

Annual Financial Statements
as of 31 December 2012
(German GAAP)

MorphoSys AG, Martinsried

Management Report

MorphoSys sharpened its focus on therapeutic applications in 2012 and made clear progress in respect of its future technologies and products. The market launch of the new technology platform Ylanthia enabled the start of the first revenue-generating partnership in 2012. The foundations for future out-licensing agreements were further improved through positive clinical data on its proprietary drug programs MOR103 and MOR208. The sale of substantially all of the business segment AbD Serotec will increase MorphoSys's financial flexibility to further extend the therapeutics business through strategic transactions and investments in proprietary R&D activities.

Operations and Business Environment

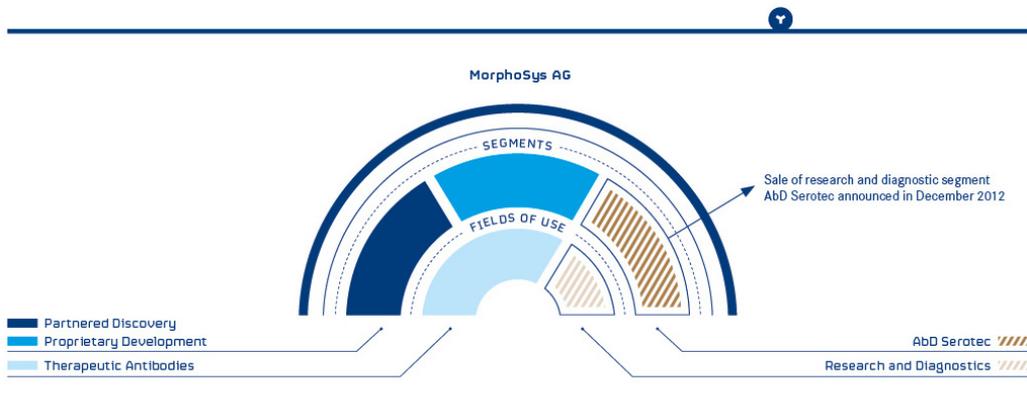
Organizational Structure

ORGANIZATION OF MORPHOSYS AG

The MorphoSys AG and its subsidiaries develop and commercialize high-quality antibodies for therapeutic as well as research and diagnostic applications. Industry-leading proprietary technologies form the basis of business activity for the three business segments. The Partnered Discovery segment operates therapeutic development programs for drug candidates in cooperation with renowned biotechnology and pharmaceutical companies. Together with partners, this segment works on solutions to the most urgent health issues of our time. The second segment, Proprietary Development, also operates in the therapeutic market. The goal of this segment is to develop proprietary drug candidates based on innovative therapeutic antibodies made using the Company's technology. These are to be out-licensed to partners after successful proof of clinical efficacy. The third operating segment, AbD Serotec, supplies public and industrial research institutions as well as diagnostics groups with premium antibodies. The sale of substantially all¹ of MorphoSys's research and diagnostics division, AbD Serotec, to Bio-Rad was agreed on 16 December 2012 in order for MorphoSys to focus on the development of proprietary drugs and technologies. The transaction was concluded in January 2013.

¹ Bio-Rad acquired the AbD Serotec segment, not including the subsidiary Poole Real Estate Ltd. and the Slonomics technology

FIG. 1: ORGANIZATIONAL STRUCTURE OF MORPHOSYS AG



In 2012, MorphoSys AG had five sites in Germany, Great Britain and the USA. MorphoSys AG, as the parent company of the MorphoSys Group, is located in Martinsried, Germany, and carries out central group functions including accounting, controlling, human resources, legal, intellectual property, corporate communications and investor relations. The two segments Partnered Discovery and Proprietary Development are located here, also. The R&D activities of the AbD Serotec unit are located in Puchheim near Munich, Germany, and Kidlington near Oxford, United Kingdom. MorphoSys's international sales are handled by the national offices in Germany, the United Kingdom and in the United States of America. With the sale of substantially all of the AbD Serotec business unit to Bio-Rad, agreed at the end of 2012, the four sites in Puchheim, Düsseldorf, Kidlington and Raleigh will be transferred to Bio-Rad during 2013.

MorphoSys continues to carefully consider locational advantages such as good infrastructure, a qualified workforce, an appropriate supplier base, plus political support for the biotechnology and life sciences as well as synergies resulting from cooperation with regional research institutes in order to support its future growth objectives.

MORPHOSYS'S LEGAL STRUCTURE

MANAGEMENT AND SUPERVISION

MorphoSys AG, a German stock corporation listed in the Prime Standard segment on the Frankfurt Stock Exchange, heads the MorphoSys Group. In accordance with the German Stock Corporation Act, MorphoSys AG has a dual management structure, with the Management Board as the leading body. Its four members are appointed and supervised by the Supervisory Board. For more information regarding Group management, supervision and corporate governance in general, please see the Corporate Governance Report. The Senior Management Group, which completes the MorphoSys AG management team, comprises 14 people from the different MorphoSys departments. In this reporting year, there have been no changes to the legal structure of the MorphoSys Group or its entities compared to the year before. However, the sale of substantially all of the AbD Serotec segment to Bio-Rad completed in January 2013, has laid the foundation for a wide-reaching simplification of the Group-structure and a focus on the therapeutic markets.

BUSINESS ACTIVITIES

MORPHOSYS'S TECHNOLOGIES

MorphoSys's technology development forms the foundation of its success. For more than ten years the Company has been working with its HuCAL antibody library, a collection of billions of fully human antibodies. With 76 therapeutic HuCAL programs currently in development, the most advanced of which is a phase 3 trial in Alzheimer's disease, the Company has one of the broadest product pipelines in the industry.

In order to successfully drive research work in the future, the next generation of antibody technologies was launched under the name of Ylanthia. The Ylanthia technology was specially conceived to eliminate current obstacles in the development of therapeutic antibodies, such as the limitations of biophysical properties or a lack of structural diversity. If necessary, antibodies from the Ylanthia library can be precisely optimized with the help of the Slonomics technology. In this respect Ylanthia differs from the HuCAL platform, which builds on the modular design of antibody genes using predefined gene cassettes for the optimization of antibodies. In November 2012, MorphoSys successfully began marketing this innovative platform with an extension to its existing commercial agreement with Novartis.

In addition to therapeutic antibodies, MorphoSys strives to complement its technology platform by securing access to new markets and molecule classes. The technology alliance and equity investment in the Dutch start-up Lanthio Pharma, a pioneer in the field of modern peptide compounds, which was signed in 2012, is an example of this endeavor.

MORPHOSYS IN THE THERAPEUTIC MARKET

MorphoSys is a leading provider of superior antibody technologies in the therapeutic market. With HuCAL and the novel Ylanthia library, the Company offers established and highly innovative technologies for the pharmaceutical and biotechnology markets. In addition to these services MorphoSys also undertakes proprietary drug development and participates in the successful development of therapeutic antibody candidates. MorphoSys generates significant cashflows through proceeds from partnerships which are reinvested in proprietary R&D activities. Alongside significant investments in proprietary development programs, MorphoSys has solid operating results – a unique characteristic in the biotechnology industry.

Smaller biopharmaceutical companies in particular faced great financial challenges in the reporting year, not least because of the global economic situation. This has led to restrictive financing opportunities for many companies that are focused on capital-intensive and long-standing research activities, which require hefty financial resources. In this market environment, MorphoSys can assert itself best as a progressive product and technology provider with extensive capital resources.

COMPETITIVE LANDSCAPE

The market for therapeutic antibodies is one of the fastest-growing in human healthcare. In 2012, the human monoclonal antibody adalimumab (Humira®) led the list of top-selling drugs worldwide for the first time.

TAB.1: TOP 5 MONOCLONAL ANTIBODY DRUGS

Generic Name	Brand [®]	Company	Indications (FDA/EMA approved)	Revenues estimate for 2012 in US\$ billion
Adalimumab	Humira	Abbott	Rheumatoid Arthritis, Juvenile Idiopathic Arthritis, Psoriatic Arthritis, Ankylosing Spondylitis, Crohn's Disease, Plaque Psoriasis	9.48
Infliximab	Remicade	J&J, Merck, Mitsubishi Tanabe	Crohn's Disease, Pediatric Crohn's Disease, Ulcerative Colitis, Pediatric Ulcerative Colitis, Rheumatoid Arthritis, Ankylosing Spondylitis, Psoriatic Arthritis, Plaque Psoriasis	7.67
Rituximab	Rituxan	Roche	Non-Hodgkin's Lymphoma (NHL), Chronic Lymphocytic Leukemia (CLL) Rheumatoid Arthritis (RA), Granulomatosis with Polyangiitis (GPA) and Microscopic Polyangiitis (MPA)	6.94
Trastuzumab	Herceptin	Roche	Adjuvant Breast Cancer, Metastatic Breast Cancer, Metastatic Gastric Cancer	6.08
Bevacizumab	Avastin	Roche	Metastatic Colorectal Cancer (mCRC), Non-Squamous Non-Small Cell Lung Cancer (NSCLC), Glioblastoma, Metastatic Renal Cell Carcinoma (mRCC)	5.98

Source: www.fiercepharma.com,
Article as of 9 October 2012

According to Datamonitor, there are more than 300 monoclonal antibody candidates currently in clinical development. MorphoSys currently has twenty antibody candidates in the clinical pipeline. Oncology accounts for the highest number of programs in clinical development, with around half of all programs in the various development phases. After oncology, the second-largest therapy area includes autoimmune and inflammatory diseases. The third-most represented therapy area is infectious diseases. These research fields continue expanding with the introduction of new indications such as osteoporosis, muscular atrophy and cholesterol control. Additionally, newly created technologies such as antibody drug conjugates (ADCs), bispecific and trifunctional antibodies, domain antibodies, nanobodies and Fc-antibodies illustrate the diversity of the antibodies market.

In the commercialization of its antibody technologies, MorphoSys competes with other providers of antibody technologies that can be divided into two categories:

- Antibody and antibody fragment technologies as offered by companies such as Ablynx, Adimab, Bioinvent, Dyax and Genmab.
- Antibody-mimicking structures (scaffolds), such as those from Molecular Partners (Switzerland) or Pieris (Germany).

There are no market data available that comprehensively capture the marketing of technologies in the area of antibody development. MorphoSys currently has 20 antibody programs in clinical development. Measured by this number, MorphoSys occupies a leading position in this field with its HuCAL technology platform.

MorphoSys competes in the area of therapeutic antibody development and the out-licensing of clinical development candidates with a range of companies. Examples of MorphoSys's competition are: Biotest, Genmab, MacroGenics and Symphogen.

MorphoSys has not yet out-licensed any proprietary development programs to date, therefore no information on the market share can be given.

PARTNERED DISCOVERY

MorphoSys's Partnered Discovery segment business applies the Company's proprietary technologies to the research, development and optimization of therapeutic antibody drug candidates in partnerships with pharmaceutical and biotechnology companies. While the development costs are borne by the respective partner, MorphoSys profits further from successful programs in the form of milestone payments and potential royalties on product sales.

The Company's largest alliance is the 2007 agreement signed with Novartis, a pharmaceutical partner with a growing biologics pipeline. This collaboration was expanded through an additional agreement in November 2012. Within the framework of the agreement, both companies implemented MorphoSys's next generation antibody platform Ylanthia to generate therapeutic antibodies. MorphoSys plans to broadly license the technology with new partnerships in the future.

TAB. 2: PARTNERED DISCOVERY SEGMENT'S SHARE OF TOTAL REVENUES

in Mio. €	2012	2011	2010	2009	2008
Revenues Partnered Discovery	42.9	76.8	66.0	61.7	54.3
% of total revenues	81%	93%	94%	94%	96%

Partnered drug development allows MorphoSys to be active in a broad range of indications that the Company normally would not pursue due to a lack of expertise, for instance:

CENTRAL NERVOUS SYSTEM DISEASES - ALZHEIMER'S DISEASE

With the antibody compound gantenerumab, developed together with its partner Roche, MorphoSys's portfolio contains a promising treatment option for Alzheimer's disease (AD). There are currently no drugs that can fundamentally influence the course of AD. In the reporting year 2012, the competitive situation in the Alzheimer's therapy field changed significantly in terms of the development of existing antibody compounds. Negative trial results with the two therapeutic antibodies bapineuzumab (Pfizer) and solanezumab (Eli Lilly) from patients in the mild to moderate stages of the disease have shifted the focus to earlier intervention. Roche is already carrying out its current pivotal phase 2/3 trial in patients in the early stages of the disease. The HuCAL antibody gantenerumab is now recognized as one of the most advanced compounds in development.

TAB. 3: MARKET DATA ON SELECTED PARTNERED PROGRAMS IN CLINICAL PHASE 2

Program Name	MorphoSys-Partner	Indication	Market Potential
Gantenerumab	Roche	Alzheimer's Disease (AD)	<ul style="list-style-type: none"> • High unmet medical need due to lack of disease-modifying drugs • High potential market growth rate due to aging population, earlier and improved diagnosis and the emergence of accompanying immunotherapies that will be prescribed in addition to existing treatments • Expected CAGR: 10.7%, with a total market size of around US\$ 11.8 billion in 2018
BYM338	Novartis	Inclusion Body Myositis Cachexia	<p>Inclusion Body Myositis:</p> <ul style="list-style-type: none"> • Slowly progressive degenerative inflammatory disorder of skeletal muscles with very low prevalence of 1-9 / 100.000 (orphan disease) • No curative treatment exists so far <p>Cachexia:</p> <ul style="list-style-type: none"> • Emaciation by waste of muscles and fat • 55% of all cancer patients are affected in the course of their disease. This makes about 1.9 million of 3.5 million cancer patients in the seven major markets*
CNT01959	Janssen Biotech	Psoriasis, Rheumatoid Arthritis	<p>Psoriasis:</p> <ul style="list-style-type: none"> • Life-long disease with high morbidity and severe impact on patients' quality of life • New biologic therapies as market value driver; sales growth to US\$ 5.5 billion in 2020; CAGR: 2.2% (2011 through 2020)* <p>Rheumatoid Arthritis:</p> <ul style="list-style-type: none"> • Inflammatory autoimmune disease that leads to reduced mobility • In 2010 there have been about 4.6 million people* with RA • Expected CAGR: 2.9%*, with a market potential of US\$ 18 billion in 2020

Sources: www.orpha.net, Datamonitor

* Seven major markets: USA, Japan, France, Germany, Italy, Spain and Great Britain

PROPRIETARY DEVELOPMENT

An important goal for MorphoSys is generating value above and beyond its Partnered Discovery segment by developing innovative proprietary antibody products. MorphoSys's scientists concentrate on indications such as inflammatory and autoimmune diseases, as well as cancer and infectious diseases. The first clinical trial data, published in 2012, support the great potential value of MorphoSys's

proprietary drugs. Furthermore, the solid patent position around our development programs greatly improves the Company's standing.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory and autoimmune disorders are a substantial social and economic burden, affecting millions of patients worldwide. The IMS Institute for Healthcare Informatics forecasts a world market for the treatment of autoimmune diseases of between US\$ 33 billion and US\$ 36 billion by 2016.

MorphoSys's most advanced program, MOR103, targets the GM-CSF target molecule, an important factor in the pathophysiology of inflammatory diseases. The clinical phase 1b/2a trial for the treatment of rheumatoid arthritis (RA) was concluded in September 2012 with outstanding data on safety and efficacy. A phase 1b trial for multiple sclerosis (MS) continued in 2012. Furthermore, MOR103 was safe and well tolerated and demonstrated a favorable and competitive pharmacokinetic profile in a clinical phase 1 study in healthy volunteers.

The RA market bears great commercial opportunities; more than 80% of total turnover already consists of biological therapies. The overall market is constantly growing, with a total estimated value of around US\$ 18 billion in 2020. Several transactions in the RA area in recent years underline the interest of pharmaceutical companies in novel biological treatment methods.

Biotechnology drugs already make up the majority of disease-modifying treatment processes in the MS market, both in terms of turnover and the number of approved therapies. The current most-sold MS drugs reach a joint annual turnover of around US\$ 11 billion and the market is predicted to grow further. Differences in relation to the course and severity of MS lead to market segmentation into subtypes of the disease, for example relapsing-remitting MS or primary and secondary progressive forms of MS. This segmentation opens up various market approval pathways for new therapeutic compounds.

MOR103 has potential to be the first in class anti-GM-CSF antibody. Other advanced programs in development are mavrilimumab (CAM-3001) from Medimmune, part of the AstraZeneca Group, which is currently being evaluated in a phase 2 clinical trial, MT203 from Amgen and Takeda, and KB003 from Kalobios Pharmaceuticals. MorphoSys is one of the few independent providers to possess a clinically validated GM-CSF antibody, which is available to commercial partners for licensing.

MorphoSys has a collaboration with Galapagos for the discovery and development of antibody therapies based on novel modes of action in bone and joint diseases, including rheumatoid arthritis, osteoporosis and osteoarthritis. Both companies contribute their core technologies and expertise to the alliance. Under the terms of the agreement, Galapagos and MorphoSys will equally share the research and development costs and all future revenues.

ONCOLOGY

The ability of monoclonal antibodies to bind to specific antigens has led to their dominant position in the area of targeted cancer therapies. The global market for innovative biological therapies in cancer treatment is constantly growing. More precisely, the biologicals segment in oncology is forecast to almost double in size by 2014, eventually exceeding US\$ 50 billion in the next five to ten years, according to BCC Research. MorphoSys has advanced two proprietary cancer programs, namely MOR202 and MOR208, into clinical development in the past two years.

MorphoSys's antibody MOR208 targets the molecule CD19, which is of particular interest for many B-cell-derived cancers. The therapeutic market for B-cell malignancies is about US\$ 4 - 5 billion according to market research firm Decision Resources. Existing biological therapies against B-cell malignancies, including the blockbuster product Rituxan®, target the cell marker CD20. Due to the target molecule being expressed on a broader range of B-cells - compared to CD20 - anti-CD19 antibodies are considered to be an alternative approach. In addition, MOR208 is improved by the modification of the constant Fc part of the antibody, leading to increased antibody-dependent cellular cytotoxicity (ADCC) and antibody-dependent cellular phagocytosis (ADCP).

MOR208 successfully concluded a phase 1/2a trial in chronic lymphocytic leukemia (CLL) patients in 2012, with initial clinical data presented in December 2012 at the American Society of Hematology's annual meeting. MorphoSys is planning to start further MOR208 phase 2 trials in non-Hodgkin's lymphoma (NHL) and in acute lymphoblastic leukemia (ALL).

The most advanced competitive anti-CD19 antibody is Amgen's antibody blinatumomab (MT103), which is currently being evaluated in phase 2 trials for the treatment of acute lymphoblastic leukemia (ALL). Other clinical programs against the same target are pursued by companies including AstraZeneca/MedImmune and Sanofi/Immunogen. MorphoSys is one of the few independent providers to possess a clinically proven CD19 antibody that is still available to commercial partners for licensing.

In the area of B-cell diseases, various so-called small molecules are also being developed, for example ibrutinib from Johnson&Johnson/Pharmacyclics and idelalisib from Gilead Sciences, which demonstrated very high efficacy in phase 2 trials during 2012.

MorphoSys's antibody MOR202 is being developed for the treatment of multiple myeloma (MM), and targets CD38. At the end of 2012, the patent protection for MOR202 was further reinforced when the US Patent and Trademark Office (USPTO) granted an additional patent for the antibody's functional properties against CD38.

Despite being a relatively small oncology indication in terms of incidence, the MM market has logged impressive turnover figures in recent years, with a potential market size of US\$ 9 billion. Significant achievements in clinical practice and the launch of several efficacious premium-priced drugs have driven market expansion. However, untapped market potential remains for treatments that can improve the survival rate and reduce side effects compared to currently available compounds. Despite major improvements in terms of survival, the disease is only rarely curable and the majority of patients relapse. As a result, alternative treatments like those targeting surface antigen CD38 are especially sought-after. Besides MOR202, there are other development programs targeting CD38: Genmab's daratumumab, a human monoclonal antibody, is currently involved in a phase 1/2 trial. In August 2012, Genmab signed a partnership with Johnson & Johnson for the further development of daratumumab. Another antibody targeting CD38 is SAR650984 from Sanofi/Immunogen, a humanized antibody in a phase 1 clinical trial. The partnering of daratumumab in the 2012 reporting year in particular demonstrated the pharmaceutical industry's growing interest in CD38 as a target molecule for the treatment of MM. MorphoSys is one of the few independent providers to possess a CD38 antibody, which is still available to commercial partners for licensing.

INFLUENCING FACTORS

The healthcare sector in general is faced with serious cost-cutting measures worldwide due to the economic crisis. Even if good medical care for its population is the stated goal of all states and the demand

for new forms of treatment is constantly growing as a result of demographic change, financial cuts can slow the progress of the industry. As a result of funding cuts, governments throughout Europe, the USA and Asia are tightening healthcare provision, and reviewing the general reimbursement of drugs.

As is already the case with small-molecule drugs, generic drug competition due to expiring drug patents is now also increasingly challenging the biopharmaceutical industry. The technological barriers to copying biological drugs, however, remain high. Still, many drug developers, mainly from Europe and Asia, are entering this market now, thereby increasing the pressure on traditional biotechnology companies. According to a market analysis from IMS Institute for Healthcare Informatics, the worldwide market for biosimilars will grow from US\$ 693 million in 2011 to between US\$ 4 billion and US\$ 6 billion by 2016.

INFECTIOUS DISEASES

MorphoSys pursues an early disease program targeted against infections with MRSA (methicillin-resistant *Staphylococcus aureus*). As part of this initiative, MorphoSys signed a licensing and commercial agreement with UK-based Absynth Biologics, providing access to novel target molecules associated with *Staphylococcus aureus* infections, including MRSA. MorphoSys developed these antibodies, which are currently undergoing further early stage tests, using its proprietary HuCAL PLATINUM antibody library. MorphoSys will be solely responsible for the development and out-licensing of any resulting compounds.

MORPHOSYS IN THE ANTIBODY RESEARCH AND DIAGNOSTICS MARKET

In its third operating segment, MorphoSys provided antibodies under the AbD Serotec brand to customers in the life science research and modern clinical diagnostics sectors. AbD Serotec's sales model is based on a comprehensive catalog business with currently more than 15,000 immediately available products and is complemented by the production of antibodies in larger quantities on behalf of diagnostic customers.

COMPETITIVE LANDSCAPE

Driven by technological advances, the market for *in vitro* diagnostics (IVD) in particular has experienced significant growth in recent years. The demand for biomarker-based tests accounts for a large part of this development, and molecular diagnostics are seen as the fastest-growing segment. The total IVD market, mainly dominated by North America, Europe and Japan, was worth US\$ 44 billion in 2011 and is estimated to grow by around 45% until 2016.

AbD Serotec currently has relations with more than 20 diagnostic companies. The first diagnostic test kits using HuCAL antibodies as a key component entered the market in 2011.

INFLUENCING FACTORS

The sector for research and diagnostic antibodies also faces challenges in the form of legislative decisions on healthcare infrastructure in general, and depends to a large extent on public research funding through grants. As a result, the highest growth potential for IVD products is currently being seen in the BRIC states of Brazil, Russia, India and China, where public health is being supported by the respective government extensively.

Due to the continued debt crisis, there is heavy pressure on the research budgets of public institutions in the established markets of industrialized nations, e.g. research facilities and universities. This has negative effects on market growth and the development of turnover for the companies in this market segment.

MORPHOSYS'S SIGNIFICANT DEVELOPMENT ACTIVITIES IN 2012

In 2012, several events had a major impact on the Company's performance:

- MorphoSys generated excellent data on safety and efficacy in its trial with proprietary drug candidate MOR103 in RA. Additionally, a phase 1 trial on the subcutaneous delivery of the compound was successfully concluded. These most recent successes underscore the potential value of MOR103 in chronic inflammatory diseases.
- At the end of 2012, the Company announced the extension of the antibody alliance with its partner Novartis. Novartis will transition from HuCAL to Ylanthia. At the same time, MorphoSys secured the maneuvering space to partner Ylanthia on a broader scale.
- MorphoSys's product portfolio also moved ahead in the reporting period and remains one of the broadest antibody pipelines in the industry. At the end of 2012, it included a total of 76 programs, of which 20 are in clinical development. In the Proprietary Development segment in particular, significant advances were recorded for both MOR208 in CLL; MOR202 in MM; and MOR103 in inflammatory diseases. The promising preclinical data for MOR202 and MOR208 were presented in June 2012 at the American Society of Oncology (ASCO) meeting and in December 2012 at the American Society of Hematology (ASH) annual meeting.
- With its partner programs, MorphoSys achieved an important milestone in the cooperation with Roche when the clinical trial for the evaluation of gantenerumab in Alzheimer's patients was extended to a pivotal phase 2/3 trial.
- MorphoSys initiated a technology partnership with Lanthio Pharma for a new class of therapeutic peptides. Within the framework of the agreement, the companies will jointly implement their technologies to produce high-quality and diverse lantipeptide libraries. Furthermore, MorphoSys participated in the Series A financing round for Lanthio Pharma with an equity investment and now holds a minority stake in Lanthio Pharma.
- The sale of substantially all of MorphoSys's research and diagnostics division, AbD Serotec, to Bio-Rad was agreed in December 2012. The sale was completed on 10 January 2013.

For detailed information about the progress of MorphoSys's business activities in the reporting year, see the Research & Development section as well as Commercial Development.

Strategy and Performance Management

STRATEGY

MorphoSys aims to develop innovative technologies and drug candidates with a focus on antibody-based compounds. Partnerships with pharmaceutical and biotechnology companies that generate turnover create the financial clearance for additional value generation through the development of proprietary drug candidates. This business model allows for the constant expansion of the product pipeline and thus long-term value for the Company's shareholders without relying on the capital markets as a source of financing. In 2012, € 18.1 million or about 34% of revenue was invested in proprietary R&D. Proprietary R&D investment was therefore roughly on the same level as 2011.

The Partnered Discovery segment, as the first pillar of the corporate strategy, develops optimized therapeutic antibodies for partners in the pharmaceutical industry. With 70 partnered programs at the end of the 2012 financial year, MorphoSys possesses one of the broadest antibody pipelines in the industry.

The contractually guaranteed payments incorporate license fees for technologies and research funding, as well as success-based milestone payments and royalties on product sales. The cash flows generated in this manner can be invested in the second pillar, the Proprietary Development segment. Proprietary and partnered antibody programs share the same technology platform for development purposes. In this segment, the compounds are developed independently (or in a co-development setting) to proof of clinical efficacy before being out-licensed to pharmaceutical or biotechnology companies for late stage development and marketing. Under certain conditions, individual projects could be developed even further, perhaps even to market approval.

Technology development remains at the heart of the corporate strategy. In November 2012, the next generation of antibody platform, Ylanthia was successfully launched with a first commercial agreement. MorphoSys also launched a new initiative in 2012 through which the Company invests in promising start-up companies with technologies and products that fit with MorphoSys's interests. MorphoSys's first activity in this area was a commercial agreement with the biopharmaceutical company Lanthio Pharma announced in November 2012. The Dutch company specializes in the research and development of lantipeptides, a novel class of therapeutics with high target molecule selectivity and improved drug properties. Due to their size, lantipeptides are significantly smaller than antibodies, other classes of target molecule can be addressed that are unsuitable for antibodies. Within the framework of their commercial agreement, MorphoSys and Lanthio Pharma will combine their technologies to develop high-quality and diverse lantipeptide libraries.

With regard to future commercial development, MorphoSys monitors the pharmaceutical and biotechnology industries very closely in order to secure sustainable growth through acquisitions and out-licensing. Liquidity reserves of around € 114.0 million (including an interest-bearing transferable loan amounting to € 10.0 million) are reserved for strategic transactions and investments in proprietary research and development that could improve MorphoSys's technology base and therapeutic pipeline. The stated goal is to increase the Company's value via significant investments in its proprietary development activities with consistently high financial discipline and rigorous cost controls.

At the end of 2012, MorphoSys announced the sale of substantially all of its research and diagnostic segment, AbD Serotec. This transaction will strengthen MorphoSys's focus on the Company's core competence in the therapeutic field, which presents the greatest potential growth driver. Consequently, the organization will be completely focused on technologies and drug development which enable the targeted use of financial resources on the crucial value drivers.

PERFORMANCE MANAGEMENT

To achieve sustainable corporate growth and thereby generate a value increase for its shareholders, MorphoSys uses financial as well as non-financial indicators. These help to monitor the success of strategic decisions in day-to-day operations and if necessary, to take appropriate countermeasures in a timely manner.

FINANCIAL PERFORMANCE INDICATORS

The financial indicators used to evaluate the operational business performance are mainly parameters such as revenues and results from normal business activity. Performance is tracked on a monthly basis for every segment; budget planning for the current financial year is reviewed and updated quarterly. Furthermore, a medium-term plan covering the next three years is prepared each year. A thorough cost analysis measuring the Company's performance in line with its financial targets and in comparison to

prior periods is carried out on an ongoing basis. Expenses for S, G&A and R&D are evaluated particularly carefully.

MorphoSys's financial performance is impacted by factors such as milestone and license payments, research and development expenses, operational cash flow, liquidity and working capital. These indicators are also regularly evaluated and compared, with a focus on cash management, exposure to foreign exchange effects and investment opportunities. The net present value of investments is calculated with the use of discounted cash flow models.

TAB. 4: DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

in million €	2012	2011	2010	2009	2008
MorphoSys AG**	52.9	82.8	70.2	65.3	56.8
Partnered Discovery*					
Revenues	42.9	76.8	66.0	61.7	54.3
Proprietary Development*					
Revenues	7.0	2.4	1.8	1.0	0.0
AbD Serotec					
Revenues	3.0	3.8	3.3	3.5	3.4

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

**Total revenue may deviate from the sum of revenues per segment due to inter-segment revenues.

NON-FINANCIAL PERFORMANCE INDICATORS

In addition to finance-related performance indicators, a sustainably successful corporate management must also use non-financial performance indicators as equal components in order to be able to map the whole value creation chain.

TAB. 5: SUSTAINABLE DEVELOPMENT OF KEY PERFORMANCE INDICATORS (SD-KPIS) AT MORPHOSYS

SD KPIS at MorphoSys		2012	2011	2010	2009	2008	2007	2006
Performance in Proprietary Research & Development								
Programs in Discovery	(Number)	2	4	5	3	1	0	0
Programs in Preclinic	(Number)	0	0	1	1	1	1	2
Programs in Phase I	(Number)	2	3	1	0	1	1	0
Programs in Phase II	(Number)	2	1	1	1	0	0	0
Performance in Partnered Programs								
Programs in Discovery	(Number)	34	28	32	32	22	23	27
Programs in Preclinic	(Number)	20	24	20	27	29	24	14
Programs in Phase I	(Number)	8	9	10	4	3	3	2
Programs in Phase II	(Number)	7	7	5	3	1	0	0
Programs in Phase III	(Number)	1	0	0	0	0	0	0
R&D –expenses according to Segment								
Partnered Discovery	(in million €)	16,0	19,1	18,9	19,2	27,1	21,0	14,5
Proprietary Development	(in million €)	18,1	33,9	25,9	19,1	0,0	0,0	0,0
Technology Development	(in million €)	3,6	2,9	2,1	0,7	0,5	1,2	3

MorphoSys's goal is to develop first-class antibody technologies and maintain its leading position in the therapeutics market by means of its wide product pipeline. In order to achieve this goal, the corporate strategy is aimed at the steady development of the product pipeline in particular, both in respect of the number of therapeutic antibodies as well as their quality and maturity. As successful products are based on first-class technologies, advances in technology development are a further central performance indicator.

In addition to the quality of the research and development work, professional alliance management is at the heart of the Company's success. This encompasses new contracts as well the strategic further development of existing partnerships, as demonstrated by the successful launch of the Ylanthia platform in November 2012. More information on our partner projects can be found under "Research and Development".

FIG.2: CLINICAL PIPELINE AT YEAR-END

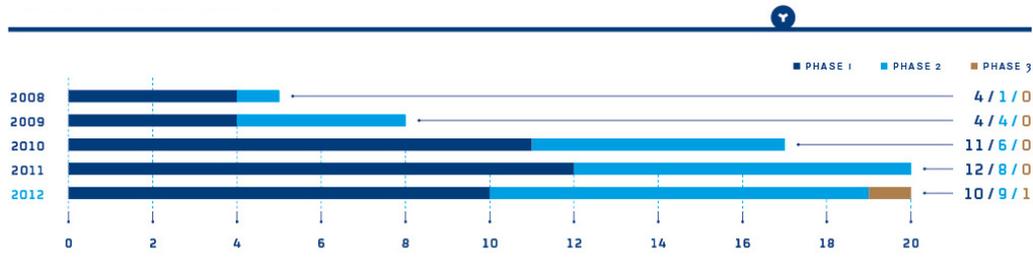
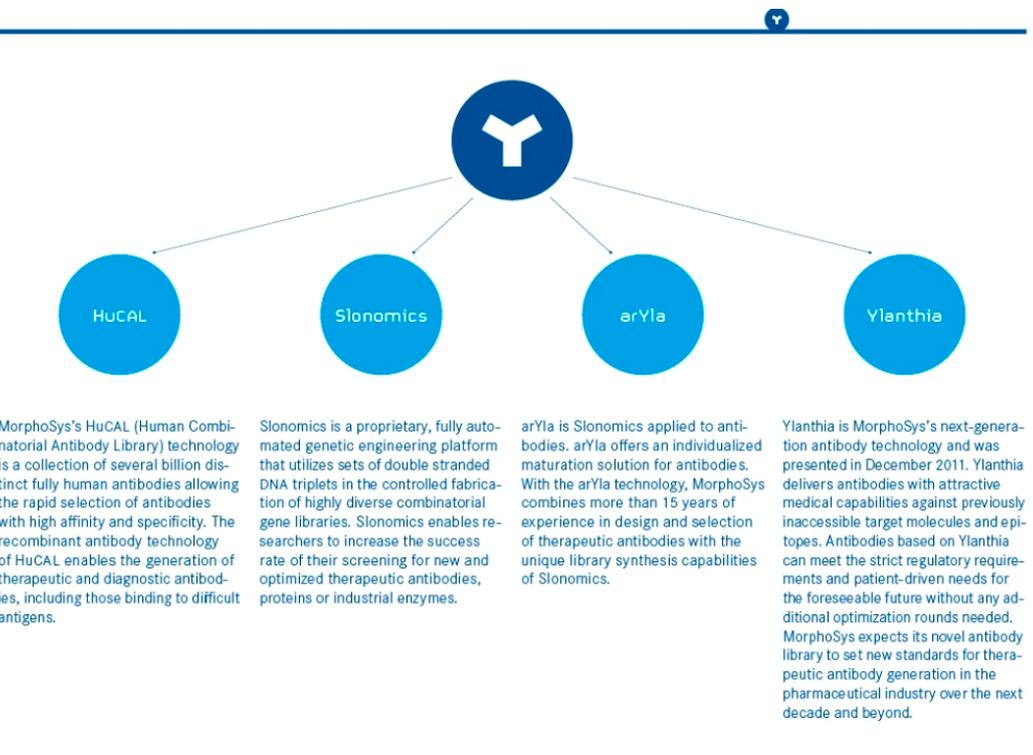


FIG.3: OVERVIEW OF MORPHOSYS'S LATEST TECHNOLOGIES



Furthermore, the monitoring of further non-financial indicators is crucial for business success.

Committed and well-trained employees are a requirement for long-term success in an R&D-based industry such as biotechnology. The Company's competitiveness can only be ensured and further expanded via a performance-oriented and forward-looking human resources strategy. This is why human resources management plays a key strategic role; it must entice promising talented individuals, keep high performers at the Company and provide employees with continuous and tailored training opportunities. A clear example of the success of human resources management in past years is the highly qualified and experienced workforce. Information on MorphoSys's human resources management can be found under Human Resources and in the Sustainability Report.

Responsible behavior is a hallmark of MorphoSys's corporate management. It's crucial to always observe the strict ecological and social principles governing our work. For this reason, all processes and products are assessed with regard to their impact on environmental protection and work safety. Strict quality assurance is equally central to a forward-looking business strategy that will help MorphoSys to meet its own high quality requirements as well as the demands of its partners and clients. Details can be found in the Sustainability Report.

The Company has established relevant guidelines in order to take into account the growing importance of value creation in the procurement process. These ensure compliance with best practice solutions in purchasing processes and regulate the purchase of goods, consultancy and other services. More details on purchasing and procurement management can also be found in the Sustainability Report.

The efficiency improvement project "Gepard" was established in early 2012. The aim of this initiative is to use suggestions from all employees to identify and implement improvements that could increase the efficiency and quality of work processes. The project expresses a belief in continuous improvement which is part of the MorphoSys company culture – a culture that helps MorphoSys to remain competitive in the long-term. As part of this project, the Company's employees were able to submit suggestions on various topics within a defined time period starting in June 2012. In this period, 168 suggestions were submitted, and these were dealt with by nine working groups. Around half of these suggestions had already been successfully implemented by the end of 2012. Topics ranged from IT/software to HR topics and improvements in laboratory processes. Suggestions on further internal processes and in the area of finances and contracts were also represented.

For example, the MOR2WORK online car sharing tool for employees was set up to organize carpools for traveling to work. On the one hand, advantages are a sustainable driving experience with reduced CO2 emissions, on the other hand, employees also profit tangibly from savings in fuel consumption. Additionally, this platform promotes communication and company spirit among employees.

EARLY INDICATORS

MorphoSys monitors early indicators relating to the macroeconomic environment, the industry and the Company itself on a monthly basis. At Company level, this means scientific and economic data relating to the progress of each program for the therapeutic segments, and sales volume statistics for AbD Serotec. Regarding early macroeconomic indicators, MorphoSys examines general market data derived from external economic and financial studies with a particular focus on industry transactions, changes of regulatory parameters and the availability of research grants.

For existing active partnerships, a joint steering committee regularly holds meetings. The committees' objectives are to provide updates and monitor program advances and potential resultant milestone payments. This continuous monitoring within the framework of alliance management allows both the early steering of possible failed developments and produces information on expected milestone revenues at an early stage. In the case of concluded collaborations, regular reports help the Company to track the status of the ongoing therapeutic programs.

Market screenings in the area of commercial development help to determine the demand for new technologies. Constant observation of relevant market data enables MorphoSys to react to trends and demands early, and to pursue partnerships.

Prior to the initiation of a therapeutic development program, a Target Product Profile (TPP) is created. This process provides information at an early stage on the requirements needed to be successful in the given market. Key questions are also addressed within this process, for example on the level of efficacy that should be achieved, whether an improved safety profile should be at the heart of the development plan or whether the focus should be on an alternative administration route. A detailed scenario for a positioning in the market, as well as the relevant patient population is part of the TPP, too. Frequent monitoring of these criteria and their fulfillment ensures that the most important influencing factors in the course of a product development program are covered and that changes can be responded to in a timely manner.

In the AbD Serotec segment, both monetary and non-monetary early indicators were utilized. The creation of sales projections as well as the monitoring of new developments in the market played a crucial role. The monitoring of the distribution of funds to scientific facilities and institutes produces information at an early stage about the financial funds to be expected for this customer segment. The observation of legal parameters in the area of research and diagnostics is equally important for a forward-looking management.

Development of the Business Environment

The European sovereign debt crisis remained a pervasive topic in 2012. A range of countermeasures to lift the debt crisis were implemented at national and international level. The European Stability Mechanism (ESM), aimed at supporting members of the Eurozone in financial difficulties, was set up at the end of September 2012. It should serve the Eurozone with a maximum credit extension capacity of € 700 billion as a permanent safety net. According to estimates by the OECD, the gross domestic product (GDP) of the Eurozone states shrank by around 0.4% in 2012.

The USA also had to battle a growing national deficit in 2012. Automatic spending cuts and massive tax increases are possible consequences of the growing deficit, also known as “fiscal cliff”. In its annual statement on the USA, the International Monetary Fund highlighted this fiscal cliff as the greatest domestic risk because recession with an accompanying rise in unemployment was expected. The occurrence of this fiscal cliff was avoided at the turn of the year 2012/2013 through an agreement between the political parties. According to estimates by the US central bank, the Federal Reserve, GDP increased in the USA from 1.7% to 1.8% in 2012.

With regard to the Asian markets, the Chinese growth engine stagnated somewhat in 2012. GDP grew by 7.7% according to estimates. According to OECD estimates, Japan recorded GDP growth of 1.6% in 2012.

CURRENCY RATE FLUCTUATIONS

In 2012, MorphoSys’s revenues were generated mostly in euros and US dollars, while the Company’s costs were mainly incurred in euros. The turbulences in Europe led to a significant weakening of the euro mid-year. Signals from the political arena, in particular a clear commitment from ECB President Draghi to the euro, served to stabilize the single currency, which closed at the end of 2012 slightly stronger than the US dollar.

PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR DEVELOPMENT

According to estimates from the US market research institute, IMS Institute for Healthcare Informatics, the pharmaceutical sector grew world-wide by 5% to 7% in 2012 and generated total revenues of over one trillion US\$ in total for the first time. The US market, which is currently the largest single pharmaceutical market, grew moderately as the positive effect of the legal changes brought in by the Obama administration can only be expected in 2014. The main cause for the successful cumulative growth despite this was the development of the emerging pharmaceutical markets, which includes 17 countries. These are expected to have grown in 2012 by 12% to 15%. The Indian pharmaceutical market, for example, grew again by approximately 12% in 2012 after an increase of 16% in 2011.

The pharmaceutical industry continues to face significant challenges due to top-selling products losing patent protection and facing generic competition – copies of original drugs with the same active ingredients. The term “patent cliff” describes the cumulative patent expirations of blockbuster pharmaceutical drugs between 2009 and 2015 and the effect of this on the pharmaceutical industry.

In the Indian market, the competitive situation for innovative drug developers worsened significantly in the 2012 financial year. At the beginning of April, the Indian patent office approved a request from domestic generics manufacturer Natco to be able to copy Bayer’s cancer drug, Nexavar, before the expiry

of the patent protection. Natco's competitor Cipla had already launched a copy of the cancer drug on the Indian market. For the first time since 2005, when Indian patent law was reformed, India issued a compulsory license. In November 2012, the Indian Intellectual Property Appellate Board (IPAB) appealed a patent issued in 2006 to Swiss pharmaceutical group Roche for the drug Pegasys, used for the treatment of Hepatitis C, and based the complaint on several aspects including the high price of the drug.

Historically, generic competition mainly affected chemically derived drugs, but generic versions of biopharmaceuticals, so-called biosimilars, are also set to advance. Due to the complexity of biopharmaceuticals - including antibodies - the market entry barriers are considered much higher than those for generic versions of chemically produced compounds, on account of the regulatory requirements in particular. This is reflected in the pricing of biosimilars, with much lower price reductions in comparison to conventional generics. While the requirements for biosimilars are already regulated in Europe, the American admissions authority, the US Food and Drug Administration (FDA) first put forward a policy draft in February, which has not yet been adopted. In the 2012 financial year, a monoclonal antibody drug received biogeneric commercial approval for the first time when Remsima in South Korea was approved as a biogeneric version of Remicade (Infliximab) developed by Celltrion Inc.

As a central source of capital for privately led companies and start-ups, venture capital investments in the US life sciences sector decreased to around US\$ 4.1 billion according to data from the National Venture Capital Association and PricewaterhouseCoopers. Europe also followed this trend. According to data from Dow Jones VentureSource, corresponding investments in Europe decreased to € 772 million. For MorphoSys, this capital shortage also resulted in opportunities. Via the investment in Lanthio Pharma, MorphoSys was able to obtain access to a potentially powerful new drug discovery platform within the framework of the "Innovation Capital" initiative.

The academic research sector, which is dependent on state research funding, was also put under pressure in the 2012 financial year. Following the financial crisis in Europe, providers experienced delays on purchase orders and payments from customers in the academic sector in individual states. Following the sale of substantially all of the AbD Serotec business unit, MorphoSys's profit results will be less dependent on these fluctuations in public research budgets in future.

DEVELOPMENT WITHIN THE ANTIBODIES SECTOR

The number of therapeutic antibodies approved in the most important markets increased to 31 by the end of 2012. In June, the FDA approved Roche's antibody drug Perjeta® (pertuzumab) for the treatment of late-stage breast cancer. The antibody targets HER2-positive cancer cells. The top-selling therapeutic antibody, the anti-inflammatory Humira® (adalimumab), achieved around US\$ 9 billion in revenues world-wide in the 2012 financial year. A monoclonal antibody was thus the top-selling product for the first time in the history of the pharmaceutical industry. According to research from Datamonitor, the revenues generated from all approved therapeutic antibodies in 2012 came in at around US\$ 50 billion.

Deals comprising antibody technologies and products remained high on the agenda of the pharmaceutical industry owing to the ongoing attractiveness of the antibody sector with regard to technologies and products. MorphoSys was able to update its long-standing partnership with Novartis with the latest technology platforms. Transactions observed in the industry with direct relevance for MorphoSys included the world-wide licensing and development agreement for the monoclonal antibody daratumumab signed between Genmab and Janssen Biotech group. According to the press release, the potential deal volume amounts to up to US\$ 1 billion in the form of development, approval and sales milestones, in

addition to tiered double-digit royalties. As with the current phase 1/2 MOR202 program from MorphoSys, daratumumab is also aimed at the CD38 target molecule, which is found on the surface of many myeloma cells.

Regarding M&A activities, GlaxoSmithKline acquired Human Genome Sciences (HGS) for around US\$ 3.6 billion. The HGS lead product Benlysta (belimumab) is a human monoclonal antibody for the treatment of systemic lupus erythematosus. Also worth mentioning was the takeover of the German-American company Micromet by Amgen for around US\$ 1.2 billion. Micromet owns the BiTE technology platform, which delivers bispecific antibody drug candidates. Furthermore, with blinatumomab, Micromet's portfolio contained a therapeutic bispecific antibody against the CD3 and CD19 target molecules.

REGULATORY ENVIRONMENT

The healthcare sector is highly regulated in terms of market access, pricing and reimbursement. The pressure on the pharmaceutical industry from healthcare systems and payers to deliver drugs with verifiable patient benefit increased in 2012. Seen in a positive light, these challenges to pharmaceutical groups promote greater risk-taking and innovation preparedness.

The USA's supervisory and approval body, the FDA, approved 39 new drugs in the 2012 financial year, once again an increase on the previous year. A law which came into force in 2012, the Food and Drug Administration Safety and Innovation Act (FDASIA), enables the FDA to conduct a faster review process. In concrete terms, this means the time from the submission of the new drug application to the FDA's decision will be shortened.

In Germany, the German Act on the Reform of the Market for Medicinal Products (Gesetz zur Neuordnung des Arzneimittelmarktes - AMNOG), a new law introduced in 2011 regulating reimbursement and the pricing of prescription drugs in healthcare, was put into practice. The manufacturer will now set the price for a new and innovative drug for one year after it is approved. Following an assessment on whether the product offers an additional benefit or not, the price of the new medicine will be negotiated by the German National Association of Statutory Health Insurance Funds and the company. In the event that no additional benefit can be determined, the new medicine will be part of the lower fixed-price system (Festbetragssystem). According to the German National Association of Statutory Health Insurance Funds (GKV-Spitzenverband), the central representative of the interests of the statutory health insurance and care funds, AMNOG has so far led to a refund being awarded in twelve cases.

Research and Development

As a specialist in innovative technologies and products in the field of drug development, MorphoSys's sustainable economic success is largely based on successful R&D. MorphoSys's technology platforms are continuously being improved and expanded with further modules. Additionally, MorphoSys carries out research - principally in the areas of cancer and inflammatory diseases - on proprietary drug candidates, which have to undergo thorough clinical trials often taking many years.

As a research-intensive company, MorphoSys is committed to protecting resources through optimized processes in laboratory work and therefore enabling sustainable economic activity. You can find detailed information on this in the Sustainability Report.

MorphoSys continually invests in the improvement of its laboratory equipment in order to preserve its competitiveness in the long-term. The largest investments in 2012 can be found in the following table:

TAB. 6: CAPITAL EXPENDITURE ON TANGIBLE ASSETS IN 2012 (SELECTION OF MAJOR INVESTMENTS)

in 000's €	
Protein Analysis System I (Lab Equipment)	215
Analytical Software	167
Electronic Document Management System (Lab Software)	151
Protein Analysis System II (Lab Equipment)	140
Flow Cytometer (Lab Equipment)	115
Gradient Pump (Lab Equipment)	55

RESEARCH AND DEVELOPMENT WITH PARTNERS

In this business segment, MorphoSys generates and characterizes high-quality antibody drug candidates for its partners, based on its technology platforms. The pipeline with drug candidates developed in collaboration with partners made great advances in 2012 and spanned 70 therapeutic antibody programs by the end of year. 16 of these are in clinical development, 20 in preclinical development and 34 in the research phase (see table 5 for changes on the previous year). In the 2012 business year ten programs were added and eight were terminated, leading to an increase by two programs. Altogether the project advances in 2012 fell within MorphoSys's expectations.

Contractually determined research advances, such as the start of clinical trials for a drug, trigger milestone payments to MorphoSys. In March 2012, Novartis confirmed the start of a phase 1 clinical trial with a HuCAL-based antibody against cancer, which triggered a milestone payment.

A clinical milestone payment followed in May from the pharmaceutical group Roche, which extended a clinical trial of the Alzheimer compound gantenerumab in pivotal phase 2/3 trial. The trial is evaluating the effects of gantenerumab on cognitive abilities as well as the compound's safety and pharmacokinetic properties in Alzheimer patients in the prodromal or early stage. At this stage of the disease patients only suffer mild cognitive impairment and have not yet been diagnosed with Alzheimer's. A prognostic test can determine whether the patient is likely to progress to full-blown Alzheimer's.

In addition to these two clinical milestone payments, MorphoSys also received milestone payments on various preclinical programs.

Other advances in 2012 brought projects closer to market, for instance the partnerships with Novartis, OncoMed and Janssen Biotech. In the course of the first quarter of 2012, Novartis advanced LFG316, a HuCAL antibody in the field of ophthalmology, to a phase 2 clinical trial. In October 2012, OncoMed began a phase 1b/2 trial in the USA for OMP-59R5 for the primary treatment of patients with advanced pancreatic cancer. OMP-59R5 is the most advanced HuCAL antibody program to address a validated signaling pathway in the area of cancer stem cells.

MorphoSys's partner Janssen Biotech began a new phase 2 trial for the HuCAL antibody CNTO1959. The goal of the new trial is to evaluate the safety and efficacy of CNTO1959 in direct comparison to

ustekinumab (trade name: Stelara), with regard to the reduction of symptoms in active RA despite co-therapy with methotrexate. CNTO1959 is thus now being developed for the two significantly different indications psoriasis and RA. MorphoSys is taking this into account by counting CNTO1959 as two separate phase 2 programs.

The termination of programs is unavoidable in drug development, for example because research results no longer justify the continuation of a project or because partners opt to terminate projects on strategic grounds. In 2012, Janssen Biotech discontinued the development of the antibody CNTO888 in the areas of cancer and idiopathic lung fibrosis.

PROPRIETARY R&D ACTIVITIES – PRODUCT DEVELOPMENT

In this business segment, MorphoSys evaluates and develops antibody compounds as proprietary products from the early research phase to partnering deals with a pharmaceutical company based on clinical results. The increased research effort in this segment provides the opportunity for significantly higher milestone payments and royalties on product sales for MorphoSys.

MorphoSys is currently pursuing four proprietary clinical programs, which are based on three compounds:

- MOR103 – a fully human, monoclonal HuCAL antibody in the areas of rheumatoid arthritis and multiple sclerosis,
- MOR202 – a fully human, monoclonal HuCAL antibody in the area of multiple myeloma,
- MOR208 – a humanized, Fc-optimized, monoclonal antibody in the areas of lymphomas and leukemias.

In September 2012, MorphoSys released data on the clinical phase 1b/2a trial to evaluate its proprietary MOR103 HuCAL antibody in patients with RA. The results underscore the compound's potential to become an important drug in a field with a high therapeutic need.

During the randomized, double-blind, placebo-controlled phase 1b/2a trial in 96 patients with mild to moderate pronounced rheumatoid arthritis, the patients were given MOR103 in four, once-weekly doses of 0.3 mg/kg, 1.0 mg/kg or 1.5 mg/kg. The trial was designed to investigate in particular how soon the therapeutic effect occurs, and was carried out at 26 clinical trial centers in Germany, the Netherlands, Poland, Bulgaria and Ukraine. The majority of trial participants were treated in parallel with disease-modifying anti-inflammatories (DMARDs). The primary end-point of the trial was the evaluation of the safety and tolerability of MOR103 in multiple doses in patients with active RA. Secondary endpoint included the assessment of the compound's pharmacokinetic properties and immunogenicity as well as its potential to improve clinical signs and symptoms in RA patients. Therapeutic success was measured by the DAS28, ACR20/50/70 and EULAR assessment criteria. Additionally, the development of synovitis and bone edema was captured by magnetic resonance imaging (MRI) and patient feedback was evaluated.

MOR103 was safe and well-tolerated at all doses administered. There were no drug-related serious adverse events. No obvious differences in the adverse event rate between the MOR103 and placebo groups were observed.

The best response was achieved in the 1.0 mg/kg dose cohort with an ACR20 score of 68% at week 4, which was significantly higher than in the control arm. The ACR20 value is one of the highest ever seen

in a biological RA compound after four weeks of treatment. Of particular importance was the fast onset of action observed: within 2 weeks, up to 40% of patients achieved an ACR20 score. Improvement of DAS28 scores was rapid and significant over the treatment period of the study. MRI scans revealed a reduction of synovitis according to the RAMRIS system at week 4. The detailed trial results were presented in November at the annual meeting of the American College for Rheumatology (ACR), the most important symposium in rheumatology.

An additional phase 1 trial carried out in 2012 on the subcutaneous administration of MOR103 also produced positive results. The compound proved to be safe and well tolerated in this convenient method of administration and demonstrated an advantageous and competitive pharmacokinetic profile.

These clinical data were expanded by the publication of two research reports that underscore the significant therapeutic potential of the MOR103 program. The reports stem from a commercial agreement with a research department at the University of Melbourne and prove that GM-CSF, the underlying target molecule of the MOR103 program, is an important neurotransmitter for inflammatory, arthritic and osteoarthritic pain.

The current clinical phase 1/2a trial in patients with recurrent/refractory MM as part of the MOR202 program was continued in 2012. The program's preclinical database was also further strengthened in 2012. Once antibody-dependent cell-mediated cytotoxicity (ADCC) had been identified as an effect mechanism for MOR202 in earlier trials, the compound's ability to induce the elimination of MM cells in patients via antibody-dependent cellular phagocytosis (ADCP) was also verified. Corresponding data were presented at the annual conference of the American Society of Hematology (ASH) in December 2012.

MOR208, an Fc-optimized anti-CD19 antibody successfully completed a phase 1/2a clinical trial. MOR208 demonstrated encouraging first signs of anti-tumor efficacy and an acceptable safety and tolerability profile in intensively treated high risk patients with chronic lymphocytic leukemia (CLL) or small lymphatic lymphoma (SLL). The data support the compound's further development. MorphoSys will now advance the program to phase 2 clinical development in non-Hodgkin's lymphoma (NHL) and acute lymphoblastic leukemia (ALL).

Furthermore, the possibility of combining MOR208 with other approved therapeutic drugs was investigated in preclinical trials. These investigations demonstrated that the small-molecules Bendamustine (Ribomustin®) and Fludarabine (Fludara®), as well as the anti-CD20 antibody Rituximab (Rituxan®) and Ofatumumab (Arzerra®), could increase the cytotoxicity of MOR208. The in vitro and in vivo activities of MOR208 were increased in an aggressive lymphoma model of all administered drugs, independent of their different mechanisms.

All research results generated in 2012 underpin the potential value of the Company's proprietary compounds in the corresponding areas of disease.

PROPRIETARY R&D ACTIVITIES – TECHNOLOGY DEVELOPMENT

The R&D activities in the field of technology development are intended to secure the Company's competitive position in its core business and open up new business opportunities. A dedicated research team works continuously on the further development of antibody technologies and on the evaluation of new technology platforms.

The beta version of the Ylanthia antibody library – presented in December 2011 at a symposium – was completed in 2012 and put into commercial application. The goal of the Ylanthia development is to be able to develop antibodies with enhanced properties even faster. Ylanthia, the next-generation antibody platform, is intended to replace the HuCAL technology that has so far formed the basis of therapeutic antibody research and development at MorphoSys. MorphoSys integrated the technology into its research processes in 2012 and began the first therapeutic programs based on Ylanthia. Additionally, the extension of the strategic commercial agreement with Novartis sets the course for the Ylanthia platform to also facilitate drug development on behalf of partners.

In addition to its efforts in the antibody sector, MorphoSys started an initiative in 2012 to gain access to technologies from other companies that match its core competencies. MorphoSys announced a commercial agreement in November 2012 with the privately owned biopharmaceutical company Lanthio Pharma, a Dutch company specialized in the research and development of lantipeptides. Lantipeptides are a new class of therapeutic agents. The LanthioPep technology from Lanthio Pharma is used in the identification of peptides for specific target molecules and stabilizes them in the conformation that is optimal for binding. Within the framework of the commercial agreement, MorphoSys and Lanthio Pharma began to jointly implement their technologies to produce high-quality and diverse lantipeptide libraries. MorphoSys receives preferred access to the exclusive in-licensing of the LanthioPep technology for compound research.

RESEARCH AND DEVELOPMENT IN THE ABD SEROTEC SEGMENT

The research activities at MorphoSys's AbD Serotec business unit in the 2012 financial year were aimed at gaining access to new products in diagnostics as well as in selected research disciplines, such as veterinary research, innate immunity, neuroscience and stem cell antibodies. Among other things, these led to the expansion of the product catalogue in the area of research reagents, in particular the introduction of a completely new product category for the analysis of existing antibody drugs. Several antibodies developed by AbD Serotec were used by partners in commercial contexts in 2012.

The sale of substantially all of the AbD Serotec segment, agreed at the end of 2012, has only minor effects on the research of MorphoSys AG as the research activities of the various business fields were already established as independent from each other prior to the sale of the division.

Commercial Development

MorphoSys was able to further strengthen its pipeline in both business segments – Partnered Discovery and Proprietary Development – in the past financial year. At the end of 2012, MorphoSys announced the sale of substantially all of the third business unit, AbD Serotec, to Bio-Rad. The sale of substantially all of the AbD Serotec segment enables MorphoSys to concentrate on its core business, the development of therapeutic antibodies and technologies for drug development.

PROPRIETARY DEVELOPMENT

Through the development advances achieved in its own programs in 2012, MorphoSys created the basis for future outlicensing contracts with pharmaceutical partners.

In September 2012 MorphoSys published positive results with respect to the safety and efficacy of its own antibody MOR103 from a phase 1b/2a study on patients with rheumatoid arthritis. The results underscore the compound's potential to become an important drug in a field with a high therapeutic need.

In November 2012, the Company's own most advanced compound against cancer, MOR208, also met the primary and secondary goals of a phase 1/2a study in patients with chronic lymphocytic leukemia or small lymphatic lymphoma. MOR208 was in-licensed from US firm Xencor in 2010. After the phase 1/2a study, MorphoSys will assume sole responsibility and bear the costs for further clinical development.

In 2012, the activities in the Proprietary Development segment contributed to total turnover in the form of payments from Novartis for both pre-development programs. A significant increase in turnover can only be expected with the conclusion of the first out-licensing contracts for the Company's proprietary projects.

PARTNERED DISCOVERY

The new contractual agreements reached in 2012 meant the partnership business was strengthened and rendered more flexible for the purposes of expanding activities.

The strategic cooperation with Novartis was decisively extended at the end of 2012. The long-standing collaboration will also profit from MorphoSys's new technology platform Ylanthia, which should accelerate the development of new therapeutic antibodies and further improve the alliance's productivity. At the same time, MorphoSys secured the opportunity to conclude further licensing agreements with commercial partners based on Ylanthia technology. The contract period was retained up to 2017, with an option for Novartis to extend it by another two years.

In February 2012, MorphoSys announced the start of an alliance in the field of protein optimization. In the process, the Company is delivering multiple gene libraries based on the Slonomics platform to an undisclosed biopharmaceutical group. Over the three-year duration of the contract, MorphoSys will receive guaranteed annual research services for the preparation of the libraries as well as additional development-dependent milestone payments and royalties for products resulting from the collaboration. This agreement was the third deal based on the Slonomics platform and thus increased the return on investment for the technology acquired in the Sloning takeover in 2010.

In 2012, the Partnered Discovery division was again a mainstay of revenue.

ABD SEROTEC

MorphoSys was able to further strengthen the diagnostics business of its AbD Serotec division in the reporting year. Among other things, a new product line of anti-drug antibodies was introduced that is specially aimed at the needs of contract research organizations and pharmaceutical groups. Further, MorphoSys was able to sign a licensing agreement with the diagnostics group DiaSorin S.p.A. for two HuCAL antibodies, which will be implemented as recombinant controls for two tests in the field of infectious diseases that are already on the market.

MorphoSys agreed to sell substantially all of its segment for research-related and diagnostic antibodies AbD Serotec to Bio-Rad for strategic reasons.

MorphoSys AG and a subsidiary of Bio-Rad Laboratories Inc., Hercules/California, USA (Bio-Rad Inc.) agreed to acquire all shares of MorphoSys UK Ltd., Oxford, UK (MorphoSys UK) on 16 December 2012 with the notarial authentication of 17 December 2012. The takeover also comprised all of the shares in MorphoSys UK's subsidiaries. At the time of signing on 16 December 2012, MorphoSys UK held all of the shares of MorphoSys AbD GmbH, Düsseldorf, Germany and MorphoSys US Inc., Raleigh, USA (MorphoSys US). Additionally, MorphoSys AG and a further subsidiary of Bio-Rad Laboratories Inc. agreed at 16 December 2012 upon the takeover of individual assets (trademarks) of the AbD Serotec segment and the purchase of a non-exclusive license for the use of the HuCAL technology in the market for research reagents and diagnostics. After the takeover of the shares in MorphoSys UK by the subsidiary of Bio-Rad Inc., it was agreed on 16 December 2012, that all assets and liabilities attributed to the AbD-Serotec segment of MorphoSys AG shall be transferred to MorphoSys AbD GmbH. Bio-Rad Inc., Bio-Rad Inc.'s subsidiaries including MorphoSys AbD GmbH are hereinafter referred to as „acquirer“ or „Bio-Rad“, respectively. The shares of MorphoSys AG in Poole Real Estate Ltd., Poole, GB, were not sold. The completion of the transaction depended on the fulfillment of certain conditions. Substantially all of the AbD Serotec segment was transferred at the closing date (10 January 2013) due to the fulfillment of the previously defined obligations.

Bio-Rad, as an international producer and provider of life science research tools and diagnostic products acquired substantially all of AbD Serotec for € 53 million in total. The amount comprises the purchase price, a compensation for cash reserves accounting for € 5.3 million as well as a license fee. Due to the sale of the non-exclusive license, MorphoSys will generate additional sales in 2013 and expects impact also in the following years.

Human Resources

GROUP HEADCOUNT DEVELOPMENT

Motivated, creative and excellently trained employees form the basis of MorphoSys's business success. On 31 December 2012, 312 people were working for MorphoSys AG (31 December 2011: 329), of which 127 held a PhD (31 December 2011: 132). On average, MorphoSys AG employed 311 people in 2012 (2011: 339).

TAB. 7: TOTAL HEADCOUNT (31 DECEMBER)

	2012	2011	2010	2009	2008
Total Headcount	312	329	318	271	216

TAB. 8: EMPLOYEES BY SEGMENT AND FUNCTION (31 DECEMBER)

	2012	2011
Total Employees	312	329
Proprietary Development segment	53	66
Partnered Discovery segment	183	198
AbD Serotec segment	30	27
Employees in R&D	254	280
Employees in S, G&A	58	49

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

In the competition for the best employees MorphoSys wants to present itself as an attractive employer with competitive remuneration. For this reason, a yearly benchmarking process relating to remuneration paid in the biotechnology sector and other industries is carried out, and the salary structure is adjusted to match, if necessary. Additional remuneration in the form of a performance-related bonus system adds to the basic salary. The bonus is linked to the achievement of both individual and Company goals. Equity-based and profit-participation programs involve the employees in the operational and financial development of the Company. The Sustainability Report provides a detailed overview of workforce development and MorphoSys's activities with regard to the long-term success of the human resources policy.

Results of Operations, Financial Situation and Balance Sheet

REVENUES

Compared to the same period in the previous year, revenues decreased by 36% to € 52.9 million (2011: € 82.8 million). This decrease was mainly a result of higher levels of success-based fees in 2011, namely a technology milestone payment from Novartis in connection with completing the installation of the HuCAL antibody platform at Novartis Institutes for BioMedical Research in Basel, Switzerland. Likewise, revenues from funded research and licensing fees in the Partnered Discovery segment decreased compared to the same period in the previous year. Revenues arising from the segments Partnered Discovery and Proprietary Development (before elimination of inter-segment effects) accounted for € 42.9 million (2011: € 76.8 million) and € 7.0 million (2011: € 2.4 million) of total revenues, while the AbD Serotec segment generated € 3.0 million (2011: € 3.8 million).

Of total revenues, € 0.3 million (2011: € 1.5 million) were generated with domestic companies and € 2.1 million (2011: € 3.2 million) with biotechnology and pharmaceutical companies and non-profit organizations located in North America. Revenues in the amount of € 50.5 million were generated with companies located in other European countries and Asia (2011: € 78.0 million). Revenues from other countries amounted to € 0.02 million (2011: € 0.1 million).

COST OF SALES

Cost of Sales mainly comprised expenses for research and development and decreased by € 15.9 million to € 44.0 million (2011: € 59.9 million). This change is mainly a result of lower costs for external services and personnel costs.

SELLING EXPENSES

Selling expenses decreased by € 0.5 million to € 2.3 million (2011: € 2.8 million) mainly due to lower sales commissions paid to subsidiaries.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to € 13.0 million (2011: € 14.9 million). This decrease is mainly due to lower personnel costs and costs for external services.

OTHER OPERATING INCOME, OTHER OPERATING EXPENSES, OTHER INTEREST AND SIMILAR INCOME

Other operating income amounted to € 3.7 million and increased by € 1.1 million compared to 2011. This increase was mainly a result of the release of provisions accounted for in the previous year, namely for bonuses, guarantees and external services. Other operating expenses decreased from € 2.1 million in 2011 to € 0.2 million in 2012, mainly due to higher foreign currency losses in 2011. Other interest and similar income remained unchanged and amounted to € 0.3 million.

INCOME FROM OTHER SECURITIES AND LOANS PRESENTED UNDER FINANCIAL ASSETS

Income in the amount of € 0.5 million from other securities and loans presented under financial assets (2011: € 1.1 million) mainly included realized gains on marketable securities.

INCOME FROM PROFIT POOLING AGREEMENTS

Due to a control and profit pooling agreement (effective from 20 November 2002), profits in the amount of € 3.2 million (2011: € 3.3 million) were transferred from MorphoSys IP GmbH, Martinsried, to MorphoSys AG.

INCOME FROM PARTICIPATIONS

In fiscal year 2012, MorphoSys AG received no dividend payment from its subsidiary MorphoSys UK, Ltd., Oxford, GB (2011: € 0.6 million).

DEPRECIATION OF FINANCIAL ASSETS

In 2012, no impairment loss on the shares in affiliated companies of MorphoSys AG was accounted for (2011: € 0.1 million).

INCOME TAX

Income tax expense decreased from € 2.7 million in 2011 to € 0.4 million in 2012, mainly as a result of the decreased result from ordinary activities in 2012.

RESULT FROM ORDINARY ACTIVITIES / NET PROFIT

The developments described above lead to a result from ordinary activities of € 1.1 million (2011: € 10.8 million) and a net profit after taxes in the amount of € 0.7 million (2011: € 8.2 million).

LIQUIDITY

Cash on hand and cash in banks decreased by € 13.0 million to € 32.6 million (2011: € 45.6 million).

Balance Sheet

ASSETS

Total assets decreased by € 4.9 million to € 205.9 million as of 31 December 2012, compared to € 210.8 million as of 31 December 2011. This change mainly derived from an increase in other receivables (interest-bearing transferable loan) by € 10.0 million. This increase was overcompensated by a decrease in cash and cash equivalents by € 13.0 million as well as a decrease in tangible assets by € 1.1 million due to depreciation, and accounts receivable by € 0.9 million, respectively.

PROVISIONS / LIABILITIES

In 2012, total liabilities in the amount of € 1.6 million as of 31 December 2012 remained unchanged compared to the previous year (2011: € 1.6 million).

As of 31 December 2012, provisions amounted to € 10.7 million, compared to € 18.2 million in the previous year. The decrease was mainly due to lower provisions for outstanding invoices for external laboratory funding (2012: € 2.9 million, 2011: € 6.6 million) and lower provisions for personnel-related expenses (2012: € 3.7 million, 2011: € 5.2 million). Tax provisions decreased from € 2.3 million to € 0.2 million.

EQUITY

Total stockholders' equity amounted to € 192.1 million as of 31 December 2012, compared to € 189.8 million as of 31 December 2011, resulting in an equity ratio of 93% (2011: 90%).

As of 31 December 2012, the total number of shares issued amounted to 23,358,228, of which 23,102,813 were outstanding, compared to 23,112,167 and 22,948,252 as of 31 December 2011, respectively.

The increase of shares outstanding by 246,061 shares (2011: 221,915 shares) arose from the net effect of the exercise of options and convertible bonds issued to the Management Board and employees and the repurchase of the Company's own stock (91,500 shares). The repurchased shares will be used to implement the Company's long-term incentive plan (LTI) for management.

Treasury shares amounted to 255,415 shares as of 31 December 2012 (2011: 163,915 shares).

As of 31 December 2012, the capital reserve amounted to € 155.3 million, compared to € 152.1 million as of 31 December 2011. The increase by € 3.2 million mainly resulted from additions in connection with the exercise of options and convertible bonds.

Other earnings reserves decreased from € 11.6 million as of 31 December 2011 to € 10.5 million as of 31 December 2012. In 2012, the net profit 2012 in the amount of € 0.7 million was allocated to other earnings reserves (2011: € 5.0 million), whereas an amount of € 1.7 million was withdrawn from other earnings reserves due to the repurchase of the Company's own stock for the long-term incentive plan and was settled with the difference from the purchase of treasury stock. As of 31 December 2012, the accumulated income remained unchanged at € 3.1 million.

CAPITAL EXPENDITURE

MorphoSys's investment in tangible assets amounted to € 0.9 million and decreased by € 0.9 million compared to the previous year due to lower investments in laboratory and office equipment in fiscal year 2012. Depreciation of tangible assets has slightly changed compared to the previous year and amounted to € 1.9 million (2011: € 1.8 million).

In 2012, the Company invested € 0.9 million in intangible assets (2011: € 0.9 million), namely in software. Amortization of intangibles amounted to € 1.6 million and decreased by € 0.2 million in comparison to the previous year (2011: € 1.8 million).

The increase in financial assets in fiscal year 2012 from € 52.1 million to € 53.0 million resulted from the purchase of a share in Lanthio Pharma B.V., a privately lead company located in Groningen in the Netherlands. MorphoSys AG owns a share in the share capital of Lanthio Pharma B.V. of 19.98% as of the balance sheet date 31 December 2012.

Financial Situation

FINANCIAL MANAGEMENT PRINCIPLES

The most important objective of financial management at MorphoSys is to provide at all times sufficient liquidity reserves for industry-specific fluctuations and for the Company's continued growth. The most important sources of liquidity are the operating business activities of the Company and the resulting cash inflows. Scenarios and cash-flow planning are used to determine liquidity requirements.

FINANCING

As of 31 December 2012, the equity ratio of the Company amounted to 93%, compared to 90% as of 31 December 2011. The Company is currently not financed via financial debt.

Off-Balance Sheet Financing

MorphoSys is not involved in any off-balance sheet financing instruments such as the sale of receivables, asset-backed bonds, sale-and-lease-back transactions or contingent liabilities in relation to special purpose entities not consolidated.

Credit Rating

MorphoSys is not currently being assessed on its credit-worthiness.

TAB. 9: COMPARISON OF ACTUAL BUSINESS RESULTS WITH FORECASTS

	2012 Goals	2012 Achievements
Financials	Revenues of € 57 - 62 million	Revenues of € 52.9 million
	Investments in proprietary R&D amounting to € 20 - 25 million	Investments in proprietary R&D amounting to € 21.7 million
	EBIT of at least € 1 million	EBIT of € 0.9 million
Proprietary R&D	MOR103: <ul style="list-style-type: none"> • Conclusion of phase 1b/2a trial on patients with rheumatoid arthritis and presentation of clinical results • Continuation of phase 1b safety trial for multiple sclerosis as a second indication • Evaluation of subcutaneous formulation 	MOR103: <ul style="list-style-type: none"> • Publication of positive data from phase 1b/2a trial and presentation of clinical results at the annual meeting of the American College for Rheumatology (ACR) • Continuation of phase 1b trial with increasing dosage for multiple sclerosis Positive results from phase 1 trial of subcutaneous delivery
	MOR202: Continuation of phase 1/2a trial in multiple myeloma	MOR202: Continuation of phase 1/2a trial in multiple myeloma. It could be verified that MOR202 is able to induce the elimination of MM cells in patients also via antibody-dependent cellular phagocytosis (ADCP) <i>in vitro</i> ; presentation of corresponding data at the American Society of Hematology's 2012 annual conference (ASH)
	MOR208: <ul style="list-style-type: none"> • Conclusion of Xencor-sponsored phase 1 trial on CLL/SLL patients • Start of MorphoSys-sponsored trials in NHL and ALL 	MOR208 <ul style="list-style-type: none"> • Successful conclusion of phase 1/2a trial with encouraging first signs of anti-tumor efficacy and an acceptable safety and compatibility profile; further clinical development under sole responsibility of MorphoSys • Trials in NHL and ALL in preparation; approvals for start of phase 2 studies received in 2012 / planned start in April 2013
	Continuation of development programs with partners	<ul style="list-style-type: none"> • Net increase of 2 partner programs • Roche phase 3 milestone • Further project advances in the collaborations with Novartis, OncoMed and Janssen Biotech, partly with preclinical and clinical milestone payments
Partnered Pipeline	1 - 3 IND filings in 2012	One partner program from Novartis started clinical development
AbD Serotec	Profitable growth and focus on diagnostics market	<ul style="list-style-type: none"> • Decrease in revenues and profit - a difficult market environment and the sale in the fourth quarter of 2012 had impact on the annual result • Increase in number of HuCAL-based tests in clinical diagnostics, e.g. in the field of infectious diseases and pregnancy-related diagnostics

The Management's General Assessment of Business Performance

The Management Board can once again look back on a very solid performance of MorphoSys in the 2012 financial year. The majority of the goals it set at the start of 2012 have been met. Marketing of the Ylanthia platform began very late in the reporting year and some milestone payments were delayed. Total turnover of MorphoSys AG for 2012 amounts to € 52.9 million, 36% below the comparison value in the previous year. The unfavorable comparison to the 2011 annual turnover derives from the one-time milestone payment from Novartis in the first quarter of 2011 related to the installation of the HuCAL antibody platform at the Novartis Institutes for BioMedical Research in Basel, Switzerland. As targeted for 2012, the Company remained profitable with EBIT of € 0.9 million. The equity ratio of 93%, a liquidity position of € 114.0 million (including an interest bearing and assignable loan in the amount of € 10.0 million) as well as no financial debt whatsoever testify to the Company's thoroughly solid financial situation.

The greatest contribution to business success was once again generated by the Company's Partnered Discovery segment. Based on the positive financial performance of this business segment, MorphoSys could continue to invest in its proprietary product and technology development. Despite the further investment increases, the Company showed an operating profit.

Investments in research and development are also reflected in a more mature product pipeline. In particular, MorphoSys's proprietary compounds demonstrated pleasing progress, with initial clinical efficacy data on MOR103 and the advancement of a further drug candidate, MOR208, to phase 2 clinical development. With gantenerumab, a HuCAL program reached a phase 3 trial for the first time in 2012. There are currently 20 programs in clinical evaluation, four of which are proprietary.

The AbD Serotec business segment did not meet its growth expectations due to a challenging market environment in 2012. The demand in the research and diagnostics markets was particularly negatively influenced in Europe and the USA. However, the segment made pleasing gains in market coverage with an increasing number of HuCAL-based tests in clinical diagnostics.

Accounting Judgements

No accounting policies were applied or related options exercised in the Annual Financial Statements 2012 that differ from those in prior years and that, if applied or exercised differently, would have had a material effect on the results of operations, financial situation, and balance sheet structure. Information on the effects of the use of estimates, assumptions, and judgements by the management can be found in the Notes.

Sustainability Report

For MorphoSys, sustainability means being economically successful as a company and satisfying the highest environmental and social standards in the process. This conviction underpins all business processes and helps to ensure MorphoSys's long-term commercial success. This Sustainability Report outlines MorphoSys's ecological and social responsibility to current and future generations as well as the measures taken to fulfill these responsibilities. Information on MorphoSys's management structure and corporate governance practices can be found in the Corporate Governance Report.

Sustainable Corporate Management at MorphoSys

Sustainable and responsible behavior is a hallmark of MorphoSys's corporate management. The goal as a biopharmaceutical company is to continuously develop more effective and safer drugs and diagnostics. The effort to create meaningful added value for society is reflected in the Company's core objectives. In daily operations, value is placed on always working in harmony with strict ecological and social principles. For this reason, MorphoSys follows a business model aimed at sustainable growth, which protects the interests of its shareholders, creates long-term value and evaluates processes with regard to their effects on the environment, society, patients and employees. An HR policy that takes the concerns of employees seriously reflects this business model internally.

Additionally, MorphoSys's innovative, focused and forward-looking R&D activities ensure long-term business success. Alongside the supply of food and water, as well as climate protection, the provision of healthcare to a growing and aging population represents a significant cornerstone of well-being and social justice. With its new biotechnologically produced drugs, MorphoSys can make a valuable contribution to comprehensive healthcare provision in the long term. In the view of the Company's management, the MorphoSys business model does not contain any aspects contradictory to the interests of shareholders focusing on sustainable investments.

A comprehensive risk management system ensures that factors potentially endangering the sustainable performance of the Company are recognized at an early stage and that, if necessary, adequate countermeasures are taken. MorphoSys generally only takes risks which offer opportunities to increase the Company's sustainable value.

The adherence to this strategy is the responsibility of the whole Management Board led by the CEO. The way this strategy translates into the daily business of every employee at MorphoSys is written down in the Company's Credo as part of its Code of Conduct. Regular employee training courses on the Code of Conduct itself as well as on specific risk areas ensure that these regulations are understood and implemented. The Head of Human Resources (chairperson) and three further members comprise the Code of Conduct Committee, which is a point of contact available to every employee. Every employee can - anonymously if desired - seek advice in legal and compliance-related matters, and report suspicions or breaches. Compliance violations are consequently pursued and appropriate countermeasures taken. No breach has been reported so far, however, and the Company also regards serious violations, which could have a significant impact on the Company's net assets, financial position and results of operations, as unlikely in the future.

In its reporting on sustainability, MorphoSys uses so-called SD KPIs (Sustainable Development Key Performance Indicators), which are also recommended in the SD-KPI standard. These include "Performance in Research & Development" (SD-KPI 1) and "Performance in Partner Programs" as a benchmark for commercialization rates (SD-KPI 2). During the last five years, no products were recalled and there were neither fines nor settlement payments caused by litigation (SD-KPI 3). The following report on the implementation of MorphoSys's corporate strategy and the sustainable company development is additionally oriented to the recommendations of the German Sustainability Code, which was proposed by the Council for Sustainable Development in October 2011.

Sustainable Performance at MorphoSys

ETHICAL STANDARDS AND STAKEHOLDER DIALOG

The Company adheres to the highest scientific and ethical principles when conducting human clinical trials or animal testing; these principles are also anchored in the Company's Code of Conduct, most notably the World Medical Association's (WMA) Declaration of Helsinki. Strict compliance with existing nationally and internationally applicable regulatory requirements is obligatory for every employee at MorphoSys as well as for third-party contractors.

The biotechnology industry cannot avoid carrying out animal trials at the present time, as European legislation requires this in order to determine a drug candidate's toxicity, pharmacokinetics and pharmacodynamics.

Not having its own laboratories for this kind of research, the Company sources out all tests involving animals to contract research organizations (CROs). In the course of its product development activities, MorphoSys commissions animal trials according to the principles of good animal welfare and humane treatment of animals as laid down in national and European regulations. MorphoSys has implemented a quality assurance and quality control system with written Standard Operating Procedures (SOPs). This system is maintained and continuously improved to ensure that animal trials are contracted to CROs who respect local, national and international regulations. Trials will generally only be conducted after approval by the respective ethics committee and are carried out under continuous veterinary surveillance.

MorphoSys demonstrates its commitment to responsible animal care and use by working with institutions which, in addition to complying with the laws regulating animal research, have earned Good Laboratory Practice (GLP) and/or AAALAC (Association for Assessment and Accreditation of Laboratory Animal Care) accreditation. Furthermore, the appropriateness of the CRO's testing facilities, the level of training and competence of the personnel involved and the conditions for the animals are looked at during an evaluation process prior to the contracting of any trial.

Regarding the treatment of healthy volunteers and patients in clinical trials which are sponsored by MorphoSys, the Company strictly adheres to the ethical principles that have their origin in the Declaration of Helsinki mentioned above. In addition, trials are conducted in compliance with applicable privacy and confidentiality rules. Safeguarding the rights, safety and well-being of all participants in clinical trials is a high priority for MorphoSys. Clinical trials will only commence after approval by the applicable independent ethics committee and/or institutional review board. Prior to taking part in a clinical trial, every participant has to hand in a voluntary informed consent form.

The aspiration behind MorphoSys's business is to improve patients' lives through its scientific work. The Company is only able to reach this goal if its corporate actions are also socially accepted. This requires a continuous and open stakeholder dialogue in order to understand possible concerns regarding biotechnological approaches and to explain MorphoSys's operations and their advantages. To this end, MorphoSys engages in various activities; for example, it participates in public information events and actively supports the Communication and Public Relations working group of BIO Deutschland e.V.

PROCUREMENT

The Central Purchasing & Logistics department was established at the beginning of 2012. The department is responsible for procurement and ensures a seamless supply of external goods as well as services and logistics in order to support business operations in the best possible manner. The department ensures continuity of support by selecting quality goods and services that meet the required standards. It focuses on contract management as well as on streamlining the procurement process in areas where this seems sensible by, among other things, concentrating on fewer suppliers with more advantageous contract terms. By initiating Master Service Agreements, some partners were established as "preferred suppliers" in the reporting year. In future, these long-term partnerships should save time and costs in the procurement process. All of MorphoSys's selected suppliers are in compliance with human rights and internationally recognized working standards. The savings realized in 2012 through the activities of the central procurement department amount to approx. € 1.4 million over the cumulative contract periods.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

Biotechnology is a strictly regulated sector with a set framework for environmental protection and occupational safety activities. The Occupational Safety and Environmental Protection department centrally monitors MorphoSys's sites with regard to compliance with all relevant guidelines. In addition to strictly complying with all statutory regulations, MorphoSys undertakes a range of efforts to ensure sustainable environmental management and reliably protect its employees.

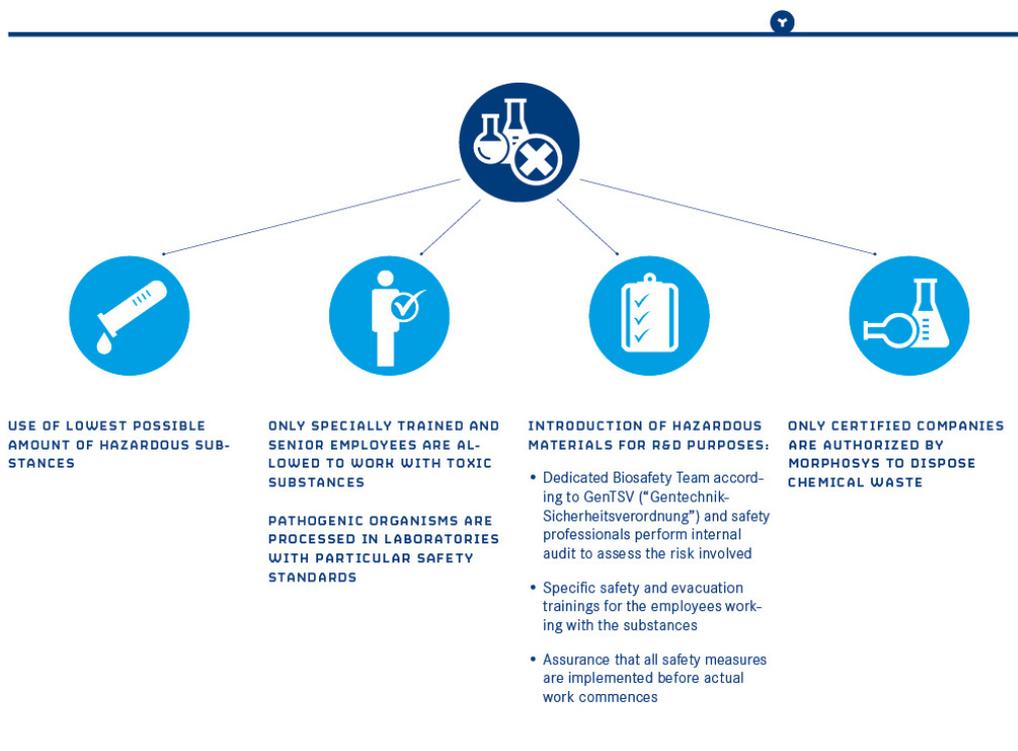
MorphoSys continuously elaborates measures in a bid to protect resources. Savings in energy consumption and production of waste reduced costs and had a positive effect on the environment in the reporting year. For the fourth year in a row, the Company participated in the Carbon Disclosure Project (CDP) survey on the monitoring of internal resource consumption. This independent non-profit organization works towards the reduction of greenhouse gases and towards sustainable water usage. Its continuous participation in the study enables MorphoSys to monitor its consumption in a structured way and puts the Company in a position to counter excessive consumption or high costs in a prompt manner. As in the previous years, no need for action resulted from the study results in the reporting year, but MorphoSys nonetheless established various measures for the protection of resources. For example, the introduction of energy-saving computer screens saved energy and costs, as did the energy-efficient equipping of a laboratory and corresponding lighting systems. All printers were reset to print double-sides in black and white as standard in order to reduce toner and paper consumption. The sales staff in the AbD Serotec division largely travel in fuel-saving BlueMotion vehicles, which have been optimized for better environmental compatibility with regard to their pollutant emissions.

Furthermore, MorphoSys supported two campaigns to raise awareness among employees in terms of resource-saving behavior: in the reporting year, the Company once again encouraged its German employees to take part in the initiative of a German health insurance company and the German Cyclists Club (ADFC) and cycle to work. The outcome of this saw the Company deemed bicycle-friendly. Addi-

tionally, the Company's own MOR2Work platform was founded. This intranet-based application enables employees to organize carpools for the route to work and thus contributes to saving costs and reducing CO2 emissions.

Within the framework of its laboratory activities, MorphoSys aims to minimize the amount of harmful substances used. Only a specially trained group of people is allowed to handle toxic substances, while work with infectious pathogens may only be carried out in secured laboratories. For the disposal of chemical waste materials, MorphoSys exclusively contracts companies that are certified for the task. MorphoSys does not use radioactive substances to label antibodies.

FIG. 4: OCCUPATIONAL SAFETY AT MORPHOSYS AG



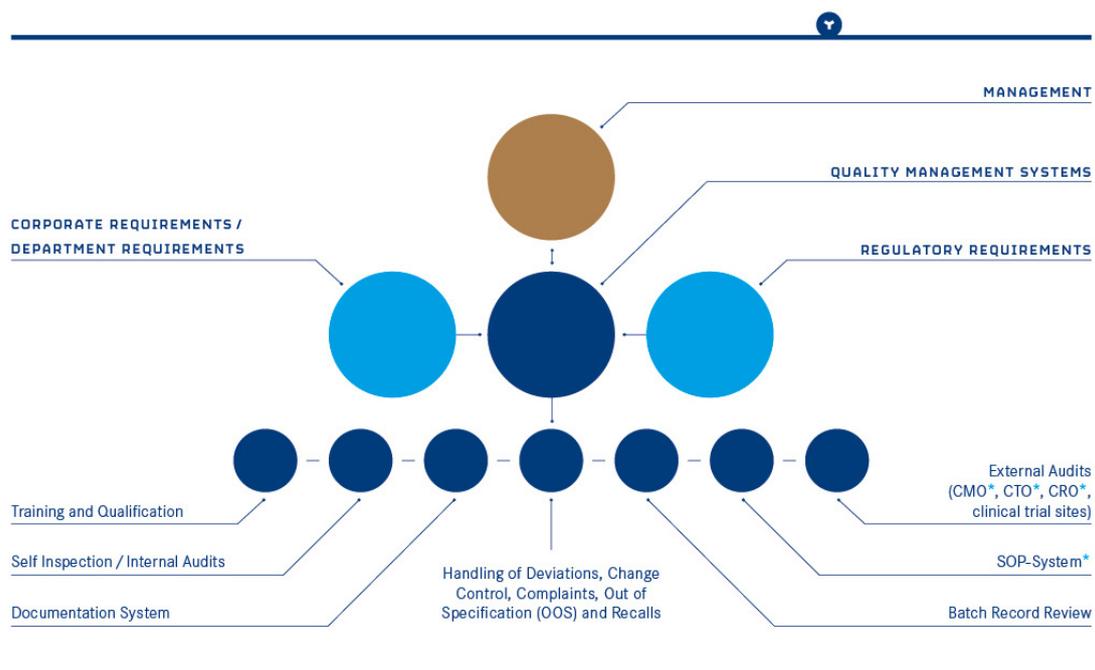
QUALITY ASSURANCE

Biopharmaceutical companies have a special responsibility with regard to safety and quality standards. In order to avoid safety risks in drug development that could present a serious threat not only to patients, but also to its economic situation, MorphoSys follows defined processes and strict guidelines. In this way, the Company guarantees the quality of test preparations, keeps the risk to clinical trial participants as low as possible and guarantees that the data can be collected reliably and processed correctly.

In order to be able to control and regulate these processes, MorphoSys has set up an integrated quality management system for its Proprietary Development department based on the principles of Good Manufacturing Practice (GMP), Good Clinical Practice (GCP) and Good Laboratory Practice (GLP). An independent Quality Assurance department makes sure that all development measures comply with applicable national

and international laws, regulations and guidelines. The Head of Quality Assurance directly reports all measures to and coordinates them with the Management Board. In this manner, the high quality standards are achieved that are necessary to guarantee product quality as well as data integrity, and to guarantee the safety of trial participants.

FIG. 5: QUALITY MANAGEMENT SYSTEMS AT MORPHOSYS AG



The Quality Assurance department takes a central role within the Quality Management System at MorphoSys and reports directly to the Management Board of MorphoSys AG. It takes into account all regulatory requirements as well as the department and corporate specific requirements and guides and supervises all departments governed by the quality system.

The Quality Assurance department compiles audit plans for the execution of clinical testing. Contract research organizations (CROs), external providers and investigator sites participating in the clinical trials are audited by the Quality Assurance department using a risk-based approach.

For its proprietary development activities, MorphoSys holds a manufacturing license for the release of clinical trial material and has been certified by the relevant German authorities (Government of Upper Bavaria) as being in compliance with the standards and guidelines of Good Manufacturing Practice (GMP).

The site of the AbD Serotec segment in Puchheim near Munich is accredited in accordance with ISO 9001:2008.

INTELLECTUAL PROPERTY

The Company's proprietary technologies and products derived therefrom are its most valuable assets. It is therefore crucial for the Company's success to further secure strong patent protection for its technology portfolio as well as for the MOR103, MOR202 and MOR208 development programs. For partnered programs, MorphoSys's partners file patent applications for individual drugs in cooperation with MorphoSys's IP department. Such drug development programs possess additional patent protection, the duration of which significantly exceeds that of the underlying HuCAL technology.

In 2012, the Company again systematically expanded its patent portfolio. On the technology side, further important steps were taken to efficiently protect the new antibody platform Ylanthia. Furthermore, MorphoSys possesses a range of further technology patents that serve as a basis for the Company's growth and its drug development programs. The patent protection for the Ylanthia platform is expected to expire in 2031.

The Company's proprietary development programs are followed through the patent system very closely. The most advanced program, MOR103, is now protected by more than half a dozen different patent applications that cover the most varied aspects of this compound providing very effective protection. The various patents and associated protection certificates are expected to protect the MOR103 program until 2031.

Currently, the Company's patent attorneys prosecute more than 40 different proprietary patent families worldwide, in addition to numerous patent families the Company is pursuing in cooperation with its partners. The patent portfolio is analyzed regularly and the Company's business strategy adjusted accordingly. FIG. 6: patent lifetime on key platform technologies

FIG. 6: PATENT LIFETIME ON KEY PLATFORM TECHNOLOGIES



HUMAN RESOURCES

A forward-looking personnel policy is essential for a company to compete in the market. Only in this way can employees with different specialist focuses be attracted in international competition and attracted to the Company long-term.

The Company's comprehensive further training program represents an important component in this context. Employees in the areas of research and product development as well as in various management positions are encouraged to partake in a range of internal and external training programs. Special further training and development programs provide professional and personal development for employees and, in individual cases, are also supported by customized coaching. A quarterly managers' workshop

was introduced in 2012 in order to provide concrete support to all managers in carrying out their duties. Standard specifications provide guidance for sustainable personnel management.

Furthermore, in 2012, MorphoSys established a specialist career path in the science field that offers career progression analogous to the management career path. Given the Company's flat hierarchies, this creates real prospects for scientists with outstanding expert knowledge.

MorphoSys is aware of its social responsibility to young people in particular and so actively contributes by offering vocational training in-house. As far as equal qualification is given, not only students with a high school diploma (Abitur) are employed, but those with other school-leaving qualifications are also considered for occupations that require training, with great success. As of 31 December 2012, the Company had three trainees in the IT department, six trainees as biology laboratory technicians and one trainee as a human resources services consultant (31 December 2011: four IT trainees, four biology laboratory trainees).

As stated in MorphoSys's Credo, transparent and open communication among the workforce is a core element of the Company culture. In its fortnightly General Meetings, the Management Board gives information on recent Company developments. Employees present selected projects and questions are answered. Questions can be asked by employees either at the meeting itself or submitted in writing beforehand, anonymously if so desired. Additionally, the Company intranet with its integrated document management systems provides relevant information for all employees in an up-to-date and structured manner.

The e-recruiting tool introduced in 2011 proved itself during the previous financial year. Already, 95% of job applications are now submitted online via the MorphoSys website, which significantly reduces administration time for the Company and therefore shortens response times. As all applications are managed solely within this secure system, absolute confidentiality and discretion are guaranteed.

All new employees are familiarized with the Company in two-day introductory meetings and can find comprehensive information on the Company's processes at individual lectures on all specialist departments. Free sports and relaxation opportunities, such as Pilates sessions or courses on autogenic training, help to promote employee health and social exchange beyond their department.

The compatibility of professional development with personal life planning is becoming increasingly important to employees. In particular, companies whose business success is based on creative and committed employees must accept the challenge and develop suitable concepts. MorphoSys realized this trend many years ago and offers its employees a variety of opportunities in this regard, for example flexible working time models and special part-time employment arrangements. Modern IT equipment also enables trouble-free work during business trips or at home. For employees with young families, MorphoSys eases the return to working life and the coordination of professional and family life with special solutions. MorphoSys is the co-founder and a supporter of the BioKids day care center in Martinsried and has special agreements with a German service provider offering additional services for working family members.

MorphoSys rates the protection of its employees against work-related dangers and the preservation of their health by means of preventive measures very highly. The success of the strict monitoring of all occupational safety and security measures is demonstrated in the very low number of workplace accidents: Three workplace accidents requiring a report occurred in the reporting year (2011: 8), of which

two were categorized as commuting accidents. With guidelines and training courses run by the Health & Safety department, but also by offering regular medical checks, the Company strives to keep the number of accidents low and to ensure the safety and well-being of all employees at MorphoSys as much as possible. The successful implementation of these measures is illustrated by the consistently low absence rate at all of MorphoSys's sites.

TAB. 10: WORKFORCE BY GENDER IN 2012 (2011)

	2012	2011
Male	37%	37%
Female	63%	63%

TAB. 11: ABSENCE RATES AT MORPHOSYS

	2012	2011	2010	2009	2008
Germany	3.0%	2.7%	1.7%	2.0%	1.3%

Risks and Opportunities Report

MorphoSys is part of an industry that is characterized by constant change and progress. The challenges and opportunities in the healthcare industry are influenced by many different factors. Global demographic changes, medical advances and the desire for a better quality of life in emerging nations form a solid growth perspective for the pharmaceutical and biotechnology industry. Growing regulatory requirements in the area of drug development and the cost pressures on healthcare systems in particular must, however, also be considered.

MorphoSys seeks to recognize and utilize new opportunities for business success in order to increase the value of the Company in the long term. Corporate success cannot, however, be achieved without conscious risk-taking. As a result of its global activities, MorphoSys is exposed to a variety of risks which could affect the Company's business performance. MorphoSys's risk management system helps to evaluate the risks associated with the Company's strategic objectives. Regular strategy reviews ensure a reasonable balance between opportunities and risks. MorphoSys will only take a certain risk if it is accompanied by the opportunity to increase the Company's value.

Revision of the Risk and Opportunity Management System

In the past financial year, the risk and opportunity management system was fundamentally revised and a Company-wide IT solution for the systematic analysis and monitoring of risks and opportunities was introduced. This IT solution supports all responsible risk managers in the monitoring and assessment of risks and opportunities and enables these to be continuously documented. All risks and opportunities are evaluated very closely for a period of one year. Many risks and opportunities, primarily in the area of product development, have more long-term effects, which is also why a three-year period is considered.

Principles of Risk and Opportunity Management

MorphoSys is continually confronted with risks and opportunities. Material effects on assets and the financial situation, as well as a direct impact on intangible assets, such as the Company's image in the industry or the Company's brand, are possible in this regard.

MorphoSys defines risks as internal or external events that have a direct influence on the Company. The potential financial impact on the Company's goals is evaluated here. Opportunities are directly linked with risks. The occurrence of opportunities has a positive influence on the Company's goals, while risks have a negative influence.

Responsibilities in the Risk and Opportunity Management System

The Management Board of MorphoSys AG is responsible for the risk and opportunity management system. It ensures that all opportunities and risks are presented, assessed and monitored in a comprehensive manner. The Corporate Finance & Corporate Development department coordinates their imple-

mentation and regularly reports to the Management Board. The Supervisory Board has tasked the Audit Committee with monitoring the effectiveness of the risk management system. The Audit Committee regularly reports on the results to the whole Supervisory Board.

Accounting-Related Internal Control System

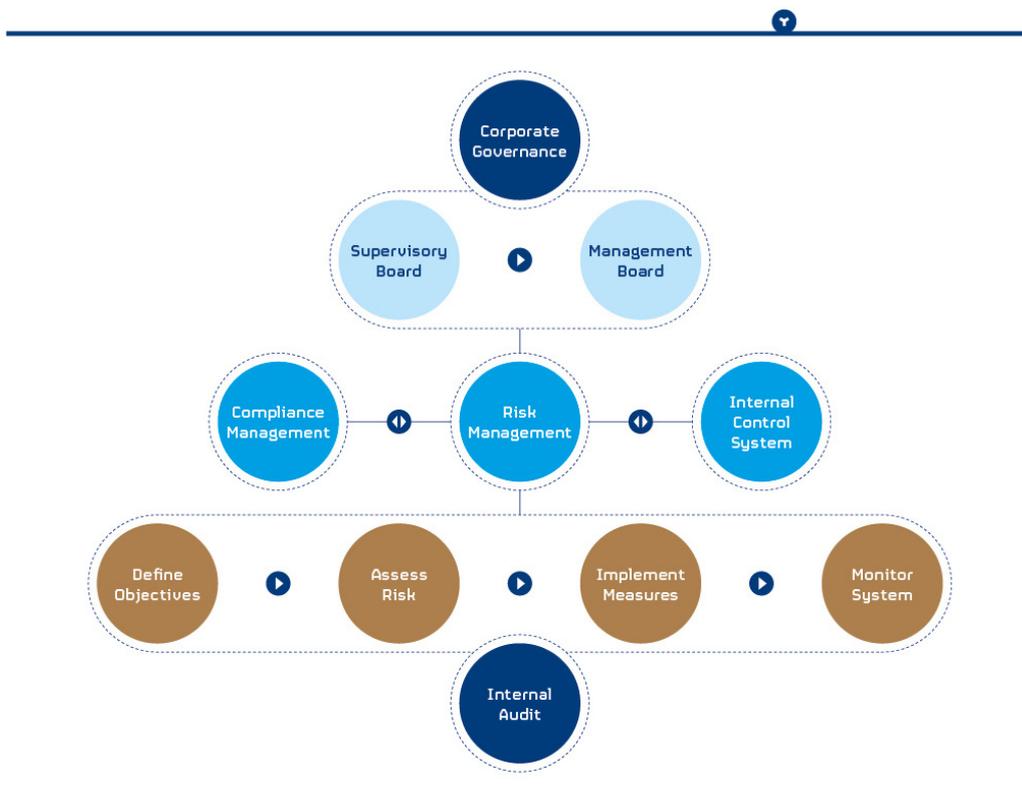
MorphoSys uses extensive internal controls, reporting guidelines and additional measures, including employee training and continuous education, with the intention of ensuring accurate bookkeeping and accounting as well as reliable financial reporting in the Financial Statements and the Management Report. This integral element of the accounting process comprises preventive, monitoring and detective measures designed to ensure safety and control in accounting and operational functions. For more detailed information about the internal control system regarding financial reporting, please see the Corporate Governance Report.

Risks

RISK MANAGEMENT SYSTEM

The risk management system is a key element of MorphoSys’s activities in terms of complying with legal requirements and good corporate governance practice.

FIG. 7: MORPHOSYS’S RISK MANAGEMENT SYSTEM



MorphoSys has established a comprehensive system to identify, assess, communicate and manage risks across all parts of the organization. The risk management system at MorphoSys identifies risks early on and enables appropriate measures in order to limit losses and avoid risks that would threaten the Company's existence. All mitigation measures have been clearly assigned to responsible risk managers, predominantly to members of MorphoSys's Senior Management Group.

All major risks for MorphoSys's different business units, as well as in terms of the Company as a whole, are assessed within the framework of a systematic risk evaluation process. These risk evaluations are carried out twice a year. Risks are evaluated by comparing their quantifiable impact on MorphoSys and their probability of occurring with and without having established any mitigation processes. The methodology is applied over an assessment period of twelve months and a mid-term view of three years in order to include the long timelines in proprietary development. An overview of the current risk evaluation by MorphoSys is shown in Fig. 8. The risk management system is continuously discussed in and among the Management Board and the Supervisory Board. It is also reviewed on a regular basis by external consultants in order to ensure continuous development so as to react to possible changes at all times.

RISKS CATEGORIES

MorphoSys has grouped its most important risks in the following six categories:

- Financial risks (e.g. those resulting from insolvencies, payments not received, lower-than-expected and budgeted license fees, research funding and milestone payments as well as risks associated with any form of financing and financial instruments, e.g. financial investment, currency, interest rates, taxes and receivables collection)
- Operational risks (e.g. procurement/production, distribution/logistics, customers, human resources or, especially for MorphoSys, risks resulting from preclinical or clinical studies)
- Strategic risks (e.g. mergers & acquisitions, shareholdings, research & development, corporate image, superior competitor products)
- External risks (risks beyond the Company's control, e.g. economic, political, legal risks, especially for companies in biotechnology and pharmaceutical industry also risks regarding intellectual property or regulatory environment risks when new drugs are approved)
- Organizational risks (e.g. IT, facility management, succession planning, interruption of business, delay in processes due to high complexity or high number of projects)
- Compliance risks (e.g. non-compliance with the US Food and Drug Administration (FDA) or European Medicines Agency (EMA), guidelines for quality management, accounting rules, corporate governance, abidance of the German Stock Corporation Act)

FIG. 8: DESCRIPTION OF MAJOR RISKS AT MORPHOSYS (IN POINTS)

Risk Description	1-Year Estimate	3-Year Estimate
FINANCIAL RISKS		
Risks resulting from not reaching revenues as expected, derived from existing business with partners or from new product offerings	██████████	██████████
Risks resulting from bank insolvencies	██████████	██████████
OPERATIONAL RISKS		
Risks inherent to proprietary drug discovery and development	██████████	██████████
Risks resulting from purchasing and logistics related issues	██████████	██████████
STRATEGIC RISKS		
Risks resulting from missed opportunities	██████████	██████████
Risks resulting from a lack of access to attractive target molecules and compounds	██████████	██████████
EXTERNAL RISKS		
Risks resulting from IP-related issues	██████████	██████████
Risks related to quality issues with regard to regulatory framework changes	██████████	██████████
ORGANIZATIONAL RISKS		
Risks resulting from increased amount and complexity of programs	██████████	██████████
Risks resulting from technical operations issues	██████████	██████████
COMPLIANCE RISKS		
Risks resulting from quality related issues due to legal requirements	██████████	██████████
Risks resulting from legal issues	██████████	██████████

Legend

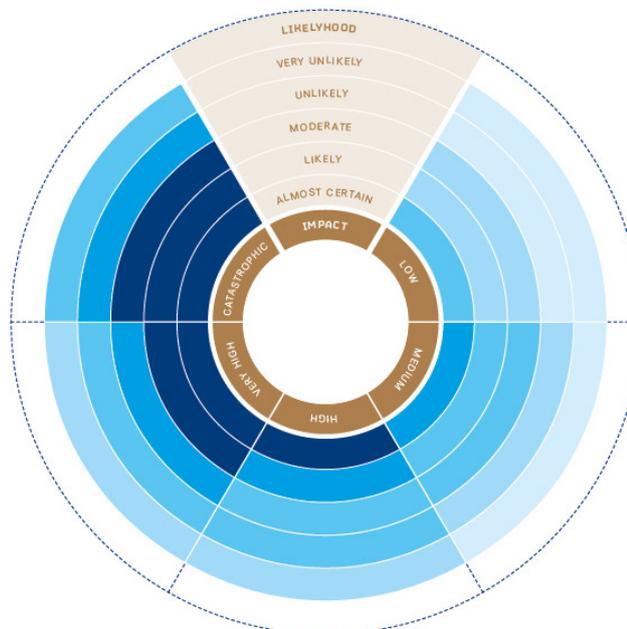
Scoring system in points:

- 1-2 points
- 3-4 points
- 5-9 points
- 10-12 points
- 15-25 points

Risks valued at 1 to 4 points represent a low risk (low probability, minor effects);

risks valued at 5 to 12 points represent acceptable risks (medium probability, moderately severe effects);

for risks valued at 15 to 25 points, risk minimization measures must be implemented (high probability, severe effects).



FINANCIAL RISKS

The Company's financial risk management strategy aims at limiting financial risks and aligning those risks with the requirements of MorphoSys's business activities.

Financial risks can arise within the framework of licensing agreements, for example, if projects (products or technologies) are out-licensed late, not at all or for an amount less than planned. A corresponding risk also arises if revenues do not reach the expected amount or increased resource requirements push up costs by more than the sum set out in the budget plan. Detailed project preparation, for example via an intensive exchange with internal and external partners and consultants, guarantees optimal positioning in the run-up and thus also provides an important tool for minimizing risk.

Potential insolvencies of banks are still a financial risk owing to the continued uncertain economic situation. The Company only invests in funds and products considered to be as secure as possible – to the extent that this is possible and assessable – with banks that have consistently high ratings and/or are backed by a very strong partner.

OPERATIONAL RISKS

Operational risks encompass risks with regard to the research and development of proprietary drug candidates, as well as risks in the Central Purchasing and Logistics department, and risks in the recruitment of qualified employees.

A breakdown of a clinical trial – whereby the breakdown of a trial does not necessarily mean the breakdown of an entire program – before out-licensing to partners can arise if clinical data do not demonstrate the expected results or demonstrate unexpected and unwanted side effects. The design of clinical trials and the creation of development plans are always carried out with the greatest care in order to have the best chances of showing results that are significant and convincing to regulatory bodies and potential partners. Besides internal knowledge, external experts are also consulted. Special committees have been created to monitor the progress of clinical programs.

With respect to purchasing and logistics, a partnership is established with suppliers in order to avoid delivery delays, bottlenecks and the accompanying costs. This is supported by regular supplier evaluation, which identifies possible problems, determines solutions and is communicated to the relevant managers, internally as well as externally. Human Resources risks are mostly related to recruitment processes, e.g. difficulties in recruiting candidates with the skills required for the specific position, or difficulties in keeping employees permanently. In order to counter these risks, MorphoSys's HR department uses all opportunities to optimize the recruitment process, by means of cooperation with external organizations, among other things. Hiring processes start as early as possible and the Human Resources department develops measures to present MorphoSys as an attractive employer with an open and creative culture.

STRATEGIC RISKS

Risks resulting from missed opportunities may arise due to a lack of access to attractive targets, compounds or innovative technologies. These risks in turn are related to missing or unsuccessful M&A transactions. In order to counter these risks, a comprehensive assessment process for investment opportunities has been established. Another strategic risk may result from not finding any attractive disease-related target molecules and compounds. Improved identification activities and strategic alliances can facilitate an effective search for suitable building blocks.

EXTERNAL RISKS

External risks for MorphoSys are mainly related to the Company's intellectual property. Patent protection for MorphoSys's proprietary technologies is highly important. In order to mitigate risks in this area, MorphoSys continuously searches for and analyzes published patents and patent applications, monitors relevant hits and develops design-around strategies for potentially relevant patents before they are issued.

With this strategy, MorphoSys achieved growing success during the years and was able to secure commercial freedom with regard to its proprietary technology platforms in the long term.

Another area in which external risks can arise is changes to regulatory frameworks, which could require MorphoSys to adjust its development plans and activities. To be able to proactively pick up on possible changes in plans that can span several years, MorphoSys has installed industry-standard monitoring systems that introduce measures in a timely fashion and adapt strategies to the changed framework conditions, if appropriate.

ORGANIZATIONAL RISKS

Organizational risks exist in the Partnered Discovery, Technical Operations and IT areas. In the Partnered Discovery department, quality issues or time delays can arise within the organization if the number of programs increases or the programs become increasingly complex. To reduce complexity and thus risks, standard processes have been introduced, the adherence to which is evaluated by means of regular audits.

Risks in the Technical Operations department relate to processes that could lead to adverse effects on, or disruption of, operations as well as incidents with hazardous or environmentally damaging pollutants. To avoid incidents of this kind, tailored measures have been implemented; these include the routine checking and maintenance of equipment and installations as well as education and training sessions for affected employees. Furthermore, tailored electronic monitoring systems minimize such risks. Financial risks affecting this area are largely insured. For further information regarding the operational environment of MorphoSys, please see the Sustainability Report.

In IT, business operations might be at risk due to failures of the IT infrastructure or the IT security system. These risks are countered by multiple daily data backups as well as the implementation of highly secure firewall and virus scan systems to enhance the safety and reliability of the data. Furthermore, MorphoSys minimizes risks relating to the availability, reliability, and efficiency of its IT systems through continuous check-ups (e.g. simulated staggered hacker attacks) and updates of its software and hardware systems. Regular reviews and adaptations of the IT strategy are also conducted on a yearly basis.

COMPLIANCE RISKS

Compliance risks can arise if quality standards are not adhered to or are inefficiently handled from a legal viewpoint. As stated in the Sustainability Report, MorphoSys is committed to fulfilling the highest quality standards regarding its business operations. In order to minimize these risks, the system is regularly reviewed by experts, and recurrent audits are performed by an internal Quality Assurance department.

Concrete risks can arise if the internal quality management systems do not comply with legal standards or the implementation of systems for the disclosure of quality defects is neglected. If internal controls were not in a position to disclose breaches of the guidelines on Good Manufacturing Practice (GMP), Good Clinical Practice (GCP) or the Good Laboratory Practice (GLP), this would equally represent a compliance risk.

Incorrectly executed Annual General Meetings can lead to legal disputes with shareholders. The consequences would be significant costs, either in order to avoid the annulment of the Annual General Meeting or, where this is not possible, to hold the Annual General Meeting a second time. Additionally, possible capital measures to be determined (e.g. a capital increase) would also be endangered.

In order to minimize this risk, the preparation and realization of the Annual General Meeting, as well as all relevant documents and processes, are monitored and inspected in detail by the relevant internal departments in addition to external lawyers and auditors.

THE MANAGEMENT BOARD'S EVALUATION OF THE OVERALL RISK SITUATION AT MORPHOSYS

The Management Board considers the risks to be manageable and the survival of MorphoSys not to be endangered at the time of the current report. As already described, MorphoSys regularly monitors its risks via an effective risk management system which is subject to continuous improvements.

Opportunities

MorphoSys possesses leading antibody technologies and a portfolio of promising clinical development candidates. A substantial number of pharmaceutical and biotechnology companies are active in the antibody area and could become future customers and partners for MorphoSys's products and technologies. Together with extensive expertise in the area of technology and product development, MorphoSys has identified a range of growth opportunities for the coming years.

MorphoSys's antibody technologies offer key advantages for the development and optimization of therapeutic antibody candidates, which could translate into higher success rates in the drug development process.

Opportunities can also arise outside of the antibody segment, in other classes of compound, and through the transfer and application of MorphoSys's core competencies in the area of technology. In the 2012 financial year, MorphoSys launched an initiative to seize these opportunities by means of commercial agreements with young companies together with an investment in the same.

GENERAL STATEMENT ON OPPORTUNITIES

Increased life expectancy in industrialized countries as well as the changing economic situation and lifestyle in emerging nations are expected to drive demand for additional and innovative treatment options and enabling technologies. Scientific and medical progress has resulted in a better understanding of the biology of several diseases, which in turn paves the way for new therapeutic approaches. Innovative therapies such as fully human antibodies have been launched in recent years and have resulted in the development of commercially successful medical products. In addition, therapeutic compounds based on proteins, also known as biological compounds or biologics, are considered to be less

exposed to competition from generics than traditional, small molecules, mainly because the manufacturing of biologics is much more complex. Therefore, the demand for antibodies and the interest in this class of drugs have increased sharply over the last twelve to 36 months, as shown by several acquisitions and significant licensing agreements in this field.

MARKET OPPORTUNITIES

MorphoSys believes that its technology platforms HuCAL and Ylanthia as well as Slonomics can be applied to make products that address significant and so far unmet medical needs.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By pursuing drug development with a variety of partners, MorphoSys has been able to spread the inevitable risks linked to the development of individual drugs. With over 70 therapeutic antibody development programs currently operated with partners, it is increasingly likely that MorphoSys will participate financially in several marketed drugs. In 2012, the first drug candidate – the antibody gantenerumab, which is being developed by the pharmaceutical group Roche in the area of Alzheimer's disease – reached the approval-linked third phase of clinical development.

MorphoSys will continue to expand its partnered antibody pipeline. In addition, the company could enter new revenue-generating partnerships.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

The pharmaceutical industry is likely to further intensify its in-licensing of new compounds in order to refill pipelines and replace former key products and turnover generators that have lost patent protection. With its most advanced compounds MOR103, MOR202 and MOR208, MorphoSys is in a good starting position to profit from the needs of pharmaceutical groups.

With the Partnered Discovery segment providing a secure cash flow over the coming years, MorphoSys is in a good position to continue to strengthen its proprietary product portfolio. MorphoSys will start additional clinical trials for its key drug candidates, for example by investigating new areas of disease. MorphoSys plans to add programs to its portfolio and could use existing and future co-development opportunities to achieve this. Furthermore, the Company is looking to in-license interesting drug candidates.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and new technologies to maintain its pole position as a technological leader. With Ylanthia, MorphoSys has established a new technology platform, which – unlike its predecessor HuCAL – is available for broader licensing to partners. In 2012, MorphoSys began the commercialization of the Ylanthia antibody library.

Technological advances of this kind may enable the Company to further expand its list of partners and to increase the speed and success rates of its partnered and proprietary drug development programs. New technology modules could also open up new areas of disease in which antibody-based treatments are under-represented today by allowing the generation of antibodies against novel classes of target molecules.

Technology development is driven by a team of scientists who concentrate on the development of MorphoSys's technologies. In addition to internal technology development, MorphoSys also relies on external sources in order to strengthen its technological capacities. Cooperation with and a shareholding in Lanthio Pharma, a Dutch company that deals with the development of lantipeptides, is a good example of such activities.

ACQUISITION OPPORTUNITIES

MorphoSys has demonstrated its ability to make acquisitions and use these to accelerate its growth. MorphoSys did not make any acquisitions in the past financial year, but did successfully sell substantially all of its business division AbD Serotec in order to focus on drug development. The AbD Serotec segment was strengthened by two acquisitions in 2005 and 2006, and was successfully sold for more than its carrying value to Bio-Rad.

MorphoSys continues to consider its acquisition strategy as an attractive means of increasing its market share, supplementing its existing pipeline and technology platform and securing access to patents and licenses for the development of novel proprietary technologies and products.

FINANCIAL OPPORTUNITIES

Favorable exchange rates and interest rate developments can have a positive effect on the Company's financial results. The developments in the interest and financial markets are continuously monitored in order to identify and utilize opportunities promptly.

Subsequent Events

The sale of MorphoSys's Research and Diagnostics division, AbD Serotec, to Bio-Rad was agreed on 16 December 2012. Bio-Rad purchased substantially all of AbD Serotec for approximately € 53 million. This sum includes the purchase price, an indemnification for cash reserves in the AbD Serotec subsidiaries amounting to € 5.3 million, and a license payment for the use of the HuCAL technology in the market for research reagents and diagnostics. The transaction was concluded in January 2013.

No further significant changes took place after the conclusion of the 2012 financial year. Other events with a significant effect on the net assets, financial position and results of operations also did not occur after the conclusion of the financial year.

Outlook and Forecast

MorphoSys AG develops novel antibody technologies and products for therapeutic applications. MorphoSys has strengthened its focus on the development of therapeutic compounds with the sale of the AbD Serotec research antibody division, completed at the start of 2013.

The Company's management intends to further expand MorphoSys's portfolio of proprietary drug candidates. MorphoSys continues to apply its technologies in rapidly growing, innovation-driven sectors of the healthcare market.

OVERALL STATEMENT ON EXPECTED DEVELOPMENT

MorphoSys owns established and validated technologies and continuously invests in their further development - with an internal team but also through additional purchases. The Company's strategy builds on these technologies to develop a broad and sustainable pipeline of innovative drug candidates - with partners and for its own account. In the therapeutics area, commercialization of these technologies provides secure cash flows from long-term partnerships with large pharmaceutical companies. Furthermore, MorphoSys profits from the successful further development of drug candidates by way of milestone payments as well as through royalties when a drug reaches the market.

The Company's stable cash flows and strong cash position enable it to further strengthen its business through investments in proprietary drug and technology development. The Management Board expects the following developments for 2013:

- MorphoSys will continue to invest in technology development to maintain its leading position in the antibody sector and related technologies. The Company intends to sign new commercial agreements based on its proprietary technologies, Slonomics and Ylanthia.
- The demand for antibodies as a new treatment modality remains high, allowing the Company to expand its pipeline of therapeutic antibodies within its partnerships.
- The pharmaceutical industry continues to use the in-licensing of compounds as a means of gaining access to promising product candidates. Successful out-licensing of proprietary drug candidates could lead to lucrative cash flows.

STRATEGIC OUTLOOK

MorphoSys's business model is built on its proprietary technologies, including the HuCAL and the more recently announced Ylanthia antibody libraries, as well as the Slonomics platform.

The development of therapeutic antibodies within partnerships will continue to be the mainstay of MorphoSys's strategy. The Company's therapeutic pipeline is expected to grow and mature over the coming years, resulting in additional milestone payments. Thanks to the breadth of the pipeline, a significant number of marketed therapeutic antibody products could emerge in the years ahead and, as a result, financial participation through product royalties will be secured.

The Partnered Discovery segment generates secured cash flows from MorphoSys's long-term collaborations. The conclusion of additional alliances based on proprietary technologies – including acquired technologies as in the case of Slonomics – would provide further opportunities for future revenues. In the case of the successful development of drug candidates, MorphoSys would benefit through milestone payments and, following market approval, through royalties on the product sales of approved drugs.

In its Proprietary Development segment, MorphoSys is developing therapeutic antibodies in-house in the areas of inflammatory diseases and oncology. MorphoSys intends to develop proprietary drug candidates up to proof of clinical efficacy before a partner is sought for the commercialization. Subject to certain conditions, individual projects could also be further developed in-house, possibly even to market approval. At the end of 2012, three clinical programs – MOR103, MOR202 and MOR208 – formed the main assets of MorphoSys's development portfolio. Currently, a partner is being sought for the further clinical development and later commercialization of MOR103, the development of MOR202 and MOR208 is being expedited at the Company's own expense.

For the foreseeable future, MorphoSys will invest the majority of its cash flow in proprietary R&D in order to further expand its own portfolio of proprietary drug candidates and to strengthen its technology platforms.

EXPECTED ECONOMIC DEVELOPMENT

The sovereign debt crisis will continue to dominate the economy and the performance of the financial markets in 2013. The economy in the Eurozone has been in recession since the spring of 2012. After the stabilization of the currency union by the ECB, only gradual recovery is expected. In the autumn of 2012, the European Commission reduced the growth prospects for the Eurozone in 2013 to 0.1%; some experts also expect a decline in 2013. Germany is expected to grow in 2013, however, the OECD expects economic growth of 0.5%.

In the USA, the imminent fiscal cliff was narrowly avoided. Economic recovery is expected, resulting in growth of up to 2%.

Japan will also experience an economic upswing. The International Monetary Fund predicts economic growth of 1.2%.

The OECD reduced the outlook for its 34 member states and warns of a global recession in 2013.

EXPECTED DEVELOPMENT OF THE LIFE SCIENCES SECTOR

Historically, the pharmaceutical and life sciences sector is relatively immune to economic downturns. An aging population requires new and innovative treatment methods. The necessity of drastic savings measures in national budgets, however, leads to slumps in international healthcare systems, which in turn directly affects reimbursement policies and therefore pharmaceutical companies. The expiry of patents on top-selling drugs continues to concern the pharmaceutical industry, although the lion's share of patent expiries has been overcome. However, pharmaceutical companies still suffer from a lack of innovation and product supply.

The prospects for the biotechnology sector nevertheless remain very favorable. There are currently approx. 7,400 drug candidates in the development pipeline, with an increasing number in phase 3. Pharmaceutical companies remain prepared to invest large sums in developing innovative and promising product candidates as well as to in-license such programs from biotechnology companies.

Financial resources play an important role for many companies. The access to new sources of finance is still limited as before but is of central importance for the further development of the biotechnology industry.

In the USA, President Barack Obama described the biotechnology sector as an important sector for growth. The funding of start-ups should create new jobs. The American approval authority, the FDA, has additionally been instructed to shorten approval processes – which should further reinforce the positive trend of more approvals.

EXPECTED COMMERCIAL DEVELOPMENT

MorphoSys's collaboration with Novartis ensures steady cash flows over the coming years until at least the end of 2017. Additional commercial opportunities will arise from its proprietary technology platforms such as Slonomics and Ylanthia. MorphoSys will continue to concentrate on broadening its partnered pipeline and increasing the value of its proprietary portfolio.

Within the Partnered Discovery segment, the Company anticipates starting, on average, approximately ten new partnered programs per annum for the next several years. MorphoSys plans to partner its Ylanthia technology with additional pharmaceutical and biotechnology companies.

The Company's most advanced proprietary development program, MOR103, completed a phase 1b/2a trial in RA patients with very promising results. MorphoSys is currently in partnering discussions for further development and marketing of this drug candidate. MorphoSys plans no further clinical trials with MOR103 at the current time. The ongoing phase 1b trial in patients with multiple sclerosis will be continued in 2013.

The approval of a therapeutic antibody based on the Company's proprietary technologies is not expected before 2015/2016. As one of the first partners, Novartis publicly announced that the therapeutic antibody BYM338 could be submitted for approval in 2016.

EXPECTED PERSONNEL DEVELOPMENT

The workforce is expected to remain roughly at the same level as in 2012. Additional human resource requirements could arise depending on requirements, e.g. through the conclusion of new commercial development agreements or through the in-licensing of new technologies or development candidates.

EXPECTED RESEARCH AND DEVELOPMENT

In 2013, the Company's R&D budget for proprietary drug development will increase compared with the previous year. In 2013, MorphoSys plans to invest approx. € 32 million to € 37 million in proprietary product and technology development. The majority of this investment will be channeled into the clinical development of the most advanced drug candidates and into the development of new technologies.

The steps planned for the Company's proprietary pipeline in 2013 include the following:

- Secure partner for the MOR103 development program with a view to continuing clinical development
- Continuation of phase 1b safety trial for MOR103 in MS as a second indication
- Continuation of phase 1/2a trial for MOR202 in MM
- Start of two phase 2 trials for MOR208 in NHL and ALL
- Continuation of the joint development program with Galapagos
- In-licensing of new target molecules or compounds to reinforce the development portfolio
- Collaboration with Lanthio Pharma to establish high-quality and diverse lantipeptide libraries
- For the Partnered Discovery segment, the marketing of the proprietary technology platforms Ylanthia and Slonomics is paramount.

EXPECTED FINANCIAL AND LIQUIDITY DEVELOPMENT

MorphoSys has a solid financial foundation and generates significant recurring revenues, mainly from its collaboration with Novartis. Following the sale of the AbD Serotec segment, the Management Board anticipates total turnover for 2013 of € 48 million to € 52 million.

The Partnered Discovery segment is a highly profitable business unit. Long-term commercial agreements will provide the Company with secured cash flows for at least the next five years. In addition, MorphoSys's management anticipates signing additional agreements based on proprietary technologies such as Slonomics and Ylanthia.

Pending the successful out-licensing of drug candidates, the Proprietary Development segment will continue to show losses due to ongoing investment in the preclinical and clinical development of the various programs. Successful out-licensing of one or more proprietary programs would result in significant profits being achieved in this unit. If one of MorphoSys's proprietary development programs shows convincing efficacy data in clinical trials, double-digit-million upfront payments, plus additional development- and sales-based milestone payments, as well as double-digit royalties could be achieved.

On the basis of the Management Board's current planning, total operating expenses of MorphoSys AG are expected to increase to between € 68 million and € 72 million in 2013. Investments in proprietary research and development will be heavily influenced by the start of additional clinical trials, and are expected to increase to between € 32 million and € 37 million. In addition to the continuation of the trials of MOR103 in multiple sclerosis and MOR202 in multiple myeloma, MorphoSys is planning to

start two phase 2 trials of MOR208. MorphoSys expects a result from ordinary activities in 2013 of € -18 million and € -22 million.

There is, however, the possibility of these expectations being significantly outperformed if a proprietary development program such as MOR103 can be out-licensed. Such a contract is not currently included in the projections. One-off events such as the out-licensing of proprietary products, generating substantial up-front and milestone payments, together with royalties from partnered HuCAL antibodies reaching the market, will become more important factors for the Company's fiscal performance in the years to come. Such results could lead to a significant outperformance of the Company's financial goals. Failures of drug development programs could have a negative impact on MorphoSys AG. In the near term, top-line growth is dependent on the Company's ability to sign additional partnerships and/or to out-license proprietary product candidates. In the mid-term, royalties from marketed products will add to top-line growth.

At the end of the 2012 financial year, MorphoSys's cash position amounted to € 114.0 million (31 December 2011: € 116.8 million), including an interest-bearing transferable loan amounting to € 10.0 million. The successful completion of the sale of AbD Serotec to Bio-Rad leads to a further increase of the company's cash balance of approximately € 48 million in the first quarter of 2013. MorphoSys sees its strong cash position as an asset which can be used to accelerate future growth through strategic transactions and/or increased investment in the Company's proprietary portfolio of therapeutic antibodies. The financial participation in Lanthio Pharma in the past financial year is a good example of a strategic transaction.

DIVIDENDS

MorphoSys AG's German statutory accounts showed accumulated profits which could be available for distribution. Nevertheless, in line with standard practice in the biotechnology industry, MorphoSys does not anticipate paying a dividend for the foreseeable future. Any profit generated by the business will be substantially reinvested in the operation of its business, mainly in the area of proprietary drug development, and in strategically interesting acquisitions in order to create further shareholder value and growth opportunities. As was the case in 2012, the Company plans to purchase its own shares from the market in 2013 for issuance to management under the Company's annual long-term incentive program.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2013 and beyond, and is based on Management Board assumptions. Future results may deviate from the expectations described in the Outlook and Forecast section. Major risks are discussed in the Risk Report.

Corporate Governance Report

The Corporate Governance Report was published on the corporate website, together with the Declaration of Compliance with regard to the Corporate Governance Code and the Declaration about Corporate Management, under Media & Investors > Corporate Governance.

MorphoSys makes responsible, sustainable and value-oriented corporate management its highest priority. Effective corporate governance is a central part of MorphoSys's corporate management and builds the framework for the management and supervision of the Company, including its organization, commercial principles and regulatory and monitoring measures.

On 7 December 2012, both the Management Board and the Supervisory Board updated their Declaration of Compliance with the German Corporate Governance Code. The Management Board and the Supervisory Board of MorphoSys AG state pursuant to Section 161 of the German Stock Corporation Act (AktG):

1. From 8 December 2011, the date of its most recent Declaration of Compliance, MorphoSys AG has complied – with the exceptions described below under item no. 4. – with the recommendations of the “Government Commission on the German Corporate Governance Code” in the Code version dated 26 May 2010.
2. On 15 May 2012, the “Government Commission on the German Corporate Governance Code” submitted a new version of the Code. MorphoSys AG has also complied – with the exceptions described below under item no. 4. – with the recommendations of this new Code version.
3. As of today, MorphoSys AG complies – with the exceptions described below under item no. 4. – with the recommendations of the “Government Commission on the German Corporate Governance Code” in the Code version dated 15 May 2012.
4. Exceptions:
 - The stock option program for the Executive Board launched prior to 2011 does not provide a cap for unforeseen developments within the meaning of Code section 4.2.3, since the reasonableness of the amount of stock options for the Executive Board was already considered at the time of the grant. However, the long-term incentive programs for the year 2011 and thereafter incorporate the concept of a cap compliant with the Code.
 - With regard to Code section 5.4.1, in its meeting on 10 March 2011 the Supervisory Board decided to aim for an adequate representation of women on the Supervisory Board, proposing female candidates for election by the shareholders and appropriately considering qualified women in the appointment procedure. A concrete quota for female members of the Supervisory Board has not been defined since the individual qualification and not the gender of candidates for election to the Supervisory Board shall be the decisive criteria for the composition of the Supervisory Board. With regard to the last election to the Supervisory Board that took place in the Annual General Meeting (AGM) 2012, Mrs. Eastham was elected as new Supervisory Board member next to the election of the male Supervisory Board members Dr. Möller, Dr. Camus, Dr. Vernon and Dr. Cluzel. Furthermore, Prof. Drews was Vice Chairman of the Supervisory Board until the end of the AGM 2012 and at his election in the AGM 2011 he exceeded the age limit of 75 years defined by the Supervisory Board in its rules of procedure. Insofar, the possibility as foreseen in the rules of pro-

cedure to exceptionally propose an elder candidate for election was used. The proposal to re-elect Prof. Drews to the Supervisory Board for a further year was at that time in the interest of the Supervisory Board to procure the continuity of its performance. Prof. Drews resigned from the Supervisory Board with effect as of the end of the AGM 2012. Currently, no Supervisory Board member exceeds the stipulated age limit of 75 years.

- The remuneration for the Supervisory Board as resolved in the Annual General Meeting 2012 only provides for fixed remuneration components and no longer for performance-related remuneration within the meaning of the Code Section 5.4.6. dated 26 May 2010. This Company's decision reflects the opinion of a growing number of experts on the subject of supervisory board compensation. In their view, the success-related remuneration of supervisory board members poses the threat of giving rise to a potential conflict of interests in a body whose duties include setting and evaluating objectives for the Company's long-term development.

Declaration about Corporate Management in Accordance with Sec. 289a of the German Commercial Code (HGB) for the 2012 Financial Year

The principles of corporate management, the composition and collaboration of the Management Board, Supervisory Board and committees as well as the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz - AktG) can be found on the MorphoSys corporate website under Media & Investors > Corporate Governance > Declaration about Corporate Management.

Shareholders and the Annual General Meeting

One of the most important foundations of our Company communication policy is to comprehensively inform institutional investors, private shareholders, financial analysts, employees as well as all other interested parties about the Company's situation through regular, open and up-to-date communications. All important information has been published on the Internet. The Company strictly adheres to the concept of fair disclosure.

A central part of MorphoSys's relations with its investors is frequent meetings with analysts and investors at road shows and 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. The Company's presentations at on-site events are accessible to any interested party on the corporate website. Video and audio recordings of key events can be replayed on the website at any time. Transcripts of the quarterly conference calls are also provided in a timely manner.

MorphoSys uses its corporate website as a central platform to provide up-to-date information about the Company and its progress. MorphoSys's financial calendar lists the dates of all regular financial publications and the next Annual General Meeting well in advance.

ANNUAL GENERAL MEETING

The Annual General Meeting took place in Munich on 31 May 2012. Approximately 40% of total voting stock was represented at the meeting, an increase compared to the attendance figure in 2011 (approximately 31%). MorphoSys assisted its shareholders in the use of proxies and arranged the appointment of

a representative to exercise shareholders' voting rights in accordance with instructions. This representative was also available until the end of the general debate of the Annual General Meeting.

MorphoSys's shareholders approved all management proposals put to the vote at the meeting with one exception:

- The 2011 net profit was forwarded to a new account.
- The members of both boards were released.
- PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, was elected the statutory auditor and auditor for the Consolidated Financial Statements for the 2012 financial year, as well as the auditor for the interim report on 30 June 2012.
- Election/reelection of members of the Supervisory Board:
 - Dr. Gerald Möller was reelected as a member of the Supervisory Board.
 - Dr. Geoffrey Vernon was reelected as a member of the Supervisory Board.
 - Dr. Daniel Camus was reelected as a member of the Supervisory Board.
 - Dr. Marc Cluzel was newly elected to the Supervisory Board.
 - Mrs. Karin Eastham was newly elected to the Supervisory Board.
- The proposal for the creation of a new Authorized Capital 2012-I was rejected.
- The proposal for the creation of a new Authorized Capital 2012-II was accepted.
- The remuneration of the Supervisory Board was redefined.

MorphoSys provided an online webcast of the Management Board's presentation and published all documents in a timely manner on the Company's website under Media & Investors > Annual General Meeting.

Cooperation between the Management Board and the Supervisory Board

In order to guarantee good corporate governance, open and comprehensive communication on a regular basis is a guiding principle for the Management Board and the Supervisory Board of MorphoSys AG. The underlying two-tier system required by the German Stock Corporation Act (AktG) explicitly differentiates between management and supervision. The responsibilities of both boards are clearly defined by law as well as by the Articles of Association and the Rules of Procedure of the boards. 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.

The most recent version of the German Corporate Governance Code recommends that the Management Board and the Supervisory Board should observe the principle of diversity and strive to increase the number of women in management positions. Women at MorphoSys occupy positions on the Management Board as well as the Supervisory Board. This diversity is also reflected at other management levels.

MANAGEMENT BOARD

The Management Board of MorphoSys AG consists of one chairman and three additional members. The Schedule of Responsibilities defines the different areas of responsibility and cooperation within the Management Board.

- Dr. Simon Moroney, Chief Executive Officer, is responsible for Strategy and Planning, Corporate Communications and Investor Relations, Internal Audit, Human Resources, the AbD Serotec business segment (up to the date of the divestment), Business Development and Legal, as well as the coordination of the single areas of responsibility of the individual board members and the representation of the Management Board vis-à-vis the Supervisory Board.
Initial appointment: 1998 (co-founder)
End of current period of office: 30 June 2014
- Jens Holstein, Chief Financial Officer, is responsible for Accounting and Controlling, Corporate Finance and Corporate Development, Technical Operations including IT and Central Purchasing and Logistics.
Initial appointment: 2011
End of current period of office: 30 June 2014
- Dr. Arndt Schottelius, Chief Development Officer, is responsible for the preclinical and clinical development of MorphoSys's proprietary development programs, Project and Portfolio Management, Quality Assurance and Regulatory Affairs as well as Drug Safety and Pharmacovigilance.
Initial appointment: 2008
End of current period of office: 30 June 2014
- Dr. Marlies Sproll, Chief Scientific Officer, is responsible for Discovery Alliances and Technologies, Target and Antibody Discovery, Protein Sciences, Alliance Management and Intellectual Property.
Initial appointment: 2005
End of current period of office: 30 June 2014

SUPERVISORY BOARD

As of 31 December 2012, MorphoSys's Supervisory Board consisted of six independent members. The members of the Supervisory Board are appointed by the Annual General Meeting.

Dr. Gerald Möller was confirmed as Chairman of the Supervisory Board after his re-election at the 2012 Annual General Meeting. After Prof. Drews stepped down, Dr. Geoffrey Vernon took over as Deputy Chairman of the Supervisory Board. The composition of the committees can be found in table 15.

Dr. Walter Blättler could not participate in two Supervisory Board sessions; Dr. Metin Colpan and Dr. Geoffrey Vernon were each absent on one occasion. All participants, however, received all information on the respective sessions. All participants were present at the committee meetings at all times.

The Supervisory Board has drawn up its own Rules of Procedure.

The Supervisory Board examines the efficiency of its activities on a regular basis, as recommended in the German Corporate Governance Code. To date, all audits have led to the conclusion that the Supervisory Board is organized efficiently and that the Management Board and the Supervisory Board cooperate very well.

TAB 12: COMPOSITION OF THE SUPERVISORY BOARD THROUGH ANNUAL GENERAL MEETING ON 31 MAY 2012

	Position	Initial Appointment	End of Period*	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2012			
Prof. Dr. Jürgen Drews	Deputy Chairman	1998	2012			
Dr. Walter Blättler	Member	2007	2014			
Dr. Daniel Camus 	Member	2002	2012			
Dr. Metin Colpan 	Member	2004	2012			
Dr. Geoffrey Vernon 	Member	1999	2012			

 INDEPENDENT FINANCIAL EXPERT
  CHAIRMAN
  MEMBER

* Period ends with termination of Annual General Meeting

TAB 13: COMPOSITION OF THE SUPERVISORY BOARD FROM 31 MAY 2012

	Position	Initial Appointment	End of Current Period*	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2015			
Dr. Geoffrey Vernon 	Deputy Chairman	1999	2015			
Dr. Walter Blättler	Member	2007	2014			
Dr. Daniel Camus 	Member	2002	2015			
Dr. Marc Cluzel	Member	2012	2015			
Karin Eastham 	Member	2012	2015			

 INDEPENDENT FINANCIAL EXPERT
  CHAIRMAN
  MEMBER

* Period ends with termination of Annual General Meeting

DIRECTORS' HOLDINGS

The members of the Management Board and the Supervisory Board own more than 1% of the shares issued by the Company. Regarding the disclosure of Company stocks held or financial instruments relating to them, we refer to the Related Parties section of the Notes to the Financial Statements. This list details all shares, performance shares, 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, MorphoSys received the following notifications pursuant to Sec. 15a of the WpHG:

TAB. 14: DIRECTORS' DEALINGS IN 2012

Member of the Management Board	Function	Date of Transaction in 2012	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price in €	Trans-action Volume in €
Jens Holstein	CFO	13 June	Purchase	1,000	17.00	17,000.00
Jens Holstein	CFO	13 June	Purchase	500	17.10	8,550.00

PREVENTING CONFLICTS OF INTEREST

Members of both boards are obliged to avoid any actions that could cause conflicts of interest with their functions at MorphoSys AG. Such transactions or ancillary activities of the Management Board have to be reported immediately to and approved by the Supervisory Board. The Supervisory Board must in turn inform the Annual General Meeting of any conflicts of interest which have occurred along with their solutions. In the 2012 financial year, no conflicts of interest occurred.

SHAREHOLDER APPROVAL OF EQUITY COMPENSATION PLANS, STOCK REPURCHASES

By resolution of the Annual General Meeting on 19 May 2011, MorphoSys is authorized to acquire treasury stock totaling up to 10% of the capital stock in accordance with Sec. 71 Para. 1 No. 8 of the German Stock Corporation Act. The authorization may be exercised in whole or in part, once or several times, in pursuit of the purposes determined in the authorization resolution by the Company or by third parties for the account of the Company. At the discretion of the Management Board, the buyback may be effected on the stock market or by means of a public offer or a public invitation to tender.

In April 2012, MorphoSys repurchased 91,500 treasury shares based on this authorization. The treasury shares will be used to implement the Company's long-term incentive program for the Management Board and the Senior Management Group.

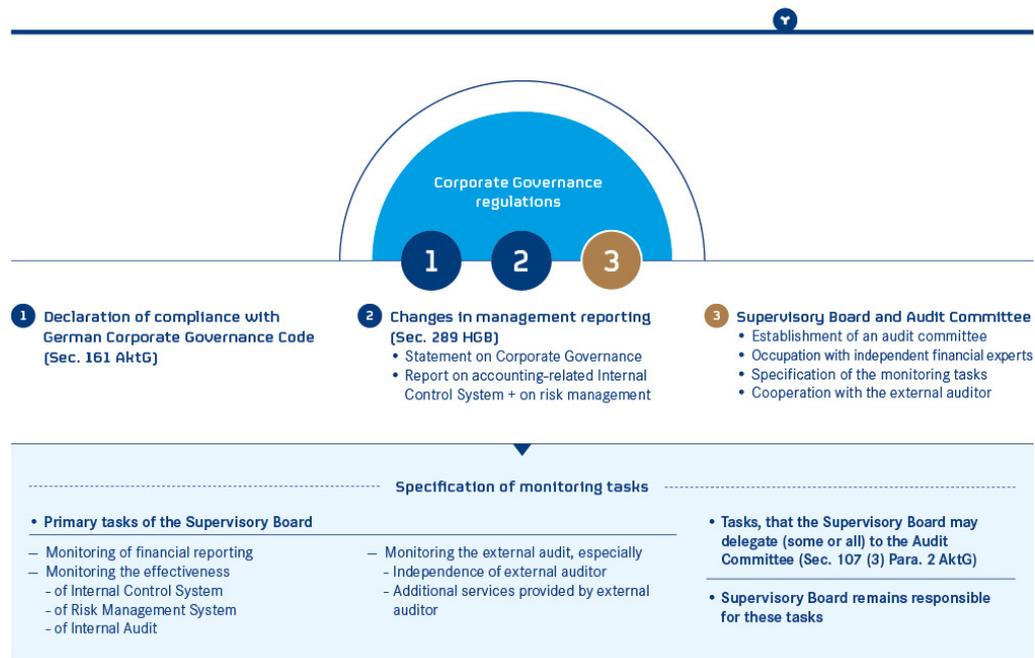
INFORMATION AND COMMUNICATION

In the 2012 reporting year, MorphoSys initiated a project to update and expand the existing ERP (enterprise resource planning) software via which information for operational processes and internal control as well as for reporting purposes is made available. Additionally, a corporate performance management system (CPM) was newly introduced for the support of corporate planning and reporting.

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 risk to confidential and proprietary information. The update and expansion of these policies in 2012 ensured that further technological development and new legal provisions are considered. Organizational principles on the provision of information security at MorphoSys are defined in a corresponding policy. Additionally, a communications policy regulates the distribution of all written and verbal information aimed at the public. An audit undertaken in the reporting year confirmed the security of the IT processes and systems with respect to data availability, security and integrity.

Compliance System

FIG. 9: MORPHOSYS COMPLIANCE SYSTEM



INTERNAL CONTROL SYSTEM

In the 2012 reporting year, MorphoSys once again updated its documentation regarding the existing internal control system used for maintaining adequate internal control over financial reporting. In accordance with Sec. 289 Para. 5 and Sec. 315 Para. 2 No. 5 of the German Commercial Code (HGB), MorphoSys described the key characteristics of its accounting-related internal control system. This ensures that all controls are in place to be able to report the financial figures as precisely as possible. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines the corresponding COSO framework (“Internal Control - Integrated Framework”). These internal controls form the most commonly used basis for internal control over financial reporting and are also used by MorphoSys for the structuring and documentation of internal controls.

Due to its inherent limitations, it cannot be ruled out that internal control over financial reporting may not detect or prevent misstatements. The internal controls can only provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with the German Commercial Code (HGB).

In order to ensure the correctness of the registered financial key figures as well as the underlying execution of all bookkeeping processes, MorphoSys has implemented a strict 'four eyes' principle. Additionally, the effectiveness and efficiency of these processes is regularly checked and monitored by external service providers. The financial statements pass through a large number of preparation, inspection and monitoring processes in order to report these to the market and shareholders in a timely manner.

This takes place according to a plan agreed with the Company's management for which both the corresponding internal and external resources are made available.

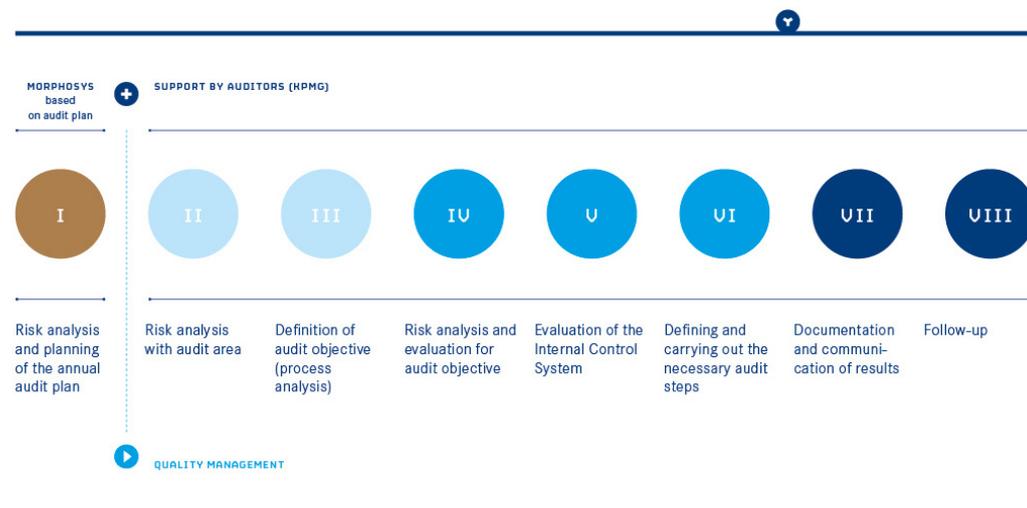
Furthermore, a range of provisions and guidelines guarantee the strict separation of planning, booking and implementation of financial transactions. Adherence to and implementation of these guidelines are audited on a regular basis. This separation of functions is ensured for all implemented IT systems via the corresponding assignment of permissions.

Projections relating to future periods are not part of the internal control system.

INTERNAL AUDIT FUNCTION

The internal audit function was implemented at MorphoSys in 2010. Its aim is to assist MorphoSys in accomplishing its objectives with a systematic and disciplined approach to evaluating and improving the effectiveness of the organization's risk management, as well as control and governance processes in the fulfillment of the set targets. Auditing and consulting company KPMG was appointed co-sourcing partner in 2012 to support the internal audit function and the performance of the audit.

FIG. 10: RISK-BASED INTERNAL AUDIT PLAN



The internal audit function is founded on a risk-based internal audit plan which is mainly derived from the last risk management results. In addition, audit requirements and suggestions from the Management Board and the Supervisory Board's Audit Committee are considered in the risk-oriented internal audit plan. FIG. 10: risk-based internal Audit plan

The internal audit function regularly reports to the Management Board. The Head of the Internal Audit Function reports together with the CEO to the Supervisory Board's Audit Committee twice a year or immediately if the need arises.

During 2012, four audits were successfully conducted. Several areas for improvement were identified and appropriate corrective measures were implemented; deficiencies in processes were cured by appropriate countermeasures. The internal audit function's audit plan for 2013 includes a similar number of audits to 2012.

RISK MANAGEMENT

MorphoSys works with a risk management system that ensures the early identification and evaluation of business-specific risks. Using appropriate countermeasures, the identified risks are mitigated or at least reduced to an acceptable level. Special attention is paid to those risks which may put the existence of the Company in jeopardy.

The Management Board ensures responsible risk handling at all times and keeps the Supervisory Board informed about existing risks and their development. Detailed information about the opportunities and risks at MorphoSys can be found in the "Risks and Opportunities Report".

STATUTORY AUDIT BY PRICEWATERHOUSECOOPERS AG

MorphoSys prepares its Consolidated Financial Statements and quarterly financial statements in accordance with the 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 2012 Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2012 financial 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 outlines the principles, structure and amount of compensation paid to the Management Board and Supervisory Board. The Remuneration Report reflects the legal provisions and the respective principles of the German Corporate Governance Code. The Remuneration Report is part of the Management Report as well as the Corporate Governance Report.

REMUNERATION OF THE MANAGEMENT BOARD

The remuneration system for the Management Board is intended to provide an incentive for successful and sustainable corporate management. The aggregate annual compensation paid to Management Board members consists of several components such as fixed components, a yearly cash bonus based on the achievement of Company and individual goals (short-term incentive - STI), a long-term incentivizing component in the form of a share performance plan (long-term incentive - LTI) and additional benefits. Each year, the structure and appropriateness of the aggregate annual compensation packages are reviewed by the Remuneration and Nomination Committee. The amount of compensation payable to the Management Board members is dependent in particular on the achievement of the duties and goals of the individual Management Board member, and on the business situation, success and prospects of the Company relative to its competitive environment. The aggregate compensation packages are compared with the results of an annual Management Board compensation analysis. All resolutions on adjustments to the aggregate annual compensation packages are adopted by the plenum of the Supervisory Board. The last occasion on which the salaries of the Management Board members were adjusted was in July 2012.

OVERVIEW

In the 2012 financial year, the total compensation of the Management Board amounted to € 3,534,475 (2011: € 3,917,373).

Of this total amount, € 2,419,475 was attributable to cash compensation, and € 1,115,000 or 32% to share-based compensation (long-term incentivizing compensation – LTI).

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

TAB. 15A: COMPENSATION OF THE MANAGEMENT BOARD IN 2012

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted	Fair Value at the Time of the Grant in €	
Dr. Simon E. Moroney	401,980	139,555 ¹	226,689	18,976	365,000	1,133,224
Jens Holstein	271,867	129,836 ²	176,890	12,997	250,000	828,593
Dr. Arndt Schottelius	272,700	103,841 ³	164,155	12,997	250,000	790,696
Dr. Marlies Sproll	272,700	96,609 ⁴	162,653	12,997	250,000	781,962
Total	1,219,247	469,841	730,387	57,967	1,115,000	3,534,475

¹ Includes € 109,882 in annual contributions to a private pension fund and allowances for insurances

² Includes € 72,999 in annual contributions to a private pension fund and allowances for insurances

³ Includes € 76,898 in annual contributions to a private pension fund and allowances for insurances

⁴ Includes € 76,789 in annual contributions to a private pension fund and allowances for insurances

TAB. 15B: COMPENSATION OF THE MANAGEMENT BOARD IN 2011

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted in €	Fair Value at the Time of the Grant in €	in €
Dr. Simon E. Moroney	386,862	135,131 ¹	181,825	17,676	377,206	1,081,024
Dave Lemus*	132,119	479,009 ²	72,026	-	-	683,154
Jens Holstein**	167,500	181,584 ³	83,750	12,107	258,363	691,197
Dr. Arndt Schottelius	256,000	99,046 ⁴	107,520	12,107	258,363	720,929
Dr. Marlies Sproll	262,259	94,563 ⁵	125,884	12,107	258,363	741,069
Total	1,204,740	989,333	571,005	53,997	1,152,295	3,917,373

* Left the Management Board of MorphoSys AG on 10 March 2011

** Joined the Management Board of MorphoSys AG on 1 May 2011

¹ Includes € 107,233 in annual contributions to a private pension fund and allowances for insurances

² Includes € 35,629 in annual contributions to a private pension fund and allowances for insurances

³ Includes € 53,001 in annual contributions to a private pension fund and allowances for insurances

⁴ Includes € 73,613 in annual contributions to a private pension fund and allowances for insurances

⁵ Includes € 74,868 in annual contributions to a private pension fund and allowances for insurances

During 2012, members of the Management Board did not exercise convertible bonds or share options. As required by law, all transactions involving MorphoSys's shares were reported and published in the Corporate Governance Report and on the Company's website.

FIXED COMPENSATION

The Management Board's fixed compensation consists of the base salary as well as other compensatory benefits which primarily encompass the use of company cars, allowances for health, social care and invalidity insurances. In the 2012 financial year, Management Board member Jens Holstein was compensated an amount of € 16,117 for costs incurred in moving to Munich. Furthermore, all members of the Management Board participate in private pension funds or another type of pension scheme (Altersversorgung). MorphoSys pays monthly contributions into these funds or other pension schemes. These payments amount to a maximum of 10% of the annual fixed salary of each Management Board member plus tax contributions, and are included in the other compensatory benefits. In addition, all Management Board members participate in a pension scheme which was established in cooperation with Allianz Pensions-Management e.V. Pension commitments from this "Unterstützungskasse" are fulfilled by Allianz Pensions-Management e.V.

SHORT-TERM INCENTIVIZING COMPENSATION (STI)

Each Management Board member is eligible for performance-related compensation in the form of an annual cash bonus payment of up to 70% of his or her annual base salary at 100% target attainment as of July 2012. Such bonus payments are dependent on the achievement of Company and individual goals,

which are set by the Supervisory Board at the beginning of each financial year. The Company goals account for two thirds of the bonus payment and are based on the operating performance of the Company, as measured by revenues, operating profit and progress in the partnered and proprietary pipeline. The individual goals account for one third of the payment and comprise operational objectives for which each Management Board member is responsible. At the end of the year, the Supervisory Board evaluates the level of attainment of the Company and individual goals and sets the bonus payment accordingly. The bonus is subject to a cap of 125% of the target amount. If goals are missed, the variable component may not be paid at all. The bonus for the 2012 financial year will be paid out in February 2013.

LONG-TERM INCENTIVIZING (LTI)

In 2011, MorphoSys introduced a new long-term incentive (LTI) program for its Management Board and Senior Management Group. The LTI program is based on the issuance of performance shares, linked to the achievement of certain pre-defined objectives over a four-year period. The following description of the 2012 LTI program is illustrative of each year's program.

Each year, the Supervisory Board decides on the number of performance shares to be allocated to the members of the Management Board and the Management Board decides on the allocation for the Senior Management Group. On 1 April 2012, 57,967 performance shares were allocated to members of the Management Board, and 33,533 were allocated to members of the Senior Management Group, with each member receiving a defined allocation of shares (for further details, see the Total Compensation of the Management Board and the Supervisory Board section of the Notes to the Financial Statements). Another 2,292 performance shares were allocated to members of the Senior Management Group on 1 October 2012. During the month of April, the Company purchased 91,500 MorphoSys shares in the market in order to service the 2012 LTI program.

Concurrent with the allocation of shares in a given year, certain long-term performance targets are defined by the Supervisory Board. For the 2012 LTI program, the target is the performance of the MorphoSys share in comparison to an artificial index comprising the NASDAQ Biotechnology Index and the TecDax Index, equally weighted. Performance shares are earned annually, based on a daily comparison of the MorphoSys share vs. the artificial index. Performance in a given year is subject to a threshold of 50% and a cap of 200%, meaning that under-performance of the MorphoSys share vs. the artificial index by at least 50% will result in no shares being earned, while an out-performance of at least 200% results in no additional shares being earned.

The number of performance shares to be released to the program's beneficiaries is finally determined at the conclusion of a program, i.e. after four years. The calculation considers the number of shares originally allocated, adjusted by the performance of the company's share against the artificial index, and the discretion of the Supervisory Board using a so-called "company factor". The company factor is a number between 0 and 2 which can be applied by the Supervisory Board based on the company's circumstances at the time. The default value of the Company factor is 1. The LTI program therefore contains a cap, as per the requirements of the German Corporate Governance Codex.

VARIA

No credits, loans 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 members of the Management Board.

NON-REAPPOINTMENT/NON-PROLONGATION

The service agreements of the Management Board members stipulate that in the event of a non-reappointment or non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one year's fixed salary. Such a severance payment will be offset against any salary payments received in the event of a leave of absence of a Management Board member. If the Management Board member's service agreement is terminated by death, his/her spouse or life partner is entitled to the monthly fixed salary for the month of death and the following twelve months. In the event that (i) MorphoSys transfers its assets or material parts of its assets to a non-affiliated third party, (ii) MorphoSys is merged into a non-affiliated company 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 agreement 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, convertible bonds and performance shares will be treated as immediately vested.

REMUNERATION OF THE SUPERVISORY BOARD

Compensation of the members of the Supervisory Board is based on the provisions of the Articles of Association and the respective resolutions of the shareholders at the Annual General Meetings regarding the remuneration of the members of the Supervisory Board. In 2012, the members of the Supervisory Board received fixed compensation and an attendance fee for attending board and committee meetings. According to the resolution of the Annual General Meeting on 31 May 2012, each Supervisory Board member receives an annual board membership flat fee (€ 85,400 for the Chairman, € 51,240 for the Deputy Chairman and € 34,160 for the other Supervisory Board members). The Chairman receives € 3,000 per board meeting chaired and the other members receive € 1,500 per board meeting attended. For the work in the committees, the Chairman of a committee receives € 9,000, the other committee members € 6,000 each. In addition, committee members receive € 1,000 per committee meeting attended. Compensation is paid out proportionally on a quarterly basis.

In addition, the Supervisory Board members are reimbursed for travel costs and for any value-added tax to be paid on their remuneration. The overall compensation package takes into account the responsibilities and range of tasks of the Supervisory Board members.

In the 2012 financial year, the members of the Supervisory Board received a total of € 478,197 (2011: € 384,750) excluding reimbursement of travel expenses. This amount consists of fixed remuneration and the attendance fee.

The Company did not provide loans to members of the Supervisory Board.

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

TAB. 16: COMPENSATION OF THE SUPERVISORY BOARD

in €	Fixed Compensation		Attendance Fees		Total Compensation	
	2012	2011	2012	2012	2011	2012
Dr. Gerald Möller	94,400	70,000	37,000	26,000	131,400	96,000
Prof. Dr. Jürgen Drews*	26,264	57,750	9,500	17,500	35,764	75,250
Dr. Walter Blättler	43,160	39,500	21,500	13,500	64,660	53,000
Dr. Daniel Camus	41,939	36,500	23,500	19,000	65,439	55,500
Dr. Marc Cluzel**	27,116	-	19,000	-	46,116	-
Dr. Metin Colpan*	16,678	36,500	6,000	8,500	22,678	45,000
Karin Eastham**	23,591	-	15,000	-	38,591	-
Dr. Geoffrey N. Vernon	51,549	39,500	22,000	20,500	73,549	60,000
Total	324,697	279,750	153,500	105,000	478,197	384,750

* left the Supervisory Board of MorphoSys AG on 31 May 2012

** Member of the Supervisory Board of MorphoSys AG since 31 May 2012

Information in accordance with Sec. 289 Para. 4 of the German Commercial Code (HGB) as well as the Clarifying Report of the Management Board

COMPOSITION OF COMMON STOCK

As of 31 December 2012, the Company's share capital amounted to € 23,358,228.00, divided into 23,358,228 no-par bearer shares. With the exception of 255,415 Company treasury shares, this total represents subscriber shares with voting rights, whereby each share grants one vote in the Annual General Meeting.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions which affect voting rights or the transfer of shares. This also relates to restrictions which could result from agreements between shareholders.

Restrictions on voting rights can further arise from provisions in the German Stock Corporation Act (AktG), such as according to Sec. 136 of the German Stock Corporation Act or for treasury shares pursuant to Sec. 71b of the German Stock Corporation Act.

SHAREHOLDINGS IN THE SHARE CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS

Direct or indirect shareholdings in the Company's share capital that exceed 10% of the voting rights have not been shared with us and are also unknown in any other way.

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

No shares exist with special rights conferring powers of control.

RIGHT TO CONTROL VOTES WITH REGARD TO SHAREHOLDINGS IN THE CAPITAL HELD BY EMPLOYEES

Employees who hold shares in the Company exercise their voting rights in the same manner as other shareholders in direct accordance with legal regulations and the Articles of Association.

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

The determination of the number of Management Board members, their appointment and dismissal, as well as the nomination of the Chief Executive Officer are carried out according to Sec. 6 of the Articles of Association and Sec. 84 of the German Stock Corporation Act by the Supervisory Board. The Company's Management Board is currently made up of the Chief Executive Officer and three further members. Members of the Management Board may be appointed for a maximum period of up to five years. A reappointment or extension of the period of office are permissible up to a maximum of five years in each case. The Supervisory Board can repeal the appointment of a Management Board member and the nomination of a Chief Executive Officer if an important reason exists in the context of Sec. 84 para. 3 of the German Stock Corporation Act. If an essential member of the Management Board is not present, then in urgent cases this is judicially appointed according to Sec. 85 of the German Stock Corporation Act.

The Company's Articles of Association can only be amended by a resolution by the Annual General Meeting, in accordance with Sec. 179 para. 1 line 1 of the German Stock Corporation Act. In accordance with Sec. 179 para. 2 line 2 of the German Stock Corporation Act, in conjunction with Sec. 20 of the Articles of Association, the Annual General Meeting can rule on amendments to the MorphoSys Articles of Association with a simple majority of the votes submitted and a simple majority of the share capital represented in the passing of the resolution. To the extent that the law stipulates a mandatory greater vote or capital majority, this shall be applied. Amendments to the Articles of Association, which solely concern their formulation, can however be decided by the Supervisory Board pursuant to Sec. 179 para. 1 line 2 of the German Stock Corporation Act in conjunction with Sec. 12 para 3 of the Articles of Association.

POWERS OF THE MANAGEMENT BOARD IN THE ISSUING OF SHARES

The powers of the Management Board in the issuance of shares arise from Sec. 5 para. 5 to para. 6e of the Articles of Association and the legal provisions:

- a. Authorized capital
 - aa. 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 for cash contributions and/or in kind on one or several occasions, but to no more than a maximum total of € 8,864,103.00, by issuing up to 8,864,103 new bearer shares up to 30 April 2013. (Authorized capital 2008-I). The Management Board is authorized with the approval of the Supervisory Board to exclude preemptive rights of shareholders in the following cases:

- i. in the case of a capital increase for cash contributions, to the extent that this is necessary to avoid fractional shares; or
 - ii. in the case of a capital increase in kind to the extent that the capital increase is used for the acquisition of companies, shareholdings in companies, patents, licenses or other industrial property rights, license 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.
- bb. 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 for cash contributions and/or in kind on one or several occasions, but to no more than a maximum total of € 2,311,216, by issuing up to 2,311,216 new bearer shares (authorized capital 2012-II) up to the 30 April 2017. Shareholders are fundamentally entitled to preemptive rights. The shares can also be taken over by one or several credit institutes with the obligation to offer them to shareholders for subscription. The Management Board is, however, authorized with the approval of the Supervisory Board to exclude the preemptive rights of shareholders in the following cases:
- i. to the extent that this is necessary to avoid fractional amounts; or
 - ii. if the issuing amount of the young shares does not fall significantly below the stock exchange rate of the currently listed shares of the same class at the time of the conclusive determination of the issuing amount, and the shares issued pursuant to, or following a corresponding application of, Sec. 186 para. 3 line 4 of the German Stock Corporation Act under exclusion of the preemptive rights during the period of this authorization do not exceed a total 10% of the share capital, and further, neither at the time of the authorization taking effect nor at the time of the authorization being exercised. The Management Board is empowered with the approval of the Supervisory Board to determine the further specifics of the capital increase and its implementation.
- b. Conditional capital
- aa. Pursuant to Sec. 5 para. 6a of the Articles of Association, the Company's share capital is increased conditionally by € 70,329.00, divided into up to 70,329 no-par bearer shares (Conditional capital 1999-I). The conditional capital increase shall only be accomplished by an amount of € 3,255.00 (Conditional capital II aa) to the extent that the holders of option rights, conferred by MorphoSys from 21 July 1999 to 20 July 2004 on the basis of the authorization by the Annual General Meeting, exercise said rights, and regarding an amount of € 5,299.00 (Conditional capital II bb) only implemented in so far as the holders of option rights, conferred by MorphoSys in the period from 21 July 2004 to 30 April 2009 on the basis of the authorization by the Annual General Meeting on 11 May 2004, exercise said rights. The conditional capital increase shall only be accomplished by an amount of € 61,845.00 (Conditional capital II b) in so far as the holders of option rights, conferred by MorphoSys from 5 July 2001 to 4 June 2006 on the basis of the authorization by the Annual General Meeting, exercise said rights. The young shares – to the extent that they are formed through the exercising of rights up to the start of the Company's ordinary Annual General Meeting – participate in profits from the start of the coming financial year, otherwise individually from the start of the financial year, by being formed through the exercising of preemptive rights.

- bb. Pursuant to Sec. 5 para. 6b of the Articles of Association, the Company's share capital is conditionally increased (Conditional capital 2011-I) by up to € 6,600,000.00, divided into up to 6,600,000 bearer shares. The conditional capital increase shall only be accomplished to the extent that the holders of warrants or conversion rights from option or convertible bonds from up to 30 April 2016, conferred by the Company pursuant to the resolution by the Annual General Meeting on 19 May 2011, exercise said rights, or the holders of the convertible bonds to be issued or their direct or indirect domestic or foreign 100% holding companies fulfill the obligation to convert these before 30 April 2016. The young shares participate in profits from the start of the financial year by being formed through the exercising of conversion rights or the fulfillment of conversion obligations.
- cc. Pursuant to Sec. 5 para. 6c of the Articles of Association, the Company's share capital is conditionally increased by up to € 725,064.00 through the issuing of up to 725,064 new Company no-par ordinary shares (Conditional capital 2003-II). The conditional capital increase shall only be accomplished to the extent that the holders of the issued convertible bonds exercise their conversion rights for conversion into ordinary Company shares. The young shares carry full dividend rights for the financial year for the first time, for which no Annual General Meeting resolution on the use of net profit has been passed. The Management Board is empowered with the approval of the Supervisory Board to determine the further specifics of the conditional capital increase and its implementation.
- dd. Pursuant to Sec. 5 para. 6d of the Articles of Association, the Company's share capital is conditionally increased by € 763,515.00, divided into up to 763,515 no-par bearer shares (Conditional capital 2008-II). The conditional capital increase shall only be accomplished to the extent that the holders of option rights, conferred by the Company on the basis of the authorization by the Annual General Meeting up to 30 April 2013, exercise said rights. The young shares participate in profits from the start of the financial year by being formed through the exercising of conversion rights or the fulfillment of conversion obligations.
- ee. Pursuant to Sec. 5 para. 6e of the Articles of Association, the Company's share capital is conditionally increased by up to € 450,000.00 through the issuing of up to 450,000 new Company no-par ordinary shares (Conditional capital 2008-III). The conditional capital increase shall only be accomplished to the extent that the holders of the issued convertible bonds exercise their conversion rights for conversion into ordinary Company shares. The young shares participate in profits from the start of the financial year for the first time by being formed through the exercising of conversion rights. The Management Board is empowered with the approval of the Supervisory Board to determine the further specifics of the conditional capital increase and its implementation.

POWERS OF THE MANAGEMENT BOARD IN THE REPURCHASE OF SHARES

The powers of the Management Board in the repurchase of treasury shares result from Sec. 71 ff. of the German Stock Corporation Act as well as the authorization by the Annual General Meeting on 19 May 2011:

The Management Board is authorized up to 30 April 2016 to acquire Company treasury shares in the amount of up to 10% of the existing share capital up to the point at which the resolution was passed (or if necessary, the lower amount at the time the authorization comes into effect) for any permissible purpose within the framework of the legal restrictions. Acquisitions are made according to a vote by the Management Board on the stock exchange or by means of a public purchase bid or by means of a public invitation to enter such a bid. The authorization may not be used for the purpose of trading in treasury

shares. The uses of treasury shares acquired on the basis of this authorization can be extracted from point 7 on the agenda Annual General Meeting on 19 May 2011. In particular, the shares can be used as follows:

- a. The shares can be withdrawn without the withdrawal or its implementation requiring a further resolution by the Annual General Meeting.
- b. The shares can be sold in ways other than via the stock exchange or via an offer to shareholders if the shares are offered for cash payment at a price that does not fall significantly below the stock exchange rate of Company shares of the same class at the time of the sale.
- c. The shares can be sold for payment in kind, especially also in conjunction with the acquisition of companies, parts of companies or company shareholdings as well as mergers of companies.
- d. The shares can be used for the fulfillment of conversion rights from convertible bonds conferred by the Company or group entities of the Company.
- e. The shares can be sold to Company employees and affiliated companies, as well as members of the executive board and/or for the fulfillment of confirmations of the acquisition or obligations to acquire Company shares, granted to Company employees and affiliated companies, as well as members of the executive board.

In the case of shares being used for the purposes mentioned above, with exception of the withdrawal of shares, the shareholders' preemptive rights are excluded.

The Supervisory Board can specify that measures taken by the Management Board on the basis of this authorization may only be implemented with its approval.

SIGNIFICANT AGREEMENTS BY THE COMPANY THAT FALL UNDER THE CONDITION OF A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID

In 2012, MorphoSys and Novartis Pharma AG expanded their original cooperation agreement from 2004, first amended in 2006, . According to this agreement, Novartis Pharma AG is permitted, but not obligated, in specific cases of a change of control to take appropriate measures, including the partial or complete cancellation of the cooperation agreement.

A change of control includes in particular the acquisition of 30% or more of the voting rights of a company in the context of Secs. 29 and 30 of the German Takeover Act (Wertpapiererwerbs- und Übernahmegesetz - WpÜG).

COMPANY COMPENSATION AGREEMENTS REACHED WITH THE MEMBERS OF THE MANAGEMENT BOARD OR SUPERVISORY BOARD OR EMPLOYEES FOR THE EVENT OF A TAKEOVER BID

After a change of control transaction, each member of the Management Board is allowed to terminate his/her service agreement and may demand the outstanding salary for the remaining contractually provided term of contract. Furthermore, in such a case, all granted (i) stock options and convertible bonds will be treated as immediately vested and (ii) performance shares are deemed to be non-forfeitable with immediate effect.

After a change of control, all performance shares granted to the directors are non-forfeitable with immediate effect. Furthermore, a number of directors hold options or conversion rights which will be treated as immediately vested after a change of control.

The following cases in particular count as a change of control: (i) MorphoSys transfers all or a significant portion of Company assets to a business not linked to the Company, (ii) MorphoSys is merged with an unaffiliated company or (iii) a shareholder directly or indirectly holds more than 30% of the MorphoSys voting rights.

ALLOCATION OF PROFIT

For fiscal year 2012, MorphoSys AG accounts for an accumulated income of € 3,114,118 (31 December 2011: € 3,114,118). In the Supervisory Board meeting on 26 February 2013, the Management Board proposed to the Supervisory Board to propose to the Annual General Meeting on 4 June 2013 the following resolution:

In €	2012
a. Allocation to Shareholders	0,00
b. Allocation to Other Earnings Reserves	0,00
c. Profit Carried Forward	3,114,617.85
d. Accumulated Income	3,114,617.85

The financial statements of MorphoSys AG prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) are published in the electronic Federal Gazette.

Annual Financial Statements
as of 31 December 2012
(German GAAP)

MorphoSys AG, Martinsried

Balance Sheet as of 31 December 2012

ASSETS	12/31/2012 EUR	12/31/2012 EUR	12/31/2011 EUR
A. FIXED ASSETS			
I. Intangible Assets			
Franchises, trademarks, patents, licences, and similar rights and licences to such rights	18,571,310	18,571,310	19,323,488
II. Tangible Assets			
1. Land, leasehold rights and buildings, including leasehold improvements	203,992		245,635
2. Other equipment, furniture and fixtures	2,799,711		3,862,736
		3,003,703	4,108,371
III. Financial Assets			
1. Shares in affiliated companies	52,088,594		52,080,553
2. Shares	881,633		0
		52,970,227	52,080,553
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials, supplies and production materials	331,850		435,057
2. Semi-finished Goods	198,203		0
II. Receivables and Other Assets		530,053	435,057
1. Trade accounts receivable (thereof due within one year EUR 9,223,050, prior year: EUR 10,163,169)	9,223,050		10,163,169
2. Receivables due from affiliated companies (thereof due within one year EUR 3,333,362, prior year: EUR 3,584,427)	3,333,362		3,584,427
3. Receivables from investments recorded at equity	30,000		0
4. Other assets (thereof due after one year EUR 73,607, prior year: EUR 73,607)	12,803,707		2,795,832
		25,390,119	16,543,428
III. Securities			
1. Other securities	71,383,850		71,204,006
		71,383,850	71,204,006
IV. Cash on Hand and Cash at Banks	32,648,855	32,648,855	45,639,094
C. PREPAID EXPENSES	1,355,118	1,355,118	1,463,962
		205,853,235	210,797,959

LIABILITIES AND SHAREHOLDERS' EQUITY	12/31/2012 EUR	12/31/2012 EUR	12/31/2011 EUR
A. EQUITY			
Capital Subscribed	23,358,228		23,112,167
Treasury Stock	(185,293)		(93,793)
I. Capital Issued		23,172,935	23,018,374
II. Capital Surplus	155,339,472	155,339,472	152,141,472
III. Earnings Reserves			
Other earnings reserves	10,505,880	10,505,880	11,556,084
IV. Accumulated Income	3,114,618	3,114,618	3,114,618
		192,132,905	189,830,548
B. PROVISIONS			
1. Tax provisions	200,138		2,277,783
2. Other provisions	10,518,936		15,899,173
		10,719,074	18,176,956
C. LIABILITIES			
1. Bonds, thereof convertible EUR 73,607 (prior year: EUR 73,607)	73,607		73,607
2. Trade accounts payable	805,065		565,660
3. Liabilities due to affiliated companies	195,779		263,907
4. Other liabilities (thereof due within one year EUR 567,640, prior year: EUR 700,691) (thereof for taxes EUR 450,081, prior year: EUR 408,624)	567,640		700,691
		1,642,091	1,603,865
D. DEFERRED INCOME	1,359,165	1,359,165	1,186,590
		205,853,235	210,797,959

Statement of Income for 2012

		2012 EUR	2011 EUR
1.	Sales	52,922,829	82,796,634
2.	Cost of sales	(44,010,367)	(59,943,980)
3.	Gross profit on sales	8,912,462	22,852,654
4.	Selling expenses	(2,295,336)	(2,817,212)
5.	General administration expenses	(12,997,145)	(14,898,967)
6.	Other operating income	3,666,868	2,618,996
7.	Other operating expenses	(153,376)	(2,148,252)
8.	Income from Profit Pooling Agreements	3,242,228	3,286,080
9.	Income from participations	0	575,650
	thereof from affiliated companies	0	575,650
10.	Income from other securities and loans presented under financial assets	476,220	1,116,542
	thereof from affiliated companies	0	30,631
11.	Other interest and similar income	252,097	322,401
12.	Depreciation of financial assets	0	(69,889)
13.	Interest and similar expenses	(8,509)	(3,459)
14.	Result from ordinary activities	1,095,509	10,834,544
15.	Income tax	(382,415)	(2,686,429)
16.	Other taxes	(17,246)	6,900
17.	Net profit	695,848	8,155,015
18.	Profit carried forward	3,114,618	0
19.	Withdrawal from reserve for treasury stock	0	0
20.	Withdrawal from other earnings reserves	1,746,052	1,663,047
21.	Settlement with the difference from purchase of treasury stock	(1,746,052)	(1,663,047)
22.	Allocation to other earnings reserves	(695,848)	(5,040,397)
23.	Accumulated income	3,114,618	3,114,618

Notes to the Financial Statements

General Remarks

These annual financial statements were prepared in accordance with Section 242 et seq. and Section 264 et seq. of the German Commercial Code (HGB), the corresponding provisions of the German Stock Corporation Act (AktG), and the Company's Articles of Association. The shares of MorphoSys AG (hereinafter the "Company") are listed for official trading in the Prime Standard segment of the Frankfurt Stock Exchange.

These consolidated financial statements were prepared in accordance with the regulations for large corporations. For the purposes of comparison with the consolidated financial statements prepared in accordance with IFRS, the income statement has been classified on the basis of the cost of sales method.

Accounting and Valuation Principles

These annual financial statements were prepared on the basis of the following accounting and valuation principles:

If acquired intangible assets are subject to depletion, they are amortized according to the straight-line method over the course of their expected useful lives. Acquired intangible assets under development are carried at cost and are only subject to amortization when their usability has been proved in a study on the efficacy of the antibody program in question. These assets are reviewed at the balance sheet date and are carried at their carrying amount or their fair value, whichever is lower.

Tangible assets are carried at cost and are depreciated according to the straight-line method over their expected useful lives. Low-value assets up to a value of € 150 are depreciated in full in their year of acquisition. Low-value assets worth between € 150 and € 1,000 are depreciated according to the straight-line method over a period of five years commencing at the start of their year of acquisition.

Cash and cash equivalents are carried at their nominal value as of the balance sheet date.

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

Inventories are measured on the basis of the FIFO method in accordance with Section 256 HGB. With the exception of the usual retentions of title, the inventories are not subject to any third-party rights.

Receivables and other assets are carried at their nominal value. Risks are taken into account by means of write-downs and valuation allowances. Foreign currency receivables are presented in accordance with Section 256a HGB. The realization principle is applied to non-current receivables.

Pursuant to Section 253(4) HGB, other short-term securities are carried at the lower of acquisition cost or fair value.

Prepayments are carried as prepaid expenses and deferred charges at the balance sheet date insofar as they represent expenses for a specific period subsequent to the balance sheet date.

Capital subscribed is carried at its nominal amount.

Other provisions provide for all foreseeable risks, uncertain obligations and imminent losses from pending transactions, and are valued at the amount repayable required according to a prudent business assessment.

Liabilities are carried at their settlement amounts, while foreign currency liabilities are valued in accordance with Section 256a HGB. The imparity principle is applied to non-current liabilities.

Provisions are recognized on a pro rata basis for the personnel expenses relating to the cash-settled stock appreciation program introduced in October 2010, as this program constitutes a financial burden for the Company.

Pro rata provisions are recognized for the personnel expenses relating to the long-term incentive plan initiated on 1 June 2011, and 1 April 2012, as the repurchase of treasury stock in order to fund the long-term incentive plan constitutes a financial burden for the Company. The nominal value of the repurchased stock is offset against the capital subscribed pursuant to Section 272(1a) HGB, while the residual amount of the total purchase price is deducted from other earnings reserves in equity.

Income from collaboration and research agreements is shown as operating revenues in accordance with the contractual provisions, taking into account the realization principle of Section 252(1)(4) HGB and in accordance with the accrual-based method of Section 250(2) HGB based on the durations of the agreements. One-time payments made at the time of the conclusion of a contract granting the payee access to MorphoSys technology (e.g. HuCAL or AutoCAL) are spread over the period of the rights of use granted. License fees are amortized throughout the term of the contract. Revenues from milestone payments are recognized upon the fulfillment of certain criteria. Service fees pertaining to research and development partnerships are recognized in the period in which the services are rendered.

For differences between the carrying amounts of assets, liabilities, accruals and deferrals pursuant to commercial law and their fiscal carrying amounts, that are likely to diminish in subsequent fiscal years, a tax burden calculated on this basis is recorded in the balance sheet as a deferred tax liability in accordance with Section 274 HGB. In the event that the difference equates to a deferred tax relief, using the option permitted by Section 374(1)(2) HGB, this is not recognized in the balance sheet as a deferred tax asset. The resultant tax burdens and reliefs are measured using the Company-specific taxation rates at the time of the reduction of the differences and are not discounted. The items recorded are reversed as soon as the tax burden/relief becomes effective or whenever it can be assumed that it will no longer materialize. The expenses or income from changes in the deferred tax assets/liabilities recorded in the balance sheet are recorded separately in the income statement under "Income tax."

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

FOREIGN CURRENCY TRANSLATION

Current foreign currency receivables and liabilities are translated on the basis of the mean spot exchange rate on the day of the transaction or on the balance sheet date pursuant to Section 256a HGB. The Company did not recognize any non-current foreign currency receivables or liabilities.

Notes to the Balance Sheet

FIXED ASSETS

The development of fixed assets and the respective depreciation in the fiscal year is presented in the statement of fixed assets on pages 35 and 36.

Asset Class	Useful Life
Computer hardware	3 years
Low value laboratory and office equipment below € 150	Immediately
Low value laboratory and office equipment between € 150 and € 1,000	5 years
Permanent improvements to property/buildings	10 years
Office equipment	8 years
Laboratory equipment	4 years

INTANGIBLE ASSETS

Franchises, trademarks, patents, licenses and similar rights, and the licenses relating to such rights amounted to € 18,571,310 as of 31 December 2012 (31 December 2011: € 19,323,488). This includes intangible assets under development in the amount of € 10,513,100 (31 December 2011: € 10,513,100) from a one-time payment for the in-licensing of a compound in the Proprietary Development segment. There was no amortization of this intangible asset in the 2012 fiscal year as it is not yet usable, since its efficacy is still being tested in a clinical phase-1 trial. The asset was tested for impairment as of the balance sheet date.

Asset Class	Useful Life
Franchises, trademarks, patents, licences, and similar rights and licences to such rights	8-10 years
Intangible assets under development	Not yet subject to amortization
Software	3-5 years

The development of intangible assets and the respective amortization in the fiscal year is presented in the statement of fixed assets on pages 35 and 36.

FINANCIAL ASSETS

The Company reported shares in affiliated companies in the amount of € 52,088,594 as of 31 December 2012 (31 December 2011: € 52,080,553). This amount comprised shares in the companies of the AbD Serotec

segment in the amount of € 33,006,723 (31 December 2011: € 33,006,723) as well as shares in the subsidiaries Sloning BioTechnology GmbH in the amount of € 19,048,830 (31 December 2011: € 19,048,830), MorphoSys IP GmbH in the amount of € 25,000 (31 December 2011: € 25,000) and MorphoSys USA, Inc. in the amount of € 8,041 (31 December 2011: € 0).

An investment in the amount of € 881,633 for the acquisition of shares in Lanthio Pharma B.V., a private company based in Groningen, the Netherlands, was recognized as of 31 December 2012. At the balance sheet date of 31 December 2012, the Company owned 19.98% of the share capital of Lanthio Pharma B.V. As of 31 December 2011, the Company did not own shares.

The equity investments are listed individually below:

	Currency	Exchange Rate on Dec 31, 2012 one Unit of Euro in Local Currency	Stake in %	Equity in domestic currency	Profit / Loss for the Year in domestic currency
Foreign					
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US \$	0.82061	100.00	11,426	(1,353)
Poole Real Estate Ltd., Poole, UK	£	1.32433	100.00	808,807	(19,557)
MorphoSys UK Ltd., Oxford, UK	£	1.32433	100.00	5,499,413	367,416
MorphoSys US, Inc., Raleigh, North Carolina, USA (indirect investment via MorphoSys UK Ltd.)	US \$	0.82061	100.00	2,280,023	201,565
Lanthio Pharma B.V., Groningen, the Netherlands*	€	-	19.98	-	-
Domestic					
Sloning BioTechnology GmbH, Puchheim, Germany	€	-	100.00	6,742,611	2,981,828
MorphoSys Abd GmbH, Düsseldorf, Germany (indirect investment via MorphoSys UK Ltd.)	€	-	100.00	1,303,494	73,387
MorphoSys IP GmbH, Martinsried, Germany	€	-	100.00	23,891	3,242,228

* Figures for 2012 were not available yet.

INVENTORIES

At the balance sheet date, inventories totaling € 530,053 (31 December 2011: € 435,057) comprised raw materials and consumables of € 331,850 and work in progress amounting to € 198,203. No purchased services were included in the inventories as of 31 December 2012 and 2011, respectively.

TRADE RECEIVABLES AND OTHER ASSETS

Based on the management's assessment, valuation allowances in the amount of € 43,518 were recognized for the 2012 fiscal year (2011: € 4,239).

Receivables from affiliated companies totaled € 3,333,362 as of 31 December 2012 (31 December 2011: € 3,584,427), and included trade receivables amounting to € 76,014 (31 December 2011: € 298,347). On 20 November 2002, the Company concluded a control and profit and loss transfer agreement with

MorphoSys IP GmbH. Accordingly, the transfer of the profits of MorphoSys IP GmbH totaling € 3,242,228 was agreed (31 December 2011: € 3,286,080) and this sum was recognized as a receivable from an affiliated company.

With reference to the Company's investment in Lanthio Pharma B.V., a receivable from investments recorded at equity in the amount of € 30,000 was recognized as of 31 December 2012 (31 December 2011: € 0).

All trade receivables are due within one year. Of the other assets, € 73,607 had a remaining term of more than one year (31 December 2011: € 73,607).

Rent security deposits of € 1,266,965 and € 1,188,766 paid in previous years were recorded separately and are presented as other assets.

In 2012, MorphoSys granted an interest-bearing, transferable loan of € 10,000,000, which is listed as other receivables under other assets.

In accordance with the Company's hedging policy, highly probable cash flows and definite foreign currency receivables, which are collectable within a twelve-month period, are reviewed for hedging and are carried at cost as other receivables. In 2003, MorphoSys started to conclude foreign currency options and forward contracts to hedge its receivables denominated in US dollars and pounds sterling.

SECURITIES

Securities consisted solely of marketable securities in the amount of € 71,383,850 (31 December 2011: € 71,204,006).

CAPITAL SUBSCRIBED

On 31 December 2012, the Company's common stock amounted to € 23,358,228 (31 December 2011: € 23,112,167), divided into 23,358,228 no-par value bearer shares (31 December 2011: 23,112,167 shares). With the exception of the 255,415 treasury shares held by the Company (2011: 163,915 shares), the shares entitle their bearers to a vote and to dividends, with each share equating to one vote at the Annual General Meeting.

The increase of € 246,061 or 246,061 shares resulted from the conversion and exercising of 246,061 convertible bonds and options granted to the Management Board and the employees.

Pursuant to Section 200 AktG, the capital increases from conditional capital became effective with the issuance of the new shares.

TREASURY STOCK

The Company's treasury stock is deducted from the capital subscribed and developed as follows in the 2012 fiscal year:

	Number of Company Shares	Value of Capital Subscribed in €
Treasury stock as of 1 January 2012	163,915	93,793
Repurchase of treasury stock	91,500	91,500
Treasury stock as of 31 December 2012	255,415	185,293

On 31 December 2012, treasury stock accounted for 0.79% of the capital subscribed (31 December 2011: 0.41%).

In April 2012, the Company repurchased 91,500 MorphoSys shares (0.39% of the capital subscribed as of 31 December 2012) on the stock exchange at a nominal value of € 1.00 per share and increased its inventory of treasury stock accordingly. The treasury stock will be used to create a long-term incentive plan for the management.

AUTHORIZED AND CONDITIONAL CAPITAL

As of 31 December 2012, unused Authorized Capital 2008-I remained unchanged compared to 31 December 2011, to create a maximum of 8,864,103 new shares.

Authorized Capital 2012-II, agreed upon by the Annual General Meeting 2012, can be used to create up to 2,311,216 new shares and has not yet been claimed. As of 31 December 2011, the authorized capital 2008-II could be used to create a maximum of 2,216,025 new shares and has not been claimed before its cancellation at the Annual General Meeting 2012.

On 31 December 2012, Conditional Capital II amounted to € 70,329 (31 December 2011: € 87,033), Conditional Capital IV to € 725,064 (31 December 2011: € 725,064), Conditional Capital V to € 763,515 (31 December 2011: € 992,872), and Conditional Capital VI to € 450,000 (31 December 2011: € 450,000).

The Company's Conditional Capital III will enable it to create a maximum of 6,600,000 additional shares.

In 2012, a total of 16,704 shares were raised from Conditional Capital II bb through the exercise of options by employees in the same amount, increasing the capital subscribed by € 16,704. Furthermore, 229,357 shares were raised from Conditional Capital V through the exercise of options by employees in the same amount, increasing the capital subscribed by € 229,357.

CAPITAL SURPLUS

In connection with the aforementioned capital increase, the capital surplus developed as follows:

	€
Status on 1 January 2012	152,141,472
Additions in connection with the exercise of options and convertible bonds	3,198,000
Status on 31 December 2012	155,339,472

EARNINGS RESERVES

Other earnings reserves amounted to € 10,505,880 (31 December 2011: € 11,556,084).

Taking into account utilization of the net profit for the 2012 fiscal year, other earnings reserves developed as follows:

	€
Other earnings reserve as of 1 January 2012	11,556,084
Settlement with the difference from purchase of treasury stock	(1,746,052)
Allocation of net profit to other earnings reserves	695,848
Other earnings reserve as of 31 December 2012	10,505,880

In 2012, the sum of € 1,746,052 for the repurchase of treasury stock to service the Company's long-term incentive plan was offset against other earnings reserves.

ACCUMULATED PROFITS

In connection with utilization of the net profit for the 2012 fiscal year, accumulated profits developed as follows:

	€
Accumulated income as of 1 January 2012	3,114,618
Net profit for the year	695,848
Withdrawal from other earnings reserves	1,746,052
Settlement with the difference from purchase of treasury stock	(1,746,052)
Allocation to other earnings reserves	(695,848)
Accumulated income as of 31 December 2012	3,114,618

In accordance with a resolution of the Annual General Meeting, the accumulated profits as of 31 December 2011 were carried forward.

In accordance with the authorization of the articles of incorporation of MorphoSys AG, the Supervisory Board and the Management Board unanimously resolved to allocate the net profit for the 2012 fiscal year in the amount of € 695,848.30 to other earnings reserves.

In addition, the Supervisory Board and the Management Board unanimously resolved to propose to the 2013 Annual General Meeting that the accumulated profits of € 3,114,617.85 be carried forward.

CONVERTIBLE BONDS

No convertible bonds were exercised and converted into shares in the 2012 fiscal year. 7,500 convertible bonds expired in 2012 due to an individual with subscription rights leaving MorphoSys. 7,500 convertible bonds remain under the ownership of said individual. For further details, please see page 31 of the Notes.

On 1 April 2010, 352,800 convertible bonds were granted to members of the Management Board and to employees of MorphoSys AG. The convertible bonds had an exercise price of € 16.79, corresponding to the market price in the closing Xetra auction at the Frankfurt Stock Exchange on the last day of trading prior to the issuance of the convertible bonds. Each convertible bond with a principal amount of € 0.33 entitles the holder to a no-par value ordinary share in the Company against payment of the conversion price. The beneficiaries may only exercise these conversion rights after a waiting period of four years subsequent to the grant date. The conversion rights may only be exercised if the share's stock exchange price equaled at least 110% of the grant date exercise price on one day during the term of the convertible bonds. The convertible bonds can no longer be exercised after 31 December 2015. In the event that conversion rights are not exercised, the beneficiaries shall be reimbursed with the expenses incurred in the acquisition of the convertible bonds (€ 0.33 per bond/share). The convertible bonds are recorded at their accredited values, which approximate the capital sum due on their maturity date.

The following overview represents the development of the Company's convertible bonds plan for employees in the 2012 and 2011 fiscal years:

	Convertible Bonds	Weighted- average Price €
Outstanding as of 1 January 2011	448,200	15.94
Granted	0	0.00
Exercised	(95,400)	12.81
Forfeited	(24,750)	16.79
Expired	0	0.00
Outstanding as of 31 December 2011	328,050	16.79
Outstanding as of 1 January 2012	328,050	16.79
Granted	0	0.00
Exercised	0	0.00
Forfeited	(7,500)	16.79
Expired	0	0.00
Outstanding as of 31 December 2012	320,550	16.79

There were no exercisable convertible bonds as of 31 December 2012 and 2011.

The following overview contains the weighted-average exercise prices and details of the contractual lives of key convertible bond groups as of 31 December 2012:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Exercise Price (€)
€ 10.00 - € 17.00	320,550	3.00	16.79	0	0.00
	320,550	3.00	16.79	0	0.00

STOCK OPTIONS

For the years 2012 and 2011, 246,061 and 126,515 options were exercised, respectively.

Stock options exercisable as of 31 December 2012 and 2011 amounted to 451,391 and 503,657 shares respectively. The weighted-average exercise prices of the exercisable stock options at 31 December 2012 and 2011 were € 13.04 and € 13.51 respectively.

Of these options, none were exercised by members of the Management Board (see page 31).

The following overview represents the development of the Company's stock option plans for employees in the 2012 and 2011 fiscal years:

	Shares	Weighted-average Price €
Outstanding as of 1 January 2011	924,017	13.56
Granted	0	0.00
Exercised	(126,515)	15.16
Forfeited	0	0.00
Expired	0	0.00
Outstanding as of 31 December 2011	797,502	13.31
Outstanding as of 1 January 2012	797,502	13.31
Granted	0	0.00
Exercised	(246,061)	14.00
Forfeited	0	0.00
Expired	0	0.00
Outstanding as of 31 December 2012	551,441	13.00

The following overview contains the weighted-average prices and details of the contractual lives of key option groups outstanding as of 31 December 2012:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Price (€)
€ 10.00 - € 12.99	330,203	1.25	12.81	230,153	12.81
€ 13.00 - € 15.00	221,238	0.19	13.29	221,238	13.29
	551,441	0.82	13.00	451,391	13.05

STOCK-APPRECIATION RIGHTS

On 1 October 2010, 15,000 stock-appreciation rights (SARs) were granted to employees of MorphoSys AG with the same conditions as those of the convertible bonds granted on 1 April 2010. Convertible bonds are settled by means of the physical delivery of shares, while SARs are settled in cash. As of 31 December 2012, the exercise price of the SARs was € 29.30. The compensation expense for 2012 totaled € 79,375. As of 31 December 2012, a long-term provision in the amount of € 129,839 was accounted for accordingly (31 December 2011: € 50,464). The SARs cannot be exercised beyond 30 June 2016.

LONG-TERM INCENTIVE PLAN

On 1 April 2012, MorphoSys established a second long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The LTI plan is a performance share plan and will be paid out in ordinary shares of MorphoSys AG, provided that predefined key performance indicators as annually approved by the Supervisory Board are achieved. The grant date was 1 April 2012 and the vesting period is four years. Within each year of the 4-year vesting period, a quarter of the performance shares are vested, provided that the key predetermined performance indicators are fully achieved for the respective period. The number of vested shares in each single year will be reduced if the key performance indicators of that period are achieved by 50% to 99%, or increased if the key performance indicators are achieved by more than 100% (200% as a maximum). An achievement of key performance indicators below 50% in any year will lead to a vesting of zero shares for this year. In any case, the maximum payout at the end of the 4-year period is capped by a Group factor which normally amounts to "1". However, the Supervisory Board may set this factor freely between "0" and "2" in justifiable cases, e.g. in the case that the payout level is deemed inadequate in comparison to the overall development of the Company. The right to receive a specified share allocation from the LTI plan exists only at the end of the 4-year term.

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

If a member of the Management Board ceases to hold an office within the MorphoSys Group through reason of termination, resignation, death, injury, disability or retirement (receipt of a normal retirement pension as long as the requirements for the disability pension entitlement are met) or - subject to the Supervisory Board's discretion - under other circumstances, the member of the Management Board (or his/her inheritor) will be entitled to a daily pro-rated number of performance shares. If a member of the Management Board ceases to hold an office within the MorphoSys Group for good reason in the meaning of sec. 626 para.2 of the German Civil Code and/or within the meaning of Sec. 84 para. 3 German Stock Corporation Act or if notice to cease to hold office is given by the member of the Management Board, the beneficiary shall not be entitled to any performance share allocation.

In the event of a change of control during the 4-year period, all performance shares shall become fully vested. However, also in this event, the right to receive a specific share allocation from the LTI plan arises only at the end of the 4-year term.

In April 2012, MorphoSys repurchased 91,500 of its own shares for the LTI plan on the stock market with an average share price of € 20.08 per share. These 91,500 shares were granted to the beneficiaries as of 1 April 2012, thereof 57,967 shares to the Management Board (for details, see the table "Performance Shares" in section 8, "Directors' Dealings") and 33,533 shares to the Senior Management Group. The fair value of the performance shares as of the grant date (1 April 2012) amounted to € 19.24 per share. No dividends were incorporated in the measurement of the fair value of the repurchased shares, because the Group does not anticipate paying a dividend in the foreseeable future.

On 1 October 2012, MorphoSys established a third long-term incentive plan (LTI plan) for members of the Senior Management Group under identical terms and conditions to the program as of 1 April 2012. 2,292 shares were granted. The fair value amounted to € 24.00 per share as at the grant date.

The long-term incentive plan established on 1 June 2011 still applies unchanged.

2,663 performance shares expired in 2012 due to an individual with subscription rights in the LTI plan established in 2011 leaving MorphoSys.

As of 31 December 2012, the Company accounted for stock-based compensation from the LTI plan in the amount of € 715,467 (2011: € 200,674). As of 31 December 2012, a long-term provision in the amount of € 916,141 was accounted for accordingly (31 December 2011: € 200,674).

OTHER PROVISIONS

Provisions provide for all foreseeable risks and uncertain liabilities, and mainly comprised expenses for external laboratory services (2012: € 2,890,416; 2011: € 6,572,604), bonus payments (2012: € 3,151,641; 2011: € 4,029,299), license payments and inventor's compensation (2012: € 1,111,059; 2011: € 1,763,644), stock-based compensation from the LTI plan and stock-appreciation rights (2012: € 1,045,981; 2011: 251,183), outstanding vacation entitlements (2012: € 382,000; 2011: € 345,000), consultancy services (2012: € 311,408; 2011: € 413,000), and legal consultation (2012: € 355,614; 2011: € 193,100).

LIABILITIES

Liabilities to affiliated companies totaled € 195,779 as of 31 December 2012 (31 December 2011: € 263,907), and included trade accounts payable amounting to € 186,845 (31 December 2011: € 263,907).

The liabilities' residual terms are listed in the table below. All liabilities are unsecured.

Type	Remaining Term of Liabilities			Total	
	up to 1 year	1 to 5 years	more than 5 years	12/31/2012 EUR	12/31/2011 EUR
1. Bonds, thereof convertible	0	73,607	0	73,607	73,607
2. Trade accounts payable	805,065	0	0	805,065	565,660
3. Liabilities due to affiliated companies	195,779	0	0	195,779	263,907
4. Other liabilities	567,640	0	0	567,640	700,691
thereof taxes	450,081	0	0	450,081	408,624

OTHER FINANCIAL COMMITMENTS

The following table lays out other financial commitments relating to rental and lease agreements, insurance policies, and other services as of 31 December 2012:

in 000's €	Rent and Leasing	Other	Total
2013	1,759	2,090	3,849
2014	891	24	915
2015	763	0	763
2016	553	0	553
2017	0	0	0
more	0	0	0
Total	3,966	2,114	6,080

Additional payment obligations may arise from the Company's investment in Lanthio Pharma B.V. in the future if certain defined goals are achieved.

In addition, the following future payments may become due in relation to currently active, cancellable contracts for studies being conducted externally. However, these sums can be substantially lower due to the contractually agreed clauses in the event of the early termination of a study.

in 000's €	Total 2012
Up to one year	8,540
Between one year and five years	11,989
More than five years	0
Total	20,529

Notes to the Income Statement

REVENUES

Revenues fell by 36% year on year in 2012 to € 52,922,829 (2011: € 82,796,634). This decline was primarily due to higher success-based fees in 2011, in particular because of a technological milestone payment made by Novartis due to the completion of the installation of the HuCAL antibody platform at the Novartis Institutes for BioMedical Research in Basel, Switzerland. This mainly impacted the revenues of the Partnered Discovery segment. As anticipated, revenues declined year on year in the AbD Serotec segment, while the Proprietary Development segment recorded an increase in revenues.

In the 2012 fiscal year, the main part of revenues was generated by the antibody collaborations with Novartis and Roche. Prior to the elimination of inter-segmental effects, the Partnered Discovery and Proprietary Development segments contributed revenues of € 42,930,863 and € 6,988,717 respectively to total sales in 2012, with the AbD Serotec segment contributing € 3,045,874. Revenues amounting to € 42,625 were eliminated within the Partnered Discovery and AbD Serotec segments (2011: € 255,751).

Of total sales, € 283,695 were attributable to domestic sales (2011: € 1,467,612) and € 2,125,270 to biotechnology and pharma companies or non-profit organizations headquartered in North America (2011: € 3,230,077). Sales of € 50,492,459 were generated in the rest of Europe and in Asia (2011: € 78,044,206). Sales in other countries amounted to € 21,405 (2011: € 54,739).

COST OF SALES

The cost of sales amounted to € 44,010,367 (2011: € 59,943,980) and included research and development costs comprising personnel expenses of € 19,723,376 (2011: € 21,311,855), expenses for external services totaling € 8,385,136 (2011: € 19,868,690), expenses in connection with intangible assets in the amount of € 8,110,696 (2011: € 8,820,677), material costs of € 2,101,743 (2011: € 3,358,193), infrastructure costs of € 4,107,989 (2011: € 4,112,266), and other costs totaling € 1,581,427 (2011: € 2,447,301). In 2012, non-scheduled depreciation in the amount of € 178,424 was recognized, primarily for laboratory equipment which was no longer usable following the conclusion of clinical trials for the Company's own HuCAL antibody program MOR103 (2011: € 0). Impairment of € 186,201 was recorded for intangible assets in the Proprietary Development segment as of 31 December 2011 (2012: € 0). Impairment in 2011 related to a program which was discontinued for strategic reasons.

SELLING EXPENSES

Selling expenses of € 2,295,336 (2011: € 2,817,212) comprised personnel expenses of € 1,552,314 (2011: € 1,674,321), expenses for external services totaling € 218,431 (2011: € 215,922), and other costs in the amount of € 524,590 (2011: € 920,310).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses came to € 12,997,145 (2011: € 14,898,967). These consisted primarily of personnel expenses of € 7,492,095 (2011: € 8,294,805), expenses for external services totaling € 2,699,565 (2011: € 3,420,497), infrastructure costs of € 1,377,512 (2011: € 1,408,244), costs for intangible assets totaling € 642,623 (2011: € 891,756), and other costs in the amount of € 785,348 (2011: € 883,664).

PERSONNEL EXPENSES

Personnel expenses totaled € 28,699,863 (2011: € 31,280,981) and consisted of wages and salaries amounting to € 23,476,876 (2011: € 25,162,017), social security contributions of € 3,020,863 (2011: € 3,145,288), stock-based compensation from the LTI plan and stock-appreciation rights in the amount of € 873,047 (2011: € 251,135), pension plan costs of € 483,348 (2011: € 502,658), costs for external temporary staff totaling € 424,489 (2011: € 228,034), and other costs in the amount of € 421,240 (2011: € 1,991,849). In 2012, other personnel expenses related first and foremost to costs for recruitment, whereas costs for recruitment and severance payments were the main contributors in 2011.

MATERIAL COSTS

Material costs totaled € 2,188,779 (2011: € 3,430,551) and were primarily € 2,092,859 for raw materials and consumables (2011: € 3,334,826) and € 79,637 for printing (2011: € 60,886). No purchased services were included in the material costs for 2012 and 2011.

OTHER OPERATING INCOME

Other operating income came to € 3,666,868 in total, compared with € 2,618,996 in 2011. Of this sum, € 1,079,464 related to refunds from employees due to income tax-related matters (2011: € 1,117,862), while € 408,279 was for management service costs passed on to affiliated companies and for personnel expenses likewise passed on for orders placed by an affiliated company (2011: € 630,278). Other operating income also comprised government subsidies in the amount of € 276,819 (2011: € 453,019), prior-period income of € 1,765,837 (2011: € 315,037), foreign currency gains of € 93,441 (2011: € 116,513), and currency hedging gains of € 0 (2011: € 20,993).

OTHER OPERATING EXPENSES

Other operating expenses totaled € 153,375 (2011: € 2,148,252) and essentially comprised foreign currency losses of € 64,883 (2011: € 2,001,421), prior-period expenses of € 820 (2011: € 104,039), and currency hedging losses of € 40,870 (2011: € 0).

INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS

Due to a control and profit and loss pooling agreement in force since 20 November 2002, profits amounting to € 3,242,228 were transferred from MorphoSys IP GmbH, Martinsried, to MorphoSys AG, Martinsried (2011: € 3,286,080).

INCOME FROM PARTICIPATIONS

In 2011, MorphoSys AG received a dividend payment of € 575,650 from its subsidiary MorphoSys UK Ltd. (2012: € 0).

INCOME FROM OTHER SECURITIES AND LOANS PRESENTED UNDER FINANCIAL ASSETS

Income from other securities and loans presented under financial assets amounted to € 476,220 (2011: € 1,116,542) and comprised gains realized with marketable securities totaling € 476,220 (2011: € 1,085,911). In 2011, additional interest of € 30,631 was received relating to the loans granted to Sloning BioTechnology GmbH.

OTHER INTEREST AND SIMILAR INCOME

This item in the amount of € 252,097 (2011: € 322,401) essentially comprised interest income from cash in banks totaling € 161,424 (2011: € 322,401) as well as interest income from a discounted long-term provision for stock-based compensation from the LTI plan in the amount of € 86,713. Interest income from an interest-bearing, transferable loan in the amount of € 82,533 was included in the interest income from cash in banks for the year 2012.

INTEREST AND SIMILAR EXPENSES

Compared to the previous year, interest expenses amounted to € 8,509 in 2012 (2011: € 3,459). This interest expense resulted from the compounding of a long-term provision for stock-based compensation from the LTI plan.

INCOME TAXES

Income tax expense amounted to € 382,415 in 2012, compared with € 2,686,429 in 2011. The drop in this expense is primarily attributable to the lower profit from ordinary activities in 2012.

Differences between commercial and tax law resulted in temporary differences in the MorphoSys AG balance sheet, which were calculated on the basis of a tax rate of 26.33%. The Company chose to present deferred tax assets and liabilities on a netted basis. In the event that the difference equates to a deferred tax relief, using the option permitted by Section 374(1), sent. 2 HGB, this is not recognized in the balance sheet as a deferred tax asset. As of 31 December 2012 and 2011 deferred taxes resulted from temporary differences occurring from intangible and tangible assets.

Other Information

MANDATORY DISCLOSURE IN ACCORDANCE WITH THE GERMAN SECURITIES TRADING ACT (WPHG)

The Company received the following information regarding voting rights notifications pursuant to § 21 WpHG (as of 31 December 2012):

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

On 12 March 2012, Heisse Kursawe Eversheds, Munich, Germany, has informed MorphoSys AG in the name and on behalf of Massachusetts Mutual Life Insurance Company, Springfield, Massachusetts, USA, in accordance with §§ 21 (1), 22 (1), 24 of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) regarding the shareholding in MorphoSys AG, Martinsried/Planegg, Germany, about the following:

- On 14 March 2011, the voting rights of OppenheimerFunds Inc., Centennial, Colorado, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), have exceeded the threshold of 5%. On that date its voting share amounted 5.14% (or 1,179,164 voting rights). All of these voting rights are attributable to OppenheimerFunds Inc. according to § 22 (1) sentence 1 No. 6 German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights 4.36% (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunities Fund, Centennial, Colorado, USA.
- On 14 March 2011, the voting rights of Oppenheimer Acquisition Corp., Centennial, Colorado, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), have exceeded the threshold of 5%. On that date its voting share amounted 5.14% (or 1,179,164 voting rights). All of these voting rights are attributable to Oppenheimer Acquisition Corp. according to § 22 (1) sentence 1 No. 6 sentence 2 German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights 4.36% (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunities Fund, Centennial, Colorado, USA.
- On 14 March 2011, the voting rights of MassMutual Holding LLC, Springfield, Massachusetts, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), have exceeded the threshold of 5%. On that date its voting share amounted 5.14% (or 1,179,164 voting rights). All of these voting rights are attributable to MassMutual Holding LLC according to § 22 (1) sentence 1 No. 6 sentence 2 German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights 4.36% (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunities Fund, Centennial, Colorado, USA.
- On 14 March 2011, the voting rights of Massachusetts Mutual Life Insurance Company, Massachusetts, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), have exceeded the threshold of 5%. On that date its voting share amounted 5.14% (or 1,179,164 voting rights). All of these voting rights are attributable to Massachusetts Mutual Life Insurance Company according to § 22 (1) sentence 1 No. 6 sentence 2 German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights 4.36% (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunities Fund, Centennial, Colorado, USA.
- On 29 February 2012, the voting rights of MM Asset Management Holding LLC, Springfield, Massachusetts, USA, in MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), have exceeded the threshold of 3%

and 5%. On that date its voting share amounted 7.27% (or 1,680,864 voting rights). All of these voting rights are attributable to MM Asset Management Holding LLC according to § 22 (1) sentence 1 No. 6 sentence 2 German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). Of these voting rights 4.32% (1,000,000 voting rights) are attributable to the Oppenheimer Global Opportunities Fund, Centennial, Colorado, USA.

BVF INVESTMENTS, L.L.C.

On 18 June 2012, BVF Investments, L.L.C., Chicago, IL, USA, has informed MorphoSys AG in accordance with §§ 21 (1), 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) regarding the shareholding in MorphoSys AG, Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), about the following:

- On 31 May 2012 the voting interest of Mr. Mark N. Lampert, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 6.01% (1,391,610 voting rights) on that day.
- Of these voting rights 5.83% (1,349,610 voting rights) is to be attributed to Mr. Mark N. Lampert pursuant sec. 22 (1) sent. 1 no. 6, sent. 2 WpHG inter alia from BVF Investments, L.L.C., Chicago, IL, U.S.A., which is a shareholder holding 3% or more.
- Further 0.18% (42,000 voting rights) is to be attributed to Mr. Mark N. Lampert pursuant sec. 22 (1) sent. 1 no. 1 WpHG from BVF Inc., Chicago, IL, U.S.A., and BVF Partners L.P., Chicago, IL, U.S.A., which are controlled entities holding 3% or more.
- On 31 May 2012 the voting interest of BVF Inc., Chicago, IL, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 6.01% (1,391,610 voting rights) on that day. Of these voting rights 5.83% (1,349,610 voting rights) is to be attributed to BVF Inc., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 6, sent. 2 WpHG inter alia from BVF Investments, L.L.C., Chicago, IL, U.S.A., which is a shareholder holding 3% or more. Further 0.18% (42,000 voting rights) is to be attributed to BVF Inc., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 1 WpHG from BVF Partners L.P., Chicago, IL, U.S.A., which is a controlled entity holding 3% or more.
- On 31 May 2012 the voting interest of BVF Partners L.P., Chicago, IL, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 6.01% (1,391,610 voting rights) on that day. Of these voting rights 5.83% (1,349,610 voting rights) is to be attributed to BVF Partners L.P., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 6 WpHG inter alia from BVF Investments, L.L.C., Chicago, IL, U.S.A., which is a shareholder holding 3% or more. Further 0.18% (42,000 voting rights) is to be attributed to BVF Partners L.P., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 1 WpHG.
- On 31 May 2012 the voting interest of BVF Investments, L.L.C., Chicago, IL, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 5.80% (1,343,610 voting rights) on that day.

CORRECTION OF BVF INVESTMENTS OF THE NOTIFICATION OF 18 JUNE 2012

This is a correction of the announcement from 25.06.2012. Reason for the correction: Correction only concerns the German version of this announcement.

On 18 June 2012, BVF Investments, L.L.C., Chicago, IL, USA, has informed MorphoSys AG in accordance with §§ 21 (1), 22 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) regarding the shareholding in MorphoSys AG, Martinsried/Planegg, Germany (ISIN: DE0006632003, German Security Code: 663200), about the following:

- On 31 May 2012 the voting interest of Mr. Mark N. Lampert, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 6.01% (1,391,610 voting rights) on that day. Of these voting rights 5.83% (1,349,610 voting rights) is to be attributed to Mr. Mark N. Lampert pursuant sec. 22 (1) sent. 1 no. 6, sent. 2 WpHG inter alia from BVF Investments, L.L.C., Chicago, IL, U.S.A., which is a shareholder holding 3% or more. Further 0.18% (42,000 voting rights) is to be attributed to Mr. Mark N. Lampert pursuant sec. 22 (1) sent. 1 no. 1 WpHG from BVF Inc., Chicago, IL, U.S.A., and BVF Partners L.P., Chicago, IL, U.S.A., which are controlled entities holding 3% or more.
- On 31 May 2012 the voting interest of BVF Inc., Chicago, IL, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 6.01% (1,391,610 voting rights) on that day. Of these voting rights 5.83% (1,349,610 voting rights) is to be attributed to BVF Inc., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 6, sent. 2 WpHG inter alia from BVF Investments, L.L.C., Chicago, IL, U.S.A., which is a shareholder holding 3% or more. Further 0.18% (42,000 voting rights) is to be attributed to BVF Inc., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 1 WpHG from BVF Partners L.P., Chicago, IL, U.S.A., which is a controlled entity holding 3% or more.
- On 31 May 2012 the voting interest of BVF Partners L.P., Chicago, IL, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 6.01% (1,391,610 voting rights) on that day. Of these voting rights 5.83% (1,349,610 voting rights) is to be attributed to BVF Partners L.P., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 6 WpHG inter alia from BVF Investments, L.L.C., Chicago, IL, U.S.A., which is a shareholder holding 3% or more. Further 0.18% (42,000 voting rights) is to be attributed to BVF Partners L.P., Chicago, IL, U.S.A., pursuant sec. 22 (1) sent. 1 no. 1 WpHG.
- On 31 May 2012 the voting interest of BVF Investments, L.L.C., Chicago, IL, U.S.A., in MorphoSys AG exceeded the thresholds of 3% and 5% of the voting rights and amounts to 5.80% (1,343,610 voting rights) on that day.

MORGAN STANLEY

MorphoSys AG received the following notifications of voting rights pursuant to section 21 (1) WpHG on 16 August 2012.

Notification of voting rights pursuant to section 21 (1) WpHG

Morgan Stanley, Delaware, USA, has notified us on 16 August 2012 pursuant to section 21 (1) German Securities Trading Act (WpHG) that its percentage of voting rights in MorphoSys AG, Martinsried/Planegg, Germany exceeded the thresholds of 3% and 5% on 9 August 2012 and amounts to 6.24% (equals: 1.450.691 voting rights) as per this date.

Attributed voting rights are held via the following companies that are controlled by Morgan Stanley and whose holdings of voting rights amount to 3% each or more in MorphoSys AG:

- Morgan Stanley Capital Management LLC, Delaware, USA
- Morgan Stanley Domestic Holdings Inc, Delaware, USA
- Morgan Stanley & Co LLC, Delaware, USA

Voting rights pursuant to sections 21, 22 WpHG are included under (financial-/other) instruments pursuant to section 25 WpHG on the basis that the voting rights pursuant to section 22 (1) sent. 1 no. 5.

- Details of listed company: MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

- Details of the company subject to the notification obligation (notifier): Morgan Stanley, Delaware, USA
- Triggering event: Exceeding threshold
- Threshold(s) crossed or reached: 5%
- Date at which the threshold is crossed or reached: 9 August 2012
- Total amount of voting rights: 6.37% (equals: 1,482,078 voting rights)
- Detailed information on the voting rights proportion: (Financial-/other) instruments pursuant to section 25 WpHG: 6.37% (equals: 1,482,078 voting rights) thereof held indirectly: 6.37% (equals: 1,482,078 voting rights), voting rights pursuant to sections 21, 22 WpHG: 6.24% (equals: 1,450,691 voting rights)
- Detailed information on (financial-/other) instruments pursuant to section 25 WpHG:
 - Chain of controlled undertakings: Morgan Stanley & Co LLC, Morgan Stanley Domestic Holdings Inc, Morgan Stanley Capital Management LLC
- ISIN or description of (financial-/other) instrument: Voting rights pursuant to sections 21, 22 WpHG are included under (financial-/other) instruments pursuant to section 25 WpHG on the basis that the voting rights pursuant to section 22 (1) sent. 1 no. 5.

Morgan Stanley Domestic Holdings Inc, Delaware, USA

1. Details of listed company: MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Deutschland
2. Details of the company subject to the notification obligation (notifier): Morgan Stanley Domestic Holdings Inc, Delaware, USA
3. Triggering event: Exceeding threshold
4. Threshold(s) crossed or reached: 5%
5. Date at which the threshold is crossed or reached: 9 August 2012
6. Total amount of voting rights: 6.37% (equals: 1,482,078 voting rights)
7. Detailed information on the voting rights proportion: (Financial-/other) instruments pursuant to section 25 WpHG: 6.37% (equals: 1,482,078 voting rights) thereof held indirectly: 6.37% (equals: 1,482,078 voting rights) Voting rights pursuant to sections 21, 22 WpHG: 6.24% (equals: 1,450,691 voting rights)
8. Detailed information on (financial-/other) instruments pursuant to section 25 WpHG: Chain of controlled undertakings: Morgan Stanley & Co LLC
ISIN or description of (financial-/other) instrument: Voting rights pursuant to sections 21, 22 WpHG are included under (financial-/other) instruments pursuant to section 25 WpHG on the basis that the voting rights pursuant to section 22 (1) sent. 1 no. 5.

Morgan Stanley & Co LLC, Delaware, USA

1. Details of listed company: MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Deutschland
2. Details of the company subject to the notification obligation (notifier): Morgan Stanley & Co LLC, Delaware, USA
3. Triggering event: Exceeding threshold
4. Threshold(s) crossed or reached: 5%
5. Date at which the threshold is crossed or reached: 9 August 2012
6. Total amount of voting rights: 6.37% (equals: 1,482,078 voting rights)

7. Detailed information on the voting rights proportion:
(Financial-/other) instruments pursuant to section 25 WpHG: 6.37% (equals: 1,482,078 voting rights)
thereof held indirectly: 6.37% (equals: 1,482,078 voting rights)
Voting rights pursuant to sections 21, 22 WpHG: 6.24% (equals: 1,450,691 voting rights)
8. Detailed information on (financial-/other) instruments pursuant to section 25 WpHG:
ISIN or description of (financial-/other) instrument:
Voting rights pursuant to sections 21, 22 WpHG are included under (financial-/other) instruments
pursuant to section 25 WpHG on the basis that the voting rights pursuant to section 22 (1) sent.
1 no. 5.

CORRECTION FROM MORGAN STANLEY REGARDING NOTIFICATIONS OF 16 AUGUST 2012:

MorphoSys AG received the following notifications of voting rights pursuant to section 21 (1) WpHG on 16 August 2012.

Morgan Stanley, Wilmington, USA, has notified us on 16 August 2012 pursuant to section 21 (1) German Securities Trading Act (WpHG) that its percentage of voting rights in MorphoSys AG, Martinsried/Planegg, Germany exceeded the thresholds of 3% and 5% on 9 August 2012 and amounts to 6.24% (equals: 1.450.691 voting rights) as per this date.

These voting rights of 6.24% (equals: 1,450,691 voting rights) will be attributed according to section 22 (1) line 1 no. 5 in combination with line 2 WpHG.

Morgan Stanley Capital Management LLC, Wilmington, USA, has notified us on 16 August 2012 pursuant to section 21 (1) German Securities Trading Act (WpHG) that its percentage of voting rights in MorphoSys AG, Martinsried/Planegg, Germany exceeded the thresholds of 3% and 5% on 9 August 2012 and amounts to 6.24% (equals: 1.450.691 voting rights) as per this date.

These voting rights of 6.24% (equals: 1,450,691 voting rights) will be attributed according to section 22 (1) line 1 no. 5 in combination with line 2 WpHG.

Morgan Stanley, Domestic Holdings Inc, Wilmington, USA, has notified us on 16 August 2012 pursuant to section 21 (1) German Securities Trading Act (WpHG) that its percentage of voting rights in MorphoSys AG, Martinsried/Planegg, Germany exceeded the thresholds of 3% and 5% on 9 August 2012 and amounts to 6.24% (equals: 1.450.691 voting rights) as per this date.

These voting rights of 6.24% (equals: 1,450,691 voting rights) will be attributed according to section 22 (1) line 1 no. 5 in combination with line 2 WpHG.

Morgan Stanley & Co LLC, Wilmington, USA, has notified us on 16 August 2012 pursuant to section 21 (1) German Securities Trading Act (WpHG) that its percentage of voting rights in MorphoSys AG, Martinsried/Planegg, Germany exceeded the thresholds of 3% and 5% on 9 August 2012 and amounts to 6.24% (equals: 1.450.691 voting rights) as per this date.

These voting rights of 6.24% (equals: 1,450,691 voting rights) will be attributed according to section 22 (1) line 1 no. 5 in combination with line 2 WpHG.

EVENTS AFTER THE BALANCE SHEET DATE

On December 16, 2012, an agreement was reached between MorphoSys and Bio-Rad Laboratories, Inc., Hercules, USA, regarding the takeover of the segment for research and diagnostic antibodies, AbD Serotec. The Management Board and the Supervisory Board passed resolutions on December 16, 2012, approving the sale of the AbD Serotec segment to an American purchaser, and the transaction was closed on 10 January 2013.

SUPERVISORY BOARD

On 31 December 2012, the members of the Company's Supervisory Board held offices as members of the supervisory boards or of comparable supervisory bodies with the following companies:

Name	Place of Residence	Year of Birth	Actual Occupation	MorphoSys Supervisory Board	Memberships in Other Supervisory Boards or Executive Bodies
Dr. Gerald Möller	Heidelberg, Germany	Year of Birth: 1943	Independent Management Consultant in the Life Sciences Industry	Member since 1999 Chairman Chairman of the Remuneration & Nomination Committee	llumina, Inc., USA (Director) Invendo Medical GmbH, GER (Chairman) 4sigma, BM (Chairman) Bionostics, Inc., USA (Director) Adrenomed GmbH, GER (Director) Definiens AG, Germany (Chairman)
Dr. Walter Blättler	Brookline, Massachusetts, USA	Year of Birth: 1949	Vice President, Development CoStim Pharmaceuticals, Inc., USA	Member since 2007 Member Chairman of the Science & Technology Committee	Currently no other mandates
Dr. Daniel Camus	Genf, Switzerland	Year of Birth: 1952	CFO The Global Fund, Switzerland	Member since 2002 Member Chairman of the Audit Committee	Cameco Corp., CA (Director) SGL Carbon, GER (Supervisory Board Member) Valéo SA, FR (Supervisory Board Member) Vivendi SA, FR (Supervisory Board Member)
Dr. Marc Cluzel	Paris, France	Year of Birth: 1955	Founder and Consultant C&F Consulting, France	Member since 2012 Member Member of the Science & Technology Committee Member of the Remuneration & Nomination Committee	Currently no other mandates
Karin Eastham	Rancho Santa Fe, California, USA	Year of Birth: 1949	Independent Management Consultant in the Life Sciences Industry	Member since 2012 Member Member of the Audit Committee	llumina, Inc., USA (Director) Geron Inc, USA (Director) Trius Therapeutics, USA (Director)
Dr. Geoffrey Vernon	Devon, UK	Year of Birth: 1952	CEO and Chairman at Ziggus Holdings Ltd., UK	Member since 1998 Member Member of the Audit Committee	Veryan Medical Ltd., UK (Chairman) XL TechGroup, Inc., USA (Chairman) Ziggus Holdings Ltd., UK (Chairman) Cornwall Farmers Ltd., UK (Chairman) Medpharm Ltd., UK (Chairman)

CORPORATE GOVERNANCE

In July 2003, the Company committed to complying with the principles of the now amended German Corporate Governance Code.

The Company published the declaration of compliance issued by the Management Board and the Supervisory Board pursuant to Section 161 AktG on December 7, 2012, and made it available to its shareholders on a permanent basis. The declaration can be found on MorphoSys's corporate website (www.morphosys.com).

MANAGEMENT BOARD

Dr. Simon E. Moroney, chemist, Pöcking, Germany (Chief Executive Officer)

Jens Holstein, business administration graduate, Munich, Germany (Chief Financial Officer)

Dr. Arndt Schottelius, physician, Munich, Germany (Chief Development Officer)

Dr. Marlies Sproll, biologist, Munich, Germany (Chief Scientific Officer)

The Management Board members have no mandates on the supervisory boards of other publicly listed companies. Dr. Moroney is, however, a member of the Supervisory Board of ProtAffin AG, Graz, Austria. This position was approved by the Supervisory Board.

TOTAL COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The compensation of the Management Board and the Supervisory Board comprises fixed and variable components as well as other compensatory benefits. In the event that a member of the Management Board is not reappointed or their contract of employment is not extended, they are entitled to a severance payment equal to their annual fixed salary. Total compensation of the Supervisory Board excluding reimbursements for travel expenses amounted to € 478,197 in 2012 (2011: € 384,750).

The following tables give details of the compensation of the Management Board and the Supervisory Board:

MANAGEMENT BOARD COMPENSATION 2012:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in € *	No. of Performance Shares Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	401,980	139,555	226,689	18,976	365,003	1,133,227
Jens Holstein	271,867	129,836	176,890	12,997	249,997	828,590
Dr. Arndt Schottelius	272,700	103,841	164,155	12,997	249,997	790,693
Dr. Marlies Sproll	272,700	96,609	162,653	12,997	249,997	781,959
Total	1,219,247	469,841	730,387	57,967	1,114,994	3,534,469

* The total remuneration figures shown for 2012 include the corresponding bonus accruals for 2012, which will be paid out in February 2013.

MANAGEMENT BOARD COMPENSATION 2011:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)		Total Compensation
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in € ***	No. of Performance Shares Granted	Fair Value at The Time of the Grant in €	in €
Dr. Simon E. Moroney	386,862	135,131	181,825	17,676	377,206	1,081,024
Dave Lemus*	132,119	479,009	72,026	-	-	683,154
Jens Holstein**	167,500	181,584	83,750	12,107	258,363	691,197
Dr. Arndt Schottelius	256,000	99,046	107,520	12,107	258,363	720,929
Dr. Marlies Sproll	262,259	94,563	125,884	12,107	258,363	741,069
Total	1,204,740	989,333	571,005	53,997	1,152,295	3,917,373

* Mr. Lemus left the Management Board of MorphoSys AG on 10 March 2011.

** Mr. Holstein joined the Management Board of MorphoSys on 1 May 2011.

*** The total remuneration figures shown for 2011 include the corresponding bonus accruals for 2011, which will be paid out in February 2012.

SUPERVISORY BOARD COMPENSATION 2012 AND 2011:

Supervisory Board	Fixed Compensation		Variable Compensation		Total Compensation	
	2012	2011	2012	2011	2012	2011
Dr. Gerald Möller	94,400	70,000	37,000	26,000	131,400	96,000
Prof. Dr. Jürgen Drews*	26,264	57,750	9,500	17,500	35,764	75,250
Dr. Walter Blättler	43,160	39,500	21,500	13,500	64,660	53,000
Dr. Daniel Camus	41,939	36,500	23,500	19,000	65,439	55,500
Dr. Marc Cluzel**	27,116	-	19,000	-	46,116	-
Dr. Metin Colpan*	16,678	36,500	6,000	8,500	22,678	45,000
Karin Eastham**	23,591	-	15,000	-	38,591	-
Dr. Geoffrey N. Vernon	51,549	39,500	22,000	20,500	73,549	60,000
Total	324,697	279,750	153,500	105,000	478,197	384,750

* Left the Supervisory Board of MorphoSys AG on 31 May 2012

** Joined the Supervisory Board of MorphoSys AG on 31 May 2012

Other than this, there are currently no other contracts with incumbent or former members of the Supervisory Board.

In addition, the members of the Management Board and the Supervisory Board are in receipt of the following stocks, options, and convertible bonds of MorphoSys AG:

Shares	01/01/2012	Additions	Sales	12/31/2012
Management Board				
Dr. Simon E. Moroney	419,885	0	0	419,885
Jens Holstein	5,000	1,500	0	6,500
Dr. Arndt Schottelius	2,000	0	0	2,000
Dr. Marlies Sproll	7,105	0	0	7,105
Total	433,990	1,500	0	435,490
Supervisory Board				
Dr. Gerald Möller	7,500	0	0	7,500
Prof. Dr. Jürgen Drews*	7,290	0	0	-
Dr. Walter Blättler	2,019	0	0	2,019
Dr. Daniel Camus	0	0	0	0
Dr. Marc Cluzel**	-	0	0	0
Dr. Metin Colpan*	0	0	0	-
Karin Eastham**	-	0	0	0
Dr. Geoffrey N. Vernon	0	0	0	0
Total	16,809	0	0	9,519

* Left the Supervisory Board of MorphoSys AG on 31 May 2012

** Joined the Supervisory Board of MorphoSys AG on 31 May 2012

Stock Options	01/01/2012	Additions	Forfeitures	Exercises	12/31/2012
Management Board					
Dr. Simon E. Moroney	191,445	0	0	0	191,445
Jens Holstein	0	0	0	0	0
Dr. Arndt Schottelius	90,000	0	0	0	90,000
Dr. Marlies Sproll	102,867	0	0	0	102,867
Total	384,312	0	0	0	384,312

Convertible Bonds	01/01/2012	Additions	Forfeitures	Exercises	12/31/2012
Management Board					
Dr. Simon E. Moroney	58,800	0	0	0	58,800
Jens Holstein	0	0	0	0	0
Dr. Arndt Schottelius	33,000	0	0	0	33,000
Dr. Marlies Sproll	33,000	0	0	0	33,000
Total	124,800	0	0	0	124,800

Performance Shares	01/01/2012	Additions	Forfeitures	Exercises	12/31/2012
Management Board					
Dr. Simon E. Moroney	17,676	18,976	0	0	36,652
Jens Holstein	12,107	12,997	0	0	25,104
Dr. Arndt Schottelius	12,107	12,997	0	0	25,104
Dr. Marlies Sproll	12,107	12,997	0	0	25,104
Total	53,997	57,967	0	0	111,964

The Supervisory Board of MorphoSys AG does not hold any stock options, convertible bonds, or performance shares.

RELATED PARTIES

As of 31 December 2012, the Senior Management Group was in possession of 150,026 stock options (31 December 2011: 310,320), 180,000 convertible bonds (31 December 2011: 195,000), 15,000 SARs (31 December 2011: 15,000), and 63,184 performance shares (31 December 2011: 30,022), all of which were granted to it by the Company. No further stock options, convertible bonds, or SARs were issued to the Senior Management Group in 2012. In 2012, 35,825 performance shares were granted to the Senior Management Group in relation to the second long-term incentive plan. Of the stock options, 160,294 were exercised in 2012. No convertible bonds or SARs were exercised in the same period. 2,663 performance shares and 7,500 convertible bonds expired in 2012 due to an individual with subscription rights leaving MorphoSys. 7,500 convertible bonds remain under the ownership of said individual.

AUDITOR COMPENSATION

At the Company's Annual General Meeting in May 2012, the Supervisory Board was authorized to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, as its auditor.

In 2012, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, was remunerated by MorphoSys in the amount of € 260,214, comprising audit fees of € 197,171, audit-related fees of € 26,163, as well as fees for other services of € 36,880.

HEADCOUNT

As of 31 December 2012, MorphoSys AG employed 312 people (31 December 2011: 329) in addition to the four members of the Management Board and ten apprentices.

Of these 312 employees, 254 worked in research and development and 58 in sales, general and administration (31 December 2011: 280 in R&D and 49 in S, G&A). The average headcount for the 2012 fiscal year was 311 employees (2011: 339). Of the average 311 employees in 2012, 256 worked in research and development, and 55 in sales, general and administration.

Of the 312 employees as of 31 December 2012, 14 were in executive positions (31 December 2011: 14) and 298 were in non-executive positions (31 December 2011: 315).

DIVIDENDS

In accordance with a resolution of the Annual General Meeting, the accumulated profits as of 31 December 2011 were carried forward. In accordance with the authorization of the articles of incorporation of MorphoSys AG (Article 21[3]), the Supervisory Board and the Management Board unanimously resolved to allocate the net profit for the 2012 fiscal year to other earnings reserves. In addition, the Supervisory Board and the Management Board unanimously resolved to propose to the 2013 Annual General Meeting that the accumulated profits as of 31 December 2012, be carried forward. In accordance with standard practice within the biotechnology sector, MorphoSys does not anticipate paying a dividend in the foreseeable future. Any profits generated are, for the most part, to be reinvested in the Company's operating activities, first and foremost in the area of proprietary drug development, so as to generate additional shareholder value and exploit growth opportunities.

Responsibility Statement

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

Martinsried, March 4, 2013

Dr. Simon E. Moroney
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

Fixed Assets

		Aquisition and Production Cost			
		01/01/2012	Additions	Disposals	12/31/2012
		EUR	EUR	EUR	EUR
A.	Fixed Assets				
I.	Intangible Assets				
1.	Franchises, trademarks, patents, licences, and similar rights and licences to such rights	34,364,262	851,381	0	35,215,643
		34,364,262	851,381	0	35,215,643
II.	Tangible Assets				
1.	Land, leasehold rights and buildings, including leasehold improvements	1,318,262	1,309	0	1,319,571
2.	Other equipment, furniture and fixtures	13,644,591	939,898	346,374	14,238,115
		14,962,853	941,207	346,374	15,557,686
III.	Financial Assets				
1.	Shares in affiliated companies	57,628,643	8,041	0	57,636,684
2.	Shares	0	881,633	0	881,633
		57,628,643	889,674	0	58,518,317
		106,955,758	2,682,262	346,374	109,291,646

	Accumulated Depreciation				Net Book Values	
	01/01/2012 EUR	Additions EUR	Write-offs EUR	Disposals EUR	12/31/2012 EUR	12/31/2011 EUR
	15,040,774	1,603,559	0	0	16,644,333	19,323,488
	15,040,774	1,603,559	0	0	16,644,333	19,323,488
	1,072,627	42,952	0	0	1,115,579	245,635
	9,781,855	1,822,862	178,424	344,737	11,438,404	3,862,736
	10,854,482	1,865,814	178,424	344,737	12,553,983	4,108,371
	5,548,090	0	0	0	5,548,090	52,088,594
	0	0	0	0	0	881,633
	5,548,090	0	0	0	5,548,090	52,970,227
	31,443,346	3,469,373	178,424	344,737	34,746,406	75,512,412

Auditor's Report

“We have audited the annual financial statements, comprising the balance sheet, the statement of income and the notes, together with the bookkeeping system and the management report of the MorphoSys AG, Martinsried, for the business year from January 1 to December 31, 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary articles of incorporation are the responsibility of the Company’s Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, March 5, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

Dietmar Eglauer
Wirtschaftsprüfer
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This financial statement is also available in German and can be downloaded from our website.

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