



**MorphoSys AG**  
**Annual General Meeting on May 19, 2010**  
**Munich Conference Center**  
**Lazarettstr. 33**  
**80636 Munich**

CHECK AGAINST DELIVERY

**Slide 1: Annual General Meeting 2011 - Welcome**

**Slide 2: Annual General Meeting 2011 - Agenda**

**Slide 3: Report of the Management Board**

**Speaker: Dr. Simon Moroney, Chairman of the Management Board of MorphoSys AG**

Ladies and gentlemen, shareholders and shareholder representatives, dear guests and friends of the company.

After a successful year for our company, I am delighted to welcome you to this year's Annual General Meeting of MorphoSys AG on behalf of the entire Management Board, that is, my colleagues on the Management Board, Marlies Sproll, Arndt Schottelius, and, for the first time, Jens Holstein. I greatly appreciate your strong interest and thank you for attending in such numbers.

For around a month now, MorphoSys has had a new member on the Management Board, our new Chief Financial Officer Jens Holstein. We are very pleased to have won him over to MorphoSys. I would now like to ask Jens to say a few words to introduce himself to you.

**Speaker: Jens Holstein, Chief Financial Officer of MorphoSys AG**

Thank you, Simon.

**Slide 4: New Chief Financial Officer of MorphoSys AG – Jens Holstein**

Ladies and gentlemen, shareholders and shareholder representatives, it is really a great pleasure for me to have this opportunity to introduce myself to you today. To this end, I would like at this point to give you a brief overview of my professional career to date. Over the past 16 years, I have held a variety of executive positions in the Fresenius Group. I started out in Fresenius' Dialysis division and then moved, via the projects and services business unit, to Fresenius Kabi, the group company that focuses on infusion therapy, clinical nutrition and intravenously administered generic drugs. Most recently I was Kabi's regional CFO for Europe and the Middle East and also Managing Director of Fresenius Kabi Deutschland GmbH. From 2006 to 2010 I was Regional CFO of Fresenius Kabi Asia Pacific Ltd., headquartered in Hong

Kong. Before I moved to Asia, I held the position of Managing Director of Fresenius ProServe GmbH and was also CFO and Labor Director of one of ProServe's subsidiaries.

Before joining Fresenius, I worked for several years in Frankfurt and in London in the consulting industry, primarily in the field of corporate takeovers. I am looking forward to applying the experience I have gained both in the financial field and in the health sector at MorphoSys. Together with the employees and the members of the Management Board and the Supervisory Board, I will endeavor to do everything in my power to help MorphoSys progress and flourish. Thank you very much.

**Speaker: Dr. Simon Moroney, Chairman of the Management Board of MorphoSys AG**

Thank you, Jens, and once again a very warm welcome to MorphoSys.

**Slide 5: Agenda**

Let's start by taking a look at how our presentation will run. We have divided it into two parts. First of all, we will review 2010 with a focus on the pipeline, technology, AbD Serotec and financials. We will then present our outlook for these same topics.

**Slide 6: Pipeline**

First, then, to our drug pipeline:

The number of our antibodies in clinical development more than doubled in 2010. We started the year with eight of our antibodies in the clinic. We finished it with 17. That really is enormous progress. At the beginning of 2010, we reckoned that four to six new partner programs would enter phase 1. The final count was eight, well above our expectations. What this means is that our pipeline has developed even faster than we thought. And what is far more important, the probability that products will make it to market has therefore increased by leaps and bounds.

**Slide 7: Burgeoning importance of the overall MorphoSys pipeline**

Roughly a quarter of our pipeline is in clinical development today.

What this also means is that MorphoSys' share of the entire pharmaceutical industry's antibody pipeline has grown dramatically. With over 70 therapeutic antibody programs based on our platform, we estimate that, of the several different antibody library technologies, HuCAL is the most successful representative in the entire industry today. This is proof of the successful marketing of our technology. What's more, it is important to remember that we remain financially involved in each of our partner programs in the form of milestone payments and royalties. The partner pipeline will thus be a significant driver of sales and value in the years ahead. This underlines not only the productivity of our business but also its long-term sustainability.

Our proprietary portfolio, which is developing under the management of Dr. Sproll and Dr. Schottelius, has performed very well. We currently have two proprietary projects in the clinic. Clinical studies for a third program are also about to be launched.

**Slide 8: Range of diseases illustrates wide applicability of MorphoSys' therapeutic antibodies**

If we look at the programs currently in the clinic, we see something remarkable: The enormous range of diseases against which these antibodies can be used. One of the great strengths of our business model is that it enables us to participate in products for many therapeutic applications and in many geographical markets.

**Slide 9: HuCAL drugs address large markets**

Another aspect is the size of the markets. As you can see on slide 9, there are major commercial opportunities here. For example, Gantenerumab, the drug that Roche is developing for Alzheimer's disease, addresses an enormous medical need that was previously unmet. All of the other HuCAL compounds currently in phase 2 trials also have huge medical and commercial potential.

**Slide 10: MorphoSys has built one of the industry's broadest antibody pipelines**

Slide 10 shows a snapshot of the entire pipeline at the end of 2010. The first point to notice is that the number of known programs is increasing. This leads to greater visibility and generates access to more information for everyone who is interested.

Let me summarize the progress we made last year:

- Eight new partner programs and one proprietary program entered phase 1 clinical studies;
- Two partner programs and one proprietary program moved into phase 2 of clinical development;
- A total of seven different partners now have HuCAL-based programs in the clinic.

There is obviously not enough time to talk about all the programs in detail here. So let me just pick out some of the individual highlights.

In our lead program **MOR103**, we launched a planned Phase 1b/2a study in rheumatoid arthritis patients in four European countries. This trial is continuing at the moment. Based on some very promising pre-clinical data that was generated, we chose multiple sclerosis as a second indication. There is little doubt that MOR103 has potential in other indications as well. In this regard we achieved an important milestone when a US patent application covering MOR103 was granted in January of this year. This adds to the existing patent protection in the US. We already have an exclusive license to a patent covering the general approach of inhibiting inflammations using antibodies against GM-CSF.

The next program on the slide shows an **unnamed Novartis program**. This has developed extremely quickly and achieved clinical proof of concept last year. The details of this program remain confidential, but we hope to make more information available soon.

**CNTO888**, a program developed by Centocor for two indications, advanced into a phase 2 trial in cancer. In this new study, CNTO888 will be investigated together with four chemotherapies.

**Gantenerumab**, Roche's Alzheimer's disease drug, went into a phase 2 study in November 2010. The study is being conducted on Alzheimer patients in the early stages of the disease. This results from the observation that a later intervention in the course of the disease may no longer be effectively possible. We are thus very optimistic overall as far as this program is concerned, as it targets a massive market and one of the great medical challenges of our time.

Next is **MOR208**, the antibody that we in-licensed from the US company Xencor in 2010. MOR208 represents a great addition to our proprietary portfolio and has closed the gap between MOR103 and MOR202. It's a highly innovative antibody that incorporates a patented modification of the antibody that could make it an even more effective killer of abnormal B-cells. The phase 1 study of this drug in patients with chronic lymphatic leukemia started in the US in the fourth quarter of last year.

The last program that we'll mention here is **MOR202**, our proprietary cancer drug candidate targeting multiple myeloma. We completed the pre-clinical work here during 2010 and submitted a clinical trial application for a European study before the year's end. We are looking forward to commencing the clinical trial shortly.

This pipeline will continue to grow in the months and years ahead. This is MorphoSys' most important value driver, as the product candidates it describes represent huge future value.

### **Slide 11: Technology**

In the area of technology, let me begin by mapping MorphoSys' core technologies. What technologies do we have and how do they fit together?

Top of the list is HuCAL: HuCAL is an established, high-quality and industry-proven source of antibodies for therapeutic applications. Increasingly, it is also being used to make diagnostic antibodies, as I will illustrate shortly.

An important new component of our platform is Slonomics.

Slonomics is probably the most powerful technology for making protein libraries that is currently on the market. It was the reason we acquired Sloning. The technology has since become a fixed component of our processes for optimizing antibodies. We expect the technology to produce significantly better antibody candidates faster than has been possible up to now. Based on our estimates, Slonomics will enable us to increase the success rates of antibody programs up to the entry into clinical development from currently 35 to 40% to around 50%.

While we see the technology primarily being used in the area of antibody optimization, Slonomics is very capable of being applied more widely for protein optimization in general. There is strong interest in this technology from many biotech and pharmaceutical companies, which we demonstrated in December when we signed a new deal with Pfizer. I would like to go into this particular contract in detail again.

### **Slide 12: New technologies leading to new partnerships**

The Pfizer contract includes the following payments for MorphoSys: A significant one-off payment when the contract was signed, plus annual licensing fees throughout the entire term of the Slonomics platform patent. We spent around EUR 19 million to acquire Sloning, but the investment will have already paid off as a result of this first contract. We can therefore say quite

clearly that this is a very lucrative contract for MorphoSys even when set against the purchase price.

As you have no doubt seen, the booking of the one-off payment from Pfizer in the balance sheet had subsequently to be corrected. In fact, the final booking method used for this one-off payment differed significantly from our original understanding, which meant we had to correct our forecasts and announce the change. It is important to emphasize, however, that this does not change any of the conditions of the contract nor how attractive it is for us.

### **Slide 13: Patent protection for platform significantly expanded**

Patent protection is an important aspect of all technologies. Beyond the individual patents with which we and our partners protect specific therapeutic antibody programs, we are sometimes asked what will happen when our core HuCAL patents expire around 2016. The acquisition of Sloning has meant that we have not only modernized our platform, but also extended the lifetime of the patent coverage by another seven years. And by combining Slonomics with our antibody platform and other new technological developments, we are building up patent protection that will extend the lifetime of our platforms even further.

### **Slide 14: AbD Serotec**

And now to AbD Serotec. The statistic that we use to open this part is an important one. There are 12 diagnostic HuCAL products in development in the AbD Serotec segment. This is the area where we feel this unit has the greatest potential.

### **Slide 15: Diagnostic HuCAL antibody projects**

Slide 15 gives you an idea of the diagnostic projects based on HuCAL currently being pursued in the AbD Serotec segment. As you can see, there are projects for the most varied of applications. The pipeline includes diagnostic antibodies for monitoring the clinical development of other drugs or enhancing the performance of other test procedures. In fact, a HuCAL-based antibody already serves as a control in an authorized diagnostic. But the most commercially interesting possibilities are offered by HuCAL antibodies that are used directly to diagnose disease.

At the beginning of this week, AbD Serotec announced another contract in the diagnostics field after the Spanish biotech company Proteomika concluded a licensing agreement for seven diagnostic HuCAL antibodies with AbD. Proteomika is planning to launch a test procedure using HuCAL antibodies for use in the clinical monitoring of biological therapies on the market in the second quarter of 2011. AbD Serotec will then receive royalties on the product sales.

These products, represented by the second bar from the top on this slide, will be the first diagnostic kits based on a primary HuCAL antibody. These kits will further underpin the potential of our HuCAL technology in the diagnostic market. Diagnostic products are very attractive for us, since the royalties associated with them will result in higher margins for AbD Serotec.

So there is a whole variety of possibilities in diagnostics, and the time to market is usually shorter than on the therapeutic side. The business model is similar to our therapeutics business,

primarily in the use of our proprietary technology for making truly differentiated products that are then brought to market by partners. We believe that HuCAL can play as big a role here as it is playing in the therapeutic market.

**Slide 16: Financial review**

With that I would like to conclude my operational review for 2010 and hand over to Jens for his financial review.

**Speaker: Jens Holstein, Chief Financial Officer of MorphoSys AG**

Thank you, Simon.

**Slide 17: Financial review 2010**

2010 was a very positive year for our company, both from an operational and a financial perspective. Total Group revenues increased to EUR 87 million, and despite the significant increase in proprietary R&D investment, we still achieved a solid operating profit of approximately EUR 10 million.

Let's begin the financial review with some key Group figures.

**Slide 18: Full year 2010: Condensed statement of operations**

As I just mentioned, Group revenues in 2010 increased by 7% to EUR 87 million, although they remained slightly lower than our original guidance. The key factor here was the booking revision for the one-off payment from the new Pfizer contract that Simon mentioned earlier.

As in previous years, the biggest increase in operating expenses can be attributed to the research and development expenses, which increased by 20% to EUR 46.9 million.

Sales, general and administration expenses on the other hand decreased slightly by 3% to EUR 23.2 million.

In total, the operating costs rose by 11% to EUR 77.4 million.

Coming in at EUR 9.8 million, Group operating profit was slightly above our original expectations.

**Slide 19: Results by segment**

Let's now take a look at the results by segment.

The main financial contributor for the Group continues to be our Partnered Discovery segment. Revenues in this segment increased by 7% to EUR 66.3 million as a result of the combination of higher research and licensing payments. The segment's operating result amounted to EUR 42.7 million, with an excellent operating profit margin of 64%.

In the Proprietary Development segment, revenues increased to EUR 1.8 million. These revenues stem from funded research for two co-development programs with Novartis. You may recall that until these candidates are formally selected for joint development by MorphoSys, Novartis funds all development costs for these candidates. Our increased investments in proprietary product development are reflected in the expenses in this segment, which rose by 37% over the previous year to EUR 26.5 million. This happened in line with our communicated strategy of investing more in our proprietary drug development. As a logical consequence of that, the segment shows a loss of EUR 24.5 million for 2010.

With revenues of EUR 20.2 million for the full year, the AbD Serotec segment contributed 23% of total Group revenues. In a challenging market environment, AbD Serotec did not fully meet its growth expectations. The economic crisis had a negative impact on customer demand especially in Europe. Revenues in this segment increased by 5% over the previous year, but

were below our expectation of EUR 21-22 million. However, operating expenses increased by only 3%, and the operating profit margin thus increased to 6%, which is within our original target.

### **Slide 20: Investments in proprietary R&D**

Let's have a closer look at our proprietary research and development expenditure, which is the largest cost driver in our company.

In line with our strategy, our investments in proprietary product and technology development increased by EUR 7.2 million to EUR 26.5 million. Two thirds of this expenditure was allocated to the continued development of the MOR103, MOR208 and MOR202 programs. This includes the costs for the ongoing phase 1b/2a study for MOR103 in the area of rheumatoid arthritis, the preparation of a second phase 1b safety study for MOR103 in multiple sclerosis and a safety study on the subcutaneous administration of the compound. Also included are costs for the planned phase 1 MOR202 study and production costs for MOR202 and MOR 208. You may recall that the current phase 1 study of MOR208 is sponsored by Xencor. Irrespective of this, we have started some additional work on our side to prepare for possible future studies. The remainder of the budget was invested in programs that are in early stages of development and in projects to validate target molecules, such as our collaboration with Galapagos.

### **Slide 21: Condensed Balance Sheet (Group)**

Total assets increased by EUR 6.5 million to EUR 212.6 million as of December 31, 2010. Compared to the previous year, total cash and equivalents decreased to EUR 108.4 million. This decrease resulted mainly from the acquisition of Sloning and the in-licensing of the MOR208 program from Xencor.

Other current assets increased by EUR 3.6 million mainly as a result of higher trade accounts receivable.

Non-current assets increased by EUR 29.5 million, mainly as a consequence of the acquisition of Sloning and the compound in-licensing from Xencor. The EUR 9.5 million increase in the value of patents was mainly caused by assets that were capitalized in connection with the purchase price allocation for the Sloning acquisition. The acquisition of Sloning BioTechnology GmbH additionally led to a EUR 7.4 million increase in goodwill on the balance sheet. Intangible assets under development increased to €10.5 million. Unused tax loss carry forward associated with Sloning allowed us to capitalize a deferred tax asset of EUR 2.7 million.

From a cash flow perspective, net cash inflow from operations in 2010 amounted to EUR 2.5 million compared to cash outflow of EUR 1.0 million in the previous year.

### **Slide 22: Shareholder structure**

The next slide shows you the results of our last shareholder structure analysis. Almost 50% of our issued shares are held by institutional investors, increasingly by institutions that invest especially in the health sector. For us, that is a clear sign that the drug development pipeline is gaining importance. We can also record increasing demand from abroad, especially from the US.

### **Slide 23: Employees**

Let's have a look at how employee figures have developed. The number of employees increased by 60 in 2010. At December 31, 2010, the MorphoSys Group employed 464 people, 148 of whom are PhDs. The new positions arose once again in research and development, while the number of employees in sales, general and administration remained constant.

The proportion of women in the workforce as a whole was around 65% at the end of 2010. At the second management level, that is the level directly below the Management Board, one in three positions was held by a woman. And, as everyone knows, a female colleague, Dr. Marlies Sproll, is on the Management Board.

### **Slide 24: Performance of the share price**

The share price rose by 9% in 2010, while the benchmark index, the TecDAX, only gained 4%. The share price has benefited in particular from the acquisition of Sloning GmbH, the Pfizer contract and several clinical milestones that were reached in the last month of the year.

I believe that the increasing maturity of the pipeline in particular is playing an important role in the increased valuation of our company. Measured from AGM to AGM, the share price is around 35% above the previous year's level for example. By way of comparison: In May 2010, there were eight therapeutic programs in clinical development; today there are 18.

All in all, the MorphoSys share increasingly reflects the solid development that the company is making in building up one of the most extensive antibody pipelines in the industry, in combination with a profitable and convincing business model.

That brings me to the end of my 2010 review. But before I hand back to Simon, I would like to take a look with you at the results of the first quarter of the current fiscal year.

### **Slide 25: Results of the 1st quarter 2011**

MorphoSys has made an exceptionally positive start to the 2011 fiscal year. The most important operational event was definitely the successful installation of our technology at Novartis, which triggered a double-digit million euro payment to us. It was primarily as a consequence of this milestone payment that we were able to announce a record quarter in terms of both revenue and result. Group revenues have more than doubled to EUR 48.6 million. Operating expenses have increased by around 25% to EUR 19.9 million. The main reason for this was the increase in research and development expenditure. We have invested EUR 6.6 million in measures to develop proprietary products and EUR 0.6 million in technology developments. Both investments were within the scope of the respective budgets. As a result of the milestone payment I just mentioned, the result from operations amounted to EUR 28.8 million.

We are of course delighted with this record quarter. A solid foundation has thus been laid for the current year. But please note that individual quarters can be subject to fluctuations, especially as a result of individual milestone payments. The most important guidance is therefore our forecast for the full year, which, as is generally known, we confirmed once again on April 29.

I will now hand back to Simon for the outlook for the 2011 fiscal year.

**Speaker: Dr. Simon Moroney, Chairman of the Management Board of MorphoSys AG**

Thank you, Jens.

**Slide 26: Outlook 2011**

Let me start the outlook by saying that we are looking to the future with great confidence. Our technologies, our product candidates and our core competencies match the needs of our industry.

It is with great conviction that we are following the strategy of using our proprietary technologies to establish a strong general pipeline of innovative drugs with partners and on our own. This strategy builds on the large international demand for new therapies for diseases for which only inadequate treatment was previously available. It therefore offers very good prospects for MorphoSys' growth in the years ahead. The demand for new therapeutic candidates in the international pharmaceutical industry is enormous, as its own research activities are not producing the drugs that it needs for future growth. With our technology platforms and our highly promising portfolio of product candidates, MorphoSys is ideally positioned to benefit from this situation.

Our focus therefore remains investment in the development of the best possible antibody pipeline. This comprises two components: Direct investment in our proprietary portfolio and the development of new technologies that will enable us and our partners to generate even better antibody compounds in the years ahead. I would now like to say a few words about both areas.

**Slide 27: Number of proprietary clinical studies to double in 2011**

The largest area of investment is proprietary product development. Let's start by taking a look at what we can expect for our proprietary portfolio. 2011 will be an important year for our lead program, MOR103. We expect to complete the recruitment of patients with rheumatoid arthritis for the ongoing European phase 1b/2a trial in the course of the year, thus in time to have the final results in the first half of 2012. Second, we aim to commence a phase 1b safety study of MOR103 in multiple sclerosis, which is the second indication that we have picked for this program. And third, we have developed a formulation for the subcutaneous administration of MOR103 and will commence a safety study in healthy volunteers this year.

For the MOR202 program, we will launch phase 1 trials in the first half of the year. It will be a dose-escalation safety study in patients with relapsed or refractory multiple myeloma. It will also evaluate signs of preliminary anti-myeloma activity. The results of this study will be available in 2013. As was announced early today, we will also publish some of the pre-clinical data that we have generate in this program at the ASCO international cancer conference.

And last but not least, we will continue the US phase 1 study of MOR208 in patients with Chronic Lymphocytic Leukemia during the year as part of our proprietary programs. Data from this trial will be available next year. This will take place in cooperation with our US partner, Xencor.

Under the management of Dr. Schottelius, there will be five proprietary clinical studies in total this year. This is a big step up from last year when we only had one program for the majority of

the year, before a second was added towards the end of the year. This will of course be noticeable in our financial forecast for 2011, which I will talk about later.

### **Slide 28: Partnered Pipeline to expand and mature**

The proprietary portfolio complements the partner programs to provide a very attractive overall pipeline. We expect that our partners will initiate around 10 new programs in the course of 2011. We further expect to see partners advance one to three new therapeutic programs to clinical studies. The first of these INDs was actually launched in April with our US partner OncoMed.

By the end of the year, we could well see 18 therapeutic HuCAL programs of partner companies in clinical development. Taken together, this illustrates the enormous financial commitment of our partners to product development based on our platform. According to our estimates, our partners will invest more than EUR 100 million alone in the implementation of these clinical studies.

Overall, the pipeline demonstrates a point that we have made time and again: We have a powerful platform for producing drug-quality antibodies.

### **Slide 29: Technology development will lead to new offers**

All of this extraordinary progress in the pipeline is based on our unique technology platform. All the experience that we have gained in this field convinces us that it is possible to make even better antibody drugs. That is why we acquired Sloning, and that is why we continue to invest in new technology. Look out for new announcements this year, too.

### **Slide 30: AbD Serotec reaches a turning point**

For the third area in our outlook, let's turn our attention to AbD Serotec. As we mentioned earlier, this business unit is making very good progress in establishing the HuCAL technology in the diagnostics market. This year, a major milestone will be reached when the first test procedure based on a HuCAL antibody comes to market. This important event will demonstrate the value of our technology in this field.

We are convinced that AbD Serotec can grow through an increased focus on diagnostics. Earlier, you saw the pipeline of diagnostic HuCAL antibodies. In some ways, the unit is where we were in the therapeutics area a decade ago – on the point of establishing the technology as an important source of differentiated products. The diagnostics industry has been somewhat slower than the pharmaceutical industry to accept these new technologies. But with the first diagnostic kit based on a HuCAL antibody on the market, we expect recognition of our technology to expand significantly. Our focus this year is therefore to increase awareness and uptake of the technology in the diagnostics sector. We intend to provide clearly differentiated products based on our antibodies, from which we expect a lucrative return through product royalties. Diagnostics products may not be as profitable as therapeutics, but the flip side of that is that the time to market is much shorter.

Overall, some investment will be required to further strengthen the focus on diagnostics, and this will have an impact on the unit's operating result this year. Nonetheless, the unit will be

solidly cash-flow positive and profitable, and we believe the investment will pay off as we position AbD Serotec for further growth.

### **Slide 31: Financial forecast: Revenue up +20%, more investments**

That brings us to our financial outlook. For the first time in the company's history, our annual revenue will exceed EUR 100 million. It is our firm expectation that revenues will be in the range of EUR 105 to 110 million, representing year-on-year growth of 20 to 25%. This range includes the one-off payment from Novartis that has already been made and that has been booked as a success-based payment in the first quarter of 2011. Overall, we expect success-based payments of around EUR 35 million in 2011.

Let's have a look at expenses. The experience in our industry has shown time and time again that the great success stories are written by those companies who have invested in proprietary research and development. Although it is not a guarantee of success, it can be said that biotech companies cannot grow if they do not invest in products and technologies. This year, our investments in proprietary R&D will increase significantly from EUR 26.5 million in 2010 to somewhere between EUR 40 and 45 million.

We expect operating profits to increase slightly over the previous year to EUR 10 to 13 million. Here, too, you can see the strength of our business model. We are in a position to increase proprietary R&D investment by around 50% and still remain solidly profitable and cash-flow positive.

A few more words on our investment in proprietary R&D: The lion's share of this investment will go into our highly promising portfolio of clinical antibody drugs.

We are very confident that these investments are balanced and going to the right projects. Our three most advanced programs address a major medical need in the areas of cancer and inflammations. Each of these drugs has the potential to be developed in several fields of medicine. We have a variety of pre-clinical references that suggest that these compounds can prove effective in patients. All the compounds involve antibodies that, in comparison with other drug classes, exhibit a statistically higher probability of success. There have been no changes in our plans to produce the clinical proof of concept for these preparations before we seek a partner to develop and market them. In this way we can maximize the financial benefits of the investment without being exposed to the high risk and costs of the later clinical development phases.

But we are also investing in earlier stage projects and especially in new technologies. Our goal here is to ensure the supply of proprietary drug candidates for our portfolio and to enable us to generate even better compounds.

How do we reach our decisions in research and development? Our decisions on proprietary R&D investment are closely linked to the merits of the individual programs. You should therefore not extrapolate levels of investment in future years from the 2010 or 2011 costs, as these are not a one-way street and do not reflect an irreversible build-up of infrastructure and resources in-house. For example, 40% of the costs incurred in 2010 for our clinical development candidates were external costs for service providers. These expenses can be adapted as soon as the company's plans move forward. We intend to remain profitable, but are currently giving the investments in R&D greater priority than increasing profits. We are convinced that this is in

the interests of the company and its shareholders and represents the best way to lay the foundation for increasing returns in the future.

For AbD Serotec we expect revenue growth of around 9%. Operating profit will decline a little compared to last year to around 4%, but this is solely due to the increased investment that we believe is required for the optimal progress of the business segment.

Overall, we are looking forward to another very productive year, both from an operational and from a financial perspective.

To conclude the report of the Management Board for 2010, I would like to say that we can look back with satisfaction and pleasure on a successful year in which MorphoSys has made progress on numerous fronts. What is even more important is that we can look forward to 2011 and beyond with the same high confidence.

Our progress would not be possible without the hard work, dedication of our supervisory board and employees, to whom I am extremely grateful. Thanks also to you, our shareholders, for your continued support.

Thank you very much for your attention.

### **Slide 32: Agenda – Introduction of the items on the agenda**

Ladies and gentlemen, shareholders, this concludes the report of the Management Board. Before I hand back to the chair of the meeting, I would just like to say a few words about today's agenda.

#### ***Items 2 and 3:***

In items 2 and 3, the formal approval of the activities of the Management Board and Supervisory Board for the past fiscal year is agreed. Now that you have heard the Management Board's report, the vice chairman of the Supervisory Board, Professor Drews, will say a few words about the work of the Supervisory Board.

#### ***Item 4:***

We propose that auditing for the 2011 fiscal year be performed by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft.

#### ***Item 5:***

The terms of office of the Supervisory Board members Professor Jürgen Drews and Dr. Walter A. Blättler end with today's Annual General Meeting. The Supervisory Board therefore proposes that Professor Drews and Dr. Blättler be re-elected individually.

Professor Jürgen Drews is a doctor and currently works as a business consultant in the life science field. We propose he be re-elected for a further year until the end of the Annual General Meeting in 2012. Dr. Walter A. Blättler, currently Director of Pre-clinical Development at Alfama

Inc., is to be re-elected as a member of the Supervisory Board. His appointment is for the period up to the end of the Annual General Meeting in 2014.

**Item 6:**

Germany's law on appropriate executive compensation – abbreviated to VorstAG – has created the possibility for the current management board compensation plan to be approved by a vote of the General Meeting. We will again make use of this possibility today and propose to you that the updated compensation system be approved under item 6 on the agenda. This has been adapted to the statutory requirements and includes a share program with a four-year vesting period. Professor Drews will outline the compensation system to you in a moment.

**Item 7:**

The proposed authorization would allow us to buy back treasury shares of up to 10% of our stock capital. This authorization would enable the Board to use the company's equity flexibly for current business requirements and to react quickly to favorable situations on stock markets while protecting investor interests.

The company's treasury stock can be sold against payments in kind while the shareholders' subscription rights are excluded, for instance. This would allow the company to offer treasury stock directly or indirectly as consideration in corporate mergers or in connection with the acquisition of companies, parts of companies or participating interests in companies.

In particular, it is planned to issue treasury stock to management under the new long-term compensation components to be developed for board members and managers. Issuing treasury stock to management, on condition of a four-year vesting period, is in the interests of the company and its shareholders, as it promotes the identification of management and employees with the company and thus creates added value. What's more, there is no longer any dilution through the issue of share options.

If this agenda item is approved we plan to initiate the buyback of shares necessary to cover the long-term incentive program for board members and managers soon

**Item 8:**

In item 8, we propose that contingent capital be approved. This is intended to give us the possibility of reacting to interesting opportunities and, if necessary, to procure capital in the short term. The existing authorization to issue bonds with conversion or option rights on shares in the company ended on April 30, 2011.

**Item 9:**

The Management Board and the Supervisory Board propose to supplement article 15 of the articles of association on the compensation of the Supervisory Board so that the members of the Supervisory Board are included in a liability insurance policy for members of bodies and certain employees of the MorphoSys Group (D&O insurance) maintained by the company in its interests at an appropriate amount, insofar as such insurance exists. The company will pay the premiums for this. Furthermore, if members of the Supervisory Board take part in training and further training measures that are required for their duties in accordance with the provisions of

the German Corporate Governance Code, the company should reimburse them the costs incurred by this.

Before I hand back to Professor Drews, I would like to take this opportunity to thank you, our shareholders, for your continued support. I would also like to thank all the Supervisory Board members for their commitment and support. In particular, I would like to thank all of our employees throughout the MorphoSys Group for their work over the past year. The successes that we have reported on today would not be possible without them and their outstanding performance.

Thank you very much for your attention. I will now give the floor back to Professor Drews.

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