contribution from MorphoSys's largest customer Novartis.

PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Segment revenues arising from the Partnered Discovery segment comprised €46.6 million in funded research and licensing fees (2010: €57.2 million) plus €32.7 million in success-based payments (2010: €9.1 million). These success-based payments represent 40% of total Partnered Discovery and Proprietary Development revenues. Funded research and licensing fees decreased due to the fact that most of MorphoSys's collaborations were concluded as planned and contractually agreed. The main reason for the strong increase of success-based payments was a one-time technology milestone from Novartis for the installation of the HuCAL technology.

Segment revenues from the Proprietary Development segment included €2.4 million in funded research (2010: €1.8 million). Approximately 94% of Partnered Discovery and Proprietary Development revenues and 76% of total revenues arose from the Company's three largest alliances with Novartis, Daiichi Sankyo and Pfizer (2010: Novartis, Daiichi Sankyo and Pfizer, 87% and 68%, respectively).

Assuming constant foreign exchange rates at the average rate of 2010, segment revenues in the Partnered Discovery and Proprietary Development segments would have amounted to €82.4 million.

ABD SEROTEC SEGMENT

Compared to the same period of the previous year, AbD Serotec's segment revenues decreased by 4%, or €0.9 million, to €19.3 million in 2011 (2010: €20.2 million). The unfavorable comparison with the prior year's revenues is mainly due to a large OEM order which had been placed in Q1 2010. Assuming constant foreign exchange rates at the average rate of 2010, revenues in the AbD Serotec segment would have amounted to €19.8 million.

As of December 31, 2011, orders in the amount of €0.8 million were classified as back orders in the segment (2010: €0.7 million).

Operating Expenses

Total operating expenses in 2011 increased by approximately 15 % over the previous year, to € 89.1 million (2010: € 77.4 million). The change in operating expenses of € 11.7 million was due to research and development (R&D) expenses increasing by 23 % or € 10.6 million and sales, general and administrative (S, G&A) expenses increasing by 6 % to € 24.6 million while COGS decreased from € 7.3 million to € 7.0 million. Total purchase price allocation (PPA) effects on operating profit amounted to € 1.4 million (2010: € 0.8 million) and increased by 75 % due to the full-year inclusion of the amortization of technology from the acquisition of Sloning BioTechnology GmbH in October 2010.

Operating expenses remained almost unchanged at € 23.7 million (2010: € 23.6 million) in the Partnered Discovery segment and increased by 32 % to € 35.0 million (2010: € 26.5 million) in the Proprietary Development segment. In the AbD Serotec segment, operating expenses decreased by 3 % to € 18.4 million (2010: € 18.9 million) and would have amounted to € 18.6 million assuming constant foreign exchange rates at the average rate of 2010.

Stock-based compensation expenses are embedded in COGS, S, G&A and R&D expense amounts. Stock-based compensation in 2011 amounted to € 1.5 million (2010: € 2.1 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 2011 and – compared to the same period of the prior year – decreased by 4 % from € 7.3 million to € 7.0 million. The gross margin for the segment remained unchanged at 64 % in comparison to 2010.

RESEARCH AND DEVELOPMENT EXPENSES

In 2011, expenses for research and development increased by € 10.6 million to € 57.5 million (2010: € 46.9 million). This was mainly due to increased costs for external laboratory funding (2011: € 18.3 million; 2010: € 13.3 million), higher personnel costs (2011: € 21.4 million; 2010: € 17.9 million), as well as higher costs for intangibles (2011: € 6.3 million; 2010: € 5.1 million).

In 2011, the Company incurred costs for proprietary product development in the amount of € 35.0 million, including segment allocations for technology development in the amount of € 1.1 million (2010: € 26.5 million, including segment allocations for technology development in the amount of € 0.6 million). The total costs for technology development amounted to € 2.9 million (2010: € 2.1 million).

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Compared to the same period of the previous year, sales, general and administrative expenses increased by 6 %, or € 1.4 million, to € 24.6 million (2010: € 23.2 million) mainly due to an increase in personnel costs of € 1.6 million compared to 2010.

TAB. 7: SPLIT OF R&D EXPENSES

in million €	2011	2010	2009	2008	2007
R&D Expenses on behalf of partners	20.7	18.9	19.2	27.1	21.0
Proprietary Development Expenses	33.9	25.9	19.1	–	–
Technology Development Expenses	2.9	2.1	0.7	0.5	1.2
TOTAL R&D	**57.5**	**46.9**	**39.0**	**27.6**	**22.2**

Other Operating Income

Other operating income increased by €0.3 million to €0.5 million in 2011 and comprised grant income from governmental agencies.

Operating Profit

Group operating profit in 2011 amounted to €12.2 million (2010: €9.8 million). Earnings before interest and taxes (EBIT) amounted to €11.1 million (2010: €13.1 million). The Partnered Discovery and Proprietary Development segments showed an operating profit of €55.7 million (2010: €42.7 million) and an operating loss of €32.2 million (2010: operating loss of €24.5 million), respectively. In the AbD Serotec segment, operating profit amounted to €1.0 million (2010: €1.2 million) and would have amounted to€1.2 million assuming constant foreign exchange rates at the average rate of 2010.

Non-operating Items

In 2011, non-operating items included other expenses of €2.2 million (2010: €1.2 million), which predominantly resulted from foreign exchange losses, and finance income of €1.4 million (2010: €4.1 million), mainly comprising realized gains on marketable securities sold in the period. Compared to 2011, more marketable securities had been sold in 2010 for the financing of the in-licensing of a compound from Xencor in June 2010 and the acquisition of Sloning BioTechnology GmbH in October 2010, resulting in higher gains on marketable securities.

Taxes

For 2011, the Company reported income tax expense in the amount of €3.2 million (2010: €4.0 million). This line item mainly included current tax expense from Group entities.

Net Profit

A net profit after taxes of €8.2 million was achieved in 2011, compared to a net profit after taxes of €9.2 million in 2010.

Multiple-Year Overview – Results of Operations

TAB. 8: MULTIPLE-YEAR OVERVIEW – RESULTS OF OPERATIONS

in million €	2011	2010	2009	2008	2007
Revenues	100.8	87.0	81.0	71.6	62.0
COGS	7.0	7.3	6.7	7.1	7.9
Gross Profit	93.8	79.7	74.3	64.5	54.1
Research and Development Expenses	57.5	46.9	39.0	27.6	22.2
Sales, General and Administrative Expenses	24.6	23.2	23.9	20.5	24.8
Other Operating Income	0.5	0.2	0.1	–	–
Profit from Operations	12.2	9.8	11.4	16.4	7.0
Non-operating Income/(Expenses)	(0.7)	3.4	1.6	1.6	2.2
Profit before Taxes	11.4	13.2	13.0	18.0	9.2
Income Tax Benefit/(Expense)	(3.2)	(4.0)	(4.1)	(4.8)	2.3
Net Profit	8.2	9.2	9.0	13.2	11.5

Financial Situation

FINANCIAL MANAGEMENT PRINCIPLES

The most important objective of financial management at MorphoSys is to provide at all times sufficient liquidity reserves for industry-specific fluctuations and for the Group's continued growth. The most important sources of liquidity are the operating business activities of the individual Group companies and the resulting cash inflows. Scenarios and cash-flow planning are used to establish liquidity requirements.

CASH FLOWS

Net cash inflow from operations in 2011 amounted to € 27.1 million (2010: cash inflow of € 1.9 million). Investing activities resulted in a cash outflow of € 18.1 million (2010: cash outflow of € 2.0 million), whereas financing activities resulted in a cash inflow of € 1.3 million (2010: cash inflow of € 2.9 million).

CAPITAL EXPENDITURE

MorphoSys's investment in property, plant and equipment focused mainly on laboratory equipment and amounted to € 2.3 million in 2011 (2010: € 2.3 million). Depreciation of property, plant and equipment in 2011 accounted for € 2.4 million compared to € 2.1 million in 2010.

In 2011, the Company invested € 1.3 million in intangible assets (2010: € 11.5 million). The investment in 2010 had mainly included the in-licensing of a compound from Xencor. Amortization of intangibles amounted to € 4.3 million in 2011 (2010: € 4.0 million).

LIQUIDITY

As of December 31, 2011, the Company held € 134.4 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2010 balance of € 108.4 million.

Multiple-Year Overview – Financial Situation

TAB. 9: MULTIPLE-YEAR OVERVIEW – FINANCIAL SITUATION

in million €	2011	2010	2009	2008	2007
Net Cash Provided by/(Used in) Operating Activities*	27.1	1.9	(1.0)	28.6	17.1
Net Cash Provided by/(Used in) Investing Activities	(18.1)	(2.0)	0.6	(39.3)	(5.2)
Net Cash Provided by/(Used in) Financing Activities*	1.3	2.9	1.4	2.5	32.6
Cash and Cash Equivalents (as of December 31)	54.6	44.1	41.3	40.1	48.4
Available-for-sale Financial Assets	79.8	64.3	93.9	97.8	58.5

* In 2011, purchases of derivative financial instruments and proceeds from disposal of derivative financial instruments have been reclassified within the cash flow statement from financing activities to operating activities. To provide comparative information for the prior year, the figures for the year 2010 have been adjusted accordingly.

Balance Sheet

ASSETS

Total assets increased by € 18.6 million to € 228.4 million as of December 31, 2011, compared to € 209.8 million as of December 31, 2010. Current assets increased by € 22.2 million, mainly as a result of an increase by € 25.9 million in available-for-sale financial assets and cash and cash equivalents generated in operations (mainly driven by the payment received for the technology milestone from Novartis). The increase in marketable securities as well as cash and cash equivalents was partly offset by a decrease in accounts receivable by € 2.8 million.

Compared to December 31, 2010, non-current assets decreased by € 3.6 million, mainly as a consequence of the amortization of licenses and patents.

LIABILITIES

In 2011, current liabilities increased from € 21.4 million as of December 31, 2010, to € 23.8 million as of December 31, 2011, arising mainly from an increase in accounts payable and accrued expenses as well as tax liabilities by € 3.4 million and € 0.9 million, respectively. Compared to 2010, accrued expenses for external laboratory funding increased by € 3.0 million to € 6.6 million while accrued expenses for personnel-related expenses increased by € 1.0 million to € 5.1 million. The increase in accounts payable and accrued expenses as well as tax liabilities was partly offset by a decrease in deferred revenue by € 1.8 million.

Non-current liabilities increased by € 5.0 million to € 7.5 million in 2011, mainly due to an increase in non-current deferred revenue linked to payments received in 2011 from a deal closed in December 2010.

EQUITY

Total stockholders' equity amounted to € 197.1 million as of December 31, 2011, compared to € 185.9 million as of December 31, 2010.

As of December 31, 2011, the total number of shares issued amounted to 23,112,167 of which 22,948,252 were outstanding, compared to 22,890,252 and 22,810,356 as of December 31, 2010, respectively.

The increase of shares outstanding by 137,896 arose from the net effect of exercised options and convertible bonds issued to management and employees (221,915 shares) and a repurchase of the Company's own stock (84,019 shares).

In June 2011, the Company repurchased 84,019 MorphoSys shares on the stock market and increased the amount of treasury stock accordingly. The shares will be used to implement the Company's long-term incentive plan for management.

Financing

As of December 31, 2011, the equity ratio of the Company amounted to 86 %, compared to an equity ratio of 89 % as of December 31, 2010. The Company is currently not financed via financial debt.

Off-Balance Sheet Financing

MorphoSys is not involved in any off-balance sheet financing instruments such as the sale of receivables, asset-backed securities, sale and lease back transactions or contingent liabilities in relation to special purpose entities not consolidated.

Credit Rating

MorphoSys is currently not rated by any rating agencies.

Multiple-Year Overview – Balance Sheet Structure

TAB. 10: MULTIPLE-YEAR OVERVIEW – BALANCE SHEET STRUCTURE

in million €	2011	2010	2009	2008	2007
Assets					
Current Assets	154.7	132.5	155.6	150.1	122.9
Non-current Assets	73.7	77.3	50.5	53.2	61.8
Total	228.4	209.8	206.1	203.3	184.7
Equity and Liabilities					
Current Liabilities	23.8	21.4	24.3	27.4	29.4
Non-current Liabilities	7.5	2.5	7.9	13.9	9.8
Equity	197.1	185.9	173.9	162.0	145.5
Total	228.4	209.8	206.1	203.3	184.7

Comparison of the Actual Business Results with Forecasts

During 2011, MorphoSys showed a solid financial performance. Due to the volatility of exchange rates and the delay of several milestone payments, the Group did not meet its revenue goal as set at the beginning of the year and revised its guidance accordingly in the fourth quarter. However, profit from operations was not affected and the pipeline made good progress.

TAB. 11: COMPARISON OF ACTUAL BUSINESS RESULTS WITH FORECASTS

	2011 Goals	2011 Achievements
Financials	Group revenues of €105–110 million (revised in October to slightly below €105 million)	Group revenues of €100.8 million
	AbD Serotec sales of €22 – 23 million (revised in October to approximately €20 million)	AbD Serotec sales of €19.3 million
	Investment in proprietary R&D of €40–45 million	Investment in proprietary R&D of €36.7 million
	AbD Serotec profit margin of approximately 4%	Profit margin of 5%
	Group operating profit of €10–13 million	Operating profit of €12.2 million
Proprietary R&D	MOR103: – Advance program in rheumatoid arthritis – Start clinical evaluation in multiple sclerosis – Prepare clinical trial for subcutaneous administration	 – Phase 1b/2a study on track to report final data in 2012 – Phase 1b study opened for enrollment in December 2011 – Bioavailability trial initiated early 2012
	Start clinical evaluation of MOR202 in multiple myeloma	Phase 1/2a study initiated in September 2011
	Technology announcements	New Ylanthia platform presented in December 2011
Partnered Pipeline	1–3 partnered INDs	2 partnered INDs
	Clinical data from partnered programs	Roche presented first amyloid imaging data from the HuCAL-based Alzheimer's disease program gantenerumab The number of partnered programs in phase 2 increased from 5 in 2010 to 7 at the end of 2011.
Clinical Pipeline	Further expansion of clinical pipeline	The number of programs in clinical studies increased from 17 in 2010 to 20 at the end of 2011.
AbD Serotec	Further penetration of diagnostics market	First HuCAL-based diagnostic kits launched.

The Management's General Assessment of Business Performance

In 2011, the Management Board once again saw a very solid performance from the MorphoSys Group. The majority of its Company goals have been met, with all business segments contributing to this positive development. Group revenues increased strongly compared to 2010 but remained slightly under initial expectations as a result of foreign exchange effects and the shift of individual milestone payments to 2012. In total, the MorphoSys Group showed top-line growth of 16 % and remained profitable with an operating profit of € 12.2 million. The financial situation of the Company remains very stable in 2011, with an equity ratio amounting to 86 %, a cash position of € 134.4 million and no financial debt.

The highest value was once again generated by the Company's Partnered Discovery segment, with a technology milestone in MorphoSys's Novartis alliance playing a central role. Based on the positive financial performance of this business segment, MorphoSys could continue to invest in its proprietary product and technology activities, with an increase of R&D spending of 23 % over the course of 2011. Despite increased investments in proprietary development, the Company showed solid operating profits.

MorphoSys's product pipeline continued to grow and mature. With two partnered INDs, one proprietary compound entering clinical development and two partnered programs advancing into phase 2, the pipeline has evolved successfully. In total, 20 programs are currently in clinical evaluation. MorphoSys's proprietary portfolio advanced well and the achievements in 2011 paved the way for first clinical data and the commencement of out-licensing discussions in 2012.

AbD Serotec did not meet its growth expectations due to a challenging market environment and foreign exchange effects. In Europe especially, the economic crisis continued to weaken demand. However, the segment continued its expansion into the diagnostic sector, with the first diagnostic kits based on HuCAL antibodies entering the market in 2011.

Judgments by Management

No accounting policies were applied and related options were exercised in the consolidated financial statements that differ from those in prior years and that, if applied or exercised differently, would have had a material effect on the results of operations, financial situation, and balance sheet structure. Information on the effects of the use of estimates, assumptions, and judgments by management can be found in the notes to the consolidated financial statements.

Sustainability Report

For MorphoSys, economic success goes hand in hand with environmentally and socially balanced activities. Consequently, these three criteria are firmly established components of all business processes. By relying on such a sustainability-based strategy, MorphoSys takes responsibility for current and future generations and at the same time ensures the Company's long-term business success. This Sustainability Report outlines MorphoSys's perception of ecological and social responsibility as well as resulting activities. Information on MorphoSys's management structure and corporate governance practices can be found in the Corporate Governance Report on page 81.

Sustainable Corporate Management at MorphoSys

Hardly any other industry is making such a direct contribution to the well-being of society at large as the healthcare industry, including the biotechnology sector. It is evident that successful therapeutics and better applications for research and diagnostics are able to offer a major social benefit. While biotechnological approaches such as therapeutic antibodies are opening up new opportunities for novel and improved drugs against severe diseases and for production methods that are often more tolerable for the environment than traditional pharmaceuticals, the industry remains a focus for ethical debate.

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As is outlined in the Corporate Governance Report on page 81, the Management Board of MorphoSys clearly acknowledges the importance of social and ecological factors for the Company's future success. It is pursuing a business model that aims for sustainable growth, protecting the interests of its shareholders and creating value for both them and all stakeholders. Internally, this is reflected in a long-term personnel policy as well as in the Company's forward-looking R&D activities: MorphoSys's fully in vitro based technologies represent a genuine, fast and cost-effective alternative to animal-based methods and promise to return the greatest possible value to the Company's investors. Although novel drugs derived from biotechnological processes are still regarded as rather expensive medicines today, they have the potential to lower total healthcare costs in the long run; a crucial point in terms of meeting the healthcare needs of an aging population. In the view of the management, the MorphoSys business model does not contain any aspects contradicting the interests of shareholders focusing on sustainable investments.

In order to ensure that factors potentially endangering the sustainable performance of the Company are recognized at an early stage and adequate countermeasures are taken, a comprehensive risk management system has been implemented at the Company over the last few years. MorphoSys generally only takes risks which offer opportunities to increase the Company's sustainable value (read more details on risks and opportunities on page 72).

The Group-wide control of adherence to this strategy is the responsibility of the whole Management Board led by the CEO. The sustainability strategy is integrated into MorphoSys's planning and affects the whole value chain at all the Company's sites. The way this strategy translates into the daily business of every employee at MorphoSys is written down in the Code of Ethics as part of the Code of Conduct, which was introduced in a Company-wide rollout in 2011. In order to ensure a corporate behavior that complies with these regulations, MorphoSys provides for regular employee training courses on the Code of Conduct itself as well as on specific risk areas like mobbing. Through the Code of Conduct Committee, which consists of the Head of Global Human Resources (chairman) and three further members, every employee can seek advice in compliance-related matters and, anonymously if desired, report suspicions or breaches. Compliance violations are consequently pursued and appropriate countermeasures taken. However, the Company regards serious violations by individual employees, which could have a significant impact on the net assets, financial position and results of operations, as unlikely and no breach has been reported so far.

The following report on the implementation of MorphoSys's corporate strategy and its sustainability performance is oriented towards the recommendations of the German Sustainability Code (Deutscher Nachhaltigkeitskodex), which was proposed by the Council for Sustainable Development (Rat für nachhaltige Entwicklung) in October 2011. Furthermore, it is in line with the SD-KPI standards of SD-M®.

Sustainable Performance at MorphoSys

ETHICAL STANDARDS AND STAKEHOLDER DIALOGUE

As set out by MorphoSys's Code of Conduct, the Company adheres to the highest scientific and ethical principles, notably the World Medical Association's (WMA) Declaration of Helsinki, when conducting human clinical trials or animal studies. Compliance with existing national and international applicable regulatory requirements is obligatory for every employee at MorphoSys as well as for involved third-party contractors.

Not having its own laboratories for this kind of research, the Company sources out all studies involving animals to contract research organizations (CROs). In the course of its product development activities, MorphoSys commissions animal studies according to the principles of good animal welfare and human treatment as laid down in national and European regulations. MorphoSys has implemented, maintains and continuously improves a quality assurance and quality control system with written Standard Operating Procedures (SOPs) to ensure that animal studies are contracted to CROs who respect local, national and international regulations. Studies will generally only be conducted after approval by the respective competent ethics committee and carried out under continuous veterinary surveillance.

CROSS-REFERENCE
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MorphoSys demonstrates its commitment to responsible animal care and use by working with institutions which, in addition to complying with the laws regulating animal research, have earned Good Laboratory Practice (GLP) and/or AAALAC (Association for Assessment and Accreditation of Laboratory Animal Care) accreditation, whenever possible. Furthermore, the appropriateness of the CRO's testing facilities, the level of training and competence of the personnel involved and the conditions for the animals are looked at during an evaluation process prior to the contracting of any study.

Regarding the treatment of healthy volunteers and patients in clinical trials which are sponsored by MorphoSys, the Company strictly adheres to the ethical principles that have their origin in the Declaration of Helsinki mentioned above. In addition, trials are conducted in compliance with applicable privacy and confidentiality rules. Safeguarding the rights, safety and well-being of all participants in clinical trials is a high priority for MorphoSys. Clinical trials will only commence after approval by the applicable independent ethics committee and/or institutional review board. Prior to taking part in a clinical trial, every participant has to hand in a voluntary informed consent form.

The aspiration behind MorphoSys's business is to improve patients' lives through its scientific work. The Company is only able to reach this goal if its corporate actions are also socially acceptable. This requires a continuous and open stakeholder dialogue in order to understand possible concerns regarding biotechnological approaches and illustrate MorphoSys's operations and their advantages. To this end, MorphoSys engages in various activities, for example it participates at public information events like the "Münchner Wissenschaftstage 2011" and actively supports the "Communication and Public Relations" working group of BIO Deutschland e.V.

PROCUREMENT

The procurement department at MorphoSys is in charge of preventing delivery bottlenecks or a dependency on certain suppliers, especially when purchasing raw materials and equipment for the Company's R&D activities. It continuously monitors the international markets with regard to safe, high-quality materials available at favorable terms. Suppliers and transport service providers are selected in accordance with economic criteria, but they are equally expected to comply with human rights and internationally recognized core labor standards. The Company's supplies are systematically pooled wherever applicable and medium to long-term contracts fixed with strategic suppliers.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

MorphoSys currently has no system in place to actively quantify its impact on the environment. However, the management closely oversees the use and related costs of goods and services affecting the environment. Through technical improvements, optimized waste management and other activities the Company continuously strives to reduce the amount of energy used. For example, in 2011, MorphoSys again participated in the Carbon Disclosure Project, thereby monitoring its internal consumption and treatment of existing resources. If necessary, the Company is able to implement appropriate measures at an early stage in order to use existing resources more efficiently, but, to date, no excessive demands or unjustifiable costs have been recorded. Nevertheless, MorphoSys took a first step towards preventing a further increase in greenhouse gases and encouraged its German employees to follow an initiative of a German health insurance company and the German Cyclists Club (ADFC) to cycle to work. The outcome of this call was the appointment of the Company as a "bicycle-friendly company".

MorphoSys's business activities in the R&D area involve only very small amounts of hazardous materials or chemicals requiring specific licenses and their use and disposal are continuously monitored and evaluated. The Health & Safety department ensures compliance with regulations in all areas of health and safety relevant to business operations and provides specific training for all employees involved. According to the specific needs of production processes and regulatory changes, these guidelines and activities are subject to an ongoing optimization and adjustment process.


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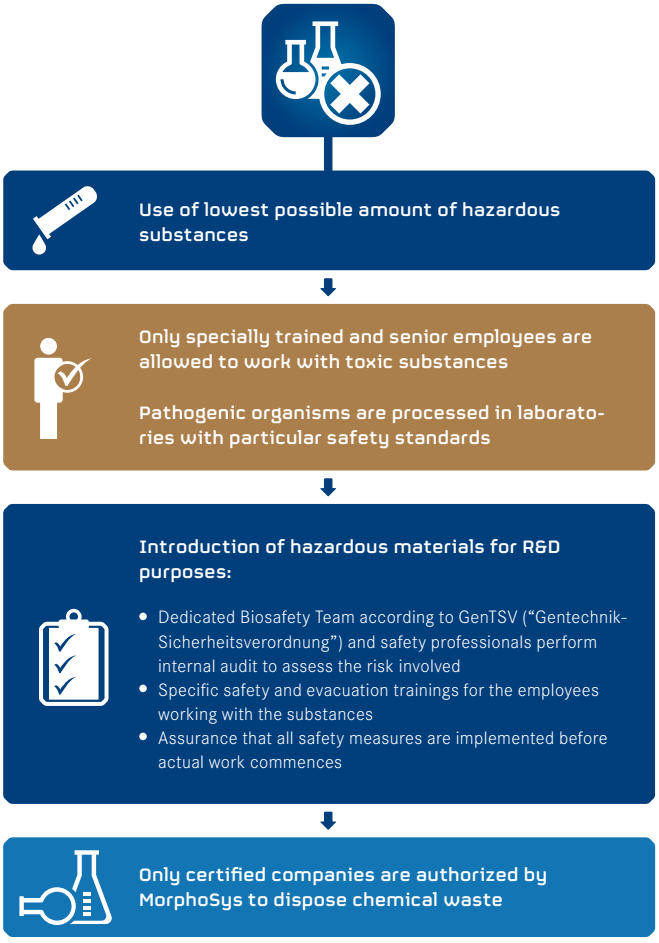
FIG. 6: OCCUPATIONAL SAFETY AT MORPHOSYS AG



QUALITY ASSURANCE

Safety hazards can pose a major threat to the economic situation of a biotechnology company. MorphoSys adheres to strict processes and rules to ensure that the risks to patients are kept to a minimum. An integrated quality management system covering the principles of Good Manufacturing, Clinical and Laboratory Practice (GMP, GCP and GLP) has been implemented for MorphoSys's proprietary research and product development activities to control and regulate these processes. With the support of the Management Board of the Group, an independent quality assurance department makes sure that all internal R&D activities comply with applicable national and international laws, regulations and guidelines in order to maintain high quality standards, patient safety, product quality and data integrity.

Regarding the conduct of clinical trials, the quality assurance department compiles an audit plan for each clinical trial as part of its overall audit program. CROs, external providers and investigator sites participating in the clinical trials are audited by the quality assurance department using a risk-based approach.

For its proprietary development activities, MorphoSys holds a manufacturing license for the release of clinical trial material and has been certified by the responsible German authorities (Government of Upper Bavaria) as being in compliance with the standards and guidelines of Good Manufacturing Practice (GMP).

For its research and diagnostics businesses, AbD Serotec's manufacturing site in the UK, MorphoSys UK Ltd., Oxford, is accredited in accordance with 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 in accordance with ISO 9000:2008. In 2011, the Puchheim site near Munich also received the ISO 9001:2008 accreditation.

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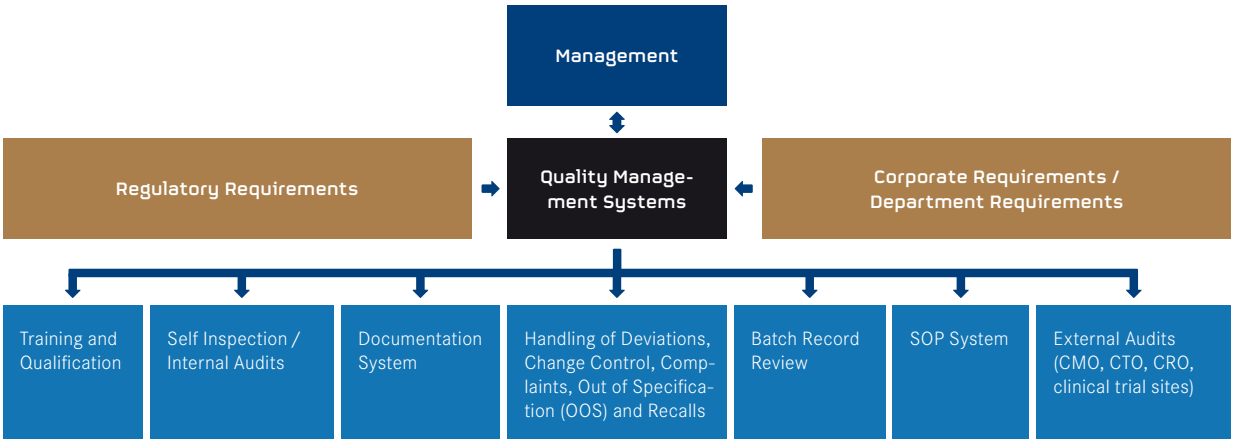
FIG. 7: QUALITY MANAGEMENT SYSTEMS AT MORPHOSYS



The Quality Assurance department is taking a central role within the Quality Management System at MorphoSys and reports directly to the Management Board of MorphoSys AG. It takes into account all regulatory requirements as well as the department and corporate specific requirements and guides and supervises all departments which are controlled by the quality system.

INTELLECTUAL PROPERTY

MorphoSys's most valuable assets are its proprietary technologies and the products derived therefrom. Therefore, the Company continues to consolidate and extend the strong patent position for its development programs, MOR103, MOR208 and MOR202, and its expanding technology portfolio. For partnered programs, MorphoSys's partners file patent applications for individual drugs in cooperation with MorphoSys's IP department. Partnered and proprietary drug development programs have additional layers of protection and the patent terms extend well beyond the term of the HuCAL technology.

In 2011, the US Patent and Trademark Office (USPTO) granted a further patent covering the Company's most advanced proprietary compound MOR103 against GM-CSF as well as pharmaceutical compositions comprising the same. The issued patent complemented another US patent granted in 2008 covering clinical relevant medical uses of antibodies against GM-CSF, to which MorphoSys has exclusive access under a license agreement with the University of Melbourne. In addition to recently filed additional patent applications, these two patent families provide strong intellectual property protection for MorphoSys's MOR103 program. The Company also protected its recently announced technology development, the new antibody platform Ylanthia, with patent applications.

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

During the last five years, no products were recalled and there were neither fines nor settlement payments caused by litigation.

HUMAN RESOURCES

MorphoSys supports its strategic goals with a forward-looking personnel policy and strives to be an attractive employer for skilled workers from all over the world. The Company aims at employing a broadly diverse workforce in order to keep innovative spirit alive and to benefit from various skills and capabilities. Currently, talented employees from twelve different nations are working for MorphoSys. Innovation and commitment are encouraged and good ideas are incentivized on a case-by-case basis.

In 2011, MorphoSys concentrated on facilitating its internal processes related to Human Resources and to making more efficient. The two most significant measures were a new e-recruiting tool and the decision to perform complete payroll process in-house. These changes led to faster and more transparent high-quality operations which saved administration costs for the Company.

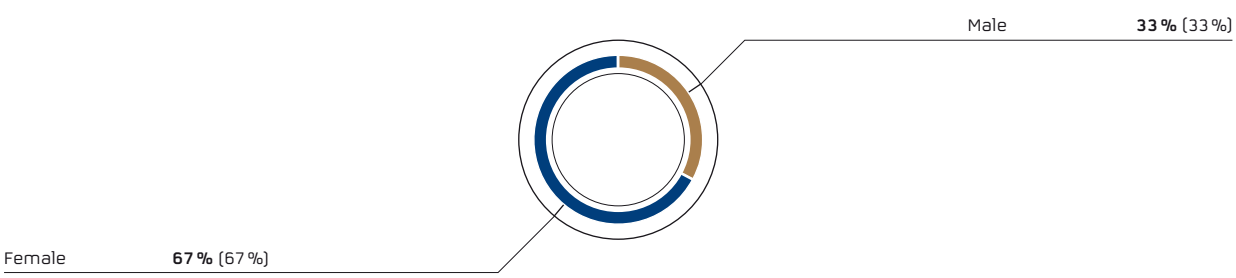
The Company offers performance-related remuneration and comprehensive advanced education. In 2011, a long-term incentive plan was rolled out for the Senior Management Group and the Management Board of MorphoSys. It links the long-term remuneration of the Company's management with the achievement of Company goals and the performance of the share price, thereby clearly supporting the shareholders' interests. The Company invests in the careers of its employees in the form of specific training and development opportunities. Employees from research and product development as well as various administrative positions are supported by a variety of internal and external training programs. MorphoSys also actively contributes to the education of young people by offering vocational training in-house. As of 31 December 2011, the Company had four trainees for the IT department and four trainees as future biology laboratory technicians (31 December 2010: three IT trainees, two biology laboratory trainees).

MorphoSys has various measures in place to support its employees in harmonizing their opportunities for professional development and their personal life planning, a factor which is becoming increasingly important for companies wanting to recruit and retain motivated employees. The management of MorphoSys had already realized this trend years ago and offers its employees a variety of possibilities in this regard, for example specific part-time employment arrangements or home-working options, where appropriate. Around 10 % of MorphoSys's employees already benefit from part-time working models that are tailored to their and the Company's needs. For employees with young families, MorphoSys eases the return to working life and the coordination of professional and family life with special solutions. MorphoSys is the co-founder and a supporter of the "BioKids" day care center in Martinsried and has special agreements with a German service provider offering additional services for working family members.

Transparent and open communication is part of MorphoSys's culture, as set out in its ethical guidelines. This is illustrated by the Company's biweekly "general meeting", where the Management Board speaks to its employees to outline recent developments at the Company, often highlighting special projects and the employees involved but also providing frank answers to all questions that are asked during the meeting or handed in before. Questions can also be asked anonymously.

MorphoSys rates the protection of its employees against work-related dangers and the preservation of their health by means of preventive measures very highly. Accordingly, the number of accidents at work is very low (8 in 2011; 7 in 2010); most of them are minor injuries like cuts or bruises and are not related to the kind of industry MorphoSys works in. With guidelines and training courses run by the Health & Safety department, but also by offering regular medical checks, the Company strives to keep the number of accidents this low and ensure the safety and well-being of all employees at MorphoSys as much as possible. The successful implementation of these measures is illustrated by the consistently low absence rate at all of MorphoSys's sites.

FIG. 8 WORKFORCE BY GENDER IN 2011 (2010)



TAB. 12: ABSENCE RATES AT MORPHOSYS

in %	2011	2010	2009	2008	2007
Germany	2.7	1.7	2.0	1.3	1.0
UK	1.7	1.7	1.7	1.5	1.3
USA	1.2	1.7	1.1	1.2	1.7

Risks and Opportunities

Entrepreneurial success cannot be achieved without conscious risks-taking. As a result of its worldwide activities, MorphoSys is exposed to a variety of risks which are linked to the Company's business. The Company's risk management system helps to overcome the risks associated with the strategic objectives of the business and to maximize its strategic potential. Regular strategy reviews ensure that opportunities and risks are reasonably balanced. MorphoSys only takes a certain risk if it is accompanied by the opportunity to increase the Company's value.

Risk Management

MorphoSys considers risk management the ongoing task of determining, analyzing and evaluating current and potential developments within the Company and its environment. Where applicable, MorphoSys takes corrective measures. Therefore, the implemented risk management system plays an important role in the way the Company is managed. It enables the Management Board to identify risks, which could threaten the growth or even the existence of MorphoSys at an early stage and take action to reduce their impact as far as possible. The Company continuously reviews its risk management approach and adapts the system if needed.

Opportunities Management

MorphoSys identifies opportunities based on comprehensive quantitative and qualitative analysis of market data, research projects and general trends in the biotechnological environment. The close cooperation between its departments allows MorphoSys to recognize opportunities worldwide at an early stage. An overview of the most important opportunities which the Company intends to seize for the further development of the business can be found in the chapter "Outlook and Forecast" on page 77.

Accounting-Related Internal Control System

MorphoSys uses extensive internal controls, Group-wide reporting guidelines and additional measures, including employee training and continuous education, with the intention to ensure accurate bookkeeping and accounting as well as reliable financial reporting in the consolidated financial statements and the Group Management Report. This integral element of the consolidated accounting process comprises preventive, monitoring and detective

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measures designed to ensure security and control in accounting and operational functions. For more detailed information about the internal control system regarding financial reporting, please see the Corporate Governance Report on page 81.

Risks

RISK MANAGEMENT SYSTEM

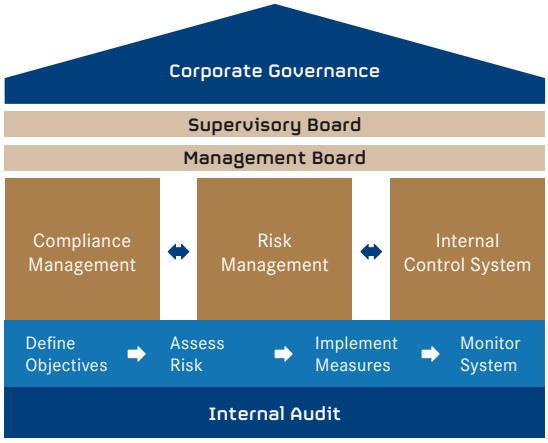
The risk management system (RMS) is a key element of MorphoSys's activities in terms of complying with legal requirements and good corporate governance practice.

MorphoSys has established a comprehensive system to identify, assess, communicate and manage risks across all parts of the organization. The RMS at MorphoSys identifies risks as early as possible and provides appropriate measures in order to limit losses and avoid risks that would threaten the Company's existence. All mitigation measures have been clearly assigned to responsible managers, predominantly to members of MorphoSys's Senior Management Group.

A systematic evaluation process has been put into place, taking into account all major risks for MorphoSys's different business units as well as in terms of the Company as a whole. Risk evaluations are carried out twice a year. Risks are evaluated by comparing their quantifiable impact on the MorphoSys Group and their probability of occurring with and without having established any mitigation processes. An overview of the current risk evaluation by MorphoSys is shown in Fig. 9. The RMS is continuously discussed in and among the Management Board and the Supervisory Board. It is also revised on a regular basis by external consultants in order to ensure that it can be adapted to possible changes.

During the last year, MorphoSys has further improved its RMS and slightly amended the methodology applied. The twelve-month assessment period has been supplemented with a mid-term view of three years in order to include commitments reflecting long timelines in proprietary development. MorphoSys has already realized a successful assessment cycle with this amended methodology.

FIG. 9: MORPHOSYS'S RISK MANAGEMENT SYSTEM (RMS)



PRESENTATION OF RISKS AT MORPHOSYS

MorphoSys has grouped its most important risks in the following categories:

- Financial risks (risks associated with any form of financing and financial instruments, e.g. liquidity, currency, interest rates, tax, receivables collection)
- Operational risks (e.g. procurement/production, distribution/logistics, customers, human resources)
- Strategic risks (e.g. corporate image, superior competitor products)
- External risks (risks beyond the company's control, e.g. economic, political, legal risks)
- Organizational risks (e.g. IT, corporate governance, facility management, succession planning)
- Compliance risks (e.g. data security, non-compliance with the US Food and Drug Administration (FDA) regulations)

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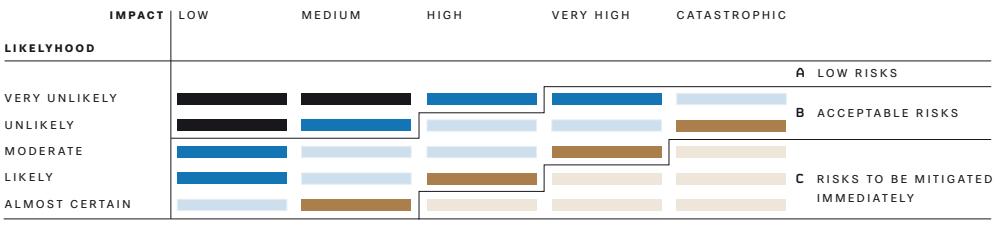
FIG. 10: RISK EVALUATION BY MORPHOSYS

Risk Description	1-Year Estimate	3-Year Estimate
FINANCIAL RISKS		
Risks resulting from not reaching revenues as expected, derived from existing business with partners or from new product offerings	B	B
Risks resulting from missing development milestones in partnered projects, preventing milestone payments	B	B
Risks resulting from treasury-related issues	A B	B
OPERATIONAL RISKS		
Risks inherent to proprietary drug discovery and development	B B	B
Risks resulting from personnel-related issues	A	A
STRATEGIC RISKS		
Risks resulting from missing opportunities	A	A
Risks resulting from losing technology leadership	A	A
EXTERNAL RISKS		
Risks resulting from IP-related issues	B	B
ORGANIZATIONAL RISKS		
Risks resulting from IT-related issues	A	A
Risks resulting from environment-related issues	A	A
COMPLIANCE RISKS		
Risks resulting from quality-related issues	A	A
Risks resulting from non-compliance with legal standards	A	A



FINANCIAL RISKS

The Company's financial risk management strategy aims at limiting financial risks and consciously aligning those risks with the requirements of MorphoSys's business activities.

Financial risks arise from the volatility of exchange rates, especially regarding USD and GBP, which are mitigated by using appropriate hedging instruments. Additional financial risks such as potential insolvencies of banks in which the Company placed its funds are considered to be among the top risks in the light of the global financial crisis. In order to ensure the greatest possible investment protection, the Company only invests in funds and products considered to be as secure as possible with banks that have consistently high ratings and/or are backed by a very strong partner.

OPERATIONAL RISKS

Operational risks inherent to proprietary drug discovery and development can derive from the failure of clinical programs prior to partnering as a result of data not showing the expected results or showing unwanted side effects.

While MorphoSys cannot ensure that data from its programs will demonstrate positive results with respect to the tested indications and treatments, the greatest care is taken when designing clinical development plans. Therefore, programs in clinical trials have the best chances of showing results that are significant and convincing to regulatory bodies and potential partners. Besides the internal knowledge, external experts also are consulted and special committees have been created to monitor the progress of clinical programs.

STRATEGIC RISKS

Risks resulting from missing opportunities may occur due to not having access to either attractive targets and compounds or innovative technologies. These risks in turn are related to missing or unsuccessful M&A transactions. In order to counter these risks, a comprehensive opportunity-assessment process has been established, improving the opportunity search itself as well as the associated processes and strategies. Following the successful acquisition of Sloning BioTechnology GmbH in 2010, workshops have been set up to discuss the lessons learned and to further optimize future M&A transactions.

Another strategic risk may result from losing technology leadership due to disruptive changes in technology and/or the market structure. In order to reduce these risks, MorphoSys is closely monitoring the technological landscape as well as analyzing new technology trends and innovations. Equipped with profound skills and scientific expertise, the Company's R&D department is constantly working on improving the existing proprietary technologies and developing new platforms in order to stay at the industry's technological forefront.

EXTERNAL RISKS

External risks for MorphoSys are mainly related to the Company's intellectual property. The Intellectual Property for products based on MorphoSys's proprietary technologies is considered highly relevant. In order to mitigate risks connected to this field, MorphoSys is continuously looking for and analyzing 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 regarding its proprietary technology platforms has been secured in the long term and MorphoSys prides itself on the success this strategy has generated over the years.

MorphoSys consistently monitors its global market environment regarding changes, for example in pricing policies due to healthcare reforms, in order to be able to adapt its strategy early on. While MorphoSys's partners have been less affected by the financial crisis than the general market, MorphoSys also assesses the risk of an insolvency of its major customers and suppliers on a regular basis.

ORGANIZATIONAL RISKS

Organizational risks are those resulting either from IT-related or environment-related issues. Regarding risks arising from the Company's use of IT, business operations might be at risk due to failures of the IT infrastructure or a lack of data security. Those risks are countered by multiple daily data backups and highly secure firewall and virus-scan systems to enhance the safety and reliability of the data. Furthermore, MorphoSys minimizes risks relating to the availability, reliability, and efficiency of its IT systems through continuous checks (e.g. a simulated staggered hacker attack, as conducted in 2011) and updates of its software and hardware systems.

Risks resulting from environmental issues include failures of important operational instruments or facilities causing business interruptions, as well as incidents with hazardous or pollutive substances. Besides regular maintenance of equipment and facilities, these risks are largely covered by insurance policies. Appropriate storage of hazardous or pollutive substances is carefully monitored. For further information regarding the operational environment of MorphoSys, please see the Sustainability Report on page 66.

COMPLIANCE RISKS

As stated in the Sustainability Report (page 66), MorphoSys is committed to fulfilling the highest quality standards regarding its business operations. Low quality due to an inefficient quality-management system would pose a risk for the Company. In order to counter these risks, the system is regularly reviewed by experts, and recurrent internal audits are performed.

Another class of risks can arise if the Company does not comply with legal standards. These risks can be related to the incorrect implementation of accounting and financial standards (i.e. HGB, IFRS, BilMoG) or an inefficient internal control system. Risks related to non-compliance with legal standards are reduced by regular review processes within the Company and ongoing discussions and consultation with legal experts and advisors.

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THE MANAGEMENT BOARD'S GENERAL STATEMENT ABOUT THE MORPHOSYS GROUP'S RISKS

The Management Board considers the risks to be manageable and the survival of the MorphoSys Group not to be endangered at the time of the current report. This statement is true for all relevant single entities and for the MorphoSys Group. As described, MorphoSys regularly monitors its risks via an effective RMS which is subject to continuous improvements. Assuming no further deterioration in global business or the financial and regulatory environment, MorphoSys considers itself well prepared to meet all future challenges.

Opportunities

Thanks to its leading antibody technologies, broad scientific expertise and international positioning MorphoSys has identified numerous growth opportunities over the coming years. A substantial number of pharmaceutical and biotechnology companies are active in the antibody area and could be converted into future customers and partners for the Company's products and technologies. MorphoSys's AbD Serotec segment strives to expand its share of the research antibody market and is attracting a growing number of diagnostic customers.

MorphoSys's antibody technologies offer key advantages for the development and optimization of therapeutic antibody candidates, which could translate into higher success rates in the drug-development process. In the research and diagnostics markets, the technologies also offer significant advantages in the development of antibodies for use as research tools and components of diagnostic assays.

GENERAL STATEMENT ON OPPORTUNITIES

Increased life expectancy in the industrialized countries as well as the changing economic situation and lifestyle in the emerging markets – first and foremost in the BRIC states - are expected to drive demand for additional and innovative treatment options and enabling technologies. Scientific and medical progress has resulted in a better understanding of the biology of several diseases, which in turn paves the way for new therapeutic approaches. Innovative therapies such as fully human antibodies have been launched in recent years and have resulted in commercially successful medical products. In addition, therapeutic substances based on proteins, also known as biologics, are considered to be less exposed to competition from generics than chemical-derived molecules, mainly because the manufacturing of biologics is much more complex. Therefore, the demand for antibodies and the interest in this class of drugs have increased sharply over the last 12 to 36 months, as shown by several acquisitions and significant 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 technology platforms including HuCAL, Ylanthia, Slonomics and arYla can be applied to make products that address significant unmet medical needs and could provide access to superior research and diagnostic tools. Each of the Company's three business segments is expected to benefit from these technological advantages.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By pursuing drug development with a variety of partners, MorphoSys has effectively mitigated the inevitable development risk. With 68 therapeutic antibody development programs currently ongoing with partners, it is increasingly likely that MorphoSys will participate financially in several marketed drugs in future.

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

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

The pharmaceutical industry is likely to further increase its in-licensing activities in order to refill pipelines and replace former key drugs and revenue generators that have lost patent protection. With the Partnered Discovery segment providing a secure cash flow over the coming years, MorphoSys will continue to strengthen its proprietary portfolio. The Company will start additional clinical trials for its key drug candidates to evaluate, for instance, new indications. MorphoSys plans to add additional programs to its portfolio and could use existing and future co-development opportunities to achieve this. Furthermore, the Company is looking for in-licensing opportunities for interesting drug candidates. The first out-licensing discussions based on clinical data generated with the lead antibody program MOR103 in rheumatoid arthritis could commence in 2012.

ABD SEROTEC

Antibodies are important components of modern diagnostic practice and a routine tool in scientific research. Industry trends such as the personalized medicine approach will drive demand for innovative diagnostic tools which are used to identify patient sub-populations that would benefit from treatment with a particular drug or to monitor treatment success. In 2011, AbD Serotec significantly advanced into this promising sector by signing several new supply agreements with diagnostic companies. Additionally, the first diagnostic kits based on a HuCAL antibody have entered the market.

Furthermore, AbD Serotec has entered a new market by commercializing the Slonomics protein-engineering platform in industrial applications. MorphoSys will continue to look for selected opportunities in this new complementary market.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing technologies and in new ones to remain at the forefront of technological leadership. The Company's most recent technology development activity led to Ylanthia, a novel proprietary antibody platform, which will become commercially available in 2012. 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. New technology modules could also open up new disease markets, in which antibody-based treatments are underrepresented today, by allowing the generation of antibodies against novel classes of target molecules. MorphoSys is constantly monitoring new technological approaches that could improve therapeutic applications, such as modification of the antibody's Fc part and glycosylation pattern or the generation of so-called "armed" antibodies, i.e. immunoconjugates and radiolabeled antibodies. To access these opportunities, the Company plans to apply internal capabilities, i.e. focused technology development teams, and tap external resources through in-licensing of intellectual property and/or technologies.

ACQUISITION OPPORTUNITIES

MorphoSys has demonstrated its ability to complete acquisitions and use such transactions to accelerate its growth. In late 2010, MorphoSys proved this point by acquiring Sloning BioTechnology GmbH. The full integration of Sloning's staff and technologies, including Slonomics, led to the signing of three protein-engineering alliances so far and was instrumental in establishing both the Yla and Ylanthia technology platforms. MorphoSys may again use an acquisition strategy to increase its market share, supplement its existing technology platform and access patents and licenses for novel proprietary technology and drug development.

Subsequent Events

As of February 14, 2012, there were no events requiring disclosure.

Outlook and Forecast

The MorphoSys Group develops novel antibody technologies and products for therapeutic, diagnostic and research applications.

The Group's main focus continues to be on applying its technologies in rapidly growing, innovation-driven sectors of the healthcare market. The Company's management also intends to further intensify MorphoSys's proprietary drug-development activities. Moreover, MorphoSys seeks to enlarge its market share within the research and, in particular, the diagnostics sector, as the latter represents a largely untapped market for modern antibody technologies.

Overall Statement on Expected Development

MorphoSys owns established and validated technologies. The Company's strategy builds on these technologies to develop a broad and sustainable pipeline of innovative antibody drug candidates, together with partners and for its own account. In the therapeutics area, commercialization of these technologies provides secure cash flows from long-term partnerships with large pharmaceutical companies. Through its AbD Serotec segment, the Company addresses a wider customer base in the public and private research sectors and the diagnostics industry. AbD Serotec is well positioned in the diagnostics market, providing innovative antibodies as a key component of novel diagnostic products. The first diagnostic kits based on HuCAL antibodies entered the market in 2011.

The Group's stable cash flows and strong cash position enable it to further strengthen 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 maintain a leading position in the antibody sector. The Company expects to sign new commercial agreements based on its proprietary technologies.
- The demand for antibodies as a new treatment modality remains high, allowing the Company to expand its pipeline of therapeutic antibodies within its partnerships.
- The pharmaceutical industry continues to use the in-licensing of compounds as a means to gain access to promising product candidates. If clinical proof of concept of a proprietary drug candidate can be demonstrated, lucrative deal terms could be agreed upon.
- The AbD Serotec segment is increasingly focusing on diagnostic applications using MorphoSys's technologies. Modern 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 could allow AbD Serotec to attract more customers in this market segment. AbD Serotec's management is confident that existing research collaborations with a number of leading diagnostics companies will translate into additional marketed products.
- AbD Serotec will further improve its services in the research markets with a complete new e-commerce platform. This new platform will attract new customers, increasing AbD Serotec's market share in the research market.

Strategic Outlook

MorphoSys's business model is built on its proprietary technologies, including the HuCAL and the more recently announced Ylanthia antibody libraries, as well as the Slonomics and arYla platforms.

The development of therapeutic antibodies within partnerships will continue to be the mainstay of MorphoSys's strategy. The Company's therapeutic pipeline is expected to mature over the coming years, resulting in additional milestone payments. Thanks to the breadth of the pipeline, a significant number of marketed therapeutic antibody products could emerge in the years ahead and, as a result, financial participation will be secured through product royalties.

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. At the end of 2011, the three clinical-stage programs, MOR103, MOR202 and MOR208, represented the key assets in MorphoSys's own portfolio. Investment in these programs is anticipated to generate more value, faster at this stage than in earlier programs, and MorphoSys has prioritized its clinical portfolio accordingly. MorphoSys will continue to pursue co-development projects within its alliance with Novartis 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 into broadening and strengthening its Proprietary Development segment and its proprietary technology platforms. Growth in this area is expected as existing drug programs progress through the clinic, through new fee-for-service partnerships in the area of infectious diseases and through the commercialization of new technologies, including those secured via acquisitions, such as Slonomics.

The AbD Serotec segment strives to increase its market share within the research and diagnostics sectors. AbD Serotec's management intends to concentrate on high-value applications of the HuCAL technology, especially in the area of diagnostics. In 2011, AbD Serotec made its first inroads into the market for industrial biotechnology applications using MorphoSys's Slonomics technology and the Company is looking for additional commercial opportunities in that area.

Expected Economic Development

The global economic uncertainty is expected to continue in 2012. 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 economy is expected to further slow down in 2012. Emerging economies will be the key driver, while the developed economies will deliver a GDP growth of only 1.5% in 2012. In 2012, the US economy is expected to show a similar growth rate like to that in 2011. The eurozone is facing a sharp slowdown.

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 major patent expiries, low R&D productivity, and budget cuts by governments.

Expected Development of the Life Sciences Sector

The biotechnology sector is often seen as defensive, especially during periods of economic uncertainty. The outlook for the biotechnology sector is favorable and is based on the following key drivers:

- Aging societies are looking for innovative treatment options
- Since its low in 2007, the number of annual product approvals is increasing
- A record number of products is in clinical trials
- Increasing M&A and licensing activities

While many pharmaceutical companies suffer from healthcare cost-cutting and patent expiries, biotechnology companies with innovative technologies and products will benefit from this trend. In an aging population, the need for innovative products to diagnose and treat a broad variety of diseases such as cancer, autoimmune and inflammatory conditions, central nervous system disorders, cardiovascular diseases, diabetes, respiratory and infectious diseases remains very high. Drug innovation continues to be rewarded; though "me-toos" may be less successful than in the past.

Within the biotechnology industry, 2012 performance will remain largely dependent on broader macroeconomic issues. During 2012, plenty of value-driving clinical trial data are due, and M&A activities, partnering deals and licensing should gain speed over the coming years.

Expected Commercial Development

With the Novartis deal ensuring a steady cash flow over the coming years and new commercial opportunities arising from novel technology platforms such as Slonomics and arYla, MorphoSys will continue to concentrate on broadening its partnered pipeline and increasing the value of its proprietary portfolio. Within the Partnered Discovery segment, the Company anticipates starting, on average, approximately ten new partnered programs per annum for the next several years.

With regard to MOR103, the most advanced development program in MorphoSys's proprietary portfolio, the Company expects clinical data from the ongoing phase 1b/2a trial in 2012. Assuming the clinical trial proceeds as planned and proof of concept can be demonstrated, out-licensing discussions with potential partners will commence this year. Out-licensing of other proprietary compounds is not planned before 2013.

The AbD Serotec segment strives to return to growth and to outgrow the market. Despite the global economic downturn, revenue in the AbD Serotec segment is expected to increase by at least a high single digit percentage rate in the coming years. The investments made in the business in the recent past as well as the opportunities in the diagnostic business with HuCAL are driving these expectations. It is expected that segment profit margins will continue to improve.

Expected Personnel Development

MorphoSys will continue to create individual positions in its R&D organization to strengthen its proprietary and partnered development capabilities. The Group's workforce is, however, expected to remain roughly at the same level as in 2011.

Expected Research and Development

In 2012, the Company's R&D budget for proprietary drug development will decrease compared with the previous year. This is the result of costly clinical material production already having been performed in 2011 and the fact, that the phase 1b/2a trial of MOR103 in RA will be completed in early 2012. In 2012, MorphoSys plans to invest approximately between € 20 million and € 25 million in proprietary product and technology development. The majority of this investment will be channeled into clinical development of the most advanced drug candidates and in the development of new technologies. The R&D investment in 2013 will be driven by the need of the programs and will depend on the Group's revenue development. Notwithstanding this, the Company is generally committed to remaining profitable.

The Company's proprietary pipeline activities in 2012 are projected to comprise:

- Completion of the phase 1b/2a study for its lead compound, MOR103, in rheumatoid arthritis patients and presentation of clinical trial results
- Continuation of the phase 1b safety study in multiple sclerosis as a second indication for MOR103 and evaluation of a subcutaneous formulation
- Continuation of a phase 1/2a study for MOR202 in multiple myeloma
- Completion of the phase 1 trial sponsored by Xencor for MOR208 in CLL/SLL patients. Initiation of clinical trials for MOR208 sponsored by MorphoSys in NHL and ALL
- Continuation of co-development opportunities, e.g. within the Novartis collaboration

Regarding AbD Serotec, profitable growth based on innovative products and services is the central goal 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 2011, several feasibility studies were conducted, which could lead to the conclusion of larger collaborations in 2012 and 2013.

Expected Financial and Liquidity Development

MorphoSys has a solid financial foundation and recurring revenues, mainly from its collaboration with Novartis. On top of those revenues, MorphoSys collects sales from its AbD Serotec segment and stands to receive success-based payments as partnered compounds progress in development. For 2012, management anticipates total Group revenue of between €75 million and €80 million. The reason for the decrease in revenues compared to 2011 is the non-recurrence of a one-time technology milestone payment received from Novartis in Q1 2011. There is, however, scope for considerable out-performance of this revenue range if a proprietary drug program can be partnered, which is not currently included in the projections. In 2013, Group revenues are expected to grow at least 10%. One-off events such as the out-licensing of proprietary products and larger milestone payments and royalties as partnered HuCAL progress to the market will become more important factors for the Group's fiscal performance in the years to come and could lead to significant out-performance. In the near-term, revenue growth is dependent on the Company's ability to sign additional partnerships and/or to out-license proprietary compounds. In the mid-term, royalties from marketed products will add to revenue growth.

The Partnered Discovery segment is a highly profitable business unit. Long-term alliances will provide the Company with secured cash flows for at least the next six years. MorphoSys's management anticipates signing additional partnerships based on proprietary technologies such as Slonomics and Ylanthia.

Pending partnering of drug candidates, the Proprietary Development segment will continue to show losses due to ongoing investment in preclinical and clinical development of the various programs. Successful out-licensing of one or more proprietary programs would result in large profits being achieved in this unit. If one of MorphoSys's proprietary development programs shows convincing efficacy data in clinical trials, double-digit million upfront payments, potentially even greater milestones, as well as double-digit royalties could be achieved.

AbD Serotec is expected to return to sales growth in 2012. Despite a challenging market environment, sales are projected to increase to €20 million to €22 million in 2012 and grow by approximately 8% in 2013, assuming constant currency rates. The AbD Serotec segment is anticipated to contribute roughly a quarter of total revenues in 2012. In future years the revenue split between the Company's therapeutic antibodies segments and AbD Serotec should shift towards the therapeutic side of the business due to the impact of out-licensing deals, milestone payments and royalties.

On the basis of the Management Board's current planning, total Group operating expenses are expected to decrease in 2012. The main reason for the decrease in expenses is lower investment in proprietary research and development, as much of the costly production of clinical material for current programs has already been performed, and also because the phase 1b/2a trial of MOR103 in RA will be completed in early 2012. S,G&A expenses will remain flat.

MorphoSys expects to remain profitable on an operating level in 2012 and 2013, with an EBIT for 2012 of between €1 million and €5 million. The AbD Serotec segment will contribute increasing profits over the coming years, striving for an EBIT margin of 6 to 8% in 2012 and a minimum of 12% in 2013.

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At the end of the 2011 fiscal year, MorphoSys's cash position amounted to € 134.4 million (up from € 108.4 million at the end of 2010). 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 prime examples of this.

DIVIDENDS

MorphoSys AG's German statutory accounts showed accumulated earnings available for distribution. Nevertheless, in line 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, and in strategically interesting acquisitions in order to create further shareholder value and growth opportunities. As was the case in 2011, the Company plans to purchase its own shares from the market to support a new long-term incentive program for management in 2012.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2012 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.

Corporate Governance Report

Effective corporate governance is a central part of MorphoSys's sustainable corporate management, comprising value-based management and monitoring long-term success. It builds the framework for the management and supervision of the Company, including its organization, commercial principles and regulatory and monitoring measures. MorphoSys's internal guidelines 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 ensure effective cooperation between the Management Board and the Supervisory Board, a performance-based compensation scheme for managers and employees, transparent and early reporting and relations with shareholders based on trust.

With the following three exemptions, MorphoSys complies with all recommendations of the German Corporate Governance Code (Code) and the majority of the Code's suggestions in the version of May 26, 2010.

- The stock option program for the Management Board does not provide a cap for unforeseen developments within the meaning of Code Section 4.2.3, since the reasonableness of the amount of stock options for the Management Board has already been considered at the time of the grant. However, the stock incentive program for the year 2011 and the following years incorporate the concept of a cap.
- With regard to Code Section 5.4.1, in its meeting of March 10, 2011, the Supervisory Board has decided to aim for an adequate representation of women on the Supervisory Board that respective female candidates shall be proposed for election and that at the beginning of the approval of potential candidates qualified women shall be appropriately considered in the appointment procedure. A concrete quota for female members of the Supervisory Board has not been defined since the individual qualification and not the gender of candidates for election to the Supervisory Board shall be the decisive criteria for its composition. With regard to the election to the Supervisory Board that took place in the Annual General Meeting 2011, the Supervisory Board decided to propose the re-election of the male members Prof. Dr. Drews and Dr. Blättler since their biotechnology know-how is needed by the Company; for this reason their re-election was in the prevailing interest of the Company.
  Furthermore, Prof. Drews exceeds the age limit of 75 years defined by the Supervisory Board in its rules of procedure. Insofar, the Company used the possibility as foreseen in the rules of procedure to exceptionally propose an elder candidate for election; the proposal to re-elect Prof. Drews to the Supervisory Board for a further year was in the interest of the board to procure the continuity of its performance.
- The remuneration for the Supervisory Board as resolved in the Annual General Meeting 2010 only provides for fixed remuneration components and no longer for performance-related remuneration within the meaning of the Code Section 5.4.6. The Company's practice is consistent with the view of an increasing number of experts on supervisory board compensation, who regard performance-related payments to board members as potentially giving rise to a conflict of interests in a body whose duties include setting and assessing objectives for the Company's long-term development.

MorphoSys's Management Board and Supervisory Board discussed compliance with the Code's recommendations. Based on these deliberations, the boards approved an interim update of the Declaration of Compliance as of March 10, 2011, and the annual Declaration of Compliance as of December 8, 2011. Both documents are posted on the Company's website and will continue to be updated as necessary.

Declaration about Corporate Management in Accordance with Sec. 289a HGB for the 2011 Business Year

A description of the principles of corporate management, the composition and collaboration of the Management Board, Supervisory Board and committees as well as the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) can be found on MorphoSys's corporate website.

Shareholders and the General Meeting

Transparency and an open dialog are important principles for MorphoSys's communication policy. The Company strictly adheres to the concept of fair disclosure. Therefore, all communication activities are aimed at providing all shareholders with the same level of information at the same time. MorphoSys's Management Board and Supervisory Board attach great importance to transparent and timely information for all shareholders.

A central part of MorphoSys's relations with its investors is frequent meetings with analysts and investors at road shows and 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. 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 and transcripts of the quarterly conference calls are provided in English and German.

MorphoSys uses its corporate website as a central platform to provide up-to-date information about the Company and its progress. MorphoSys's financial calendar lists the dates of all regular financial publications and the next Annual General Meeting well in advance.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) took place in Munich on May 19, 2011. Approximately 31 % of total voting stock was represented at the meeting, a decrease compared to the attendance in 2010 (approximately 35 %). 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 AGM. MorphoSys's shareholders approved all management proposals put to the vote at the meeting. Prof. Dr. Jürgen Drews was re-appointed for another year as a member of the Supervisory Board; Dr. Walter Blättler was re-appointed for another three years as a member of the Supervisory Board.

MorphoSys provided an online webcast of the Management Board's presentation and published all documents in a timely manner on the Company's website.

Cooperation between the Management Board and the Supervisory Board

In order to guarantee good corporate governance, open and comprehensive communication on a regular basis is a guiding principle for the Management Board and the Supervisory Board 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.

The most recent version of the German Corporate Governance Code recommends that the Management Board and the Supervisory Board should observe the principle of diversity and strive to increase the number of women in management positions. MorphoSys

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has many women in leading positions, and the plans to increase the proportion of women in management and key positions are jointly pursued by both boards.

THE MANAGEMENT BOARD (VORSTAND)

The Management Board of MorphoSys AG consists of four members and has one chairman. The Rules of Procedure define the different areas of responsibility and cooperation within the Management Board.

In 2011, Jens Holstein succeeded Dave Lemus both as Chief Financial Officer of MorphoSys AG and as a member of its Management Board (Vorstand). More detailed information can be found in the chapter entitled "Human Resources" on page 57.

- Dr. Simon E. Moroney, Chief Executive Officer, is responsible for the AbD Serotec business segment, business development, corporate communications and investor relations, human resources, strategy and planning, and the coordination of the Management Board reporting to the Supervisory Board.
  Initial appointment: 1998 (co-founder)
  End of current period of office: June 30, 2014
- Jens Holstein, Chief Financial Officer, is responsible for accounting and controlling, corporate development, treasury and technical operations including IT, and the corporate legal function.
  Initial appointment: 2011
  End of current period of office: June 30, 2014
- Dr. Arndt Schottelius, Chief Development Officer, is responsible for the preclinical and clinical development of MorphoSys's proprietary development programs.
  Initial appointment: 2008
  End of current period of office: June 30, 2014
- Dr. Marlies Sproll, Chief Scientific Officer, is responsible for antibody discovery and pre-development, technology development, protein sciences, alliance management and intellectual property.
  Initial appointment: 2005
  End of current period of office: June 30, 2014

THE SUPERVISORY BOARD (AUFSICHTSRAT)

As of December 31, 2011, MorphoSys's Supervisory Board consists of six independent members. The members of the Supervisory Board are appointed by the Annual General Meeting on the basis of their qualifications, work experience, independence and diversity.

TAB. 13: COMPOSITION OF THE SUPERVISORY BOARD

	Position	Initial Appointment	End of Current Period	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2012		♟	
Prof. Dr. Jürgen Drews	Deputy Chairman	1998	2012		♙	♙
Dr. Walter Blättler	Member	2007	2014			♟
Dr. Daniel Camus	Member	2002	2012	♙		
Dr. Metin Colpan	Member	2004	2012		♙	
Dr. Geoffrey Vernon	Member	1999	2012	♟		

INDEPENDENT FINANCIAL EXPERT ♟ CHAIRMAN ♙ MEMBER

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The Supervisory Board examines the efficiency of its activities on a regular basis, as recommended in the German Corporate Governance Code. To date, all such audits have led to the conclusion that the Supervisory Board is organized efficiently and that the Management Board and the Supervisory Board cooperate very well.

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 29 (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, MorphoSys received the following notifications pursuant to Sec. 15a of the WpHG. Each sale of shares listed below was preceded directly by the exercising of convertible bonds to purchase an identical number of shares. Sales of the convertible bonds were made in conjunction with the scheduled expiration of these bonds in 2011.

TAB. 14: DIRECTORS' DEALINGS 2011

Member of the Management Board	Function	Date of Transaction in 2011	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price in €*	Transaction Volume in €*
Dr. Arndt Schottelius	CDO	August 4	Purchase	250	17.75	4,437.50
Dr. Arndt Schottelius	CDO	August 5	Purchase	250	16.565	4,141.25
Jens Holstein	CFO	August 8	Purchase	500	17.114	8,557.00
Jens Holstein	CFO	August 8	Purchase	500	16.80	8,400.00
Dr. Marlies Sproll	CSO	November 9	Sale	11,500	17.28	198,720.00
Dr. Marlies Sproll	CSO	November 10	Sale	14,500	16.89	244,832.50
Dr. Marlies Sproll	CSO	November 10	Purchase	4,000	12.81*	51,240.00
Dr. Simon Moroney	CEO	November 18	Sale	12,707	16.76	212,969.32
Dr. Simon Moroney	CEO	November 21	Sale	392	16.72	6,554.24
Dr. Simon Moroney	CEO	November 23	Sale	13,401	16.13	216,158.13
Dr. Simon Moroney	CEO	November 23	Purchase	3,500	12.81*	44,835.00

* Strike price of convertible bonds

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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 reported immediately to and approved by the Supervisory Board. The Supervisory Board, which will in turn, inform the Annual General Meeting of any conflicts of interest which have occurred along with their solutions. In 2011, no conflicts of interest occurred.

SHAREHOLDER APPROVAL OF EQUITY COMPENSATION PLANS; STOCK REPURCHASES

By resolution of the Annual General Meeting on May 19, 2011, MorphoSys is authorized to acquire treasury stock totaling up to 10% of the capital stock in accordance with Sec. 71 Para. 1 no. 8 of the German Stock Corporation Act (AktG). The authorization may be exercised in whole or in part, once or several times, in pursuit of one or several purposes by the Company or by third parties for the account of the Company. At the discretion of the Management Board, the buyback may be effected on the stock market or by means of a public offer or a public invitation to tender.

In June 2011, MorphoSys repurchased 84,019 own shares based on this authorization. The treasury shares will be used to implement the Company's long-term incentive program for management.

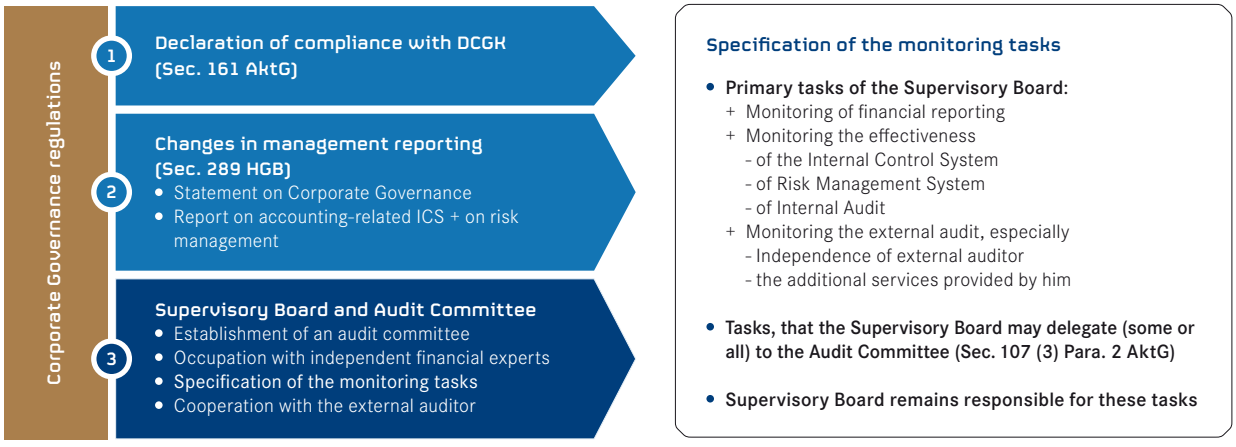
Information and Communication

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 the 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 has been put in place to define classifications for the distribution of internal documents and make sure that any information is distributed to an appropriate audience. Wherever applicable, the parameters of applications and systems are set in such a way that the security of information is enhanced.

Compliance System

FIG. 11: MORPHOSYS'S COMPLIANCE SYSTEM



INTERNAL CONTROL SYSTEM

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 HGB (German Commercial Code), MorphoSys described the key characteristics of its accounting-related internal control system, which 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.

Projections relating to future periods are not part of the internal control system.

AUDIT FUNCTION

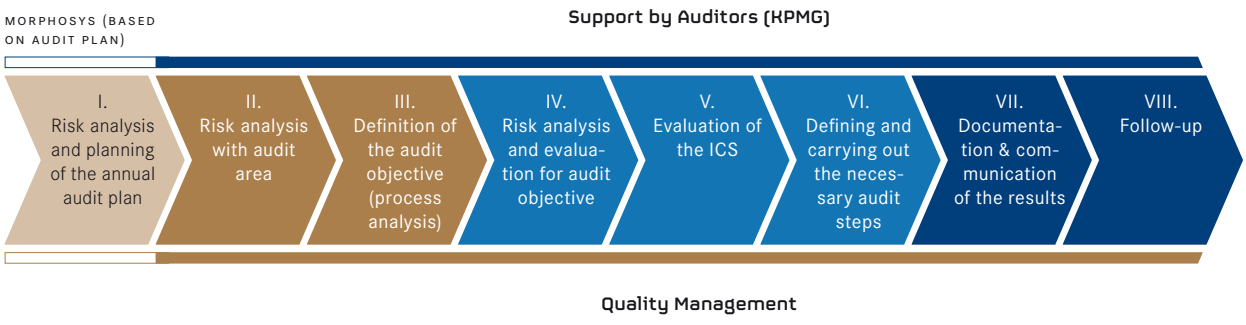
The internal audit function was implemented at MorphoSys during 2010 and its function is to assist MorphoSys AG in accomplishing its objectives by bringing in a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control and governance processes. KPMG was appointed co-sourcing partner to support the internal control group in conducting audits.

The internal auditing activity is founded on a risk-based internal audit plan which is mainly derived from the last risk-management results. In addition, audit requirements and suggestions from the Management Board and the Supervisory Board's Audit Committee are considered in the risk-based internal audit plan.

The internal audit function regularly informs the Management Board and the Head of Internal Audit Function reports (together with the CEO) to the Audit Committee twice a year or immediately in case of suspicious facts.

During 2011, two audits were successfully conducted and deficiencies in processes that have been discovered will be cured by respective countermeasures. The internal auditing activity will grow significantly in 2012.

FIG. 12: RISK-BASED INTERNAL AUDIT PLAN



RISK MANAGEMENT

MorphoSys regards its risk management system as being directed towards identifying, evaluating and mitigating risks (to an acceptable level) by implementing appropriate countermeasures as well as monitoring identified risks.

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 in jeopardy.

The Management Board ensures responsible risk handling at all times and keeps the Supervisory Board informed about existing risks and their development. Detailed information about the opportunities and risks at MorphoSys can be found on page 72 et seq. of this report.

CODE OF CONDUCT

During 2011, MorphoSys implemented a Code of Conduct which comprises the basic principles and rules for the conduct within the Company and in relation to the public. It also provides the framework of the Company's ethical and legal responsibilities. The implementation and monitoring of compliance with the Code of Conduct is supervised by the Code of Conduct Committee. More details are provided in the Sustainability Report.

FINANCIAL STATEMENT AUDIT BY PRICEWATERHOUSECOOPERS

MorphoSys prepares its consolidated financial statements and quarterly financial statements in accordance with the 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 2011 Annual Shareholders' Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2011 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 outlines the principles underlying the compensation of the Management Board members of MorphoSys AG. It also describes the compensation paid to the members of the Supervisory Board. The Remuneration Report reflects the legal provisions and the respective principles of the German Corporate Governance Code and is part of the Management Report as well as of the Corporate Governance Report.

REMUNERATION OF THE MANAGEMENT BOARD

The remuneration system for the Management Board is intended to provide an incentive for successful and sustainable corporate management. The aggregate annual compensation paid to Management Board members consists of several components. These include fixed compensation, a yearly cash bonus based on the achievement of Company-related and individual goals (short-term incentive – STI), a long-term incentivizing component in the form of a share performance plan (long-term incentive – LTI) and additional benefits. Each year, the structure and appropriateness of the aggregate annual compensation packages are reviewed by the Remuneration and 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 with the outcome of a comparative international industry study performed in 2011 by an internationally acclaimed consultant firm on the specific instruction of the Supervisory Board. 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 and December 2011.

OVERVIEW

In the 2011 fiscal year, the total compensation of the Management Board amounted to € 3,917,374 (2010: € 3,267,924), an increase of 19.9 %, which is predominantly due to the change in Management Board composition in 2011. Without the one-off payments due to the change in the Management Board composition, the increase would have amounted to 4.3 %.

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Of this total amount, €2,765,078 was attributable to cash compensation, and €1,152,296, or 29% of the total, to share-based instruments (long-term incentivizing compensation – LTI). Allocation of shares from the LTI program occurs after a waiting period of four years and depends on the achievement of Company goals. In addition, the Supervisory Board may decide to allocate no shares at all after the four-year waiting period by applying a "company factor". The details of the LTI program are described below.

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

TAB. 15A: COMPENSATION OF THE MANAGEMENT BOARD 2011

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Achievement of Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	386,862	135,131[1]	181,825	17,676	377,206	1,081,024
Dave Lemus*	132,119	479,009[2]	72,026	–	–	683,154
Jens Holstein**	167,500	181,584[3]	83,750	12,107	258,363	691,197
Dr. Arndt Schottelius	256,000	99,046[4]	107,520	12,107	258,363	720,929
Dr. Marlies Sproll	262,259	94,563[5]	125,884	12,107	258,363	741,069
TOTAL	**1,204,740**	**989,333**	**571,005**	**53,997**	**1,152,295**	**3,917,373**

* Left the Management Board of MorphoSys AG on March 10, 2011
** Joined the Management Board of MorphoSys AG on May 1, 2011
[1] Includes € 107,233 in annual contributions to a private pension fund and allowances for insurances
[2] Includes € 35,629 in annual contributions to a private pension fund and allowances for insurances
[3] Includes € 53,001 in annual contributions to a private pension fund and allowances for insurances
[4] Includes € 73,613 in annual contributions to a private pension fund and allowances for insurances
[5] Includes € 74,868 in annual contributions to a private pension fund and allowances for insurances

TAB. 15B: COMPENSATION OF THE MANAGEMENT BOARD 2010

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Share Price Performance)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Convertible Bonds Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	368,498	130,178[1]	208,570	58,800	391,608	1,098,854
Dave Lemus*	259,157	156,639[2]	152,902	33,000	219,780	788,478
Jens Holstein**	–	–	–	–	–	–
Dr. Arndt Schottelius	231,000	90,158[3]	132,594	33,000	219,780	673,532
Dr. Marlies Sproll	249,623	90,879[4]	146,778	33,000	219,780	707,060
TOTAL	**1,108,278**	**467,854**	**640,844**	**157,800**	**1,050,948**	**3,267,924**

* Left the Management Board of MorphoSys AG on March 10, 2011
** Joined the Management Board of MorphoSys AG on May 1, 2011
[1] Includes € 103,844 in annual contributions to a private pension fund and allowances for insurances
[2] Includes € 74,605 in annual contributions to a private pension fund and allowances for insurances
[3] Includes € 68,837 in annual contributions to a private pension fund and allowances for insurances
[4] Includes € 72,371 in annual contributions to a private pension fund and allowances for insurances

During 2011, members of the Management Board exercised convertible bonds, and subsequently sold the new shares. As required by law, all transactions were reported and published in the Corporate Governance Report and on the Company's website.

FIXED COMPENSATION

The fixed compensation consists of the base salary and other compensatory 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 person's home country. Furthermore, all members of the Management Board participate in private pension funds or another type of pension schemes (Altersversorgung). MorphoSys pays the monthly contributions into these funds or other means of pension schemes. These payments amount to a maximum of 10 % of the annual fixed salary of each Management Board member plus tax contributions and are included in the other compensatory benefits component. 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 an "Unterstützungskasse", which means pension commitments have to be fulfilled by Allianz Pensions-Management e.V.

SHORT-TERM INCENTIVIZING COMPENSATION (STI)

Each Management Board member is eligible for performance-related compensation in the form of an annual cash bonus payment of up to 60 % of his or her annual base salary at 100 % target attainment. 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 bonus payment and are based on the operating performance of the Company, as measured by revenues, operating profit and progress in the partnered and proprietary pipeline. The individual goals account

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for up to one third of the payment and comprise operational objectives for which the Management Board member is responsible. At the end of the year, the Supervisory Board evaluates the level of attainment of the Company-related and individual goals and sets the bonus payment accordingly. The bonus is subject to a cap of 125 % of the target amount. If goals are missed, the variable component may not be paid at all. The bonus for the 2011 fiscal year will be paid out in February 2012.

LONG-TERM INCENTIVIZING COMPENSATION (LTI)

In 2011, MorphoSys introduced a new long-term incentive program for the Management Board as well as for the Senior Management Group, called the performance share plan or long-term incentive program (LTI). The beneficiaries of the LTI program will receive MorphoSys shares after a four-year waiting period.

Each participant in the LTI program receives a defined allocation of shares on the grant date. After a four-year waiting period, shares will be allocated based on the achievement of the associated targets. The goals comprise key performance indicators (KPIs) such as revenue and profit targets, progress in the partnered and proprietary pipeline, as well as other important milestones for the Company.

The number of allocated shares depends on the achievements of the performance targets (KPI achievement in %) during the performance period of four years, subject to the provisions of the performance share plan. KPIs will be defined annually for every new LTI tranche.

The performance share plan contains a hurdle and a cap, which is between 50 % and 110 %. The program foresees an additional "Company factor". The Company factor generally amounts to "1" and has to be determined by the Supervisory Board to adjust the number of shares in case of unforeseeable Company development. The Supervisory Board can decide on deviations from 0 to 2. If necessary, the Supervisory Board could decide to allocate no shares at all after the four-year waiting period.

Each year, the Supervisory Board decides on the number of performance shares to be allocated to the Management Board members. On June 1, 2011, 53,997 performance shares were granted to members of the Management Board.

In the event of all goals being achieved by 100 %, the annual target amount for the fair value of the performance share awards commitment will be € 377.206 for the CEO and € 258,363 for the other members of the management. For further details see also section 29 of the Notes to the Consolidated Financial Statements.

In 2011, members of the Management Board purchased MorphoSys shares and exercised convertible bonds, which were subsequently partly sold. As required by law, all transactions were reported and published on the Company's website.

CHANGE IN MANAGEMENT BOARD COMPOSITION

On February 24, 2011, MorphoSys announced that Mr. Jens Holstein was to succeed Mr. Dave Lemus both as Chief Financial Officer of MorphoSys AG and as a member of the Management Board (Vorstand). Mr. Lemus stepped down from his position as CFO with the Company in March 2011 to pursue other opportunities. He received the contractually agreed compensation set out in his service agreement until 30 June 2011. Further, he obtained his contractually agreed payment equal to his fixed gross annual salary in the amount of € 264,238 plus his 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 was vested prematurely.

Mr. Jens Holstein was appointed Chief Financial Officer of MorphoSys AG on May 1, 2011. His service agreement runs until June 30, 2014. As an additional incentive for joining the Company, MorphoSys compensated Mr. Holstein for lost benefits from his previous position with a non-recurring signing bonus in the amount of € 100,000.

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 members of the Management Board.

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NON-REAPPOINTMENT/NON-PROLONGATION

The service agreements of the Management Board members stipulate 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 a severance payment will 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 agreement 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, convertible bonds and performance shares will be treated as immediately vested.

REMUNERATION OF THE SUPERVISORY BOARD

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 19, 2011, and the respective resolutions of the stockholders at the Annual General Meetings regarding the remuneration of the members of the Supervisory Board. In 2011, the members of the Supervisory Board received fixed compensation and an attendance fee per board and committee meeting attended. According to the current provisions, each Supervisory Board member receives an annual board membership flat fee (€ 61,000 for the Chairman, € 45,750 for the Deputy Chairman and € 30,500 for the other Supervisory Board members). The Chairman receives € 3,000 per board meeting chaired and the other members receive € 1,500 per board meeting attended. For the work in the committees, the Chairman of a committee receives € 9,000, the other committee members € 6,000 each. In addition, committee members receive € 1,000 per committee meeting attended. Compensation becomes due in equal tranches on a quarterly basis.

In addition, the Supervisory Board members are reimbursed for travel costs and for any value-added tax to be paid on their remuneration. The overall compensation package 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 2011 fiscal year, the members of the Supervisory Board received a total of € 384,750 (2010: € 382,750), excluding reimbursement of travel expenses. This amount consists of fixed remuneration and variable compensation (attendance fees).

The Company did not provide loans to members of the Supervisory Board.

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

TAB. 16: COMPENSATION OF THE SUPERVISORY BOARD

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	2011	2010	2011	2010	2011	2010
Dr. Gerald Möller	70,000	70,000	26,000	22,000	96,000	92,000
Prof. Dr. Jürgen Drews	57,750	57,750	17,500	15,000	75,250	72,750
Dr. Walter Blättler	39,500	39,500	13,500	18,000	53,000	57,500
Dr. Daniel Camus	36,500	36,500	19,000	19,000	55,500	55,500
Dr. Metin Colpan	36,500	36,500	8,500	10,000	45,000	46,500
Dr. Geoffrey N. Vernon	39,500	39,500	20,500	19,000	60,000	58,500
TOTAL	279,750	279,750	105,000	103,000	384,750	382,750

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, 2011, the Company's share capital amounted to €23,112,167.00 and is divided into 23,112,167 no-par value bearer shares. With the exception of 163,915 Company-held shares, all shares issued are 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). No shareholder has privileged rights or other rights resulting in the 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 a different majority is required by law.

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 treasury 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 may be conditionally increased by an amount of up to €6,600,000.00, divided into up to 6,600,000 bearer shares with no-par value (Conditional Capital 2011-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, 2016, 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 €87,033.00 (Sec. 5 Para. 6a of the Articles of Association), Conditional Capital 2003-II in the amount of up to €725,064.00 (Sec. 5 Para. 6c of the Articles of Association), Conditional Capital 2008-II in the amount of up to €992,872.00 (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 ordinary 2010 Annual Shareholders' Meeting was replaced by a new resolution of the 2011 Annual Shareholders' Meeting authorizing the Company to buy back up to 10% of its share capital existing at the time of the 2011 Annual Shareholders' Meeting. The authorization has a duration until April 30, 2016.

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 the Company's future cash flows.

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 agreement and may demand the outstanding salary for the remaining contractually provided term of contract.

Furthermore, in such a case, all granted stock options, convertible bonds and shares granted in the LTI program will 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.

FINANCIAL STATE-MENTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

Consolidated Income Statement (IFRS)

in €	Note	2011	2010
Revenues	2.7, 4	100,777,157	87,036,308
Operating Expenses			
Cost of Goods Sold	3	7,024,341	7,284,211
Research and Development		57,477,141	46,899,723
Sales, General and Administrative		24,584,145	23,226,029
Total Operating Expenses		89,085,627	77,409,963
Other Operating Income	2.9	466,267	222,418
Profit from Operations		12,157,797	9,848,763
Finance Income	6	1,439,129	4,123,286
Finance Expenses	6	27,270	33,881
Other Income	6	67,341	469,547
Other Expenses	6	2,206,717	1,236,159
Profit before Taxes		11,430,280	13,171,556
Income Tax Expenses	7	3,213,883	3,975,256
Net Profit		8,216,397	9,196,300
Basic Net Profit per Share	8	0.36	0.41
Diluted Net Profit per Share	8	0.36	0.40
Shares Used in Computing Basic Net Profit per Share	8	22,887,723	22,656,233
Shares Used in Computing Diluted Net Profit per Share	8	23,126,158	22,786,536

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Comprehensive Income (IFRS)

in €	2011	2010
Net Profit	8,216,397	9,196,300
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets	(260,949)	(3,580,703)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	(886,717)	(3,854,337)
Deferred Taxes	68,708	942,799
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets, Net of Deferred Tax	(192,241)	(2,637,904)
Effects from Equity-related Recognition of Deferred Taxes	76,798	(5,622)
Foreign Currency Gain from Consolidation	247,307	448,445
Comprehensive Income	8,348,261	7,001,219

See accompanying Notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

in €	Note	2011	2010
ASSETS			
Current Assets			
Cash and Cash Equivalents	9, 21	54,596,099	44,118,451
Available-for-sale Financial Assets	10, 21	79,768,563	64,304,041
Accounts Receivable	11, 21	12,203,237	15,009,326
Tax Receivables	13	215,620	499,323
Other Receivables	12	375,360	522,520
Inventories, Net	13	3,281,240	4,135,446
Prepaid Expenses and Other Current Assets	13	3,467,402	3,104,340
Assets Classified as Held for Sale	17	785,027	813,011
Total Current Assets		154,692,548	132,506,458
Non-current Assets			
Property, Plant and Equipment, Net	14	6,106,318	6,189,865
Patents, Net	15	9,459,580	10,285,264
Licenses, Net	15	9,551,394	12,118,924
Intangible Assets under Development	15	10,513,100	10,513,100
Software, Net	15	1,055,405	505,328
Know-how and Customer Lists, Net	15	1,341,159	1,685,978
Goodwill	15, 18	34,107,455	34,099,485
Deferred Tax Asset	7	164,949	231,689
Prepaid Expenses and Other Assets, Net of Current Portion	13, 16	1,418,542	1,658,040
Total Non-current Assets		73,717,902	77,287,673
TOTAL ASSETS		**228,410,450**	**209,794,131**

See accompanying Notes to the Consolidated Financial Statements

in €	Note	2011	2010
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	19, 21	19,110,798	15,749,522
Tax Liabilities	20, 7	3,026,597	2,144,674
Provisions	20	275,000	275,000
Current Portion of Deferred Revenue	2.7	1,338,282	3,181,605
Total Current Liabilities		23,750,677	21,350,801
Non-current Liabilities			
Provisions, Net of Current Portion	20	108,145	43,344
Deferred Revenue, Net of Current Portion	2.7	6,047,253	690,756
Convertible Bonds due to Related Parties	23	73,607	127,593
Deferred Tax Liability	7	1,295,174	1,659,543
Total Non-current Liabilities		7,524,179	2,521,236
Stockholders' Equity	22, 23, 24, 26		
Common Stock		23,112,167	22,890,252
Ordinary Shares Authorized (43,047,264 and 41,935,950 for 2011 and 2010, respectively)			
Ordinary Shares Issued (23,112,167 and 22,890,252 for 2011 and 2010, respectively)			
Ordinary Shares Outstanding (22,948,252 and 22,810,356 for 2011 and 2010, respectively)			
Treasury Stock (163,915 and 79,896 shares for 2011 and 2010, respectively), at Cost		(1,756,841)	(9,774)
Additional Paid-in Capital		170,778,474	166,388,083
Reserves		(680,099)	(811,963)
Accumulated Income/(Deficit)		5,681,893	(2,534,504)
Total Stockholders' Equity		197,135,594	185,922,094
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		228,410,450	209,794,131

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock	
	Shares	€
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	229,695	229,695
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses 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**
BALANCE AS OF JANUARY 1, 2011	**22,890,252**	**22,890,252**
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties	221,915	221,915
Repurchase of Treasury Stock	0	0
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2011	**23,112,167**	**23,112,167**

See accompanying Notes to the Consolidated Financial Statements

Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Deficit/Income	Total Stock-holders' Equity
Shares	€	€	€	€	€	€
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**
79,896	**(9,774)**	**166,388,083**	**727,669**	**(1,539,632)**	**(2,534,504)**	**185,922,094**
0	0	1,488,342	0	0	0	1,488,342
0	0	2,902,049	0	0	0	3,123,964
84,019	(1,747,067)	0	0	0	0	(1,747,067)
0	0	0	(192,241)	0	0	(192,241)
0	0	0	76,798	0	0	76,798
0	0	0	0	247,307	0	247,307
0	0	0	0	0	8,216,397	8,216,397
0	**0**	**0**	(115,443)	247,307	8,216,397	8,348,261
163,915	**(1,756,841)**	**170,778,474**	**612,226**	**(1,292,325)**	**5,681,893**	**197,135,594**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2011	2010
OPERATING ACTIVITIES:			
Net Profit		8,216,397	9,196,300
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Non-cash Charges from PPA		0	44,000
Impairment of Assets		236,362	0
Depreciation and Amortization of Tangible and Intangible Assets		6,628,779	6,120,325
Net Gain on Sales of Financial Assets		(1,085,911)	(3,979,920)
Purchases of Derivative Financial Instruments	12	(220,921)	(649,650)
Proceeds from the Disposal of Derivative Financial Instruments	12	386,208	9,176
Unrealized Net (Gain)/Loss on Derivative Financial Instruments		(20,993)	496,181
Loss/(Gain) on Sale of Property, Plant and Equipment/Intangible Assets		(44,216)	254,744
Recognition of Deferred Revenue		(19,980,232)	(37,598,056)
Stock-based Compensation		1,538,807	2,123,296
Income Tax Expense		3,190,278	3,974,358
Changes in Operating Assets and Liabilities:			
Accounts Receivable		2,839,264	(3,618,508)
Prepaid Expenses, Other Assets and Tax Receivables		(34,967)	(1,055,955)
Accounts Payable and Accrued Expenses and Provisions		3,501,662	2,052,030
Other Liabilities		(80,312)	(709,879)
Deferred Revenue		23,493,407	27,272,556
Cash Generated from Operations		28,563,611	3,930,998
Interest Paid		(3,459)	(27,143)
Interest Received		361,916	148,117
Income Taxes Paid		(1,851,609)	(2,160,368)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**21**	**27,070,459**	**1,891,604**

See accompanying Notes to the Interim Consolidated Financial Statements

in €	Note	2011	2010
INVESTING ACTIVITIES:			
Purchases of Financial Assets		(50,686,269)	(20,783,313)
Proceeds from Sales of Financial Assets		36,046,710	50,692,950
Purchases of Property, Plant and Equipment		(2,320,353)	(2,323,416)
Proceeds from Disposals of Property, Plant and Equipment		152,081	0
Purchases of Intangible Assets		(1,284,629)	(11,486,644)
Acquisitions, Net of Cash Acquired		0	(18,095,650)
NET CASH USED IN INVESTING ACTIVITIES	**21**	**(18,092,460)**	**(1,996,073)**
FINANCING ACTIVITIES:			
Repurchase Treasury Stock		(1,747,066)	0
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		3,139,488	2,851,597
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(53,986)	80,586
Net Cost of Share Issuance		(15,500)	(15,500)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**1,322,936**	**2,916,683**
Effect of Exchange Rate Differences on Cash		176,713	50,921
Increase in Cash and Cash Equivalents		10,477,648	2,863,135
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**44,118,451**	**41,255,316**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**54,596,099**	**44,118,451**

See accompanying Notes to the Interim Consolidated Financial Statements

Notes

1 General Information

1.1 BUSINESS AND ORGANIZATION

MorphoSys AG (the "Company" or "MorphoSys") is one of the leading antibody companies focusing on the generation of fully human antibodies. MorphoSys's proprietary state-of-the-art technologies, together with over 15 years of focused antibody discovery and optimization know-how, are successfully applied to the development of research reagents, diagnostics and therapeutics for both its commercial partners and itself. 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.

1.2 CONSOLIDATED COMPANIES

The Company has five wholly owned subsidiaries (together referred to as the "MorphoSys Group" or "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. Oxford Biotechnology Ltd. was dissolved in the financial year 2009.

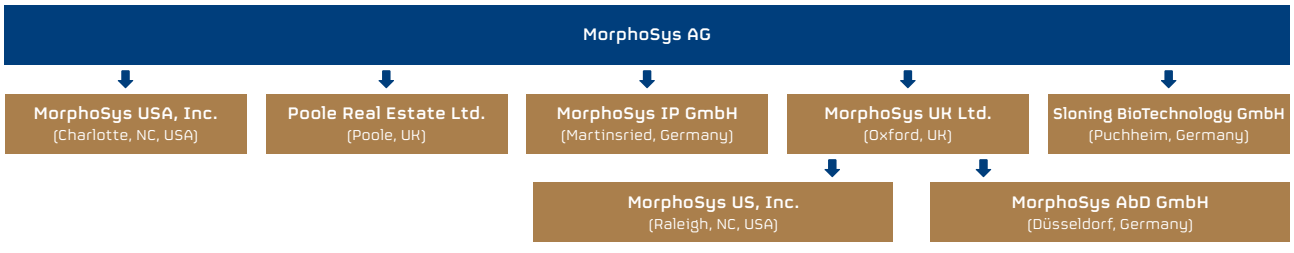
Serotec Ltd. and Serotec, Inc., were renamed MorphoSys UK Ltd. and MorphoSys US, Inc., as of January 2007. Serotec GmbH was renamed MorphoSys AbD GmbH as of March 2007.

In January 2005, MorphoSys acquired Biogenesis Ltd., Poole, UK, and Biogenesis, Inc., New Hampshire, USA. 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., located in Raleigh, North Carolina.

In October 2010, MorphoSys acquired 100 % of the shares in Sloning BioTechnology GmbH, a private company located in Puchheim near Munich, Germany.

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

LEGAL STRUCTURE OF THE MORPHOSYS GROUP



The consolidated financial statements for the year ended December 31, 2011, were authorized for issuance in accordance with a resolution of the Management Board on February 14, 2012. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer) and Dr. Arndt Schottelius (Chief Development Officer). The Supervisory Board is empowered to amend the financial statements after the resolution of the Management Board. The registered offices of the MorphoSys Group's headquarters are located at Lena-Christ-Str. 48, 82152 Martinsried, Germany.

2 Summary of Significant Accounting Policies

2.1 BASIS OF PREPARATION AND CHANGE IN PRESENTATION

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, 2011, comprise the Company and its subsidiaries (together referred to as the "MorphoSys Group").

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 consolidated financial statements are presented in euro, which is the functional currency for the MorphoSys Group. They are prepared on the historical cost convention, 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 2011, a deferred tax asset in the amount of € 2.3 million has been offset with a deferred tax liability for better transparency. Both deferred tax asset and deferred tax liability relate to income taxes levied by the same tax authority on the same taxable entity. To provide comparative information, prior year's deferred tax asset and deferred tax liability (€ 2.8 million) – and thus total assets as well as total liabilities and stockholders' equity – have been adjusted accordingly.

Furthermore, purchases of derivative financial instruments and proceeds from disposal of derivative financial instruments have been reclassified within the cash flow statement from financing activities to operating activities. To provide comparative information, prior year's figures have been adjusted accordingly.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NEW AND AMENDED STANDARDS THAT ARE EXPECTED TO HAVE NO IMPACT ON THE GROUP

- Amendments to IAS 32 "Financial Instruments: Presentation" on the classification of rights issues.
- Amendments to IFRS 1 "First-time Adoption" on financial instruments disclosure.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".
- Annual improvements project 2010, including changes to IAS 27 "Consolidated and Separate Financial Statements"; IFRS 3 "Business Combinations" – contingent consideration, share-based payment transactions, non-controlling interests; amendment to IAS 1 "Presentation of Financial Statements"; amendment to IAS 34 "Interim Financial Reporting"; IFRS 1 "First-time Adoption" – interim information, deemed cost, rate regulation; IFRS 7 "Financial Instruments: Disclosures" – nature and extent of risks arising from financial instruments; amendment to IFRIC 13 "Customer Loyalty Programmes".
- Amendment to IAS 24 "Related-party Disclosures" for government-related entities.
- Amendment to IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING JANUARY 1, 2011, AND NOT EARLY ADOPTED

- IFRS 1 "First-time Adoption": The changes made are expected to have no impact on the Group.
- IFRS 7 "Financial Instruments: Disclosures": This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is expected to have no impact on the Group.
- IFRS 9 "Financial Instruments": IFRS 9 replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 10 "Consolidated Financial Statements": IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to

assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 11"Joint Arrangements": IFRS 11 is a more realistic reflection of joint arrangements (joint operations or joint ventures) by focusing on the rights and obligations of the arrangement rather than its legal form. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 12 "Disclosure of Interests in Other Entities": IFRS 12 includes the disclosure for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 13 "Fair Value Measurement": IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US-GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US-GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2012.
- IAS 1 "Presentation of Financial Statements": The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to assess the full impact of the amendments.
- IAS 12 "Income Taxes": This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result, SIC 21 "Income Taxes – Recovery of Revalued Non-depreciable Assets" will no longer apply to investment property carried at fair value. The amendment is expected to have no impact on the Group.
- IAS 19 "Employee Benefits": These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments are expected to have no impact on the Group.
- IAS 27 "Consolidated and Separate Financial Statements": IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The amendments are expected to have no impact on the Group.
- IAS 28 "Investments in Associates": IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The amendments are expected to have no impact on the Group.

2.3 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 are considered to be an impairment indicator of the asset transferred. Accounting policies have been applied consistently for all subsidiaries.

2.4 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 remeasured through the income statement. All acquisition-related costs are expensed.

2.5 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 income statement. 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 income statement. Any further foreign exchange rate differences on Group level are recognized in the translation reserve (equity).

2.6 INTEREST

The Group 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.

2.7 REVENUE RECOGNITION

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

SEE GLOSSARY
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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 contractual 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 recognized 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 managerial 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 recognized as a reduction of revenue as the sales are recognized. 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 and 18.25, the total consideration in multiple-element transactions 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 in order to reflect the transaction's substance.

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

2.8 EXPENSES

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.

STOCK-BASED COMPENSATION

The Group applies the provisions of IFRS 2 "Share-based Payment" which obligates the Group 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.

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in the income statement 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.

2.9 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 Group.

2.10 INTEREST INCOME

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

2.11 INTEREST EXPENSE

Borrowing costs are expensed when incurred and are included in finance expense in the income statement.

2.12 INCOME TAXES

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly 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.

2.13 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.

2.14 CASH AND CASH EQUIVALENTS

The Group 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 Group invests most of its cash 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 Group's operations.

2.15 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 income statement. 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.

2.16 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.

The Group accounts for its investments in debt and equity securities in accordance with IAS 39. Management determines the proper classification of financial assets at the time of purchase and re-evaluates such designations as of each balance-sheet date. The classification depends on the purpose for which the financial assets were acquired. As of December 31, 2011, and as of December 31, 2010, some financial assets held by the Group have been classified as available for sale. These financial assets are recognized or de-recognized 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 income statement.

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 Group's operations.

2.17 ACCOUNTS RECEIVABLE

Accounts receivable are measured at amortized cost less provision for impairment, e.g. allowance for doubtful accounts (see accounting policy 2.21).

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

2.18 INVENTORIES

Inventories are stated on a first-in, first-out (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.

2.19 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation (see also the Notes to the Consolidated Financial Statements – section 14) and impairment losses (see accounting policy 2.21). Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 (see table below). Leasehold improvements are depreciated over the estimated useful lives of the assets using the straight-line method.

Asset Class	Useful Life
Computer Hardware	3 years
Low-value Laboratory and Office Equipment below €150	Immediately
Low-value Laboratory and Office Equipment between €150 and €1.000	5 years
Permanent Improvements to Property/Buildings	10 years
Office Equipment	8 years
Laboratory Equipment	4 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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2.20 INTANGIBLE ASSETS

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.

PATENT COSTS

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy 2.21). 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. 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 ten years).

LICENSE RIGHTS

The Group acquired license rights by making upfront license payments, paying annual maintenance fees and making sublicense payments to third parties. The Group 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.

SOFTWARE

Software is stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy 2.21). Amortization is charged to the income statement 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.

KNOW-HOW AND CUSTOMER LISTS

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

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.

GOODWILL

The goodwill recognized is partly attributable to expected synergies to be achieved and to the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also the Notes to the Consolidated Financial Statements – section 18).

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.

2.21 IMPAIRMENT

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, 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.

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 CGUs. 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. 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.

2.22 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.

2.23 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.

2.24 CONVERTIBLE BONDS

The Group issued convertible bonds to the Management Board and to employees of the Group. 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 assigned the residual amount after deducting from the fair value of the bond as a whole the amount separately determined for the liability component. The income-statement impact of the equity component is accounted for as stock-based compensation whereas the income-statement impact of the liability component is presented as interest expense. The Group applies the provisions of IFRS 2 "Share-based Payment" for all convertible bonds granted to the Management Board and the employees of the Group.

2.25 ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

GOODWILL

The Group tests annually whether goodwill is subject to any impairment, in accordance with the accounting policy stated in section 2.21. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see also the Notes to the Consolidated Financial Statements – section 18).

For the AbD Serotec segment, a sensitivity analysis was performed by changing different assumptions and variables. An increase in the WACC by 30% or a decrease in future cash flows by 30% would not result in any impairment of the cash-generating unit.

A further sensitivity analysis was performed for the technology-development activities within the Partnered Discovery segment, which represent the cash-

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generating unit that also comprises the goodwill from the acquisition of Sloning BioTechnology GmbH. An increase in the WACC by 30% or a decrease in future cash flows by 30% would not result in any impairment of the cash-generating unit.

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

As of December 31, 2011, deferred tax assets on tax loss carry-forwards in the amount of €2.3 million were recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2012 to 2016. No deferred tax assets were reported for a portion of the corporate tax loss carry-forwards in the amount of €2.4 million and trade tax loss carry-forwards in the amount of €2.3 million as the usability of these tax loss carry-forwards is deemed uncertain due to the controversial tax regulation in Germany (both section 8 para. 4 KStG and section 8c KStG). In the event that a portion of the total tax loss carry-forwards may not be usable as a result of a tax audit, the company will have to pay more income taxes at an earlier point in time in future periods because the total tax loss carry-forwards will be consumed earlier than expected.

2.26 CAPITAL MANAGEMENT

Concerning capital management, the Management Board's policy is to maintain a strong and sustainable capital base so as to maintain investor, creditor and market confidence and to support future development of the business. Compared to the previous year, the equity ratio slightly decreased from 88.6% to 86.3% (see also table below). The Group is currently not financed via financial debt.

At present, management and employees can participate in the Group'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 addition, MorphoSys established a long-term incentive program in June 2011 based on the issuance of performance shares which are finally granted in the event that certain predefined success criteria are achieved (see also the Notes to the Consolidated Financial Statements – section 26). There were no changes in the Group's approach to capital management during the year.

in 000's €	2011	2010
Equity	197,136	185,922
in % of Total Capital	86.3%	88.6%
Debt	31,275	23,872
in % of Total Capital	13.7%	11.4%
TOTAL CAPITAL	**228,410**	**209,794**

3 Segment Reporting

The Group applies IFRS 8 "Operating Segments" (effective from January 1, 2009). 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 Group commercially exploits this technology via partnerships with 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 Group's three lead compounds in its proprietary product portfolio, MOR103, MOR202 and MOR208, as well as two programs in the discovery phase and two pre-development programs with Novartis. The Group currently plans to out-license proprietary compounds after clinical 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 AbD Serotec segment also generates sales from catalogue 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.

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For the Twelve-month Period Ended December 31 (in 000's €)	Partnered Discovery		Proprietary Development	
	2011	2010	2011	2010
REVENUES, TOTAL	**79,319**	**66,267**	**2,398**	**1,771**
External Revenues	79,319	66,267	2,398	1,771
Intersegment Revenues	0	0	0	0
TOTAL OPERATING EXPENSES	**23,683**	**23,559**	**35,000**	**26,510**
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	23,427	22,688	34,975	26,219
Intersegment Costs	256	871	25	291
OTHER OPERATING INCOME	**59**	**13**	**407**	**191**
SEGMENT RESULT	**55,695**	**42,721**	**(32,195)**	**(24,548)**
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	**55,695**	**42,721**	**(32,195)**	**(24,548)**
Income Tax Expenses	0	0	0	0
NET PROFIT	**55,695**	**42,721**	**(32,195)**	**(24,548)**
Current Assets	18,054	13,192	1,460	1,719
Non-current Assets	23,061	26,312	16,672	16,847
TOTAL SEGMENT ASSETS	**41,115**	**39,504**	**18,132**	**18,566**
Current Liabilities	4,937	6,611	8,100	4,617
Non-current Liabilities	6,047	690	0	0
Stockholders' Equity	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**10,984**	**7,301**	**8,100**	**4,617**
Capital Expenditure	1,202	1,197	1,009	11,580
Depreciation and Amortization	3,197	2,691	1,750	1,199

AbD Serotec		Unallocated		Elimination		Group	
2011	2010	2011	2010	2011	2010	2011	2010
19,341	**20,160**	**0**	**0**	**(281)**	**(1,162)**	**100,777**	**87,036**
19,060	18,998	0	0	0	0	100,777	87,036
281	1,162	0	0	(281)	(1,162)	0	0
18,380	**18,945**	**12,303**	**9,557**	**(281)**	**(1,162)**	**89,085**	**77,409**
7,024	7,284	0	0	0	0	7,024	7,284
11,356	11,661	12,303	9,557	0	0	82,061	70,125
0	0	0	0	(281)	(1,162)	0	0
0	**18**	**0**	**0**	**0**	**0**	**466**	**222**
961	**1,233**	**(12,303)**	**(9,557)**	**0**	**0**	**12,158**	**9,849**
0	0	1,439	4,123	0	0	1,439	4,123
0	0	27	34	0	0	27	34
0	0	67	470	0	0	67	470
0	0	2,207	1,237	0	0	2,207	1,237
961	**1,233**	**(13,031)**	**(6,235)**	**0**	**0**	**11,430**	**13,171**
0	0	3,214	3,975	0	0	3,214	3,975
961	**1,233**	**(16,245)**	**(10,210)**	**0**	**0**	**8,216**	**9,196**
11,747	10,725	123,431	106,870	0	0	154,692	132,506
30,841	31,287	3,144	2,842	0	0	73,718	77,288
42,588	**42,012**	**126,575**	**109,712**	**0**	**0**	**228,410**	**209,794**
3,896	3,777	6,818	6,346	0	0	23,751	21,351
543	665	934	1,166	0	0	7,524	2,521
0	0	197,135	185,922	0	0	197,135	185,922
4,439	**4,442**	**204,887**	**193,434**	**0**	**0**	**228,410**	**209,794**
787	482	646	553	0	0	3,644	13,812
1,247	1,261	483	1,015	0	0	6,677	6,166

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 €0.3 million (prior year: €0.9 million) to the AbD Serotec segment for 2011 as a result of the revenue-sharing agreement established between the two segments in 2007. In 2011, revenues in the AbD Serotec segment comprised minor intersegment revenues with the Proprietary Development segment (2010: €0.3 million) which resulted from the sale of antibodies. In 2011, a minor impairment loss was recognized in the AbD Serotec segment.

The Group's major customers are all related to the Partnered Discovery segment. The most significant customer accounts for €8.9 million of the trade receivables carrying amount at December 31, 2011 (2010: €9.4 million). Three customers individually accounted for €72.8 million, €2.2 million, and €2.1 million of the revenues in the year 2011 and were mainly attributed to the Partnered Discovery segment. In 2010, three customers individually accounted for €47.2 million, €8.9 million, and €3.3 million of the revenues and were mainly attributed to the Partnered Discovery segment.

In 2011, other operating expenses in "unallocated" mainly included personnel-related costs (2011: €6.9 million; 2010: €4.7 million), costs for external services (2011: €3.1 million; 2010: €2.1 million) and infrastructure costs (2011: €1.2 million; 2010: €1.1 million). Current assets in "unallocated" mainly consisted of cash, cash equivalents and available-for-sale financial assets (2011: €121.0 million; 2010: €104.9 million). Current liabilities in "unallocated" mainly comprised accounts payable and accrued expenses (2011: €4.5 million; 2010: €4.6 million) as well as provisions (2011: €2.3 million; 2010: €1.7 million).

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

in 000's €	2011	2010
Germany	3,532	4,702
Europe and Asia	81,289	64,889
USA and Canada	12,444	16,504
Other	3,512	941
TOTAL	**100,777**	**87,036**

In 2011, total revenue included approx. 3% revenue derived from Asia.

The following table shows the split of the Group's non-current assets, excluding deferred tax assets, by geographical segment:

in 000's €	2011	2010
Germany	71,904	75,537
UK	127	44
USA	1,522	1,475
TOTAL	**73,553**	**77,056**

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

in 000's €	2011	2010
Germany	3,035	13,508
UK	501	280
USA	108	24
TOTAL	**3,644**	**13,812**

4 Revenue

In 2011, the Group's revenues included revenues from license and milestones fees in the amount of €59.9 million (2010: €41.8 million), to which the Partnered Discovery segment contributed €58.7 million (2010: €41.7 million) and the AbD Serotec segment €1.5 million (2010: €1.0 million), before elimination of inter-segment effects.

Revenues from service fees in the amount of €24.6 million (2010: €28.0 million) included €20.6 million from the Partnered Discovery segment (2010: €24.5 million), €2.4 million from the Proprietary Development segment (2010: €1.8 million) and €1.6 million from the AbD Serotec segment (2010: €1.7 million).

Revenues from the sale of goods, which related to the AbD Serotec segment, amounted to €15.5 million (2010: €16.5 million).

5 Personnel Expenses

in 000's €	2011	2010
Wages and Salaries	28,698	25,117
Social Security Contributions	4,468	4,011
Stock-based Compensation Expense	1,539	2,123
Temporary Staff (External)	228	89
Other	1,881	353
TOTAL	**36,814**	**31,693**

In 2011, other personnel expenses included mostly costs for recruitment and severance charges.

The average number of employees during the year ended December 31, 2011, was 459 (2010: 435). Of the 446 employees as of December 31, 2011, 301 worked in research and development and 145 in sales, general and administration (December 31, 2010: 309 employees in R&D and 155 employees in S, G&A). As of December 31, 2011, 199 employees worked in the Partnered Discovery segment, 67 in the Proprietary Development segment, 140 employees in the AbD Serotec segment and 40 were unallocated (December 31, 2010: 183 employees in the Partnered Discovery segment, 100 in the Proprietary Development segment 142, in the AbD Serotec segment and 39 employees were unallocated). The expenses for defined contribution plans amounted to €0.3 million in 2011 (prior year: €0.3 million).

6 Non-operating Income and Expenses

Non-operating income and expenses includes the following items:

in 000's €	2011	2010
Interest Income	353	143
Gain on Marketable Securities	1,086	3,980
Finance Income	**1,439**	**4,123**
Interest Expenses	(27)	(34)
Finance Expenses	**(27)**	**(34)**
Gain on Exchange	45	440
Gain on Derivatives	21	0
Miscellaneous Income	1	30
Other Income	**67**	**470**
Loss on Exchange	(2,043)	(499)
Loss on Derivatives	0	(496)
Miscellaneous Expenses	(164)	(241)
Other Expenses	**(2,207)**	**(1,236)**
TOTAL	**(728)**	**3,323**

In 2011, the Group recognized a net Loss on Exchange of €2.0 million. This amount includes a net loss of €1.6 million and €0.1 million derived from differences in foreign exchange rates between date of invoice and date of payment of accounts receivables and trade accounts payables, respectively, as well as a net loss of €0.3 million from bank accounts held in foreign currencies.

7 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 26.5% (2010: 28%) and 36.9% (2010: 37%) apply to the UK and the USA, respectively.

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

in 000's €	2011	2010
Current Tax Expense (Thereof Regarding Prior Years: k€ 2; 2010: k€ (16))	(3,452)	(4,094)
Deferred Tax Income/Deferred Tax (Expense)	238	119
Total Income Tax	(3,214)	(3,975)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(265)	(411)

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 2011, the combined income tax rate of 26.33 % (2010: 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' €	2011	2010
Profit Before Income Taxes	11,430	13,172
Expected Tax Rate	26.33 %	26.33 %
Expected Income Tax	(3,010)	(3,468)
Tax Effects Resulting from:		
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA on Tax Loss Carry-forwards	389	0
Stock-based Compensation	(339)	(555)
Non-tax-deductible Items	(130)	(114)
Tax Rate Differences	(101)	(21)
Prior Year Taxes	(2)	113
Other Effects	(21)	70
Actual Income Tax	(3,214)	(3,975)

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, 2011, deferred tax assets on tax loss carry-forwards in the amount of € 2.3 million have been recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2012 to 2016. No deferred tax assets were reported for a portion of the corporate tax loss carry-forwards in the amount of € 2.4 million and trade tax loss carry-forwards in the amount of € 2.3 million as the usability of these tax loss carry-forwards is

deemed uncertain due to the controversial tax regulation in Germany (both section 8 para. 4 KStG and section 8c KStG; see also Notes to the Consolidated Financial Statements – section 2.25). 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.

Significant components of the deferred tax assets and liabilities, before netting of certain deferred tax assets and liabilities, are as follows:

in 000's €	DTA * 2011	DTA * 2010	DTL** 2011	DTL** 2010
Intangible Assets	0	0	3,287	4,043
Non-recognition of DTA on Intangible Assets	0	0	0	0
Property, Plant and Equipment	0	0	42	66
Land	0	0	0	0
Building	0	0	0	0
Other Equipment, Furnitures, Fixtures	51	61	0	0
Shares in Affiliated Companies	0	0	0	0
Inventory	161	230	0	0
Advanced Payments	0	0	0	0
Receivables and Other Assets	0	0	0	8
Treasury Stock	0	0	0	0
Prepaid Expenses and Deferred Charges	0	0	5	7
Short-term Securities Investments	0	0	231	300
Other Accrual/Provisions	0	0	30	4
Trade Accounts Payable	5	4	0	0
Bonds, thereof Convertible	0	0	0	0
Other Liabilities	0	0	22	0
Tax Losses	2,273	2,701	3	0
	2,490	**2,996**	**3,620**	**4,428**

* Deferred Tax Asset
** Deferred Tax Liability

Deferred tax liabilities in the amount of € 0.3 million (prior year: € 0.4 million) have been recognized directly in equity. The amount mainly relates to the revaluation of available-for-sale financial assets.

In 2011, a deferred tax asset in the amount of € 2.3 million has been offset with a deferred tax liability for better transparency. Both deferred tax asset and deferred tax liability relate to income taxes levied by the same tax authority on the same taxable entity. To ensure comparability, prior year's deferred tax asset and deferred tax liability (€ 2.8 million) have been adjusted respectively.

At December 31, 2011, 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.

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8 Earnings Per Share

The calculation of basic profit per share is based on the net profit for the year of €8,216,397 (2010: €9,196,300) and the weighted-average number of shares of common stock outstanding for the respective years (2011: 22,887,723; 2010: 22,656,233).

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

	2011	2010
SHARES ISSUED ON JANUARY, 1	**22,890,252**	**22,660,557**
Effect of Treasury Shares Held	(79,896)	(79,896)
Repurchase of Treasury Stock	(45,744)	0
Effect of Shares Issued in January	32,510	14,167
Effect of Shares Issued in February	10,266	0
Effect of Shares Issued in March	2,408	1,162
Effect of Shares Issued in April	20,741	0
Effect of Shares Issued in May	40,639	0
Effect of Shares Issued in June	2,286	0
Effect of Shares Issued in July	6,194	52,848
Effect of Shares Issued in August	0	703
Effect of Shares Issued in September	0	0
Effect of Shares Issued in October	470	2,702
Effect of Shares Issued in November	7,461	0
Effect of Shares Issued in December	136	3,990
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**22,887,723**	**22,656,233**

The diluted profit per share is calculated by taking into account the Group'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):

	2011	2010
Numerator		
Net Profit of the Year	8,216,397	9,196,300
Denominator		
Weighted-average Shares Used for Basic EPS	22,887,723	22,656,233
Dilutive Shares Arising from Stock Options	229,907	110,569
Dilutive Shares Arising from Convertible Bonds	8,528	19,734
TOTAL DENOMINATOR	**23,126,158**	**22,786,536**
Earnings per Share (in €)		
Basic	0.36	0.41
Diluted	0.36	0.40

9 Cash and Cash Equivalents

in 000's €	2011	2010
Bank Balances and Cash in Hand	54,596	44,118
Term Deposits	980	959
Restricted Cash	(980)	(959)
CASH AND CASH EQUIVALENTS	**54,596**	**44,118**

The € 1.0 million of restricted cash paid for the headquarters buildings in Martinsried, Puchheim and Oxford is a rent deposit and remained unchanged compared to the prior year.

10 Financial Assets

Financial assets classified as available for sale consist of the following as of December 31, 2011 and 2010:

in 000's €	Maturity	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
DECEMBER 31, 2011					
DB Money Cash	daily	79,150	877	0	80,027
Restricted Cash					(258)
TOTAL					**79,769**
DECEMBER 31, 2010					
DB Money Cash	daily	63,424	1,138	0	64,562
Restricted Cash					(258)
TOTAL					**64,304**

The gross unrealized holding gains of € 877,332 for the year ended December 31, 2011, and € 1,138,281 for the year ended December 31, 2010, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2011, the Group recorded gains of € 1,085,911 in the income statement on the sale of financial assets, which had previously been recognized in equity (2010: € 3,979,920). The € 0.3 million (2010: € 0.3 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 2.16.

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11 Accounts Receivable

All accounts receivable are non-interest-bearing and are generally due on a 30- to 45-day term. On December 31, 2011 and 2010, accounts receivable included unbilled amounts of €1,856,827 and €2,104,854, respectively. In some cases, the Group does require collateral from customers for accounts receivable in the AbD Serotec segment. The amount of collaterals held as of December 31, 2011, was not material.

Based on the management's assessment, in 2011 a net loss in the amount of €3,243 was recognized in the income statement for allowances for doubtful accounts (2010: net gain of €4,400).

12 Other Receivables

According to the Group'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, 2011, no option contracts (2010: two option contracts in the nominal amounts of each $ 10 million) are outstanding, and therefore no unrealized gains or losses have been recognized in profit and loss (2010: unrealized loss of €0.3 million). At the beginning of the year, the Group entered into eleven option contracts that were due during the financial year 2011. A realized loss of €0.3 million (2010: loss of €0.2 million) was recognized as other expenses.

13 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, 2011 (2010: €0.2 million), and other prepayments in the amount of €1.6 million as of December 31, 2011 (2010: €2.2 million).

Tax receivables amounted to €0.2 million as of December 31, 2011 (2010: €0.5 million) and mainly comprised receivables in connection with withholding tax on capital gains.

Inventories of €3.3 million (2010: €4.1 million) are located in Oxford, UK, in Raleigh, USA, in Martinsried, Germany, and in Puchheim, Germany. As of December 31, 2011, inventories comprised raw materials, merchandise, consumables and supplies in the amount of €1.9 million (prior year: €0.9 million), work in progress of €0.1 million (prior year: €0.3 million) and finished goods of €1.3 million (prior year: €2.9 million). As of December 31, 2011, the inventory reserve amounted to €3.0 million (prior year: €2.8 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 2011, raw materials, consumables and changes in finished goods and work in progress recognized as COGS amounted to €5.1 million (prior year: €5.6 million).

14 Property, Plant and Equipment

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Totals
Cost				
JANUARY 1, 2011	**916**	**14,404**	**2,460**	**17,780**
Additions	257	1,882	208	2,347
Disposals	0	(1,235)	(28)	(1,263)
Foreign Exchange Variance	18	20	10	48
DECEMBER 31, 2011	**1,191**	**15,071**	**2,650**	**18,912**
Accumulated Depreciation				
JANUARY 1, 2011	**294**	**9,382**	**1,914**	**11,590**
Depreciation Charge for the Year	152	2,010	182	2,344
Disposals	0	(1,122)	(21)	(1,143)
Foreign Exchange Variance	6	3	6	15
DECEMBER 31, 2011	**452**	**10,273**	**2,081**	**12,806**
Carrying Amount				
JANUARY 1, 2011	**622**	**5,022**	**546**	**6,190**
DECEMBER 31, 2011	**739**	**4,798**	**569**	**6,106**
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
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**

As of December 31, 2011, land and building located in Poole, UK, in the amount of €785,027 (prior year: €813,011) is classified as held for sale, for which a minor impairment loss due to a re-valuation of the sales price has been recognized in 2011. 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 Group recognized minor expenditure in property, plant and equipment in the course of construction (2010: 0.5 million). No significant 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 income statement:

in 000's €	2011	2010
Research and Development	1,718	1,354
Sales, General and Administrative	560	687
Cost of Goods Sold	98	100
TOTAL	**2,376**	**2,141**

As of December 31, 2011, minor foreign exchange effects were recognized for the assets acquired and were accounted as translation reserve in equity.

15 Intangible Assets

in 000's €	Patents	Licenses	Intangible Assets under Development	Software	Know-How and Customer List	Goodwill	Total
Cost							
JANUARY 1, 2011	**14,449**	**25,425**	**10,513**	**3,126**	**5,419**	**34,099**	**93,031**
Additions	218	138	0	942	0	0	1,298
Disposals	(8)	(371)	0	(1,189)	0	0	(1,568)
Foreign Exchange Variance	0	15	0	5	106	8	134
DECEMBER 31, 2011	**14,659**	**25,207**	**10,513**	**2,884**	**5,525**	**34,107**	**92,895**
Accumulated Amortization							
JANUARY 1, 2011	**4,164**	**13,306**	**0**	**2,620**	**3,733**	**0**	**23,823**
Amortization Charge for the Year	1,036	2,528	0	392	377	0	4,333
Write-offs for the Year	8	186	0	0	0	0	194
Disposals	(8)	(371)	0	(1,188)	0	0	(1,567)
Foreign Exchange Variance	0	6	0	4	74	0	84
DECEMBER 31, 2011	**5,200**	**15,655**	**0**	**1,828**	**4,184**	**0**	**26,867**
Carrying Amount							
JANUARY 1, 2011	**10,285**	**12,119**	**10,513**	**506**	**1,686**	**34,099**	**69,208**
DECEMBER 31, 2011	**9,459**	**9,552**	**10,513**	**1,056**	**1,341**	**34,107**	**66,028**
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**

As of December 31, 2011, 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 income statement:

in 000's €	2011	2010
Research and Development	4,036	3,097
Research and Development (Write-off)	194	0
Sales, General and Administrative	35	666
Cost of Goods Sold	229	218
TOTAL	**4,494**	**3,981**

As of December 31, 2011, an impairment loss of €0.2 million was recognized for intangible assets in the Proprietary Development segment in connection with a program, which was discontinued due to a strategic decision (2010: minor impairment loss in the AbD segment).

As of December 31, 2011, minor foreign exchange effects were recognized for the assets acquired and were accounted for as translation reserve in equity.

16 Other Assets

The Group 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 9 and 10). As of December 31, 2011 and 2010, the Group had commitments of €1.2 million and €1.3 million for guarantees issued as well as €73,607 and €113,256 respectively for convertible bonds issued to employees.

17 Assets Classified as Held for Sale

As of December 31, 2011, 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 €785,027 (prior year: €813,011). In 2011, intense efforts to sell the property did not succeed. However, efforts for a commercialization will be intensified in 2012 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 2011. A minor impairment was deemed necessary in the 2011 financial year.

18 Goodwill

As of October 31, 2011, the goodwill attributed to the AbD Serotec segment (€26.8 million) was tested as required by IAS 36. The recoverable amount of the cash-generating unit (CGU), the AbD Serotec segment, has been determined based on value-in-use calculations, and the value in use was determined to be higher than the carrying amount of the CGU. In addition, a detailed sensitivity analysis was done (see Notes to the Consolidated Financial Statements – section 2.25). The cash-flow projections refer to a ten-year period because AbD Serotec's management assumes that the move to sign more high-margin license deals in the research field, increasingly entering the diagnostics market and to strengthen the e-commerce business will fully materialize in the mid to long-term. Hence, a projection reflecting ten years (instead of only five years) is deemed reasonable for calculating the value in use. The cash-flow projections assume average yearly increases in revenues of approximately 8% and an average EBIT margin of 20% in the next ten years. The major underlying key assumption for the cash-flow projections is the expansion of the current customer base as mentioned above. The values of the underlying key assumptions have been determined by using both internal sources (past experience) and external sources of information (market intelligence, financial reports). Based on the updated outlook to cash flows for the upcoming ten years, the value in use was calculated as follows: beta factor of 1.18, income tax rate of 31%, WACC of 8.61% (2010: 8.50%) and a growth rate of 1% of the perpetual annuity. 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.

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As of October 31, 2011, the goodwill from the acquisition of Sloning BioTechnology GmbH in 2010 (€7.4 million) was tested as required by IAS 36. The recoverable amount of the CGU, the technology-development team within the Partnered Discovery segment, has been determined based on value-in-use calculations, and the value in use was determined to be higher than the carrying amount of the CGU. In addition, a detailed sensitivity analysis was done (see Notes to the Consolidated Financial Statements – section 2.25). The cash-flow projections refer to a ten-year period because management assumes that a commercialization via license deals comprising upfront payments, milestone payments, FTE funding as well as royalties will fully materialize in the mid to long-term. Hence, a projection reflecting ten years (instead of only five years) is deemed reasonable for calculating the value in use. 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 assumptions have been determined by using both internal sources (past experience) and external sources of information (market intelligence). Based on the updated outlook to cash flows for the upcoming ten years, the value in use was calculated as follows: beta factor of 1.3, income tax rate of 26.33%, WACC of 8.89% (2010: 8.22%) and a growth rate of 1% of the perpetual annuity. 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.

19 Accounts Payable and Accrued Expenses

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

Accounts payable are listed in the table below:

in 000's €	2011	2010
Trade Accounts Payable	1,057	2,148
Licenses Payable	397	135
Accrued Expenses	17,069	12,800
Other Liabilities	588	667
TOTAL	**19,111**	**15,750**

Accrued expenses include mainly accruals for payments to employees and management of €5.1 million (2010: €4.1 million), amounts for outstanding invoices in the amount of €2.6 million (2010: €2.4 million), external laboratory funding of €6.6 million (2010: €3.6 million), €2.4 million for license compensation (2010: €2.2 million), €0.1 million for Supervisory Board members' compensation (2010: €0.1 million), €0.1 million for audit fees and costs related thereto (2010: €0.2 million) and €0.2 million for legal services (2010: €0.2 million).

At the Company's Annual General Meeting in May 2011, the Supervisory Board was authorized to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, as its auditor.

In 2011, the PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich (PwC AG) and their partner companies within the international network were remunerated by MorphoSys in the amount of €276,525 (thereof PwC AG €211,475) , including audit fees of €250,050 (thereof PwC AG €185,000) and audit-related fees of €26,475 (thereof PwC AG €26,475).

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20 Provisions and Tax Liabilities

As of December 31, 2011 and 2010, the Group recorded provisions and tax liabilities of € 3.4 million and € 2.5 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, 2011, and are expected to be settled in 2012.

Provisions and tax liabilities changed during the 2011 financial year as follows:

in 000's €	01/01/2011	Additions	Utilized	Released	12/31/2011
Taxes	2,145	1,950	1,068	0	3,027
Other Obligations	318	73	0	8	383
TOTAL	**2,463**	**2,023**	**1,068**	**8**	**3,410**

21 Financial Instruments and Financial Risk Management

CREDIT AND LIQUIDITY RISK

Financial instruments that potentially subject the Group to concentrations of credit and liquidity risk consist primarily of cash, cash equivalents, marketable securities, derivative financial asets and accounts receivable. The Group'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 Group 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 Group's revenues and accounts receivable are subject to credit risk as a result of customer concentration. The Group's most significant customer accounted for € 8.9 million of the trade receivables carrying amount as of December 31, 2011 (2010: € 9.4 million). This customer individually accounted for approximately 73 % of the Group's 2011 accounts receivable balance. Three customers individually accounted for 72 %, 2 %, and 2 % of the Group's total revenues in the year 2011. On December 31, 2010, one customer had accounted for 62 % of the prior year's accounts receivable balance and three customers individually had accounted for 54 %, 10 %, and 4 % of the Group's revenues in 2010. Based on the management's assessment, allowances of € 19,078 and € 15,835 in relation to the AbD Serotec business segment were necessary as of December 31, 2011 and 2010. 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 €	2011	2010
Europe and Asia	10,981,860	12,186,914
USA and Canada	1,221,377	2,822,412
Other	0	0
TOTAL	**12,203,237**	**15,009,326**

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

in €; A/R are due in	2011 0 (30) days	2011 30 (60) days	2011 60 + days	2011 Total
Accounts Receivable	9,519,422	851,283	1,851,610	12,222,315
Allowance for Impairment	0	0	(19,078)	(19,078)
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR IMPAIRMENT	**9,519,422**	**851,283**	**1,832,532**	**12,203,237**

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**

As of December 31, 2011, the Accounts Receivable of the Group included overdue receivables in the amount of €0.5 million, for which impairment was not yet deemed necessary.

As of December 31, 2011, the Group had no exposure for credit risk of derivative financial assets (prior year: maximum exposure of €0.1 million). The maximum exposure for credit risk of financial guarantees (rent deposits) at the reporting date amounted to € 1.2 million (prior year: € 1.3 million).

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, 2015 (€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 Group 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, 2011 (in €)	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	51,076,181	723,518	2,796,400	0	54,596,099
Available-for-sale Assets	79,768,563	0	0	0	79,768,563
Accounts Receivable	10,478,522	1,248,021	394,116	82,578	12,203,237
Accounts Payable and Accrued Expenses	(16,707,898)	(384,779)	(2,018,121)	0	(19,110,798)
TOTAL	**124,615,368**	**1,586,760**	**1,172,395**	**82,578**	**127,457,101**

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
Accounts Receivable	12,354,868	2,116,494	502,878	35,086	15,009,326
Accounts Payable and Accrued Expenses	(13,109,993)	(212,972)	(2,427,249)	692	(15,749,522)
TOTAL	**104,758,265**	**3,206,514**	**(318,261)**	**35,778**	**107,682,296**

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 income statement. A ten percent increase of the euro against the US dollar as of December 31, 2011, would have decreased earnings by €0.1 million (assuming that interest rates remain constant) (prior year: decrease of €0.3 million). A ten percent weakening of the euro against the US dollar would have increased earnings by €0.2 million (prior year: increase of €0.3 million). A ten percent increase of the euro against the British pound as of December 31, 2011, 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 €0.1 million (prior year: increase of €0.2 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 2010, total Group revenues would have been higher in the amount of €1.1 million (prior year: lower by €0.6 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

MorphoSys uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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 10). 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 2011 and 2010.

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

as of December 31, 2011 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash and Cash Equivalents	9		54,596			54,596	54,596
Accounts Receivable	11		12,203			12,203	12,203
Forward Exchange Contracts Used for Hedging	12	0				0	0
Available-for-sale Financial Assets	10			79,769		79,769	79,769
		0	**66,799**	**79,769**	**0**	**146,568**	**146,568**
Convertible Bonds – Liability Component	23				(74)	(74)	(74)
Accounts Payable and Accrued Expenses	19				(19,111)	(19,111)	(19,111)
		0	**0**	**0**	**(19,185)**	**(19,185)**	**(19,185)**

CROSS-REFERENCE
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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	9		44,118			44,118	44,118
Accounts Receivable	11		15,009			15,009	15,009
Forward Exchange Contracts Used for Hedging	12	144				144	144
Available-for-sale Financial Assets	10			64,304		64,304	64,304
		144	**59,127**	**64,304**	**0**	**123,575**	**123,575**
Convertible Bonds – Liability Component	23				(128)	(128)	(128)
Accounts Payable and Accrued Expenses	19				(15,750)	(15,750)	(15,750)
		0	**0**	**0**	**(15,878)**	**(15,878)**	**(15,878)**

22 Stockholders' Equity

COMMON STOCK

On December 31, 2011, the common stock of the Company including treasury shares amounted to €23,112,167. This represented an increase of €221,915 compared to December 31, 2010 (€22,890,252). Each share of common stock is entitled to one vote. The increase arose as a result of the conversion and exercise of 221,915 convertible bonds and options issued to the Management Board and to employees.

On December 31, 2010, the common stock of the Company had amounted to €22,890,252. An increase of €229,695, or 229,695 shares, was the result of the conversion and exercise of options in 2010.

On December 31, 2011, treasury shares amounted to €1,756,841 (163,915 shares) and increased by €1,747,066 compared to December 31, 2010 (79,896 shares, €9,774), due to the repurchase of 84,019 MorphoSys shares on the stock market for the Group's long-term incentive plan for management.

AUTHORIZED CAPITAL

Unused Authorized Capital I remained unchanged on December 31, 2011, compared to December 31, 2010, to create a maximum of 8,864,103 new shares.

Unused Authorized Capital II remained unchanged on December 31, 2011, compared to December 31, 2010, to create a maximum of 2,216,025 new shares.

CONDITIONAL CAPITAL

In 2011, a total of 3,696 shares were raised from Conditional Capital II through the exercise of options by employees, increasing the subscribed capital by €3,696. Furthermore, 95,400 shares were raised from Conditional Capital IV through the exercise of convertible bonds by employees, increasing the subscribed capital by €95,400 and 122,819 shares were raised from Conditional Capital V through the exercise of options by employees and Management Board members, increasing the subscribed capital by €122,819.

In 2010, a total of 3,441, 3,600 and 222,654 shares had been raised from Conditional Capital II, IV and V respectively with subscribed capital increasing by €3,441, €3,600 and €222,654 from respective Conditional Capitals.

ADDITIONAL PAID-IN CAPITAL

On December 31, 2011, additional paid-in capital amounted to €170,778,474 (December 31, 2010: €166,388,083). The total increase of €4,390,391 is due to stock-based compensation in the amount of €1,488,342, including the intrinsic value of convertible bonds. A further increase of €2,902,049 arose from the exercise and conversion of options and convertible bonds in the year 2011.

In 2010, the additional paid-in capital had increased by €4,756,815, resulting from stock-based compensation of €2,150,655 and €2,606,160 from the exercise and conversion of options in the year 2010.

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 23, 24, 25 and 26.

23 Convertible Bonds

In the year 2011, 95,400 convertible bonds were exercised and converted into shares. Of these, 60,000 convertible bonds were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 29.

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 Group 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.

CROSS-REFERENCE
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A summary of the activity under the Group's employee incentive convertible bonds plan for the years ended December 31, 2011 and 2010 is represented as follows:

	Convertible Bonds	Weighted-average Price (€)
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**
OUTSTANDING ON JANUARY 1, 2011	**448,200**	**15.94**
Granted	0	0
Exercised	(95,400)	12.81
Forfeited	(24,750)	16.79
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2011	**328,050**	**16.79**

Convertible bonds exercisable on December 31, 2011 and 2010 amounted to 0 and 95,400 shares, respectively.

The following table presents the weighted-average price and information about the contractual life for significant convertible bond groups outstanding on December 31, 2011:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Exercise Price (€)
€10.00 – €17.00	328,050	4.00	16.79	0	0.00
	328,050	**4.00**	**16.79**	**0**	**0.00**

The Group 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 2011 and 2010 in connection with convertible bonds was €666,920 and €989,416, respectively.

24 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, 2010 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 2011 and 2010, 3,696 and 3,441 options from the 1999 Plan were exercised respectively. For the years 2011 and 2010, 122,819 and 222,654 options from the 2002 Plan were exercised respectively.

A summary of activity under the Group's employee incentive stock option plans for the years ended December 31, 2011, and 2010, is represented as follows:

	Shares	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2010	**1,151,987**	**13.33**
Granted	0	0
Exercised	(226,095)	12.41
Forfeited	(1,875)	10.45
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2010	**924,017**	**13.56**
OUTSTANDING ON JANUARY 1, 2011	**924,017**	**13.56**
Granted	0	0
Exercised	(126,515)	15.16
Forfeited	0	0
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2011	**797,502**	**13.31**

Stock options exercisable on December 31, 2011 and 2010 amounted to 503,657 and 294,953 shares, respectively. The weighted-average exercise price of exercisable stock options was € 13.51 on December 31, 2011.

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on December 31, 2011:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Price (€)
€ 10.00 – € 12.99	392,907	2.20	12.81	187,197	12.81
€ 13.00 – € 13.99	266,166	1.07	13.03	197,633	13.03
€ 14.00 – € 17.00	138,429	1.13	15.26	118,827	15.40
	797,502	**1.64**	**13.31**	**503,657**	**13.51**

The Group accounts for stock-based compensation in accordance with the provisions of IFRS 2 "Share-based Payment". Compensation expense recorded in 2011 and 2010 in connection with stock options was € 528,477 and € 1,119,543, respectively.

25 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, 2011, is € 17.53. The compensation expense recorded in 2011 was € 50,465. As of December 31, 2011, a non-current liability in the amount of € 64,801 was accounted for accordingly. The SARs cannot be exercised beyond June 30, 2016.

26 Long-term Incentive Plan

On June 01, 2011, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and Senior Management. The plan qualifies as an equity-settled share-based payment transaction under IFRS 2 and is accounted for accordingly. The LTI plan is a performance share plan and will be paid out in common shares of MorphoSys AG, provided that defined key performance indicators as annually approved by the Supervisory Board are achieved. Key performance indicators currently comprise revenues, EBIT and the number of projects in the R&D portfolio.

The grant date is June 01, 2011, and the vesting period comprises four years. 25 % of the granted performance shares are vested in each year of the 4-year vesting period, provided that the key performance indicators of that period are achieved by 100 %. The number of vested shares in each single year will be reduced to the extent that the key performance indicators of that period are achieved by 50 %-99 % only or increased if the key performance indicators are achieved by more than 100 % (110 % in a maximum). Taking into account these conditions, the common shares of MorphoSys AG are delivered to the beneficiaries after the 4-year period. In any case, the maximum payout at the end of the 4-year period is capped by a company factor which generally amounts to "1". The Supervisory Board may deviate from this company factor, e.g. in the case that the payout level seems inadequate compared to the overall development of the Group.

In the event that the repurchased shares do not suffice to serve the LTI plan, MorphoSys reserves the right to pay out a specific amount of cash from the LTI plan equivalent to the value of the performance shares at the end of the vesting period, provided that such cash amount shall not exceed 200 % of the fair market value of the performance shares as at grant date.

If a member of the Management Board ceases to hold an office within the MorphoSys Group by reason of termination, resigning from office, death, injury, disability or retirement (receipt of a normal retirement pension, an early retirement pension as well as a disability pension as long as the requirements for the disability pension entitlement are met) or – subject to the Supervisory Board's discretion – under other circumstances, the member of the Management Board (or his/her inheritor) will be entitled to a pro-rated number of performance shares. In such case the member of the Management Board will receive the number of performance shares already vested on the date on which the member of the Management Board ceases to hold office within the MorphoSys Group.

If a member of the Management Board ceases to hold an office within the MorphoSys Group for good reason in the meaning of § 626 para. 2 German Civil Code and/or within the meaning of § 84 para 3 German Stock Corporation Act or if notice to cease to hold office is given by the member of the Management Board, the beneficiary shall not be entitled to any performance share allocation. In the event of a change in control during the 4-year period, all performance shares shall become fully vested.

In June 2011, the Company repurchased 84,019 MorphoSys shares for the LTI plan on the stock market with an average share price of € 20.79 per share. As of June 01, 2011, 84,019 shares were granted to the beneficiaries, thereof 53,997 shares to the Management Board (for details, see the table in section 29) and 30,022 shares to Senior Management. The fair value of the performance shares as of the grant date (June 01, 2011) amounted to € 21.34 per share. No dividends were incorporated in the measurement of the fair value of the repurchased shares, because the Company does not anticipate paying a dividend in the foreseeable future. No beneficiaries of the LTI plan left MorphoSys and no performance shares forfeited from the grant date until December 31, 2011.

As of December 31, 2011, the Group accounted for stock-based compensation from the LTI plan in the amount of € 292,945.

CROSS-REFERENCE
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27 Operating Leases and Other Commitments

The Group leases facilities and equipment on long-term operating leases. Total rent expense amounted to €2,588,817 and €2,342,528 for the years ended December 31, 2011 and 2010, 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 €	Rent and Leasing 2011	Rent and Leasing 2010	Other 2011	Other 2010	Total 2011	Total 2010
Up to One Year	3,129	3,238	681	793	3,810	4,031
Between One and Five Years	5,519	4,923	15	35	5,534	4,958
More than Five Years	3,726	1,672	0	0	3,726	1,672
TOTAL	**12,374**	**9,833**	**696**	**828**	**13,070**	**10,661**

The Group's total expenses due to operating leases, insurances and other services in the years ended December 31, 2011 and 2010, totaled €3,096,917 and €3,518,477 respectively.

Furthermore, the following future payments for cancellable external studies can become due as a result of currently active contracts. However, in case of early termination, these amounts can be reduced substantially in line with the respective contractual early-termination clauses.

in 000's €	Total 2011
Up to One Year	6,384
Between One and Five Years	6,499
More than Five Years	0
TOTAL	**12,883**

28 Contingencies

The management is not aware of any matters that could give rise to any material liability to the Group that would have a material adverse effect on the Group'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 Group may be triggered. However, given the uncertainty regarding the timing and achievement of such milestones, no further details are disclosed.

29 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, convertible bonds and performance shares to the Management Board. The tables below show the shares, stock options, convertible bonds and performance shares 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 2011:

SHARES

	01/01/2011	Additions	Forfeitures	Sales	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	416,385	3,500	0	0	419,885
Dave Lemus*	5,400	0	0	0	–
Jens Holstein**	–	1,000	0	0	5,000
Dr. Arndt Schottelius	1,500	500	0	0	2,000
Dr. Marlies Sproll	3,105	4,000	0	0	7,105
TOTAL	**426,390**	**9,000**	**0**	**0**	**433,990**
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**

* Mr. Lemus left MorphoSys' Management Board in Q1/2011
** 4,000 shares were bought by Mr. Holstein prior to election to the Management Board

STOCK OPTIONS

	01/01/2011	Additions	Forfeitures	Exercises	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	191,445	0	0	0	191,445
Dave Lemus*	102,867	0	0	0	–
Jens Holstein	–	0	0	0	0
Dr. Arndt Schottelius	90,000	0	0	0	90,000
Dr. Marlies Sproll	102,867	0	0	0	102,867
TOTAL	**487,179**	**0**	**0**	**0**	**384,312**
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**

* Mr. Lemus left MorphoSys' Management Board in Q1/2011

CONVERTIBLE BONDS

	01/01/2011	Additions	Forfeitures	Exercises	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	88,800	0	0	30,000	58,800
Dave Lemus*	63,000	0	0	0	–
Jens Holstein	–	0	0	0	0
Dr. Arndt Schottelius	33,000	0	0	0	33,000
Dr. Marlies Sproll	63,000	0	0	30,000	33,000
TOTAL	**247,800**	**0**	**0**	**60,000**	**124,800**
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**

* Mr. Lemus left MorphoSys' Management Board in Q1/2011

PERFORMANCE SHARES

	01/01/2011	Additions	Forfeitures	Exercises	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	0	17,676	0	0	17,676
Jens Holstein	0	12,107	0	0	12,107
Dr. Arndt Schottelius	0	12,107	0	0	12,107
Dr. Marlies Sproll	0	12,107	0	0	12,107
TOTAL	**0**	**53,997**	**0**	**0**	**53,997**
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**

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 € 384,750 in 2011 (2010: € 382,750).

The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD COMPENSATION 2011:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €***	No. of Performance Shares Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	386,862	135,131	181,825	17,676	377,206	1,081,024
Dave Lemus*	132,119	479,009	72,026	–	–	683,154
Jens Holstein**	167,500	181,584	83,750	12,107	258,363	691,197
Dr. Arndt Schottelius	256,000	99,046	107,520	12,107	258,363	720,929
Dr. Marlies Sproll	262,259	94,563	125,884	12,107	258,363	741,069
TOTAL	**1,204,740**	**989,333**	**571,005**	**53,997**	**1,152,296**	**3,917,374**

* Left the Management Board of MorphoSys AG on March 10, 2011
** Joined the Management Board of MorphoSys AG on May 1, 2011
*** The total remuneration figures shown for 2011 include the corresponding bonus accruals for 2011, which will be paid out in February 2012.

MANAGEMENT BOARD COMPENSATION 2010:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Share Price Performance)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €***	No. of Convertible Bonds Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	368,498	130,178	208,570	58,800	391,608	1,098,854
Dave Lemus*	259,157	156,639	152,902	33,000	219,780	788,478
Jens Holstein**	–	–	–	–	–	–
Dr. Arndt Schottelius	231,000	90,158	132,594	33,000	219,780	673,532
Dr. Marlies Sproll	249,623	90,879	146,778	33,000	219,780	707,060
TOTAL	**1,108,278**	**467,854**	**640,844**	**157,800**	**1,050,948**	**3,267,924**

* Left the Management Board of MorphoSys AG on March 10, 2011
** Joined the Management Board of MorphoSys AG on May 1, 2011
*** The total remuneration figures shown for 2010 include the corresponding bonus accruals for 2010, which was paid out in March 2011.

On February 24, 2011, MorphoSys announced that Mr. Jens Holstein was to succeed Mr. Dave Lemus both as Chief Financial Officer of MorphoSys AG and as a member of the Management Board (Vorstand). Mr. Lemus stepped down from his position as CFO with the Company in March 2011 to pursue other opportunities. He received the contractually agreed compensation set out in his service agreement until June 30, 2011. Further, he obtained his contractually agreed payment equal to his fixed gross annual salary in the amount of € 264,238 plus his 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 was vested prematurely.

Mr. Jens Holstein was appointed Chief Financial Officer of MorphoSys AG on May 1, 2011. His service agreement runs until June 30, 2014. As an additional incentive for joining the Company, MorphoSys compensated Mr. Holstein for lost benefits from his previous position with a non-recurring signing bonus in the amount of € 100,000.

SUPERVISORY BOARD COMPENSATION 2011 AND 2010:

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	2011	2010	2011	2010	2011	2010
Dr. Gerald Möller	70,000	70,000	26,000	22,000	96,000	92,000
Prof. Dr. Jürgen Drews	57,750	57,750	17,500	15,000	75,250	72,750
Dr. Walter Blättler	39,500	39,500	13,500	18,000	53,000	57,500
Dr. Daniel Camus	36,500	36,500	19,000	19,000	55,500	55,500
Dr. Metin Colpan	36,500	36,500	8,500	10,000	45,000	46,500
Dr. Geoffrey N. Vernon	39,500	39,500	20,500	19,000	60,000	58,500
TOTAL	**279,750**	**279,750**	**105,000**	**103,000**	**384,750**	**382,750**

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

30 Corporate Governance

The Group issued its declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code for fiscal year 2011 according to section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made permanently accessible to stockholders accordingly on the Group's website on December 08, 2011.

31 Research and Development Agreements

The Group has a significant number of research and development relationships in conjunction with its partnered discovery strategy, its proprietary research and development activities and to a smaller degree in the research reagent and diagnostic space, operated by the Group's AbD Serotec segment.

PARTNERED DISCOVERY SEGMENT

In its commercial agreements within the Partnered Discovery segment MorphoSys receives different types of payments, which are booked as revenues spread over the lifetime of the agreement or booked in full in connection with the achievement of defined tasks and milestones. These payments include upfront payments at signature, annual license payments in exchange for access to MorphoSys's technologies, and research funding for work carried out at MorphoSys on behalf of the partner company. Additionally, MorphoSys is eligible to receive development-dependent milestone payments and royalties on product sales for individual antibody drug programs.

The active collaboration with several partners was already concluded prior to fiscal year 2011 as the original term of the agreements came to an end. Drug development programs initiated during the active phase can, however, continue and could result in future success-based payments. More details on individual drug candidates within the various alliances, restricted to public information, can be found in the Research & Development section on page 53 and in the overview of the Group's drug pipeline in this report. More details on the individual research alliances can be found on the Group's website.

Partnerships, that were already concluded prior to the start of 2011, but had active drug development programs ongoing, include (in alphabetic order): Bayer Healthcare, Boehringer Ingelheim, F. Hoffmann-La Roche, Janssen Biotech (formerly Centocor Ortho Biotech), Merck & Co., OncoMed Pharmaceuticals and Prochon Biotech Ltd.

Partnerships, that were still active during 2011, included (in alphabetic order), Astellas, ContraFect, Daiichi-Sankyo, GeneFrontier Corporation/Kaneka, Novartis, Pfizer and Schering-Plough (a subsidiary of Merck & Co.). Of those partnerships, the active collaboration with Daiichi-Sankyo and Schering-Plough were concluded in 2011. The cooperation with ContraFect was started in 2011, focusing on the field of infectious disease.

The Group's largest alliance today is with Novartis AG. The two companies started working together in 2004 in a collaboration that has so far resulted in multiple active therapeutic antibody programs in various diseases. 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 €400 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 €650 million, 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 co-development options, MorphoSys may elect to participate in these projects through cost and profit-sharing with financial participation reflecting its level of investment in the respective programs.

PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development Segment partnerships are aligned along the Group's goals for own drug development activities in its key indications – cancer, inflammatory diseases and infections. These partnerships include (in alphabetic order): Absynth Biologicals, Galapagos and Xencor.

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.

In November 2008, MorphoSys and Galapagos announced the launch of a long-term co-development alliance aimed at discovering and developing antibody therapies based on novel modes of action in bone and joint disease, 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 contributed their core technologies and expertise to the alliance. Galapagos provided antibody targets implicated in bone and joint disease in addition to its adenoviral target discovery platform to discover further targets for antibody development. MorphoSys contributed its HuCAL antibody technologies to generate fully human antibodies directed against these targets. Under the terms of the agreement, Galapagos and MorphoSys shared the research and development costs equally.

In June 2010, MorphoSys AG and US-based biopharmaceutical company Xencor 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. MorphoSys paid to Xencor an upfront payment of US$ 13 million (approx. €10.5 million), which was activated as an intangible asset under development. Xencor will be eligible to receive development-, regulatory- and commercialization-related milestone payments and tiered royalties based on product sales.

ABD SEROTEC SEGMENT

MorphoSys's research and development segment AbD Serotec has relationships with a growing number of diagnostic companies, industrial customers and research organizations including (in alphabetic order): FIND, Merck & Co., Novozymes, Phadia, Proteomika, Shionogi and Spinreact.

CROSS-REFERENCE
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ADDITIONAL INFORMATION
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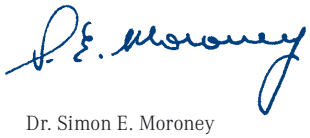
APPENDIX 1: CHART OF THE CONSOLIDATED ENTITY AS OF DECEMBER 31, 2011

Name and Corporate Seat of the Company	Local Currency	Exchange Rate on Dec 31, 2011 one Unit of euro in Local Currency
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)		
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US $	1.29257
MorphoSys IP GmbH, Munich, Germany	€	–
MorphoSys UK Ltd., Oxford, UK	£	0.83819
MorphoSys US, Inc., Raleigh, North Carolina, USA	US $	1.29257
MorphoSys AbD GmbH, Düsseldorf, Germany	€	–
Poole Real Estate Ltd., Poole, UK	£	0.83819
Sloning BioTechnology GmbH, Puchheim, Germany	€	–

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, February 14, 2012



Dr. Simon E. Moroney
Chief Executive Officer

Mr. Jens Holstein
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	2,779	0	0	(1,169)
	100	25,000	3,326,667	3,294,999	3,343,800	(4,597)
	100	100	7,591,872	2,465,402	9,822,704	12,390
	100	50,000	2,882,372	803,914	9,670,994	509,448
	100	25,000	1,345,897	85,212	3,035,750	72,247
	100	200	835,763	7,400	0	(91,120)
	100	951,660	10,532,743	4,449,167	4,200,419	2,478,504

Auditor's Report

We have audited the consolidated financial statements prepared by the MorphoSys AG, Martinsried, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the group management report for the business year from January 1, 2011 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and supplementary provisions of the articles of incorporation are the responsibility of the Parent Company's Board of Managing Directors. 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 Article 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany. 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the 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 the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and supplementary provisions of the articles of incorporation 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 15, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

Dietmar Eglauer
Wirtschaftsprüfer
(German Public Auditor)

Supervisory Board Report

In this report the Supervisory Board describes the performance of its functions and its work during the fiscal year 2011. Its discussions focused on the financial situation of the Group, the progress in the pipeline, investments in its proprietary portfolio and technologies and the strategic perspectives for the Group.

CONTINUOUS DIALOG WITH THE MANAGEMENT BOARD

During 2011, the Supervisory Board performed its duties assigned to it by law, the Company's Articles of Association and its internal Rules of Procedure. We regularly advised the Management Board on the management of the Company and continuously observed and supervised its conduct of business. The Management Board fulfilled its duty to inform and furnished us with regular written and verbal reports containing up-to-date and comprehensive information on all incidents and activities of relevance to the Company, which were prepared by the Management Board with the input of the respective departments. In our committees and in full Supervisory Board meetings we always had the opportunity to critically discuss the reports and resolution proposals of the Management Board and to contribute suggestions. When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented. Deviations from business plans were explained to us in detail. In justified cases resolutions were passed outside meetings by written procedure.

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.

MAIN TOPICS AT THE MEETINGS OF THE SUPERVISORY BOARD IN 2011

The Supervisory Board was intensively involved from an early stage in all decisions of significance for the Company. Decisions were based on the Company's agreed strategy. In 2011, the majority of our discussions focused on the Company's proprietary drug development plans as well as opportunities to accelerate the growth and increase the value of MorphoSys.

The topics of our regular discussion at the Supervisory Board's plenary meetings were revenue and profit development of MorphoSys, as well as the progress and challenges in the three business segments. The discussions were based on comprehensive documentation provided by the Management Board in advance of each meeting.

We also decided on the compensation of Management Board members for the fiscal year 2011 on the basis of external bench-marking and their achievement of performance-related targets. The appropriateness of the Management Board's compensation was confirmed by an independent remuneration consultant.

On January 30, 2011, the Supervisory Board reviewed and approved an updated financial plan for the business segment AbD Serotec, and discussed the revised revenue recognition of the agreement with Pfizer, which was signed in December 2010.

At our meeting on February 22, 2011, we primarily discussed the Group Management Report and the Financial Statements according to IFRS for the MorphoSys Group as of December 31, 2010. We also discussed and agreed on the key performance indicators for the newly introduced long-term incentive program for the Management Board and the Senior Management Group. We also approved the recommendation for the upcoming Annual Shareholders' Meeting to re-elect Prof. Jürgen Drews for another year as member of the Supervisory Board.

At our meeting on March, 10, 2011, we approved the Management Report and the Financial Statements for MorphoSys AG according to German GAAP (HGB) as of December 31, 2010 as well as the agenda for the Annual Shareholders' Meeting on May 19, 2011. We also approved Dave Lemus's resignation from the Management Board as of March 10, 2011, prior to the expiration of his appointment.

At our meeting on May 18, 2011, an external consultant joined the board meeting to discuss the upcoming examination of the efficiency of the Supervisory Board. In addition, we received a presentation on Ylanthia, MorphoSys's latest technology platform.

At our meeting on July 27, 2011, an improved risk management system was presented. We also discussed AbD Serotec's strategy for the commercialization of the Slonomics technology in the industrial biotechnology sector. In addition, the results of the board efficiency examination were discussed. Finally, we updated the responsibilities within the Management Board and the Rules of Procedure.

At our meeting on October 19, 2011, we discussed and approved the budget for the fiscal year 2012. The Management Board also presented an update on the Company's drug discovery activities and strategy.

At our meeting on December 8, 2011, we discussed the possible commercialization strategies of MorphoSys's latest antibody platform Ylanthia. In addition, the results of the latest risk management assessment were presented and we updated the Audit Committee charter. Finally, the Internal Audit results were presented.

In 2011, no conflict of interest occurred.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

In 2011, seven Supervisory Board meetings were held. No Supervisory Board member was absent from more than two meetings. With one exception, the committee meetings were fully attended.

Three committees deliberated on various aspects of the Company's business in 2011: 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 ten times, dealing mainly with accounting issues, the quarterly financial statements and the annual financial statements. The auditor attended four meetings of the Audit Committee and informed its members of the audit results. In addition, the Audit Committee made a recommendation to the Supervisory Board for the Supervisory Board's proposal to the Annual Shareholders' Meeting concerning the election of the independent auditors. The Audit Committee gave in-depth consideration to the appointment of the independent auditors for fiscal 2011 and the transition to the new auditors, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich.

The Remuneration & Nomination Committee met formally twice and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board. The Committee also deliberated on the composition of the Supervisory Board, in particular its diversity, focusing on its internationality, the range of experience of its members and the representation of women. Based on these discussions, its future composition was also discussed in the Supervisory Board.

The Science & Technology Committee met five times, focusing on the Company's technology and drug development plans, target selection and the 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.

The Supervisory Board did not establish any other committees.

CORPORATE GOVERNANCE AND MANAGEMENT BOARD COMPENSATION

The Supervisory Board dealt with corporate governance at MorphoSys, taking into account amendments made to the German Corporate Governance Code in May 2010. Information on corporate governance at the Company including a detailed report on the level and structure of the compensation paid to the members of the Supervisory and Management Boards is provided on pages 81 – 87 of this Annual Report.

We discussed with the Management Board the Company's compliance with the Code's recommendations and agreed, based on well-founded arguments, to some minor deviations. Based on these deliberations, the boards approved an interim update of the Declaration of Compliance as of March 10, 2011, and the annual Declaration of Compliance as of December 8, 2011. As stated in the Declaration of Compliance, MorphoSys complies with all but four of the Code's rec-

ommendations. The latest version of the Declaration of Compliance can be found in this report on page 82 and is also permanently available to shareholders on MorphoSys's website.

NEW CHIEF FINANCIAL OFFICER

We were very pleased to welcome Mr. Jens Holstein, who started on May 1, 2011 as the Group's new Chief Financial Officer. He 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

In 2011, the Company commenced work with a new audit firm. The audit contract was awarded to PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 19, 2011.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, audited the parent-company financial statements for the fiscal year January 1, 2011 to December 31, 2011 prepared by the Management Board in accordance with HGB (German GAAP) rules, and the Management Report of MorphoSys AG. The auditors issued an unqualified audit opinion.

The focus of the 2011 audit of the financial statements and the Management Report of MorphoSys AG was the recoverability of intangible and financial assets, completeness and valuation of other provisions, accounting and disclosure of the long-term incentive share based payment program and revenue recognition including correct cut-off presentation.

The auditors also confirmed that the Management Board has installed an appropriate reporting and monitoring system which is suitable in its design and handling to identify at an early stage developments which could place the continued existence of the Company at risk.

In accordance with § 315 a HGB, the consolidated financial statements of MorphoSys Group for the fiscal year from January 1, 2011 to December 31, 2011 and the Management Report on the Group were prepared on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The consolidated financial statements and the Management Report on the Group were also given an unqualified audit opinion.

The main emphasis of the 2011 audit of the consolidated financial statements and the Management Report of the MorphoSys Group were the audit of the accuracy of the accounting for the new long-term incentive program, the audit of the impairment test on goodwill and intangible assets without an underlying definite useful life according to IAS 36, the audit of calculated current and deferred taxes, the audit of the accuracy regarding group's segment reporting, the audit of completeness and accuracy in Group's notes disclosures and the plausibility check on all prognostic information in the Group's Management Report. On completing its work, the auditor issued an unqualified audit opinion.

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 24, 2012, 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 15, 2012, and at the subsequent Supervisory Board meeting on the same day. 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 also reviewed the proposal of the Management Board for the use of the 2011 earnings and resolved in accordance with their recommendation.

On behalf of the entire Supervisory Board I would like to thank the members of the Management Board and the employees of all MorphoSys companies for their hard work and great commitment over the past fiscal year.

Martinsried, March 15, 2012

Dr. Gerald Möller
Chairman of the Supervisory Board

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ADDITIONAL INFORMATION
WWW.MORPHOSYS.COM

Supervisory Board of MorphoSys AG

PROF. DR. JÜRGEN DREWS
Deputy Chairman, Feldafing, Germany
and Cureggia, Switzerland

No other Supervisory Board memberships

DR. GERALD MÖLLER
Chairman, Heidelberg, Germany

Member of the Supervisory Board of:
4sigma*, Bermuda (Chairman)
Adrenomed GmbH*, Germany (Director)
Bionostics, Inc.*, USA (Director)
Illumina, Inc.*, USA (Director)
Invendo Medical GmbH*, Germany (Chairman)
VIVACTA Ltd.*, UK (Director)

DR. WALTER BLÄTTLER
Member, Brookline, MA, USA

No other Supervisory Board memberships

DR. DANIEL CAMUS
Member, Croissy-sur-Seine, France

Member of the Supervisory Board of:
Cameco Corp.*, Canada (Director)
SGL Group SE, Germany (Member)
Valéo SA*, France (Director)
Vivendi SA*, France (Member)

DR. GEOFFREY N. VERNON
Member, Devon, UK

Member of the Supervisory Board of:
Cornwall Farmers Ltd.*, UK (Chairman)
Genable Ltd.*, Ireland (Chairman)
Medpharm Ltd.*, UK (Chairman)
Veryan Medical Ltd.*, UK (Chairman)
XL TechGroup, Inc.*, USA (Chairman)
Ziggus Holdings Ltd.*, UK (Chairman)

DR. METIN COLPAN
Member, Essen, Germany

Member of the Supervisory Board of:
Qalovis GmbH*, Germany (Director)
Qiagen N.V.*, the Netherlands (Director)

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

Senior Management Group of MorphoSys AG






SASCHA ALILOVIC
Head of Corporate Finance

DR. MARKUS ENZELBERGER
Head of Discovery Alliances Technologies

KLAUS DE WALL
Head of Accounting & Controlling

DIETER FEGER
Head of AbD Serotec

SILVIA DERMIETZEL
Head of Global Human Resources

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

DR. BARBARA KREBS-POHL
Head of Business Development

DR. LISA ROJKJAER
Head of Clinical Development

DR. ARMIN WEIDMANN
Head of Quality Assurance & Regulatory Affairs

DR. ULRICH MOEBIUS
Head of Preclinical Development & Project Management

DR. MARGIT URBAN
Head of Target and Antibody Discovery

DR. GÜNTER WELLNHOFER
Head of Technical Operations

DR. RALF OSTENDORP
Head of Protein Sciences

DR. HARALD WATZKA
Head of Alliance Management








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

ADC – Antibody-drug conjugate; a new type of targeted therapy combining the specificity of monoclonal antibodies with the potency of cytotoxic molecules

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

ALL – Acute lymphoblastic leukemia; a form of cancer of the white blood cells characterized by excess lymphoblasts

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

BilMoG – Bilanzrechtsmodernisierungsgesetz; Accounting Law Modernization Act

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

BiTE – A class of artificial bispecific monoclonal antibodies that are investigated for the use as anti-cancer drugs by directing the T cells' cytotoxic activity against cancer cells. BiTE® is a registered trademark of Micromet AG

C

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

CD19 – Therapeutic target for the treatment of B-cell lymphomas and leukemias

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; direct costs attributable to the production of the goods sold by AbD Serotec

E

EMA – European Medicines Agency

F

Fc-engineered – Modification within the Fc part of an antibody to improve effector function

Fc-part – Constant part of an antibody known as the Fc (Fragment, crystallizable) region

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

GLP – Good laboratory practice; a formal framework for the implementation of safety tests on chemical products

GM-CSF – Granulozyte-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

IPF – Idiopathic pulmonary fibrosis; chronic, progressive form of lung disease characterized by the buildup of scar tissue in the lungs

J

JAK – Janus kinase; a molecule involved in signal transduction in cells

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 & 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 causing 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

NHL – Non-Hodgkin lymphomas; diverse group of blood cancers that include any kind of lymphoma except Hodgkin's lymphomas

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

P

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 essays

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

R

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

Slonomics – DNA engineering and protein library generation platform acquired by MorphoSys in 2010

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

Y

Ylanthia – Novel next-generation antibody platform of MorphoSys

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List of Figures and Tables

Imprint

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(except financial statements)

This financial report is also published in German and is available for download from our website.

Key Figures (IFRS)*

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

	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
RESULTS									
Revenues	100.8	87.0	81.0	71.6	62.0	53.0	33.5	22.0	15.3
Cost of Goods Sold	7.0	7.3	6.7	7.1	7.9	8.0	2.5	0.9[1)]	-
R&D Expenses	57.5	46.9	39.0	27.6	22.2	17.5	14.0	11.4[1)]	9.0[1)]
S, G&A Expenses	24.6	23.2	23.9	20.5	24.8	21.4	10.8	7.5[1)]	7.2[1)]
Personnel Expenses (Excluding Stock-based Compensation)	35.3	29.6	26.1	21.5	18.8	18.1	10.8	9,1	7.5
Capital Expenditure	3.6	13.8	3.8	3.8	12.0	4.0	0.7	1,7	0.7
Depreciation	2.4	2.1	1.6	1.5	1.5	1.5	0.9	0,7	0.5
Amortization of Intangible Assets	4.3	4.0	3.8	4.8	3.7	3.4	2.7	2,0	1.5
Profit/(Loss) from Operations	12.2	9.8	11.4	16.4	7.0	6.2	6.2	0,6	(3.1)
EBITDA	18.0	19.2	18.1	21.9	13.3	10.3	8.6	3,2	(0.4)
EBIT	11.1	13.1	12.8	16.5	8.3	5.4	5.3	0,5	(2.5)
Net Profit/(Loss)	8.2	9.2	9.0	13.2	11.5	6.0	4.7	0,3	(3.1)
BALANCE SHEET									
Total Assets	228.4[2)]	209.8[2)]	206.1	203.3	184.7	127.8	80.1	55.8	42.9
Cash, Cash Equivalents and Available-for-sale Financial Assets	134.4	108.4	135.1	137.9	106.9	66.0	53.6	37.2	23.2
Intangible Assets	66.0	69.2	17.4	19.7	22.3	14.8	12.4	12.8	14.5
Total Liabilities	31.3[2)]	23.9[2)]	32.2	41.3	39.2	27.8	16.1	16.4	15.6
Stockholders' Equity	197.1	185.9	173.9	162.0	145.5	100.1	64.0	39.4	27.3
Equity Ratio (in%)	86%	89%	84%	80%	79%	78%	80%	71%	64%
MORPHOSYS SHARE									
Number of Shares Issued	23,112,167	22,890,252	22,660,557	22,478,787	22,160,259	20,145,966	18,077,589	16,316,556	14,703,996
Earnings/(Loss) per Share, Diluted (in €)	0.36	0.40	0.40	0.59	0.53	0.31	0.28	0.02	(0.24)
Dividend (in €)	-	-	-	-	-	-	-	-	-
Share Price (in €)	17.53	18.53	17.04	18.75	16.10	18.12	13.77	12.70	3.71
PERSONNEL DATA									
Total Group Employees (Number)	446	464	404	334	295	279	172	132	95
Germany (Number)	352	370	301	236	192	183	145	132	95
Other Countries (Number)	94	94	103	98	103	96	27	-	-

* MorphoSys is publishing its consolidated financial statements in accordance with IFRS since 2003. In earlier periods, the Company reported according to US GAAP.

[1)] Excluding stock-based compensation

[2)] In 2011, a deferred tax asset in the amount of € 2.3 million has been offset with a deferred tax liability for better transparency. Both deferred tax asset and deferred tax liability relate to income taxes levied by the same tax authority on the same taxable entity. To provide comparative information, prior year's deferred tax asset and deferred tax liability (€ 2.8 million) – and thus total assets as well as total liabilities and stockholders' equity – have been adjusted accordingly.

Financial Calendar

March 1, 2012	Publication of 2011 Year End Results
May 4, 2012	Publication of 2012 Three Months' Report
May 31, 2012	2012 Annual Shareholders' Meeting in Munich
August 2, 2012	Publication of 2012 Six Months' Report
November 7, 2012	Publication of 2012 Nine Months' Report

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