Group Management Report

In 2010, MorphoSys showed solid financial performance and was able to increase the value of its proprietary product portfolio through significant R&D investments. MorphoSys's Partnered Discovery segment continued to perform very well with eight clinical milestones met during the course of the year. As a result, total Group revenues were up by 7 % from the prior year to € 87 million. Because of the significant increase in proprietary R&D investment, operating profit decreased as expected by 14 % to € 9.8 million. Regarding the research and diagnostic antibodies segment AbD Serotec, the segment's performance improved compared to the previous year in a challenging market environment.

Business Environment and Activities

ECONOMIC DEVELOPMENT

In 2010, global recovery following the downturn from the financial crisis continued. The US economy grew by 2.4 % in 2010. However, the lack of employment growth was seen as the "weakest link" of the economic recovery.

In the euro zone, several countries faced significant debt difficulties, most notably Greece and Ireland. In total, the economy of the nations sharing the euro grew only slightly by 1.7 % in 2010, according to OECD estimates. The German economy grew by approximately 3.7 % in 2010.

According to current estimates, global GDP grew by 3.6 % in 2010, compared with a decrease of 1.4 % in the prior year.

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

The global pharma growth rate in 2010 amounted to approximately 4 % to 6 %, according to IMS Health. Emerging markets like China and India showed substantially higher growth rates of approximately 14 % to 17 %.

Antibody-related transactions remained high on the agenda of pharmaceutical companies. Significant technology licensing deals included two agreements struck by MacroGenics with Boehringer Ingelheim and Pfizer respectively, covering bispecific antibodies and ImmunoGen's collaboration with Novartis covering immunoconjugates.

Noteworthy product licensing deals included two alliances in the area of inflammatory diseases between Eli Lilly and Incyte Corporation and AstraZeneca and Rigel Pharmaceuticals respectively. Both deals covered mid-stage clinical compounds to treat inflammatory conditions such as rheumatoid arthritis (RA) and featured significant upfront payments of over € 10 million to the respective biotech partner.

With regard to antibodies in clinical development, Roche and Biogen Idec's decision to suspend development of Ocrelizumab® for use in arthritis stood out. The decision came after an independent monitoring board evaluated safety risks as outweighing benefits observed in patients. Danish antibody company Genmab published its results with Zalutumumab®, an antibody targeting an epidermal growth factor receptor, which failed to reach the primary endpoint in a phase 3 trial in head and neck cancer.

At the end of 2010, the number of therapeutic antibodies on the market increased to 27. During the course of the year, the FDA* approved Actemra®, an IL-6 receptor-blocking rheumatoid arthritis treatment, in the USA and Amgen's Prolia™ (Denosumab), a monoclonal antibody

* ? SEE GLOSSARY P. 98

to treat osteoporosis. Mylotarg®, a monoclonal anti-CD33 antibody used to treat acute myeloid leukemia (AML), was withdrawn from the market in 2010. Total revenues generated by monoclonal antibody sales in 2010 amounted to approximately US$ 37 billion.

With regard to mergers and acquisitions and consolidation, 2010 was another very active year for the pharmaceutical and biotechnology sector. Most noteworthily, Johnson & Johnson acquired Crucell and Sanofi-Aventis announced its plans to acquire Genzyme during 2010. Other transactions such as Abbott's acquisition of Facet Biotech or Cephalon's move to acquire Ception Therapeutics were in part motivated by mid-stage therapeutic antibody candidates developed by the target companies. In the research antibody market, German Merck KGaA acquired Millipore, one of the largest providers of research tools including antibody-based reagents, for about €5 billion.

During 2010, the pharmaceutical sector underperformed the overall stock market. The FTSE Global Pharma index was up by 7.6%, while the FTSE All World was up by 10.4%. The DAXsubsector biotechnology index, currently comprising 14 publicly listed German biotechnology companies, fell by 5.2%, while the NASDAQ biotechnology index increased by 14%. Against that backdrop, MorphoSys's stock showed solid performance. The MorphoSys share price gained 9% during the year, while the TecDAX gained only 4%.

REGULATORY ENVIRONMENT

The healthcare sector in which MorphoSys is operating is highly regulated. Both therapeutic and diagnostic products require complex approval from regulatory authorities such as Europe's EMA* (European Medicines Agency) or the US FDA (Food and Drug Administration) before being able to enter the market. The number of approved drugs decreased in 2010 compared to the year before. While MorphoSys's partners are solely responsible for regulatory affairs within the partnered development programs, MorphoSys is in charge of all regulatory requirements related to its proprietary development programs.

Increasingly, generic competition is challenging the biotechnology landscape since several drug patents are going to expire in the coming years. In 2010, the EMA published draft guidance on biosimilar antibody drugs*, while regulatory preparations in the USA are still ongoing. These guidelines, which will be formally adopted after May 2011, generally demand regulatory control for biosimilar monoclonal antibodies in the development process. They propose that regulatory authorities make case-by-case decisions relating to the development process, for example, to what extent clinical studies are required or what kind of post-marketing analysis should be conducted. The entry barriers for biosimilar monoclonal antibodies in Europe are therefore likely to remain quite high.

ORGANIZATIONAL STRUCTURE AND BUSINESS ACTIVITIES

ORGANIZATION AND GLOBAL PRESENCE OF THE MORPHOSYS GROUP

MorphoSys's business is split into three operating segments. The Partnered Discovery segment develops drug candidates for commercial partners. This segment is the foundation of the Company's success and manages partnerships with several renowned biotechnology and pharmaceutical companies involving 65 distinct therapeutic programs. The Proprietary Development segment is focused on developing proprietary therapeutic antibody candidates, mainly targeting cancer and inflammation. The goal of this segment is to take innovative antibody drugs to clinical proof of concept before partnering, thereby creating additional value for the Company. MorphoSys's third operating segment, AbD Serotec, delivers high-quality antibodies to the research and diagnostic markets.

BUSINESS ACTIVITIES OF THE MORPHOSYS GROUP

MorphoSys's headquarters are located in Martinsried near Munich, Germany. The Group's corporate functions are centralized at this facility. In addition to that, the Company has a facility in Puchheim near Munich and a sales office in Düsseldorf, Germany, as well as offices in Oxford, England, and Raleigh, North Carolina, USA.

LEGAL STRUCTURE OF THE MORPHOSYS GROUP

GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG is a German stock corporation listed on the Frankfurt Stock Exchange in the Prime Standard segment and heads the MorphoSys Group.

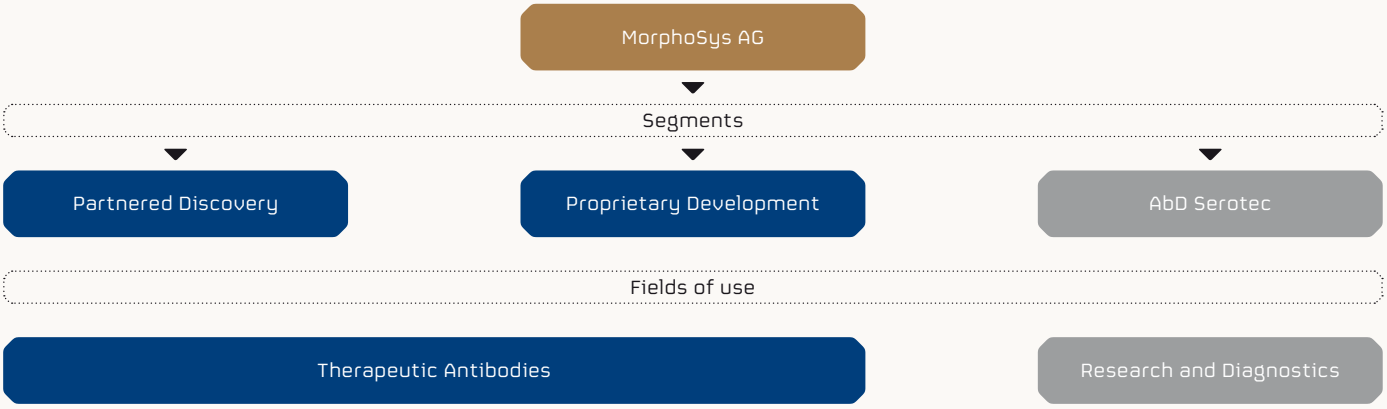
MorphoSys AG has a dual-board structure in accordance with the German Stock Corporation Act. The Company is managed by a four-member Management Board. The Management Board members are appointed and directed by the Supervisory Board. For more information regarding management and supervision as well as corporate governance in general, please see the Corporate Governance Report* on page 28.

The Senior Management group, composed of 14 people, represents the different MorphoSys departments and completes the MorphoSys management team.

* SEE GLOSSARY P. 98

* SEE PAGE 28 ET SEQ.

BUSINESS ACTIVITIES OF THE MORPHOSYS GROUP



BUSINESS ACTIVITIES AND MARKETS BY SEGMENT

PARTNERED DISCOVERY

The partnered business is a key driver of MorphoSys's commercial success and contributes significantly to the Company's product pipeline, which is one of the broadest pipelines in the industry. MorphoSys's series of industry-leading technologies for the research and optimization of therapeutic antibody drug candidates forms the basis of the Company's Partnered Discovery segment. The healthcare market is constantly looking for innovative products and MorphoSys successfully applies its technologies in extensive partnerships with pharmaceutical and biotechnology companies. Each development program is fully financed by the respective partner; MorphoSys profits from successful development in the form of milestone payments and stands to earn royalties on product sales. The Company's alliance with Novartis dating from 2007 is one of the largest agreements in the industry, securing revenues for MorphoSys through funded research and license fees in the amount of approximately €40 million per year until 2017, plus potential milestone payments and royalties on marketed products deriving from this alliance.

There are only a small number of established providers in the sector for therapeutic antibody technologies. MorphoSys remains one of the most renowned providers of highly validated antibody technologies and, in 2010, further strengthened its technological leadership in the industry by acquiring Sloning BioTechnology GmbH, a German biotechnology company developing new methods of synthetic biology. Just a few weeks after this acquisition, MorphoSys demonstrated its partnering abilities when the Company's new subsidiary signed a non-exclusive license and technology transfer agreement with Pfizer relating to Sloning's Slonomics® technology platform for the fabrication of highly diverse gene and protein libraries.

This successful development is reflected by the revenue increase of the Partnered Discovery segment over the last three years:

STRONG REVENUE GROWTH FROM THE PARTNERED DISCOVERY SEGMENT

in € million	2010	2009	2008
	66.3	61.7	54.3

PROPRIETARY DEVELOPMENT

Over the last two years, MorphoSys has built a highly competitive development team with the aim of developing innovative antibody products. With these capabilities and this experience in-house, the Company is able to generate even more value, adding to the standard fee-for-service business of the Partnered Discovery segment. The focuses of internal know-how and expertise and thus key target areas for MorphoSys's researchers and developers are inflammatory and autoimmune diseases as well as oncology.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory disorders such as rheumatoid arthritis (RA), multiple sclerosis (MS) or psoriasis* are a substantial burden in social and economic terms. However, despite the significance of these diseases and intensive global research, there have been relatively few innovative breakthroughs in their cause, treatment or cure thus far.

A promising therapeutic target for the treatment of various inflammatory disorders is GM-CSF*. MorphoSys's lead compound MOR103 is a fully human HuCAL-derived antibody directed against this target. The program is currently undergoing a clinical phase 1b/2a trial in rheumatoid arthritis, the largest single market in the area of inflammatory diseases. Additionally, MorphoSys expects to start a phase 1b trial in a second indication, namely multiple sclerosis, in the second half of 2011.

ONCOLOGY

The oncology market includes a large number of heterogeneous indications demonstrating a wide range of unmet medical needs and incidence rates. Today, there are more products in the oncology development pipeline than in any other, with a huge number of new oncology products set to launch within the next few years. While new players are entering the market, established pharmaceutical companies are re-engineering their organizations in order to tap emerging opportunities.

MorphoSys is currently developing two proprietary compounds against cancer. One is MOR202, a fully human HuCAL-based antibody against CD38*, a therapeutic target for the treatment of multiple myeloma and potentially certain leukemias. MorphoSys expects to start a phase 1/2a trial with MOR202 in patients with relapsed/refractory myeloma in the first half of 2011.

The second proprietary development program MorphoSys is pursuing in this area is MOR208 (XmAb®5574), which MorphoSys in-licensed from Xencor in June 2010. The program is currently in a phase 1 trial in chronic lymphocytic leukemia (CLL).

ABD SEROTEC – RESEARCH AND DIAGNOSTIC ANTIBODIES

MorphoSys's third operating segment is AbD Serotec, providing antibodies for scientific research and modern clinical diagnostics. AbD Serotec is one of the top 20 antibody providers in the field of research and diagnostics, allowing the immediate online purchase of more than 14,000 products via its catalog business. The HuCAL*-based generation of new antibodies made to order is significantly faster than the current market standard, even when producing antibodies in larger quantities on behalf of diagnostic customers. AbD Serotec's custom services facility is able to serve customers with specific antibody development challenges. The business unit currently has relationships with more than 20 diagnostic companies and its antibodies are trusted by many thousands of researchers.

According to a study by BCC Research, the worldwide diagnostic market for monoclonal antibodies has a compound annual growth rate of 7 % and is expected to be worth US$ 9 billion by the end of 2012.

Strategy and Performance Management

STRATEGY

The Company's unique HuCAL (Human Combinatorial Antibody Library) technology comprises several billion different fully human antibodies. Through the successful commercialization of this and other proprietary technologies, MorphoSys has become a leader in the field of antibodies. Technology development remains a central part of the Company's strategy, as illustrated by the acquisition of Sloning BioTechnology GmbH in October 2010.

Increasingly, the Company's comprehensive pipeline is taking center stage. By maximizing the number of programs based on its technologies, MorphoSys increases its future upside potential and reduces the risk which always accompanies the development of new medicines. End of 2010, the list of product candidates developed by the Company's partners comprised 65 programs, forming one of the broadest antibody pipelines in the industry.

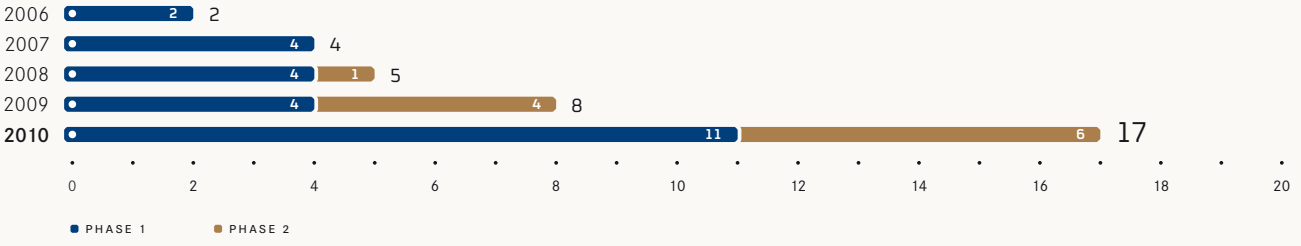
* ? SEE GLOSSARY P. 98

DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

in € million	2010	2009	2008	2007	2006
MORPHOSYS GROUP					
Group revenues	87.0	81.0	71.6	62.0	53.0
Group profit from operations	9.8	11.4	16.4	7.0	6.2
PARTNERED DISCOVERY*					
Segment revenues	66.3	61.7	54.3	–	–
Segment result	42.7	39.6	34.4	–	–
PROPRIETARY DEVELOPMENT*					
Segment revenues	1.8	1.0	0	–	–
Segment result	(24.5)	(18.3)	(8.9)	–	–
ABD SEROTEC					
Segment revenues	20.2	19.3	18.2	19.6	18.3
Segment result	1.2	1.0	0.4	(0.6)	(3.4)

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

NUMBER OF PARTNERED AND PROPRIETARY CLINICAL PROGRAMS AT YEAR-END



MorphoSys receives secured payments from its partners in the form of technology license fees, R&D funding, success-based milestones and, dependent on product sales after product approval, royalties*. The cash flows generated by the Partnered Discovery segment are predominantly reinvested in proprietary drug development activities, which have a much greater financial upside than programs initiated by partners. The goal of the Proprietary Development segment is to take proprietary compounds to clinical proof of concept before out-licensing to a pharmaceutical company for late-stage development and marketing. Although proprietary development requires increased investments, MorphoSys adheres to its intention of remaining profitable and thus independent from the capital markets as a source of financing.

* ? SEE GLOSSARY P. 98

AbD Serotec's growing penetration of the diagnostics market puts MorphoSys in a strong position to benefit from the growing importance of diagnostics during the development of drugs and in conjunction with their use in the market. An array of alliances with pharma and diagnostic companies is of strategic importance for MorphoSys, with its technologies at the nexus of these two industries.

PERFORMANCE MANAGEMENT

Financial and non-financial performance indicators and appropriate measures to enhance sustainable value are the key elements of MorphoSys's management system.

FINANCIAL PERFORMANCE INDICATORS

MorphoSys measures its operational business performance mainly on the basis of two financial indicators, namely revenues and profit from operations. For all segments, the performance is measured on a monthly basis; budget planning for the current fiscal year is reviewed and updated quarterly. Once a year, a long-term plan covering the next five years is prepared.

NON-FINANCIAL PERFORMANCE INDICATORS

The non-financial performance indicators such as progress in research and development and human resources are described in detail in the following chapters. The most obvious benchmark for the successful development of MorphoSys is its expanding and maturing clinical pipeline.

Human Resources

The people working at MorphoSys are the Company's most important asset. In 2010, MorphoSys expanded its scientific workforce. Following the acquisition of Sloning BioTechnology GmbH, MorphoSys decided to keep the skills and know-how of 25 Sloning employees and to integrate them into the Company's workforce.

NUMBER OF EMPLOYEES

The number of employees increased by 15 % in 2010. On December 31, 2010, the MorphoSys Group employed 464 people worldwide (December 31, 2009: 404), of which 148 held a PhD (December 31, 2009: 121). On average, the MorphoSys Group employed 435 people in 2010 (2009: 375).

QUALIFICATION, TRAINING AND EDUCATION

MorphoSys attaches great importance to the training and personal development of its employees. Therefore, the Company contributes to the education of interested young people by offering vocational training in-house. In 2010, MorphoSys hired a trainee for the IT department and two trainees as future biology laboratory technicians. Three technical assistants were submitted for and successfully passed trainer qualification examinations run by the German Chamber of Commerce and Industry (IHK) as part of MorphoSys's commitment to ensuring that trainees consistently receive the level of support and motivation they need.

Moreover, MorphoSys invests in its employees through demand-oriented and tailor-made internal and external advanced training and development programs. The Company especially offers development opportunities to employees in the research and product development areas as well as those in various management positions.

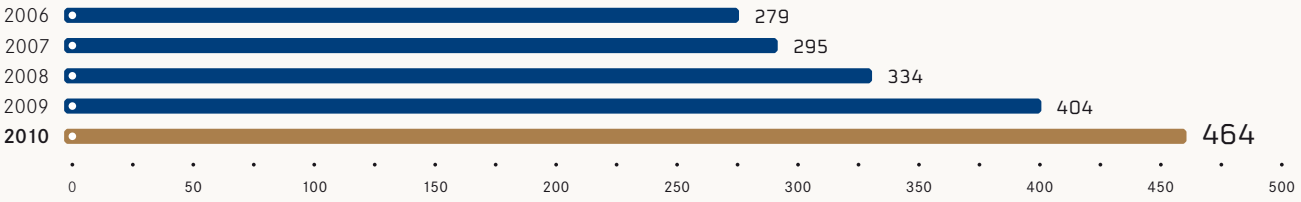
COMPENSATION

For MorphoSys, an appropriate compensation of its workforce is essential, in order to attract and retain the best employees and executives. The Company seeks to offer highly competitive salaries; therefore, all salaries are benchmarked within the biotechnology sector and with other industries on a yearly basis.

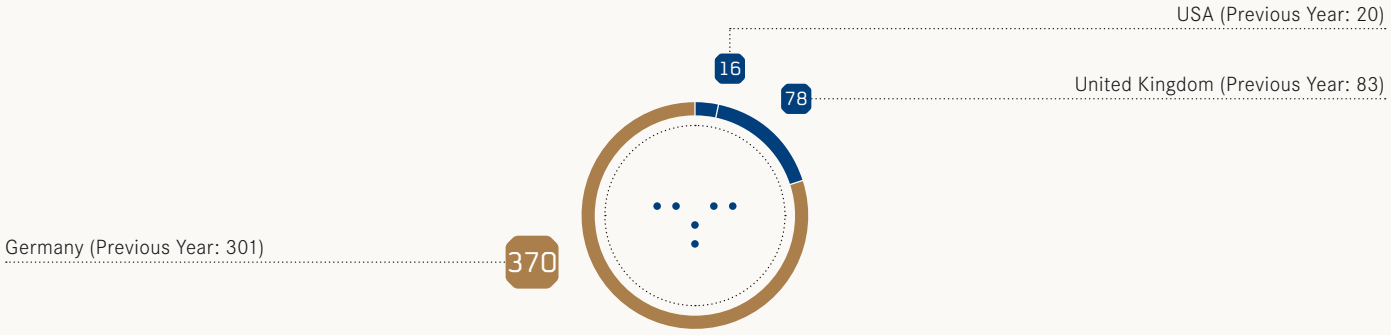
MID-TERM AND LONG-TERM PERFORMANCE SCHEMES

Each employee has the chance to contribute to and at the same time to participate in the success of MorphoSys. The Company's employees share in the operational and financial development of the Company through a performance-based bonus system which is based on the achievement of personal, departmental and Company goals. In addition to this performance-related compensation, the employees share in the Company's success through equity-based and profit participation programs.

GROUP HEADCOUNT DEVELOPMENT



EMPLOYEES BY REGION



EMPLOYEES BY SEGMENT* AND FUNCTION

	2010	2009
TOTAL EMPLOYEES	**464**	**404**
Proprietary Development segment	100	71
Partnered Discovery segment	183	144
AbD Serotec segment	142	148
Employees in R&D	309	248
Employees in S, G&A	155	156

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

Research and Development

PROPRIETARY DEVELOPMENT – THREE PROGRAMS IN CLINICAL TRIALS IN 2011

In 2010, MorphoSys substantially broadened and advanced its proprietary product portfolio in cancer and inflammatory diseases. With MOR103, MOR208 and MOR202, three proprietary compounds will be evaluated in clinical trials in 2011. In total, the Company had eight internally developed drug candidates at the end of 2010, supplemented by two co-development programs with Novartis. Additionally, as part of the alliances with Galapagos and Absynth Biologics, several novel disease-related target molecules in bone and joint diseases and infectious diseases are currently in validation studies and could result in additional therapeutic programs in 2011.

MorphoSys's lead development program, MOR103, a fully human HuCAL antibody targeting GM-CSF, is currently being tested in a phase 1b/2a clinical study in patients with active rheumatoid arthritis (RA). Enrollment of patients in the phase 1b/2a clinical trial started in January 2010. The randomized, double-blind, placebo-controlled, dose-escalation trial is being conducted at multiple clinical centers in four European countries, namely Germany, the Netherlands, Bulgaria and Poland. Patients with active RA, despite having undergone previous therapy, will each receive four infusions of either the HuCAL-derived antibody MOR103 or a placebo in three ascending-dose cohorts. The primary endpoint of the trial is to determine the safety and tolerability of multiple doses of up to 1.5 mg/kg of MOR103 in these patients. Secondary outcome measures will evaluate pharmacokinetics, immunogenicity and the drug's potential to improve clinical signs and symptoms of RA as measured by the reduction of synovitis and bone edema as well as American College of Rheumatology (ACR) and European League Against Rheumatism (EULAR28) response criteria and patient-reported outcomes. MorphoSys expects to have final data from this trial in the first half of 2012.

In November 2010, MorphoSys disclosed multiple sclerosis as the second indication for MOR103. The decision is based on a compelling scientific rationale and promising preclinical data. MorphoSys expects to start a phase 1b trial in multiple sclerosis with MOR103 in the second half of 2011.

In line with the strategy of expanding its proprietary drug development activities, MorphoSys in-licensed a therapeutic antibody program from Xencor, Inc., a California-based biotechnology company focused on high antibody-dependent cellular cytotoxicity (ADCC*) cancer therapies using antibodies with a proprietary modification to the Fc portion of the antibody. MorphoSys has secured a worldwide, exclusive license for the anti-CD19* therapeutic antibody XmAb®5574, which now carries the internal code MOR208. The compound is currently being evaluated in a phase 1 clinical trial in the USA. The trial is designed to assess the drug's safety, tolerability, pharmacokinetic profile and preliminary anti-tumor activity in chronic lymphocytic leukemia (CLL) patients. The open-label, multi-dose, single-arm, dose-escalation study is expected to enroll 30 patients suffering from relapsed or refractory CLL*.

With regard to the MOR202 cancer program, MorphoSys continued preclinical evaluation and toxicology studies to prepare the clinical development of this anti-CD38* antibody. In November 2010, MorphoSys filed a clinical trial application (CTA) to initiate a phase 1/2a trial with MOR202 in patients with relapsed/refractory myeloma in Europe and the Company expects to dose the first patient in the first half of 2011.

Additionally, MorphoSys formed a research collaboration with Klinikum rechts der Isar, the university hospital of Munich Technical University. The collaboration receives public funding of approximately € 1 million from the German Federal Ministry of Education and Research (BMBF). As part of the program, the Company plans to explore relevant biomarkers for the anti-CD38 approach. The program is part of Munich's "m^4 - Personalized Medicine and Targeted Therapies - a New Dimension in Drug Development in the Munich Region" biotechnology initiative, which received high-tech cluster status in a German government funding competition in 2010.

PARTNERED DISCOVERY – FIFTEEN CLINICAL PROGRAMS

MorphoSys's partnered pipeline significantly matured during 2010, with several programs moving into and advancing through clinical development. In 2010, eight new partnered programs within the alliances with Novartis (three programs), Centocor Ortho Biotech (two programs), Boehringer Ingelheim, OncoMed Pharmaceuticals and Pfizer advanced into phase 1 clinical trials*. Additionally, Novartis achieved clinical proof of concept with an undisclosed HuCAL-based antibody in a phase 1/2 study. Patients treated with the antibody showed clear improvement of disease parameters. At the end of 2010, Roche started a phase 2 clinical trial with Gantenerumab, a HuCAL antibody against amyloid-beta* for the treatment of Alzheimer's disease.

At year-end 2010, MorphoSys's partnered therapeutic antibody pipeline consisted of 65 active antibody development programs (unchanged from 65 at the beginning of the year), of which five were in phase 2 clinical trials, ten in phase 1, 20 in preclinical development and 30 in discovery stage.

* ? SEE GLOSSARY P. 98

PARTNERED DISCOVERY – TECHNOLOGY DEVELOPMENT

In 2010, MorphoSys made significant progress in strengthening its proprietary technology platform. In October 2010, MorphoSys announced the acquisition of Sloning BioTechnology GmbH, a German biotechnology company developing new methods of synthetic biology. The transaction made MorphoSys the sole source of Sloning's state-of-the-art Slonomics® technology, which dramatically improves the assembly and quality of protein libraries. The acquisition directly resulted in a new technology platform called *arYla*, which was unveiled in November. The Company plans to use *arYla* to accelerate antibody optimization, with the goal of generating superior therapeutic and diagnostic candidates faster and more cost-effectively than is currently possible. *arYla* will be used to optimize a range of properties critical to the successful development of a therapeutic or diagnostic antibody. MorphoSys thereby expects to improve the generation of drug candidates such that one in every two projects started will reach clinical development.

ABD SEROTEC

In 2010, AbD Serotec demonstrated significant progress using the HuCAL-based technology platform to generate custom-made monoclonal antibodies for research and diagnostic use. Over the course of the last four years, AbD Serotec has gradually improved technical success rates year-on-year, from 80 % in 2006 to 98 % in 2009. This was mainly achieved through a high degree of automation in many aspects of the antibody generation process, by optimizing protocols and finally through the implementation of HuCAL PLATINUM, the latest and most powerful version of MorphoSys's antibody libraries. The success rates achieved by AbD Serotec are significantly higher than the average success rate usually seen in the industry with animal-based methods of around 75 %.

Intellectual Property

In 2010, the Company continuously consolidated and extended the patent position for its development programs, including the lead program MOR103 and the in-licensed antibody MOR208 (XmAb5574) from Xencor, and its expanding technology portfolio, representing essential value-drivers for MorphoSys.

The strong intellectual property portfolio around HuCAL and other technologies in key pharmaceutical markets around the world has been complemented by a growing patent estate in Asia and the USA. Several antibody-technology-related patent applications covering various aspects of MorphoSys's core technologies were filed and granted throughout the world. To be more precise, in 2010, extended HuCAL-related patent protection has been granted in Japan, and the US Patent and Trademark Office approved a new patent providing extended protection for the Company's CysDisplay technology.

In October 2010, MorphoSys acquired German biotechnology company Sloning BioTechnology GmbH and became the sole supplier of their technologies. These technologies as well are covered by several patent families. The key patents do not expire before late 2023.

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

Commercial Development

PARTNERED DISCOVERY – NEW TECHNOLOGY PLATFORM FORMS BASIS FOR ADDITIONAL PARTNERSHIPS

In October 2010, MorphoSys announced the acquisition of Sloning BioTechnology GmbH, a private German biotechnology company developing new methods of synthetic biology. Sloning's shareholders received a onetime € 19 million cash payment upon signing.

Based on the Sloning platform, MorphoSys was able to secure a long-term alliance with Pfizer in December 2010. The non-exclusive license and technology transfer agreement covers the installation and use of Sloning's technology platform Slonomics at Pfizer's subsidiary Rinat in South San Francisco as well as technical support. In return, the MorphoSys subsidiary receives an upfront payment and stands to receive annual license fees over the patent lifetime of the Slonomics technology platform. The new collaboration with Pfizer brought an immediate return on investment from the acquisition of Sloning for MorphoSys's shareholders.

As another direct result of the transaction, MorphoSys launched a novel antibody optimization platform called *arYla* in November 2010. MorphoSys intends to apply the technology in its own programs as well as within existing and new partnerships.

PROPRIETARY DEVELOPMENT – NEW PROGRAM AGAINST DRUG-RESISTANT MRSA INFECTIONS

MorphoSys's proprietary drug development remains focused on the indications cancer and inflammatory diseases. However, in September 2010, MorphoSys announced an additional 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 which Absynth will test in relevant disease models. MorphoSys is 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. Absynth has filed patent applications on all targets involved in the collaboration.

MorphoSys's goal is to create a valuable package of proprietary targets together with high-affinity antibodies, supported by compelling data, which will allow the Company to partner the program for subsequent development. The targets identified by Absynth provide a unique opportunity to generate value rather quickly and create out-licensing opportunities much earlier than in the areas of cancer and inflammation.

ABD SEROTEC – EXCLUSIVE PRODUCTS IN KEY AREAS

In 2010, AbD Serotec continued to expand its customer relationships in key focus areas and signed a number of exclusive license agreements covering key products in their offering. In the diagnostics market, AbD Serotec secured an exclusive worldwide license to a key diagnostic antibody from University College London. The antibody, targeting the parathyroid hormone (PTH), forms the basis of an existing relationship between AbD Serotec and a leading diagnostic company which markets clinical parathyroid hormone assays. PTH is the most important regulator of calcium levels in the human body. Measurement of PTH is important in determining the cause of excessively high or low calcium levels and is a valuable diagnostic tool during parathyroid surgery.

On the research side of the business, in September 2010, AbD Serotec secured an exclusive worldwide manufacturing license to key research antibodies from VU University Medical Center, Amsterdam. The deal strengthened AbD Serotec's position as the primary source of reagents for studying the innate immune system. In November 2010, AbD Serotec secured a similar license agreement with the Institute of Cancer Research, London, strengthening its position as source of core reagents to study cell proliferation and cell kinetics.

Sustainability and Corporate Social Responsibility

Besides their financial merits, the business activities at MorphoSys are measured by their impact on the environment and society. While the Company is always acting towards maximising its shareholders' value, it also keeps in mind the principles of a sustainable corporate development.

MorphoSys aims at improving the treatment of life-threatening diseases with the aid of its proprietary technologies as well as own and partnered development activities. The demand for innovative therapeutics to improve patients' quality of life is constantly increasing and this in turn allows the Company to expand its business. Although novel drugs such as therapeutic antibodies are still expensive medical products today, they have the potential to lower total healthcare costs in the long run, an important factor in meeting the healthcare needs of an aging population.

With regard to the development process of antibodies, MorphoSys's fully *in-vitro*-based technologies represent a genuine, fast and cost-effective alternative to animal-based methods.

Each year, the Company's staff supports local charitable nonprofit organizations with private donations. In 2010, MorphoSys's employees donated € 1,065 to the Mukoviszidose e.V.

QUALITY MANAGEMENT

All pharmaceutical products, including clinical trial materials, must be manufactured in compliance with established quality standards to ensure the safety of patients. MorphoSys has a continuously improving quality management system in place, not only in order to comply with regulatory requirements but also to guarantee a constantly high quality of investigational medicinal products used within MorphoSys's own development programs. MorphoSys is a sponsor of clinical trials in humans and holds a manufacturing license for the release of clinical trial material, which requires adherence to international and national regulatory standards such as cGMP* (current Good Manufacturing Practice) and GCP* (Good Clinical Practice).

AbD Serotec's manufacturing site in the UK, MorphoSys UK Ltd., Oxford, is accredited to the quality management standard ISO (International Organization for Standardization) 9001:2008 and ISO 13485:2003. The US site of AbD Serotec in Raleigh is also accredited to ISO 9000:2008.

* ? SEE GLOSSARY P. 98

PROCUREMENT

MorphoSys's research activities and antibody material production require raw materials, mostly standard laboratory material, and equipment from external suppliers. Adequate stock prevents delivery bottlenecks and eliminates the Company's dependence on certain suppliers. The procurement department at MorphoSys continuously monitors the international markets with regard to safe, high-quality materials at favorable conditions and pools its supplies wherever applicable. Preferred contracts for strategic materials are medium and long-term in order to avoid a wide price spread. Thanks to this precaution, MorphoSys has not experienced any difficulties to date regarding the procurement process.

ENVIRONMENTAL PROTECTION

Environmental protection, high quality and safety standards are key values for MorphoSys. The Company is continuously striving to improve its operational efficiency in this regard, by implementing energy-saving measures, reviewing the waste disposal system and reducing the volume of raw materials used in the production process, for example.

MorphoSys is not subject to direct rules other than regulation generally applicable to businesses of its kind, including laws and guidelines applicable to environmental matters, such as the handling and disposal of hazardous waste. The Company's research and development activities involve only small amounts of hazardous materials and chemicals, and their application and disposal is continuously monitored and evaluated.

Furthermore, MorphoSys is exploiting measures to reduce its greenhouse gas emissions in the interest of the environment, although the biotechnology industry *per se* is not a carbon-intensive sector. MorphoSys's business unit AbD Serotec has agreed on a carbon-offsetting scheme regarding its product shipments with its courier services partner. For each product shipment, the carbon footprint is calculated and corresponding carbon offsets are purchased from ClimateCare on AbD Serotec's behalf. Those carbon offsets are reinvested by ClimateCare in projects related to reforestation, renewable energy and energy efficiency projects.

In 2010, MorphoSys again participated in the Carbon Disclosure Project to inform investors of its greenhouse gas emissions and climate change strategies.

HEALTH AND SAFETY ACTIVITIES

Quality at MorphoSys also includes safety and health aspects of the Company's working environment, which is particularly essential for the research and development department. All R&D employees receive an initial medical checkup, which is repeated every three years. In addition, they have the opportunity to be vaccinated against hepatitis A and B. All employees are offered regular eye examinations.

Results of Operations, Financial Situation, Assets and Liabilities

REVENUES

Compared to the same period in the previous year, Group revenues increased by 7 % to € 87.0 million (2009: € 81.0 million). This increase is due to a combination of higher levels of funded research and licensing fees in the Partnered Discovery segment as well as revenues from funded research in the Proprietary Development segment. A further increase in revenues derived from stronger sales in the AbD Serotec segment. Revenues arising from the Partnered Discovery and Proprietary Development segments accounted for 78 % or € 68.0 million (2009: 77 % or € 62.7 million) of total segment revenues, while the AbD Serotec segment generated 23 % or € 20.2 million of the total segment revenues (2009: 24 % or € 19.3 million).

Geographically, 19 % or € 16.5 million of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies and non-profit organizations located in North America and 81 % or € 70.5 million with companies located in Europe and Asia. This compares to 18 % and 82 %, respectively, in the same period of the prior year.

PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Segment revenues arising from the Partnered Discovery segment comprised € 57.2 million in funded research and licensing fees (2009: € 48.6 million) plus € 9.1 million in success-based payments (2009: € 13.1 million), representing 13 % of total Partnered Discovery and Proprietary Development revenues. Segment revenues arising from the Proprietary Development segment included € 1.8 million in funded research (2009: € 1.0 million). Approximately 87 % of Partnered Discovery and Proprietary Development revenues and 68 % of total revenues arose from the Company's three largest alliances with Novartis, Daiichi Sankyo and Pfizer (2009: Novartis, Daiichi Sankyo and Merck & Co., 84 % and 65 %, respectively).

Assuming constant foreign exchange rates at the average rate of 2009, segment revenues in the Partnered Discovery and Proprietary Development segments would have remained unchanged.

ABD SEROTEC SEGMENT

Compared to the same period of the previous year, AbD Serotec segment's revenues increased by 5%, or €0.9 million, to €20.2 million in 2010 (2009: €19.3 million). Assuming constant foreign exchange rates at the average rate of 2009, revenues in the AbD Serotec segment would have amounted to €19.6 million.

As of December 31, 2010, orders in the amount of €0.7 million were classified as back orders in the segment (2009: €0.5 million).

OPERATING EXPENSES

Total operating expenses in 2010 increased by approximately 11% over the previous year to €77.4 million (2009: €69.6 million). The change in operating expenses of €7.8 million was due to research and development (R&D) expenses increasing by 20% or €7.9 million and COGS increasing from €6.7 million to €7.3 million while sales, general and administrative (S, G&A) expenses decreased by 3% to €23.2 million. Total purchase price allocation (PPA) effects on operating profit amounted to €0.8 million (2009: €0.5 million).

Operating expenses increased by 7% to €23.6 million (2009: €22.1 million) in the Partnered Discovery segment and by 37% to €26.5 million (2009: €19.3 million) in the Proprietary Development segment. In the AbD Serotec segment, operating expenses increased by 3% to €18.9 million (2009: €18.4 million) and would have amounted to €18.4 million under the assumption of constant foreign exchange rates at the average rate of 2009.

Stock-based compensation expenses are embedded in COGS, S, G&A and R&D expense amounts. Stock-based compensation in 2010 amounted to €2.1 million (2009: €1.7 million) and is a non-cash charge.

COST OF GOODS SOLD

COGS is composed of the AbD Serotec segment's cost of goods sold in 2010 and, compared to the same period of the prior year, increased by 9% from €6.7 million to €7.3 million, which was due to an increase in personnel-related costs and material costs as well as foreign exchange effects.

RESEARCH AND DEVELOPMENT EXPENSES

In 2010, expenses for research and development increased by €7.9 million to €46.9 million (2009: €39.0 million). This was mainly due to higher personnel costs (2010: €17.9 million; 2009: €14.8 million), increased costs for external lab funding (2010: €13.3 million; 2009: €10.5 million), as well as higher material costs (2010: €4.0 million; 2009: €2.3 million). In 2010, the Company incurred costs for proprietary product development (including allocations for segment purposes) in the amount of €26.5 million (2009: €19.3 million). Costs for technology development amounted to €2.1 million (2009: €0.7 million) and were partly allocated to proprietary product development, but mainly accounted for in the Partnered Discovery segment.

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Compared to the same period of the previous year, sales, general and administrative expenses slightly decreased by 3% or €0.7 million to €23.2 million (2009: €23.9 million).

OTHER OPERATING INCOME

Other operating income increased by €0.1 million to €0.2 million in 2010 and comprised grant income from governmental agencies.

NON-OPERATING ITEMS

In 2010, non-operating items included mainly finance income of €4.1 million (2009: €2.0 million), other expense of €1.2 million (2009: €0.7 million) and other income of €0.5 million (2009: €0.4 million). Finance income mainly comprised realized gains from marketable securities.

TAXES

In 2010, the Company reported income tax expense in the amount of €4.0 million. This line item mainly included current tax expense from Group entities.

OPERATING PROFIT/NET PROFIT

Group operating profit in 2010 amounted to €9.8 million (2009: €11.4 million). Earnings before interest and taxes (EBIT) amounted to €13.1 million, compared to an EBIT of €12.8 million in the previous year. The Partnered Discovery and Proprietary Development segments showed an operating profit of €42.7 million (2009: €39.6 million) and an operating loss of €24.5 million (2009: operating loss of €18.3 million), respectively. In the AbD Serotec segment, operating profit increased to €1.2 million (2009: €1.0 million) and would have remained unchanged under the assumption of constant foreign exchange rates using foreign exchange rates of the previous year.

A net profit after taxes of €9.2 million was achieved in 2010, compared to a net profit after taxes of €9.0 million in the same period of the prior year. The resulting basic net profit per share for 2010 amounted to €0.41 (2009: €0.40).

Antibodies with Enhanced Effector Function

Therapeutic antibodies can be optimized in order to elicit an increased immune response through antibody-dependent cell-mediated cytotoxicity, or ADCC for short. This process represents a key mechanism in the destruction of cancer cells. Small modifications to the antibody's Fc region can result in a much higher tumor cell-killing potency as compared to standard cancer antibodies.

In June 2010, MorphoSys AG and US-based biopharmaceutical company Xencor signed a worldwide exclusive license and collaboration agreement for the antibody MOR208. The antibody is currently being evaluated in a phase 1 trial in patients with chronic lymphocytic leukemia in the USA.

B-cell malignancies afflict more than 150,000 patients in the seven major markets each year. MOR208 has been engineered to possess significantly enhanced antibody-dependent cell-mediated cytotoxicity. Its target molecule CD19 is expressed more broadly and earlier in B-cell development than CD20, the target of the blockbuster cancer drug Rituxan.

LIQUIDITY/CASH FLOWS

Net cash inflow from operations in 2010 amounted to € 2.5 million (2009: cash outflow of € 1.0 million). Investing activities resulted in a cash outflow of € 2.0 million (2009: cash inflow of € 0.6 million), whereas financing activities resulted in a cash inflow of € 2.3 million (2009: cash inflow of € 1.4 million).

As of December 31, 2010, the Company held € 108.4 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2009 balance of € 135.1 million.

ASSETS

Total assets increased by € 6.5 million to € 212.6 million as of December 31, 2010, compared to € 206.1 million as of December 31, 2009. Current assets decreased by € 23.1 million, mainly as a result of a decrease in marketable securities in the amount of € 29.6 million which were sold for the financing of the acquisition of Sloning BioTechnology GmbH in the fourth quarter of 2010 and the in-licensing of a compound from Xencor in the second quarter of 2010. The decrease in marketable securities was partly offset by an increase in accounts receivable by € 3.9 million and an increase in cash and cash equivalents by € 2.9 million.

Compared to December 31, 2009, non-current assets increased by € 29.5 million, mainly as a consequence of the acquisition of Sloning and the in-licensing of a compound from Xencor (intangible assets under development). The increase in patents by € 9.5 million is mainly impacted by technology capitalized in connection with the purchase price allocation according to IFRS 3 for the Sloning acquisition. The purchase price allocation for Sloning also resulted in additional goodwill in the amount of € 7.4 million. The capitalization of a deferred tax asset on tax loss carry-forwards of Sloning increased this line item by € 2.7 million.

LIABILITIES

In 2010, current liabilities decreased from € 24.3 million as of December 31, 2009, to € 21.4 million as of December 31, 2010, arising mainly from a decrease in current deferred revenue in the amount of € 5.4 million. This decrease was partly offset by an increase in accounts payable by € 1.5 million and an increase in provisions by € 1.0 million mainly due to tax liabilities.

Non-current liabilities decreased by € 2.6 million to € 5.3 million in 2010, mainly impacted by a decrease in non-current deferred revenue of € 4.9 million resulting from the reclassification of long-term deferred revenue to short-term deferred revenue in 2010. This effect was partly offset by an increase in deferred tax liabilities by € 2.2 million, mainly a consequence of assets identified in the purchase price allocation for Sloning.

EQUITY

Total stockholders' equity amounted to € 185.9 million as of December 31, 2010, compared to € 173.9 million as of December 31, 2009 and mainly increased due to the net profit in the amount of € 9.2 million generated in 2010, stock-based compensation of € 2.2 million and the exercise of options and convertible bonds amounting to € 2.6 million. These effects were partly offset by movements in reserves of € 2.2 million.

As of December 31, 2010, the total number of shares issued amounted to 22,890,252 of which 22,810,356 were outstanding, compared to 22,660,557 and 22,580,661 as of December 31, 2009, respectively.

The increase of 229,695 shares outstanding arose from exercised options and convertible bonds issued to both the Management Board and employees.

CAPITAL EXPENDITURE

MorphoSys's investment in property, plant and equipment focused mainly on lab equipment and amounted to € 2.3 million in 2010, compared to € 2.6 million in the same period of the prior year. Depreciation of property, plant and equipment in 2010 accounted for € 2.1 million compared to € 1.6 million in 2009.

In 2010, the Company invested € 11.5 million in intangible assets (2009: € 1.2 million). This investment mainly included the in-licensing of a compound from Xencor. Amortization of intangibles amounted to € 4.0 million in 2010 and slightly increased in comparison to the prior year (2009: € 3.8 million).

CREDIT RATING

MorphoSys is currently not rated by any rating agencies.

Comparison of the Actual Business Results with Forecasts

2010 again has been a very successful business year for MorphoSys. Although the business environment remained challenging, the Company managed to continue along its promising path of becoming one of the world's leading antibody developers.

	2010 Goals	2010 Achievements
Financials	Group revenues of € 91 – 94 million (increased in December from initially € 89 – 93 million)	Group revenues of € 87.0 million*
	Operating profit of € 13 – 16 million (increased in December from initially € 5 – 9 million)	Operating profit of € 9.8 million*
Proprietary R&D	Complement current team	Team fully recruited. Results of proprietary R&D activities become increasingly evident
	Ongoing recruitment of RA patients for phase 1b/2a study with MOR103	Recruitment of RA patients ongoing – Final data expected in H1 2012
	Expand pipeline to up to 10 proprietary programs, including co-development opportunities	Pipeline now comprises 10 proprietary programs, including 2 co-development programs with Novartis
Partnered Pipeline	4 – 6 partnered INDs	8 partnered INDs, each triggering milestone payments, have been achieved
	Clinical data from ongoing phase 2 trials	Number of partnered clinical programs in phase 2 increased to 5 programs, up from 3 at the end of 2009; no clinical phase 2 data were reported thus far
Clinical Pipeline	Further expansion of clinical pipeline	The number of programs in clinical studies has more than doubled, from 8 programs in 2009 to 17 programs in 2010
AbD Serotec	Further penetration of diagnostics market	AbD Serotec has collaborations with more than 20 diagnostic companies ongoing
	Segment revenues of € 21 – 22 million	Segment revenues of € 20.2 million
	Profit margin of 5 – 8 %	Profit margin of 6 %

* The deviation from guidance issued by the Company on December 10, 2010 (revenues of € 91 – 94 million and operating profit of € 13 – 16 million) is related to the final accounting treatment of the Pfizer deal signed in December 2010. This accounting treatment has no impact on the overall economics of the agreement with Pfizer, or on any cash flows arising from the deal.

The Management's General Assessment of Business Performance

The Management Board again sees a solid performance of MorphoSys in 2010. The majority of the Company goals have been met, with all business segments contributing to this positive development. Group revenues remained slightly under initial expectations, as a result of new commercial agreements having a lower impact on revenues than had been expected.

The highest value was generated by the Company's Partnered Discovery segment. Based on the positive financial performance of this business segment, MorphoSys continued to invest in its proprietary drug development activities, with an increase of R&D spend of 37 % over 2009. The efforts of the two therapeutic segments resulted in a doubling number of active clinical programs, significantly enhancing the Company's value. Nevertheless, despite increased investments in proprietary development, the Company showed solid operating profits, above initial expectations.

MorphoSys's product pipeline continued to grow and mature. With eight partnered INDs, even the Company's initial expectations of four to six programs for 2010 have been exceeded and the proprietary programs, including two programs in clinical trials, evolve successfully. Especially the in-licensing of the anti-CD19 antibody from Xencor, now MOR208, further strengthened MorphoSys's proprietary clinical pipeline. For MOR202, a clinical trial application was filed in Q4 of 2010, and clinical trials are expected to commence during the first half of 2011.

AbD Serotec did not fully meet its growth expectations due to a challenging market environment. Especially in Europe, the economic crisis influenced customer demand. The segment continued its expansion into the diagnostic sector, with several feasibility studies ongoing. In 2011, the first diagnostic kit with a HuCAL antibody is expected to enter the market.

In total, the MorphoSys Group continued to show top-line growth of 7 % and remained profitable with an operating profit of € 9.8 million, despite significantly increased investment into proprietary R&D.

Corporate Governance Report

To the MorphoSys Group, corporate governance builds the framework for the management and supervision of a company, including its organization, commercial principles and regulatory and monitoring measures. The internal guidelines at MorphoSys are aligned with the German Corporate Governance Code, which contains internationally recognized standards for good and responsible governance. The aim of such transparent and coherent management principles is to strengthen the confidence of the financial markets, business partners, employees and the public in the Company.

In order to guarantee good corporate governance, open and comprehensive communication on a regular basis is a guiding principle for the Management and Supervisory Boards of MorphoSys AG. The underlying two-tier system required by the German Stock Corporation Act explicitly differentiates between management and supervision. The responsibilities of both boards are clearly defined by law, by the Articles of Association and the rules of procedure. MorphoSys AG's boards work together closely and act and decide in the best interest of the Company; their dedicated goal is to sustainably increase the Company's value.

DECLARATION ABOUT CORPORATE MANAGEMENT IN ACCORDANCE WITH SEC. 289A HGB FOR THE 2010 BUSINESS YEAR

A description of the principles of corporate management and the Declaration of Conformity pursuant to sec. 161 of the German Stock Corporation Act (Aktiengesetz – AktG) can be found on MorphoSys's corporate website*.

INTERNAL CONTROLS

INTRODUCTION

MorphoSys updated its documentation regarding the internal control system that was established and used over the years for maintaining adequate internal control over financial reporting. In accordance with sec. 289 (5) and sec. 315 (2), para. 5 of the HGB (German Commercial Code), MorphoSys described the key characteristics of its accounting-related internal control system that ensures that all controls are in place to be able to report the financial figures as precisely as possible. These internal controls over financial reporting are documented and structured based on the most commonly used COSO framework ("Internal Control – Integrated Framework") as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS* (International Financial Reporting Standards) as adopted by the European Union.

Also, projections relating to future periods are not part of the internal control system.

DESCRIPTION OF THE INTERNAL CONTROL SYSTEM AT MORPHOSYS

Internal control over financial reporting, i.e. control activities performed in the financial statement close process, is part of the Company-wide internal control system. The control environment comprises the following elements:

- General policies and guidelines applicable to all employees as well as
- Processes that include controls for reporting adequate figures in the financial statements.

RISK ASSESSMENT

MorphoSys regards risk management as an activity directed towards identifying, evaluating and mitigating risks (to an acceptable level) as well as monitoring identified risks. Risk management entails organized activity to manage uncertainty and threats and involves people following procedures and using tools in order to ensure conformance with the risk management policy.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

* SEE GLOSSARY P. 98

MorphoSys has a risk identification and evaluation process in place encompassing all business risks, in particular those which may put the existence of the Company at risk.

INFORMATION AND COMMUNICATION

MorphoSys uses ERP (enterprise resource planning) software to make information available for processes and internal control procedures and for reporting purposes. Furthermore, regular communication takes place between the finance teams, local entities and finance headquarters.

Considering the relevance of its information systems, MorphoSys has IT policies in place, governing the use of information technology and communication media in order to reduce any outside risk. Furthermore, a communication policy is in place which defines classification for the distribution of internal documents to make sure that any information is distributed to an adequate audience. Wherever applicable, parameters of applications and systems are set in such a way that the security of information is enhanced.

CONTROL ACTIVITIES

MorphoSys has implemented control activities in all of its processes, wherever there is an unmitigated risk of (unwarranted or intentional) errors and misstatements. The head of each functional department is responsible for the application of the respective controls in her/his area of responsibility.

Control activities at MorphoSys – including the internal control over financial reporting in the narrower sense – are based on the following general principles:

- Control activities are based on policies and procedures, including a general "presentation and signature policy" which is applicable to all processes and governs authorization and approval levels.
- Documentation of transactions is required, where applicable.
- Segregation of duties (four eyes principle) is implemented where applicable, e.g. between the purchasing and finance departments.
- Information systems are secured by access controls at various levels.

Control activities include both controls before the fact, which are designed to avoid errors and misstatements, as well as controls being performed after the fact, which are designed to detect errors.

MONITORING

MorphoSys tested the compliance with its internal controls with the assistance of an external consultant in 2010. The results have been discussed within the Management Board and will be presented to the Supervisory Board.

DIRECTORS' HOLDINGS

The members of the Management Board and the Supervisory Board own more than 1 % of the shares issued by the Company. For the disclosure of Company stocks held or financial instruments relating to them, please refer to section 28* (Related Parties) of the Notes to the Consolidated Financial Statements. This list details all stocks, stock options and convertible bonds held by each member of the Management Board and the Supervisory Board.

DIRECTORS' DEALINGS

Under the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of MorphoSys AG's Management Board and Supervisory Board and persons who have a "close relationship" with such members are obligated to disclose any trading in MorphoSys stock.

In the reporting year, we received the following notifications pursuant to sec. 15a of the WpHG. Each sale of shares listed below was preceded directly by the exercise of stock options to purchase an identical number of shares.

* SEE PAGE 83 ET SEQ.

Sales of the stock options were in conjunction with the scheduled expiration of these bonds in 2010 and 2011.

Member of the Management Board	Function	Date of Transaction in 2010	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price in €	Transaction Volume in €*
Dr. Arndt Schottelius	CDO	January 26	Purchase	500	17.00	8,500.00
Dr. Arndt Schottelius	CDO	March 26	Purchase	500	16.375	8,187.50
Dr. Simon E. Moroney	CEO	July 08	Sale	108,000	14.30	1,544,400.00
Dave Lemus	CFO	July 09	Sale	7,305	15.19	110,962.95
Dr. Marlies Sproll	CSO	December 13	Purchase	3,000	14.71**	44,130.00
Dr. Marlies Sproll	CSO	December 13	Sale	58,569	17.81	1,043,113.89
Dr. Marlies Sproll	CSO	December 14	Sale	13,431	17.26	231,819.06

* Differences due to rounding
** Strike price of stock options

PREVENTING CONFLICTS OF INTEREST

Members of both boards are obliged to avoid any actions that could cause conflicts of interest with their functions at MorphoSys AG. Such transactions or ancillary activities of the Management Board have to be immediately reported to and approved by the Supervisory Board. The Supervisory Board in turn shall inform the Annual Shareholders' Meeting of any conflicts of interest which have occurred along with their solutions. In 2010, Dr. Gerald Möller disclosed his conflict of interest in connection with the negotiations with Sloning BioTechnology GmbH. Dr. Möller is investment advisor at HBM Partners, one of the major investors in Sloning BioTechnology GmbH. Dr. Möller did not participate in any of the Supervisory Board's discussions regarding the acquisition.

ANNUAL GENERAL MEETING

The Annual General Meeting took place in Munich on May 21, 2010. Approximately 35 % of total voting stock was represented at the meeting, a decrease compared to the attendance in 2009 (approximately 46 %). MorphoSys assisted the shareholders in the use of proxies and arranged the appointment of a representative to exercise shareholders' voting rights in accordance with instructions. This representative was also available until the end of the general debate of the Annual General Meeting. MorphoSys's shareholders approved all management proposals put to vote at the meeting. MorphoSys provided an online webcast of the Management Board's presentation and published all documents in a timely manner on the Company's website*.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

RISK MANAGEMENT

The Management Board ensures responsible risk handling at all times and keeps the Supervisory Board informed about existing risks and their development. This part of corporate governance includes an appropriate risk management and risk control system in the Company. Detailed information about the opportunities and risks* at MorphoSys can be found on page 36 et seqq. of this report. The systematic risk management activities, performed as part of the Company's value-based management approach, identify and assess risks at an early stage and minimize risk exposure. As conditions change, the Company's risk management system is developed further.

CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

Transparency and an open dialog are important principles for MorphoSys's communication policy. The Company strictly adheres to the concept that no shareholder receives preferential information. Therefore, all communication activities are aimed at providing shareholders with the same level of information at the same time.

A decisive part of MorphoSys's relations with its investors are frequent meetings with analysts and institutional investors at road shows and in one-on-one discussions. Conference calls accompany the publication of the quarterly figures to enable immediate queries on the development of the Company for analysts and investors. In 2010, MorphoSys hosted for the first time a R&D day in London and New York to provide an extensive update on its partnered pipeline, proprietary portfolio and recent technology developments.

* SEE PAGE 36 ET SEQ.

The Company's presentations at on-site events are accessible for any interested party on the corporate website. Video and audio recordings of key events can be replayed on the website at any time and transcripts of the conference calls are provided in English and German.

MorphoSys's financial calendar lists the dates of all regular financial publications and the next Annual General Meeting well in advance. MorphoSys's boards attach great importance to transparent and timely information for all shareholders. Hence, MorphoSys even exceeds the requirements of the German Corporate Governance Code by reporting its year-end results within 60 days and the quarterly results within 30 days of the end of the respective reporting periods.

DIVERSITY

Diversity and its conscious promotion with the aim of enhancing a company's success is becoming more and more critical in today's global business environment. The stakeholders's individuality is a valuable asset for MorphoSys. To limit opportunity based on gender, race, age, lifestyle or political affiliation would limit MorphoSys's potential achievements as a company. Having a broad mix of people helps to understand different perspectives, to be open to others' ideas and promotes a high level of mutual respect within the Company.

In 2010, the German Corporate Governance Code recommended that the Supervisory Board should specify concrete objectives regarding its composition which also take into account diversity aspects, in particular according adequate importance to the inclusion of women. Since there were no elections to MorphoSys's Supervisory Board at the time of the introduction of this recommendation, the Supervisory Board will address this issue in 2011 (see the Declaration of Compliance on our corporate website*)

FINANCIAL STATEMENT AUDIT BY KPMG

MorphoSys prepares its consolidated financial statements and quarterly financial statements in accordance with International Financial Reporting Standards (IFRS). MorphoSys AG's financial statements are prepared in accordance with the German Commercial Code (HGB). The Audit Committee of the Supervisory Board proposes the selection of the Company's external auditor. At the Annual General Meeting, KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2010 fiscal year. In order to ensure the auditor's autonomy, the Audit Committee obtained a declaration of independence from the auditor.

REMUNERATION REPORT

The Remuneration Report reflects the applicable provisions of the laws relating to the disclosure of the remuneration of the Management Board members and the respective principles of the German Corporate Governance Code.

REMUNERATION OF THE MANAGEMENT BOARD

GENERAL

The aggregate annual compensation paid to Management Board members consists of several components. These include a fixed compensation, a yearly cash bonus based on the achievement of company and individual goals, a medium- and long-term incentive component and additional benefits. Each year, the structure and appropriateness of the aggregate annual compensation packages are reviewed by the Remuneration & Nomination Committee. The amount of compensation payable to the Management Board members is dependent in particular on the achievement of the duties and goals of the individual Management Board member, and on the business situation, success and prospects of the Company relative to its competitive environment. The aggregate annual compensation packages are compared to the outcome of a comparative international industry study carried out in 2010 by an internationally acclaimed consultancy firm on the specific instructions of the Supervisory Board. Other available international benchmark sources are also taken into consideration. The adjustments to the aggregate annual compensation packages are adopted by the plenum of the Supervisory Board. The last occasion on which the salaries of the Management Board members were adjusted was in July 2010.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

OVERVIEW

In the 2010 fiscal year, the total cash remuneration paid to the members of the Management Board amounted to €2,216,976 (previous year: €2,081,756). The table below shows a detailed breakdown of the compensation paid to the members of the 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[1]	124,198	707,246	672,455
Dave Lemus	259,157	250,375	152,902	135,203	156,639[2]	141,055	568,698	526,633
Dr. Arndt Schottelius	231,000	220,000	132,594	118,800	90,158[3]	84,513	453,752	423,313
Dr. Marlies Sproll	249,623	241,164	146,778	130,229	90,879[4]	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**

[1] Includes €103,844 annual contributions to private pension fund and allowances for insurances (prior year: €101,555)
[2] Includes €74,605 annual contributions to private pension fund and allowances for insurances (prior year: €72,743)
[3] Includes €68,837 annual contributions to private pension fund and allowances for insurances (prior year: €66,753)
[4] Includes €72,371 annual contributions to private pension fund and allowances for insurances (prior year: €70,695)

NON-PERFORMANCE-RELATED COMPENSATION

The non-performance-related compensation consists of the fixed compensation and additional benefits which primarily encompass the use of company cars, allowances for health, social care and invalidity insurances as well as special allowances and benefits received for working outside of the home country. Furthermore, all members of the Management Board participate in private pension funds or another form of pension schemes ("Altersversorgung"). MorphoSys pays the monthly contribution to these funds or other kind of pension scheme. These payments amount to a maximum of 10% of the annual fixed salary of each Management Board member plus tax contribution and are included in the non-performance-related compensation. In addition, all Management Board members participate in a pension scheme which was established in cooperation with Allianz Pensions-Management e.V. Allianz Pensions-Management e.V. serves as a so-called "Unterstützungskasse", which means pension commitments have to be fulfilled by Allianz Pensions-Management e.V.

PERFORMANCE-RELATED COMPENSATION

Each Management Board member is eligible to receive performance-related compensation in the form of an annual cash bonus payment. Such bonus payments are dependent on the achievement of Company-related and individual goals, which are determined by the Supervisory Board at the beginning of each fiscal year. The Company-related goals account for up to two thirds of the payment and are based on the operating performance of the Company as measured by revenues and net income, progress in the proprietary pipeline and other measures including performance of the Company's stock, or the completion and/or extension of important collaborations. Individual goals account for up to one third of the payment and comprise operational objectives which the Management Board member is responsible for fulfilling. At the end of the year, the Supervisory Board evaluates the level of attainment of the Company and the individual goals and sets the bonus payment accordingly. The bonus for the 2010 fiscal year will be paid out in March 2011.

LONG-TERM INCENTIVIZING COMPENSATION

The long-term performance-related remuneration consists of convertible bonds and stock options pursuant to the respective incentive plans as resolved by the Annual General Meeting.

The current employee convertible bond programs provide for the issuance of non-interest-bearing convertible bonds with a par/nominal value of €0.33 each to employees and to the Management Board members. The beneficiaries may only exercise the conversion rights following the expiration of a waiting period of four years after the grant date. 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 exchange price. Furthermore, exercising of the convertible bonds is subject to the performance target that the value of the underlying stock should have exceeded the stock price at the time of the grant by at least 10% on any one trading day before the exercise.

In 2011, MorphoSys plans to switch to a long-term incentive program based on the issuance of performance shares. The respective underlying shares will be bought back by the Company from the stock market, based on the resolution of the 2010 Annual Shareholders' Meeting. Under the new long-term incentive plan each member of the Management Board will be allocated a certain number of stocks on an annual basis. Such stocks are subject to a four-year lock-up period. After the lapse of the lock-up period, the allocated stocks will finally be granted to the relevant member of the Management Board subject to his/her achievement of predefined success criteria and therewith become exercisable.

For a more detailed description of the various stock option and convertible bond programs currently in operation, see sections 17 and 18* of the Notes to the Consolidated Financial Statements.

The Supervisory Board decides each year on the number of stock options or convertible bonds to be allocated to the Management Board members. According to Company policy covering equity-based compensation programs, stock options or convertible bonds may only be issued on two preset dates each year. In 2010, 157,800 convertible bonds were granted to members of the Management Board. The value of convertible bonds granted to members of the Management Board attributable to the 2010 fiscal year totaled € 1,050,948 (2009: granting of 244,200 stock options and 90,000 convertible bonds with a total value of € 1,420,109). For further details see also Employee Convertible Bond Program in section 17* of the Notes to the Consolidated Financial Statements.

In 2010, members of the Management Board purchased MorphoSys shares and exercised stock options, which were subsequently partly sold. All transactions were reported in accordance with legal requirements and published on the Company's website*.

VARIA

No credit, loan or similar benefits were granted to members of the Management Board. In the year under review, the Management Board members received no benefits from third parties that were either promised or granted in view of their position as a member of the Management Board.

ACT ON THE APPROPRIATENESS OF MANAGEMENT BOARD REMUNERATION

In order to ensure the conformity of Management Board compensation with the Act on the Appropriateness of Management Board Remuneration ("Gesetz zur Angemessenheit der Vorstandsvergütung" – VorstAG), the Supervisory Board conducted a detailed review of the compensation system for the Management Board members in 2009 and 2010. This review included the commissioning of a comparative study by an independent recognized consultant as well as discussions with external consultants and was completed in 2010. Following the review some amendments to the service agreements of the Management Board members were implemented prior to the lapse of the transition period of the Act on the Appropriateness of Management Board Remuneration.

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

* SEE PAGE 74 ET SEQ.

* MORE INFORMATION AT WWW.MORPHOSYS.COM

NON-REAPPOINTMENT/NON-PROLONGATION

The service agreements of the Management Board members provide that in the event of a non-reappointment and non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one year's fixed salary. Such severance payment shall be offset against any salary payments received in the event of a leave of absence of a Management Board member. If the Management Board member's service contract is terminated by death, his/her spouse or life partner is entitled to the monthly fixed salary for the month of death and the following twelve months. In the event that (i) MorphoSys transfers its assets or material parts of its assets to a non-affiliated third party, (ii) MorphoSys is merged into a non-affiliated third party or (iii) a shareholder holds more than 30 % of the voting rights of MorphoSys, each member of the Management Board is allowed to extraordinarily terminate his/her service contract and may demand the outstanding fixed salary for the remaining contractually provided term of contract or for two years, whichever is greater. Furthermore, in such a case, all granted stock options and convertible bonds shall be treated as immediately vested.

CHANGE IN MANAGEMENT BOARD COMPOSITION

In September 2010, the Company concluded mutual agreements with its Chief Financial Officer, Mr. Dave Lemus, regarding the ending of his more than 13 years of serving as MorphoSys CFO, and subsequent seamless transfer of his functions to a successor. Pursuant to these agreements Mr. Lemus is entitled to the contractually agreed compensation under his service agreement until 30 June 2011. Further, Mr. Lemus shall receive a contractually agreed further payment equal to his fixed gross annual salary in the amount of € 264,238 plus a bonus calculated as the average bonus in the years 2009 and 2010 in the amount of € 144,053. Additionally, Mr. Lemus's unvested portion of outstanding stock options granted for the years 2008 and 2009 has been vested prematurely.

REMUNERATION OF THE SUPERVISORY BOARD

The compensation of the members of the Supervisory Board is based on the provisions of the Articles of Association, the current version of which was adopted by the stockholders at the Annual General Meeting on May 21, 2010 and the respective resolutions of the stockholders at the Annual General Meetings regarding the remuneration of the members of the Supervisory Board. In 2010, the members of the Supervisory Board received a fixed compensation and an attendance fee per board and committee meeting attended. The overall compensation takes into account the responsibilities and range of tasks of the Supervisory Board members as well as the economic situation and performance of the Company.

In the 2010 fiscal year, the members of the Supervisory Board received a total of € 382,750 (2009: € 374,333), excluding reimbursement of travel expenses. This amount consists of fixed remuneration and variable compensation (attendance fees).

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

INFORMATION REQUIRED UNDER TAKEOVER LAW

The following information is presented in accordance with sec. 315 para. 4 of the German Commercial Code (HGB).

COMPOSITION OF CAPITAL STOCK

As of December 31, 2010, the Company's share capital amounted to €22,890,252.00 and is divided into 22,890,252 no-par value bearer shares. With the exception of 79,896 Company-held shares, all issued shares are exclusively common shares with voting rights. The Management Board is not aware of any restrictions on the voting rights or the right to transfer. This also applies to restrictions which may result from shareholders' agreements. The Company has not been notified of direct or indirect shareholdings in its share capital exceeding 10% of the voting rights pursuant to sec. 21 of the German Securities Trading Act (WpHG). There are no owners of shares with privileged rights or other rights resulting in a right to control votes.

SHAREHOLDINGS EXCEEDING 10% OF THE VOTING RIGHTS

There is no direct or indirect shareholding in the Company which exceeds 10% of the voting rights.

APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS, AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to sec. 6 of the Company's Articles of Association, the Management Board shall consist of at least two members, with the Supervisory Board defining the number of Management Board members. The Supervisory Board may appoint a Chief Executive Officer and one or several representatives of the CEO. Pursuant to sec. 20 of the Articles of Association, amendments to the Articles are subject to a majority of more than 50% of the share capital represented in a shareholders' meeting unless the law mandatorily requires a different majority.

AUTHORIZATION OF THE MANAGEMENT BOARD TO ISSUE SHARES

The shareholders have provided the Management Board with the following authorizations to issue new shares or conversion rights or to purchase Company-held shares:

a. Pursuant to sec. 5 para. 5 of the Articles of Association and with the approval of the Supervisory Board, the Management Board is authorized to increase the Company's share capital during the time period up to April 30, 2013, by the amount of up to €8,864,103.00 and by issuing 8,864,103 young bearer shares with no-par value for contribution in cash and/or in kind on one or several occasions (Authorized Capital 2008-I). The Management Board may, with the approval of the Supervisory Board, exclude the preemptive rights of the shareholders under the following conditions:
   i. in the case of a capital increase in cash to the extent that such exclusion is necessary to avoid fractional shares; or
   ii. in the case of a capital increase in kind to the extent that the young shares are used for the acquisition of companies, shareholdings in companies, patents, licenses or other industrial property rights, or of assets which constitute a business in their entirety; or
   iii. in the case of a capital increase in cash to the extent that young shares are placed on a stock exchange in context with a listing.

b. Pursuant to sec. 5 para. 6 of the Articles of Association and with the approval of the Supervisory Board, the Management Board is authorized to increase the Company's share capital during the time period up to April 30, 2013, by the amount of up to €2,216,025.00 and by issuing 2,216,025 young bearer shares with no-par value for contribution in cash (Authorized Capital 2008-II). The Management Board may, with the approval of the Supervisory Board, exclude the preemptive rights of the shareholders under the following conditions:
   i. to the extent that such exclusion is necessary to avoid fractional shares; or
   ii. the issuance price for the new shares is not substantially below the stock exchange price quoted for existing shares at the time of the issuance.

c. Pursuant to sec. 5 para. 6b of the Articles of Association, the Company's share capital shall be conditionally increased by an amount of up to €5,488,686.00, divided into up to 5,488,686 bearer shares with no-par value (Conditional Capital 2006-I). The conditional capital increase shall only be accomplished (i) to the extent that owners of options and/or convertible bonds make use of their option and/or conversion rights issued by the Company by April 30, 2011, in accordance with the resolution of the Annual General Meeting or (ii) to the extent that owners fulfill their duties to convert. The same shall apply to owners of options and/or convertible bonds issued by domestic or foreign affiliates which are wholly owned by the Company.

d. Furthermore, there exist Conditional Capital 1999-I in the amount of up to €90,729.00 (sec. 5 para. 6a of the Articles of Association), Conditional Capital 2003-II in the amount of up to €820,464.00 (sec. 5 para. 6c of the Articles of Association), Conditional Capital 2008-II in the amount of up to €1,115,691.00 (sec. 5 para. 6d of the Articles of Association), and Conditional Capital 2008-III in the amount of up to €450,000.00 (sec. 5 para. 6e of the Articles of Association). These conditional capitals may be used for the issuance of option and conversion rights to members of the Management Board and to employees of the Company or of its affiliates.

AUTHORIZATION OF THE MANAGEMENT BOARD TO REPURCHASE STOCK

The authorization to repurchase treasury stock as provided by the resolution of the 2008 ordinary Annual General Meeting had expired on October 31, 2009. It was replaced by a resolution of the 2010 ordinary Annual General Meeting authorizing the Company to buy back up to 10 % of its existing share capital (i. e. up to 2,289,025 shares) by April 30, 2015.

CHANGE OF CONTROL PROVISIONS

KEY AGREEMENTS SUBJECT TO CONDITIONS

In 2007, the Company and Novartis Pharma AG extended their original 2004 collaboration agreement in the field of pharmaceutical research. According to this agreement, should certain changes in control occur involving certain types of companies, Novartis Pharma AG is permitted, but not obligated, to take several measures, including the partial or complete termination of the collaboration agreement.

A change in control is considered to be the acquisition of 30 % or more of the voting rights in the Company in accordance with sec. 29 and sec. 30 of the German Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG). Such termination of the collaboration agreement by Novartis Pharma AG could significantly affect future cash flows of the Company.

CHANGE OF CONTROL PROVISIONS FOR MANAGEMENT BOARD MEMBERS

After a change of control transaction, each member of the Management Board is allowed to terminate his/her service contract and may demand the outstanding fixed salary for the remaining contractually provided term of contract or for two years, whichever is greater.

Furthermore, in such a case, all granted stock options and convertible bonds shall be treated as immediately vested. The same applies to some of the directors of the Company to whom options or conversion rights have been granted.

Risks and Opportunities

RISK MANAGEMENT AND CONTROLLING

MorphoSys has established a comprehensive and effective system to identify, assess, communicate and manage risks across its business units, legal entities, functions and operations. Risk management has the goal of identifying risks as early as possible, limiting business losses by means of suitable measures and avoiding risks that pose a threat to the Company's existence. Risk evaluations are carried out twice a year using a systematic process to ensure all major risks are taken into account for MorphoSys's different business units as well as on corporate level. All risks have been clearly assigned to responsible managers that are (depending on the significance of the risk) often members of MorphoSys's Senior Management group. Risks are evaluated considering their quantifiable impact on the MorphoSys Group without having any control measures in place compared to having the mitigation processes established. MorphoSys differentiates between rather short-term risks that would hit the Group within the next twelve months and more long-term, strategic risks that are especially important for MorphoSys's proprietary development programs with development timelines between 10 and 15 years. The risk management report is discussed among the Management Board and in the Supervisory Board. To ensure that the risk management process is always state of the art, it is also challenged on a regular basis with external consultants and discussed with the auditor. In addition to the regular risk management process, ad hoc occurring risks are discussed and countermeasures taken on a short-term notice basis.

RISKS

MorphoSys operates on a global basis and, even more importantly, its customers and the end markets of its antibodies are affected by developments all around the world. Due to the nature of its industry, it is impossible to completely avoid any risks. MorphoSys carefully chooses the industries it operates in and takes risks that are in line with its corporate strategy. The business, financial conditions, operating results and future prospects of MorphoSys may be materially adversely affected by each of these risks.

SHORT-TERM RISKS

MorphoSys is subject to the typical industry and market risks inherent in the development of fully human antibodies for use in research, diagnostics and therapy. MorphoSys's top short-term risks include mostly risks resulting from not reaching revenues as expected, derived from existing business with partners or from new product offerings that are constantly developed. MorphoSys considers its biggest short-term risks to be not reaching its projected revenues and profitability levels as a result of missing development milestones

in partnered projects, preventing milestone payments. While it is not in MorphoSys's power to reach these milestone events, the Company uses a standard process of regularly monitoring the progress of each developed compound at a partner company and regularly reports the status. Therefore, deviations from projections can be taken into account early on and included in the regular quarterly updates of MorphoSys's financial projections. Furthermore, when fewer deals are executed than planned (or on lower terms than projected) is considered a risk for the future of MorphoSys. To minimize these risks, MorphoSys maintains strong relationships with its partners and discusses market developments and typical terms through all relevant means, e.g. market intelligence, customers and experts. This is done on a constant basis and forms the basic element of the projections of revenues for the therapeutic segments.

IP risks are also considered to be highly relevant for products that are developed using MorphoSys's proprietary technologies. To mitigate risks such as potential lawsuits filed by third parties concerning the Company's technology platform or requiring additional third-party licenses to practice the technology platform, MorphoSys continuously searches and analyzes published patents and patent applications, monitoring relevant hits and developing design-around strategies for potentially relevant patents before they are issued. Thus, the freedom to operate its proprietary technology platform is secured and the Company prides itself on the success the strategy has generated over the years.

LONG-TERM RISKS

The major long-term risks for MorphoSys are considered to be in the Company's proprietary development pipeline. MorphoSys increased its investment into its clinical and preclinical programs over the last years, but failure of these programs prior to partnering as a result of data not showing convincing effects on clinical activities is considered to be an inherent risk of these activities. While MorphoSys cannot ensure that data shown by its programs will always demonstrate positive results with respect to the indications and treatments tested, the greatest care is used in the design of clinical development plans. These are to be state of the art, ensuring the best chance of displaying data with results that are significant and sufficient to convince the regulatory bodies and potential partners of the likely success of the program in question. While these risks might not necessarily need to be taken into account on a short-term basis and are not likely to endanger the survival of MorphoSys as a Group, they would hurt its long-term prospects of becoming a leading drug developer and partnering valuable products at advanced clinical stages with its pharma partners, thereby generating value for its shareholders and other stakeholders.

GENERAL STATEMENT ABOUT MORPHOSYS'S GROUP RISKS

According to our current assessment of the MorphoSys Group's risks, we do not see any negative deviations from the statements given in other chapters of the annual report. We consider the risks to be manageable and the survival of the MorphoSys Group not to be endangered at the time of the current report. That statement is true for all relevant single entities and for the MorphoSys Group. Assuming no further deterioration of the global business as well as the financial and regulatory environment, MorphoSys considers itself well prepared to meet all future challenges.

OPPORTUNITIES

Thanks to its internationally-oriented strategic positioning, MorphoSys has many growth opportunities for the coming years. By expanding its expertise in the generation, characterization, production and clinical development of therapeutic antibodies, MorphoSys can systematically raise its profile in the healthcare sector. Additionally, the AbD Serotec segment strives to increase its market share for research and diagnostic antibodies.

MorphoSys's antibody technologies offer key advantages for the development and optimization of therapeutic antibodies, which should lead in the long-term to higher success probabilities and lower attrition rates in the drug development process. In the research and diagnostics fields, the technologies also offer significant advantages for the development of antibodies for use as reagents in research and diagnostics.

Antibodies to Treat Multiple Myeloma

Multiple myeloma is a cancer of plasma cells, a type of white blood cells responsible for the production of antibodies. Collections of abnormal cells accumulate in bones, where they cause bone lesions, and in the bone marrow, where they interfere with the production of normal blood cells. Multiple myeloma is considered the second most common hematological malignancy.

MorphoSys expects to run a phase 1 clinical trial with MOR202 in 2011. Additionally, MorphoSys joined forces with Klinikum rechts der Isar, the university hospital of Munich Technical University, to explore biomarkers relevant to the anti-CD38 approach.

MOR202 is directed against CD38, a membrane-bound protein that is a promising therapeutic target for the treatment of multiple myeloma. The antibody binds to its target and signals the immune system to attack the cancer cells. In preclinical studies, MOR202 effectively killed multiple myeloma cells from primary patient tumor material.

GENERAL STATEMENT ON OPPORTUNITIES

Due to increased life expectancy for people living in industrialized nations and the growing understanding of diseases, the need for innovative therapeutics and enabling technologies remains very high. The growing demand for new treatment options will be met not only by using existing therapies, but also by new ones originating from advances in the understanding of the biology of disease and the application of new technologies. Innovative new products such as fully human antibodies have been launched in recent years, which are changing therapeutic approaches and improving the quality of life for patients. In addition, due to strong competition from generics, almost all pharmaceutical companies are increasing their commitment to biologics such as human antibodies. Therapeutics based on biologicals are not as exposed to generics competition as small molecules, mainly because the manufacturing of the compounds is much more complex. To fill development pipelines, all major pharmaceutical players have made major commitments to biological therapies. Therefore, the demand for antibodies and the interest of the industry in this class of drugs have sharply increased over the last 12 to 36 months, clearly underpinned by several acquisitions and large licensing agreements in this field. The use of antibodies as therapeutics as well as for research purposes and diagnostic applications represents sustainable growth opportunities for MorphoSys.

MARKET OPPORTUNITIES

MorphoSys believes that its HuCAL and *arYla* antibody platforms can be applied to make products that address significant unmet medical needs and provide new research and diagnostic tools cheaper and faster.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By participating in drug development with multiple partners, MorphoSys has effectively improved its risk profile. With 65 therapeutic antibody development programs currently ongoing with its partners, the chance that MorphoSys will participate financially in one or more marketed drugs is becoming more and more likely.

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

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

With its partners, especially Novartis, providing a secure cash flow over the coming years, MorphoSys is able to additionally strengthen its proprietary pipeline. The Company will continue to expand its proprietary pipeline with *de novo* starts and additional co-development programs. Furthermore, the Company is looking for in-licensing opportunities for interesting targets and potential drug candidates.

While MorphoSys is taking on more risk when developing proprietary compounds, the reward for promising drug candidates is higher than in the partnered segment. The pharmaceutical industry is likely to further increase its in-licensing activities in order to refill their pipelines and replace key drugs losing patent protection.

ABD SEROTEC

Antibodies are important components of scientific research and modern diagnostic practice. According to a BioCompare study carried out in 2009, around 20 % of the overall diagnostics market is represented by antibody-based products today, generating global revenues in the amount of approximately US$ 8 billion. In 2010, AbD Serotec significantly advanced into this promising sector by signing several new supply agreements with diagnostic companies. There is an increasing demand for diagnostics, which are used to identify patient sub-populations that would benefit from treatment with a particular drug or to monitor the success of a treatment.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and in new technologies to remain at the forefront of technological leadership. This technological progress may enable the Company to further expand its roster of partners and to increase the speed and success rates of its partnered and proprietary drug development programs.

ACQUISITION OPPORTUNITIES

MorphoSys has demonstrated its ability to complete acquisitions and to use such transactions to accelerate its growth. In 2010, MorphoSys proved this point by acquiring Sloning BioTechnology GmbH and signing a significant license agreement for the thereby acquired Slonomics technology a few weeks later. MorphoSys may again use an acquisition strategy to increase its market share and to access patents and licenses for proprietary technology and drug development, thereby augmenting strong organic growth.

Subsequent Events

There were no events requiring disclosure.

Outlook and Forecast

The MorphoSys Group develops novel antibodies for therapeutic, diagnostic and research applications.

The Group's main focus is on applying its technologies in rapidly growing, innovation-driven sectors of the healthcare market. The Company's management intends to continue to expand MorphoSys's proprietary drug development activities by taking advantage of opportunities in the therapeutics area. Moreover, MorphoSys seeks to enlarge its market share within the research and diagnostics fields, the latter of which in particular represents a largely untapped market for the Company's technologies.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT

The Company owns established and validated technologies. In the therapeutics area, commercialization of these technologies contributes secure cash flows from long-term partnerships with large pharmaceutical companies. The Company's strategic focus is to apply its technologies to build a broad and sustainable pipeline of innovative antibody drug candidates within these collaborations and from its own development activities. Through its AbD Serotec segment, the Company has a wide customer network. The AbD Serotec segment is well positioned in the diagnostics market, providing innovative antibodies to open up new diagnostic applications.

Its stable cash flows and the strong cash position allow the Company to build up its business through investments in proprietary drug and technology development.

The Management Board expects the following developments for MorphoSys in the relevant markets:

- MorphoSys continues to invest in technology development to remain at the forefront of the antibody field. The Company expects to sign additional commercial collaborations based on its proprietary technologies in combination with those recently secured in the acquisition of Sloning BioTechnology GmbH.
- The demand for antibodies as new treatment modality remains high, allowing the Company to expand its pipeline of therapeutic antibodies within its partnerships and on its own account.
- The pharmaceutical industry continues to look for in-licensing opportunities to gain access to promising product candidates. If clinical proof of concept of a proprietary drug candidate is reached, lucrative deal terms could be achieved.
- The AbD Serotec segment is now increasingly focusing on diagnostic applications using MorphoSys's technologies. New technology for antibody generation has had very little impact on the market for diagnostic antibodies to date. The ability to make superior antibodies for diagnostic applications makes AbD Serotec increasingly attractive for this market segment. AbD Serotec's management is confident about future growth prospects based on existing research collaborations with a number of leading diagnostics companies.

STRATEGIC OUTLOOK

MorphoSys's business model is built on its proprietary technologies including HuCAL and recently launched *arYla*.

The development of therapeutic antibodies within partnerships will continue to be a significant part of MorphoSys's strategy. The Company's therapeutic pipeline is expected to expand and mature over the coming years. The extraordinary breadth of this pipeline promises to yield a significant number of marketed therapeutic antibodies in the years ahead.

Within its Proprietary Development segment, the Company is committed to developing therapeutic antibodies in the areas of inflammation and oncology for its own account. In the near term, the plan is to take proprietary drug candidates to clinical proof of concept before seeking a commercial partner. The proprietary portfolio will be enlarged by starting *de novo* programs, and also by securing access to interesting targets and product candidates through additional in-licensing activities. The addition of MOR208 to the Company's portfolio was a good example of this. To diversify its proprietary pipeline, MorphoSys will pursue additional co-development projects within its alliances with Novartis and Galapagos, and potentially with other biotechnology or pharmaceutical companies.

The Partnered Discovery segment generates secured cash flows from MorphoSys's long-term alliances. For the foreseeable future, MorphoSys will continue to invest the majority of these cash flows in broadening and strengthening its Proprietary Development segment. Growth in this area is expected as existing drug programs progress, through new fee-for-service partnerships in the area of infectious diseases and by commercialization of new technologies, including those secured via acquisitions such as Sloning.

The AbD Serotec segment is striving to increase its market share within the research and diagnostics fields. AbD Serotec's management intends to concentrate on high-value applications of the HuCAL technology, especially in the area of diagnostics.

EXPECTED ECONOMIC DEVELOPMENT

The global economic upturn is expected to continue in 2011. In a preview of its economic report for 2011 early in December, the United Nations said it expects the world economy to grow by 3.1 % in 2011 and 3.5 % in 2012. However, due to the ending of numerous stimulus programs and the need to consolidate government budgets, global economic growth in 2011 will be weaker than in 2010. Risks to economic growth lie in a possible sharper slowdown of the US economy, exchange rate developments, the debt crisis in many countries, the continuing pressing need for write-downs in the banking sector and the price situation regarding raw materials.

The pharmaceutical and healthcare industries have historically been relatively immune to economic downturns, due to a continuously increasing demand for innovative treatments. Nevertheless, pharmaceutical companies are facing challenges such as low R&D productivity, government-imposed price erosions and patent expiries.

EXPECTED DEVELOPMENT OF THE LIFE SCIENCES SECTOR

The pharmaceutical industry is facing unprecedented challenges. Expiring patents, lack of new product supply and cost pressure from healthcare reforms in Europe and the USA all combine to place the industry under increasing pressure. According to IMS Health, drugs generating sales of around US$ 135 billion will lose their patent protection by 2013. This is the largest decrease in the industry's history. The world pharmaceutical market in total has a size of about US$ 800 billion.

Within the biotechnology industry, the access to capital will remain one of the main issues. While in 2010 the stock market climate for biotechnology companies improved overall in the USA, the window for IPOs in Europe is still closed. In general, the expectations for 2011 are again more positive. The need to add innovative therapies to the pipelines of the larger pharmaceutical companies could further increase M&A activities, partnering deals and licensing, a development that has already gained speed in 2009 and 2010.

EXPECTED COMMERCIAL DEVELOPMENT

With the Novartis deal ensuring a steady cash flow stream over the coming years and new commercial opportunities arising from the Sloning acquisition, MorphoSys will continue to concentrate on broadening its partnered and proprietary development pipelines. Within the Partnered Discovery segment, the number of programs is expected to continue to grow. The Company anticipates starting, on average, approximately ten new partnered programs per annum for the next several years.

The Company's management sees many opportunities to expand its proprietary development activities: *de novo* program starts, in-licensing of existing product candidates as well as co-development opportunities with Novartis, Galapagos and/or additional partners all offer attractive opportunities.

With regard to MOR103, the most advanced development program in MorphoSys's proprietary pipeline, the Company expects final data from the ongoing phase 1b/2a trial in the first half of 2012. Assuming the clinical trial proceeds as planned and proof of concept can be demonstrated, a partnership deal could be struck in the same year. In 2011, MorphoSys plans to start a safety study for MOR103 in a second indication, namely multiple sclerosis. In parallel, preparations for a pharmacokinetic study of a subcutaneous formulation are ongoing. Out-licensing of the other proprietary compounds is not planned before 2013.

The AbD Serotec segment strives to continously outgrow the market. Despite the global economic downturn, the management of AbD Serotec predicts growth rates for the coming years of approximately 10 % at constant exchange rates. In 2011, profit margins will decrease in comparison to 2010 due to an increase in personnel-related costs and investments in infrastructure, nevertheless it is expected that segment profit margins will continue to increase in the following years.

EXPECTED PERSONNEL DEVELOPMENT

MorphoSys will continue to expand its proprietary and partnered development capabilities by adding additional expertise and personnel. The rate of growth will, however, be less than in 2010.

EXPECTED RESEARCH AND DEVELOPMENT

The Company's R&D budget for proprietary drug development will continue to rise, roughly in line with the increase in revenues. In 2011, MorphoSys plans to invest between €40 million and €45 million in proprietary product and technology development. The majority of this investment will be channeled into the clinical and preclinical development activities for the most advanced drug candidates. The trend of increasing investments is expected to continue in 2012 and the years thereafter, although the size of such increases will depend on the status of the Company's drug pipeline and revenue development. Notwithstanding this, the Company is committed to remaining profitable.

The Company's proprietary pipeline activities in 2011 are projected to comprise:

- Completion of recruitment of rheumatoid arthritis patients for the phase 1b/2a study for its lead compound MOR103
- Filing of CTA for a phase 1b safety study in multiple sclerosis as second indication for MOR103
- Start of enrollment of multiple myeloma patients in a phase 1b/2 study for MOR202
- Ongoing enrollment of CLL/SLL patients in the phase 1b/2 trial for MOR208, sponsored by Xencor, Inc.

For 2011, no further expansion of the proprietary pipeline is planned. At the end of 2011, the Company expects up to ten proprietary compounds in total.

Regarding AbD Serotec, profitable growth based on innovative products and services is the central objective for the unit. The diagnostic industry offers the most attractive opportunities for growth and will therefore increasingly be the focus of the unit's activities. In 2010, several feasibility studies were conducted which could lead to conclusion of larger collaborations in 2011 and 2012.

EXPECTED FINANCIAL AND LIQUIDITY DEVELOPMENT

MorphoSys's management strives to achieve average annual revenue growth in excess of 10% in 2011 and 2012. For 2011, management anticipates total Group revenue growth in excess of 20%, namely at least €105 million. In the future, revenue growth will become more dependent on the out-licensing of proprietary products such as MOR103, MOR208 and MOR202, as well as on increasing milestone payments and royalties as partnered HuCAL antibodies are developed further and will enter the market. The revenue split between the Company's therapeutic antibodies segments and the AbD Serotec segment is anticipated to shift slightly towards the therapeutic side of the business in 2011 compared to the prior year.

The Partnered Discovery segment represents a highly profitable business unit. Long-term alliances will provide the Company with secured cash flows for at least the next six years.

On the basis of the Management Board's current planning, total Group operating expenses are expected to increase in 2011 and 2012, subject to corresponding revenue increases. S, G&A expenses are expected to increase only slightly. MorphoSys plans to increase its investments in its proprietary antibody pipeline, particularly in MOR103, MOR208 and MOR202, additional *de novo* discovery programs and co-development alliances.

On the basis of current planning, MorphoSys expects to remain profitable on an operating level in 2011 and 2012. For 2011, the Company anticipates an operating profit of at least €10 million and to maintain profitability in 2012.

AbD Serotec showed revenue growth in 2009 and 2010, with a profit margin of around 5% and 6%, respectively. For 2011, management anticipates revenues of approximately €22 million, while the profit margin will experience a one-off decrease due to an increase in personnel-related costs and investments in infrastructure. COGS is anticipated to increase in line with sales of the AbD Serotec segment, whereas segmental operating expenses are expected to increase only slightly. For 2012, at constant foreign currency rates, management expects the segment to show annual revenue growth rates of at least 10% with increasing margins.

At the end of the 2010 fiscal year, MorphoSys's cash position amounted to €108.4 million. Despite the more difficult conditions resulting from the global financial crisis, MorphoSys's financing is solid. MorphoSys sees its strong cash position as an asset which can be used to accelerate future growth through strategic transactions. The in-licensing of MOR208 and the acquisition of Sloning BioTechnology GmbH are good examples of this.

DIVIDENDS

For the first time, MorphoSys's German statutory accounts showed accumulated earnings available for distribution. Nevertheless, in common with standard practice in the biotechnology industry, MorphoSys does not anticipate paying a dividend for the foreseeable future. Any profit generated by the business shall be substantially reinvested in the operation of its business, mainly in the area of proprietary drug development, in order to create further shareholder value and growth opportunities. Nonetheless, the Company does plan to purchase shares from the market to support a new long-term incentive program for management.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2011 and beyond and is based on Management Board assumptions. Future results may deviate from the expectations described in the outlook section. Major risks are discussed in the risk report*.

* SEE PAGE 36 ET SEQ.