

ANNUAL FINANCIAL STATEMENTS (HGB) 2011

Management Report

2011 was a year of solid progress for MorphoSys AG. 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.

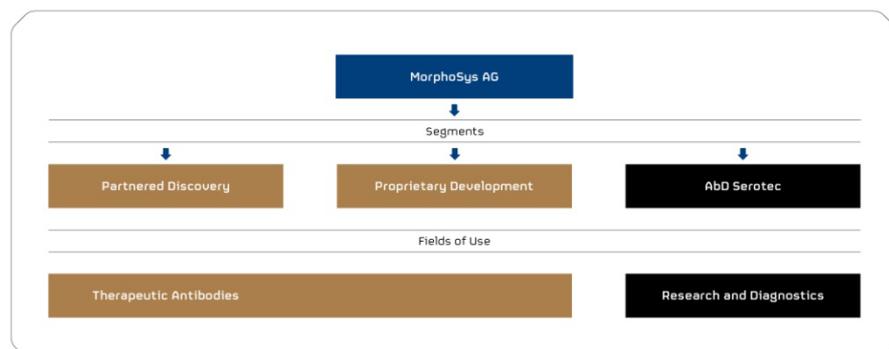
Operations and Business Environment

Organizational Structure

Organization of MorphoSys AG

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.

FIG. 1: Organizational Structure of MorphoSys AG



MorphoSys AG has five subsidiaries 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 in Puchheim near Munich and Kidlington near Oxford, United Kingdom. MorphoSys's international sales are handled by its subsidiaries in Germany, the United Kingdom and in Raleigh, North Carolina, United States.

Fig. 2: Worldwide Locations of 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 MorphoSys

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 48. 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.

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.

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.

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

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 GlaxoSmith-Kline'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.

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.

*TAB. 2: Partnered Discovery Segment's Share of Total Revenues**

in € million	2011	2010	2009	2008	2007
Revenues Partnered Discovery	76.8	66.0	61.7	54.3	-
% of total revenues	93%	94%	94%	96%	-

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

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.

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)	<ul style="list-style-type: none"> – 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
BHQ880	Novartis	Multiple Myeloma (MM)	<ul style="list-style-type: none"> – 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)	<ul style="list-style-type: none"> – 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

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.

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.

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 antibody-dependent 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.

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.

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 as a subsidiary of MorphoSys AG 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 17 as well as Commercial Development on page 21.

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 € 116.8 million, MorphoSys AG, 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, the MorphoSys AG 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.

*TAB. 4: Development of Financial Performance Indicators***

in million €	2011	2010	2009	2008	2007
MorphoSys AG					
Revenues	82.8	70.2	65.3	56.8	45.6
Partnered Discovery*					
Revenues	76.8	66.0	61.7	54.3	-
Proprietary Development*					
Revenues	2.4	1.8	1.0	0.0	-
AbD Serotec					
Revenues	3.8	3.3	3.5	3.4	3.2

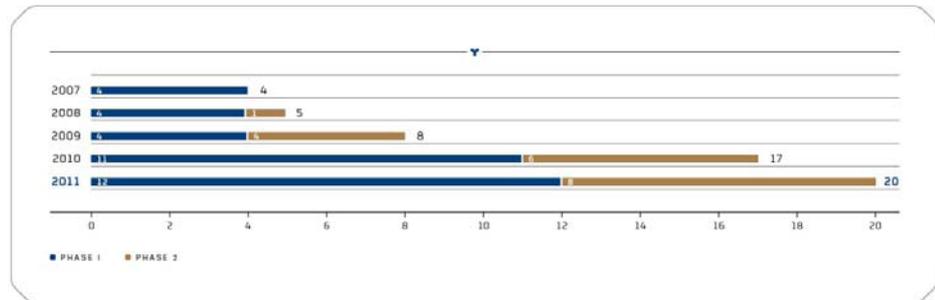
* The Partnered Discovery and Proprietary Development segments were introduced in 2009.

** Revenues by segment may not add up to total revenues due inter-segment revenues

Non-financial Performance Indicators

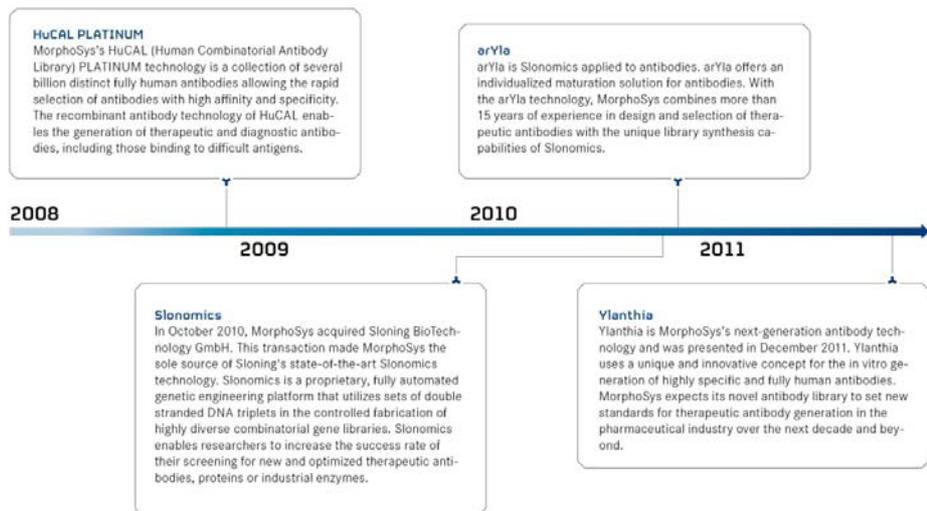
In an emerging industry like biotechnology, purely financial information shows an incomplete picture of a company's value-creation activities and may appear to be unrelated to its stock price. MorphoSys is committed to growing the Company's value by maintaining its position as a provider of industry-leading 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.

FIG.2: Clinical Pipeline at Year-End



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.

FIG.3: 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 17. The stable development is also reflected in the workforce numbers (see Section on Human Resources on page 23). 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 29.

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.

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.

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 de-

scribe 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.

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 Venture-Source. 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, Willex 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 2011 fiscal 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.

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 ("Festbetragsystem"). 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 44% of its revenues, or € 36.7 million, in proprietary R&D, up from 40%, 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 29.

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.

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 beta amyloid 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.

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.

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.

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

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, MorphoSys AG employed 329 people (December 31, 2010: 318) in addition to the four members of the Management Board and eight apprentices. All employees work in Germany.

Of the 329 employees as of December 31, 2011, 14 people represented the executive staff (December 31, 2010: 14 employees), whereas 315 employees had non-executive positions (December 31, 2010: 304 employees).

132 of these 329 employees held a PhD (December 31, 2010: 121). On average, MorphoSys AG employed 339 people in 2011 (2010: 296).

TAB. 5: Total Headcount

	2011	2010	2009	2008	2007
Total Headcount	329	318	271	216	183

TAB. 6: Employees by Segment* and Function

	2011	2010
Total Employees	329	318
Proprietary Development segment	66	99
Partnered Discovery segment	198	158
AbD Serotec segment	27	24
Employees in R&D	280	272
Employees in S, G&A	49	46

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

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 29.

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.

Results of Operations, Financial Situation and Balance Sheet

Results of Operations

Revenues

Compared to the same period in the previous year, revenues increased by 18% to € 82.8 million (2010: € 70.2 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, whereas revenues in the AbD Serotec segment showed an increase.

Revenues arising from the Partnered Discovery and Proprietary Development segments, before elimination of inter-segment effects, accounted for € 76.8 million (2010: € 66.0 million) and € 2.4 million (2010: € 1.8 million) of total revenues, while the AbD Serotec segment generated € 3.8 million of the total segment revenues (2010: € 3.3 million).

Of total revenues, € 1.5 million (2010: € 1.5 million) were generated from domestic sales and € 3.2 million (2010: € 10.0 million) with biotechnology and pharmaceutical companies and non-profit organizations located in North America. An amount of € 78.0 million (2010: € 58.7 million) was generated from sales in other European countries and Asia. Revenues in other countries amounted to € 0.1 million (2010: € 0.04 million).

Cost of Sales

Cost of Sales which comprised mainly expenses for research and development increased by € 11.6 million to € 59.9 million (2010: € 48.3 million). This change is mainly due to higher personnel costs, external services and costs for intangible assets.

Selling Expenses

Selling expenses slightly increased by € 0.5 million to € 2.8 million (2010: € 2.3 million) mainly due to higher personnel-related costs.

General and Administrative Expenses

General and administrative expenses amounted to € 14.9 million (2010: € 11.5 million). The increase is mainly due to higher costs for external services and personnel costs.

Other Operating Income, Other Operating Expenses, Other Interest and Similar Income

Other operating income amounted to € 2.6 million and increased by € 0.5 million compared to 2010, mainly as a result of higher reimbursements from affiliated companies for personnel costs in connection with orders, which were executed by an affiliated company, released provisions accounted for in the previous year and increased grant income from governmental agencies. Other operating expenses increased from € 1.3 million in 2010 to € 2.1 million in 2011. The main reason for the increase is higher foreign currency losses in 2011. Other interest and similar income increased from € 0.1 million to € 0.3 million due to higher interest income from cash in banks as a result of the increased cash position of the Company.

Income from Other Securities and Loans Presented under Financial Assets

Income in the amount of € 1.1 million from other securities and loans presented under financial assets (2010: € 4.1 million) mainly included realized gains on marketable securities in the amount of € 1.1 million (2010: € 4.0 million).

Income from Profit Pooling Agreements

Due to a control and profit pooling agreement (effective from November 20, 2002) profits in the amount of € 3.3 million (2010: € 0.03 million) were transferred from MorphoSys IP GmbH, Martinsried to MorphoSys AG, Martinsried.

Income from Participations

In 2011, MorphoSys AG received a dividend payment of € 0.6 million from its subsidiary MorphoSys UK, Ltd.

Depreciation of Financial Assets

In 2011, MorphoSys AG recognized an impairment loss of € 0.1 million for its shares in its affiliated company Poole Real Estate, Ltd. due to a revaluation of the company's assets.

Income Tax

Income tax expense decreased from € 3.7 million in 2010 to € 2.7 million in 2011, mainly as a result of the decreased result from ordinary activities and the tax exempt income from participations in 2011.

Result from Ordinary Activities/Net Profit

The developments described above lead to a result from ordinary activities of € 10.8 million (2010: € 13.3 million) and a net profit after taxes in the amount of € 8.2 million (2010: € 9.6 million).

Liquidity

Cash on hand and cash in banks increased by € 5.1 million to € 45.6 million (2010: € 40.5 million).

Balance Sheet

Assets

Total assets increased by € 11.8 million to € 210.8 million as of December 31, 2011, compared to € 199.0 million as of December 31, 2010. This change mainly derived from an increase in marketable securities of € 8.0 million and cash on hand and cash in banks in the amount of € 5.1 million, a result primarily driven by the payment received for the technology milestone from Novartis.

Provisions / Liabilities

In 2011, total liabilities decreased from € 2.4 million as of December 31, 2010, to € 1.6 million. This change primarily arose from a decrease in trade accounts payable by € 0.9 million.

As of December 31, 2011, provisions amounted to € 18.2 million, compared to € 12.5 million in the previous year. The increase is mainly due to higher provisions for outstanding invoices for external laboratory funding (2011: € 6.6 million, 2010: € 3.6 million) and increased provisions for personnel-related expenses (2011: € 5.2 million, 2010: € 3.6 million). Tax provisions increased by € 0.5 million to € 2.3 million.

Equity

Total stockholders' equity amounted to € 189.8 million as of December 31, 2011, compared to € 180.3 million as of December 31, 2010, resulting in an equity ratio of 90% (prior year: 91%).

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 221,915 shares (prior year: 229,695 shares) arose from exercised options and convertible bonds issued to both the Management Board and employees and was partly offset by the repurchase of the Company's own stock of 84,019 shares. The repurchased shares will be used to implement the Company's long-term incentive plan for management.

Treasury shares amounted to 163,915 shares as of December 31, 2011 (2010: 79,896 shares).

As of December 31, 2011, capital surplus amounted to € 152.1 million compared to € 149.2 million as of December 31, 2010. The increase of € 2.9 million resulted from additions in connection with the exercise of options and convertible bonds.

Other earnings reserves increased from € 8.2 million as of December 31, 2010, to € 11.6 million as of December 31, 2011, the maximum as permitted by § 58 paragraph 2 sentence 3 of the German Stock Corporation Act and § 21 paragraph 3 of the articles of association of the Company. In 2011, € 5.0 million of the net profit for the year 2011 (2010: € 8.2 million) were allocated to other earnings reserves, whereas an amount of € 1.7 million was withdrawn from other earnings reserves in order to account for the repurchase of the Company's own stock for serving the long-term incentive plan and settled with the difference from purchase of treasury stock.

As of December 31, 2011, accumulated income amounted to € 3.1 million (December 31, 2010: € 0.0 million), resulting from the allocation of the remaining net profit for the year 2011 to accumulated income.

Capital Expenditure

MorphoSys's investment in tangible assets amounted to € 1.8 million for 2011 and decreased by € 0.3 million compared to the prior year due to lower investments in laboratory and office equipment in 2011. Depreciation of tangible assets for the fiscal year 2011 amounted to € 1.8 million and remained unchanged compared to 2010.

In 2011, the Company invested € 0.9 million in intangible assets (2010: € 11.1 million), mainly in software. The investments in 2010 were mainly impacted by the acquisition of the license from Xencor. Amortization of intangibles amounted to € 1.8 million and decreased by € 0.1 million in comparison to € 1.9 million in 2010.

The decrease in financial assets in the amount of € 0.8 million derived from a repayment of loans granted to the Company's subsidiary, Sloning BioTechnology GmbH. In 2010, MorphoSys invested € 19.0 million in financial assets due to the acquisition of Sloning BioTechnology GmbH as of October 7, 2010.

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 Company's continued growth. The most important sources of liquidity are the operating business activities of the Company and the resulting cash inflows. Scenarios and cash-flow planning are used to establish liquidity requirements.

Financing

As of December 31, 2011, the equity ratio of the Company amounted to 90%, compared to an equity ratio of 91% 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.

Comparison of the Actual Business Results with Forecasts

During 2011, MorphoSys showed a solid financial performance. Due to the delay of several milestone payments, the Company did not meet its revenue goal as set at the beginning of the year. However, profit from operations was not affected and the pipeline made good progress.

	2011 Goals	2011 Achievements
Financials	Revenues of € 85-90 million	Revenues of € 82.8 million
	Investment in proprietary R&D of € 40-45 million	Investment in proprietary R&D of € 36.7 million
	Operating profit at least € 8 million	Operating profit of € 10.8 million
Proprietary R&D	MOR103:	
	– Advance program in rheumatoid arthritis	– Phase 1b/2a study on track to report final data in 2012
	– Start clinical evaluation in multiple sclerosis	– Phase 1b study opened for enrollment in December 2011
	– Prepare clinical trial for subcutaneous administration	– 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 AG. The majority of the Company goals have been met, with all business segments contributing to this positive development. Revenues increased strongly compared to 2010 but remained slightly under initial expectations as a result of the shift of individual milestone payments to 2012. In total, MorphoSys showed top-line growth of 18% and remained profitable with an operating profit of € 10.8 million. The financial situation of the Company remains very stable in 2011, with an equity ratio amounting to 90%, a cash position of € 116.8 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 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.

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 48.

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.

As is outlined in the Corporate Governance Report on page 48, 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 36 et. seq.).

The 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. 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 inter-

national 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.

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 "Münchener 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.

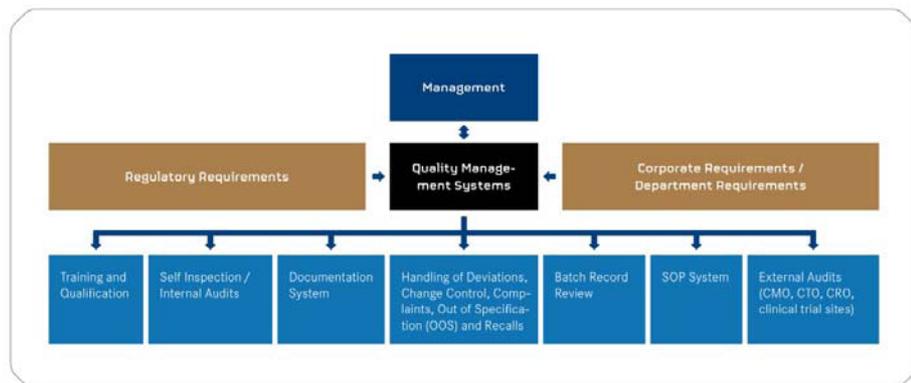
FIG. 4: Occupational Safety at MorphoSys AG



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, 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.

FIG. 5: Quality Management Systems at MorphoSys AG



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.

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.

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.

FIG. 6: Workforce by Gender in 2011 and 2010

	2011	2010
Male	37%	35%
Female	63%	65%

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 MorphoSys AG.

TAB. 7: Absence Rates at MorphoSys AG

	2011	2010	2009	2008	2007
Germany	2.7%	1.7%	2.0%	1.3%	1.0%

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 43.

Accounting-Related Internal Control System

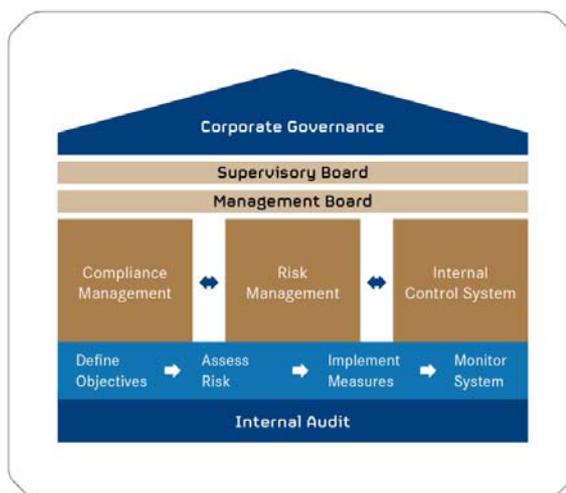
MorphoSys uses extensive internal controls, Group-wide reporting guidelines and additional measures, including employee training and continuous education, with the intention to ensure accurate bookkeeping and accounting as well as reliable financial reporting in the consolidated financial statements and the Management Report. This integral element of the consolidated accounting process comprises preventive, monitoring and detective 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 48.

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.

FIG. 7: MorphoSys's Risk Management System (RMS)



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 MorphoSys 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. 8. 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.

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)

FIG. 8: Risk Evaluation by MorphoSys AG



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 29.

Compliance Risks

As stated in the Sustainability Report (page 29), 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.

The Management Board's General Statement about MorphoSys's Risks

The Management Board considers the risks to be manageable and the survival of the MorphoSys AG not to be endangered at the time of the current report. 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 clini-

cal 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 arYla 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 28, 2012, there were no events requiring disclosure.

Outlook and Forecast

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

MorphoSys'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 Company'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 euro zone is facing a sharp slow-down.

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 arY1a, 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 continues to benefit from opportunities in the diagnostics market.

Expected Personnel Development

MorphoSys will continue to create individual positions in its R&D organization to strengthen its proprietary and partnered development capabilities. The Company'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 Company'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 AG has a solid financial foundation and recurring revenues, mainly from its collaboration with Novartis. On top of those revenues, MorphoSys AG collects sales from its AbD Serotec business unit and stands to receive success-based payments as partnered compounds progress in development. For 2012, management anticipates total revenue of between € 57 million and € 62 million for MorphoSys AG. 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, 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 Company'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 pre-clinical 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.

On the basis of the Management Board's current planning, total 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 at least € 1 million.

At the end of the 2011 fiscal year, MorphoSys's cash position amounted to € 116.8 million (up from € 103.7 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 giv-

ing 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 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 23.

- 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.

FIG. 9: 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

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 pages 24-26 of the Notes. 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. 8: 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

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. 10: 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 Frame-

work”), 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.

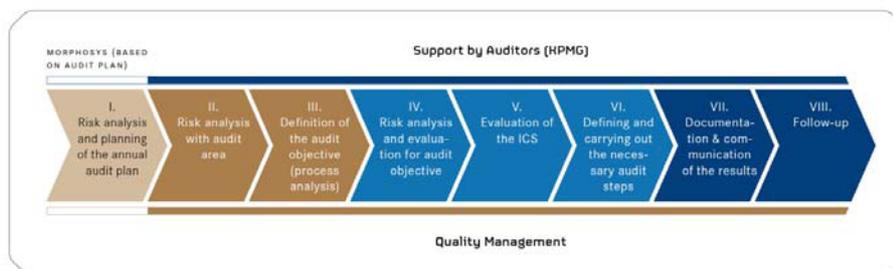
Projections relating to future periods are not part of the internal control system.

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.

FIG. 11: 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.

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 36 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%.

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. 9: 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. 10: 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 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

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 page 15 et. seq. of the Notes.

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.

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 Man-

agement 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:

in €	Fixed Compensation		Attendance Fees		Total Compensation	
	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 Associa-

tion). 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 Statements
from January 1, 2011 through December 31, 2011

Balance Sheet as of December 31, 2011

ASSETS	12/31/2011 EUR	12/31/2011 EUR	12/31/2010 EUR
A. FIXED ASSETS			
I. Intangible Assets			
Franchises, trademarks, patents, licences, and similar rights and licences to such rights		19,323,488	20,428,517
II. Tangible Assets			
1. Land, leasehold rights and buildings, including leasehold improvements	245,635		215,140
2. Other equipment, furniture and fixtures	3,862,736		3,883,744
		4,108,371	4,098,884
III. Financial Assets			
1. Shares in affiliated companies	52,080,553		52,150,442
2. Loans to affiliated companies	0		799,059
		52,080,553	52,949,501
B. CURRENT ASSETS			
I. Inventories			
Raw materials, supplies and production materials		435,057	428,787
II. Receivables and Other Assets			
1. Trade accounts receivable (thereof due within one year EUR 10,163,169, prior year: EUR 13,189,512)	10,163,169		13,189,512
2. Receivables due from affiliated companies (thereof due within one year EUR 3,584,427, prior year: EUR 295,492)	3,584,427		295,492
3. Other assets (thereof due after one year EUR 36,967, prior year: EUR 36,967)	2,795,832		2,154,069
		16,543,428	15,639,073
III. Securities			
1. Other securities	71,204,006		63,165,760
		71,204,006	63,165,760
IV. Cash on Hand and Cash at Banks		45,639,094	40,491,844
C. PREPAID EXPENSES		1,463,962	1,816,860
		210,797,959	199,019,226

	12/31/2011	12/31/2011	12/31/2010
	EUR	EUR	EUR
LIABILITIES AND SHAREHOLDERS EQUITY			
A. EQUITY			
Capital Subscribed	23,112,167		22,890,252
Treasury Stock	(93,793)		(9,774)
I. Capital Issued	23,018,374		22,880,478
II. Capital Surplus	152,141,472		149,223,927
III. Earnings Reserves			
Other earnings reserves	11,556,084		8,178,734
IV. Accumulated Income	3,114,618		0
		189,830,548	180,283,139
B. PROVISIONS			
1. Tax provisions	2,277,783		1,730,966
2. Other provisions	15,899,173		10,770,483
		18,176,956	12,501,449
C. LIABILITIES			
1. Bonds, thereof convertible EUR 73,607 (prior year: EUR 113,256)	73,607		113,256
2. Trade accounts payable	565,660		1,449,936
3. Liabilities due to affiliated companies	263,907		146,655
4. Other liabilities (thereof due within one year EUR 700,691, prior year: EUR 653,871) (thereof for taxes EUR 408,624, prior year: EUR 487,591)	700,691		653,871
		1,603,865	2,363,718
D. DEFERRED INCOME		1,186,590	3,870,920
		210,797,959	199,019,226

Statement of Income for 2011

	2011 EUR	2010 EUR
1. Sales	82,796,634	70,249,057
2. Cost of sales	(59,943,980)	(48,258,184)
3. Gross profit on sales	22,852,654	21,990,873
4. Selling expenses	(2,817,212)	(2,265,952)
5. General administration expenses	(14,898,967)	(11,476,042)
6. Other operating income	2,618,996	2,063,000
7. Other operating expenses	(2,148,252)	(1,296,371)
8. Income from profit pooling agreements	3,286,080	36,824
9. Income from participations	575,650	0
thereof from affiliated companies	575,650	0
10. Income from other securities and loans presented under financial assets	1,116,542	4,091,250
thereof from affiliated companies	30,631	111,330
11. Other interest and similar income	322,401	137,141
thereof from affiliated companies	0	0
12. Depreciation of financial assets	(69,889)	0
13. Interest and similar expenses	(3,459)	(19,433)
thereof to affiliated companies	0	(565)
14. Result from ordinary activities	10,834,544	13,261,290
15. Income tax	(2,686,429)	(3,676,106)
16. Other taxes	6,900	(29,144)
17. Net profit	8,155,015	9,556,040
18. Loss carried forward	0	(1,387,080)
19. Withdrawal from reserve for treasury stock	0	9,774
20. Withdrawal from other earnings reserves	1,663,047	0
21. Settlement with the difference from purchase of treasury stock	(1,663,047)	0
22. Allocation to other earnings reserves	(5,040,397)	(8,178,734)
23. Accumulated income	3,114,618	0

Notes

GENERAL REMARKS

These annual financial statements as presented were prepared in accordance with §§ 242 et seq and §§ 264 et seq of the German Commercial Code ("Handelsgesetzbuch" - "HGB"), the relevant provisions of the German Stock Corporation Act ("Aktengesetz" - "AktG") and the Company's Articles of Association. Shares in MorphoSys AG (the "Company") are listed for official trading on the Prime Standard segment of the Frankfurt stock exchange.

The accounts have been prepared in accordance with the regulations for large corporations. The statement of income was classified according to the cost of sales method in order to provide comparability with the consolidated financial statements in accordance with IFRS.

ACCOUNTING POLICIES

The following accounting and valuation policies are used for the presentation of the annual financial statements:

Acquired intangible assets are subject to depletion, they are amortized as planned by applying their useful life (straight-line method). Acquired intangible assets under development are stated at cost and not subject to amortization before utilizability is confirmed by efficacy studies for the respective antibody programs. The assets are reviewed to be measured at the lower of carrying amount or fair value on the balance sheet date.

Tangible assets are accounted for at acquisition cost and depreciated (straight-line method) over the expected useful life. Low-value items up to a value of € 150 are expensed in the year of acquisition. Low-value items ranging from € 151 to € 1,000 are depreciated on a straight-line basis over five years starting in the year of acquisition.

Financial assets are presented at the lower of acquisition cost or fair value.

The inventories are stated in accordance with § 256 of the German Commercial Code (HGB) on a FIFO basis. Apart from customary retention of title, inventories are free of third-party's rights.

Receivables and other assets are shown at nominal value. Allowances are provided for all items which are subject to risk. Receivables denominated in foreign currency are presented in accordance with § 256a of the German Commercial Code (HGB) and the realization principle regarding long-term receivables.

Other short-term securities are shown at the lower of cost or market value in accordance with § 253 paragraph 4 of the German Commercial Code (HGB).

Other provisions provide for all foreseeable risks, uncertain obligations and imminent losses from pending transactions and are valued at the amount repayable.

Liabilities are valued at settlement amounts. Foreign currency liabilities are valued in accordance with § 256a of the German Commercial Code (HGB) and the imparity principle regarding long-term liabilities.

Personnel expenses resulting from the cash-settled stock appreciation right program granted in October 2010 are accounted for as provisions on a pro rata basis as this represents a financial

burden for the Company.

Personnel expenses resulting from the long-term incentive plan granted on June 1, 2011, are accounted for as provisions on a pro rata basis as the re-purchase of the Company's own stock for serving the long-term incentive plan represents a financial burden for the Company. The nominal value of the re-purchased stock is accounted for as an offset from capital subscribed, whereas the residual to the total purchase price is accounted for as a deduction from other earnings reserves in equity.

Earnings from "Collaboration and Research Agreements" are shown as operating revenues on the basis of the terms of the agreement, taking into account the realization principle in accordance with § 252 paragraph 1 item 4 of the German Commercial Code (HGB) and in accordance with the accrual-based method (§ 250 paragraph 2 German Commercial Code (HGB)) on the basis of the duration of the agreements. Upfront fees paid on execution of agreements for access to MorphoSys technology (e.g. HuCAL or AutoCAL) are amortized over the period of the right of use granted. License fees are amortized over the term of the agreement. Milestone fees are recognized upon achievement of certain criteria. Research and development collaboration service fees are recognized in the period when the services are provided.

All figures in this report are rounded either to the nearest euro or million euros.

Basis for the Euro Conversion of Foreign Currency Items

Foreign currency receivables and liabilities are accounted for at the average spot rate at the time of the original transaction or at the balance sheet date for its short-term receivables and liabilities. The Company did not recognize any long-term receivables and liabilities in foreign currency.

NOTES TO THE BALANCE SHEET

Fixed Assets

The development of fixed assets and the respective depreciation for the fiscal year are presented in the fixed assets movement schedule. The last stocktaking was performed in October 2011.

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

Intangible Assets

Franchises, trademarks, patents, licences, and similar rights and licences to such rights amounted to € 19,323,488 as of December 31, 2011 (2010: € 20,428,517), and included intangible assets under development in the amount of € 10,513,100 (2010: € 10,513,100), which

contains an upfront payment from the in-licensing of a compound for the Proprietary Development segment. In the financial year 2011, no amortization was accounted for this intangible asset under development, as it is not yet utilizable, since its efficacy is currently being tested for in a clinical phase-1 trial. As of the balance sheet date, the asset has been tested for impairment.

Asset Class	Useful Life
Franchises, trademarks, patents, licences, and similar rights and licences to such rights, available for use	8-10 years
Intangible assets under development	not yet subject to amortization
Software	3-5 years

The development of intangible assets and the respective amortization for the fiscal year are presented in the fixed assets movement schedule.

Financial Assets

The change in financial assets mainly resulted from a repayment of loans in the amount of € 779,059, which were granted by the Company to its subsidiary Sloning BioTechnology GmbH in 2010.

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

In 2011, an impairment loss of € 69,889 was recognized for the participation in the Company's subsidiary Poole Real Estate Ltd., Poole, UK, due to a revaluation of assets as of December 31, 2011.

The equity investments are listed below in the "Chart of Share Ownership".

	Currency	Exchange Rate on Dec 31, 2011 one Unit of Euro in Local Currency	Stake in %	Equity in domestic currency	Profit / Loss for the Year in domestic currency
Foreign					
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US \$	1.29257	100.00	2,779	(1,169)
Poole Real Estate Ltd., Poole, UK	£	0.83819	100.00	828,363	(91,120)
MorphoSys UK Ltd., Oxford, UK	£	0.83819	100.00	5,126,471	12,390
MorphoSys US, Inc., Raleigh, North Carolina, USA (indirect investment via MorphoSys UK Ltd.)	US \$	1.29257	100.00	2,078,458	509,448
Domestic					
Sloning BioTechnology GmbH, Puchheim, Germany	€	-	100.00	3,985,898	3,141,016
MorphoSys AbD GmbH, Düsseldorf, Germany (indirect investment via MorphoSys UK Ltd.)	€	-	100.00	1,230,107	61,126
MorphoSys IP GmbH, Martinsried, Germany	€	-	100.00	23,891	0

Inventories

At the reporting date, inventories of € 435,057 (2010: € 428,787) consisted of raw materials and supplies. No purchase of services was included in inventories as of December 31, 2011 and 2010, respectively. The last stocktaking was performed on December 19, 2011.

Receivables and Other Assets

Based on management's assessment, allowances in the amount of € 4,239 for 2011 (2010: € 0) were recognized.

Receivables from affiliated companies included trade accounts receivable in the amount of € 298,347 (2010: € 258,668). On November 20, 2002, the Company concluded a control and profit pooling agreement with MorphoSys IP GmbH. Accordingly, profits of MorphoSys IP GmbH in the amount of € 3,286,080 (2010: € 36,824) were transferred to MorphoSys AG and shown as receivables due to affiliated companies.

All accounts receivable are due within one year. Of other assets, € 36,967 (2010: € 36,967) had a remaining term of more than one year.

Rent deposits in the amount of € 938,776 and € 250,000, established in prior years, were separated and shown as other assets.

According to the Company's hedging policy, cash flows with a high probability and definite foreign currency receivables, which are collectable within a twelve-month period, are reviewed for hedging and shown as other receivables at cost. Starting in the year 2003, MorphoSys entered into foreign currency options and forward contracts to hedge foreign exchange exposure related to accounts receivable in US dollar and British pound.

As of December 31, 2011, no option contracts were outstanding (2010: two option contracts in the nominal amounts of \$ 10 million each). Therefore, no unsettled contract premiums for derivatives were included in other assets as of December 31, 2011 (2010: € 473,750).

Securities

Securities consisted solely of marketable securities in the amount of € 71,204,006 (2010: € 63,165,760).

Capital Subscribed

On December 31, 2011, the common stock of the Company including treasury shares amounted to 23,112,167 shares or € 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 amounted to € 22,890,252. An increase of € 229,695, or 229,695 shares, was the result of the conversion and exercise of convertible bonds and options in 2010.

In accordance with § 200 of the German Stock Corporation Act (AktG), the conditional share capital increases came into effect with the issuance of the new shares.

Treasury Stock

The Company's treasury stock developed as follows in 2011:

	Number of Com- pany Shares	Value of Capital Subscribed in €
Treasury Stock as of January 1, 2011	79,896	9,774
Repurchase of Treasury Stock	84,019	84,019
Treasury Stock as of December 31, 2011	163,915	93,793

As of December 31, 2011, Treasury Stock amounted to 0.41% of Capital Subscribed (December 31, 2010: 0.04%).

In June 2011, the Company repurchased 84,019 MorphoSys shares (0.36% of Capital Subscribed as of December 31, 2011) with a nominal value of € 1.00 per share 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.

Authorized and Conditional 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.

As of December 31, 2011, Conditional Capital II amounted to € 87,033 (December 31, 2010: € 90,729), Conditional Capital IV to 725,064 € (December 31, 2010: € 820,464), Conditional Capital V to € 992,872 (December 31, 2010: € 1,115,691) and Conditional Capital VI to € 450,000 (December 31, 2010: € 450,000).

On May 19, 2011, the Annual Shareholders' Meeting authorized the Company to create additional shares for Conditional Capital III up to a maximum of 6,600,000 shares.

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

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

Capital Surplus

In connection with the increase of capital stock as described above, capital surplus developed as follows:

	€
Status on January 1, 2011	149,223,927
Additions in connection with the exercise of options and convertible bonds	2,917,545
Status on December 31, 2011	152,141,472

Earnings Reserves

Other earnings reserves amounted to € 11,556,084 (2010: € 8,178,734).

Taking into account the net profit for the financial year 2011, other earnings reserves developed as follows:

	€
Other Earnings Reserves as of January 1, 2011	8,178,734
Settlement with the difference from purchase of treasury stock	(1,663,047)
Allocation of net profit to other earnings reserves	5,040,397
Other Earnings Reserves as of December 31, 2011	11,556,084

In 2011, an amount of € 1,663,047 was netted with other earnings reserves in order to account for the repurchase of the Company's own stock for serving the long-term incentive plan.

Accumulated Income

In connection with the net profit for the financial year 2011, accumulated income developed as follows:

	€
Accumulated Income as of January 1, 2011	0
Net profit for the year	8,155,015
Withdrawal from other earnings reserves	1,663,047
Settlement with the difference from purchase of treasury stock	(1,663,047)
Allocation to other earnings reserves	(5,040,397)
Accumulated Income as of December 31, 2011	3,114,618

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 (see p. 25).

On April 1, 2010, 352,800 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is € 16.79, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the

trading day preceding the issuance of the convertible bonds. Each convertible bond with a nominal value of € 0.33 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exercise price. The beneficiaries may exercise the conversion rights only after the expiration of a waiting period of four years from grant date. The exercise of the conversion rights is only possible if on one trading day during the lifetime of the convertible bond the stock exchange price of one share has amounted to at least 110% of the exercise price at grant date. The convertible bonds cannot be exercised beyond December 31, 2015. In the event of non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (€ 0.33 per bond/share). The convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

A summary of the activity under the Company's employee incentive convertible bonds plan for the years ended December 31, 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	0.00
Expired	0	0.00
Outstanding on December 31, 2010	448,200	15.94
Outstanding on January 1, 2011	448,200	15.94
Granted	0	0.00
Exercised	(95,400)	12.81
Forfeited	(24,750)	16.79
Expired	0	0.00
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

Stock Options

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.

Stock options exercisable on December 31, 2011 and 2010, amounted to 503,657 and 294,953 shares, respectively. The weighted-average exercise prices of exercisable stock options were € 13.51 and € 14.41 on December 31, 2011 and 2010, respectively.

Of these, no options were exercised by members of the Management Board (see p. 25).

A summary of the activity under the Company'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	0.00
Exercised	(226,095)	12.41
Forfeited	(1,875)	10.45
Expired	0	0.00
Outstanding on December 31, 2010	924,017	13.56
Outstanding on January 1, 2011	924,017	13.56
Granted	0	0.00
Exercised	(126,515)	15.16
Forfeited	0	0.00
Expired	0	0.00
Outstanding on December 31, 2011	797,502	13.31

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

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.

Long-term Incentive Plan (LTI 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 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 MorphoSys 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.

If a member of the Management Board ceases to hold an office within MorphoSys for good reason in the meaning of § 626 paragraph 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 p. 26) 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 Company accounted for stock-based compensation from the LTI plan in the amount of € 200,674.

Other Provisions

Provisions were recorded for all recognizable risks and uncertain liabilities. They mainly contained expenses for external lab funding (2011: € 6,572,604; 2010: € 3,607,498), provisions for bonus payments (2011: € 4,029,299; 2010: € 3,094,847), license and inventors compensation (2011: € 1,763,644; 2010: € 1,516,542), outstanding vacation (2011: € 345,000; 2010: € 287,000), consulting fees (2011: € 413,000; 2010: € 218,183) and legal services (2011: € 193,100; 2010: € 209,141). In 2011, a non-tax-related provision in the amount of € 275,000, already recorded in the previous year, was reclassified from tax liabilities to other provisions. To provide comparative information, the prior years' figures have been adjusted accordingly.

Liabilities

Liabilities due to affiliated companies included trade accounts payable in the amount of € 263,907 (2010: € 144,888).

The residual maturity of liabilities is listed in the table below. All liabilities are unsecured.

Type	Remaining Term of Liabilities			Total	
	up to 1 year	1 to 5 years	more than 5 years	12/31/2011 EUR	12/31/2010 EUR
1. Bonds	0	73,607	0	73,607	113,256
2. Trade accounts payable	565,660	0	0	565,660	1,449,936
3. Liabilities due to affiliated companies	263,907	0	0	263,907	146,655
4. Other liabilities	700,691	0	0	700,691	653,871
Of which taxes	408,624	0	0	408,624	487,591

Other Financial Commitments

As of December 31, 2011, other financial obligations, arising from commitments for rent and leasing, insurances and other services are shown in thousands of euro in the following table:

in 000's €	Rent and Leasing	Other	Total
2012	2,200	681	2,881
2013	1,042	10	1,052
2014	555	5	560
2015	526	0	526
2016	506	0	506
more	1,242	0	1,242
Total	6,071	696	6,767

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
Up to one year	6,384
Between one year and five years	6,499
More than five years	0
Total	12,883

NOTES TO THE INCOME STATEMENT

Revenues

Compared to the same period in the previous year, revenues for the full year 2011 increased by 18% to € 82,796,634 (2010: € 70,249,057). 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, whereas revenues in the AbD Serotec segment showed an increase. In 2011, the main part of revenues was generated with the antibody collaborations with Novartis and Daiichi Sankyo. Revenues arising from the Partnered Discovery and Proprietary Development segments, before elimination of inter-segment effects, accounted for € 76,812,569 and € 2,398,378 of total revenues in 2011, respectively, whereas the AbD Serotec segment contributed € 3,841,438 to total revenues.

Of total revenues, € 1,467,612 (2010: € 1,528,085) were generated from domestic sales and € 3,230,077 (2010: € 9,959,465) with biotechnology and pharmaceutical companies and non-profit organizations located in North America. An amount of € 78,044,206 (2010: € 58,691,312) was generated from sales in other European countries and Asia. Revenues in other countries amounted to € 54,739 (2010: € 41,035).

Cost of Sales

Cost of sales of € 59,943,980 (2010: € 48,258,184) included costs for research and development which consisted of personnel costs of € 21,311,855 (2010: € 17,250,038), € 19,868,690 for external services (2010: € 14,123,371), costs of € 8,820,677 (2010: € 7,291,353) for intangible assets, material costs of € 3,358,193 (2010: € 3,681,298), costs of € 4,112,266 (2010: € 3,627,020) for infrastructure and other costs of € 2,447,301 (2010: € 1,993,704).

Selling Expenses

Selling expenses of € 2,817,212 (2010: € 2,265,952) consisted of personnel costs of € 1,674,321 (2010: € 1,224,507), costs for external services of € 215,922 (2010: € 218,128) and other costs in an amount of € 920,310 (2010: € 818,000).

General Administration Expenses

General administrative expenses of € 14,898,967 (2010: € 11,476,042) mainly consisted of personnel costs of € 8,294,805 (2010: € 5,908,034), costs for external services of € 3,420,497 (2010: € 2,481,871), costs for infrastructure of € 1,408,244 (2010: € 1,274,942), costs for intangible assets of € 891,756 (2010: € 970,526) and other operating costs of € 883,664 (2010: € 717,688).

Personnel Expenses

Personnel expenses of € 31,280,981 (2010: € 24,382,579) consist of wages and salaries amounting to € 25,162,017 (2010: € 21,107,088), social security contributions of € 3,145,288 (2010: € 2,702,673), stock-based compensation of € 251,135 (2010: € 0), costs of € 502,658 (2010: € 482,712) for retirement schemes, costs for external temporary staff of € 228,034

(2010: € 47,631) and other costs of € 1,991,849 (2010: € 42,475). In 2011, other costs mainly included costs for recruitment and severance charges.

Material Costs

Material costs of € 3,430,551 (2010: € 3,809,596) mainly consisted of costs for raw materials and supplies (€ 3,334,826; 2010: € 3,655,840) and for printing (€ 60,886; 2010: € 123,023). No purchase of services was included in material costs in the years 2011 and 2010, respectively.

Other Operating Income

Other operating income amounted to € 2,618,996 compared to € 2,063,000 in 2010. This amount included € 1,117,862 (2010: € 888,574) derived from refunds from employees for income-tax-related matters as well as reimbursements from affiliated companies in the amount of € 630,278 for management charges and other personnel costs in connection with orders, which were executed by an affiliated company. Furthermore, grant income from governmental agencies in the amount of € 453,019 (2010: € 222,418), income relating to other periods of € 315,037 (2010: € 460,288), foreign currency gains in the amount of € 116,513 (2010: € 475,910) and gains on derivatives of € 20,993 (2010: € 0) were recognized as other operating income.

Other Operating Expenses

Other operating expenses accounted for € 2,148,252 (2010: € 1,296,371). These expenses mainly resulted from foreign currency losses in an amount of € 2,001,421 (2010: € 451,958), expenses relating to other periods of € 104,039 (2010: € 19,866) and losses on derivatives in the amount of € 0 (2010: € 496,181).

Income from Profit Pooling Agreements

Due to a control and profit pooling agreement (effective from November 20, 2002) profits in the amount of € 3,286,080 (2010: € 36,824) were transferred from MorphoSys IP GmbH, Martinsried, to MorphoSys AG, Martinsried.

Income from Participations

In 2011, MorphoSys AG received a dividend payment of € 575,650 from its subsidiary MorphoSys UK Ltd.

Income from Other Securities and Loans Presented under Financial Assets

Income in the amount of € 1,116,542 from other securities and loans presented under financial assets (2010: € 4,091,250) included realized gains on marketable securities in the amount of € 1,085,911 (2010: € 3,979,920) as well as interest on loans granted to Sloning BioTechnology GmbH (€ 30,631; 2010: € 9,025). In 2010, interest income included interest on the loan granted to MorphoSys IP GmbH in the amount of € 102,306.

Depreciation of Financial Assets

In 2011, MorphoSys AG recognized an impairment loss of € 69,889 for the shares in its affiliated company Poole Real Estate Ltd. due to a revaluation of the company's assets.

Other Interest and Similar Income

This item in the amount of € 322,401 (2010: € 137,141) solely comprised interest income from cash in banks.

Interest and Similar Expenses

Compared to the previous year (2010: € 19,433) interest expense amounted to € 3,459 in 2011. The decrease was mainly impacted by a prepayment penalty for a loan taken over from Sloning BioTechnology GmbH in the context of the acquisition in October 2010, which was repaid to a bank in 2010.

Income Taxes

In 2011, income tax amounted to € 2,686,429 compared to € 3,676,106 in 2010. The decrease mainly resulted from the lower result from ordinary activities and the tax-exempt income from participations in 2011.

Differences between commercial law and tax law resulted in temporary differences in the balance sheet of MorphoSys AG. The calculation of deferred taxes was based on a tax rate of 26.33 %. The Company decided to present deferred tax assets and deferred tax liabilities on a netted basis. By applying the option in accordance with § 374 paragraph 1 sentence 2 of the German Commercial Code (HGB), the resulting balance has not been recognized as a deferred tax asset on the balance sheet. As of December 31, 2011 and 2010, deferred taxes resulted from temporary differences occurring from intangible assets and tangible assets.

OTHER INFORMATION

Disclosure on the Basis of the German Securities Trading Act (WpHG)

During 2011, MorphoSys AG, Martinsried, received no information as required by § 21 paragraph 1 of the German Securities Trading Act (WpHG), that one of its shareholders has reached, exceeded or fallen below the respective thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%.

Supervisory Board

On December 31, 2011, the members of the Company's Supervisory Board held offices as members of the supervisory board or a comparable supervising body of the corporations listed in the table below:

Name	Place of Residence	Actual Occupation	MorphoSys Supervisory Board	Memberships in Other Supervisory Boards or Executive Bodies
Dr. Gerald Möller	Heidelberg, Germany Year of Birth: 1943	Independent Management Consultant in the Life Sciences Industry	Member since 1999 Chairman Chairman of the Remuneration & Nomination Committee	llumina, Inc., USA (Director) Invendo Medical GmbH, GER (Chairman) 4sigma, BM (Chairman) Bionostics, Inc., USA (Director) VIVACTA Ltd., UK (Director) Adrenomed GmbH, GER (Director)
Prof. Dr. Jürgen Drews	Feldafing, Germany and Cureggia, Switzerland Year of Birth: 1933	Independent Management Consultant in the Life Sciences Industry	Member since 1998 Deputy Chairman Member of the Remuneration & Nomination Committee Science & Technology Committee	Currently no other mandates
Dr. Walter Blättler	Brookline, Massachusetts, USA Year of Birth: 1949	Independent Scientific Consultant	Member since 2007 Member Chairman of the Science & Technology Committee	Currently no other mandates
Dr. Daniel Camus	Paris, France Year of Birth: 1952	Senior Advisor at Roland Berger Strategy Consultants	Member since 2002 Member Member of the Audit Committee	Cameco Corp., CA (Director) SGL Carbon, GER (Supervisory Board Member) Valéo SA, FR (Director) Vivendi SA, FR (Director)
Dr. Metin Colpan	Essen, Germany Year of Birth: 1955	Supervisory Director at Qiagen N.V., NED	Member since 2004 Member Member of the Remuneration & Nomination Committee	Qalovis GmbH, GER (Director) Qiagen N.V., NED (Director)
Dr. Geoffrey Vernon	Devon, UK Year of Birth: 1952	CEO and Chairman at Ziggus Holdings Ltd., UK	Member since 1998 Member Member of the Audit Committee	Genable Ltd., IRE (Chairman) Veryan Medical Ltd., UK (Chairman) XL TechGroup, Inc., USA (Chairman) Cornwall Farmers Ltd., UK (Chairman) Medpharm Ltd., UK (Chairman) Ziggus Holdings Ltd., UK (Chairman)

Corporate Governance

In July 2003, the Company decided to follow the guidelines for Corporate Governance according to the modified German Corporate Governance Code.

The Company issued its statement according to § 161 of the German Stock Corporation Act (AktG). This declaration has been published and made accessible to the public accordingly on December 8, 2011 and can be found on MorphoSys's corporate website ('www.morphosys.com').

Management Board

Dr. Simon E. Moroney, Chemist, Pöcking, Germany (Chief Executive Officer)

Jens Holstein, Graduate in Business Administration (Diplom-Kaufmann), Bad Vilbel, Germany (Chief Financial Officer)

Dr. Arndt Schottelius, Physician Scientist, Munich, Germany (Chief Development Officer)

Dr. Marlies Sproll, Biologist, Munich, Germany (Chief Scientific Officer)

The Management Board members have no additional mandates concerning the Supervisory Boards of other publicly listed companies. However, Dr. Moroney acts as member of the Supervisory Board of ProtAffin AG, Graz, Austria. The position was approved by the Supervisory Board.

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.

Total Compensation of the Management Board and the Supervisory Board

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	Other Compensatory	Variable Compensation	No. of Performance Shares	Fair Value at	
	in €	Benefits in €	in € ^{***}	Granted	The Time of the Grant 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	1,152,295	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

^{***}) 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 Company Goals)	Total Compensation	
	Base Salary	Other Compensatory	Variable Compensation	No. of Convertible	Fair Value at	
	in €	Benefits in €	in € ^{***}	Bonds Granted	The Time of the Grant 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:

Supervisory Board	Fixed Compensation		Variable Compensation		Total Compensation	
	2011	2010	2011	2010	2011	2010
	Dr. Gerald Möller	70,000	70,000	26,000	22,000	96,000
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.

In addition, the members of the Management Board and the Supervisory Board hold the following shares, options and convertible bonds of MorphoSys AG:

Shares	01/01/2011	Additions	Sales	12/31/2011
Management Board				
Dr. Simon E. Moroney	416,385	3,500	0	419,885
Dave Lemus [*]	5,400	0	0	-
Jens Holstein ^{**}	-	1,000	0	5,000
Dr. Arndt Schottelius	1,500	500	0	2,000
Dr. Marlies Sproll	3,105	4,000	0	7,105
Total	426,390	9,000	0	433,990
Supervisory Board				
Dr. Gerald Möller	7,500	0	0	7,500
Prof. Dr. Jürgen Drews	7,290	0	0	7,290
Dr. Walter Blättler	2,019	0	0	2,019
Dr. Daniel Camus	0	0	0	0
Dr. Metin Colpan	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0
Total	16,809	0	0	16,809

^{*}) Left the Management Board of MorphoSys AG on March 10, 2011

^{**}) 4,000 shares were bought by Mr. Holstein prior to election to the Management Board

Stock Options	01/01/2011	Additions	Forfeitures	Exercises	12/31/2011
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

^{*}) Left the Management Board of MorphoSys AG on March 10, 2011

^{**}) Joined the Management Board of MorphoSys AG on May 1, 2011

Convertible Bonds	01/01/2011	Additions	Forfeitures	Expired	Exercises	12/31/2011
Management Board						
Dr. Simon E. Moroney	88,800	0	0	0	30,000	58,800
Dave Lemus ^{*)}	63,000	0	0	0	0	-
Jens Holstein ^{**)}	-	0	0	0	0	0
Dr. Arndt Schottelius	33,000	0	0	0	0	33,000
Dr. Marlies Sproll	63,000	0	0	0	30,000	33,000
Total	247,800	0	0	0	60,000	124,800
Supervisory Board						
Dr. Gerald Möller	0	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0	0
Total	0	0	0	0	0	0

^{*)} Left the Management Board of MorphoSys AG on March 10, 2011

^{**)} Joined the Management Board of MorphoSys AG on May 1, 2011

Performance Shares	01/01/2011	Additions	Forfeitures	Exercises	12/31/2011
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

Auditor Remuneration

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, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich (PwC AG) was remunerated by MorphoSys in the amount of € 211,475, including audit fees of € 185,000 and audit-related fees of € 26,475.

Headcount

On December 31, 2011, MorphoSys AG employed 329 people (December 31, 2010: 318) in addition to the four members of the Management Board and eight apprentices.

Of the 329 employees, 280 worked in research and development and 49 in sales, general and administration (December 31, 2010: 272 employees in R&D, and 46 employees in S, G&A). The average number of employees during the fiscal year 2011 was 339 employees (2010: 296 employees). Of the average 339 employees in 2011, 289 worked in research and development and 50 in sales, general and administration.

Of the 329 employees as of December 31, 2011, 14 people represented the executive staff (December 31, 2010: 14 employees), whereas 315 employees had non-executive positions (December 31, 2010: 304 employees).

Dividends

By virtue of the authorization provided in the articles of incorporation of MorphoSys AG, the Supervisory Board and the Management Board decided to allocate a portion of the net profit for the year to other earnings reserves to the maximum as permitted by § 58 paragraph 2 sentence 3 of the German Stock Corporation Act and § 21 paragraph 3 of the articles of association of the Company. The remaining net profit was allocated to accumulated profit. In common with standard practice in the biotechnology industry, MorphoSys does not anticipate paying a dividend for the foreseeable future. Any profit generated by the business shall be substantially reinvested in the operation of its business, mainly in the area of proprietary drug development, in order to create further shareholder value and growth opportunities.

RESPONSIBILITY STATEMENT

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

Martinsried, February 28, 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

Fixed Assets Movement Schedule

	Aquisition and Production Cost			
	01/01/2011 EUR	Additions EUR	Disposals EUR	12/31/2011 EUR
A. Fixed Assets				
I. Intangible Assets				
1. Franchises, trademarks, patents, licences, and similar rights and licences to such rights	34,992,709	930,575	1,559,022	34,364,262
	34,992,709	930,575	1,559,022	34,364,262
II. Tangible Assets				
1. Land, leasehold rights and buildings, including leasehold improvements	1,247,009	72,091	838	1,318,262
2. Other equipment, furniture and fixtures	12,999,143	1,770,184	1,124,736	13,644,591
	14,246,152	1,842,275	1,125,574	14,962,853
III. Financial Assets				
1. Shares in affiliated companies	57,628,643	0	0	57,628,643
2. Loans to affiliated companies	799,059	0	799,059	0
	58,427,702	0	799,059	57,628,643
	107,666,563	2,772,850	3,483,655	106,955,758

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the statement of income and the notes, together with the bookkeeping system and the management report of the MorphoSys AG for the business year from January 1 to December 31, 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Article 317 of the 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 annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements 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 Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.”

Munich, February 29, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(signed Stefano Mulas)
Wirtschaftsprüfer
(German Public Auditor)

(signed Dietmar Eglauer)
Wirtschaftsprüfer
(German Public Auditor)