ANNUAL FINANCIAL STATEMENTS (HGB) AND MANAGEMENT REPORT AS OF DECEMBER 31, 2010

MORPHOSYS AG, MARTINSRIED

Engineering the Medicines of Tomorrow

Contents

Annual Financial Statements as of December 31, 2010

Balance Sheet as of December 31, 2010

ASSETS		12/31/2010 EUR	12/31/2010 EUR	12/31/2009 EUR
A.	**FIXED ASSETS**			
I.	**Intangible Assets**			
	Franchises, trademarks, patents, licences, and similar rights and licences to such rights		20,428,517	11,215,721
II.	**Tangible Assets**			
1.	Land, leasehold rights and buildings, including leasehold improvements	215,140		236,875
2.	Other equipment, furniture and fixtures	3,883,744		3,563,213
			4,098,884	3,800,088
III.	**Financial Assets**			
1.	Shares in affiliated companies	52,150,442		33,101,611
2.	Loans to affiliated companies	799,059		3,008,813
			52,949,501	36,110,424
B.	**CURRENT ASSETS**			
I.	Inventories			
	Raw materials, supplies and production materials		428,787	725,227
II.	**Receivables and Other Assets**			
1.	Trade accounts receivable (thereof due within one year EUR 13,189,512, prior year: EUR 9,509,095)	13,189,512		9,509,095
2.	Receivables due from affiliated companies (thereof due within one year EUR 295,492, prior year: EUR 509,111)	295,492		509,111
3.	Other assets (thereof due after one year EUR 36,967, prior year: EUR 2,317)	2,154,069		2,653,676
			15,639,073	12,671,882
III.	**Securities**			
1.	Treasury stock	0		9,774
2.	Other securities	63,165,760		89,164,587
			63,165,760	89,174,361
IV.	**Cash on Hand and Cash in Banks**		**40,491,844**	**39,156,847**
C.	**PREPAID EXPENSES**		**1,816,860**	**2,107,865**
			199,019,226	**194,962,415**

	LIABILITIES AND SHAREHOLDERS EQUITY	12/31/2010 EUR	12/31/2010 EUR	12/31/2009 EUR
A.	**EQUITY**			
	Capital Subscribed	22,890,252		
	Treasury Stock	(9,774)		
I.	**Capital Issued**	**22,880,478**		**22,660,557**
II.	**Capital Surplus**	**149,223,927**		**146,617,767**
III.	**Earnings Reserves**			
	Reserve for treasury stock	0		9,774
	Other earnings reserves	8,178,734		0
IV.	**Accumulated Income / Deficit**	**0**		**(1,387,080)**
			180,283,139	**167,901,018**
B.	**ACCRUALS**			
1.	Tax provisions	2,005,966		1,142,404
2.	Other accruals	10,495,483		10,726,330
			12,501,449	**11,868,734**
C.	**LIABILITIES**			
1.	Bonds, thereof convertible EUR 113,256 (prior year: EUR 32,670)	113,256		32,670
2.	Trade accounts payable	1,449,936		226,301
3.	Liabilities due to affiliated companies	146,655		319,573
4.	Other liabilities (thereof due within one year EUR 653,871, prior year: EUR 416,259) (thereof for taxes EUR 487,591, prior year: EUR 376,624)	653,871		416,259
			2,363,718	**994,803**
D.	**DEFERRED INCOME**		**3,870,920**	**14,197,860**
			199,019,226	**194,962,415**

Statement of Income for 2010

		2010 EUR	2009 EUR
1.	Sales	70,249,057	65,286,276
2.	Cost of sales	48,258,184	40,940,567
3.	**Gross profit on sales**	**21,990,873**	**24,345,709**
4.	Selling expenses	2,265,952	1,464,581
5.	General administration expenses	11,476,042	14,743,125
6.	Other operating income	(2,063,000)	(1,812,590)
7.	Other operating expenses	1,296,371	559,952
8.	Income from transfer of profits	(36,824)	0
9.	Income from other securities and loans presented under financial assets	(4,091,250)	(1,976,536)
	thereof from affiliated companies	(111,330)	(259,441)
10.	Other interest and similar income	(137,141)	(343,273)
	thereof from affiliated companies	0	(66,931)
11.	Expenses from transfer of losses	0	162,597
12.	Interest and similar expenses	19,433	3,218
	thereof to affiliated companies	565	1,242
13.	Depreciation of financial assets	0	181,201
14.	**Result from ordinary activities**	**13,261,290**	**11,363,434**
15.	Income tax	3,676,106	2,179,392
16.	Other taxes	29,144	(10,077)
17.	**Net profit**	**9,556,040**	**9,194,119**
18.	Loss carried forward	(1,387,080)	(10,581,199)
19.	Withdrawal from reserve for treasury stock	9,774	0
20.	Allocation to other earnings reserves	(8,178,734)	0
21.	**Accumulated income / deficit**	**0**	**(1,387,080)**

Notes to the Annual Financial Statements 2010

General Remarks

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

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

Accounting Policies

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

In March 2009 the German Commercial Code (HGB) has been changed by the passing of the “Bilanz-rechtsmodernisierungsgesetz” (BilMoG) which regulations have been adopted by the Company for the 2010 financial statements. In accordance with interim regulations of Art. 67 EGHGB the Company has not adjusted prior year figures to the new BilMoG standards.

Acquired intangible assets are subject to depletion, they are amortized as planned by applying their useful life (straight-line method). Acquired intangible assets that are not yet available for use are stated at cost and are not subject to amortization.The assets are reviewed to be measured at the lower of carrying amount or fair value on the balance sheet date.

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

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

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

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

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

Other accruals provide for all foreseeable risks, uncertain obligations and imminent losses from pending transactions.

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

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

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

Basis for the Euro Conversion of Foreign Currency Items

Foreign currency receivables and liabilities are accounted for at the average spot rate at the time of the original transaction or at the balance sheet date considering the realization principle as well as the imparity principle where applicable.

Notes to the Balance Sheet

Fixed Assets

The development of fixed assets and the respective depreciation for the fiscal year are presented in the fixed asset roll-forward.

Intangible Assets

The development of intangible assets and the respective amortization for the fiscal year are presented in the fixed asset roll-forward.

Financial Assets

The change in Financial Assets mainly results from the acquisition of 100% of the share capital of the private German company Sloning BioTechnology GmbH, Puchheim, Germany for a one-off € 19 million cash payment on October 7, 2010.

Sloning BioTechnology GmbH is a company developing new methods of synthetic biology and will make MorphoSys the sole source of Sloning’s state-of-the-art Slonomics technology, which improves the assembly and quality of protein libraries.

Existing loans of Sloning BioTechnology GmbH from different banks have been fulfilled by MorphoSys AG and replaced by loans that the Company is granting Sloning BioTechnology GmbH.

In addition to the effect resulting from the acquisition of Sloning BioTechnology GmbH, MorphoSys IP GmbH fully repaid the remaining loan granted from MorphoSys AG. The loan was the result of the sale of the Company's internally created intangible assets (HuCAL and HuCAL GOLD) to MorphoSys IP GmbH ("IP GmbH") on December 31, 2002, and was presented as a

financial investment. The repayment was deferred on the basis of an interest-bearing loan with a remaining term of more than one year. During financial year 2010, unscheduled repayments amounted to € 3.0 million.

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

	Currency	Stake in %	Equity in domestic currency	Profit / Loss for the Year in domestic currency
Foreign				
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US $	100.00	3,948	(1,155)
Poole Real Estate Ltd., Poole, UK	£	100.00	919,484	(47,941)
MorphoSys UK Ltd., Oxford, UK	£	100.00	5,047,863	1,162,195
MorphoSys US, Inc., Raleigh, North Carolina, USA (indirect investment via MorphoSys UK Ltd.)	US $	100.00	1,569,010	337,627
Domestic				
Sloning BioTechnology GmbH, Puchheim, Germany	€	100.00	18,025,349	(791,787)
MorphoSys AbD GmbH, Düsseldorf, Germany (indirect investment via MorphoSys UK Ltd.)	€	100.00	1,188,437	(281,309)
MorphoSys IP GmbH, Martinsried, Germany	€	100.00	23,891	0

Inventories

At the reporting date, inventories of € 428,787 (2009: € 725,227) consisted of € 428,787 for raw materials / consumables (2009: € 725,227). The last stocktaking was performed on December 16, 2010.

Accounts Receivable and Other Assets

Based on management’s assessment, allowances in the amount of € 0 for 2010 (2009: € 1,218) were recognized. All accounts receivable are due within one year. Of other assets, € 36,967 (2009: € 2,317) have a remaining term of more than one year.

Rent deposits in the amount of € 925,493 and € 250,000 established in prior years are separated and shown as other assets.

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

As of December 31, 2010, two option contracts were outstanding in the nominal amounts of $ 10 million each (2009: € 0) both due in April 2011. As of December 31, 2010, unsettled contract premiums for derivatives entered into in October 2010 amounted to € 473.750 (2009: € 0) and are included in other assets. The fair value as of December 31, 2010 amounted to € 144,293 in accordance with valuation statements of the relevant banks. The carrying amount has been written down accordingly.

Securities

Securities consist of marketable securities of € 63,165,760 (2009: € 89,164,587).

Subscribed Capital

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

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

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

Treasury Stock

The Company's treasury stock developed as follows in 2010:

	Number of Company Shares	Value of Company Shares in €
Treasury Stock as of January 1, 2010	79,896	9,774
Exercised Options	0	0
Treasury Stock as of December 31, 2010	79,896	9,774

Authorized and Conditional Capital

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

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

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

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

Capital Surplus

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

	€
Status on January 1, 2010	146,617,767
Additions in Connection with the Exercise of Options and Convertible Bonds	2,606,160
Status on December 31, 2010	149,223,927

Earnings Reserves

The earnings reserves are related to treasury stock of € 0 (2009: € 9,774). Treasury stock is shown separately as part of the subscribed capital in the balance sheet due to the adopted regulations of the Bilanzrechtsmodernisierungsgesetz (BilMoG) valid from January 1, 2010. Other earnings reserves amount to € 8,178,734 (2009: € 0).

Accumulated Income

In connection with the net profit for the financial year 2010, accumulated income developed as follows:

	€
Accumulated Deficit as of December 31, 2009	(1,387,080)
Withdrawal from Reserve for Treasury Stock	9,774
Accumulated Deficit as of January 1, 2010	(1,377,306)
Net Profit for the Year	9,556,040
Allocation to Other Earnings Reserves	(8,178,734)
Accumulated Income as of December 31, 2010	0

Convertible Bonds

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

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

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

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

Stock Options

For the years 2010 and 2009, 3,441 and 80,700 options from the 1999 Plan were exercised respectively.

For the years 2010 and 2009, 222,654 and 101,070 options from the 2002 Plan were exercised. Of these, 190,305 options were exercised by members of the Management Board (see p. 20 et seq.).

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

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

Stock Appreciation Rights (SARs)

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

Other Accruals

Accruals are recorded for all recognizable risks and uncertain liabilities. They mainly contain expenses for external lab funding (€ 3,607,498; 2009: € 1,968,132), accruals for bonus payments (€ 3,094,847; 2009: € 2,826,827), license and inventors compensation (€ 1,516,542; 2009: € 2,716,261), outstanding vacation (€ 287,000; 2009: € 378,783), consulting general (€ 218,183; 2009: € 429,239) and legal services (€ 209,141; 2009: € 110.507).

Liabilities

On November 20, 2002, the Company signed a control and profit pooling agreement with MorphoSys IP GmbH. Accordingly profits of MorphoSys IP GmbH in the amount of € 0.04 million were transferred and shown as receivables due to affiliated companies.

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

		Remaining Term of Liabilities			Total	
	Type	up to 1 year	1 to 5 years	more than 5 years	12/31/2010 EUR	12/31/2009 EUR
1.	Bonds	31,482	81,774	0	113,256	0
	(Previous year)	0	32,670	0	0	32,670
2.	Accounts Payable	1,449,936	0	0	1,449,936	0
	(Previous year)	226,301	0	0	0	226,301
3.	Amounts due to Affiliated Companies	146,655	0	0	146,655	0
	(Previous year)	319,573	0	0	0	319,573
4.	Other Liabilities	653,871	0	0	653,871	0
	(Previous year)	416,259	0	0	0	416,259
	Of which Taxes	487,591	0	0	487,591	0
	(Previous year)	376,624	0	0	0	376,624

Contingencies/Other Financial Commitments

Other financial obligations arising from leasing commitments are shown in thousands of € in the following table:

	12/31/2010
2011	3,260
2012	921
2013	629
2014	514
2015	491
2016	491
more	982
Total	**7,288**

Notes to the Statement of Income

Revenues

Compared to the same period in the previous year, revenues for the full year 2010 increased by 8% to € 70.2 million (2009: € 65.3 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. In 2010, the main part of revenues was generated with the antibody collaborations with Novartis and Daiichi Sankyo. Revenues arising from the Partnered Discovery and Proprietary Development segments accounted for € 66.0 million and € 1.8 million of total revenues in 2010 respectively whereas the AbD Serotec segment contributed € 3.3 million to total revenues.

Of total revenues, € 1,528,085 (2009: € 3,283,298) were generated from domestic sales and € 9,959,465 (2009: € 9,182,076) from sales abroad (USA, Canada). An amount of € 58,691,312 (2009: € 52,713,882) was generated from sales in other European countries and Asia. Revenues in other countries amounted to € 41,035 (2009: € 11,328).

Cost of Sales

Cost of sales of € 48,258,184 (2009: € 40,940,567) included costs for research and development which consisted of personnel costs of € 17,250,038 (2009: € 13,484,876), € 14,123,371 for external services (2009: € 11,299,346), costs of € 7,291,353 (2009: € 9,026,707) for intangible assets, material costs of € 3,681,298 (2009: € 2,504,536), costs of € 3,627,020 (2009: € 3,025,528) for infrastructure and other costs of € 1,993,704 (2009: € 1,480,867). Due to more appropriate cost classifications and allocations compared to the previous year, an amount of € 118,707 has been reclassified from selling expenses to cost of sales in 2009.

Selling Expenses

Selling expenses of € 2,265,952 (2009: € 1,464,581) consist of personnel costs of € 1,224,507 (2009: € 984,381), costs for external services of € 218,128 (2009: € 9,555) and other costs in an amount of € 818,000 (2009: € 470,430). More appropriate cost classifications and allocations are the reason for the reclassification of € 118,707 from selling expenses to cost of sales in 2009.

General Administrative Expenses

General administrative expenses of € 11,476,042 (2009: € 14,743,125) mainly consist of personnel costs of € 5,908,034 (2009: € 7,325,514), costs for external services of € 2,481,871 (2009: € 4,617,006), costs for infrastructure of € 1,274,942 (2009: € 1,077,453), costs for intangibles of € 970,526 (2009: € 533,458) and other operating costs of € 717,688 (2009: € 1,049,325).

Personnel Expenses

Personnel expenses of € 23,932,731 (2009: € 21,794,771) consist of wages and salaries amounting to € 20,657,240 (2009: € 18,206,142), social security contributions of € 2,702,673 (2009: € 2,155,281) as well as costs of € 482,712 (2009: € 457,897) for retirement schemes and other costs of € 90,106 (2009: € 975,451).

Material Costs

Material costs of € 3,809,596 (2009: € 2,645,117) mainly consist of costs for consumables (€ 3,655,840; 2009: € 2,471,012) and for printing (€ 123,023; 2009: € 137,270).

Other Operating Income

Other operating income amounts to € 2,063,000 compared to € 1,812,590 in 2009 mainly due to higher grant income from governmental agencies in the amount of € 222,418.

Other Operating Expenses

Other operating expenses account for € 1,296,371 (2009: € 559,952). These expenses mainly result from losses due to foreign currency losses in an amount of € 451,958, a valuation allowance on derivatives of € 329,457, realized losses from derivatives of € 166,724 and expenses regarding a provision for accommodating arrangements of € 275,000.

Income from Transfer of Profits

Due to a control and profit pooling agreement (effective from November 20, 2002) profits in the amount of € 36,824 (2009: loss € 162,597) are transferred from MorphoSys IP GmbH, Martinsried to MorphoSys AG, Martinsried.

Income from Other Securities and Loans Presented under Financial Assets

An income of € 4,091,250 from other securities and loans presented under financial assets (2009: € 1,976,536) includes interest on the loan granted to MorphoSys IP GmbH (€ 102,306; 2009: € 259,441) and to the loans granted to Sloning BioTechnology GmbH (€ 9,025; 2009: € 0). Furthermore, this item contains realized gains on marketable securities in the amount of € 3,979,920; 2009: € 1,717,095).

Other Interest and Similar Income

This item in the amount of € 137,141 (2009: € 343,273) solely comprises interest income from cash in banks (€ 137,141; 2009: € 276,340).

Interest and Similar Expenses

Compared to the previous year (2009: € 3,218) interest expense amounted to € 19,433 in 2010 and mainly resulted from a prepayment penalty paid to a bank for a loan taken over from Sloning BioTechnology GmbH in the context of the acquisition in October 2010.

Income Taxes

Differences between commercial law and tax law resulted in temporary differences in the balance sheet of MorphoSys AG. The calculation of deferred taxes was based on a tax rate of 26.33 %. The Company decided to disclose the net balance of deferred taxes without the disclosure of net asset items. As of December 31, 2009 and 2010 deferred taxes resulted in net asset items which mainly consist of deferred taxes on intangible assets and tangible assets.

Other Information

Disclosure Duties on the Basis of the German Securities Trading Act (WpHG)
On April 16, 2010, Heisse Kursawe Eversheds, Munich, Germany, has informed us in the name and on behalf of Massachusetts Mutual Life Insurance Company, Springfield, Massachusetts, USA, in accordance with § 21 para. 1, 24 of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) regarding the shareholding in MorphoSys AG, Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), about the following:

On April 14, 2010, the voting rights of MassMutual Holding LLC, Springfield, Massachusetts, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany, have fallen below the threshold of 5 %. On that date its voting share amounted to 4.56 % (1,033,081 voting rights). All of these voting rights are attributable to MassMutual Holding LLC pursuant to § 22 para. 1 sentence 1 no. 6, sentence 2 of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights 4.41 % (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunity Funds, Centennial, Colorado, USA.

On April 14, 2010, the voting rights of Massachusetts Mutual Life Insurance Company, Springfield, Massachusetts, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany, have fallen below the threshold of 5 %. On that date its voting share amounted to 4.56 % (1,033,081 voting rights). All of these voting rights are attributable to Massachusetts Mutual Life Insurance Company, pursuant to § 22 para. 1 sentence 1 no. 6, sentence 2 of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights, 4.41 % (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunity Funds, Centennial, Colorado, USA.

Supervisory Board
Dr. Gerald Möller, Chemist, Heidelberg, Germany, Chairman, Chairman of the Remuneration & Nomination Committee (10)
(BioAgency AG; MTM AG; 4sigma; Pelikan Technologies, Inc.; Invendo Medical GmbH; Find Foundation; Bionostics, Inc.; VIVACTA Ltd.; febit holding AG; Ilumina, Inc.)

Prof. Dr. Jürgen Drews, Physician, Naples, USA and Feldafing, Germany, Deputy Chairman, Member of the Remuneration & Nomination Committee / Science & Technology Committee (2)
(Agennix AG; Human Genome Sciences, Inc.)

Dr. Walter Blättler, Chemist, Brookline, USA, Member, Chairman oft the Science & Technology Committee (0)

Dr. Daniel Camus, Economist, Paris, France, Member, Member of the Audit Committee (3)
(SGL Carbon; Valéo; Vivendi SA)

Dr. Metin Colpan, Chemist, Essen, Germany, Member, Member of the Remuneration & Nomination Committee (2)
(Qiagen NV; Qalovis GmbH)

Dr. Geoffrey N. Vernon, Pharmacist, Sampford Barton, UK, Member, Chairman of the Audit Committee (6)
(Advanced Medical Solutions; Ziggus Holdings Ltd.; Genable Ltd.; XL TechGroup, Inc.; Apitope International NV; Veryan Medical Ltd.)

The figures in brackets refer to the membership in other Supervisory Boards or executive bodies similar to the Supervisory Board in Germany.

Corporate Governance

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

The Company issued its statement according to § 161 of the German Stock Corporation Act (AktG). This declaration has been published and made accessible to the public accordingly on December 22, 2010 and can be found on MorphoSys's corporate website ('www.morphosys.com').

Management Board

Dr. Simon E. Moroney, Chemist, Pöcking, Germany (Chief Executive Officer)
Dave Lemus, CPA, Icking, Germany (Chief Financial Officer)
Dr. Arndt Schottelius, Physician Scientist, Munich, Germany (Chief Development Officer)
Dr. Marlies Sproll, Biologist, Munich, Germany (Chief Scientific Officer)

The Management Board members have no additional mandates concerning the Supervisory Boards of other publicly listed companies. However, Dr. Moroney acts as member of the Supervisory Board of ProtAffin AG, Graz, Austria. Mr. Lemus is presently a member of the Supervisory Board of Munich International School and of Proteros Biostructures GmbH, and is a Non-Executive Director of Axela, Inc., Toronto, Canada. All positions were approved by the Supervisory Board.

Total Compensation of the Management Board and the Supervisory Board

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

Management Board	Fixed Compensation		Variable Compensation *		Other Compensatory Benefits		Total Compensation	
	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Simon E. Moroney	368,498	356,011	208,570	192,246	130,178	124,198	707,246	672,455
Dave Lemus	259,157	250,375	152,902	135,203	156,639	141,055	568,698	526,633
Dr. Arndt Schottelius	231,000	220,000	132,594	118,800	90,158	84,513	453,752	423,313
Dr. Marlies Sproll	249,623	241,164	146,778	130,229	90,879	87,963	487,280	459,356
Total	**1,108,278**	**1,067,550**	**640,844**	**576,478**	**467,854**	**437,729**	**2,216,976**	**2,081,757**

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

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

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

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

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

Shares	01.01.2010	Additions	Sales	12/31/2010
Management Board				
Dr. Simon E. Moroney	416,385	0	0	416,385
Dave Lemus	5,400	0	0	5,400
Dr. Arndt Schottelius	500	1,000	0	1,500
Dr. Marlies Sproll	105	3,000	0	3,105
Total	**422,390**	**4,000**	**0**	**426,390**
Supervisory Board				
Dr. Gerald Möller	7,500	0	0	7,500
Prof. Dr. Jürgen Drews	7,290	0	0	7,290
Dr. Walter Blättler	2,019	0	0	2,019
Dr. Daniel Camus	0	0	0	0
Dr. Metin Colpan	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0
Total	**16,809**	**0**	**0**	**16,809**

Stock Options	01.01.2010	Additions	Forfeitures	Exercises	12/31/2010
Management Board					
Dr. Simon E. Moroney	299,445	0	0	108,000	191,445
Dave Lemus	110,172	0	0	7,305	102,867
Dr. Arndt Schottelius	90,000	0	0	0	90,000
Dr. Marlies Sproll	177,867	0	0	75,000	102,867
Total	**677,484**	**0**	**0**	**190,305**	**487,179**
Supervisory Board					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**

Convertible Bonds	01.01.2010	Additions	Forfeitures	Expired	Exercises	12/31/2010
Management Board						
Dr. Simon E. Moroney	30,000	58,800	0	0	0	88,800
Dave Lemus	30,000	33,000	0	0	0	63,000
Dr. Arndt Schottelius	0	33,000	0	0	0	33,000
Dr. Marlies Sproll	30,000	33,000	0	0	0	63,000
Total	**90,000**	**157,800**	**0**	**0**	**0**	**247,800**
Supervisory Board						
Dr. Gerald Möller	0	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**

Auditor Remuneration

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

In 2010, the auditing company and its affiliated companies included in KPMG Europe LLP were remunerated by MorphoSys in the amount of € 268,179 (2009: € 211,785) including audit fees of € 202,088 (2009: € 202,017), audit-related fees of € 59,943 (2009: € 9,000) and fees for other services of € 6,147 (2008: € 768).

Personnel

On December 31, 2010, MorphoSys AG employed 318 people (December 31, 2009: 271). Of the 318 employees, 272 worked in research and development and 46 in sales, general and administration (December 31, 2009: 224 employees in R&D, and 47 employees in S, G&A). The average number of employees during the fiscal year 2010 was 296 employees (2009: 254 employees). Of the average 296 employees in 2010, 250 worked in research and development and 46 in sales, general and administration.

Dividends

By virtue of the authorization provided in the articles of incorporation of MorphoSys AG, the Supervisory Board and the Management Board decided to allocate the net profit for the year to other earnings reserves. 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.

Responsibility Statement

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

Martinsried/Planegg, March 8, 2011

Dr. Simon E. Moroney
Chief Executive Officer

Mr. Dave Lemus
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

Roll-Forward of Fixed Assets

		Aquisition and Production Cost				
		01/01/2010	Additions	Disposals	12/31/2010	
		EUR	EUR	EUR	EUR	
A.	**Fixed Assets**					
I.	**Intangible Assets**					
1.	Franchises, trademarks, patents, licences, and similar rights and licences to such rights	23,851,777	11,144,032	3,100	34,992,709	
II.	**Tangible Assets**					
1.	Land, leasehold rights and buildings, including leasehold improvements	1,227,853	19,156	0	1,247,009	
2.	Other equipment, furniture and fixtures	11,273,818	2,076,651	351,326	12,999,143	
		12,501,671	2,095,807	351,326	14,246,152	
III.	**Financial Assets**					
1.	Shares in affiliated companies	38,579,812	19,048,831	0	57,628,643	
2.	Loans to affiliated companies	3,008,813	799,059	3,008,813	799,059	
		41,588,625	19,847,890	3,008,813	58,427,702	
		77,942,073	33,087,729	3,363,239	107,666,563	

	Accumulated Depreciation					Net Book Values	
	01/01/2010	Additions	Disposals	12/31/2010		12/31/2010	12/31/2009
	EUR	EUR	EUR	EUR		EUR	EUR
	12,636,056	1,928,136	0	14,564,192		20,428,517	11,215,721
	990,978	40,891	0	1,031,869		215,140	236,875
	7,710,605	1,754,264	349,470	9,115,399		3,883,744	3,563,213
	8,701,583	1,795,155	349,470	10,147,268		4,098,884	3,800,088
	5,478,201	0	0	5,478,201		52,150,442	33,101,611
	0	0	0	0		799,059	3,008,813
	5,478,201	0	0	5,478,201		52,949,501	36,110,424
	26,815,840	3,723,291	349,470	30,189,661		77,476,902	51,126,233

Management Report

In 2010, MorphoSys AG showed a 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, revenues were up by 8 % from the prior year to € 70.2 million. Despite the significant increase of proprietary R&D investment, the result from ordinary activities increased by 17 % to € 13.3 million.

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% - 6% according to IMS Health. Emerging markets like China and India showed substantially higher growth rates of approximately 14% - 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 target-

ing 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 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 DAX-subsector 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.

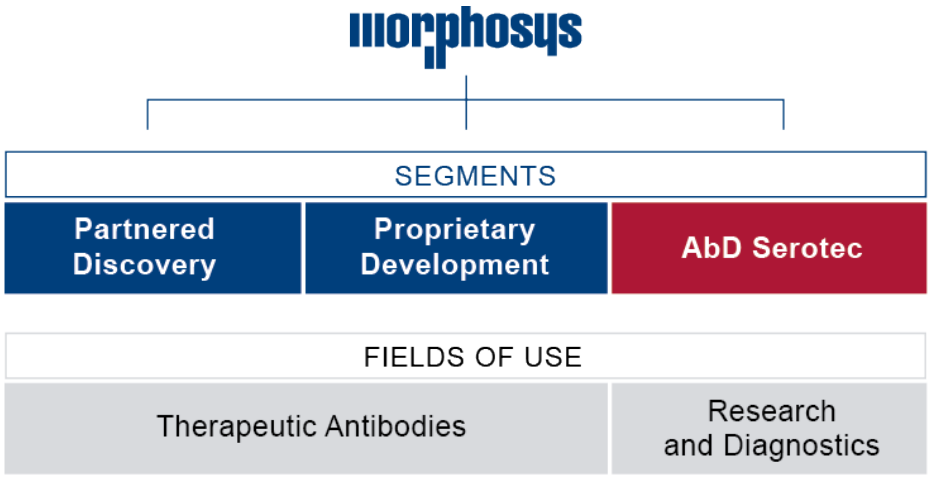
Increasingly, generic competition is challenging the biotechnology landscape since several drug patents are going to expire in the coming years. In 2010, the EMA published draft guidance on biosimilar antibody drugs, while regulatory preparations in the USA are still ongoing. These guidelines, which 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 43.

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

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 Partnered Discovery Segment

in million €	2010	2009	2008
	66.0	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 signifi-

cance 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, one of the broadest antibody pipelines in the industry.

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.

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.

Development of Financial Performance Indicators

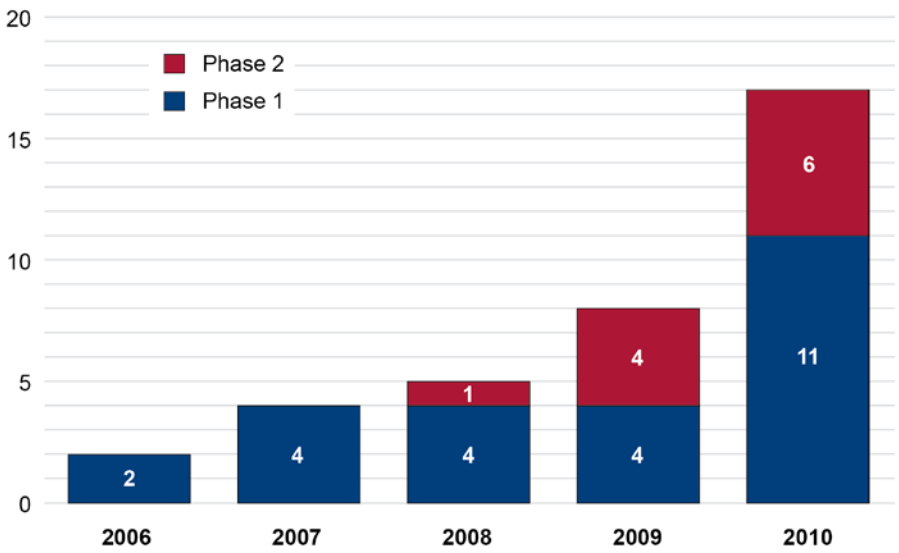
in million €	2010	2009	2008	2007	2006
MorphoSys AG					
Revenues *	70.2	65.3	56.8	45.6	36.6
Partnered Discovery					
Revenues	66.0	61.7	54.3	43.1	34.7
Proprietary Development					
Revenues	1.8	1.0	0	-	-
AbD Serotec					
Revenues	3.3	3.5	3.4	3.2	1.9

* *Revenues by segment may not add up to total revenues due to the existence of intersegment revenues.*

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.

Number of Partnered and Proprietary Clinical Programs at Year-end



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 17% in 2010. On December 31, 2010, MorphoSys AG employed 318 people (December 31, 2009: 271), of which 272 worked in research and development and 46 in sales, general and administration (December 31, 2009: 224 employees in R&D, and 47 employees in S, G&A) On average, MorphoSys AG employed 296 people in 2010 (2009: 254).

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.

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 "m4 - Personalized Medicine and Targeted

Therapies - A New Dimension in Drug Development in the Munich Region" biotechnology initiative, which this year received high-tech cluster status in a German government funding competition.

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 at the discovery stage.

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, AbD Serotec secured an exclusive worldwide manufacturing license to key research antibodies from VU University Medical Center, Amsterdam, in September 2010. 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 the public sphere. 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 MOR'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.

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, revenues for the full year 2010 increased by 8% to € 70.2 million (2009: € 65.3 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. In 2010, the main part of revenues was generated with the antibody collaborations with Novartis and Daiichi Sankyo.

Revenues arising from the Partnered Discovery and Proprietary Development segments accounted for € 66.0 million and € 1.8 million of total revenues in 2010, respectively, whereas the AbD Serotec segment contributed € 3.3 million to total revenues.

Of total revenues, € 1,528,085 (2009: € 3,283,298) were generated from domestic sales and € 9,959,465 (2009: € 9,182,076) from sales abroad (USA, Canada). An amount of € 58,691,312 (2009: € 52,713,882) was generated from sales in other European countries and Asia. Revenues in other countries amounted to € 41,035 (2009: € 11,328).

Cost of Sales

Cost of Sales which comprised mainly expenses for research and development increased by € 7.4 million to € 48.3 million (2009: € 40.9 million). This change is mainly due to higher personnel costs, costs for material, external services and other operating costs.

Selling Expenses

Selling expenses slightly increased by € 0.8 million to € 2.3 million (2009: € 1.5 million) mainly due to higher personnel-related costs and travel costs.

General Administrative Expenses

General administrative expenses amounted to € 11.5 million (2009: € 14.7 million). The decrease is mainly due to lower costs for external services and a decrease in personnel costs.

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

Other operating income amounted to € 2.1 million and increased by € 0.3 million compared to 2009 as a result of released provisions accounted for in the previous year. Other operating expenses increased from € 0.6 million in 2009 to € 1.3 million in 2010. Main reasons for the increase are foreign currency losses, a valuation allowance on derivatives and realized losses from derivatives. Other interest and similar income decreased from € 0.3 million to € 0.1 million due to lower interest income from cash in banks and lower interest on loans granted to affiliated companies.

Result from Ordinary Activities/Net Profit

The developments described above lead to an increased result from ordinary activities of € 13.3 million (2009: € 11.4 million) and a net profit after taxes in the amount of € 9.6 million (2009: € 9.2 million).

Liquidity

Cash slightly increased by € 1.3 million to € 40.5 million (2009: € 39.2 million).

Assets

Total assets increased by € 4.0 million to € 199.0 million as of December 31, 2010, compared to € 195.0 million as of December 31, 2009. This change mainly derived from an increase of intangible assets by € 9.2 million, financial assets by € 16.8 million and accounts receivable by € 3.7 million. The increase was partly offset by a decrease in marketable securities of € 26.0 million as a result of the sale of securities.

Accruals / Liabilities

In 2010, total liabilities increased from € 1.0 million as of December 31, 2009, to € 2.4 million. This change primarily arose from an increase in trade accounts payable by € 1.2 million.

As of December 31, 2010 accruals amounted to € 12.5 million and remained nearly unchanged compared to € 11.9 million in the previous year.

Equity

Total stockholders' equity amounted to € 180.3 million as of December 31, 2010, compared to € 167.9 million as of December 31, 2009, resulting in an equity ratio of 91 % (prior year: 86 %).

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 shares outstanding by 229,695 shares (prior year: 181,770 shares) arose from exercised options and convertible bonds issued to both the Management Board and employees. In 2010, no options related to treasury stock have been exercised. Treasury shares amounted to 79,896 shares as of December 31, 2010.

Capital Expenditure

MorphoSys's investment in tangible assets amounted to € 2.1 million for 2010 and decreased by € 0.2 million compared to the prior year due to lower investments in lab and office equipment in 2010. Depreciation of tangible assets for the fiscal year 2010 amounted to € 1.8 million, compared to € 1.4 million for 2009.

In 2010, the Company invested € 11.1 million in intangible assets (December 31, 2009: € 1.0 million) due to the acquired license from Xencor in 2010. Amortization of intangibles amounted to € 1.9 million and decreased by € 0.5 million in comparison to € 2.4 million in 2009.

In 2010, the Company invested € 19.0 million in financial assets due to the acquisition of Sloning BioTechnology GmbH as of October 7, 2010.

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	Revenues: € 70-74 million	Revenues: € 70.2 million
	Operating profit: At least € 5 million	Operating profit: € 13.3 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 doubled, from 8 programs in 2009 to17 programs in 2010

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.

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.

Corporate Governance Report

To MorphoSys, 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 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 COSO (Committee of Sponsoring Organizations of the Treadway Commission).

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 to report 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.

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 the Notes to the 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.

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 of 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.

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 55 et

seq. 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.

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 becomes 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 declaration of compliance on our corporate website under www.morphosys.com).

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 performed in 2010 by an internationally acclaimed consultant firm on the specific instruction of the Supervisory Board. Also other available international benchmark sources are 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 salaries of the Management Board members were adjusted was in July 2010.

OVERVIEW

In the fiscal year 2010, the total cash remuneration paid to the members of the Management Board amounted to € 2,216,976 (previous year: € 2,081,757). The table below shows a detailed breakdown of the compensation paid to the members of the Management Board:

in €	Fixed Compensation		Variable Compensation		Other Compensatory Benefits		Total Compensation	
	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**	**437,729**	**2,216,976**	**2,081,757**

[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 encompass primarily 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 means of pension schemes (Alterversorgung). MorphoSys pays the monthly contribution to these funds or other means of pension schemes. These payments amount to a maximum of 10 % of the annual fixed salary of each Management Board member plus tax 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 2/3 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. The individual goals account for up to 1/3 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 fiscal year 2010 will be paid out in March 2011.

LONG-TERM INCENTIVISING 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 Annual Shareholders' Meeting 2010. Under the new long-term incentive plan each member of the Management Board will be allocated on an annual basis a certain number of stocks. Such stocks are subject to a four-year waiting period. After the lapse of the waiting period, the allocated stocks will be finally 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 fiscal year 2010 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 section 17 of the Notes to the Consolidated Financial Statements.

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

In 2010, members of the Management Board purchased MorphoSys shares and exercised stock options, which were subsequently partly sold. All transactions were reported as legally required 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 in 2009 and 2010 a detailed review of the compensation system for the Management Board members. This review included the commissioning of a comparative study by an independent recognized consultant as well as discussions with external consultants; the review 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 (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG).

NON-REAPPOINTMENT / NON-PROLONGATION

The service agreements of the managing directors 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:

in €	Fixed Compensation		Variable Compensation		Total Compensation	
	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 ordinary Annual General Meeting 2008 had expired on October 31, 2009. It was replaced by a resolution of the ordinary Annual General Meeting 2010 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 permit-

ted, 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 Company 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 Company 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 AG 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 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 pre-clinical 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 Company, 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 Risks

According to our current assessment of MorphoSys'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 Company not to be endangered at the time of the current report. 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.

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 on 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

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

The Company'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 the 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 strives 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, in Europe, the window for IPOs is still closed. In general, the expectations for 2011 are again more positive. The need to add innovative therapies into the pipelines of the larger pharmaceutical companies could further increase M&A activities, partnering deals and licensing, a development that has gained speed already 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 sponsored by Xencor, Inc., for MOR208.

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 revenue growth in excess of 20 % and revenue in a range of € 85 million to € 90 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 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 AG expects to remain profitable on an operating level in 2011 and 2012. For 2011, the Company anticipates an operating profit of at least € 8 million, and to maintain profitability in 2012.

At the end of the 2010 fiscal year, MorphoSys's cash position amounted to € 103.7 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 by strategic transactions: the in-licensing of MOR208 and the acquisition of Sloning GmbH are good examples of this.

Dividends

By virtue of the authorization provided in the articles of incorporation of MorphoSys AG, the Supervisory Board and the Management Board decided to allocate the net profit for the year to other earnings reserves. 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.

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the statement of income and the notes to the financial statements, together with the bookkeeping system, and the management report of MorphoSys AG, Martinsried, for the financial year from January 1 to December 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [„Handelsgesetzbuch"; „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and, as a whole, provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, March 8, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Pastor	Rahn
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Imprint

Contact

Corporate Communications & Investor Relations
Phone: +49 89 899 27-404
Fax: +49 89 899 27-5404
Email: investors@morphosys.com

MorphoSys AG
Lena-Christ-Str. 48
82152 Martinsried / Planegg
Germany

E-mail: info@morphosys.com
Internet: www.morphosys.com

This financial report is also published in German and is available for download from our website.

MorphoSys AG
Lena-Christ-Str. 48
82152 Martinsried / Planegg
Germany

E-Mail: info@morphosys.com
Internet: www.morphosys.com