Contents Consolidated Financial Statements

Consolidated Statement of Operations (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Comprehensive Income (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock		
	Shares	€	
BALANCE AS OF JANUARY 1, 2009	**22,478,787**	**22,478,787**	
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0	
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Costs of €0	181,770	181,770	
Reserves:			
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	0	0	
Effects from Equity-related Recognition of Deferred Taxes	0	0	
Foreign Currency Gain from Consolidation	0	0	
Net Profit for the Period	0	0	
Comprehensive Income	0	0	
BALANCE AS OF DECEMBER 31, 2009	**22,660,557**	**22,660,557**	
BALANCE AS OF JANUARY 1, 2010	**22,660,557**	**22,660,557**	
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0	
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Costs of €15,500	229,695	229,695	
Reserves:			
Change in Unrealized Gain on Available-for-sale Securities, Net of Deferred Tax	0	0	
Effects from Equity-related Recognition of Deferred Taxes	0	0	
Foreign Currency Gain from Consolidation	0	0	
Net Profit for the Period	0	0	
Comprehensive Income	0	0	
BALANCE AS OF DECEMBER 31, 2010	**22,890,252**	**22,890,252**	

See accompanying Notes to the Consolidated Financial Statements

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

Consolidated Statement of Cash Flows (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1 Organization and Summary of Significant Accounting Policies

BUSINESS AND ORGANIZATION

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

CONSOLIDATED COMPANIES

The Company has five wholly owned subsidiaries (together referred to as the "MorphoSys Group"):

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

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

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

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

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

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

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

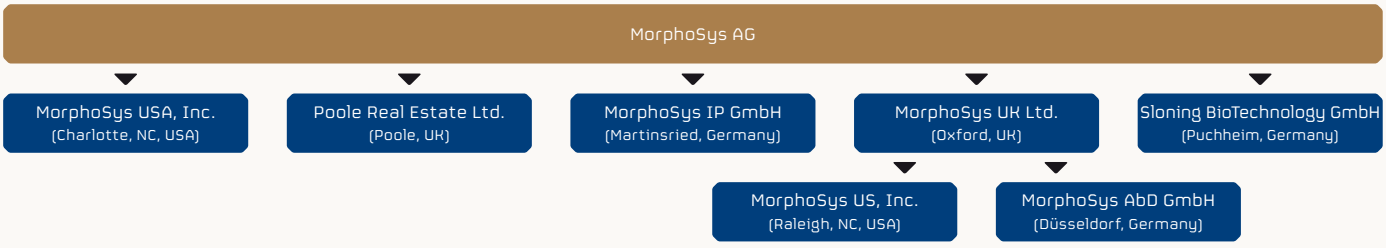
GENERAL INFORMATION

The consolidated financial statements for the year ended December 31, 2010, were authorized for issuance in accordance with a resolution of the Management Board on February 7, 2011. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Dave Lemus (Executive Vice President and Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer) and Dr. Arndt Schottelius (Chief Development Officer).

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

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

LEGAL STRUCTURE OF THE MORPHOSYS GROUP



SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF ADOPTION

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

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

IFRS 2 "SHARE-BASED PAYMENT"

IFRS 2 "Share-based Payment" requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions") or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Group refers to the expense associated with employees' as well as management boards' and supervisory boards' share options and other share-based incentives by using an option pricing model. In accordance with IFRS 2.54, the Group has applied IFRS 2 to equity-settled awards granted on or after January 1, 1999. In accordance with IFRS 2.56, options granted prior to January 1, 1999, are therefore not expensed. All information is nonetheless disclosed in line with IFRS 2.44 and 2.45. Further details are given in the Notes to the Consolidated Financial Statements – sections 17, 18 and 19*.

IFRS 3 "BUSINESS COMBINATIONS", IAS 36 "IMPAIRMENT OF ASSETS" AND IAS 38 "INTANGIBLE ASSETS"

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. IFRS 3 requires that all business combinations are accounted for using the acquisition method.

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

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

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

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

* SEE GLOSSARY P. 98

* SEE PAGE 74 ET SEQ.

NEW STANDARDS EFFECTIVE IN 2010

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

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

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

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

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

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

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

B) CHANGE IN ESTIMATES

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

C) STATEMENT OF COMPLIANCE

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

The consolidated financial statements of the Company for the year ended December 31, 2010, comprise the Company and its subsidiaries (together referred to as the "MorphoSys Group").

D) BASIS OF PRESENTATION AND CHANGE IN PRESENTATION

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

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

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

E) BASIS OF CONSOLIDATION

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements in accordance with IAS 27.20. Unrealized losses are eliminated in the same way as unrealized gains but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

F) BUSINESS COMBINATIONS

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

G) FOREIGN CURRENCY TRANSLATION

IAS 21 "The Effects of Changes in Foreign Exchange Rates" defines the accounting for transactions and balances in foreign currencies. Transactions in foreign currencies are translated at the foreign exchange rate as of the date of the transaction. Foreign exchange rate differences arising on these translations are recognized in the statement of operations. On the balance sheet date, assets and liabilities are translated at the closing rate, and income and expenses are translated at the average exchange rate for the period. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Any foreign exchange rate differences deriving from these translations are recorded in the statement of operations. Any further foreign exchange rate differences on a Group level are recognized in the translation reserve (equity).

H) INTEREST

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

I) DERIVATIVE FINANCIAL INSTRUMENTS

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

J) CASH AND CASH EQUIVALENTS

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

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

K) NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

* SEE PAGE 60

The Company accounts for its investments in debt and equity securities in accordance with IAS 39. The management determines the proper classifications of financial assets at the time of purchase and re-evaluates such designations as of each balance sheet date. As of December 31, 2010, and as of December 31, 2009, some financial assets held by the Group have also been classified as available-for-sale. These financial assets are recognized or derecognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in the revaluation reserve within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the statement of operations (please see section P* for further details).

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

L) ACCOUNTS RECEIVABLE

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

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

M) INVENTORY

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

N) PROPERTY, PLANT AND EQUIPMENT

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

O) INTANGIBLE ASSETS

OA) RESEARCH AND DEVELOPMENT

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

OB) PATENT COSTS

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy P*). Patent costs are amortized on a straight-line basis over the lower of the estimated useful life of the patent (ten years) and the remaining patent term. Amortization commences when the patent is issued. The Company's patents covering its proprietary HuCAL technology were granted in Australia in October 2000, in the United States of America in October 2001 and in Europe in June 2002. Technology as identified in the purchase price allocation for the acquisition of Sloning BioTechnology GmbH is stated at acquisition-date fair value less accumulated amortization (useful life of ten years).

OC) LICENSE RIGHTS

The Company acquired license rights by making upfront license payments, paying annual maintenance fees and making sublicense payments to third parties. The Company amortizes up-front license payments on a straight-line basis over the estimated useful life of the acquired license (ten years). The amortization period and the amortization method are reviewed at each balance sheet date (IAS 38.104). Annual maintenance fees are amortized over the term of each annual agreement. Sublicense payments are amortized on a straight-line basis over the life of the contract or the estimated useful life of the collaboration for those contracts without a stipulated term.

OD) SOFTWARE

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

OE) KNOW-HOW AND CUSTOMER LISTS

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

OF) INTANGIBLE ASSETS UNDER DEVELOPMENT

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

OG) GOODWILL

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

OH) SUBSEQUENT EXPENDITURE

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

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

P) IMPAIRMENT

PA) NON-DERIVATIVE FINANCIAL ASSETS

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

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

RECEIVABLES:

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

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS:

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

PB) NON-FINANCIAL ASSETS

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

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

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

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Q) SHARE CAPITAL

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

R) TRADE AND OTHER PAYABLES, PROVISIONS

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

Payables of uncertain timing or amount are shown as provisions.

S) CONVERTIBLE BONDS

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

T) REVENUE RECOGNITION

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

LICENSE AND MILESTONE FEES

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

SERVICE FEES

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

SALE OF GOODS

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

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

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

U) GOVERNMENT GRANTS

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

V) EXPENSES

VA) COST OF GOODS SOLD

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

VB) STOCK-BASED COMPENSATION

The Company applies the provisions of IFRS 2 "Share-based Payment" which obligates the Company to record the estimated fair value for stock options and other awards at the measurement date as a compensation expense over the period in which the employees render the services associated with the award.

VC) OPERATING LEASE PAYMENTS

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

W) INTEREST INCOME

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

X) INTEREST EXPENSE

Borrowing costs are expensed when incurred.

Y) INCOME TAXES

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

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

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

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

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

Z) EARNINGS PER SHARE

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

2 Segment Reporting

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

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

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

The Group consists of the following three operating segments:

PARTNERED DISCOVERY

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

PROPRIETARY DEVELOPMENT

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

ABD SEROTEC

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

ENTITY-WIDE DISCLOSURE

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

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

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

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

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

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

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

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

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

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

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

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

3 Cash and Cash Equivalents

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

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

4 Financial Assets

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

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

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

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

5 Accounts Receivable

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

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

6 Other Receivables

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

As of December 31, 2010, two option contracts in the nominal amounts of each $ 10 million (2009: € 0) are outstanding, for which an unrealized loss of € 0.3 million has been recognized in profit and loss. At the beginning of the year, the Company entered into eleven option contracts that were due during the financial year 2010 with a realized loss of € 0.2 million (2009: loss of € 0.1 million). Realized losses were recognized as other expenses.

7 Prepaid Expenses, Tax Receivables, Other Current Assets and Inventories

Prepaid expenses, both the current and the non-current portion, mainly include prepaid sublicense fees of € 0.2 million as of December 31, 2010 (2009: € 0.3 million), and other prepayments in the amount of € 2.2 million as of December 31, 2010 (2009: € 2.2 million).

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

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

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

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

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

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

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

9 Intangible Assets

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

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

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

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

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

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

10 Other Assets

The Company has classified certain items in other assets that are not available-for-use in its operations as restricted cash (see Notes to the Consolidated Financial Statements – section 3 and 4*). As of December 31, 2010 and 2009, the Company had commitments of € 1.3 million and € 1.1 million for guarantees issued as well as € 113,256 and € 32,670 respectively for convertible bonds issued to employees.

11 Assets Classified as Held for Sale

As of December 31, 2010, assets classified as held for sale comprise the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK (AbD Serotec segment) with a net book value of € 813,011 (prior year: € 771,798). In 2010, intense efforts to sell the property did not succeed. However, efforts for a commercialisation will be intensified in 2011 by searching for a potential buyer in a wider area and a sale is expected within one year. An external, independent real estate company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, has valued the property in the fourth quarter of 2010. No impairment was deemed necessary in the 2010 financial year.

12 Goodwill

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

The goodwill (as determined in the purchase price allocation) resulting from the acquisition of Sloning BioTechnology GmbH was attributed to the Partnered Discovery segment. As of December 31, 2010, this goodwill was tested as required by IAS 36. On the basis of the cash-generating unit, the technology development team within the Partnered Discovery segment, the value in use was determined to be higher than the carrying amount. In addition, a detailed sensitivity analysis was done. The cash flow projections are mainly based on the key assumption that the technology presently developed is highly beneficial for current and new customers and will result in a number of new deals. The values of the underlying key assumption have been determined by using both internal sources (past experience) and external sources of information (market intelligence). The sensitivity analysis was performed with different assumptions and variables. No impairment loss was deemed necessary if the perpetual growth rate should decrease from 2 % to 0 %, if future cash flows should be reduced by 20 % or if the WACC is increased from 8.22 % to 12 %. The values assigned to the assumptions represent management's estimates of future trends and are based on internal planning scenarios as well as external sources.

13 Accounts Payable

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

Accounts payable are listed in the table below:

in 000's €	2010	2009
Accounts Payable	2,148	831
Accrued Expenses	12,800	12,725
Other Liabilities	667	550
TOTAL	**15,615**	**14,106**

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

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

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

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

14 Provisions and Tax Liabilities

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

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

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

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

15 Financial Instruments and Financial Risk Management

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

CREDIT AND LIQUIDITY RISK

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

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are based on external ratings. However, the Company's revenues and accounts receivable are subject to credit risk as a result of customer concentration. The Group's most significant customer accounted for €9.4 million of the trade receivables carrying amount as of December 31, 2010 (2009: €9.0 million). This customer

individually accounted for approximately 62 % of the Group's 2010 accounts receivable balance. In addition, three customers individually accounted for 54 %, 10 %, and 4 % of the Company's total revenues in the year 2010. On December 31, 2009, one customer had accounted for 80 % of the prior year's accounts receivable balance and three customers individually had accounted for 52 %, 10 %, and 3 % of the Company's revenues in 2009. Based on the management's assessment, allowances of € 15,835 and € 20,235 in relation to the AbD Serotec business segment were necessary as of December 31, 2010 and 2009. The carrying amount of financial assets represents the maximum credit exposure.

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

in €	2010	2009
Europe and Asia	12,186,914	10,439,419
USA and Canada	2,822,412	721,779
Other	0	(4,639)
TOTAL	**15,009,326**	**11,156,559**

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

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

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

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

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

MARKET RISK

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

CURRENCY RISK

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

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

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

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

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

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

INTEREST RATE RISK

The exposure of the Group to changes in interest rates relates mainly to investments in available-for-sale securities. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these investments. The risk of a decrease in fair value is limited due to fair value guarantees given by the issuing financial institutions in addition to the fact that all financial instruments in these respective money market funds have short maturity durations. The guarantees are renewed every six months. With regard to the liabilities shown in the balance sheet, the Group is currently not subject to significant interest rate risks.

FAIR VALUE HIERARCHY AND VALUATION METHODS

The carrying value of financial assets and liabilities such as cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market prices (Hierarchy Level 1, quoted prices in active markets; see Notes to the Consolidated Financial Statements - section 4*). None of the financial assets and liabilities are categorized in Level 2 or 3. The fair value of licenses payable is determined by the effective interest method. Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements. There were no transfers from one fair value hierarchy level to another in 2010 and 2009.

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

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

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

16 Stockholders' Equity

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

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

COMMON STOCK

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

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

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

AUTHORIZED CAPITAL

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

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

CONDITIONAL CAPITAL

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

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

DIVIDENDS

Dividends may only be declared and paid from the accumulated retained earnings (after deduction of certain reserves) shown in the Company's annual German statutory accounts. Such amounts differ from the total of additional paid-in capital and accumulated deficit as shown in the accompanying consolidated financial statements as a result of the adjustments made to present the consolidated financial statements in accordance with IFRS. The Company's German statutory accounts showed taxable income in 2010; however, as of December 31, 2009, they reflected no accumulated earnings available for distribution.

ADDITIONAL PAID-IN CAPITAL

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

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

17 Convertible Bonds

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

On April 1, 2010, 352,800 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds is €16.79, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds. Each convertible bond with a nominal value of €0.33 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exercise price. The beneficiaries may exercise the conversion rights only after the expiration of a waiting period of four years from grant date. The exercise of the conversion rights is only possible if on one trading day during the lifetime of the convertible bond the stock exchange price of one share has amounted to at least 110% of the exercise price at grant date. The convertible bonds cannot be exercised beyond December 31, 2015. In the event of non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (€0.33 per bond/share). The Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

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

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

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

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

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

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

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

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 and IAS 32.28. The equity portion of the bonds has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bonds. The remaining value is recognized as stock-based compensation. The compensation expense recorded in 2010 and 2009 in connection with convertible bonds was €989,416 and €263,938, respectively.

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

18 Stock Options

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

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

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

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

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

* SEE PAGE 83 ET SEQ.

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

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

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

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

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

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

19 Stock Appreciation Rights (SARs)

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

20 Revenues

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

21 Personnel Expenses

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

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

22 Non-operating Income and Expenses

Non-operating income and expenses includes the following items:

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

23 Income Taxes

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

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

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

The following table reconciles the expected income tax expense to the actual income tax expense presented in the consolidated financial statements. To calculate the statutory income tax expense in fiscal year 2010, the combined income tax rate of 26.33% (2009: 26.33%) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge, and amounts to 15.83% plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300% for municipal trade tax, which amounts to 10.50%.

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

Deferred taxes are recognized only to the extent that it is more likely than not that the related tax benefits will be realized. As of December 31, 2008, the Company had recognized deferred tax assets in the net amount of € 1.6 million due to business expectations for the financial years 2009 to 2013. In 2009, these deferred tax assets were fully released in the remaining amount of € 1.0 million due to utilized tax losses and in the amount of € 0.6 million resulting from the change in temporary differences between IFRS and the tax balance sheet. As of December 31, 2009, the tax loss carry-forwards for corporation tax and for MorphoSys AG's trade tax have been fully utilized. MorphoSys AG has been subject to tax audits for the financial years 2004 to 2007 and tax loss carry-forwards have been confirmed in their recognized amount.

As of December 31, 2010, deferred tax assets on tax loss carry-forwards in the amount of € 2.7 million have been recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2011 to 2015. No deferred tax assets were reported for part of the corporate tax loss carry-forwards in the amount of € 5.4 million and trade tax loss carry-forwards in the amount of € 5.1 million as the usability of these tax loss carry-forwards is deemed uncertain due to the regulations described hereinafter. The tax loss carry-forwards may be carried forward indefinitely and in unlimited amounts. From 2004 onwards, German tax law restricts the offset of taxable income against existing tax loss carry-forwards to an amount of € 1.0 million plus 60 % of taxable income above € 1.0 million. According to the German Corporation Tax Act (Körperschaftsteuergesetz, KStG), taxes may be carried forward indefinitely. The deduction of tax losses carried forward is excluded if the Company loses its tax identity. A company is deemed to have lost its tax identity if both of the following criteria are met cumulatively: (a) more than 50 % of the shares in the company have been transferred and (b) the company continues or re-launches its operations with predominantly new assets (section 8 para. 4 KStG, applicable until December 31, 2007). With effect on equity transfers, this provision has been replaced in application of the Act on Corporate Tax Reform by section 8c, of the German Corporation Tax Act. Any transfer of between 25 % and 50 % of the subscribed capital triggers the partial elimination of tax losses carried forward, while any transfer of more than 50 % triggers the total elimination. The continuation of operations with predominantly new assets is no longer relevant. The regulation on tax loss carry-forwards (both section 8 para. 4 KStG and section 8c KStG) is generally regarded as uncertain for companies taxable in Germany.

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

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

* Deferred Tax Asset
** Deferred Tax Liability

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

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

24 Earnings Per Share

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

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

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

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

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

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

25 Operating Leases

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

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

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

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

26 Contingencies

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

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

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

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

27 Business Combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

28 Related Parties

The Group has related party transactions with its Management Board members and with members of the Supervisory Board. In addition to the cash remuneration, the Company has issued stock options and convertible bonds to the Management Board. The tables below show the shares, stock options and convertible bonds as well as the changes of ownership of the same, which were held by members of the Management Board and the Supervisory Board during the year 2010:

SHARES

	01/01/2010	Additions	Forfeitures	Sales	12/31/2010
MANAGEMENT BOARD					
Dr. Simon E. Moroney	416,385	0	0	0	416,385
Dave Lemus	5,400	0	0	0	5,400
Dr. Arndt Schottelius	500	1,000	0	0	1,500
Dr. Marlies Sproll	105	3,000	0	0	3,105
TOTAL	**422,390**	**4,000**	**0**	**0**	**426,390**
SUPERVISORY BOARD					
Dr. Gerald Möller	7,500	0	0	0	7,500
Prof. Dr. Jürgen Drews	7,290	0	0	0	7,290
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	**16,809**	**0**	**0**	**0**	**16,809**

STOCK OPTIONS

	01/01/2010	Additions	Forfeitures	Exercises	12/31/2010
MANAGEMENT BOARD					
Dr. Simon E. Moroney	299,445	0	0	108,000	191,445
Dave Lemus	110,172	0	0	7,305	102,867
Dr. Arndt Schottelius	90,000	0	0	0	90,000
Dr. Marlies Sproll	177,867	0	0	75,000	102,867
TOTAL	**677,484**	**0**	**0**	**190,305**	**487,179**
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**

CONVERTIBLE BONDS

	01/01/2010	Additions	Forfeitures	Exercises	12/31/2010
MANAGEMENT BOARD					
Dr. Simon E. Moroney	30,000	58,800	0	0	88,800
Dave Lemus	30,000	33,000	0	0	63,000
Dr. Arndt Schottelius	0	33,000	0	0	33,000
Dr. Marlies Sproll	30,000	33,000	0	0	63,000
TOTAL	**90,000**	**157,800**	**0**	**0**	**247,800**
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**

Convertible bonds granted to the Management Board in 2010:

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

Compensation for both the Management Board and the Supervisory Board consisted of fixed and variable components as well as other compensatory benefits. In the event of a non-reappointment and non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one annual fixed salary. Total compensation for the Supervisory Board excluding reimbursements of travel expenses amounted to € 382,750 in 2010 (2009: € 374,333). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD

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

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

SUPERVISORY BOARD

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

At the Annual General Meeting on May 17, 2006, phantom stocks had been granted to all members of the Supervisory Board. The Chairman of the Supervisory Board had received 2,500 stock appreciation rights, the Deputy Chairman 2,000 stock appreciation rights and the members of the Supervisory Board 1,500 stock appreciation rights each. The phantom stocks were exercised in 2009; an amount of €80,000 is included in variable compensation for 2009.

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

29 Corporate Governance

The Company issued its statement according to section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made accessible to stockholders accordingly on the Company's website* on December 22, 2010.

30 Research and Development Agreements

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

ABSYNTH BIOLOGICS

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

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

ASTELLAS PHARMA, INC.

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

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

BAYER SCHERING PHARMA AG

The active collaboration with Bayer Schering Pharma AG was concluded by the end of 2007. Several therapeutic antibody programs are currently in development and could result in future development-dependent milestone payments and royalties on product sales. Bayer Schering Pharma is currently evaluating one HuCAL-based program in clinical trials, namely the HuCAL-derived antibody-drug conjugate BAY79-4620 in the therapeutic area of oncology.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

* SEE GLOSSARY P. 98

BOEHRINGER INGELHEIM PHARMA GMBH & CO. KG

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

CENTOCOR ORTHO BIOTECH, INC.

The active collaboration with Centocor Ortho Biotech, Inc. (formerly known as: Centocor, Inc.), a wholly owned subsidiary of US pharmaceutical company Johnson & Johnson, was concluded by the end of 2007. Several therapeutic antibody programs are currently in development and could result in future development-dependent milestone payments and royalties on product sales. The most advanced compound within this collaboration, namely CNTO888, is currently in a phase 2 clinical trial in an immunology indication and a second phase 2 clinical trial in oncology patients. In 2010, MorphoSys announced that it has received two milestone payments from Centocor Ortho Biotech in connection with the initiation of two phase 1 clinical trials using HuCAL-derived antibodies, namely CNTO3157, in the therapeutic area of asthma and a second undisclosed program. In total, Centocor Ortho Biotech is currently evaluating five HuCAL-based programs in clinical trials.

DAIICHI SANKYO COMPANY LTD.

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

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

F. HOFFMANN-LA ROCHE

MorphoSys and F. Hoffmann-La Roche announced the signing of an agreement in September 2000 under which the companies collaborate on the development of human therapeutic antibodies for a Roche biological target associated with Alzheimer's disease. In the context of the collaboration, MorphoSys is eligible to receive development-related milestone payments and royalties on any marketed products emerging from the collaboration. A phase 1 clinical trial program to evaluate safety and tolerability of the HuCAL-derived antibody program R1450/Gantenerumab in Alzheimer's disease patients was operationally concluded by Roche in 2009. In 2010, Roche advanced this compound into phase 2 clinical trials.

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

GALAPAGOS NV

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

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

GENEFRONTIER CORPORATION/KANEKA

Under the terms of a therapeutic target sourcing collaboration signed in 2007, GeneFrontier may utilize MorphoSys's HuCAL GOLD antibody library to generate novel HuCAL antibodies against targets provided by leading Japanese research institutes and universities. For this purpose, the HuCAL antibody technology was installed at GeneFrontier's research laboratories within a research facility in Tokyo. GeneFrontier pays compensation for access to HuCAL GOLD.

MERCK & CO., INC.

In December 2005, MorphoSys signed a five-year license agreement with US pharmaceutical company Merck & Co., Inc. for the use of MorphoSys's HuCAL GOLD and AutoCAL technologies in research and development of human therapeutic antibodies. The agreement enables Merck to develop up to ten HuCAL-derived therapeutic antibodies in a range of indications. The active collaboration was concluded, as planned, at the end of 2010.

NOVARTIS AG

MorphoSys and Novartis AG started working together in 2004 in a collaboration that has so far resulted in multiple active therapeutic antibody programs across various diseases and the first IND filing in September 2007 – just three years after initiation. In December 2007, MorphoSys and Novartis substantially expanded their previous relationship and forged one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. Based on a ten-year term, committed annual payments total more than US$ 600 million in technology access, internalization fees and R&D funding, excluding reimbursement of R&D costs related to early-stage development activities. Total payments under the agreement, including committed payments and probability-weighted success-based milestones, contingent upon successful clinical development and market approval of

multiple products, could potentially exceed US$ 1 billion, assuming the collaboration successfully runs its maximum term. In addition to these payments, MorphoSys would also be entitled to royalty payments and/or profit sharing on any future product sales. Additionally, MorphoSys also has options to participate in certain development activities in various programs, with part of the early-stage costs being funded by Novartis. Under the codevelopment options, MorphoSys may elect to participate in these projects through cost and profit-sharing with financial participation reflecting its level of investment in the respective programs.

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

ONCOMED PHARMACEUTICALS, INC.

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

PFIZER, INC.

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

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

PROCHON BIOTECH LTD.

The active collaboration with ProChon Biotech Ltd. was concluded but therapeutic programs initiated during the course of the active collaboration can continue development and result in future milestone payments and royalties on product sales. Under the original agreement, MorphoSys applied its innovative HuCAL antibody library to generate human antibodies against a human growth factor receptor associated with various skeletal disorders including achondroplasia, the most common form of human dwarfism, and certain cancers.

SCHERING-PLOUGH CORPORATION

In May 2006, MorphoSys and Schering-Plough Corporation signed a license agreement for the use of MorphoSys's HuCAL GOLD technology in the research and development of human therapeutic antibodies. The collaboration will run its full term until mid 2011. Schering Plough was acquired by Merck & Co., Inc. during the course of 2009.

SHIONOGI & CO. LTD.

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

XENCOR, INC.

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

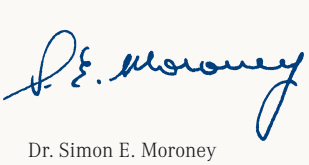
Appendix 1: Chart of the Consolidated Entity as of December 31, 2010

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

31 Responsibility Statement

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

Martinsried/Planegg, February 7, 2011



Dr. Simon E. Moroney
Chief Executive Officer

Mr. Dave Lemus
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

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