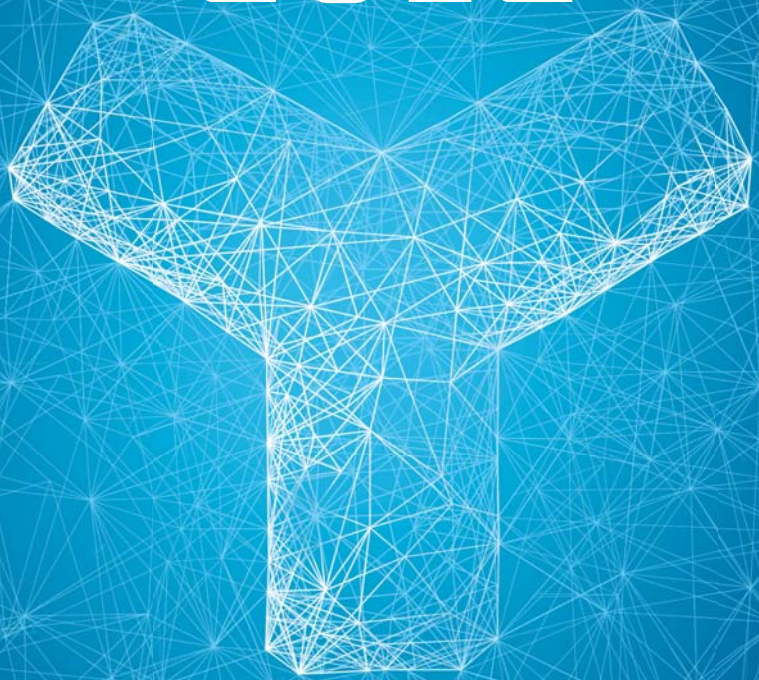
CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

2012



morphosys

Engineering the Medicines of Tomorrow

CONTENTS

FOCUS ON PIPE LINE

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 also increased 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 AND GLOBAL PRESENCE OF THE MORPHOSYS GROUP

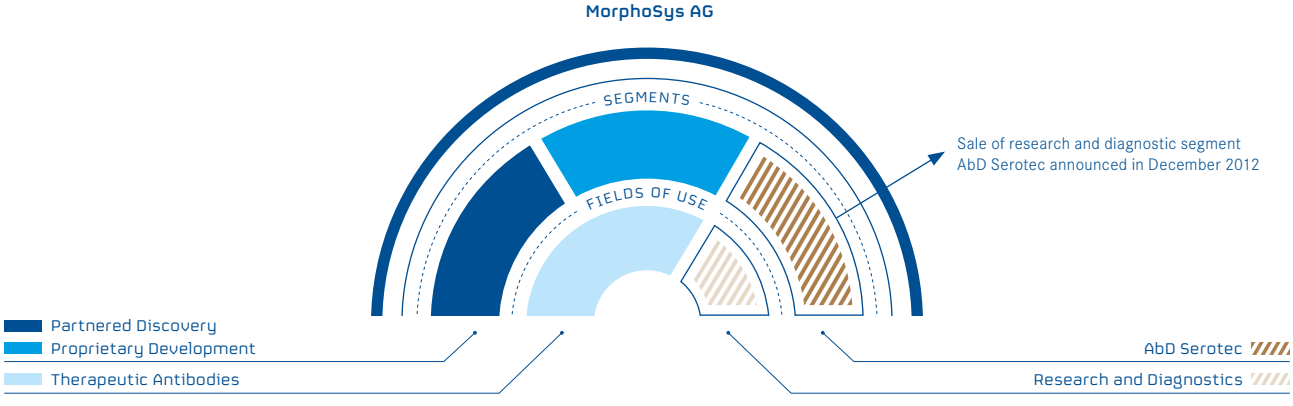
The MorphoSys Group, made up of MorphoSys AG and its subsidiaries, develops and commercializes high-quality antibodies* for therapeutic as well as research and diagnostic applications. Industry-leading proprietary technologies form the basis of business activity for the three business segments. The Partnered 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 all[1] of MorphoSys's research and diagnostics division, AbD Serotec, to Bio-Rad[2] 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, which has numerous effects on the 2012 reporting year as stated later in this report.

In 2012, MorphoSys 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.

*SEE GLOSSARY /// PAGE 116

FIG 1 /// ORGANIZATIONAL STRUCTURE OF THE MORPHOSYS GROUP



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

[2] Bio-Rad Inc. and subsidiaries of Bio-Rad Inc., including MorphoSys AbD GmbH, will subsequently be named "purchaser" respectively "Bio-Rad"

LEGAL STRUCTURE OF THE MORPHOSYS GROUP

GROUP 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 on page 49. 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 endeavour.

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. The Company relies on partnerships with pharmaceutical and biotechnology companies to earn revenues that 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

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

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.

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

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 the 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.

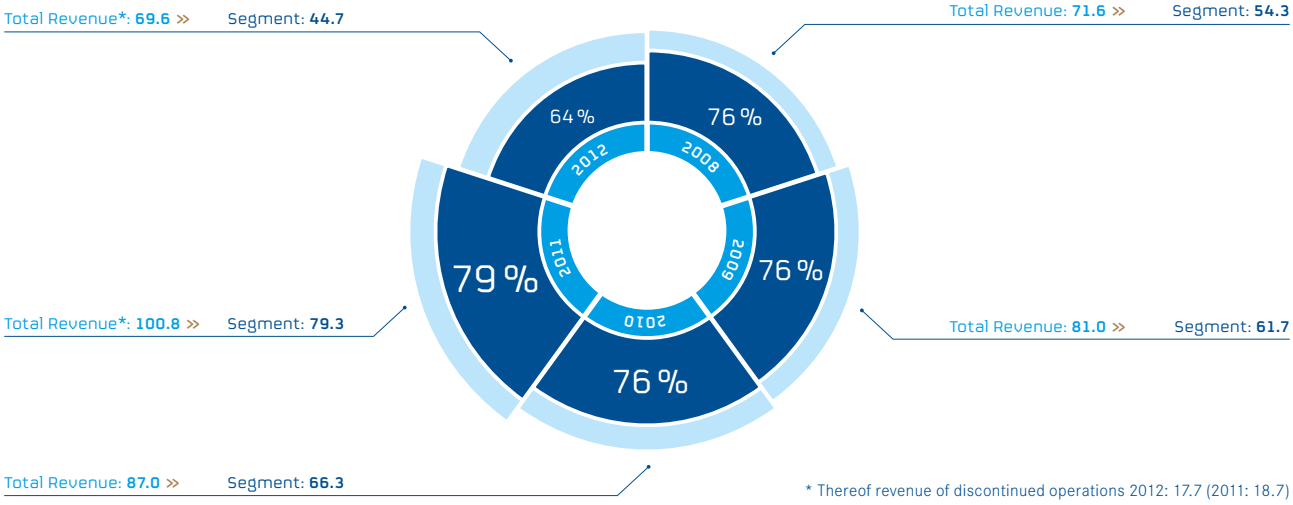
PARTNERED DISCOVERY

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.

*SEE GLOSSARY /// PAGE 116

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.

FIG 2 /// **PARTNERED DISCOVERY SEGMENT'S SHARE OF TOTAL REVENUES** (IN MILLION €)



* Thereof revenue of discontinued operations 2012: 17.7 (2011: 18.7)

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.

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.

*SEE GLOSSARY /// PAGE 116

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.

TAB 2 /// MARKET DATA ON SELECTED PARTNERED PROGRAMS IN CLINICAL PHASE 2

Program Name	MorphoSys Partner	Indication	Market Potential
Gantenerumab	Roche	Alzheimer's Disease (AD)	• 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	Inclusion Body Myositis: • 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 Cachexia: • 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*
CNTO1959	Janssen Biotech	Psoriasis, Rheumatoid Arthritis	PPsoriasis: • 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)* Rheumatoid Arthritis: • 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

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 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 driven by demographic change.

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.

*SEE GLOSSARY /// PAGE 116

For detailed information about the progress of MorphoSys's business activities in the reporting year, see the Research & Development section from page 16 as well as Commercial Development from page 19.

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 35 % of revenue from continued operations 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.

*SEE GLOSSARY /// PAGE 116

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 € 135.7 million (including an interest-bearing transferable loan amounting to € 10.0 million and liquid funds in the amount of € 5.3 million from the discontinued operations of AbD Serotec) 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.

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.

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. More information on research and development activities of the MorphoSys Group can be found on pages 16 through 19.

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" on page 17.

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

TAB 3 /// DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

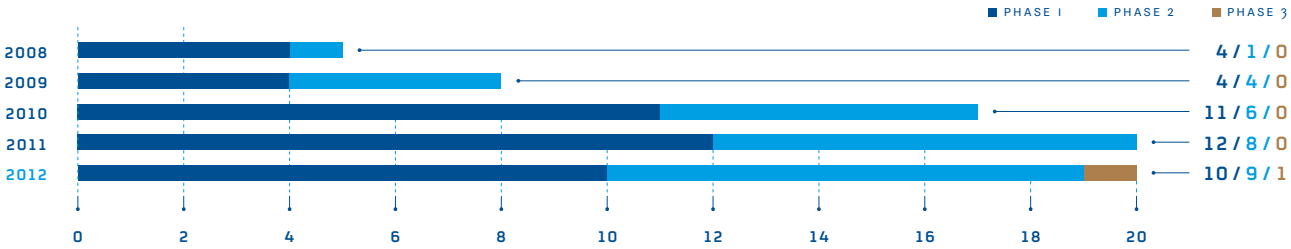
in million €	2012	2011	2010	2009	2008
MORPHOSYS GROUP					
Revenues from continuing operations*	51.9	82.1	87.0	81.0	71.6
EBIT (Earnings before interest and taxes) from continuing operations**	2.4	9.8	9.8	11.4	16.4
PARTNERED DISCOVERY					
Segment revenues	44.7	79.3	66.3	61.7	54.3
Segment result	23.0	55.7	42.7	39.6	34.4
PROPRIETARY DEVELOPMENT					
Segment revenues	7.0	2.4	1.8	1.0	0
Segment result	(11.0)	(32.2)	(24.5)	(18.3)	8.9
ABD SEROTEC					
Segment revenues	18.0	19.3	20.2	19.3	18.2
Segment result	0.3	0.9	1.2	1.0	0.4

* Revenues of discontinued operations 2012: € 17.7 million (2011: € 18.7 million); 2008 through 2010 total Group revenues
** 2008 through 2010: profit from operations

TAB 4 /// SUSTAINABLE DEVELOPMENT OF KEY PERFORMANCE INDICATORS (SD-KPIS) AT MORPHOSYS

	2012	2011	2010	2009	2008	2007	2006
PERFORMANCE IN PROPRIETARY RESEARCH & DEVELOPMENT (NUMBER)							
Programs in Discovery	2	4	5	3	1	0	0
Programs in Preclinic	0	0	1	1	1	1	2
Programs in Phase I	2	3	1	0	1	1	0
Programs in Phase II	2	1	1	1	0	0	0
PERFORMANCE IN PARTNERED PROGRAMS (NUMBER)							
Programs in Discovery	34	28	32	32	22	23	27
Programs in Preclinic	20	24	20	27	29	24	14
Programs in Phase I	8	9	10	4	3	3	2
Programs in Phase II	7	7	5	3	1	0	0
Programs in Phase III	1	0	0	0	0	0	0
R&D EXPENSES ACCORDING TO SEGMENT (IN MILLION €)							
Partnered Discovery	16.0	19.1	18.9	19.2	27.1	21.0	14.5
Proprietary Development	18.1	33.9	25.9	19.1	0.0	0.0	0.0
Technology Development	3.6	2.9	2.1	0.7	0.5	1.2	3

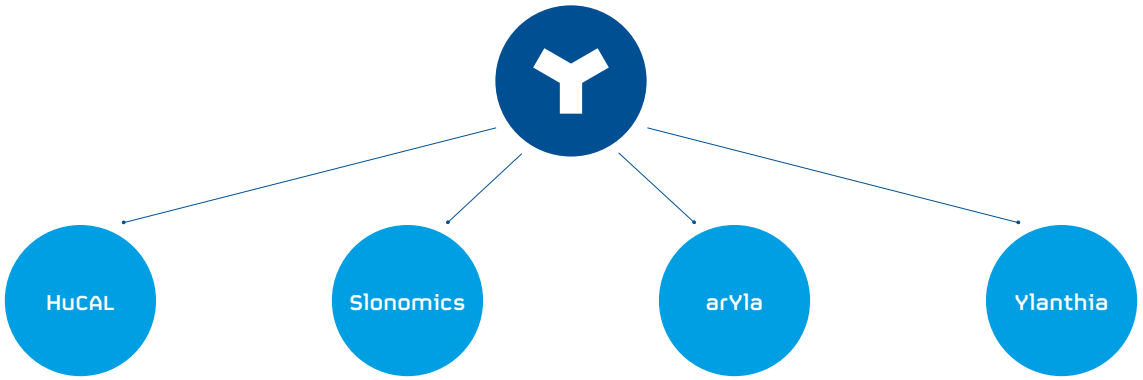
FIG 3 /// CLINICAL PIPELINE AT YEAR-END



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 on pages 22 through 24 and in the Sustainability Report on pages 37 through 38.

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 on pages 35 through 36.

FIG 4 /// OVERVIEW OF MORPHOSYS'S LATEST TECHNOLOGIES



MorphoSys's HuCAL (Human Combinatorial Antibody Library) technology is a collection of several billion distinct fully human antibodies allowing the rapid selection of antibodies with high affinity and specificity. The recombinant antibody technology of HuCAL enables the generation of therapeutic and diagnostic antibodies, including those binding to difficult antigens.

Slonomics is a proprietary, fully automated genetic engineering platform that utilizes sets of double stranded DNA triplets in the controlled fabrication of highly diverse combinatorial gene libraries. Slonomics enables researchers to increase the success rate of their screening for new and optimized therapeutic antibodies, proteins or industrial enzymes.

arYla is Slonomics applied to antibodies. arYla offers an individualized maturation solution for antibodies. With the arYla technology, MorphoSys combines more than 15 years of experience in design and selection of therapeutic antibodies with the unique library synthesis capabilities of Slonomics.

Ylanthia is MorphoSys's next-generation antibody technology and was presented in December 2011. Ylanthia delivers antibodies with attractive medical capabilities against previously inaccessible target molecules and epitopes. Antibodies based on Ylanthia can meet the strict regulatory requirements and patient-driven needs for the foreseeable future without any additional optimization rounds needed. MorphoSys expects its novel antibody library to set new standards for therapeutic antibody generation in the pharmaceutical industry over the next decade and beyond.

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 on page 34.

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 travelling to work. On the one hand, advantages are a sustainable driving experience with reduced CO_2 emissions, and on the other, employees also profit tangibly from savings in fuel consumption. Additionally, this platform promotes communication and company spirit among employees.

TAB 5 /// KEY PERFORMANCE INDICATORS 2012 RELATED TO EMPLOYEES OF THE MORPHOSYS GROUP

Employee Trainings on the Code of Conduct	(%)	100
Employees in R&D	(Number)	278
Women in Workforce	(%)	60
Trainees	(Number)	10
Occupational Accidents	(Number)	3
Absence Rates	(%)	3.01

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, joint steering committees regularly hold meetings. The committee's 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 a "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, US dollars and British pounds, while the Company's costs were mainly incurred in euros and British pounds. The turbulence 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. Over the year, the euro suffered a loss of around 3% compared to the British pound. In 2012, MorphoSys's revenues and costs were influenced by these currency variations. A detailed description of this influence can be found in the Financial Analysis.

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, for example, MorphoSys was able to obtain access to a potentially powerful new drug discovery platform within the framework of the "Innovation Capital"* initiative.

*SEE GLOSSARY /// PAGE 116

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.

*SEE GLOSSARY /// PAGE 116

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 on pages 32 ff.

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 4 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.

*SEE GLOSSARY /// PAGE 116

The sale of substantially all of the AbD Serotec segment, agreed at the end of 2012, had only minor effects on the research of MorphoSys 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 Group turnover in the form of payments from Novartis for both pre-development programs and compensatory payments for relinquishing options on jointly pursued 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 for the Group.

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 of substantially all 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 upon the acquisition of all shares of MorphoSys UK Ltd., Oxford, Great Britain (MorphoSys UK) on 16 December 2012 with the notarial authentication of 17 December 2012. The agreement comprised all shares in both of MorphoSys UK's subsidiaries. On 16 December 2012, at the time of signing, MorphoSys UK held all of the shares in 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 on 16 December 2012 upon the takeover of individual assets (trademarks) of the segment AbD Serotec and a non-exclusive license regarding the use of the HuCAL-Technology for research reagents and diagnostic purposes. On 16 December 2012, after the agreed takeover of the shares in MorphoSys UK by the subsidiary of Bio-Rad Inc., all assets and liabilities attributed to the segment AbD-Serotec of MorphoSys AG were 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". The shares in Poole Real Estate Ltd., Poole, GB, were not sold by MorphoSys AG. The completion of the transaction was conditional on the fulfillment of certain obligations. Substantially all of the segment AbD Serotec was transferred at the closing date (10 January 2013) due to the fulfillment of the previously defined obligations. Hence, at 31 December 2012 substantially all of the segment AbD Serotec was classified as discontinued operation in accordance to IFRS 5, hereinafter referred to as "discontinued operation". Assets, liabilities, financial position and profit or loss are shown in accordance with IFRS 5 as well. The remaining part of AbD Serotec, which was not subject to the transaction, was classified as "continued operation", along with the segments Partnered Discovery and Proprietary Development at the balance sheet date. The presentation of the net assets, financial position and results of operations of the MorphoSys Group follows the basic concept of IFRS 5 in this respect.

Bio-Rad, as an international producer and provider of life science research tools and diagnostic products acquired substantially all of MorphoSys's discontinued operation 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. Further information about the financial results of the transaction is described in the financial report.

The MorphoSys Share

The 2012 financial year was extraordinarily successful for MorphoSys. Based on excellent corporate development, MorphoSys was the second-best performer in the TecDAX*, with a share price increase of 67 %. In the reporting year, the share price reacted particularly well to positive news on proprietary drug development programs such as MOR103. The TecDAX increased by 18 % in the same period and the NASDAQ Biotechnology Index rose by 30 %.

In the USA capital market, sentiment towards biotechnology companies was especially positive, where biotechnology shares have been among the best investments over the last 18 months. The reason for this lies in rich development pipelines and various approvals – five out of ten of the top-selling drugs are now of biotechnology origin. MorphoSys therefore further expanded its investor relations activities in the US market during 2012.

LIQUIDITY AND INDEX MEMBERSHIP

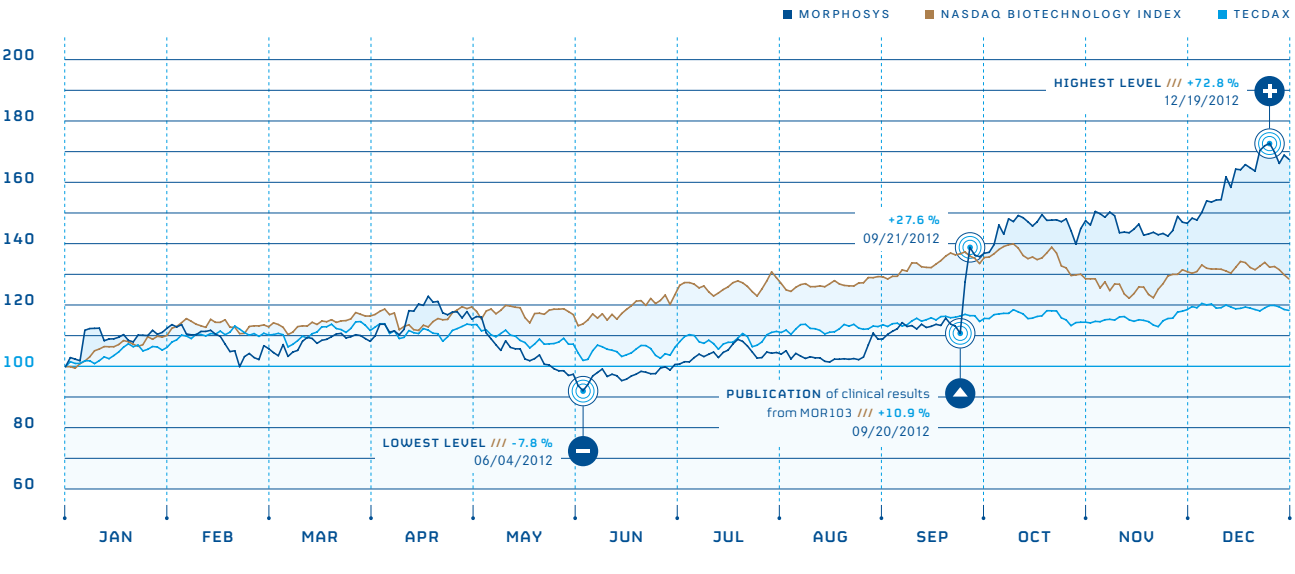
In 2012, the average daily trading volume of MorphoSys's stock slightly decreased to € 1.6 million, compared to an average daily trading volume of € 1.8 million in the previous year. On the TecDAX, the average number of shares traded sank by almost 50 %. However, MorphoSys further strengthened its position in the TecDAX index, which includes the 30 largest technology stocks on the Frankfurt Stock Exchange. At the end of 2012, the Company was able to improve its position based on market capitalization* to 12th place (year-end 2011: rank 14) and its position based on trading volume to 14th place (year-end 2011: rank 20).

*SEE GLOSSARY /// PAGE 116

SHARE CAPITAL

The share capital increased to 23,358,228 shares resulting from the exercise of 246,061 stock options and convertible bonds. Up to 2010, MorphoSys issued stock options and non-interest-bearing convertible bonds as part of its employee participation program. In 2011, this was switched to a performance share plan. The Company repurchases shares for this on an annual basis. The program is described in detail from page 57 of this annual report. During 2012, no new stock options or convertible bonds were issued to employees or management.

FIG 5 /// **THE MORPHOSYS SHARE** (1 JANUARY 2012 = 100 %)



TAB 7 /// **KEY DATA FOR THE MORPHOSYS SHARE** (AS OF 31 DECEMBER OF EACH YEAR)

in € million (if not stated otherwise)	2012	2011	2010	2009	2008
Total Stockholders' Equity	202.0	197.1	185.9	173.9	162.0
Number of Shares Issued (Total)	23,358,228	23,112,167	22,890,252	22,660,557	22,478,787
Market Capitalization	685	405	424	386	421
Closing Price in € (Xetra)	29.30	17.53	18.53	17.04	18.75
Average Daily Trading Volume (in € million)	1.6	1.8	1.1	1.3	1.9
Average Daily Trading Volume (in % of Share Capital)	0.28	0.38	0.26	0.34	0.57

GROWING INTERNATIONAL INVESTOR BASE

In the reporting year, MorphoSys received various notifications pursuant to Sec. 21, Sec. 25 and Sec. 26 of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*). These were published on our website at www.morphosys.com > Media & Investors > Stock Information > Shareholder Structure.

The number of international investors has once again increased. Massachusetts Mutual Life Insurance (Oppenheimer Funds) is currently the largest single investor with a 7.3 % share. In the course of the year, the Biotech Value Fund (BVF) also acquired a share of 6.1 %.

A current overview of the shareholder structure can be requested on the Company's website at www.morphosys.com > Media & Investors > Stock Information > Shareholder Structure.

INVESTOR RELATIONS ACTIVITIES

In the 2012 financial year, MorphoSys intensified its dialog with the capital market. MorphoSys presented itself at 14 international investor conferences and a large number of roadshows and one-on-ones in Europe and the USA. The greatest interest came from US-based investors, where a large number of specialized healthcare investors are located. Topics such as the advancement and success probability of drug programs as well as the further development of new technology platforms resonated most with investors.

At the end of the year, ten analysts covered MorphoSys (2011: eleven analysts). In the 2012 financial year, WestLB terminated its business activities and thus also its reporting on MorphoSys.

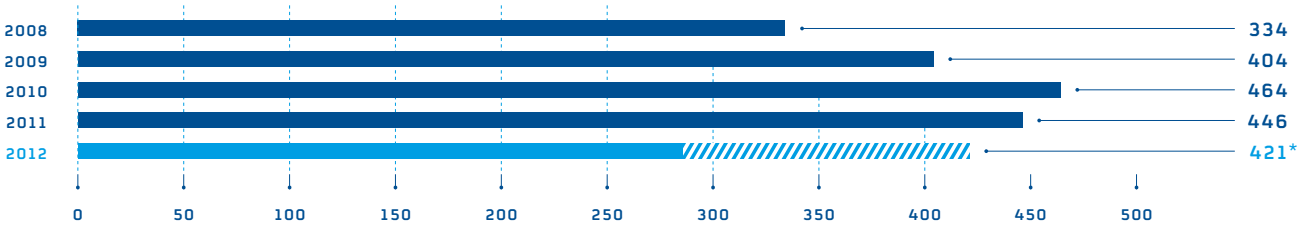
Human Resources

GROUP HEADCOUNT DEVELOPMENT

Motivated, creative and excellently trained employees form the basis of MorphoSys's business success. On 31 December 2012, 421 people were working for MorphoSys world-wide (31 December 2011: 446), of which 142 held a PhD (31 December 2011: 147). On average, the MorphoSys Group employed 422 people in 2012 (2011: 461).

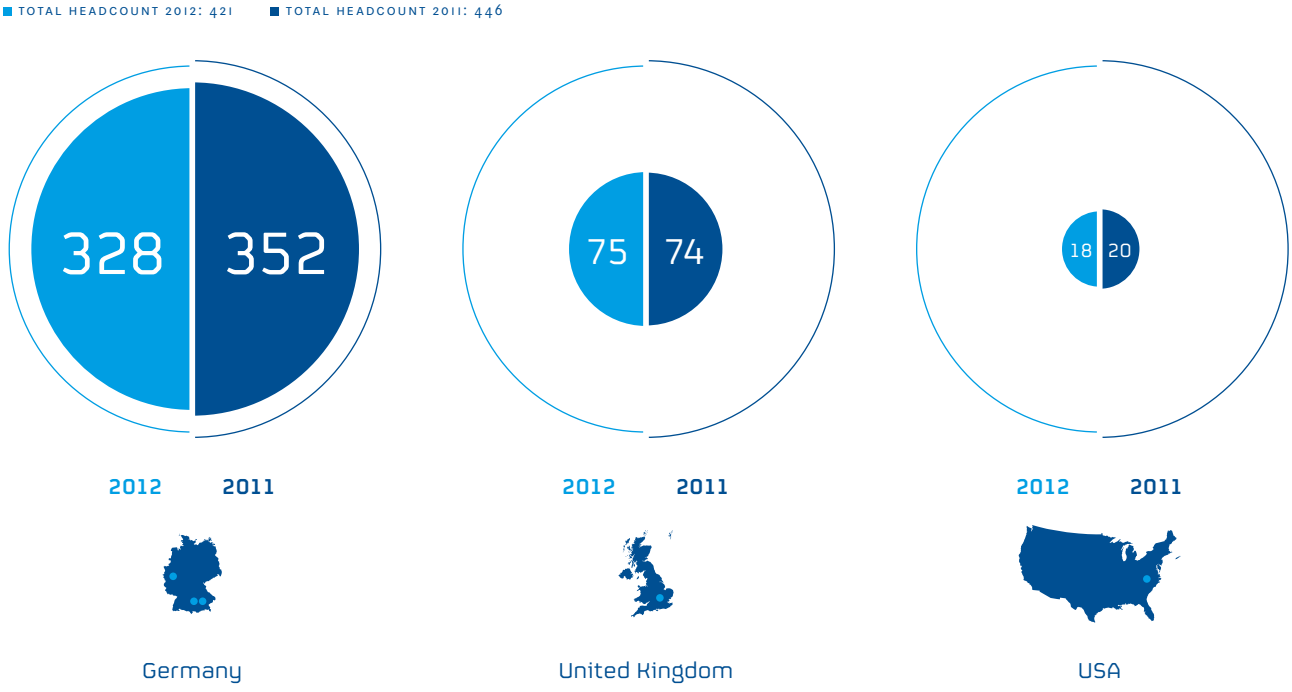
In the competition for the best employees MorphoSys wants to present itself as an attractive employer with competitive remuneration. For this reason, a yearly benchmarking process relating to remuneration paid in the biotechnology sector and other industries is carried out, and the salary structure is 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 on pages 37 through 38 provides a detailed overview of workforce development and MorphoSys's activities with regard to the long-term success of the human resources policy.

FIG 6 /// TOTAL HEADCOUNT OF THE MORPHOSYS GROUP (31 DECEMBER)



* Thereof headcount of discontinued operations: 135

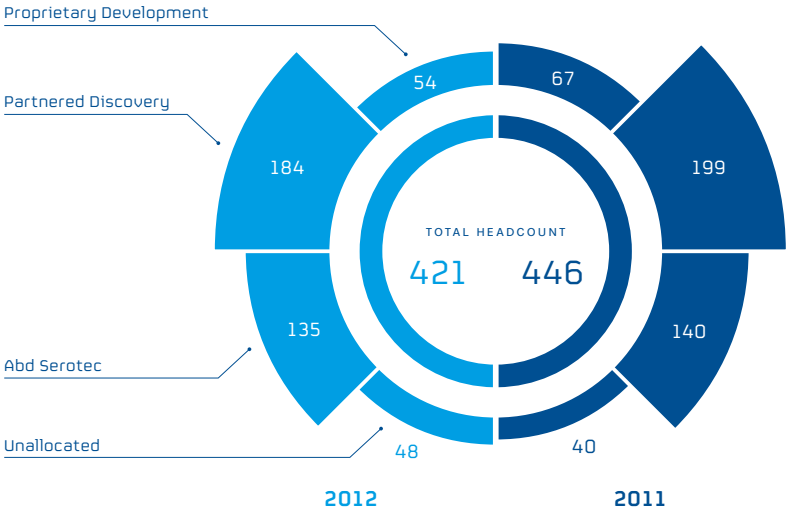
FIG 7 /// EMPLOYEES* BY REGION (31 DECEMBER)



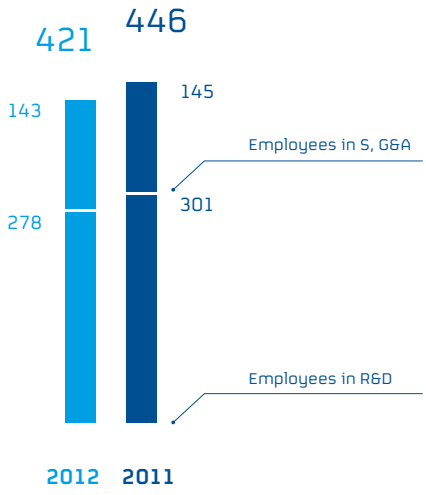
* Sale of research and diagnostic segment AbD Serotec not considered

FIG 8 /// **EMPLOYEES* BY SEGMENT AND FUNCTION** (31 DECEMBER)

By Segment



By Function



* Sale of research and diagnostic segment AbD Serotec not considered

Results of Operations, Financial Situation and Balance Sheet

At the end of 2012 MorphoSys announced the sale of substantially all of the AbD Serotec segment to Bio-Rad. A description of the transaction can be found on page 20 of this report. On 31 December 2012, substantially all of the AbD Serotec segment represents a discontinued operation in the context of IFRS 5. The segments Partnered Discovery, Proprietary Development and the continued operation of the AbD Serotec segment therefore qualified as continued operations as of the balance sheet date.

Revenues

Compared to the previous year, Group revenues from continuing operations decreased by 37 % to € 51.9 million (2011: € 82.1 million). This decrease resulted primarily from lower success-based payments received in the financial year 2012. In 2011, MorphoSys received a one-time technology milestone payment from Novartis in relation to the successful installation of the HuCAL antibody platform in the Novartis Institutes for BioMedical Research. Overall, the revenues from funded research and licensing fees decreased in the continued operations Partnered Discovery and Proprietary Development compared to the previous year.

The continuing operations of the segments Partnered Discovery and Proprietary Development contributed (prior to the elimination of inter-segment effects) € 44.7 million and € 7.0 million (2011: € 79.3 million and € 2.4 million) respectively to Group turnover. The discontinued operations of AbD Serotec generated revenues of € 17.7 million in 2012 (2011: € 18.7 million). The continued operations of the AbD Serotec segment contributed

€0.3 million (2011: €0.6 million) to Group turnover. In 2012, inter-segment revenues in the amount of €0.04 million were eliminated between the segments AbD Serotec and Partnered Discovery (2011: €0.3 million).

Geographically, MorphoSys generated 5% or €2.7 million of its commercial revenues with biotechnology and pharmaceutical companies and non-profit organizations located in North America, and 95% or €49.2 million with customers mainly located in Europe and Asia. In the same period of the previous year, these percentages amounted to 6% and 94%, respectively. The relatively higher contribution of European revenues to Group revenues mainly reflects the contribution from MorphoSys's largest customer Novartis.

PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Revenues from the Partnered Discovery segment included €42.7 million of funded research and licensing fees (2011: €46.6 million) as well as €1.9 million (2011: €32.7 million) in success-based payments. The success-based payments contributed 4% (2011: 40%) of the total revenues from the segments Partnered Discovery and Proprietary Development. Funded research and licensing fees decreased due to the fact that most of MorphoSys's collaborations were concluded as planned and contractually agreed. The main reason for the high revenues from success-based payments achieved in 2011 was a unique technology milestone from Novartis for the installation of the HuCAL technology.

Revenues of the Proprietary Development segment included €7.0 million (2011: €2.4 million) of funded research. The revenues of the Proprietary Development segment contained a one-off payment from Novartis.

Around 97% of Group revenues arose from the Company's three largest alliances with Novartis, Pfizer and Roche (2011: 94% with Novartis, Daiichi Sankyo and Pfizer).

Assuming constant foreign exchange rates at the average rate of 2011, revenues in the Partnered Discovery and Proprietary Development segments would have amounted to €51.3 million.

ABD SEROTEC SEGMENT

Compared to the same period in the previous year, segment revenues from AbD Serotec decreased in 2012 by 7% or €1.3 million to €18.0 million (2011: €19.3 million). Assuming constant foreign exchange rates at the average rate of 2011, revenues in the AbD Serotec segment would have amounted to €17.0 million. Revenues in the amount of €17.7 million from the discontinued operations of AbD Serotec were not included in the Group revenues due to the application of IFRS 5, and are presented as revenue from discontinued operations (2011: €18.7 million).

As of 31 December 2012, orders in the amount of €0.7 million were classified as back orders in the segment (2011: €0.8 million).

Operating Expenses

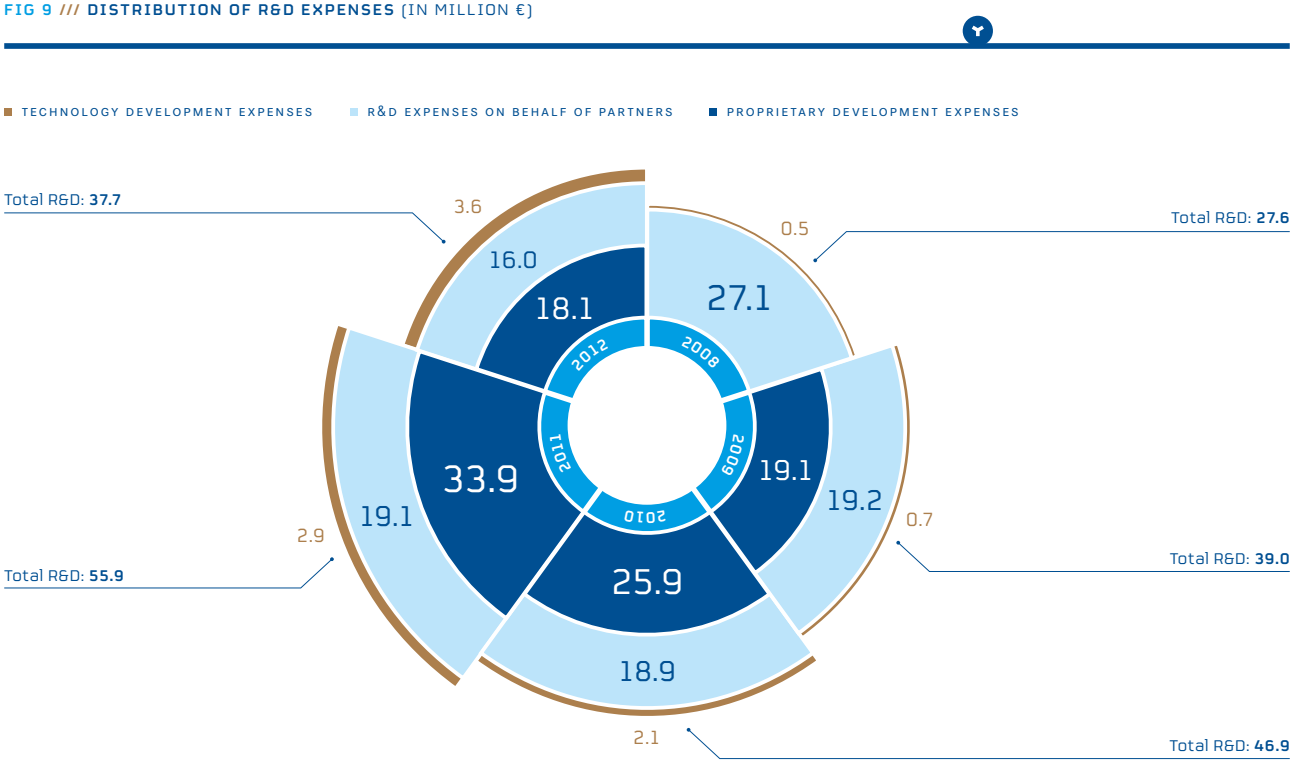
Total operating expenses decreased in 2012 by 30% to €49.8 million (2011: €70.8 million). This reduction of €21.0 million was due to research and development (R&D) expenses decreasing by 33% or €18.2 million as well as the reduction of sales, general and administrative (S, G&A) expenses by 19% or €2.8 million to €12.1 million. The discontinued operations of AbD Serotec incurred operating expenses of €18.1 million in 2012 (2011: €18.3 million). €6.2 million of this amount arose from cost of goods sold (2011: €7.0 million). Operating expenses in the Partnered Discovery segment decreased to €21.8 million (2011: €23.7 million) and in the Proprietary Development segment they decreased by 48% to €18.1 million (2011: €35.0 million). In the AbD Serotec segment, operating expenses decreased by 4% to €17.6 million (2011: €18.4 million). Assuming constant foreign exchange rates at the average rate of 2011, operating expenses in AbD Serotec would have amounted to €16.7 million.

Stock-based compensation expenses are embedded in cost of goods sold (COGS), S, G&A and R&D expense amounts. Stock-based compensation in 2012 amounted to €1.3 million (2011: €1.5 million) and is a non-cash charge.

COST OF GOODS SOLD

COGS is composed of the discontinued operations of AbD Serotec's cost of goods sold in 2012 and – compared to the same period of the previous year – decreased by 11% from €7.0 million to €6.2 million. The gross margin for the AbD Serotec segment increased slightly to 65% (2011: 64%).

FIG 9 /// **DISTRIBUTION OF R&D EXPENSES** (IN MILLION €)



RESEARCH AND DEVELOPMENT EXPENSES

In 2012, expenses for research and development decreased by € 18.2 million to € 37.7 million (2011: € 55.9 million). This was mainly due to the reduction of costs for external laboratory funding (2012: € 7.2 million; 2011: € 18.3 million), for personnel (2012: € 17.9 million; 2011: € 20.7 million), and for consumables (2012: € 1.5 million; 2011: € 3.3 million). In 2012, external studies in connection with the proprietary antibody program MOR103 were finished, while in 2011 this proprietary program triggered additional costs due to the advanced status of the project. The discontinued operations of AbD Serotec incurred research and development expenses of € 1.8 million in 2012 (2011: € 1.6 million).

In 2012, the Company incurred costs for proprietary product development of € 18.1 million (2011: € 35.0 million). In 2011, this amount contained segment allocations for technology development in the amount of € 1.1 million. Total costs for technology development amounted to € 3.6 million (2011: € 2.9 million).

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Compared to the same period of the previous year, sales, general and administrative expenses decreased by 19 % or € 2.8 million to € 12.1 million (2011: € 14.9 million) mainly due to lower personnel costs of € 0.6 million and lower expenses for external services of € 1.7 million. The discontinued operations of AbD Serotec incurred sales, general and administrative expenses of € 10.0 million in 2012 (2011: € 9.7 million).

Other Income/Expenses

Other income amounted to € 0.4 million (2011: € 0.5 million) and predominantly comprised funding from public authorities and currency gains, whilst other expenses of € 0.1 million (2011: € 2.0 million) primarily resulted from foreign-exchange losses. The discontinued operations of AbD Serotec incurred other expenses of € 0.2 million in 2012 (2011: € 0.1 million).

EBIT

Earnings before interest and taxes (EBIT) of continued operations amounted to €2.5 million; in 2011, EBIT amounted to €9.8 million. EBIT of the continued operations of the segments Partnered Discovery and Proprietary Development amounted to €23.0 million (2011: €55.7 million) and €-11.0 million (2011: €-32.2 million), respectively. The AbD Serotec segment reported EBIT of €0.3 million (2011: €0.9 million); assuming constant foreign exchange rates at the average rate of the twelve months of 2011, this profit would have amounted to €0.2 million. After deduction of transaction costs directly attributable to the sale of the AbD Serotec business, the discontinued operations generated an EBIT of €-0.6 million in 2012 (2011: €0.3 million).

Finance Income/Expenses

Finance income amounted to €0.7 million (2011: €1.5 million) and primarily included realized gains on marketable securities sold in the reporting period as well as interest income. Finance expenses amounted to €0.1 million (2011: €0.1 million) mainly resulting from banking fees and losses on foreign-exchange derivatives. The discontinued operations of AbD Serotec incurred finance expenses of €0.1 million in 2012 (2011: €0.1 million).

Taxes

In 2012, the continued operations reported income tax expenses in the amount of €0.7 million (2011: €3.0 million). This line item mainly comprised current tax expenses in the amount of €1.1 million (2011: €3.3 million) as well as deferred tax income in the amount of €0.4 million (2011: €0.3 million). The discontinued operations incurred income tax income of €0.2 million in 2012 (2011: income tax expense of €0.2 million).

Net Profit

In the fiscal year 2012, a net profit after taxes of €2.4 million was achieved for continued operations (2011: €8.2 million). After deduction of transaction costs directly attributable to the sale of the AbD Serotec business, the discontinued operations reported a net loss of €0.4 million (2011: net profit of €0.01 million).

Multiple-Year Overview – Results of Operations

TAB 8 /// MULTIPLE-YEAR OVERVIEW – RESULTS OF OPERATIONS

in million €	2012[1]	2011[1]	2010	2009	2008
Revenues	51.9	82.1	87.0	81.0	71.6
Cost of Goods Sold	0.0	0.0	7.3	6.7	7.1
Gross Profit	51.9	82.1	79.7	74.3	64.5
Research & Development Expenses	37.7	55.9	46.9	39.0	27.6
Sales, General and Administrative Expenses	12.1	14.9	23.2	23.9	20.5
Other Operating Income[2]	0.3	(1.5)	0.2	0.1	–
EBIT[2, 3]	2.5	9.8	9.8	11.4	16.4
Non-operating Income/Expenses[2]	0.6	1.4	3.4	1.6	1.6
Income Tax Expenses	(0.7)	(3.0)	(4.0)	(4.1)	(4.8)
Profit for the Year from Continuing Operations	2.4	8.2	9.2	9.0	13.2
(Loss)/Profit for the Year from Discontinued Operations[1]	(0.4)	0.0	0.0	0.0	0.0
Consolidated Net Profit	1.9	8.2	9.2	9.0	13.2

[1] Due to the in December 2012 agreed divestment of substantially all of the AbD Serotec segment, all transaction-related items of 2012 and 2011 will be presented in the position "Profit/loss from discontinued operations". All other items contain the values of continued operations. See also the Notes to the Financial Statements No. 17.
[2] To increase the comparability with its peer group, MorphoSys has changed the structure of its profit- and loss statement in 2012, showing now EBIT instead of profit from operations. For further details please refer to section 2.1. of the Notes to the Financial Statements.
[3] 2008 – 2010: Profit from Operations

Financial Situation

FINANCIAL MANAGEMENT PRINCIPLES

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

CASH FLOWS

Net cash inflow from operations in 2012 amounted to € 1.8 million (2011: € 27.1 million). Of this amount, a net cash inflow of € 1.0 million resulted from the discontinued operations in 2012 (2011: € 1.6 million), while the continued operations generated a cash inflow from operations of € 0.7 million in 2012 and € 25.4 million in 2011.

Investment activities resulted in a cash outflow in the amount of € 12.1 million (2011: € 18.1 million), of which a cash outflow of € 0.3 million (2011: € 0.6 million) occurred from the discontinued operations and € 11.8 million (2011: € 17.5 million) from continued operations.

Financing activities generated a cash inflow of € 1.6 million in 2012 (2011: € 1.3 million), which was fully attributable to continued operations.

INVESTMENTS

MorphoSys's investment in property, plant and equipment mainly focused on laboratory equipment (see table No. 6) and amounted to € 1.0 million in fiscal year 2012 (2011: € 2.3 million). Depreciation of property, plant and equipment in 2012 amounted to € 2.3 million compared to € 2.4 million in 2011. In 2012, an impairment in the amount of € 0.2 million was recognized for property, plant and equipment of the Proprietary Development segment. Investments in the amount of € 0.3 million (2011: € 0.6 million) as well as depreciation in the amount of € 0.5 million (2011: € 0.6 million) were attributable to discontinued operations.

In 2012, the Company invested € 1.3 million in intangible assets (2011: € 1.3 million). Amortization of intangible assets in 2012 amounted to € 4.0 million, and was below the level of the previous year (2011: € 4.3 million). In 2011, an impairment of € 0.2 million for intangible assets of the Proprietary Development segment was recognized. Investments in the amount of € 0.2 million (2011: € 0.1 million) as well as amortization in the amount of € 0.5 million (2011: € 0.5 million) were attributable to discontinued operations.

LIQUIDITY

As of 31 December 2012, the Company held € 120.4 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2011 balance of € 134.4 million. This decrease in liquidity was mainly impacted by the allocation of an interest-bearing transferable loan amounting to € 10.0 million. Furthermore, cash in the amount of € 5.3 million was attributed to the disposal group classified as held for sale in 2012.

Multiple-Year Overview – Financial Situation

TAB 9 /// MULTIPLE-YEAR OVERVIEW – FINANCIAL SITUATION

in million €	2012	2011	2010	2009	2008
Net Cash Provided by/(Used In) Operating Activities[1]	1.8	27.1	1.9	(1.0)	28.6
Net Cash Provided by/(Used in) Investing Activities	(12.1)	(18.1)	(2.0)	0.6	(39.3)
Net Cash Provided by/(Used in) Financing Activities[1]	1.6	1.3	2.3	1.4	2.5
Cash and Cash Equivalents (as of 31 December)[2]	40.7	54.6	44.1	41.3	40.1
Available-for-sale Financial Assets	79.7	79.8	64.3	93.9	97.8

[1] In 2011, purchases of derivative financial instruments and proceeds from disposal of derivative financial instruments have been reclassified within the cash flow statement from financing activities to operating activities. To provide comparative information for the prior year, the figures for the year 2010 have been adjusted accordingly.
[2] In 2012, cash in the amount of € 5.3 million was attributed to the disposal group classified as held for sale.

Balance Sheet

ASSETS

Total assets amounted to €224.3 million as of 31 December 2012, and were €4.1 million below the value as of 31 December 2011 (€228.4 million). The decrease in current assets by €11.0 million was mainly a result of a decrease in accounts receivable from continued operations in the amount of €1.6 million and the reclassification of current assets in the amount of €10.9 million to the line item "assets of disposal group classified as held for sale". The decrease in cash and marketable securities by €8.7 million and the decrease in prepaid expenses and other current assets from continued operations by €0.6 million were mainly offset by the allocation of an interest-bearing transferable loan amounting to €10.0 million, which is presented under other receivables. Compared to 31 December 2011, non-current assets decreased by €33.1 million, mainly as a result of the depreciation of property, plant, and equipment in the amount of €1.7 million, the amortization of licenses and patents in the amount of €2.0 million and €1.0 million, respectively, as well as the reclassification of non-current assets in the amount of €30.0 million to the line item "assets of disposal group classified as held for sale". As of 31 December 2012, the investment in Lanthio Pharma B.V., a privately led company located in Groningen in the Netherlands, in the amount of €0.9 million was accounted for as "available-for-sale financial asset". As of the balance sheet date 31 December 2012, the Group holds a percentage of 19.98% in the share capital of Lanthio Pharma B.V.

As of 31 December 2012, the Company reported "assets of disposal group classified as held for sale" in the amount of €40.9 million. This line item mainly included cash in the amount of €5.3 million, inventories in the amount of €2.8 million as well as accounts receivable in the amount of €1.7 million from discontinued operations of the AbD Serotec segment. Furthermore, goodwill in the amount of €26.8 million, property, plant, and equipment amounting to €1.5 million as well as know-how and customer lists amounting to €1.0 million were reclassified to this line item.

As of 31 December 2011, the "assets of disposal group classified as held for sale" also comprised the property held by the affiliate Poole Real Estate Ltd., Poole, UK, with a carrying amount of €0.8 million. In March 2012, MorphoSys accomplished the sale of the property for €0.8 million.

LIABILITIES

The decrease in current liabilities from €23.8 million as of 31 December 2011, to €11.9 million as of 31 December 2012, mainly arose from a decrease in accounts payable, accrued expenses as well as tax liabilities by €6.0 million and €2.2 million, respectively. Compared to 31 December 2011, accrued expenses for external laboratory funding decreased by €3.7 million to €2.9 million, while accrued expenses for personnel-related costs decreased by €1.3 million to €3.8 million. As of 31 December 2012, current liabilities in the amount of €3.3 million from the discontinued operations of the AbD Serotec segment were reclassified to the line item "liabilities of disposal group classified as held for sale".

The decrease in non-current liabilities in 2012 by €0.9 million to €6.6 million resulted mainly from deferred tax liabilities which decreased by €0.4 million. In addition, non-current liabilities in the amount of €0.4 million from the discontinued operations of the AbD Serotec segment were reclassified to the line item "liabilities of disposal group classified as held for sale".

The line item "liabilities of disposal group classified as held for sale" reported as of 31 December 2012, in the amount of €3.7 million is primarily composed of accounts payable, accrued expenses and accruals amounting to €2.4 million, deferred revenues amounting to €0.4 million as well as deferred tax liabilities amounting to €0.4 million.

EQUITY

Total Group equity amounted to €202.0 million as of 31 December 2012, compared to €197.1 million as of 31 December 2011.

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

The increase of shares outstanding by 154,561 arose from the net effect of exercised stock options and convertible bonds issued to members of the Management Board and employees (246,061 shares) and a repurchase of the Company's own shares (91,500 shares).

In April 2012, the Company repurchased 91,500 MorphoSys shares on the stock market and increased the amount of treasury shares accordingly. The shares will be used to implement the Company's long-term incentive plan for management.

Financing

As of 31 December 2012, the equity ratio of the Company amounted to 90%, compared to an equity ratio of 86% as of 31 December 2011. The Company is currently not financed via financial debt.

Multiple-Year Overview – Balance Sheet Structure

TAB 10 /// MULTIPLE-YEAR OVERVIEW – BALANCE SHEET STRUCTURE

in million €	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Assets					
Current Assets	142.9	153.9	132.5	155.6	150.1
Non-current Assets	40.6	73.7	77.3	50.5	53.2
Assets of Disposal Group Classified as Held for Sale	40.9	0.8	0	0	0
Total	224.3	228.4	209.8	206.1	203.3
Equity and Liabilities					
Current Liabilities	11.9	23.8	21.4	24.3	27.4
Total Non-current Liabilities	6.6	7.5	2.5	7.9	13.9
Liabilities of Disposal Group Classified as Held for Sale	3.7	0	0	0	0
Equity	202.0	197.1	185.9	173.9	162.0
Total	224.3	228.4	209.8	206.1	203.3

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.

Comparison of the Actual Business Results with Forecasts

MorphoSys demonstrated a solid financial performance in the 2012 reporting year. In the fourth quarter, the Company slightly reduced the turnover goal it published at the beginning of 2012. This was in part due to the first commercial agreement for the Ylanthia platform being concluded later than expected. The reported Group turnover of € 51.9 million does not include the turnover of the discontinued operation amounting to € 17.7 million, which is disclosed separately as discontinued operations in accordance with the IFRS 5 accounting standard.

The Management's General Assessment of Business Performance

The Management Board can once again look back on a very solid performance of the MorphoSys Group 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. Excluding the turnover from the AbD Serotec segment, which is disclosed separately as discontinued operations in the Group Consolidated Financial Statements owing to the sale of the segment to Bio-Rad, the turnover of the MorphoSys Group for 2012 amounts to € 51.9 million, 37 % below the likewise adjusted 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 operating profits of € 2.5 million. The equity quota of 90 %, a liquidity position of € 130.4 million (including an interest bearing and assignable loan in the amount of € 10.0 million, excluding € 5.3 million in the discontinued operation) as well as no financial debt whatsoever testify to the Company's thoroughly solid financial situation.

TAB 11 /// COMPARISON OF ACTUAL BUSINESS RESULTS WITH FORECASTS

	2012 Goals	2012 Achievements
Financials	Group revenues of € 70 – 75 million (originally € 75 – 80 million, adjusted in November 2012)	Group revenues of continuing operations € 51.9 million (AbD Serotec segment revenues are disclosed separately as discontinued operation at € 17.7 million)
	Investments in proprietary R&D amounting to € 20 – 25 million	Investments in proprietary R&D amounting to € 21.7 million
	AbD Serotec profit margin of approx. 6 – 8 %	AbD Serotec profit margin of 2 %. The agreed sale of AbD Serotec caused additional transaction costs, which reduced the profit margin.
	EBIT of € 1 – 5 million	EBIT of continuing operations of € 2.5 million (EBIT of AbD Serotec segment is disclosed separately as discontinued operation at € – 0.4 million)
Proprietary R&D	MOR103: • 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: • 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) *in vitro*; presentation of corresponding data at the American Society of Hematology's 2012 annual conference (ASH)
	MOR208: • Conclusion of Xencor-sponsored phase 1 trial on CLL/SLL patients • Start of MorphoSys-sponsored trials in NHL and ALL	MOR208 • 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
Partnered Pipeline	Continuation of development programs with partners	• 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
	1 – 3 IND filings in 2012	One partner program from Novartis started clinical development
AbD Serotec	Profitable growth and focus on diagnostics market	• 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 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 solid operating profits.

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 Judgments

No accounting policies were applied or related options exercised in the Consolidated 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 judgments by the management can be found in the Notes to the Consolidated Financial Statements.

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 (more details on risks and opportunities can be found from page 39).

The Group-wide 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, which applies to all sites. 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 Group'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) (see Strategy and Performance Management from page 10). 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*.

*SEE GLOSSARY /// PAGE 116

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.

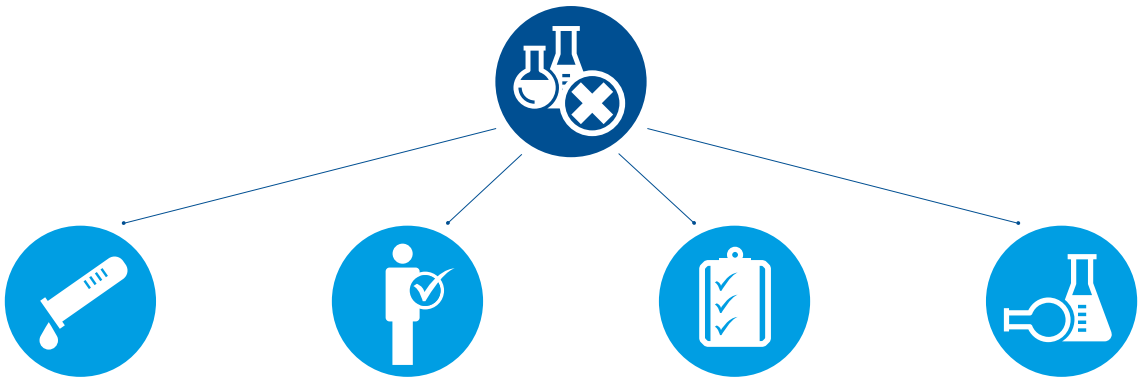
PROCUREMENT

The Central Purchasing & Logistics department was established at the beginning of 2012. The department is responsible for procurement for the Group 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 the MorphoSys Group'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.

FIG 10 /// OCCUPATIONAL SAFETY AT MORPHOSYS



USE OF LOWEST POSSIBLE AMOUNT OF HAZARDOUS SUBSTANCES

ONLY SPECIALLY TRAINED AND SENIOR EMPLOYEES ARE ALLOWED TO WORK WITH TOXIC SUBSTANCES

PATHOGENIC ORGANISMS ARE PROCESSED IN LABORATORIES WITH PARTICULAR SAFETY STANDARDS

INTRODUCTION OF HAZARDOUS MATERIALS FOR R&D PURPOSES:

- Dedicated Biosafety Team according to GenTSV ("Gentechnik-Sicherheitsverordnung") and safety professionals perform internal audit to assess the risk involved
- Specific safety and evacuation trainings for the employees working with the substances
- Assurance that all safety measures are implemented before actual work commences

ONLY CERTIFIED COMPANIES ARE AUTHORIZED BY MORPHOSYS TO DISPOSE CHEMICAL WASTE

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. Additionally, 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 CO_2 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.

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.

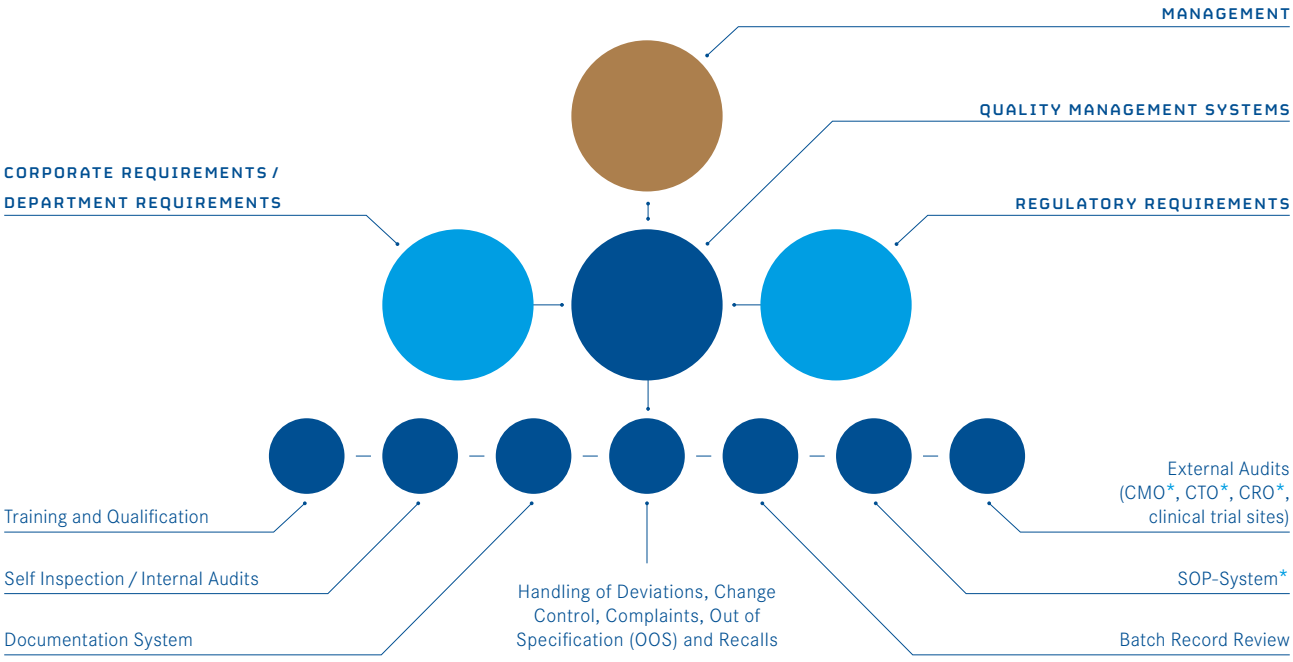
*SEE GLOSSARY /// PAGE 116

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).

For its research and diagnostics businesses, AbD Serotec's manufacturing site is MorphoSys UK Ltd., Oxford. This site is accredited in accordance with the quality management standards ISO (International Organization for Standardization) 9001:2008 and ISO 13485:2003. The US site of AbD Serotec in Raleigh, North Carolina, is also accredited in accordance with ISO 9001:2008, as is the Puchheim site near Munich.

FIG 11 /// QUALITY MANAGEMENT SYSTEMS AT MORPHOSYS



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.

*SEE GLOSSARY /// PAGE 116

INTELLECTUAL PROPERTY

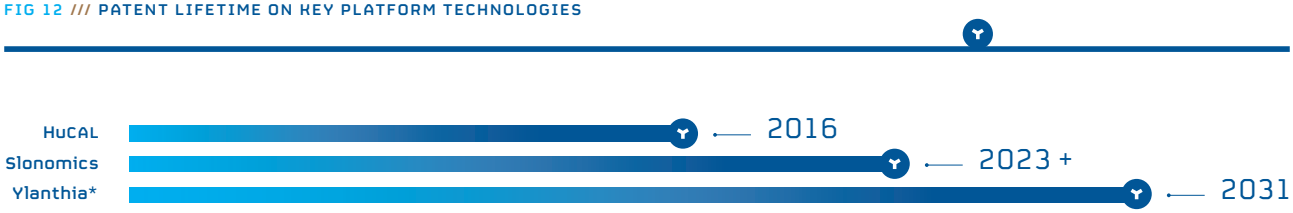
The Company's proprietary technologies and products derived therefrom are its most valuable assets. It is therefore crucial for the Company's success to further secure strong patent protection for its technology portfolio as well as for the MOR103, MOR202 and MOR208 development programs. For partnered 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 12 /// PATENT LIFETIME ON KEY PLATFORM TECHNOLOGIES



* First patent granted in the USA in January 2013

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. At the end of the reporting year, MorphoSys's employees came from 16 different nations.

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.

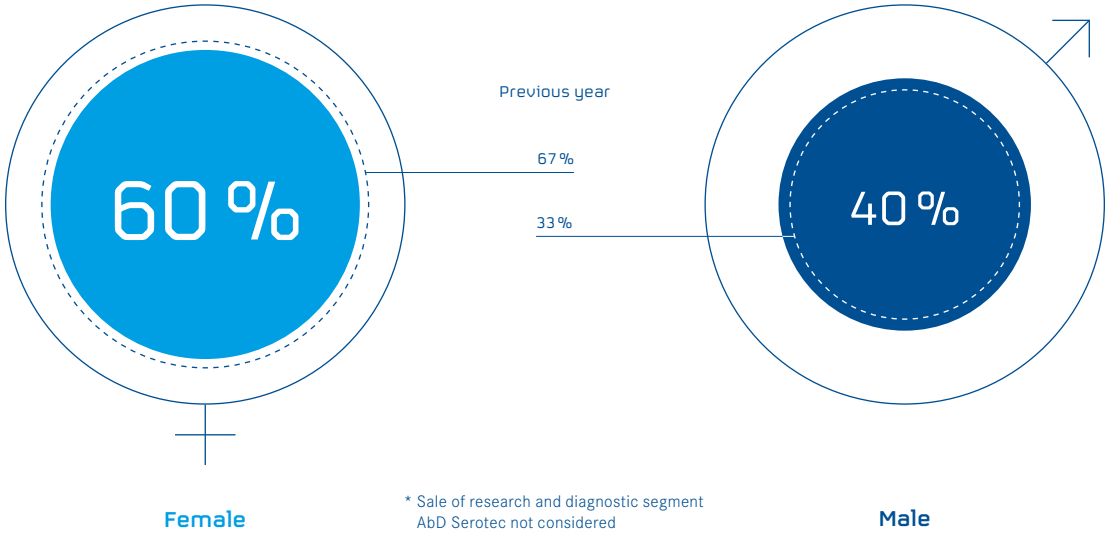
MorphoSys is aware of its social responsibility to young people in particular and so actively contributes by offering vocational training in-house. As far as equal qualification is given, not only students with a high school diploma (Abitur) are employed, but those with other school-leaving qualifications 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 Group 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.

FIG 13 /// WORKFORCE* BY GENDER IN 2012 (2011)



TAB 12 /// ABSENCE RATES AT MORPHOSYS

in %	2012	2011	2010	2009	2008
Germany	3.0	2.7	1.7	2.0	1.3
UK	1.9	1.7	1.7	1.7	1.5
USA	1.1	1.2	1.7	1.1	1.2

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.

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 Group-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.

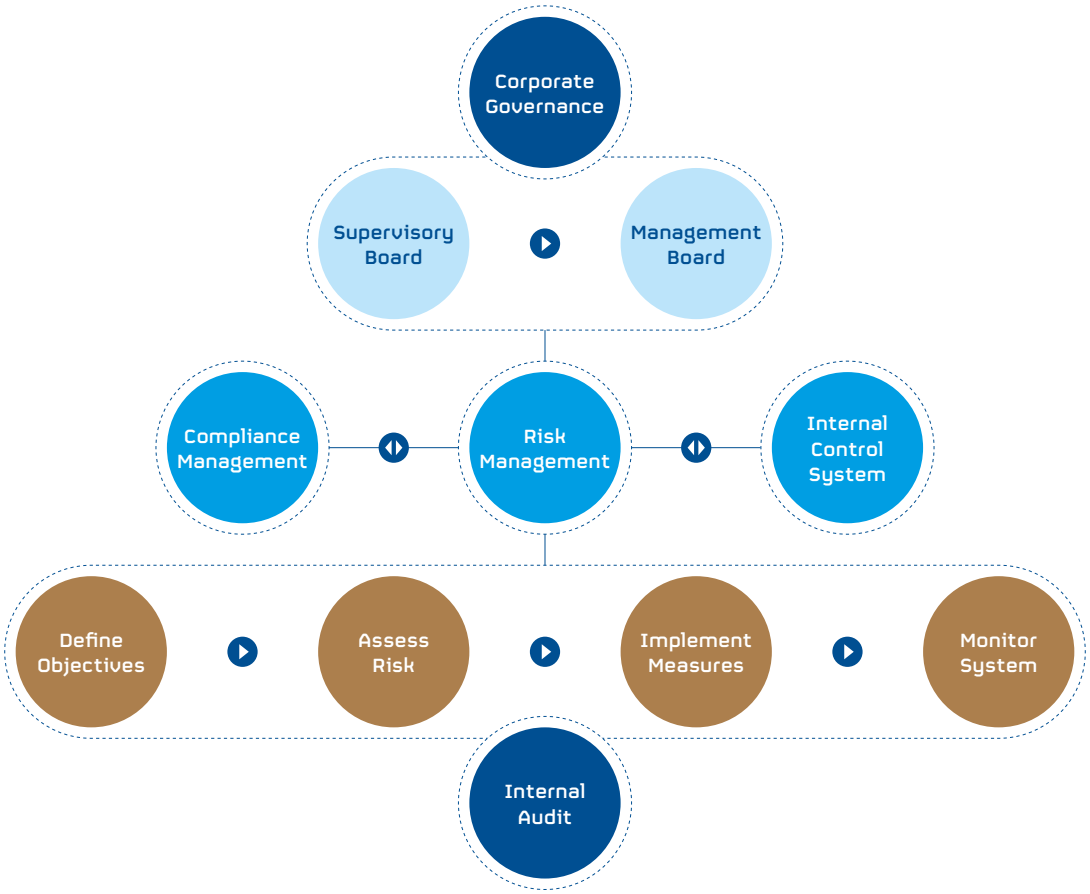
Responsibilities in the Risk and Opportunity Management System

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 department for Corporate Finance & Corporate Development coordinates implementation and regularly reports to the Management Board. The Supervisory Board has tasked the Audit Committee with monitoring the effectiveness of the Group's 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, Group-wide 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 Consolidated Financial Statements and the Group Management Report. This integral element of the consolidated 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 from page 49.

FIG 14 /// MORPHOSYS'S RISK MANAGEMENT SYSTEM



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.

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 the MorphoSys Group 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. 15. 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 to react to possible changes at all times.

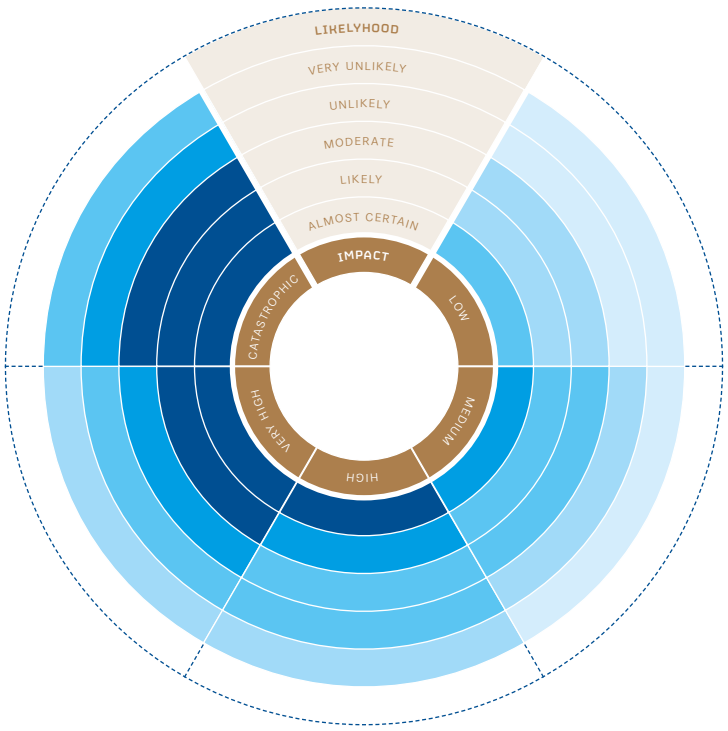
FIG 15 /// **DESCRIPTION OF MAJOR RISKS AT MORPHOSYS** (IN POINTS)

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).

RISK CATEGORIES

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

- Financial risks (risks resulting from e.g. 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)

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 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.

MorphoSys achieved more success than ever during the year with this strategy 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 from page 32.

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 checkups (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 from page 32, 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 THE MORPHOSYS GROUP

The Management Board considers the risks to be manageable and the survival of the MorphoSys Group not to be endangered at the time of the current report. This statement is true for all relevant single entities and for the MorphoSys Group as a whole. 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 that 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 over 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 started 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.

*SEE GLOSSARY /// PAGE 116

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 single 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 the future. 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 technologically leading Company. 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 in December 2012.

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 Group'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. The 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.

Through the implementation of IFRS 5, substantially all of the contribution to results from AbD Serotec was already disclosed separately as discontinued operations in the 2012 financial year. In 2012, AbD Serotec contributed sales amounting to €18.0 million to Group revenues and a segment result of €0.3 million.

The transaction means that the Group workforce will decrease by 135 employees in 2013.

The subsidiaries MorphoSys AbD GmbH, MorphoSys UK Ltd. and MorphoSys US Inc. were taken over by Bio-Rad and will be separated from the Group.

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

The MorphoSys Group 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 Group'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 to gain 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 product sales from 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 euro zone 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, with the OECD expecting economic growth of 0.5 %.

In the USA, the imminent fiscal cliff was narrowly avoided. Economic recovery is expected, resulting in a 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 Group's workforce is reduced by 135 positions due to the sale of substantially all of AbD Serotec to Bio-Rad. The Group's workforce in both remaining segments is, however, 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 clinical development of the most advanced drug candidates and in 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 AbD Serotec, the Management Board anticipates total Group 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 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 Group operating expenses are expected to increase to € 70 million to € 74 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 € 32 million to € 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. The EBIT for continuing operations is expected to be between € -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 Group's fiscal performance in the years to come. Such results could lead to significant outperformance of the Company's financial goals. Failures of drug development programs could have a negative impact on the MorphoSys Group. 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.

In 2013, a profit contribution before taxes in the amount of € 4 million to € 6 million from the discontinued segment AbD Serotec is expected, comprising mainly a deconsolidation gain and transaction costs.

At the end of the 2012 financial year, MorphoSys's cash position amounted to € 135.7 million (31 December 2011: € 134.4 million), including an interest-bearing transferable loan amounting to € 10.0 million as well as liquid funds from the AbD Serotec segment in the amount of € 5.3 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 > Corporate Governance Report.

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 Group, 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 procedure 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.

*SEE GLOSSARY /// PAGE 116

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 14.

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.

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, please refer to section 29 (Related Parties) of the Notes to the Consolidated 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, which can be found in table 15.

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.

TAB 13 /// COMPOSITION OF THE SUPERVISORY BOARD THROUGH ANNUAL GENERAL MEETING ON 31 MAY 2012

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

INDEPENDENT FINANCIAL EXPERT CHAIRMAN MEMBER

* Period ends with termination of Annual General Meeting

TAB 14 /// COMPOSITION OF THE SUPERVISORY BOARD FROM 31 MAY 2012

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

INDEPENDENT FINANCIAL EXPERT CHAIRMAN MEMBER

* Period ends with termination of Annual General Meeting

TAB 15 /// 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 €	Transaction 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

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.

ACCOUNTING AND STATUTORY AUDIT

MorphoSys AG prepares its Consolidated Financial Statements and quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS). The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as these must be applied in the European Union.

At the Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2012 financial statements and Consolidated Financial Statements. The Supervisory Board had confirmed the auditor's independence in advance.

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 Group 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

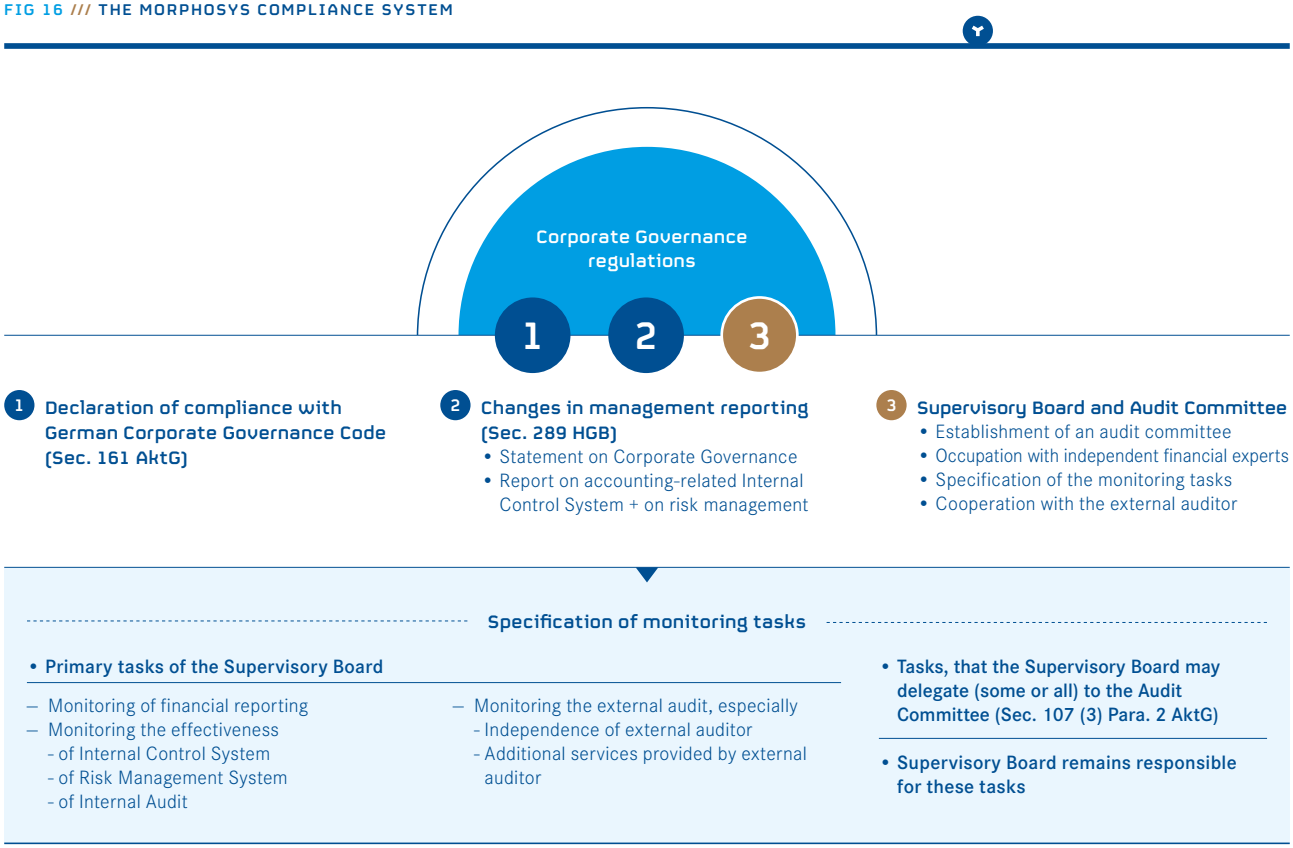
INTERNAL CONTROL SYSTEM

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 IFRS (International Financial Reporting Standards) as adopted by the European Union.

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 consolidated 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.

FIG 16 /// THE MORPHOSYS COMPLIANCE SYSTEM



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 the MorphoSys Group 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.

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.

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 aeas for improvement were identified and appropiate 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" (from page 39).

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.

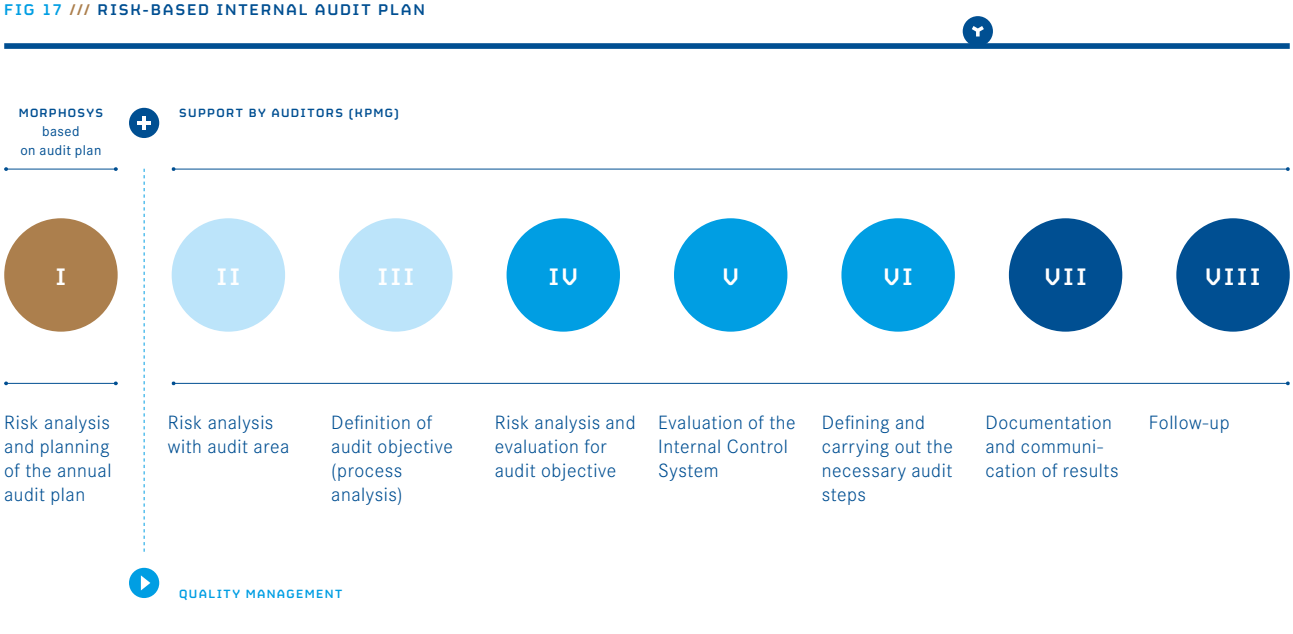
Remuneration Report

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.

FIG 17 /// RISK-BASED INTERNAL AUDIT PLAN



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 16A /// 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 €	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 16B /// 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	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 COMPENSATION (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 Section 29 of the Notes to the Consolidated 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 17 /// COMPENSATION OF THE SUPERVISORY BOARD

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	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
** Member of the Supervisory Board of MorphoSys AG since 31 May 2012

Information in accordance with Sec. 315 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, and subsequently in 2007. 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.

CONTENTS

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement (IFRS)*

in €	Note	2012	2011
Continuing Operations			
Revenues	2.7, 4	51,916,986	82,077,245
Operating Expenses			
Cost of Goods Sold	2.8, 3	0	0
Research and Development		37,673,345	55,878,828
Sales, General and Administrative		12,081,649	14,930,403
Total Operating Expenses		49,754,994	70,809,231
Other Income	6	415,477	533,502
Other Expenses	6	85,454	2,007,934
Earnings before Interest and Taxes (EBIT)		2,492,015	9,793,582
Finance Income	6	658,991	1,453,616
Finance Expenses	6	98,931	54,197
Income Tax Expenses	7	(685,812)	(2,990,914)
Profit for the Year from Continuing Operations		2,366,263	8,202,087
(Loss) / Profit for the Year from Discontinued Operations	17	(424,118)	14,310
Consolidated Net Profit		1,942,145	8,216,397
Basic Net Profit per Share	8	0.08	0.36
thereof from Continuing Operations	8	0.10	0.36
thereof from Discontinued Operations	8	(0.02)	0.00
Diluted Net Profit per Share	8	0.08	0.36
thereof from Continuing Operations	8	0.10	0.35
thereof from Discontinued Operations	8	(0.02)	0.00
Shares Used in Computing Basic Net Profit per Share	8	23,004,894	22,887,723
Shares Used in Computing Diluted Net Profit per Share	8	23,260,360	23,126,158

See accompanying Notes

* Due to the Agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the segment AbD Serotec, for the years 2012 and 2011, revenue, income and expenses in connection with the transaction are shown in the line item 'Profit for the Year from Discontinued Operations'. All other line items above 'Net Profit' consist of amounts from continuing operations. See also note 17 of these Notes.

Consolidated Statement of Comprehensive Income (IFRS)

in €	2012	2011
Consolidated Net Profit	1,942,145	8,216,397
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets	(178,483)	(260,949)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	420,546	(886,717)
Deferred Taxes	46,995	68,708
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets, Net of Deferred Tax	(131,488)	(192,241)
Effects from Equity-related Recognition of Deferred Taxes	6,005	76,798
Foreign Currency Gain from Consolidation	182,460	247,307
Comprehensive Income	1,999,122	8,348,261
thereof from Continuing Operations	2,234,775	8,009,846
thereof from Discontinued Operations	(235,653)	338,415

See accompanying Notes

Consolidated Balance Sheet (IFRS)

in €	Note	12/31/2012*	12/31/2011**
ASSETS			
Current Assets			
Cash and Cash Equivalents	9, 21	40,689,865	54,596,099
Available-for-sale Financial Assets	10, 21	79,722,222	79,768,563
Accounts Receivable	11, 21	8,924,197	12,203,237
Tax Receivables	13	109,789	215,620
Other Receivables	12	10,297,901	375,360
Inventories, Net	13	757,386	3,281,240
Prepaid Expenses and Other Current Assets	13	2,357,163	3,467,402
Total Current Assets		142,858,523	153,907,521
Non-current Assets			
Property, Plant and Equipment, Net	14	3,191,837	6,106,318
Patents, Net	15	8,666,367	9,459,580
Licenses, Net	15	7,128,425	9,551,394
Intangible Assets under Development	15	10,513,100	10,513,100
Software, Net	15	1,351,932	1,055,405
Know-how and Customer Lists, Net	15	0	1,341,159
Goodwill	15, 18	7,352,467	34,107,455
Shares available for Sale, net of Current Portion		881,633	0
Deferred Tax Asset	7	0	164,949
Prepaid Expenses and Other Assets, Net of Current Portion	13, 16	1,489,063	1,418,542
Total Non-current Assets		40,574,825	73,717,902
Assets of Disposal Group Classified as Held for Sale	17	40,855,433	785,027
TOTAL ASSETS		224,288,780	228,410,450

See accompanying Notes

* Due to the Agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the segment AbD Serotec, for the year 2012, current and non-current assets in connection with the transaction are shown in the line item 'Assets of Disposal Group Classified as Held for Sale'. See also note 17 of these Notes.

** No reclassification of assets for the disposal group was necessary for the year 2011.

in €	Note	12/31/2012*	12/31/2011**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	19, 21	10,660,090	19,110,798
Tax Liabilities	7, 20	629,686	3,026,597
Provisions	20	0	275,000
Current Portion of Deferred Revenue	2.7	628,167	1,338,282
Total Current Liabilities		11,917,943	23,750,677
Non-current Liabilities			
Provisions, Net of Current Portion	20	187,521	108,145
Deferred Revenue, Net of Current Portion	2.7	5,915,102	6,047,253
Convertible Bonds due to Related Parties	23	73,607	73,607
Deferred Tax Liability	7	452,074	1,295,174
Total Non-current Liabilities		6,628,304	7,524,179
Liabilities of Disposal Group Classified as Held for Sale		3,732,516	0
Total Liabilities		22,278,763	31,274,856
Stockholders' Equity	22, 23, 24, 26		
Common Stock		23,358,228	23,112,167
Ordinary Shares Authorized (43,142,455 and 43,047,264 for 2012 and 2011, respectively)			
Ordinary Shares Issued (23,358,228 and 23,112,167 for 2012 and 2011, respectively)			
Ordinary Shares Outstanding (23,102,813 and 22,948,252 for 2012 and 2011, respectively)			
Treasury Stock (255,415 and 163,915 shares for 2011 and 2011, respectively), at Cost		(3,594,393)	(1,756,841)
Additional Paid-in Capital		175,245,266	170,778,474
Revaluation Reserve		486,743	612,227
Translation Reserve		(1,109,865)	(1,292,326)
Accumulated Income		7,624,038	5,681,893
Total Stockholders' Equity		202,010,017	197,135,594
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**224,288,780**	**228,410,450**

See accompanying Notes

* Due to the Agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the segment AbD Serotec, for the year 2012, current and non-current liabilities in connection with the transaction are shown in the line item 'Liabilities of Disposal Group Classified as Held for Sale'. See also note 17 of these Notes.

** No reclassification of liabilities for the disposal group was necessary for the year 2011.

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock	
	Shares	€
BALANCE AS OF 1 JANUARY 2011	**22,890,252**	**22,890,252**
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties	221,915	221,915
Repurchase of Treasury Stock	0	0
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Consolidated Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF 31 DECEMBER 2011	**23,112,167**	**23,112,167**
BALANCE AS OF 1 JANUARY 2012	**23,112,167**	**23,112,167**
Compensation Related to the Grant of Stock Options and Convertible Bonds	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties	246,061	246,061
Repurchase of Treasury Stock	0	0
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets, Net of Deferred Tax	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Consolidated Net Profit for the Period	0	0
Comprehensive Income	0	0
BALANCE AS OF 31 DECEMBER 2012	**23,358,228**	**23,358,228**

See accompanying Notes

Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Income	Total Stockholders' Equity
Shares	€	€	€	€	€	€
79,896	**(9,774)**	**166,388,083**	**727,669**	**(1,539,632)**	**(2,534,504)**	**185,922,094**
0	0	1,488,342	0	0	0	1,488,342
0	0	2,902,049	0	0	0	3,123,964
84,019	(1,747,067)	0	0	0	0	(1,747,067)
0	0	0	(192,241)	0	0	(192,241)
0	0	0	76,798	0	0	76,798
0	0	0	0	247,307	0	247,307
0	0	0	0	0	8,216,397	8,216,397
0	**0**	**0**	(115,443)	247,307	8,216,397	8,348,261
163,915	**(1,756,841)**	**170,778,474**	**612,226**	**(1,292,325)**	**5,681,893**	**197,135,594**
163,915	**(1,756,841)**	**170,778,474**	**612,226**	**(1,292,325)**	**5,681,893**	**197,135,594**
0	0	1,268,792	0	0	0	1,268,792
0	0	3,198,000	0	0	0	3,444,061
91,500	(1,837,552)	0	0	0	0	(1,837,552)
0	0	0	(131,488)	0	0	(131,488)
0	0	0	6,005	0	0	6,005
0	0	0	0	182,460	0	182,460
0	0	0	0	0	1,942,145	1,942,145
0	**0**	**0**	(125,483)	182,460	1,942,145	1,999,122
255,415	**(3,594,393)**	**175,245,266**	**486,743**	**(1,109,865)**	**7,624,038**	**202,010,017**

Consolidated Statement of Cash Flows (IFRS)*

in €	Note	2012	2011
OPERATING ACTIVITIES:			
Consolidated Net Profit		1,942,145	8,216,397
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Impairment of Assets	14, 15	180,237	236,362
Depreciation and Amortization of Tangible and Intangible Assets	14, 15	6,310,535	6,628,779
Net Gain on Sales of Financial Assets	10	(480,912)	(1,085,911)
Purchases of Derivative Financial Instruments	12	(40,870)	(220,921)
Proceeds from the Disposal of Derivative Financial Instruments	12	0	386,208
Unrealized Net (Gain) / Loss on Derivative Financial Instruments	12	40,870	(20,993)
Loss / (Gain) on Sale of Property, Plant and Equipment/Intangible Assets		4,319	(44,216)
Net Gain on Sale of Assets Classified as Available for Sale	17	(5,547)	0
Recognition of Deferred Revenue	2.7	(20,088,086)	(19,980,232)
Stock-based Compensation	23, 24, 25, 26	1,348,167	1,538,807
Income Tax Expenses	7	467,199	3,190,278
Changes in Operating Assets and Liabilities:			
Accounts Receivable	11	1,575,045	2,839,264
Prepaid Expenses, Other Assets and Tax Receivables	13	(495,812)	(34,967)
Accounts Payable and Accrued Expenses and Provisions	19, 20	(8,461,445)	3,501,662
Other Liabilities		101,112	(80,312)
Deferred Revenue	2.7	19,680,503	23,493,407
Interest Paid		(744)	(3,459)
Interest Received		179,588	361,916
Income Taxes Paid		(466,290)	(1,851,609)
Net Cash Provided by Operating Activities	21	1,790,014	27,070,459
thereof from Continuing Operations		740,608	25,436,061
thereof from Discontinued Operations	17	1,049,406	1,634,398

See accompanying Notes

* Due to the Agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the segment AbD Serotec, for the years 2012 and 2011, items in connection with the transaction are shown in the respective 'thereof from Discontinued Operations' line item. The main line items show the amounts for the Group. See also note 17 of these Notes.

in €	Note	2012	2011
INVESTING ACTIVITIES:			
Purchases of Financial Assets	10	(30,768,599)	(50,686,269)
Proceeds from Sales of Financial Assets	10	31,053,715	36,046,710
Purchase of Assets Classified as Loans and Receivables	12	(10,000,000)	0
Purchase of Shares Classified as Available for Sale	2.16	(881,633)	0
Purchases of Property, Plant and Equipment	14	(1,016,539)	(2,320,353)
Proceeds from Disposals of Property, Plant and Equipment		0	152,081
Purchases of Intangible Assets	15	(1,294,661)	(1,284,629)
Proceeds from Disposal of Assets Classified as Available for Sale	17	816,591	0
Net Cash Used in Investing Activities	21	(12,091,126)	(18,092,460)
thereof from Continuing Operations		(11,824,020)	(17,512,260)
thereof from Discontinued Operations	17	(267,106)	(580,200)
FINANCING ACTIVITIES:			
Repurchase Treasury Stock	22	(1,837,552)	(1,747,066)
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties	22, 23, 24	3,444,061	3,139,488
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		0	(53,986)
Net Cost of Share Issuance		0	(15,500)
Net Cash Provided by Financing Activities		1,606,509	1,322,936
thereof from Continuing Operations		1,606,509	1,322,936
thereof from Discontinued Operations	17	0	0
Effect of Exchange Rate Differences on Cash		69,344	176,713
Increase in Cash and Cash Equivalents		(8,625,259)	10,477,648
Cash and Cash Equivalents at the Beginning of the Period		54,596,099	44,118,451
Cash and Cash Equivalents at the End of the Period	9	45,970,840	54,596,099
thereof included in Cash and Cash Equivalents		40,689,865	54,596,099
therof included in Assets of Disposal Group Classified as Held for Sale	17	5,280,975	0

See accompanying Notes

Notes

1 General Information

1.1 BUSINESS AND ORGANIZATION

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

1.2 CONSOLIDATED COMPANIES

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

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

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

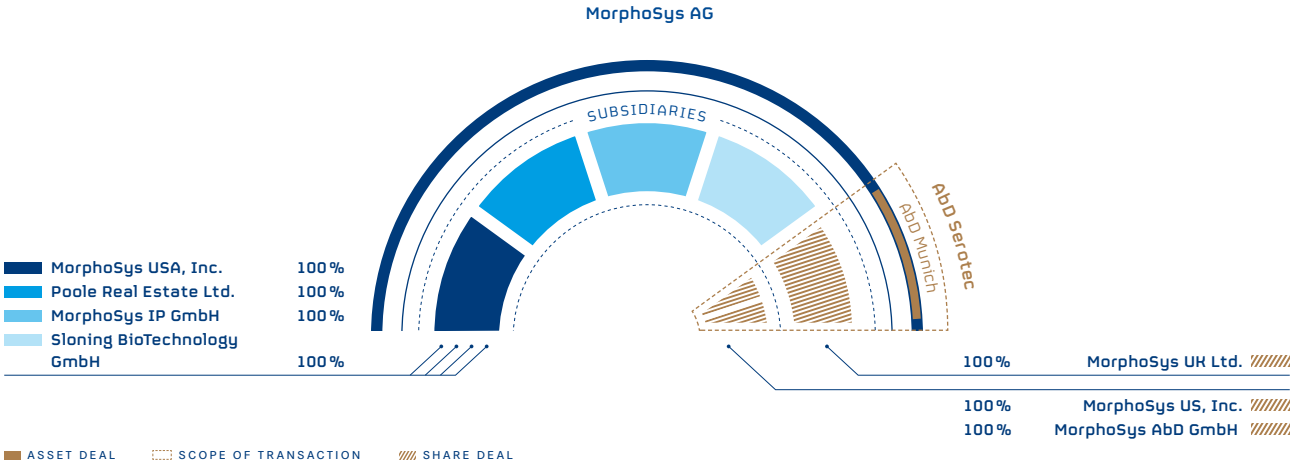
In January 2005, MorphoSys acquired Biogenesis Ltd., Poole, UK, and Biogenesis, Inc., New Hampshire, USA. Biogenesis UK was first renamed MorphoSys UK Ltd. and in 2007 again renamed Poole Real Estate Ltd. Biogenesis, Inc. was renamed MorphoSys US, Inc. and merged into Serotec, Inc. The merged entity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

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

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

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

FIG 18 /// LEGAL STRUCTURE OF THE MORPHOSYS GROUP



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. Hence, at 31 December 2012, substantially all of the AbD Serotec segment was classified as discontinued operation in accordance with IFRS 5, hereinafter referred to as "discontinued operation". The operating segments Partnered Discovery and Proprietary Development as well as the non-discontinued operations of the AbD Serotec segment qualified as "continued operations" as of the balance sheet date. The presentation of the net assets, the financial position and the results of operations of MorphoSys Group follows the basic concept of IFRS 5 in this respect.

MorphoSys IP GmbH applied sec. 264 para. 3 of the German Commercial Code (HGB). For this reason, no separate financial statements for the year 2012 are published in the Federal Gazette for MorphoSys IP GmbH.

The consolidated financial statements for the year ended 31 December 2012 were authorized for issuance in accordance with a resolution of the Management Board on 18 February 2013. The Management Board is represented by Dr. Simon E. Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer) and Dr. Arndt Schottelius (Chief Development Officer). The Supervisory Board is empowered to amend the financial statements after the resolution of the Management Board. The registered offices of the MorphoSys Group's headquarters are located at Lena-Christ-Straße 48, 82152 Martinsried, Germany.

2 Summary of Significant Accounting Policies

2.1 BASIS OF PREPARATION AND CHANGE IN PRESENTATION

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

The consolidated financial statements of the Company for the year ended 31 December 2012 comprise MorphoSys AG and its subsidiaries (together referred to as the "MorphoSys Group" or the "Group").

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

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

In 2012, MorphoSys changed the structuring of its income statement, now presenting EBIT rather than operating profit to increase comparability with its peer companies. From Q1 2012 onwards, EBIT does no longer include gains/losses on marketable securities, gains/losses on derivatives and bank fees. These items are now presented together with interest income/expenses as "Finance Income" and "Finance Expenses", respectively. "Other Income" and "Other Expenses" mainly comprise gains and losses resulting from foreign exchange effects as well as income from governmental grants. To provide comparative information, prior year's figures were adjusted accordingly.

In 2011, the Group reported 'Assets Classified as Held for Sale' within Current Assets in the balance sheet. In 2012, this item is reported in the new line item 'Assets of Disposal Group Classified as Held for Sale' together with the assets belonging to the discontinued operations – substantially all of the segment AbD Serotec. To provide better transparency, prior year's figures were adjusted accordingly. As of 31 December 2011, the 'Assets of Disposal Group Classified as Held for Sale' comprised the commercial real estate owned by the subsidiary, Poole Real Estate Ltd., Poole, UK, with a net book value of € 0.8 million (31 December 2012: 0 €). In March 2012, MorphoSys sold this real estate for € 0.8 million.

To provide better transparency, the presentation of reserves within the balance sheet was divided into 'Revaluation Reserve' and 'Translation Reserve'. To provide comparative information, prior year's figures were adjusted accordingly.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

- The amendments to IFRS 7 "Financial instruments: Disclosures" to additional disclosure obligations relating to the transfer of financial assets have no impact on the Group.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2012 AND NOT EARLY ADOPTED

- IFRS 1 "First-time Adoption": The aim of the amendment is the introduction of a new exemption clause for the scope of IFRS 1: Entities which have been subject to hyperinflation, are allowed to present in the IFRS opening balance the fair values of their assets and liabilities instead of their amortized costs. A further amendment related to the formerly used reference to the date 1 January 2004 as fixed transition date; this formulation was replaced through the general formulation "date of transition to IFRS". The Group is yet to assess the full impact of IFRS 1 and intends to adopt IFRS 1 no later than the accounting period beginning on or after 1 January 2013.
- Amendments to IFRS 7 "Financial instruments: Disclosures": IFRS 7 regulates disclosures on financial instruments. The amendment relates to the netting of financial assets and financial liabilities. This relates especially to all recognized assets, which are netted in accordance with IAS 32.42. In accordance with the new disclosure obligations of IFRS 7, the gross amounts before settlement as well as the net amounts after settlement shall be disclosed in accordance with IAS 32.42. Furthermore, the entity shall made disclosures on financial instruments, whose liquidation is subject to claimable global offset conditions or similar liabilities to provide a better traceability of netting activities. The Group is yet to assess the full impact of IFRS 7 and intends to adopt IFRS 7 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 10 „Consolidated Financial Statements": This standard replaces the consolidation guidance in IAS 27 and SIC-12 by introducing one single consolidation model for all companies, which is based on the concept of control, regardless of the type of invested company (regardless of the type, how the invested company is controlled, either by voting rights from the investor or contractual obligations, as it is standard in case of special purpose entities). The standard replaces the provisions of IAS 27 "Separate Financial Statements" as well as the provisions of SIC-12 "Consolidation – special purpose entities". Therefore, IAS 27 will treat regulations concerning individual financial statements prospectively and is referred to as "Separate Financial Statements". Main focus of IFRS 10 is the introduction of a standard consolidation model for all entities, which is focused on the control of the subsidiary. The new concept of a single definition for the term "control" determines in the future, whether an entity must be consolidated. The definition provides guidelines about how the reporting company (investor) controls another company (associate company) and therefore a consolidation should take place. The Group is yet to assess the full impact of IFRS 10 and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.
- IFRS 11 „Joint Arrangements ": IFRS 11 introduces new guidelines for handling joint arrangements, and replaces IAS 31 "Interests in Joint Ventures" and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Partner Companies. The standard introduces new requirements on the identification, classification and accounting for jointly controlled operations. The proportional consolidation method handling the accounting of jointly controlled entities was cancelled. In addition to that, IFRS 11 comprises guidelines for joint operations and joint ventures, as jointly controlled assets were abolished. Focusing on the economic dimension, the classification is done in accordance with the type of rights and obligations arising from agreements. The Group is yet to assess the full impact of IFRS 11 and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2014.
- IFRS 12 "Disclosure of Interests in Other Entities": IFRS 12 merges the revised disclosure requirements for all forms of participation including joint arrangements, associated companies, special purpose entities and other non-consolidated participations. IFRS 12 improves disclosures for consolidated as well as for non-consolidated companies, in which the Company is invested. The standard requires more extensive as well as more meaningful notes than IAS 27. For example, notes regarding the type, size and importance of the relationship to other companies, including consolidated and non-consolidated companies (special purpose entities), are mandatory. The Group is yet to assess the full impact of IFRS 12 and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.
- IFRS 13 "Fair Value Measurement": IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for the application of all International Financial Reporting Standards. The amendment aims to clarify how a fair value measurement shall be performed. Various IFRSs contain guidance on the valuation of specific accounting issues or items. The Group is yet to assess the full impact of IFRS 13 and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- IAS 1 "Presentation of Financial Statements": The main impact resulting from the amendments of IAS 1 is the requirement for the entities to classify the items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially re-classifiable to profit or loss at a later point in time (reclassification adjustments). The amendments do not address which items are presented in OCI. The presentation of components of OCI, which are reclassified to profit and loss in later periods, and components of OCI, which are not re-classified, shall be done separately from now on. Income taxes in case of a pre-tax presentation shall be treated accordingly. Income taxes shall be presented separately as re-classifiable and non re-classifiable items. The option to present OCI items before or after tax will remain. The amendments of IAS 1 have to be implemented for accounting periods beginning on or after 1 July 2012. The Group is yet to assess the full impact of these amendments and intends to adopt IAS 1 no later than the accounting period beginning on or after 1 July 2012.
- IAS 12 „Income Tax": A company is obliged (with few exceptions) to account for deferred tax liabilities/assets to the extent that the recovery of the carrying amount of the asset or the liability would result in higher/lower tax payments in the future. The amendment offers a practical solution for the question whether the carrying amount of an asset is recovered by way of usage or disposal. It is a rebuttable presumption that the recovery of the carrying amount usually happens by way of disposal. The Group is yet to assess the full impact of IAS 12 and intends to adopt IAS 12 no later than the accounting period beginning on or after 1 January 2013.
- IAS 19 "Employee Benefits": The most significant amendment of IAS 19 is the direct recognition of unexpected future changes of pension obligations as well as eventual changes in plan assets, so-called actuarial gains or losses, in other comprehensive income (OCI). The previous choice between a direct recognition in profit and loss, in other comprehensive income (OCI), or the time-delayed recognition in accordance with the so-called corridor method, are abolished. The Group is yet to assess the full impact of IAS 19 and intends to adopt IAS 19 no later than the accounting period beginning on or after 1 January 2013.
- IAS 27 „Separate Financial Statements": IAS 27 (revised 2011) comprises all guidelines applying to separate financial statements, which remained after having included the consolidation guidance in IFRS 10 "Consolidated Financial Statements" which was previously contained in IAS 27. Amendments to IFRS 12 also have an impact on IAS 27. The Group is yet to assess the full impact of IAS 27 and intends to adopt IAS 27 no later than the accounting period beginning on or after 1 January 2014.
- IAS 28 "Investments in Associates": IAS 28 (revised 2011) includes the guidance for the share in joint ventures as well as associates, which are measured by using the equity method in accordance with IFRS 11. In future periods, joint ventures have to be accounted for by using the equity method in accordance with IAS 28, because the proportionate consolidation of jointly operated companies in IFRS 11 was abandoned. Additional amendments to IAS 28 ensure that - in case of planned partial sales of an associate or a joint venture - the respective disposal group has to be presented in accordance with IFRS 5 "Non-current Assets held for Sale and Discontinued Operations", provided that the classification requirements of IFRS 5 are met. The Group is yet to assess the full impact of IAS 28 and intends to adopt IAS 28 no later than the accounting period beginning on or after 1 January 2014.
- IAS 32 "Financial Instruments – Presentation": IAS 32 deals with the presentation and disclosure of all types of financial instruments. Additional disclosure requirements implemented in IFRS 7will come into effect in order to facilitate a comparison with US standards. The established netting model will remain in place. The amendment affects the two requirements of IAS 32.42 regarding a netting:
  - For netting a financial asset and a financial liability, the right to offset shall not depend on future events and shall remain in place even in the event of insolvency and bankruptcy of the business partner.
  - In the event that transactions with financial instruments are handled via settlement systems (e. g. a clearing house), the netting of financial assets and financial liabilities requires that the transaction takes place without the occurrence of any credit and liquidity risks and within the same settlement process or settlement cycle.

  The amendments to IAS 32 have to be applied retrospectively, that is by adjusting the comparative figures for financial years beginning on or after 1 January 2014. The Group is yet to assess the full impact of these amendments and intends to adopt IAS 32 no later than the accounting period beginning on or after 1 January 2014.
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine": It is expected that the amendments have to be applied to financial years beginning on or after 1 January 2013. The interpretation deals with the recognition and valuation of stripping costs incurred during the production phase of a surface mine. After examination of IFRIC 20, the Group does not expect that the amendments will have any impact on the Group.

NEW AND AMENDED STANDARDS DISCLOSED BUT NOT YET ENDORSED BY THE EUROPEAN UNION ("ENDORSEMENT")

- Amendments to IFRS 1 "First-time Adoption" - government grants: It is expected that the amendments have to be applied to financial years beginning on or after 1 January 2013. The Group is yet to assess the full impact of IFRS 1.
- IFRS 9 "Financial Instruments", amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" - mandatory effective date and transition disclosures: It is expected that the amendments have to be applied to financial years beginning on or after 1 January 2015. The Group is yet to assess the full impact of IFRS 9 and the impact of the amendments.

- Amendments to transitional provisions relating to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities": It is expected that the amendments have to be applied to financial years beginning on or after 1 January 2013. The Group is yet to assess the full impact of the amendments.
- Amendments to transitional provisions relating to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Consolidated and Separate Financial Statements" – investment entities: It is expected that the amendments have to be applied to financial years beginning on or after 1 January 2014. The Group is yet to assess the full impact of the amendments.
- Annual improvements of the International Financial Accounting Standards (May 2012): It is expected that the amendments have to be applied to financial years beginning on or after 1 January 2013. The Group is yet to assess the full impact of the amendments.

2.3 BASIS OF CONSOLIDATION

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

2.4 BUSINESS COMBINATIONS

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

2.5 FOREIGN CURRENCY TRANSLATION

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

2.6 INTEREST

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

2.7 REVENUE RECOGNITION

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

LICENSE AND MILESTONE FEES

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

SERVICE FEES

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

SALE OF GOODS

Revenue from the sale of goods in the AbD Serotec segment is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

If it is probable the discounts will be granted and the amount can be reliably determined, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

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

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

2.8 EXPENSES

COST OF GOODS SOLD

Cost of goods sold comprises the cost of manufactured products and the acquisition cost of purchased goods which have been sold. Cost of goods sold are derived from the discontinued operations of the segment AbD Serotec.

STOCK-BASED COMPENSATION

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

OPERATING LEASE PAYMENTS

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

2.9 GOVERNMENT GRANTS

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

2.10 INTEREST INCOME

Interest income is recognized in 'Finance Income' in the income statement as it occurs, taking into account the effective yield of the asset.

2.11 INTEREST EXPENSE

Borrowing costs are expensed when incurred and are included in 'Finance Expenses' in the income statement.

2.12 INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognized in the income statement unless it relates to items recognized directly in equity.

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

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

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

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

2.13 EARNINGS PER SHARE

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

2.14 CASH AND CASH EQUIVALENTS

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

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

2.15 DERIVATIVE FINANCIAL INSTRUMENTS

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

2.16 NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

The Group accounts for its investment in debt and equity securities in accordance with IAS 39. Management determines the proper classification of financial assets at the time of purchase and re-evaluates such designations as of each balance sheet date. The classification depends on the purpose for which the financial assets were acquired. As of 31 December 2012, and as of 31 December 2011, some financial assets held by the Group have been classified as available-for-sale. These financial assets are recognized or de-recognized by the Group on the date it commits itself to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in the revaluation reserve within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the income statement.

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

MorphoSys acquired a share in the privately held, Dutch company, Lanthio Pharma B.V., the Netherlands, located in Groningen in November 2012. The Group holds an interest of 19.98 % in the company's share capital as of the balance sheet date 31 December 2012. The interest is measured at amortized cost and the financial instrument is shown in the "available for sale" category.

2.17 ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

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

*CROSS-REFERENCE /// SEE PAGE 79

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less provision for impairment. An interest-bearing bonded loan was granted in the financial year 2012. This financial instrument was assigned to the "loans and receivables" category.

2.18 INVENTORY

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

2.19 PROPERTY, PLANT AND EQUIPMENT

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

*CROSS-REFERENCE /// SEE PAGE 101 AND PAGE 79

Asset Class	Useful Life
Computer Hardware	3 years
Low-value Laboratory and Office Equipment below € 150	Immediately
Low-value Laboratory and Office Equipment between € 150 and € 1,000	5 years
Permanent Improvements to Property/Buildings	10 years
Office Equipment	8 years
Laboratory Equipment	4 years

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

2.20 INTANGIBLE ASSETS

RESEARCH AND DEVELOPMENT

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

PATENT COSTS

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

*CROSS-REFERENCE /// SEE PAGE 79

LICENSE RIGHTS

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

SOFTWARE

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

*CROSS-REFERENCE /// SEE PAGE 79

WEBSITE

Costs related to website development completed during the year 2012 are stated at cost less accumulated amortization and are shown within discontinued operations. Amortization is recognized on a straight-line basis over the estimated useful life of four years and is accounted for as expense in the income statement. Amortization begins at the date when the intangible asset is ready to operate.

KNOW-HOW AND CUSTOMER LISTS

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

INTANGIBLE ASSETS UNDER DEVELOPMENT

This item contains an upfront payment from the in-licensing of a compound for the segment Proprietary Development. The asset is stated at cost and not yet available for use and therefore not subject to amortization. As of 31 December 2012, the asset has been tested for impairment as required by IAS 36.

GOODWILL

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

*CROSS-REFERENCE /// SEE PAGE 95

SUBSEQUENT EXPENDITURE

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

2.21 IMPAIRMENT

NON-DERIVATIVE FINANCIAL ASSETS

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

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

RECEIVABLES

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

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

NON-FINANCIAL ASSETS

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

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

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

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

2.22 SHARE CAPITAL

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

2.23 TRADE AND OTHER PAYABLES, PROVISIONS

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

2.24 CONVERTIBLE BONDS

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

2.25 ASSETS AND LIABILITIES HELD FOR SALE

Disposal groups are classified as held for sale when it is expected that the carrying amount of the disposal group will be recovered through a sales transaction and a sale is regarded as highly probable. The disposal group is measured at the lower of its carrying amount and the fair value less costs to sell.

2.26 ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

GOODWILL

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

*CROSS-REFERENCE /// SEE PAGE 95

The AbD Serotec segment was not tested for goodwill impairment in the year ended 31 December 2012. During the year 2012, the segment was classified as a "discontinued operation" due to an agreed upon transaction between Bio-Rad and MorphoSys (see also the Notes to the Consolidated Financial Statements – section 17*). In the previous year, a sensitivity analysis was performed for the AbD Serotec segment with different estimates and judgments.

*CROSS-REFERENCE /// SEE PAGE 94

A further sensitivity analysis was performed for the technology development activities within the Partnered Discovery segment, which represent the cash-generating unit that also comprises the goodwill from the acquisition of Sloning BioTechnology GmbH. An increase in the WACC by 30% or a decrease in future cash flows by 30% would not result in an impairment of the cash-generating unit.

INCOME TAXES

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

As of 31 December 2012, deferred tax assets on tax loss carry-forwards in the amount of € 2.0 million were recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2013 to 2017. No deferred tax assets were reported for a portion of the corporate tax loss carry-forwards in the amount of € 2.4 million and trade tax loss carry-forwards in the amount of € 2.3 million as the usability of these tax loss carry-forwards is deemed uncertain due to the tax regulation in Germany (both section 8 para. 4 KStG and section 8c KStG). In the event that a portion of the total tax loss carry-forwards may not be utilized as a result of a tax audit, the company will have to pay more income taxes at an earlier point in time in future periods because the total tax loss carry-forwards will be consumed earlier than expected.

2.27 CAPITAL MANAGEMENT

Concerning capital management, the Management Board's policy is to maintain a strong and sustainable capital base in order to maintain investor, creditor and market confidence and to support future development of the business. Compared to the previous year, the equity ratio increased slightly from 86.3% to 90.1% (see also table below). The Group is currently not financed via financial debt.

At present, management and employees can participate in the Group's returns by way of long-term performance-related remuneration which consists of convertible bonds and stock options pursuant to the respective incentive plans as resolved by the Annual General Meeting. In addition, MorphoSys established a long-term incentive program in June 2011. This program is based on the performance related issuance of shares, so called 'performance shares', which are granted, when certain predefined success criteria are achieved (see also the Notes to the Consolidated Financial Statements – section 26*). A second long-term incentive plan (LTI plan) was established in April 2012. This plan is a performance related share plan and is paid in common shares of MorphoSys AG, subject to achieving certain predefined performance criteria that must be approved annually by the Supervisory Board. There were no changes in the Group's approach to capital management during the year.

*CROSS-REFERENCE /// SEE PAGE 105

in 000's €	31/12/2012	31/12/2011
Equity	202,010	197,136
In % of Total Capital	90.1%	86.3%
Debt	22,279	31,275
In % of Total Capital	9.9%	13.7%
TOTAL CAPITAL	**224,289**	**228,410**

3 Segment Reporting

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

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

The Group consists of the following operating segments:

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

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

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

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

For the Twelve-month Period Ended 31 December (in 000's €)	Partnered Discovery		Proprietary Development		AbD Serotec	
	2012	2011	2012	2011	2012	2011
External Revenues	44,667	79,319	6,988	2,398	17,952	19,060
Inter-segment Revenues	0	0	0	0	43	281
REVENUES, TOTAL	**44,667**	**79,319**	**6,988**	**2,398**	**17,995**	**19,341**
Cost of Goods Sold	0	0	0	0	6,238	7,024
Other Operating Expenses	21,738	23,427	18,127	34,975	11,333	11,356
Inter-segment Costs	43	256	0	25	0	0
TOTAL OPERATING EXPENSES	**21,781**	**23,683**	**18,127**	**35,000**	**17,571**	**18,380**
Other Income	131	59	187	407	4	(57)
Other Expenses	0	0	0	0	157	39
SEGMENT EBIT	**23,017**	**55,695**	**(10,952)**	**(32,195)**	**271**	**865**
Finance Income	0	0	0	0	0	0
Finance Expenses	0	0	0	0	0	0
Income Tax Income/(Expenses)	0	0	0	0	0	0
NET PROFIT/(LOSS)	**23,017**	**55,695**	**(10,952)**	**(32,195)**	**271**	**865**
Current Assets	20,707	18,054	704	1,460	11,908	11,747
Non-current Assets	21,621	23,061	14,519	16,672	31,029	30,841
TOTAL SEGMENT ASSETS*	**42,328**	**41,115**	**15,223**	**18,132**	**42,937**	**42,588**
Current Liabilities	3,554	4,937	3,779	8,100	3,380	3,896
Non-current Liabilities	5,915	6,047	0	0	407	543
Stockholders' Equity	0	0	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**9,469**	**10,984**	**3,779**	**8,100**	**3,787**	**4,439**
Capital Expenditure	794	1,202	614	1,009	542	787
Depreciation and Amortization	3,534	3,197	1,106	1,750	1,183	1,247

* The variance in the amount of € 40.9 million between total assets of the reported segments and the balance sheet's total is due to the 'Assets of Disposal Group Classified as Held for Sale'. See also note 17 of these Notes.

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. Hence, at 31 December 2012, substantially all of the AbD Serotec segment was classified as discontinued operation in accordance with IFRS 5, hereinafter referred to as "discontinued operation". The operating segments Partnered Discovery and Proprietary Development as well as the non-discontinued operations of the AbD Serotec segment qualified as "continued operations" as of the balance sheet date. The presentation of the net assets, the financial position and the results of operations of MorphoSys Group follows the basic concept of IFRS 5 in this respect.

ENTITY-WIDE DISCLOSURE

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

Unallocated		Elimination		Group		thereof from Discontinued Operations**		thereof from Continuing Operations	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
0	0	0	0	69,607	100,777	17,690	18,700	51,917	82,077
0	0	(43)	(281)	0	0	0	0	0	0
0	**0**	**(43)**	**(281)**	**69,607**	**100,777**	**17,690**	**18,700**	**51,917**	**82,077**
0	0	0	0	6,238	7,024	6,238	7,024	0	0
10,412	12,303	0	0	61,610	82,061	11,855	11,252	49,755	70,809
0	0	(43)	(281)	0	0	0	0	0	0
10,412	**12,303**	**(43)**	**(281)**	**67,848**	**89,085**	**18,093**	**18,276**	**49,755**	**70,809**
98	67	0	0	420	476	4	(57)	416	533
85	2,007	0	0	242	2,046	157	39	85	2,007
(10,399)	**(14,243)**	**0**	**0**	**1,937**	**10,122**	**(556)**	**327**	**2,493**	**9,795**
670	1,460	0	0	670	1,460	11	7	659	1,453
196	151	0	0	196	151	97	97	99	54
(469)	(3,214)	0	0	(469)	(3,214)	217	(223)	(686)	(2,991)
(10,394)	**(16,148)**	**0**	**0**	**1,942**	**8,217**	**(424)**	**14**	**2,366**	**8,203**
120,394	123,431	0	0	153,713	154,692	10,855	0	142,858	154,692
3,406	3,144	0	0	70,575	73,718	30,001	0	40,574	73,718
123,800	**126,575**	**0**	**0**	**224,288**	**228,410**	**40,855**	**0**	**183,433**	**228,410**
4,530	6,818	0	0	15,243	23,751	3,325	0	11,918	23,751
713	934	0	0	7,035	7,524	407	0	6,628	7,524
202,010	197,135	0	0	202,010	197,135	0	0	202,010	197,135
207,253	**204,887**	**0**	**0**	**224,288**	**228,410**	**3,733**	**0**	**220,556**	**228,410**
357	646	0	0	2,307	3,644	542	787	1,765	2,857
487	483	0	0	6,310	6,677	1,060	1,127	5,250	5,550

** Due to the Agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the segment AbD Serotec, items in connection with the transaction are shown in the column 'thereof from Discontinued Operations' for the years 2012 and 2011. The columns Partnered Discovery, Proprietary Development, AbD Serotec, Unallocated, Elimination and Group comprise the figures for the entire segment or the Group totals. See also note 17 of these Notes.

A segment result is defined as segment revenues less operating segment expenses. As a compensation for therapeutic revenues generated from contracts that had originally been initiated by the AbD Serotec segment, the Partnered Discovery segment granted a compensatory fee of € 0.04 million (2011: € 0.3 million) to the AbD Serotec segment for 2012 as a result of the revenue-sharing agreement established between the two segments € 0.3 million). In 2011, revenues in the AbD Serotec segment also comprised minor intersegment revenues with the Proprietary Development segment from the sale of antibodies. In 2012, an impairment loss of € 0.2 million was recognized in the segment Proprietary Development (2011: impairment loss of € 0.2 million).

The Group's major customers are all related to the Partnered Discovery segment. The most significant customer accounts for € 8.3 million of the trade receivables' carrying amount at 31 December 2012 (31 December 2011: € 8.9 million). Three of the Group's customers individually accounted for € 47.3 million, € 1.7 million, and € 1.5 million of the total revenues in the year 2012 and were mainly attributed to the Partnered Discovery segment. In 2011, three of the Group's customers individually accounted for € 72.8 million, € 2.2 million, and € 2.1 million of the total revenues and were mainly attributed to the Partnered Discovery segment.

In 2012, other operating expenses in "unallocated" mainly included personnel-related costs (2012: € 6.1 million, 2011: € 6.9 million), costs for external services (2012: € 2.2 million, 2011: € 3,1 million) and infrastructure costs (2012: € 1.2 million, 2011: € 1.2 million). Current assets in "unallocated" mainly consisted of cash, cash equivalents and available-for-sale financial assets (31 December 2012: € 107.9 million, 31 December 2011: € 121.0 million). Current liabilities in "unallocated" mainly comprised accounts payable and accrued expenses (31 December 2012: € 4.3 million, 31 December 2011: € 4.5 million) as well as provisions (31 December 2012: € 0.2 million, 31 December 2011: € 2.3 million).

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

in 000's €	2012	2011
Germany	0	1,000
Europe and Asia	49,203	76,442
USA and Canada	2,714	4,635
Other	0	0
Total from Continuing Operations	51,917	82,077
Total from Discontinued Operations	17,690	18,700
TOTAL	**69,607**	**100,777**

In 2012, total revenue included approx. 1 % revenue derived from Asia (2011: approx. 3 %).

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

in 000's €	31/12/2012	31/12/2011
Germany	40,574	71,904
UK	0	127
USA	0	1,522
Total from Continuing Operations	40,574	73,553
Total from Discontinued Operations	29,884	0
TOTAL	**70,458**	**73,553**

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

in 000's €	2012	2011
Germany	1,765	2,857
UK	0	0
USA	0	0
Total from Continuing Operations	1,765	2,857
Total from Discontinued Operations	542	787
TOTAL	**2,307**	**3,644**

4 Revenues

In 2012, the revenues from continuing operations included revenues from license and milestones fees in the amount of € 25.0 million (2011: € 59.0 million), to which the Partnered Discovery segment and the continuing operations of the AbD Serotec segment contributed € 24.8 million (2011: € 58.7 million) and € 0.3 million (2011: € 0.6 million) respectively.

Revenues from continuing operations from service fees in the amount of € 26.9 million (2011: € 23.0 million) included € 19.9 million from the Partnered Discovery segment (2011: € 20.6 million) and € 7.0 million from the Proprietary Development segment (2011: € 2.4 million). The revenues of the Proprietary Development segment contain a one-off payment from Novartis.

Revenue relating to the discontinued operations within the AbD Serotec segment amounted to € 17.7 million (2011: € 18.7 million).

5 Personnel Expenses

in 000's €	2012	2011
Wages and Salaries	20,159	22,214
Social Security Contributions	3,226	3,384
Stock-based Compensation Expense	1,291	1,464
Temporary Staff (External)	424	228
Other	284	1,830
Total from Continuing Operations	25,384	29,119
Total from Discontinued Operations	7,902	7,695
TOTAL	**33,286**	**36,814**

In 2012, other personnel expenses included mostly costs for recruitment. In 2011, other personnel expenses included mostly costs for recruitment and severance charges.

The average number of employees during the year ended 31 December 2012 was 422 (31 December 2011: 461). Of the 421 employees as of 31 December 2012, 278 worked in research and development (31 December 2011: 301) and 143 (31 December 2011: 145) in sales, general and administration. As of 31 December 2012, 184 employees worked in the Partnered Discovery segment, 54 in the Proprietary Development segment and 135 in the AbD Serotec segment; 48 were unallocated (31 December 2011: 207 in the Partnered Discovery segment, 67 in the Proprietary Development segment and 140 in the AbD Serotec segment; 40 were unallocated). The expenses for defined contribution plans amounted to € 0.3 million in 2012 (31 December 2011: € 0.3 million).

Due to the agreement between Bio-Rad and MorphoSys to acquire substantially all of the segment AbD Serotec, the Group's workforce will be reduced by 135 employees in 2013.

6 Other Income and Expenses, Finance Income and Expenses

Other income and expenses and finance income and expenses include the following items:

in 000's €	2012	2011
Grant Income	277	466
Gain on Exchange	94	59
Miscellaneous Income	45	9
Other Income	416	534
Loss on Exchange*	(66)	(2,010)
Miscellaneous Expenses	(19)	2
Other Expenses	(85)	(2,008)
Gain on Marketable Securities	481	1,086
Interest Income	178	347
Gain on Derivatives	0	21
Finance Income	659	1,454
Interest Expenses	(8)	(27)
Loss on Derivatives	(41)	0
Bank Fees	(50)	(27)
Finance Expenses	(99)	(54)
Total from Continuing Operations	891	(74)
Total from Discontinued Operations	(239)	(187)
TOTAL	**652**	**(261)**

* The decrease in losses on exchange in 2012 from € 2.0 million to € 0.1 million is mainly a result of the foreign exchange rate fluctuation between invoice date and the date a one-time technology milestone payment by Novartis has been received in the first quarter of 2011.

7 Income Taxes

MorphoSys AG and its German subsidiaries MorphoSys IP GmbH, MorphoSys AbD GmbH and Sloning BioTechnology GmbH are subject to corporate tax, solidarity surcharge and trade tax. The Company's corporation tax rate remained constant at 15%; the same applies to the solidarity surcharge of 5.5% and the effective trade tax rate of 10.5%. With regard to affiliated companies in foreign countries, income tax rates of 24% in the UK (2011: 26.5%) and 37% (2011: 36.9%) in the USA.

The income tax for the continuing operations for the past fiscal year is composed as follows:

in 000's €	2012	2011
Current Tax Expense (Thereof Regarding Prior Years: Tax Income of k€ 12; 2011: k€ 0)	(1,064)	(3,292)
Deferred Tax Income	378	301
TOTAL INCOME TAX	**(686)**	**(2,991)**
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity	(212)	(265)

Additionally, the discontinued operations recognized an income tax income in the amount of € 0.2 million for the year 2012 and an income tax expense of € 0.2 million for the year 2011.

The following table reconciles the expected income tax expense to the actual income tax expense presented in the consolidated financial statements. To calculate the statutory income tax expense in fiscal year 2012, the combined income tax rate of 26.33% (2011: 26.33%) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge, and amounts to 15.83% plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300% for municipal trade tax, which amounts to 10.50%.

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

As of 31 December 2012, a deferred tax asset on tax loss carry-forwards in the amount of € 2.0 million was recognized due to positive business expectations at Sloning BioTechnology GmbH for the financial years 2013 to 2017. No deferred tax asset was reported for a portion of the corporate tax loss carry-forwards in the amount of € 2.4 million and trade tax loss carry-forwards in the amount of € 2.3 million as the usability of these tax loss carry-forwards is deemed uncertain due to the tax regulation in Germany (both sec. 8 para. 4 KStG and sec. 8c KStG; see also Notes to the Consolidated Financial Statements – section 2.25*). The tax loss carry-forwards may be carried forward indefinitely and in unlimited amounts. From 2004 onwards, German tax law restricts the offsetting of taxable income against existing tax loss carry-forwards to an amount of € 1.0 million plus 60% of taxable income above € 1.0 million. According to the German Corporation Tax Act (Körperschaftsteuergesetz, KStG), taxes may be carried forward indefinitely.

*CROSS-REFERENCE /// SEE PAGE 80

in 000's €	2012*	2011*
Profit Before Income Taxes	3,051	11,195
Expected Tax Rate	26.33%	26.33%
Expected Income Tax	(803)	(2,948)
Tax Effects Resulting from:		
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA on Tax Loss Carry-forwards	317	389
Stock-based Compensation	(110)	(339)
Non-tax-deductible Items	(125)	(124)
Permanent differences due to tax-exempts	0	125
Tax Rate Differences	(19)	(54)
Release of DTL Arising from Temporary Differences	49	0
Prior Year Taxes	12	0
Other Effects	(7)	(40)
Actual Income Tax	(686)	(2,991)

* Tax rate reconciliation for the continuing operations

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

in 000's €, as of 31 December	DTA[1] 2012[3]	DTA[1] 2011[4]	DTL[2] 2012[3]	DTL[2] 2011[4]
Intangible Assets	0	0	2,373	3,287
Property, Plant and Equipment	0	0	0	42
Other Equipment, Furnitures, Fixtures	127	51	0	0
Inventory	0	161	0	0
Prepaid Expenses and Deferred Charges	0	0	3	5
Short-term Securities Investments	0	0	184	231
Other Accrual/Provisions	0	0	0	30
Trade Accounts Payable	0	5	0	0
Other Liabilities	0	0	0	22
Tax Losses	2,015	2,273	0	3
	2,142	**2,490**	**2,560**	**3,620**

[1] Deferred Tax Asset
[2] Deferred Tax Liability
[3] Composition of Deferred Tax Assets and Liabilities from Continuing Operations
[4] Composition of Deferred Tax Assets and Liabilities for the Group

Deferred tax liabilities of € 0.2 million (previous year: € 0.3 million) were recorded directly in stockholders' equity. This amount relates mainly to the revaluation of financial assets available-for-sale.

In 2012, deferred tax assets of € 2.1 million were offset against deferred tax liabilities. Both deferred tax asset and deferred tax liability relate to income taxes imposed by the same tax authority on the same taxable entity.

As of 31 December 2012 and as of 31 December 2011, no deferred tax liabilities were recognized on temporary differences relating to an investment in a subsidiary, since the Group may determine whether the liability will arise and is convinced that the liability will not arise in the foreseeable future.

8 Earnings per Share

The calculation of basic earnings per share is based on the consolidated net profit of € 1,942,145 for 2012 (2011: € 8,216,397) and on the weighted-average number of ordinary shares outstanding for the relevant years (2012: 23,004,894; 2011: 22.887.723).

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

	2012	2011
SHARES ISSUED ON 1 JANUARY	**23,112,167**	**22,890,252**
Effect of Treasury Shares Held	(163,915)	(79,896)
Repurchase of Treasury Stock	(64,813)	(45,744)
Effect of Shares Issued in January	15,731	32,510
Effect of Shares Issued in February	19,313	10,266
Effect of Shares Issued in March	3,579	2,408
Effect of Shares Issued in April	45,087	20,741
Effect of Shares Issued in May	0	40,639
Effect of Shares Issued in June	16,860	2,286
Effect of Shares Issued in July	447	6,194
Effect of Shares Issued in August	336	0
Effect of Shares Issued in September	14,495	0
Effect of Shares Issued in October	3,341	470
Effect of Shares Issued in November	620	7,461
Effect of Shares Issued in December	1,645	136
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**23,004,894**	**22,887,723**

The diluted earnings per share are calculated by taking into account the Group's potential ordinary shares from stock options and convertible bonds granted.

The following table shows the reconciliation of basic and diluted earnings per share (in €, except for per share data):

	2012	2011
Numerator		
Profit for the Year from Continuing Operations	2,366,263	8,202,087
(Loss) / Profit for the Year from Discontinued Operations	(424,118)	14,310
Consolidated Net Profit	1,942,145	8,216,397
Denominator		
Weighted-average Shares Used for Basic EPS	23,004,894	22,887,723
Dilutive Shares Arising from Stock Options	204,132	229,907
Dilutive Shares Arising from Convertible Bonds	51,334	8,528
TOTAL DENOMINATOR	**23,260,360**	**23,126,158**
Earnings per Share (in €)		
Basic	0.08	0.36
thereof from Continuing Operations	0.10	0.36
thereof from Discontinued Operations	(0.02)	0.00
Diluted	0.08	0.36
thereof from Continuing Operations	0.10	0.35
thereof from Discontinued Operations	(0.02)	0.00

9 Cash and Cash Equivalents

in 000's €	31/12/2012	31/12/2011
Bank Balances and Cash in Hand	40,690	54,596
Term Deposits	984	980
Restricted Cash	(984)	(980)
Total from Continuing Operations	40,690	54,596
Total from Discontinued Operations	5,281	0
Cash and Cash Equivalents	45,971	54,596

The decline in cash and cash equivalents was mainly caused by granting an interest-bearing, transferable loan of € 10.0 million. A decrease of € 5.3 million in the cash balance resulted from the initial classification of the discontinued operation under IFRS 5 in the AbD Serotec segment.

The restricted cash of € 1.0 million represents rent deposits and is unchanged compared with the previous year.

10 Financial Assets

The financial assets available-for-sale composed as follows as of 31 December 2012 and 2011:

in 000's €	Maturity	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
31 DECEMBER 2012					
DB Money Cash	daily	79,345	699	0	80,044
Restricted Cash					(322)
TOTAL					**79,722**
31 DECEMBER 2011					
DB Money Cash	daily	79,150	877	0	80,027
Restricted Cash					(258)
TOTAL					**79,769**

The Group's gross unrealized holding gains of € 698,848 on 31 December 2012 and € 877,332 on 31 December 2011 respectively were recorded as a separate entry in stockholders' equity (revaluation reserve). In 2012 the Group recorded a profit in the income statement, which had previously been reported in stockholders' equity, of € 480,912 resulting from the disposal of financial assets (2011: € 1,085,911). The restricted cash of € 0.3 million (2011: € 0.3 million) is related to rent deposits paid.

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

*CROSS-REFERENCE /// SEE PAGE 78

11 Accounts Receivable

All accounts receivable are non-interest-bearing and generally have payment terms of 30 to 45 days. On 31 December 2012 and 2011, accounts receivable included unbilled amounts of € 1,592,679 and € 1,856,827, respectively. In some cases, the Group requires collateral from customers in the discontinued operations of the AbD Serotec segment in order to avoid uncollectable accounts receivable. As of 31 December 2012, these were not significant in terms of their amount.

Based on management's estimate, a net loss of € 60,119 was recognized in the income statement for doubtful receivables in 2012 (2011: Net loss of € 3,243). This loss was attributed to the discontinued operations.

12 Other Receivables

In accordance with the Group's hedging policy, expected cash flows with a high probability and definite foreign-currency receivables, which are collectable within a twelve-month period, are reviewed for the need of a hedging. In 2003, MorphoSys started entering into foreign currency options and futures in order to hedge its foreign exchange risk against U.S. dollar receivables. These derivatives are recorded as other receivables with their fair values.

In the first quarter of 2012, MorphoSys AG granted a transferable, interest-bearing and assignable loan with a nominal value of € 10.0 million. Interest income of € 82,534 is recorded in the financial result. In accordance with IAS 39, this financial instrument was attributed to the category "Loans and Receivables". The risks associated with the financial instrument mainly arise from unfavorable trends for the reference interest rate used for the interest calculation as well as from credit risks associated with the borrower. In the business year 2012, there were no indications for impairment.

As of 31 December 2012 and 2011, no option contracts were outstanding. Therefore, no unrealized gains or losses were recognized in the income statement in 2012 and in 2011. At the beginning of the year, the Group entered into two option contracts reaching maturity during the business year 2012. A realized loss of € 0.04 million (2011: loss of € 0.3million) was recorded in finance expenses.

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

Prepaid expenses essentially consisted of prepaid fees for sublicenses amounting to € 0.1 million (31.12.2011: € 0.2 million) and other prepayments amounting to € 1.3 million (31.12.2011: € 1.6 million) as of 31 December 2012. The discontinued operations comprised prepayments in the amount of € 0.3 million as of 31 December 2012.

As of 31 December 2012, tax receivables amounted to € 0.1 million (31.12.2011: € 0.2 million), and comprised mainly receivables in connection with withholding tax on capital gains. Further tax receivables in the amount of € 0.3 million were presented in discontinued operations as of 31 December 2012.

Inventories of the continuing operations amounted to € 0.8 million as of 31 December 2012 and were stored at the German location in Martinsried. As of 31 December 2012, inventories consisted of raw materials, merchandise, consumables and supplies in the amount of € 0.6 million and unfinished goods in the amount of € 0.2 million. As in the previous year, there were no inventories carried at fair value less costs to sell. Inventories of the discontinued operations amounted to € 2.8 million as of 31 December 2012. An inventory reserve of € 3.2million was recorded for the discontinued operations as of 31 December 2012. In 2012, raw materials, merchandise, consumables and supplies as well as changes in stock of unfinished and finished goods, that were recorded in cost of goods sold of the discontinued operations, amounted to € 4.5 million (31 December 2011: € 5.1 million).

As of 31 December 2011, inventories in the amount of € 3.3 million were stored at the Group locations in Oxford, UK, and Raleigh, USA, as well as at the German locations in Martinsried and Puchheim. As of 31 December 2011, inventories consisted of raw materials, merchandise, consumables and supplies in the amount of € 1.9 million, unfinished goods in the amount of € 0.1 million and finished goods in the amount of € 1.3 million. The inventory reserve amounted to € 3.0 million as of 31 December 2011, and the movement to prior year's inventory reserve was included in cost of goods sold.

14 Property, Plant and Equipment

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Totals
Cost				
1 JANUARY 2012	**1,191**	**15,071**	**2,650**	**18,912**
Additions	15	980	21	1,016
Disposals	0	(420)	(51)	(471)
Foreign Exchange Variance	25	18	5	48
Reclassification to Assets of Disposal Group Classified as Held for Sale	(1,231)	(3,213)	(733)	(5,177)
31 DECEMBER 2012	**0**	**12,436**	**1,892**	**14,328**
Accumulated Depreciation				
1 JANUARY 2012	**452**	**10,273**	**2,081**	**12,806**
Depreciation Charge for the Year	83	2,027	139	2,249
Write-offs for the Year	0	178	0	178
Disposals	0	(418)	(51)	(469)
Foreign Exchange Variance	10	14	7	31
Reclassification to Assets of Disposal Group Classified as Held for Sale	(545)	(2,589)	(525)	(3,659)
31 DECEMBER 2012	**0**	**9,485**	**1,651**	**11,136**
Carrying Amount				
1 JANUARY 2012	**739**	**4,798**	**569**	**6,106**
31 DECEMBER 2012	**0**	**2,951**	**241**	**3,192**
Cost				
1 JANUARY 2011	**916**	**14,404**	**2,460**	**17,780**
Additions	257	1,882	208	2,347
Disposals	0	(1,235)	(28)	(1,263)
Foreign Exchange Variance	18	20	10	48
31 DECEMBER 2011	**1,191**	**15,071**	**2,650**	**18,912**
Accumulated Depreciation				
1 JANUARY 2011	**294**	**9,382**	**1,914**	**11,590**
Depreciation Charge for the Year	152	2,010	182	2,344
Disposals	0	(1,122)	(21)	(1,143)
Foreign Exchange Variance	6	3	6	15
31 DECEMBER 2011	**452**	**10,273**	**2,081**	**12,806**
Carrying Amount				
1 JANUARY 2011	**622**	**5,022**	**546**	**6,190**
31 DECEMBER 2011	**739**	**4,798**	**569**	**6,106**

As of 31 December 2011, property in the amount € 785,027 in Poole, UK, was classified as "held for sale" and, due to the revaluation of the expected sales price, an impairment with insignificant amount was recorded. In March 2012, MorphoSys concluded the sale of its property in Poole, UK, for € 0.8 million.

No borrowing costs were capitalized during the reporting period. No restrictions on title and property, plant and equipment were pledged as security for liabilities. The Group capitalized expenditure of an insignificant amount for assets under construction. No significant contractual commitments for the acquisition of the purchase of property, plant and equipment have been entered into as of the reporting date.

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

in 000's €	2012	2011
Research and Development	1,344	1,602
Research and Development (Write-off)	178	0
Sales, General and Administrative	385	134
Cost of Goods Sold	0	0
Total from Continuing Operations	1,907	1,736
(Loss)/Profit for the Year from Discontinued Operations	530	640
TOTAL	**2,437**	**2,376**

In 2012, an impairment of € 0.2 million was accounted for, mainly for laboratory equipment that was no longer usable in the context of the finalization of clinical trial studies for the proprietary HuCAL antibody program MOR103.

15 Intangible Assets

in 000's €	Patents	Licenses	Intangible Assets under Development	Software	Know-How and Customer List	Goodwill	Total
Cost							
1 JANUARY 2012	**14,659**	**25,207**	**10,513**	**2,884**	**5,525**	**34,107**	**92,895**
Additions	245	91	0	956	0	0	1,292
Disposals	(2)	(3)	0	(17)	0	0	(22)
Foreign Exchange Variance	0	19	0	5	49	34	107
Reclassification to Assets of Disposal Group Classified as Held for Sale	0	(904)	0	(478)	(5,574)	(26,788)	(33,744)
31 DECEMBER 2012	**14,902**	**24,410**	**10,513**	**3,350**	**0**	**7,353**	**60,528**
Accumulated Amortization							
1 JANUARY 2012	**5,200**	**15,655**	**0**	**1,828**	**4,184**	**0**	**26,867**
Amortization Charge for the Year	1,036	2,146	0	486	382	0	4,050
Disposals	0	(1)	0	(16)	0	0	(17)
Foreign Exchange Variance	0	9	0	5	30	0	44
Reclassification to Assets of Disposal Group Classified as Held for Sale	0	(528)	0	(304)	(4,596)	0	(5,428)
31 DECEMBER 2012	**6,236**	**17,281**	**0**	**1,999**	**0**	**0**	**25,516**
Carrying Amount							
1 JANUARY 2012	**9,459**	**9,552**	**10,513**	**1,056**	**1,341**	**34,107**	**66,028**
31 DECEMBER 2012	**8,666**	**7,129**	**10,513**	**1,351**	**0**	**7,353**	**35,012**
Cost							
1 JANUARY 2011	**14,449**	**25,425**	**10,513**	**3,126**	**5,419**	**34,099**	**93,031**
Additions	218	138	0	942	0	0	1,298
Disposals	(8)	(371)	0	(1,189)	0	0	(1,568)
Foreign Exchange Variance	0	15	0	5	106	8	134
31 DECEMBER 2011	**14,659**	**25,207**	**10,513**	**2,884**	**5,525**	**34,107**	**92,895**
Accumulated Amortization							
1 JANUARY 2011	**4,164**	**13,306**	**0**	**2,620**	**3,733**	**0**	**23,823**
Amortization Charge for the Year	1,036	2,528	0	392	377	0	4,333
Write-offs for the Year	8	186	0	0	0	0	194
Disposals	(8)	(371)	0	(1,188)	0	0	(1,567)
Foreign Exchange Variance	0	6	0	4	74	0	84
31 DECEMBER 2011	**5,200**	**15,655**	**0**	**1,828**	**4,184**	**0**	**26,867**
Carrying Amount							
1 JANUARY 2011	**10,285**	**12,119**	**10,513**	**506**	**1,686**	**34,099**	**69,208**
31 DECEMBER 2011	**9,459**	**9,552**	**10,513**	**1,056**	**1,341**	**34,107**	**66,028**

As of 31 December 2012, intangible assets under development, as required by IAS 36, were subject to an impairment test. This test did not result in any impairment.

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

in 000's €	2012	2011
Research and Development	3,262	3,669
Research and Development (Write-off)	0	194
Sales, General and Administrative	141	24
Cost of Goods Sold	115	120
Total from Continuing Operations	3,518	4,007
(Loss)/Profit for the Year from Discontinued Operations	530	487
TOTAL	**4,048**	**4,494**

As of 31 December 2011, an impairment amounting to € 0.2 million was recorded in the Proprietary Development segment for intangible assets. The impairment in 2011 was connected to a program, which was discontinued due to strategic reasons.

16 Other Assets

The Group classified specific line items within other assets as restricted cash, which is not available for operating purposes (see Notes to the Consolidated Financial Statements – sections 9 and 10*). As of 31 December 2012 and 2011, the Group had at its disposal restricted cash of € 1.3 million and € 1.2 million, respectively, for guarantees granted, and € 73,607 and € 73,607, respectively, for convertible bonds issued to employees.

*CROSS-REFERENCE /// SEE PAGE 89

17 Assets Held for Sale and Discontinued Operations

As of 31 December 2011, the "Assets of Disposal Group Classified as Held for Sale" comprised the commercial real estate owned by the subsidiary Poole Real Estate Ltd., Poole, UK, with a carrying amount of € 785,027. In March 2012, MorphoSys completed the sale of this property for € 0.8 million.

On 16 December 2012, an agreement was signed by MorphoSys and Bio-Rad for a takeover of substantially all of the AbD Serotec segment for research-related and diagnostic antibodies. The result from operating activities of the AbD Serotec segment is presented in the result from discontinued operations in accordance with IFRS 5. The previous year's figures in the income statement and in the segment report were adjusted accordingly. As of the balance sheet date 31 December 2012, assets and liabilities of the discontinued operation AbD Serotec were presented as "Assets/Liabilities of Disposal Group Classified as Held for Sale". The sale of the AbD Serotec segment to an American acquirer was approved by resolutions of the Management Board and the Supervisory Board on 16 December 2012. The closing of the transaction took place on 10 January 2013.

The following assets were reclassified within the balance sheet to "Assets of Disposal Group Classified as Held for Sale" for the year 2012:

in 000's €	31/12/2012	31/12/2011
Cash and Cash Equivalents	5,281	0
Accounts Receivable	1,703	0
Inventories, Net	2,769	0
Other Current Assets	1,101	0
Total Current Assets	10,855	0
Property, Plant and Equipment, Net	1,519	785
Licenses, Net	376	0
Software, Net	174	0
Know-how and Customer Lists, Net	978	0
Goodwill	26,788	0
Other Non-current Assets	166	0
Total Non-current Assets	30,001	785
Assets of Disposal Group Classified as Held for Sale	40,855	785

The following liabilities were reclassified within the balance sheet to "Liabilities of Disposal Group Classified as Held for Sale" for the year 2012:

in 000's €	31/12/2012	31/12/2011
Accounts Payable and Accrued Expenses	2,424	0
Current Portion of Deferred Revenue	435	0
Other Current Liabilities	466	0
Total Current Liabilities	3,325	0
Deferred Tax Liability	407	0
Total Non-current Liabilities	407	0
Liabilities of Disposal Group Classified as Held for Sale	3,733	0

The result of discontinued operations comprises the following:

in 000's €	2012	2011
Revenues	17,690	18,700
Cost of Goods Sold	6,238	7,024
Research and Development	1,845	1,598
Sales, General and Administrative	10,010	9,654
Total Operating Expenses	18,093	18,276
Other (Expenses)/Income	(153)	(96)
Earnings before Interest and Taxes (EBIT)	(556)	327
Finance Income/(Expenses)	(85)	(90)
Profit before Taxes	(641)	237
Income Tax Income/(Expenses)	217	(223)
(Loss)/Profit for the Year from Discontinued Operations	(424)	14

18 Goodwill

On 31 October 2012, goodwill in the amount of € 7.4 million resulting from the acquisition of Sloning BioTechnology GmbH in 2010 was tested for impairment as required by IAS 36. The recoverable amount of the cash-generating unit (CGU), the technology development team in the Partnered Discovery segment, was determined on the basis of value-in-use calculations, whereby the calculated value in use exceeded the carrying amount of the cash-generating unit. In addition, a detailed sensitivity analysis was carried out (see Notes to the Consolidated Financial Statements – section 2.26*). The cash flow forecasts refer to a ten-year period since management assumes that commercialization by means of licensing agreements, which include upfront payments, milestone payments, funded research and royalties, will pay off fully over the medium to long term. For this reason, a planning period of ten years is deemed appropriate for calculating the value in use. The cash flow forecasts are predominantly based on the key assumption that the technology presently developed is very beneficial to existing and to new clients, and will lead to a number of new agreements. The values of the underlying key assumptions were determined by means of both internal (past experience) and external (market intelligence) sources of information. Based on the updated cash-flow forecast for the next ten years, the value in use was determined as follows: Beta factor of 1.1, income tax rate of 26.33%, a WACC of 8.26% (2011: 8.89%) and a growth rate of 1% of the perpetual annuity. The values assigned to these assumptions correspond to the management's estimate with regard to future developments, and they are based on internal planning scenarios and on external sources.

*CROSS-REFERENCE /// SEE PAGE 80

For the goodwill of the segment AbD Serotec, no impairment test was performed by the end of the business year 2012. Substantially all of the segment was classified as "discontinued operation" in the course of the business year 2012 (see Notes to the Consolidated Financial Statements – section 17*) due to an agreed takeover between Bio-Rad and MorphoSys. The agreed purchase price did not lead to any impairment. In 2012, the goodwill of the discontinued operation is presented in the balance sheet line item "Assets of Disposal Group Classified as Held for Sale".

*CROSS-REFERENCE /// SEE PAGE 94

In the previous year, an impairment test with a sensitivity analysis were performed for the AbD Serotec segment by using several assumptions and variables.

19 Accounts Payable and Accrued Expenditure

The trade accounts payable are non-interest-bearing and, under normal circumstances, have payment terms of no more than 30 days.

The trade accounts payable are listed in the following table:

in 000's €	31/12/2012	31/12/2011
Trade Accounts Payable	738	1,057
Licenses Payable	170	397
Accrued Expenses	9,232	17,069
Other Liabilities	520	588
Total from Continuing Operations	10,660	19,111
Total from Discontinued Operations	2,425	0
TOTAL	**13,085**	**19,111**

Accrued expenses of the continuing operations mainly include accruals for payments to employees and management amounting to € 3.7 million (31 December 2011: € 5.1 million), accrued expenses for outstanding invoices of € 1.2 million (31 December 2011: € 2.6 million), external laboratory services of € 2.9 million (31 December 2011: € 6.6 million), royalties of € 1.1 million (31 December 2011: € 2.4 million), audit fees and other audit-related costs of € 0.1 million (31 December 2011: € 0.1 million) and € 0.4 million for legal advice (31 December 2011: €≈0.2 million). The discontinued operations comprised accrued expenses in the amount of € 1.6 million for the year 2012.

At the Annual General Meeting of the Company in May 2012, the Supervisory Board was authorized to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC AG), Munich, as auditor.

PwC AG and its partner corporations within the global network received compensation from MorphoSys in the business year 2012 of € 341,677 (thereof PwC AG: € 268,214), including audit fees of € 256,949 (thereof PwC AG: € 205,171), audit-related fees of € 47,848 (thereof PwC AG: € 26,163) as well as fees for other services of € 36,880 (thereof PwC AG: € 36,880).

20 Provisions and Tax Liabilities

As of 31 December 2012, the Group recorded provisions and tax liabilities of € 0.8 million for the continuing operations (2011: € 3.4 million for the Group).

Tax liabilities mainly comprise expenses for income tax. As of 31 December 2012, provisions and tax liabilities are uncertain in terms of their amount and are expected to be settled in 2013.

Provisions and tax liabilities changed during the financial year 2012 as follows:

in 000's €	01/01/2012	Additions	Utilized	Released	31/12/2012	thereof from Discontinued Operations	thereof from Continuing Operations
Taxes	3,027	46	2,241	13	819	189	630
Other Obligations	383	365	0	284	464	277	187
TOTAL	**3,410**	**411**	**2,241**	**297**	**1,283**	**466**	**817**

21 Financial Instruments and Financial Risk Management

CREDIT AND LIQUIDITY RISK

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

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are based on external ratings. However, the Group's revenues and accounts receivable are subject to credit risk as a result of customer concentration. The Group's most significant customer accounted for € 8.3 million of trade receivables as of 31 December 2012 (31 December 2011: € 8.9 million). This customer individually accounted for approximately 92% of the accounts receivables of the Group's continuing operations as of 31 December 2012. Three customers individually accounted for 91%, 3%, and 3% of the total revenues of the continuing operations in 2012. On 31 December 2011, one customer had accounted for 73% of the Group's accounts receivables and three customers individually had accounted for 72%, 2%, and 2% of the Group's revenues in 2011. Based on the management's assessment, allowances of € 79,196 and € 19,078 in relation to the discontinued operations of the AbD Serotec segment were necessary as of 31 December 2012 and 2011. The carrying amounts of financial assets represent the maximum credit exposure.

The maximum exposure for credit risk of trade receivables at the balance sheet date by geographic region was composed as follows:

in €	31/12/2012	31/12/2011
Europe and Asia	8,683,001	10,981,860
USA and Canada	241,197	1,221,377
Other	0	0
Total from Continuing Operations	8,924,198	12,203,237
Total from Discontinued Operations	1,703,450	0
TOTAL	**10,627,647**	**12,203,237**

The aging of trade receivables at the balance sheet date was structured as follows:

in €; A/R are due in	31/12/2012 0 (30) days	31/12/2012 30 (60) days	31/12/2012 60 + days	31/12/2012 Total
Accounts Receivable	5,141,303	2,147,236	1,635,658	8,924,197
Allowance for Impairment	0	0	0	0
Total from Continuing Operations	5,141,303	2,147,236	1,635,658	8,924,197
Total from Discontinued Operations	1,438,486	183,536	81,428	1,703,450
Accounts Receivable, Net of Allowance for Impairment	6,579,789	2,330,772	1,717,086	10,627,646

in €; A/R are due in	31/12/2011 0 (30) days	31/12/2011 30 (60) days	31/12/2011 60 + days	31/12/2011 Total
Accounts Receivable	9,519,422	851,283	1,851,610	12,222,315
Allowance for Impairment	(19,078)	0	0	(19,078)
Accounts Receivable, Net of Allowance for Impairment	9,500,344	851,283	1,851,610	12,203,237

As of 31 December 2012, accounts receivable of the Group included overdue items, mainly from discontinued operations, in the amount of € 0.1 million, for which impairment was not deemed necessary as the receivables were not overdue by more than 60 days.

As of 31 December 2012 and 31 December 2011, the Group was not exposed to a credit risk from derivative financial instruments. The maximum exposure for credit risk of financial guarantees (rent deposits) at the balance sheet date amounted to € 1.3 million (31 December 2011: € 1.2 million).

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

MARKET RISK

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

CURRENCY RISK

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

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

as of 31 December 2012; in €	EUR	USD	GBP	Other	Total
Cash and Cash Equivalents	38,460,777	1,233,596	995,492	0	40,689,865
Available-for-sale Assets	79,722,222	0	0	0	79,722,222
Accounts Receivable	8,697,667	226,530	0	0	8,924,197
Accounts Payable and Accrued Expenses	10,594,593	57,576	7,921	0	10,660,090
TOTAL	**137,475,259**	**1,517,702**	**1,003,413**	**0**	**139,996,374**

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

Different foreign exchange rates and their impact on assets and liabilities have been simulated in a detailed sensitivity analysis in order to determine resulting effects on the income statement. A ten percent increase of the euro against the US dollar as of 31 December 2012 would have decreased the profit for the continuing operations of the Group by € 0.1 million (assuming that interest rates remain constant). A ten percent weakening of the euro against the US dollar would have increased the profit for the continuing operations of the Group by € 0.2 million. A ten percent increase of the euro against the British pound as of 31 December 2012 would have decreased the profit for the Group by € 0.1 million (assuming that interest rates remain constant). A ten percent weakening of the euro against the British pound would have increased the profit for the Group by € 0.1 million.

A ten percent increase of the euro against the US dollar as of 31 December 2011 would have decreased the Group's profit by € 0.1 million (assuming that interest rates remain constant). A ten percent weakening of the euro against the US dollar would have increased the Group's profit by € 0.2 million. A ten percent increase of the euro against the British pound as of 31 December 2011 would have decreased the Group's profit by € 0.1 million (assuming that interest rates remain constant). A ten percent weakening of the euro against the British pound would have increased the Group's profit by € 0.1 million.

If the foreign exchange rates for US dollar against the euro and the British pound against the euro had remained constant at the average rate of 2011, revenues of the continuing operations of the Group would have been lower by € 0.4 million (2011: Group revenues would have been higher by € 1.1 million).

INTEREST RATE RISK

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

FAIR VALUE HIERARCHY AND VALUATION METHODS

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying value of financial assets and liabilities such as cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximates their fair value due to the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market prices (Hierarchy Level 1, quoted prices in active markets; see Notes to the Consolidated Financial Statements – section 10*). None of the financial assets and liabilities are categorized in Level 2 or 3. The fair value of licenses payable is determined by the effective interest method. Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements. There were no transfers from one fair value hierarchy level to another in 2012 and 2011.

*CROSS-REFERENCE /// SEE PAGE 89

The fair values of financial assets and liabilities, together with the carrying amounts presented in the consolidated balance sheet, were composed as follows:

31 December 2012 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash and Cash Equivalents	9	0	40,690	0	0	40,690	40,690
Accounts Receivable	11	0	8,924	0	0	8,924	8,924
Forward Exchange Contracts Used for Hedging	12	0	0	0	0	0	0
Other Receivables		0	10,298	0	0	10,298	10,298
Shares available for Sale, net of Current Portion		0	0	882	0	882	882
Available-for-sale Financial Assets	10	0	0	79,722	0	79,722	79,722
Assets of Disposal Group Classified as Held for Sale	17	0	0	40,855	0	40,855	40,855
		0	**59,912**	**121,459**	**0**	**181,371**	**181,371**
Convertible Bonds – Liability Component	23	0	0	0	(74)	(74)	(74)
Accounts Payable and Accrued Expenses	19	0	0	0	(10,660)	(10,660)	(10,660)
Liabilities of Disposal Group Classified as Held for Sale	17	0	0	(3,733)	0	(3,733)	(3,733)
		0	**0**	**(3,733)**	**(10,734)**	**(14,467)**	**(14,467)**

31 December 2011 (in 000's €)	Note	Fair Value – Hedging Instruments	Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
Cash and Cash Equivalents	9	0	54,596	0	0	54,596	54,596
Accounts Receivable	11	0	12,203	0	0	12,203	12,203
Forward Exchange Contracts Used for Hedging	12	0	0	0	0	0	0
Available-for-sale Financial Assets	10	0	0	79,769	0	79,769	79,769
Assets of Disposal Group Classified as Held for Sale	17	0	0	785	0	785	785
		0	**66,799**	**80,554**	**0**	**147,353**	**147,353**
Convertible Bonds – Liability Component	23	0	0	0	(74)	(74)	(74)
Accounts Payable and Accrued Expenses	19	0	0	0	(19,111)	(19,111)	(19,111)
Liabilities of Disposal Group Classified as Held for Sale	17	0	0	0	0	0	0
		0	**0**	**0**	**(19,185)**	**(19,185)**	**(19,185)**

22 Stockholders' Equity

COMMON STOCK

On 31 December 2012, the common stock of the Company including treasury shares amounted to € 23,358,228. This represented an increase of € 246,061 compared to 31 December 2011 (€ 23,112,167). Each share of common stock is entitled to one vote. The increase arose as a result of the exercise of 246,061 options issued to the Management Board and to employees.

On 31 December 2011, the common stock of the Company had amounted to € 23,112,167. The increase of € 221,915, or 221,915 shares, compared to 31 December 2010, was the result of the conversion and exercise of convertible bonds and options in 2011.

On 31 December 2012, treasury shares amounted to € 3,594,393 (255,415 shares) and increased by € 1,837,552 compared to 31 December 2011 (163,915 shares, € 1,756,841), due to the repurchase of 91,500 MorphoSys shares on the stock market in connection with the long-term incentive plan for MorphoSys AG's management.

AUTHORIZED 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.

CONDITIONAL CAPITAL

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

In 2011, a total of 3,696, 95,400 and 122,819 shares had been raised from Conditional Capital II, IV and V respectively with subscribed capital increasing by € 3,696, € 95,400 and € 122,819 from respective Conditional Capitals.

ADDITIONAL PAID-IN CAPITAL

On 31 December 2012, additional paid-in capital amounted to € 175,245,266 (31 December 2011: € 170,778,474). The total increase of € 4,466,792 is due to stock-based compensation in the amount of € 1,268,792, including the intrinsic value of convertible bonds. A further increase of € 3,198,000 arose from the exercise and conversion of options and convertible bonds in the year 2012.

In 2011, the additional paid-in capital had increased by € 4,390,391, resulting from stock-based compensation of € 1,488,342 and € 2,902,049 from the exercise and conversion of options and convertible bonds.

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

*CROSS-REFERENCE /// SEE PAGE 102–104 AND 105

REVALUATION RESERVE

As of 31 December 2012, the revaluation reserve amounted to € 486,743 (31 December 2011: € 612,227). The decrease by € 125,484 was caused by the change in unrealized gains on available-for-sale financial assets, net of deferred taxes, in the amount of € 131,488 and the effects from equity-related recognition of deferred taxes in the amount of € 6,005.

TRANSLATION RESERVE

The translation reserve changed from € – 1,292,325 as of 31 December 2011 by € 182,460 to € 1,109,865 as of 31 December 2012. The line item comprises foreign exchange rate differences from the currency translation of assets and liabilities as of 31 December 2011 as well as differences from foreign exchange rates as used in the balance sheet and the income statement. The differences mainly arise from entities of the discontinued operation AbD Serotec, which are led in their local foreign currencies.

23 Convertible Bonds

On 1 April 2010, 352,800 convertible bonds were granted to Management Board members and employees of MorphoSys AG. The exercise price for the convertible bonds was € 16.79, representing the market price in the final Xetra auction at the Frankfurt Stock Exchange on the day of trading prior to the convertible bonds being issued. Each convertible bond with a nominal value of € 0.33 can be exchanged for one no-par value ordinary share of the Group against payment of the exercise price. The beneficiaries may exercise the conversion rights only after the expiration of a four-year vesting period from grant date. The exercise of the conversion rights is only possible if on one trading day during the lifetime of the convertible bonds the stock exchange price of one share has amounted to at least 110% of the exercise price at grant date. The convertible bonds can no longer be exercised after 31 December 2015. In the event of non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (€ 0.33 per bond/share). The convertible bonds are recorded at their attributive values, which approximate the amount of capital due on the day of maturity.

The table below summarizes the progression of the Group's employee incentive convertible bonds plan for the financial years 2012 and 2011:

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON 1 JANUARY 2011	**448,200**	**15.94**
Granted	0	0
Exercised	(95,400)	12.81
Forfeited	(24,750)	16.79
Expired	0	0
OUTSTANDING ON 31 DECEMBER 2011	**328,050**	**16.79**
OUTSTANDING ON 1 JANUARY 2012	**328,050**	**16.79**
Granted	0	0
Exercised	0	0
Forfeited	(7,500)	16.79
Expired	0	0
OUTSTANDING ON 31 DECEMBER 2012	**320,550**	**16.79**

Convertible bonds exercisable on 31 December 2012 and 2011 amounted in each case to 0 shares.

The following table presents the weighted-average exercise price and information about the contractual life for significant convertible bond groups outstanding on 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**

The Group accounts for stock-based compensation in accordance with IFRS 2 and IAS 32.28. The equity portion of the bonds is presented separately in the capital reserve and is deducted from the fair value of the bonds. The remaining value is recognized as stock-based compensation. The compensation expense recorded in 2012 and 2011 in connection with convertible bonds amounted to € 331,079 and € 666,920, respectively.

24 Stock Options

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

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

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

The following table summarizes the progression of the Group's employee incentive stock option plans for the years 2012 and 2011:

	Shares	Weighted-average Price (€)
OUTSTANDING ON 1 JANUARY 2011	**924,017**	**13.56**
Granted	0	0
Exercised	(126,515)	15.16
Forfeited	0	0
Expired	0	0
OUTSTANDING ON 31 DECEMBER 2011	**797,502**	**13.31**
OUTSTANDING ON 1 JANUARY 2012	**797,502**	**13.31**
Granted	0	0
Exercised	(246,061)	14.00
Forfeited	0	0
Expired	0	0
OUTSTANDING ON 31 DECEMBER 2012	**551,441**	**13.00**

Stock options exercisable on 31 December 2012 and 2011 amounted to 451,391 and 503,657 shares, respectively. The weighted-average exercise price of exercisable stock options amounted to € 13.04 on 31 December 2012.

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on 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	**0.83**	**13.00**	**451.391**	**13.04**

The Group accounts for stock-based compensation in accordance with IFRS 2, 'Share-based Payment'. Compensation expense recorded in connection with stock options in 2012 and 2011 amounted to € 168,044 and € 528,477, respectively.

25 Stock Appreciation Rights

On 1 October 2010, 15,000 stock appreciation rights were granted to employees of MorphoSys AG with terms and conditions identical to the convertible bond grant from 1 April 2010. Convertible bonds are to be settled by physical delivery of shares, while stock appreciation rights are settled in cash. The exercise price for the stock appreciation rights amounted to € 29.30 on 31 December 2012. The compensation expense amounted to € 79,375 in 2012, while the corresponding fixed liability on 31 December 2012 amounted to € 144,176. The stock appreciation rights can no longer be exercised after 30 June 2016.

26 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 plan qualifies as an equity-settled share-based payment transaction according to IFRS 2 and is accounted for accordingly. 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.
*CROSS-REFERENCE /// SEE PAGE 88

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 were forfeited in 2012, because a beneficiary of the LTI plan established in 2011 left MorphoSys.

On 31 December 2012, stock-based compensation from the Group's LTI plans amounted to € 769,670 (December 2011: € 292,945).

27 Operating Leases and Other Commitments

The Group leases facilities and equipment on long-term operating leases. Total rent expense for the continuing operations amounted to € 1,713,477 and € 1,738,810 in the fiscal years 2012 and 2011, respectively. Significant leasing contracts mainly related to the buildings rented. The majority of these contracts can be renewed on an annual or quarterly basis. Some contracts can be terminated early.

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

in 000's €	Rent and Leasing 2012	Rent and Leasing 2011	Other 2012	Other 2011
Up to One Year	1,562	3,129	1,245	681
Between One and Five Years	2,114	5,519	24	15
More than Five Years	0	3,726	0	0
TOTAL	**3,676**	**12,374**	**1,269**	**696**

The total expenses for the continuing operations due to operating leases, insurances and other services in the fiscal years 2012 and 2011 amounted to € 3,311,122 and € 3,566,436, respectively.

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

in 000's €	Total 2012
Up to One Year	8,540
Between One and Five Years	11,989
More than Five Years	0
TOTAL	**20,529**

28 Contingencies

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

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

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

Total 2012 – Continuing Operations	Total 2012 – Discontinued Operations	Rent and Leasing 2012 – Discontinued Operations	Rent and Leasing 2011 – Discontinued Operations	Total 2012	Total 2011
2,807	3,810	1,036	0	3,843	3,810
2,138	5,534	2,587	0	4,725	5,534
0	3,726	0	0	0	3,726
4,945	**13,070**	**3,623**	**0**	**8,568**	**13,070**

29 Related Parties

The Group has related-party transactions with its Management Board members and with members of the Supervisory Board. In addition to the cash remuneration, the Group has issued stock options, convertible bonds and performance shares to the Management Board. The tables below show the shares, stock options, convertible bonds and performance shares as well as the changes of ownership in the same held by members of the Management Board and the Supervisory Board during the year 2012:

SHARES

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

No stock options, convertible bonds or performance shares are held by the Supervisory Board.

The salaries of the Management Board and the Supervisory Board consisted of fixed and variable components as well as other compensatory benefits. In the event of non-reappointment and non-prolongation of the service agreement, each member of the Management Board is entitled to receive a severance payment in the amount of one annual fixed salary. Total compensation for the Supervisory Board excluding reimbursements of travel expenses amounted to € 478,197 in 2012 (2011: € 384,750).

The tables below show the detailed compensation for 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 Grantin €	in €
Dr. Simon E. Moroney	401,980	139,555	226,689	18,976	365,000	1,133,224
Jens Holstein	271,867	129,836	176,890	12,997	250,000	828,593
Dr. Arndt Schottelius	272,700	103,841	164,155	12,997	250,000	790,696
Dr. Marlies Sproll	272,700	96,609	162,653	12,997	250,000	781,962
TOTAL	**1,219,247**	**469,841**	**730,387**	**57,967**	**1,115,000**	**3,534,475**

* 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 Grantin €	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 were paid out in February 2012.

SUPERVISORY BOARD COMPENSATION 2012 AND 2011:

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	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
GESAMT	**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

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

The Senior Management Group held 150,026 stock options on 31 December 2012 (31 December 2011: 310,320 shares), 180,000 convertible bonds (31 December 2011: 195,000 shares), 15,000 stock appreciation rights (SARs) (31 December 2011: 15,000 shares) and 63,184 performance shares (31 December 2011: 30,022 shares) that were granted to it by the Company. No further share options, convertible bonds or stock appreciation rights were issued to the Senior Management Group in 2012. However, 35,825 Performance Shares were granted in 2012 under the second long-term incentive plan. 160,294 share options were exercised in 2012, while no convertible bonds or stock appreciation rights were exercised in the same period. 2,663 performance shares and 7,500 convertible bonds forfeited in 2012 as a beneficiary left MorphoSys. This beneficiary continues to hold 7,500 convertible bonds.

30 Corporate Governance

The Group issued its declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code for fiscal year 2012 according to sec. 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made permanently accessible to stockholders accordingly on the Group's website (www.morphosys.de) on 7 December 2012.

31 Research and Development Agreements

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

PARTNERED DISCOVERY SEGMENT

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

The active collaboration with several partners was already concluded prior to the fiscal year 2012 as the original term of the agreements came to an end. Drug development programs initiated during the active phase are designed in such way that they can be continued by the partner and thus, could result in future success-based payments upon meeting defined milestones. More details on individual drug candidates within the various alliances, restricted to public information, can be found in the Research & Development* section and in the overview of the Group's drug pipeline in this report. More details on the individual research alliances can be found on the Group's website.

*CROSS-REFERENCE /// SEE PAGE 16

Partnerships, that were already concluded prior to the start of 2012, but had active drug development programs ongoing, include (in alphabetic order): Bayer Healthcare Pharmaceuticals, Boehringer Ingelheim, Daiichi-Sankyo, F. Hoffmann-La Roche, Janssen Biotech (formerly Centocor Ortho Biotech), Merck & Co., OncoMed Pharmaceuticals, Pfizer, Prochon Biotech Ltd. and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships, that were still active during 2012, included (in alphabetic order), Astellas, ContraFect, GeneFrontier Corporation/Kaneka and Novartis. Of those partnerships, the active collaboration with Astellas was concluded in 2012.

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

In November 2012 Morphosys and Novartis formed an alliance for the use of the new technology platform Ylanthia. This expansion of the existing strategic alliance represented the marketing launch of Ylanthia and should result in even better antibody technologies that can be developed faster than ever before.

PROPRIETARY DEVELOPMENT SEGMENT

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

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

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

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

Xencor completed the phase 1 trial in the fiscal year 2012 and presented clinical data. MorphoSys intends to continue the clinical development in phase 2 trials in 2013.

In November 2012, MorphoSys announced a collaboration with privately held Lanthio Pharma B.V, a Dutch biopharmaceutical company focused on discovering and developing lantipeptides. MorphoSys also made an equity investment in Lanthio Pharma as part of the company's Series A financing round. Lantipeptides comprise a novel class of therapeutics with high target selectivity and improved drug-like properties. Lanthio Pharma's technology LanthioPep can be used to identify peptides which are selective for a specific disease target and to stabilize them in their optimal structural conformation for receptor binding. MorphoSys and Lanthio Pharma will jointly apply their respective technologies to establish high quality and diverse lantipeptide-based libraries. MorphoSys receives preferred rights to exclusively license the LanthioPep technology for drug discovery.

ABD SEROTEC SEGMENT

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

Entities included in Consolidation (Appendix 1)

APPENDIX 1: CONSOLIDATED COMPANIES ON 31 DECEMBER 2012

Name and Corporate Seat of the Company	Local Currency	Exchange Rate on Dec 31, 2012 one Unit of Euro in Local Currency	
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY) – CONTINUED OPERATIONS			
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US $	1.32433	
MorphoSys IP GmbH, Munich, Germany	€	–	
Poole Real Estate Ltd., Poole, UK	£	0.82061	
Sloning BioTechnology GmbH, Puchheim, Germany	€	–	
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY) – DISCONTINUED OPERATIONS			
MorphoSys UK Ltd., Oxford, UK	£	0.82061	
MorphoSys US, Inc., Raleigh, North Carolina, USA	US $	1.32433	
MorphoSys AbD GmbH, Düsseldorf, Germany	€	–	

	Share of Capital %	Share Capital in Local Currency	Total Assets in Local Currency	Total Liabilities in Local Currency	Total Revenue in Local Currency	Profit/Loss in Local Currency
	100	2,000	11,425	0	0	(1,353)
	100	25,000	3,281,354	3,252,873	3,343,800	(4,597)
	100	200	815,307	6,500	0	(19,557)
	100	951,660	12,676,488	4,066,295	3,226,156	2,515,969
	100	100	7,627,474	2,128,061	8,685,213	367,416
	100	50,000	3,068,992	788,969	8,600,826	201,565
	100	25,000	1,437,727	99,849	2,660,086	77,193

Responsibility Statement

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

Martinsried, 18 February 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

Auditor's Report

We have audited the consolidated financial statements prepared by MorphoSys AG, Martinsried, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the group management report for the business year from 1 January 2012 to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and supplementary provisions of the articles of incorporation are the responsibility of the Parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code 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 Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 19 February 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

Dietmar Eglauer
Wirtschaftsprüfer
(German Public Auditor)

Glossary

A

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

ADCC – Antibody-dependent cell-mediated cytotoxicity; a mechanism of cell-mediated immunity whereby an effector cell of the immune system actively destroys a target cell that has been bound by specific antibodies

ADCP – Antibody dependent cellular phagocytosis

ALL – Acute lymphoblastic leukemia; a form of cancer of the white blood cells characterized by excess lymphoblasts

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

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

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

B

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

Bispecific – Antibody consisting of parts from two different antibodies

BiTE – A class of artificial bispecific monoclonal antibodies that are investigated for the use as anti-cancer drugs by directing the T cells' cytotoxic activity against cancer cells. BiTE® is a registered trademark of Micromet AG

C

CAGR – Compound annual growth rate

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

CD19 – Therapeutic target for the treatment of B-cell lymphomas and leukemias

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

CD38 – Therapeutic target for the treatment of multiple myeloma and certain leukemias

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

CLL – Chronic lymphocytic leukemia; most common type of cancer of the blood and bone marrow, affecting the B-cells

CMO – Contract Manufacturing Organization

CRO – Contract Research Organization

CTO – Contract Testing Organization

E

EMA – European Medicines Agency

F

Fc-engineered – Modification within the Fc part of an antibody to improve effector function

Fc-part – Constant part of an antibody known as the Fc (Fragment, crystallizable) region

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

G

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

GLP – Good laboratory practice; a formal framework for the implementation of safety tests on chemical products

GM-CSF – Granulozyte-macrophage colony-stimulating factor; underlying target molecule of MOR103 program

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

H

HGB – German accounting standards

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

Human – Of human origin

I

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

Inclusion Body Myositis – Inflammatory myopathy

Inflammatory diseases – Inflammatory tissue modification, often caused by autoimmune reactions

Innovation capital – Investments in start-ups with technologies and product candidates being close to MorphoSys's areas of interest

in vitro – In a test tube

in vivo – In a living organism

L

Lantipeptides – Novel class of therapeutics with high target selectivity and improved drug-like properties

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

M

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

M&A – Mergers & Acquisitions

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

MRSA – Methicillin-resistant Staphylococcus aureus; type of bacteria that is resistant to certain antibiotics and causing severe infections; occurs most frequently among patients in healthcare settings

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

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

N

NHL – Non-Hodgkin lymphomas; diverse group of blood cancers that include any kind of lymphoma except Hodgkin's lymphomas

P

Pharmacodynamics – Study of the effects of drugs on the body

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

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

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

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

R

R&D – Research and Development

Research Reagents – A substance used in research applications

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

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

S

Scaffolds – Proteins with antibody-like capabilities

Slonomics – DNA engineering and protein library generation platform acquired by MorphoSys in 2010

Small molecules – Low molecular compounds

T

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

Target Product Profile (TPP) – Summary of specifications on a planned therapeutic product

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

Toxicity – Poisonousness

Trifunctional antibodies – Modified antibody binding three target structures

Y

Ylanthia – Novel next-generation antibody platform of MorphoSys

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