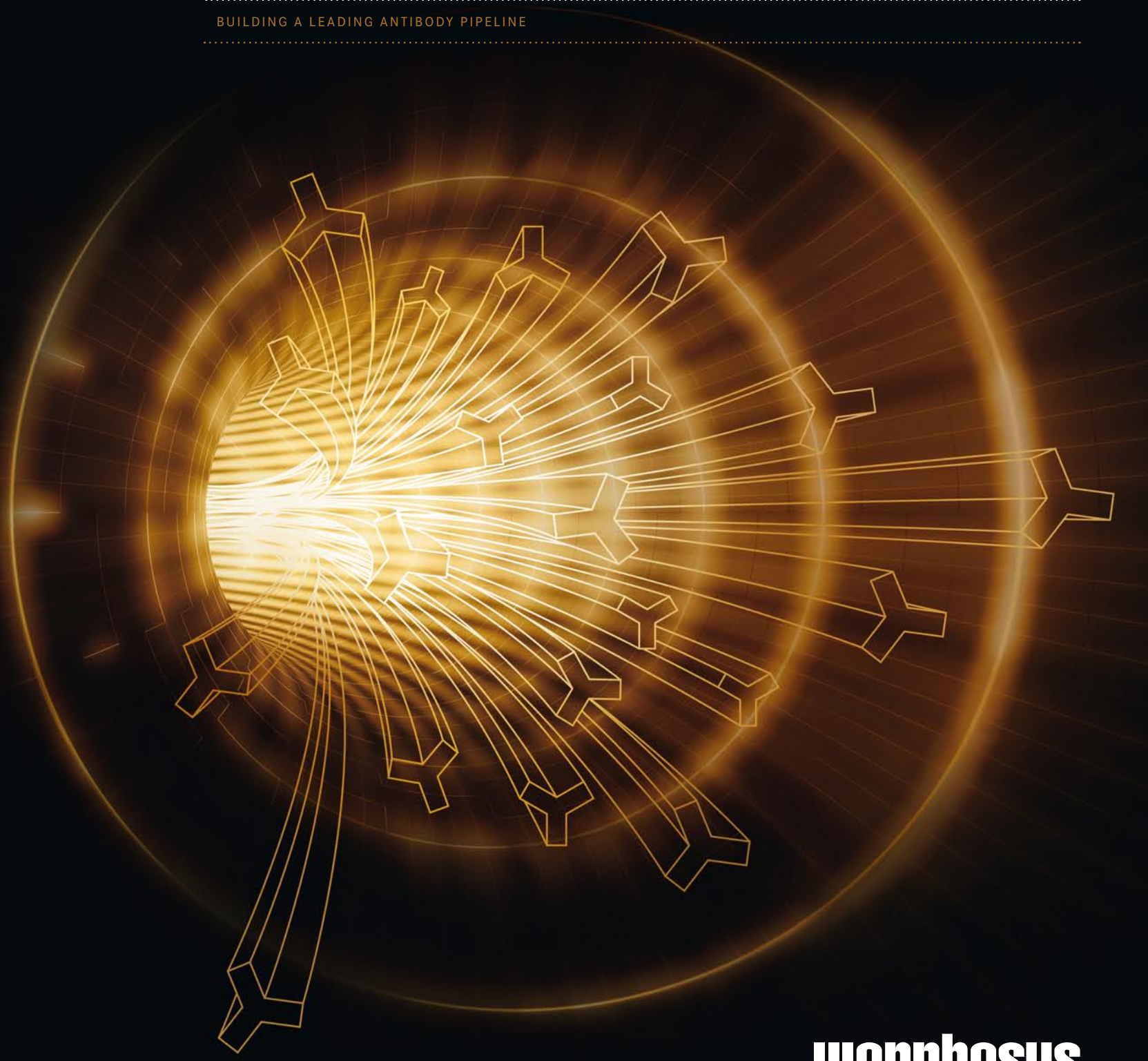
ANNUAL REPORT 2009

BUILDING A LEADING ANTIBODY PIPELINE



morphosys

Engineering the Medicines of Tomorrow

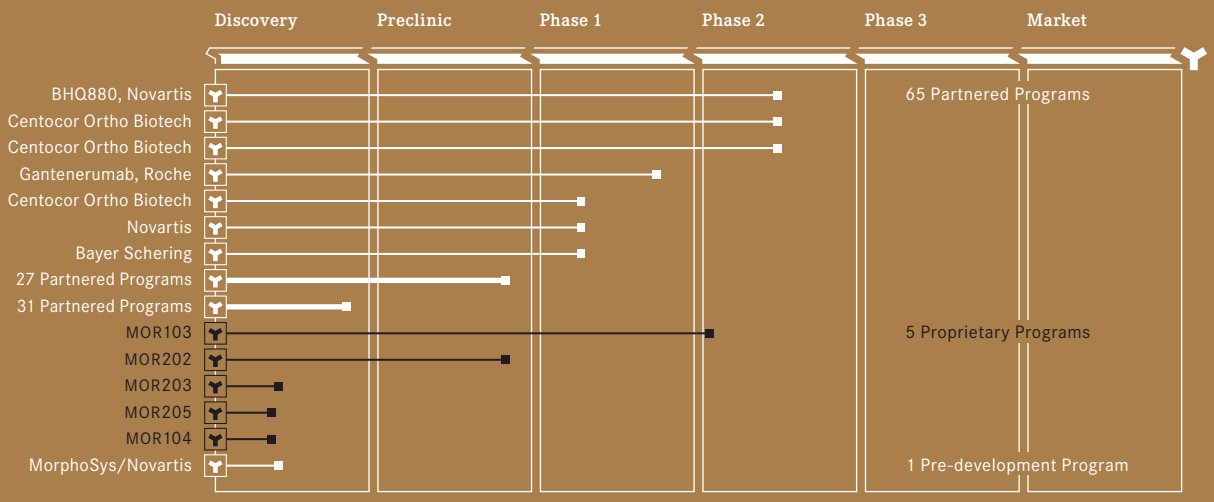
KEY FIGURES (IFRS)

MORPHOSYS GROUP (in € million, if not stated otherwise)

	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
RESULTS					
Revenues	81.0	71.6	62.0	53.0	33.5
Cost of Goods Sold	6.7	7.1	7.9	8.0	2.5
R&D Expenses	39.0	27.6	22.2	17.5	14.0
S, G&A Expenses	23.9	20.5	24.8	21.4	10.8
Personnel Expenses (Excluding Stock-based Compensation)	26.1	21.5	18.8	18.1	10.8
Capital Expenditure	3.8	3.8	12.0	4.0	0.7
Depreciation	1.6	1.5	1.5	1.5	0.9
Amortization of Intangible Assets	3.8	4.8	3.7	3.4	2.7
Profit from Operations	11.4	16.4	7.0	6.2	6.2
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	18.1	21.9	13.3	10.3	8.6
EBIT (Earnings Before Interest and Taxes)	12.8	16.5	8.3	5.4	5.3
Net Profit	9.0	13.2	11.5	6.0	4.7
BALANCE SHEET					
Total Assets	206.1	203.3	184.7	127.8	80.1
Cash, Cash Equivalents and Available-for-sale Financial Assets	135.1	137.9	106.9	66.0	53.6
Intangible Assets	17.4	19.7	22.3	14.8	12.4
Total Liabilities	32.2	41.3	39.2	27.8	16.1
Stockholders' Equity	173.9	162.0	145.5	100.1	64.0
Equity Ratio (in %)	84%	80%	79%	78%	80%
MORPHOSYS SHARE					
Number of Shares Issued	22,660,557	22,478,787	22,160,259	20,145,966	18,077,589
Earnings per Share, Diluted (in €)	0.40	0.59	0.53	0.31	0.28
Dividend (in €)	–	–	–	–	–
Share Price (in €)	17.04	18.75	16.10	18.12	13.77
PERSONNEL DATA					
Total Group Employees (Number)	413	334	295	279	172
Germany (Number)	312	236	192	183	145
Other Countries (Number)	101	98	103	96	27

GOALS AND ACHIEVEMENTS

MORPHOSYS'S PRODUCT PIPELINE AS OF DECEMBER 31, 2009



	Goals 2009	Achievements 2009	Goals 2010
Financials	Group revenues € 80 – 85 million	Group revenues € 81 million	Group revenues € 89 – 93 million
	Operating profit € 8 –11 million	Operating profit € 11.4 million	Operating profit € 5 – 9 million
Proprietary R&D	Strengthen MorphoSys's preclinical and clinical development expertise	R&D team expanded to 56 highly qualified people, including several key managerial appointments	Complement current team
	File all necessary documents and start clinical phase 1b/2a with MOR103	Filing in June, regulatory approval in November	Ongoing recruitment of RA patients for phase 1b/2a study
	Start up to 5 new programs in the area of cancer and inflammation	3 new programs started	Expand pipeline to up to 10 proprietary programs, including co-development opportunities
Partnered Pipeline	2 – 4 partnered INDs	3 partnered INDs	4 – 6 partnered INDs
	Up to 20 new program starts	17 new programs started	
	Extension of partnerships through pre-existing options	Novartis confirmed full 10-year term agreement, extended alliances with Daiichi Sankyo, Schering-Plough and Shionogi	Clinical data from ongoing phase 2 trials
Clinical Pipeline	Expand clinical pipeline with partnered and proprietary programs	Four compounds in phase 1, four compounds in phase 2	Further expansion of clinical pipeline
AbD Serotec	Increase diagnostic customer base	Several new partnerships, in total > 20 diagnostic customers	Further penetration of diagnostics market
	Segment revenues ~ € 20 million	Segment revenues € 19.4 million	Segment revenues € 21 – 22 million (at constant currency)
	Profit margin of 2%	Profit margin of 5%	Profit margin of 5 – 8% (at constant currency)

BUILDING A LEADING ANTIBODY PIPELINE

Over the past years, MorphoSys has established an industry-leading antibody generation platform and validated its technologies through partnerships with pharmaceutical companies. In 2007, MorphoSys and Novartis forged one of the largest technology-driven alliances in the pharmaceutical industry to date. More than 60 distinct drug development programs have originated from MorphoSys's full set of partnerships and many more are yet to be started. These development programs will progress over the coming years and are expected to result in a number of marketed HuCAL-based drugs, generating an attractive royalty stream for MorphoSys. With the partnered discovery business virtually secured, MorphoSys is turning increasingly to its proprietary drug development activities to create even higher value-added product opportunities in cancer and inflammatory diseases. Executed in an equally successful manner, this strategy has the potential to multiply the Company's current value.

MORPHOSIS

"How did you come up with the company name MorphoSys?" It might surprise you that this simple question ranks among the most common ones MorphoSys's management and employees still have to face.

As a matter of fact, the Greek word "morphosis" lent a hand to give the 1992 start-up its name. "Morphosis" describes a dynamic and evolving process through which an object or a living organism responds to the changing conditions in its environment, attaining a new or even its final form. More commonly known is the related concept of metamorphosis, a more profound change in form or structure from one stage to the next in the life of an organism, as from the caterpillar to the pupa and from the pupa to the adult butterfly.

With our core technology HuCAL offering a way to shape and reshape antibodies, thereby optimizing these molecules for the intended purpose as a therapeutic, a diagnostic or a research tool, the word "morphosis" depicts the nature and underlying concept of the Company's main innovation very well.

Companies, as it turns out, undergo transformational processes themselves and MorphoSys is no exception. From a pure antibody platform enterprise, MorphoSys has matured to a renowned biopharmaceutical company with a sustainable dual therapeutic business model and an additional venture in the research and diagnostic markets. MorphoSys is committed to continuing to embrace change as it strives to shape an even more attractive future for its stakeholders.

"Change alone is unchanging!" – ***Heraclitus (c. 535–c. 475 B.C.E.)***

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LEGEND

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MORE INFORMATION AT WWW.MORPHOSYS.COM

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MANAGEMENT BOARD OF MORPHOSYS AG

DR. SIMON E. MORONEY
Chief Executive Officer

DAVE LEMUS
Chief Financial Officer

DR. MARLIES SPROLL
Chief Scientific Officer

DR. ARNDT SCHOTTELIUS
Chief Development Officer

Dear Shareholders,

In the past year, MorphoSys made impressive progress in all of its business activities. The advances that were achieved during 2009 can be grouped as follows:

- Pipeline
- Technology
- Partnerships
- Management
- AbD Serotec

Our important operational advances were backed by strong financial results. Revenues reached their highest level ever at € 81.0 million, an increase of 13 % over 2008. Operating profit was € 11.4 million, a 30 % decrease on the previous year. This was exactly as expected with the year-on-year decrease being a direct result of our planned increase in proprietary research and development investment from € 8.9 million in 2008 to € 19.3 million in 2009. I am convinced that this R&D investment will pay off. Experience in the biotechnology industry has shown that the highest value is created by those companies who make the most out of their proprietary R&D.

Increasingly, the Company's pipeline is taking center stage. Altogether, our pipeline of HuCAL-based drugs increased from 55 at the beginning of 2009 to 65 at year-end. Most importantly, the number of programs in clinical trials increased from 5 to 8. Four programs are now in phase 2 clinical trials: clinical proof of concept is rapidly being approached.

We reached all of the goals we set ourselves for our most important proprietary anti-inflammatory antibody, MOR103. This program successfully completed a phase 1 clinical trial, and is now being tested in a phase 1b/2a trial in rheumatoid arthritis patients. Our second program, MOR202, also progressed well during the year. Very importantly, we have been able to supplement these two programs by initiating novel proprietary discovery programs against carefully selected targets in our focus areas of cancer and inflammation. Our ability to fund all of our internal development activities while remaining profitable is a unique feature of our business model, which sets us apart from the majority of high-risk, cash-burning biopharmaceutical companies.

"Despite a very challenging economic climate in 2009, MorphoSys became a stronger and more mature Company in almost every respect. Our progress is only possible thanks to the continuous support, loyalty and creativity of our employees and thanks to you, our shareholders."

Dr. Simon E. Moroney, Chief Executive Officer

The proprietary programs complement the largest contribution to our pipeline, which comes from our pharmaceutical partnerships. The partnered business segment is central to the success of our strategy, and continues to drive the financial strength of the Company. Within our comprehensive strategic alliance with Novartis, certain predefined improvements in our proprietary technologies were finalized, which resulted in the deal being extended to its full ten-year term.

We also extended our therapeutic alliance with Schering-Plough for another year. With Daiichi Sankyo, we not only added two new therapeutic programs in the area of cancer under the existing contract, but also agreed to an entirely new initiative in infectious diseases – further proof that MorphoSys can tap new growth opportunities in the therapeutic antibody field on top of the established partnerships we have in place.

Another component of our business, the research and diagnostic segment AbD Serotec, has considerably contributed to our success in 2009. This unit secured important partnerships in the research community and advanced further into the diagnostics market, increasing the adoption of MorphoSys's HuCAL technology as a source of immunodiagnostic reagents. AbD Serotec returned to above-market growth with revenues in the amount of € 19.4 million and reported a solid profit margin of 5 %.

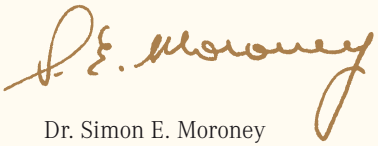
The overwhelming majority of our revenues and profits arise directly from alliances and products that are based on our proprietary technology platform. During 2009, our newest antibody platform HuCAL PLATINUM became firmly established in our laboratories. Its performance is exceeding our expectations, and I am confident that it will help us develop even better antibodies for all sorts of applications in the years ahead. Important progress was made with our patent portfolio during the year, including the issuance of the first Japanese patent covering the HuCAL technology.

Last but not least, over the past year, we have significantly strengthened our organization by making several key managerial appointments. The expansion of the Management Board through the addition of Dr. Arndt Schottelius as Chief Development Officer was the foremost of these. Arndt has built his team throughout the year, with the result that MorphoSys now has a strong development group, a critical requirement as we channel an increasing level of investment into this area.

Despite a very challenging economic climate in 2009, MorphoSys became a stronger and more mature Company in almost every respect. Our progress is only possible thanks to the continuous support, loyalty and creativity of our employees and thanks to you, our shareholders, who believe and trust in our Company. 2010 is shaping up to be one of our most exciting years ever, as clinical evidence that one of our therapeutic antibodies works as a drug in patients could arrive by year-end. I am sure you will join me in wishing the Company a successful year in 2010.

"Experience in the biotechnology industry has shown that the highest value is created by those companies who make the most out of their proprietary R&D. Our ability to fund all of our internal development activities while remaining profitable is a unique feature of our business model, which sets us apart from the majority of high-risk, cash-burning biopharmaceutical companies."

Munich, March 2010



Dr. Simon E. Moroney
Chief Executive Officer

LETTER TO THE SHAREHOLDERS

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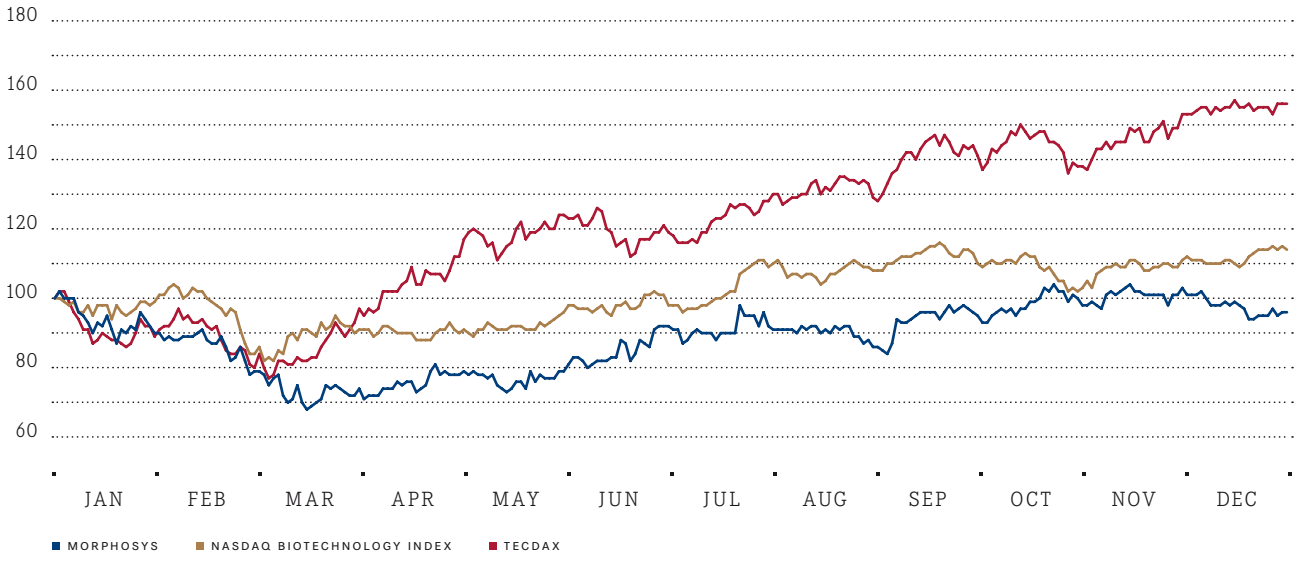
THE MORPHOSYS SHARE

After a very successful year 2008, the MorphoSys stock was hit by the economic downturn at the beginning of 2009, but was able to recover throughout the year. Overall however, the stock performance in 2009 did not reflect the Company's operational progress made during the year.

THE MORPHOSYS SHARE (January 2, 2009 = 100%)



Although MorphoSys's business model is still highly appreciated by investors, and the US stockholder base, in particular, grew substantially throughout the year, the solid progress of the Company was not reflected by its stock price performance in 2009. During the 2009 fiscal year, MorphoSys's stock price decreased by 9%. While in 2008 MorphoSys and other defensive values had performed better than their respective indices, in 2009 cyclical sectors like basic resources, chemicals or industrial goods and services took center stage in the capital markets. Expanding the period under review reveals the good mid-term performance of the MorphoSys share compared to its peer companies and indices.

LIQUIDITY AND INDEX MEMBERSHIP

The average daily trading volume of MorphoSys's stock was €1.3 million per day – a decrease of 32% compared to the previous year. Nevertheless, MorphoSys maintained its membership in the TecDAX* index, which includes the 30 largest technology stocks on the Frankfurt Stock Exchange. At the end of 2009, the Company occupied 17th position based on market capitalization* (year-end 2008: 12th place) and was even able to slightly improve its position based on trading volume to place 19 (year-end 2008: 20th position).

* SEE GLOSSARY P. 120

FURTHER INFORMATION ON WWW.MORPHOSYS.COM

STOCKHOLDER BASE

The free float according to Deutsche Börse AG, which is generally taken into account in the weighting of MorphoSys's stock in stock indices, was 88 % of the capital stock at year-end 2009.

Please visit our website* for the most recent information on investor relations.

KEY DATA FOR THE MORPHOSYS SHARE (as of December 31 of each year)

		2009	2008	2007	2006	2005
Total Stockholders' Equity	In € million	173.9	162.0	145.5	100.1	64.0
Number of Shares Issued (Total)		22,660,557	22,478,787	22,160,259	20,145,996	18,077,589
Market Capitalization	In € million	386	421	357	365	249
Closing Price (Xetra)	€	17.04	18.75	16.10	18.12	13.77
Average Daily Trading Volume	In € million	1.3	1.9	2.5	1.9	1.0

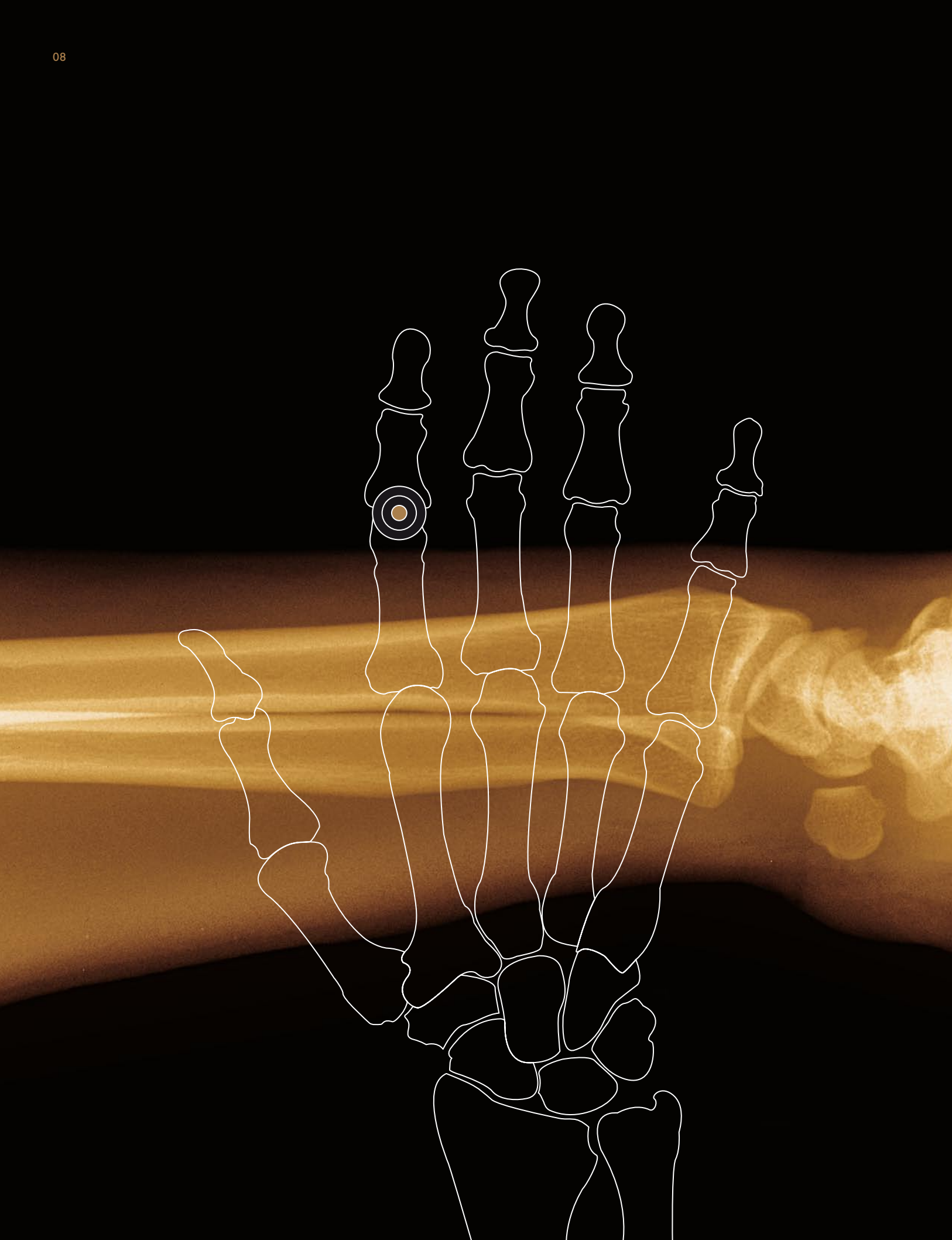
SHAREHOLDER STRUCTURE

Unidentified Investors **17 %**

Retail Investors **30 %**

Institutional Investors **38 %**
USA **10 %**
United Kingdom **7 %**
Germany **7 %**
France **4 %**
Switzerland **4 %**
Other countries **6 %**

Strategic Investors **15 %**
Novartis **7 %**
AstraZeneca **6 %**
Management and Supervisory Board **2 %**



ANTIBODIES TO TAME INFLAMMATORY PROCESSES

The human immune system can overreact, either attacking an individual's body or producing an exaggerated response to a normally benign foreign substance. Rheumatoid arthritis, or RA for short, is an example of this erratic behavior, which can lead to a substantial loss of mobility due to pain and joint destruction. This disabling and painful inflammatory condition affects approximately 4 – 6 million people worldwide.

MorphoSys's antibody program MOR103 is designed to inhibit inflammatory processes. The program is in development for rheumatoid arthritis and is currently in a phase 1b/2a study.

IN PATIENTS SUFFERING from rheumatoid arthritis, elevated levels of the granulocyte-macrophage colony-stimulating factor (GM-CSF) can be detected in diseased joints. Here, the factor activates specific subtypes of white blood cells and causes them to proliferate, thereby triggering several processes further down the road that lead to increased inflammation and to the destruction of a joint. By blocking GM-CSF, the antibody MOR103 bears the potential to reduce inflammation and joint destruction in rheumatoid arthritis patients.


Osteoclasts
Fibroblasts
Macrophages
Neutrophils
Lymphocytes
Layer of synoviocytes
Cartilage
Bone
GM-CSF receptor
GM-CSF
MOR103
intervention point

GROUP MANAGEMENT REPORT

In 2009, MorphoSys successfully strengthened its activities in the field of proprietary drug development. The Company's investment in its proprietary pipeline increased by 118 % to € 19.3 million. MorphoSys's commercial alliances with pharmaceutical and biotechnological partners advanced well. As a result, total Group revenues were up by 13 % from the prior year to € 81 million. As expected, due to a significant increase in investment in proprietary R&D, operating profit decreased by 30 % to € 11.4 million. The Company's research and diagnostic antibodies segment, AbD Serotec, achieved an excellent result with a 7 % rise in revenues and a doubling of the profit margin to 5 %.

BUSINESS ENVIRONMENT AND ACTIVITIES

ECONOMIC DEVELOPMENT

At the end of 2008 and in 2009, the world economy experienced a recession believed by many to be the deepest since the end of World War II. According to current estimates, world GDP shrank by 1.1 % in 2009, compared with growth of 3.8 % in the prior year. In 2009, following the downturn, global recovery came somewhat faster than expected, especially with regard to the capital markets. However, this recovery still has to be considered tentative and fragile, as events like the Dubai debt crisis and its effects on the capital markets, though short term, demonstrated in November 2009.

In Europe, the economies of the 16 nations sharing the euro experienced a 4 % contraction in 2009 according to estimates of the Organisation for Economic Co-operation and Development (OECD). In 2009, the German economy shrank approximately 4.8 % on a working-day-adjusted basis but recorded slight quarter-on-quarter growth again in the second and third quarters.

DEVELOPMENT WITHIN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

The global pharma growth rate in 2009 amounted to approximately 2.5 % to 3.5 % according to IMS Health. In the USA, currently the world's largest single pharmaceutical market, the Obama administration has initiated a process to implement a nationwide reform of the healthcare insurance system. The impact on the pharmaceutical industry is still part of a major discussion; both positive and negative effects could arise from the new legislation. Other key trends and challenges for the pharmaceutical industries have not changed, such as pricing pressure, government regulations, patent expiration and resulting generic drug entries including biosimilars*.

However, the overall pressure on the pharmaceutical industry has not led to a significant downturn in transactions and in-licensing deals. Quite the contrary, antibody-related transactions remained high on the agenda of pharmaceutical companies. As such, the pharmaceutical industry's need to replenish their pipelines has remained a key success factor for biotechnology companies.

Significant licensing deals included an agreement between Bristol-Myers Squibb and US-based Alder Biopharmaceuticals for the development and commercialization of an anti-inflammatory, anti-IL-6 antibody* that has completed a phase 2a clinical trial in approximately 120 patients with active rheumatoid arthritis. Other noteworthy license agreements included an alliance in the area of infectious diseases between Merck & Co., Inc., and Medarex targeting *Clostridium difficile* infections, and an agreement between Abbott and PanGenetics covering an antibody in phase 1 clinical trials to treat chronic pain.

* SEE GLOSSARY P. 120

"Antibody-related transactions remained high on the agenda of pharmaceutical companies. As such, the pharmaceutical industry's need to replenish their pipelines has remained a key success factor for biotechnology companies."

With regard to mergers and acquisitions and consolidation, 2009 was another very active year for the pharmaceutical and biotechnology sector. Most noteworthy, in July 2009, Bristol-Myers Squibb announced the acquisition of US-based antibody provider Medarex for a purchase price of approximately US$ 2.1 billion. Research firm Thomson Reuters recorded more than 90 acquisition transactions involving US biotechnology companies in 2009, compared with 84 in 2008.

At the end of 2009, the number of therapeutic antibodies on the market increased to 26. Three new antibody-based treatments were approved by the Food and Drug Administration (FDA) during the course of the year, namely Johnson & Johnson's Simponi®, a treatment for rheumatoid arthritis, and Stelera®, a treatment for severe plaque psoriasis*, as well as Novartis's Ilaris®, an antibody for the treatment of children and adults with cryopyrin-associated periodic syndrome. In Europe, the European Commission approved Removab®, an antibody derivative developed by Fresenius Biotech and Munich-based Trion Pharma for the treatment of ovarian cancer, and RoActemra®, an anti-inflammatory drug developed by Roche. One antibody product, Roche's Raptiva®, was withdrawn from the market. In 2009, total revenues generated by monoclonal antibody* sales amounted to approximately US$ 34 billion according to Datamonitor.

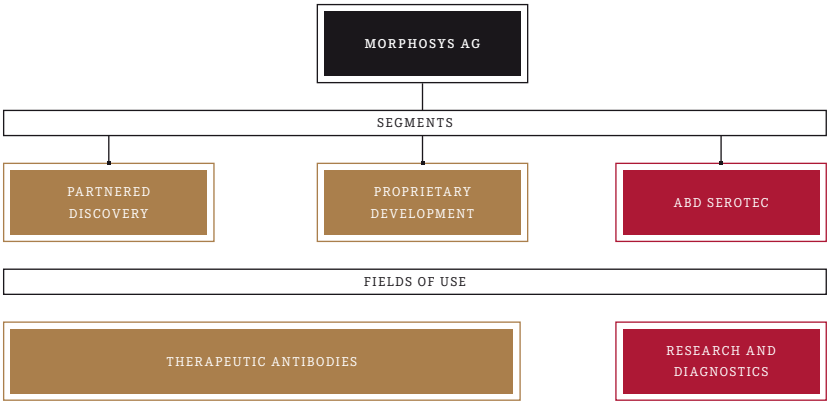
The US government's commitment to increasing investment in scientific research certainly played a role in stabilizing the market for research reagents, which had been expected to suffer from the economic downturn and cutbacks in 2009. The US stimulus package includes more than US$ 20 billion in additional research spending, approximately 40 % of which is earmarked for research grants provided by the National Institutes of Health* (NIH) in the 2009/2010 fiscal years.

REGULATORY ENVIRONMENT

MorphoSys operates in the healthcare sector, which is highly regulated. In particular, therapeutic and diagnostic products cannot be marketed without approval from regulatory authorities such as the European Medicines Agency* (EMA) or the American Food and Drug Administration* (FDA). For all partnered development programs, MorphoSys's partners are responsible for regulatory affairs. In contrast, MorphoSys is responsible for all regulatory requirements related to its proprietary development programs.

* SEE GLOSSARY P. 120

BUSINESS ACTIVITIES OF THE MORPHOSYS GROUP



In 2009, the FDA took a number of significant steps in the USA to provide greater access to prescription medications and approved more new drugs than in any of the previous four years. The agency approved 26 “first-of-a-kind” drugs last year, compared with 24 therapeutics in 2008.

ORGANIZATIONAL STRUCTURE AND BUSINESS ACTIVITIES

ORGANIZATION AND GLOBAL PRESENCE OF THE GROUP

MorphoSys is specialized in the discovery and development of novel antibody therapeutics and research as well as diagnostic reagents, making use of its established proprietary technologies and very broad scientific expertise. In 2009, MorphoSys implemented a threefold business structure and separated proprietary development activities from the partnered therapeutic segment. This split highlights the increasing importance of MorphoSys’s proprietary drug development activities. MorphoSys’s third operating unit is the research and diagnostics antibodies segment, AbD Serotec.

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

GROUP MANAGEMENT AND SUPERVISION

The MorphoSys Group is headed by MorphoSys AG, a German stock corporation that is listed on the Frankfurt Stock Exchange in the Prime Standard segment.

According to the German Stock Corporation Act, MorphoSys AG has a dual board structure. The Company is led by the Management Board, which comprises four members. These members are appointed by the Supervisory Board, which provides professional advice on a regular basis. Detailed information regarding management and supervision as well as corporate governance in general can be found in the Corporate Governance Report*.

* SEE P. 39

* SEE GLOSSARY P. 120

The management team is completed by the Senior Management Group, comprising 13 people representing all departments and segments. The research and diagnostic antibodies segment, AbD Serotec, is headed by Dieter Feger, who joined MorphoSys at the beginning of 2009 and reports directly to the Chief Executive Officer.

BUSINESS ACTIVITIES AND MARKETS BY SEGMENTS

PARTNERED DISCOVERY

MorphoSys's Partnered Discovery segment is based on the Company's industry-leading technologies for the generation of highly optimized, fully human therapeutic antibody drug candidates. Antibody-based drugs contribute significantly to improving treatment options for severe and life-threatening diseases and represent a commercially successful class of biotechnology products.

For many pharmaceutical and biotechnology companies worldwide, MorphoSys is the partner of choice for the discovery and development of novel antibody drugs. There is a strong demand for innovative products in the healthcare market, and MorphoSys's therapeutic partners, who for the most part have been engaged in extensive alliances for many years, rely on its technologies and R&D capabilities. The partnered business model remains the driving force behind MorphoSys's commercial success today and has contributed significantly to the Company's broad product pipeline. A strategic alliance with Swiss pharmaceutical company Novartis alone will provide MorphoSys with secured revenues in excess of €40 million per year until 2017 through funded research and license fees. Beyond this, MorphoSys stands to receive developmental milestone payments plus royalties* on marketed products from this alliance. The latest significant deal in this segment is a 2009 agreement with Daiichi Sankyo, representing the first initiative for MorphoSys in the area of infectious diseases.

Regarding MorphoSys as a technology partner in the therapeutic antibody market, its main competitors can be broadly divided into two categories according to the technologies they offer. On the one hand, there are other antibody or antibody fragment technologies, such as those provided by Regeneron and Dyax (both USA) and Ablynx (Belgium). On the other hand, there are alternative scaffold-based therapies, such as those used by Molecular Partners (Switzerland), Affibody (Sweden) and Archemix (USA). With the 2009 acquisition of antibody companies such as Medarex (USA) and Esbatech (Switzerland) by pharmaceutical enterprises, the sector for therapeutic antibody technologies is now being served by an even smaller number of providers. Among the remaining companies, MorphoSys is arguably the most renowned owner of highly validated antibody technologies.

TOTAL SEGMENT REVENUES FROM PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT

in € million	2009	2008	2007	2006	2005
	62.7	54.3	43.1	34.7	29.1

* SEE GLOSSARY P. 120

PROPRIETARY DEVELOPMENT

More than one third of all drug development programs in the global drug pipeline today relate to biotechnological drug candidates and the number is continuously increasing. MorphoSys's activities as a product developer have partly shifted the nature of competition, namely from other technology providers to companies targeting the same indications with certain drug development programs and compounds. MorphoSys's proprietary development activities are focused on those areas in which the Company has gathered scientific knowledge and expertise. To date, the key target areas for MorphoSys are inflammatory and autoimmune diseases as well as oncology.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Inflammatory disorders include conditions such as rheumatoid arthritis (RA), multiple sclerosis*, asthma, chronic obstructive pulmonary disease (COPD), psoriasis and inflammatory bowel disease. Additionally, bone-related indications such as osteoarthritis involve inflammatory processes. As such, inflammatory diseases represent a major pharmaceutical market with many millions of patients being affected. MorphoSys's lead compound, MOR103, is a fully human HuCAL-derived antibody* directed against GM-CSF, a therapeutic target for the treatment of various inflammatory disorders. MOR103 is currently in a clinical phase 1b/2a trial in rheumatoid arthritis. Around 1 % of the global population is thought to be affected by this disorder, which makes it the largest single market in the area of inflammatory diseases. The global market for arthritis treatments was US$ 35 billion in 2008, of which the class of drugs known as TNF-α inhibitors accounted for sales of US$ 18 billion. The RA market is highly competitive, with 70 – 80 % of all biologics revenues already coming from anti-TNFs such as Enbrel®, Remicade® and Humira®.

From a commercial point of view, the opportunity for this therapeutic class results from the fact that there is still a high and unmet need for safe and effective agents with a new mechanism of action. About one third of RA patients remain untreated and only around 13 % of the treated patients receive a biological drug today. From all patients treated with anti-TNFs, about one third still does not respond to or has an unsustainable response to these drugs.

ONCOLOGY

The second indication MorphoSys is currently active in is oncology. Standard treatments for the various forms of cancer include surgery, chemotherapy, radiation therapy and hormone treatment. However, new biological products hold the most promise for changing treatment paradigms. Drugs such as therapeutic antibodies allow for highly specific targeting of cancer cells or signaling molecules in order to reduce unwanted side effects.

The Company is currently developing MOR202, a fully human HuCAL-derived antibody directed against CD38, a promising therapeutic target* for the treatment of multiple myeloma and potentially for certain types of leukemia.

With healthcare systems worldwide emphasizing cancer detection and treatment, the demand for oncology drugs is expected to continue growing. The global market for cancer compounds is expected to expand from around US$ 48 billion in 2008 to more than US$ 85 billion in 2013.

SEE GLOSSARY P. 120

ABD SEROTEC – RESEARCH AND DIAGNOSTIC ANTIBODIES

Antibodies are not only the source of innovative therapeutics they are also crucial components of scientific research and modern clinical diagnostics. MorphoSys's research antibodies segment, AbD Serotec, is a leading supplier in the research antibody market, offering more than 14,000 antibodies and immunological reagents*, custom monoclonal antibodies developed from the HuCAL library, and large- and small-scale antibody production and conjugation services.

In the research and discovery sector, antibodies are used in detection and quantification applications. The *in vitro** diagnostics and research reagents markets, which represent AbD Serotec's primary field of activity, have an annual growth rate of 3 – 8 %. In terms of market size, the immunoassay portion of the diagnostic sector currently generates US$ 8 billion annually, while scientists invest around US$ 2 billion in antibodies as research and discovery tools. AbD Serotec's main competitors are, however, larger providers of general research tools including antibodies, such as Invitrogen and Millipore (both USA), but also specialists such as UK-based Abcam, who are focusing on the commercialization of pre-existing research antibodies.

STRATEGY AND PERFORMANCE MANAGEMENT

STRATEGY

MorphoSys systematically maximizes the Company's value by exploiting its proprietary technologies for the discovery and development of novel therapeutic agents. The particular financial benefit of this strategy derives from the twofold revenue stream. On the one hand, MorphoSys receives secured payments from its partners in the form of technology license fees, R&D funding, success-based milestones and, dependent on product sales after product approval, royalties. Complementing partnered discovery, MorphoSys also pursues proprietary product development. The goal is to develop proprietary compounds to clinical proof-of-concept before out-licensing to a pharmaceutical company for late-stage development and marketing. While this approach requires significant investment, the returns are much more lucrative than can be achieved in the Partnered Discovery segment. Although proprietary development necessitates increased investments, MorphoSys adheres to its intention of remaining profitable and thus independent from the capital markets.

In its AbD Serotec business segment, MorphoSys pursues its growth strategy in the research and diagnostics markets with its extensive range of catalog antibodies, product-related services and custom-made monoclonal antibodies based on MorphoSys's HuCAL technology.

PERFORMANCE MANAGEMENT

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

FINANCIAL PERFORMANCE INDICATORS

MorphoSys measures its operational business performance mainly on the basis of two financial indicators, namely revenues and profit from operations. For all segments, the performance is measured on a monthly basis; budget planning for the current fiscal year is reviewed and updated quarterly. Once a year, a long-term plan covering the forthcoming years is prepared. In order to stress the growing importance of the proprietary drug development activities as one of its core competencies and main goals, the Company now reports all indicators for three instead of two segments, splitting the Therapeutic Antibodies segment into Partnered Discovery and Proprietary Development.

DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

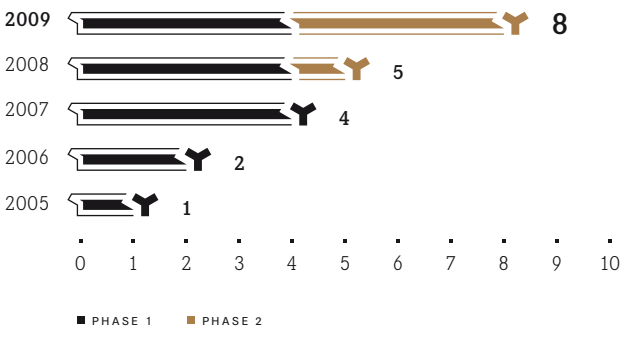
in € million	2009	2008	2007	2006	2005
MORPHOSYS GROUP					
Group Revenues	81.0	71.6	62.0	53.0	33.5
Group Profit from Operations	11.4	16.4	7.0	6.2	6.2
PARTNERED DISCOVERY*					
Revenues	61.7	54.3	–	–	–
Segment Result	39.6	34.4	–	–	–
PROPRIETARY DEVELOPMENT*					
Revenues	1.0	0	–	–	–
Segment Result	(18.3)	(8.9)	–	–	–
ABD SEROTEC					
Revenues	19.4	18.2	19.6	18.3	4.3
Segment Result	1.0	0.4	(0.6)	(3.4)	(2.9)

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

NON-FINANCIAL PERFORMANCE INDICATORS

The non-financial performance indicators such as progress in research and development and human resources are described in detail in the following chapters. One of the most important benchmarks for the successful development of MorphoSys is its ever-evolving clinical pipeline.

NUMBER OF PARTNERED AND PROPRIETARY CLINICAL PROGRAMS AT YEAR-END



HUMAN RESOURCES

The skills and knowledge of our employees are essential for MorphoSys's success. Following the Company's decision to strengthen its proprietary development capabilities, the past year saw a major expansion of the proprietary development workforce.

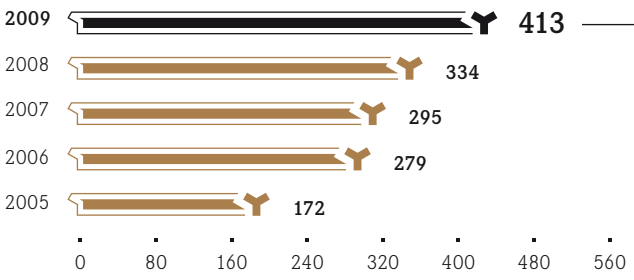
NUMBER OF EMPLOYEES

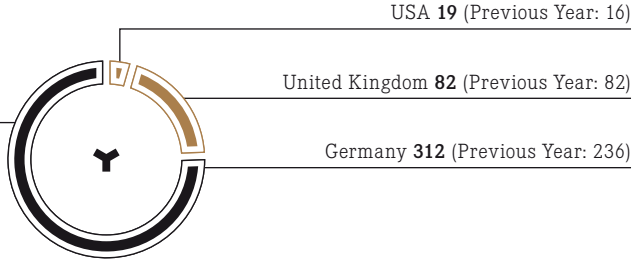
The number of employees increased by 24 % in 2009. On December 31, 2009, the MorphoSys Group employed 413 people worldwide (December 31, 2008: 334), of which 121 held a PhD (December 31, 2008: 91). On average, the MorphoSys Group employed 376 people in 2009 (2008: 312).

* SEE GLOSSARY P. 120

The biggest growth took place in the Proprietary Development segment. In addition to the preclinical* development and project management team under the leadership of Dr. Ulrich Moebius, a full team of specialists with clinical focus and expertise was established throughout the past year under the direction of Dr. Lisa Rojkjaer, who joined MorphoSys in October 2009 as Vice President and Head of Clinical Development. A dedicated team for quality assurance and regulatory affairs ensures proper execution of the development process. In 2009, all key hires in Proprietary Development were completed.

GROUP HEADCOUNT DEVELOPMENT AND EMPLOYEES BY REGION





EMPLOYEES BY SEGMENT AND FUNCTION

	2009	2008
TOTAL EMPLOYEES	**413**	**334**
Proprietary Development Segment	56	201
Partnered Discovery Segment	217	
AbD Serotec Segment	140	133
Employees in R&D	257	191
Employees in S, G&A	156	143

"We strive to develop innovative drugs to improve patients' lives by building an excellent development organization and hiring top talent." Dr. Arndt Schottelius, Chief Development Officer

SPLIT OF THE PROPRIETARY DEVELOPMENT TEAM

	2009
TOTAL PROPRIETARY DEVELOPMENT TEAM	**56**
Target Scouting, Antibody Discovery and Predevelopment	41
Preclinical and Clinical Development, Including Project Management, Quality Assurance and Regulatory Affairs	15

QUALIFICATION, TRAINING AND EDUCATION

The professional and personal development of its employees is very important to MorphoSys. Every employee enjoys a variety of personal development programs within a very open-minded working environment that encourages collaboration among departments and between the Company's different locations. In particular, the Company offers opportunities for research and product development careers as well as management positions in different areas.

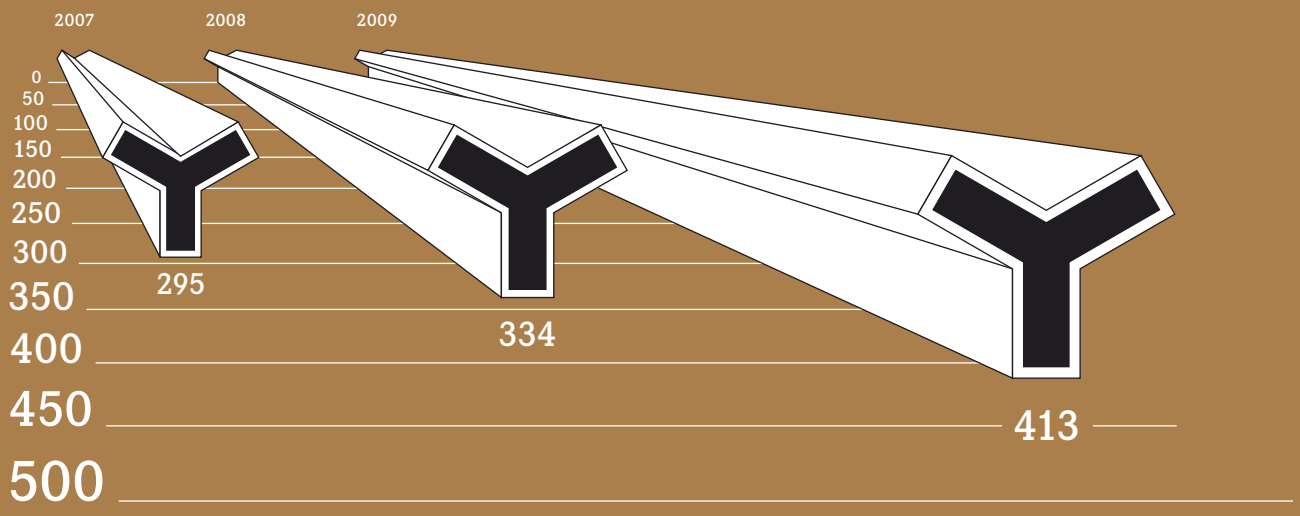
LONG-TERM PERFORMANCE-RELATED COMPENSATION

In order to attract and retain the best employees and executives, adequate compensation is essential. Therefore, all salaries are benchmarked within the biotechnology sector and with other industries on a yearly basis.

Furthermore, all MorphoSys employees participate in the operational and financial success of the Company in the form of an attractive performance-based bonus system. This employee incentive system is based on the achievement of personal, departmental and Company goals. Thereby, each employee has the chance to contribute to the development of MorphoSys and at the same time to benefit from the Company's success.

In addition to performance-related compensation, the members of the Senior Management team participate in a stock option and/or convertible bond program as part of a long-term equity incentive scheme. For 2009, all other employees participated in a profit participation scheme, allowing them to benefit from the Company's excellent financial performance.

GROUP HEADCOUNT DEVELOPMENT



Following the Company's decision to strengthen its proprietary development capabilities, the past year saw a major expansion of the proprietary development workforce. In addition to the preclinical development and project management team under the leadership of Dr. Ulrich Moebius, a full team of specialists with clinical focus and expertise was established throughout the past year under the direction of Dr. Lisa Rojkjaer, who joined MorphoSys in October 2009 as Vice President and Head of Clinical Development.

* SEE GLOSSARY P. 120

RESEARCH AND DEVELOPMENT

PROPRIETARY DEVELOPMENT – THE COMPANY'S FIRST OWN COMPOUND IN PATIENT SETTING

In 2009, MorphoSys's internal development programs MOR103 and MOR202 progressed according to plan. In line with the strategy to expand its proprietary drug development activities, MorphoSys initiated two cancer programs, MOR203 and MOR205, and the anti-inflammatory antibody program MOR104. The Company's five internally developed drug candidates are supplemented by one co-development program with Novartis. Additionally, as part of the co-development alliance with Galapagos, three novel disease-related target molecules are currently in validation studies.

MOR103 has successfully completed testing in a phase 1 clinical trial*. The results of this study indicated that MOR103 is generally safe and well tolerated at all doses administered. The phase 1 trial was designed as a randomized, double-blind, placebo-controlled, single-ascending-dose study to assess the safety, tolerability and pharmacokinetic parameters of MOR103 in healthy volunteers. In total, 63 volunteers in seven dose cohorts received ascending doses via intravenous infusion of MOR103 up to a concentration of 3 mg/kg or placebo. No maximum tolerated dose (MTD) was reached in the study. Analysis of the pharmacokinetic properties* of MOR103 showed a serum half-life typical of a fully human antibody. This finding could translate into a competitive dosing regimen.

MorphoSys subsequently submitted an application for the authorization of a phase 1b/2a clinical study in patients with active rheumatoid arthritis. Initial approval from the German regulatory authority followed four months later. Enrollment of patients in the phase 1b/2a clinical trial started in January 2010.

The randomized, double-blind, placebo-controlled, dose-escalation trial is expected to enroll 135 patients and will be conducted at multiple clinical centers in several European countries. Patients with active RA despite having undergone previous therapy with non-steroidal anti-inflammatory drugs (NSAIDs), corticosteroids, disease-modifying anti-rheumatic drugs (DMARDs) and/or anti-TNF*-α drugs, will each receive four infusions of either the HuCAL-derived antibody MOR103 or a placebo in three ascending dose cohorts. The primary endpoint of the trial is to determine the safety and tolerability of multiple doses of up to 1.5 mg/kg of MOR103 in patients with active RA. Secondary outcome measures will evaluate pharmacokinetics, immunogenicity and the drug's potential to improve clinical signs and symptoms of RA as measured by the reduction of synovitis and bone edema as well as American College of Rheumatology (ACR) and European League Against Rheumatism (EULAR28) response criteria and patient-reported outcomes.

In order to investigate new therapeutic applications for MorphoSys's MOR103 program, MorphoSys and the University of Melbourne initiated a research collaboration in July 2009. The collaboration will focus on new therapeutic areas in which GM-CSF has recently been implicated in as-yet unpublished work by researchers at the University of Melbourne. Under the terms of the agreement, MorphoSys will fund research activities at the University of Melbourne in multiple new indications. The University of Melbourne received an up-front payment and will be entitled to research funding, clinical milestone and royalty payments.

With regard to the MOR202 cancer program, MorphoSys conducted several preclinical and toxicity studies in 2009. Additionally, production of clinical-grade material using Crucell's PER.C6® cell line and DSM's production capabilities continued throughout 2009.

PARTNERED DISCOVERY – SEVEN CLINICAL PROGRAMS

In 2009, three additional partners initiated phase 1 clinical trials with HuCAL-based antibodies. In total, seven different partnered programs were in clinical evaluation in 2009.

During the first six months of 2009, Novartis and Centocor Ortho Biotech filed the necessary documentation to initiate phase 1 clinical trials with HuCAL-derived fully human antibodies against undisclosed target molecules. In September 2009, Bayer Schering Pharma filed all the necessary documentation to initiate a phase 1 clinical trial with a HuCAL-derived antibody-drug conjugate (ADC) in the therapeutic area of oncology. The program is directed against the target molecule MN, also known as carbonic anhydrase IX, a tumor-associated antigen expressed in many tumor types. The antibody is the first fully human HuCAL-based antibody-drug conjugate to enter clinical trials. ADCs comprise antibodies linked to cytotoxic drugs, and combine the targeting properties of the antibody with the cell-destroying effect of the conjugated drug. In the present program, the HuCAL-derived antibody-drug conjugate incorporates technology licensed to Bayer Schering Pharma from Seattle Genetics.

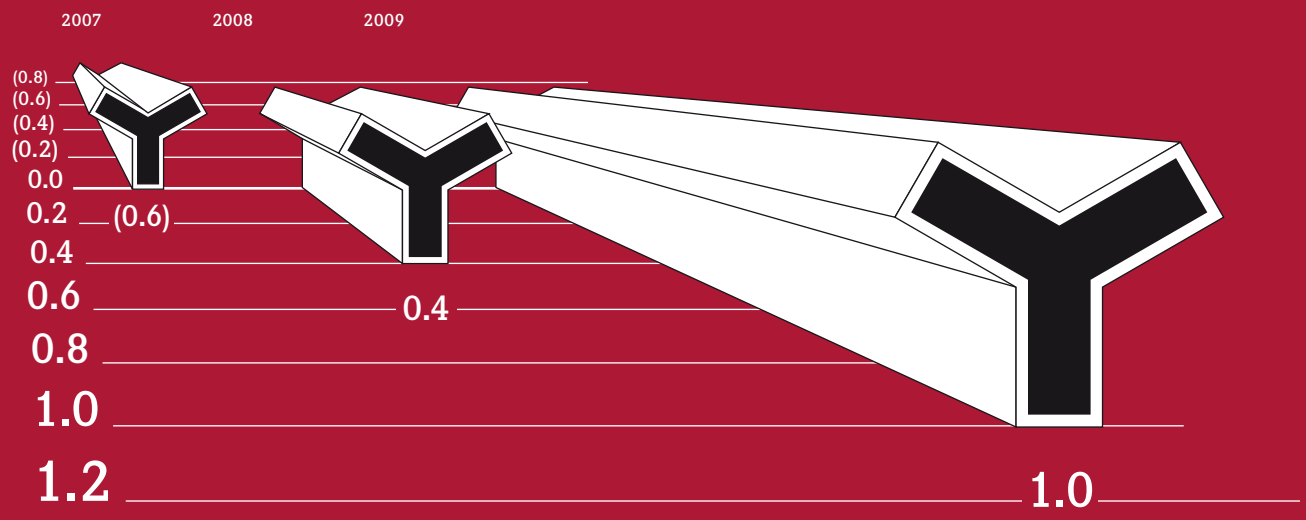
During the fiscal year 2009, MorphoSys's existing partnered therapeutic antibody pipeline increased to a total of 65 active antibody development programs (up from 55 at the beginning of the year), of which seven programs are currently in clinical development, 27 in preclinical development and 31 in the discovery stage.

PARTNERED DISCOVERY – TECHNOLOGY DEVELOPMENT

As part of the alliance signed in September 2009, Daiichi Sankyo has committed to funding the development of certain infectious-disease-specific technologies at MorphoSys, which will be used to identify the most effective antibody-based drugs.

RESULTS ABD SEROTEC

(in € million)



Compared to the same period of the previous year, the AbD Serotec segment's revenues increased by 7% to € 19.4 million in 2009. In the AbD Serotec segment, operating profit significantly increased to € 1.0 million.

* SEE GLOSSARY P. 120

ABD SEROTEC

In September 2009, AbD Serotec initiated a research collaboration with FIND (Foundation for Innovative New Diagnostics), a Swiss foundation that develops, evaluates and accelerates the implementation of new diagnostic tools for poverty-related diseases such as tuberculosis, malaria and sleeping sickness. The goal of the research alliance is to establish a series of heat-stable HuCAL-based antibodies as key components of novel diagnostic tests that are robust in tropical climates. Under the terms of the agreement, FIND receives the rights for the commercial use of heat-stable HuCAL-derived antibodies for *in vitro* diagnostics. AbD Serotec will participate in the sales of diagnostic tests using such antibodies in industrialized countries. If concluded successfully, the collaboration could be expanded to cover other disease areas of relevance for FIND's objectives.

Currently, rapid diagnostic test applications can allow detection of parasite antigens* in a finger prick blood sample. However, most commercial diagnostic tests are developed for storage and use at 25 – 30°C. High-disease-burden countries usually have higher ambient temperatures, which can lead to test degradation, especially when taking into account the need for delivery to relatively remote locations in the developing world. The temperature stability and prolonged shelf life of diagnostic kits are therefore considered critical factors for improving infectious disease control.

A focus of AbD Serotec's activities is to gain access and validate new products for its catalog range. In 2009, AbD Serotec introduced more than 1,500 new products.

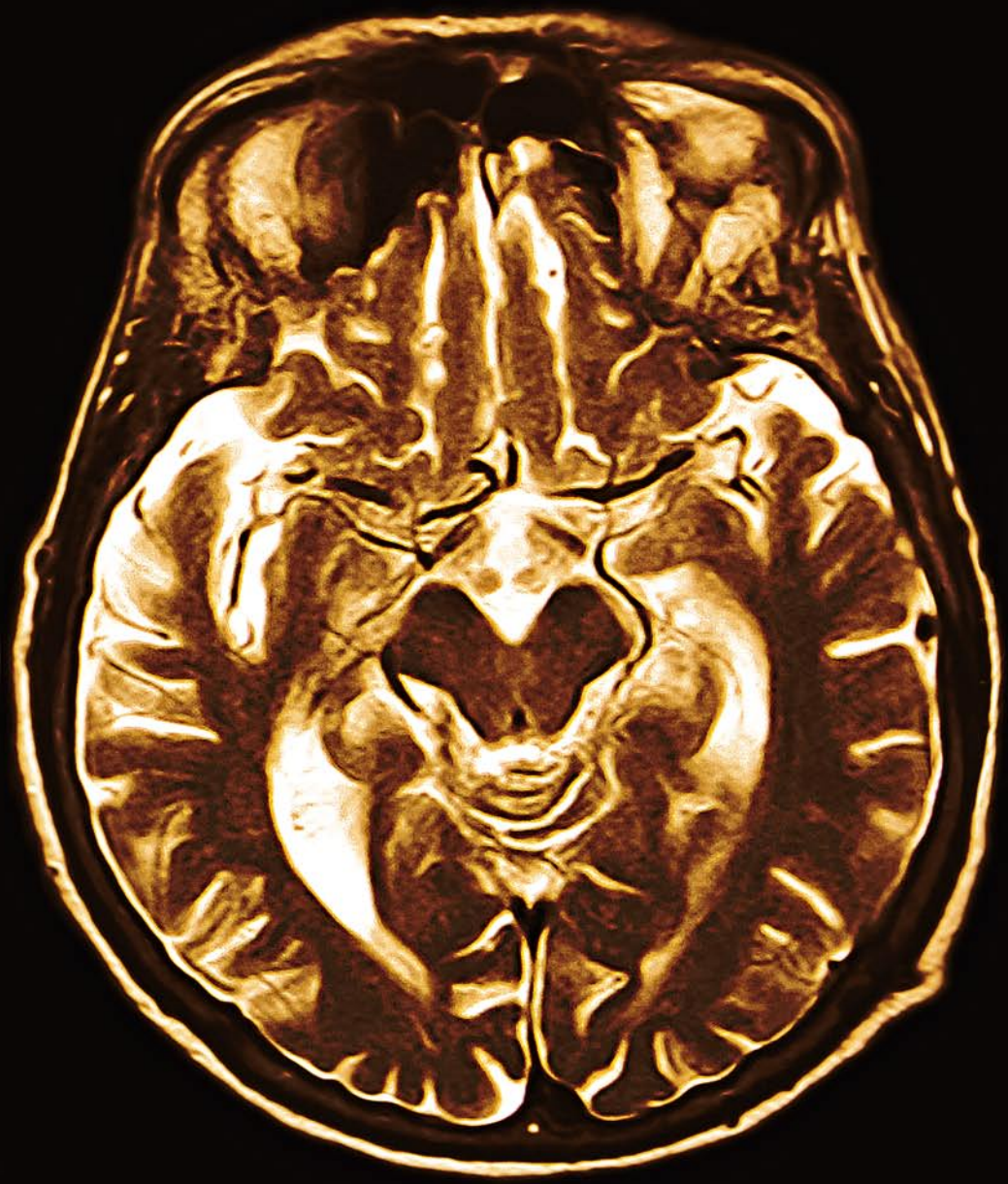
LICENSING AND INTELLECTUAL PROPERTY

The Company has established a strong patent position for its development programs including its lead program, MOR103, and its expanding technology portfolio. In 2009, numerous product-related patent applications were filed or further prosecuted.

The Company also filed several antibody-technology-related patent applications, and several patents covering various aspects of its core HuCAL technology were granted throughout the world. More precisely, in 2009 the first HuCAL-related patent was granted in Japan and MorphoSys's patent position was further strengthened in Europe.

As part of the expanded relationship with the University of Melbourne, new patent applications have been filed, which are intended to broaden the patent position of the anti-GM-CSF approach.

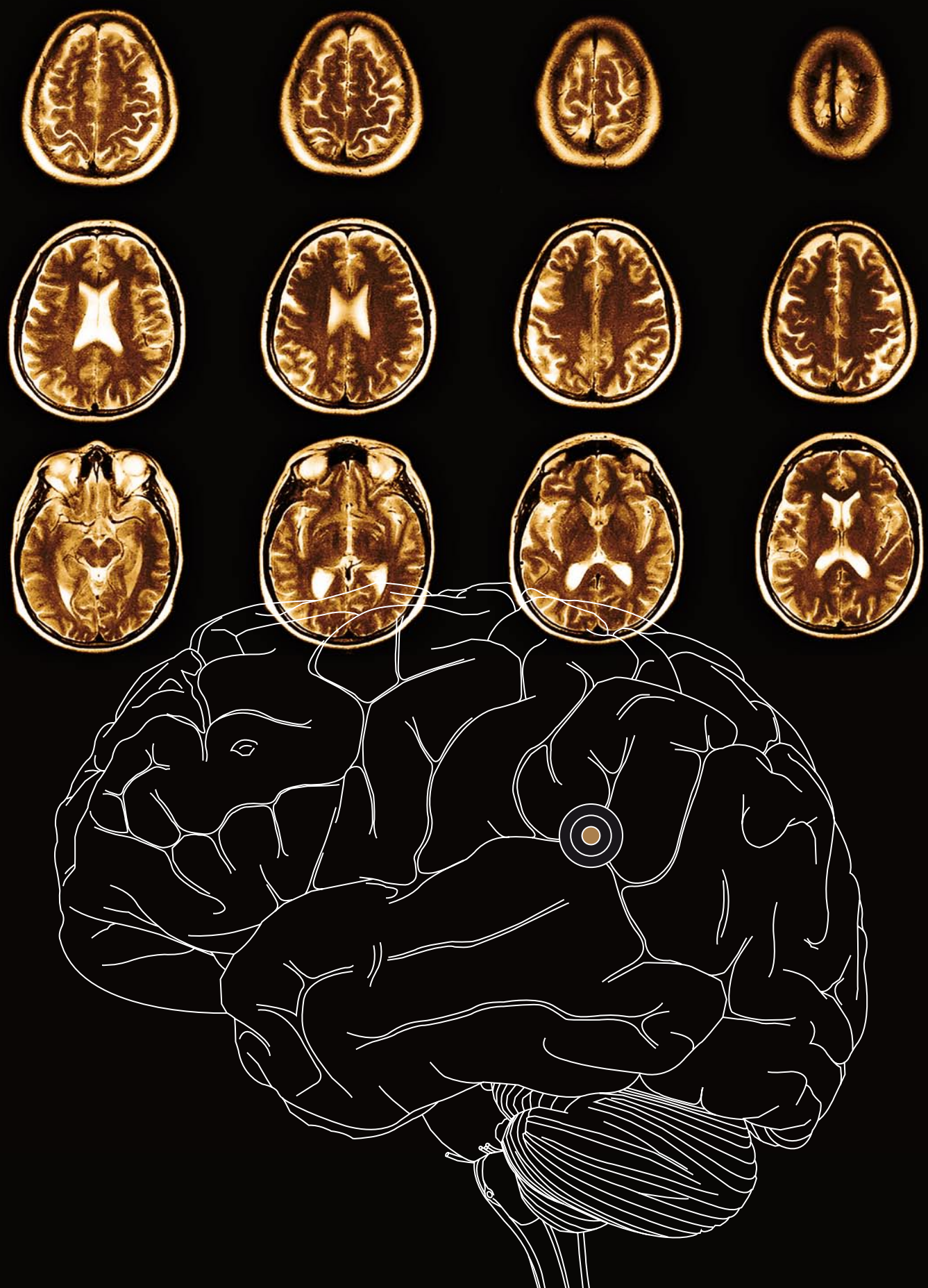
Currently, the Company is prosecuting more than 35 different proprietary patent families worldwide, in addition to about the same number of patent families the Company is pursuing in cooperation with its partners.



ANTIBODIES TO FIGHT ALZHEIMER'S DISEASE

Alzheimer's disease is one of the biggest threats to our aging industrial societies. Estimates suggest that in Germany alone more than one million people are living with this form of dementia. In the USA, this figure is close to five million. There is currently no cure for Alzheimer's disease, only the possibility of slowing its progression.

MorphoSys's partner Roche is developing a HuCAL-based antibody, Gantenerumab, to treat Alzheimer's disease. Roche plans to advance this program into phase 2 clinical trials during the course of 2010.



IN BRAIN SECTIONS from Alzheimer's patients, abnormal build-ups of the amyloid-beta protein can be found. The international Alzheimer's research community has identified the breakdown of these deposits as a promising starting point for treatment, since it has been linked to improved cognitive functioning. The HuCAL-derived antibody Gantenerumab, identified during the collaboration with Roche, binds to amyloid-beta and brings about the dissolution of plaques.

COMMERCIAL DEVELOPMENT

PARTNERED DISCOVERY – A NEW INITIATIVE IN INFECTIOUS DISEASES

To further expand the use of HuCAL-based antibody products into new indication areas, in October 2009 MorphoSys signed a new alliance with Daiichi Sankyo for the discovery and development of therapeutic antibodies for hospital-acquired (nosocomial) infections. Daiichi Sankyo has become MorphoSys's first collaborator for HuCAL PLATINUM-based drug discovery in the infectious disease field. The companies will apply established and novel approaches jointly to generate optimized, fully human therapeutic antibodies against targets associated with hospital-acquired infections.

MorphoSys sees lucrative opportunities for its new HuCAL PLATINUM technology in the infectious disease field, which the Company intends to exploit within selected partnerships in the years ahead. Although antibodies are still relatively new in this sector, AstraZeneca's Synagis®, a therapeutic antibody to prevent or treat respiratory syncytial virus infections in newborns, has achieved blockbuster status. The opportunity for new treatments in the infectious disease field spans bacteria, viruses and fungal pathogens.

Total payments under the agreement include committed license fees and R&D funding in addition to success-based development milestones. MorphoSys also stands to receive royalties on sales of marketed drugs emerging from the collaboration. There is a large, unmet need for effective, long-lasting drugs against pathogens in difficult-to-treat nosocomial infections. Current mortality rates in the specific area of focus are reported as 40 – 60 %, due primarily to resistance to existing antibiotics. The global market for such drugs targeting solely bloodstream infections and hospital-acquired pneumonia is estimated to exceed US$ 1 billion.

PARTNERED DISCOVERY – PROGRESS IN VARIOUS PARTNERSHIPS

With regard to MorphoSys's other existing pharmaceutical partnerships, most notable is Novartis's commitment to the full ten-year term of the strategic alliance originally signed in December 2007. The decision was based on MorphoSys's successful achievement of certain predefined improvements in its proprietary technologies. The collaboration will now run through 2017 and may be extended by Novartis for two additional years beyond that time under the same financial terms and conditions. The option for Novartis to terminate the alliance after seven years is thereby removed. Based on the ten-year term, committed payments total more than €400 million.

In June 2009, MorphoSys announced that the Schering-Plough Corporation had triggered a pre-existing option to extend the current collaboration for another year. The partnership may be extended by Schering-Plough annually until 2011. As a result, MorphoSys continues to actively collaborate with both Schering-Plough and Merck & Co., who announced plans to acquire Schering-Plough in March 2009.

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

more than 20 companies

"AbD Serotec signed several new agreements with customers in the diagnostic industry. In total, AbD Serotec currently works with more than 20 diagnostic companies."

ABD SEROTEC – NEW DIAGNOSTIC RELATIONSHIPS

MorphoSys's research and diagnostic antibodies segment AbD Serotec signed several new agreements with customers in the diagnostic industry. In total, AbD Serotec currently works with more than 20 diagnostic companies.

In July 2009, AbD Serotec and Spinreact, S.A., a Spanish biotechnology company, signed a supply agreement. For now, the agreement covers the use of two antibodies which Spinreact will incorporate into a series of clinical diagnostic kits. AbD Serotec will continuously supply Spinreact with antibody material.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

MorphoSys's corporate decision making is geared towards maximizing the Company's value, based on sustainable corporate development. Therefore, all business activities are not only measured by their financial merits, but also by their impact on the environment and the public sphere.

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

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

Each year, the Company's staff supports local charitable nonprofit organizations with private donations. In 2009, MorphoSys's employees donated € 2,071.50 to Horizont e.V.*, a Munich-based initiative for homeless mothers and their children. The organization offers mothers in need and their children temporary accommodation and social, integrative and psychological support.

QUALITY MANAGEMENT

As MorphoSys is increasing its proprietary therapeutic activities, a quality assurance system was implemented in 2007 and further consolidated in 2008 and 2009. Additionally, the Company has received a manufacturing license from the Bavarian government, allowing MorphoSys to release clinical trial material for clinical studies as a sponsor.

* FURTHER INFORMATION ON WWW.HORIZONT-EV.ORG

* SEE GLOSSARY P. 120

All pharmaceutical products, including clinical trial materials, must be manufactured to exacting quality standards to ensure the safety of patients. Furthermore, international ethical and scientific quality standards must be adhered to for designing, conducting, recording and reporting clinical trials that involve human subjects. Therefore, strict guidelines and international and national regulatory standards such as GLP (good laboratory practice), GMP* (good manufacturing practice), GCP* (good clinical practice) and ISO (International Organization for Standardization) must be met for all personnel and processes involved. MorphoSys meets all necessary regulatory standards to act as a sponsor for its proprietary clinical trials.

AbD Serotec's manufacturing site in the UK, MorphoSys UK Ltd., Oxford, is certified to the quality management standard ISO 9001:2008 and, since May 2008, to ISO 13485:2003 for "The design, development, manufacture and supply of high-quality immunological reagents including custom products for the diagnostic and research markets." The quality management system assures customers that AbD Serotec is providing products that consistently meet their needs and regulatory requirements, thus enhancing customer satisfaction.

The AbD Serotec Raleigh office's primary function is to deliver marketing and sales support. The US site is also accredited to the quality management system standards of ISO 9000:2008.

PROCUREMENT

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

ENVIRONMENTAL PROTECTION

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

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

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

In 2009, MorphoSys again participated in the Carbon Disclosure Project to inform investors of its greenhouse gas emissions and climate change strategies.

JOB SAFETY

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

In 2009, MorphoSys created a new position for this area of responsibility and employed a Health and Safety Manager. Together with two external specialists for occupational health and safety, the Health and Safety Manager monitors the Company's compliance with national and international regulations and is responsible for the improvement of safe and healthy working conditions for all employees. In 2009, the Health and Safety Manager successfully implemented a plan to limit the impact of the swine flu pandemic on the MorphoSys Group.

RESULTS OF OPERATIONS, FINANCIAL SITUATION, ASSETS AND LIABILITIES

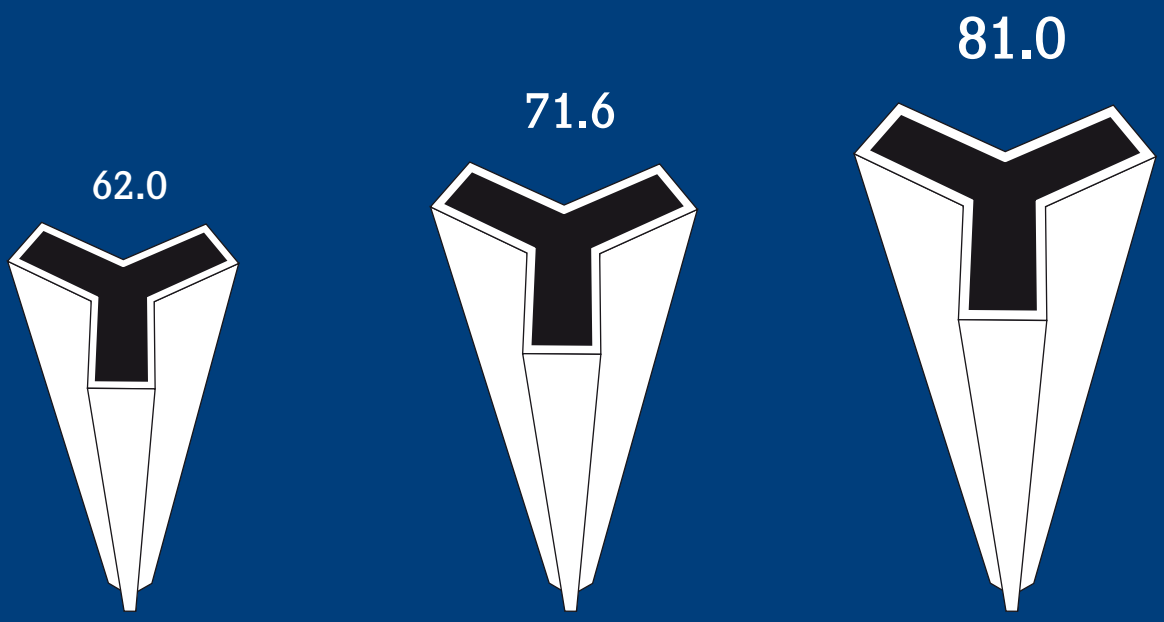
REVENUES

Compared to the same period in the previous year, Group revenues increased by 13% to €81.0 million (2008: €71.6 million). This increase is due to a combination of higher levels of funded research, licensing fees and success-based revenues in the Partnered Discovery segment as well as revenues from funded research in the new Proprietary Development segment. A further increase in revenues derived from stronger sales in the AbD Serotec segment. Revenues arising from the Partnered Discovery and Proprietary Development segments accounted for 77% or €62.7 million (2008: 76% or €54.3 million) of total segment revenues, while the AbD Serotec segment generated 24% (€19.4 million) of the total segment revenues (2008: 25% or €18.2 million).

Geographically, 18% or €14.8 million of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies and non-profit organizations located in North America and 82% or €66.2 million with companies located mainly in Europe and Asia. This compares to 23% and 77%, respectively, in the same period of the prior year.

GROUP REVENUES

(in € million)



Compared to the same period in the previous year, Group revenues increased by 13% to €81.0 million. Revenues arising from the Partnered Discovery and Proprietary Development segments accounted for 77% or €62.7 million of total segment revenues, while the AbD Serotec segment generated 24% (€19.4 million) of the total segment revenues. Segment revenues arising from the Partnered Discovery segment comprised €48.6 million in funded research and licensing fees plus €13.1 million in success-based payments, representing 21% of total Partnered Discovery and Proprietary Development revenues.

PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Segment revenues arising from the Partnered Discovery segment comprised € 48.6 million in funded research and licensing fees (2008: € 44.4 million) plus € 13.1 million in success-based payments (2008: € 9.9 million), representing 21 % of total Partnered Discovery and Proprietary Development revenues. Segment revenues arising from the Proprietary Development segment included € 1.0 million in funded research (2008: no revenues). Approximately 84 % of Partnered Discovery and Proprietary Development revenues and 65 % of total revenues arose from the Company's three largest alliances with Novartis, Daiichi Sankyo and Merck & Co. (2008: Novartis, Daiichi Sankyo and Centocor Ortho Biotech, 84 % and 62 %, respectively).

Assuming constant foreign exchange rates at the average rate of 2008, segment revenues in the Partnered Discovery and Proprietary Development segments would have totaled € 62.0 million.

ABD SEROTEC SEGMENT

Compared to the same period of the previous year, the AbD Serotec segment's revenues increased by 7 %, or € 1.2 million, to € 19.4 million in 2009 (2008: € 18.2 million). Assuming constant foreign exchange rates at the average rate of 2008, revenues in the AbD Serotec segment would have amounted to € 19.7 million.

As of December 31, 2009, orders in the amount of € 0.5 million were classified as back orders in the segment (2008: € 2.3 million).

OPERATING EXPENSES

Total operating expenses in 2009 increased by approximately 26 % over the previous year, to € 69.6 million (2008: € 55.2 million). The change in operating expenses of € 14.4 million was mainly due to research and development (R&D) expenses increasing by 41 % or € 11.4 million and sales, general and administrative (S, G&A) expenses increasing from € 20.5 million to € 23.9 million. Total purchase price allocation (PPA) effects on operating profit amounted to € 0.5 million (2008: € 1.2 million; including an impairment on the former Biogenesis UK property in Poole in the amount of € 0.5 million).

Operating expenses increased by 11 % to € 22.1 million (2008: € 19.9 million) in the Partnered Discovery segment and by 117 % to € 19.3 million (2008: € 8.9 million) in the Proprietary Development segment. In the AbD Serotec segment, operating expenses increased by 3 % to € 18.4 million (2008: € 17.9 million) and would have amounted to € 19.5 million under the assumption of constant foreign exchange rates at the average rate of 2008.

Stock-based compensation expenses are embedded in COGS, S, G&A and R&D expense amounts. Stock-based compensation in 2009 amounted to € 1.7 million (2008: € 1.0 million) and is a non-cash charge.

COST OF GOODS SOLD

COGS is composed of the AbD Serotec segment's cost of goods sold in 2009 and – compared to the same period of the prior year – decreased by 6 % from € 7.1 million to € 6.7 million, which was mainly due to foreign exchange effects.

RESEARCH AND DEVELOPMENT EXPENSES

In 2009, expenses for research and development increased by € 11.4 million to € 39.0 million (2008: € 27.6 million). This was mainly due to higher costs for external lab funding (2009: € 10.5 million; 2008: € 4.4 million), as well as increased personnel costs (2009: € 14.8 million; 2008: € 10.8 million). In 2009, the Company incurred costs for proprietary product development (excluding allocations for segment purposes) in the amount of € 17.3 million (2008: € 7.2 million). Costs for technology development amounted to € 0.7 million (2008: € 0.5 million) and were accounted for in the Partnered Discovery segment.

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Compared to the same period of the previous year, sales, general and administrative expenses increased by € 3.4 million to € 23.9 million (2008: € 20.5 million), mainly from increased costs for external services (+€ 1.9 million) as well as personnel costs (+€ 1.4 million).

NON-OPERATING ITEMS

In 2009, non-operating items included mainly finance income of € 2.0 million (2008: € 2.5 million), other expense of € 0.7 million (2008: € 1.9 million) and other income of € 0.4 million (2008: € 0.9 million). Finance income mainly comprised realized gains from marketable securities.

TAXES

In 2009, the Company reported income tax expense in the amount of € 4.1 million. This line item mainly included current tax expense (€ 2.5 million) and deferred tax expense (€ 1.5 million) primarily from the release of deferred tax assets capitalized in 2007.

OPERATING PROFIT/NET PROFIT

Group operating profit in 2009 amounted to € 11.4 million (2008: € 16.4 million). Earnings before interest and taxes (EBIT) amounted to € 12.8 million, compared to an EBIT of € 16.5 million in the previous year. The Partnered Discovery and Proprietary Development segments showed an operating profit of € 39.6 million (2008: € 34.4 million) and an operating loss of € 18.3 million (2008: operating loss of € 8.9 million), respectively. In the AbD Serotec segment, operating profit significantly increased to € 1.0 million (2008: € 0.4 million) and would have amounted to € 0.2 million under the assumption of constant foreign exchange rates using foreign exchange rates of the previous year.

A net profit after taxes of € 9.0 million was achieved in 2009, compared to a net profit after taxes of € 13.2 million in the same period of the prior year. The resulting basic net profit per share for 2009 amounted to € 0.40 (2008: € 0.59).

LIQUIDITY/CASH FLOWS

Net cash outflow from operations in 2009 amounted to € 1.0 million (2008: cash inflow of € 28.6 million). Investing activities resulted in a cash inflow of € 0.6 million (2008: cash outflow of € 39.3 million), whereas financing activities resulted in a cash inflow of € 1.4 million (2008: cash inflow of € 2.5 million).

As of December 31, 2009, the Company held € 135.1 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2008 balance of € 137.9 million.

ASSETS

Total assets increased by € 2.8 million to € 206.1 million as of December 31, 2009, compared to € 203.3 million as of December 31, 2008. Current assets increased by € 5.5 million, mainly as a result of an increase in accounts receivable (€ 6.9 million) due to items invoiced shortly prior to the balance sheet date for which the cash is not received as of that date. Compared to the previous year, cash and cash equivalents increased by € 1.1 million, which was partly offset by a decrease in available-for-sale financial assets (€ 3.9 million). Both effects are connected to the payment and financing of operating activities.

Compared to December 31, 2008, non-current assets decreased by € 2.7 million, mainly as a consequence of the decrease of licenses (€ 1.6 million) and the release of deferred tax assets capitalized in 2007 (€ 1.5 million) on tax loss carry forwards and temporary differences.

LIABILITIES

In 2009, current liabilities decreased from € 27.4 million as of December 31, 2008, to € 24.3 million as of December 31, 2009, arising mainly from a decrease in current deferred revenue (€ 5.8 million) which resulted from the net effect of revenue deferred in the balance sheet versus deferred revenue recognized in the P&L in 2009. This decrease was partly offset by an increase in accounts payable of € 2.5 million due to an increase in accruals for external lab funding, bonus and license fees.

Non-current liabilities decreased by € 6.0 million to € 7.9 million in 2009, mainly impacted by a decrease in non-current deferred revenue of € 5.6 million resulting from the net effect of revenue deferred in the balance sheet versus deferred revenue recognized in the P&L in 2009.

EQUITY

Total stockholders' equity amounted to € 173.9 million as of December 31, 2009, compared to € 162.0 million as of December 31, 2008, and increased due to the net profit (€ 9.0 million) generated in 2009 and due to stock-based compensation (€ 1.7 million) and the exercise of options (€ 1.4 million).

As of December 31, 2009, the total number of shares issued amounted to 22,660,557, of which 22,580,661 were outstanding, compared to 22,478,787 and 22,398,891 as of December 31, 2008, respectively.

The increase in shares outstanding of 181,770 shares arose from exercised options issued to both the Management Board and employees.

CAPITAL EXPENDITURE

MorphoSys's investment in property, plant and equipment focused mainly on office and lab equipment and amounted to € 2.6 million in 2009, compared to € 1.6 million in the same period of the prior year. Depreciation of property, plant and equipment in 2009 accounted for € 1.6 million compared to € 1.5 million in 2008.

In 2009, the Company invested € 1.2 million in intangible assets (2008: € 2.2 million); this investment mainly focused on licenses and software. Amortization of intangibles amounted to € 3.8 million in 2009 and slightly increased in comparison to 2008 (€ 3.7 million).

CREDIT RATING

MorphoSys is currently not rated by any rating agencies.

COMPARISON OF THE ACTUAL BUSINESS RESULTS WITH FORECASTS

MorphoSys can once again look back on a very successful business year. The financial goals for 2009 have all been met or even exceeded. Despite operating in a challenging business environment with struggling financial markets and strict regulations, the Company managed to continue along its promising path of becoming one of the world's leading antibody developers.

	2009 Goals	2009 Achievements
Financials	Group revenues of € 80 – 85 million	Group revenues of € 81 million
	Operating profit of € 8 – 11 million	Operating profit of € 11.4 million
Proprietary R&D	Strengthen MorphoSys's preclinical and clinical development expertise	R&D team expanded to 56 highly qualified people including several key managerial appointments
	Start clinical phase 1b/2a with MOR103	Filing in June 2009, regulatory approval in November 2009
	Start of up to 5 new programs in the area of cancer and inflammation	3 new programs started
Partnered Pipeline	2 – 4 partnered INDs	3 partnered INDs
	Start of up to 20 new programs	17 new programs started
	Extend partnerships through pre-existing options	Novartis confirmed full 10-year term agreement, expanded alliances with Daiichi Sankyo, Schering-Plough and Shionogi
Clinical Pipeline	Expand clinical pipeline with partnered and proprietary programs	Four programs in phase 1, four programs in phase 2
AbD Serotec	Increase diagnostic customer base	Several new partnerships, in total > 20 diagnostic customers
	Segment revenues of approximately € 20 million	Segment revenues of € 19.4 million
	Profit margin of 2 %	Profit margin of 5 %

FURTHER INFORMATION ON WWW.MORPHOSYS.COM

THE MANAGEMENT'S GENERAL ASSESSMENT OF BUSINESS PERFORMANCE

In the opinion of the Management Board, MorphoSys continued to show a solid performance in 2009. The Company achieved the majority of its primary goals set at the beginning of 2009, with all business segments contributing to this positive development.

The Partnered Discovery segment remained the main value driver of the Company, and the research and diagnostic antibodies segment, AbD Serotec, also impressed with its development this year. The financial performance of these two business segments built the foundation for the Company to strongly expand its investment in proprietary drug development activities, with an increase of 118 % compared to 2008.

The proprietary development team was significantly strengthened, resulting in a continuously growing product pipeline. The phase 1b/2a of clinical development for MOR103 was approved in November 2009, MOR202 developed as planned, and three new proprietary programs were started.

The AbD Serotec segment further improved its financial performance. During 2009, several new agreements with customers in the diagnostic industry were signed. In total, AbD Serotec currently works with more than 20 diagnostic companies.

In total, the MorphoSys Group continued to show top-line growth and remained profitable with an operating profit of € 11.4 million, despite significantly increased investment in proprietary R&D.

CORPORATE GOVERNANCE REPORT

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

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

DECLARATION ABOUT CORPORATE MANAGEMENT IN ACCORDANCE WITH SEC. 289A HGB FOR THE 2009 BUSINESS YEAR

A description of the principles of corporate management and the declaration of conformity pursuant to sec. 161 of the German Stock Corporation Act (AktG) can be found on MorphoSys's corporate website* (www.morphosys.com – News & Investors – Corporate Governance).

* SEE GLOSSARY P. 120

INTERNAL CONTROLS

INTRODUCTION

MorphoSys documented its internal control system that it has established and used over the years for maintaining adequate internal control over financial reporting. In accordance with sec. 289 (5) and sec. 315 (2), para. 5 HGB (German Commercial Code), MorphoSys has to describe the key characteristics of its accounting-related internal control system starting with the Annual Report for the 2009 fiscal year (ending December 31, 2009). These internal controls over financial reporting are documented and structured based on the most commonly used COSO framework ("Internal Control – Integrated Framework") as defined by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

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

Also, projections relating to future periods are subject to the risk that controls may become inadequate because of changing conditions, or that the degree of compliance with the policies or procedures may deteriorate.

DESCRIPTION OF THE INTERNAL CONTROL SYSTEM AT MORPHOSYS

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

- General policies and guidelines applicable to all employees as well as
- Organization charts and job descriptions for each single position as a structural element.

RISK ASSESSMENT

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

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

INFORMATION AND COMMUNICATION

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

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

CONTROL ACTIVITIES

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

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

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

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

MONITORING

MorphoSys tested the compliance with its internal controls with the assistance of an external consultant in 2009. The results have been discussed within the executive management and the supervisory board.

DIRECTORS' HOLDINGS

The members of the Management Board and the Supervisory Board own more than 1 % of the shares issued by the Company. For the disclosure of Company stocks held or financial instruments relating to them, please refer to section 24 of the Notes to the Consolidated Financial Statements. This list details all stocks, stock options and convertible bonds held by each member of the Management Board and the Supervisory Board.

DIRECTORS' DEALINGS

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

In the reporting year, we received the following notifications pursuant to sec. 15a of the WpHG. Each sale of shares listed below was preceded directly by the exercise of stock options/convertible bonds to purchase an identical number of shares. In total, Dr. Moroney and Mr. Lemus exercised 148,695 stock options and kept 15,102 of the new shares. Dr. Schottelius bought 500 shares.

Member of the Management Board	Function	Date of Transaction in 2009	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price in €	Transaction Volume in €*
Dr. Simon E. Moroney	CEO	July 31	Purchase	10,002	6.93**	69,313.86
Dr. Simon E. Moroney	CEO	July 31	Sale	17,001	16.37	278,306.37
Dr. Simon E. Moroney	CEO	August 3	Sale	7,239	16.32	118,140.48
Dr. Simon E. Moroney	CEO	August 4	Sale	12,645	16.42	207,630.90
Dr. Simon E. Moroney	CEO	August 5	Sale	2,457	16.30	40,049.10
Dr. Simon E. Moroney	CEO	August 6	Sale	4,194	16.30	68,362.20
Dr. Simon E. Moroney	CEO	August 17	Sale	11,754	16.34	192,060.36
Dr. Simon E. Moroney	CEO	August 21	Sale	9,708	16.18	157,075.44
Dr. Arndt Schottelius	CDO	September 1	Purchase	500	15.54	7,770.00
Dave Lemus	CFO	September 30	Sale	17,595	17.16	301,930.20
Dave Lemus	CFO	October 1	Sale	15,000	17.01	255,150.00
Dave Lemus	CFO	October 5	Purchase	3,000	10.45**	31,350.00
Dave Lemus	CFO	November 2	Sale	10,800	17.61	190,188.00
Dave Lemus	CFO	November 4	Sale	13,500	17.41	235,035.00
Dave Lemus	CFO	November 5	Sale	9,105	17.34	157,880.70
Dave Lemus	CFO	November 6	Sale	2,595	17.43	45,230.85
Dave Lemus	CFO	November 6	Purchase	2,100	10.45**	21,945.00

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

Sales of the above convertible bonds/stock options were in conjunction with the scheduled expiration of these bonds in 2009/2010.

PREVENTING CONFLICTS OF INTEREST

Members of both boards are obliged to avoid any actions that could cause conflicts of interest with their functions at MorphoSys AG. Such transactions or sideline activities of the Management Board have to be immediately reported to and approved by the Supervisory Board. The Supervisory Board in turn shall inform the Annual General Meeting of any conflicts of interest which have occurred along with their solutions. In 2009, no conflicts of interest occurred.

SEE P. 54 ET SEQ.

FURTHER INFORMATION ON WWW.MORPHOSYS.COM

ANNUAL GENERAL MEETING

The Annual General Meeting took place in Munich on May 13, 2009. Approximately 46 % of total voting stock was represented at the meeting, a strong increase compared to the attendance in 2008 (approximately 26 %). MorphoSys assisted the shareholders in the use of proxies and arranged the appointment of a representative to exercise shareholders' voting rights in accordance with instructions. This representative was also available until the end of the general debate of the Annual General Meeting. All voting points, except for two points regarding capital increase and the issuance of stock options for employees, were approved by the attending stockholders. MorphoSys provided an online webcast of the Management Board's presentation and published all documents in a timely manner on the Company's website*.

RISK MANAGEMENT

The Management Board ensures responsible risk handling at all times and keeps the Supervisory Board informed about existing risks and their development. This part of corporate governance includes an appropriate risk management and risk control system in the Company. Detailed information about the opportunities and risks* at MorphoSys can be found on page 54 et seq. of this report. The systematic risk management activities, performed as part of the Company's value-based management approach, identify and assess risks at an early stage and minimize risk exposure. According to changing conditions, the opportunities and risk management is continuously being developed further.

CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

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

A decisive part of MorphoSys's relations with its investors are frequent meetings with analysts and institutional investors at road shows and in one-on-one discussions. Conference calls accompany the publication of the quarterly figures to enable immediate queries on the development of the Company for analysts and investors. Furthermore, the annual results are presented at a press conference and at an analyst meeting which is also available as a webcast.

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

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

FINANCIAL STATEMENT AUDIT BY KPMG

MorphoSys prepares its consolidated financial statements and quarterly reports in accordance with International Financial Reporting Standards (IFRS). MorphoSys AG's financial statements are prepared in accordance with the German Commercial Code (HGB). The Audit Committee of the Supervisory Board proposes the selection of the Company's external auditor. At the Annual General Meeting, KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2009 fiscal year. In order to ensure the auditor's autonomy, the Audit Committee obtained a declaration of independence from the auditor.

REMUNERATION REPORT

The Remuneration Report reflects the Management Board Compensation Disclosure Law and the principles of the German Corporate Governance Code.

REMUNERATION OF THE MANAGEMENT BOARD

The overall annual compensation paid to Management Board members consists of a number of compensation components. These include a fixed compensation, a bonus, a medium- and long-term incentive component and additional benefits. Each year, the structure and appropriateness of the total compensation packages are subject to review by the Remuneration & Nomination Committee. Compensation is based in particular on the duties of the individual Management Board member, and on the business situation, success and prospects of the Company relative to its competitive environment. The complete compensation packages are compared to the outcome of the Annual German Biotechnology Industry Remuneration Study (GRS Study), and to other international benchmark sources. The adjustments to the compensation packages are adopted by the plenum of the Supervisory Board. The last occasion on which salaries were adjusted was in July 2009.

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

Additionally, each member receives a performance-related cash bonus payment. Such payments are only dependent on Company-related goals, which are determined by the Supervisory Board at the beginning of each fiscal year. The corporate performance targets reflect operating performance as measured by revenues and net income, progress in the proprietary pipeline and other Company goals such as share performance, or the completion and/or extension of important collaborations. At the end of the year, the Supervisory Board evaluates the level of attainment of these goals. The bonus is determined by the Supervisory Board on the basis of the Company's performance after due assessment of the circumstances.

The method of presenting the Management Board's remuneration was changed with effect in the 2009 financial year. In previous years, bonus payments were presented in the year they were paid. This was changed in 2009. The total remuneration figures shown for 2009 and 2008 include the corresponding bonus accruals for 2009 and 2008. The 2009 bonus will be paid out in March 2010.

Furthermore, Dr. Arndt Schottelius, who was appointed as Chief Development Officer on December 29, 2008, was granted a non-recurring signing bonus and the reimbursement of relocation costs, which were payable in 2009.

In the 2009 fiscal year, the total cash remuneration paid to the members of the Management Board amounted to € 2,081,756 (previous year: € 1,643,042). The table below shows a detailed breakdown of the compensation paid to the members of the Management Board:

in €	Fixed Compensation 2009	Fixed Compensation 2008	Variable Compensation 2009	Variable Compensation 2008	Other Compensatory Benefits 2009	Other Compensatory Benefits 2008	Total Compensation 2009	Total Compensation 2008
Dr. Simon E. Moroney	356,011	343,125	192,246	164,700	124,198[1]	105,246	672,455	613,071
Dave Lemus	250,375	241,313	135,203	115,830	141,055[2]	129,167	526,633	486,310
Dr. Arndt Schottelius	220,000	1,222	118,800	0	84,513[3]	123,893	423,313	125,115
Dr. Marlies Sproll	241,164	231,660	130,229	111,197	87,963[4]	75,689	459,356	418,546
TOTAL	**1,067,550**	**817,320**	**576,478**	**391,727**	**437,728**	**433,995**	**2,081,756**	**1,643,042**

[1] Includes € 101,555 annual contributions to private pension fund and allowances for insurances (prior year: € 86,810)
[2] Includes € 72,743 annual contributions to private pension fund and allowances for insurances (prior year: € 61,060)
[3] Includes € 66,753 annual contributions to private pension fund and allowances for insurances (prior year: € 0)
[4] Includes € 70,695 annual contributions to private pension fund and allowances for insurances (prior year: € 58,626)

The long-term performance-related remuneration consists of convertible bonds and stock options under the plans as resolved by the Annual General Meeting. These are outlined in the "Equity-based Compensation for the Management Board" section below.

In 2009, 244,200 stock options and 90,000 convertible bonds were granted to members of the Management Board. The value of the stock options and convertible bonds granted to members of the Management Board under the 2002 employee stock option program/2002 employee convertible bond program attributable to the 2009 fiscal year totaled € 1,420,109 (2008: granting of 242,979 stock options with a total value of € 1,037,520).

In 2009, members of the Management Board purchased MorphoSys shares and exercised stock options, which were subsequently partly sold. All transactions were reported as legally required and published on the Company's website.

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

To ensure conformity with the new Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG), the Supervisory Board is currently conducting a detailed review of the compensation system for the Management Board. This review includes discussions with external consultants. The results of such a review, which must take into account the interests of the stockholders, the Company and its Management Board members, were therefore not yet fully available when the Management Report was finalized, but will be completed prior to the end of the transition periods in accordance with the VorstAG. A progress report will be given at the Annual General Meeting. All necessary changes will be finalized prior to the end of the transition periods in accordance with the VorstAG to fully comply with the new legislation. Changes are to be implemented with the new appointment of the Management Board members in June 2011. However, the actual composition of the remuneration packages of the Management Board is dominated by long-term incentives, which is already in compliance with the new legislation.

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

REMUNERATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is based on the provisions of the Articles of Association, the current version of which was adopted by the stockholders at the Annual General Meeting on May 13, 2009. In 2009, the members of the Supervisory Board received a fixed compensation and an attendance fee per board and committee meeting attended. The overall compensation takes into account the responsibilities and range of tasks of the Supervisory Board members as well as the economic situation and performance of the Company.

The results of the review were not available when the Management Report was finalized. A progress report will be given at the Annual General Meeting.

In the 2009 fiscal year, the members of the Supervisory Board received a total of € 374,333 (2008: € 292,500), excluding reimbursement of travel expenses. This amount consists of fixed remuneration and variable compensation (attendance fees). In addition, the members of the Supervisory Board (except Dr. Walter Blättler) received a total of € 80,000 from the phantom stock program (shown under variable compensation) for the business years 2006 to 2008, which was introduced at the AGM in 2005.

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

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

* SEE P. 93 ET SEQ.

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

No members of the Management Board or the Supervisory Board were granted Company loans.

EQUITY-BASED COMPENSATION FOR THE MANAGEMENT BOARD

STOCK OPTIONS AND CONVERTIBLE BONDS

The Supervisory Board also decides each year on the number of stock options or convertible bonds to be allocated to the Management Board members.

According to Company policy covering equity-based compensation programs, stock options or convertible bonds may only be issued on two preset dates each year. The following overview shows the number of stock options and convertible bonds issued in 2009 to members of the Management Board (see also 2002 Employee Stock Option Program, section 18*, of the Notes to the Consolidated Financial Statements and 2002 Employee Convertible Bond Program, section 17*, of the Notes to the Consolidated Financial Statements) and their potential current value.

EQUITY-BASED COMPENSATION FOR THE MANAGEMENT BOARD

STOCK OPTIONS GRANTED TO THE MANAGEMENT BOARD IN 2009

Member of the Management Board	Number of Stock Options	Strike Price in €	Grant Date	Expiry Date	Fair Value of One Stock Option in €	Fair Value at the Time of the Grant in €
Dr. Simon E. Moroney	81,000	12.81	Apr. 1, 2009	Apr. 1, 2014	4.51	365,067
Dave Lemus	36,600	12.81	Apr. 1, 2009	Apr. 1, 2014	4.51	164,956
Dr. Arndt Schottelius	90,000	12.81	Apr. 1, 2009	Apr. 1, 2014	4.51	405,630
Dr. Marlies Sproll	36,600	12.81	Apr. 1, 2009	Apr. 1, 2014	4.51	164,956

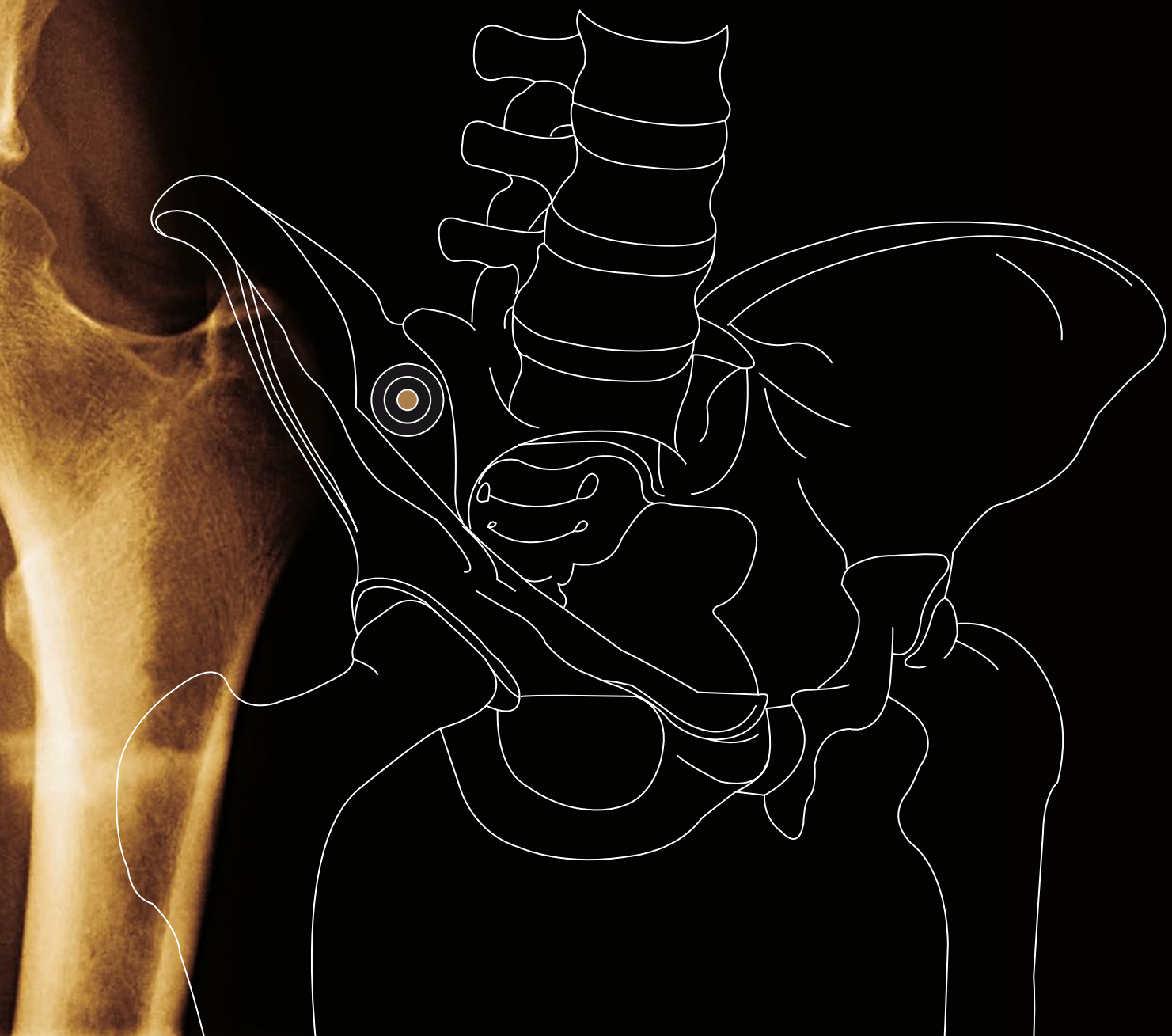
CONVERTIBLE BONDS GRANTED TO THE MANAGEMENT BOARD IN 2009

Member of the Management Board	Number of Convertible Bonds	Strike Price in €	Grant Date	Expiry Date	Fair Value of One Convertible Bond in €	Fair Value at the Time of the Grant in €
Dr. Simon E. Moroney	30,000	12.81	Apr. 1, 2009	Dec. 31, 2011	3.55	106,500
Dave Lemus	30,000	12.81	Apr. 1, 2009	Dec. 31, 2011	3.55	106,500
Dr. Arndt Schottelius	–	–	–	–	–	–
Dr. Marlies Sproll	30,000	12.81	Apr. 1, 2009	Dec. 31, 2011	3.55	106,500

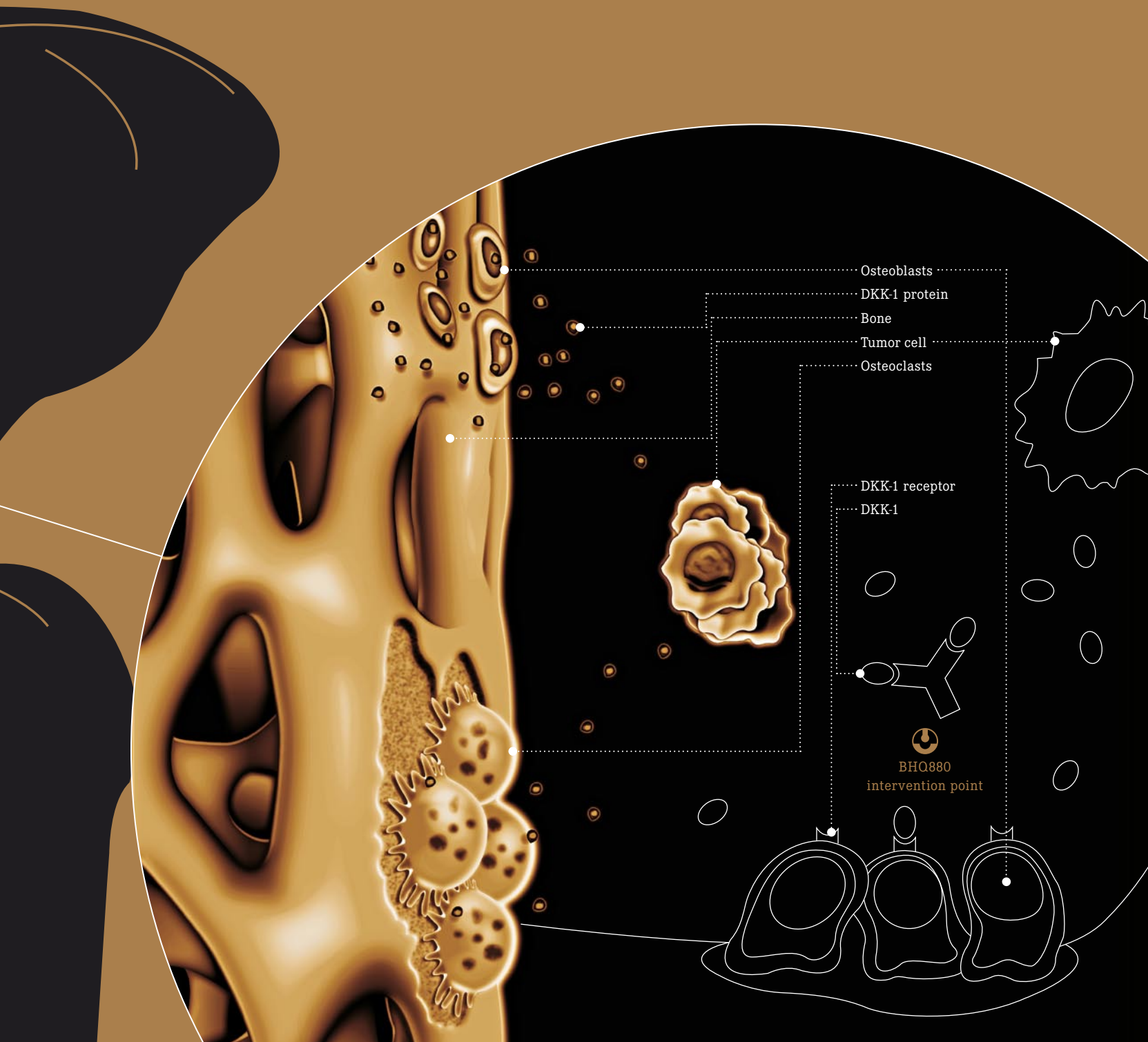
ANTIBODIES TO TREAT MULTIPLE MYELOMA

In the majority of patients suffering from multiple myeloma, a rare but fatal form of blood cancer, the natural equilibrium between bone formation and bone degradation is destroyed. The resulting increased risk of fractures and bone pain is considered one of the most important clinical manifestations of this form of cancer.

MorphoSys's partner Novartis is developing a HuCAL-based antibody, BHQ880, to prevent osteolytic bone disease in myeloma patients. The program is currently in a multinational clinical phase 1/2 study in multiple myeloma.



MULTIPLE MYELOMA CELLS secrete elevated levels of DKK-1 in patients, causing an imbalance in bone turnover through suppression of bone-forming osteoblasts. The HuCAL-based antibody BHQ880, identified within the Novartis alliance, neutralizes the DKK-1 protein, with the expectation of reversing the imbalance.



SEE P. 93 ET SEQ.

STOCK OPTION PROGRAMS

The current stock option plan of 2002 provides for the issuance of non-transferable option rights to employees and to the Management Board. The option rights have a maximum life of five years. Additionally, a two-year holding period is required following the grant date, after which the holder of the option rights can exercise up to the number of vested option rights, on the condition that the value of the underlying stock has exceeded the stock price at the time of the grant by at least 20 % on one trading day during the lifetime of the option right.

CONVERTIBLE BOND PROGRAMS

The current convertible bond program of 2002 provides for the issuance of non-interest-bearing convertible bonds with a par/nominal value of € 0.33 each to employees and to the Management Board. The beneficiaries may only exercise the conversion rights following the expiration of a waiting period of one year after the grant date. Each convertible bond with a nominal value of € 0.33 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exchange price. Furthermore, exercising of the convertible bonds is subject to the performance target that the value of the underlying stock should have exceeded the stock price at the time of the grant by at least 10 % on one trading day before the exercise.

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

INFORMATION REQUIRED UNDER TAKEOVER LAW

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

COMPOSITION OF CAPITAL STOCK

As of December 31, 2009, the Company's share capital amounted to € 22,660,557.00 and is divided into 22,660,557 no-par value bearer shares. With the exception of 79,896 Company-held shares, all issued shares are exclusively common shares with voting rights. The Management Board is not aware of any restrictions on the voting rights or the right to transfer. This also applies to restrictions which may result from shareholders' agreements. The Company has not been notified of direct or indirect shareholdings in its share capital exceeding 10 % of the voting rights pursuant to sec. 21 of the German Securities Trading Act (WpHG). There are no owners of shares with privileged rights or other rights resulting in a right to control votes.

SHAREHOLDINGS EXCEEDING 10 % OF THE VOTING RIGHTS

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

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

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

AUTHORIZATION OF THE MANAGEMENT BOARD TO ISSUE SHARES

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

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

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

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

d) Furthermore, there exists Conditional Capital 1999-I in the amount of up to €174,870.00 (sec. 5, para. 6a, of the Articles of Association), Conditional Capital 2003-II in the amount of up to €1,288,749.00 (sec. 5, para. 6c, of the Articles of Association), Conditional Capital 2008-II in the amount of up to €1,439,415.00 (sec. 5, para. 6d, of the Articles of Association), and Conditional Capital 2008-III in the amount of up to €450,000.00 (sec. 5, para. 6e, of the Articles of Association). These conditional share capitals may be used for the issuance of option and conversion rights to members of the Management Board and to employees of the Company or of its affiliates.

AUTHORIZATION OF THE MANAGEMENT BOARD TO REPURCHASE STOCK

The authorization to repurchase Company-own shares as provided by the resolution of the ordinary 2008 Annual General Meeting expired on October 31, 2009.

CHANGE OF CONTROL PROVISIONS

KEY AGREEMENTS SUBJECT TO CONDITIONS

In 2007, the Company and Novartis Pharma AG extended their original 2004 collaboration agreement in the field of

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

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

CHANGE OF CONTROL PROVISIONS FOR MANAGEMENT BOARD MEMBERS

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

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

RISKS AND OPPORTUNITIES

RISK MANAGEMENT AND CONTROLLING

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

RISKS

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

GENERAL RISKS ON GROUP LEVEL

MorphoSys is subject to the typical industry and market risks inherent in the development of fully human antibodies for use in research, diagnostics and therapy. MorphoSys's top ten risks on its corporate level include risks resulting from

personnel, legal, financial reporting and asset management topics. Risks from human resources that have been ranked among the top ten included punctual recruitment of new employees with the right skills as required. MorphoSys mitigates those risks by starting hiring processes early on, keeping applications of well-suited candidates as long as legally permitted and providing a high number of special training courses on the job to ensure the right set of employee skills. In 2009, the Company considered the swine flu epidemic as a serious risk for its employees and the subsequent continuation of its operations. MorphoSys therefore used a number of methods to inform its employees about the danger and potential consequences for colleagues and ensured that staff that had been diagnosed with suspected swine flu or had close relatives with swine flu stayed at home.

The financial crisis that lasted throughout 2009 also affected MorphoSys's risk evaluation of its financial assets that are invested with several funds at major German banks. MorphoSys regularly checked the security level backing each major fund and only invested in funds that have separate guarantees to ensure that no nominal loss is possible. Furthermore, to ensure that the banks that emitted these guarantees were in good standing, MorphoSys extensively monitored research reports, press announcements and share price developments. These topics all weighed in when considering investing in funds at any given bank.

As in other years, MorphoSys closely monitored the risk of FDA and European authorities changing their policies and regulations to MorphoSys's disadvantage, which would have a strong impact on MorphoSys's long-term prospects. We did not receive any such notice nor interpret any change to be highly adverse to our future prospects with regards to that topic. Also, MorphoSys made every effort to ensure that its financial reporting systems were adequate to give a true and fair representation of the Group and project future developments on revenues and costs on a state-of-the-art basis. Regular discussions with experts and quarterly reviews of the planning are the basis for mitigating any risks associated herewith.

RISKS IN THE PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Developing therapeutic antibodies for its commercial partners and for its own account makes up MorphoSys's key area of expertise. The Company's main revenue and cash generator as of today is partnering with major pharma companies to develop therapeutic antibodies. Furthermore, MorphoSys has increased its investment in building a proprietary pipeline over the past several years as a major value driver. These two segments share some of the risks in developing therapeutic antibodies. As Proprietary Development has lead times of several years prior to reaching certain success milestones (unlike our Partnered Discovery and AbD Serotec business units), we added a separate long-term-oriented perspective on risk management for that division.

MorphoSys considers its biggest short-term risk to be reaching its projected revenues and profitability levels and that development milestones in partnered projects will not be met, preventing milestone payments. While it is not in MorphoSys's power to reach these milestone events, the Company uses a standard process of regularly monitoring the progress of each developed compound at a partner company and regularly reports the status. Therefore, deviations from projections can be taken into account early on and included in the regular quarterly updates of MorphoSys's financial projections. Other risks of not reaching the level of revenues projected can be seen in pharma partners who do not extend their commercial licenses or when fewer deals are executed than planned (or on lower terms than projected). To minimize these risks, MorphoSys maintains strong relationships with its (potential) partners and discusses market developments and typical terms through all relevant means, e.g.

* SEE GLOSSARY P. 120

market intelligence, customers and experts. This is done on a constant basis and forms the basic element of the projections of revenues for the therapeutic segments.

On the cost side, MorphoSys considers one of its biggest risks in this segment to be that lead candidates in partnered or proprietary products cannot be manufactured in sufficient amounts or to the required concentrations or quality for clinical trials. The risk of having to repeat or extend the respective manufacturing campaign is mitigated by applying assessments of development opportunities during the lead candidate selection and including back-up candidates early on in the development process.

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

The major risks seen in proprietary development programs include failure of these programs prior to partnering due to data that does not show convincing effects on clinical activities. While MorphoSys cannot ensure that data shown by its programs will always demonstrate positive results with respect to the indications and treatments tested, the greatest care is used in the design of clinical development plans. These are to be state of the art, ensuring the best chance of displaying data with results that are significant and good enough to convince the regulatory bodies and potential partners of the likely success of the program in question. While these risks might not necessarily need to be taken into account on a short-term basis and are not likely to endanger the survival of MorphoSys as a group, they would hurt its long-term prospects of becoming a leading drug developer and partnering valuable products at advanced clinical stages with its pharma partners, thereby generating value for its shareholders and for its other stakeholders.

RISKS IN THE ABD SEROTEC SEGMENT

MorphoSys's AbD Serotec segment operates on a global scale, but is headquartered in the UK with a large part of its revenues deriving from US and continental-European customers. Therefore, the forecasts of the segment and its net profit are strongly influenced by foreign exchange (FX) rate fluctuations among three currencies euro, US dollar and British pound. The Company carefully analyzes the FX flows between the entities and hedges FX exposures of the Group where significant risks exist. While FX hedging does not affect the revenues or EBIT shown according to IFRS, it does affect the actual cash flows*.

Inability to satisfy customers and fulfill shipping assignments within cost and time limits is considered to be an area of risk for the AbD Serotec business. Such inability might be caused by diverse failures such as loss of electricity at the production site in Oxford, accidents such as fire, the internet connection being down causing restricted access to customers for online ordering, and the inability to ship to major markets (e.g. to the USA due to USDA restrictions). The mitigation strategies include an emergency power generator installed at the Oxford site, continuity plans (including significantly improved IT back-up methods), monitoring shipping policies to the relevant markets and keeping the import licenses up to date.

GENERAL STATEMENT ABOUT MORPHOSYS'S GROUP RISKS

According to our current assessment of MorphoSys Group's risks, we do not see any negative deviations from the state-

ments given in other chapters of the Annual Report. We consider the risks to be manageable and the survival of the MorphoSys Group not to be endangered at the time of the current report. That statement is true for all relevant single entities and for the MorphoSys Group. We considered a number of events that partially increased several risks in 2009 vs. prior years, and the financial crisis and the epidemic risks that are inherent in the development of swine flu are not considered a threat to the future of MorphoSys as it stands today. Assuming no further deterioration of the global business, financial and regulatory environment, MorphoSys considers itself well prepared to meet all future challenges.

OPPORTUNITIES

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

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

GENERAL STATEMENT ON OPPORTUNITIES

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

MARKET OPPORTUNITIES

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

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By participating in drug development with multiple partners, MorphoSys has effectively lowered its risk profile. With currently 65 therapeutic antibody development programs ongoing with its partners, the chance that MorphoSys will participate financially in one or more marketed drugs is much higher than if the Company concentrated on single development programs.

MorphoSys will continue to expand its partnered antibody pipeline, mainly in its collaboration with Novartis, but also with other partners. In addition, MorphoSys may sign additional fee-for-service partnerships in the area of infectious diseases.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

With its partners, especially Novartis, providing a steady cash flow over the coming years, MorphoSys can concentrate on strengthening its proprietary pipeline. The Company will continue to expand its proprietary pipeline with *de novo* starts and additional co-development programs. Furthermore, the Company is looking for in-licensing opportunities for interesting targets.

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

ABD SEROTEC

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

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and in new technologies to remain at the forefront of technological leadership. This technological progress may enable the Company to further expand its roster of partners.

ACQUISITION OPPORTUNITIES

MorphoSys has demonstrated its ability to complete acquisitions and to use such transactions to accelerate its growth. MorphoSys may use an acquisition strategy to augment strong organic growth as a means of increasing its market share, accessing patents and licenses for proprietary technology and drug development as well as other relevant assets.

SUBSEQUENT EVENTS

There were no events requiring disclosure.

OUTLOOK AND FORECAST

MorphoSys is an independent biotechnology company that develops novel antibodies for therapeutic, diagnostic and research applications and intends to further expand its position in these lucrative markets in the years to come. The Company's management focuses on further broadening its proprietary drug development activities by taking advantage of attractive opportunities in the therapeutics area. Moreover, MorphoSys seeks to enlarge its market share within the research and diagnostics fields, the latter of which represents a particularly attractive market for the Company's technologies.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT

The Company has an established and validated technology and secured cash flows from long-term partnerships with large pharmaceutical companies and a wide customer net-

work. The strategic focus is to build a broad and sustainable pipeline of innovative antibody drug candidates within its collaborations and from its own development activities. The AbD Serotec segment is well positioned in the increasingly attractive diagnostics market, providing innovative antibodies for new applications.

Its stable cash flows and the strong cash position allow the Company to further build its business through investments in proprietary drug development and technology development, e.g. through the in-licensing of interesting targets, technologies or licenses.

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

- The demand for new treatment options based on antibodies remains high, allowing the Company to expand its pipeline of therapeutic antibodies within its partnerships and for its own account.
- The pharmaceutical industry continues to look for in-licensing opportunities of interesting product candidates. If clinical proof of concept of a proprietary drug candidate can be shown, lucrative deal terms could be achieved.
- The AbD Serotec segment is now increasingly focusing on diagnostic applications of the HuCAL technology. Within the diagnostics market, interesting new applications have been identified, and AbD Serotec's management is confident that they will further grow market share while increasing profit margins.

STRATEGIC OUTLOOK

MorphoSys's business model is principally based on its proprietary technology HuCAL, which is currently exploited in the following three operating segments:

- In the Partnered Discovery segment, by discovering and developing antibody drug candidates for partners in exchange for license fees, research funding, milestone payments and mid-single-digit royalties on potential sales.
- In the Proprietary Development segment, by developing and expanding the proprietary drug pipeline, including co-development opportunities.
- In the AbD Serotec segment, by providing research services and developing antibody reagents for diagnostic tests using the HuCAL platform.

The Partnered Discovery segment is generating secured cash flows from MorphoSys's long-term development alliances. For the foreseeable future, MorphoSys will continue to invest the majority of these cash flows to broaden and strengthen the Proprietary Development segment. The Company is committed to developing therapeutic antibodies for its own account by taking drug candidates, in most circumstances, to clinical proof of concept before seeking a commercial partner. The proprietary pipeline will not only be enlarged by starting *de novo* programs, but potentially also by securing access to interesting targets through in-licensing activities. To further diversify its proprietary pipeline, MorphoSys will start additional co-development projects for HuCAL antibodies within its collaboration with Novartis and Galapagos, and with other biotechnology or pharmaceutical companies.

In addition, the development of therapeutic antibodies within MorphoSys's partnerships will continue. The partnered therapeutic pipeline is expected to further mature and grow over the coming years. Due to the breadth of the partnered pipeline, MorphoSys's management is convinced that several product candidates based on the HuCAL technology will reach the market. Furthermore, the Company is actively seeking to secure new fee-for-service partnerships in the area of infectious diseases and to tap new growth opportunities.

The AbD Serotec segment is striving to increase its market share within the research and diagnostic fields. AbD Serotec's management intends to further focus the internal sales

* SEE GLOSSARY P. 120

and marketing organization towards high-value utilization of the HuCAL technology, especially in the area of diagnostic applications.

Finally, MorphoSys will continue to invest in technology development with the goal of enabling the generation of the best possible antibodies for research, diagnostic and therapeutic applications. In order to maintain its technological leadership, and to extend patent lifetime, the Company is advancing its core HuCAL technology and a range of other technologies.

EXPECTED ECONOMIC DEVELOPMENT

According to the International Monetary Fund (IMF), current estimates for 2010 envision only a slight growth in world GDP of 2.9 %, compared with a 1.1 % decrease in 2009. As some countries begin to emerge from the global financial crisis, new challenges such as rising unemployment and the strong increase in public debt could slow down the pace of recovery.

The pharmaceutical and healthcare industries have historically been relatively immune to economic downturns, due to a continuously increasing demand for innovative treatments. Nevertheless, pharmaceutical companies are facing challenges such as low R&D productivity, government-imposed price erosions and patent expiries. Yet, with the ongoing recession, financial support will probably be reduced. Therefore, as in other industries, it is expected that those companies most affected by the reduced availability of capital will be the early-stage biotech start-ups in need of new funding.

EXPECTED DEVELOPMENT OF THE LIFE SCIENCES SECTOR

According to IMS Health, the global pharmaceutical market is expected to grow between 4 % and 6 % on a constant-dollar basis in 2010, exceeding US$ 825 billion, mainly driven by strong near-term growth in the US market. Global pharmaceutical market sales are predicted to grow at a 4 – 7 % compound annual growth rate (CAGR) through 2013. When segmenting the prescription pharmaceutical market by molecule type (small molecules, therapeutic proteins*, monoclonal antibodies and vaccines), outlooks for the segments vary significantly. In a market report by Datamonitor, it is estimated that the monoclonal antibody market will continue to outperform other drug classes and will grow at a double-digit 2006–2012 CAGR of 14.2 %.

Within the biotechnology industry, the access to capital will remain one of the main issues in 2010. While the stock market climate generally improved towards the end of 2009, it remains to be seen whether the window for initial public offerings (IPO) and financing rounds will remain open. In general, the expectations for 2010 are again more positive than in 2009. The possible realization of the US healthcare reform and a full calendar of upcoming late-stage clinical milestones support the positive view as it relates to the healthcare sector. Additionally, the anticipated mild economic recovery will allow some of the smaller biotech companies to also access cash. The need to add innovative therapies into the pipelines of the larger pharmaceutical companies could lead to increasing M&A activities, partnering deals and licensing, a development that has gained speed already in 2009.

EXPECTED COMMERCIAL DEVELOPMENT

With the Novartis deal ensuring a steady cash flow over the coming years, MorphoSys will continue to concentrate on broadening its partnered and proprietary development pipeline. Within the Partnered Discovery segment, the number of partnered programs is expected to grow further on a net basis. The Company anticipates starting, on average, approximately ten new partnered programs per annum for the next several years. For 2010, the Company anticipates between four and six new partnered programs to enter clinical development, while for 2011 and subsequent years, this number should continue to increase.

* SEE GLOSSARY P. 120

The proprietary development activities will be further advanced by *de novo* program starts, and potentially by in-licensing activities for promising target molecules, as well as co-development opportunities with Novartis, Galapagos, and/or additional partners.

For MOR103, the most advanced development program in MorphoSys's pipeline, the Company expects final data from the ongoing phase 1b/2a trial in the first half of 2012. Assuming the clinical trial proceeds as planned and proof of concept can be demonstrated, a partnership deal could be struck in the same year.

The AbD Serotec segment strives to continue to outgrow the market. Despite the global economic downturn and unfavorable development of foreign exchange rates, the management of AbD Serotec predicts growth rates for the coming years of approximately 10 % at constant exchange rates. MorphoSys expects that segment profit margins will continue to increase, as economies of scale start to pay off.

EXPECTED PERSONNEL DEVELOPMENT

MorphoSys will continue to expand its proprietary and partnered development capabilities, however, at a slower rate than in 2009. Within the Partnered Discovery segment, the R&D team working for Novartis reached its full size at the end of 2009.

EXPECTED RESEARCH AND DEVELOPMENT

The Company's R&D budget for proprietary drug development will continue to rise, although at a lower rate than in 2009. In 2010, MorphoSys plans to invest between € 26 million and € 29 million in proprietary product and technology development. The majority of this investment will be channeled into the clinical and preclinical development activities for the most advanced drug candidates. The trend of increasing investments is expected to continue in 2011 and the years thereafter, although the size of such increases will depend on the status of the Company's drug pipeline and revenue development. Notwithstanding this, the Company is committed to remaining profitable.

The Company's proprietary pipeline activities in 2010 are projected to comprise:

- Recruitment of RA patients for the phase 1b/2a RA study for its lead compound MOR103
- Preparation of CTA submission for MOR103 in a second indication to be finalized in the first half of 2011
- Submitting a MOR202 CTA application for a phase 1/2 study in multiple myeloma* in the fourth quarter of 2010
- The addition of up to four *de novo* programs to its pipeline, which may also include co-developments with Novartis, Galapagos and/or third parties

As a result of the planned activities, MorphoSys's proprietary pipeline at year-end could consist of up to ten programs in total (including co-development programs), up from five fully owned and one co-development program (with Novartis) in 2009.

Regarding AbD Serotec, profitable growth based on innovative products and services is the central objective for the unit. The diagnostic industry offers the most attractive opportunities for growth and will therefore increasingly come into the focus of the unit's activities. Furthermore, the unit will increasingly focus on diagnostic applications, as HuCAL has many advantages over traditional animal immunization* approaches in generating superior diagnostic products.

EXPECTED FINANCIAL AND LIQUIDITY DEVELOPMENT

MorphoSys's management strives to achieve total revenue growth averaging between 10 % and 20 % in the years to come. For 2010, management anticipates total Group revenues between € 89 million and € 93 million. In future, revenue growth will become more dependent on out-licensing of proprietary products such as MOR103, as well as on

increasing milestone payments and royalties, as partnered HuCAL antibodies move through development and come to the market. The revenue split between the Company's Therapeutic Antibodies segments and the AbD Serotec segment is anticipated to remain similar in 2010 to that of the prior year.

The Partnered Discovery segment represents a highly profitable business activity. Long-term alliances will provide the Company with secured cash flows for at least the next seven years. On the basis of the Management Board's current planning, total operating expenses are expected to increase in 2010 and 2011, subject to corresponding revenue increases. S, G&A expenses are expected to increase only slightly. However, in upcoming years, MorphoSys will increase its investments in proprietary drug development in order to further develop its proprietary antibody pipeline, which will include investments in MOR103 and MOR202, additional *de novo* discovery programs and co-development programs.

On the basis of current planning, MorphoSys expects to remain profitable on an operating level in 2010 and 2011. For 2010, the Company anticipates an operating profit between €5 million and €9 million, while the operating profit may be somewhat less in 2011, depending on the level of proprietary R&D investment and revenues.

AbD Serotec returned to revenue growth in 2009 and increased its profit margin to 5%. On constant currency rates, management expects the segment to show annual revenue growth rates of at least 10% on average. In 2010, management anticipates revenues from €21 million to €22 million, while further increasing the profit margins to 5–8%. COGS is anticipated to increase in line with sales of the AbD Serotec segment, whereas segmental operating expenses are expected to increase only slightly.

At the end of the 2009 fiscal year, MorphoSys's cash position amounted to €135.1 million. Despite the more difficult conditions resulting from the global financial crisis, MorphoSys's financing is solid. MorphoSys sees its strong cash position as an asset which can be used to accelerate future growth by strengthening the Partnered Discovery business and potentially also AbD Serotec.

DIVIDENDS

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

For the foreseeable future, in common with standard practice in the biotechnology industry, MorphoSys does not anticipate paying a dividend. Any profit generated by the business shall be substantially reinvested in the operation of its business, mainly in the area of proprietary drug development, in order to create further shareholder value and growth opportunities.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2010 and beyond, and is based on Management Board assumptions. Future results may deviate from the expectations described in the outlook section. Major risks are discussed in the Risk Report.

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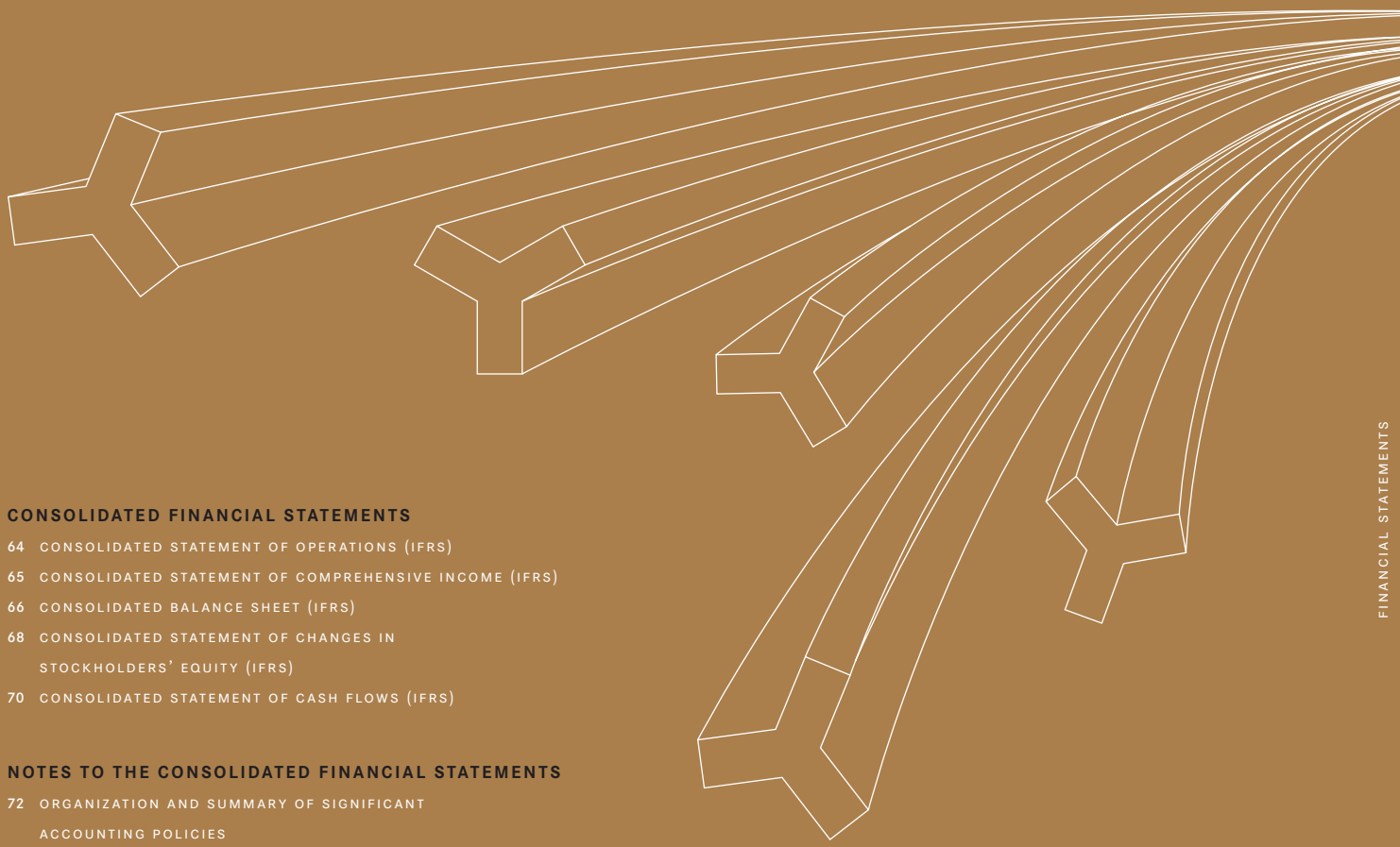

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CONSOLIDATED STATEMENT OF OPERATIONS (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

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

See accompanying Notes to the Consolidated Financial Statements

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

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND ORGANIZATION

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

CONSOLIDATED COMPANIES

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

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

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

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

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

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

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

GENERAL INFORMATION

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

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

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

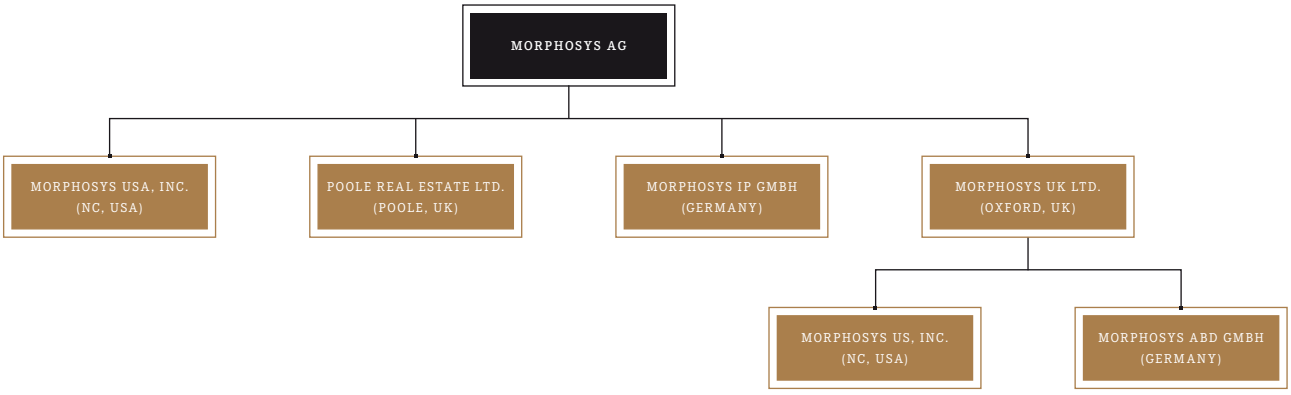
SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF ADOPTION

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

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

LEGAL STRUCTURE OF THE MORPHOSYS GROUP



IFRS 2 "SHARE-BASED PAYMENT"

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

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

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

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

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

NEW STANDARDS EFFECTIVE IN 2009

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

* SEE P. 93 ET SEQ.

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

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

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

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

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

B) STATEMENT OF COMPLIANCE

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

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

C) BASIS OF PRESENTATION

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

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

D) BASIS OF CONSOLIDATION

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

E) FOREIGN CURRENCY TRANSLATION

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

* SEE P. 72

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

F) INTEREST

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

G) DERIVATIVE FINANCIAL INSTRUMENTS

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

H) CASH AND CASH EQUIVALENTS

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

I) NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company accounts for its investments in debt and equity securities in accordance with IAS 39. The management determines the proper classifications of financial assets at the time of purchase and re-evaluates such designations as of each balance sheet date. As of December 31, 2009, and as of December 31, 2008, some financial assets held by the Group have also been classified as available for sale. These financial assets are recognized or de-recognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in the revaluation reserve within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the statement of operations.

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

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

J) ACCOUNTS RECEIVABLE

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

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

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

* SEE P. 76 ET SEQ.

K) INVENTORY

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

L) PROPERTY, PLANT AND EQUIPMENT

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

M) INTANGIBLE ASSETS

MA) RESEARCH AND DEVELOPMENT

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

MB) PATENT COSTS

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

MC) LICENSE RIGHTS

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

MD) SOFTWARE

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

ME) KNOW-HOW AND CUSTOMER LISTS

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

MF) GOODWILL

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

MG) SUBSEQUENT EXPENDITURE

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

N) IMPAIRMENT

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

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

* SEE P. 85

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

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

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

O) SHARE CAPITAL

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

P) TRADE AND OTHER PAYABLES

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

Payables of uncertain timing or amount are shown as provisions.

Q) CONVERTIBLE BONDS

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

R) REVENUE RECOGNITION

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

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

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

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

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

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

S) EXPENSES

SA) COST OF GOODS SOLD

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

SB) STOCK-BASED COMPENSATION

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

SC) OPERATING LEASE PAYMENTS

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

T) INTEREST INCOME

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

U) INTEREST EXPENSE

Borrowing costs are expensed when incurred.

V) INCOME TAXES

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

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

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

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

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

W) EARNINGS PER SHARE

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

2 SEGMENT REPORTING

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

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

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

The Group consists of the following three operating segments:

PARTNERED DISCOVERY

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

PROPRIETARY DEVELOPMENT

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

ABD SEROTEC

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

ENTITY-WIDE DISCLOSURE

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

For the Twelve-Month Period Ended December 31	Partnered Discovery		Proprietary Development	
(in 000's €)	2009	2008	2009	2008
REVENUES, TOTAL	**61,669**	**54,323**	**1,012**	**0**
External Revenues	61,669	54,323	1,012	0
Intersegment Revenues	0	0	0	0
TOTAL OPERATING EXPENSES	**22,094**	**19,888**	**19,297**	**8,860**
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	21,170	18,994	19,178	8,860
Intersegment Costs	924	894	119	0
SEGMENT RESULT	**39,575**	**34,435**	**(18,285)**	**(8,860)**
Finance Income	0	0	0	0
Finance Expense	0	0	0	0
Other Income	0	0	0	0
Other Expense	0	0	0	0
PROFIT BEFORE TAXES	**0**	**0**	**0**	**0**
Income Tax Expense	0	0	0	0
NET PROFIT	**0**	**0**	**0**	**0**
Current Assets	9,499	2,216	1,160	820
Non-current Assets	10,320	12,938	5,450	3,268
TOTAL SEGMENT ASSETS	**19,819**	**15,154**	**6,610**	**4,088**
Current Liabilities	12,210	18,016	3,008	1,702
Non-current Liabilities	5,579	11,193	0	0
Stockholders' Equity				
TOTAL SEGMENT LIABILITIES AND EQUITY	**17,789**	**29,209**	**3,008**	**1,702**
Capital Expenditure	1,525	2,507	841	380
Depreciation and Amortization	2,470	2,994	823	221

Statement of Operations
Statement of Comprehensive Income
Balance Sheet
Statement of Changes in Stockholders' Equity
Statement of Cash Flows
Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

3 CASH AND CASH EQUIVALENTS

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

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

4 FINANCIAL ASSETS

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

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

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

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

5 ACCOUNTS RECEIVABLE

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

6 OTHER RECEIVABLES

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

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

* SEE P. 75

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

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

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

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

8 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

9 INTANGIBLE ASSETS

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

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

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

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

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

10 OTHER ASSETS

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

11 ASSETS CLASSIFIED AS HELD FOR SALE

As of December 31, 2009, assets classified as held for sale comprise the commercial properties of the subsidiary Poole Real Estate Ltd., Poole, UK, (AbD Serotec segment) with a net book value of €771,798 (prior year: €722,036). Efforts to sell the property have commenced and a sale is expected within one year. An external, independent real estate company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, valued the property in the fourth quarter of 2009. No impairment was deemed necessary in the 2009 financial year. As of December 31, 2008, due to a price decline on the real estate market, an impairment loss of €0.5 million on the remeasurement of the property to the lower of its carrying amount and its fair value less costs to sell has been recognized in profit and loss in other operating expenses.

12 GOODWILL

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

13 ACCOUNTS PAYABLE

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

Accounts payable are listed in the table below:

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

* SEE P. 82

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

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

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

14 PROVISIONS AND TAX LIABILITIES

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

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

Provisions changed during the 2009 financial year as follows:

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

15 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

CREDIT AND LIQUIDITY RISK

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

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

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

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

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

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

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

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

MARKET RISK

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

CURRENCY RISK

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

* SEE P. 83

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

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

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

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

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

INTEREST RATE RISK

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

FAIR VALUE HIERARCHY AND VALUATION METHODS

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

* SEE P. 83

16 STOCKHOLDERS' EQUITY

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

COMMON STOCK

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

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

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

AUTHORIZED CAPITAL

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

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

CONDITIONAL CAPITAL

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

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

DIVIDENDS

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

ADDITIONAL PAID-IN CAPITAL

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

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

17 CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

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

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

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

18 STOCK OPTIONS

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

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

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

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

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

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

* SEE P. 101

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

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

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

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

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

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

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

19 PERSONNEL EXPENSES

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

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

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

20 NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses includes the following items:

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

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

21 INCOME TAXES

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

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

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

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

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

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

* Deferred Tax Asset

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

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

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

* Deferred Tax Liability

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

22 EARNINGS PER SHARE

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

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

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

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

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

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

23 OPERATING LEASES

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

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

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

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

24 CONTINGENCIES

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

25 RELATED PARTIES

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

SHARES

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

STOCK OPTIONS

	01/01/2009	Additions	Forfeitures	Exercises	12/31/2009
MANAGEMENT BOARD					
Dr. Simon E. Moroney	293,445	81,000	0	75,000	299,445
Dave Lemus	147,267	36,600	0	73,695	110,172
Dr. Arndt Schottelius	0	90,000	0	0	90,000
Dr. Marlies Sproll	141,267	36,600	0	0	177,867
TOTAL	**581,979**	**244,200**	**0**	**148,695**	**677,484**
SUPERVISORY BOARD					
Dr. Gerald Möller	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0		0
Dr. Walter Blättler	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**

CONVERTIBLE BONDS

	01/01/2009	Additions	Forfeitures	Expired	Exercises	12/31/2009
MANAGEMENT BOARD						
Dr. Simon E. Moroney	16,647	30,000	0	16,647	0	30,000
Dave Lemus	13,872	30,000	0	13,872	0	30,000
Dr. Arndt Schottelius	0	0	0	0	0	0
Dr. Marlies Sproll	11,100	30,000	0	11,100	0	30,000
TOTAL	**41,619**	**90,000**	**0**	**41,619**	**0**	**90,000**
SUPERVISORY BOARD						
Dr. Gerald Möller	0	0	0	0	0	0
Prof. Dr. Jürgen Drews	0	0	0	0	0	0
Dr. Walter Blättler	0	0	0	0	0	0
Dr. Daniel Camus	0	0	0	0	0	0
Dr. Metin Colpan	0	0	0	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**	**0**

Compensation for both the Management Board and the Supervisory Board consisted of fixed and variable components as well as other compensatory benefits. In the event of a non-reappointment and non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one annual fixed salary. Total compensation for the Supervisory Board excluding reimbursements of travel expenses amounted to €374,333 in 2009 (2008: €292,500). The tables below show the detailed compensation for the Management Board and the Supervisory Board:

MANAGEMENT BOARD

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

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

SUPERVISORY BOARD

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

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

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

26 CORPORATE GOVERNANCE

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

27 RESEARCH AND DEVELOPMENT AGREEMENTS

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

ASTELLAS PHARMA, INC.

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

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

BAYER SCHERING PHARMA AG

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

BOEHRINGER INGELHEIM PHARMA GMBH & CO. KG

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

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

CENTOCOR ORTHO BIOTECH, INC.

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

DAIICHI SANKYO COMPANY LTD.

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

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

* MORE INFORMATION AT WWW.MORPHOSYS.COM

* SEE GLOSSARY P. 120

ELI LILLY AND COMPANY

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

F. HOFFMANN-LA ROCHE

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

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

GALAPAGOS NV

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

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

GENEFRONTIER CORPORATION

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

MERCK & CO., INC.

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

NOVARTIS AG

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

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

ONCOMED PHARMACEUTICALS, INC.

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

PFIZER, INC.

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

PROCHON BIOTECH LTD.

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

SCHERING-PLOUGH CORPORATION

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

SHIONOGI & CO., LTD.

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

CHART OF THE CONSOLIDATED ENTITY AS OF DECEMBER 31, 2009

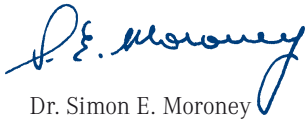
Name and Corporate Seat of the Company	Currency	Exchange Rate on Dec. 31, 2009, One Unit of Euro in Foreign Currency
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)		
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US$	1.43885
MorphoSys IP GmbH, Munich, Germany	€	–
MorphoSys UK Ltd., Oxford, UK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

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

RESPONSIBILITY STATEMENT

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

Martinsried/Planegg, February 8, 2010



Dr. Simon E. Moroney
Chief Executive Officer

Mr. Dave Lemus
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by MorphoSys AG, Martinsried, comprising the balance sheet, the statement of operations, the statement of comprehensive income, the statement of cash flows, the statement of changes in stockholders' equity and the notes to the consolidated financial statements, together with the Group Management Report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 10, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

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

SUPERVISORY BOARD REPORT

The 2009 fiscal year was dominated by the global financial and economic crisis. Despite a challenging environment, we can look back on a successful year for MorphoSys. In addition, the improvement of the performance of AbD Serotec was a highlight. Consistent with the Company's strategy, the main focus was on rounding out the development organization and continuing to advance the promising product candidates in our proprietary portfolio.

CONTINUOUS DIALOG WITH THE MANAGEMENT BOARD

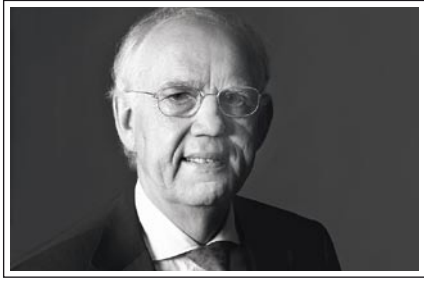
The Supervisory Board was directly involved in all fundamental strategic decisions impacting the Company. Throughout the year, the Supervisory Board continued to perform with great care the monitoring and advisory functions for which it is responsible under the law and the Articles of Association. We regularly advised the Management Board on the management of the Company and continuously observed and supervised its conduct of business. The Supervisory Board was intensively involved from an early stage in all decisions of significance for the Company. We performed these functions on the basis of detailed written and oral reports received from the Management Board, which contained up-to-date and comprehensive information regarding all relevant topics. When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented.

Outside the Supervisory Board meetings, as the Chairman of the Board, I personally maintained regular contact with the Management Board and especially with the Chief Executive Officer, Dr. Simon Moroney, and was kept informed about the current business situation and key business transactions. I also took the opportunity to talk directly to members of the senior management group. Thus, the Supervisory Board was kept continuously informed about the Company's intended business strategy, corporate planning (including financial, investment and human resources planning), the earnings performance as well as the state of the business of and the situation in the Company and the Group as a whole, which the Supervisory Board felt was particularly important during this time of global financial uncertainty for all industries. In 2009, the majority of our discussions focused intensively on the Company's proprietary therapeutic antibody drug development plans as well as on various acquisition opportunities to accelerate the growth and value of MorphoSys.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

Six Supervisory Board meetings were held in fiscal year 2009. Between meetings, the Management Board kept us constantly informed about all projects and plans of particular importance to the Company. All events of importance to the Company were discussed in detail by the committees and the Supervisory Board plenum on the basis of reports by the Management Board. Where required by law and the Articles of Association, the Supervisory Board made decisions on the reports and resolution proposals of the Management Board after detailed examination and discussion.

The Management Board provided us with extensive written reports well in advance of each meeting, which were prepared by the Management Board with the input of the respective departments. These reports contained detailed information on the state of the Company and the development of its business, its financial situation, the personnel situation, development projects and fundamental issues of corporate



"In 2009, the majority of our discussions focused on completing the development organization and advancing the promising product candidates in our proprietary portfolio." Dr. Gerald Möller, Chairman of the Supervisory Board

planning and strategy. They were sufficiently comprehensive to explain the challenges and progress of MorphoSys. These reports were the basis for the analysis of the relevant topics at the Supervisory Board meetings and for passing the required resolutions.

The Supervisory Board dealt at length with the overall business situation, the development of revenues, earnings, investments and employment in the Group and its three business segments. All major investment projects were the subject of regular deliberations at the meetings. The Management Board reported regularly on the progress of the existing partnerships, proprietary antibody development, ongoing technology development efforts and the progress of the AbD Serotec segment.

In 2009, a special focus of Supervisory Board discussions was the development of the AbD Serotec segment. The new Head of AbD Serotec, Dieter Feger, reported in several board meetings on progress and planned steps to improve the financial performance and the strategic positioning of the unit. Another important topic in 2009 was the review of several opportunities to strengthen and accelerate the Company's proprietary product portfolio. In this context, several acquisition opportunities were evaluated.

Three committees deliberated on various aspects of the Company's business in 2009: the Audit Committee, the Remuneration & Nomination Committee, and the Science & Technology Committee. The composition of these committees can be found in the Corporate Governance chapter of this annual report. The Audit Committee met six times, dealing mainly with accounting issues, the quarterly financial statements and the annual financial statements. The auditor attended three meetings of the Audit Committee and informed its members of the audit results. The Remuneration & Nomination Committee met once and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board as well as with the appointment of the Chief Development Officer. The Science & Technology Committee met four times, focusing on the Company's development plans, interim results from ongoing studies, and the design of the planned and current clinical trials. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

Conflicts of interest of Management Board and Supervisory Board members, which must be disclosed to the Supervisory Board immediately and reported to the Annual General Meeting, did not occur in the year under review.

No Supervisory Board member was absent from more than one meeting.

* SEE P. 39 ET SEQ.

* FURTHER INFORMATION ON WWW.MORPHOSYS.COM

* SEE P. 44

CORPORATE GOVERNANCE AND MANAGEMENT BOARD COMPENSATION

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account any amendments made to the German Corporate Governance Code in June 2009. In implementing new legal requirements and the new recommendations of the Code, we also dealt with the compensation system for the Management Board in the absence of its members. To ensure conformity with the new German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG), the Supervisory Board is currently reviewing the compensation system for the Management Board in detail. The review involves discussions with external consultants. The results of this review, which must take into account the interests of the stockholders, the Company and its Management Board members, were not yet fully available when the Management Report was finalized, but will be finalized prior to the end of the transition periods specified by the VorstAG. A progress report will be given at the Annual General Meeting 2010. Changes are to be implemented no later than the new appointment of the Management Board members in June 2011. I am happy to report that a qualified independent consultant has confirmed that the remuneration packages of the Management Board are appropriate for the Company's size and financial position.

On December 23, 2009, the Management and Supervisory Boards issued a new Declaration of Conformity, which is included in the Corporate Governance* chapter of this annual report and is also permanently available to shareholders on MorphoSys's website*. As stated in the Declaration of Conformity approved by the Supervisory Board, MorphoSys complies with all but three of the Code's recommendations.

For more detailed information regarding corporate governance issues, please refer to the Corporate Governance* section and the remuneration report* of this annual report.

INTERNAL CONTROLS

MorphoSys implemented an internal control system for establishing and maintaining adequate internal control over financial reporting. In 2009, MorphoSys has tested the compliance with its internal controls with the assistance of an external consultant. The results have been discussed within the Management and Supervisory Boards.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements and the management report of MorphoSys AG in accordance with HGB (German GAAP) and the consolidated financial statements and the Group management report of the MorphoSys Group (MorphoSys AG including its affiliates) on the basis of IFRS in accordance with sec. 315a HGB for the period of January 1, 2009, to December 31, 2009, prepared by the Management Board, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. The audit contract had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 13, 2009. The auditor issued an unqualified audit opinion.

The auditor has audited the MorphoSys Group's consolidated financial statements and the annual financial statements of MorphoSys AG as well as the management reports for the Group and the MorphoSys AG according to HGB and German auditing standards. The auditor confirmed that the con-

solidated annual financial statements are an accurate and fair reflection of the financial situation, the result of business activity, and the Group's cash flow, in accordance with the accounting principles as defined by IFRS. The focus for the 2009 audit of the consolidated financial statements and the Group management report of the MorphoSys Group was the process of preparing the consolidated financial statement, the accuracy of the annual financial statements included in the consolidated financial statements, capital consolidation, the accuracy of translation of foreign currency transactions and financial statements the determination of current and deferred taxes, the impairment test for the goodwill, the accuracy of segment reporting and the reasonableness of the disclosures regarding future development of the Group in the Group management report.

The focus of this year's audit of the financial statements and the management report of MorphoSys AG was the process of preparing the financial statements, the design, implementation and effectiveness of internal controls in the procurement process as well as the design, implementation and effectiveness of internal controls relating to Counsel Licensing & Intellectual Property, the completeness of trade accounts payable and accruals for outstanding invoices, the accurate recognition of the operating revenues, impairment of financial assets and the reasonableness of the disclosures regarding future development of the Company in the management report.

The audit reports and the financial statement documentation were sent to all Supervisory Board members with a sufficient amount of lead time for review. The audit report as well as the consolidated financial statements and the MorphoSys Group Management Report were discussed intensively at the Audit Committee meeting on February 18, 2010, and at the Supervisory Board meeting on the same day. The audit report as well as the financial statements and the management report of MorphoSys AG were the subject of detailed discussion at the Audit Committee meeting on March 11, 2010, and at the subsequent Supervisory Board Meeting on the same day. At the respective meetings, the auditor took part in the discussion of the financial statements. He reported on the main results of his audits and was available to the Supervisory Board to answer questions and provide supplementary information. After our final review, the Supervisory Board approved the financial statements without objection or amendment and thus adopted them.

On behalf of my colleagues on the Supervisory Board, I would like to thank the members of the Management Board and the employees of all MorphoSys companies for their work and personal commitment. The year 2009 was another very successful one for MorphoSys, and I am convinced that the Company is well positioned for the future.

Martinsried/Planegg, March 11, 2010

Dr. Gerald Möller
Chairman of the Supervisory Board

SENIOR MANAGEMENT GROUP OF MORPHOSYS AG

KLAUS DE WALL
Head of Finance and Accounting

SILVIA DERMIETZEL
Head of Global Human Resources

DR. MARKUS ENZELBERGER
Head of Discovery Alliances and Technologies

DIETER FEGER
Head of AbD Serotec

DR. CLAUDIA GUTJAHR-LÖSER
Head of Corporate Communications and Investor Relations

DR. BARBARA KREBS-POHL
Head of Business Development

DR. ULRICH MOEBIUS
Head of Preclinical Development and Project Management

DR. RALF OSTENDORP
Head of Protein Sciences

DR. LISA ROJKJAER
Head of Clinical Development

DR. MARGIT URBAN
Head of Target and Antibody Discovery

DR. HARALD WATZKA
Head of Alliance Management

DR. ARMIN WEIDMANN
Head of Quality Assurance and Regulatory Affairs

DR. GÜNTER WELLNHOFER
Head of Technical Operations

SUPERVISORY BOARD OF MORPHOSYS AG

DR. GERALD MÖLLER
(Chairman)

Heidelberg, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
- BioAgency AG, Germany (Chairman)
- febit holding AG, Germany (Director)
- Invendo Medical GmbH* (Chairman)
- MTM AG, Germany (Chairman)
- 4sigma,* Bermuda (Chairman)
- Bionostics, Inc.,* USA (Director)
- Find Foundation,* Switzerland (Chairman)
- Pelikan Technologies, Inc.,* USA (Chairman)
- VIVACTA Ltd.,* UK (Director)

PROF. DR. JÜRGEN DREWS
(Deputy Chairman)

Naples, FL, USA, and Feldafing, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
- Agennix AG, Germany
- Human Genome Sciences, Inc.,* USA

DR. WALTER BLÄTTLER
(Member)

Brookline, MA, USA

No other Supervisory Board memberships

* Membership in comparable domestic and foreign supervisory boards of commercial enterprises

DR. DANIEL CAMUS
(Member)

Paris, France

MEMBER OF THE SUPERVISORY BOARD OF:
- EnBW, Germany
- SGL Carbon, Germany
- Dalkia Holding,* France
- EDF International,* France (Chairman)
- EDF Energy Group,* UK (Chairman)
- Edison SpA,* Italy
- Transalpina de Energia SRL,* Italy
- Valéo,* France

DR. METIN COLPAN
(Member)

Essen, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
- Qalovis GmbH,* Germany
- Qiagen NV,* the Netherlands

DR. GEOFFREY N. VERNON
(Member)

Sampford Barton, UK

MEMBER OF THE SUPERVISORY BOARD OF:
- Advanced Medical Solutions,* UK (Chairman)
- Apitope International NV,* UK (Chairman)
- Genable Ltd.,* Ireland (Chairman)
- TyraTech, Inc.,* USA (Non-executive Director)
- Veryan Medical Ltd.,* UK (Chairman)
- XL TechGroup, Inc,* USA (Chairman)
- Ziggus Holdings Ltd.,* UK (Chairman)

GLOSSARY

A

Amyloid-beta – Target molecule in Alzheimer's disease therapy; main constituent of amyloid plaques in the brains of Alzheimer's disease patients

Antigen – Foreign substance stimulating antibody production; binding partner of antibody

Anti-IL-6 – Anti-interleukin-6 (agents); recent class of therapeutics, the protein interleukin-6 is relevant to many inflammatory diseases and cancers

Antibody – Proteins of the immune system that recognize antigens, thereby triggering an immune response

Antibody library – A collection of genes that encode corresponding human antibodies

Autoimmune disease – Disease caused by an immune response by the body against one of its own tissues, cells or molecules

B

Biosimilars – Term used to describe officially approved new versions of innovator biopharmaceutical products, following patent expiry

C

Cash flow – Key performance indicator in the cash flow statement used to assess the financial and earning capacity

CD20 – Therapeutic target for the treatment of B-cell lymphomas and leukemias

Clinical trial – Clinical trials allow safety and efficacy data to be collected for new drugs or devices. Depending on the type of product and the stage of its development, investigators enroll healthy volunteers and/or patients into small pilot studies initially, followed by larger-scale studies in patients

COGS – Cost of goods sold; costs for antibody material produced by the AbD segment

E

EMA – European Medicines Agency

F

FDA – Food and Drug Administration; US federal agency for the supervision of food and drugs

G

GCP – Good clinical practice; an international ethical and scientific quality standard for designing, conducting, recording and reporting trials that involve the participation of human subjects

GM-CSF – Granulocyte-macrophage colonystimulating factor; underlying target molecule of MOR103 program

GMP – Good management practice; term for the control and management of manufacturing and quality control testing of pharmaceutical products and medical devices

Goodwill – An intangible asset that reflects the value of a company's name and reputation, its customer relations and other factors influencing its standing and competitiveness

H

HGB – German Commercial Code

HuCAL – Human Combinatorial Antibody Library. Proprietary antibody library enabling rapid generation of specific human antibodies for all applications (explanation of GOLD/PLATINUM)

Human – Of human origin

I

IFRS – International Financial Reporting Standards; future EU-wide standards produced by the IASB

Immunization – Generation of antibodies by administering antigen

IND – Investigational New Drug (Application)

in vitro – in a test tube

in vivo – in a living organism

L

Life sciences – All branches of science that study all organisms, especially living ones

M

Macrophage – White blood cell that ingests foreign material. Macrophages are key players in the immune response to foreign invaders such as infectious microorganisms

Market capitalization – Value of a company's outstanding shares, as measured by shares times current price

M&A – Mergers and Acquisitions

Milestone – Predefined event relating to the development of the substance into a drug

Monoclonal antibody – Homogenous antibody originating from a single clone, produced by hybridoma cell

Multiple myeloma – Type of cancer that develops in a subset of white blood cells called plasma cells formed in the bone marrow

Multiple sclerosis – Disease of the central nervous system characterized by the destruction of nerve fibers

N

NIH – National Institutes of Health; part of the US Department of Health and Human Services, the primary federal agency for conducting and supporting medical research

O

Osteolysis – Dissolution or degeneration of bone tissue through disease

P

Phage-display technology – Screening technology; presentation of peptides/proteins on surface of phages

Pharmacokinetics – Determination of the fate of substances administered externally to a living organism

Plaque psoriasis – Most common form of psoriasis, a chronic, non-contagious autoimmune disease which affects the skin and joints

Preclinic – Preclinical stage of drug development; tests in animal models as well as in laboratory assays

Protein – Polymer consisting of amino acids, e. g. antibodies and enzymes

R

RapMAT – Maturation process; proprietary technology of MorphoSys

R&D – Research and Development

Reagent – A substance used in research and diagnostic applications

Rheumatoid arthritis – Inflammatory disease of the joints; abbreviation: RA

Royalties – Percentage share of ownership of the revenue generated by drug products

S

S, G&A – Sales, general and administrative

Specificity – Property of antibodies, for example, to discriminate between different, but similar, antigens

T

Target – Target molecule for therapeutic intervention, e. g. on surface of diseased cell

TecDAX – Index of the 30 largest technology companies listed on the Frankfurt Stock Exchange

TNF – Tumor necrosis factor; important cytokine involved in systemic inflammation in RA patients

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TRANSLATION AND EDITORIAL SUPPORT
FinKom Gesellschaft für Finanzkommunikation mbH, Usingen
Friedrichs & Friends, Lübeck

TYPESETTING AND LITHOGRAPHY
Knecht GmbH, Ockenheim

PRINTER
Societäts Druckerei GmbH, Mörfelden-Walldorf

COPY DEADLINE
March 11, 2010 (except financial statements)

HIGHLIGHTS 2009

JANUARY

NEW HEAD FOR ABD SEROTEC

Dieter Feger is the new leader of MorphoSys's business unit AbD Serotec. He joins MorphoSys from Abbott Diagnostics, a key player in the diagnostics industry. As Head of AbD Serotec, Mr. Feger is responsible for the research and diagnostic antibody team in Germany, the UK and the US. His aim is to increase the unit's market share in the research antibody markets and to seek new opportunities in the diagnostics industry by establishing MorphoSys's HuCAL technology as a leading platform in these markets.

FEBRUARY

HEAD OF PRECLINICAL DEVELOPMENT APPOINTED

MorphoSys confirms its plans to significantly broaden its proprietary therapeutic antibody pipeline in 2009 and the years ahead. Just a few weeks after the appointment of Dr. Arndt Schottelius as Chief Development Officer, MorphoSys's proprietary development team is further strengthened by the appointment of Dr. Ulrich Moebius as Head of Preclinical Development and Project Management. Dr. Moebius joins the Company from Medigene, where he was responsible for the company's preclinical activities and contributed to the market approval of two medical therapies.

MARCH

EUROPEAN PATENT POSITION STRENGTHENED

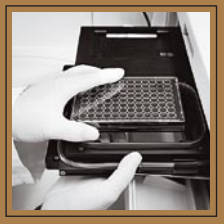
The European Patent Office provides extended protection for the HuCAL technology by granting a new patent that captures HuCAL's modular design at the DNA level. The patent is another step in the Company's ongoing efforts to build a strong intellectual property portfolio around HuCAL and other antibody-related technologies.

MAY

CLINICAL MILESTONE WITH NOVARTIS

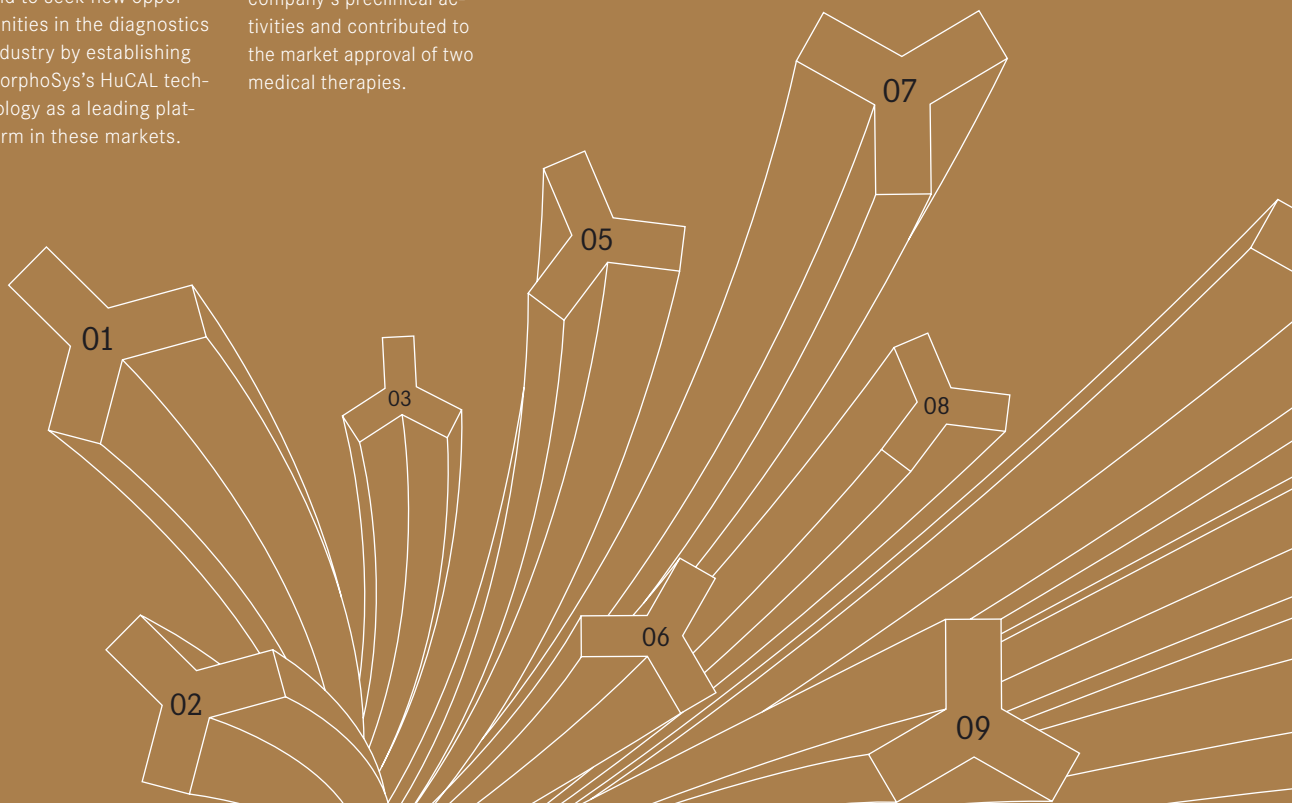
Novartis files the necessary documentation to initiate a phase 1 clinical trial with another HuCAL-derived fully human antibody, resulting in a milestone payment for MorphoSys. It is the second HuCAL antibody resulting from MorphoSys's alliance with Novartis to enter clinical trials and the seventh overall. The milestone event highlights once more the importance and progress of MorphoSys's partnered pipeline, which is a key driver of the Company's value.

JUNE



JAPANESE PATENT POSITION STRENGTHENED

The Japan Patent Office grants a new patent covering MorphoSys's proprietary screening technology CysDisplay, a central component of the Company's HuCAL platform. The new patent expands the protection of MorphoSys's core technology in the important market for antibody-based products and services in Asia.



JULY

SUPPLY AGREEMENT FOR DIAGNOSTIC KITS

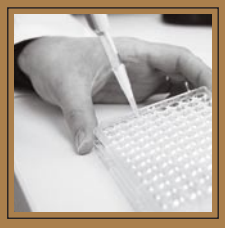
In line with the growing number of leading diagnostic companies that are partnering with AbD Serotec to bring innovative diagnostic solutions to doctors and patients, Spanish biotechnology company Spinreact signs a supply agreement with MorphoSys's research and diagnostic antibodies unit. AbD Serotec continuously supplies Spinreact with antibody material which will be incorporated into a series of clinical diagnostic kits. The partnership emphasizes AbD Serotec's reputation in the industry as a provider of tailored antibodies for research and diagnostic applications.

AUGUST

CLINICAL MILESTONE WITH BAYER SCHERING PHARMA

Bayer Schering Pharma AG commences a phase 1 clinical trial with a HuCAL-derived antibody-drug conjugate (ADC) in the therapeutic area of oncology, triggering a milestone payment to MorphoSys. Bayer Schering Pharma is the fourth partner running clinical trials of HuCAL-based antibodies. In 2009 alone, three HuCAL-antibodies reached this stage of development.

SEPTEMBER



FURTHER EXPANSION IN DIAGNOSTIC SPACE

Research and diagnostic antibody unit AbD Serotec signs a research collaboration with Switzerland-based FIND for the development of heat-stable HuCAL-based antibodies as key components of novel diagnostic tests for use in tropical climates. The diagnostic platforms are currently being developed for TB, malaria and sleeping sickness. Other infectious diseases may be diagnosed in the future using the same technology.

SEPTEMBER

HEAD OF CLINICAL DEVELOPMENT APPOINTED

MorphoSys fills another key position on its proprietary development team by appointing Lisa Rojkjaer, MD, as Vice President and Head of Clinical Development. Dr. Rojkjaer joins MorphoSys from Novartis Pharma AG where she held the position Head of Medical Affairs – Hematology, Europe. The position has been filled with a very experienced medical scientist who is dedicated to supporting MorphoSys's plans to advance and expand its proprietary pipeline and to develop a constant flow of valuable drug candidates.

OCTOBER

INFECTIOUS DISEASE DEAL WITH DAIICHI SANKYO

The new agreement with Japanese Daiichi Sankyo is MorphoSys's first therapeutic alliance that focuses on infectious diseases. Within the framework of the agreement, MorphoSys and Daiichi Sankyo apply HuCAL PLATINUM to generate optimized, fully human therapeutic antibodies against targets associated with hospital-acquired infections. With current mortality rates of 40% – 60% due to resistance to existing antibiotics, the discovery and development of novel antibody therapies addresses a large market need.

NOVEMBER

APPROVAL FOR MOR103 PATIENT TRIAL

MorphoSys receives approval from Germany-based Paul-Ehrlich-Institut and German ethics committees to commence a phase 1b/2a human clinical trial of its lead drug MOR103, a fully human monoclonal antibody directed against GM-CSF, in patients with rheumatoid arthritis. In total, 135 patients in several European medical centers will be enrolled by the first half of 2011. The final results of the trial are expected in the first half of 2012.

FINANCIAL CALENDAR

February 25, 2010	2009 Year-End Results Analyst Meeting and Press Conference Frankfurt am Main, Germany
April 28, 2010	Interim Report, January to March 2010
May 21, 2010	Annual General Meeting Munich, Germany
July 29, 2010	Interim Report, January to June 2010
October 28, 2010	Interim Report, January to September 2010