FINANCIAL STATE- MENTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

Consolidated Income Statement (IFRS)

in €	Note	2011	2010
Revenues	2.7, 4	100,777,157	87,036,308
Operating Expenses			
Cost of Goods Sold	3	7,024,341	7,284,211
Research and Development		57,477,141	46,899,723
Sales, General and Administrative		24,584,145	23,226,029
Total Operating Expenses		89,085,627	77,409,963
Other Operating Income	2.9	466,267	222,418
Profit from Operations		12,157,797	9,848,763
Finance Income	6	1,439,129	4,123,286
Finance Expenses	6	27,270	33,881
Other Income	6	67,341	469,547
Other Expenses	6	2,206,717	1,236,159
Profit before Taxes		11,430,280	13,171,556
Income Tax Expenses	7	3,213,883	3,975,256
Net Profit		8,216,397	9,196,300
Basic Net Profit per Share	8	0.36	0.41
Diluted Net Profit per Share	8	0.36	0.40
Shares Used in Computing Basic Net Profit per Share	8	22,887,723	22,656,233
Shares Used in Computing Diluted Net Profit per Share	8	23,126,158	22,786,536

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Comprehensive Income (IFRS)

in €	2011	2010
Net Profit	8,216,397	9,196,300
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets	(260,949)	(3,580,703)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	(886,717)	(3,854,337)
Deferred Taxes	68,708	942,799
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets, Net of Deferred Tax	(192,241)	(2,637,904)
Effects from Equity-related Recognition of Deferred Taxes	76,798	(5,622)
Foreign Currency Gain from Consolidation	247,307	448,445
Comprehensive Income	8,348,261	7,001,219

See accompanying Notes to the Consolidated Financial Statements

Consolidated Balance Sheet (IFRS)

in €	Note	2011	2010
ASSETS			
Current Assets			
Cash and Cash Equivalents	9, 21	54,596,099	44,118,451
Available-for-sale Financial Assets	10, 21	79,768,563	64,304,041
Accounts Receivable	11, 21	12,203,237	15,009,326
Tax Receivables	13	215,620	499,323
Other Receivables	12	375,360	522,520
Inventories, Net	13	3,281,240	4,135,446
Prepaid Expenses and Other Current Assets	13	3,467,402	3,104,340
Assets Classified as Held for Sale	17	785,027	813,011
Total Current Assets		154,692,548	132,506,458
Non-current Assets			
Property, Plant and Equipment, Net	14	6,106,318	6,189,865
Patents, Net	15	9,459,580	10,285,264
Licenses, Net	15	9,551,394	12,118,924
Intangible Assets under Development	15	10,513,100	10,513,100
Software, Net	15	1,055,405	505,328
Know-how and Customer Lists, Net	15	1,341,159	1,685,978
Goodwill	15, 18	34,107,455	34,099,485
Deferred Tax Asset	7	164,949	231,689
Prepaid Expenses and Other Assets, Net of Current Portion	13, 16	1,418,542	1,658,040
Total Non-current Assets		73,717,902	77,287,673
TOTAL ASSETS		228,410,450	209,794,131

See accompanying Notes to the Consolidated Financial Statements

in €	Note	2011	2010
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	19, 21	19,110,798	15,749,522
Tax Liabilities	20, 7	3,026,597	2,144,674
Provisions	20	275,000	275,000
Current Portion of Deferred Revenue	2.7	1,338,282	3,181,605
Total Current Liabilities		23,750,677	21,350,801
Non-current Liabilities			
Provisions, Net of Current Portion	20	108,145	43,344
Deferred Revenue, Net of Current Portion	2.7	6,047,253	690,756
Convertible Bonds due to Related Parties	23	73,607	127,593
Deferred Tax Liability	7	1,295,174	1,659,543
Total Non-current Liabilities		7,524,179	2,521,236
Stockholders' Equity	22, 23, 24, 26		
Common Stock		23,112,167	22,890,252
Ordinary Shares Authorized (43,047,264 and 41,935,950 for 2011 and 2010, respectively)			
Ordinary Shares Issued (23,112,167 and 22,890,252 for 2011 and 2010, respectively)			
Ordinary Shares Outstanding (22,948,252 and 22,810,356 for 2011 and 2010, respectively)			
Treasury Stock (163,915 and 79,896 shares for 2011 and 2010, respectively), at Cost		(1,756,841)	(9,774)
Additional Paid-in Capital		170,778,474	166,388,083
Reserves		(680,099)	(811,963)
Accumulated Income/(Deficit)		5,681,893	(2,534,504)
Total Stockholders' Equity		197,135,594	185,922,094
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**228,410,450**	**209,794,131**

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock	
	Shares	€
BALANCE AS OF JANUARY 1, 2010	22,660,557	22,660,557
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties	229,695	229,695
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2010	22,890,252	22,890,252
BALANCE AS OF JANUARY 1, 2011	22,890,252	22,890,252
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties	221,915	221,915
Repurchase of Treasury Stock	0	0
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF DECEMBER 31, 2011	23,112,167	23,112,167

See accompanying Notes to the Consolidated Financial Statements

Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Deficit/Income	Total Stock-holders' Equity
Shares	€	€	€	€	€	€
79,896	**(9,774)**	**161,631,268**	**3,371,195**	**(1,988,077)**	**(11,730,804)**	**173,934,365**
0	0	2,150,655	0	0	0	2,150,655
0	0	2,606,160	0	0	0	2,835,855
0	0	0	(2,637,904)	0	0	(2,637,904)
0	0	0	(5,622)	0	0	(5,622)
0	0	0	0	448,445	0	448,445
0	0	0	0	0	9,196,300	9,196,300
0	0	0	(2,643,526)	448,445	9,196,300	7,001,219
79,896	**(9,774)**	**166,388,083**	**727,669**	**(1,539,632)**	**(2,534,504)**	**185,922,094**
79,896	**(9,774)**	**166,388,083**	**727,669**	**(1,539,632)**	**(2,534,504)**	**185,922,094**
0	0	1,488,342	0	0	0	1,488,342
0	0	2,902,049	0	0	0	3,123,964
84,019	(1,747,067)	0	0	0	0	(1,747,067)
0	0	0	(192,241)	0	0	(192,241)
0	0	0	76,798	0	0	76,798
0	0	0	0	247,307	0	247,307
0	0	0	0	0	8,216,397	8,216,397
0	0	0	(115,443)	247,307	8,216,397	8,348,261
163,915	**(1,756,841)**	**170,778,474**	**612,226**	**(1,292,325)**	**5,681,893**	**197,135,594**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2011	2010
OPERATING ACTIVITIES:			
Net Profit		8,216,397	9,196,300
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Non-cash Charges from PPA		0	44,000
Impairment of Assets		236,362	0
Depreciation and Amortization of Tangible and Intangible Assets		6,628,779	6,120,325
Net Gain on Sales of Financial Assets		(1,085,911)	(3,979,920)
Purchases of Derivative Financial Instruments	12	(220,921)	(649,650)
Proceeds from the Disposal of Derivative Financial Instruments	12	386,208	9,176
Unrealized Net (Gain)/Loss on Derivative Financial Instruments		(20,993)	496,181
Loss/(Gain) on Sale of Property, Plant and Equipment/Intangible Assets		(44,216)	254,744
Recognition of Deferred Revenue		(19,980,232)	(37,598,056)
Stock-based Compensation		1,538,807	2,123,296
Income Tax Expense		3,190,278	3,974,358
Changes in Operating Assets and Liabilities:			
Accounts Receivable		2,839,264	(3,618,508)
Prepaid Expenses, Other Assets and Tax Receivables		(34,967)	(1,055,955)
Accounts Payable and Accrued Expenses and Provisions		3,501,662	2,052,030
Other Liabilities		(80,312)	(709,879)
Deferred Revenue		23,493,407	27,272,556
Cash Generated from Operations		28,563,611	3,930,998
Interest Paid		(3,459)	(27,143)
Interest Received		361,916	148,117
Income Taxes Paid		(1,851,609)	(2,160,368)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**21**	**27,070,459**	**1,891,604**

See accompanying Notes to the Interim Consolidated Financial Statements

in €	Note	2011	2010
INVESTING ACTIVITIES:			
Purchases of Financial Assets		(50,686,269)	(20,783,313)
Proceeds from Sales of Financial Assets		36,046,710	50,692,950
Purchases of Property, Plant and Equipment		(2,320,353)	(2,323,416)
Proceeds from Disposals of Property, Plant and Equipment		152,081	0
Purchases of Intangible Assets		(1,284,629)	(11,486,644)
Acquisitions, Net of Cash Acquired		0	(18,095,650)
NET CASH USED IN INVESTING ACTIVITIES	**21**	**(18,092,460)**	**(1,996,073)**
FINANCING ACTIVITIES:			
Repurchase Treasury Stock		(1,747,066)	0
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		3,139,488	2,851,597
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(53,986)	80,586
Net Cost of Share Issuance		(15,500)	(15,500)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**1,322,936**	**2,916,683**
Effect of Exchange Rate Differences on Cash		176,713	50,921
Increase in Cash and Cash Equivalents		10,477,648	2,863,135
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**44,118,451**	**41,255,316**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**54,596,099**	**44,118,451**

See accompanying Notes to the Interim Consolidated Financial Statements

Notes

1 General Information

1.1 BUSINESS AND ORGANIZATION

MorphoSys AG (the "Company" or "MorphoSys") is one of the leading antibody companies focusing on the generation of fully human antibodies. MorphoSys's proprietary state-of-the-art technologies, together with over 15 years of focused antibody discovery and optimization know-how, are successfully applied to the development of research reagents, diagnostics and therapeutics for both its commercial partners and itself. The Company was founded in July 1992 as a German limited liability company. In June 1998, MorphoSys became a German stock corporation. In March 1999, the Company went public on Germany's "Neuer Markt", the stock exchange designated for high-growth enterprises. On January 15, 2003, MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange.

1.2 CONSOLIDATED COMPANIES

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

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

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

Serotec Ltd. with its subsidiaries Serotec, Inc., Serotec GmbH and Oxford Biotechnology Ltd. (together referred to as the "Serotec Group"), was acquired by MorphoSys in January 2006 and became a wholly owned subsidiary of MorphoSys AG. The Serotec Group has been integrated into MorphoSys's existing AbD Serotec segment. Oxford Biotechnology Ltd. was dissolved in the financial year 2009.

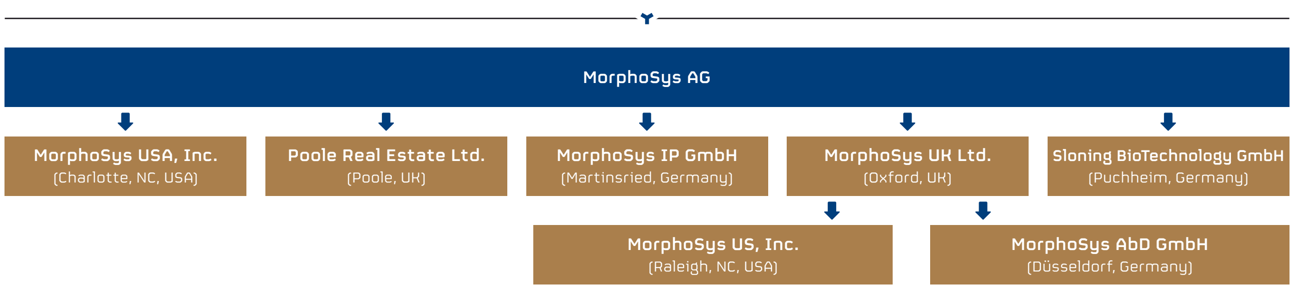
Serotec Ltd. and Serotec, Inc., were renamed MorphoSys UK Ltd. and MorphoSys US, Inc., as of January 2007. Serotec GmbH was renamed MorphoSys AbD GmbH as of March 2007.

In January 2005, MorphoSys acquired Biogenesis Ltd., Poole, UK, and Biogenesis, Inc., New Hampshire, USA. Biogenesis UK was first renamed MorphoSys UK Ltd. and in 2007 again renamed Poole Real Estate Ltd. Biogenesis, Inc., was renamed MorphoSys US, Inc., and merged into Serotec, Inc. The merged entity resumed the name MorphoSys US, Inc., located in Raleigh, North Carolina.

In October 2010, MorphoSys acquired 100 % of the shares in Sloning BioTechnology GmbH, a private company located in Puchheim near Munich, Germany.

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

LEGAL STRUCTURE OF THE MORPHOSYS GROUP



The consolidated financial statements for the year ended December 31, 2011, were authorized for issuance in accordance with a resolution of the Management Board on February 14, 2012. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer) and Dr. Arndt Schottelius (Chief Development Officer). The Supervisory Board is empowered to amend the financial statements after the resolution of the Management Board. The registered offices of the MorphoSys Group's headquarters are located at Lena-Christ-Str. 48, 82152 Martinsried, Germany.

2 Summary of Significant Accounting Policies

2.1 BASIS OF PREPARATION AND CHANGE IN PRESENTATION

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

The consolidated financial statements of the Company for the year ended December 31, 2011, comprise the Company and its subsidiaries (together referred to as the "MorphoSys Group").

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

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

In 2011, a deferred tax asset in the amount of €2.3 million has been offset with a deferred tax liability for better transparency. Both deferred tax asset and deferred tax liability relate to income taxes levied by the same tax authority on the same taxable entity. To provide comparative information, prior year's deferred tax asset and deferred tax liability (€2.8 million) – and thus total assets as well as total liabilities and stockholders' equity – have been adjusted accordingly.

Furthermore, purchases of derivative financial instruments and proceeds from disposal of derivative financial instruments have been reclassified within the cash flow statement from financing activities to operating activities. To provide comparative information, prior year's figures have been adjusted accordingly.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NEW AND AMENDED STANDARDS THAT ARE EXPECTED TO HAVE NO IMPACT ON THE GROUP

- Amendments to IAS 32 "Financial Instruments: Presentation" on the classification of rights issues.
- Amendments to IFRS 1 "First-time Adoption" on financial instruments disclosure.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".
- Annual improvements project 2010, including changes to IAS 27 "Consolidated and Separate Financial Statements"; IFRS 3 "Business Combinations" – contingent consideration, share-based payment transactions, non-controlling interests; amendment to IAS 1 "Presentation of Financial Statements"; amendment to IAS 34 "Interim Financial Reporting"; IFRS 1 "First-time Adoption" – interim information, deemed cost, rate regulation; IFRS 7 "Financial Instruments: Disclosures" – nature and extent of risks arising from financial instruments; amendment to IFRIC 13 "Customer Loyalty Programmes".
- Amendment to IAS 24 "Related-party Disclosures" for government-related entities.
- Amendment to IFRIC 14, IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING JANUARY 1, 2011, AND NOT EARLY ADOPTED

- IFRS 1 "First-time Adoption": The changes made are expected to have no impact on the Group.
- IFRS 7 "Financial Instruments: Disclosures": This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is expected to have no impact on the Group.
- IFRS 9 "Financial Instruments": IFRS 9 replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 10 "Consolidated Financial Statements": IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to

assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 11"Joint Arrangements": IFRS 11 is a more realistic reflection of joint arrangements (joint operations or joint ventures) by focusing on the rights and obligations of the arrangement rather than its legal form. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 12 "Disclosure of Interests in Other Entities": IFRS 12 includes the disclosure for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 13 "Fair Value Measurement": IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US-GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US-GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2012.
- IAS 1 "Presentation of Financial Statements": The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to assess the full impact of the amendments.
- IAS 12 "Income Taxes": This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result, SIC 21 "Income Taxes – Recovery of Revalued Non-depreciable Assets" will no longer apply to investment property carried at fair value. The amendment is expected to have no impact on the Group.
- IAS 19 "Employee Benefits": These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments are expected to have no impact on the Group.
- IAS 27 "Consolidated and Separate Financial Statements": IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The amendments are expected to have no impact on the Group.
- IAS 28 "Investments in Associates": IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The amendments are expected to have no impact on the Group.

2.3 BASIS OF CONSOLIDATION

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements in accordance with IAS 27.20. Unrealized losses are eliminated in the same way as unrealized gains, but are considered to be an impairment indicator of the asset transferred. Accounting policies have been applied consistently for all subsidiaries.

2.4 BUSINESS COMBINATIONS

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

2.5 FOREIGN CURRENCY TRANSLATION

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

2.6 INTEREST

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

2.7 REVENUE RECOGNITION

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

SEE GLOSSARY
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LICENSE AND MILESTONE FEES

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

SERVICE FEES

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

SALE OF GOODS

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

In accordance with IAS 18.21 and 18.25, the total consideration in multiple-element transactions will be allocated among the separately identifiable components based on their respective fair values under application of IAS 18.20, and the applicable revenue recognition criteria will be considered separately for each of the separate components in order to reflect the transaction's substance.

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

2.8 EXPENSES

COST OF GOODS SOLD

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

STOCK-BASED COMPENSATION

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

OPERATING LEASE PAYMENTS

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

2.9 GOVERNMENT GRANTS

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

2.10 INTEREST INCOME

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

2.11 INTEREST EXPENSE

Borrowing costs are expensed when incurred and are included in finance expense in the income statement.

2.12 INCOME TAXES

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

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

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

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

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

2.13 EARNINGS PER SHARE

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

2.14 CASH AND CASH EQUIVALENTS

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

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

2.15 DERIVATIVE FINANCIAL INSTRUMENTS

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

2.16 NON-DERIVATIVE FINANCIAL INSTRUMENTS

All non-derivative financial instruments are initially recognized at fair value, being the fair value of the consideration given and including acquisition charges.

The Group accounts for its investments in debt and equity securities in accordance with IAS 39. Management determines the proper classification of financial assets at the time of purchase and re-evaluates such designations as of each balance-sheet date. The classification depends on the purpose for which the financial assets were acquired. As of December 31, 2011, and as of December 31, 2010, some financial assets held by the Group have been classified as available for sale. These financial assets are recognized or de-recognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in the revaluation reserve within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the income statement.

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

2.17 ACCOUNTS RECEIVABLE

Accounts receivable are measured at amortized cost less provision for impairment, e.g. allowance for doubtful accounts (see accounting policy 2.21).

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

2.18 INVENTORIES

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

2.19 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation (see also the Notes to the Consolidated Financial Statements – section 14) and impairment losses (see accounting policy 2.21). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Replacements and improvements are capitalized while general repairs and maintenance are charged to expenses as incurred. Assets are depreciated over their expected useful lives using the straight-line method (see table below). Leasehold improvements are depreciated over the estimated useful lives of the assets using the straight-line method.

Asset Class	Useful Life
Computer Hardware	3 years
Low-value Laboratory and Office Equipment below € 150	Immediately
Low-value Laboratory and Office Equipment between € 150 and € 1.000	5 years
Permanent Improvements to Property/Buildings	10 years
Office Equipment	8 years
Laboratory Equipment	4 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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2.20 INTANGIBLE ASSETS

RESEARCH AND DEVELOPMENT

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

PATENT COSTS

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy 2.21). Patent costs are amortized on a straight-line basis over the lower of the estimated useful life of the patent (ten years) and the remaining patent term. Amortization commences when the patent is issued. Technology as identified in the purchase price allocation for the acquisition of Sloning BioTechnology GmbH is stated at acquisition-date fair value less accumulated amortization (useful life ten years).

LICENSE RIGHTS

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

SOFTWARE

Software is stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy 2.21). Amortization is charged to the income statement on a straight-line basis over the estimated useful life of three to five years. Software is amortized from the date it is available for use.

KNOW-HOW AND CUSTOMER LISTS

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

INTANGIBLE ASSETS UNDER DEVELOPMENT

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

GOODWILL

The goodwill recognized is partly attributable to expected synergies to be achieved and to the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also the Notes to the Consolidated Financial Statements – section 18).

SUBSEQUENT EXPENDITURE

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

2.21 IMPAIRMENT

NON-DERIVATIVE FINANCIAL ASSETS

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

RECEIVABLES

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

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

NON-FINANCIAL ASSETS

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

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

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

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

2.22 SHARE CAPITAL

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

2.23 TRADE AND OTHER PAYABLES, PROVISIONS

Trade and other payables are stated at amortized cost. Payables with repayment dates exceeding one year are discounted to their net present values. Payables of uncertain timing or amount are shown as provisions.

2.24 CONVERTIBLE BONDS

The Group issued convertible bonds to the Management Board and to employees of the Group. In accordance with IAS 32.28, the equity portion of a bond has to be separated and presented as additional paid-in capital. The equity component is assigned the residual amount after deducting from the fair value of the bond as a whole the amount separately determined for the liability component. The income-statement impact of the equity component is accounted for as stock-based compensation whereas the income-statement impact of the liability component is presented as interest expense. The Group applies the provisions of IFRS 2 "Share-based Payment" for all convertible bonds granted to the Management Board and the employees of the Group.

2.25 ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

GOODWILL

The Group tests annually whether goodwill is subject to any impairment, in accordance with the accounting policy stated in section 2.21. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see also the Notes to the Consolidated Financial Statements – section 18).

For the AbD Serotec segment, a sensitivity analysis was performed by changing different assumptions and variables. An increase in the WACC by 30% or a decrease in future cash flows by 30% would not result in any impairment of the cash-generating unit.

A further sensitivity analysis was performed for the technology-development activities within the Partnered Discovery segment, which represent the cash-

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generating unit that also comprises the goodwill from the acquisition of Sloning BioTechnology GmbH. An increase in the WACC by 30 % or a decrease in future cash flows by 30 % would not result in any impairment of the cash-generating unit.

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

As of December 31, 2011, deferred tax assets on tax loss carry-forwards in the amount of € 2.3 million were recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2012 to 2016. No deferred tax assets were reported for a portion of the corporate tax loss carry-forwards in the amount of € 2.4 million and trade tax loss carry-forwards in the amount of € 2.3 million as the usability of these tax loss carry-forwards is deemed uncertain due to the controversial tax regulation in Germany (both section 8 para. 4 KStG and section 8c KStG). In the event that a portion of the total tax loss carry-forwards may not be usable as a result of a tax audit, the company will have to pay more income taxes at an earlier point in time in future periods because the total tax loss carry-forwards will be consumed earlier than expected.

2.26 CAPITAL MANAGEMENT

Concerning capital management, the Management Board's policy is to maintain a strong and sustainable capital base so as to maintain investor, creditor and market confidence and to support future development of the business. Compared to the previous year, the equity ratio slightly decreased from 88.6 % to 86.3 % (see also table below). The Group is currently not financed via financial debt.

At present, management and employees can participate in the Group's returns by way of long-term performance-related remuneration which consists of convertible bonds and stock options pursuant to the respective incentive plans as resolved by the Annual General Meeting. In addition, MorphoSys established a long-term incentive program in June 2011 based on the issuance of performance shares which are finally granted in the event that certain predefined success criteria are achieved (see also the Notes to the Consolidated Financial Statements – section 26). There were no changes in the Group's approach to capital management during the year.

in 000's €	2011	2010
Equity	197,136	185,922
in % of Total Capital	86.3 %	88.6 %
Debt	31,275	23,872
in % of Total Capital	13.7 %	11.4 %
TOTAL CAPITAL	**228,410**	**209,794**

3 Segment Reporting

The Group applies IFRS 8 "Operating Segments" (effective from January 1, 2009). An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

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

The Group consists of the following three operating segments:

PARTNERED DISCOVERY

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

PROPRIETARY DEVELOPMENT

This segment involves all activities relating to proprietary therapeutic antibody development. Presently, this includes the Group's three lead compounds in its proprietary product portfolio, MOR103, MOR202 and MOR208, as well as two programs in the discovery phase and two pre-development programs with Novartis. The Group currently plans to out-license proprietary compounds after clinical proof of concept.

ABD SEROTEC

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

ENTITY-WIDE DISCLOSURE

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

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For the Twelve-month Period Ended December 31 (in 000's €)	Partnered Discovery		Proprietary Development	
	2011	2010	2011	2010
REVENUES, TOTAL	**79,319**	**66,267**	**2,398**	**1,771**
External Revenues	79,319	66,267	2,398	1,771
Intersegment Revenues	0	0	0	0
TOTAL OPERATING EXPENSES	**23,683**	**23,559**	**35,000**	**26,510**
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	23,427	22,688	34,975	26,219
Intersegment Costs	256	871	25	291
OTHER OPERATING INCOME	**59**	**13**	**407**	**191**
SEGMENT RESULT	**55,695**	**42,721**	**(32,195)**	**(24,548)**
Finance Income	0	0	0	0
Finance Expenses	0	0	0	0
Other Income	0	0	0	0
Other Expenses	0	0	0	0
PROFIT BEFORE TAXES	**55,695**	**42,721**	**(32,195)**	**(24,548)**
Income Tax Expenses	0	0	0	0
NET PROFIT	**55,695**	**42,721**	**(32,195)**	**(24,548)**
Current Assets	18,054	13,192	1,460	1,719
Non-current Assets	23,061	26,312	16,672	16,847
TOTAL SEGMENT ASSETS	**41,115**	**39,504**	**18,132**	**18,566**
Current Liabilities	4,937	6,611	8,100	4,617
Non-current Liabilities	6,047	690	0	0
Stockholders' Equity	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**10,984**	**7,301**	**8,100**	**4,617**
Capital Expenditure	1,202	1,197	1,009	11,580
Depreciation and Amortization	3,197	2,691	1,750	1,199

AbD Serotec		Unallocated		Elimination		Group	
2011	2010	2011	2010	2011	2010	2011	2010
19,341	**20,160**	**0**	**0**	**(281)**	**(1,162)**	**100,777**	**87,036**
19,060	18,998	0	0	0	0	100,777	87,036
281	1,162	0	0	(281)	(1,162)	0	0
18,380	**18,945**	**12,303**	**9,557**	**(281)**	**(1,162)**	**89,085**	**77,409**
7,024	7,284	0	0	0	0	7,024	7,284
11,356	11,661	12,303	9,557	0	0	82,061	70,125
0	0	0	0	(281)	(1,162)	0	0
0	**18**	**0**	**0**	**0**	**0**	**466**	**222**
961	**1,233**	**(12,303)**	**(9,557)**	**0**	**0**	**12,158**	**9,849**
0	0	1,439	4,123	0	0	1,439	4,123
0	0	27	34	0	0	27	34
0	0	67	470	0	0	67	470
0	0	2,207	1,237	0	0	2,207	1,237
961	**1,233**	**(13,031)**	**(6,235)**	**0**	**0**	**11,430**	**13,171**
0	0	3,214	3,975	0	0	3,214	3,975
961	**1,233**	**(16,245)**	**(10,210)**	**0**	**0**	**8,216**	**9,196**
11,747	10,725	123,431	106,870	0	0	154,692	132,506
30,841	31,287	3,144	2,842	0	0	73,718	77,288
42,588	**42,012**	**126,575**	**109,712**	**0**	**0**	**228,410**	**209,794**
3,896	3,777	6,818	6,346	0	0	23,751	21,351
543	665	934	1,166	0	0	7,524	2,521
0	0	197,135	185,922	0	0	197,135	185,922
4,439	**4,442**	**204,887**	**193,434**	**0**	**0**	**228,410**	**209,794**
787	482	646	553	0	0	3,644	13,812
1,247	1,261	483	1,015	0	0	6,677	6,166

A segment result is defined as segment revenues less operating segment expenses. As a compensation for Partnered Discovery revenues generated from contracts that had originally been initiated by the AbD Serotec segment, the Partnered Discovery segment granted a compensatory fee of €0.3 million (prior year: €0.9 million) to the AbD Serotec segment for 2011 as a result of the revenue-sharing agreement established between the two segments in 2007. In 2011, revenues in the AbD Serotec segment comprised minor intersegment revenues with the Proprietary Development segment (2010: €0.3 million) which resulted from the sale of antibodies. In 2011, a minor impairment loss was recognized in the AbD Serotec segment.

The Group's major customers are all related to the Partnered Discovery segment. The most significant customer accounts for €8.9 million of the trade receivables carrying amount at December 31, 2011 (2010: €9.4 million). Three customers individually accounted for €72.8 million, €2.2 million, and €2.1 million of the revenues in the year 2011 and were mainly attributed to the Partnered Discovery segment. In 2010, three customers individually accounted for €47.2 million, €8.9 million, and €3.3 million of the revenues and were mainly attributed to the Partnered Discovery segment.

In 2011, other operating expenses in "unallocated" mainly included personnel-related costs (2011: €6.9 million; 2010: €4.7 million), costs for external services (2011: €3.1 million; 2010: €2.1 million) and infrastructure costs (2011: €1.2 million; 2010: €1.1 million). Current assets in "unallocated" mainly consisted of cash, cash equivalents and available-for-sale financial assets (2011: €121.0 million; 2010: €104.9 million). Current liabilities in "unallocated" mainly comprised accounts payable and accrued expenses (2011: €4.5 million; 2010: €4.6 million) as well as provisions (2011: €2.3 million; 2010: €1.7 million).

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

in 000's €	2011	2010
Germany	3,532	4,702
Europe and Asia	81,289	64,889
USA and Canada	12,444	16,504
Other	3,512	941
TOTAL	100,777	87,036

In 2011, total revenue included approx. 3% revenue derived from Asia.

The following table shows the split of the Group's non-current assets, excluding deferred tax assets, by geographical segment:

in 000's €	2011	2010
Germany	71,904	75,537
UK	127	44
USA	1,522	1,475
TOTAL	73,553	77,056

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

in 000's €	2011	2010
Germany	3,035	13,508
UK	501	280
USA	108	24
TOTAL	3,644	13,812

4 Revenue

In 2011, the Group's revenues included revenues from license and milestones fees in the amount of €59.9 million (2010: €41.8 million), to which the Partnered Discovery segment contributed €58.7 million (2010: €41.7 million) and the AbD Serotec segment €1.5 million (2010: €1.0 million), before elimination of inter-segment effects.

Revenues from service fees in the amount of €24.6 million (2010: €28.0 million) included €20.6 million from the Partnered Discovery segment (2010: €24.5 million), €2.4 million from the Proprietary Development segment (2010: €1.8 million) and €1.6 million from the AbD Serotec segment (2010: €1.7 million).

Revenues from the sale of goods, which related to the AbD Serotec segment, amounted to €15.5 million (2010: €16.5 million).

5 Personnel Expenses

in 000's €	2011	2010
Wages and Salaries	28,698	25,117
Social Security Contributions	4,468	4,011
Stock-based Compensation Expense	1,539	2,123
Temporary Staff (External)	228	89
Other	1,881	353
TOTAL	36,814	31,693

In 2011, other personnel expenses included mostly costs for recruitment and severance charges.

The average number of employees during the year ended December 31, 2011, was 459 (2010: 435). Of the 446 employees as of December 31, 2011, 301 worked in research and development and 145 in sales, general and administration (December 31, 2010: 309 employees in R&D and 155 employees in S, G&A). As of December 31, 2011, 199 employees worked in the Partnered Discovery segment, 67 in the Proprietary Development segment, 140 employees in the AbD Serotec segment and 40 were unallocated (December 31, 2010: 183 employees in the Partnered Discovery segment, 100 in the Proprietary Development segment 142, in the AbD Serotec segment and 39 employees were unallocated). The expenses for defined contribution plans amounted to €0.3 million in 2011 (prior year: €0.3 million).

6 Non-operating Income and Expenses

Non-operating income and expenses includes the following items:

in 000's €	2011	2010
Interest Income	353	143
Gain on Marketable Securities	1,086	3,980
Finance Income	1,439	4,123
Interest Expenses	(27)	(34)
Finance Expenses	(27)	(34)
Gain on Exchange	45	440
Gain on Derivatives	21	0
Miscellaneous Income	1	30
Other Income	67	470
Loss on Exchange	(2,043)	(499)
Loss on Derivatives	0	(496)
Miscellaneous Expenses	(164)	(241)
Other Expenses	(2,207)	(1,236)
TOTAL	(728)	3,323

In 2011, the Group recognized a net Loss on Exchange of €2.0 million. This amount includes a net loss of €1.6 million and €0.1 million derived from differences in foreign exchange rates between date of invoice and date of payment of accounts receivables and trade accounts payables, respectively, as well as a net loss of €0.3 million from bank accounts held in foreign currencies.

7 Income Taxes

The Company and its German subsidiaries MorphoSys IP GmbH, MorphoSys AbD GmbH and Sloning BioTechnology GmbH are subject to corporate tax, solidarity surcharge and trade tax. The Company's corporation tax rate remained constant at 15 %, the same applies to the solidarity surcharge of 5.5 % and the effective trade tax rate of 10.5 %. With regard to affiliated companies in foreign countries, income tax rates of 26.5 % (2010: 28 %) and 36.9 % (2010: 37 %) apply to the UK and the USA, respectively.

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

in 000's €	2011	2010
Current Tax Expense (Thereof Regarding Prior Years: k€ 2; 2010: k€ (16))	(3,452)	(4,094)
Deferred Tax Income/Deferred Tax (Expense)	238	119
Total Income Tax	(3,214)	(3,975)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(265)	(411)

The following table reconciles the expected income tax expense to the actual income tax expense presented in the consolidated financial statements. To calculate the statutory income tax expense in fiscal year 2011, the combined income tax rate of 26.33 % (2010: 26.33 %) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge, and amounts to 15.83 % plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300 % for municipal trade tax, which amounts to 10.50 %.

in 000' €	2011	2010
Profit Before Income Taxes	11,430	13,172
Expected Tax Rate	26.33 %	26.33 %
Expected Income Tax	(3,010)	(3,468)
Tax Effects Resulting from:		
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA on Tax Loss Carry-forwards	389	0
Stock-based Compensation	(339)	(555)
Non-tax-deductible Items	(130)	(114)
Tax Rate Differences	(101)	(21)
Prior Year Taxes	(2)	113
Other Effects	(21)	70
Actual Income Tax	(3,214)	(3,975)

MorphoSys AG has been subject to tax audits for the financial years 2004 to 2007 and tax loss carry-forwards have been confirmed in their recognized amount.

As of December 31, 2011, deferred tax assets on tax loss carry-forwards in the amount of € 2.3 million have been recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2012 to 2016. No deferred tax assets were reported for a portion of the corporate tax loss carry-forwards in the amount of € 2.4 million and trade tax loss carry-forwards in the amount of € 2.3 million as the usability of these tax loss carry-forwards is deemed uncertain due to the controversial tax regulation in Germany (both section 8 para. 4 KStG and section 8c KStG; see also Notes to the Consolidated Financial Statements – section 2.25). The tax loss carry-forwards may be carried forward indefinitely and in unlimited amounts. From 2004 onwards, German tax law restricts the offset of taxable income against existing tax loss carry-forwards to an amount of € 1.0 million plus 60 % of taxable income above € 1.0 million. According to the German Corporation Tax Act (Körperschaftsteuergesetz, KStG), taxes may be carried forward indefinitely.

Significant components of the deferred tax assets and liabilities, before netting of certain deferred tax assets and liabilities, are as follows:

in 000's €	DTA * 2011	DTA * 2010	DTL** 2011	DTL** 2010
Intangible Assets	0	0	3,287	4,043
Non-recognition of DTA on Intangible Assets	0	0	0	0
Property, Plant and Equipment	0	0	42	66
Land	0	0	0	0
Building	0	0	0	0
Other Equipment, Furnitures, Fixtures	51	61	0	0
Shares in Affiliated Companies	0	0	0	0
Inventory	161	230	0	0
Advanced Payments	0	0	0	0
Receivables and Other Assets	0	0	0	8
Treasury Stock	0	0	0	0
Prepaid Expenses and Deferred Charges	0	0	5	7
Short-term Securities Investments	0	0	231	300
Other Accrual/Provisions	0	0	30	4
Trade Accounts Payable	5	4	0	0
Bonds, thereof Convertible	0	0	0	0
Other Liabilities	0	0	22	0
Tax Losses	2,273	2,701	3	0
	2,490	**2,996**	**3,620**	**4,428**

* Deferred Tax Asset
** Deferred Tax Liability

Deferred tax liabilities in the amount of € 0.3 million (prior year: € 0.4 million) have been recognized directly in equity. The amount mainly relates to the revaluation of available-for-sale financial assets.

In 2011, a deferred tax asset in the amount of € 2.3 million has been offset with a deferred tax liability for better transparency. Both deferred tax asset and deferred tax liability relate to income taxes levied by the same tax authority on the same taxable entity. To ensure comparability, prior year's deferred tax asset and deferred tax liability (€ 2.8 million) have been adjusted respectively.

At December 31, 2011, a deferred tax liability for temporary differences related to an investment in a subsidiary was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

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8 Earnings Per Share

The calculation of basic profit per share is based on the net profit for the year of €8,216,397 (2010: €9,196,300) and the weighted-average number of shares of common stock outstanding for the respective years (2011: 22,887,723; 2010: 22,656,233).

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

	2011	2010
SHARES ISSUED ON JANUARY, 1	22,890,252	22,660,557
Effect of Treasury Shares Held	(79,896)	(79,896)
Repurchase of Treasury Stock	(45,744)	0
Effect of Shares Issued in January	32,510	14,167
Effect of Shares Issued in February	10,266	0
Effect of Shares Issued in March	2,408	1,162
Effect of Shares Issued in April	20,741	0
Effect of Shares Issued in May	40,639	0
Effect of Shares Issued in June	2,286	0
Effect of Shares Issued in July	6,194	52,848
Effect of Shares Issued in August	0	703
Effect of Shares Issued in September	0	0
Effect of Shares Issued in October	470	2,702
Effect of Shares Issued in November	7,461	0
Effect of Shares Issued in December	136	3,990
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	22,887,723	22,656,233

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

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

	2011	2010
Numerator		
Net Profit of the Year	8,216,397	9,196,300
Denominator		
Weighted-average Shares Used for Basic EPS	22,887,723	22,656,233
Dilutive Shares Arising from Stock Options	229,907	110,569
Dilutive Shares Arising from Convertible Bonds	8,528	19,734
TOTAL DENOMINATOR	23,126,158	22,786,536
Earnings per Share (in €)		
Basic	0.36	0.41
Diluted	0.36	0.40

9 Cash and Cash Equivalents

in 000's €	2011	2010
Bank Balances and Cash in Hand	54,596	44,118
Term Deposits	980	959
Restricted Cash	(980)	(959)
CASH AND CASH EQUIVALENTS	**54,596**	**44,118**

The € 1.0 million of restricted cash paid for the headquarters buildings in Martinsried, Puchheim and Oxford is a rent deposit and remained unchanged compared to the prior year.

10 Financial Assets

Financial assets classified as available for sale consist of the following as of December 31, 2011 and 2010:

			Gross Unrealized Holding		
in 000's €	Maturity	Cost	Gains	Losses	Market Value
DECEMBER 31, 2011					
DB Money Cash	daily	79,150	877	0	80,027
Restricted Cash					(258)
TOTAL					**79,769**
DECEMBER 31, 2010					
DB Money Cash	daily	63,424	1,138	0	64,562
Restricted Cash					(258)
TOTAL					**64,304**

The gross unrealized holding gains of € 877,332 for the year ended December 31, 2011, and € 1,138,281 for the year ended December 31, 2010, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2011, the Group recorded gains of € 1,085,911 in the income statement on the sale of financial assets, which had previously been recognized in equity (2010: € 3,979,920). The € 0.3 million (2010: € 0.3 million) of restricted cash is a rent deposit.

For further details on accounting for financial assets, see also the Notes to the Consolidated Financial Statements – section 2.16.

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11 Accounts Receivable

All accounts receivable are non-interest-bearing and are generally due on a 30- to 45-day term. On December 31, 2011 and 2010, accounts receivable included unbilled amounts of € 1,856,827 and € 2,104,854, respectively. In some cases, the Group does require collateral from customers for accounts receivable in the AbD Serotec segment. The amount of collaterals held as of December 31, 2011, was not material.

Based on the management's assessment, in 2011 a net loss in the amount of € 3,243 was recognized in the income statement for allowances for doubtful accounts (2010: net gain of € 4,400).

12 Other Receivables

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

As of December 31, 2011, no option contracts (2010: two option contracts in the nominal amounts of each $ 10 million) are outstanding, and therefore no unrealized gains or losses have been recognized in profit and loss (2010: unrealized loss of € 0.3 million). At the beginning of the year, the Group entered into eleven option contracts that were due during the financial year 2011. A realized loss of € 0.3 million (2010: loss of € 0.2 million) was recognized as other expenses.

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

Prepaid expenses, both the current and the non-current portion, mainly include prepaid sublicense fees of € 0.2 million as of December 31, 2011 (2010: € 0.2 million), and other prepayments in the amount of € 1.6 million as of December 31, 2011 (2010: € 2.2 million).

Tax receivables amounted to € 0.2 million as of December 31, 2011 (2010: € 0.5 million) and mainly comprised receivables in connection with withholding tax on capital gains.

Inventories of € 3.3 million (2010: € 4.1 million) are located in Oxford, UK, in Raleigh, USA, in Martinsried, Germany, and in Puchheim, Germany. As of December 31, 2011, inventories comprised raw materials, merchandise, consumables and supplies in the amount of € 1.9 million (prior year: € 0.9 million), work in progress of € 0.1 million (prior year: € 0.3 million) and finished goods of € 1.3 million (prior year: € 2.9 million). As of December 31, 2011, the inventory reserve amounted to € 3.0 million (prior year: € 2.8 million) and the movement to prior year's inventory reserve is included in COGS. Inventories carried at fair value less cost to sell amount to € 0 (prior year: € 0). In 2011, raw materials, consumables and changes in finished goods and work in progress recognized as COGS amounted to € 5.1 million (prior year: € 5.6 million).

14 Property, Plant and Equipment

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Totals
Cost				
JANUARY 1, 2011	**916**	**14,404**	**2,460**	**17,780**
Additions	257	1,882	208	2,347
Disposals	0	(1,235)	(28)	(1,263)
Foreign Exchange Variance	18	20	10	48
DECEMBER 31, 2011	**1,191**	**15,071**	**2,650**	**18,912**
Accumulated Depreciation				
JANUARY 1, 2011	**294**	**9,382**	**1,914**	**11,590**
Depreciation Charge for the Year	152	2,010	182	2,344
Disposals	0	(1,122)	(21)	(1,143)
Foreign Exchange Variance	6	3	6	15
DECEMBER 31, 2011	**452**	**10,273**	**2,081**	**12,806**
Carrying Amount				
JANUARY 1, 2011	**622**	**5,022**	**546**	**6,190**
DECEMBER 31, 2011	**739**	**4,798**	**569**	**6,106**
Cost				
JANUARY 1, 2010	**869**	**11,542**	**2,339**	**14,750**
Additions	0	2,266	58	2,324
Additions from business combination	0	1,164	36	1,200
Disposals	0	(614)	(1)	(615)
Foreign Exchange Variance	47	46	28	121
DECEMBER 31, 2010	**916**	**14,404**	**2,460**	**17,780**
Accumulated Depreciation				
JANUARY 1, 2010	**226**	**7,793**	**1,734**	**9,753**
Depreciation Charge for the Year	57	1,921	162	2,140
Disposals	0	(362)	0	(362)
Foreign Exchange Variance	11	30	18	59
DECEMBER 31, 2010	**294**	**9,382**	**1,914**	**11,590**
Carrying Amount				
JANUARY 1, 2010	**643**	**3,749**	**605**	**4,997**
DECEMBER 31, 2010	**622**	**5,022**	**546**	**6,190**

As of December 31, 2011, land and building located in Poole, UK, in the amount of €785,027 (prior year: €813,011) is classified as held for sale, for which a minor impairment loss due to a re-valuation of the sales price has been recognized in 2011. No borrowing costs have been capitalized during the period. No restrictions on title, and property, plant and equipment were pledged as security for liabilities. The Group recognized minor expenditure in property, plant and equipment in the course of construction (2010: 0.5 million). No significant contractual commitments for the acquisition of property, plant and equipment have been entered into as of the reporting date.

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

in 000's €	2011	2010
Research and Development	1,718	1,354
Sales, General and Administrative	560	687
Cost of Goods Sold	98	100
TOTAL	2,376	2,141

As of December 31, 2011, minor foreign exchange effects were recognized for the assets acquired and were accounted as translation reserve in equity.

15 Intangible Assets

in 000's €	Patents	Licenses	Intangible Assets under Development	Software	Know-How and Customer List	Goodwill	Total
Cost							
JANUARY 1, 2011	**14,449**	**25,425**	**10,513**	**3,126**	**5,419**	**34,099**	**93,031**
Additions	218	138	0	942	0	0	1,298
Disposals	(8)	(371)	0	(1,189)	0	0	(1,568)
Foreign Exchange Variance	0	15	0	5	106	8	134
DECEMBER 31, 2011	**14,659**	**25,207**	**10,513**	**2,884**	**5,525**	**34,107**	**92,895**
Accumulated Amortization							
JANUARY 1, 2011	**4,164**	**13,306**	**0**	**2,620**	**3,733**	**0**	**23,823**
Amortization Charge for the Year	1,036	2,528	0	392	377	0	4,333
Write-offs for the Year	8	186	0	0	0	0	194
Disposals	(8)	(371)	0	(1,188)	0	0	(1,567)
Foreign Exchange Variance	0	6	0	4	74	0	84
DECEMBER 31, 2011	**5,200**	**15,655**	**0**	**1,828**	**4,184**	**0**	**26,867**
Carrying Amount							
JANUARY 1, 2011	**10,285**	**12,119**	**10,513**	**506**	**1,686**	**34,099**	**69,208**
DECEMBER 31, 2011	**9,459**	**9,552**	**10,513**	**1,056**	**1,341**	**34,107**	**66,028**
Cost							
JANUARY 1, 2010	**4,148**	**24,781**	**0**	**2,955**	**5,107**	**26,742**	**63,733**
Additions	221	612	10,513	140	0	0	11,486
Additions from business combination	10,080	0	0	22	0	7,352	17,454
Disposals	0	0	0	(3)	0	0	(3)
Foreign Exchange Variance	0	32	0	12	312	5	361
DECEMBER 31, 2010	**14,449**	**25,425**	**10,513**	**3,126**	**5,419**	**34,099**	**93,031**
Accumulated Amortization							
JANUARY 1, 2010	**3,358**	**11,001**	**0**	**2,243**	**3,022**	**0**	**19,624**
Amortization Charge for the Year	806	2,295	0	368	516	0	3,985
Write-offs for the Year	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Foreign Exchange Variance	0	10	0	9	195	0	214
DECEMBER 31, 2010	**4,164**	**13,306**	**0**	**2,620**	**3,733**	**0**	**23,823**
Carrying Amount							
JANUARY 1, 2010	**790**	**13,780**	**0**	**712**	**2,085**	**26,742**	**44,109**
DECEMBER 31, 2010	**10,285**	**12,119**	**10,513**	**506**	**1,686**	**34,099**	**69,208**

As of December 31, 2011, intangible assets under development were tested as required by IAS 36. No impairment was deemed necessary.

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

in 000's €	2011	2010
Research and Development	4,036	3,097
Research and Development (Write-off)	194	0
Sales, General and Administrative	35	666
Cost of Goods Sold	229	218
TOTAL	**4,494**	**3,981**

As of December 31, 2011, an impairment loss of €0.2 million was recognized for intangible assets in the Proprietary Development segment in connection with a program, which was discontinued due to a strategic decision (2010: minor impairment loss in the AbD segment).

As of December 31, 2011, minor foreign exchange effects were recognized for the assets acquired and were accounted for as translation reserve in equity.

16 Other Assets

The Group has classified certain items in other assets that are not available for use in its operations as restricted cash (see Notes to the Consolidated Financial Statements – section 9 and 10). As of December 31, 2011 and 2010, the Group had commitments of €1.2 million and €1.3 million for guarantees issued as well as €73,607 and €113,256 respectively for convertible bonds issued to employees.

17 Assets Classified as Held for Sale

As of December 31, 2011, assets classified as held for sale comprise the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK; (AbD Serotec segment) with a net book value of €785,027 (prior year: €813,011). In 2011, intense efforts to sell the property did not succeed. However, efforts for a commercialization will be intensified in 2012 by searching for a potential buyer in a wider area and a sale is expected within one year. An external, independent real estate company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, has valued the property in the fourth quarter of 2011. A minor impairment was deemed necessary in the 2011 financial year.

18 Goodwill

As of October 31, 2011, the goodwill attributed to the AbD Serotec segment (€26.8 million) was tested as required by IAS 36. The recoverable amount of the cash-generating unit (CGU), the AbD Serotec segment, has been determined based on value-in-use calculations, and the value in use was determined to be higher than the carrying amount of the CGU. In addition, a detailed sensitivity analysis was done (see Notes to the Consolidated Financial Statements – section 2.25). The cash-flow projections refer to a ten-year period because AbD Serotec's management assumes that the move to sign more high-margin license deals in the research field, increasingly entering the diagnostics market and to strengthen the e-commerce business will fully materialize in the mid to long-term. Hence, a projection reflecting ten years (instead of only five years) is deemed reasonable for calculating the value in use. The cash-flow projections assume average yearly increases in revenues of approximately 8% and an average EBIT margin of 20% in the next ten years. The major underlying key assumption for the cash-flow projections is the expansion of the current customer base as mentioned above. The values of the underlying key assumptions have been determined by using both internal sources (past experience) and external sources of information (market intelligence, financial reports). Based on the updated outlook to cash flows for the upcoming ten years, the value in use was calculated as follows: beta factor of 1.18, income tax rate of 31%, WACC of 8.61% (2010: 8.50%) and a growth rate of 1% of the perpetual annuity. The values assigned to the assumptions represent management's estimates of future trends and are based on internal planning scenarios as well as external sources.

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As of October 31, 2011, the goodwill from the acquisition of Sloning BioTechnology GmbH in 2010 (€7.4 million) was tested as required by IAS 36. The recoverable amount of the CGU, the technology-development team within the Partnered Discovery segment, has been determined based on value-in-use calculations, and the value in use was determined to be higher than the carrying amount of the CGU. In addition, a detailed sensitivity analysis was done (see Notes to the Consolidated Financial Statements – section 2.25). The cash-flow projections refer to a ten-year period because management assumes that a commercialization via license deals comprising upfront payments, milestone payments, FTE funding as well as royalties will fully materialize in the mid to long-term. Hence, a projection reflecting ten years (instead of only five years) is deemed reasonable for calculating the value in use. The cash-flow projections are mainly based on the key assumption that the technology presently developed is highly beneficial for current and new customers and will result in a number of new deals. The values of the underlying key assumptions have been determined by using both internal sources (past experience) and external sources of information (market intelligence). Based on the updated outlook to cash flows for the upcoming ten years, the value in use was calculated as follows: beta factor of 1.3, income tax rate of 26.33 %, WACC of 8.89 % (2010: 8.22 %) and a growth rate of 1 % of the perpetual annuity. The values assigned to the assumptions represent management's estimates of future trends and are based on internal planning scenarios as well as external sources.

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19 Accounts Payable and Accrued Expenses

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

Accounts payable are listed in the table below:

in 000's €	2011	2010
Trade Accounts Payable	1,057	2,148
Licenses Payable	397	135
Accrued Expenses	17,069	12,800
Other Liabilities	588	667
TOTAL	**19,111**	**15,750**

Accrued expenses include mainly accruals for payments to employees and management of € 5.1 million (2010: € 4.1 million), amounts for outstanding invoices in the amount of € 2.6 million (2010: € 2.4 million), external laboratory funding of € 6.6 million (2010: € 3.6 million), € 2.4 million for license compensation (2010: € 2.2 million), € 0.1 million for Supervisory Board members' compensation (2010: € 0.1 million), € 0.1 million for audit fees and costs related thereto (2010: € 0.2 million) and € 0.2 million for legal services (2010: € 0.2 million).

At the Company's Annual General Meeting in May 2011, the Supervisory Board was authorized to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, as its auditor.

In 2011, the PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich (PwC AG) and their partner companies within the international network were remunerated by MorphoSys in the amount of € 276,525 (thereof PwC AG € 211,475) , including audit fees of € 250,050 (thereof PwC AG € 185,000) and audit-related fees of € 26,475 (thereof PwC AG € 26,475).

20 Provisions and Tax Liabilities

As of December 31, 2011 and 2010, the Group recorded provisions and tax liabilities of € 3.4 million and € 2.5 million, respectively.

Tax Liabilities mainly comprise expenses for income tax. Provisions and Tax Liabilities remain uncertain with respect to their amounts as of December 31, 2011, and are expected to be settled in 2012.

Provisions and tax liabilities changed during the 2011 financial year as follows:

in 000's €	01/01/2011	Additions	Utilized	Released	12/31/2011
Taxes	2,145	1,950	1,068	0	3,027
Other Obligations	318	73	0	8	383
TOTAL	**2,463**	**2,023**	**1,068**	**8**	**3,410**

21 Financial Instruments and Financial Risk Management

CREDIT AND LIQUIDITY RISK

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

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are based on external ratings. However, the Group's revenues and accounts receivable are subject to credit risk as a result of customer concentration. The Group's most significant customer accounted for € 8.9 million of the trade receivables carrying amount as of December 31, 2011 (2010: € 9.4 million). This customer individually accounted for approximately 73 % of the Group's 2011 accounts receivable balance. Three customers individually accounted for 72 %, 2 %, and 2 % of the Group's total revenues in the year 2011. On December 31, 2010, one customer had accounted for 62 % of the prior year's accounts receivable balance and three customers individually had accounted for 54 %, 10 %, and 4 % of the Group's revenues in 2010. Based on the management's assessment, allowances of € 19,078 and € 15,835 in relation to the AbD Serotec business segment were necessary as of December 31, 2011 and 2010. The carrying amount of financial assets represents the maximum credit exposure.

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

in €	2011	2010
Europe and Asia	10,981,860	12,186,914
USA and Canada	1,221,377	2,822,412
Other	0	0
TOTAL	**12,203,237**	**15,009,326**

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

in €; A/R are due in	2011 0 (30) days	2011 30 (60) days	2011 60 + days	2011 Total
Accounts Receivable	9,519,422	851,283	1,851,610	12,222,315
Allowance for Impairment	0	0	(19,078)	(19,078)
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR IMPAIRMENT	**9,519,422**	**851,283**	**1,832,532**	**12,203,237**

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

As of December 31, 2011, the Accounts Receivable of the Group included overdue receivables in the amount of € 0.5 million, for which impairment was not yet deemed necessary.

As of December 31, 2011, the Group had no exposure for credit risk of derivative financial assets (prior year: maximum exposure of € 0.1 million). The maximum exposure for credit risk of financial guarantees (rent deposits) at the reporting date amounted to € 1.2 million (prior year: € 1.3 million).

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

MARKET RISK

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

CURRENCY RISK

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

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

as of December 31, 2011 (in €)	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	51,076,181	723,518	2,796,400	0	54,596,099
Available-for-sale Assets	79,768,563	0	0	0	79,768,563
Accounts Receivable	10,478,522	1,248,021	394,116	82,578	12,203,237
Accounts Payable and Accrued Expenses	(16,707,898)	(384,779)	(2,018,121)	0	(19,110,798)
TOTAL	**124,615,368**	**1,586,760**	**1,172,395**	**82,578**	**127,457,101**

as of December 31, 2010 (in €)	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	41,209,349	1,302,992	1,606,110	0	44,118,451
Available-for-sale Assets	64,304,041	0	0	0	64,304,041
Accounts Receivable	12,354,868	2,116,494	502,878	35,086	15,009,326
Accounts Payable and Accrued Expenses	(13,109,993)	(212,972)	(2,427,249)	692	(15,749,522)
TOTAL	**104,758,265**	**3,206,514**	**(318,261)**	**35,778**	**107,682,296**

Different foreign exchange rates and their impact on assets and liabilities have been simulated in a detailed sensitivity analysis in order to determine resulting effects in the income statement. A ten percent increase of the euro against the US dollar as of December 31, 2011, would have decreased earnings by €0.1 million (assuming that interest rates remain constant) (prior year: decrease of €0.3 million). A ten percent weakening of the euro against the US dollar would have increased earnings by €0.2 million (prior year: increase of €0.3 million). A ten percent increase of the euro against the British pound as of December 31, 2011, would have decreased earnings by €0.1 million (assuming that interest rates remain constant) (prior year: decrease of €0.1 million). A ten percent weakening of the euro against the British pound would have increased earnings by €0.1 million (prior year: increase of €0.2 million).

If the foreign exchange rates for US dollar against the euro and the British pound against the euro had remained constant at the average rate of 2010, total Group revenues would have been higher in the amount of €1.1 million (prior year: lower by €0.6 million).

INTEREST RATE RISK

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

FAIR VALUE HIERARCHY AND VALUATION METHODS

MorphoSys uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying value of financial assets and liabilities such as cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market prices (Hierarchy Level 1, quoted prices in active markets; see Notes to the Consolidated Financial Statements – section 10). None of the financial assets and liabilities are categorized in Level 2 or 3. The fair value of licenses payable is determined by the effective interest method. Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements. There were no transfers from one fair value hierarchy level to another in 2011 and 2010.

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

as of December 31, 2011 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash and Cash Equivalents	9		54,596			54,596	54,596
Accounts Receivable	11		12,203			12,203	12,203
Forward Exchange Contracts Used for Hedging	12	0				0	0
Available-for-sale Financial Assets	10			79,769		79,769	79,769
		0	**66,799**	**79,769**	**0**	**146,568**	**146,568**
Convertible Bonds – Liability Component	23				(74)	(74)	(74)
Accounts Payable and Accrued Expenses	19				(19,111)	(19,111)	(19,111)
		0	**0**	**0**	**(19,185)**	**(19,185)**	**(19,185)**

CROSS-REFERENCE
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December 31, 2010 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash and Cash Equivalents	9		44,118			44,118	44,118
Accounts Receivable	11		15,009			15,009	15,009
Forward Exchange Contracts Used for Hedging	12	144				144	144
Available-for-sale Financial Assets	10			64,304		64,304	64,304
		144	**59,127**	**64,304**	**0**	**123,575**	**123,575**
Convertible Bonds – Liability Component	23				(128)	(128)	(128)
Accounts Payable and Accrued Expenses	19				(15,750)	(15,750)	(15,750)
		0	**0**	**0**	**(15,878)**	**(15,878)**	**(15,878)**

22 Stockholders' Equity

COMMON STOCK

On December 31, 2011, the common stock of the Company including treasury shares amounted to € 23,112,167. This represented an increase of € 221,915 compared to December 31, 2010 (€ 22,890,252). Each share of common stock is entitled to one vote. The increase arose as a result of the conversion and exercise of 221,915 convertible bonds and options issued to the Management Board and to employees.

On December 31, 2010, the common stock of the Company had amounted to € 22,890,252. An increase of € 229,695, or 229,695 shares, was the result of the conversion and exercise of options in 2010.

On December 31, 2011, treasury shares amounted to € 1,756,841 (163,915 shares) and increased by € 1,747,066 compared to December 31, 2010 (79,896 shares, € 9,774), due to the repurchase of 84,019 MorphoSys shares on the stock market for the Group's long-term incentive plan for management.

AUTHORIZED CAPITAL

Unused Authorized Capital I remained unchanged on December 31, 2011, compared to December 31, 2010, to create a maximum of 8,864,103 new shares.

Unused Authorized Capital II remained unchanged on December 31, 2011, compared to December 31, 2010, to create a maximum of 2,216,025 new shares.

CONDITIONAL CAPITAL

In 2011, a total of 3,696 shares were raised from Conditional Capital II through the exercise of options by employees, increasing the subscribed capital by € 3,696. Furthermore, 95,400 shares were raised from Conditional Capital IV through the exercise of convertible bonds by employees, increasing the subscribed capital by € 95,400 and 122,819 shares were raised from Conditional Capital V through the exercise of options by employees and Management Board members, increasing the subscribed capital by € 122,819.

In 2010, a total of 3,441, 3,600 and 222,654 shares had been raised from Conditional Capital II, IV and V respectively with subscribed capital increasing by € 3,441, € 3,600 and € 222,654 from respective Conditional Capitals.

ADDITIONAL PAID-IN CAPITAL

On December 31, 2011, additional paid-in capital amounted to € 170,778,474 (December 31, 2010: € 166,388,083). The total increase of € 4,390,391 is due to stock-based compensation in the amount of € 1,488,342, including the intrinsic value of convertible bonds. A further increase of € 2,902,049 arose from the exercise and conversion of options and convertible bonds in the year 2011.

In 2010, the additional paid-in capital had increased by € 4,756,815, resulting from stock-based compensation of € 2,150,655 and € 2,606,160 from the exercise and conversion of options in the year 2010.

IFRS 2 "Share-based Payment" requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions") or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Group refers to the expense associated with employees' as well as management boards' and supervisory boards' share options and other share-based incentives by using an option pricing model. In accordance with IFRS 2.54, the Group has applied IFRS 2 to equity-settled awards granted on or after January 1, 1999. In accordance with IFRS 2.56, options granted prior to January 1, 1999, are therefore not expensed. All information is nonetheless disclosed in line with IFRS 2.44 and 2.45. Further details are given in the Notes to the Consolidated Financial Statements – sections 23, 24, 25 and 26.

23 Convertible Bonds

In the year 2011, 95,400 convertible bonds were exercised and converted into shares. Of these, 60,000 convertible bonds were exercised by members of the Management Board. Further details are given in the Notes to the Consolidated Financial Statements – section 29.

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 Group 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.

CROSS-REFERENCE
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A summary of the activity under the Group's employee incentive convertible bonds plan for the years ended December 31, 2011 and 2010 is represented as follows:

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2010	**99,000**	**12.81**
Granted	352,800	16.79
Exercised	(3,600)	12.81
Forfeited	0	0
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2010	**448,200**	**15.94**
OUTSTANDING ON JANUARY 1, 2011	**448,200**	**15.94**
Granted	0	0
Exercised	(95,400)	12.81
Forfeited	(24,750)	16.79
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2011	**328,050**	**16.79**

Convertible bonds exercisable on December 31, 2011 and 2010 amounted to 0 and 95,400 shares, respectively.

The following table presents the weighted-average price and information about the contractual life for significant convertible bond groups outstanding on December 31, 2011:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Exercise Price (€)
€10.00 – €17.00	328,050	4.00	16.79	0	0.00
	328,050	**4.00**	**16.79**	**0**	**0.00**

The Group accounts for stock-based compensation in accordance with the provisions of IFRS 2 and IAS 32.28. The equity portion of the bonds has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bonds. The remaining value is recognized as stock-based compensation. The compensation expense recorded in 2011 and 2010 in connection with convertible bonds was €666,920 and €989,416, respectively.

24 Stock Options

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

Grant Date/Employees Entitled	Granted Stock Options	Vesting Period	Vesting Conditions (Share Price in Comparison to Strike Price)	Contractual Life of Options
July 1, 2007 to employees	180,000	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
January 25, 2008 to Management Board and employees	283,335	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
January 25, 2008 to employees	29,070	2 years 50%, 3 years 75%, 4 years 100%	Cumulative increase of more than 10% per annum	5 years
October 1, 2008 to employees	92,664	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
April 1, 2010 to Management Board and employees	422,200	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years

For the years 2011 and 2010, 3,696 and 3,441 options from the 1999 Plan were exercised respectively. For the years 2011 and 2010, 122,819 and 222,654 options from the 2002 Plan were exercised respectively.

A summary of activity under the Group's employee incentive stock option plans for the years ended December 31, 2011, and 2010, is represented as follows:

	Shares	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2010	**1,151,987**	**13.33**
Granted	0	0
Exercised	(226,095)	12.41
Forfeited	(1,875)	10.45
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2010	**924,017**	**13.56**
OUTSTANDING ON JANUARY 1, 2011	**924,017**	**13.56**
Granted	0	0
Exercised	(126,515)	15.16
Forfeited	0	0
Expired	0	0
OUTSTANDING ON DECEMBER 31, 2011	**797,502**	**13.31**

Stock options exercisable on December 31, 2011 and 2010 amounted to 503,657 and 294,953 shares, respectively. The weighted-average exercise price of exercisable stock options was € 13.51 on December 31, 2011.

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on December 31, 2011:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Price (€)
€ 10.00 – € 12.99	392,907	2.20	12.81	187,197	12.81
€ 13.00 – € 13.99	266,166	1.07	13.03	197,633	13.03
€ 14.00 – € 17.00	138,429	1.13	15.26	118,827	15.40
	797,502	**1.64**	**13.31**	**503,657**	**13.51**

The Group accounts for stock-based compensation in accordance with the provisions of IFRS 2 “Share-based Payment”. Compensation expense recorded in 2011 and 2010 in connection with stock options was € 528,477 and € 1,119,543, respectively.

25 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, 2011, is € 17.53. The compensation expense recorded in 2011 was € 50,465. As of December 31, 2011, a non-current liability in the amount of € 64,801 was accounted for accordingly. The SARs cannot be exercised beyond June 30, 2016.

26 Long-term Incentive Plan

On June 01, 2011, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and Senior Management. The plan qualifies as an equity-settled share-based payment transaction under IFRS 2 and is accounted for accordingly. The LTI plan is a performance share plan and will be paid out in common shares of MorphoSys AG, provided that defined key performance indicators as annually approved by the Supervisory Board are achieved. Key performance indicators currently comprise revenues, EBIT and the number of projects in the R&D portfolio.

The grant date is June 01, 2011, and the vesting period comprises four years. 25 % of the granted performance shares are vested in each year of the 4-year vesting period, provided that the key performance indicators of that period are achieved by 100 %. The number of vested shares in each single year will be reduced to the extent that the key performance indicators of that period are achieved by 50 %-99 % only or increased if the key performance indicators are achieved by more than 100 % (110 % in a maximum). Taking into account these conditions, the common shares of MorphoSys AG are delivered to the beneficiaries after the 4-year period. In any case, the maximum payout at the end of the 4-year period is capped by a company factor which generally amounts to “1”. The Supervisory Board may deviate from this company factor, e.g. in the case that the payout level seems inadequate compared to the overall development of the Group.

In the event that the repurchased shares do not suffice to serve the LTI plan, MorphoSys reserves the right to pay out a specific amount of cash from the LTI plan equivalent to the value of the performance shares at the end of the vesting period, provided that such cash amount shall not exceed 200 % of the fair market value of the performance shares as at grant date.

If a member of the Management Board ceases to hold an office within the MorphoSys Group by reason of termination, resigning from office, death, injury, disability or retirement (receipt of a normal retirement pension, an early retirement pension as well as a disability pension as long as the requirements for the disability pension entitlement are met) or – subject to the Supervisory Board’s discretion – under other circumstances, the member of the Management Board (or his/her inheritor) will be entitled to a pro-rated number of performance shares. In such case the member of the Management Board will receive the number of performance shares already vested on the date on which the member of the Management Board ceases to hold office within the MorphoSys Group.

If a member of the Management Board ceases to hold an office within the MorphoSys Group for good reason in the meaning of § 626 para. 2 German Civil Code and/or within the meaning of § 84 para 3 German Stock Corporation Act or if notice to cease to hold office is given by the member of the Management Board, the beneficiary shall not be entitled to any performance share allocation. In the event of a change in control during the 4-year period, all performance shares shall become fully vested.

In June 2011, the Company repurchased 84,019 MorphoSys shares for the LTI plan on the stock market with an average share price of € 20.79 per share. As of June 01, 2011, 84,019 shares were granted to the beneficiaries, thereof 53,997 shares to the Management Board (for details, see the table in section 29) and 30,022 shares to Senior Management. The fair value of the performance shares as of the grant date (June 01, 2011) amounted to € 21.34 per share. No dividends were incorporated in the measurement of the fair value of the repurchased shares, because the Company does not anticipate paying a dividend in the foreseeable future. No beneficiaries of the LTI plan left MorphoSys and no performance shares forfeited from the grant date until December 31, 2011.

As of December 31, 2011, the Group accounted for stock-based compensation from the LTI plan in the amount of € 292,945.

CROSS-REFERENCE
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27 Operating Leases and Other Commitments

The Group leases facilities and equipment on long-term operating leases. Total rent expense amounted to € 2,588,817 and € 2,342,528 for the years ended December 31, 2011 and 2010, respectively. Significant leasing contracts mainly related to the buildings rented in Martinsried (Germany), Oxford (UK), Düsseldorf (Germany), Raleigh (USA) and Puchheim (Germany). The main part of these contracts can be renewed on an annual or quarterly basis. Some agreements can be terminated early.

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

in 000's €	Rent and Leasing 2011	Rent and Leasing 2010	Other 2011	Other 2010	Total 2011	Total 2010
Up to One Year	3,129	3,238	681	793	3,810	4,031
Between One and Five Years	5,519	4,923	15	35	5,534	4,958
More than Five Years	3,726	1,672	0	0	3,726	1,672
TOTAL	12,374	9,833	696	828	13,070	10,661

The Group's total expenses due to operating leases, insurances and other services in the years ended December 31, 2011 and 2010, totaled € 3,096,917 and € 3,518,477 respectively.

Furthermore, the following future payments for cancellable external studies can become due as a result of currently active contracts. However, in case of early termination, these amounts can be reduced substantially in line with the respective contractual early-termination clauses.

in 000's €	Total 2011
Up to One Year	6,384
Between One and Five Years	6,499
More than Five Years	0
TOTAL	12,883

28 Contingencies

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

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

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

29 Related Parties

The Group has related party transactions with its Management Board members and with members of the Supervisory Board. In addition to the cash remuneration, the Company has issued stock options, convertible bonds and performance shares to the Management Board. The tables below show the shares, stock options, convertible bonds and performance shares as well as the changes of ownership of the same, which were held by members of the Management Board and the Supervisory Board during the year 2011:

SHARES

	01/01/2011	Additions	Forfeitures	Sales	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	416,385	3,500	0	0	419,885
Dave Lemus*	5,400	0	0	0	–
Jens Holstein**	–	1,000	0	0	5,000
Dr. Arndt Schottelius	1,500	500	0	0	2,000
Dr. Marlies Sproll	3,105	4,000	0	0	7,105
TOTAL	**426,390**	**9,000**	**0**	**0**	**433,990**
SUPERVISORY BOARD					
Dr. Gerald Möller	7,500	0	0	0	7,500
Prof. Dr. Jürgen Drews	7,290	0	0	0	7,290
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	**16,809**	**0**	**0**	**0**	**16,809**

* Mr. Lemus left MorphoSys' Management Board in Q1/2011
** 4,000 shares were bought by Mr. Holstein prior to election to the Management Board

STOCK OPTIONS

	01/01/2011	Additions	Forfeitures	Exercises	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	191,445	0	0	0	191,445
Dave Lemus*	102,867	0	0	0	–
Jens Holstein	–	0	0	0	0
Dr. Arndt Schottelius	90,000	0	0	0	90,000
Dr. Marlies Sproll	102,867	0	0	0	102,867
TOTAL	**487,179**	**0**	**0**	**0**	**384,312**
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**

* Mr. Lemus left MorphoSys' Management Board in Q1/2011

CONVERTIBLE BONDS

	01/01/2011	Additions	Forfeitures	Exercises	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	88,800	0	0	30,000	58,800
Dave Lemus*	63,000	0	0	0	–
Jens Holstein	–	0	0	0	0
Dr. Arndt Schottelius	33,000	0	0	0	33,000
Dr. Marlies Sproll	63,000	0	0	30,000	33,000
TOTAL	**247,800**	**0**	**0**	**60,000**	**124,800**
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**

* Mr. Lemus left MorphoSys' Management Board in Q1/2011

PERFORMANCE SHARES

	01/01/2011	Additions	Forfeitures	Exercises	31/12/2011
MANAGEMENT BOARD					
Dr. Simon E. Moroney	0	17,676	0	0	17,676
Jens Holstein	0	12,107	0	0	12,107
Dr. Arndt Schottelius	0	12,107	0	0	12,107
Dr. Marlies Sproll	0	12,107	0	0	12,107
TOTAL	**0**	**53,997**	**0**	**0**	**53,997**
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**

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 € 384,750 in 2011 (2010: € 382,750).

The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD COMPENSATION 2011:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €***	No. of Performance Shares Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	386,862	135,131	181,825	17,676	377,206	1,081,024
Dave Lemus*	132,119	479,009	72,026	–	–	683,154
Jens Holstein**	167,500	181,584	83,750	12,107	258,363	691,197
Dr. Arndt Schottelius	256,000	99,046	107,520	12,107	258,363	720,929
Dr. Marlies Sproll	262,259	94,563	125,884	12,107	258,363	741,069
TOTAL	**1,204,740**	**989,333**	**571,005**	**53,997**	**1,152,296**	**3,917,374**

* Left the Management Board of MorphoSys AG on March 10, 2011
** Joined the Management Board of MorphoSys AG on May 1, 2011
*** The total remuneration figures shown for 2011 include the corresponding bonus accruals for 2011, which will be paid out in February 2012.

MANAGEMENT BOARD COMPENSATION 2010:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Share Price Performance)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €***	No. of Convertible Bonds Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	368,498	130,178	208,570	58,800	391,608	1,098,854
Dave Lemus*	259,157	156,639	152,902	33,000	219,780	788,478
Jens Holstein**	–	–	–	–	–	–
Dr. Arndt Schottelius	231,000	90,158	132,594	33,000	219,780	673,532
Dr. Marlies Sproll	249,623	90,879	146,778	33,000	219,780	707,060
TOTAL	**1,108,278**	**467,854**	**640,844**	**157,800**	**1,050,948**	**3,267,924**

* Left the Management Board of MorphoSys AG on March 10, 2011
** Joined the Management Board of MorphoSys AG on May 1, 2011
*** The total remuneration figures shown for 2010 include the corresponding bonus accruals for 2010, which was paid out in March 2011.

On February 24, 2011, MorphoSys announced that Mr. Jens Holstein was to succeed Mr. Dave Lemus both as Chief Financial Officer of MorphoSys AG and as a member of the Management Board (Vorstand). Mr. Lemus stepped down from his position as CFO with the Company in March 2011 to pursue other opportunities. He received the contractually agreed compensation set out in his service agreement until June 30, 2011. Further, he obtained his contractually agreed payment equal to his fixed gross annual salary in the amount of € 264,238 plus his 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 was vested prematurely.

Mr. Jens Holstein was appointed Chief Financial Officer of MorphoSys AG on May 1, 2011. His service agreement runs until June 30, 2014. As an additional incentive for joining the Company, MorphoSys compensated Mr. Holstein for lost benefits from his previous position with a non-recurring signing bonus in the amount of € 100,000.

SUPERVISORY BOARD COMPENSATION 2011 AND 2010:

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	2011	2010	2011	2010	2011	2010
Dr. Gerald Möller	70,000	70,000	26,000	22,000	96,000	92,000
Prof. Dr. Jürgen Drews	57,750	57,750	17,500	15,000	75,250	72,750
Dr. Walter Blättler	39,500	39,500	13,500	18,000	53,000	57,500
Dr. Daniel Camus	36,500	36,500	19,000	19,000	55,500	55,500
Dr. Metin Colpan	36,500	36,500	8,500	10,000	45,000	46,500
Dr. Geoffrey N. Vernon	39,500	39,500	20,500	19,000	60,000	58,500
TOTAL	**279,750**	**279,750**	**105,000**	**103,000**	**384,750**	**382,750**

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

30 Corporate Governance

The Group issued its declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code for fiscal year 2011 according to section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made permanently accessible to stockholders accordingly on the Group's website on December 08, 2011.

ADDITIONAL INFORMATION
WWW.MORPHOSYS.COM

31 Research and Development Agreements

The Group has a significant number of research and development relationships in conjunction with its partnered discovery strategy, its proprietary research and development activities and to a smaller degree in the research reagent and diagnostic space, operated by the Group's AbD Serotec segment.

PARTNERED DISCOVERY SEGMENT

In its commercial agreements within the Partnered Discovery segment MorphoSys receives different types of payments, which are booked as revenues spread over the lifetime of the agreement or booked in full in connection with the achievement of defined tasks and milestones. These payments include upfront payments at signature, annual license payments in exchange for access to MorphoSys's technologies, and research funding for work carried out at MorphoSys on behalf of the partner company. Additionally, MorphoSys is eligible to receive development-dependent milestone payments and royalties on product sales for individual antibody drug programs.

The active collaboration with several partners was already concluded prior to fiscal year 2011 as the original term of the agreements came to an end. Drug development programs initiated during the active phase can, however, continue and could result in future success-based payments. More details on individual drug candidates within the various alliances, restricted to public information, can be found in the Research & Development section on page 53 and in the overview of the Group's drug pipeline in this report. More details on the individual research alliances can be found on the Group's website.

Partnerships, that were already concluded prior to the start of 2011, but had active drug development programs ongoing, include (in alphabetic order): Bayer Healthcare, Boehringer Ingelheim, F. Hoffmann-La Roche, Janssen Biotech (formerly Centocor Ortho Biotech), Merck & Co., OncoMed Pharmaceuticals and Prochon Biotech Ltd.

Partnerships, that were still active during 2011, included (in alphabetic order), Astellas, ContraFect, Daiichi-Sankyo, GeneFrontier Corporation/Kaneka, Novartis, Pfizer and Schering-Plough (a subsidiary of Merck & Co.). Of those partnerships, the active collaboration with Daiichi-Sankyo and Schering-Plough were concluded in 2011. The cooperation with ContraFect was started in 2011, focusing on the field of infectious disease.

The Group's largest alliance today is with Novartis AG. The two companies started working together in 2004 in a collaboration that has so far resulted in multiple active therapeutic antibody programs in various diseases. In December 2007, MorphoSys and Novartis substantially expanded their previous relationship and forged one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. Based on a ten-year term, committed annual payments total more than €400 million in technology access, internalization fees and R&D funding, excluding reimbursement of R&D costs related to early-stage development activities. Total payments under the agreement, including committed payments and probability-weighted success-based milestones, contingent upon successful clinical development and market approval of multiple products, could potentially exceed €650 million, assuming the collaboration successfully runs its maximum term. In addition to these payments, MorphoSys would also be entitled to royalty payments and/or profit sharing on any future product sales. Additionally, MorphoSys also has options to participate in certain development activities in various programs, with part of the early-stage costs being funded by Novartis. Under the co-development options, MorphoSys may elect to participate in these projects through cost and profit-sharing with financial participation reflecting its level of investment in the respective programs.

PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development Segment partnerships are aligned along the Group's goals for own drug development activities in its key indications – cancer, inflammatory diseases and infections. These partnerships include (in alphabetic order): Absynth Biologicals, Galapagos and Xencor.

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

In November 2008, MorphoSys and Galapagos announced the launch of a long-term co-development alliance aimed at discovering and developing antibody therapies based on novel modes of action in bone and joint disease, including rheumatoid arthritis, osteoporosis and osteoarthritis. The alliance spans all activities from target discovery through to completion of proof of concept clinical trials of novel therapeutic antibodies. Following proof of concept in human clinical trials, programs will be partnered for subsequent development, approval and marketing. Both companies contributed their core technologies and expertise to the alliance. Galapagos provided antibody targets implicated in bone and joint disease in addition to its adenoviral target discovery platform to discover further targets for antibody development. MorphoSys contributed its HuCAL antibody technologies to generate fully human antibodies directed against these targets. Under the terms of the agreement, Galapagos and MorphoSys shared the research and development costs equally.

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

ABD SEROTEC SEGMENT

MorphoSys's research and development segment AbD Serotec has relationships with a growing number of diagnostic companies, industrial customers and research organizations including (in alphabetic order): FIND, Merck & Co., Novozymes, Phadia, Proteomika, Shionogi and Spinreact.

CROSS-REFERENCE
SEE PAGE 53

ADDITIONAL INFORMATION
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APPENDIX 1: CHART OF THE CONSOLIDATED ENTITY AS OF DECEMBER 31, 2011

Name and Corporate Seat of the Company	Local Currency	Exchange Rate on Dec 31, 2011 one Unit of euro in Local Currency
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)		
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US $	1.29257
MorphoSys IP GmbH, Munich, Germany	€	–
MorphoSys UK Ltd., Oxford, UK	£	0.83819
MorphoSys US, Inc., Raleigh, North Carolina, USA	US $	1.29257
MorphoSys AbD GmbH, Düsseldorf, Germany	€	–
Poole Real Estate Ltd., Poole, UK	£	0.83819
Sloning BioTechnology GmbH, Puchheim, Germany	€	–

Responsibility Statement

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

Martinsried, February 14, 2012

Dr. Simon E. Moroney
Chief Executive Officer

Mr. Jens Holstein
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

Share of Capital %	Share Capital in Local Currency	Total Assets in Local Currency	Total Liabilities in Local Currency	Total Revenue in Local Currency	Profit/Loss in Local Currency
100	2,000	2,779	0	0	(1,169)
100	25,000	3,326,667	3,294,999	3,343,800	(4,597)
100	100	7,591,872	2,465,402	9,822,704	12,390
100	50,000	2,882,372	803,914	9,670,994	509,448
100	25,000	1,345,897	85,212	3,035,750	72,247
100	200	835,763	7,400	0	(91,120)
100	951,660	10,532,743	4,449,167	4,200,419	2,478,504