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CONSOLIDATED STATEMENT OF OPERATIONS (IFRS)

in €	Note	2009	2008
Revenues	1R	81,024,081	71,645,341
Operating Expenses			
Cost of Goods Sold	2	6,743,836	7,138,484
Research and Development		38,967,305	27,599,615
Sales, General and Administrative		23,910,845	20,484,400
Total Operating Expenses		69,621,986	55,222,499
Profit from Operations		11,402,095	16,422,842
Finance Income	20	2,001,573	2,508,633
Finance Expense	20	9,538	6,468
Other Income	20	372,372	923,050
Other Expense	20	732,762	1,862,325
Profit before Taxes		13,033,740	17,985,732
Income Tax Expense	21	4,069,645	4,832,379
Net Profit		8,964,095	13,153,353
Basic Net Profit per Share	22	0.40	0.59
Diluted Net Profit per Share	22	0.40	0.59
Shares Used in Computing Basic Net Profit per Share	22	22,464,757	22,216,677
Shares Used in Computing Diluted Net Profit per Share	22	22,559,164	22,326,917

See accompanying Notes to the Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

in €	2009	2008
Net Profit	8,964,095	13,153,353
Change in Unrealized Gains and Losses on Available-for-sale Securities (Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	(1,066,905) (1,668,056)	2,566,973 (762,152)
Deferred Taxes	280,916	(675,884)
Change in Unrealized Gains and Losses, Net of Deferred Tax	(785,989)	1,891,089
Effects from Equity-related Recognition of Deferred Taxes	(6,788)	31,555
Foreign Currency Gain/(Loss) from Consolidation	486,184	(2,091,843)
Comprehensive Income	8,657,502	12,984,154

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET (IFRS)

in €	Note	2009	2008
ASSETS			
Current Assets			
Cash and Cash Equivalents	3, 15	41,255,316	40,113,727
Available-for-sale Financial Assets	4, 15	93,883,571	97,752,015
Accounts Receivable	5, 15	11,156,559	4,211,258
Tax Receivables	7	794,855	1,122,495
Other Receivables	6	257,550	109,900
Inventories, Net	7	3,990,238	3,521,451
Prepaid Expenses and Other Current Assets	7	3,481,709	2,563,030
Assets Classified as Held for Sale	11	771,798	722,036
Total Current Assets		155,591,596	150,115,912
Non-current Assets			
Property, Plant and Equipment, Net	8	4,996,804	3,967,405
Patents, Net	9	789,798	1,199,267
Licenses, Net	9	13,780,534	15,377,995
Software, Net	9	712,482	663,964
Know-how and Customer Lists, Net	9	2,083,633	2,492,537
Goodwill	9, 12	26,742,173	26,672,397
Deferred Tax Asset	21	221,534	1,720,750
Prepaid Expenses and Other Assets, Net of Current Portion	7, 10	1,172,041	1,082,665
Total Non-current Assets		50,498,999	53,176,980
TOTAL ASSETS		206,090,595	203,292,892

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in €	Note	2009	2008
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	13, 15	14,106,352	11,616,376
Licenses Payable	15	100,746	450,969
Provisions and Tax Liabilities	14, 21	1,426,760	881,999
Current Portion of Deferred Revenue	1R	8,618,250	14,453,680
Total Current Liabilities		24,252,108	27,403,024
Non-current Liabilities			
Provisions, Net of Current Portion	14	43,344	117,839
Deferred Revenue, Net of Current Portion	1R	5,579,610	11,193,421
Convertible Bonds Due to Related Parties	17	32,670	48,670
Deferred Tax Liability	21	2,248,498	2,542,750
Total Non-current Liabilities		7,904,122	13,902,680
Stockholders' Equity	16, 17, 18		
Common Stock, € 1 Par Value;			
Ordinary Shares Authorized (42,400,635 and 42,759,630 for 2009 and 2008, Respectively)			
Ordinary Shares Issued (22,660,557 and 22,478,787 for 2009 and 2008, Respectively)			
Ordinary Shares Outstanding (22,580,661 and 22,398,891 for 2009 and 2008, Respectively)			
Treasury Stock (79,896 and 79,896 Shares for 2009 and 2008, Respectively), at Cost		22,650,783	22,469,013
Additional Paid-in Capital		161,631,268	158,523,363
Reserves		1,383,118	1,689,711
Accumulated Deficit		(11,730,804)	(20,694,899)
Total Stockholders' Equity		173,934,365	161,987,188
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		206,090,595	203,292,892

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (IFRS)

	Common Stock	
	Shares	€
BALANCE AS OF JANUARY 1, 2008	22,160,259	22,160,259
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Costs of € 15,500	318,528	318,528
Reserves		
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Loss from Consolidation	0	0
Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2008	22,478,787	22,478,787
BALANCE AS OF JANUARY 1, 2009	22,478,787	22,478,787
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Costs of € 0	181,770	181,770
Reserves		
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gain from Consolidation	0	0
Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2009	22,660,557	22,660,557

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Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Deficit	Total Stock- holders' Equity
Shares	€					
80,196	(9,811)	155,376,343	2,241,328	(382,418)	(33,848,252)	145,537,449
0	0	1,039,035	0	0	0	1,039,035
(300)	37	2,107,985	0	0	0	2,426,550
0	0	0	1,891,089	0	0	1,891,089
0	0	0	31,555	0	0	31,555
0	0	0	0	(2,091,843)	0	(2,091,843)
0	0	0	0	0	13,153,353	13,153,353
0	0	0	1,922,644	(2,091,843)	13,153,353	12,984,154
79,896	(9,774)	158,523,363	4,163,972	(2,474,261)	(20,694,899)	161,987,188
79,896	(9,774)	158,523,363	4,163,972	(2,474,261)	(20,694,899)	161,987,188
0	0	1,743,344	0	0	0	1,743,344
0	0	1,364,561	0	0	0	1,546,331
0	0	0	(785,989)	0	0	(785,989)
0	0	0	(6,788)	0	0	(6,788)
0	0	0	0	486,184	0	486,184
0	0	0	0	0	8,964,095	8,964,095
0	0	0	(792,777)	486,184	8,964,095	8,657,502
79,896	(9,774)	161,631,268	3,371,195	(1,988,077)	(11,730,804)	173,934,365

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

in €	Note	2009	2008
OPERATING ACTIVITIES			
Net Profit		8,964,095	13,153,353
Adjustments to Reconcile Net Profit to Net Cash (Used in)/Provided by Operating Activities			
Non-cash Charges from PPA		0	178,851
Impairment of Assets		31,277	867,131
Depreciation and Amortization of Tangible and Intangible Assets		5,348,950	5,238,185
Income Tax Benefit		(183,272)	(465,447)
Net Gain on Sales of Financial Assets		(1,717,095)	(1,022,873)
Unrealized Net Loss on Derivative Financial Instruments		126,304	39,144
Gain on Sale of Property, Plant and Equipment/Intangible Assets		(2,493)	(12,702)
Recognition of Deferred Revenue		(31,967,141)	(33,631,336)
Stock-based Compensation		1,736,472	1,039,036
Changes in Operating Assets and Liabilities			
Accounts Receivable		(6,916,122)	5,102,007
Prepaid Expenses, Other Assets and Tax Receivables		795,093	3,169,357
Accounts Payable and Provisions		40,359	614,663
Licenses Payable		(350,223)	319,643
Other Liabilities		1,434,570	(2,150,763)
Deferred Revenue		20,517,900	36,883,100
Cash (Used in)/Generated from Operations		(2,141,326)	29,321,349
Interest Paid		3,537	0
Interest Received		(284,535)	(1,486,190)
Income Taxes Paid		1,443,293	812,414
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES		(979,031)	28,647,573

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in €	Note	2009	2008
INVESTING ACTIVITIES			
Purchases of Financial Assets		(11,787,200)	(47,783,024)
Proceeds from Sales of Financial Assets		16,223,311	12,018,161
Purchases of Property, Plant and Equipment		(2,586,142)	(1,616,948)
Proceeds from Disposals of Property, Plant and Equipment		7,335	327,082
Purchases of Intangible Assets		(1,231,572)	(2,265,621)
Proceeds from Disposals of Intangibles		0	7,055
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	15	625,732	(39,313,295)
FINANCING ACTIVITIES			
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		1,546,332	2,442,049
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(16,000)	(30,395)
Purchases of Derivative Financial Instruments	6	(173,304)	(75,000)
Proceeds from the Disposal of Derivative Financial Instruments	6	47,000	170,359
Net Cost of Share Issuance		0	(15,500)
NET CASH PROVIDED BY FINANCING ACTIVITIES	15	1,404,028	2,491,513
Effect of Exchange Rate Differences on Cash		90,860	(119,128)
(Decrease)/Increase in Cash and Cash Equivalents		1,141,589	(8,293,337)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		40,113,727	48,407,064
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		41,255,316	40,113,727

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND ORGANIZATION

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

CONSOLIDATED COMPANIES

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

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

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

Serotec Ltd. with its subsidiaries Serotec, Inc., Serotec GmbH and Oxford Biotechnology Ltd. (together referred to as the “Serotec Group”) was acquired by MorphoSys in January 2006 and became a wholly owned subsidiary of MorphoSys AG. The Serotec Group has been integrated into MorphoSys’s existing AbD Serotec segment. The purchase price of approximately £ 20 million (approx. € 29.3 million) was paid in cash (£ 14 million or € 20.5 million) and the remainder in 208,560 new MorphoSys shares from a capital increase against contribution in kind. Oxford Biotechnology Ltd. was dissolved in the financial year 2009.

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

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

In 2009, the Company applied sec. 264, para. 3, of the German Commercial Code (HGB). For this reason, no separate financial statements for 2008 were published in the Bundesanzeiger for MorphoSys IP GmbH.

GENERAL INFORMATION

The consolidated financial statements for the year ended December 31, 2009, were authorized for issuance in accordance with a resolution of the Management Board on February 8, 2010. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Mr. Dave Lemus (Executive Vice President and Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer) and Dr. Arndt Schottelius (Chief Development Officer).

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

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

SIGNIFICANT ACCOUNTING POLICIES

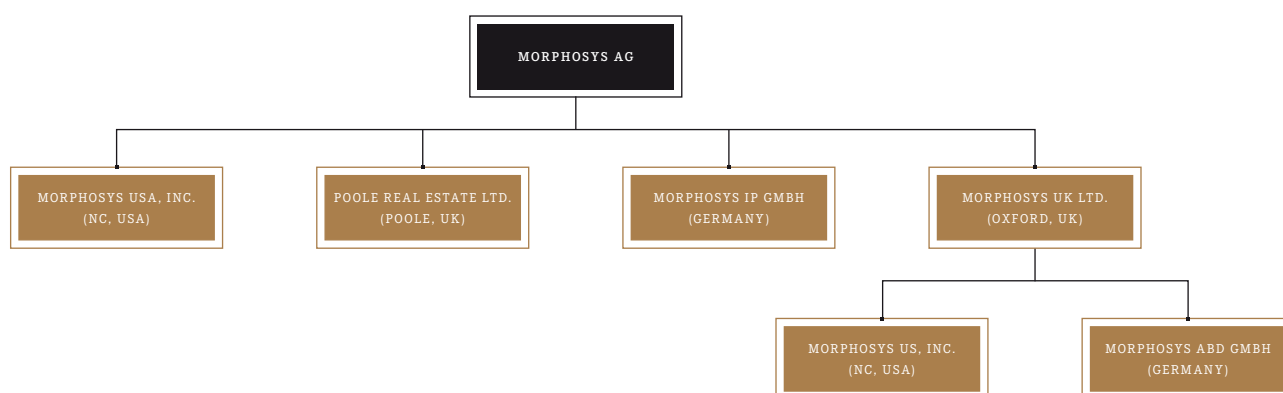
A) BASIS OF ADOPTION

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

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

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LEGAL STRUCTURE OF THE MORPHOSYS GROUP



IFRS 2 “SHARE-BASED PAYMENT”

IFRS 2 “Share-based Payment” requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares (“equity-settled transactions”) or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The main impact of IFRS 2 on the Group refers to the expense associated with employees’ as well as management boards’ and supervisory boards’ share options and other share-based incentives by using an option pricing model. In accordance with IFRS 2.54, the Group has applied IFRS 2 to equity-settled awards granted on or after January 1, 1999. In accordance with IFRS 2.56, options granted prior to January 1, 1999, are therefore not expensed. All information is nonetheless disclosed in line with IFRS 2.44 and 2.45. Further details are given in the Notes to the Consolidated Financial Statements, [sections 17 and 18*](#).

IFRS 3 “BUSINESS COMBINATIONS”, IAS 36

“IMPAIRMENT OF ASSETS” AND IAS 38 “INTANGIBLE ASSETS”

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

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

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

NEW STANDARDS EFFECTIVE IN 2009

- IFRS 8 “Operating Segments” (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 “Disclosures about Segments of an Enterprise and Related Information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has been applying IFRS 8 since January 1, 2009. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS 7 “Financial Instruments: Disclosures” (Amendment, effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by



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level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IAS 1 (Revised) “Presentation of Financial Statements” (effective from January 1, 2009). The revised standard requires “non-owner changes in equity” to be presented separately from owner changes in equity in a statement of comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS 2 (Amendment) “Share-based Payment” (effective from January 1, 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. The group has adopted the amendment from January 1, 2009. The amendment does not have a material impact on the Group’s financial statements.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after January 1, 2010, or later periods, but have not been adopted early by the Group:

- IFRS 3 (Revised) “Business Combinations” (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from January 1, 2010.
- Other standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group include IFRIC 17 “Distribution of Non-cash Assets to Owners”, IAS 27 (Revised) “Consolidated and Separate Financial Statements”, IAS 38 (Amendment) “Intangible Assets”, IFRS 5 (Amendment) “Measurement of Non-current Assets (or Disposal Groups) Classified as Held-for-Sale”, IAS 1 (Amendment) “Presentation of Financial Statements”, IFRS 2 (Amendments) “Group cash-settled and share-based payment transactions”. These are not expected to have a material impact on the Group’s financial statements.

B) STATEMENT OF COMPLIANCE

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

The consolidated financial statements of the Company for the year ended December 31, 2009, comprise the Company and its subsidiaries (together referred to as the “MorphoSys Group”).

C) BASIS OF PRESENTATION

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

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

D) BASIS OF CONSOLIDATION

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements in accordance with IAS 27.24. Unrealized losses are eliminated in the same way as unrealized gains but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Please see the Notes to the Consolidated Financial Statements, [section 1A*](#), for further details.

E) FOREIGN CURRENCY TRANSLATION

IAS 21 “The Effects of Changes in Foreign Exchange Rates” defines the accounting for transactions and balances in foreign currencies. Transactions in foreign currencies are translated at the foreign exchange rate as of the date of the transaction. Foreign exchange rate differences arising on these translations are recognized in the statement of operations. On the balance sheet date, assets and liabilities are translated at



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the closing rate, and income and expenses are translated at the average exchange rate for the period. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Any foreign exchange rate differences deriving from these translations are recorded in the statement of operations. Any further foreign exchange rate differences on a Group level are recognized in the translation reserve (equity).

F) INTEREST

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

G) DERIVATIVE FINANCIAL INSTRUMENTS

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

H) CASH AND CASH EQUIVALENTS

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

I) NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company accounts for its investments in debt and equity securities in accordance with IAS 39. The management determines the proper classifications of financial assets at the time of purchase and re-evaluates such designations as of each balance sheet date. As of December 31,

2009, and as of December 31, 2008, some financial assets held by the Group have also been classified as available for sale. These financial assets are recognized or de-recognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in the revaluation reserve within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the statement of operations.

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

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

J) ACCOUNTS RECEIVABLE

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

The allowance for doubtful accounts is based on the management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there is deterioration in a major customer's creditworthiness or if actual defaults are higher than the historical experience, the management's estimates of the recoverability of amounts due to the Company could be adversely affected. Based on the management's assessment, allowances in the amount of € 20,235 as of December 31, 2009, and € 73,579 as of December 31, 2008, were recognized. The Company does require collateral from customers for accounts receivable in the AbD Serotec segment. The amount of collaterals held as of December 31, 2009, was not material.

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



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K) INVENTORY

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

L) PROPERTY, PLANT AND EQUIPMENT

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

M) INTANGIBLE ASSETS**MA) RESEARCH AND DEVELOPMENT**

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

MB) PATENT COSTS

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

MC) LICENSE RIGHTS

The Company acquired license rights by making upfront license payments, paying annual maintenance fees and making sublicense payments to third parties. The Company amortizes up-front license payments on a straight-line basis over the estimated useful life of the acquired license (ten years). The amortization period and the amortization method are reviewed at each balance sheet date (IAS 38.104). Annual maintenance fees are amortized over the term of each annual

agreement. Sublicense payments are amortized on a straight-line basis over the life of the contract or the estimated useful life of the collaboration for those contracts without a stipulated term.

MD) SOFTWARE

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

ME) KNOW-HOW AND CUSTOMER LISTS

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

MF) GOODWILL

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

MG) SUBSEQUENT EXPENDITURE

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

N) IMPAIRMENT

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

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



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

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

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

O) SHARE CAPITAL

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

P) TRADE AND OTHER PAYABLES

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

Payables of uncertain timing or amount are shown as provisions.

Q) CONVERTIBLE BONDS

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

R) REVENUE RECOGNITION

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

Revenues related to non-refundable technology access fees, subscription fees and license fees are deferred and recognized on a straight-line basis over the relevant periods of the agreement, generally the research term or the estimated useful life of the collaboration for those contracts without a stipulated term unless a more accurate means of recognizing revenue is available. If all of the criteria of IAS 18.14 are met, revenue is recognized in full. Research and development collaboration service fees are recognized in the period when the services are provided. Milestone revenues are recognized upon achievement of certain criteria.

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

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

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

Grant income has been recognized in the amount of €55,667 in 2009 (2008: €20,153).

S) EXPENSES**SA) COST OF GOODS SOLD**

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

SB) STOCK-BASED COMPENSATION

The Company applies the provisions of IFRS 2 "Share-based Payment" which obligates the Company to record the estimated fair value for stock options and other awards at the measurement date as a compensation expense over the period in which the employees render the services associated with the award. Stock-based compensation expenses for the full year 2009 amounted to €1,743,344 (prior year: €1,039,035) and were shown in COGS, S, G&A and R&D expenses for the period.

SC) OPERATING LEASE PAYMENTS

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

T) INTEREST INCOME

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

U) INTEREST EXPENSE

Borrowing costs are expensed when incurred.

V) INCOME TAXES

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

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

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

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

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

W) EARNINGS PER SHARE

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

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2 SEGMENT REPORTING

The Group applies IFRS 8 “Operating Segments” (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 “Disclosures about Segments of an Enterprise and Related Information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. As of June 30, 2009, the Group implemented a third operating segment, Therapeutic Antibodies - Proprietary Development. The corresponding items of segment information for prior periods have been restated on a reasonable basis of allocations.

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

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

The Group consists of the following three operating segments:

PARTNERED DISCOVERY

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

PROPRIETARY DEVELOPMENT

This segment involves all activities relating to proprietary therapeutic antibody development. Presently, this includes the Company’s two lead compounds in its proprietary product portfolio, MOR103 and MOR202. Proprietary compounds, once developed to a stage where clinical proof of concept is achieved, could then be out-licensed to third parties.

ABD SEROTEC

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

ENTITY-WIDE DISCLOSURE

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

For the Twelve-Month Period
Ended December 31

(in 000's €)

	Partnered Discovery		Proprietary Development	
	2009	2008	2009	2008
REVENUES, TOTAL	61,669	54,323	1,012	0
External Revenues	61,669	54,323	1,012	0
Intersegment Revenues	0	0	0	0
TOTAL OPERATING EXPENSES	22,094	19,888	19,297	8,860
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	21,170	18,994	19,178	8,860
Intersegment Costs	924	894	119	0
SEGMENT RESULT	39,575	34,435	(18,285)	(8,860)
Finance Income	0	0	0	0
Finance Expense	0	0	0	0
Other Income	0	0	0	0
Other Expense	0	0	0	0
PROFIT BEFORE TAXES	0	0	0	0
Income Tax Expense	0	0	0	0
NET PROFIT	0	0	0	0
Current Assets	9,499	2,216	1,160	820
Non-current Assets	10,320	12,938	5,450	3,268
TOTAL SEGMENT ASSETS	19,819	15,154	6,610	4,088
Current Liabilities	12,210	18,016	3,008	1,702
Non-current Liabilities	5,579	11,193	0	0
Stockholders' Equity				
TOTAL SEGMENT LIABILITIES AND EQUITY	17,789	29,209	3,008	1,702
Capital Expenditure	1,525	2,507	841	380
Depreciation and Amortization	2,470	2,994	823	221

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AbD Serotec		Unallocated		Elimination		Group	
2009	2008	2009	2008	2009	2008	2009	2008
19,386	18,216	0	0	(1,043)	(894)	81,024	71,645
18,343	17,322	0	0	0	0	81,024	71,645
1,043	894	0	0	(1,043)	(894)	0	0
18,371	17,852	10,903	9,516	(1,043)	(894)	69,622	55,222
6,744	7,138	0	0	0	0	6,744	7,138
11,627	10,714	10,903	9,516	0	0	62,878	48,084
0	0	0	0	(1,043)	(894)	0	0
1,015	364	(10,903)	(9,516)	0	0	11,402	16,423
0	0	0	0	0	0	2,002	2,508
0	0	0	0	0	0	9	6
0	0	0	0	0	0	372	923
0	0	0	0	0	0	733	1,862
0	0	0	0	0	0	13,034	17,986
0	0	0	0	0	0	4,070	4,833
0	0	0	0	0	0	8,964	13,153
9,024	8,811	135,909	138,268	0	0	155,592	150,115
31,814	32,406	2,915	4,565	0	0	50,499	53,177
40,838	41,217	138,824	142,833	0	0	206,091	203,292
3,818	2,867	5,216	4,818	0	0	24,252	27,403
905	1,019	1,420	1,690	0	0	7,904	13,902
		173,935	161,987			173,935	161,987
4,723	3,886	180,571	168,495	0	0	206,091	203,292
783	475	682	523	0	0	3,831	3,885
1,128	1,222	922	806	0	0	5,343	5,243

A segment result is defined as segment revenues less operating segment expenses. As a compensation for Partnered Discovery revenues generated from contracts that had originally been initiated by the AbD Serotec segment, the Partnered Discovery segment granted a compensatory fee of €0.9 million (prior year: €0.9 million) to the AbD Serotec segment for 2009 as a result of the revenue-sharing agreement established between the two segments in 2007. In 2009, a minor impairment loss was recognized in the AbD Serotec segment. In the previous year, impairment losses of €0.4 million and €0.5 million were recognized in the Partnered Discovery segment and the AbD Serotec segment respectively.

The Group's major customers are all related to the Partnered Discovery segment. The most significant customer accounts for €9.0 million of the trade receivables carrying amount at December 31, 2009 (2008: €1.8 million).

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

in 000's €	2009	2008
Germany	6,865	5,314
Europe and Asia	58,099	48,338
USA and Canada	14,807	16,390
Other	1,253	1,603
TOTAL	81,024	71,645

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

in 000's €	2009	2008
Germany	197,405	194,126
UK	7,329	7,414
USA	1,357	1,753
TOTAL	206,091	203,293

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

in 000's €	2009	2008
Germany	3,520	3,696
UK	290	147
USA	21	42
TOTAL	3,831	3,885

3 CASH AND CASH EQUIVALENTS

in 000's €	2009	2008
Bank Balances and Cash in Hand	41,255	40,114
Term Deposits	883	842
Restricted Cash	(883)	(842)
CASH AND CASH EQUIVALENTS	41,255	40,114

The €0.9 million (prior year: €0.8 million) of restricted cash paid for the headquarters buildings in Munich and Oxford is a rent deposit.

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4 FINANCIAL ASSETS

Financial assets classified as available-for-sale consist of the following as of December 31, 2009 and 2008:

in 000's €	Maturity	Cost	Gross Unrealized Holding		Realized Holding Gains	Market Value
			Gains	Losses		
DECEMBER 31, 2009						
DB Money Cash	daily	89,354	4,719	-	-	94,073
Restricted Cash						(189)
TOTAL						93,884
DECEMBER 31, 2008						
DB Money Cash	daily	92,073	5,786	-	-	97,859
Restricted Cash						(107)
TOTAL						97,752

The gross unrealized holding gains of €4,718,984 for the year ended December 31, 2009, and €5,785,889 for the year ended December 31, 2008, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2009, the Group recorded gains of €1,717,095 in the statement of operations on the sale of financial assets, which had previously been recognized in equity (2008: €1,022,873). The €0.2 million (prior year: €0.1 million) of restricted cash is a rent deposit.

For further details on accounting for financial assets, see also the Notes to the Consolidated Financial Statements - section 11*.

5 ACCOUNTS RECEIVABLE

All accounts receivable are non-interest-bearing and are generally due on a 30 to 45-day term. On December 31, 2009 and 2008, accounts receivable included unbilled amounts of €1,757,338 and €971,686, respectively.

6 OTHER RECEIVABLES

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

As of December 31, 2009, no option or forward contracts are outstanding. At the beginning of the year, the Company entered into nine option contracts that were due during the financial year 2009 with a realized loss of €0.1 million (prior year: €0.04 million loss). Realized losses were recognized as other expenses.



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**7 PREPAID EXPENSES, TAX RECEIVABLES,
OTHER CURRENT ASSETS AND INVENTORIES**

Prepaid expenses, both the current and the non-current portion, mainly include prepaid sublicense fees of €0.3 million as of December 31, 2009 (2008: €0.2 million), and other prepayments in the amount of €2.2 million as of December 31, 2009 (2008: €1.7 million).

Tax receivables amounted to €0.8 million as of December 31, 2009 (2008: €1.1 million), and mainly comprised receivables in connection with withholding tax on capital gains.

Inventories of €4.0 million (2008: €3.5 million) are mainly located in Oxford, UK, Raleigh, USA and Martinsried, Germany. As of December 31, 2009, inventories comprised raw materials, merchandise, consumables and supplies in the amount of €2.0 million (prior year: €2.8 million), work in progress in the amount of €0.1 million (prior year: €0.1 million) and finished goods of €1.9 million (prior year: €0.6 million). As of December 31, 2009, the inventory reserve amounted to €2.2 million (prior year: €1.6 million) and is included in COGS. Inventories carried at fair value less cost to sell amount to €0 (prior year: €0). In 2009 raw materials, consumables and changes in finished goods and work in progress recognized as COGS amounted to €5.2 million (prior year: €5.4 million).

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8 PROPERTY, PLANT AND EQUIPMENT

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Totals
Cost				
JANUARY 1, 2009	813	9,096	2,184	12,093
Additions	0	2,418	168	2,586
Disposals	0	(9)	(32)	(41)
Foreign Exchange Variance	56	37	19	112
DECEMBER 31, 2009	869	11,542	2,339	14,750
Accumulated Depreciation				
JANUARY 1, 2009	161	6,427	1,538	8,126
Depreciation Charge for the Year	54	1,356	207	1,617
Write-offs for the Year	0	2	5	7
Disposals	0	(11)	(26)	(37)
Foreign Exchange Variance	11	19	10	40
DECEMBER 31, 2009	226	7,793	1,734	9,753
Carrying Amount				
JANUARY 1, 2009	652	2,669	646	3,967
DECEMBER 31, 2009	643	3,749	605	4,997
Cost				
JANUARY 1, 2008	1,074	7,906	2,116	11,096
Additions	0	1,482	160	1,642
Disposals	0	(112)	0	(112)
Foreign Exchange Variance	(261)	(180)	(92)	(533)
DECEMBER 31, 2008	813	9,096	2,184	12,093
Accumulated Depreciation				
JANUARY 1, 2008	137	5,404	1,326	6,867
Depreciation Charge for the Year	57	1,200	249	1,506
Write-offs for the Year	0	0	0	0
Disposals	0	(108)	0	(108)
Foreign Exchange Variance	(33)	(69)	(37)	(139)
DECEMBER 31, 2008	161	6,427	1,538	8,126
Carrying Amount				
JANUARY 1, 2008	937	2,502	790	4,229
DECEMBER 31, 2008	652	2,669	646	3,967

As of December 31, 2009, land and building located in Poole, UK, in the amount of €771,798 (prior year: €722,036) is classified as held for sale.

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

in 000's €	2009	2008
Research and Development	1,013	917
Sales, General and Administrative (Depreciation)	526	496
Sales, General and Administrative (Write-off)	7	0
Cost of Goods Sold	83	103
TOTAL	1,629	1,516

As of December 31, 2009, minor foreign exchange effects were recognized for the assets acquired and were accounted as translation reserve in equity.

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9 INTANGIBLE ASSETS

in 000's €	Patents	Licenses	Software	Know-how and Customer List	Goodwill	Total
Cost						
JANUARY 1, 2009	3,986	24,381	2,595	4,905	26,672	62,539
Additions	162	736	347	0	0	1,245
Disposals	0	(367)	0	0	0	(367)
Foreign Exchange Variance	0	31	13	202	70	316
DECEMBER 31, 2009	4,148	24,781	2,955	5,107	26,742	63,733
Accumulated Amortization						
JANUARY 1, 2009	2,787	9,003	1,931	2,412	0	16,133
Amortization Charge for the Year	571	2,341	302	497	0	3,711
Write-offs for the Year	0	0	0	31	0	31
Disposals	0	(350)	0	0	0	(350)
Foreign Exchange Variance	0	7	10	82	0	99
DECEMBER 31, 2009	3,358	11,001	2,243	3,022	0	19,624
Carrying Amount						
JANUARY 1, 2009	1,199	15,378	664	2,493	26,672	46,406
DECEMBER 31, 2009	790	13,780	712	2,085	26,742	44,109
Cost						
JANUARY 1, 2008	3,955	22,815	2,281	5,960	26,954	61,965
Additions	103	1,743	398	0	0	2,244
Disposals	(72)	(48)	(28)	0	0	(148)
Foreign Exchange Variance	0	(129)	(56)	(1,055)	(282)	(1,522)
DECEMBER 31, 2008	3,986	24,381	2,595	4,905	26,672	62,539
Accumulated Amortization						
JANUARY 1, 2008	2,361	6,384	1,649	2,273	0	12,667
Amortization Charge for the Year	498	2,339	305	492	0	3,634
Write-offs for the Year	0	350	0	0	0	350
Disposals	(72)	(46)	(2)	0	0	(120)
Foreign Exchange Variance	0	(24)	(21)	(353)	0	(398)
DECEMBER 31, 2008	2,787	9,003	1,931	2,412	0	16,133
Carrying Amount						
JANUARY 1, 2008	1,594	16,431	632	3,687	26,954	49,298
DECEMBER 31, 2008	1,199	15,378	664	2,493	26,672	46,406

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

in 000's €	2009	2008
Research and Development	2,914	2,938
Research and Development (Write-off)	31	350
Sales, General and Administrative	648	629
Cost of Goods Sold	159	160
TOTAL	3,752	4,077

As of December 31, 2009, a minor impairment loss was recognized for intangible assets in the AbD Serotec segment (prior year: €0.4 million impairment loss in the Partnered Discovery segment).

As of December 31, 2009, minor foreign exchange effects were recognized for the assets acquired and were accounted for as translation reserve in equity.

10 OTHER ASSETS

The Company has classified certain items in other assets that are not available for use in its operations as restricted cash (see Notes to the Consolidated Financial Statements - section 3*). As of December 31, 2009 and 2008, the Company had commitments of €1.1 million and €0.9 million for guarantees issued as well as €32,670 and €48,670 respectively for convertible bonds issued to employees.

11 ASSETS CLASSIFIED AS HELD FOR SALE

As of December 31, 2009, assets classified as held for sale comprise the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK, (AbD Serotec segment) with a net book value of €771,798 (prior year: €722,036). Efforts to sell the property have commenced and a sale is expected within one year. An external, independent real estate company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, valued the property in the fourth quarter of 2009. No impairment was deemed necessary in the 2009 financial year. As of

December 31, 2008, due to a price decline on the real estate market, an impairment loss of €0.5 million on the remeasurement of the property to the lower of its carrying amount and its fair value less costs to sell has been recognized in profit and loss in other operating expenses.

12 GOODWILL

As of October 31, 2009, goodwill was tested as required by IAS 36. On the basis of the cash-generating unit, the AbD Serotec segment, the value in use was determined to be reasonably higher than the carrying amount. In addition, a detailed sensitivity analysis was done. Based on the updated outlook to cash flows for the upcoming five years, the value in use was calculated as follows: beta factor of 1.1, income tax rate of 36%, WACC of 8.92% and a conservative growth rate of 3% of perpetual annuity. The cash flow projections are based on internal and external sources of information and assume average yearly increases in revenues of approximately 12%. The sensitivity analysis was performed with different assumptions and variables. No impairment loss was deemed necessary if the perpetual growth rate should decrease from 3% to 0% or if the future cash flows should be reduced by 20%. The carrying amount equals the value in use if the WACC is increased to 11%. The values assigned to the assumptions represent Management's estimates of future trends and are based on internal planning scenarios as well as external sources.

13 ACCOUNTS PAYABLE

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

Accounts payable are listed in the table below:

in 000's €	2009	2008
Accounts Payable	831	1,216
Accrued Expenses	12,725	9,802
Other Liabilities	550	598
TOTAL	14,106	11,616



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Accrued expenses include mainly accruals for payments to employees and management of €3.9 million (2008: €2.9 million), amounts for outstanding invoices in the amount of €2.9 million (2008: €2.3 million), external lab funding of €2.3 million (2008: €1.3 million), €3.3 million for license compensation (2008: €2.4 million), €0.1 million for Supervisory Board members' compensation (2008: €0.3 million), €0.2 million for audit fees and costs related thereto (2008: €0.2 million) and €0.1 million for legal services (2008: €0.3 million).

At the Company's Annual General Meeting in May 2009, the Supervisory Board was authorized to appoint KPMG AG Wirtschaftsprüfungsgesellschaft as its auditor. In 2009 and 2008, the auditing company and its partner companies within the international KPMG network were remunerated by MorphoSys in the amount of €249,667 and €207,887, including audit fees of €239,898 (2008: €193,199), audit-related fees of €9,000 (2008: €13,970), fees for tax consultancy of €0 (2008: €0) and fees for other services of €768 (2008: €718). Accrued expenses for audit fees in the amount of €141,807 (2008: €166,019) are included in these figures. The total audit fees in 2008 included a release of unused accrued audit fees in the amount of €30,000.

In 2009, the auditing company and its partner companies included in KPMG Europe LLP were remunerated by MorphoSys in the amount of €211,785 (2008: €162,294) including audit fees of €202,017 (2008: €151,518), audit-related fees of €9,000 (2008: €10,059), fees for tax consultancy of €0 (2008: €0) and fees for other services of €768 (2008: €718).

14 PROVISIONS AND TAX LIABILITIES

As of December 31, 2009 and 2008, the Company recorded provisions and tax liabilities of €1.5 million and €1.0 million respectively.

Provisions for taxes mainly comprise expenses for income tax. Provisions remain uncertain with respect to their amounts as of December 31, 2009, and are expected to be settled in 2010.

Provisions changed during the 2009 financial year as follows:

in 000's €	01/01/2009	Additions	Utilized	Released	12/31/2009
Taxes	882	999	412	42	1,427
Other Obligations	118	8	0	83	43
TOTAL	1,000	1,007	412	125	1,470

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

CREDIT AND LIQUIDITY RISK

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

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. However, the Company's revenues and accounts receivable are subject to credit risk as a result of customer concentration. The Group's most significant customer accounted for €9.0 million of the trade receivables carrying amount as of December 31, 2009 (2008: € 1.8 million). This customer individually accounted for approximately 80 % of the Group's 2009 accounts receivable balance. In addition, three customers individually accounted for 52 %, 10 % and 3 % of the Company's total revenues in the year 2009. On December 31, 2008, one customer accounted for 43 % of the prior year's accounts receivable balance and three customers individually accounted for 50 %, 7 % and 6 % of the Company's revenues in 2008. Based on the management's assessment, allowances of € 20,235 and € 73,579 in relation to the AbD Serotec business segment were necessary as of December 31, 2009 and 2008. The carrying amount of financial assets represents the maximum credit exposure.

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

in €	2009	2008
Europe and Asia	10,439,419	2,862,293
USA and Canada	721,779	1,317,226
Other	(4,639)	31,739
TOTAL	11,156,559	4,211,258

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

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

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

The contractual maturities and the related contractual cash flows of financial liabilities are within one year. The convertible bonds due to related parties in the amount of €0.1 million have a term until December 31, 2011 (prior year: €0.1 million). For derivative financial instruments and the related timing and amount of cash inflows and outflows, please refer to the Notes to the Consolidated Financial Statements - section 6*.

MARKET RISK

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

CURRENCY RISK

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



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

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

as of December 31, 2008; in €	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	38,306,089	85,704	1,721,934	0	40,113,727
Available-for-sale Assets	97,752,015	0	0	0	97,752,015
Trade Receivables	1,995,096	1,738,197	418,663	59,302	4,211,258
Trade and License Payables	(1,149,401)	(160,695)	(345,065)	(11,567)	(1,666,728)
TOTAL	136,903,799	1,663,206	1,795,532	47,735	140,410,272

A ten percent increase of the euro against the US dollar as of December 31, 2009, would have decreased earnings by €0.1 million (assuming that interest rates remain constant) (prior year: decrease of €0.2 million). A ten percent weakening of the euro against the US dollar would have increased earnings by €0.2 million (prior year: increase of €0.2 million). A ten percent increase of the euro against the British pound as of December 31, 2009, would have decreased earnings by €0.1 million (assuming that interest rates remain constant) (prior year: decrease of €0.2 million). A ten percent weakening of the euro against the British pound would have increased earnings by €0.1 million (prior year: increase of €0.2 million).

If the foreign exchange rates for the US dollar against the euro and the British pound against the euro had remained constant at the average rate of 2008, total Group revenues would have been lower in the amount of €0.4 million (prior year: higher by €1.5 million).

INTEREST RATE RISK

The exposure of the Group to changes in interest rates relates mainly to investments in available-for-sale securities. Changes in the general level of interest rates may lead to an increase or decrease in the fair

value of these investments. The risk of a decrease in fair value is limited due to fair value guarantees given by the issuing financial institutions in addition to the fact that all financial instruments in these respective money market funds have short maturity durations. The guarantees are renewed every six months. With regard to the liabilities shown in the balance sheet, the Group is currently not subject to significant interest rate risks.

FAIR VALUE HIERARCHY AND VALUATION METHODS

The carrying value of financial assets and liabilities such as cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market prices (Hierarchy Level 1, quoted prices in active markets; see Notes to the Consolidated Financial Statements - section 4*). None of the financial assets and liabilities are categorised in Level 2 or 3. The fair value of license payables is determined by the effective interest method. Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements. There were no transfers from one fair value hierarchy level to another in 2009 and 2008.



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16 STOCKHOLDERS' EQUITY

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

COMMON STOCK

On December 31, 2009, the common stock of the Company including treasury shares amounted to €22,660,557. This represented an increase of €181,770 compared to December 31, 2008 (€22,478,787). Each share of common stock is entitled to one vote. The increase arose as a result of the conversion and exercise of 181,770 options issued to the Management Board and to employees.

On December 31, 2008, the common stock of the Company amounted to €22,478,787. An increase of €318,528, or 318,528 shares, was the result of the conversion and exercise of convertible bonds and options in 2008.

On December 31, 2009, treasury shares amounted to €9,774 (79,896 shares) and remained unchanged compared to December 31, 2008.

AUTHORIZED CAPITAL

Unused Authorized Capital I remained unchanged on December 31, 2009, compared to December 31, 2008, to create a maximum of 8,864,103 new shares.

Unused Authorized Capital II remained unchanged on December 31, 2009, compared to December 31, 2008, to create a maximum of 2,216,025 new shares.

CONDITIONAL CAPITAL

In 2009, a total of 80,700 shares were raised from Conditional Capital II through the exercise of options by employees and Management Board members, increasing the subscribed capital by €80,700. Furthermore, 101,070 shares were raised from Conditional Capital V through the exercise of options by employees and Management Board members, increasing the subscribed capital by €101,070.

In 2008, a total of 15,495, 133,350, 75,783 and 93,900 shares had been raised from Conditional Capital I, II, IV and V respectively with subscribed capital increasing by €15,495, €133,350, €75,783 and €93,900 from respective Conditionals.

DIVIDENDS

Dividends may only be declared and paid from the accumulated retained earnings (after deduction of certain reserves) shown in the Company's annual German statutory accounts. Such amounts differ from the total of additional paid-in capital and accumulated deficit as shown in the accompanying consolidated financial statements as a result of the adjustments made to present the consolidated financial statements in accordance with IFRS. The Company's German statutory accounts showed taxable income in 2009; however, as of December 31, 2009 and 2008, they reflected no accumulated earnings available for distribution and the Company's ability to pay dividends will therefore depend upon its future earnings.

ADDITIONAL PAID-IN CAPITAL

On December 31, 2009, additional paid-in capital amounted to €161,631,268 (December 31, 2008: €158,523,363). The total increase of €3,107,905 is due to stock-based compensation in the amount of €1,743,344. A further increase of €1,364,561 arose from the exercise and conversion of options in the year 2009.

In 2008, the additional paid-in capital had increased by €3,147,020, resulting from stock-based compensation of €1,039,035 and €2,107,985 from the exercise and conversion of options and convertible bonds in the year 2008.

17 CONVERTIBLE BONDS

In the year 2009, no bonds of the 2007 grant were converted into shares. As of December 31, 2009, all convertible bonds granted in 2007 expired. The nominal value of €0.33 each was paid back to all those concerned.

In the year 2009, an additional grant to members of the Management Board and employees was made under the 2002 Plan, with terms identical to the 2002 stock convertible bonds grants. On April 1, 2009, 101,000 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is €12.81, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

A summary of activity under the Company's employee incentive convertible bonds plan for the years ended December 31, 2009 and 2008, is represented as follows:

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2008	237,195	17.05
Granted	0	0
Exercised	(75,783)	14.71
Forfeited	(12,552)	18.06
Expired	(8,400)	14.71
OUTSTANDING ON DECEMBER 31, 2008	140,460	18.37
OUTSTANDING ON JANUARY 1, 2009	140,460	18.37
Granted	101,000	12.81
Exercised	0	0
Forfeited	(2,000)	12.81
Expired	(140,460)	18.37
OUTSTANDING ON DECEMBER 31, 2009	99,000	12.81

Convertible bonds exercisable on December 31, 2009 and 2008, amounted to 0 and 140,460 shares, respectively. The weighted-average exercise price of exercisable convertible bonds was €18.37 on December 31, 2008.

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

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

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

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
€3.33 – €9.99	0	0.00	€0.00	0	€0.00
€10.00 – €18.37	140,460	1.00	€18.37	140,460	€18.37
	140,460	1.00	€18.37	140,460	€18.37

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 and IAS 32.28. The equity portion of the bonds has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bonds. The remaining value is recognized as stock-based compensation. The compensation expense recorded in 2009 and 2008 in connection with convertible bonds was €263,938 and €0, respectively.

The fair value of convertible bonds issued in 2009 was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 1.25%; dividend yield of 0%; 49.50% expected volatility based on historic data; and an expected life of 2 years. The weighted-average fair value of bonds granted during 2009 is estimated accordingly to be €3.62.

18 STOCK OPTIONS

For the years 2009 and 2008, 80,700 and 133,350 options from the 1999 Plan were exercised respectively. Of these, 75,000 options were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 24*.

In the year 2009, grants to employees and members of the Management Board were made under the 2002 Plan, with terms identical to the 2002 stock option grants. 422,200 options were granted to employees and the Management Board on April 1, 2009.

For the years 2009 and 2008, 101,070 and 93,900 options from the 2002 Plan were exercised. Of these, 73,695 options were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 24*.

A summary of activity under the Company's employee incentive stock option plans for the years ended December 31, 2009 and 2008, is represented as follows:

	Shares	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2008	841,470	10.35
Granted	405,069	13.33
Exercised	(243,045)	5.46
Forfeited	(43,590)	14.63
Expired	(1,350)	5.83
OUTSTANDING ON DECEMBER 31, 2008	958,554	12.66
OUTSTANDING ON JANUARY 1, 2009	958,554	12.66
Granted	422,200	12.81
Exercised	(181,770)	8.51
Forfeited	(46,997)	13.69
Expired	0	-
OUTSTANDING ON DECEMBER 31, 2009	1,151,987	13.33

Stock options exercisable on December 31, 2009 and 2008, amounted to 269,055 and 292,950 shares, respectively. The weighted-average exercise prices of exercisable stock options were €13.22 and €9.93 on December 31, 2009 and 2008, respectively.



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

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

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

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

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 “Share-based Payment”. Compensation expense recorded in 2009 and 2008 in connection with stock options was €1,472,534 and €1,039,036 respectively.

The fair value of the options issued in 2009 was calculated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4.00%; dividend yield of 0%; 46% expected volatility based on historic data; and an expected option life of 3.0 years. For option grants in 2008, the following assumptions were made: risk-free interest rate of 3.57%; dividend yield of 0%; 43% expected volatility; and the same option life as in 2009. The weighted-average fair value of options granted during 2009 and 2008 is estimated to be €4.51 and €4.39 respectively.

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

19 PERSONNEL EXPENSES

in 000's €	2009	2008
Wages and Salaries	21,339	17,779
Social Security Contributions	3,297	2,609
Stock-based Compensation Expense	1,736	1,039
Temporary Staff (External)	112	87
Other	1,364	1,023
TOTAL	27,848	22,537

The average number of employees during the year ended December 31, 2009, was 376 (2008: 312). Of the 413 employees as of December 31, 2009, 257 worked in research and development and 156 in sales, general and administration (December 31, 2008: 191 employees in R&D, and 143 employees in S, G&A). As of December 31, 2009, 217 employees worked in the Partnered Discovery segment, 56 worked in the Proprietary Development segment and 140 employees worked in the AbD

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Serotec segment (December 31, 2008: 201 employees in the Therapeutic Antibodies segments, 133 in the AbD Serotec segment). The expenses for defined contribution plans amounted to €0.3 million in 2009 (prior year: €0.1 million).

20 NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses includes the following items:

in 000's €	2009	2008
Interest Income	285	1,486
Gain on Marketable Securities	1,717	1,023
Finance Income	2,002	2,509
Interest Expenses	(10)	(6)
Finance Expenses	(10)	(6)
Gain on Exchange	274	667
Miscellaneous Income	99	256
Other Income	373	923
Loss on Exchange	(468)	(1,635)
Loss on Derivatives	(126)	(39)
Miscellaneous Expenses	(138)	(188)
Other Expenses	(732)	(1,862)
TOTAL	1,633	1,564

The corresponding items of non-operating income and expenses for prior periods are presented accordingly.

21 INCOME TAXES

The Company and its German subsidiaries, MorphoSys IP GmbH and MorphoSys AbD GmbH, are subject to corporate tax, solidarity surcharge and trade tax. The corporation tax rate remained constant at 15%, the same is valid for the solidarity surcharge of 5.5% and the effective trade tax rate of 10.5%. With regard to affiliated companies in foreign countries, income tax rates of 28% and 39% apply to the UK and the USA, respectively.

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

in 000's €	2009	2008
Current Tax Expense (Thereof Regarding Prior Years: 51; 2008: -107)	(2,572)	(2,029)
Deferred Tax Expense	(1,498)	(2,803)
Total Income Tax	(4,070)	(4,832)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(1,348)	(1,622)

Deferred taxes are recognized only to the extent that it is more likely than not that the related tax benefits will be realized. As of December 31, 2008, the Company recognized deferred tax assets in the net amount of € 1.6 million due to business expectations for the 2009 to 2013 financial years. In 2009, these deferred tax assets were fully released in the remaining amount of € 1.0 million due to utilized tax losses and in the amount of €0.6 million resulting from the change in temporary differences between IFRS and the tax balance sheet.

The following table reconciles the expected income tax expense to the actual income tax expense presented in the consolidated financial statements. To calculate the statutory income tax expense in fiscal year 2009, the combined income tax rate of 26.33% (2008: 26.33%) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge, and amounts to 15.83% plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300% for municipal trade tax, which amounts to 10.50%.

in 000's €	2009	2008
PROFIT BEFORE INCOME TAXES	13,034	17,986
Expected Tax Rate	26.33%	26.33%
EXPECTED INCOME TAX	(3,432)	(4,736)
TAX EFFECTS RESULTING FROM		
Deferred Income Tax Arising from the Recognition of DTA* on Previously Unrecognized DTA* on Tax Loss Carry-forwards	0	319
Stock-based Compensation	(464)	(274)
Non-tax-deductible Items	(116)	(102)
Tax Exempts	0	57
Tax Rate Differences	1	9
Prior-year Taxes	(75)	101
Other Effects	16	(206)
ACTUAL INCOME TAX	(4,070)	(4,832)

* Deferred Tax Asset

As of December 31, 2009, the tax loss carry-forwards for corporation tax and for trade tax have been fully utilized. The Company has been subject to tax audits for the fiscal years 2004 to 2007 and tax loss carry-forwards are expected to be confirmed in their recognized amount.

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

in 000's €	DTA 2009	DTA 2008	DTL* 2009	DTL* 2008
Intangible Assets	689	1,397	1,677	1,838
Non-recognition of DTA on Intangible Assets	0	0	0	0
Property, Plant and Equipment	0	0	41	25
Land	0	0	0	0
Building	0	0	0	0
Other Equipment, Furnitures, Fixtures	8	0	0	0
Inventory	220	58	0	0
Advanced Payments	0	0	0	0
Receivables and Other Assets	0	0	0	0
Treasury Stock	3	3	0	0
Prepaid Expenses and Deferred Charges	2	0	0	1
Short-term Securities Investments	0	0	1,243	1,523
Other Accrual/Provisions	0	0	5	5
Trade Accounts Payable	0	1	1	5
Bonds, Thereof Convertible	0	0	0	0
Other Liabilities	0	0	0	0
Tax Losses	19	1,117	0	0
	941	2,576	2,967	3,397

* Deferred Tax Liability

Due to the fiscal unity of MorphoSys AG and MorphoSys IP GmbH, an amount of €0.7 million (prior year: €0.9 million) of deferred tax assets and deferred tax liabilities have been netted in the balance sheet. Deferred tax liabilities in the amount of €1.3 million (prior year: €1.6 million) have been recognized directly in equity. The amount relates to the revaluation of available-for-sale financial assets.

22 EARNINGS PER SHARE

The calculation of basic profit per share is based on the net profit for the year of €8,964,095 (2008: €13,153,353) and the weighted-average number of shares of common stock outstanding for the respective years (2009: 22,464,757; 2008: 22,216,677).

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

	2009	2008
SHARES ISSUED ON JANUARY 1	22,478,787	22,160,259
Effect of Treasury Shares Held	(79,896)	(80,196)
Effect of Shares Issued in January	12,938	7,188
Effect of Shares Issued in February	0	5,118
Effect of Shares Issued in March	0	51,375
Effect of Shares Issued in April	0	5,322
Effect of Shares Issued in May	0	3,768
Effect of Shares Issued in June	0	14,139
Effect of Shares Issued in July	12,295	2,577
Effect of Shares Issued in August	24,843	39,567
Effect of Shares Issued in September	5,569	3,063
Effect of Shares Issued in October	4,400	27
Effect of Shares Issued in November	5,821	2,121
Effect of Shares Issued in December	0	2,349
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	22,464,757	22,216,677

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

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

	2009	2008
Numerator		
Net Profit of the Year	8,964,095	13,153,353
Denominator		
Weighted-Average Shares Used for Basic EPS	22,464,757	22,216,677
Dilutive Shares Arising from Stock Options	81,535	110,240
Dilutive Shares Arising from Convertible Bonds	12,872	0
TOTAL DENOMINATOR	22,559,164	22,326,917
Earnings per Share (in €)		
Basic	0.40	0.59
Diluted	0.40	0.59

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23 OPERATING LEASES

The Company leases facilities and equipment on long-term operating leases. Total rent expense amounted to € 2,238,004 and € 1,887,430 for the years ended December 31, 2009 and 2008, respectively. In January 2004, MorphoSys amended the existing lease agreement for its facilities. The new lease agreement will expire in July 2011. A yearly increase will be settled by the "Consumer Index for Germany".

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

in 000's €	2009	2008
Up to One Year	3,743	2,958
Between One and Five Years	4,360	4,058
More than Five Years	2,732	3,488
TOTAL	10,835	10,504

The Company's total expenses due to operating leases, insurances and other services in the years ended December 31, 2009 and 2008, totaled € 3,575,262 and € 3,208,165 respectively.

24 CONTINGENCIES

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

25 RELATED PARTIES

The Group has related party transactions with its Management Board members and with members of the Supervisory Board. In addition to the cash remuneration, the Company has issued stock options and convertible bonds to the Management Board. The tables below show the shares, stock options and convertible bonds, as well as the changes of ownership of the same, which were held by members of the Management Board and the Supervisory Board during the year 2009:

SHARES

	01/01/2009	Additions	Forfeitures	Sales	12/31/2009
MANAGEMENT BOARD					
Dr. Simon E. Moroney	406,383	10,002	0	0	416,385
Dave Lemus	300	5,100	0	0	5,400
Dr. Arndt Schottelius	0	500	0	0	500
Dr. Marlies Sproll	105	0	0	0	105
TOTAL	406,788	15,602	0	0	422,390
SUPERVISORY BOARD					
Dr. Gerald Möller	7,500	0	0	0	7,500
Prof. Dr. Jürgen Drews	7,290	0	0	0	7,290
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	16,809	0	0	0	16,809

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 € 374,333 in 2009 (2008: € 292,500). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD

in €	Fixed Compensation		Variable Compensation*		Other Compensatory Benefits		Total Compensation	
	2009	2008	2009	2008	2009	2008	2009	2008
Dr. Simon E. Moroney	356,011	343,125	192,246	164,700	124,198	105,246	672,455	613,071
Dave Lemus	250,375	241,313	135,203	115,830	141,055	129,167	526,633	486,310
Dr. Arndt Schottelius	220,000	1,222	118,800	0	84,513	123,893	423,313	125,115
Dr. Marlies Sproll	241,164	231,660	130,229	111,197	87,963	75,689	459,356	418,546
TOTAL	1,067,550	817,320	576,478	391,727	437,728	433,995	2,081,756	1,643,042

* Change in presentation: In previous years, bonus payments were presented in the year they were paid. This was changed in 2009. The total remuneration figures shown for 2009 and 2008 include the corresponding bonus accruals for 2009 and 2008. The 2009 bonus will be paid out in March 2010.

SUPERVISORY BOARD

in €	Fixed Compensation		Variable Compensation		Total Compensation	
	2009	2008	2009	2008	2009	2008
Dr. Gerald Möller	57,000	57,000	40,722	21,500	97,722	78,500
Prof. Dr. Jürgen Drews	43,278	42,000	27,778	9,500	71,056	51,500
Dr. Walter Blättler	29,556	27,000	11,000	10,500	40,556	37,500
Dr. Daniel Camus	28,500	28,500	28,333	13,500	56,833	42,000
Dr. Metin Colpan	28,500	28,500	21,333	9,500	49,833	38,000
Dr. Geoffrey N. Vernon	30,000	30,000	28,333	15,000	58,333	45,000
TOTAL	216,834	213,000	157,499	79,500	374,333	292,500

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

stocks were exercised in 2009; an amount of €80,000 is included in variable compensation.

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

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26 CORPORATE GOVERNANCE

The Company issued its statement according to section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made accessible to stockholders accordingly on the Company's website* on December 23, 2009.

27 RESEARCH AND DEVELOPMENT AGREEMENTS

The Company has a significant number of research and development agreements relating to its discovery and development strategy. In the majority of cases, upfront payments at signature, annual license payments in exchange for access to MorphoSys's technologies, development-dependent milestone payments and royalties on product sales are standard terms of these agreements. The following is a brief description of these agreements, which have had, or may have, a significant financial impact in future years (in alphabetical order).

ASTELLAS PHARMA, INC.

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

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

BAYER SCHERING PHARMA AG

The active collaboration with Bayer Schering Pharma AG was concluded by the end of 2007. Several therapeutic antibody programs are currently in development and could result in future development-dependent milestone payments and royalties on product sales. In September 2009, MorphoSys announced that Bayer Schering Pharma had filed all necessary documentation to initiate a phase 1 clinical trial with a HuCAL-derived antibody-drug conjugate in the therapeutic area of oncology. This achievement triggered a clinical milestone payment to MorphoSys.

BOEHRINGER INGELHEIM PHARMA GMBH & CO. KG

MorphoSys and Boehringer Ingelheim signed an initial collaboration in the field of therapeutic antibodies in February 2003. In March 2005, both companies agreed to expand the existing cooperation involving both research and therapeutic applications.

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

CENTOCOR ORTHO BIOTECH, INC.

The active collaboration with Centocor Ortho Biotech, Inc. (formerly known as: Centocor, Inc.), a wholly owned subsidiary of US pharmaceutical company Johnson & Johnson, was concluded by the end of 2007. Several therapeutic antibody programs are currently in development and could result in future development-dependent milestone payments and royalties on product sales. The most advanced compound within this collaboration is currently in a phase 2 clinical trial in an immunology indication and a second phase 2 clinical trial in oncology patients. In June 2009, MorphoSys announced that it had received a milestone payment from Centocor Ortho Biotech in connection with the initiation of a phase 1 clinical trial using a HuCAL-derived antibody in the therapeutic area of inflammation.

DAIICHI SANKYO COMPANY LTD.

In March 2006, MorphoSys and Sankyo Company Limited (part of the joint holding company, Daiichi Sankyo Company Limited) entered into a license agreement and therapeutic antibody collaboration for an initial two-year term with the option of an extension of up to three more years. In March 2008, the collaboration was extended until March 2011. The extension triggered an additional up-front payment.

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



* MORE INFORMATION AT
WWW.MORPHOSYS.COM



* SEE GLOSSARY P. 120

ELI LILLY AND COMPANY

The therapeutic license agreement with Eli Lilly and Company, which was signed in September 2005 as part of a settlement to resolve patent litigation that had been initiated by Lilly's subsidiary Applied Molecular Evolution, was concluded during the third quarter of 2009. However, the relationship with Eli Lilly continues on the AbD Serotec side of the business.

F. HOFFMANN-LA ROCHE

MorphoSys and F. Hoffmann-La Roche announced the signing of an agreement in September 2000 under which the companies collaborate on the development of human therapeutic antibodies for a Roche biological target associated with Alzheimer's disease. In the context of the collaboration, MorphoSys is eligible to receive development-related milestone payments and royalties on any marketed products emerging from the collaboration. A phase 1 clinical trial program to evaluate safety and tolerability of the HuCAL-derived antibody program R1450/Gantenerumab in Alzheimer's disease patients was operationally concluded by Roche in 2009.

Expanding on the relationship in Alzheimer's disease, MorphoSys and Roche announced a new collaboration to develop new therapeutic antibodies in oncology in March 2006.

GALAPAGOS NV

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

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

GENEFONTIER CORPORATION

Under the terms of a therapeutic target-sourcing collaboration signed in 2007, GeneFrontier may utilize MorphoSys's HuCAL GOLD antibody library to generate novel HuCAL antibodies against targets provided by leading Japanese research institutes and universities. For this purpose, the HuCAL antibody technology was installed at GeneFrontier's research laboratories at a research facility in Tokyo. GeneFrontier provided MorphoSys with annual license fees for access to the HuCAL technology. The 2004 marketing agreement was concluded in the fourth quarter of 2009.

MERCK & CO., INC.

In December 2005, MorphoSys signed a five-year license agreement with US pharmaceutical company Merck & Co., Inc., for the use of MorphoSys's HuCAL GOLD and AutoCAL technologies in research and development of human therapeutic antibodies. The agreement enables Merck to develop up to ten HuCAL-derived therapeutic antibodies in a range of indications.

NOVARTIS AG

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

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In 2009, Novartis committed to a ten-year term of the strategic alliance. The decision was based on MorphoSys's successful achievement of certain predefined improvements in its proprietary technologies. The collaboration will run until 2017 and may be extended by Novartis for an additional two years beyond that time under the same financial terms and conditions. The most advanced compound within this collaboration, BHQ880, is currently in a phase 2 clinical trial in oncology. In May 2009, MorphoSys announced that it had received a milestone payment from Novartis in connection with the initiation of a phase 1 clinical trial using a HuCAL-derived antibody.

ONCOMED PHARMACEUTICALS, INC.

In June 2006, MorphoSys and US-based biopharmaceutical company OncoMed Pharmaceuticals, Inc., announced the signing of a license agreement on the use of MorphoSys's HuCAL technology in the research and development of human therapeutic antibodies for the treatment of various cancers, including breast, lung, colon and prostate, by targeting cancer stem cells. In June 2008, the collaboration was extended until the end of May 2010. The contract includes an option for OncoMed to develop up to five HuCAL-derived therapeutic antibodies.

PFIZER, INC.

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

PROCHON BIOTECH LTD.

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

SCHERING-PLOUGH CORPORATION

In May 2006, MorphoSys and Schering-Plough Corporation signed a license agreement for the use of MorphoSys's HuCAL GOLD technology in the research and development of human therapeutic antibodies. The collaboration has a maximum term of five years until 2011 and may be extended by Schering-Plough after each single year. In June 2009, MorphoSys announced that Schering-Plough Corporation had triggered its pre-existing option to extend the current collaboration between the two companies for another year.

SHIONOGI & CO., LTD.

MorphoSys AG and Japanese pharmaceutical company Shionogi & Co., Ltd., signed a three-year license agreement on the use of MorphoSys's HuCAL technology in September 2005. In September 2008, the partnership was extended for three additional years, allowing Shionogi the use of the MorphoSys HuCAL GOLD library for research purposes at one of its research sites. In April 2009, MorphoSys and Shionogi entered into an agreement under which Shionogi was allowed to test HuCAL PLATINUM, the latest and most powerful MorphoSys antibody library. Shionogi found the new library to be considerably better and will now have the right to use HuCAL PLATINUM for research purposes at one of its sites. In return, MorphoSys receives a higher annual user fee during the remaining life span of the agreement.

CHART OF THE CONSOLIDATED ENTITY AS OF DECEMBER 31, 2009

Name and Corporate Seat of the Company	Currency	Exchange Rate on Dec. 31, 2009, One Unit of Euro in Foreign Currency
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)		
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US\$	1.43885
MorphoSys IP GmbH, Munich, Germany	€	-
MorphoSys UK Ltd., Oxford, UK	£	0.90050
MorphoSys US, Inc., Raleigh, North Carolina, USA	US\$	1.43885
MorphoSys AbD GmbH, Düsseldorf, Germany	€	-
Poole Real Estate Ltd., Poole, UK	£	0.90050

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Share of Capital %	Share Capital in Foreign Currency	Total Assets in Foreign Currency	Total Liabilities in Foreign Currency	Total Revenue in Foreign Currency	Profit/Loss in Foreign Currency
100	2,000	5,104	0	0	(1,553)
100	25,000	2,972,653	3,291,105	3,506,397	418,069
100	100	6,429,646	2,543,976	9,423,493	319,880
100	50,000	2,352,441	1,121,058	8,060,385	(62,072)
100	25,000	1,930,397	460,651	4,613,422	478,018
100	200	972,210	4,785	0	(79,298)