ANNUAL REPORT

2017

morphosys

Engineering the Medicines of Tomorrow

Product Pipeline

MorphoSys's Product Pipeline (March 8, 2018)

MOST ADVANCED DEVELOPMENT STAGE

PROGRAM / PARTNER INDICATION	DISCOVERY	PRECLINIC	PHASE 1	PHASE 2	PHASE 3	MARKET
Tremfya®[1] (guselkumab) / Janssen/J&J Psoriasis	●	●	●	●	●	●
Gantenerumab / Roche Alzheimer's disease	●	●	●	●	●	○
MOR208 / not partnered Hematological malignancies	●	●	●	●	●	○
Anetumab ravtansine (BAY94-9343) / Bayer Solid tumors	●	●	●	●	○	○
BHQ880 / Novartis Multiple myeloma	●	●	●	●	○	○
Bimagrumab (BYM338) / Novartis Musculoskeletal diseases	●	●	●	●	○	○
CNTO6785 / Janssen/J&J Inflammation	●	●	●	●	○	○
MOR103 (GSK3196165) / GlaxoSmithKline Inflammation	●	●	●	●	○	○
MOR202 / I-Mab Biopharma[2] Multiple myeloma	●	●	●	●	○	○
NOV-12 (MAA868) / Novartis Prevention of thrombosis	●	●	●	●	○	○
Setrusumab (BPS804) / Mereo/Novartis Brittle bone syndrome	●	●	●	●	○	○
Tesidolumab (LFG316) / Novartis Eye diseases	●	●	●	●	○	○
Utomilumab (PF-05082566) / Pfizer Cancer	●	●	●	●	○	○
VAY736 / Novartis Inflammation	●	●	●	●	○	○
Xentuzumab (BI-836845) / BI Solid tumors	●	●	●	●	○	○

MOST ADVANCED DEVELOPMENT STAGE

PROGRAM / PARTNER INDICATION	DISCOVERY	PRECLINIC	PHASE 1	PHASE 2	PHASE 3	MARKET
BAY1093884 / Bayer Hemophilia	●	●	●	○	○	○
Elgemtumab (LJM716) / Novartis Cancer	●	●	●	○	○	○
MOR106 / Galapagos Inflammation	●	●	●	○	○	○
MOR107[3] (LP2-3) / not partnered Not disclosed	●	●	●	○	○	○
NOV-7 (CLG561) / Novartis Eye diseases	●	●	●	○	○	○
NOV-8 / Novartis Inflammation	●	●	●	○	○	○
NOV-9 (LKA651) / Novartis Diabetic eye diseases	●	●	●	○	○	○
NOV-10 (PCA062) / Novartis Cancer	●	●	●	○	○	○
NOV-11 / Novartis Blood disorders	●	●	●	○	○	○
NOV-13 (HKT288) / Novartis Cancer	●	●	●	○	○	○
NOV-14 / Novartis Asthma	●	●	●	○	○	○
PRV-300 (CNTO3157) / ProventionBio Inflammation	●	●	●	○	○	○
Vantictumab (OMP-18R5) / OncoMed Solid tumors	●	●	●	○	○	○

1 We still consider Tremfya® a phase 3 compound due to ongoing studies in various indications.
2 For development in the Greater China market (China, Hong Kong, Taiwan, Macao).
3 A phase 1 study in healthy volunteers was completed. MOR107 is currently in preclinical investigation with a focus on oncology indications.

LEGEND: ● MOR PROGRAM ● OUT-LICENSED MOR PROGRAM ● PARTNERED DISCOVERY PROGRAM

114

Programs in Total

1
OUT-LICENSED PROGRAM

101
PARTNERED DISCOVERY PROGRAMS

12
PROPRIETARY PROGRAMS

28

*Clinical Product Candidates**

13
IN PHASE 1

12
IN PHASE 2

3
IN PHASE 3

**In addition, 7 proprietary programs and 54 partnered discovery programs are in discovery stage, 1 proprietary and 24 partnered discovery programs are in preclinic.*

ENGINEERING THE MEDICINES OF TOMORROW

Our mission is to make exceptional, innovative biopharmaceuticals to improve the lives of patients suffering from serious diseases. We are driven by a desire to make the medicines of tomorrow a reality.

MorphoSys at a glance

Figures, data, facts (December 31, 2017)

More than

70

active clinical studies with MorphoSys antibodies

PROGRAMS IN
discovery

61

PROGRAMS IN
preclinic

25

PROGRAMS IN
phase 1

13

PROGRAMS IN
phase 2

12

PROGRAMS IN
phase 3

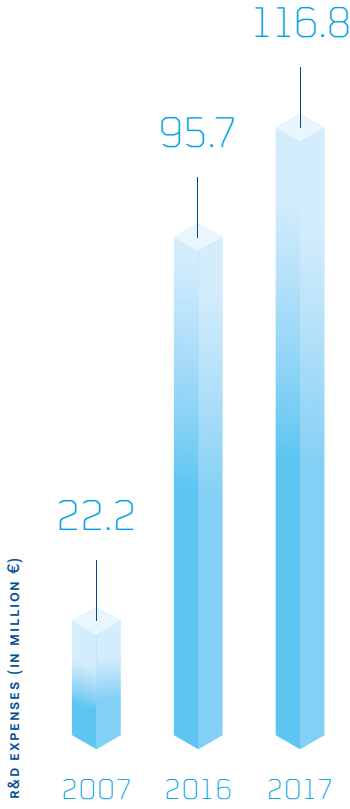
3

326

employees

34

nations



INDICATIONS:

52 %

oncology

27 %

autoimmune and inflammatory diseases

11 %

musculoskeletal diseases

6 %

eye diseases

4 %

neurological diseases

13

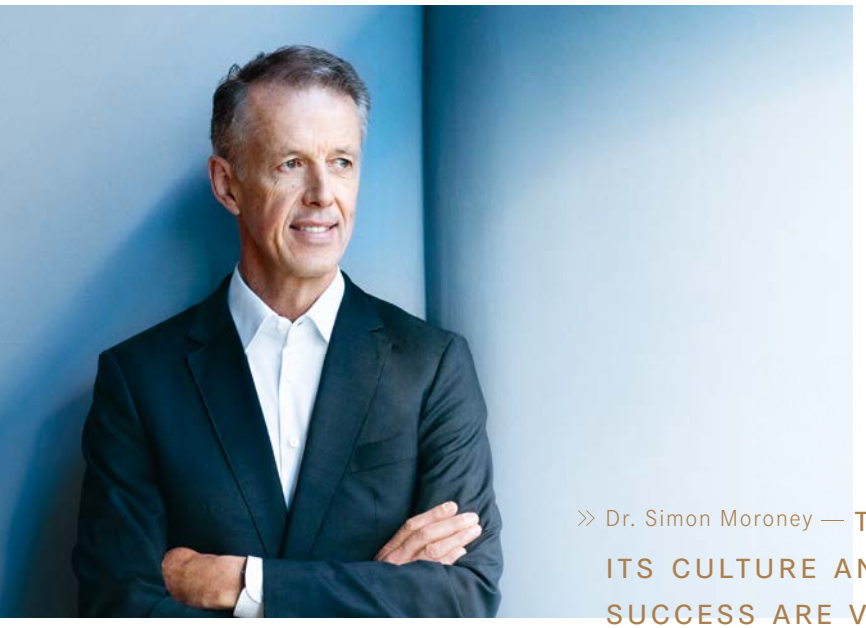
MOR Programs

DRUG CANDIDATES IN CLINICAL DEVELOPMENT

Please find additional information in our online magazine.

https://reports.morphosys.com/2017/

Contents



» Dr. Simon Moroney — THE COMPANY, ITS CULTURE AND OUR FUTURE SUCCESS ARE VERY DEPENDENT ON OUR EMPLOYEES – ON THEIR INSPIRATION, THEIR MOTIVATION, THEIR HARD WORK. «

What was your motivation to found MorphoSys 25 years ago and what do you believe is a key success factor?

Dr. Simon Moroney – We were motivated to found MorphoSys by the shared goal to build something – to build a company. We had specific technical ideas about how we could make human antibodies, substances for therapeutics. It was a shared desire to move away from what we had done in the past, be at some level independent, be responsible for our own futures.

I think that cultural aspect is one of the things that makes MorphoSys an attractive place for people to work. We take care to look after our people, to give people career opportunities.

ONLINE REPORT

Watch the full interview with Dr. Simon Moroney

https://reports.morphosys.com/2017/#interview

Interview with
Dr. Simon Moroney, CEO and
cofounder of MorphoSys

MorphoSys aims to intensify clinical development of its own therapeutic compounds in order to address the needs of patients suffering from serious diseases. Why is this a crucial objective for the company?

Dr. Simon Moroney — It's also a moral aspect. If a company controls technologies that can be used to develop better therapeutic substances, I believe there is almost a duty to apply those technologies to the benefit of patients.

An example from our own portfolio is an antibody that we're developing for a form of lymphoma, where we have shown in first clinical trials that we can really make a difference for patients suffering from this very serious illness.

How will the headlines about MorphoSys read in 25 years?

Dr. Simon Moroney — I'm confident that MorphoSys will be a significant player in our industry. I'm confident that we'll continue to be a source of innovation in the pharmaceutical industry, a source of the next generation of products – that we make a difference for patients.

» Dr. Simon Moroney — I AM CONFIDENT THAT WE CONTINUE TO BE A SOURCE OF INNOVATION IN THE PHARMACEUTICAL INDUSTRY – THAT WE MAKE A DIFFERENCE FOR PATIENTS. «

Goals and Strategy

On our way to becoming a fully integrated biopharmaceutical company

MOR Programs

The Proprietary Development segment is becoming increasingly important: in 2017, the first proprietary program progressed into a pivotal clinical trial. Additional four programs are in clinical development.

Partnered Programs

In the Partnered Discovery segment, we identify optimized therapeutic antibodies on behalf of partners. In 2017, Tremfya® was the first product derived from a partnership to receive market approval.

Innovations

Innovative technologies and smart development strategies are central to our approach. Success is created by our employees, who collaborate closely across all disciplines.

Strategy

MorphoSys's goal is to develop exceptional biopharmaceuticals to improve the lives of patients suffering from serious diseases. With the successful transformation from a technology provider to a drug development company, we are well on the way to achieving this goal.

MOR106 — MOR106 is the first Ylanthia antibody in clinical development, being investigated for the treatment of atopic dermatitis.

In cooperation with our partner Galapagos we are developing the antibody against inflammatory skin diseases. Find out more in our online magazine.

https://reports.morphosys.com/2017/#mor106

MOR208 —— Exploring new ways and treatment options for blood cancer patients.

MOR208 is being developed in a pivotal clinical trial for the treatment of malignant B cell diseases. Find out more in our online magazine.

https://reports.morphosys.com/2017/#mor208

Tremfya® — Tremfya® is the first HuCAL antibody with market approval in the United States, Europe and Canada for the treatment of moderate-to-severe psoriasis.

The compound is marketed by our partner Janssen and investigated in additional indications. Find out more in our online magazine.

https://reports.morphosys.com/2017/#tremfya

DR. MARKUS ENZELBERGER
Chief Scientific Officer

DR. SIMON MORONEY
Chief Executive Officer

DR. MALTE PETERS
Chief Development Officer

JENS HOLSTEIN
Chief Financial Officer

Letter to the Shareholders

Dear fellow shareholders, ladies and gentlemen,

In 2017, MorphoSys took a large step towards our goal of becoming a fully integrated biopharmaceutical company. We made substantial progress in both the Partnered Discovery and Proprietary Development segments of our business. The major highlights were, first, the approval of our partner Janssen's Tremfya® and second, clinical data that, we hope, hint at a bright future for our proprietary program MOR208. These and other developments point to the successful execution of our strategy, which is focused on developing innovative biopharmaceuticals to help patients suffering from serious diseases.

In 2017, we took a large step towards our goal of becoming an integrated biopharmaceutical company. The major highlights were the approval of Tremfya® and clinical data for MOR208.

Our heritage is that of a company that commands a technology for making therapeutics belonging to an important class – human antibodies. It has always been our ambition to make active substances that are optimized for their safety, therapeutic activity and ideally, their convenience. We believe that by selecting and optimizing the best possible molecule from our antibody library, we can have a positive impact on a patient's disease and on his or her quality of life. This is the motivation that drives all of us at MorphoSys, from the lab scientist to the office worker.

In July 2017, we witnessed a wonderful illustration of how our technology can deliver great drugs when our partner Janssen brought a new product, Tremfya®, to the market. This drug, which comprises an antibody made using our proprietary HuCAL technology as the active substance, is for the treatment of moderate-to-severe psoriasis, a terribly debilitating disease. The vision that underlies all of our therapeutic projects looks like being realized in Tremfya®: data from clinical trials showed that it is highly effective in treating psoriasis, with a bi-monthly self-administration that is very convenient for patients. Janssen is continuing the development of Tremfya® in psoriasis as well as in other indications. In the meantime, Tremfya® has been approved by regulatory authorities in the United States, Europe and Canada and we are hopeful that it will become a highly successful drug.

In October, a second major milestone was reached when we received breakthrough therapy designation (BTD) from the US Food and Drug Administration (FDA) for our proprietary product candidate MOR208. BTD is awarded for an investigational drug to treat a serious condition when preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy on a clinically significant endpoint. The evidence that led to this award came from our L-MIND trial, which is investigating a combination of lenalidomide and MOR208 in older patients suffering from a particularly aggressive form of lymphoma, for which there are no

We also entered our first ever deal with a Chinese company, I-Mab Biopharma, who will develop MOR202 in the Chinese region.

approved treatments. Preliminary data showed that over half the patients in the trial experienced a response, with a third of them showing a complete response. The data also revealed that the responses were long lasting and, in the vast majority of responding patients, are still ongoing. Our goal now is to complete clinical testing within the L-MIND study. We will continue the ongoing discussion with the FDA on the potential path to market for MOR208, including the possibility of an expedited regulatory submission primarily based on L-MIND.

We believe that if MOR208 approval is obtained, it offers a great opportunity for us to advance MorphoSys to a fully-integrated commercial biopharmaceutical company. It is a product that could be used in a relatively limited number of hemato-oncology centers, which can be targeted with a relatively modestly-sized sales force. We are convinced that by pursuing our own commercialization strategy for MOR208, we can maximize the value within this therapeutic program.

Tremfya® and MOR208 were the two most visible highlights of a strong year for our pipeline of therapeutic agents. Two others worthy of mention are MOR202 and MOR106. In November, we entered our first ever deal with a Chinese company, when we signed a deal with I-Mab Biopharma, who will develop MOR202 in the Chinese region. The Chinese market for pharmaceuticals is huge, is developing extremely rapidly and is becoming much more accessible to medicines from the west. In I-Mab, we believe we have found an ideal partner for MOR202, and we look forward to supporting them in their objective of developing MOR202 quickly. We expect I-Mab to start clinical trials in China later this year. Meanwhile, we are exploring opportunities for the further development of MOR202, either alone or with partners, in one or more oncology indications, including non-small-cell lung cancer.

In October, we published first results from our phase 1 trial of MOR106. This antibody, which is being co-developed under a 50 : 50 cost- and rights-sharing agreement with Galapagos, is being tested for the treatment of atopic dermatitis, a very widespread and poorly treated skin disease. The phase 1 data showed that MOR106 was generally well tolerated, and showed first signs of activity in reducing the signs and symptoms of the disease. We also observed that the effect was durable – although the drug was only administered for four weeks, the positive impact on the disease was observable for up to three months. The next step is phase 2 development, which is planned to commence in 2018.

We are deliberately evolving away from our earlier business model in which we provided discovery services to pharmaceutical companies. This change gives us a greater opportunity to create long-term value, as has been seen in the development of our share price over the last couple of years. It is, however, not without short-term consequences. For example the end of our collaboration with Novartis, which came, as planned, in November 2017 has an immediate negative impact on our revenues. I am convinced that this is the right step in the long run for several reasons – we have more freedom over which projects we work on, more control over their development and most importantly, retain more value for the company. The programs we have worked on with our pharmaceutical partners will, nonetheless, serve us extremely well in the years to come. Tremfya® is just one of 100 Partnered Discovery programs on which we could earn milestones and royalties well into the future. This will form a solid foundation for our plans and activities in the years to come.

MorphoSys is extremely fortunate in having a wonderful group of employees. Without their dedication, inspiration and close collaboration, the achievements we made in the last year would not have been possible. On behalf of the MorphoSys Management Board, I would like to thank them for their continuing efforts and hard work.

The year 2018 will see the departure of Dr. Gerald Möller, who will retire as Chairman of the Supervisory Board in May. With his retirement, MorphoSys will lose a very special supporter, who has been instrumental in helping us build the company over the last 19 years. We thank him for everything he has done for us, and wish him the very best for his retirement.

MorphoSys is poised at an exciting time in its development, and I look forward to a successful 2018. I trust that we can count on the continued engagement of you, our shareholders, and thank you for your support over the last year.

DR. SIMON MORONEY
CHIEF EXECUTIVE OFFICER

We are deliberately evolving away from our earlier, more service-based, business model. This change gives us a greater opportunity to create long-term value.

Group Management Report

2017 was a successful year for MorphoSys. True to our mission of developing exceptional biopharmaceuticals to improve the lives of patients suffering from serious diseases, we advanced product candidates in various stages of development. During the reporting year, MOR208, our antibody for the treatment of hematological malignancies, transitioned to a pivotal phase 3 trial for the treatment of aggressive lymphoma. In October, we received breakthrough therapy designation from the US Food and Drug Administration (FDA) for MOR208 in an ongoing phase 2 trial in the same indication. MOR202, our antibody against multiple myeloma, also made good progress, culminating in an agreement with a new development partner for MOR202 in China. Successes were also reported by our partners. Tremfya®, developed by our partner Janssen, became the first therapeutic antibody based on our proprietary technology to reach the market. Tremfya®, which is approved to treat moderate-to-severe plaque psoriasis, was launched in the United States and received approval for marketing in the European Union and Canada. For the first time in the company's history, we received product-based royalty revenues. With royalty payments expected to grow in the future, we plan to reinvest these revenues in the development of our proprietary drug programs and continue on our path to becoming a commercial biopharmaceutical company specializing in oncology.

Operations and Business Environment

Strategy and Group Management

STRATEGY AND OBJECTIVES

MorphoSys's goal is to make exceptional, innovative biopharmaceuticals to improve the lives of patients suffering from serious diseases. With our successful transition from a technology provider to a drug development organization, we are well on our way to reaching this goal. Our main value drivers are our proprietary drug candidates, led by our investigational antibody* MOR208, which is being developed for the treatment of blood cancer. Based on our proprietary technology platforms for generating therapeutic antibodies and leadership in the field of therapeutic antibody discovery, generation and engineering, we, together with our partners, have created more than 100 therapeutic product candidates currently in development. In 2017, Tremfya®, the first commercial product based on MorphoSys's proprietary technology, received market approval in the United States, Europe and Canada. This antibody, like the majority of our development programs, is the result of a partnership with a company in the pharmaceutical industry. MorphoSys uses the revenues generated from these partnerships to advance its proprietary development portfolio. The Proprietary Development segment is gaining in importance and currently comprises 13 programs, one of which is in pivotal development.

The Proprietary Development segment focuses on developing therapeutic agents based on the Company's proprietary technology platforms, candidates in-licensed from other companies or programs co-developed with a partner. During clinical development, the Company determines whether and at which point it will pursue a partnership for later development and commercialization. The drug candidate can then be either completely out-licensed or developed further in cooperation with a pharmaceutical or biotechnology company (co-development). In specific cases, individual projects may be developed on a proprietary basis until they reach the market, with MorphoSys becoming involved in their commercialization in selected regions.

In the Partnered Discovery segment, MorphoSys generates antibody candidates for partners in the pharmaceutical and biotechnology industries. MorphoSys receives contractual payments, which include license fees for technologies and funded research, as well as success-based milestone payments and royalties* on product sales. The funds generated from these partnerships support the Company's long-term business model and help fund its proprietary development activities.

Both segments are founded on the Company's innovative technologies. These are, in particular HuCAL*, the Company's antibody library* which is the basis for more than 20 product candidates currently in clinical development, and the follow-on platform Ylanthia*, which is the largest known Fab-based antibody library. The acquisition of the biopharmaceutical company Lanthio Pharma B.V. in May 2015 secured MorphoSys's access to an innovative platform of stabilized therapeutic peptides. We also apply our resources and expertise to expand and deepen our technology in the area of peptides and antibodies.

*SEE GLOSSARY – *page 170*

The Company's goal is to maximize the portfolio's value by investing in proprietary drug candidates while maintaining financial discipline and strict cost control to ensure increasing enterprise value.

GROUP MANAGEMENT AND PERFORMANCE INDICATORS

MorphoSys pays equal attention to financial and non-financial indicators to steer the Group. These indicators help to monitor the success of strategic decisions and give the Company the opportunity to take quick corrective action when necessary. The Company's management also follows and evaluates selected early indicators so that it can thoroughly assess a project's progress and act promptly should a problem occur.

FINANCIAL PERFORMANCE INDICATORS

Our financial performance indicators are described in detail in the section entitled "Analysis of Net Assets, Financial Position and Results of Operations." Earnings before interest and taxes (EBIT), revenues, operating expenses, segment results and liquidity are the key financial indicators we use to measure our operating performance. Segment indicators are reviewed monthly, and the budget for the current financial year is revised and updated on a quarterly basis. Each year, the Company prepares a mid-term plan for the subsequent three years. A thorough cost analysis is prepared regularly and used to monitor the Company's adherence to financial targets and make comparisons to previous periods.

MorphoSys's business performance is influenced by factors such as milestone and license payments, research and development expenses, other operating cash flows, existing liquidity resources, expected cash inflows and working capital. These indicators are also routinely analyzed and evaluated with special attention given to the income statement, existing and future liquidity and available investment opportunities. The net present value of investments is calculated using discounted cash flow models*.

*SEE GLOSSARY – *page 170*

TABLE 01

Development of Financial Performance Indicators[1]

in million €	2017	2016	2015	2014	2013
MORPHOSYS GROUP					
Revenues from continuing operations[2]	66.8	49.7	106.2	64.0	78.0
Operating expenses from continuing operations	133.8	109.8	93.7	70.1	67.9
EBIT (Earnings before interest and taxes) from continuing operations[3]	(67.6)	(59.9)	17.2	(5.9)	9.9
Liquidity	312.2	359.5	298.4	352.8	390.7
PROPRIETARY DEVELOPMENT					
Segment revenues	17.6	0.6	59.9	15.0	26.9
Segment EBIT	(81.3)	(77.6)	10.7	(18.4)	(0.5)
PARTNERED DISCOVERY					
Segment revenues	49.2	49.1	46.3	49.0	51.0
Segment EBIT	30.2	31.0	20.4	25.9	25.4

[1] Differences may occur due to rounding.
[2] Revenues from discontinued operations 2013: € 0.6 million.
[3] Contains unallocated expenses (see also Item 3.3 of the Notes): 2017: € 16.5 million, 2016: € 13.4 million, 2015: € 13.9 million, 2014: € 13.4 million, 2013: € 15.0 million).

NON-FINANCIAL PERFORMANCE INDICATORS

For reporting purposes, MorphoSys uses the Sustainable Development Key Performance Indicators (SD KPIs) recommended by the SD KPI standard. These indicators are used as benchmarks for the commercialization rate (SD KPI 2) and include the success of proprietary research and development (SD KPI 1) as well as the achievements of partnered programs. In the past five years, there have been no product recalls, fines or settlements as the result of product safety or product liability disputes (SD KPI 3).

To secure and expand its position in the therapeutics market, MorphoSys relies on the steady progress of its product pipeline, not only in terms of the number of therapeutic product candidates (114 at the end of the reporting year) but also based on the progress of its development pipeline and prospective market potential. Innovative technologies, when applied appropriately, can be used to generate superior product candidates and therefore a further key performance indicator is the progress of the Company's technology development. In addition to the quality of our research and development, our professional management

of partnerships is also a core element of our success, as demonstrated by new contracts and the ongoing progress made within existing alliances. Details on these performance indicators can be found in the section entitled "Research and Development and Business Performance" (page 31).

The non-financial performance indicators described in the section "Sustainable Business Development" (page 57) are also used to manage the MorphoSys Group successfully.

TABLE 02
Sustainable Development Key Performance Indicators (SD KPIs) at MorphoSys (December 31)

	2017	2016	2015	2014	2013
PROPRIETARY DEVELOPMENT (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	7	8	8	5	3
Programs in Preclinic	1	1	2	2	0
Programs in Phase 1	2	2	1	1	1
Programs in Phase 2[1]	2	3	3	2	2
Programs in Phase 3	1	0	0	0	0
TOTAL[1]	**13**	**14**	**14**	**10**	**6**
PARTNERED DISCOVERY (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	54	54	43	40	37
Programs in Preclinic	24	22	25	25	22
Programs in Phase 1	11	10	9	8	6
Programs in Phase 2	10	12	9	8	8
Programs in Phase 3[2]	2	2	3	3	2
Programs Launched[2]	1	0	0	0	0
TOTAL	**101**	**100**	**89**	**84**	**75**
R&D EXPENSES (IN MILLION €)					
R&D Expenses on Behalf of Partners	17.7	17.2	22.1	19.6	17.5
Proprietary Development Expenses	97.7	77.1	54.1	33.5	27.5
Expenses for Technology Development	1.4	1.4	2.5	2.9	4.2
TOTAL	**116.8**	**95.7**	**78.7**	**56.0**	**49.2**

[1] Thereof one out-licensed program: MOR103/GSK3196165, out-licensed to GSK.
[2] We still consider Tremfya® a phase 3 compound due to ongoing studies in various indications. Therefore the number of "Programs in Phase 3" as well as the "Programs Launched" both include Tremfya®. Regarding the total number of programs in the pipeline, however, we only count it as one program.

LEADING INDICATORS

MorphoSys follows a variety of leading indicators to monitor the macroeconomic environment, the industry and the Company itself on a monthly basis. At the Company level, economic data is gathered on the progress of the segments' individual programs. MorphoSys uses general market data and external financial reports to acquire information on leading macroeconomic indicators such as industry transactions, changes in the legal environment and the availability of research funds and reviews these data carefully.

For active collaborations, there are joint steering committees that meet regularly to update and monitor the programs' progress. These ongoing reviews give the Company a chance to intervene at an early stage if there are any negative developments and provide it with information about expected milestones and related payments well in advance. Partners in non-active collaborations regularly provide MorphoSys with written reports so that it can follow the progress of therapeutic programs.

The business development area uses market analyses to get an early indication of the market's demand for new technologies. By continuously monitoring the market, MorphoSys can quickly respond to trends and requirements and initiate its own activities or partnerships.

Organizational Structure

ORGANIZATION OF THE MORPHOSYS GROUP

The MorphoSys Group, consisting of MorphoSys AG and its subsidiaries, develops and commercializes antibodies* and peptides for therapeutic applications. The activities of the Group's two business segments are based on its proprietary technologies. The Proprietary Development segment combines all of the Company's proprietary research and development of therapeutic compounds. MorphoSys, alone or with partners, develops its proprietary and in-licensed compounds with the option to bring them into partnerships, out-license them or market them in specific regions. The development of proprietary technologies is also conducted in this segment. The second business segment, Partnered Discovery, uses MorphoSys's technologies to make human* antibody-based therapeutics on behalf of partners in the pharmaceutical industry. All business activities within the scope of these collaborations are reflected in this segment.

In the 2017 financial year, the Group was located at MorphoSys AG's registered office in Planegg near Munich, where MorphoSys's subsidiary Sloning BioTechnology GmbH is also located, and in Groningen, the Netherlands, which is the location of its subsidiary Lanthio Pharma B.V. and its subsidiary LanthioPep B.V. MorphoSys AG's central corporate functions such as accounting, controlling, human resources, legal, patent, purchasing, corporate communications and investor relations, as well as the two segments Proprietary Development and Partnered Discovery, are all located in Planegg. The subsidiary Lanthio Pharma B.V. and its subsidiary LanthioPep B.V. in Groningen, the Netherlands, are largely autonomous and independently managed. These subsidiaries have their own research and development laboratories, general management and administration, as well as human resources, accounting and business development departments.

Additional information about the Group's structure can be found in the Notes (Item 2.2.1).

LEGAL STRUCTURE OF THE MORPHOSYS GROUP: GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG, a German stock corporation listed in the Prime Standard segment of the Frankfurt Stock Exchange, is the parent company of the MorphoSys Group. In accordance with the German Stock Corporation Act, the Company has a dual management structure with the Management Board as the governing body with its four members appointed and supervised by the Supervisory Board. The Supervisory Board is elected by the Annual General Meeting and currently consists of six members. Detailed information concerning the Group's management and control and its corporate governance principles can be found in the Corporate Governance Report. The Senior Management Group supports the Management Board of the Company. At the end of the reporting year, the Senior Management Group consisted of 25 managers from various departments.

Business Activities

DRUG DEVELOPMENT

MorphoSys develops drugs using its own research and development (R&D) and by cooperating with pharmaceutical and biotechnology partners. Our core business activity is developing new treatments for patients suffering from serious diseases with a focus on oncology and inflammatory diseases. The Company possesses a very broad pipeline, which comprised a total of 114 therapeutic programs at the end of 2017, 28 of which are in clinical development. In 2017 the first therapeutic agent based on MorphoSys's proprietary technology, which was developed by one of the Company's licensees, received market approval in the United States, Europe and Canada. Figure 1 shows the revenue development of the MorphoSys Group divided into the business segments Proprietary Development and Partnered Discovery.

TECHNOLOGIES

MorphoSys has developed a number of technologies providing direct access to fully human antibodies for treating diseases. One of the most widely known MorphoSys technologies is HuCAL, which is a collection of billions of fully human antibodies and a system for their optimization. Another fundamental platform is Ylanthia, which represents the next generation of antibody technology and is currently the largest known antibody library. Ylanthia is based on an innovative concept for generating highly specific and fully human antibodies. MorphoSys expects Ylanthia to set a new standard for the pharmaceutical industry's development of therapeutic antibodies in this decade and beyond. Slonomics* is the Company's patented,

fully automated technology for gene synthesis and modification, which is used to generate highly diverse gene libraries in a controlled process to be used e.g. for the improvement of antibody properties. The lanthipeptide* technology developed by Lanthio Pharma B.V., a fully owned MorphoSys subsidiary, is a valuable addition to our existing library of antibodies and opens up new possibilities for discovering potential drugs based on stabilized peptides.

›› SEE FIGURE 01 – *Revenues of the MoprhoSys Group by Segment (page 28)*
›› SEE FIGURE 02 – *MorphoSys's Product Pipeline (page 30)*

PROPRIETARY DEVELOPMENT

An important goal of MorphoSys is to increase enterprise value through proprietary drug development. To achieve this goal, the Company is focusing on cancer and selected programs in inflammatory diseases.

ONCOLOGY

The ability of monoclonal antibodies* to bind to specific antigens* on tumors or activate the immune system against cancer to unleash a therapeutic effect in patients has led to their dominant role in targeted cancer therapies. According to a study by the QuintilesIMS Institute, expenditures in oncology reached approximately US$ 75 billion worldwide in early 2017. Expenditures are projected to increase to US$ 120 – 135 billion in the year 2021. MorphoSys is currently investing in the clinical development of two cancer programs: MOR208 and MOR202.

MOR208 is directed against the target molecule CD19*, which is implicated in many B cell malignancies. CD19 is broadly and homogeneously expressed across tumor cells of different B cell malignancies including DLBCL* (diffuse large B cell lymphoma) and CLL* (chronic lymphocytic leukemia). CD19 enhances B cell receptor signaling, which is selectively expressed on B cells and an important factor in B cell survival, making CD19 a potential target in B cell malignancies. The market research firm Pharmaceutical Processing expects the therapeutic market for the B cell malignancy non-Hodgkin's lymphoma (NHL*) to reach approximately US$ 5.5 billion in 2024. Current biological therapies for the treatment of B cell malignancies, including rituximab (trade name Rituxan® and MabThera®) and obinutuzumab (trade name Gazyva®), are directed against the CD20* target molecule which is also a surface marker of B cells*. MOR208 has been modified in the Fc part* of the antibody with the goal of enhancing its activity. This is intended to lead to higher antibody-dependent cell-mediated cytotoxicity (ADCC*), as well as an improvement in antibody-dependent cellular phagocytosis (ADCP*) and, thereby, more effective tumor cell killing by the body's own immune system. The most advanced therapeutic approach against CD19 is currently the bispecific* antibody blinatumomab (trade name Blincyto®) approved for acute lymphoblastic leukemia (ALL*). Other clinical programs directed against the same target molecule use alternative approaches to increase the antibody's efficacy, for example by coupling with toxic substances or changing the antibody's glycosylation-pattern (which also leads to increased ADCC and ADCP). Another therapeutic approach against CD19 is the CAR-T technology*. This therapy extracts a certain type of immune cells (T cells*) from the patients' blood and then engineers them outside of the body so that they can recognize the patients' tumor cells and kill them. When these T cells are later re-administered into the patients' blood via infusion, they subsequently bind and destroy targeted cancer cells. Alternative approaches using small molecules* are also being developed in the field of B cell malignancies. In 2017, two CAR-T approaches were approved in blood cancer indications: axicabtagene ciloleucel (axi-cel) for DLBCL and tisagenlecleucel (CTL019) for ALL.

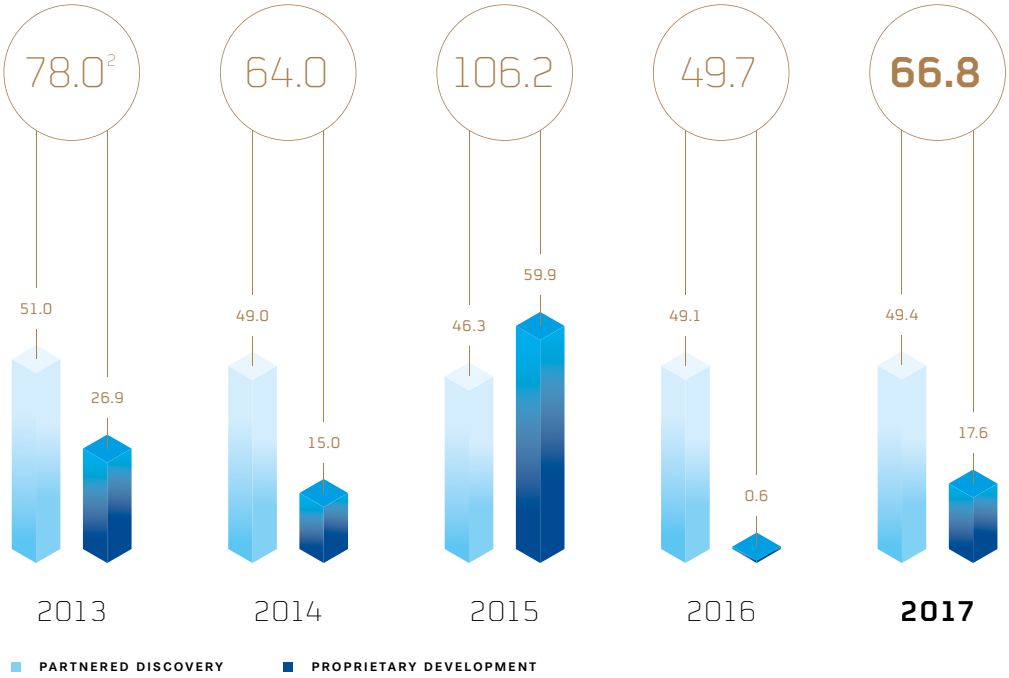
MOR202 is directed against the target molecule CD38* and is currently being developed for the treatment of multiple myeloma* (MM), a form of bone marrow cancer. CD38 is a highly expressed and validated target in multiple myeloma. Preclinical* findings also support an anti-CD38 approach in other therapeutic fields beyond multiple myeloma including solid tumors such as non-small-cell lung cancer (NSCLC). After MorphoSys regained its rights to MOR202 from Celgene in March 2015, the Company continued developing MOR202 independently in an ongoing phase 1/2a study. Although MM is a relatively small area of oncology in terms of frequency of occurrence, the MM market has shown strong growth in recent years. However, there is still no standard treatment for MM available and a medical need for treatment options with better survival rates and lower side effects. Despite significantly higher survival rates, this disease is seldom curable, and a majority of patients experience a relapse. This has increased the attractiveness of alternative treatments, such as those targeting CD38. The approval of the CD38 antibody daratumumab (trade name Darzalex®) by the FDA* (Food and Drug Administration) in November 2015 validated this treatment approach. MorphoSys is seeking a partner for the further development of MOR202 in MM. The Company entered its first regional partnership in China with I-Mab at the end of 2017.

*SEE GLOSSARY – *page 170*

01

Revenues of the MorphoSys Group by Segment (in million €)[1]

[1] Differences due to rounding.
[2] Group revenues from continuing operations; sale of AbD Serotec to Bio-Rad was announced in 2012, and therefore respective revenues were reclassified as discontinued operations in accordance with IFRS 5.



MorphoSys and its partner Aptevo Therapeutics (formerly Emergent BioSolutions) have been developing MOR209/ES414 in a phase 1 clinical study in patients suffering from metastatic castration-resistant prostate cancer (mCRPC*) since 2015. **MOR209/ES414** is a bispecific anti-PSMA/anti-CD3* antibody based on Aptevo's ADAPTIR™ platform. In 2017, in the context of prioritizing its development programs, MorphoSys terminated its cooperation with Aptevo.

INFLAMMATORY AND AUTOIMMUNE DISEASES*

Chronic inflammatory and autoimmune diseases affect millions of patients worldwide and impose an enormous social and economic burden. The QuintilesIMS Institute estimates the global market for the treatment of autoimmune diseases will be in the range of US$ 75 billion to US$ 90 billion in the year 2021.

MOR103/GSK3196165 is a HuCAL antibody, which MorphoSys fully out-licensed to GlaxoSmithKline (GSK) in 2013. GSK is developing the antibody independently and bears all of the related costs. MorphoSys participates in the compound's development and commercialization through milestone payments up to a total of € 423 million and through tiered, double-digit royalties on net sales. In 2013, MorphoSys received an upfront payment of € 22.5 million. MOR103/GSK3196165 is directed against the target molecule GM-CSF* (granulocyte macrophage colony-stimulating factor), a central player in the emergence of inflammatory diseases such as rheumatoid arthritis* (RA). Biotechnologically produced drugs already comprise the majority of this market's total revenue. The overall market for RA drugs is growing steadily, and GBI Research expects it will reach US$ 19 billion in the year 2020. MorphoSys estimates that MOR103/GSK3196165 has the potential to be the first marketed anti-GM-CSF antibody.

MOR106 is the first antibody candidate derived from a strategic alliance with the Belgian company Galapagos NV for the identification and development of new antibody candidates. MOR106 has been in phase 1 clinical development for atopic dermatitis since 2016. It is the first publicly disclosed monoclonal antibody* targeting IL-17C in clinical development worldwide. MOR106 selectively targets and inhibits IL-17C, which is associated with inflammatory skin disorders. Atopic dermatitis, also known as atopic eczema or neurodermatitis, is a chronic pruritic (itching) inflammatory skin disease. The National Eczema Association estimates that atopic dermatitis affects over 30 million Americans or up to 25% of children and 2 – 3% of adults. 60% of AD patients are diagnosed in the first year of life, and 90% of patients have a disease onset before age five. Symptoms commonly fade during childhood, however, approximately 10 – 30% of the patients will suffer from atopic dermatitis for life. A smaller percentage first develop symptoms as adults. It is planned to initiate a phase 2 study together with Galapagos in the first half of 2018.

The acquisition of the Dutch pharmaceutical company Lanthio Pharma B.V. in 2015 enhanced MorphoSys's proprietary portfolio with the addition of **MOR107** (formerly LP2). MOR107 is a novel lanthipeptide that has demonstrated angiotensin II type 2 (AT2) receptor-dependent activity in preclinical *in vivo* studies, and may have the potential to treat a variety of diseases. MorphoSys is currently evaluating the potential of MOR107 in the field of oncology.

INFLUENCING FACTORS

A political goal of many countries is to provide proper medical care for the public as demographic change drives the need for new forms of therapy. Cost-cutting could slow down the industry's development. As part of their austerity measures, governments in Europe, the United States and Asia have tightened their healthcare restrictions and are closely monitoring drug pricing and reimbursement.

Generic competition, which is already common in the field of small molecule drugs, now poses an increasing challenge to the biotechnology industry due to drug patent expiries. The technological barriers for generic biopharmaceuticals, or biosimilars*, will remain high. Nevertheless, many drug manufacturers, particularly those from Europe and Asia, are now entering this market and placing more competitive pressure on established biotechnology companies. In the US, the approval of biosimilars as an alternative form of treatment has been very slow; they are, however, gaining more attention because of increasing pressure in the healthcare sector to reduce costs. Industry experts believe the global market for biosimilars will reach US$ 28 billion in 2020.

PARTNERED DISCOVERY

In the Partnered Discovery segment, MorphoSys applies technologies for the research, development and optimization of therapeutic antibodies as drug candidates in partnership with pharmaceutical and biotechnology companies. While the development costs are borne by the respective partners, MorphoSys profits from research financing, milestone payments and potential royalties on the sales of products from successful programs.

The Company's largest alliance to date is the strategic alliance formed in 2007 with Novartis – a pharmaceutical partner with a growing pipeline of biotechnologically developed drugs. This alliance, which ended at the end of November 2017, was expanded in 2012 through a supplementary cooperation agreement under which the companies collaborated on creating therapeutic antibodies using MorphoSys's next-generation antibody platform Ylanthia in addition to HuCAL. The active partnership with Novartis ended at the end of November 2017 in accordance with the contract. Even after the end of the active partnership, MorphoSys will continue to benefit from Novartis's products based on antibodies originating from the collaboration by means of potential success-based milestone payments and royalties. As Novartis in-licensed the HuCAL technology in 2014, it can be used to start new antibody programs in the future. At the end of 2017, there were 14 antibodies in clinical development resulting from this cooperation.

Partnered Discovery programs for drug development include not only programs in MorphoSys's core areas of oncology and inflammatory diseases, but also those in indications where the Company has not yet established proprietary expertise.

Examples of Partnered Discovery programs include the following:

Guselkumab, a HuCAL antibody targeting IL-23, is being developed by MorphoSys's partner Janssen in plaque psoriasis* and psoriatic arthritis* (PsA). In July 2017, Janssen received FDA approval for guselkumab in the United States for the treatment of moderate-to-severe plaque psoriasis. The first HuCAL commercial product is now available to patients in the United States under the brand name Tremfya® (guselkumab). The European Medicines Agency (EMA*) also approved Tremfya® (guselkumab) in Europe shortly after its approval in Canada in mid-November. Psoriasis is a chronic, autoimmune inflammatory disorder of the skin characterized by abnormal itching and physically painful skin areas. It is estimated that about 125 million people worldwide have psoriasis with approximately 25% suffering from cases that are considered moderate-to-severe. Independent market experts forecast the market for psoriasis to grow from € 7.5 billion in 2014 to € 12 billion in the year 2024.

*SEE GLOSSARY – *page 170*

02

MorphoSys's Product Pipeline (March 8, 2018)

*SEE GLOSSARY: *page 170*

PROGRAM / PARTNER INDICATION	PHASE	1	2	3	M[1]
Tremfya®[2] (guselkumab) / Janssen/J&J					
Plaque psoriasis		●	●	●	●
Plaque psoriasis (VOYAGE 1)		●	●	●	○
Plaque psoriasis (VOYAGE 2)		●	●	●	○
Pustular/erythrodermic psoriasis*		●	●	●	○
Plaque psoriasis		●	●	●	○
Plaque psoriasis (POLARIS)		●	●	●	○
Palmoplantar pustulosis*		●	●	●	○
Moderate-to-severe plaque psoriasis (SelfDose™ device)		●	●	●	○
Moderate-to-severe plaque psoriasis (ECLIPSE)		●	●	●	○
Psoriatic arthritis* (PsA) (Discover-1)		●	●	●	○
Psoriatic arthritis* (PsA)		●	●	●	○
Gantenerumab / Roche					
Mild Alzheimer's disease (Marguerite RoAD)		●	●	●	○
Prodromal Alzheimer's disease		●	●	●	○
Genetically predisposed for Alzheimer's disease (DIAN)		●	●	●	○
Safety, tolerability and pharmacokinetics* (sc)		●	○	○	○
Pain, tolerability, safety and pharmacokinetics (sc)		●	○	○	○
MOR208 / not partnered					
Diffuse large B cell lymphoma (DLBCL*) (B-MIND*)		■	■	■	○
Chronic lymphocytic leukemia (CLL*) or small lymphocytic lymphoma (SLL*) (COSMOS*)		■	■	○	○
Diffuse large B cell lymphoma (DLBCL*) (L-MIND*)		■	■	○	○
Anetumab ravtansine (BAY94-9343) / Bayer					
Mesothelioma* (MPM)		●	●	○	○
Cancer multi-indications		●	○	○	○
BHQ880 / Novartis					
Multiple myeloma* (MM) (renal insufficiency)		●	●	○	○
Smoldering multiple myeloma*		●	●	○	○
Bimagrumab (BYM338) / Novartis					
Muscular atrophy hip fracture surgery		●	●	○	○
Sarcopenia (dose-ranging)		●	●	○	○
Sarcopenia (withdrawal extension study)		●	●	○	○
Type 2 diabetes		●	●	○	○
CNTO6785 / Janssen/J&J					
Chronic obstructive pulmonary disease (COPD)		●	●	○	○
Rheumatoid arthritis* (RA)		●	●	○	○
MOR103 (GSK3196165) / GlaxoSmithKline					
Rheumatoid arthritis* (RA)		■	■	○	○
Rheumatoid arthritis* (RA) (mechanistic study)		■	■	○	○
Hand osteoarthritis		■	■	○	○
MOR202 / I-Mab Biopharma[3]					
Multiple myeloma*		■	■	○	○
Nov-12 (MAA868) / Novartis					
Prevention of thrombosis		●	●	○	○
Atrial fibrillation		●	●	○	○
Setrusumab (BPS804) / Mereo/Novartis					
Brittle bone disease (OI) (Type I, III, IV) (ASTEROID)		●	●	○	○
Tesidolumab (LFG316) / Novartis					
Paroxysmal nocturnal hemoglobinuria		●	●	○	○
Utomilumab (PF-05082566) / Pfizer					
Breast cancer (AVIATOR)		●	●	○	○
Acute myeloid leukemia (AML)		●	●	○	○
Advanced malignancies (combo with avelumab and PF-04518600)		●	●	○	○
Solid tumors (combo with ISA101b vaccination)		●	●	○	○
Solid tumors, NHL* (combo with rituximab)		●	○	○	○
Solid tumors (combo with mogamulizumab)		●	○	○	○
Solid tumors (combo with PF04518600)		●	○	○	○
Colorectal cancer (combo with cetuximab & irinotecan)		●	○	○	○
Advanced ovarian cancer (T cell immunotherapy)		●	○	○	○
Breast cancer (combo with trastuzumab emtansine or trastuzumab)		●	○	○	○
Diffuse large B cell lymphoma (Javelin DLBCL*) (combo with avelumab)		●	○	○	○
VAY736 / Novartis					
Pemphigus vulgaris		●	●	○	○
Idiopathic pulmonary fibrosis		●	●	○	○
Primary Sjögren's syndrome		●	●	○	○
Rheumatoid arthritis* (RA)		●	●	○	○
ADCC* mediated B cell* depletion and BAFF-R blockade (AMBER)		●	●	○	○
Primary Sjögren's syndrome (efficacy & safety)		●	●	○	○
Chronic lymphocytic leukemia (combo with ibrutinib)		●	○	○	○
Xentuzumab (BI-836845) / BI					
Breast cancer		●	●	○	○
Castration-resistant prostate cancer (CRPC) (combo with enzalutamide)		●	●	○	○
Solid tumors (Japan)		●	○	○	○
Solid tumors (combo with abemaciclib)		●	○	○	○
EGFR* mutant non-small-cell lung cancer (NSCLC)		●	○	○	○
BAY1093884 / Bayer					
Hemophilia		●	○	○	○
Elgemtumab (LJM716) / Novartis					
HER2+ cancer (combo with BYL719 & trastuzumab)		●	○	○	○
MOR106 / Galapagos					
Atopic dermatitis		■	○	○	○
MOR107[4] (LP2-3) / not partnered					
Not disclosed		■	○	○	○
NOV-7 (CLG561) / Novartis					
Eye diseases		●	○	○	○
NOV-8 / Novartis					
Inflammation		●	○	○	○
NOV-9 (LHA651) / Novartis					
Diabetic eye diseases		●	○	○	○
NOV-10 (PCA062) / Novartis					
Cancer		●	○	○	○
NOV-11 / Novartis					
Blood disorders		●	○	○	○
NOV-13 (HHT288) / Novartis					
Cancer		●	○	○	○
NOV-14 / Novartis					
Asthma		●	○	○	○
PRV-300 (CNTO3157) / ProventionBio					
Colitis		●	○	○	○
Vantictumab (OMP-18R5) / OncoMed					
Breast cancer (combo with paclitaxel)		●	○	○	○
Pancreatic cancer (combo with nap-paclitaxel & gemcitabine)		●	○	○	○

■ MOR PROGRAM ■ OUT-LICENSED MOR PROGRAM ■ PARTNERED DISCOVERY PROGRAM

[1] Market
[2] We still consider Tremfya® a phase 3 compound due to ongoing studies in various indications.
[3] For development in the Greater China market (China, Hong Kong, Taiwan, Macao).
[4] A phase 1 study in healthy volunteers was completed. MOR107 is currently in preclinical investigation with a focus on oncology indications.

Gantenerumab is a HuCAL antibody targeting amyloid beta, which is being developed by MorphoSys's partner Roche as a potential treatment for Alzheimer's disease. This compound is being investigated in several clinical studies to see if there is a positive effect from intervening at an early stage in the disease's progression. In two of these studies, Roche is evaluating the compound in around 1,000 patients with mild Alzheimer's disease and 800 patients with prodromal Alzheimer's disease. Roche has converted these trials into open-label studies to test higher doses after the temporary discontinuation of earlier studies at the end of 2014. The data from the open-label extension had been presented at the CTAD (Clinical Trials* on Alzheimer's Disease) 2017, showing significantly greater amyloid reduction with higher doses of gantenerumab compared to lower doses. Roche announced to examine higher doses of gantenerumab in two phase 3 trials. There are currently no drugs available that fundamentally improve the course of Alzheimer's disease.

*SEE GLOSSARY – *page 170*

Research and Development and Business Performance

2017 BUSINESS PERFORMANCE

MorphoSys's business is strongly focused on advancing its therapeutic programs in research and development to benefit patients suffering from serious diseases and to increase the Company's value. With the clinical development of proprietary programs as the focal point of the Company, we strive to gain access to novel disease-specific target molecules, advanced product candidates and innovative technology platforms, so as to advance our proprietary development portfolio. MorphoSys also participates in the success of its partners' therapeutic programs. The first antibody based on MorphoSys's technology has been available in the US market since the middle of 2017.

The key measures of value and success of MorphoSys's research and development include:

- the initiation of projects and the progression of individual development programs
- collaborations and partnerships with other companies to broaden the Company's technology base and pipeline of compounds and commercialize its therapeutic programs
- clinical and preclinical research results
- regulatory guidance of health authorities to pursue commercialization of individual therapeutic programs
- robust patent protection to secure MorphoSys's market position

COLLABORATIONS AND PARTNERSHIPS

PROPRIETARY DEVELOPMENT

Since mid-2016, MorphoSys and the University of Texas MD Anderson Cancer Center have been working together in a strategic alliance. The partners plan to jointly identify and validate novel anti-cancer antibodies and to develop them further until they reach the clinical proof-of-concept in the respective oncology indications. To accomplish this, MorphoSys is applying its Ylanthia technology platform. The alliance continued in the reporting year and is expected to encompass multiple target molecules and programs. Current programs are focused on HLA peptide complexes in the area of hematological diseases.

At the end of November 2017, MorphoSys and I-Mab Biopharma announced that they had signed an exclusive regional licensing agreement for MOR202. Under the terms of the agreement, I-Mab has the exclusive rights to develop and commercialize MOR202 in China, Taiwan, Hong Kong and Macao. MorphoSys received an immediate upfront payment of US$ 20 million. The Company is also entitled to receive additional success-based clinical and commercial milestone payments from I-Mab of up to US$ 100 million, as well as tiered double-digit royalties on net sales of MOR202 in the agreed regions. I-Mab intends to start clinical development of MOR202 to treat patients with multiple myeloma in China in 2018.

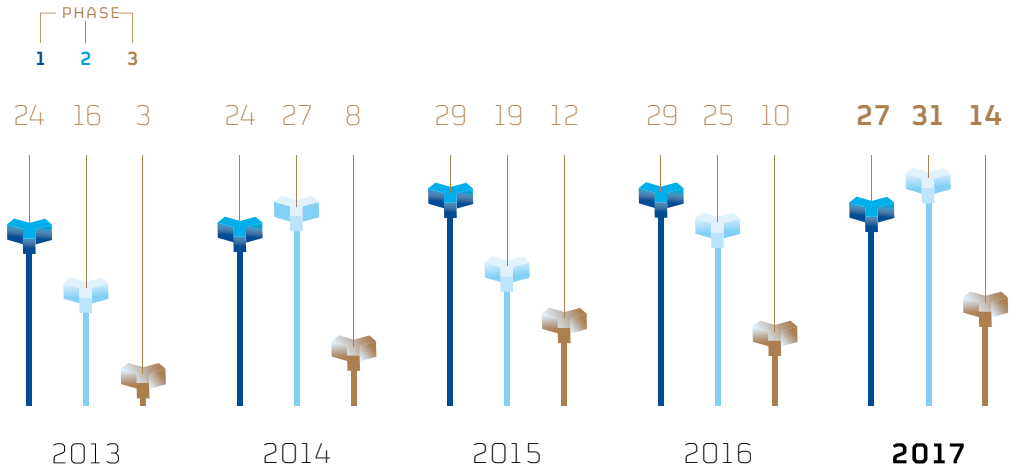
PARTNERED DISCOVERY

In November 2016, MorphoSys and LEO Pharma agreed to form a strategic alliance for the discovery and development of therapeutic antibodies for the treatment of skin diseases. Under the terms of the agreement, MorphoSys is applying its Ylanthia technology platform to generate antibody candidates against targets selected by LEO, and will conduct all development activities up to the start of clinical testing. LEO Pharma will be responsible for clinical development and commercialization of resulting drugs in all indications outside of cancer. The collaboration continued in 2017 and is currently working on two projects.

The active collaboration with Novartis ended at the end of November 2017 in accordance with the contract. Novartis did not exercise an option to extend the partnership that was provided in the contract. Although active collaboration has ended, the development of product candidates derived from the use of the Company's technologies will continue and new programs can be initiated under a license acquired by Novartis. The further development of these programs by Novartis could lead to additional milestone and royalty payments in the future.

03

Active Clinical Studies with MorphoSys Antibodies (December 31)



PROJECT INITIATIONS AND PROGRESS, TRIAL EXTENSIONS

At the end of the 2017 financial year, the number of therapeutic programs in the MorphoSys pipeline remained unchanged at 114 (December 31, 2016: 114 programs), comprising Proprietary Development and Partnered Discovery projects. One product from the Partnered Discovery segment received market approval in 2017 in the United States, Europe and Canada. At the end of 2017, MorphoSys had 13 projects (December 31, 2016: 14) in its proprietary development portfolio, five of them in its clinical pipeline and eight in preclinical development or in the discovery phase. The number of programs being pursued by our partners in the Partnered Discovery segment totaled 101 (December 31, 2016: 100), 23 of which were in clinical development, 24 in preclinical development and 54 in the discovery phase. MorphoSys's partnered and proprietary clinical pipeline currently comprises 28 unique compounds that are being evaluated in more than 70 clinical trials.

›› SEE FIGURE 03 – *Active Clinical Studies with MorphoSys Antibodies (page 32)*

PROPRIETARY DEVELOPMENT

The clinical studies to investigate MOR208 in combination with other cancer drugs for B cell malignancies were started in 2016 and continued in 2017.

The main focus of the current MOR208 development program is on relapsed or refractory diffuse large B cell lymphoma (r/r DLBCL*). Two of the three ongoing MOR208 studies, namely the L-MIND* and B-MIND* trials, are being conducted in this indication. Both trials are focusing on r/r DLBCL patients who are not eligible for high-dose chemotherapy and subsequent autologous stem cell transplantation. The available therapy options for this group of patients are currently very limited, which is why the Company sees a high unmet medical need for new treatment alternatives. A strategic goal of MorphoSys is to find the fastest path to market for MOR208 in this indication.

- The L-MIND (**L**enalidomide-**M**OR208 **IN D**LBCL) study initiated in April 2016 is evaluating MOR208 in combination with the immunomodulatory drug lenalidomide in patients suffering from relapsed or refractory diffuse large B cell lymphoma (DLBCL). The trial is an open-label, single-arm study with the primary endpoint being the overall response rate (ORR*) and multiple secondary endpoints, including progression-free survival (PFS*), overall survival (OS*) and time to progression (TTP*).
- The phase 2/3 clinical trial B-MIND* (**B**endamustine-**M**OR208 **IN D**LBCL) is designed to evaluate the safety and efficacy of MOR208 combined with the chemotherapeutic agent bendamustine in comparison to rituximab plus bendamustine. In June 2017 this study transitioned into its pivotal phase 3 part. The start of the phase 3 trial triggered a milestone payment to Xencor, Inc. that was paid in July 2017. B-MIND will enroll 330 adult patients worldwide with relapsed or refractory DLBCL who are not eligible for autologous stem cell transplantation and high-dose chemotherapy. This is the first pivotal study of an antibody from MorphoSys's proprietary pipeline.

- In addition to the two trials in r/r DLBCL, MorphoSys is currently evaluating MOR208 in a phase 2 trial in chronic lymphocytic leukemia (CLL*) and small lymphocytic lymphoma (SLL*). The trial, named COSMOS* (**C**LL patients assessed for **O**RR & **S**afety in **MO**R208 **S**tudy), is designed to evaluate MOR208 in combination with the cancer drugs idelalisib (since 2016) and venetoclax (since 2017). The study enrolls patients for whom prior therapy with a BTK inhibitor* such as ibrutinib was either unsuccessful or no longer successful. Currently these patients have very limited therapy options and therefore, this indication represents a high unmet medical need. The study is currently investigating the clinical safety of the treatment combinations.

The HuCAL antibody MOR202 targeting CD38 is currently being evaluated in a phase 1/2a dose-escalation study alone and in combination with the immunomodulatory cancer drugs (IMiDs) lenalidomide and pomalidomide, in each case with dexamethasone, in patients with relapsed/refractory multiple myeloma (MM). Patient enrollment for the study has been completed. The subsequent observation of the patients will continue.

MOR106 is the third drug candidate from MorphoSys's proprietary portfolio in clinical development. The antibody is being developed by MorphoSys and its partner Galapagos NV, and a phase 1 clinical trial has been completed. In addition to investigating MOR106 in healthy volunteers, the trial was expanded in 2017 to include patients suffering from atopic dermatitis. The study was completed in August 2017, and the first results indicating clinical activity were announced in September. MOR106 is the first antibody based on MorphoSys's proprietary Ylanthia technology to enter clinical development, and the first publicly disclosed antibody targeting IL-17C in clinical development worldwide. Galapagos and MorphoSys jointly discovered MOR106 and are co-developing this compound in further clinical development.

MOR107 is the first lanthipeptide in MorphoSys's clinical pipeline. The peptide is based on the proprietary technology platform belonging to MorphoSys's Dutch subsidiary Lanthio Pharma B.V. This compound is a selective agonist of the angiotensin II receptor type 2 (AT2-R). Lanthipeptides* are a class of modified peptides that have been engineered for improved stability and selectivity. In February 2017, we initiated a phase 1 study in healthy volunteers. In May 2017, the first part of the clinical study was completed and the study was terminated. MOR107 is currently in preclinical* investigation with a focus on oncology indications.

*SEE GLOSSARY – *page 170*

MOR209/ES414 was co-developed with Aptevo Therapeutics, a spin-off of Emergent BioSolutions, in a phase 1 study in patients suffering from metastatic, castration-resistant prostate cancer. In September 2017, following a review of its development portfolio, MorphoSys ended the cooperation with Aptevo Therapeutics Inc. for the program's further development. The rights to the drug candidate's development and commercialization were returned to Aptevo.

MOR103/GSK3196165 was out-licensed to GlaxoSmithKline (GSK). GSK is currently evaluating this antibody in phase 2b and phase 2a clinical studies in patients with rheumatoid arthritis (RA) as well as in a phase 2a trial in patients suffering from inflammatory hand osteoarthritis.

PARTNERED DISCOVERY

In January 2017, MorphoSys announced that its partner Novartis would initiate a phase 2 clinical trial with bimagrumab in an additional indication. The trial is designed to assess the safety, pharmacokinetics and efficacy of the HuCAL antibody versus placebo in around 60 obese patients with type 2 diabetes.

In March 2017, MorphoSys disclosed that its partner Roche planned to initiate a new pivotal phase 3 program with gantenerumab in patients with prodromal or mild Alzheimer's disease. Roche will initiate two phase 3 clinical trials under the names GRADUATE-1 and GRADUATE-2. Gantenerumab is a monoclonal antibody derived from MorphoSys's HuCAL Technology, which is directed against amyloid beta.

In May, MorphoSys's licensee Janssen announced plans for new phase 3 clinical studies with guselkumab, which include a study to evaluate the comparative efficacy of guselkumab versus secukinumab for the treatment of moderate-to-severe plaque psoriasis (ECLIPSE study). Janssen initiated the ECLIPSE study in the first half of 2017. In September 2017, Janssen initiated two phase 3 studies in psoriatic arthritis evaluating the efficacy and safety of guselkumab in this inflammatory disease, which affects both the joints and the skin. Janssen made a milestone payment to MorphoSys in connection with the initiation of these new phase 3 studies. Janssen also announced a phase 3 program to evaluate guselkumab in Crohn's disease. Guselkumab is a fully human anti-IL-23 p19 subunit monoclonal antibody developed by Janssen and was generated by MorphoSys utilizing its proprietary HuCAL antibody library technology.

CLINICAL STUDY DATA FROM CURRENT PROJECTS

PROPRIETARY DEVELOPMENT

In 2017, MorphoSys announced data from clinical studies of its proprietary drug programs MOR202 and MOR208 at several scientific conferences.

The open-label, single-arm phase 2 study known as L-MIND (**L**enalidomide-**M**OR208 **IN D**LBCL) is designed to evaluate the safety and efficacy of MOR208 in combination with lenalidomide in patients with relapsed or refractory diffuse large B cell lymphoma (r/r DLBCL). DLBCL is the most common form of non-Hodgkin's lymphoma (NHL). In 2017, MorphoSys presented preliminary data from L-MIND at scientific conferences including the Annual Meeting of the American Society of Clinical Oncology (ASCO), the Congress of the European Hematology Association (EHA), the Lymphoma Meeting in Lugano and the Annual Meeting of the American Society of Hematology (ASH). The data presented at the ASH conference in December 2017 also formed the basis for the breakthrough therapy designation granted by the FDA in 2017. These data showed, based on 51 patients enrolled, 44 of whom were eligible for efficacy evaluation by the investigators at the time of data-cut off June 13, 2017, an objective response to the treatment in 52% (overall response rate, ORR) and a complete remission in 32% (CR rate) of the patients. The preliminary median progression-free survival (mPFS) was 11.3 months. There was no unexpected toxicity* observed with combination therapy. There were also no infusion-related reactions (IRRs) reported due to the administration of MOR208. The administered dose of lenalidomide needed to be reduced in 45% of patients.

In early December, the Company announced that patient recruitment had been completed as required by the study protocol, 81 patients having been enrolled in the study.

Latest interim data (cut-off date December 12, 2017) based on 81 patients enrolled, 68 of whom were available for efficacy assessment by the investigators, showed a overall response rate (ORR) of 49% and a CR rate of 31%. At the time of data-cut off, the preliminary PFS rate at 12 months was 50.4% and the preliminary mPFS had not been reached. 29 out of 33 responses (88%) were ongoing at the time of data-cut off; median time to response was 1.8 months, median time to complete response was 3.6 months. No unexpected toxicities were observed for the treatment combination and no infusion-related reactions were reported for MOR208. The most frequent adverse events with a toxicity grading of 3 or higher were neutropenia, thrombocytopenia, febrile neutropenia and pneumonia, observed in 36%, 12%, 7% and 7% of patients, respectively. 40% of patients required a reduction of their lenalidomide dose, from a starting dose of 25 mg daily.

MorphoSys's anti-CD38 antibody MOR202 is currently being evaluated in a phase 1/2a clinical study in pretreated patients suffering from relapsed/refractory multiple myeloma. In June 2017, the Company presented updated safety and efficacy data from this ongoing study at the ASCO Annual Meeting. MOR202 was administered as a 2-hour infusion up to the highest dose of 16 mg/kg. Infusion-related reactions (IRRs) occurred in only 6% of patients in the clinically relevant dose cohorts of MOR202 (4 mg/kg, 8 mg/kg, 16 mg/kg) and were limited to grades 1 and 2. No unexpected safety signals were observed. Patients treated with MOR202 in combination with LEN/DEX and a median of three prior treatment regimens showed a response rate of 71% based on the "intent-to-treat" (ITT) population with the treatment of nine patients still ongoing at the data cut-off. The median progression-free survival (mPFS) rate of this cohort was not yet reached. Patients treated with MOR202 in combination with POM/DEX with a median of four prior treatment regimens showed an objective response rate of 46% with treatment of eight patients still ongoing at the data cut-off. It is important to note that the data from this cohort were still relatively immature and that responses in this patient group are often observed after a longer treatment time. The current median PFS of this combination is 17.5 months after a median follow-up period of 8.5 months.

MOR106, an antibody from the Company's Ylanthia platform directed against IL-17C and co-developed with Galapagos, was evaluated in a phase 1 study initiated in 2016. The placebo-controlled study investigated the safety, tolerability and pharmacokinetic profile of MOR106 when administered in single ascending doses in healthy volunteers as well as in multiple ascending doses in patients suffering from atopic dermatitis. At the end of September 2017, MorphoSys and Galapagos published initial results from the study. No clinically relevant safety signals were observed. Any adverse drug reactions observed in relation to MOR106 were mild to moderate and transient in nature. No serious adverse events or infusion-related reactions were recorded. Even though the study was not statistically designed to show differences in efficacy between treatment groups, an improvement of at least 50% measured by the Eczema Area and Severity Index (EASI 50) at week 4 was observed in 83% of patients (5 out of 6) at the highest dose level of MOR106 compared to only 17% of patients (1 out of 6) who were receiving a placebo. These first signs of MOR106's clinical activity, coupled with the fact that it is generally well-tolerated, support its planned progression to a phase 2 clinical study. In February 2018, results from this study were presented in the late breaking abstracts session at the American Academy of Dermatology (AAD) Annual Meeting in San Diego, USA.

In the first quarter of 2017, MOR107 became the first lanthipeptide in MorphoSys's clinical pipeline to enter clinical development. In May 2017, MorphoSys announced it had completed the first part of a phase 1 clinical study in healthy volunteers and terminated the study. Based on an initial analysis of the blinded data from the volunteers enrolled to date, no clinically relevant safety signals were observed in all tested doses and all adverse events observed thus far were temporary and mild.

PARTNERED DISCOVERY

During the reporting year, partners of MorphoSys continued to develop HuCAL antibodies and presented data on the study results at scientific conferences and in press releases.

In March 2017, MorphoSys announced that its licensee Janssen presented positive results from two phase 3 studies evaluating guselkumab, a fully human anti-IL-23 monoclonal antibody, in patients with moderate-to-severe plaque psoriasis. Janssen presented data from the VOYAGE-2 and NAVIGATE studies at the 2017 annual meeting of the American Academy of Dermatology (AAD) in Orlando, Florida. As previously announced in November 2016, the results of both studies were included in Janssen's application for guselkumab's market approval in the United States and Europe. In February 2018, Janssen reported data from the phase 3 VOYAGE-2 study of guselkumab, which demonstrated long-term skin clearance in patients with moderate-to-severe plaque psoriasis. According to Janssen, the new data showed that a vast majority of patients (or 86 %) with moderate-to-severe plaque psoriasis receiving guselkumab who achieved at least 90 percent improvement of the signs and symptoms of their psoriasis measured by the Psoriasis Area and Severity Index (PASI 90) at week 28, maintained a PASI 90 response with continuous treatment through week 72.

At the end of July 2017, MorphoSys announced that its partner Bayer reported the results of a phase 2 clinical study examining anetumab ravtansine in patients with malignant pleural mesothelioma*. The study did not meet its primary endpoint of progression-free survival in comparison to vinorelbine. Anetumab ravtansine is an antibody-drug conjugate (ADC*) directed against mesothelin, and is based on an antibody made using MorphoSys's HuCAL technology. Malignant pleural mesothelioma is a rare cancer and commonly caused by exposure to asbestos. Bayer stated that it would continue to investigate the compound in clinical studies in other cancer indications.

REGULATORY EVENTS

PROPRIETARY DEVELOPMENT

On October 23, 2017, the US Food and Drug Administration (FDA*) granted breakthrough therapy designation to MOR208 in combination with lenalidomide for the treatment of blood cancer patients with relapsed or refractory (r/r) diffuse large B cell lymphoma (DLBCL) who are not eligible for high-dose chemotherapy and autologous stem cell transplantation. FDA's breakthrough therapy designation is based on preliminary data from the ongoing phase 2 L-MIND study, which is evaluating the safety and efficacy of MOR208 in combination with lenalidomide in this patient group. FDA breakthrough therapy designation is intended to expedite the development and review of drug candidates and their combination with other drugs. The FDA grants this designation when preliminary data indicate that the drug candidate demonstrates substantial improvement over existing therapies in the treatment of a serious or life-threatening disease.

PARTNERED DISCOVERY

In July 2017, MorphoSys's licensee Janssen announced it had received US market approval from the FDA for Tremfya® (guselkumab) for the treatment of adult patients suffering from moderate-to-severe plaque psoriasis. MorphoSys received a milestone payment from Janssen related to the approval. In mid-September 2017, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA*) recommended approval in Europe of Tremfya® (guselkumab) for the treatment of patients with moderate-to-severe plaque psoriasis. The EU Commission granted European approval in November 2017. Also in November, Janssen announced that it had received Health Canada approval in Canada for Tremfya® (guselkumab) for the treatment of adult patients suffering from moderate-to-severe plaque psoriasis.

*SEE GLOSSARY – *page 170*

PATENTS

During the 2017 financial year, MorphoSys continued to consolidate and expand the patent protection of its development programs and its growing technology portfolio, which are the Company's most important value drivers.

In February 2017, MorphoSys announced that it added a second patent with US Patent Number 9,200,061 to its lawsuit against Janssen Biotech and Genmab, A/S. Later in the year, MorphoSys added a third US patent, US 9,758,590, to the lawsuit. In April 2016, MorphoSys filed a lawsuit in the United States at the District Court of Delaware against Janssen Biotech and Genmab A/S for patent infringement of US Patent Number 8,263,746. In filing the lawsuit, MorphoSys seeks redress for infringement by Janssen's and Genmab's daratumumab, a CD38-directed monoclonal antibody indicated for the treatment of certain patients with multiple myeloma.

At the end of the financial year, the Company maintained over 50 different proprietary patent families worldwide in addition to the numerous patent families it pursues with its partners.

Group Development

In early January 2017, MorphoSys announced the appointment of Dr. Malte Peters as the Company's new Chief Development Officer. Dr. Peters assumed his new position on March 1, 2017, succeeding Dr. Arndt Schottelius who was Chief Development Officer until February 28, 2017. Dr. Schottelius left the Company to pursue new opportunities. Dr. Peters was previously employed as Global Head Clinical Development Biopharmaceuticals at Novartis's subsidiary Sandoz. For a period of one year as of March 1, 2017, Dr. Peters was entitled to request the transfer of a maximum of € 500,000 in Company treasury shares. A request was made in March 2017 upon which a total of 9,505 of the Company's treasury shares was transferred to Dr. Peters.

At the Annual General Meeting of MorphoSys AG on May 17, 2017, shareholders approved all resolutions of the Company's management with the required majority of votes. Krisja Vermeylen was newly elected to the Supervisory Board, replacing Karin Eastham whose resignation took effect at the end of the Annual General Meeting on May 17, 2017. Ms. Vermeylen holds the position of Senior Vice President Corporate People & Organisation at Novo Nordisk A/S, Bagsvaerd, Denmark. Over the past 20 years, Ms. Vermeylen has held a variety of management positions at Novo Nordisk, including General Manager for Belgium and Luxembourg (BeLux), France and, most recently, Germany. In addition, Dr. Frank Morich, Klaus Kühn and Wendy Johnson were reelected to the Supervisory Board following the expiry of their terms of office.

At the Company's Capital Markets Days held in London and New York in early September 2017, MorphoSys presented its growth and development strategy and provided an overview of its current activities. It also provided an outlook on potential upcoming events. One of the key strategic goals is to identify and pursue the fastest possible path to market for MOR208 in r/r DLBCL. MorphoSys also reemphasized its goal of becoming a fully integrated biopharmaceutical company. The Company presented not only proprietary and partnered clinical programs but also several of the proprietary programs that are currently in the early stages of research and development.

Dr. Markus Enzelberger was appointed MorphoSys's Chief Scientific Officer (CSO) as of November 1, 2017, after having served as Interim CSO since April 15, 2017. He succeeds Dr. Marlies Sproll, who resigned on October 31, 2017 due to ongoing family matters. Prior to her resignation, Dr. Sproll had taken temporary leave from her CSO position starting on April 15, 2017. As of November 1, 2017, Dr. Sproll assumed a new part-time role at MorphoSys as Special Advisor to the CEO. Dr. Enzelberger was previously Senior Vice President Discovery Alliances and Technologies at MorphoSys and was responsible for the Company's entire drug discovery activities and technology development. Dr. Enzelberger is a chemist by training and joined MorphoSys in 2002. For a period of one year as of November 1, 2017, Dr. Enzelberger was entitled to request the transfer of a maximum of € 400,000 in Company treasury shares. A request was made in November 2017 upon which a total of 4,956 of the Company's treasury shares was transferred to Dr. Enzelberger.

Group Headcount Development

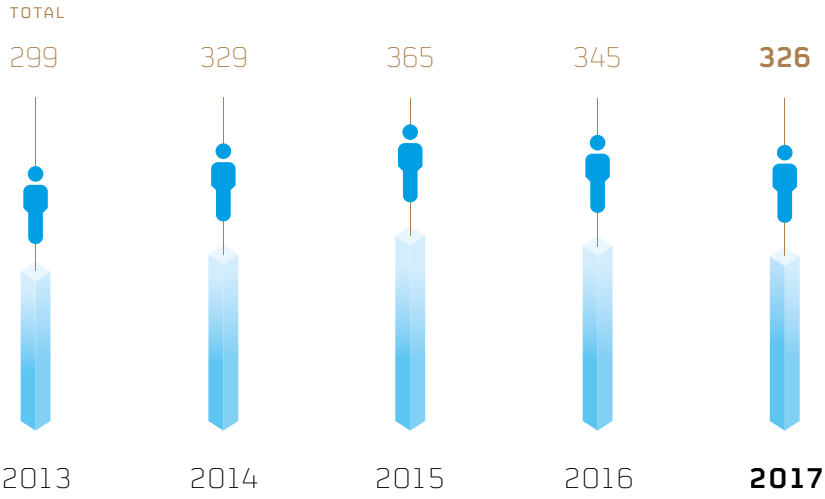
On December 31, 2017, the MorphoSys Group had 326 employees (December 31, 2016: 345), 132 of whom hold PhD degrees (December 31, 2016: 137). The MorphoSys Group employed an average of 344 employees in 2017 (2016: 354).

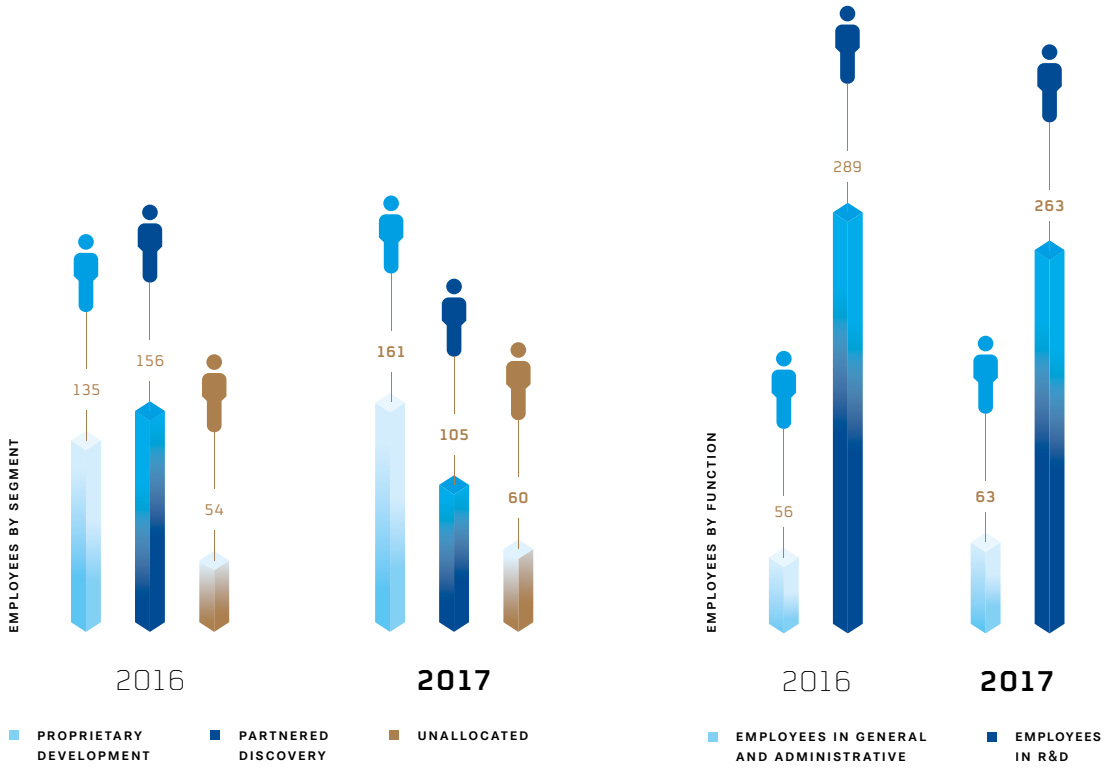
›› SEE FIGURE 04 – *Total Headcount of the MorphoSys Group (page 37)*

In order to successfully compete for the best employees, MorphoSys conducts an annual comparison of the Company's compensation with that paid by other companies in the biotech industry and similar sectors and makes adjustments when necessary. The remuneration system at MorphoSys includes fixed compensation and a variable annual bonus that is linked to the achievement of corporate goals. Individual goals promote both the employees' personal development and the achievement of key corporate goals.

04

Total Headcount of the MorphoSys Group (December 31)





In addition, a “spot bonus” (given “on the spot”) is promptly awarded to employees for exceptional accomplishments. We again made significant use of this instrument during the reporting year.

A detailed overview of headcount development and MorphoSys’s activities to promote successful long-term human resource development can be found in the section “Sustainable Business Development.”

Changes in the Business Environment

According to forecasts by the International Monetary Fund (IMF), global economic growth saw a significant acceleration to 3.6% in 2017 (2016: 3.1%).

The IMF is currently seeing the strongest global upswing in a decade. The Eurozone, Japan, China, the emerging economies of Eastern Europe and Russia all trended higher. The IMF sees risks for further economic development in the United Kingdom in the wake of Brexit and political uncertainties in the United States. The IMF cautioned the Eurozone to remain vigilant in combating the ongoing risks in the banking sector. According to the IMF, the US tax reform has improved the growth perspectives for the US, Germany and the world economy.

The 2017 growth forecast for the advanced economies was raised to 2.2% (2016: 1.7%). The emerging and developing economies are expected to report slightly higher growth of 4.6% (2016: 4.3%). In its October 2017 report, the IMF believes the economic recovery in the Eurozone will continue and expects growth of 2.1% in 2017 (2016: 1.8%). The 2017 forecast for Germany is 2.0% (2016: 1.9%). Growth in the United States is projected at 2.2% in 2017 (2016: 1.5%). China is expected to grow 6.8% (2016: 6.7%). The economies in Russia and Brazil climbed out of recession in 2017, growing 1.8% (2016: – 0.2%) and 0.7% (2016: – 3.6%), respectively.

MorphoSys takes into account all potential macroeconomic risks and opportunities when conducting business activities. Political uncertainty in the global markets did not cause the Company to refrain from or change any of its key activities in the past financial year. MorphoSys's operations were also not affected by any fluctuations within individual countries and, therefore, in this respect were not directly impacted by global economic developments.

CURRENCY DEVELOPMENTS

Contrary to the forecasts of many analysts at the beginning of the year, the euro strongly outperformed the US dollar in 2017. After a weak year for the euro in 2016 and a slump in the first few days of January 2017 to its lowest point since early 2003 of US$ 1.03, many analysts had predicted that parity would be reached in 2017. However, the currencies took an altogether different direction in 2017. In April, the euro had already reached US$ 1.09 – the highest level since the dollar rally following the US election in the fall of 2016. Later in the year, the euro continued to decouple from the dollar, trading at over US$ 1.17 in mid-November amid strong economic data and optimistic growth prospects for the Eurozone as a whole. Market observers believe this performance is related to successful structural reforms implemented in numerous European countries following the euro crisis.

Most of MorphoSys's business is transacted in euros and US dollars, therefore changes in these currencies could have an effect on the Company's future costs and revenues. Any weakness in the euro versus the US dollar would have a direct influence on the Company's operating results because a growing share of its costs stems from clinical studies conducted in the United States. Moreover, a strong euro reduces the royalty payments from Tremfya® sales incurred in US dollars that are converted into euro. MorphoSys deals with this risk using the appropriate hedge accounting measures.

REGULATORY ENVIRONMENT

The healthcare industry's regulatory environment is dominated by stringent product quality, safety and efficacy requirements, which place ever-higher demands on the companies involved. Novel drugs are required to demonstrate a benefit over existing therapies in order to be approved, gain the market's acceptance and be financially reimbursed.

The current trend in the United States is toward faster approval by the FDA (Food and Drug Administration). The FDA's actions are partly due to legislation adopted in 2012 and the mechanisms created to reduce review times, such as the breakthrough therapy designation and the extension of accelerated approvals. These mechanisms facilitate a faster review process for drug candidates demonstrating a substantial improvement for patients in urgent need, such as oncology patients. This development was evident in 2017. In 2017, the FDA had approved 46 new medications and therefore granted more than twice as many registrations as in the previous year (2016: 22). Between 2006 and 2014, the FDA approved an average of 28 new drugs per year.

Biopharmaceutical companies such as MorphoSys, who are focused on the development of therapies for indications with high medical need, could potentially benefit from the mechanisms described above. MorphoSys received FDA breakthrough therapy designation in 2017 for its drug candidate MOR208.

DEVELOPMENT OF THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTORS

According to market researchers, the development of the global pharmaceutical industry was sluggish in 2017. At the beginning of the year, analysts expected the ten largest pharmaceutical companies to grow just 2% on average, based mainly on fears of growing price pressure in the United States. Particularly in the third quarter of 2017, a number of pharmaceutical and major biotech companies, including Amgen, Merck & Co. and Gilead, reported weakening organic growth.

In contrast to the expectations at the beginning of the year, M&A in the healthcare sector was slightly weaker overall in 2017 than in the prior year. According to analysts at Mergermarket, a market intelligence provider, mergers and acquisitions in the first nine months reached a level of around US$ 200 billion, or almost 10 % lower than in the prior year. The decline was primarily the result of fewer M&A transactions in the pharmaceutical industry. One of the reasons indicated was the uncertainty surrounding the anticipated corporate tax reform in the United States. The biotech industry, on the other hand, had its strongest M&A year since the analysis began in 2001, driven by multi-billion dollar acquisitions such as Gilead's acquisition of Kite Pharma.

Fundamentally, the pharmaceutical industry remains robust. A report from the International Trade Administration of the US Department of Commerce expects worldwide pharmaceutical sales from 2015 to 2020 to grow at an annual rate of 4.9 %, from roughly US$ 1 trillion to US$ 1.3 trillion. The demand for pharmaceutical products is being driven by a variety of demographic and economic trends including a rapidly aging world population and the accompanying higher incidence of chronic disease, increasing urbanization, greater disposable income, higher public health spending and a growing demand for more effective treatments.

The market for cancer drugs – the primary market for most of MorphoSys's proprietary compounds – is one of the most attractive and fastest-growing segments of the pharmaceutical industry. According to the market research institute Research and Markets, the volume of the worldwide oncology market in 2016 was US$ 119 billion. Driving the market is a growing shift toward targeted therapies such as monoclonal antibodies and cell-based therapies. The Research and Markets report estimates that the global market for oncology products will grow by an average of approximately 10 % per annum to US$ 241 billion in 2023.

In 2017, pharmaceutical and biotechnology companies both in the US and in Europe faced rising pricing pressure thus finding it more difficult to charge high prices for their medications. Beside rising political pressure one reason is a shift in the market structure. The companies that negotiate with the pharmaceutical companies are getting bigger and fewer, thus gaining negotiation power. Therefore it was observed that even though list prices for medications are still rising, drugmakers were forced to give large rebates to insurers and pharmacy benefit companies.

Further information on the development of the stock market environment can be found in the section "Shares and the Capital Market."

DEVELOPMENT OF THE ANTIBODY SECTOR

The year 2017 was a very dynamic and successful year for the clinical development of therapeutic antibodies. By mid-November 2017, the FDA had granted regulatory approval to ten new antibodies. This number was already above the previous record of nine antibody approvals by the FDA in 2015.

In a follow-up to the article "Antibodies to Watch in 2017," published in "mAbs Journal," the Antibody Society disclosed in an article published in the beginning of 2017 that by the end of 2016 a total of 52 antibodies were in phase 3 clinical trials (year-end 2015: 53), 20 of which are being developed to treat cancer (year-end 2015: 17).

In July 2017, the FDA granted approval to our development partner Janssen for guselkumab for the treatment of plaque psoriasis. Guselkumab is a compound derived with the help of MorphoSys's technology.

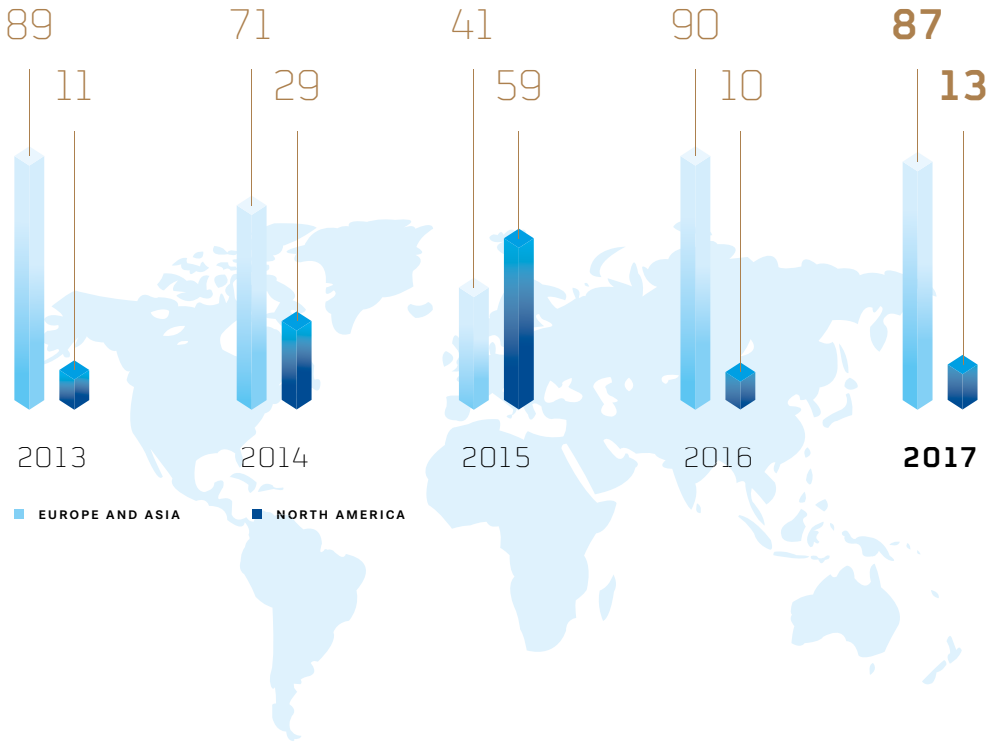
In 2017, the following antibodies received their first FDA regulatory approval:

- Brodalumab against plaque psoriasis
- Avelumab against Merkel cell carcinoma
- Dupilumab against atopic dermatitis
- Ocrelizumab against multiple sclerosis
- Durvalumab against urothelial carcinoma
- Sarilumab against rheumatoid arthritis
- Guselkumab against plaque psoriasis
- Inotuzumab ozogamicin against acute lymphoblastic leukemia
- Benralizumab against asthma
- Emicizumab against hemophilia

MorphoSys regards the successful development of the antibody segment as a generally positive signal and a validation of the Company's focus on this drug class in its development activities. However, from this observation no conclusions can be drawn regarding the development perspectives of individual drug candidates.

05

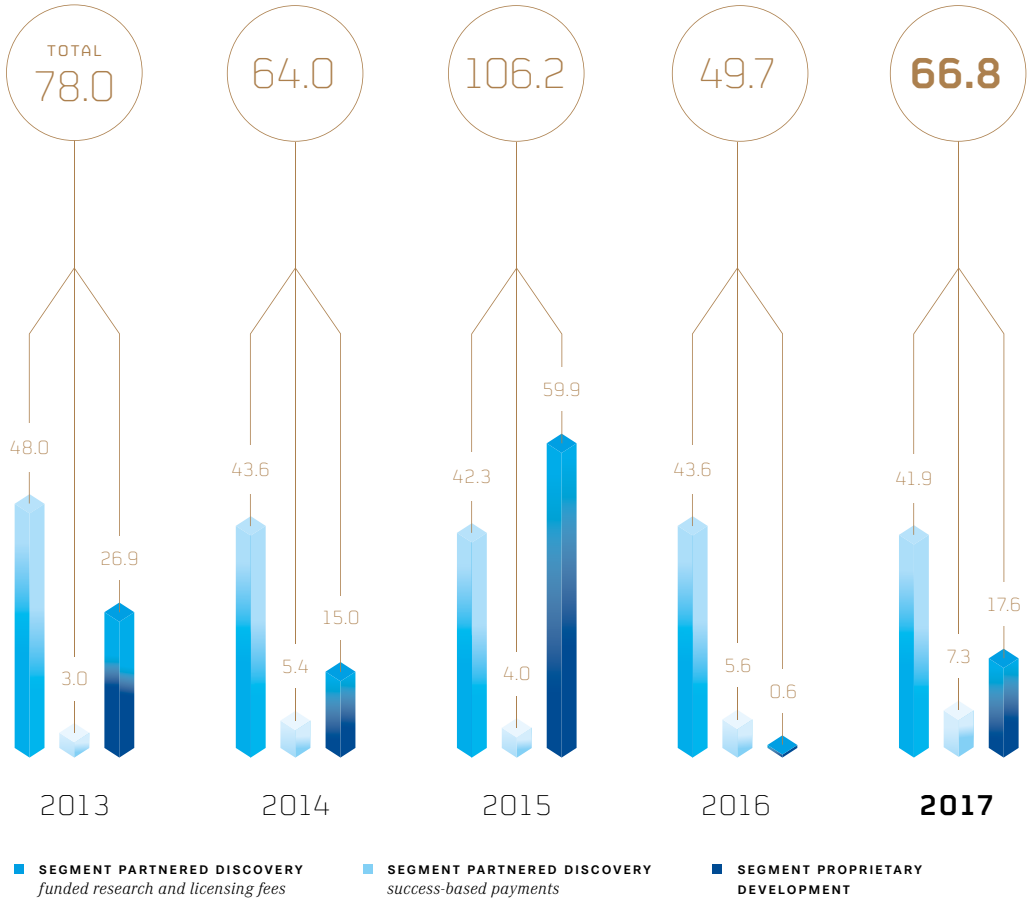
Revenues by Region (December 31) (in %)



06

Revenues Proprietary Development and Partnered Discovery (December 31) (in million €)[1]

[1] Differences due to rounding.



Analysis of Net Assets, Financial Position and Results of Operations

The MorphoSys Group's scope of consolidation as of December 31, 2017 was unchanged compared to December 31, 2016. The consolidated financial statements as of December 31, 2017 include MorphoSys AG, Sloning BioTechnology GmbH, Lanthio Pharma B.V. and its subsidiary LanthioPep B.V. Further information on the Group's organizational structure can be found on page 26.

Revenues

Group revenues in the 2017 financial year increased 34% versus the previous year, reaching a total of € 66.8 million (2016: € 49.7 million).

Success-based payments amounted to 11% or € 7.3 million (2016: 11% or € 5.6 million) of total revenues. On a regional basis, MorphoSys generated 13%, or € 8.7 million, of its commercial revenues with biotechnology and pharmaceutical companies and non-profit organizations headquartered in North America and 87%, or € 58.1 million, with customers headquartered in Europe and Asia. In the same period of the previous year, the distribution was 10% and 90%, respectively (see Figure 5: Revenues by Region). Roughly 90% of Group revenues are attributable to activities with our partners Novartis, I-Mab Biopharma and Janssen (2016: 95% with Novartis, Pfizer and Janssen).

>> SEE FIGURE 05 – *Revenues by Region (page 40)*

PROPRIETARY DEVELOPMENT SEGMENT

The Proprietary Development segment achieved revenues of € 17.6 million in 2017 (2016: € 0.6 million).

PARTNERED DISCOVERY SEGMENT

The revenues generated by the Partnered Discovery segment amounted to € 49.2 million and consisted of € 41.9 million in funded research and license fees (2016: € 43.6 million) and € 7.3 million in success-based payments (2016: € 5.6 million).

>> SEE FIGURE 06 – *Revenues Proprietary Development and Partnered Discovery (page 40)*

Operating Expenses

In 2017, operating expenses increased by 22% to € 133.8 million (2016: € 109.8 million). Expenses consisted of research and development expenses of € 116.8 million (2016: € 95.7 million) and general and administrative expenses of € 17.0 million (2016: € 14.1 million). Research and development expenses were increased as a result of the higher number of projects in development.

Operating expenses in the Proprietary Development segment increased from € 78.5 million to € 99.1 million. Expenses in the Partnered Discovery segment increased to € 18.9 million (2016: € 18.1 million).

Personnel expenses from share-based payments are included in general and administrative expenses and research and development expenses. These expenses amounted to € 5.0 million in 2017 (2016: € 2.4 million).

RESEARCH AND DEVELOPMENT EXPENSES

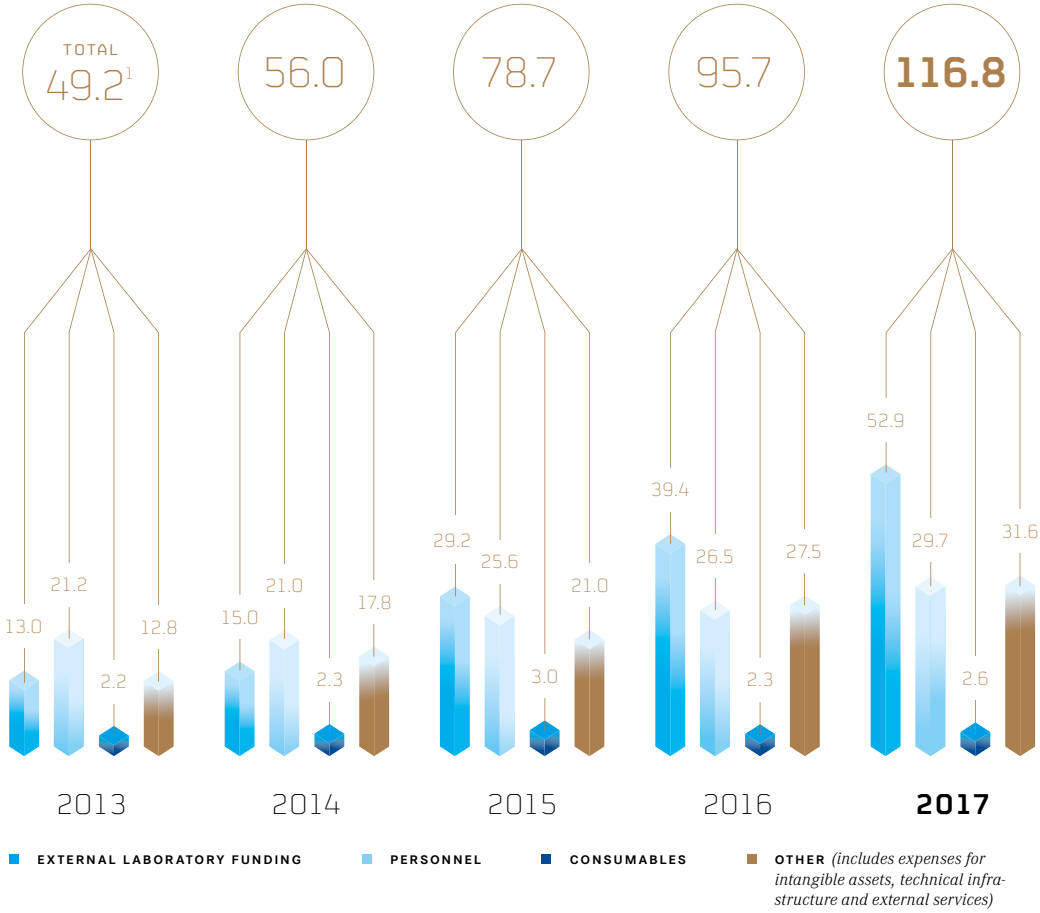
Research and development expenses increased by € 21.1 million in 2017 to a total of € 116.8 million (2016: € 95.7 million) and consisted of expenses for external laboratory services (2017: € 52.9 million; 2016: € 39.4 million), personnel expenses (2017: € 29.7 million; 2016: € 26.5 million), expenses for intangible assets (2017: € 13.5 million; 2016: € 13.7 million), expenses for external services (2017: € 10.1 million; 2016: € 5.0 million); technical infrastructure expenses (2017: € 4.9 million; 2016: € 5.9 million), other expenses (2017: € 3.1 million; 2016: € 2.9 million) and expenses for consumables (2017: € 2.6 million; 2016: € 2.3 million). Expenses for intangible assets primarily consisted of impairment of € 9.8 million (2016: € 10.1 million) on the in-process R&D program MOR209/ES414. The reason for the impairment was the termination of the cooperation with Aptevo Therapeutics in 2017.

>> SEE FIGURE 07 – *Selected R&D Expenses (page 42)*

07

Selected R&D Expenses (December 31) (in million €)

[1] Due to the sale of substantially all of the AbD Serotec operating segment with closing date of January 10, 2013, the figures for the year 2013 refer only to continuing operations.



In 2017, the Company incurred proprietary development expenses of € 97.7 million (2016: € 77.1 million) and € 1.4 million (2016: € 1.4 million) for technology development (see Figure 8: Distribution of R&D Expenses).

›› SEE FIGURE 08 – *Distribution of R&D Expenses (page 44)*

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were above the previous year's level, amounting to € 17.0 million (2016: € 14.1 million). They mainly consisted of personnel expenses (2017: € 12.3 million; 2016: € 9.5 million), expenses for external services (2017: € 2.9 million; 2016: € 2.5 million), technical infrastructure expenses (2017: € 0.8 million; 2016: € 0.9 million) and other expenses (2017: € 0.9 million; 2016: € 1.2 million).

Other Income and Expenses

Other income totaled € 1.1 million (2016: € 0.7 million) and included in both 2017 and 2016 income from grants and currency gains. Other expenses totaled € 1.7 million (2016: € 0.6 million) and mainly resulted from currency losses and the repayment of cost subsidies.

Earnings Before Interest and Taxes (EBIT)

Following the investment made in proprietary product development in 2017, earnings before interest and taxes (EBIT) amounted to € – 67.6 million as expected. This compares to an EBIT of € – 59.9 million in the prior year. The Proprietary Development segment reported EBIT of € – 81.3 million (2016: € – 77.6 million), while the Partnered Discovery segment achieved EBIT of € 30.2 million (2016: € 31.0 million).

Finance Income and Expenses

Finance income amounted to € 0.7 million (2016: € 1.4 million) and included mainly interest income as well as gains from currency hedges. Finance expenses amounted to € 1.9 million (2016: € 1.3 million) and resulted mainly from losses from currency hedges.

Taxes

The Group reported a tax expense of € 1.0 million in 2017 (2016: tax expense of € 0.5 million) derived from a deferred tax expense of € 0.5 million and a current tax expense of € 0.5 million.

Consolidated Net Profit/Loss for the Period

In 2017, the net result for the period amounted to € – 69.8 million (2016: € – 60.4 million). Earnings per share in 2017 was € – 2.41 (2016: € – 2.28).

Multi-Year Overview – Income Statement

TABLE 03
Multi-Year Overview – Income Statement[1]

in million €	2017	2016	2015	2014	2013[2]
Revenues	66.8	49.7	106.2	64.0	78.0
Research and Development Expenses	(116.8)	(95.7)	(78.7)	(56.0)	(49.2)
General and Administrative Expenses	(17.0)	(14.1)	(15.1)	(14.1)	(18.8)
Other Income/Expenses	(0.6)	0.2	4.7	0.2	(0.1)
EBIT	(67.6)	(59.9)	17.2	(5.9)	9.9
Finance Income/Expenses	(1.2)	0.1	3.4	1.6	0.8
Income Tax Income/Expenses	(1.0)	(0.5)	(5.7)	1.3	(3.3)
Profit/(Loss) for the Year from Continuing Operations	(69.8)	(60.4)	14.9	(3.0)	7.4
Profit/(Loss) for the Year from Discontinued Operations[2]	0.0	0.0	0.0	0.0	6.0
Consolidated Net Profit/(Loss)	(69.8)	(60.4)	14.9	(3.0)	13.3
Basic Net Profit/(Loss) per Share (in €)	(2.41)	(2.28)	0.57	(0.12)	0.54

[1] Differences due to rounding.
[2] Due to the sale of substantially all of the AbD Serotec business agreed in December 2012, line items in the income statement related to this transaction are recorded in a single line titled "Results from discontinued operations" for the year 2013. Other line items contain the results of the continuing operations.

Financial Position

PRINCIPLES OF FINANCIAL MANAGEMENT

At MorphoSys, the primary goal of financial management is to ensure sufficient liquidity reserves at all times for the Company's continued growth. The most important source of this liquidity is the operations of the individual business units and the resulting cash inflow. Cash flow projections and scenarios are used to determine the level of liquidity needed.

CASH FLOWS*

The net cash outflow from operating activities in 2017 totaled € 38.4 million (2016: cash outflow of € 46.6 million).

In 2017, the Company changed the composition of the financial assets held in its portfolio through the purchase and sale of various investment products. These shifts resulted in net cash inflows of € 32.9 million (2016: cash outflow of € 80.8 million).

Financing activities resulted in cash inflows of € 8.2 million in 2017 (2016: cash inflow of € 110.4 million), mainly due to the exercise of convertible bonds granted to the Management Board and the Senior Management Group.

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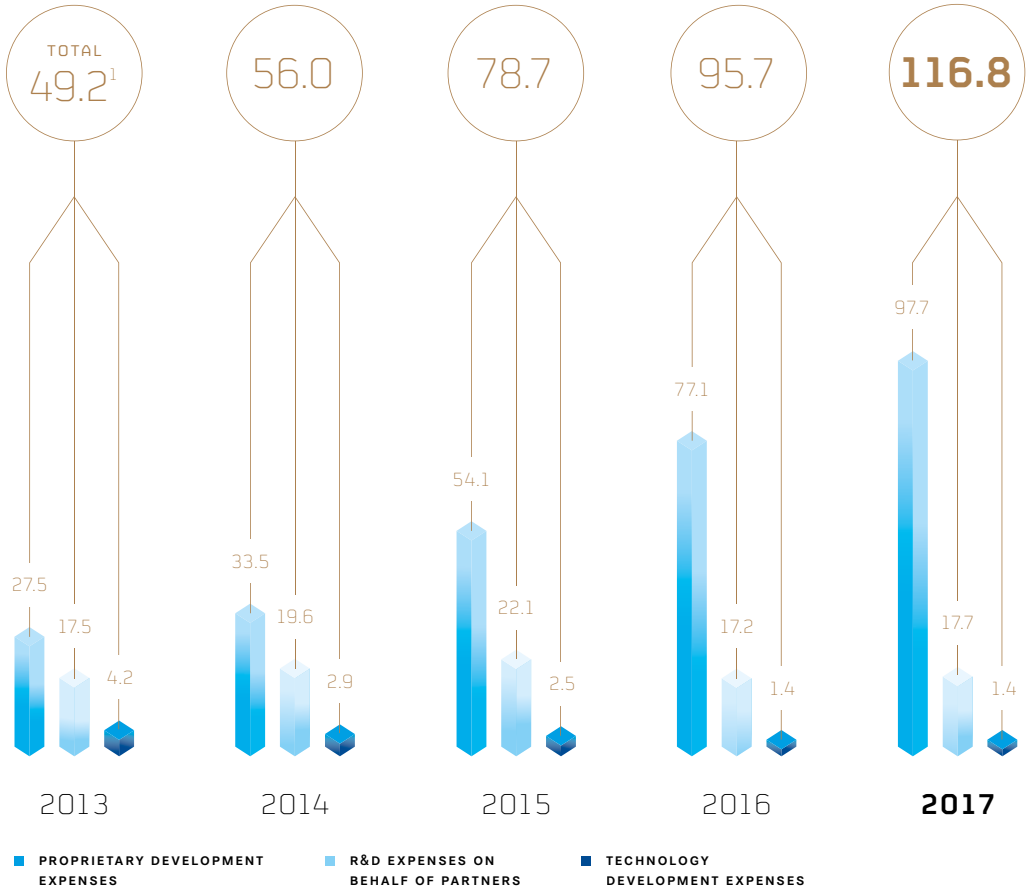
Distribution of R&D Expenses (December 31) (in million €)

[1] Due to the sale of substantially all of the AbD Serotec operating segment with closing date of January 10, 2013, the figures for the year 2013 refer only to continuing operations.



INVESTMENTS

In 2017, MorphoSys invested € 1.3 million in property, plant and equipment (2016: € 2.5 million), mainly laboratory equipment (i.e. machinery), computer hardware and tenant fixtures. Depreciation of property, plant and equipment in 2017 increased to € 2.0 million (2016: € 1.8 million).

The Company invested € 11.8 million in intangible assets in 2017 (2016: € 0.4 million). Amortization of intangible assets was above the prior year's level and amounted to € 2.1 million in 2017 (2016: € 2.0 million). In 2017, impairment of € 9.8 million was recognized on the in-process MOR209/ES414 program (2016: € 10.1 million).

LIQUIDITY

On December 31, 2017, the Company held cash and cash equivalents, marketable securities and other financial assets of € 312.2 million compared to € 359.5 million on December 31, 2016.

This amount consisted of cash and cash equivalents of € 76.6 million (December 31, 2016: € 73.9 million), marketable securities and bonds of € 86.5 million (December 31, 2016: € 69.9 million) and other financial assets in the amount of € 149.1 million (December 31, 2016: € 136.1 million) that are categorized as "loans and receivables" under "current assets." On December 31, 2016, other investments in the category of "loans and receivables" in the amount of € 79.5 million were reported under non-current assets.

The decline in liquidity resulted primarily from the use of cash and cash equivalents for operations in the year 2017.

TABLE 04
Multi-Year Overview – Financial Situation[1]

in million €	2017	2016	2015	2014	2013
Net Cash Provided by/Used in Operating Activities[2]	(38.4)	(46.6)	(23.5)	(14.2)	89.1
Net Cash Provided by/Used in Investing Activities[2]	32.9	(80.8)	86.3	(21.5)	(193.9)
Net Cash Provided by/Used in Financing Activities[2]	8.2	110.4	(4.1)	(3.9)	130.6
Cash and Cash Equivalents (as of 31 December)	76.6	73.9	90.9	32.2	71.9
Available-for-sale Financial Assets	86.5	63.4	64.3	106.0	188.4
Bonds, Available-for-sale	0.0	6.5	33.1	7.5	11.1
Financial Assets Categorized as Loans and Receivables, Current Portion	149.1	136.1	94.6	157.0	119.3
Financial Assets Categorized as Loans and Receivables, Net of Current Portion	0.0	79.5	15.5	50.0	0.0

[1] Differences due to rounding.
[2] In 2015, interest paid and interest received were reclassified from operating activities into investing activities and financing activities in the statement of cash flows. In order to provide comparative information for the previous year, the figures for 2014 have been adjusted accordingly.

Net Assets

ASSETS

As of December 31, 2017, total assets amounted to € 415.4 million and were € 48.2 million below their level on December 31, 2016 (€ 463.6 million). Current assets increased by € 32.6 million. The rise in cash and cash equivalents, available-for-sale financial assets and financial assets classified as loans and receivables was offset by the decline in available-for-sale bonds and accounts receivables.

As of December 31, 2017, an amount of € 86.5 million (December 31, 2016: € 63.4 million) was invested in various money market funds and reported under "available-for-sale financial assets." The item "available-for-sale bonds" did not contain any bonds on December 31, 2017 (December 31, 2016: € 6.5 million). The category "loans and receivables" included financial instruments totaling € 149.1 million (December 31, 2016: € 136.1 million). These instruments were mainly term deposits with either fixed or variable interest rates.

Non-current assets declined by € 80.8 million to € 74.7 million compared to their level on December 31, 2016. The main reason for the decline was a reduction in non-current financial assets in the category "loans and receivables."

LIABILITIES

Current liabilities increased from € 38.3 million on December 31, 2016 to € 47.7 million on December 31, 2017. This effect mainly resulted from the rise in accounts payable and accrued expenses.

Non-current liabilities (December 31, 2017: € 9.0 million; December 31, 2016: € 9.8 million) decreased mainly due to the decline in non-current deferred revenues compared to the December 31, 2016 reporting date.

STOCKHOLDERS' EQUITY

As of December 31, 2017, Group equity totaled € 358.7 million compared to € 415.5 million on December 31, 2016.

The number of shares issued totaled 29,420,785 as of December 31, 2017, of which 29,101,107 shares were outstanding (December 31, 2016: 29,159,770 shares issued and 28,763,760 shares outstanding).

In comparison to December 31, 2016, the number of authorized ordinary shares increased from 10,584,333 to 14,579,885. The change was a result of the cancellation of Conditional Capital 2015-I of € 10,584,333 and the creation of Conditional Capital 2017-I of € 2,915,977 and Conditional Capital 2017-II in the amount of € 11,663,908 by resolution of the Annual General Meeting on May 17, 2017.

The number of ordinary shares of conditional capital was lower compared to the level on December 31, 2016, declining from 6,752,698 to 6,491,683 due to the exercise of 261,015 conversion rights in the year 2017.

On December 31, 2017, the Company held 319,678 shares of treasury stock valued at € 11,826,981, representing a decline of € 2,821,231 compared to December 31, 2016 (396,010 shares, € 14,648,212). The cause of the decline was the transfer of 61,871 shares of treasury stock valued at € 2,286,752 to the Management Board and Senior Management Group from the performance-based 2013 long-term incentive program (LTI). The vesting periods for this LTI program expired on April 1, 2017 and October 1, 2017. Beneficiaries were given the option to receive a total of 61,871 shares within six months. In addition, a total of 9,505 MorphoSys shares valued at € 351,305 were transferred to the Chief Development Officer, Dr. Peters, in March 2017. In November 2017, a total of 4,956 shares valued at € 183,174 were transferred to the Chief Scientific Officer, Dr. Enzelberger.

Financing

As of December 31, 2017, the Company's equity ratio amounted to 86% compared to 90% on December 31, 2016. The Group currently does not have any financial liabilities owed to financial institutions.

Off-Balance-Sheet Financing

MorphoSys does not use any off-balance-sheet financing instruments such as the sale of receivables, asset-backed securities, sale-and-leaseback transactions or contingent liabilities in combination with non-consolidated special-purpose entities.

Credit Rating

There is no agency currently assessing the creditworthiness of MorphoSys.

Multi-Year Overview – Balance Sheet Structure

TABLE 05
Multi-Year Overview – Balance Sheet Structure[1]

in million €	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Assets					
Current Assets	340.7	308.1	300.1	322.4	406.6
Non-current Assets	74.7	155.5	100.0	104.1	41.1
Total	415.4	463.6	400.1	426.5	447.7
Equity and Liabilities					
Current Liabilities	47.7	38.3	27.5	32.7	35.4
Non-current Liabilities	9.0	9.8	9.9	45.0	60.1
Stockholders' Equity	358.7	415.5	362.7	348.8	352.1
Total	415.4	463.6	400.1	426.5	447.7

[1] Differences due to rounding.

Comparison of Actual Business Results Versus Forecasts

MorphoSys demonstrated solid financial performance during the 2017 reporting year. A detailed comparison of the Company's forecasts versus the actual results can be found in Table 6.

TABLE 06
Comparison of Actual Business Results Versus Forecasts

	2017 Targets	2017 Results
Financial targets	Group revenues between € 63 million and € 66 million (initial forecast € 46 – 51 million; revised on November 30, 2017 upon announcement of regional licensing agreement with I-Mab for MOR202)	Group revenues of € 66.8 million
	Expenses for proprietary product and technology development of € 96 million to € 100 million (initial forecast: € 85 – 95 million; revised on November 30, 2017 upon announcement of regional licensing agreement with I-Mab for MOR202)	Expenses for proprietary product and technology development of € 99.1 million
	EBIT of € – 66 million to € – 71 million (initial forecast: € – 75 million to € – 85 million; revised on November 30, 2017 upon announcement of regional licensing agreement with I-Mab for MOR202)	EBIT of € – 67.6 million
	Proprietary Development segment: R&D expenses to continue to rise (2016: € 78.5 million) EBIT sharply negative (2016: € – 77.6 million)	Proprietary Development segment: R&D expenses of € 99.1 million EBIT of € – 81.3 million
	Partnered Discovery segment: R&D expenses around prior-year level (2016: € 18.1 million) EBIT sharply positive, slightly below segment EBIT in 2016 (2016: € 31.0 million)	Partnered Discovery segment: R&D expenses of € 17.7 million EBIT of € 30.2 million
Proprietary Development	MOR208 • Presentation of first preliminary data of the L-MIND study (phase 2 combination study of lenalidomide in DLBCL) • Completion of the phase 2 safety part of the B-MIND study (combination study of bendamustine in DLBCL) and initiation of the pivotal phase 3 part of the study (in comparison to rituximab and bendamustine) • Initiation of another study arm of the COSMOS trial (another combination drug in addition to existing combination with idelalisib in CLL)	MOR208 • Presentation of preliminary data of the L-MIND study at the 2017 Annual Meeting of the American Society of Clinical Oncology (ASCO) in June • Transition of the B-MIND trial to a pivotal phase 3 part in June • Expansion of the COSMOS trial through the combination arm with venetoclax • Breakthrough therapy designation based on L-MIND study granted by FDA
	MOR202 • Completion of the phase 1/2a dose-escalation study in multiple myeloma, including data from the highest dose of 16 mg/kg alone and in combination with pomalidomide and lenalidomide	MOR202 • Presentation of updated safety and efficacy data from the phase 1/2a study at the ASCO Annual Meeting in June; patient enrollment for the study has been completed; subsequent observation will continue
	MOR209/ES414 • Continuation of the phase 1 trial with adjusted dosing regimen in mCRPC under the cooperation with Aptevo Therapeutics	MOR209/ES414 • Termination of cooperation with Aptevo in September with return of all development and commercialization rights to Aptevo for MOR209/ES414
	MOR106 • Completion of a phase 1 trial in atopic dermatitis as part of the co-development program with Galapagos	MOR106 • Completion of phase 1 trial in August and presentation of first data in September indicating clinical activity
	MOR107 • Initiation of a phase 1 trial in healthy volunteers	MOR107 • Initiation of phase 1 trial in healthy volunteers in February followed by completion of the first part of the trial in May
	• Initiation and continuation of new development programs in the area of antibody discovery and preclinical development	• Initiation of preclinical development of an anti-C5aR antibody in the fourth quarter
Partnered Discovery	Progress of partnered development programs	• Increasing number of partnered programs (101) as maturity progresses • First HuCAL antibody Tremfya® (guselkumab) for treating plaque psoriasis receives marketing approval in the US, Europe and Canada (partner is Janssen) • Partner Novartis initiates phase 2 trial of HuCAL antibody bimagrumab in obese patients with type 2 diabetes • Partner Roche initiates new pivotal phase 3 trials of gantenerumab in patients with prodromal to mild Alzheimer's disease • Partner Janssen initiates new phase 3 trials of HuCAL antibody guselkumab in plaque psoriasis (comparative study with secukinumab) and psoriatic arthritis; notification of a further phase 3 study in Crohn's disease

The Management Board's General Assessment of Business Performance

The 2017 financial year was a very successful year for MorphoSys. There were two events in particular that had a positive impact on our business development. The first was in July, with the first MorphoSys antibody to receive marketing approval. Tremfya® (guselkumab), developed by our partner Janssen for plaque psoriasis, received approval initially in the US, followed by Europe and Canada. The second event came in October, when we were granted breakthrough therapy designation by the US Food and Drug Administration (FDA) for our proprietary antibody MOR208 in the blood cancer indication relapsed or refractory DLBCL.

Revenues in the 2017 financial year increased to € 66.8 million, and EBIT amounted to € –67.6 million. The increase in revenues and the improved operating result compared to the previous year were largely the result of entering into a regional partnership for our proprietary antibody MOR202. This agreement resulted in a one-time payment of € 16.8 million, which also prompted us to raise our financial forecast for the 2017 financial year. The net cash outflow from operating activities amounted to € 38.4 million, which was the result of the planned increase in expenses for proprietary research and development. Our equity ratio of 86% and liquid funds of € 312.2 million are a confirmation of the strength of the Company's financial resources.

The proprietary portfolio advanced significantly, with 13 active compounds at year-end (year-end 2016: 14). Data from a phase 2 combination study of MOR208 in the blood cancer indication DLBCL were presented at a large US oncology conference. Based on these data, the US Food and Drug Administration (FDA) granted breakthrough therapy designation to MOR208, in combination with lenalidomide, for the treatment of adult patients with relapsed or refractory diffuse large B cell lymphoma who are not eligible for high-dose chemotherapy and autologous stem-cell transplantation. A further phase 2 combination study of MOR208 in DLBCL transitioned to a phase 3 study. The current dose-escalation study of MOR202 in multiple myeloma is evaluating the drug at the highest doses reached in the trial. Clinical data from the phase 1 study of MOR106 in atopic dermatitis in cooperation with Galapagos were published. The first part of a phase 1 clinical trial of MOR107, the first lanthipeptide in MorphoSys's clinical development pipeline, was completed. The compound MOR209/ES414 was returned to the partner Aptevo as part of a portfolio optimization.

We also made very good progress in the Partnered Discovery segment. A deciding factor was the marketing approval of the HuCAL antibody Tremfya® (guselkumab) developed by Janssen. Guselkumab is now the first approved antibody based on MorphoSys technologies – a milestone for the Company. A pivotal study of anetumab ravtansine, initiated by our partner Bayer, did not meet its primary endpoint. Novartis announced its intention to conduct a phase 2 clinical trial of the HuCAL antibody bimagrumab in severely obese patients with type 2 diabetes. Roche announced plans for a new pivotal phase 3 trial of gantenerumab in Alzheimer's disease. The number of Partnered Discovery programs in the reporting year grew to a total of 101 (end of 2016: 100).

Accounting Judgments

In preparing the 2017 consolidated financial statements, no accounting policies or accounting options were used that differ from those in prior years or that, if used or exercised differently, would have had a material effect on the Company's net assets, financial position, results of operations or balance sheet structure. Information on the effects of the Management Board's use of estimates, assumptions and judgments can be found in the Notes to the Consolidated Financial Statements.

Outlook and Forecast

MorphoSys's business model is based on the development of innovative drug candidates derived from its proprietary technologies, in particular the HuCAL and Ylanthia antibody libraries. Drug candidates are developed both on a proprietary basis and together with partners to give patients access to better treatment alternatives. The focus of proprietary development is oncology and inflammatory diseases. Management's goal is to continue developing proprietary drug candidates towards market approval, while at the same time concentrating on further developing its technologies in fast-growing, innovation-driven areas of the life sciences sector.

General Statement on Expected Development

MorphoSys's strategic focus is on the development of innovative drugs to improve the lives of patients suffering from serious diseases. The development of MOR208, our most advanced drug candidate, for the treatment of certain forms of blood cancer is currently our top priority. Our continued investment in the development of validated and innovative technology platforms is an important basis for our business. In the Partnered Discovery segment, the commercialization of our technologies provides contractually secured cash flows from our partnerships with pharmaceutical companies. MorphoSys further participates in the successful development of its partners' drug candidates through the receipt of revenues, such as milestone payments and royalties on product sales, as soon as the drugs are commercialized. Our main source of royalties is currently generated from sales of the HuCAL antibody Tremfya® by our partner Janssen, which was launched in 2017.

Revenues from R&D funding, royalties, license and milestone payments and a strong liquidity position enable the Company to continue expanding its development of proprietary drugs and technologies. The Management Board expects, among others, the following developments in 2018:

- Continue to advance the development of MOR208 towards a potential regulatory approval.
- Evaluate potential set-up of commercialization capabilities in order to market MOR208 in certain geographies.
- Continue the development of MOR202 and explore opportunities for its further development, either alone or together with a partner, in one or more oncology indications, including in solid tumors.
- New strategic agreements based on proprietary technologies focused on gaining access to innovative target molecules and compounds.
- Continued expansion of proprietary development activities through potential in-licensing, company acquisitions, co-development and new proprietary development activities.
- Investment in the development of proprietary technologies to maintain and expand the Company's position in therapeutic antibodies and related technologies.

Strategic Outlook

MorphoSys's business model is based on the development of innovative drug candidates derived from the Company's proprietary technologies, such as its HuCAL and Ylanthia antibody libraries. Drug candidates are developed both on a proprietary basis and together with partners to provide patients access to better treatment alternatives. The focus of proprietary development is oncology and inflammatory diseases. MorphoSys's management intends to advance the Company's portfolio of drug candidates and develop individual candidates towards the market. MorphoSys will also concentrate on applying and expanding its technologies in fast-growing, innovation-driven areas of the life sciences sector.

In the Proprietary Development segment, MorphoSys develops proprietary therapeutic antibodies and peptides, primarily in the areas of oncology and inflammatory diseases. Decisions to enter into alliances to develop MorphoSys's proprietary candidates are made on a case-by-case basis. In some cases, projects can remain in proprietary development for a longer period or even until their commercialization. Our main focus is currently the continuation of the MOR208 development towards a potential regulatory approval and the set-up of capabilities to commercialize MOR208 in certain geographies.

The Partnered Discovery segment generates contractually secured cash flows based on various partnerships with major pharmaceutical companies. The majority of development candidates in recent years stemmed from our partnership with Novartis. As previously announced, this partnership ended in accordance with the contract at the end of November 2017. Although the partnership has ended, development candidates under this partnership will continue to be developed and may lead to additional milestone payments and royalties. Based on its breadth and stage of development, the partnered pipeline is expected to generate a number of marketable therapeutic antibodies in the future. Should these be successful, the Company's financial participation in the form of royalties on product sales would likely increase.

MorphoSys plans to invest a substantial portion of its financial resources in proprietary R&D for the foreseeable future. The Management Board believes this is the best route to increasing the Company's value for the long term. Our goal is to bring MOR208, our most advanced proprietary drug candidate, to the market. Due to the advanced maturity of the proprietary MOR208 program, MorphoSys will increasingly engage in activities, either alone or with potential partners, to prepare for possible commercialization in the future. We also plan to advance our portfolio of proprietary development candidates and further strengthen our technology platform.

Expected Economic Development

In its fall 2017 report, the International Monetary Fund (IMF) is projecting global economic growth of 3.7% in 2018, which is slightly higher than in 2017 (forecast: 3.4%). Advanced economies are anticipated to grow 2.0% in 2018 compared to a forecast of 1.8% for 2017. The IMF also expects the development in Europe to remain positive and is forecasting growth in the Eurozone in 2018 of roughly 1.9%, which is higher than in the prior year (forecast: 1.5%). Based on this forecast, Europe is expected to make a sizeable contribution to global economic growth. The IMF expects economic growth in Germany to reach 1.8% in 2018 (2017E 1.4%). Record employment figures, increasing nominal and real wages and low energy costs are fueling private consumption. Nevertheless, challenges such as an aging population and a return to a normal level of interest rates still exist. The IMF is projecting a rise in US economic growth in 2018 to 2.3% compared to expected growth of 2.2% in 2017.

According to the IMF, growth in the emerging and developing countries in 2018 is expected to reach 4.9% (2017E: 4.6%). Growth in China should reach 6.5% in 2018 (2017E: 6.2%) while Russia is expected to grow 1.6% compared to growth of 1.1% in 2017. The trend in Brazil is also expected to turn around with economic growth projected at 1.5% for 2018 after positive growth of 0.5% in the prior year.

Expected Development of the Life Sciences Sector

Following a temporary sharp decline in biotechnology stocks in 2016, the sector was again able to assert itself on the capital markets in the 2017 reporting year. The leading global industry index, the NASDAQ Biotechnology Index*, closed the year 2017 with an increase of 21%. According to the auditing firm Ernst & Young in its 2018 M&A Report, M&A activity in the life sciences sector, however, saw a decline in total volume of almost 20% in 2017, ending the year at just over US$ 200 billion. In a survey of leading industry managers, 60% of respondents said they expect M&A conditions in the sector to improve in 2018. On the basis of this survey, Ernst & Young is projecting total M&A volume to surpass US$ 200 billion again in 2018, mainly driven by a continued increase in competition and price pressure in the healthcare sector.

The sector continues to be in good shape overall. The number of new FDA product approvals more than doubled in 2017 to 46 compared to 22 in 2016. A policy road map published by the FDA in January 2018 suggests that the number of new registrations in 2018 will remain high. Among others, the FDA plans to implement measures to increase competition in the field of biosimilars, which are generic versions of biopharmaceutical products. Patient access to promising new drugs is also expected to be made easier.

A growing challenge for pharmaceutical and biotechnology companies both in the US and Europe is expected to be the ongoing price pressures as drug makers are facing increasingly stronger negotiating partners for drug prices and pressure from policy makers.

Future Research and Development and Expected Business Performance

PROPRIETARY DEVELOPMENT

The Company's R&D budget for proprietary drug development in the 2018 financial year is expected to be in the corridor of around € 95 million to € 105 million. The majority of investment will fund the clinical development of our proprietary drug candidates MOR208, MOR202 and MOR106. Much of that funding will be dedicated to the clinical development of MOR208. Further investment will be made in the areas of target molecule validation as well as antibody and technology development. We will also continue to seek collaborations with partners such as academic institutions to gain access to new target molecules and technologies.

The events and development activities planned in 2018 include the following:

- Update on interactions with the FDA during the breakthrough therapy designation process for MOR208.
- Completion of treatment of 81 patients under the current study protocol of the fully recruited L-MIND* trial and the start of data evaluation.
- Continuation of the pivotal phase 3 study evaluating MOR208 in combination with bendamustine in comparison to rituximab and bendamustine in r/r DLBCL* (B-MIND* study).
- Continuation of the phase 2 COSMOS* trial of MOR208 with idelalisib and venetoclax in CLL* and presentation of study data at conferences.
- Continue to advance the development of MOR208 towards a potential regulatory approval and begin to set up commercial capabilities in order to commercialize MOR208 in certain geographies.
- Evaluation of new potential partnerships for MOR202 for its optimal development.
- Evaluate the start of an exploratory clinical trial of MOR202 in non-small-cell lung cancer (NSCLC).
- Presentation of study data after the completion of the still ongoing phase 1/2a dose-escalation trial of MOR202 in multiple myeloma.
- Initiation of a phase 2 trial of MOR106 in atopic dermatitis under our co-development program with Galapagos.
- Preclinical investigations of MOR107 with a focus on oncology indications based on initial anti-tumor data.
- Initiation and continuation of development programs in the area of antibody discovery and preclinical development.

Based on information provided on the clinicaltrials.gov website, we anticipate the publication of data from a phase 2b study of MOR103/GSK3196165 in rheumatoid arthritis and a phase 2a study in hand osteoarthritis conducted by our partner GSK. Our partner I-Mab has announced its intention to commence its first clinical study of MOR202 in China in 2018.

*SEE GLOSSARY – *page 170*

PARTNERED DISCOVERY

MorphoSys intends to continue to focus, above all, on the further development of its proprietary development pipeline. In the Partnered Discovery segment, MorphoSys will carefully review its options to enter into additional antibody collaborations based on the Ylanthia technology with pharmaceutical and biotech companies, similar to the partnership it concluded with LEO Pharma in 2016.

According to information provided on the website clinicaltrials.gov, in 2018 primary completion may be reached in a total of up to 31 clinical trials in various study phases from partners evaluating antibodies based on MorphoSys technology. This includes a pivotal phase 2b study by Mereo in osteogenesis imperfecta (brittle bone syndrome) of the HuCAL antibody BSP804, directed against the target molecule sclerostin and generated within the scope of the Novartis partnership. Several Janssen phase 3 trials in psoriasis are also scheduled for primary completion in 2018. These include a direct comparative study between Janssen's product Tremfya® and competing product Cosentyx®.

Our partner Roche is also expected to initiate two new pivotal phase 3 trials in the 2018 financial year (called GRADUATE-1 and GRADUATE-2) with the antibody gantenerumab in Alzheimer's disease.

Whether, when and to what extent news will be published following the primary completion of trials in the Partnered Discovery segment is at the full discretion of our partners.

Expected Personnel Development

While the number of employees in the Proprietary Development segment is expected to increase slightly during the 2018 financial year, the number of employees in the Partnered Discovery segment is expected to see a slight decline. Due to the initiation of building up commercial capacities, the number of employees in G&A is expected to increase slightly.

Expected Development of the Financial Position and Liquidity

MorphoSys had financial resources of € 312.2 million at the end of the 2017 financial year. Revenues in the 2018 financial year are expected to be below those achieved in the prior year. The reasons for this expected decline are primarily two items that will not reoccur in the 2018 financial year, namely € 37 million in revenues from the partnership with Novartis that ended in accordance with the contract in November 2017 and the one-time payment of € 16.8 million for partnering MOR202. Although the partnership with Novartis has ended, MorphoSys will continue to be eligible for success-based milestone payments and royalties in the event of the successful development of product candidates by Novartis. The Management Board is projecting Group revenues of € 20 million to € 25 million in the 2018 financial year. Revenues are expected to include royalty income from Tremfya® ranging from € 12 million to € 17 million on constant US$ currency. This forecast does not take into account revenues from future collaborations and/or licensing agreements.

R&D expenses for proprietary programs and technology development are expected to reach € 95 million to € 105 million in 2018. Most of these expenses in the Proprietary Development segment will arise from the ongoing studies of MOR208, MOR202 and MOR106 as well as from our early-stage development programs. R&D expenses for the Partnered Discovery segment are expected to be lower than in the prior year due to the expiration of the partnership with Novartis.

Due to the advanced maturity of the proprietary MOR208 program, MorphoSys will increasingly engage in activities, either alone or with potential partners, to help prepare for possible commercialization in the future.

The Company expects EBIT of approximately € –110 million to € –120 million in 2018. This guidance does not include revenues from potential future partnerships or licensing agreements nor milestones for MOR103 that could occur in the course of 2018. Effects from potential in-licensing or co-development deals for new development candidates are not included in the guidance either. The Partnered Discovery segment is expected to generate a positive operating result in 2018. The Proprietary Development segment is expected to report a sharply negative EBIT due to planned R&D expenditures on proprietary programs.

In the years ahead, one-time events, such as the in-licensing and out-licensing of development candidates and larger milestone payments and royalties from the market maturity of HuCAL and Ylanthia antibodies could have an increasing impact on the Company's net assets and financial position. Such events could cause financial targets to change significantly. Similarly, failures in drug development could have negative consequences for the MorphoSys Group. Revenue growth in the near future will depend on the Company's ability to out-license its proprietary programs and/or enter into new partnerships. In addition, revenues should increasingly benefit from royalties based on sales of Tremfya® (guselkumab).

At the end of the 2017 financial year, MorphoSys had liquidity of € 312.2 million (December 31, 2016: € 359.5 million). The loss projected for 2018 will cause a decline in liquidity. MorphoSys sees its solid cash position as an advantage that can be used to accelerate its future growth through strategic activities such as the in-licensing of compounds and investments in promising companies. Available liquidity can also be used to fund research and development expenses for the Company's proprietary portfolio of therapeutic antibodies.

DIVIDEND

In the separate financial statements of MorphoSys AG, prepared in accordance with German Generally Accepted Accounting Principles (German Commercial Code), the Company is reporting an accumulated deficit, which prevents it from distributing a dividend for the 2018 financial year. In view of the anticipated losses in 2018, the Company expects to continue to report an accumulated loss for the 2018 financial year. MorphoSys will invest further in the development of proprietary drugs and will pursue additional in-licensing and acquisition transactions to open up new growth opportunities and increase the Company's value. Based on these plans, the Company does not expect to pay a dividend in the foreseeable future.

This outlook takes into account all known factors at the time of preparing the Annual Report and is based on the Management Board's assumptions of events that could influence the Company in 2018 and beyond. Future results may differ from the expectations described in the section entitled "Outlook and Forecast." The most significant risks are described in the risk report.

Shares and the Capital Market

MorphoSys AG shares opened the reporting year at a share price of € 48.75. After a volatile start in the first weeks of 2017, the shares marked their low for the year on February 6 at € 47.60. The shares then trended higher in line with the TecDAX before breaking out in September with price performance far outpacing the benchmark index. Positive news flow, such as the breakthrough therapy status for MOR208 from the FDA and the approval of Tremfya® received by Janssen in new regions, drove MorphoSys shares to a high of € 82.95 on November 21. The shares closed the financial year at € 76.58, amounting to a significant share price increase of 57% and market capitalization* of € 2.3 billion.

In a record year for German and international stock indices, the shares of MorphoSys AG still outperformed with a 57% increase in share price. The NASDAQ Biotechnology Index ended the year 22% higher, and the TecDAX* rose 40% for the year.

›› SEE FIGURE 09 – *Performance of the MorphoSys Share in 2017 (page 54)*
›› SEE FIGURE 10 – *Performance of the MorphoSys Share 2013–2017 (page 54)*

*SEE GLOSSARY – *page 170*

Stock Market Development

The 2017 stock market year was marked by positive developments worldwide. The German DAX index reached a new high in early November, and the US Dow Jones Index gained nearly 25% for the year. The MSCI Emerging Markets stock index, which tracks the stock markets in the emerging countries, rose 37%.

In this favorable environment, biotech stocks managed to regain investor confidence. During the reporting year, MorphoSys continued to increase its investor relations activities focusing again primarily on Europe and the United States.

Liquidity and Index Membership

The average daily trading volume in MorphoSys shares on all regulated trading platforms increased by 61% in 2017, reaching a volume of € 15.6 million (2016: € 9.7 million). The average daily trading volume on the TecDAX, which contains the 30 largest technology stocks on the Frankfurt Stock Exchange, rose 46% amid the overall positive stock market environment. By the end of 2017, MorphoSys ranked 10th in the TecDAX in terms of market capitalization (2016: 11th) and 12th in terms of trading volume (2016: 11th).

The average daily trading volume in MorphoSys shares on alternative trading platforms (“dark pools”) in 2017 was approximately € 6.3 million, or 98,700 shares (2016: approx. 103,700 shares valued at € 4.4 million), representing a year-on-year decline of 5%.

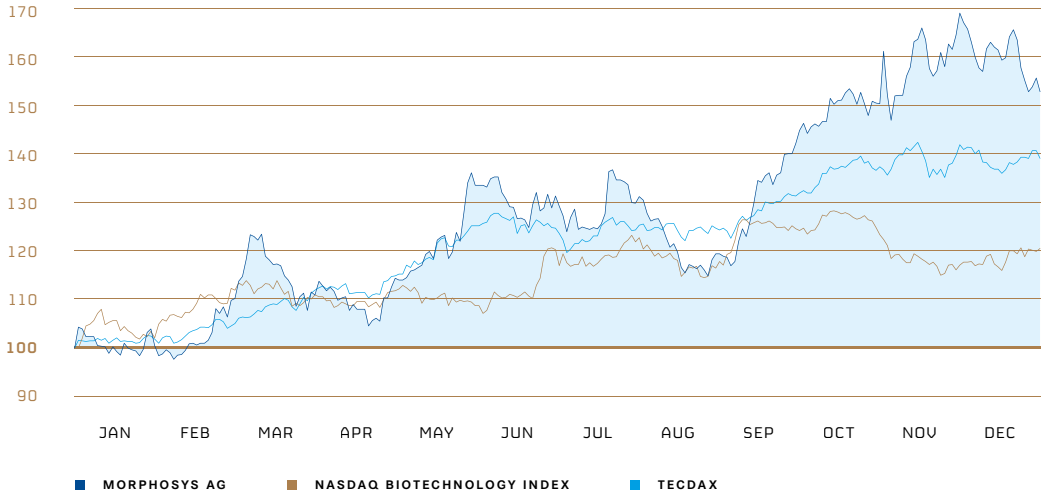
Common Stock

The Company’s common stock increased to 29,420,785 shares, or € 29,420,785.00, in the reporting year due to the exercise of convertible bonds granted to the Management Board and the Senior Management Group in 2013. A detailed description of the convertible bond program can be found in the Notes (Item 7.2).

A long-term incentive plan (2013 LTI program), which was granted to the Management Board and members of the Senior Management Group in 2013, was allocated in the year under review. As part of this 2013 LTI program, 61,871 treasury shares were transferred from the Company to the Management Board and Senior Management Group during the reporting year. A detailed description of this program can be found in the Corporate Governance Report and in the Notes (Item 7.3.1) of this Annual Report. In addition, the two new Management Board members, Dr. Malte Peters and Dr. Markus Enzelberger, were granted a total of 14,461 MorphoSys shares held by the Company as treasury stock. This reduced the holdings of MorphoSys AG’s treasury stock to 319,678 shares.

09

Performance of the MorphoSys Share in 2017 (January 1, 2017 = 100 %)



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Performance of the MorphoSys Share 2013–2017 (January 1, 2013 = 100 %)

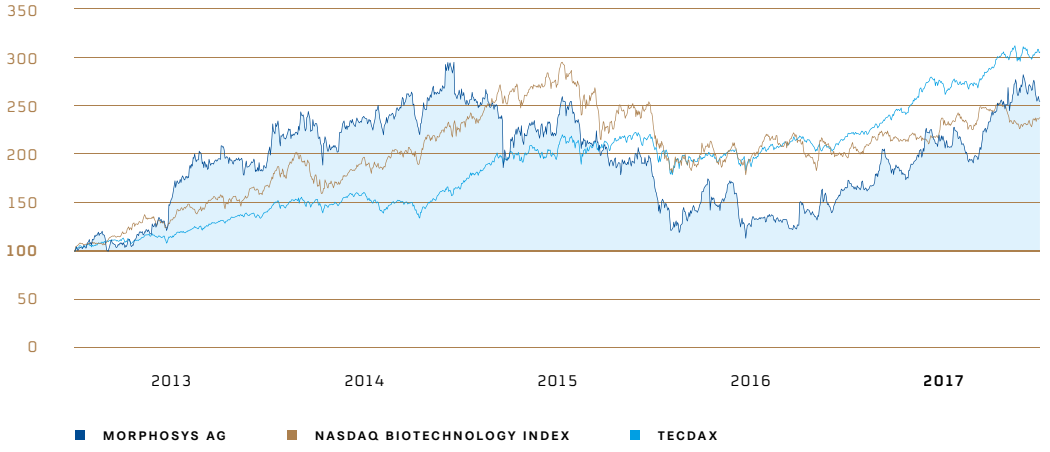

TABLE 07
Key Data for the MorphoSys Share (December 31)

	2017	2016	2015	2014	2013
Total stockholders' equity (in million €)	358.7	415.5	362.7	348.8	352.1
Number of shares issued (number)	29,420,785	29,159,770	26,537,682	26,456,834	26,220,882
Market capitalization (in million €)	2,253	1,422	1,530	2,027	1,464
Closing price in € (Xetra)	76.58	48.75	57.65	76.63	55.85
Average daily trading volume (in million €)	15.6	9.7	14.9	11.9	6.9
Average daily trading volume (in % of common stock)	0.83	0.78	0.87	0.65	0.59

International Investor Base

Various voting right notifications were issued during the reporting year in accordance with Section 26 (1) of the German Securities Trading Act (WpHG). These notifications were published on the MorphoSys website and can be found under Media and Investors – Stock Information – Recent Voting Rights Notifications.

According to the definition given by the Deutsche Börse, the free float in MorphoSys AG's shares was 98.91 % at the end of the reporting year.

›› SEE FIGURE 11 – *Shareholders of MorphoSys AG by Region (page 56)*

Annual General Meeting

The Management and Supervisory Boards of MorphoSys AG welcomed shareholders to the Company's 19th Annual General Meeting in Munich on May 17, 2017. The shareholders and proxies attending represented more than 54.0 % of the common stock of MorphoSys AG (2016: 54.1 % of the common stock represented).

All six agenda items submitted for resolution were adopted by a clear majority, including the reelection of Supervisory Board members Dr. Frank Morich, Klaus Kühn and Wendy Johnson. Krisja Vermeylen was newly elected to the Supervisory Board of MorphoSys AG.

Investor Relations Activities

During the 2017 financial year, MorphoSys maintained close communication with the capital markets. On September 5 and 6, the Company held Capital Markets Days in London and New York. The Management Board gave a complete presentation of MorphoSys's strategy and detailed insight into the latest pipeline developments. Following the presentation, participants were given an opportunity to address questions to the management. Both events were also webcast, making them accessible to interested parties worldwide. A total of more than 100 investors, analysts and shareholders watched the Management Board's presentations.

MorphoSys also took part in around 20 international investor conferences. As in prior years, the Company held an Investor's Day in Chicago, USA, in June on the occasion of the ASCO Annual Meeting, the world's largest conference for cancer. Several roadshows were held at various locations in both Europe and the USA. The strongest interest continued to be in the United States where a large number of specialized healthcare investors are located. Meanwhile, approximately 45 % of MorphoSys AG shares are held by US institutional investors.

The Management Board also held conference calls in conjunction with the publication of the annual, half-yearly and quarterly results to report past and expected business developments and answer questions from analysts and investors.

The key topics in investor discussions were the general progress of the drug pipeline and the development of the proprietary portfolio, which had a total of 13 active programs at the end of the reporting year. Investors were particularly interested in the clinical results of our partnered programs, especially the data and plans for the pivotal studies.

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Shareholders of MorphoSys AG by Region[1] (December 31, 2017)

[1] Source: Bloomberg

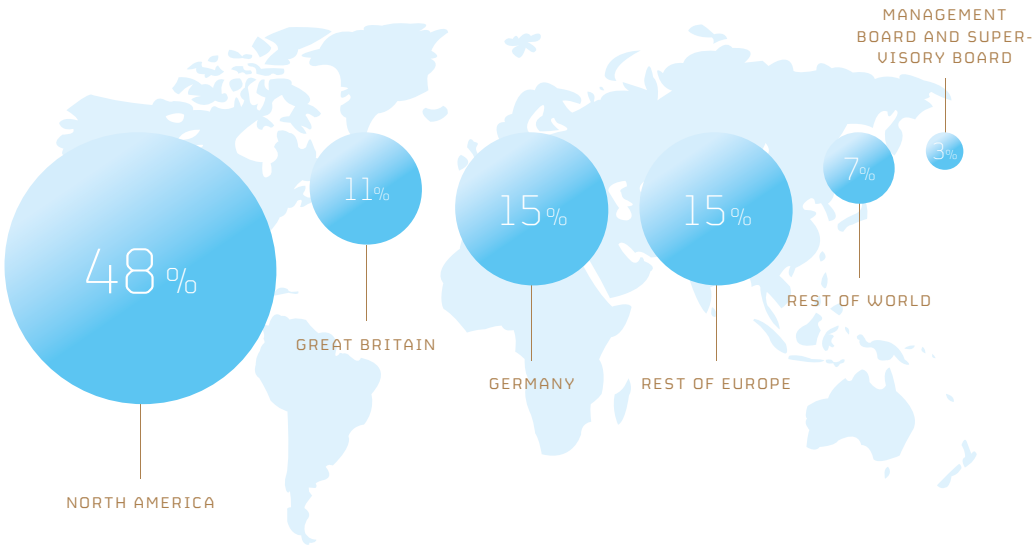

TABLE 08
Analyst Recommendations (December 31, 2017)

Buy/Overweight	Hold	Sell	n/a
8	3	0	0

Buy/Overweight; Hold; Sell; n/a = not available (no rating)

There were a total of 11 analysts covering MorphoSys shares at the end of 2017.

Detailed information on MorphoSys shares, financial ratios, the Company's strategic direction and the Group's recent developments can be found on the Company's website (Media and Investors).

Sustainable Business Development

MorphoSys is aware of its responsibility to present and future generations and sees sustainable behavior as a prerequisite for long-term business success. As a biotechnology company conducting both research and drug development, observing the highest ecological, social and ethical standards is a top priority and a key component of MorphoSys's corporate culture. The following section describes the Company's sustainability strategy and the activities carried out during the reporting year that represent non-financial performance indicators. The financial performance indicators are presented in the section "Analysis of Net Assets, Financial Position and Results of Operations." Information on MorphoSys's management structure and corporate governance practices can be found in the Corporate Governance Report.

Sustainable Corporate Management

Sustainability is a hallmark of MorphoSys's corporate management and plays a major role in the pursuit of corporate goals and in contributing value to society. This applies to the short- and long-term objectives of all levels of management and is reflected in the Company's core task of developing even more effective and safer drugs. To ensure lasting business success, the Company incorporates environmental and social responsibility into its daily business and bases its business model on sustainable growth that protects the interests of its shareholders, creates long-term value and weighs the Company's actions in terms of their impact on the environment, society, patients and employees. Internally, this business model is reflected in a progressive human resources policy that takes employees' needs seriously.

The Company's long-term and sustainable business success rests on innovative research and development to meet the major challenge of providing comprehensive healthcare in the future. Due to a growing and aging population, biotechnology-derived drugs represent a growing portion of the overall healthcare system. In the opinion of management, all aspects of the current business model of MorphoSys support the sustainable investment interests of its shareholders.

A comprehensive risk management system ensures that factors that could threaten sustainable corporate performance are identified early and corrected if necessary. MorphoSys only assumes risk when there is an opportunity to increase the Company's enterprise value. At the same time, a great effort is made to systematically identify new opportunities and leverage its business success (more information on risks and opportunities can be found on page 64).

Group-wide compliance with the sustainability strategy is monitored by the entire Management Board, with primary responsibility assigned to the Chief Financial Officer. The sustainability strategy is based on the Company's Credo, which contains the ethical principles forming the foundation of all activities of MorphoSys and its employees. The Credo is developed further by MorphoSys's Code of Conduct. Employee training on general and specific sections of the Code of Conduct is conducted regularly to ensure that the guidelines are understood and implemented. The Compliance Committee consists of five members and is available to employees at all times. The Compliance Officer, who is also a member of the committee, coordinates the elements of MorphoSys's Compliance Management System. More information on this subject can be found on page 97 of the Corporate Governance Report. Employees can ask for advice on all matters concerning legal compliance and corporate responsibility and report any suspected violations. If preferred, this may be done on an anonymous basis. Violations are systematically pursued, and appropriate remedial action is taken. No such violations have been reported to date, and the Company believes it is unlikely in the future that any serious offenses would occur that could materially affect the Group's net assets, financial position and results of operations.

Detailed information on the KPIs for sustainable development used by MorphoSys is provided in the section "Strategy and Group Management" (page 23). The following report on the implementation of MorphoSys's corporate strategy and the Company's sustainable business development is based on the recommendations of the German Sustainability Code originally presented by the Council for Sustainable Development in October 2011 and last updated in 2017.

Non-Financial Performance Indicators

ETHICAL STANDARDS AND COMMUNICATION WITH STAKEHOLDERS

The highest scientific and ethical principles for conducting human clinical trials and animal testing are anchored in MorphoSys's Code of Conduct, which is modeled after the "Declaration of Helsinki" of the World Medical Association (WMA). Strict adherence to applicable national and international regulations is mandatory for all MorphoSys employees and sub-contractors.

Because European legislation prescribes the performance of animal testing to determine the toxicity, pharmacokinetics* and pharmacodynamics* of drug candidates, the biotechnology industry cannot forgo this type of testing. Animal studies for MorphoSys are given to contract research organizations (CROs*) because the Company does not have laboratories suitable for this type of research. In the course of product development, MorphoSys contracts out animal studies according to the principles of good animal welfare and the respectful treatment of animals as set out in national and European regulations. MorphoSys introduced a quality assurance and control system with written standard operating procedures (SOPs*) that are continually updated to ensure that the Company only deals with contract research organizations that adhere to local, national and international regulations for animal studies. Studies are carried out only after the approval of the relevant ethics committee and under the constant supervision of a veterinarian.

Institutes cooperating with MorphoSys must comply with ethical principles and legal regulations for research involving animals and, in certain cases, have the Good Laboratory Practice (GLP*) quality assurance certification. This is how MorphoSys ensures it fulfills its moral obligation for the respectful treatment of animals. The Company also conducts on-site inspections of the research institute's study centers that include a review of the staff's skills and training as well as animal welfare. These inspections are carried out during the audits conducted prior to contract awards.

The Declaration of Helsinki mentioned above also defines the ethical principles MorphoSys follows when dealing with healthy volunteers and patients in clinical trials. MorphoSys carries out clinical trials in accordance with Good Clinical Practice (GCP*), and testing is conducted in compliance with the relevant provisions on privacy and confidentiality. Protecting the rights, safety and welfare of all clinical trial participants has the highest priority at MorphoSys. Clinical trials are initiated only after the approval of the relevant independent ethics committee and/or institutional review board. Before participating in a clinical trial, each participant must voluntarily submit an informed consent.

The goal of MorphoSys's business activities is to improve patients' health through its scientific work. The Company can only achieve this goal if its activities are socially accepted. Achieving this acceptance requires a continuous and open dialog with stakeholders so that MorphoSys can understand potential concerns with regard to biotechnological approaches and explain the Company's activities and their benefits. To accomplish this, MorphoSys is active in a variety of ways that range from participation in public information events to active support of the Communication and Public Relations task force of BIO Deutschland e.V., Berlin.

PROCUREMENT

The Central Purchasing and Logistics Department is responsible for negotiating and purchasing goods and services for MorphoSys in specified areas. During the reporting year, the department increased the efficiency of its procurement management systems and processes, which involved the introduction of an electronic approval process for orders in certain cost categories. Preparations are currently being made to introduce processes for other relevant cost categories. The department also supported the creation of an improved clinical sourcing strategy for selecting and categorizing clinical materials and services and efficiently cooperating with suppliers within these strategic partnerships.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

Because the biotechnology industry is subject to stringent regulatory requirements, environmental protection and occupational safety are important tasks of Group management. The Technical Operations Department and its subsections monitor Group-wide compliance with all relevant requirements. In addition to strict compliance with all legal requirements, MorphoSys makes a tremendous effort to maintain sustainable environmental management and the effective protection of its employees.

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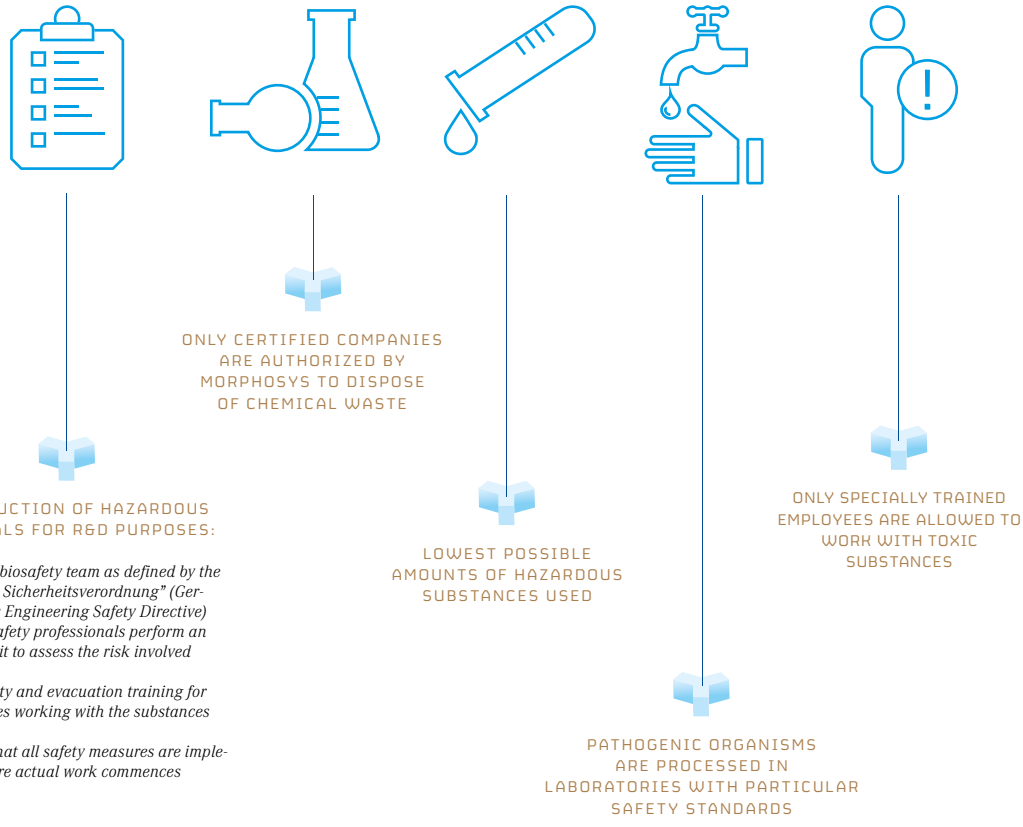
Occupational Safety at MorphoSys



MorphoSys offers employees an extensive range of preventative healthcare options. A sample of these options can be found in the section entitled "Human Resources" (page 61).

With one reportable occupational accident in the reporting year, the number of accidents was at the same very low level as in the previous year, placing the ratio of reportable accidents at MorphoSys significantly below the average ratio in Germany (18.4 reportable occupational accidents as defined by the employers' liability insurance association BG RCI per 1,000 full-time employees in the latest survey conducted in 2016).

MorphoSys tries to minimize the amount of harmful substances used in its laboratories. Only those who are specially trained are allowed to work with toxins. Work involving contagious pathogens can only be carried out in secure laboratories. MorphoSys only uses certified companies to dispose of chemical waste and also refrains from radioactive substances.

›› SEE FIGURE 12 – *Occupational Safety at MorphoSys (page 59)*

QUALITY ASSURANCE

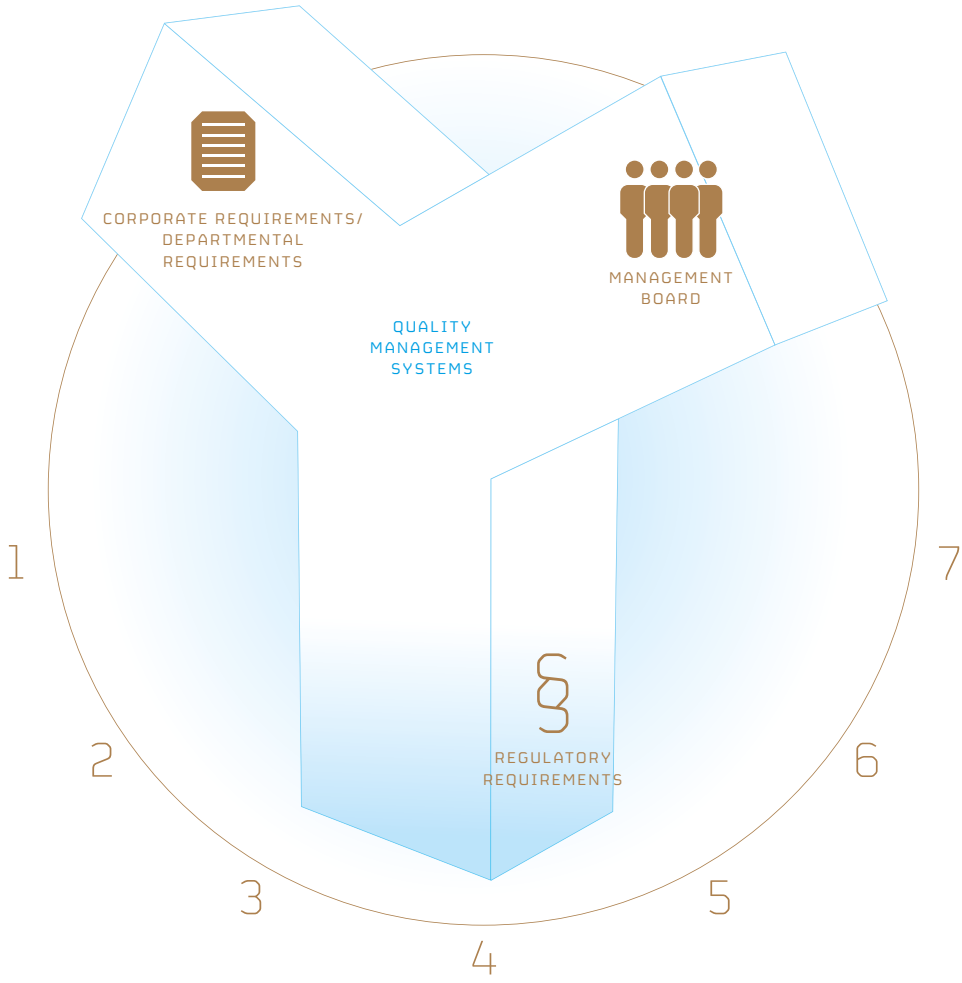
Biopharmaceutical companies bear a special responsibility to comply with the highest quality and safety standards. MorphoSys follows detailed procedures and stringent rules in drug development to avoid safety risks that may pose a threat to patients and, in turn, the Company's financial situation. This is how the Company ensures the quality of the investigational medicinal products, keeps risks to volunteers and patients in clinical studies as low as possible and ensures that data are measured reliably and processed correctly.

To control and regulate these processes in its own development department, MorphoSys created an integrated quality management system that complies with the principles of Good Manufacturing Practice (GMP*), Good Clinical Practice (GCP*) and Good Laboratory Practice (GLP*). An independent quality assurance department ensures that all development activities comply with national and international laws, rules and guidelines. The Quality Assurance Manager reports to and coordinates activities with the Chief Executive Officer to meet the stringent quality standards, ensure product quality and data integrity as well as the safety of volunteers and patients in clinical trials.

*SEE GLOSSARY – *page 170*

13

Quality Management System at MorphoSys



1 TRAINING AND QUALIFICATION

2 SELF-INSPECTION/INTERNAL AUDITS

3 DOCUMENTATION SYSTEM

4 HANDLING OF DEVIATIONS, CHANGE CONTROL, COMPLAINTS, OUT OF SPECIFICATION (OOS) AND RECALLS

5 BATCH RECORD REVIEW/BATCH RELEASE

6 SOP SYSTEM*

7 EXTERNAL AUDITS (CMO*, CTO*, CRO*, CLINICAL TRIAL SITES)

The Quality Assurance Department prepares an annual review plan using a risk-based approach that is used when auditing the contract research institutes, suppliers and contract manufacturers selected for clinical studies as well as MorphoSys's own departments.

MorphoSys holds a manufacturing license for the approval of tested compounds for its proprietary development activities, as well as a certificate from the German authorities of Upper Bavaria confirming the Company's compliance with Good Manufacturing Practice (GMP*) standards and guidelines.

>> SEE FIGURE 13 – *Quality Management System at MorphoSys (page 60)*

*SEE GLOSSARY – *page 170*

INTELLECTUAL PROPERTY

Proprietary technology and the drug candidates derived therefrom are MorphoSys's most valuable assets. Therefore, it is critical to the Company's success that these assets are protected by appropriate measures such as patents and patent filings. Only through these means can MorphoSys ensure that these assets are exclusively utilized. It is also the reason our Intellectual Property (IP) Department seeks out the best strategy to protect the Company's products and technologies. The rights of third parties are also actively monitored and respected.

MorphoSys's core technologies, which include the Ylanthia antibody library and the Slonomics technology amongst others, form the Company's basis for success. Each of these technologies is protected by a number of patent families. Meanwhile, most of these patents have been granted in all of the key regions, including the markets of Europe, the United States and Asia.

The same is true for our development programs. In addition to the patents that protect the drug candidates themselves, other patent applications were filed that cover other aspects of the programs. The relevant patents and associated protection certificates for development candidates MOR103/GSK3196165 (out-licensed to GSK) and MOR202 are expected to expire in 2031. The MOR208 program is also protected by various patents scheduled to expire in 2029 (US patent) and 2027 (European patent), aside from any possible regulatory or patent office extensions.

The programs developed in cooperation with or for partners are also fully secured by patent protection. MorphoSys's patent department works closely with the relevant partners. The patents covering these drug development programs have durations that significantly exceed those of the underlying technology patents.

MorphoSys also monitors the activities of its competitors and initiates any necessary actions. In April 2016, MorphoSys filed a patent infringement lawsuit against Janssen Biotech and Genmab. This lawsuit is still in progress.

MorphoSys's patent attorneys currently maintain over 50 different patent families worldwide in addition to the numerous patent families the Company pursues with its partners. The patent portfolio is routinely analyzed and adapted to the Company's corporate strategy.

HUMAN RESOURCES

MorphoSys follows a progressive human resources policy for the long-term retention of professionally and personally suitable employees from a variety of fields. In an industry such as ours, where success largely depends on the creativity and commitment of staff, factors such as employee retention and employee satisfaction are crucial for success. At the end of the reporting year, MorphoSys had employees representing 34 different nationalities (2016: 31) employed at the Company for an average of 7.6 years (2016: 6.9 years).

›› SEE FIGURE 14 – *Employees by Gender (page 62)*
›› SEE FIGURE 15 – *Seniority (page 62)*

Employees have access to a broad range of in-house and external training programs, advanced education, specialized continuing education and development programs and industry conferences. MorphoSys promotes not only ongoing professional education but also the personal development of its employees and in some cases even offers support through customized coaching.

MorphoSys encourages all employees with management responsibility to take part in management seminars created exclusively for the Company. The training is offered in several modules with themes that build upon one another. The goal is not only to provide theoretical knowledge but also to prepare participants for the special demands placed on the Company's executives.

MorphoSys actively promoted the professional career paths of specialists and experts once again during the reporting year. The intended goal of this type of career promotion, which is also available to employees without personnel responsibilities, is to continue to maintain flat hierarchies and place traditional management and professional career paths on an equal footing, also in terms of titles and compensation structures.

MorphoSys offers in-house vocational training to open up promising career prospects, particularly for young people. In awarding apprenticeships, the Company has been very successful in considering students who are equally suitable but do not have a diploma. On December 31, 2017, MorphoSys had two trainees in the IT department and six biology laboratory trainees (December 31, 2016: one IT trainee; six biology laboratory trainees).

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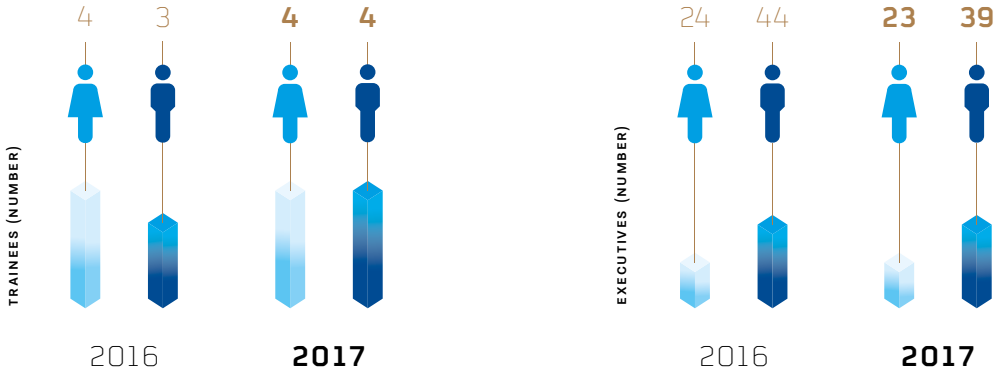
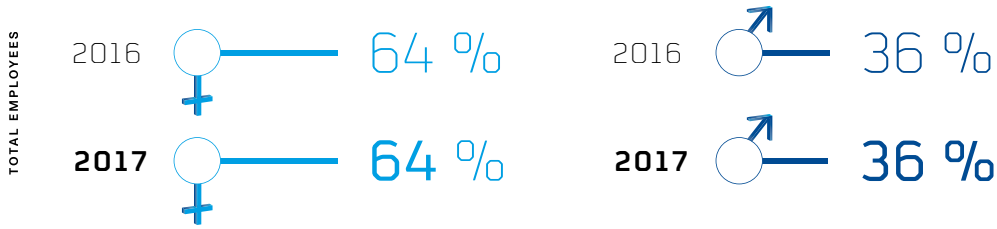
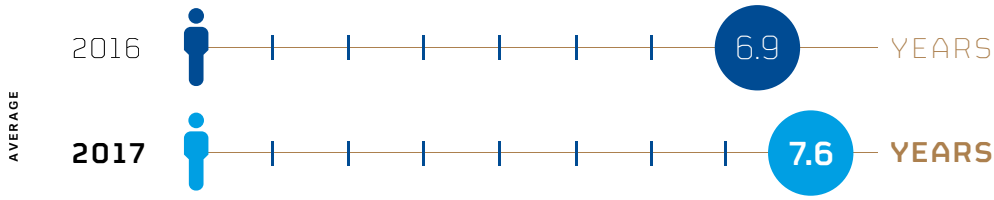
Employees by Gender (December 31)

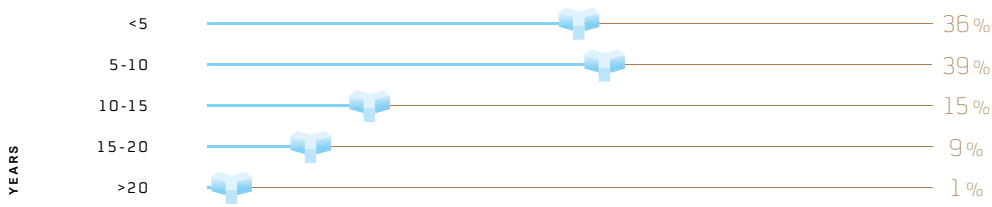




15

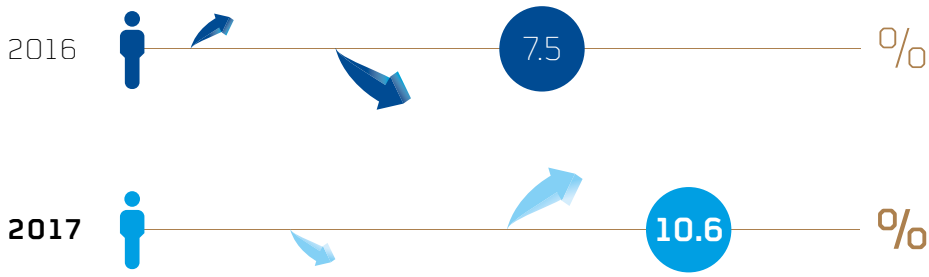
Seniority





16

Workforce Turnover Rate[1] (in %)



[1] The higher workforce turnover rate in 2017 is mainly driven by the end of the active partnership with Novartis. The collaboration was terminated in accordance with the contract at the end of November 2017.

As articulated in the Company's credo, transparent communication between employees is a central aspect of MorphoSys's corporate culture. One example is the employees' use of the Company's intranet to obtain target-group-specific information. MorphoSys also has a tri-weekly general meeting in which the Management Board presents the Company's latest developments to employees, answers questions and provides an opportunity for employees to present selected projects. Employees' questions and feedback can be taken directly in the meeting or submitted in advance in writing – anonymously if desired.

MorphoSys maintains a Facebook career page to promote employer branding. The target group is potential applicants who want to learn more about the Company. The page presents employee profiles and reports on a variety of activities extending beyond the typical workday to give an authentic and modern impression of the Company.

New employees are helped to become familiar with the Group through extensive onboarding activities. Employees can learn about the Company's processes in two-day orientation seminars with presentations from all operating departments and by participating in laboratory tours. New executives are offered an additional seminar concerning their management duties.

Free athletic and relaxation options, such as back training, soccer, volleyball and basketball, as well as autogenic training, yoga and massage for a fee, all work to promote health and socializing among employees of all departments.

Providing feasible concepts for reconciling a professional career with personal life is a strategic success factor for progressive companies. For many years, MorphoSys has been offering employees a diverse range of options, such as flexible working hours and special part-time employment arrangements. Modern IT equipment also allows employees to work during business trips or from their home office without interruption. MorphoSys makes it easier for employees with families to reenter the workforce and combine work and family life. The Company cooperates with an external provider offering employees additional services related to care and nursing.

MorphoSys makes every effort to protect employees from workplace hazards and maintain their health through preventative measures. The extremely low number of occupational accidents illustrates the success of the Company's strict monitoring of all occupational protection and safety measures. During the reporting year, there was one reportable occupational accident. MorphoSys tries to maintain the low number of accidents and the highest level of employee safety and well-being through the help of policies and training from the Department of Health and Occupational Safety and by offering routine medical examinations.

›› SEE FIGURE 16 – *Workforce Turnover Rate (page 62)*

Risk and Opportunity Report

MorphoSys operates in an industry characterized by constant change and innovation. The challenges and opportunities in the healthcare sector are influenced by a wide variety of factors. Global demographic changes, medical advances and the desire to increase quality of life provide excellent growth opportunities for the pharmaceutical and biotechnology industries; however, companies must also grapple with growing regulatory requirements in the field of drug development as well as cost pressure on healthcare systems.

MorphoSys undertakes great effort to identify new opportunities and to leverage its business success to generate a lasting increase in enterprise value. Entrepreneurial success, however, is not achievable without conscious risk-taking. Through its worldwide operations, MorphoSys is confronted with a number of risks that could affect its business. MorphoSys's risk management system identifies these risks, evaluates them and takes suitable action to avert risk and reach its corporate objectives. A periodic strategy review ensures that there is a balance between risk and opportunity. MorphoSys only assumes risk when there is an opportunity to increase the Company's enterprise value.

Risk Management System

The risk management system is an essential element of MorphoSys's corporate governance and ensures the Company adheres to good corporate governance principles and complies with regulatory requirements.

MorphoSys has a comprehensive system in place to identify, assess, communicate and deal with risks throughout the Company. The risk management system identifies risk as early as possible and details possible actions to limit operating losses and avoid risks that could jeopardize the Company. All actions to minimize risk are assigned to risk officers, who are also members of MorphoSys's Senior Management Group.

All material risks in the various business segments and the Company as a whole are assessed using a systematic risk assessment that is carried out twice a year. Risks are assessed by comparing their quantifiable financial impact on the MorphoSys Group with their probability of occurrence with and without initiating a risk mitigation process. This method is applied over a 12-month assessment period as well as a period of three years to include risks related to the Company's proprietary development that have longer durations. Additionally, there is long-term strategic risk assessment that spans more than three years (qualitative assessment). An overview of MorphoSys's current risk assessment activities can be found in Tables 9 and 10.

Risk managers enter their risks into an IT platform that makes monitoring, analyzing and documenting risks much easier. The risk management system distinguishes risk owners from risk managers. For risks relating to clinical development, the risk owner is the responsible business team head for the respective clinical program. For non-clinical risks, the risk owner is the responsible department head. Employees from the respective area of the risk owner can be risk managers as long as the risks included in the risk management system fall under their area of responsibility. Risk owners and risk managers are required to update their risks and assessments at half-yearly intervals. The process for this is coordinated and led by the Corporate Finance & Corporate Development Department, which is also responsible for monitoring the evaluation process and summarizing the key information. The information is regularly presented to the Management Board which, in turn, presents the results to the Supervisory Board twice a year. The entire evaluation process is based on standardized forms for the evaluations. Risk management and monitoring activities are carried out by the relevant managers. The changes in the risk profile resulting from these activities are recorded at regular intervals. It is also possible to report important risks on an ad hoc basis when they occur outside of the regular intervals. A regular audit by external consultants ensures the ongoing development of the risk management system and that any potential changes in the Company's risk areas are promptly incorporated. The risk and opportunity management system combines a bottom-up approach for recognizing both short- and medium-term risks with a top-down approach that systematically identifies long-term global risks and opportunities. As part of

the top-down approach, workshops are held twice per year with selected members of the Senior Management Group. These workshops assess and discuss the long-term risks and opportunities in different areas of the Company, including those exceeding a period of three years. The evaluation process is solely qualitative. These risks are listed in Table 10.

Principles of Risk and Opportunity Management

MorphoSys continually encounters both risks and opportunities. These could have a potential material impact on the Company's net assets and financial position as well as a direct effect on intangible assets, such as the Company's image in the sector or the Company's trademark.

MorphoSys defines risk as an internal or external event that has an immediate impact on the Company and includes an assessment of the potential financial impact on the Company's targets. There is a direct relationship between opportunity and risk. Seizing opportunities has a positive influence on Company targets, whereas risk emergence has a negative influence.

Responsibilities Under the Risk and Opportunity Management System

The Management Board of MorphoSys AG is responsible for the risk and opportunity management system and ensures that all risks and opportunities are evaluated, monitored and presented in their entirety. The Corporate Finance & Corporate Development Department coordinates the risk management process and reports regularly to the Management Board. The Supervisory Board has appointed the Audit Committee to monitor the effectiveness of the Group's risk management system. The Audit Committee periodically reports its findings to the entire Supervisory Board, which is also directly informed by the Management Board twice a year.

>> SEE FIGURE 17 – *Risk and Opportunity Management System at MorphoSys (page 66)*

Accounting-Related Internal Control System

MorphoSys employs extensive internal controls, Group-wide reporting guidelines as well as other measures, such as employee training and ongoing professional education with the goal of maintaining accurate bookkeeping and accounting and ensuring reliable financial reporting in the consolidated financial statements and group management report. This essential component of Group accounting consists of preventative, monitoring and detection measures intended to ensure security and control in accounting and operating functions. Detailed information about the internal control system for financial reporting can be found in the Corporate Governance Report.

Risks

RISK CATEGORIES

As part of its risk assessment, MorphoSys assigns risks to the six categories described below. The assessment of the relevance of the risks is not distinguished according to categories but according to impact and probability of occurrence. Therefore, Tables 9 and 10, which list MorphoSys's biggest risks, do not necessarily include risks from all six categories.

FINANCIAL RISK

MorphoSys's financial risk management seeks to limit financial risk and reconciles this risk with the requirements of its business.

Financial risk can arise in relation to licensing agreements, for example when projects (products or technologies) do not materialize, are delayed or are out-licensed to a different degree than originally planned. Risk also arises when revenues do not reach their projected level or when costs are higher than planned due to higher resource requirements. Detailed project preparations, such as those made through in-depth exchanges with internal and external partners and consultants, ensure the optimal starting point early in the process and are important for minimizing risk. Financial risk related to the Company's proprietary programs was reduced in 2013 by successfully partnering MOR103/GSK3196165. The financial risk relating to the fully proprietary program MOR208 remains entirely with MorphoSys. MorphoSys retains some risk with respect to the clinical development of programs introduced into partnerships; for example, MOR106. For the MOR202 program, a regional development and commercialization agreement was signed for

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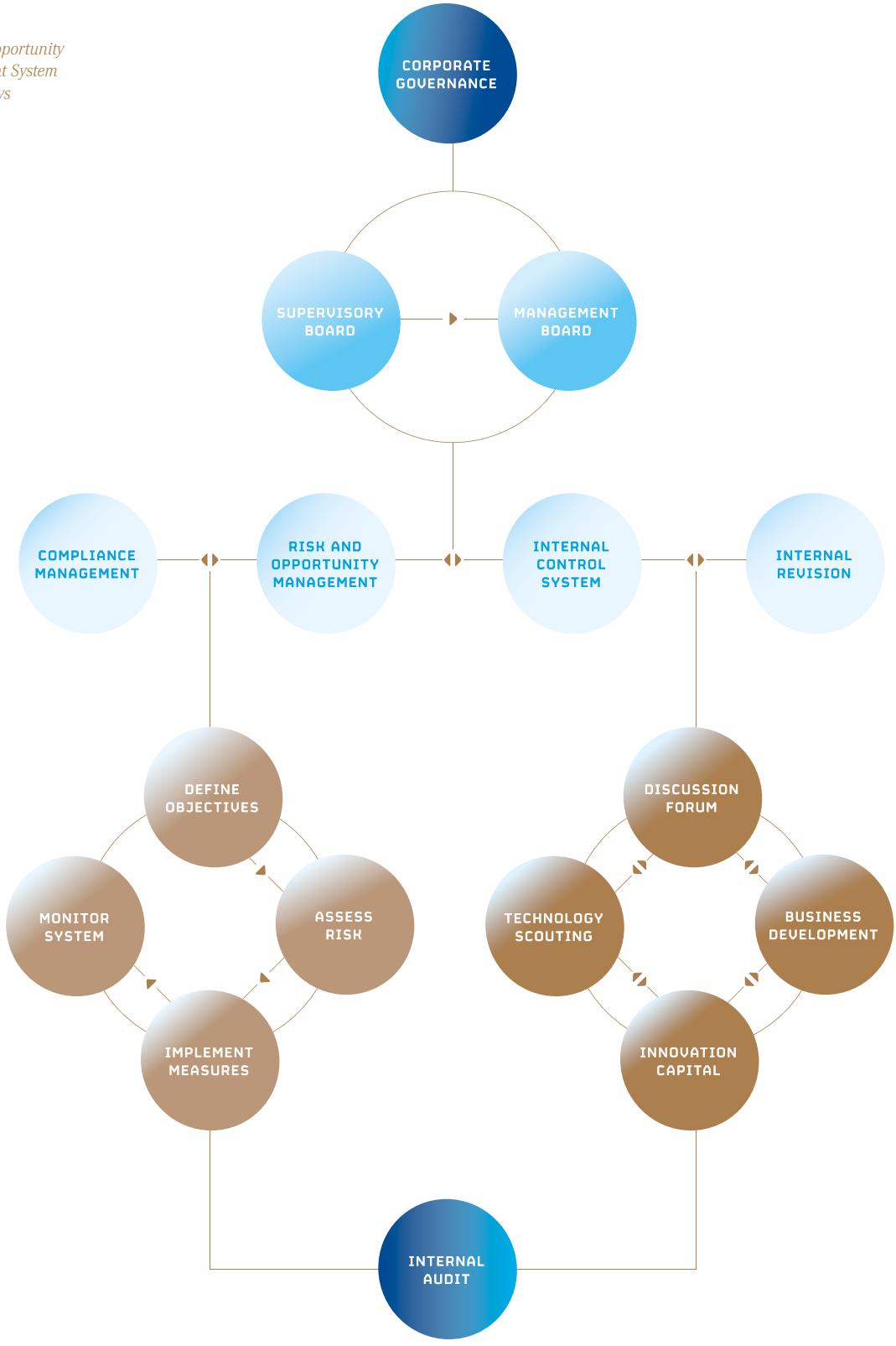
Risk and Opportunity Management System at MorphoSys



China, Taiwan, Hong Kong and Macao in the reporting year, leading to a partial reduction in MorphoSys's financial risks. The early termination of development partnerships may force MorphoSys to bear future development costs alone and have a major impact on the Company's income statement and financial planning.

Continuing economic difficulties in Europe indicate that potential bank insolvencies still pose a financial risk. For this reason, MorphoSys continues to invest only in funds and bank instruments deemed safe – to the extent this is possible and can be estimated – and that have a high rating and/or are secured by a strong partner. MorphoSys limits its dependence on individual financial institutions by diversifying and/or investing in lower risk money market funds. However, a strategy that eliminates all risks of bank insolvency would be too costly and impractical. For example, German government bonds are a very secure form of investment but currently trade with negative interest rates. A further risk is the receipt of adequate interest on financial investments, particularly in light of today's negative interest rates. It is currently very difficult for MorphoSys to invest within the scope of company policies and still avoid negative interest rates. MorphoSys invests when possible in instruments that yield positive interest rates. However, there is no guarantee that positive, safe, interest-bearing investments will always be available.

In the Partnered Discovery segment, there is a financial risk associated with royalties on Tremfya® product sales. Revenues generated by MorphoSys's partner Janssen from the drug, which was approved in 2017, are difficult to predict and may lead to deviations from the budgeted revenues.

MorphoSys plans to continue to invest a significant portion of its funds in the development of its product candidates. This includes identifying target molecules and drug candidates, conducting preclinical and clinical studies, producing clinical material, supporting partners and co-developing programs. Current financial resources and expected revenues are expected to be sufficient to meet the Company's current and short-term capital needs. This does not guarantee, however, that sufficient funds will be available over the long term at all times.

OPERATIONAL RISK

Operational risk includes risks related to the exploration and development of proprietary drug candidates.

The termination of a clinical trial prior to out-licensing to partners – which does not necessarily imply the failure of an entire program – can occur when the trial data does not produce the expected results, shows unexpected adverse side effects or is compiled incorrectly. Clinical trial design and drafts of development plans are always completed with the utmost care. This gives the trials the best opportunity to show clinically relevant data in clinical testing and persuade regulatory agencies and potential partners. External experts also contribute to the Company's existing internal know-how. Special steering committees and panels are formed to monitor the progress of clinical programs.

Any changes with respect to clinical trials such as the trial's design or the speed at which patients can be recruited may lead to a delay in development and, as a result, have a negative impact on the trial's economic feasibility and potential. In the course of prioritizing its development programs, for example, MorphoSys decided during the reporting year to end its cooperation with Aptevo Therapeutics Inc. for the development of MOR209/ES414 in prostate cancer and to return the development and commercialization rights to Aptevo.

There is also a risk associated with proprietary programs if partnerships fail or are delayed.

STRATEGIC RISK

Access to sufficient financing options also poses a strategic risk for the Company. Following MorphoSys's decision to develop its proprietary portfolio in-house, the financing of research and development is now a key focus. Risks in this respect can arise from a lack of access to capital. MorphoSys established an in-depth budget process to mitigate these risks. The Company also employs various departments and external consultants to ensure the smooth execution of capital market transactions.

A further strategic risk is the danger that a development program introduced into a partnership may fail. Partnerships can be terminated prematurely, forcing MorphoSys to search for new development partners or bear the substantial cost of further development alone. This may result in a delay or even the termination of the development of individual candidates and could lead to additional costs and a potential long-term loss of revenues for MorphoSys due to delayed market entry.

Another strategic risk is that preliminary data from clinical trials may lead to the trial's termination or a change in the trial's design.

EXTERNAL RISKS

MorphoSys faces external risk with respect to intellectual property, among others. The patent protection of MorphoSys's proprietary technologies and compounds is especially important. To minimize risks in this area, MorphoSys keeps a vigilant eye on published patents and patent applications and analyzes the corresponding results. The Company also develops strategies to circumvent external patents that may one day be relevant before they are issued or takes other appropriate action. Through the years, MorphoSys has seen increasing success with this strategy and has created ample leeway for its proprietary technology platforms and products for many years to come. Risks can also arise through the enforcement of the Company's intellectual property rights vis-à-vis third parties. External risks may also arise as a result of changes in the legal framework. This risk is minimized through continued training of the relevant staff and discussions with external experts. It is also conceivable that competitors might challenge the Company's patents or infringe on MorphoSys patents or patent families, which in turn could lead MorphoSys to take legal action against its competitors. Such procedures, particularly when they take place in the US, are costly and represent a significant financial risk.

As an internationally operating biotechnology company with numerous partnerships and an in-house research and development department for developing drug candidates, the MorphoSys Group is subject to a number of regulatory and legal risks. These risks include those related to patent, competition, tax and antitrust law, potential liability claims from existing partnerships and environmental protection. The Regulatory Affairs department is also affected by this risk in terms of the feedback it receives from regulators on study design. Future legal proceedings are conceivable and cannot be anticipated. Therefore, we cannot rule out that we may incur expenses for legal or regulatory judgments or settlements that are not or cannot be partially or fully covered by insurance and may have a significant impact on our business and results.

None of the Top 10 Risks listed in Tables 9 and 10 belonged to this risk category in the reporting period.

ORGANIZATIONAL RISK

Organizational risks arise, for example, with respect to setting up a marketing structure and the related costs. For MorphoSys, this means that processes and procedures need to be adapted accordingly. In September 2017, the Company established the "Pre-Commercial" department, which works with external consultants to set up marketing structures.

Risk also arises from missing or delayed information within the organization on patent issues.

COMPLIANCE RISK

Compliance risk can arise when quality standards are not met, or business processes are not conducted properly from a legal standpoint. To counter this risk, MorphoSys is committed to having its business operations meet the highest quality standards as set out in the Sustainability Report. Carrying out a compliance risk analysis is a central tool of the compliance management system.

Specific risk can arise, for example, when the internal quality management system does not meet the legal requirements or when there is no internal system for detecting quality problems. If the internal controls are not able to detect violations of Good Manufacturing Practice (GMP), Good Clinical Practice (GCP*) or Good Laboratory Practice (GLP) then this also would represent a compliance risk. To minimize risk, the internal quality management system is also regularly audited by external experts and subjected to recurring audits by an internal, independent quality assurance department.

Inadequate or late financial communication can lead to fines or even lawsuits. Annual General Meetings conducted incorrectly may lead to legal disputes with shareholders resulting in significant costs from attempts to prevent either a challenge to or repeat of the Annual General Meeting. Pending decisions for corporate actions, such as capital increases, could also be compromised. To minimize these risks, the preparation and execution of the Annual General Meeting and all related documents and processes are carefully reviewed and monitored by the relevant internal departments, as well as by external lawyers and auditors when it comes to the annual financial statements.

None of the Top 10 Risks listed in Tables 9 and 10 belonged to this risk category in the reporting period.

THE MANAGEMENT BOARD'S EVALUATION OF THE OVERALL RISK SITUATION IN THE MORPHOSYS GROUP

MorphoSys Group's Management Board considers the overall risk to be manageable and trusts in the effectiveness of the risk management system in relation to changes in the environment and the needs of the ongoing business. It is the Management Board's view that the MorphoSys Group's continued existence is not jeopardized. This assessment applies to the MorphoSys Group as a whole as well as to each Group company. This conclusion is based on several factors that are summarized below:

- The MorphoSys Group has an exceptionally high equity ratio.
- The Management Board firmly believes that the MorphoSys Group is well positioned to cope with any adverse events that may occur.
- The Group controls a comprehensive portfolio of preclinical and clinical programs in partnerships with a number of large pharmaceutical companies and has a strong foundation of technologies for expanding the Company's proprietary portfolio.

Despite these factors, it is impossible to rule out, control or influence risk in its entirety.

Opportunities

Leading antibody technologies, excellent know-how and a broad portfolio of validated clinical programs have made MorphoSys one of the world's leading biotechnology companies in the field of therapeutic antibodies. This therapeutic class is now one of the most successful in the industry, and there is an impressive number of pharmaceutical and biotechnology companies in the field of antibodies that could potentially become customers or partners for MorphoSys's products and technologies. Based on this fact and the Company's extensive, long-term technological and product development expertise, MorphoSys has identified a number of future growth opportunities.

MorphoSys's technologies for developing and optimizing therapeutic antibody candidates have distinct advantages that can lead to higher success rates and shorter development times in the drug development process. The transfer and application of MorphoSys's core capabilities – even those outside of the field of antibodies – opens up new opportunities for the Group because many classes of compounds have similar molecular structures.

OPPORTUNITY MANAGEMENT SYSTEM

The opportunity management system is an important component of MorphoSys's corporate management and is used to identify opportunities as early as possible and generate added value for the Company.

Opportunity management is based on the following pillars:

- a routine discussion forum involving the Management Board and selected members of the Senior Management Group;
- the Company's business development activities;
- a technology scouting team; and
- an in-house suggestion scheme for new scientific ideas with appropriate incentive systems.

Committees discuss specific opportunities and decide what action should be taken to exploit these opportunities. The meetings and their outcomes are recorded in detail, and any subsequent action is reviewed and monitored. The Group's Business Development Team takes part in numerous conferences and in the process identifies different opportunities that can enhance the Company's growth. These opportunities are presented and considered by the committee by means of an evaluation process. The technology scouting team searches specifically for innovative technologies that can generate synergies with MorphoSys's existing technology platforms and could be used to soruce new therapeutic molecules. These outcomes are also discussed and evaluated in interdepartmental committees. A proven process for evaluating opportunities gives MorphoSys a qualitative and replicable evaluation.

MorphoSys's key opportunities are described in Table 11 (qualitative evaluation).

GENERAL STATEMENT ON OPPORTUNITIES

Increased life expectancy in industrialized countries and rising incomes and living standards in emerging countries are expected to drive the demand for more innovative treatment options and advanced technologies. Scientific and medical progress has led to a better understanding of the biological process of disease and paves the way for new therapeutic approaches. Innovative therapies, such as fully human antibodies, have reached market maturity in recent years and have led to the development of commercially successful medical products. Therapeutic compounds based on proteins* – also referred to as "biologics" – are less subject to generic competition than chemically produced molecules because the production of biological compounds is far more complex. The sharp rise in both the demand for antibodies and the interest in this class of drug candidates can be seen by the acquisitions and significant licensing agreements made over the past two to three years.

*SEE GLOSSARY – *page 170*

MARKET OPPORTUNITIES

MorphoSys believes its antibody platforms HuCAL, Ylanthia, Slonomics and the in-licensed lanthipeptide technology can all be used to develop products addressing significant unmet medical needs.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

It is reasonable to assume that the pharmaceutical industry will continue or even increase its in-licensing of drugs to refill its pipelines and replace key products and blockbusters that have lost patent protection. MorphoSys's most advanced compounds MOR103/GSK3196165, MOR202, MOR208 and MOR106 place the Company in an excellent position to capitalize on the needs of pharmaceutical companies.

MorphoSys is continuously enhancing its proprietary portfolio, and will continue to advance it by adding clinical trials with the Company's key drug candidates in new disease areas and adding additional programs. In this way, the Company may take advantage of existing and future opportunities for co-development or partnerships. The Company is also looking for more opportunities to in-license promising drug candidates.

The drug candidate MOR208 may provide MorphoSys with its first opportunity to independently market a drug. After receiving breakthrough therapy designation in October 2017 for MOR208 in combination with the cancer drug lenalidomide for the treatment of blood cancer patients (indication r/r DLBCL), the development of this antibody may now accelerate.

THERAPEUTIC ANTIBODIES – PARTNERED DEVELOPMENT

By developing drugs with a number of partners, MorphoSys has been able to spread the risk that is inevitably linked with drug development. With 101 individual therapeutic antibodies currently in partnered development programs, it is becoming more likely that MorphoSys will have an opportunity to participate financially in marketed drugs. During the reporting year, for example, our partner Janssen received regulatory approval in the United States, Europe and Canada for Tremfya® to treat patients suffering from moderate-to-severe plaque psoriasis.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and new technologies to defend its technological leadership. MorphoSys established a new technology platform with Ylanthia that, in contrast to its previous version HuCAL, is eligible for broader licensing to partners. Commercialization of the Ylanthia antibody library began in 2012.

This type of technological advance can help the Company expand its list of partners and increase not only the speed but also the success rate of its partnered and proprietary drug development programs. New technology modules that enable the production of antibodies against novel classes of target molecules can also provide access to new disease areas in which antibody-based treatments are underrepresented.

Technology development is carried out by a team of scientists whose focus is the further development of MorphoSys technologies. MorphoSys not only develops technology internally but also uses external resources to enhance its own activities. A good example of this is the Company's acquisition of Lanthio Pharma, a Dutch company developing lanthipeptides.

ACQUISITION OPPORTUNITIES

In the past, MorphoSys has proven its ability to acquire compounds and technologies that accelerate its growth. Potential acquisition candidates are also systematically presented, discussed and evaluated during the routine meetings described above between the Management Board and selected members of the Senior Management Group. After these meetings, promising candidates are reviewed in terms of their strategic synergies and evaluated by internal specialist committees. Protocols are completed on all candidates and evaluations are systematically archived for follow-up and monitoring. A proprietary database helps administer this information and keep it available.

FINANCIAL OPPORTUNITIES

Exchange rate and interest rate developments can positively or negatively affect the Group's financial results. Interest rate and financial market developments are continuously monitored to promptly identify and take advantage of opportunities.

TABLE 09
Summary of MorphoSys's Key Short- and Medium-Term Risks

	Risk category	3-year assessment
Proprietary Development segment		
Risks related to building a marketing structure	Organizational	••• High
Discontinuation of one or more proprietary clinical programs	Operating, strategic	•• Moderate
Failure or delay of partnership for one or more proprietary clinical programs	Operating	•• Moderate
Delay in the development of one or more proprietary clinical programs and/or higher development costs	Operating, strategic	•• Moderate
Outside of the Proprietary Development segment		
Failure to reach revenue targets in Partnered Discovery programs	Financial	•• Moderate

	Risk category	1-year assessment
Proprietary Development segment		
Discontinuation of one or more proprietary clinical programs	Operating	••• High
Unexpected increase in development costs	Financial	•• Moderate
Delay in the development of one or more proprietary clinical programs and/or higher development costs	Financial, operating	• Low
Outside of the Proprietary Development segment		
Lack of information flow within the organization about patent-related issues	Organizational	• Low
Risk from bank insolvencies	Financial	• Low

LEGEND

•	**LOW RISK:**	low probability of occurrence, low impact
••	**MODERATE RISK:**	moderate probability of occurrence, moderate impact
•••	**HIGH RISK:**	moderate probability of occurrence, moderate to strong impact
••••	**CATASTROPHIC RISK:**	high probability of occurrence, severe impact

TABLE 10
Summary of MorphoSys's Key Long-Term Risks

Segment	Risk	Order of importance[1]
Proprietary Development	Lack of competitiveness of the MorphoSys pipeline	1
Partnered Discovery	Delay or discontinuation of partnered programs	2
Proprietary Development	Failure to build a marketing structure	3
Proprietary Development	Insufficient expansion of the MorphoSys pipeline	4
Proprietary Development	Inability to finance the MorphoSys pipeline	5

[1] Declining importance of risk from 1 to 5, whereby 1 represents the most important risk.

TABLE 11
Summary of MorphoSys's Key Opportunities

Segment	Opportunity	Order of importance[2]
Partnered Discovery	Rapid acceleration of Tremfya® sales with significant volume	1
Proprietary Development	Partnering a proprietary program	2
Proprietary Development	Rapid market entry of MOR208 due to breakthrough therapy designation (L-MIND study in DLBCL)	3

[2] Declining importance of opportunity from 1 to 3, whereby 1 represents the greatest opportunity.

Statement on Corporate Governance and Corporate Governance Report

The Statement on Corporate Governance and the Corporate Governance Report are available on the Company's website under Media and Investors – Corporate Governance.

Statement on Corporate Governance Under Section 289f (HGB) for the 2017 Financial Year

In the Statement on Corporate Governance under Section 289f HGB, the Management Board and the Supervisory Board report on corporate governance. In addition to the annual Declaration of Conformity in accordance with Section 161 of the Stock Corporation Act (AktG), the Statement on Corporate Governance also includes relevant information on corporate governance practices and other aspects of corporate governance, including a description of the working practices of the Management Board and Supervisory Board.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE (THE "CODE") OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF MORPHOSYS AG

The Management Board and Supervisory Board of MorphoSys AG declare the following under Section 161 of the German Stock Corporation Act:

1. Since the last Declaration of Conformity on December 2, 2016, MorphoSys AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" in the versions from May 5, 2015 and February 7, 2017 with the following exception:

   There is no cap on the overall or individual variable remuneration components of Management Board members' remuneration (see Item 4.2.3 (2) sentence 6 of the Code). Based on the Supervisory Board's existing limitations for the Management Board's variable remuneration components and their annual allocation, the Supervisory Board does not believe that an additional cap is required.

2. MorphoSys will continue to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated February 7, 2017 with the exception described under Item 1.

Planegg, December 1, 2017

MorphoSys AG

On behalf of the Management Board:	On behalf of the Supervisory Board:
Dr. Simon Moroney	Dr. Gerald Möller
Chief Executive Officer	Chairman of the Supervisory Board

RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES

MorphoSys ensures compliance with laws and rules of conduct through the Group-wide application of the following documents: the Code of Conduct, the Compliance Management Handbook and supplementary internal guidelines.

MorphoSys's Code of Conduct sets out the fundamental principles and key policies and practices for business behavior. The Code is a valuable tool for employees and executives, particularly in business, legal and ethical situations of conflict. It reinforces the principles of transparent and sound management and fosters trust in the Company from the financial markets, business partners, employees and the public. Compliance with the Code of Conduct is carefully monitored. The Group-wide application of the Code is overseen by the Compliance Committee, and the Code itself is routinely reviewed and updated when necessary. The Code of Conduct can be downloaded from the Company's website under Media and Investors – Corporate Governance.

The Compliance Handbook describes MorphoSys's Compliance Management System (CMS) and is intended to ensure compliance with all legal regulations as well as set out high ethical standards that apply to both the management and all employees. The Management Board has overall responsibility for the compliance management system and is required to report regularly to the Audit Committee and the Supervisory Board. In carrying out its compliance responsibility, the Management Board has assigned the relevant tasks to various functions at MorphoSys.

The Compliance Officer arranges the exchange of information between the internal compliance-relevant functions. The Compliance Officer monitors the Company's existing CMS and implements it based on appropriate measures and decisions taken on an individual basis. The Compliance Officer is the employee contact person for all compliance-related issues and implements the compliance requirements defined by the Compliance Committee.

The Compliance Officer is supported by a Compliance Committee that meets at regular intervals. The Compliance Committee supports the Compliance Officer in the implementation and monitoring of the CMS. The Compliance Committee is particularly responsible for the identification and discussion of all compliance-relevant issues and thus makes it possible for the Compliance Officer as well as the other members of the Compliance Committee to periodically verify MorphoSys's compliance status and, if necessary, update the CMS.

More information on MorphoSys's Compliance Management System can be found in the Corporate Governance Report.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT BOARD

The Management Board of the Company consists of a Chief Executive Officer and three other members. A schedule of responsibilities currently defines the different areas of responsibility as follows:

- Dr. Simon Moroney, Chief Executive Officer: Strategy and Planning, Compliance & Quality Assurance, Internal Audit, Human Resources, Business Development & Portfolio Management, Legal, Commercial Planning, the coordination of individual areas of the Management Board, representation of the Management Board to the Supervisory Board
- Jens Holstein, Chief Financial Officer: Accounting and Tax, Controlling, Corporate Finance & Corporate Development, Risk Management, IT, Technical Operations, Procurement & Logistics, Corporate Communications & Investor Relations, Environmental Social Governance (ESG)
- Dr. Marlies Sproll, Chief Scientific Officer (until October 31, 2017): Discovery Alliances & Technology Development, Protein Sciences, Alliance Management, Intellectual Property, Lanthio Pharma
- Dr. Markus Enzelberger, Interim Chief Scientific Officer (from April 15, 2017 to October 31, 2017 and Chief Scientific Officer (since November 1, 2017): Discovery Alliances & Technology Development, Protein Sciences, Alliance Management, Intellectual Property, Lanthio Pharma
- Dr. Arndt Schottelius, Chief Development Officer (until February 28, 2017): Preclinical Development, Clinical Research, Clinical Operations, Drug Safety & Pharmacovigilance, Regulatory Affairs
- Dr. Malte Peters, Chief Development Officer (since March 1, 2017): Preclinical Research, Clinical Development, Clinical Operations, Drug Safety & Pharmacovigilance, Regulatory Affairs

In the course of the year, personnel changes in the Management Board resulted in temporary, minor changes in the responsibilities of the Management Board.

SUPERVISORY BOARD

As of December 31, 2017, the MorphoSys AG Supervisory Board consisted of six members who oversee and advise the Management Board. The current Supervisory Board consists of professionally qualified members who represent MorphoSys AG shareholders. Dr. Gerald Möller, the Chairman of the Supervisory Board, coordinates the Board's activities, chairs the Supervisory Board meetings and represents the interests of the Supervisory Board externally. All Supervisory Board members are independent, as defined in the German Corporate Governance Code, and have many years of experience in the biotechnology and pharmaceutical industries. The Chairman of the Supervisory Board is not a former member of MorphoSys AG's Management Board. The members of the Supervisory Board and its committees are listed in the table below.

TABLE 12
Composition of the Supervisory Board until Termination of the 2017 Annual General Meeting

	Position	Initial Appointment	End of Term	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2018		Member	
Dr. Frank Morich	Deputy Chairman	2015	2017			Member
Karin Eastham	Member	2012	2018	Member	Chairperson	
Klaus Kühn	Member	2015	2017	Chairperson		
Dr. Marc Cluzel	Member	2012	2018		Member	Chairperson
Wendy Johnson	Member	2015	2017	Member		Member

Independent financial expert · Chairperson · Member

TABLE 13
Composition of the Supervisory Board since Termination of the 2017 Annual General Meeting

	Position	Initial Appointment	End of Term	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2018		Chairperson	
Dr. Frank Morich	Deputy Chairman	2015	2020			Member
Krisja Vermeylen	Member	2017	2019	Member	Member	
Klaus Kühn	Member	2015	2020	Chairperson		
Dr. Marc Cluzel	Member	2012	2018		Member	Chairperson
Wendy Johnson	Member	2015	2020	Member		Member

Independent financial expert · Chairperson · Member

WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

To ensure good corporate governance, a guiding principle of the cooperation between the Management Board and Supervisory Board at MorphoSys AG is the open, comprehensive and regular communication of information. The dual board system prescribed by the German Stock Corporation Act clearly differentiates between a company's management and supervision. The responsibility of both boards is clearly stipulated by law and by the boards' bylaws and Articles of Association. The boards work closely together to make decisions and take actions for the Company's benefit. Their stated objective is to sustainably increase the Company's value.

Management Board members each have their own area of responsibility as defined in the schedule of responsibilities. They regularly report to their Management Board colleagues, their cooperation being governed by the bylaws. The Supervisory Board ratifies both the schedule of responsibilities and the bylaws. Management Board meetings are typically held weekly and are chaired by the Chief Executive Officer. During these meetings, resolutions are passed concerning dealings and transactions that, under the bylaws, require the approval of the entire Management Board. At least half of the Management Board's members must be present to pass a resolution. Management Board resolutions are passed by a simple majority and, in the event of a tied vote, the Chief Executive Officer's vote decides. For material events, each Management Board or Supervisory Board member can call an extraordinary meeting of the entire Management Board. Management Board resolutions can also be passed outside of meetings by an agreement made orally, by telephone or in writing (also by email). Minutes are taken of each meeting of the full Management Board, are submitted for approval to the full Management Board and for signature by the Chief Executive Officer at the following meeting.

In addition to the regularly scheduled meetings, Management Board strategy workshops are also held for developing and prioritizing the Group-wide strategic objectives.

The Management Board promptly and comprehensively informs the Supervisory Board in writing and at Supervisory Board meetings about planning, business development, the Group's position, risk management and other compliance issues. Extraordinary meetings of the Supervisory Board are also called for material events. The Management Board involves the Supervisory Board in the strategy, planning and all fundamental Company issues. In addition to routine Supervisory Board meetings, a strategy meeting takes place between the Management Board and Supervisory Board once annually to discuss MorphoSys's strategic direction. The Management Board's bylaws specify that material business transactions require the approval of the Supervisory Board. Detailed information on the cooperation of the Management Board and Supervisory Board and important items of discussion during the 2017 financial year can be found in the Report of the Supervisory Board.

The Supervisory Board holds a minimum of two meetings per calendar half-year and at least six meetings per full calendar year. The Supervisory Board has supplemented the Articles of Association with bylaws that apply to its duties. In accordance with these bylaws, the Chairperson of the Supervisory Board coordinates the activities of the Supervisory Board, chairs the Supervisory Board meetings and represents the interests of the Supervisory Board externally. The Supervisory Board typically passes its resolutions in meetings, but resolutions may also be passed outside of meetings in writing (also by e-mail), by telephone or video conference.

The Supervisory Board has a quorum when at least two-thirds of its members (including either the Chairperson or Deputy Chairperson of the Supervisory Board) take part in the vote. Resolutions of the Supervisory Board are generally passed with a simple majority unless the law prescribes otherwise. In the event of a tied vote, the vote of the Chairperson of the Supervisory Board is decisive.

Minutes are completed for Supervisory Board meetings and resolutions passed outside of meetings. A copy of the Supervisory Board's minutes is made available to all Supervisory Board members. The Supervisory Board conducts an efficiency evaluation regularly in accordance with the recommendation in Item 5.6 of the Code.

COMPOSITION AND WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD COMMITTEES

The Management Board has not formed any committees.

The Supervisory Board has three committees: the Audit Committee, the Remuneration and Nomination Committee and the Science and Technology Committee. The members of the three committees formed by the Supervisory Board are professionally qualified.

TABLE 14
Participation of Supervisory Board Members

SUPERVISORY BOARD MEETINGS

Name	01/16 2017	03/07 2017	03/21 2017	05/16 2017	05/17 2017	07/26 2017	07/27 2017	10/10 2017	12/13 2017
	by phone		by phone						
Dr. Gerald Möller	✆	✓	✆	✓	✓	✓	✓	✓	✓
Dr. Marc Cluzel	✆	✓	✆	✓	✓	✓	✓	✓	✓
Karin Eastham[1]	✆	✓	✆	✓	–	–	–	–	–
Wendy Johnson	✆	✓	✆	✓	✓	✓	✓	✓	✓
Klaus Kühn	✆	✓	✆	✓	✓	✓	✓	✓	✓
Dr. Frank Morich	✆	✓	✆	✓	✓	✓	✓	✓	✓
Krisja Vermeylen[2]	–	–	–	–	✓	✓	✓	✓	✓

[1] Supervisory Board member until termination of the 2017 Annual General Meeting.
[2] Supervisory Board member since termination of the 2017 Annual General Meeting.

MEETINGS OF THE AUDIT COMMITTEE

Name	03/06/2017	04/26/2017	07/26/2017	10/10/2017	11/03/2017	12/13/2017
		by phone			by phone	
Karin Eastham[1]	✓	✆	–	–	–	–
Wendy Johnson	✓	✆	✓	✓	✆	✓
Klaus Kühn	✓	✆	✓	✓	✆	✓
Krisja Vermeylen[2]	–	–	✓	✓	✆	✓

[1] Supervisory Board member until termination of the 2017 Annual General Meeting.
[2] Supervisory Board member since termination of the 2017 Annual General Meeting.

MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE

Name	01/16/2017	03/07/2017	05/16/2017	10/10/2017	12/04/2017
	by phone				by phone
Dr. Gerald Möller	✆	✓	✓	✓	✆
Dr. Marc Cluzel	✆	✓	✓	✓	✆
Karin Eastham[1]	✆	✓	✓	–	–
Krisja Vermeylen[2]	–	–	–	✓	✆
Dr. Frank Morich as guest	–	–	–	✓	–

[1] Supervisory Board member until termination of the 2017 Annual General Meeting.
[2] Supervisory Board member since termination of the 2017 Annual General Meeting.

MEETINGS OF THE SCIENCE AND TECHNOLOGY COMMITTEE

Name	03/07/2017	05/16/2017	07/26/2017	10/10/2017	12/13/2017
Dr. Marc Cluzel	✓	✓	✓	✓	✓
Wendy Johnson	✓	✓	✓	✓	✓
Dr. Frank Morich	✓	✓	✓	✓	✓

✓ ATTENDED IN PERSON
✆ PARTICIPATED BY PHONE

AUDIT COMMITTEE

The main task of the Audit Committee is to support the Supervisory Board in fulfilling its supervisory duties with respect to the accuracy of the annual and consolidated financial statements, the activities of the auditor and internal control functions, such as risk management, compliance and internal auditing. The Audit Committee submits a recommendation to the Supervisory Board for the election at the Annual General Meeting of an independent auditor. The members of the Audit Committee are Klaus Kühn (Chairperson), Wendy Johnson, Karin Eastham (until May 17, 2017) and Krisja Vermeylen (since May 17, 2017). Klaus Kühn currently fulfills the prerequisite of an independent financial expert.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for preparing and reviewing the Management Board's compensation system annually before its final approval. When necessary, the Committee searches for suitable candidates to appoint to the Management Board and Supervisory Board and submits appointment proposals to the Supervisory Board. The Committee also prepares the contracts made with Management Board members. The members of the Remuneration and Nomination Committee are Karin Eastham (Chairperson until May 17, 2017), Dr. Gerald Möller (Chairperson since May 17, 2017), Dr. Marc Cluzel and Krisja Vermeylen (since May 17, 2017).

SCIENCE AND TECHNOLOGY COMMITTEE

The Science and Technology Committee advises the Supervisory Board on matters concerning proprietary drug and technology development and prepares the relevant Supervisory Board resolutions. The members of the Science and Technology Committee are Dr. Marc Cluzel (Chairperson), Dr. Frank Morich and Wendy Johnson.

The Supervisory Board members' biographies can be found on the MorphoSys website under Company – Management – Supervisory Board.

Corporate Governance Report

At MorphoSys, responsible, sustainable and value-oriented corporate governance is a high priority. Good corporate governance is an essential aspect of MorphoSys's corporate management and forms the framework for the Group's management and supervision, which includes the Group's organization, commercial principles and tools for its guidance and control.

The German Corporate Governance Code ("the Code") provides a standard for the transparent monitoring and management of companies that strongly emphasizes shareholder interests. Many of the corporate governance principles contained in the Code have been practiced at MorphoSys for many years. Corporate governance issues at MorphoSys AG are detailed in the Statement on Corporate Governance under Section 289f HGB. The statement also contains the annual Declaration of Conformity, relevant information on corporate governance practices and a description of the Management Board and Supervisory Board's working practices. Additional information can be found in this Corporate Governance Report.

COMMUNICATION WITH THE CAPITAL MARKETS

At MorphoSys, a key principle of corporate communication is to inform institutional investors, private shareholders, financial analysts, employees and all other stakeholders, simultaneously and fully of the Company's situation through regular, transparent and timely communication. Shareholders have immediate access to the information provided to financial analysts and similar recipients and can obtain this information in both German and English. The Company is firmly committed to following a fair information policy.

Regular meetings with analysts and investors in the context of road shows and individual meetings play a central role in investor relations at MorphoSys. Conference calls accompany publication of quarterly results and give analysts and investors an immediate opportunity to ask questions about the Company's development. Company presentations for on-site events, visual and audio recordings of other important events as well as conference call transcripts are also available on the Company's website to all interested parties.

The Company's website www.morphosys.com serves as a central platform for current information on the Company and its development. Financial reports, analyst meetings and conference presentations, as well as press releases and ad hoc statements, are also available. The important regularly scheduled publications and events (annual reports, interim reports, annual general meetings and press and analyst conferences) are published in the Company's financial calendar well in advance.

ESTABLISHMENT OF SPECIFIC TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board shall be composed in such a way that (i) the Supervisory Board in its entirety has the necessary knowledge, skills and professional experience to properly perform its duties, (ii) the Company's international activities and potential conflicts of interest are taken into consideration, (iii) a sufficient number of independent Supervisory Board members is ensured, (iv) an age limit and a regular limit on the length of service is specified for members of the Supervisory Board, and (v) the aspect of diversity is taken into account.

In view of these factors and in consideration of the Company's specific circumstances (Section 5.4.1 of the German Corporate Governance Code), the Supervisory Board first set targets for its composition in July 2015 and reviewed and updated these targets on July 26, 2017 as follows:

APPROPRIATE REPRESENTATION OF WOMEN AND DIVERSITY

The Supervisory Board of MorphoSys has a total of six members, two of whom are women. The Supervisory Board strongly believes that, at 33.33%, the current proportion of women on the Company's Supervisory Board is appropriate and intends to maintain this proporation in the future. The Supervisory Board currently fulfills this quota.

The Supervisory Board also believes a quota of at least two non-German members or at least two members with extensive international experience represents a fair share of diversity given the Company's international orientation. The Supervisory Board currently meets this quota.

INDEPENDENCE

The Supervisory Board considers it appropriate that at least four of its members are independent (Section 5.4.2 of the German Corporate Governance Code). Members of the Supervisory Board are considered independent when they have no personal or business relationship with MorphoSys, its management, a controlling shareholder or an affiliate that may give rise to a material and more than temporary conflict of interest. All six current members of the Supervisory Board meet the criteria to be classified as independent. Therefore, the Supervisory Board currently meets the quota of four independent members.

Significant and more than temporary conflicts of interest should be avoided, especially when it involves work for major competitors. It should be noted, however, that conflicts of interest in certain cases cannot be excluded. Any potential conflicts of interest must be disclosed to the Chairperson of the Supervisory Board and remedied appropriately. There are currently no conflicts of interest.

AGE LIMIT

At the time of their appointment by the Annual General Meeting, Supervisory Board members should not be older than 75 years. However, the Supervisory Board may decide to make an exception in specific cases. The age limit of 75 years is currently respected by the Supervisory Board members.

TERM OF APPOINTMENT

At the Annual General Meeting, the Supervisory Board intends to propose an initial two-year period of office for Supervisory Board members. The Supervisory Board intends to allow reappointment twice, each for an additional term of three years, but reserves the right to make exceptions in specific cases and permit members to be reappointed for a fourth term of three years. Since the time of setting this target, the maximum term of appointment for all elected Supervisory Board members has been respected.

The Supervisory Board intends to adhere to the targets set for its composition when making future election proposals to the Annual General Meeting.

SKILL AND EXPERIENCE PROFILE FOR THE SUPERVISORY BOARD AS A WHOLE

In addition to defining specific targets, the Supervisory Board should develop a profile of skills and experience for the entire Supervisory Board (Section 5.4.1 of the German Corporate Governance Code). On July 26, 2017, the Supervisory Board defined the following profile of skills and experience for the entire Supervisory Board:

PROFESSIONAL EXPERTISE AND EXPERIENCE

Supervisory Board members should possess the necessary professional expertise and experience to fulfill their duties as members of the Supervisory Board of MorphoSys as an international biotechnology company. All current Supervisory Board members have the relevant experience in management positions in the pharmaceutical and biotechnology industries and, therefore, meet this requirement.

In order to promote further cooperation between members of the Supervisory Board, care should be taken in the selection of candidates to ensure that the aspect of diversity in terms of professional background, expertise, experience and personality is sufficiently taken into account.

GENERAL KNOWLEDGE

All members of the Supervisory Board should have general knowledge of the industry in which the Company operates in order to make sufficient and substantial contributions to Supervisory Board meetings. All Supervisory Board members have the necessary expertise in the pharmaceutical and biotechnology industries based on their background and, therefore, meet this requirement.

PROFESSIONAL EXPERTISE

- At least two members of the Supervisory Board must have extensive experience in drug development
- At least one Supervisory Board member must have expertise in the areas of accounting or auditing (Section 100 (5) AktG)
- At least one member of the Supervisory Board must have experience in human resource issues, particularly with regard to Management Board matters

The Company currently meets the above targets.

SUFFICIENT AVAILABILITY OF TIME

All members of the Supervisory Board must ensure that they have sufficient time available to properly perform their Supervisory Board duties. It must therefore be ensured that

- the Supervisory Board member is able to personally attend at least four ordinary Supervisory Board meetings per year, as well as the annual strategy meeting, for which a reasonable amount of preparation time is required in each case;
- the Supervisory Board member is able to attend extraordinary meetings of the Supervisory Board if necessary to deal with specific topics;
- the Supervisory Board member is able to attend the Annual General Meeting;
- the Supervisory Board member has sufficient time available to review the annual and consolidated financial statements;
- the Supervisory Board member sets aside additional time to prepare and participate in committee meetings, depending on his/her possible membership in one or more of the current three committees of the Supervisory Board.

The Supervisory Board intends to observe the skills and experience profile for the entire Supervisory Board when making future election proposals to the Annual General Meeting.

WOMEN'S QUOTA FOR THE SUPERVISORY BOARD, MANAGEMENT BOARD AND THE TWO MANAGEMENT LEVELS BELOW THE MANAGEMENT BOARD

In July 2015, the Supervisory Board adopted a women's quota for the Supervisory Board for an initial period of two years. The Supervisory Board reviewed this quota in July 2017 and updated as follows: "MorphoSys AG's Supervisory Board has a total of six members. Two of those members are women, which places the current quota of 33.33% for female members on the Company's Supervisory Board above the 30% target. The Supervisory Board confirms its decision regarding the quota for women on the Supervisory Board, which was passed in July 2015, and intends to maintain this ratio until June 30, 2022."

The Company continues to meet this target.

In July 2015, the Supervisory Board adopted the following quota for women on the Management Board for an initial period of two years, which was reviewed and updated in July 2017 as follows:

"The Management Board of MorphoSys AG has a total of five members, including one female member. The current ratio of women's representation on the Management Board of the company is therefore below 30% and amounts to 20%. With reference to the decision on the quota of women on the Management Board, which was taken in July 2015, the Supervisory Board intends to achieve a ratio of 25% in the future, namely by June 30, 2022".

The Company does not currently meet this target. The reason this target has not been met is the unplanned departure of Dr. Marlies Sproll as Chief Scientific Officer as of October 31, 2017 for personal reasons and the appointment of Dr. Markus Enzelberger initially as Interim Chief Scientific Officer from April 15, 2017 to October 31, 2017, and then as Dr. Marlies Sproll's successor as Chief Scientific Officer beginning on November 1, 2017. As a result, the Management Board currently consists of four male members, and there are currently no women on the Management Board.

In July 2015, the Management Board adopted the following quota for women in the first level of management below the Management Board for an initial period of two years and reviewed and updated it in July 2017 as follows:

"At the time of the decision, the first management level below the Management Board (the Senior Management Group) consisted of 22 members, nine of whom were women, placing the level of female representation at this management level at 40.9%, which is above the 30% target. The Management Board confirms its July 2015 decision on the quota of women in the first level of management below the Management Board and intends to continue to maintain a minimum ratio of 30% until June 30, 2022."

The Company continues to meet this target.

In July 2015, the Management Board adopted a women's quota for the second level of management below the Management Board initially for a period of two years and reviewed and updated the quota in July 2017 as follows: "The second management level below the Management Board (i.e. the Company's managers excluding the Senior Management Group) at the time of the decision consisted of 40 members, 14 of whom were women. This placed the quota of women in the second management level below the Company's Management Board at 35%, which is above the 30% target at the time of the resolution. The Management Board confirms its July 2012 decision on the quota of women in the second level of management below the Management Board and intends to maintain a quota of at least 30% until June 30, 2022."

The Company continues to meet this target.

DIVERSITY PLAN

Diversity is firmly anchored in the corporate culture of MorphoSys and its affiliates. All dimensions of diversity are of equal importance at MorphoSys, be it age, gender, educational background, occupation, origin, religion, sexual orientation or identity. The MorphoSys Management Board and Supervisory Board see it as their responsibility to further increase and effectively utilize the various aspects of diversity beyond the mere determination of targets for the proportion of women on the Management Board, Supervisory Board and in executive positions.

The Company has not yet developed its own diversity plan with respect to the composition of the Management and Supervisory Boards. Nevertheless, the internal organization and continued development of an open and inclusive corporate culture play an important role in the day-to-day work of the Management and Supervisory Boards. The skills and experience profile for the Supervisory Board as a whole also takes diversity into consideration. The Management and Supervisory Boards intend to develop a diversity plan for their composition in the future that addresses key aspects of diversity, defines specific goals for this purpose and contains guidelines on how these goals should be achieved.

REMUNERATION REPORT

The Remuneration Report presents the principles, structure and amount of Management Board and Supervisory Board remuneration. The report complies with the legal provisions and gives consideration to the recommendations of the German Corporate Governance Code.

MANAGEMENT BOARD REMUNERATION

The Management Board's remuneration system is intended to provide an incentive for performance-oriented and sustainable corporate management. Therefore, the aggregate remuneration of the Management Board members consists of different components: fixed components, an annual cash bonus based on the achievement of corporate targets (short-term incentive – STI), a variable compensation component with a long-term incentive (long-term incentive – LTI) and other remuneration components. Variable remuneration components with long-term incentive consist of performance share plans from the current and prior years, a convertible bond program from the year 2013, as well as a stock option plan from the current year. Management Board members also receive fringe benefits in the form of non-cash benefits, mainly the use of a company car and the payment of insurance premiums. All remuneration packages are reviewed annually for their scope and appropriateness by the Remuneration and Nomination Committee and are compared to the results of an annual Management Board remuneration analysis. The amount of compensation paid to Management Board members highly depends on their individual areas of responsibility, the Company's economic situation and success and the Company's business prospects versus its competition. All decisions concerning adjustments to remuneration packages are made by the entire Supervisory Board. The Management Board's remuneration and index-linked pension scheme were last adjusted in July 2017. The remuneration of the new Management Board member Dr. Markus Enzelberger was adjusted as of November 1, 2017.

OVERVIEW

In the 2017 financial year, total benefits of € 6,453,649 (2016: € 4,383,658) were granted to the Management Board in accordance with the provisions of the German Corporate Governance Code. Of the total remuneration granted for the year 2017, € 3,387,433 was cash compensation and € 3,066,216, or 48%, resulted from personnel expenses for share-based compensation (remuneration with long-term incentive: performance share plan, stock option plan and convertible bond plan). In 2017, share-based compensation included a one-time incentive granted to Dr. Malte Peters and Dr. Markus Enzelberger for joining the Management Board of MorphoSys AG, which consisted of shares of treasury stock.

The total amount of benefits paid to the Management Board in the 2017 financial year amounted to € 10,593,126 (2016: € 5,070,618). In addition to cash compensation payments of € 2,963,485 (2016: € 2,672,333), this amount includes primarily the relevant value under German tax law of the transfer of treasury stock from a performance-based share plan (share-based compensation), which amounted to € 1,986,671 (2016: € 2,398,285). This figure includes € 899,962 under German tax law for treasury shares granted to Dr. Malte Peters and Dr. Markus Enzelberger as a one-time incentive for joining the Management Board of MorphoSys AG. Because convertible bonds were exercised in 2017, the total amount for 2017 also included proceeds from the exercise of convertible bonds in the amount of € 4,743,008.

As of April 3, 2017, a total of 36,729 treasury shares from the 2013 performance-based share plan for the Management Board vested because the vesting period for this LTI program had expired. The beneficiaries had the option to receive the shares at a time of their choosing within a six-month period ending on October 2, 2017. All transactions in MorphoSys shares executed by members of the Management Board were reported as required by law and published in the Corporate Governance Report as well as on the Company's website.

In accordance with the requirements of Section 4.2.5 (3) of the German Corporate Governance Code, the tables that follow provide detailed mandatory information on the remuneration of the individual Management Board members.

Please note that the tables that follow are provided in the context of the Corporate Governance Report and differ from the information about Management Board remuneration presented in the Notes of this Annual Report (Item 7.4). These differences are due to the differing presentation requirements under the German Corporate Governance Code and IFRS*.

*SEE GLOSSARY – *page 170*

TABLE 15

Compensation of the Management Board in 2017 and 2016 (Disclosure in Accordance with the German Corporate Governance Code)

BENEFITS GRANTED TO THE MANAGEMENT BOARD

	Dr. Simon Moroney Chief Executive Officer			
in €	2016	2017	2017 (Minimum)	2017 (Maximum)
Fixed Compensation	463,457	500,876	500,876	500,876
Fringe Benefits[1]	34,270	35,912	35,912	35,912
Total Fixed Compensation	497,727	536,788	536,788	536,788
One -Year Variable Compensation[2]	210,873	368,144	0	438,266
Multi-Year Variable Compensation:				
2013 Convertible Bonds Program[3] (Vesting Period 4 Years)	33,964	58,224	58,224	58,224
2016 Long-Term Incentive Program[4] (Vesting Period 4 Years)	563,820	0	0	0
2017 Long-Term Incentive Program[4] (Vesting Period 4 Years)	0	343,009	0	1,372,036
2017 Stock Option Plan[4] (Vesting Period 4 Years)	0	267,861	0	1,071,444
Total Variable Compensation	808,657	1,037,238	58,224	2,939,970
Service Cost	142,096	149,567	149,567	149,567
Total Compensation	1,448,480	1,723,593	744,579	3,626,325

	Dr. Markus Enzelberger[5] Chief Scientific Officer Appointment (Interim-CSO): April 15, 2017 Appointment: November 1, 2017			
in €	2016	2017	2017 (Minimum)	2017 (Maximum)
Fixed Compensation	–	204,698	204,698	204,698
Fringe Benefits[1]	–	417,158	417,158	417,158
Total Fixed Compensation	–	621,856	621,856	621,856
One -Year Variable Compensation[2]	–	121,688	0	144,866
Multi-Year Variable Compensation:	–			
2013 Convertible Bonds Program[3] (Vesting Period 4 Years)	–	0	0	0
2016 Long-Term Incentive Program[4] (Vesting Period 4 Years)	–	0	0	0
2017 Long-Term Incentive Program[4] (Vesting Period 4 Years)	–	144,354	0	577,416
2017 Stock Option Plan[4] (Vesting Period 4 Years)	–	112,745	0	450,980
Total Variable Compensation	–	378,787	0	1,173,262
Service Cost	–	29,186	29,186	29,186
Total Compensation	–	1,029,829	651,042	1,824,304

[1] In 2017, the fringe benefits of Dr. Malte Peters und Dr. Markus Enzelberger each included a one-time compensation in the form of MorphoSys shares as an incentive to join the Management Board of MorphoSys AG.

[2] The one-year compensation granted for the 2017 financial year represents the bonus accrual for 2017 that will be paid in February 2018. The bonus granted for the 2016 financial year was paid in February 2017.

[3] Stock-based compensation plans not issued on an annual basis. The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payment." For plans that are not issued annually, the pro rata share of personnel expenses resulting from share-based payments is presented for each financial year.

Jens Holstein Chief Financial Officer				Dr. Malte Peters Chief Development Officer Appointment: March 1, 2017				
2016	2017	2017 (Minimum)	2017 (Maximum)	2016	2017	2017 (Minimum)	2017 (Maximum)	
314,405	372,652	372,652	372,652	–	281,500	281,500	281,500	
46,300	42,905	42,905	42,905	–	568,644	568,644	568,644	
360,705	415,557	415,557	415,557	–	850,144	850,144	850,144	
143,054	273,899	0	326,071	–	206,903	0	242,083	
				–				
34,791	59,641	59,641	59,641	–	0	0	0	
369,397	0	0	0	–	0	0	0	
0	224,747	0	898,988	–	224,747	0	898,988	
0	175,498	0	701,992	–	175,498	0	701,992	
547,242	733,785	59,641	1,986,692	–	607,148	0	1,843,063	
92,875	99,949	99,949	99,949	–	60,967	60,967	60,967	
1,000,822	1,249,291	575,147	2,502,198	–	1,518,259	911,111	2,754,174	

Dr. Marlies Sproll[6] Chief Scientific Officer Temporary Leave: April 15, 2017 – October 31, 2017 Resignation: October 31, 2017				Dr. Arndt Schottelius Chief Development Officer Resignation: February 28, 2017				Total			
2016	2017	2017 (Minimum)	2017 (Maximum)	2016	2017	2017 (Minimum)	2017 (Maximum)	2016	2017	2017 (Minimum)	2017 (Maximum)
314,405	222,450	222,450	222,450	309,759	103,253	103,253	103,253	1,402,026	1,685,429	1,685,429	1,685,429
24,141	20,427	20,427	20,427	28,388	9,161	9,161	9,161	133,099	1,094,207	1,094,207	1,094,207
338,546	242,877	242,877	242,877	338,147	112,414	112,414	112,414	1,535,125	2,779,636	2,779,636	2,779,636
143,054	67,745	0	85,302	140,940	23,490	0	23,490	637,921	1,061,869	0	1,260,078
23,263	39,879	39,879	39,879	23,263	39,879	39,879	39,879	115,281	197,623	197,623	197,623
369,397	0	0	0	369,397	0	0	0	1,672,011	0	0	0
0	168,543	0	674,172	0	0	0	0	0	1,105,400	0	4,421,600
0	131,629	0	526,516	0	0	0	0	0	863,231	0	3,452,924
535,714	407,796	39,879	1,325,869	533,600	63,369	39,879	63,369	2,425,213	3,228,123	197,623	9,332,225
92,876	77,976	77,976	77,976	95,473	28,245	28,245	28,245	423,320	445,890	445,890	445,890
967,136	728,649	360,732	1,646,722	967,220	204,028	180,538	204,028	4,383,658	6,453,649	3,423,149	12,557,751

[4] Stock-based compensation plans issued annually. The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payment." For plans issued annually, the personnel expenses resulting from share-based payments are presented for the entire term at the time of issue.

[5] The figures presented for Dr. Markus Enzelberger do not include any compensation granted for his activities as a member of the Senior Management Group as they do not relate to his appointment as a member of the Management Board.

[6] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. Since November 1, 2017, she has taken on a new part-time role at MorphoSys as Special Adviser to the CEO. Therefore, the figures presented for Dr. Marlies Sproll do not include any remuneration granted for these activities.

PAYMENTS DURING THE FINANCIAL YEAR

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer		Dr. Malte Peters Chief Development Officer Appointment: March 1, 2017	
In €	2016	2017	2016	2017	2016	2017
Fixed Compensation	463,457	500,876	314,405	372,652	–	281,500
Fringe Benefits[1]	34,270	35,912	46,300	42,905	–	568,644
Total Fixed Compensation	497,727	536,788	360,705	415,557	–	850,144
One -Year Variable Compensation[2]	238,692	210,873	161,926	143,054	–	0
Multi-Year Variable Compensation:						
2013 Convertible Bonds Program[3] (Vesting Period 4 Years)	0	0	0	658,350	–	0
2012 Long-Term Incentive Program[3] (Vesting Period 4 Years)	794,430	0	574,467	0	–	0
2013 Long-Term Incentive Program[3] (Vesting Period 4 Years)	0	650,378	0	445,431	–	0
Other[4]	0	0	0	0	–	0
Total Variable Compensation	1,033,122	861,251	736,393	1,246,835	–	0
Service Cost	142,096	149,567	92,875	99,949	–	60,967
Total Compensation	1,672,945	1,547,606	1,189,973	1,762,341	–	911,111

[1] In 2017, the fringe benefits of Dr. Malte Peters und Dr. Markus Enzelberger each included a one-time compensation in the form of MorphoSys shares as an incentive to join the Management Board of MorphoSys AG.
[2] The one-year variable compensation presented here represents the bonus paid in the respective financial year for the previous financial year.
[3] The date and value of the payments is the date and value applicable under German tax law. Therefore, this table shows the non-cash benefits arising in the respective financial year from the difference between the exercise or conversion price and the stock market price at the time of exercising the convertible bonds or at the time of transfer of own shares from a performance share plan.
[4] No compensation recovery claims against the Management Board existed in 2017 or 2016.

FIXED REMUNERATION AND FRINGE BENEFITS

The non-performance-related remuneration of the Management Board consists of fixed remuneration and additional benefits, which primarily include the use of company cars, as well as subsidies for health, welfare and disability insurance. The Chief Financial Officer, Mr. Jens Holstein, receives an additional expense allowance for maintaining two households.

PENSION EXPENSES

The Company also provides payments to Management Board members equal to a maximum of 10% of the member's fixed annual salary plus any taxes payable. This compensation is intended for the members' individual retirement plans. Additionally, all Management Board members participate in a pension plan in the form of a provident fund, which was introduced in cooperation with Allianz Pensions-Management e.V. The pension obligations of the provident fund will be met by Allianz Pensions-Management e.V. These pension obligations are not pension benefit plans.

	Dr. Markus Enzelberger[5] Chief Scientific Officer Appointment (Interim-CSO): April 15, 2017 Appointment: November 1, 2017		Dr. Marlies Sproll[6] Chief Scientific Officer Temporary Leave: April 15, 2017 – October 31, 2017 Resignation: October 31, 2017		Dr. Arndt Schottelius[7] Chief Development Officer Resignation: February 28, 2017		Total	
	2016	2017	2016	2017	2016	2017	2016	2017
	–	204,698	314,405	222,450	309,759	103,253	1,402,026	1,685,429
	–	417,158	24,141	20,427	28,388	9,161	133,099	1,094,207
	–	621,856	338,546	242,877	338,147	112,414	1,535,125	2,779,636
	–	0	156,635	143,054	156,635	140,940	713,888	637,921
	–	0	0	2,800,381	0	1,284,277	0	4,743,008
	–	0	540,155	0	489,233	0	2,398,285	0
	–	0	0	445,431	0	445,431	0	1,986,671
	–	0	0	0	0	0	0	0
	–	0	696,790	3,388,866	645,868	1,870,648	3,112,173	7,367,600
	–	29,186	92,876	77,976	95,473	28,245	423,320	445,890
	–	651,042	1,128,212	3,709,719	1,079,488	2,011,307	5,070,618	10,593,126

[5] The figures presented for Dr. Markus Enzelberger do not include any payments for his activities as a member of the Senior Management Group as they do not relate to his appointment as a member of the Management Board.

[6] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. Since November 1, 2017, she has taken on a new part-time role at MorphoSys as Special Adviser to the CEO. Therefore, the payments presented for Dr. Marlies Sproll do not include any remuneration for these activities.

[7] The figures presented for Dr. Arndt Schottelius do include remuneration from the exercise of convertible bonds and the transfer of treasury stock from a long-term incentive program after his resignation as Chief Development Officer. These were granted for his activities as a member of the Management Board in previous years.

PERFORMANCE-BASED COMPENSATION (SHORT-TERM INCENTIVE – STI)

Members of the Management Board each receive performance-based compensation in the form of an annual bonus payment of up to 70 % of the gross base salary when 100 % of the member's targets have been achieved. These bonus payments are dependent on the achievement of corporate targets specified by the Supervisory Board at the start of each financial year. Targets are typically based on, amongst other objectives, the Company's performance and the progress of the partnered pipeline and the Company's proprietary pipeline. At the start of the year, the Supervisory Board assesses the degree to which corporate goals were achieved in the prior year and uses this information to determine the bonus. The bonus may not exceed 125 % of the target amount (corresponding to 87.5 % of the gross base salary). Performance-based compensation can be reduced to zero if goals are not achieved. The bonus for the 2017 financial year will be paid in February 2018. Contrary to the usual bonus scheme for Management Board members, in the period from April 15 to October 31, 2017, Dr. Markus Enzelberger, as an interim Board member, agreed to an entitlement to a bonus payment of up to 52 % of his gross base salary with 100 % target achievement (maximum 65 % with 125 % target achievement). During this period, Dr. Marlies Sproll (on leave) was not entitled to a bonus payment.

LONG-TERM INCENTIVE COMPENSATION (LONG-TERM INCENTIVE – LTI)

In 2011, MorphoSys introduced a long-term incentive compensation plan (Performance Share Plan) for the Management Board and members of the Senior Management Group. The Performance Share Plan is based on the allocation of shares linked to the achievement of predefined performance targets over a four-year period.

Each year, the Supervisory Board determines the number of shares to be allocated to the Management Board. On April 1, 2017, the Management Board members (including Dr. Markus Enzelberger as an interim Management Board member from April 15 to October 31) were granted a total of 15,675 shares. Each Management Board member received an entitlement benefit for a specific number of shares. For more information, please refer to Item 7.3.5 in the Notes to the Consolidated Financial Statements and the explanation on stock repurchases in the Corporate Governance Report.

Long-term performance targets are set by the Supervisory Board at the time the shares are allocated for a specific year. The defined targets for the 2017 Performance Share Plan were the absolute performance of MorphoSys shares, as well as the relative performance of MorphoSys shares relative to a benchmark index comprising of equal parts of the NASDAQ Biotechnology Index and the TecDAX Index. The absolute and relative performance of the share price for each of the four assessment periods (one year each) is determined by comparing the average share price of the last 30 trading days prior to the beginning of the relevant assessment period (April 1) with the average share price of the last 30 trading days prior to the end of the evaluation period. The participants in the Performance Share Plan receive an annual share entitlement, which will be evaluated on the basis of the absolute and relative performance of the share price, that is, a comparison of the performance of MorphoSys shares versus the benchmark index. Depending on the absolute and relative performance of the share price over the course of an evaluation period, certain (absolute and relative) tiered target attainment levels between 10 % and 300 % can be achieved. Exceeding the target attainment level of 300 % does not grant entitlement to additional shares during the relevant assessment period (cap). At the end of the four-year term, a total level of target achievement based on the absolute and relative target attainment levels has to be established. The average absolute and relative attainment levels reached are weighted at 50 %. The overall target achievement is capped at 200 %.

The ultimate number of performance shares allocated to the Performance Share Plan participants is determined at the completion of the program, which spans four years. This calculation incorporates the number of shares initially granted (“grants”) multiplied with the total level of target achievement, as well as a “company factor” that is determined at the Supervisory Board’s discretion. This company factor is a number between zero and two that is set by the Supervisory Board based on the Company’s situation. The company factor’s predefined default value is one (1).

In 2017, MorphoSys also introduced a stock option plan (SOP) as another form of long-term incentive compensation based on the resolution of the Annual General Meeting on June 2, 2016 (Agenda Item 9). As of April 1, 2017, a total of 40,319 stock options were granted to the Management Board (including Dr. Markus Enzelberger as interim Management Board member from April 15 to October 31). Each member of the Management Board received a specific number of stock options that entitle them to purchase up to two MorphoSys shares each. Further details can be found in Item 7.1 in the Notes to the Consolidated Financial Statements and the explanations on stock repurchases in the Corporate Governance Report.

In accordance with the resolution of the Annual General Meeting on June 2, 2016 (Agenda Item 9), the SOP’s performance targets include the absolute price performance of MorphoSys shares and the relative price performance of MorphoSys shares compared to a benchmark index. The benchmark index consists of equal parts of the NASDAQ Biotechnology Index and the TecDAX Index. Each performance target has a 50 % weighting in the achievement of the overall target.

To determine the degree of target achievement for each performance target, the four-year vesting period (until the first stock options can be exercised) is subdivided into four equal periods of one year each. An arithmetic mean is calculated based on the degree of target achievement in each of the four years. This, in turn, determines the final percentage of target achievement for each performance target. The final percentage of target achievement for each of the two performance targets are then added together and divided by two, the result being the overall level of target achievement.

For the performance target of absolute price performance, a comparison is made between the stock market price of MorphoSys shares at the beginning of each year in the four-year period with the price at the end of each respective period. If MorphoSys shares perform well, the degree of target achievement can reach up to 200% on a straight-line basis for that particular year. Any further positive share price development of MorphoSys shares will not lead to any further increase in the performance target (cap).

For the performance target of relative price performance, the development of MorphoSys's share price is compared with the development of the benchmark index during each annual period and set in relation to each other. In forming the benchmark index, the NASDAQ Biotech Index and the TecDAX Index are each weighted at 50% in such a way that the percentage price movements of each index are added for the respective annual period and divided by two. If MorphoSys shares outperform the benchmark index, the degree of target achievement for the relevant period can reach up to 200% on a straight-line basis. Any further positive share price development of MorphoSys shares versus the benchmark index will not lead to any further increase in the performance target (cap).

Stock options can only be exercised when the four-year (minimum) vesting period prescribed by law has expired, and the specified minimum value for the degree of target achievement of a performance target has been exceeded. The ultimate number of exercisable stock options is calculated by multiplying the number of initially granted stock options ("grants") by the total level of target achievement and rounding up to the nearest whole number. The resulting ultimate number of stock options is limited to 200% of the initially granted number of stock options. The stock options are settled in the form of Company shares, with each stock option entitling the holder to one share for the final number of stock options.

When the stock options are exercised, the exercise price must be paid for each underlying share. The exercise price corresponds to the average closing auction price of MorphoSys shares in the 30 trading days prior to the day on which the stock options were issued.

The terms of the stock option plan provide further details on the granting and settlement of stock options, the issue of Company shares from the Conditional Capital 2016-III and the administration of the SOP. For more information, please refer to the corresponding resolution of the Annual General Meeting on June 2, 2016 (Agenda Item 9).

MISCELLANEOUS

None of the Management Board members were granted any loans or similar benefits in the reporting year nor have they received any benefits from third parties that were promised or granted based on their positions as members of the Management Board.

TERMINATION OF MANAGEMENT BOARD EMPLOYMENT CONTRACTS/CHANGE OF CONTROL

If a Management Board member's employment contract terminates due to the member's death, the member's spouse or life partner is entitled to the fixed monthly salary for the month of death and the 12 months thereafter. In the event of a change of control, Management Board members are entitled to exercise their extraordinary right to terminate their employment contracts and receive any outstanding fixed salary for the remainder of the agreed contract period. Moreover, in such a case, all stock options and performance shares granted will become vested immediately and can be exercised after the expiration of the statutory vesting periods. A change of control has occurred when (i) MorphoSys transfers assets or a substantial portion of its assets to unaffiliated third parties, (ii) MorphoSys merges with an unaffiliated company or (iii) a shareholder or third party holds 30% or more of MorphoSys's voting rights.

CHANGE IN THE COMPOSITION OF THE MANAGEMENT BOARD

On January 5, 2017, MorphoSys announced that Dr. Malte Peters would succeed Dr. Arndt Schottelius as the Chief Development Officer and member of the Management Board of MorphoSys AG. Dr. Schottelius resigned from his position as Chief Development Officer effective February 28, 2017 to pursue new challenges. For the period leading up to the end of his employment contract on April 30, 2017, Dr. Schottelius and MorphoSys entered into an exemption agreement. According to the agreement, Dr. Schottelius was entitled to the remuneration agreed in his employment contract until April 30, 2017. The remuneration included a contractually agreed payment of a pro rata amount of his annual gross base salary of € 103,252.96 and a bonus of € 23,490.05. Dr. Schottelius also exercised the convertible bonds granted to him in 2013. In addition, he received shares that had vested after the four-year vesting period under

the 2013 Performance Share Plan. Dr. Schottelius still has a pro rata entitlement based on the 2014, 2015 and 2016 Performance Share Plans, which can be exercised after a total of four years at the earliest. Dr. Schottelius did not participate in the 2017 Performance Share Plan. Effective March 1, 2017, Dr. Malte Peters was appointed Chief Development Officer of MorphoSys AG. His employment contract runs until June 30, 2019. As an additional incentive to join MorphoSys, Dr. Peters was granted a one-time compensation payment for the lost compensation from his former employment. This compensation was in the form of treasury shares held by MorphoSys valued at € 500,000.

On October 30, 2017, MorphoSys announced that Dr. Markus Enzelberger would succeed Dr. Marlies Sproll as Chief Scientific Officer at MorphoSys AG. Dr. Sproll had been on a temporary leave of absence for family reasons since April 15, 2017 and eventually resigned from her post as Chief Scientific Officer effective October 31, 2017 due to ongoing family matters. She has been working as a Special Advisor to the CEO of MorphoSys, Simon Moroney, on a part-time basis since November 1, 2017. She received remuneration until October 31, 2017 in accordance with her Management Board employment contract. Dr. Sproll's long-term compensation granted to her during her time as a member of the Management Board will be settled in accordance with the plans' terms. Effective November 1, 2017, Dr. Enzelberger was appointed Chief Scientific Officer of MorphoSys AG after having served as the Interim Chief Scientific Officer since April 15, 2017. Dr. Enzelberger has held various management positions in research and development at MorphoSys since 2002. His Management Board employment contract runs until June 30, 2020. Upon joining the Management Board of MorphoSys AG, Dr. Enzelberger was granted a one-time incentive consisting of MorphoSys treasury shares to the value of € 400,000.

SUPERVISORY BOARD REMUNERATION

The remuneration of Supervisory Board members is governed by the Company's Articles of Association and a corresponding Annual General Meeting resolution on Supervisory Board remuneration. In the 2017 financial year, Supervisory Board members received fixed compensation, attendance fees and expense allowances for their participation in Supervisory Board and committee meetings. Each Supervisory Board member has received annual fixed compensation (€ 85,400 for Chairpersons, € 51,240 for Deputy Chairpersons and € 34,160 for all other members) for their membership of the Supervisory Board. The Chairperson receives € 4,000 for each Supervisory Board meeting chaired and the other members receive € 2,000 for each Supervisory Board meeting attended. For committee work, the committee Chairperson receives € 12,000 and other committee members each receive € 6,000. Committee members also receive € 1,200 for their participation in a committee meeting. Participation in a Supervisory Board or committee meeting by telephone or video conference results in a 50 % reduction in compensation for meeting participation. Supervisory Board members residing outside of Europe who personally take part in a Supervisory Board or committee meeting are entitled to a fixed expense allowance of € 2,000 (plus any sales tax due) for additional travel time in addition to attendance fees and reimbursed expenses.

Supervisory Board members are also reimbursed for travel expenses and value-added taxes (VAT) on their compensation.

In the 2017 financial year, Supervisory Board members received a total of € 523,015 (2016: € 529,680) excluding the reimbursement of travel expenses. This amount consists of fixed compensation and attendance fees for participating in Supervisory Board and committee meetings.

No loans were granted to Supervisory Board members by the Company.

The table below details the Supervisory Board's remuneration.

TABLE 16
Compensation of the Supervisory Board in 2017 and 2016

	Fixed Compensation		Attendance Fees[1]		Total Compensation	
in €	2017	2016	2017	2016	2017	2016
Dr. Gerald Möller	95,156	91,400	36,800	43,400	131,956	134,800
Dr. Frank Morich	57,240	57,240	23,200	26,800	80,440	84,040
Dr. Marc Cluzel	52,160	52,160	26,800	34,600	78,960	86,760
Krisja Vermeylen[2]	28,961	-	16,000	-	44,961	-
Wendy Johnson	46,160	46,160	38,000	33,800	84,160	79,960
Klaus Kühn	46,160	46,160	22,000	21,400	68,160	67,560
Karin Eastham[3]	19,578	52,160	14,800	24,400	34,378	76,560
TOTAL	**345,415**	**345,280**	**177,600**	**184,400**	**523,015**	**529,680**

[1] The attendance fee contains expense allowances for the attendance at the Supervisory Board and the Committee meetings.
[2] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.
[3] Karin Eastham has left the Supervisory Board of MorphoSys AG on May 17, 2017.

HOLDINGS OF MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

The members of the Management Board and the Supervisory Board hold more than 1 % of the shares issued by the Company. All shares, performance shares, stock options and convertible bonds held by each member of the Management Board and the Supervisory Board are listed below.

TABLE 17
Directors' Holdings

SHARES

	01/01/2017	Additions	Sales	12/31/2017
MANAGEMENT BOARD				
Dr. Simon Moroney	514,214	12,024	42,529	483,709
Jens Holstein	7,000	38,235	34,235	11,000
Dr. Malte Peters[1]	-	9,505	0	9,505
Dr. Markus Enzelberger[2]	-	4,956	2,600	7,262
Dr. Arndt Schottelius[3]	10,397	68,772	0	-
Dr. Marlies Sproll[4]	57,512	68,772	0	-
TOTAL	**589,123**	**202,264**	**79,364**	**511,476**
SUPERVISORY BOARD				
Dr. Gerald Möller	11,000	0	0	11,000
Dr. Frank Morich	1,000	0	0	1,000
Dr. Marc Cluzel	500	0	0	500
Krisja Vermeylen[5]	-	350	0	350
Wendy Johnson	500	0	0	500
Klaus Kühn	0	0	0	0
Karin Eastham[6]	2,000	0	0	-
TOTAL	**15,000**	**350**	**0**	**13,350**

STOCK OPTIONS

	01/01/2017	Additions	Forfeitures	Exercises	12/31/2017
MANAGEMENT BOARD					
Dr. Simon Moroney	0	12,511	0	0	12,511
Jens Holstein	0	8,197	0	0	8,197
Dr. Malte Peters[1]	-	8,197	0	0	8,197
Dr. Markus Enzelberger[2]	-	5,266	0	0	5,266
Dr. Marlies Sproll[4]	0	6,148	0	0	-
TOTAL	**0**	**40,319**	**0**	**0**	**34,171**

CONVERTIBLE BONDS

	01/01/2017	Additions	Forfeitures	Exercises	12/31/2017
MANAGEMENT BOARD					
Dr. Simon Moroney	88,386	0	0	0	88,386
Jens Holstein	90,537	0	0	30,000	60,537
Dr. Malte Peters[1]	-	0	0	0	0
Dr. Markus Enzelberger[2]	-	0	0	0	0
Dr. Arndt Schottelius[3]	60,537	0	0	60,537	-
Dr. Marlies Sproll[4]	60,537	0	0	60,537	-
TOTAL	**299,997**	**0**	**0**	**151,074**	**148,923**

PERFORMANCE SHARES

	01/01/2017	Additions	Forfeitures	Allocations	12/31/2017
MANAGEMENT BOARD					
Dr. Simon Moroney	37,220	4,864	0	12,024	30,060
Jens Holstein	25,134	3,187	0	8,235	20,086
Dr. Malte Peters[1]	-	3,187	0	0	3,187
Dr. Markus Enzelberger[2]	-	2,047	0	0	5,987
Dr. Arndt Schottelius[3]	25,134	0	0	8,235	-
Dr. Marlies Sproll[4]	25,134	2,390	0	8,235	-
TOTAL	**112,622**	**15,675**	**0**	**36,729**	**59,320**

[1] Dr. Malte Peters joined the Management Board of MorphoSys AG on March 1, 2017.
[2] Dr. Markus Enzelberger joined the Management Board of MorphoSys AG on November 1, 2017. Prior to his appointment as member of the Management Board 4,906 shares have been held by Dr. Markus Enzelberger. Under the Long-Term Incentive Programs 2014 to 2016, Dr. Markus Enzelberger was granted 3,940 performance shares as a member of the Senior Management prior to his appointment as member of the Management Board.
[3] Dr. Arndt Schottelius left the Management Board of MorphoSys AG on February 28, 2017. The exercises and allocations presented in the tables "Convertible Bonds" and "Performance Shares" were made after resignation from the Management Board. The respective convertible bonds and performance shares were granted in previous years. The table "Shares" shows no further changes in the number of shares after resignation from the Management Board of MorphoSys AG.
[4] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. The exercises presented in the table "Convertible Bonds" were made after resignation from the Management Board. The respective convertible bonds were granted in a previous year. The table "Shares" shows no further changes in the number of shares after resignation from the Management Board of MorphoSys.
[5] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.
[6] Karin Eastham left the Supervisory Board of MorphoSys AG on May 17, 2017. Changes in the number of shares after resignation from the Supervisory Board of MorphoSys AG are not presented in the tables.

The members of the MorphoSys Supervisory Board do not hold stock options, convertible bonds or performance shares.

MANAGERS TRANSACTIONS

In accordance with the relevant legal provisions of Article 19 (1a) of the Market Abuse Regulation (MAR), the members of MorphoSys AG's Management Board and Supervisory Board and persons related to such members are required to disclose any trading in MorphoSys shares.

During the reporting year, MorphoSys received the following notifications under Article 19 (1a) MAR listed in the table below.

TABLE 18
Managers' Transactions in 2017

Party Subject to the Notification Requirement	Function	Date of Transaction in 2017	Type of Transaction	Aggregated Share Price	Aggregated Volume	Place of Transaction
Dr. Markus Enzelberger	Chief Scientific Officer	11/21/2017	Disposal	€ 81.62	€ 212,201.49	Xetra
Dr. Markus Enzelberger	Chief Scientific Officer	11/20/2017	Purchase of 4,956 shares as part of his remuneration as member of the Managing Board (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Simon Moroney	Chief Executive Officer	09/29/2017	Disposal	€ 71.75	€ 1,361,556.78	outside a trading venue
Dr. Simon Moroney	Chief Executive Officer	09/28/2017	Disposal	€ 71.86	€ 1,692,519.75	outside a trading venue
Krisja Vermeylen	Member of the Supervisory Board	06/26/2017	Purchase; the stock portfolio is held jointly with a person closely associated with Ms Vermeylen	€ 64.57	€ 22,599.75	Xetra
Jens Holstein	Chief Financial Officer	05/17/2017	Acceptance of 8,197 stock options to subscribe for up to 2 shares each within the compensation as a Management Board Member (Stock-Option-Program 2017)	not numberable	not numberable	outside a trading venue
Dr. Markus Enzelberger	Chief Scientific Officer (Interim)	05/17/2017	Acceptance of 5,266 stock options to subscribe for up to 2 shares each within the compensation as a Management Board Member (Stock-Option-Program 2017)	not numberable	not numberable	outside a trading venue
Dr. Malte Peters	Chief Development Officer	05/17/2017	Acceptance of 8,197 stock options to subscribe for up to 2 shares each within the compensation as a Management Board Member (Stock-Option-Program 2017)	not numberable	not numberable	outside a trading venue
Dr. Marlies Sproll	Chief Scientific Officer	05/17/2017	Acceptance of 6,148 stock options to subscribe for up to 2 shares each within the compensation as a Management Board Member (Stock-Option-Program 2017)	not numberable	not numberable	outside a trading venue
Dr. Simon Moroney	Chief Executive Officer	05/17/2017	Acceptance of 12,511 stock options to subscribe for up to 2 shares each within the compensation as a Management Board Member (Stock-Option-Program 2017)	not numberable	not numberable	outside a trading venue
Jens Holstein	Chief Financial Officer	04/05/2017	Purchase of shares based on conversion of convertible bonds as part of his remuneration as member of the Managing Board (Convertible Bonds Program 2013)	€ 31.88	€ 956,250.00	outside a trading venue
Jens Holstein	Chief Financial Officer	04/05/2017	Disposal	€ 54.42	€ 714,711.86	Xetra
Jens Holstein	Chief Financial Officer	04/05/2017	Disposal	€ 54.30	€ 1,145,753.65	outside a trading venue
Jens Holstein	Chief Financial Officer	04/03/2017	Allocation of 8,235 shares as part his remuneration as member of the Managing Board (Long-Term Incentive Program 2013) (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Simon Moroney	Chief Executive Officer	04/03/2017	Allocation of 12,024 shares as part of his remuneration as member of the Managing Board (Long-Term Incentive Program 2013) (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Marlies Sproll	Chief Scientific Officer	04/03/2017	Allocation of 8,235 shares as part of her remuneration as member of the Managing Board (Long-Term Incentive Program 2013) (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Malte Peters	Chief Development Officer	03/27/2017	Purchase of 9,505 shares as part of his reumuneration as member of the Managing Board (issuer's own shares)	not numberable	not numberable	outside a trading venue

AVOIDING CONFLICTS OF INTEREST

Management Board and Supervisory Board members are required to refrain from any actions that could lead to a conflict of interest with their duties at MorphoSys AG. Such transactions or the secondary employment of Management Board members must be disclosed immediately to the Supervisory Board and are subject to the Board's approval. The Supervisory Board, in turn, must inform the Annual General Meeting of any conflicts of interest and their handling. In the 2017 financial year, no conflicts of interest arose in the Supervisory Board.

STOCK REPURCHASES

By resolution of the Annual General Meeting on May 23, 2014, MorphoSys is authorized in accordance with Section 71 (1) no. 8 AktG to repurchase its own shares in an amount of up to 10% of the existing common stock. This authorization can be exercised in whole or in part, once or several times by the Company or a third party on the Company's behalf for the purposes specified in the authorizing resolution. It is at the Management Board's discretion to decide whether to carry out a repurchase on a stock exchange, via a public offer or through a public invitation to submit a bid.

In 2017, MorphoSys did not repurchase any shares based on the authorization from the year 2014.

INFORMATION TECHNOLOGY

In the reporting year 2017, IT security and compliance continued to be key topics in the area of information technology. External security experts checked the network and the entire IT infrastructure in the new office building. This happened, inter alia, using simulated hacking attacks to detect potential vulnerabilities.

Any safety-relevant system notifications or user notifications that occurred were analyzed by the internal CERT (Computer Emergency Response Team). In some cases, external IT security experts were consulted for further analysis. As in the previous year, no serious security incidents had occurred.

Due to the move to the new office building, the business continuity plan and the IT contingency plans have been revised. Additional emergency measures were introduced in the form of a Cyber Security Incident Response Plan to counteract the ever-increasing risk of cyber attacks. The IT Security Awareness Campaign (ISAC) simulated an extensive phishing attack to sensitize employees for their co-responsibility and essential contribution to IT security in the enterprise. To optimize the cyber defense measures, an artificial intelligence-based Next-Generation Endpoint Protection has been integrated.

In addition, an initiative on artificial intelligence and machine learning was launched to evaluate the potential applications of these technologies in research and development.

INFORMATION ON THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE ACCOUNTING PROCESS UNDER SECTION 289 (4) AND SECTION 315 (4) HGB

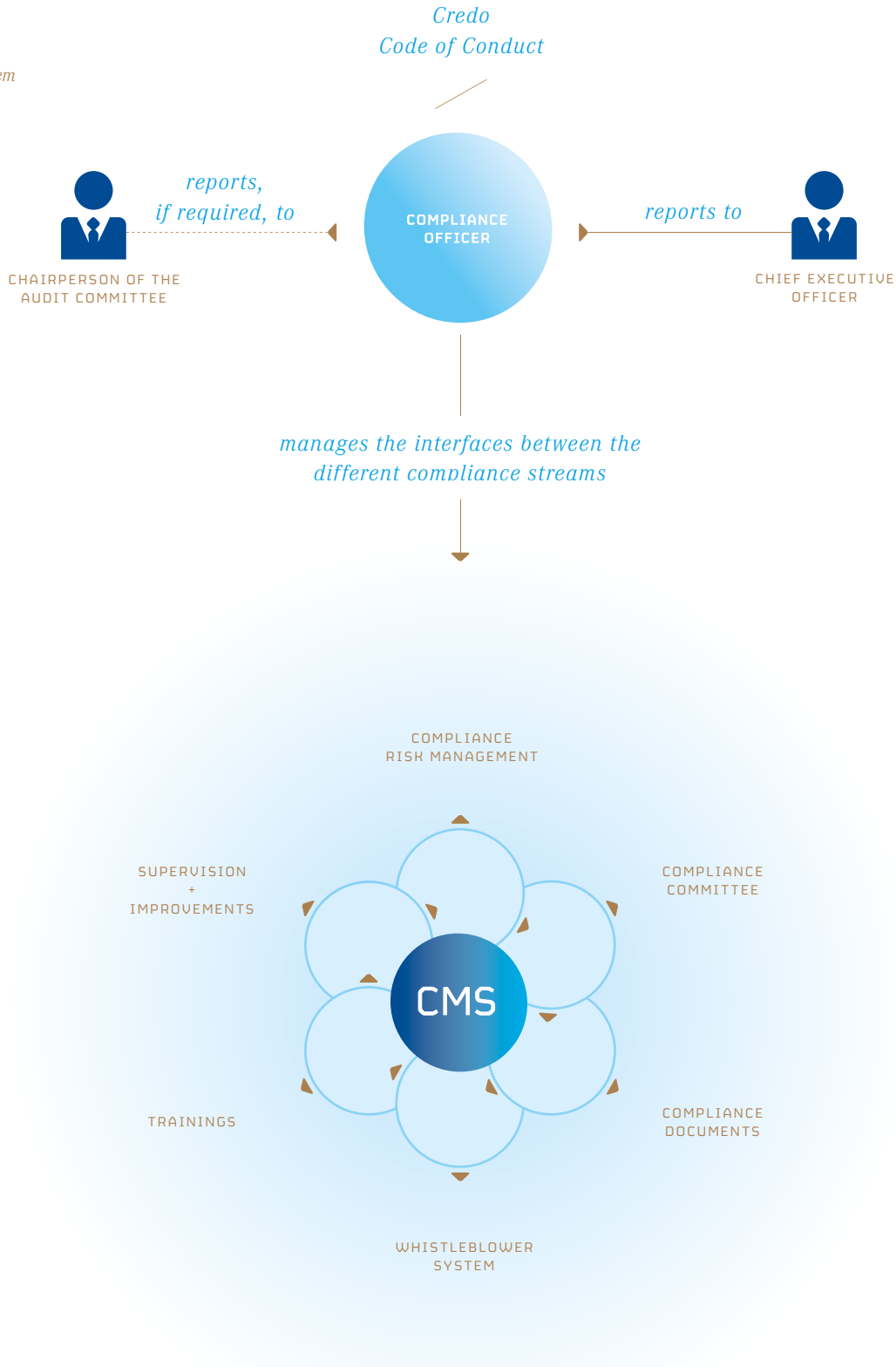
In the 2017 financial year, MorphoSys completed a routine update of the documentation for its existing internal control and risk management system. This update serves to maintain adequate internal control over financial reporting and to ensure the availability of key controls so that financial figures can be reported as precisely and accurately as possible. COSO (Committee of Sponsoring Organizations of the Treadway Commission) defines the corresponding COSO framework ("Internal Control – Integrated Framework"). This is the framework used by MorphoSys and is the most commonly used for the internal control of financial reporting.

System constraints make it impossible to give absolute assurance that internal controls will always prevent or completely detect all misrepresentations made in the context of financial reporting. Internal controls can only provide reasonable assurance that financial reporting is reliable and verify that the financial statements were prepared in accordance with the IFRS standards adopted by the European Union for external purposes.

The consolidated financial statements are subjected to numerous preparation, review and control processes so that they can be reported promptly to the market and to shareholders. To accomplish this, the Company's executives have a coordinated plan for which all internal and external resources are made available. MorphoSys also uses a strict four-eyes principle to ensure the accuracy of the key financial ratios reported and the underlying execution of all accounting processes. Numerous rules and guidelines are also followed to ensure the strict separation of the planning, posting and execution of financial transactions. This functional separation of processes is ensured by all of the Company's operating IT systems through an appropriate assignment of rights. External service providers routinely review the implementation of and compliance with these guidelines as well as the efficiency of the accounting processes. The reporting year's most recent review showed no cause for action.

18

Compliance Management System (CMS)



Predicting future events is not the job of MorphoSys's internal control and risk management system. The Company's risk management system does, however, ensure that business risks are detected and assessed early. The risks identified are eliminated or at least brought to an acceptable level using appropriate corrective measures. Special attention is given to risks that could jeopardize the Company.

The Management Board ensures that risks are always dealt with responsibly and keeps the Supervisory Board informed of any risks and their development. Detailed information on the risks and opportunities encountered by MorphoSys can be found in the "Risk and Opportunity Report".

ACCOUNTING AND EXTERNAL AUDIT

MorphoSys AG prepares its financial statements in accordance with the provisions of the German Commercial Code (HGB) and the Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union.

For the election of the Company auditor, the Audit Committee of the Supervisory Board submits a nomination proposal to the Supervisory Board. At the 2017 Annual General Meeting, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2017 financial year. As proof of its independence, the auditor submitted an Independence Declaration to the Supervisory Board. The lead auditor of these consolidated financial statements was Mr. Dietmar Eglauer, who has audited the consolidated financial statements since 2014. PricewaterhouseCoopers GmbH has been the auditor for MorphoSys AG since the 2011 financial year. Information on other consulting, audit and valuation services provided by PricewaterhouseCoopers GmbH to MorphoSys AG during the 2017 financial year can be found in the Notes under Item 6.1.

COMPLIANCE MANAGEMENT SYSTEM

The basic mechanisms of the compliance management system (CMS) at MorphoSys are presented in the section "Relevant Information on Corporate Governance Practices". In addition to this information, the responsibilities within the compliance organization are shown in Figure 18.

The identification and assessment of compliance risks are an important part of the CMS. The main compliance-relevant risk areas for the Company are evaluated using a systematic approach and take into account the Company's strategic orientation. In the 2017 financial year, a compliance risk analysis was carried out that was focused on corruption prevention. Risk-minimizing measures were initiated for the areas identified that required action.

›› SEE FIGURE 18 – *Compliance-Management-System (CMS) (page 96)*

INTERNAL AUDIT DEPARTMENT

As an element of corporate governance, the Internal Audit Department plays a key role in the Company's compliance management system. The department's main duty is to provide the MorphoSys Group with a systematic and uniform approach for evaluating and improving the effectiveness of risk management and supporting the management and monitoring activities when meeting set targets. The accounting and consulting firm KPMG was reappointed in 2017 as a co-sourcing partner for the internal auditing process.

Internal auditing is based on a risk-oriented internal audit plan that is based on the results of the most recent risk surveys and the results of prior audits. The Management Board's and Supervisory Board Audit Committee's audit requirements and recommendations are included in the audit plan.

The Internal Audit Department reports regularly to the Management Board. The head of Internal Audit and the Chief Executive Officer both report to the Supervisory Board's Audit Committee twice annually or on an ad hoc basis when necessary.

Five audits were conducted successfully in the course of 2017. Some areas requiring action were identified and corrections were initiated or performed. Appropriate corrective action was initiated during the reporting year for any complaints. The Internal Audit Department is planning six audits in 2018.

Disclosures Under Section 289a (1), Section 315a (1) HGB and Explanatory Report of the Management Board Under Section 176 (1) Sentence 1 AktG

COMPOSITION OF COMMON STOCK

As of December 31, 2017, the Company's statutory common stock amounted to € 29,159,770.00 and was divided into 29,159,770 no-par-value bearer shares. Excluding the 319,678 treasury shares held by the Company, the statutory common stock concerns bearer shares with voting rights granting each share one vote at the Annual General Meeting.

At its meeting on December 13, 2017, the Supervisory Board of MorphoSys AG resolved to amend the amount of common stock after the issuance of new shares resulting from the exercise of convertible bonds in 2017. The amendment of the Company's common stock took effect upon its entry in the commercial register on January 4, 2018 and amounts to € 29,420,785.00, divided into 29,420,785 no-par-value bearer shares.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions that may affect voting rights, the transfer of shares or those that may emerge from agreements between shareholders.

Voting right restrictions may also arise from the provisions of the German Stock Corporation Act (AktG), such as those under Section 136 AktG, or the provisions for treasury stock under Section 71b AktG.

SHAREHOLDINGS IN COMMON STOCK EXCEEDING 10 % OF VOTING RIGHTS

We are not aware of nor have we been notified of any direct or indirect interests in the Company's common stock that exceed 10 % of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

Shares with special rights conferring powers of control do not exist.

CONTROL OVER VOTING RIGHTS WITH REGARD TO EMPLOYEE OWNERSHIP OF CAPITAL

Employees who hold shares in the Company exercise their voting rights directly in accordance with the statutory provisions and the Articles of Association as do other shareholders.

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

The number of Management Board members, their appointment and dismissal and the nomination of the Chief Executive Officer are determined by the Supervisory Board in accordance with Section 6 of the Articles of Association and Section 84 AktG. The Company's Management Board currently consists of the Chief Executive Officer and three other members. Management Board members may be appointed for a maximum term of five years. Reappointments or extensions in the term of office are allowed for a maximum term of five years in each case. The Supervisory Board may revoke the appointment of a Management Board member or the nomination of a Chief Executive Officer for good cause within the meaning of Section 84 (3) AktG. If a required member of the Management Board is absent, one will be appointed by the court in cases of urgency under Section 85 AktG.

As a rule, the Articles of Association can only be amended by a resolution of the Annual General Meeting in accordance with Section 179 (1) sentence 1 AktG. Under Section 179 (2) sentence 2 AktG in conjunction with Section 20 of the Articles of Association, the MorphoSys AG Annual General Meeting resolves amendments to the Articles of Association generally through a simple majority of the votes cast and a simple majority of the common stock represented. If the law stipulates a higher mandatory majority of votes or capital, this shall be applied. Amendments to the Articles of Association that only affect their wording can be resolved by the Supervisory Board in accordance with Section 179 (1) sentence 2 AktG in conjunction with Section 12 (3) of the Articles of Association.

POWER OF THE MANAGEMENT BOARD TO ISSUE SHARES

The Management Board's power to issue shares is granted under Section 5 (5) through (6e) of the Company's Articles of Association and the statutory provisions:

1. Authorized Capital
   a. According to Section 5 (5) of the Articles of Association, with the Supervisory Board's consent, the Management Board is authorized to increase the Company's common stock on one or more occasions by up to € 11,663,908.00 for cash contributions and/or contributions in kind by issuing up to 11,663,908 new, no-par-value bearer shares until and including the date of April 30, 2022 (Authorized Capital 2017-II).

Shareholders are principally entitled to subscription rights in the case of a capital increase. One or more credit institutions may also subscribe to the shares with the obligation to offer the shares to shareholders for subscription. With the Supervisory Board's consent, the Management Board is, however, authorized to exclude shareholder subscription rights:

aa) in the case of a capital increase for cash contribution, to the extent necessary to avoid fractional shares; or

bb) in the case of a capital increase for contribution in kind; or

cc) in the case of a capital increase for cash contribution when the new shares are placed on a domestic and/or foreign stock exchange in the context of a public offering.

The total shares to be issued via a capital increase against contribution in cash and/or in kind, excluding preemptive rights and based on the authorizations mentioned above, shall not exceed 20 % of the common stock. The calculation used is based on either the effective date of the authorizations or the exercise of the authorizations, whichever amount is lower. The 20 % limit mentioned above shall take into account (i) treasury shares sold excluding preemptive rights after the effective date of these authorizations (unless they service the entitlements of members of the Management Board and/or employees under employee participation programs), (ii) shares that are issued from other authorized capital existing on the effective date of these authorizations and excluding preemptive rights during the effective period of these authorizations or resolved by the same Annual General Meeting that resolved these authorizations, and (iii) shares to be issued during the effective period of these authorizations to service convertible bonds and/or bonds with warrants whose basis for authorization exists on the effective date of these authorizations provided that the convertible bonds and/or bonds with warrants have been issued with the exclusion of the preemptive rights of shareholders (unless they service the entitlements of members of the Management Board and/or employees under employee participation programs).

With the Supervisory Board's consent, the Management Board is authorized to determine the further details of the capital increase and its implementation.

b) Pursuant to Section 5 (6) of the Articles of Association, with the Supervisory Board's consent, the Management Board is authorized to increase the common stock of the Company against contribution in cash once or several times by a total of up to € 2,915,977.00 until and including April 30, 2022 by issuing up to 2,915,977 new no-par-value bearer shares (Authorized Capital 2017-I).

Shareholders are principally entitled to subscription rights in the case of a capital increase. One or more credit institutions may also subscribe to the shares with the obligation to offer the shares to shareholders for subscription. With the Supervisory Board's consent, the Management Board is, however, authorized to exclude shareholder subscription rights:

aa) to the extent necessary to avoid fractional shares; or

bb) if the issue price of the new shares is not significantly below the market price of shares of the same class already listed and the total number of shares issued against contribution in cash, excluding subscription rights, during the term of this authorization does not exceed 10 % of the common stock on the date this authorization takes effect or at the time it is exercised, in accordance with or in the respective application of Section 186 (3) sentence 4 AktG.

The total number of shares to be issued via capital increases against contribution in cash, excluding subscription rights and based on the authorizations mentioned above, shall not exceed 20 % of the common stock when calculated based on the authorizations' effective date or exercise, whichever amount is lower. This 20 % limit shall take into account (i) treasury shares sold with the exclusion of subscription rights after the effective date of these authorizations (unless they service the entitlements of members of the Management Board and/or employees under employee participation programs); (ii) shares to be issued with the exclusion of subscription rights during the effective period of these authorizations from other authorized capital existing on the effective date of these authorizations or to be resolved by the same Annual General Meeting resolving these authorizations; and (iii) shares to be issued during the effective period of these

authorizations to service bonds with conversion or warrant rights, whose authorization basis exists on the effective date of these authorizations, to the extent the bonds with conversion or warrant rights were issued with the exclusion of shareholders' subscription rights (unless they service the entitlements of members of the Management Board and/or employees under employee participation programs).

With the Supervisory Board's consent, the Management Board is authorized to determine the further details of the capital increase and its implementation.

2. Conditional Capital
   a. According to Section 5 (6b) of the Articles of Association, the Company's common stock is conditionally increased by up to € 5,307,536.00, divided into a maximum of 5,307,536 no-par-value bearer shares (Conditional Capital 2016-I). The conditional capital increase serves solely as a means to grant new shares to the holders of conversion or warrant rights, which will be issued by the company or companies in which the Company has a direct or indirect majority interest according to the authorizing resolution of the Annual General Meeting on June 2, 2016, under Agenda Item 7 letter a). The shares will be issued at the respective conversion or exercise price to be determined in accordance with the resolution above. The conditional capital increase will only be carried out to the extent that the holders of conversion or warrant rights exercise these rights or fulfill conversion obligations under such bonds. The shares will be entitled to dividends as of the beginning of the previous financial year, provided they were issued before the start of the Company's Annual General Meeting, or as of the beginning of the financial year in which they were issued.
   b. According to Section 5 (6e) of the Articles of Association, the Company's common stock is conditionally increased by up to € 450,000.00 through the issue of up to 450,000 new no-par- value bearer shares of the Company (Conditional Capital 2008-III). The conditional capital increase will only be executed to the extent that holders of the convertible bonds exercise their conversion rights for conversion into ordinary shares of the Company. The new shares participate in the Company's profits from the beginning of the financial year, for which there has been no resolution on the appropriation of accumulated income at the time of issuance. With the Supervisory Board's consent, the Management Board is authorized to determine the further details of the capital increase and its implementation.
   At its meeting on December 13, 2017, the Supervisory Board of MorphoSys AG resolved to amend the amount of Conditional Capital 2008-III after the issuance of new shares resulting from the exercise of convertible bonds in 2017. The amendment of the Company's Conditional Capital 2008-III took effect upon its entry in the commercial register on January 4, 2018 and amounts to € 188,985, divided into 188,985 no-par-value bearer shares.
   c. According to Section 5 (6g) of the Articles of Association, the Company's common stock is conditionally increased by up to € 995,162.00 through the issue of up to 995,162 new no-par- value bearer shares of the Company (Conditional Capital 2016-III). The conditional capital serves to meet the obligations of subscription rights that have been issued and exercised based on the authorization resolved by the Annual General Meeting of June 2, 2016 under Agenda Item 9 letter a). The conditional capital increase will only be executed to the extent that holders of subscription rights exercise their right to subscribe to shares of the Company. The shares will be issued at the exercise price set in each case as the issue amount in accordance with Agenda Item 9 letter a) subparagraph (8) of the Annual General Meeting's resolution dated June 2, 2016; Section 9 (1) AktG remains unaffected. The new shares are entitled to dividends for the first time for the financial year for which there has been no resolution by the Annual General Meeting on the appropriation of accumulated income. The Management Board, and the Company's Supervisory Board where members of the Management Board are concerned, is authorized to determine the additional details of the conditional capital increase and its execution.

POWER OF MANAGEMENT BOARD TO REPURCHASE SHARES

The Management Board's power to repurchase the Company's own shares is granted in Section 71 AktG and by the authorization of the Annual General Meeting of May 23, 2014:

Until and including the date of April 30, 2019, the Company is authorized to repurchase its own shares in an amount of up to 10% of the common stock existing at the time of the resolution (or possibly a lower amount of common stock at the time of exercising this authorization) for any purpose permitted under the statutory limits. The repurchase takes place at the Management Board's discretion on either the stock exchange, through a public offer or public invitation to submit a bid. The authorization may not be used for the purpose of trading in the Company's own shares. The intended use of treasury stock acquired under this authorization may be found under Agenda Item 9 of the Annual General Meeting of May 23, 2014. These shares may be used as follows:

1. The shares may be redeemed without the redemption or its execution requiring a further resolution of the Annual General Meeting.
2. The shares may be sold other than on the stock exchange or shareholder offer if the shares are sold for cash at a price that is not significantly below the market price of the Company's shares of the same class at the time of the sale.

3. The shares may be sold for contribution in kind, particularly in conjunction with company mergers, acquisitions of companies, parts of companies or interests in companies.
4. The shares may be used to fulfill subscription or conversion rights resulting from the exercise of options and/or conversion rights or conversion obligations for Company shares.
5. The shares may be offered or transferred to employees of the Company and those of affiliated companies, members of the Company's management and those of affiliated companies and/or used to meet commitments or obligations to purchase Company shares that were or will be granted to employees of the Company or those of affiliated companies, members of the Company's management or managers of affiliated companies. The shares may also be used to fulfill obligations or rights to purchase Company shares that will be agreed with the Company's employees, members of the senior management and affiliates in the context of employee participation programs.

If shares are used for the purposes mentioned above, shareholder subscription rights are excluded, with the exception of share redemptions.

MATERIAL AGREEMENTS MADE BY THE COMPANY THAT FALL UNDER THE CONDITION OF A CHANGE OF CONTROL AFTER A TAKEOVER BID

In 2012, MorphoSys and Novartis Pharma AG extended their original cooperation agreement, which ended at the end of November 2017. During the term of this agreement, in specific cases of a change of control, Novartis Pharma AG was entitled but not obliged to take various measures that include the partial or complete termination of the collaboration agreement. Under Section 29 and 30 of the German Securities Acquisition and Takeover Act (WpÜG), a change of control applies when 30 % or more of the Company's voting rights are acquired.

COMPENSATION AGREEMENTS CONCLUDED BY THE COMPANY WITH MANAGEMENT BOARD MEMBERS AND EMPLOYEES IN THE EVENT OF A TAKEOVER BID

Following a change of control, Management Board members may terminate their employment contract and demand the fixed salary still outstanding until the end of the contract period. Moreover, in such a case, all stock options, convertible bonds and performance shares granted will become vested immediately and can be exercised after the expiration of the statutory vesting or blackout periods.

Following a change of control, some Senior Management Group members may also terminate their employment contract and demand a severance payment equal to one annual gross fixed salary. Moreover, in such a case, all stock options, convertible bonds and performance shares granted will become vested immediately and can be exercised after the expiration of the statutory vesting or blackout periods.

The following cases constitute a change of control: (i) MorphoSys transfers all or a material portion of the Company's assets to an unaffiliated entity, (ii) MorphoSys merges with an unaffiliated entity or (iii) a shareholder or third party directly or indirectly holds 30 % or more of MorphoSys's voting rights.

Financial Statements

Consolidated Statement of Income (IFRS)

in €	Note	2017	2016
Revenues	2.7.1, 4.1	66,790,840	49,743,515
Operating Expenses			
Research and Development	2.7.2, 4.2.1	(116,808,575)	(95,723,069)
General and Administrative	2.7.2, 4.2.2	(17,038,720)	(14,116,085)
Total Operating Expenses		(133,847,295)	(109,839,154)
Other Income	2.7.3, 4.3	1,119,598	708,571
Other Expenses	2.7.4, 4.3	(1,670,792)	(553,925)
Earnings before Interest and Taxes (EBIT)	3	(67,607,649)	(59,940,993)
Finance Income	2.7.5, 4.3	712,397	1,385,164
Finance Expenses	2.7.6, 4.3	(1,894,852)	(1,308,322)
Income Tax Expenses	2.7.7, 4.4	(1,036,365)	(518,625)
Consolidated Net Loss		(69,826,469)	(60,382,776)
Earnings per Share, basic and diluted	2.7.8, 4.5	(2.41)	(2.28)
Shares Used in Computing Earnings per Share, basic and diluted	2.7.8, 4.5	28,947,566	26,443,415

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income (IFRS)*

in €	2017	2016
Consolidated Net Loss	(69,826,469)	(60,382,776)
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds (Thereof € 86,685 and € 251,455 for 2017 and 2016, respectively, Reclassifications of realized Gains and Losses to Profit and Loss)	54,170	115,396
Change of Tax Effects presented in Other Comprehensive Income on Available-for-sale Financial Assets and Bonds	63,659	(136,550)
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	117,829	(21,154)
Change in Unrealized Gains and Losses on Cash Flow Hedges (Thereof € 256,085 and € 0 for 2017 and 2016, respectively, Reclassifications of realized Losses to Profit and Loss)	(490,164)	490,164
Change of Tax Effects presented in Other Comprehensive Income on Cash Flow Hedges	130,751	(130,751)
Change in Unrealized Gains and Losses on Cash Flow Hedges, Net of Tax Effects	(359,413)	359,413
Other Comprehensive Income	(241,584)	338,259
Total Comprehensive Income	(70,068,053)	(60,044,517)

* In financial years 2017 and 2016, the statement of comprehensive income only comprised components which will be reclassified in terms of IAS 1.82A(b) to profit and loss in subsequent periods when specific conditions are met.

The notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet (IFRS)

in €	Note	12/31/2017	12/31/2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.8.1, 5.1	76,589,129	73,928,661
Available-for-sale Financial Assets	2.8.1, 5.2	86,538,195	63,361,727
Bonds, Available-for-sale	2.8.1, 5.2	0	6,532,060
Financial Assets classified as Loans and Receivables	2.8.1, 5.2	149,059,254	136,108,749
Accounts Receivable	2.8.2, 5.3	11,234,308	12,596,655
Income Tax Receivables	2.8.2, 5.5	654,511	519,915
Other Receivables	2.8.2, 5.4	84,727	656,887
Inventories, Net	2.8.3, 5.5	300,753	310,366
Prepaid Expenses and Other Current Assets	2.8.4, 5.5	16,219,761	14,041,469
Total Current Assets		340,680,638	308,056,489
Non-current Assets			
Property, Plant and Equipment, Net	2.8.5, 5.6	3,526,351	4,189,108
Patents, Net	2.8.6, 5.7.1	4,669,128	5,323,341
Licenses, Net	2.8.6, 5.7.2	2,999,074	3,146,937
In-process R&D Programs	2.8.6, 5.7.3	52,158,527	50,818,700
Software, Net	2.8.6, 5.7.4	655,399	1,285,474
Goodwill	2.8.6, 5.7.5	7,364,802	7,364,802
Financial Assets classified as Loans and Receivables, Net of Current Portion	2.8.1, 5.2	0	79,521,181
Prepaid Expenses and Other Assets, Net of Current Portion	2.8.7, 5.8	3,344,292	3,894,085
Total Non-current Assets		74,717,573	155,543,628
TOTAL ASSETS		**415,398,211**	**463,600,117**

The notes are an integral part of these consolidated financial statements.

in €	Note	12/31/2017	12/31/2016
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	2.9.1, 6.1	44,811,718	32,222,616
Tax Provisions	2.9.2, 6.2	314,944	1,652,006
Provisions	2.9.1, 6.2	1,185,741	3,195,252
Current Portion of Deferred Revenue	2.9.3, 6.3	1,388,638	1,232,072
Total Current Liabilities		47,701,041	38,301,946
Non-current Liabilities			
Provisions, Net of Current Portion	2.9.1, 6.2	23,166	23,166
Deferred Revenue, Net of Current Portion	2.9.4, 6.3	306,385	1,672,872
Convertible Bonds due to Related Parties	2.9.5	87,785	218,293
Deferred Tax Liability	2.9.6, 4.4	7,811,258	7,421,835
Other Liabilities, Net of Current Portion	2.9.7, 6.4	797,537	501,840
Total Non-current Liabilities		9,026,131	9,838,006
Total Liabilities		56,727,172	48,139,952
Stockholders' Equity			
Common Stock	2.9.8, 6.5.1	29,420,785	29,159,770
Ordinary Shares Issued (29,420,785 and 29,159,770 for 2017 and 2016, respectively)			
Ordinary Shares Outstanding (29,101,107 and 28,763,760 for 2017 and 2016, respectively)			
Treasury Stock (319,678 and 396,010 shares for 2017 and 2016, respectively), at Cost	2.9.8, 6.5.4	(11,826,981)	(14,648,212)
Additional Paid-in Capital	2.9.8, 6.5.5	438,557,856	428,361,175
Revaluation Reserve	2.9.8, 6.5.6	(105,483)	136,101
Accumulated Deficit	2.9.8, 6.5.7	(97,375,138)	(27,548,669)
Total Stockholders' Equity		358,671,039	415,460,165
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		415,398,211	463,600,117

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

		Common Stock	
	Note	Shares	€
BALANCE AS OF JANUARY 1, 2016		**26,537,682**	**26,537,682**
Capital Increase, Net of Issuance Cost of € 2,778,652		2,622,088	2,622,088
Compensation Related to the Grant of Convertible Bonds and Performance Shares		0	0
Repurchase of Treasury Stock, Net of Bank Fees	6.5.4	0	0
Transfer of Treasury Stock for Long-Term Incentive Program		0	0
Reserves:			
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects		0	0
Change in Unrealized Gains on Cash Flow Hedges, Net of Tax Effects		0	0
Consolidated Net Loss		0	0
Total Comprehensive Income		0	0
BALANCE AS OF DECEMBER 31, 2016		**29,159,770**	**29,159,770**
BALANCE AS OF JANUARY 1, 2017		**29,159,770**	**29,159,770**
Compensation Related to the Grant of Stock Options, Convertible Bonds and Performance Shares	7.1, 7.2, 7.3	0	0
Exercise of Convertible Bonds Issued to Related Parties	7.2, 7.4	261,015	261,015
Transfer of Treasury Stock for Long-Term Incentive Program	7.3.1, 7.4	0	0
Transfer of Treasury Stock to Members of the Management Board	6.5.1, 7.4	0	0
Reserves:			
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	6.5.6	0	0
Change in Unrealized Gains and Losses on Cash Flow Hedges, Net of Tax Effects	6.5.6	0	0
Consolidated Net Loss	6.5.7	0	0
Total Comprehensive Income		0	0
BALANCE AS OF DECEMBER 31, 2017		**29,420,785**	**29,420,785**

The notes are an integral part of these consolidated financial statements.

	Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Accumulated Income/(Deficit)	Total Stock-holders' Equity
	Shares	€	€	€	€	€
	434,670	**(15,827,946)**	**319,394,322**	**(202,158)**	**32,834,107**	**362,736,007**
	0	0	109,971,132	0	0	112,593,220
	0	0	2,357,418	0	0	2,357,418
	52,295	(2,181,963)	0	0	0	(2,181,963)
	(90,955)	3,361,697	(3,361,697)	0	0	0
	0	0	0	(21,154)	0	(21,154)
	0	0	0	359,413	0	359,413
	0	0	0	0	(60,382,776)	(60,382,776)
	0	**0**	**0**	**338,259**	**(60,382,776)**	**(60,044,517)**
	396,010	**(14,648,212)**	**428,361,175**	**136,101**	**(27,548,669)**	**415,460,165**
	396,010	**(14,648,212)**	**428,361,175**	**136,101**	**(27,548,669)**	**415,460,165**
	0	0	4,974,599	0	0	4,974,599
	0	0	8,043,313	0	0	8,304,328
	(61,871)	2,286,752	(2,286,752)	0	0	0
	(14,461)	534,479	(534,479)	0	0	0
	0	0	0	117,829	0	117,829
	0	0	0	(359,413)	0	(359,413)
	0	0	0	0	(69,826,469)	(69,826,469)
	0	**0**	**0**	**(241,584)**	**(69,826,469)**	**(70,068,053)**
	319,678	**(11,826,981)**	**438,557,856**	**(105,483)**	**(97,375,138)**	**358,671,039**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2017	2016
OPERATING ACTIVITIES:			
Consolidated Net Loss		(69,826,469)	(60,382,776)
Adjustments to Reconcile Net Loss to Net Cash Provided by/(Used in) Operating Activities:			
Impairment of Assets	5.6, 5.7	9,863,582	10,141,187
Depreciation and Amortization of Tangible and Intangible Assets	5.6, 5.7	4,028,948	3,763,813
Net (Gain)/Loss on Sales of Available-for-sale Financial Assets	5.2	84,841	915,201
Proceeds from Derivative Financial Instruments	5.4	(589,134)	725,157
Net (Gain)/Loss on Derivative Financial Instruments	5.4	919,042	(29,879)
Net (Gain)/Loss on Sale of Property, Plant and Equipment		11,314	(4,037)
Recognition of Deferred Revenue	6.3	(19,595,746)	(19,042,772)
Stock-based Compensation	4.2.3, 7	4,974,599	2,357,418
Income Tax Expenses	4.4	1,036,365	518,625
Changes in Operating Assets and Liabilities:			
Accounts Receivable	5.3	1,362,347	(1,154,597)
Prepaid Expenses and Other Assets, Tax Receivables and Other Receivables	5.4, 5.5	1,807,670	(13,912,263)
Accounts Payable and Accrued Expenses, Tax Provisions and Provisions	6.1, 6.2	7,819,386	13,010,160
Other Liabilities	6.1	3,133,558	(421,492)
Deferred Revenue	6.3	18,385,824	17,440,930
Income Taxes Paid		(1,861,982)	(540,383)
Net Cash Provided by/(Used in) Operating Activities		(38,445,855)	(46,615,708)

The notes are an integral part of these consolidated financial statements.

in €	Note	2017	2016
INVESTING ACTIVITIES:			
Purchase of Available-for-sale Financial Assets	5.2	(56,406,580)	(166,923,795)
Proceeds from Sales of Available-for-sale Financial Assets	5.2	33,231,500	167,873,152
Proceeds from Sales of Bonds, Available-for-sale	5.2	6,500,000	25,770,000
Purchase of Financial Assets Classified as Loans and Receivables	5.2	(108,000,000)	(256,499,997)
Proceeds from Sales of Financial Assets Classified as Loans and Receivables	5.2	170,498,593	149,894,769
Purchase of Property, Plant and Equipment	5.6	(1,317,058)	(2,502,286)
Proceeds from Disposals of Property, Plant and Equipment		84	5,000
Purchase of Intangible Assets	5.7	(11,831,789)	(411,204)
Interest Received		257,752	2,008,325
Net Cash Provided by/(Used in) Investing Activities		32,932,502	(80,786,036)
FINANCING ACTIVITIES:			
Repurchase of Treasury Stock, Net of Bank Fees	6.5.4	0	(2,181,963)
Proceeds of Share Issuance	6.5	0	115,371,872
Cost of Share Issuance		(15,525)	(2,778,652)
Proceeds in Connection with Convertible Bonds Granted to Related Parties		8,189,345	0
Outflows in Connection with Convertible Bonds Granted to Related Parties		0	(6,707)
Interest Paid		0	(1,819)
Net Cash Provided by/(Used in) Financing Activities		8,173,820	110,402,731
Increase/(Decrease) in Cash and Cash Equivalents		2,660,467	(16,999,013)
Cash and Cash Equivalents at the Beginning of the Period		73,928,661	90,927,673
Cash and Cash Equivalents at the End of the Period		76,589,129	73,928,661

The notes are an integral part of these consolidated financial statements.

Notes

1 General Information

BUSINESS ACTIVITIES AND THE COMPANY

MorphoSys AG ("the Company" or "MorphoSys") develops and applies technologies for generating therapeutic antibodies. The Company has a broad proprietary portfolio of compounds and a broad pipeline of compounds developed with partners from the pharmaceutical and biotechnology industry. The Group was founded as a German limited liability company in July 1992. In June 1998, MorphoSys became a German stock corporation. In March 1999, the Company completed its initial public offering on Germany's "Neuer Markt": the previous segment of the Deutsche Börse designated for high-growth companies. On January 15, 2003, MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange.

2 Summary of Significant Accounting Policies

2.1 BASIS OF AND CHANGES IN ACCOUNTING STANDARDS

2.1.1 BASIS OF APPLICATION

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), ("IFRS"). The statements take into account the recommendations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), as applicable in the European Union (EU) and also give consideration to the supplementary German commercial law provisions, applicable in accordance with Sec. 315a Para. 1 of the German Commercial Code (HGB).

These consolidated financial statements as of and for the financial years ended December 31, 2017 and 2016, comprise MorphoSys AG and its subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group").

In preparing the consolidated financial statements in accordance with IFRS, the Management Board is required to make certain estimates and assumptions, which have an effect on the amounts recognized in the consolidated financial statements and the accompanying notes. The actual results may differ from these estimates. The estimates and the underlying assumptions are subject to continuous review. Any changes in estimates are recognized in the period in which the changes are made and in all relevant future periods.

The consolidated financial statements were prepared in Euro – the functional currency of all entities in the MorphoSys Group. Statements are prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are recognized at their respective fair value. All figures in this report are rounded to the nearest euro, thousand euros or million euros.

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

2.1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting principles applied generally correspond to the policies used in the prior year.

The following new and revised standards and interpretations were applied for the first time in the financial year.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Impact on MorphoSys
IAS 7 (A)	Disclosure Initiative	01/01/2017	yes	none
IAS 12 (A)	Recognition of Deferred Tax Assets for Unrealised Losses	01/01/2017	yes	yes
	Annual Improvements to IFRS Standards 2014 – 2016 Cycle	01/01/2017	yes	none
(A) Amendments				

The impact on the consolidated financial statements of the Amendments to IAS 12 is not deemed to be material.

The following new and revised standards and interpretations, which were not yet mandatory for the financial year or were not yet adopted by the European Union, were not applied. Standards with the remark "yes" are likely to have an impact on the consolidated financial statements, and their impact is currently being assessed by the Group. Only material impacts will be described in more detail. The impact on the consolidated financial statements of the Amendments to IFRS 2 and IFRIC 22 is not expected to be material and is therefore not individually described. Standards with the remark "none" are not likely to have a material impact on the consolidated financial statements.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Possible Impact on MorphoSys
IFRS 9	Financial Instruments	01/01/2018	yes	yes
IFRS 15 and IFRS 15 (A)	Revenue from Contracts with Customers	01/01/2018	yes	yes
IFRS 16	Leases	01/01/2019	yes	yes
IFRS 17	Insurance Contracts	01/01/2021	no	none
IFRS 2 (A)	Classification and Measurement of Share-based Payment Transactions	01/01/2018	no	yes
IFRS 4 (A)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01/01/2018	yes	none
IFRS 9 (A)	Prepayment Features with Negative Compensation	01/01/2019	no	none
IFRS 15 (C)	Revenue from Contracts with Customers	01/01/2018	yes	yes
IAS 19 (A)	Plan Amendment, Curtailment or Settlement	01/01/2019	no	none
IAS 28 (A)	Long-term Interests in Associates and Joint Ventures	01/01/2019	no	none
IAS 40 (A)	Transfers of Investment Property	01/01/2018	no	none
IFRIC (I) 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	no	yes
IFRIC (I) 23	Uncertainty over Income Tax Treatments	01/01/2019	no	none
	Annual Improvements to IFRS Standards 2014 – 2016 Cycle	01/01/2018	yes	none
	Annual Improvements to IFRS Standards 2015 – 2017 Cycle	01/01/2019	no	none
(A) Amendments				
(C) Clarifications				
(I) Interpretation				

IFRS 9, the new standard governing financial instruments, may lead to changes in the classification and measurement of financial assets and financial liabilities. Upon first-time recognition, financial assets are classified as assets to be measured "at fair value" or "at amortized cost", depending on the business model and the contractually agreed cash flows of the respective financial instruments. Depending on the classification, the subsequent measurement of financial assets is carried out either at amortized cost or at fair value. Changes in the fair value are to be recognized in profit or loss or in other comprehensive income. The requirements for the de-recognition of financial assets and liabilities and the general accounting of financial liabilities have been adopted to a large extent from IAS 39. Changes to the classification result in changes to MorphoSys's financial assets that are classified as "available-for-sale" or "loans and receivables" in accordance with IAS 39. There are no material conversion effects with regard to the measurement of financial assets and financial liabilities. Hitherto, "available-for-sale" financial instruments are measured already at fair value in accordance with IAS 39 and thus no conversion effects will arise.

The provisions in the new standard for the recognition of impairments are based on the expected credit loss model and replace the model of incurred losses applied under IAS 39. Unlike under IAS 39, financial assets are to be divided into different risk classes according to historical and future expected loss probabilities, and a risk provision must be recognized before the occurrence of loss events. Past experience and the Group's expectations regarding the performance of existing assets do only suggest minor future losses. Therefore no additional impairment should be recognized at the time of initial application other than the twelve-month expected credit loss in accordance with IFRS 9. For "Accounts receivable" the simplified impairment model will be applied with recognition of a loss allowance based on lifetime expected credit losses.

IFRS 9 is not expected to have an impact on the recognition of hedging relationships. As of December 31, 2017, there is neither a forward rate agreement that is subject to hedge accounting in accordance with IAS 39 nor any other hedging instrument that will be subject to hedge accounting.

Qualitative and quantitative adjustments to the disclosures in accordance with IFRS 7 are expected due to the implementation of IFRS 9, however, only for the fiscal year 2018.

The new IFRS 15 standard on revenue recognition was reviewed for its potential impact on the revenue recognition of existing contracts and future contracts with partners and/or licensees. IFRS 15 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers and replaces IAS 18 "Revenue". This review revealed that, compared to the regulations currently applied to the existing contractual arrangements, quantitative effects on the consolidated financial statements are to be expected since for some contracts, revenue under IFRS 15 has to be recognized at a point in time rather than over time as under IAS 18. The Group will implement the new standard on January 1, 2018 and will apply the modified retrospective method which requires the recognition of the cumulative effect of applying IFRS 15 as at January 1, 2018 to accumulated deficit, and not restate prior years. Therefore, the Group estimates that deferred revenue will be reduced by € 1.1 million and accumulated deficit will be reduced by € 1.1 million on January 1, 2018, accordingly. Qualitative adjustments of the required disclosures in the Notes under IFRS 15 are expected, however, not before the standard's first-time application as of January 1, 2018.

The Group also reviewed the new IFRS 16 standard governing leases for its potential impact on existing lease contracts. Currently, all leases are accounted for as operating leases pursuant to IAS 17. As of January 1, 2019, right-of-use assets under existing lease contracts will be capitalized and lease liabilities will be recognized. Rental costs currently recognized in the statement of income will be replaced by depreciation on the respective assets and interest expenses, i.e. the related costs will be presented in different line items in the statement of income and may differ in their overall amount compared to the application of IAS 17. From today's perspective, the implementation of IFRS 16 will have material quantitative effects on the consolidated balance sheet due to the rented premises at Semmelweisstraße 7, Planegg. The exact amount of assets and lease liabilities and the transitional provisions to be applied when switching from IAS 17 to IFRS 16 have not yet been determined.

2.2 CONSOLIDATION PRINCIPLES

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated when preparing consolidated financial statements pursuant to IFRS 10.B86. Unrealized losses are eliminated in the same manner as unrealized gains. Accounting policies have been applied consistently for all subsidiaries.

For all contracts and business transactions between group entities, the arm's length principle was applied.

2.2.1 CONSOLIDATED COMPANIES AND SCOPE OF CONSOLIDATION

MorphoSys AG as ultimate parent company of the Group is located in Planegg near Munich. MorphoSys AG has two wholly owned subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group"): Sloning BioTechnology GmbH (Planegg) and Lanthio Pharma B.V. (Groningen, The Netherlands). Additionally, MorphoSys AG's investment in Lanthio Pharma B.V. indirectly gives it 100% ownership in LanthioPep B.V. (Groningen, The Netherlands).

The consolidated financial statements for the year ended December 31, 2017 were prepared and approved by the Management Board in its meeting on March 8, 2018 by means of a resolution. The Management Board members are Dr. Simon Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Markus Enzelberger (Chief Scientific Officer), and Dr. Malte Peters (Chief Development Officer).

Dr. Arndt Schottelius was Chief Development Officer until February 28, 2017. Dr. Malte Peters assumed the position on March 1, 2017. Dr. Markus Enzelberger, who served as Interim CSO from April 15, 2017, was appointed Chief Scientific Officer (CSO) effective November 1, 2017. He succeeded Dr. Marlies Sproll, who resigned from her CSO position effective end of October 31, 2017.

The Supervisory Board is authorized to amend the financial statements after their approval by the Management Board. MorphoSys Group's registered head office is located in Planegg (district of Munich), and the registered business address is Semmelweisstraße 7, 82152 Planegg, Germany. The company is registered in the Commercial Register, Section B, of the District Court of Munich under the number HRB 121023.

2.2.2 CONSOLIDATION METHODS

The following Group subsidiaries are included in the scope of consolidation as shown in the following table.

Company	Purchase of Shares	Included in Basis of Consolidation since
Sloning BioTechnology GmbH	October 2010	10/07/2010
Lanthio Pharma B.V.	May 2015	05/07/2015
LanthioPep B.V.	May 2015	05/07/2015

These subsidiaries are fully consolidated because they are either directly or indirectly wholly owned. MorphoSys controls these subsidiaries because it possesses full power over the investees. Additionally, MorphoSys is subject to risk exposure or has rights to variable returns from its involvement with the investees. MorphoSys also has unlimited capacity to exert power over the investees to influence their returns.

The Group does not have any entities consolidated as joint ventures by using the equity method as defined by IFRS 11 "Joint Arrangements" nor does it exercise a controlling influence as defined by IAS 28 "Investments in Associates and Joint Ventures". Interests in such entities would be measured at fair value or historic cost in accordance with IAS 39.

Assets and liabilities of fully consolidated domestic and international entities are recognized using Group-wide uniform accounting and valuation methods. The consolidation methods applied have not changed from the previous year.

Receivables, liabilities, expenses and income among consolidated entities are eliminated in the consolidated financial statements.

2.2.3 BASIS OF FOREIGN CURRENCY TRANSLATION

IAS 21 "The Effects of Changes in Foreign Exchange Rates" governs the accounting for transactions and balances denominated in foreign currencies. Transactions denominated in foreign currencies are translated at the exchange rates prevailing on the date of the transaction. Any resulting translation differences are recognized in profit and loss. On the reporting date, assets and liabilities are translated at the closing rate for the financial year. Any foreign exchange rate differences derived from these translations are recognized in the consolidated statement of income.

2.3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

2.3.1 CREDIT RISK AND LIQUIDITY RISK

Financial instruments that could subject the Group to a concentration of credit and liquidity risk include primarily cash and cash equivalents, marketable securities (consisting of available-for-sale financial assets and bonds), financial assets of the loans and receivables category, derivative financial instruments and receivables. The Group's cash and cash equivalents are principally denominated in euros. Marketable securities and financial assets of the loans and receivables category represent investments in high-quality securities. Cash, cash equivalents, marketable securities and financial assets of the loans and receivables category are held at several renowned financial institutions in Germany. The Group continuously monitors its positions with financial institutions that are counterparts to its financial instruments and these institutions' credit ratings and does not expect any risk of non-performance.

One of the Group's policies requires all customers who wish to transact business on credit terms to undergo a credit assessment based on external ratings. Nevertheless, the Group's revenues and accounts receivable are still subject to credit risk from customer concentration. The Group's most significant single customer accounted for € 5.1 million of accounts receivables as of December 31, 2017 (December 31, 2016: € 8.4 million) or 45 % of the Group's accounts receivable at the end of 2017. The top three individual customers of the Group accounted for of 55 %, 25 % and 10 %, respectively, of the total revenues in 2017. On December 31, 2016, one customer had accounted for 66 % of the Group's accounts receivable, and the top three customers had individually accounted for 85 %, 5 % and 5 % of the Group's revenues in 2016. Based on the Management Board's assessment, no allowances were required in the financial years 2017 and 2016. The carrying amounts of financial assets represent the maximum credit risk.

The table below shows the accounts receivables by region as of the reporting date.

in €	12/31/2017	12/31/2016
Europe and Asia	8,838,884	9,852,273
USA and Canada	2,395,424	2,744,382
Other	0	0
TOTAL	**11,234,308**	**12,596,655**

The following table shows the aging of trade receivables as of the reporting date.

in €; Accounts Receivable are due since	12/31/2017 0 – 30 days	12/31/2017 30 – 60 days	12/31/2017 60+ days	12/31/2017 Total
Accounts Receivable	11,234,308	0	0	11,234,308
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	11,234,308	0	0	11,234,308

in €; Accounts Receivable are due since	12/31/2016 0 – 30 days	12/31/2016 30 – 60 days	12/31/2016 60+ days	12/31/2016 Total
Accounts Receivable	12,596,655	0	0	12,596,655
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	12,596,655	0	0	12,596,655

On December 31, 2017 and December 31, 2016, the Group was not exposed to a credit risk from derivative financial instruments. The maximum credit risk of financial guarantees (rent deposits) on the reporting date amounted to € 1.1 million (December 31, 2016: € 1.3 million).

The contractually agreed maturities and the corresponding cash outflows of accounts payable are within one year. Convertible bonds issued to related parties mature on March 31, 2020 (maximum cash outflow: € 0.1 million).

2.3.2 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 results of operations or the value of the financial instruments held. The Group is exposed to currency and interest rate risks.

CURRENCY RISK

The consolidated financial statements are prepared in euros. Whereas MorphoSys's expenses are predominantly incurred in euros, a portion of the revenue is dependent on the prevailing exchange rate of the US dollar. Throughout the year, the Group monitors the need to hedge foreign exchange rates to minimize currency risk and addresses this risk by using derivative financial instruments.

Under the Group's hedging policy, highly probable cash flows and definite foreign currency receivables collectable within a twelve-month period are tested to determine if they should be hedged. MorphoSys began using foreign currency options and forwards to hedge its foreign exchange risk against US dollar receivables in 2003. These derivatives are recorded at their fair values under provisions as of December 31, 2017, since the fair value is negative.

As of December 31, 2017, there were twelve unsettled forward rate agreements with terms of one month to twelve months (December 31, 2016: ten unsettled forward rate agreements). The unrealized gross loss from these agreements amounted to € 0.3 million as of December 31, 2017 and was reported in the finance result (December 31, 2016: less than € 0.1 million unrealized gross gain).

One forward rate agreement dating back to January 2016 with an original maturity in early April 2017 was subject to hedge accounting as a cash flow hedge and at the original term's expiry was extended until the beginning of July 2017. In July 2017, a net loss of € 0.3 million was recognized in the income statement for this hedging instrument, which was previously recognized as gross gains and losses in other comprehensive income.

The table below shows the Group's exposure to foreign currency risk based on the items' carrying amounts.

as of December 31, 2017; in €	EUR	US$	Other	Total
Cash and Cash Equivalents	74,289,250	2,299,879	0	76,589,129
Available-for-sale Financial Assets	86,538,195	0	0	86,538,195
Financial Assets classified as Loans and Receivables	149,059,254	0	0	149,059,254
Accounts Receivable	11,199,652	34,656	0	11,234,308
Restricted Cash (included in Other Current Assets)	1,132,782	0	0	1,132,782
Accounts Payable and Accrued Expenses	(44,655,328)	(156,390)	0	(44,811,718)
TOTAL	**277,563,805**	**2,178,145**	**0**	**279,741,950**

as of December 31, 2016; in €	EUR	US$	Other	Total
Cash and Cash Equivalents	73,456,907	471,754	0	73,928,661
Available-for-sale Financial Assets	63,361,727	0	0	63,361,727
Bonds, Available-for-sale	6,532,060	0	0	6,532,060
Financial Assets classified as Loans and Receivables	136,108,749	0	0	136,108,749
Financial Assets classified as Loans and Receivables, Net of Current Portion	79,521,181	0	0	79,521,181
Accounts Receivable	12,215,814	380,841	0	12,596,655
Restricted Cash (included in Other Current Assets)	1,252,405	0	0	1,252,405
Accounts Payable and Accrued Expenses	(31,794,114)	(428,502)	0	(32,222,616)
TOTAL	**340,654,729**	**424,093**	**0**	**341,078,822**

Various foreign exchange rates and their impact on assets and liabilities were simulated in an in-depth sensitivity analysis to determine the effects on income. A 10% increase in the euro versus the US dollar as of December 31, 2017 would have reduced the Group's income by € 0.2 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by € 0.2 million.

A 10% increase in the euro versus the US dollar as of December 31, 2016 would have reduced the Group's income by less than € 0.1 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by less than € 0.1 million.

INTEREST RATE RISK

The Group's risk exposure to changes in interest rates mainly relates to fixed term deposits and bonds, available-for-sale. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these securities. The Group's investment focus places the safety of an investment ahead of its return. Interest rate risk is limited because all securities can be liquidated within a maximum of two years.

The Group is not subject to significant interest rate risks from the liabilities currently reported in the balance sheet.

2.3.3 FAIR VALUE HIERARCHY AND MEASUREMENT PROCEDURES

The IFRS 13 "Fair Value Measurement" guidelines must always be applied when measurement at fair value is required or permitted or disclosures regarding measurement at fair value are required based on another IAS/IFRS guideline. The fair value is the price that would be achieved for the sale of an asset in an arm's length transaction between independent market participants or the price to be paid for the transfer of a liability (disposal or exit price). Accordingly, the fair value of a liability reflects the default risk (i.e., own credit risk). Measurement at fair value requires that the sale of the asset or the transfer of the liability takes place on the principal market or, if no such principal market is available, on the most advantageous market. The principal market is the market a company has access to that has the highest volume and level of activity.

Fair value is measured by using the same assumptions and taking into account the same characteristics of the asset or liability as would an independent market participant. Fair value is a market-based, not an entity-specific measurement. The fair value of non-financial assets is based on the best use of the asset by a market participant. For financial instruments, the use of bid prices for assets and ask prices for liabilities is permitted but not required if those prices best reflect the fair value in the respective circumstances. For simplification, mean rates are also permitted. Thus, IFRS 13 not only applies to financial assets, but all assets and liabilities.

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 to which the Company has access.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., 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 amounts of financial assets and liabilities, such as financial assets of the loans and receivables category and accounts receivable and accounts payable approximate their fair value because of their short-term maturities.

HIERARCHY LEVEL 1

The fair value of financial instruments traded in active markets is based on the quoted market prices on the reporting date. A market is considered active if quoted prices are available from an exchange, dealer, broker, industry group, pricing service or regulatory body that is easily and regularly accessible and prices reflect current and regularly occurring market transactions at arm's length conditions. For assets held by the Group, the appropriate quoted market price is the buyer's bid price. These instruments fall under level 1 of the hierarchy (see also Item 5.2* of these Notes).

*CROSS-REFERENCE *to page 134*

HIERARCHY LEVEL 2 AND 3

The fair value of financial instruments not traded in active markets can be determined using valuation methods. In this case, fair value is estimated using the results of a valuation method that makes maximum use of market data and relies as little as possible on entity-specific inputs. If all significant inputs required for measuring fair value by using valuation methods are observable, the instrument is allocated to level 2. If significant inputs are not based on observable market data, the instrument is allocated to level 3.

Hierarchy level 2 contains the forward exchange contracts used for currency hedging. Future cash flows for these forward exchange contracts are determined based on forward exchange rate curves. The fair value of these instruments corresponds to their discounted cash flows.

There were no financial assets or liabilities allocated to hierarchy level 3.

There were no transfers from one fair value hierarchy level to another in 2017 or 2016.

The table below shows the fair values of financial assets and liabilities and the carrying amounts presented in the consolidated balance sheet.

December 31, 2017 (in 000' €)	Note	Hierarchy Level	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	[1]	76,589	0	0	76,589	[1]
Financial Assets classified as Loans and Receivables	5.2	[1]	149,059	0	0	149,059	[1]
Accounts Receivable	5.3	[1]	11,234	0	0	11,234	[1]
Restricted Cash (included in Other Current Assets)	5.4	[1]	1,133	0	0	1,133	[1]
Other Receivables	5.4	[1]	85	0	0	85	[1]
Available-for-sale Financial Assets	5.2	1	0	86,538	0	86,538	86,538
TOTAL			**238,100**	**86,538**	**0**	**324,638**	
Convertible Bonds – Liability Component	7.2	2	0	0	(88)	(88)	(88)
Accounts Payable and Accrued Expenses	6.1	[1]	0	0	(44,812)	(44,812)	[1]
Forward Exchange Contracts Used for Hedging (included in Provisions)	6.2	2	0	0	(300)	(300)	(300)
TOTAL			**0**	**0**	**(45,200)**	**(45,200)**	

[1] Declaration waived in line with IFRS 7.29 (a). For these instruments carrying value is a reasonable approximation of fair value.

December 31, 2016 (in 000' €)	Note	Hierarchy Level	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	[1]	73,929	0	0	73,929	[1]
Financial Assets classified as Loans and Receivables	5.2	[1]	136,109	0	0	136,109	[1]
Accounts Receivable	5.3	[1]	12,597	0	0	12,597	[1]
Forward Exchange Contracts Used for Hedging (included in Other Receivables)	5.4	2	520	0	0	520	520
Restricted Cash (included in Other Current Assets)	5.4	[1]	1,252	0	0	1,252	[1]
Other Receivables	5.4	[1]	137	0	0	137	[1]
Financial Assets classified as Loans and Receivables, Net of Current Portion	5.2	[1]	79,521	0	0	79,521	79,521
Available-for-sale Financial Assets	5.2	1	0	63,362	0	63,362	63,362
Bonds, Available-for-sale	5.2	1	0	6,532	0	6,532	6,532
TOTAL			**304,065**	**69,894**	**0**	**373,959**	
Convertible Bonds – Liability Component	7.2	2	0	0	(218)	(218)	(218)
Accounts Payable and Accrued Expenses	6.1	[1]	0	0	(32,223)	(32,223)	[1]
TOTAL			**0**	**0**	**(32,441)**	**(32,441)**	

[1] Declaration waived in line with IFRS 7.29 (a). For these instruments carrying value is a reasonable approximation of fair value.

2.4 IMPAIRMENTS

2.4.1 NON-DERIVATIVE FINANCIAL INSTRUMENTS

A financial instrument not carried at fair value through profit or loss is assessed at each reporting date to determine if there is objective evidence for impairment. A financial instrument is impaired if objective evidence indicates that an event has occurred after the initial recognition of the asset that could result in a loss and whether that event could have a negative effect on the asset's estimated future cash flows, which can be assessed reliably.

Objective evidence that financial instruments are impaired can include the default or delinquency of a debtor, indications that a debtor or issuer will enter insolvency, adverse changes in the payment status of borrowers or issuers in the Group as well as economic conditions that correlate with defaults or the disappearance of an active market for a marketable security. A significant or prolonged decline in a financial instrument's fair value below its acquisition cost is objective evidence of impairment.

2.4.2 RECEIVABLES

The Group considers evidence of the impairment of receivables on an individual level. All individually significant receivables are tested specifically for impairment.

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

2.4.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In case of objective indications, impairment of available-for-sale financial assets is recognized by reclassifying the accumulated losses from the revaluation reserve in equity to profit and loss. The amount of the accumulated loss to be reclassified from equity to profit and loss is the difference between the acquisition cost less amortization and any principal repayment and the current fair value less any impairment previously recognized in profit or loss. Impairment losses recognized in profit and loss for an investment in a financial instrument classified as available-for-sale are not reversed through profit and loss. If in a subsequent period the fair value of an impaired available-for-sale debt instrument increases and this increase can be objectively linked to an event occurring after the impairment was recognized in profit or loss, then the impairment loss is reversed, and the amount of the reversal is recognized in profit or loss.

2.4.4 NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets and inventories are reviewed at each reporting date for any indication of impairment. The non-financial asset's recoverable amount and inventories' net realizable value is estimated if such indication exists. For goodwill and intangible assets that have indefinite useful lives or are not yet available for use, the recoverable amount is estimated at the same time each year, or on an interim basis, if required. Impairment is recognized if the carrying amount of an asset or the 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 or its fair value less costs of disposal. In assessing value-in-use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash flows from ongoing use that are largely independent of the cash flows of other assets or CGUs. A ceiling test for the operating segment must be carried out for goodwill impairment testing. CGUs that have been allocated goodwill 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 may be allocated to groups of CGUs that are expected to benefit from the combination's synergies.

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

Impairment losses are recognized in profit and loss. Goodwill impairment cannot be reversed. For all other assets, impairment recognized in prior periods is assessed on each reporting date for any indications that the losses decreased or no longer exist. Impairment is reversed when there has been a change in the estimates used to determine the recoverable amount. Impairment losses can only be reversed to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if an impairment had not been recognized.

2.5 ADDITIONAL INFORMATION

2.5.1 KEY ESTIMATES AND ASSUMPTIONS

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

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

IN-PROCESS R&D PROGRAMS AND GOODWILL

The Group performs a yearly test to determine whether in-process R&D programs or goodwill is subject to impairment in accordance with the accounting policies discussed in Item 2.4.4*. The recoverable amounts from in-process R&D programs and cash-generating units have been determined using value-in-use calculations and are subjected to a sensitivity analysis. These calculations require the use of estimates (see also Items 5.7.3* and 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 120 and page 138*

INCOME TAXES

The Group is subject to income taxes in a number of tax jurisdictions. Due to the increasing complexity of tax laws and the corresponding uncertainty regarding the legal interpretation by the fiscal authority, tax calculations are generally subject to an elevated amount of uncertainty. To the extent necessary, possible tax risks were taken into account in the form of provisions.

Deferred tax assets on tax loss carryforwards are recognized based on the expected business performance of the relevant Group entity. For details on tax loss carryforwards and any recognized deferred tax assets, please refer to Item 4.4* in the Notes.

*CROSS-REFERENCE *to page 130*

2.5.2 CAPITAL MANAGEMENT

The Management Board's policy for capital management is to preserve a strong and sustainable capital base in order to maintain the confidence of investors, business partners, and the capital market and to support future business development. As of December 31, 2017, the equity ratio was 86.3% (December 31, 2016: 89.6%; see also the following overview). The Group does not currently have any financial debt.

Under the respective incentive plans resolved by the Annual General Meeting, the Management Board and employees may participate in the Group's performance through long-term performance-related remuneration consisting of convertible bonds issued in 2013 and a stock option plan (SOP) set up in 2017. MorphoSys also established long-term incentive programs (LTI plan) in 2013, 2014, 2015, 2016 and 2017. These programs are based on the performance-related issue of shares, or "performance shares", which are granted when certain predefined success criteria have been achieved and the vesting period has expired (for more information, please refer to Item 7.3* in the Notes). There were no changes in the Group's approach to capital management during the year.

*CROSS-REFERENCE *to page 143*

in 000' €	12/31/2017	12/31/2016
Stockholders' Equity	358,671	415,460
In % of Total Capital	86.3%	89.6%
Total Liabilities	56,727	48,140
In % of Total Capital	13.7%	10.4%
TOTAL CAPITAL	**415,398**	**463,600**

2.6 USE OF INTEREST RATES FOR VALUATION

The Group uses interest rates to measure fair value. When calculating stock-based compensation, MorphoSys uses interest rates of German government bonds with maturities of five or seven years on the date they were granted to determine the fair value of convertible bonds.

2.7 ACCOUNTING POLICIES APPLIED TO LINE ITEMS OF THE INCOME STATEMENT

2.7.1 REVENUES AND REVENUE RECOGNITION

The Group's revenue includes license fees, milestone payments and service fees. Under IAS 18.9, revenues are measured at the fair value of the consideration received or receivable. In accordance with IAS 18.20b, revenues are recognized only to the extent that it is sufficiently probable that the Company will receive the economic benefits associated with the transaction.

LICENSE FEES AND MILESTONE PAYMENTS

Revenues related to non-refundable fees for providing access to technologies, fees for the use of technologies and license fees are recognized on a straight-line basis over the period of the agreement unless a more appropriate method of revenue recognition is available. The period of the agreement usually corresponds to the contractually agreed term of the research project or, in the case of contracts without an agreed project term, the expected term of the collaboration. If all IAS 18.14 criteria are met, revenue is recognized immediately and in full. Revenues from milestone payments are recognized upon achievement of certain contractual criteria.

SERVICE FEES

Service fees from research and development collaborations are recognized in the period the services are provided.

Discounts that are likely to be granted and whose amount can be reliably determined are recognized as a reduction in revenue at the time of revenue recognition. The timing of the transfer of risks and rewards varies depending on the terms of the sales contract. In accordance with IAS 18.21 and 18.25, revenue from multiple-component contracts is recognized by allocating the total consideration to the separately identifiable components based on their respective fair values and by applying IAS 18.20. The applicable revenue recognition criteria are assessed separately for each component.

Deferred revenue consists of customer payments that were not yet recognized as revenue because the related services specified in the contract were not yet rendered.

2.7.2 OPERATING EXPENSES

PERSONNEL EXPENSES RESULTING FROM STOCK OPTIONS

The Group applies the provisions under IFRS 2 "Share-based Payment", which require the Group to spread compensation expenses from the estimated fair values of share-based payments on the reporting date over the period in which the beneficiaries provide the services which triggered the granting of the share-based payments.

IFRS 2 "Share-based Payment" requires the consideration of the effects of share-based payments if the Group acquires goods or services in exchange for shares or stock options ("settlement in equity instruments") or other assets that represent the value of a specific number of shares or stock options ("cash settlement"). The key impact of IFRS 2 on the Group is the expense resulting from the use of an option pricing model in relation to share-based incentives for employees and the Management Board. Additional information can be found under Items 7.1, 7.2, 7.3* and 7.4* in the Notes.

*CROSS-REFERENCE *to page 141-147*

RESEARCH AND DEVELOPMENT

Research costs are expensed in the period they occur. Development costs are generally expensed as incurred in accordance with IAS 38.5 and IAS 38.11 to 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 Group can provide proof under IAS 38.57.

This line item contains personnel expenses, consumables supplies, other operating expenses, impairment, amortization and other costs of intangible assets (additional information can be found under Item 5.7* in the Notes), external services and depreciation and other costs for infrastructure.

*CROSS-REFERENCE *to page 137*

GENERAL AND ADMINISTRATIVE

This line item contains personnel expenses, consumable supplies, other operating expenses, amortization of intangible assets (software; additional information can be found under Item 5.7* in the Notes), expenses for external services, and depreciation and other costs for infrastructure.

*CROSS-REFERENCE *to page 137*

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 incentive agreements in the context of operating leases are recognized as an integral part of the net consideration agreed for the use of the leased asset. The total amount of income from incentives is recognized as a reduction in lease expenses on a straight-line basis over the term of the lease.

All of the Group's lease agreements are classified exclusively as operating leases. The Group did not engage in any finance lease arrangements.

2.7.3 OTHER INCOME

GOVERNMENT GRANTS

Grants received from government agencies to fund specific research and development projects are recognized in the income statement in the separate line item "other income" to the extent that the related expenses have already occurred. Under the terms of the grants, government agencies generally have the right to audit the use of the funds granted to the Group.

Basically, government grants are cost subsidies, and their recognition through profit and loss is limited to the corresponding costs.

When the repayment of cost subsidies depends on the success of the development project, these cost subsidies are recognized as other liabilities until success has been achieved. If the condition for repayment is not met, then the grant is recognized under "other income".

No payments were granted in the 2017 financial year that are required to be classified as investment subsidies.

2.7.4 OTHER EXPENSES

The line item "other expenses" consists mainly of currency losses from the operating business and the repayment of cost subsidies.

2.7.5 FINANCE INCOME

Interest income is recognized in the income statement as it occurs and takes into account the asset's effective interest rate.

2.7.6 FINANCE EXPENSES

Finance expenses are expensed in the income statement in the period they occur.

2.7.7 INCOME TAX EXPENSES/INCOME

Income taxes consist of current and deferred taxes and are recognized in the income statement unless they relate to items recognized directly in equity.

Current taxes are the taxes expected to be payable on the year's taxable income based on prevailing tax rates on the reporting date and any adjustments to taxes payable in previous years.

The calculation of deferred taxes is based on the balance sheet liability method that refers to the temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. The method of calculating deferred taxes depends on how the asset's carrying amount is expected to be realized and how the liabilities will be repaid. The calculation is based on the prevailing tax rates or those adopted on the reporting date.

Deferred tax assets are offset against deferred tax liabilities if the taxes are levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

Deferred tax assets are recognized only to the extent that it is likely that there will be future taxable income to offset. Deferred tax assets are reduced by the amount that the related tax benefit is no longer expected to be realized.

2.7.8 EARNINGS PER SHARE

The Group reports basic and diluted earnings per share under consideration of IAS 33.41. Basic earnings per share is computed by dividing the net profit or loss attributable to parent company shareholders by the weighted-average number of ordinary shares outstanding during the reporting period. Diluted earnings per share is calculated in the same manner with the exception that the net profit or loss attributable to parent company shareholders and the weighted-average number of ordinary shares outstanding are adjusted for any dilutive effects resulting from stock options and convertible bonds granted to the Management Board and employees.

In 2017 and 2016, diluted earnings per share equal basic earnings per share. The effect of 87,904 potentially dilutive shares in 2017 (2016: 99,764 dilutive shares) resulting from stock options and convertible bonds granted to the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group, has been excluded from the diluted earnings per share because it would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

The 62,071 stock options not yet vested as of December 31, 2017, were not included in the calculation of potentially dilutive shares, as they are antidilutive for the 2017 financial year. These shares could potentially have a dilutive effect in the future.

2.8 ACCOUNTING POLICIES APPLIED TO THE ASSETS OF THE BALANCE SHEET

2.8.1 LIQUIDITY

CASH AND CASH EQUIVALENTS AND MARKETABLE SECURITIES

The Group regards all cash at banks and on hand and all short-term deposits with a maturity of three months or less as cash and cash equivalents. The Group invests most of its cash and cash equivalents at several major financial institutions: Commerzbank, UniCredit, BayernLB, LBBW, BNP Paribas, Deutsche Bank, Sparkasse and Rabobank.

Cash and cash equivalents are recognized at nominal value. Marketable securities are recognized and measured at fair value. Any fluctuations in the fair value of marketable securities are directly recognized in equity. Permanent impairment is recognized in profit and loss

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Depending on how they are classified, existing financial instruments are either measured at amortized cost (category "loans and receivables") or fair value (category "available-for-sale financial assets"). The amortized cost of current receivables and current liabilities generally corresponds to either the nominal amount or repayment amount.

All non-derivative financial instruments are initially recognized at fair value, which is defined as the fair value of the consideration provided net of transaction costs.

The Group applies IAS 39 for financial instruments in the form of debt and equity instruments. At the time of purchase, the Management Board determines the financial instrument's classification and reviews this classification at each reporting date. The classification depends on the purpose of acquiring the financial instrument. As of December 31, 2017 and December 31, 2016, some financial instruments held by the Group were classified as "available-for-sale". These financial instruments are recognized or derecognized as of the date on which the Group commits to the financial instrument's purchase or sale. Following their initial recognition, available-for-sale financial assets are measured at fair value, and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, otherwise disposed of or considered impaired, at which time the accumulated loss is reported in profit and loss.

Guarantees granted for rent deposits and obligations from convertible bonds issued to employees are recorded under other assets as restricted cash since they are not available for use in the Group's operations.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its foreign exchange rate risk and cash flows. In accordance with IAS 39.9, standalone derivative financial instruments are predominantly held for trading and are initially recognized at fair value. After their initial recognition, derivative financial instruments are measured at fair value, which is defined as their quoted market price on the reporting date. Any resulting gain or loss from derivatives is recognized in profit and loss unless the derivatives are effective and designated as hedging instruments under a hedging relationship (hedge accounting). According to the Group's foreign currency hedging policy, the Group only hedges highly probable future cash flows and clearly identifiable receivables that can be collected within a twelve-month period.

The use of derivative financial instruments is subject to a Group policy that is a written guideline approved by the Management Board for dealing with derivative financial instruments. Any changes in the fair value of derivative financial instruments are documented.

HEDGE ACCOUNTING

The Group has designated hedging instruments to hedge cash flows (cash flow hedges) during the fiscal years 2017 and 2016.

At the beginning of the hedge accounting, the hedging relationship between the underlying and the hedge transaction are documented, including the risk management objectives and corporate strategy underlying the hedging relationship. Additionally, when concluding the hedge and also during the term of the hedge, the Group regularly provides documentation if the hedging instrument designated for the hedging relationship is highly effective in terms of the hedged risk to compensate for any changes of the underlying transaction's cash flows.

For information on the fair value of derivatives used for hedging, please refer to Item 2.3.2* in the Notes.

*CROSS-REFERENCE *to page 116*

CASHFLOW HEDGES

The effective portion of the change in fair value of derivatives that are suitable for cash flow hedges and designated as such is recognized within other comprehensive income. The gain/loss attributable to the ineffective portion is immediately recognized in profit and loss with "other operating income/expenses".

Amounts recognized within other comprehensive income are reclassified to the consolidated statement of income in the period in which the underlying transaction is recognized in profit and loss. The gain/loss is recorded in the same line item of the consolidated statement of income as the underlying transaction.

The hedging relationship is no longer accounted for if the Group dissolves the hedging relationship, the hedging instrument expires, is sold, terminated or exercised or no longer is suitable for hedging purposes. The full gain/loss recognized in other comprehensive income and accrued within equity remains in equity when the hedge accounting ends and is only recognized in profit and loss once the expected transaction is also recognized in profit and loss. If the transaction is no longer expected to materialize, the full gain/loss recognized in equity is immediately reclassified into the consolidated statement of income.

2.8.2 ACCOUNTS RECEIVABLE, INCOME TAX RECEIVABLES AND OTHER RECEIVABLES

Accounts receivable are measured at amortized cost less any impairment; for example, allowances for doubtful accounts (see Items 2.4.2* and 5.3* in the Notes).

*CROSS-REFERENCE *to page 120 and page 135*

Income tax receivables mainly include receivables due from tax authorities in the context of capital gain taxes withheld.

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

2.8.3 INVENTORIES

Inventories are measured at the lower value of production or acquisition cost and net realizable value under the first-in first-out method. Acquisition costs comprise all costs of purchase and those incurred in bringing the inventories into operating condition while taking into account purchase price reductions, such as bonuses and discounts. Net realizable value is the estimated selling price less the estimated expenses necessary for completion and sale. Inventories are divided into the categories of raw materials and supplies.

2.8.4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses include expenses resulting from an outflow of liquid assets prior to the reporting date that are only recognized as expenses in the subsequent financial year. Such expenses usually involve maintenance contracts, sublicenses and prepayments for external laboratory services not yet performed. Other current assets primarily consist of receivables from tax authorities resulting from value-added taxes and restricted cash, such as rent deposits. This item is recognized at nominal value.

2.8.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at historical cost less accumulated depreciation (see also Item 5.6* in the Notes) and any impairment (see Item 2.4.4* in the Notes). Historical cost includes expenditures directly related to the purchase at the time of the acquisition. Replacement purchases, building alterations and improvements are capitalized while repair and maintenance expenses are charged as expenses as they are incurred. Property, plant and equipment is depreciated on a straight-line basis over its useful life (see table below). Leasehold improvements are depreciated on a straight-line basis over the lesser of the asset's estimated useful life or the remaining term of the lease.

*CROSS-REFERENCE *to page 136 and page 120*

Asset Class	Useful Life	Depreciation Rates
Computer Hardware	3 years	33%
Low-value Laboratory and Office Equipment below € 410	Immediately	100%
Permanent Improvements to Property/Buildings	10 years	10%
Office Equipment	8 years	13%
Laboratory Equipment	4 years	25%

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

Borrowing costs that can be directly attributed to the acquisition, construction or production of a qualifying asset are not included in the acquisition or production costs because the Group finances the entire operating business with equity.

2.8.6 INTANGIBLE ASSETS

Purchased intangible assets are capitalized at acquisition cost and exclusively amortized on a straight-line basis over their useful lives. Internally generated intangible assets are recognized to the degree the recognition criteria set out in IAS 38 are met.

Development costs are capitalized as intangible assets when the capitalization criteria described in IAS 38 have been met, namely, clear specification of the product or procedure, technical feasibility, intention of completion, use, commercialization, coverage of development costs through future free cash flows, reliable determination of these free cash flows and availability of sufficient resources for completion of development and sale. Amortization is recorded in research and development expenses.

Expenses to be classified as research expenses are allocated to research and development expenses as defined by IAS 38.

Subsequent expenditures for capitalized intangible assets are capitalized only when they substantially increase the future economic benefits of the specific asset to which they relate. All other expenditures are expensed as incurred.

PATENTS

Patents obtained by the Group are recorded at acquisition cost less accumulated amortization (see below) and any impairment (see Item 2.4.4* in the Notes). Patent costs are amortized on a straight-line basis over the lower of the estimated useful life of the patent (ten years) or the remaining patent term. Amortization starts when the patent is issued. Technology identified in the purchase price allocation for the acquisition of Sloning BioTechnology GmbH is recorded at the fair value at the time of acquisition, less accumulated amortization (useful life of ten years).

*CROSS-REFERENCE *to page 120*

LICENSE RIGHTS

The Group has acquired license rights from third parties by making upfront license payments, paying annual fees to maintain the license and paying fees for sublicenses. The Group amortizes upfront license payments on a straight-line basis over the estimated useful life of the acquired license (eight to ten years). The amortization period and method are reviewed at the end of each financial year under IAS 38.104. Annual fees to maintain a license are amortized over the term of each annual agreement. Sublicense fees are amortized on a straight-line basis over the term of the contract or the estimated useful life of the collaboration for contracts without a set duration.

IN-PROCESS R&D PROGRAMS

This line item contains capitalized upfront payments from the in-licensing of compounds for the Proprietary Development segment, as well as milestone payments for these compounds subsequently paid as milestones are achieved. Additionally, the line item also includes compounds resulting from acquisitions. The assets are recorded at acquisition cost and are not yet available for use and therefore not subject to scheduled amortization. The assets are tested for impairment annually or in case of triggering events, as required by IAS 36.

SOFTWARE

Software is recorded at acquisition cost less accumulated amortization (see below) and any impairment (see Item 2.4.4* in the Notes). Amortization is recognized in profit and loss on a straight-line basis over the estimated useful life of three to five years. Software is amortized from the date the software is operational.

*CROSS-REFERENCE *to page 120*

GOODWILL

Goodwill is recognized for expected synergies from business combinations and the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also Item 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 138*

Intangible Asset Class	Useful Life	Amortization Rates
Patents	10 years	10%
License Rights	8 – 10 years	13% – 10%
In-process R&D Programs	Not yet amortized, Impairment Only	–
Software	3 – 5 years	33% – 20%
Goodwill	Impairment Only	–

2.8.7 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

The non-current portion of expenses that occurred prior to the reporting date but to be recognized in subsequent financial years is also recorded under prepaid expenses. This line item contains maintenance contracts and sublicenses.

This line item also includes other non-current assets, which are recognized at fair value. Other non-current assets consist mainly of restricted cash, such as rent deposits.

2.9 ACCOUNTING POLICIES APPLIED TO EQUITY AND LIABILITY ITEMS OF THE BALANCE SHEET

2.9.1 ACCOUNTS PAYABLE, OTHER LIABILITIES AND PROVISIONS

Trade payables and other liabilities are recognized at amortized cost. Liabilities with a term of more than one year are discounted to their net present value. Liabilities with uncertain timing or amount are recorded as provisions.

IAS 37 requires the recognition of provisions for obligations to third parties arising from past events. Furthermore, provisions are only recognized for legal or factual obligations to third parties if the event's occurrence is more likely than not. Provisions are recognized at the amount required to settle the respective obligation and discounted to the reporting date if the interest effect is material. The amount required to meet the obligation also includes expected price and cost increases. The interest portion of the added provisions is recorded in the finance result. The measurement of provisions is based on past experience and considers the circumstances in existence on the reporting date.

The Group has entered into various research and development contracts with research institutions and other companies. These agreements are generally cancelable, and related payments are recorded as research and development expenses as incurred. The Group records accruals for estimated ongoing research costs that have been incurred. When evaluating the adequacy of the accrued expenses, the Group analyzes progress of the studies, including the phase or completion of events, invoices received and contracted costs. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ from the Group's estimates. The Group's historical accrual estimates have not been materially different from the actual costs.

2.9.2 TAX PROVISIONS

Tax liabilities are recognized and measured at their nominal value. Tax liabilities contain obligations from current taxes, excluding deferred taxes. Provisions for trade taxes, corporate taxes and similar taxes on income are determined based on the taxable income of the consolidated entities less any prepayments made.

2.9.3 CURRENT PORTION OF DEFERRED REVENUE

Upfront payments from customers for services to be rendered by the Group are recognized as deferred revenue in accordance with IAS 18.13 and measured at the lower of fair value or nominal amount of cash received or receivable. The corresponding rendering of services and revenue recognition is expected to occur within a twelve-month period after the reporting date.

2.9.4 DEFERRED REVENUE, NET OF CURRENT PORTION

This line item includes the non-current portion of deferred upfront payments from customers in accordance with IAS 18.13, which are measured at the lower of fair value or nominal amount of cash received or receivable.

2.9.5 CONVERTIBLE BONDS DUE TO RELATED PARTIES

The Group issued convertible bonds to the Group's Management Board and employees. In accordance with IAS 32.28, the equity component of a convertible bond must be recorded separately under additional paid-in capital. The equity component is determined by deducting the separately determined amount of the liability component from the fair value of the convertible bond. The effect of the equity component is recognized in profit and loss in personnel expenses from share-based payments, whereas the effect on profit and loss from the liability component is recognized as interest expense. The Group applies the provisions of IFRS 2 "Share-based Payments" for all convertible bonds granted to the Management Board and the Group's employees.

2.9.6 DEFERRED TAXES

The recognition and measurement of deferred taxes are based on the provisions of IAS 12. Deferred tax assets and liabilities are calculated using the liability method, which is common practice internationally. Under this method, taxes expected to be paid or recovered in subsequent financial years are based on the applicable tax rate at the time of recognition.

Deferred tax assets and liabilities are recorded separately in the balance sheet and take into account the future tax effect resulting from temporary differences between values in the balance sheet for assets, liabilities as well as for tax loss carryforwards.

Deferred tax assets are offset against deferred tax liabilities if the taxes are levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Pursuant to IAS 12, deferred tax assets and liabilities may not be discounted.

2.9.7 OTHER LIABILITIES

Other liabilities are made up of rent-free periods. The corresponding release over the minimum rent period are calculated based on the effective interest method. Other liabilities are discounted due to their long-term maturities.

2.9.8 STOCKHOLDERS' EQUITY

COMMON STOCK

Ordinary shares are classified as stockholders' equity. Incremental costs directly attributable to the issue of ordinary shares and stock options are recognized as a deduction from stockholders' equity.

TREASURY STOCK

Repurchases of the Company's own shares at prices quoted on an exchange or at market value are recorded in this line item as a deduction from common stock.

When common stock that was recorded as stockholders' equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognized as a deduction from stockholders' equity net of taxes and is classified as treasury shares. When treasury shares are subsequently sold or reissued, the proceeds are recognized as an increase in stockholders' equity, and any difference between the proceeds from the transaction and the initial acquisition costs is recognized in additional paid-in capital.

The allocation of treasury shares to beneficiaries (in this case: performance shares) under long-term incentive programs is reflected in this line item based on the set number of shares to be allocated after the expiration of the four-year vesting period (quantity structure) multiplied by the weighted-average purchase price of the treasury shares (value structure). The adjustment is carried out directly in equity by reducing the treasury stock line item, which is a deduction from common stock, while simultaneously reducing the amount of additional paid-in capital. Further information can be found in Item 7.3.1* in the Notes.

*CROSS-REFERENCE *to page 143*

ADDITIONAL PAID- IN CAPITAL

Additional paid-in capital mainly consists of personnel expenses resulting from the grant of convertible bonds and performance shares and the proceeds from newly created shares in excess of their nominal value.

REVALUATION RESERVE

The revaluation reserve mainly consists of unrealized gains and losses on available-for-sale financial assets and bonds that are measured directly in equity until they are sold as well as cash flow hedges.

ACCUMULATED INCOME/DEFICIT

The "accumulated income/deficit" line item consists of the Group's accumulated consolidated net profits/losses. A separate measurement of this item is not made.

3 Segment Reporting

MorphoSys Group applies IFRS 8 "Operating Segments". An operating segment is defined as a unit of an entity that engages in business activities from which it can earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision maker, the Management Board, and for which discrete financial information is available.

Segment information is provided for the Group's operating segments based on the Group's management and internal reporting structures. The segment results and segment assets include items that can be either directly attributed to the individual segment or allocated to the segments on a reasonable basis.

The Management Board evaluates a segment's economic success using selected key figures so that all relevant income and expenses are included. EBIT, which the Company defines as earnings before finance income, finance expenses and income taxes, is the key benchmark for measuring and evaluating the operating results. Refer to the table in Note 3.3 for a reconciliation of EBIT to Net income as well as to the table in Note 4.3 for a breakdown of finance income and expenses. Other key internal reporting figures include revenues, operating expenses, segment results and the liquidity position.

The Group consists of the following operating segments.

3.1 PROPRIETARY DEVELOPMENT

The segment comprises all activities related to the proprietary development of therapeutic antibodies and peptides. These activities currently comprise a total of 13 antibodies and peptides, including the proprietary clinical programs MOR208, MOR202, and MOR106, which is co-developed with Galapagos. The proprietary program MOR103, also included in this segment, was out-licensed to GlaxoSmithKline (GSK) in 2013 and all activities since that time are conducted by GSK. This program has been allocated to this segment since the beginning of its development and will, therefore, continue to be reported under this segment. MorphoSys is also pursuing other programs that are either at an early stage of proprietary development or fall under co-development agreements. One of these programs is the clinical program MOR107 (formerly LP2) resulting from the acquisition of Lanthio Pharma B.V. A further eight programs are in the discovery phase. The development of proprietary technologies is allocated to the Proprietary Development segment.

3.2 PARTNERED DISCOVERY

MorphoSys possesses one of the leading technologies for generating therapeutics based on human antibodies. The Group markets this technology commercially through its partnerships with numerous pharmaceutical and biotechnology companies. The Partnered Discovery segment encompasses all operating activities relating to these commercial agreements.

3.3 CROSS-SEGMENT DISCLOSURE

The information on segment assets is based on the assets' respective locations.

For the Twelve-month Period Ended 31 December (in 000' €)	Proprietary Development		Partnered Discovery		Unallocated		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
External Revenues	17,635	621	49,156	49,123	0	0	66,791	49,744
Other Operating Expenses	(99,106)	(78,515)	(18,906)	(18,113)	(15,835)	(13,212)	(133,847)	(109,840)
SEGMENT RESULT	**(81,471)**	**(77,894)**	**30,250**	**31,010**	**(15,835)**	**(13,212)**	**(67,056)**	**(60,096)**
Other Income	157	327	0	0	963	382	1,120	709
Other Expenses	0	0	0	0	(1,671)	(554)	(1,671)	(554)
SEGMENT EBIT	**(81,314)**	**(77,567)**	**30,250**	**31,010**	**(16,543)**	**(13,384)**	**(67,607)**	**(59,941)**
Finance Income							712	1,385
Finance Expenses							(1,895)	(1,308)
PROFIT BEFORE TAXES							**(68,790)**	**(59,864)**
Income Tax Expenses							(1,036)	(519)
NET LOSS							**(69,826)**	**(60,383)**
Current Assets	8,802	13,157	18,054	18,415	313,825	276,484	340,681	308,056
Non-current Assets	60,658	59,292	8,490	10,165	5,569	86,087	74,717	155,544
TOTAL SEGMENT ASSETS	**69,460**	**72,449**	**26,544**	**28,580**	**319,394**	**362,571**	**415,398**	**463,600**
Current Liabilities	33,008	20,948	4,083	2,512	10,610	14,842	47,701	38,302
Non-current Liabilities	7,072	6,930	1,045	2,165	909	743	9,026	9,838
Stockholders' Equity	0	0	0	0	358,671	415,460	358,671	415,460
TOTAL SEGMENT LIABILITIES AND EQUITY	**40,080**	**27,878**	**5,128**	**4,677**	**370,190**	**431,045**	**415,398**	**463,600**
Capital Expenditure	12,344	1,358	602	1,181	204	374	13,150	2,913
Depreciation and Amortization	1,555	1,272	2,075	2,117	400	375	4,030	3,764

The segment result is defined as a segment's revenue less the segment's operating expenses. The unallocated other operating expenses of € 15.8 million (2016: € 13.2 million) included primarily expenses for central administrative functions that are not allocated to one of the two segments. Finance income, finance expense and income tax are also not allocated to the segments as they are managed on a group basis. In the 2017 financial year, impairments totaling € 9.9 million were recognized in the Proprietary Development segment (2016: impairments of € 10.1 million in the Proprietary Discovery segment).

The Group's key customers are allocated to the Partnered Discovery and Proprietary Development segments. As of December 31, 2017, the single most important customer represented accounts receivable with a carrying amount of € 5.1 million (December 31, 2016: € 8.4 million). The largest customer accounted for revenues in 2017 of € 36.9 million, the second largest for € 16.8 million and the third largest for € 6.7 million. The largest and third largest customers were allocated to the Partnered Discovery segment and the second largest customer to the Proprietary Development segment. The top three of the Group's customers that were all allocated to the Partnered Discovery segment accounted for € 42.1 million, € 2.5 million and € 2.5 million, respectively, of the total revenues in 2016.

The following overview shows the Group's regional distribution of revenue.

in 000' €	2017	2016
Germany	851	1,621
Europe and Asia	57,229	43,046
USA and Canada	8,711	5,077
TOTAL	**66,791**	**49,744**

A total of € 42.2 million (December 31, 2016: € 123.7 million) and € 32.6 million (December 31, 2016: € 32.6 million) of the Group's non-current assets, excluding deferred tax assets, are located in Germany and the Netherlands, respectively. The Group's total investments of € 13.1 million (December 31, 2016: € 2.8 million) were made in Germany, except for € 0.1 million (December 31, 2016: € 0.1 million), which were made in the Netherlands. In accordance with internal definitions, investments only included additions to property, plant and equipment as well as intangible assets which are not related to business combinations. MorphoSys defines investments as additions to non-current assets that are not related to acquisitions.

4 Notes to the Income Statement

4.1 REVENUES

In 2017, revenues consisted of license fees and milestone payments totaling € 44.8 million (2016: € 28.4 million). Of this total, € 16.8 million was generated by the Proprietary Development segment and € 28.0 million was generated by the Partnered Discovery segment. In 2016, all such revenues of € 28.4 million were generated by the Partnered Discovery segment.

Of the service fee revenues totaling € 22.0 million (2016: € 21.4 million), € 0.8 million (2016: € 0.6 million) were attributable to the Proprietary Development segment and € 21.2 million (2016: € 20.8 million) to the Partnered Discovery segment.

4.2 OPERATING EXPENSES

4.2.1 RESEARCH AND DEVELOPMENT EXPENSES

Research and development increased compared to the prior year due to a high level of investment in our proprietary product pipeline (namely, external services) and increased personnel expenses. Research and development expenses consisted of the items below.

in 000' €	2017	2016
Personnel Expenses	29,735	26,493
Consumable Supplies	2,588	2,321
Other Operating Expenses	3,065	2,922
Impairment, Amortization and Other Costs of Intangible Assets	13,503	13,689
External Services	63,053	44,409
Depreciation and Other Costs for Infrastructure	4,865	5,889
TOTAL	**116,809**	**95,723**

in million €	2017	2016
R&D Expenses on behalf of Partners	17.7	17.2
Proprietary Development Expenses	97.7	77.1
Technology Development Expenses	1.4	1.4
R&D TOTAL	**116.8**	**95.7**

4.2.2 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses included the items below.

in 000' €	2017	2016
Personnel Expenses	12,315	9,521
Consumable Supplies	33	97
Other Operating Expenses	794	978
Amortization of Intangible Assets	112	111
External Services	2,947	2,484
Depreciation and Other Costs for Infrastructure	838	925
TOTAL	**17,039**	**14,116**

4.2.3 PERSONNEL EXPENSES

Personnel expenses included the items below.

in 000' €	2017	2016
Wages and Salaries	28,196	27,146
Social Security Contributions	4,542	4,570
Stock-based Compensation Expense	4,975	2,357
Temporary Staff (External)	881	1,061
Other	3,456	880
TOTAL	**42,050**	**36,014**

In 2017, other personnel expenses consisted primarily of severance payments, recruitment and development costs. In 2016, other personnel expenses consisted mainly of recruitment costs.

The average number of employees in the 2017 financial year was 344 (2016: 354). Of the 326 employees on December 31, 2017 (December 31, 2016: 345), 263 were active in research and development (December 31, 2016: 289) and 63 were engaged in general and administrative functions (December 31, 2016: 56 employees). As of December 31, 2017, there were 161 employees in the Proprietary Development segment and 105 employees in the Partnered Discovery segment; 60 employees were not allocated to a segment (December 31, 2016: 135 in the Proprietary Development segment, 156 employees in the Partnered Discovery segment and 54 employees were unallocated). Costs for defined-contribution plans amounted to € 0.6 million in 2017 (2016: € 0.5 million).

4.3 OTHER INCOME AND EXPENSES, FINANCE INCOME AND FINANCE EXPENSES

The line items "other income and expenses" and "finance income and finance expenses" include the following items.

in 000' €	2017	2016
Grant Income	157	327
Gain on Foreign Exchange	485	192
Reversal of Impairment for Accounts Receivable Previously Deemed Impaired	76	15
Miscellaneous Income	402	175
Other Income	1,120	709
Loss on Foreign Exchange	(844)	(400)
Impairment of Other Receivables	0	(7)
Miscellaneous Expenses	(827)	(147)
Other Expenses	(1,671)	(554)
Gain on Available-for-sale Financial Assets and Bonds	35	294
Interest Income	236	1,017
Gain on Derivatives	441	74
Finance Income	712	1,385
Interest Expenses	(374)	(20)
Loss on Derivatives	(1,360)	(44)
Bank Fees	(41)	(35)
Loss on Available-for-sale Financial Assets and Bonds	(120)	(1,209)
Finance Expenses	(1,895)	(1,308)

4.4 INCOME TAX EXPENSES/INCOME

MorphoSys AG and its German subsidiary Sloning BioTechnology GmbH are subject to corporate taxes, the solidarity surcharge and trade taxes. The Company's corporate tax rate is 15.0% and the solidarity surcharge 5.5%. The effective trade tax rate is 10.85% and remained unchanged.

The Dutch entities Lanthio Pharma B.V. and LanthioPep B.V. are subject to an income tax rate of 25% on annual income exceeding € 200,000; annual income below € 200,000 is subject to a tax rate of 20%. Subject to certain conditions, a tax rate of 5% may be applicable under what is known as the "Innovation Box."

Income taxes consist of the items listed below.

in 000' €	2017	2016
Current Tax Income/(Expense) (Thereof Regarding Prior Years: k€ 171; 2016: k€ (60))	(534)	45
Deferred Tax Expenses	(502)	(564)
Total Income Tax Expense	(1,036)	(519)
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	0	(82)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	0	(112)
Total Amount of Tax-Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income	0	(194)

in 000' €	2017	2016
Profit Before Income Taxes	(68,790)	(59,864)
Expected Tax Rate	26.675%	26.675%
Expected Income Tax	18,350	15,969
Tax Effects Resulting from:		
Stock-based Compensation	(290)	5
Non-Tax-Deductible Items	(134)	(135)
Differences in Profit and Loss Neutral Adjustments	37	812
Non-Recognition of Deferred Tax Assets on Temporary Differences	3,256	(3,766)
Non-Recognition of Deferred Tax Assets on Current Year Tax Losses	(22.007)	(13,354)
Tax Rate Differences to Local Tax Rates	(71)	(46)
Prior Year Taxes	(171)	0
Other Effects	(6)	(4)
Actual Income Tax	(1,036)	(519)

The following table reconciles the expected income tax expense with the actual income tax expense as presented in the consolidated financial statements. The combined income tax rate of 26.675% in the 2017 financial year (2016: 26.675%) was applied to profit before taxes to calculate the statutory income tax expense. This rate consisted of a corporate income tax of 15.0%, a solidarity surcharge of 5.5% on the corporate tax and an average trade tax of 10.85% applicable to the Group.

As of December 31, 2017, neither deferred tax assets in the amount of € 33.6 million on tax loss carryforwards (December 31, 2016: € 12.8 million) nor deferred tax assets on temporary differences in the amount of € 0.5 million (December 31, 2016: € 3.8 million) were recognized by MorphoSys AG due to continued substantial investments in proprietary product development and related business development.

As of December 31, 2017, tax loss carryforwards of Sloning BioTechnology GmbH were fully exhausted. As of December 31, 2016, deferred tax assets in the amount of € 0.5 million were recognized on tax loss carryforwards.

As of December 31, 2017, deferred tax assets in the amount of € 3.8 million on tax loss carryforwards (December 31, 2016: € 2.5 million) were not recognized for the Lanthio Group due to continued substantial investments in proprietary product development and related business development.

Deferred tax assets and deferred tax liabilities are composed as follows.

in 000's €, as of December 31	Deferred Tax Asset 2017	Deferred Tax Asset 2016	Deferred Tax Liability 2017	Deferred Tax Liability 2016
Intangible Assets	0	0	8,297	8,068
Receivables and Other Assets	0	0	0	8
Prepaid Expenses and Deferred Charges	0	0	3	3
Short-term Securities Investments	0	19	0	131
Provisions	253	130	0	0
Other Liabilities	236	123	0	0
Tax Losses	0	516	0	0
TOTAL	**489**	**788**	**8,300**	**8,210**

	Changes in Deferred Taxes in 2017	
in 000's €, as of December 31	Recognized in Profit and Loss Income/(Expense)	Recognized in Other Comprehensive Income
Intangible Assets	(229)	0
Receivables and Other Assets	8	0
Short-term Securities Investments and cash flow hedge	0	112
Provisions	123	0
Other Liabilities	113	0
Tax Losses	(516)	0
TOTAL	**(501)**	**112**

As of December 31, 2017, temporary differences existed in connection with investments in subsidiaries (known as outside basis differences) of € 0.2 million (December 31, 2016: € 0.3 million) for which no deferred tax liabilities were recognized.

4.5 EARNINGS PER SHARE

Earnings per share is computed by dividing the 2017 consolidated net loss of € 69,826,469 (2016: consolidated net loss of € 60,382,776) by the weighted-average number of ordinary shares outstanding during the respective year (2017: 28,947,566; 2016: 26,443,415).

The table below shows the calculation of the weighted-average number of ordinary shares.

	2017	2016
SHARES ISSUED ON JANUARY 1	**29,159,770**	**26,537,682**
Effect of Treasury Shares Held on January 1	(396,010)	(434,670)
Effect of Repurchase of Treasury Stock	0	(34,812)
Effect of Share Issuance	0	327,761
Effect of Transfer of Treasury Stock to Members of the Management Board	7,759	0
Effect of Transfer of Treasury Stock / Shares Issued in January	0	0
Effect of Transfer of Treasury Stock / Shares Issued in February	0	0
Effect of Transfer of Treasury Stock / Shares Issued in March	0	0
Effect of Transfer of Treasury Stock / Shares Issued in April	154,250	12,638
Effect of Transfer of Treasury Stock / Shares Issued in May	3,778	10,039
Effect of Transfer of Treasury Stock / Shares Issued in June	1,094	17,749
Effect of Transfer of Treasury Stock / Shares Issued in July	2,038	0
Effect of Transfer of Treasury Stock / Shares Issued in August	2,669	6,463
Effect of Transfer of Treasury Stock / Shares Issued in September	3,976	490
Effect of Transfer of Treasury Stock / Shares Issued in October	2,566	76
Effect of Transfer of Treasury Stock / Shares Issued in November	5,549	0
Effect of Transfer of Treasury Stock / Shares Issued in December	127	0
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**28,947,566**	**26,443,415**

In 2017 and 2016, diluted earnings per share equal basic earnings per share. The effect of 87,904 potentially dilutive shares in 2017 (2016: 99,764 dilutive shares) resulting from stock options and convertible bonds granted to the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group, has been excluded from the diluted earnings per share because it would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

5 Notes to the Assets of the Balance Sheet

5.1 CASH AND CASH EQUIVALENTS

in 000' €	12/31/2017	12/31/2016
Bank Balances and Cash in Hand	76,589	73,929
Term Deposits	1,133	1,252
Restricted Cash	(1,133)	(1,252)
Cash and Cash Equivalents	76,589	73,929

Restricted cash of € 1.1 million mainly consisted of rent deposits (2016: € 1.3 million).

5.2 FINANCIAL ASSETS AND BONDS, AVAILABLE-FOR-SALE AND FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

As of December 31, 2017 and December 31, 2016, available-for-sale financial assets consisted of the items below.

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
DECEMBER 31, 2017					
Money Market Funds	daily	86,644	0	106	86,538
TOTAL					**86,538**
DECEMBER 31, 2016					
Money Market Funds	daily	63,433	2	73	63,362
TOTAL					**63,362**

In 2017, the Group recorded a net gain of less than € 0.1 million in the income statement from the disposal of financial assets. This gain was previously recognized in stockholders' equity (2016: net gain of € 0.3 million).

As of December 31, 2017 and December 31, 2016, bonds, available-for-sale consisted of the items below.

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
DECEMBER 31, 2017					
Bonds	daily	0	0	0	0
TOTAL					**0**
DECEMBER 31, 2016					
Bonds	daily	6,620	2	90	6,532
TOTAL					**6,532**

In 2017, the Group recorded a net loss of € 0.1 million from the disposal of financial assets contained in the income statement that were previously recognized in stockholders' equity (2016: net loss of € 1.2 million). The bonds were purchased at a price above their nominal value. The loss that resulted from the product-specific price development is more than offset by the bond's interest income.

As of December 31, 2017, the Company held current financial assets of € 149.1 million (December 31, 2016: € 136.1 million) and no non-current financial assets (December 31, 2016: € 79.5 million), which were allocated to the "loans and receivables" category in accordance with IAS 39 "Financial Instruments". These financial assets consisted mainly of term deposits with fixed or variable interest rates. The decline in financial assets resulted from the expiry of their agreed holding periods and the use of the related cash released for operating activities. The carrying amounts included interest receivables of € 0.1 million (December 31, 2016: € 0.1 million).

Interest income from financial assets under "loans and receivables" amounted to € 0.2 million (2016: € 0.9 million) and was recorded in the finance result. The risk associated with these financial instruments primarily resulted from bank credit risks. There was no indication of impairment in the financial year 2017.

Further information on the accounting for financial assets is provided in Item 2.8.1* in the Notes.

*CROSS-REFERENCE *to page 123*

5.3 ACCOUNTS RECEIVABLE

All accounts receivable are non-interest bearing, and generally have payment terms of between 30 and 45 days. As of December 31, 2017 and December 31, 2016, accounts receivable included unbilled receivables amounting to € 5.3 million and € 3.3 million, respectively.

Based on the Management Board's estimate, no net loss for allowances for doubtful receivables was recognized in profit and loss in 2017 and 2016.

5.4 OTHER RECEIVABLES

As of December 31, 2017, there were no impairments recognized for other receivables. An immaterial amount of impairments had been recognized as of December 31, 2016.

5.5 INCOME TAX RECEIVABLES, INVENTORIES, PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2017 income tax receivables amounted to € 0.7 million (December 31, 2016: € 0.5 million) and consisted of receivables from capital gain taxes withheld and income taxes for prior years.

Inventories amounting to € 0.3 million as of December 31, 2017 (December 31, 2016: € 0.3 million) were stored at the Planegg location and consisted of raw materials and supplies. As in the previous year, no inventories were carried at fair value less selling costs as of the reporting date.

As of December 31, 2017, prepaid expenses and other current assets mainly consisted of combination compounds of € 11.2 million (December 31, 2016: € 7.3 million), receivables due from tax authorities for the remaining surplus from prepayments for value-added taxes of € 2.4 million (December 31, 2016: € 2.8 million), prepaid fees for external laboratory services of € 0.6 million (December 31, 2016: € 2.4 million), prepaid fees for sublicenses of € 0.4 million (December 31, 2016: € 0.3 million), restricted cash for rent deposits of € 0.4 million (December 31, 2016: € 0.4 million) and other prepayments amounting to € 1.1 million (December 31, 2016: € 0.8 million).

5.6 PROPERTY, PLANT AND EQUIPMENT

in 000' €	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost			
JANUARY 1, 2017	**16,658**	**2,389**	**19,047**
Additions	1,205	112	1,317
Disposals	(528)	0	(528)
DECEMBER 31, 2017	**17,335**	**2,501**	**19,836**
Accumulated Depreciation and Impairment			
JANUARY 1, 2017	**13,120**	**1,738**	**14,858**
Depreciation Charge for the Year	1,887	82	1,969
Impairment	0	0	0
Disposals	(517)	0	(517)
DECEMBER 31, 2017	**14,490**	**1,820**	**16,310**
Carrying Amount			
JANUARY 1, 2017	**3,538**	**651**	**4,189**
DECEMBER 31, 2017	**2,845**	**681**	**3,526**
Cost			
JANUARY 1, 2016	**15,040**	**1,780**	**16,820**
Additions	1,890	612	2,502
Disposals	(272)	(3)	(275)
DECEMBER 31, 2016	**16,658**	**2,389**	**19,047**
Accumulated Depreciation and Impairment			
JANUARY 1, 2016	**11,691**	**1,655**	**13,346**
Depreciation Charge for the Year	1,700	86	1,786
Impairment	0	0	0
Disposals	(271)	(3)	(274)
DECEMBER 31, 2016	**13,120**	**1,738**	**14,858**
Carrying Amount			
JANUARY 1, 2016	**3,349**	**125**	**3,474**
DECEMBER 31, 2016	**3,538**	**651**	**4,189**

No impairment of property, plant and equipment was recognized in the 2017 and 2016 financial years.

No borrowing costs were capitalized during the reporting period. There were neither restrictions on retention of title nor property, plant and equipment pledged as security for liabilities. There were no material contractual commitments for the purchase of property, plant and equipment as of the reporting date.

Depreciation is included in the following line items of the income statement.

in 000' €	2017	2016
Research and Development	1,672	1,518
General and Administrative	297	268
TOTAL	**1,969**	**1,786**

5.7 INTANGIBLE ASSETS

in 000' €	Patents	License Rights	In-process R&D Programs	Software	Goodwill	Total
Cost						
JANUARY 1, 2017	**16,419**	**23,896**	**60,960**	**5,800**	**11,041**	**118,116**
Additions	640	0	11,140	53	0	11,833
Disposals	(64)	0	(19,941)	0	0	(20,005)
DECEMBER 31, 2017	**16,995**	**23,896**	**52,159**	**5,853**	**11,041**	**109,944**
Accumulated Amortization and Impairment						
JANUARY 1, 2017	**11,096**	**20,749**	**10,141**	**4,515**	**3,676**	**50,177**
Amortization Charge for the Year	1,230	148	0	683	0	2,061
Impairment	64	0	9,800	0	0	9,864
Disposals	(64)	0	(19,941)	0	0	(20,005)
DECEMBER 31, 2017	**12,326**	**20,897**	**0**	**5,198**	**3,676**	**42,097**
Carrying Amount						
JANUARY 1, 2017	**5,323**	**3,147**	**50,819**	**1,285**	**7,365**	**67,939**
DECEMBER 31, 2017	**4,669**	**2,999**	**52,159**	**655**	**7,365**	**67,847**
Cost						
JANUARY 1, 2016	**16,064**	**23,896**	**60,960**	**5,744**	**11,041**	**117,705**
Additions	355	0	0	56	0	411
DECEMBER 31, 2016	**16,419**	**23,896**	**60,960**	**5,800**	**11,041**	**118,116**
Accumulated Amortization and Impairment						
JANUARY 1, 2016	**9,923**	**20,651**	**0**	**3,808**	**3,676**	**38,058**
Amortization Charge for the Year	1,173	98	0	707	0	1,978
Impairment	0	0	10,141	0	0	10,141
DECEMBER 31, 2016	**11,096**	**20,749**	**10,141**	**4,515**	**3,676**	**50,177**
Carrying Amount						
JANUARY 1, 2016	**6,141**	**3,245**	**60,960**	**1,936**	**7,365**	**79,647**
DECEMBER 31, 2016	**5,323**	**3,147**	**50,819**	**1,285**	**7,365**	**67,939**

In the 2017 financial year, impairment losses of € 0.1 million were recognized on patents and licenses. No impairment of patents and licenses was recognized in the 2016 financial year.

As of December 31, 2017, in-process research and development programs were subject to an impairment test as required by IAS 36. This test indicated no need for impairment. Further details on the impairment of in-process research and development programs can be found in Item 5.7.3* in the Notes.

*CROSS-REFERENCE *to page 138*

The carrying amount of intangible assets pledged as security amounts to € 26.5 million and relates to a government grant in the amount of € 1.5 million.

Amortization is included in the following line items of the income statement.

in 000' €	2017	2016
Research and Development	1,958	1,872
Research and Development (Write-off)	9,864	10,141
General and Administrative	103	106
TOTAL	**11,925**	**12,119**

5.7.1 PATENTS

In the 2017 financial year, the carrying amount of patents declined by € 0.6 million from € 5.3 million to € 4.7 million. This was the result of additions amounting to € 0.6 million for patent applications, particularly for proprietary programs and technologies, which were offset by straight-line amortization of € 1.2 million.

5.7.2 LICENSES

In the 2017 financial year, the carrying amount of licenses declined by € 0.1 million from € 3.1 million to € 3.0 million.

5.7.3 IN-PROCESS R&D PROGRAMS

In the 2017 financial year, the carrying amount of in-process R&D programs increased by € 1.3 million to € 52.2 million. The reason for this increase was the capitalization of a milestone payment made in the amount of € 11.1 million, which was offset by an impairment on MOR209/ES414 of € 9.8 million. The reason for the impairment was the termination of the cooperation with Aptevo Therapeutics in 2017 due to the expectation of a delay in the development plan, a delayed market entry and a delay in the occurrence of future cash flows compared to previous assumptions.

As of December 31, 2017, this balance sheet item contained capitalized upfront payments from the in-licensing of one compound for the Proprietary Development segment as well as subsequent milestone payments for this compound which were paid at a later point in time. Additionally, the line item also included two compounds resulting from an acquisition.

The annual impairment test was performed on September 30, 2017. At that time, the compound MOR208, an intangible asset with indefinite useful life and a carrying amount of € 23.9 million, was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit MOR208, which is part of the Proprietary Development segment, was determined on the basis of value-in-use calculations. The calculation showed that the recoverable amount was higher than the carrying amount of the cash-generating unit. The cash flow forecasts took into account expected cash inflows from the potential commercialization of the compound and cash outflows from the expected research and development as well as commercialization costs. The cash flow forecasts are based on the term with patent protection for MOR208. For this reason, a planning horizon of about 20 years is considered appropriate for the value-in-use calculation. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). Based on the updated cash flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2016: 1.2) and WACC before taxes of 9.4% (2016: 8.6%). A detailed sensitivity analysis was performed for the discount rate. A sensitivity analysis for changes in the cash flows has not been performed since the cash flows from research and development as well as commercialization of the compound have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success of phases in clinical trials. The analysis did not reveal any need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information. No indicators for impairments were identified at December 31, 2017.

5.7.4 SOFTWARE

In the 2017 financial year, additions to this line item totaled € 0.1 million. The carrying amount decreased by € 0.6 million from € 1.3 million in 2016 to € 0.7 million in 2017. Additions were offset by amortization of € 0.7 million.

5.7.5 GOODWILL

The annual goodwill impairment test was performed on September 30, 2017.

As of September 30, 2017, goodwill of € 3.7 million from the 2010 acquisition of Sloning BioTechnology GmbH was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit Slonomics technology, which is part of the Partnered Discovery segment, was determined on the basis of value-in-use calculations. The calculation showed that the recoverable amount was higher than the carrying amount of the cash-generating unit. The cash flow forecasts took into account the payments expected under existing contracts as well as the future free cash flows from the contribution of the Slonomics technology to partnered programs and was offset by expected personnel and administrative expenses. Cash flow forecasts are based on a period of ten years because the Management Board believes that commercialization through licensing agreements, upfront payments, milestone payments, funded development services and royalties is only feasible by means of medium- to long-term contracts. For this reason, a planning horizon of ten years is considered appropriate for the value-in-use calculation. The cash flow forecasts are largely based on the assumption that the Slonomics technology is very beneficial for existing customers. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). Based on the updated ten-year cash flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2016: 1.2), WACC before taxes of 10.6% (2016: 12.2%) and a perpetual growth rate of 1% (2016: 1%). A detailed sensitivity analysis was performed for the growth rate and the discount rate for calculating value-in-use. The sensitivity analysis took into account the change in one assumption, with the remaining assumptions remaining unchanged from the original calculation. A sensitivity analysis for changes in the cash flows has not been performed since the cash flows have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success of phases in clinical trials. This analysis did not reveal any additional need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information.

As of September 30, 2017, goodwill of € 3.7 million and related intangible assets with indefinite useful life of € 28.2 million from the Lanthio Group acquisition was tested for impairment. The recoverable amount of the cash-generating unit Lanthio Group, which is part of the Proprietary Development segment, was determined on the basis of value-in-use calculations. The value-in-use was higher than the carrying amount of the cash-generating unit. The cash flow forecasts included planned cash inflows from the potential sale of compounds based on lanthipeptides expected to achieve market approval. These cash inflows were offset by expected operating expenses for compound development and clinical trials as well as sales and administrative expenses. The duration and likelihood of individual stages of the study were taken into consideration. Cash flow forecasts are based on a period of 30 years because the Management Board believes that after the successful approval of compounds, the drugs that follow can generate free cash flows within that period of time. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). On the basis of

the updated cash flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2016: 1.2) and WACC before taxes of 12.1 % (2016: 11.9 %). A detailed sensitivity analysis was performed with regard to the discount rate. A sensitivity analysis for changes in the cash flows has not been performed since the cash flows from research and development as well as commercialization of the compounds have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success of phases in clinical trials. This analysis did not reveal any need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information.

No indicators for impairments were identified at December 31, 2017.

5.8 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

This line item included the non-current portion of prepaid expenses and other assets and mainly resulted from prepaid rent for the premises in Semmelweisstraße 7 in Planegg. The Group classified certain line items under other assets as "restricted cash" that are not available for use in the Group's operations (see Items 2.8.1* and 5.1* in the Notes). As of December 31, 2017 and December 31, 2016, the Group held long-term restricted cash in the amount of € 0.7 million and € 0.9 million, respectively, for issued rent guarantees and of € 0.1 million for convertible bonds granted to employees (December 31, 2016: € 0.2 million).

*CROSS-REFERENCE *to page 123 and page 133*

The table below shows the breakdown of this line item.

in 000' €	12/31/2017	12/31/2016
Prepaid Expenses, Net of Current Portion	2,546	2,783
Other Current Assets	798	1,111
TOTAL	**3,344**	**3,894**

6 Notes to Equity and Liabilities of the Balance Sheet

6.1 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable were non-interest-bearing and under normal circumstances had payment terms of no more than 30 days.

Accounts payable are listed in the table below.

in 000' €	12/31/2017	12/31/2016
Trade Accounts Payable	4,622	8,457
Licenses Payable	196	179
Accrued Expenses	36,408	22,838
Other Liabilities	3,586	749
TOTAL	**44,812**	**32,223**

Accrued expenses mainly included accrued personnel expenses for payments to employees and management amounting to € 5.0 million (December 31, 2016: € 2.8 million), provisions for outstanding invoices in the amount of € 2.6 million (December 31, 2016: € 2.6 million), external laboratory services in the amount of € 26.3 million (December 31, 2016: € 16.2 million), license payments in the amount of € 0.2 million (December 31, 2016: € 0.1 million), audit fees and other audit-related costs in the amount of € 0.2 million (December 31, 2016: € 0.1 million) and expenses for legal advice in the amount of € 2.1 million (December 31, 2016: € 1.0 million).

At the Company's Annual General Meeting in May 2017, the Supervisory Board was authorized to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH), Munich, as the auditor.

In the 2017 financial year, PwC GmbH received compensation from MorphoSys in the amount of € 351,044, including audit fees in the amount of € 252,725 as well as fees for other services in the amount of € 98,319. PwC GmbH did neither provide other audit-related and valuation services nor tax consultation services in 2017.

6.2 TAX PROVISIONS AND PROVISIONS

As of December 31, 2017, the Group recorded tax provisions and provisions of € 1.5 million (2016: € 4.9 million).

Tax provisions mainly consisted of income tax expenses and provisions included provisions for onerous contracts and lease obligations for office premises, which will not be used anymore in the future, as well as for potential losses resulting from unsettled forward rate agreements. Furthermore provisions comprised obligations resulting from an agreement with a contract manufacturing organization.

As of December 31, 2017, tax provisions and provisions are uncertain in their amount and are expected to be utilized in 2018.

The table below shows the development of tax provisions and current and non-current provisions in the 2017 financial year.

in 000' €	01/01/2017	Additions	Utilized	Released	12/31/2017
Tax Provisions	1,652	147	1,484	0	315
Provisions	3,218	1,116	1,841	1,284	1,209
TOTAL	**4,870**	**1,263**	**3,325**	**1,284**	**1,524**

6.3 DEFERRED REVENUES

Deferred revenues are payments received from customers for which the services have not been rendered. The table below shows the development of this line item.

in 000' €	2017	2016
OPENING BALANCE	**2,905**	**4,507**
Prepayments Received in the Fiscal Year	18,386	17,441
Revenue Recognized through Release of Prepayments in line with Services Performed in the Fiscal Year	(19,596)	(19,043)
CLOSING BALANCE	**1,695**	**2,905**
thereof short-term	1,389	1,232
thereof long-term	306	1,673

6.4 OTHER LIABILITIES

Other liabilities exclusively consisted of the deferred amount of the rent-free period for the building located at Semmelweisstraße 7, Planegg, as agreed in the lease contract. This item is released over the contractually agreed minimum rent period.

The current portion amounting to € 0.1 million of this liability was included in the item accounts payable and accrued expenses.

6.5 STOCKHOLDERS' EQUITY

6.5.1 COMMON STOCK

On December 31, 2017, the Company's common stock, including treasury stock, increased by € 261,015 to € 29,420,785 from its level of € 29,159,770 on December 31, 2016. Each no-par value share is entitled to one vote. Common stock increased by € 261,015 as a result of the exercise of 261,015 convertible bonds granted to the Management Board and the Senior Management Group. The weighted-average exercise price of the exercised convertible bonds was € 31.88.

On December 31, 2017, the Company held 319,678 shares of treasury stock amounting to € 11,826,981 which represents a decrease of € 2,821,231 compared to December 31, 2016 (396,010 shares, € 14,648,212). This decrease was the result of the transfer of 61,871 shares of treasury stock to the Management Board and Senior Management under the performance-based 2013 long-term incentive plan (LTI plan) totaling € 2,286,752. The vesting period for this LTI program expired on April 1, 2017 and October 1, 2017 and provides or provided beneficiaries a six-month option to receive a total of 61,871 shares. In addition, in March 2017, Chief Development Officer Dr. Peters received 9,505 treasury shares worth € 351,305. In November 2017, Chief Scientific Officer Dr. Enzelberger received 4,956 treasury shares worth € 183,174. As a result, the number of MorphoSys shares held by the Company as of December 31, 2017 amounted to 319,678 (December 31 2016: 396,010).

6.5.2 AUTHORIZED CAPITAL

The number of authorized ordinary shares increased from 10,584,333 on December 31, 2016, to 14,579,885. This increase resulted from the cancellation of Authorized Capital 2015-I amounting to € 10,584,333 and the creation of Authorized Capital 2017-I in the amount of € 2,915,977 and Authorized Capital 2017-II in the amount of € 11,663,908 at the Annual General Meeting on May 17, 2017. Within the scope of Authorized Capital 2017-I and 2017-II, with the Supervisory Board's approval, the Management Board received authorization to increase the Company's common stock on one or more occasions until and including April 30, 2022 by up to € 2,915,977 and € 11,663,908, respectively, by issuing up to 2,915,977 and 11,663,908 new, no-par-value bearer shares.

Pursuant to the Company's articles of association, the shareholders may authorize the Management Board to increase the share capital with the consent of the Supervisory Board within a period of five years by issuing shares for a certain total amount, which are referred to as authorized capital (genehmigtes Kapital) and is a concept under German law that enables the Company to issue shares without going through the process of obtaining another shareholders' resolution. The aggregate nominal amount of the authorized capital created by the shareholders may not exceed one-half of the share capital existing at the time of registration of the authorized capital with the commercial register.

6.5.3 CONDITIONAL CAPITAL

The number of ordinary shares of conditional capital compared to December 31, 2016 decreased from 6,752,698 to 6,491,683 shares due to the exercise of 261,015 conversion rights in 2017. The reduction in ordinary shares of conditional capital through the exercise of 261,015 conversion rights was entered in the commercial register in December 2017.

The shareholders may resolve to amend or create conditional capital (bedingtes Kapital). However, they may do so only to issue conversion or subscription rights to holders of convertible bonds, in preparation for a merger with another company or to issue subscription rights to employees and members of the Management Board of the Company or of an affiliated company by way of a consent or authorization resolution. According to German law, the aggregate nominal amount of the conditional capital created at the shareholders' meeting may not exceed

one-half of the share capital existing at the time of the shareholders' meeting adopting such resolution. The aggregate nominal amount of the conditional capital created for the purpose of granting subscription rights to employees and members of the management of our company or of an affiliated company may not exceed 10% of the share capital existing at the time of the shareholders' meeting adopting such resolution.

6.5.4 TREASURY STOCK

In contrast to the year 2016, the Group did not repurchase any of its own shares in 2017. The composition and development of this line item is listed in the following table.

	Number of Shares	Value
As of 12/31/2010	79,896	9,774
Purchase in 2011	84,019	1,747,067
As of 12/31/2011	163,915	1,756,841
Purchase in 2012	91,500	1,837,552
As of 12/31/2012	255,415	3,594,393
Purchase in 2013	84,475	2,823,625
As of 12/31/2013	339,890	6,418,018
Purchase in 2014	111,000	7,833,944
As of 12/31/2014	450,890	14,251,962
Purchase in 2015	88,670	5,392,931
Transfer in 2015	(104,890)	(3,816,947)
As of 12/31/2015	434,670	15,827,946
Purchase in 2016	52,295	2,181,963
Transfer in 2016	(90,955)	(3,361,697)
As of 12/31/2016	396,010	14,648,212
Transfer in 2017	(76,332)	(2,821,231)
As of 12/31/2017	319,678	11,826,981

6.5.5 ADDITIONAL PAID-IN CAPITAL

On December 31, 2017, additional paid-in capital amounted to € 438,557,857 (December 31, 2016: € 428,361,175). The total increase of € 10,196,682 resulted mainly from the exercise of convertible bonds in the amount of € 8,043,313 and the allocation of personnel expenses resulting from share-based payments in the amount of € 4,974,599. There was an offsetting effect from the decline in the reclassification of treasury shares in the context of the allocation of shares under the 2013 performance-based share plan in the amount of € 2,286,752 and the allocation of treasury shares to Dr. Peters and Dr. Enzelberger in the amount of € 534,479.

6.5.6 REVALUATION RESERVE

As of December 31, 2017, the revaluation reserve amounted to € – 105,483 (December 31, 2016: € 136,101). The decline of € 241,584 resulted from the change in the unrealized gains and losses from available-for-sale securities and bonds in the amount of € 117,829 and the change in unrealized losses of € – 359,413 from cash flow hedges.

6.5.7 ACCUMULATED DEFICIT

The consolidated net loss of € – 69,826,469 is reported in accumulated deficit. The accumulated deficit increased from € – 27,548,669 in the year 2016 to € – 97,375,138 in 2017.

7 Remuneration System for the Management Board and Employees of the Group

7.1 2017 STOCK OPTION PLAN

On April 1, 2017, MorphoSys established a stock option plan (SOP) for the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group. In accordance with IFRS 2, the program is considered an equity-settled share-based payment and is accounted for accordingly. The grant date was April 1, 2017 and the vesting period/performance period is four years. The stock options vest each year by 25% within the four-year vesting period, provided that the performance criteria specified for the respective period have been 100% fulfilled. The number of stock options vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The performance criteria can be met annually up to a maximum of 200%. If the specified performance criteria are met by less than 0% in one year, no shares will be earned for that year (entitlement). The right to exercise a stock option, however, arises only at the end of the four-year vesting period/performance period.

The exercise price, derived from the average market price of the Company's shares in the XETRA closing auction on the Frankfurt Stock Exchange from the 30 trading days prior to the issue of the stock options, is € 55.52.

MorphoSys reserves the right to settle the exercise of stock options through newly created shares from Conditional Capital 2016-III, through the issuance of treasury shares or in cash. The exercise period is three years after the end of the four-year vesting period/performance period, which is March 31, 2024.

If a member of the Management Board ceases to hold an office at the MorphoSys Group through termination (or the Management Board member terminates the employment contract), resignation, death, injury, disability or the attainment of retirement age (receipt of a standard retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to a precise daily pro rata number of stock options.

If a member of the Management Board ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB), all unexercized stock options will be forfeited without any entitlement to compensation.

If a change of control occurs during the four-year vesting period, the stock options will become fully vested. In this case, however, the right to exercise the stock options arises only at the end of the four-year vesting period.

As of April 1, 2017, a total of 81,157 stock options had been granted to the beneficiaries, of which 40,319 had been granted to the Management Board (further details can be found in the "Stock Options" table in Note 7.4* "Related Parties"), 37,660 to the Senior Management Group and 3,178 to the Company employees who do not belong to the Senior Management Group. The stated number of stock options granted is based on 100% target achievement. The fair value of the stock options on the grant date (April 1, 2017) was € 21.41 per stock option. In the period from the grant date to December 31, 2017, one beneficiary had left MorphoSys, resulting in the forfeiture of 1,402 stock options. For the calculation of personnel expenses resulting from share-based payments under the 2017 Stock Option Plan, the assumption is that two beneficiaries would leave the company during the four-year period.

*CROSS-REFERENCE *to page 147*

In 2017, personnel expenses from stock options under the Group's 2017 SOP amounted to € 801,330.

The fair value of the stock options from the 2017 Stock Option Plan has been determined with a Monte Carlo simulation. The expected volatility is based on the development of the share volatility of the last four years. Furthermore, the calculation of fair value equally considered the performance criteria of the absolute and relative performance of MorphoSys shares compared to the development of the NASDAQ Biotech Index and the TecDAX Index. The parameters of each program are listed in the table below.

	April 2017 Stock Option Plan
Share Price on Grant Date in €	55.07
Strike Price in €	55.52
Expected Volatility of the MorphoSys share in %	37.49
Expected Volatility of the NASDAQ Biotech Index in %	25.07
Expected Volatility of the TecDAX Index in %	16.94
Performance Term of Program in Years	4.0
Dividend Yield in %	n/a
Risk-free Interest Rate in %	between 0.03 and 0.23

7.2 CONVERTIBLE BONDS – 2013 PROGRAM

On April 1, 2013, MorphoSys AG granted the Management Board and members of the Senior Management Group convertible bonds with a total nominal value of € 225,000 and divided into 449,999 bearer bonds with equal rights from "Conditional Capital 2008-III". The beneficiaries have the right to convert the bonds into Company shares. Each convertible bond can be exchanged for one of the Company's bearer shares equal to the proportional amount of common stock, which currently stands at € 1. Exercise of the convertible bonds is subject to several conditions, such as the achievement of performance targets, the expiration of vesting periods, the exercisability of the conversion rights, the existence of an employment or service contract that is not under notice and the commencement of the exercise period.

The conversion price amounted to € 31.88 and was derived from the Company's share price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issue of the convertible bonds. The exercise of the conversion rights is admissible since, on at least one trading day during the lifetime of the convertible bonds, the share price of the Company has risen to more than 120% of the price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issue of the convertible bonds.

The exercise of the conversion rights is only admissible since the expiration of the four-year vesting period from the grant date. For every year without a notice of termination of the employment relationship with the Company or an affiliated company, 25% of the conversion rights become vested.

The following table shows the development of the convertible bond plans for Group employees in the 2017 and 2016 financial years.

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2016	**449,999**	**31.88**
Granted	0	0.00
Exercised	0	0.00
Forfeited	(13,414)	31.88
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2016	**436,585**	**31.88**
OUTSTANDING ON JANUARY 1, 2017	**436,585**	**31.88**
Granted	0	0.00
Exercised	(261,015)	31.88
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2017	**175,570**	**31.88**

From the grant date until December 31, 2017, one beneficiary left MorphoSys and, therefore, 13,414 convertible bonds were forfeited. As December 31, 2017, the number of vested convertible bonds totaled 175,570 shares (December 31, 2016: 327,439 shares).

The following overview includes the weighted-average exercise price as well as information on the contract duration of significant groups of convertible bonds as of December 31, 2017.

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Exercise Price (€)
€ 25.00 – € 40.00	175,570	2.25	31.88	175,570	31.88
	175,570	**2.25**	**31.88**	**175,570**	**31.88**

The Group recognizes personnel expenses resulting from convertible bonds on a straight-line basis in accordance with IFRS 2 and IAS 32.28. The equity component of the convertible bonds is presented separately under additional paid-in capital. The corresponding amount is recognized as personnel expenses from convertible bonds. In 2017 and 2016, compensation expenses related to convertible bonds amounted to € 287,601 and € 40,375, respectively.

7.3 LONG-TERM INCENTIVE PROGRAMS

7.3.1 2013 LONG-TERM INCENTIVE PROGRAM

On April 1, 2013, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The vesting period of this plan expired on April 1, 2017. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and is paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. The key performance criteria are based on the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. These criteria are approved annually by the Supervisory Board. The fulfillment of these criteria was set at 200% for one year, 54% for one year and 0% for two years. The Supervisory Board set the "company factor" at 1.57, meaning the number of performance shares to be allocated was scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 1.0 million in the 2017 financial year. Previously, personnel expenses resulting from the 2013 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 61,323 performance shares of MorphoSys AG was transferred to beneficiaries on October 2, 2017 after the expiration of the four-year vesting period. The Management Board received 36,729 performance shares (for further information, please see the tables titled "Shares" and "Performance Shares" in Item 7.4* "Related Parties"), the Senior Management Group received 21,248 performance shares and former members of the Senior Management Group who have since left the Company received 3,346 performance shares.

*CROSS-REFERENCE *to page 147*

On October 1, 2013, MorphoSys established another long-term incentive plan (LTI plan) for Senior Management Group members. The vesting period of this plan expired on October 1, 2017. The terms of this plan were identical to the April 1, 2013 plan. The fulfillment of the performance criteria was set at 200% for one year, 54.8% for one year and 0% for two years. The Supervisory Board set the "company factor" at 1.57, meaning the number of performance shares to be allocated was scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 0.02 million in the 2017 financial year. Previously, personnel expenses resulting from the 2013 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 548 performance shares of MorphoSys AG was allocated to beneficiaries after the expiration of the four-year vesting period in December 2017. The Senior Management Group received all of the 548 performance shares.

In 2017, personnel expenses from stock options under the Group's 2013 LTI plan amounted to € 1,038,639 (2016: € – 23,571).

7.3.2 2014 LONG-TERM INCENTIVE PROGRAM

On April 1, 2014, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2014 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan, however, occurs only at the end of the four-year vesting period.

At the end of the four-year vesting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at the MorphoSys Group because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI plan occurs only at the end of the four-year vesting period.

In March 2014, MorphoSys repurchased 111,000 of its own shares on the stock exchange at an average price of € 70.53 per share. The repurchased shares may be used for all purposes named in the authorizations of the Annual General Meetings on May 19, 2011 and May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 32,513 of these shares were allocated to beneficiaries on April 1, 2014 with 18,264 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties") and 14,249 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2014) was € 62.17 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, three beneficiaries left MorphoSys and, therefore, 1,829 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2014 LTI plan, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

*CROSS-REFERENCE *to page 147*

In 2017, personnel expenses resulting from performance shares under the Group's 2014 LTI plan amounted to € 55,759 (2016: € 178,518).

7.3.3 2015 LONG-TERM INCENTIVE PROGRAM

On April 1, 2015, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2015 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan, however, occurs only at the end of the four-year vesting period.

At the end of the four-year waiting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at the MorphoSys Group because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI plan occurs only at the end of the four-year vesting period.

In April 2015, MorphoSys repurchased 88,670 of its own shares on the stock exchange at an average price of € 60.79 per share. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 40,425 of these shares were allocated to beneficiaries on April 1, 2015 with 21,948 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties") and 18,477 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2015) was € 61.40 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, two beneficiaries left MorphoSys, and therefore 3,055 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2015 LTI plan, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

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In 2017, personnel expenses resulting from performance shares under the Group's 2015 LTI plan amounted to € 201,608 (2016: € 837,153).

7.3.4 2016 LONG-TERM INCENTIVE PROGRAM

On April 1, 2016, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2016 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan, however, occurs only at the end of the four-year vesting/performance period.

At the end of the four-year waiting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at the MorphoSys Group because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI plan occurs only at the end of the four-year vesting period.

In March 2016, MorphoSys repurchased 52,295 of its own shares on the stock exchange at an average price of € 41.69 per share. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 68,143 of these shares were allocated to beneficiaries on April 1, 2016 with 35,681 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties") and 32,462 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2016) was € 46.86 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, four beneficiaries left MorphoSys, and therefore 9,350 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2016 LTI plan, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

*CROSS-REFERENCE *to page 147*

In 2017, personnel expenses resulting from performance shares under the Group's 2016 LTI plan amounted to € 663,624 (2016: € 1,483,694).

7.3.5 2017 LONG-TERM INCENTIVE PLAN

On April 1, 2017, MorphoSys established another long-term incentive plan (LTI plan) for the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. The grant date was April 1, 2017 and the vesting/performance period is four years. If the predefined performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The performance criteria can be met annually up to a maximum of 300% and up to 200% for the entire four-year period. If the specified performance criteria are met by less than 0% in one year, no shares will be earned for that year (entitlement). In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan, however, occurs only at the end of the four-year vesting/performance period.

At the end of the four-year waiting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at the MorphoSys Group because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI plan occurs only at the end of the four-year vesting period.

A total of 31,549 of these shares were allocated to beneficiaries on April 1, 2017 with 15,675 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties"), 14,640 performance shares allocated to the Senior Management Group and 1,234 performance shares allocated to employees of the Company who are not members of the Senior Management Group. The number of performance shares allocated is based on 100% achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2017) was € 70.52 per share. From the grant date until December 31, 2017, one beneficiary left MorphoSys, and therefore 545 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2017 LTI plan, the assumption is that two beneficiaries would leave the company during the four-year period.

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In 2017, personnel expenses resulting from performance shares under the Group's 2017 LTI plan amounted to € 1,026,037.

The fair value of the performance shares from the long-term incentive plans 2014 until 2017 has been determined with a Monte Carlo simulation. The expected volatility is based on the development of the share volatility of the last four years. Furthermore, the calculation of fair value equally considered the performance criteria of the absolute and relative performance of MorphoSys shares compared to the development of the NASDAQ Biotech Index and the TecDAX Index. The parameters of each program are listed in the table below.

	April 2014 Long-Term Incentive Program	April 2015 Long-Term Incentive Program	April 2016 Long-Term Incentive Program	April 2017 Long-Term Incentive Program
Share Price on Grant Date in €	68.08	57.18	43.28	55.07
Strike Price in €	n/a	n/a	n/a	n/a
Expected Volatility of the MorphoSys share in %	30.87	33.09	34.64	37.49
Expected Volatility of the NASDAQ Biotech Index in %	20.28	20.70	23.39	25.07
Expected Volatility of the TecDAX Index in %	20.18	20.10	17.01	16.94
Performance Term of Program in Years	4.0	4.0	4.0	4.0
Dividend Yield in %	n/a	n/a	n/a	n/a
Risk-free Interest Rate in %	0.44	0.07	0.05	between 0.03 and 0.23

7.4 RELATED PARTIES

Related parties that can be influenced by the Group or can have a significant influence on the Group can be divided into subsidiaries, members of management in key positions and other related entities.

The Group engages in business relationships with members of the Management Board and Supervisory Board as related parties responsible for the planning, management and monitoring of the Group. In addition to cash compensation, the Group has granted the Management Board convertible bonds and performance shares. The tables below show the shares, stock options, convertible bonds and performance shares held by the members of the Management Board and Supervisory Board, as well as the changes in their ownership during the 2017 financial year.

SHARES

	01/01/2017	Additions	Sales	12/31/2017
MANAGEMENT BOARD				
Dr. Simon Moroney	514,214	12,024	42,529	483,709
Jens Holstein	7,000	38,235	34,235	11,000
Dr. Malte Peters[1]	-	9,505	0	9,505
Dr. Markus Enzelberger[2]	-	4,956	2,600	7,262
Dr. Arndt Schottelius[3]	10,397	68,772	0	-
Dr. Marlies Sproll[4]	57,512	68,772	0	-
TOTAL	**589,123**	**202,264**	**79,364**	**511,476**
SUPERVISORY BOARD				
Dr. Gerald Möller	11,000	0	0	11,000
Dr. Frank Morich	1,000	0	0	1,000
Dr. Marc Cluzel	500	0	0	500
Krisja Vermeylen[5]	-	350	0	350
Wendy Johnson	500	0	0	500
Klaus Kühn	0	0	0	0
Karin Eastham[6]	2,000	0	0	-
TOTAL	**15,000**	**350**	**0**	**13,350**

STOCK OPTIONS

	01/01/2017	Additions	Forfeitures	Exercises	12/31/2017
MANAGEMENT BOARD					
Dr. Simon Moroney	0	12,511	0	0	12,511
Jens Holstein	0	8,197	0	0	8,197
Dr. Malte Peters[1]	-	8,197	0	0	8,197
Dr. Markus Enzelberger[2]	-	5,266	0	0	5,266
Dr. Marlies Sproll[4]	0	6,148	0	0	-
TOTAL	**0**	**40,319**	**0**	**0**	**34,171**

CONVERTIBLE BONDS

	01/01/2017	Additions	Forfeitures	Exercises	12/31/2017
MANAGEMENT BOARD					
Dr. Simon Moroney	88,386	0	0	0	88,386
Jens Holstein	90,537	0	0	30,000	60,537
Dr. Malte Peters[1]	-	0	0	0	0
Dr. Markus Enzelberger[2]	-	0	0	0	0
Dr. Arndt Schottelius[3]	60,537	0	0	60,537	-
Dr. Marlies Sproll[4]	60,537	0	0	60,537	-
TOTAL	**299,997**	**0**	**0**	**151,074**	**148,923**

PERFORMANCE SHARES

	01/01/2017	Additions	Forfeitures	Allocations	12/31/2017
MANAGEMENT BOARD					
Dr. Simon Moroney	37,220	4,864	0	12,024	30,060
Jens Holstein	25,134	3,187	0	8,235	20,086
Dr. Malte Peters[1]	-	3,187	0	0	3,187
Dr. Markus Enzelberger[2]	-	2,047	0	0	5,987
Dr. Arndt Schottelius[3]	25,134	0	0	8,235	-
Dr. Marlies Sproll[4]	25,134	2,390	0	8,235	-
TOTAL	**112,622**	**15,675**	**0**	**36,729**	**59,320**

[1] Dr. Malte Peters joined the Management Board of MorphoSys AG on March 1, 2017.
[2] Dr. Markus Enzelberger joined the Management Board of MorphoSys AG on November 1, 2017. Prior to his appointment as member of the Management Board 4,906 shares have been held by Dr. Markus Enzelberger. Under the Long-Term Incentive Programs 2014 to 2016, Dr. Markus Enzelberger was granted 3,940 performance shares as a member of the Senior Management prior to his appointment as member of the Management Board.
[3] Dr. Arndt Schottelius left the Management Board of MorphoSys AG on February 28, 2017. The exercises and allocations presented in the tables "Convertible Bonds" and "Performance Shares" were made after resignation from the Management Board. The respective convertible bonds and performance shares were granted in previous years. The table "Shares" shows no further changes in the number of shares after resignation from the Management Board of MorphoSys AG.
[4] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. The exercises presented in the table "Convertible Bonds" were made after resignation from the Management Board. The respective convertible bonds were granted in a previous year. The table "Shares" shows no further changes in the number of shares after resignation from the Management Board of MorphoSys.
[5] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.
[6] Karin Eastham left the Supervisory Board of MorphoSys AG on May 17, 2017. Changes in the number of shares after resignation from the Supervisory Board of MorphoSys AG are not presented in the tables.

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

The remuneration system for the Management Board is intended to encourage sustainable, results-oriented corporate governance. The Management Board's total remuneration consists of several components, including fixed compensation, an annual cash bonus that is dependent upon the achievement of corporate targets (short-term incentives – STI), variable compensation components with long-term incentives (LTI) and other remuneration components. Variable remuneration components with long-term incentive consist of performance share plans from previous years and the current year, a convertible bond program from 2013 and a stock option plan from the current year. The members of the Management Board additionally receive fringe benefits in the form of benefits in kind, essentially consisting of a company car and insurance premiums. All total remuneration packages are reviewed annually by the Remuneration and Nomination Committee and compared to an annual Management Board remuneration analysis to check the scope and appropriateness of the remuneration packages. The amount of remuneration paid to members of the Management Board is based largely on the duties of the respective Management Board member, the financial situation and the performance and business outlook for the Company versus its competition. All resolutions on adjustments to the overall remuneration packages are passed by the plenum of the Supervisory Board. The remuneration of the Management Board and the index-linked pension scheme were last adjusted in July 2017. The remuneration of the new Management Board member, Dr. Markus Enzelberger, was amended as of November 1, 2017.

If a Management Board member's employment contract terminates due to death, the member's spouse or life partner is entitled to the fixed monthly salary for the month of death and the 12 months thereafter. In the event of a change of control, Management Board members are entitled to exercise their extraordinary right to terminate their employment contracts and receive any outstanding fixed salary for the remainder of the agreed contract period. Moreover, in such a case, all stock options and performance shares granted will become vested immediately and can be exercised after the expiration of the statutory vesting periods. A change of control has occurred when (i) MorphoSys transfers assets or a substantial portion of its assets to unaffiliated third parties, (ii) MorphoSys merges with an unaffiliated company or (iii) a shareholder or third party holds 30% or more of MorphoSys's voting rights.

While in the management report the remuneration of the Management Board and Supervisory Boards as members in key management positions is presented in accordance with the provisions of the German Corporate Governance Code, the following tables show the expense-based view in accordance with IAS 24.

MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2017 AND 2016 (IAS 24):

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer		Dr. Malte Peters Chief Development Officer Appointment: March 1, 2017	
	2016	2017	2016	2017	2016	2017
Fixed Compensation	463,457	500,876	314,405	372,652	–	281,500
Fringe Benefits[1]	34,270	35,912	46,300	42,905	–	568,644
One-Year Variable Compensation	210,873	368,144	143,054	273,899	–	206,903
Total Short-Term Employee Benefits (IAS 24.17 (a))	708,600	904,932	503,759	689,456	–	1,057,047
Service Cost	142,096	149,567	92,875	99,949	–	60,967
Total Benefit Expenses – Post-Employment Benefits (IAS 24.17 (b))	142,096	149,567	92,875	99,949	–	60,967
Multi-Year Variable Compensation[2]:						
2013 Convertible Bonds Program (Vesting Period 4 Years)	33,964	58,224	34,791	59,641	–	0
2012 Long-Term Incentive Program (Vesting Period 4 Years)	(42,350)	0	(29,007)	0	–	0
2013 Long-Term Incentive Program (Vesting Period 4 Years)	(10,303)	202,349	(7,075)	138,585	–	0
2014 Long-Term Incentive Program (Vesting Period 4 Years)	32,972	22,460	22,572	15,383	–	0
2015 Long-Term Incentive Program (Vesting Period 4 Years)	148,799	67,635	101,906	46,324	–	0
2016 Long-Term Incentive Program (Vesting Period 4 Years)	269,420	171,688	176,511	112,481	–	0
2017 Long-Term Incentive Program (Vesting Period 4 Years)	0	163,906	0	107,395	–	107,395
2017 Stock Option Plan (Vesting Period 4 Years)	0	127,997	0	83,861	–	83,861
Total Stock-Based Compensation (IAS 24.17 (e))	432,502	814,259	299,698	563,670	–	191,256
Total Compensation	1,283,198	1,868,758	896,332	1,353,075	–	1,309,270

[1] In 2017, the fringe benefits of Dr. Malte Peters and Dr. Markus Enzelberger each included a one-time compensation in the form of MorphoSys shares as an incentive to join the Management Board of MorphoSys AG.

[2] The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payments". This table shows the pro-rata share of personnel expenses resulting from stock-based compensation for the respective financial year. Further details can be found in Sections 7.1*, 7.2* and 7.3*.

[3] The figures presented for Dr. Markus Enzelberger do not include any compensation granted for his activities as a member of the Senior Management Group as they do not relate to his appointment as a member of the Management Board.

[4] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. Since November 1, 2017, Dr. Marlies Sproll has taken on a new part-time role at MorphoSys as Special Adviser to the CEO. Therefore, the figures presented for Dr. Marlies Sproll do not include any remuneration granted for these activities.

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On January 5, 2017, MorphoSys announced that Dr. Malte Peters would succeed Dr. Arndt Schottelius as the Chief Development Officer and member of the Management Board of MorphoSys AG. Dr. Schottelius resigned from his position as Chief Development Officer effective February 28, 2017 to pursue new challenges. For the period leading up to the end of his employment contract on April 30, 2017, Dr. Schottelius and MorphoSys entered into an exemption agreement. According to the agreement, Dr. Schottelius was entitled to the remuneration agreed in his employment contract until the date of April 30, 2017. The remuneration included a contractually agreed payment of a pro rata amount of his annual gross base salary of € 103,252.96 and a bonus of € 23,490.05. Dr. Schottelius also exercised the convertible bonds granted to him in 2013. In addition, he received shares that had vested after the four-year vesting period under the 2013 Performance Share Plan. Dr. Schottelius still has a pro rata entitlement based on the 2014, 2015 and 2016 Performance Share Plans, which can be exercised after a total of four years at the earliest. Dr. Schottelius did not participate in the 2017 Performance Share Plan. Effective March 1, 2017, Dr. Malte Peters was appointed Chief Development Officer of MorphoSys AG. His employment contract runs until June 30, 2019. As an additional incentive to join MorphoSys, Dr. Peters was granted a one-time compensation payment for the lost compensation from his former employment. This compensation was in the form of treasury shares held by MorphoSys valued at € 500,000. In the 2017 financial year, the granting of these shares was recognized as personnel expenses from performance shares as defined by IFRS 2.

On October 30, 2017, MorphoSys announced that Dr. Markus Enzelberger would succeed Dr. Marlies Sproll as Chief Scientific Officer at MorphoSys AG. Dr. Sproll had been on a temporary leave of absence

	Dr. Markus Enzelberger[3] Chief Scientific Officer Appointment (Interim-CSO): April 15, 2017 Appointment: November 1, 2017		Dr. Marlies Sproll[4] Chief Scientific Officer Temporary Leave: April 15, 2017 – October 31, 2017 Resignation: October 31, 2017		Dr. Arndt Schottelius Chief Development Officer Resignation: February 28, 2017		Total	
	2016	2017	2016	2017	2016	2017	2016	2017
	–	204,698	314,405	222,450	309,759	103,253	1,402,026	1,685,429
	–	417,158	24,141	20,427	28,388	9,161	133,099	1,094,207
	–	121,688	143,054	67,745	140,940	23,490	637,921	1,061,869
	–	743,544	481,600	310,622	479,087	135,904	2,173,046	3,841,505
	–	29,186	92,876	77,976	95,473	28,245	423,320	445,890
	–	29,186	92,876	77,976	95,473	28,245	423,320	445,890
	–	0	23,263	39,879	23,263	39,879	115,281	197,623
	–	0	(29,007)	0	(29,007)	0	(129,371)	0
	–	0	(7,075)	138,585	(7,075)	138,585	(31,528)	618,104
	–	0	22,572	15,383	22,572	(42,038)	100,688	11,188
	–	0	101,906	46,324	101,906	(79,105)	454,517	81,178
	–	0	176,511	112,481	176,511	(76,828)	798,953	319,822
	–	68,979	0	80,538	0	–	0	528,213
	–	53,875	0	62,898	0	–	0	412,492
	–	122,854	288,170	496,088	288,170	(19,507)	1,308,540	2,168,620
	–	895,584	862,646	884,686	862,730	144,642	3,904,906	6,456,015

since April 15, 2017 and eventually resigned from her post as Chief Scientific Officer effective October 31, 2017. She was working as a Special Advisor to the CEO of MorphoSys, Simon Moroney, on a part-time basis since November 1, 2017. She received remuneration until October 31, 2017 in accordance with her employment contract. Dr. Sproll's long-term compensation granted to her during her time as a member of the Management Board will be settled in accordance with the plans' terms. Effective November 1, 2017, Dr. Enzelberger was appointed Chief Scientific Officer of MorphoSys AG after having served as the Interim Chief Scientific Officer since April 15, 2017. Dr. Enzelberger has held various management positions in research and development at MorphoSys since 2002. His Management Board employment contract runs until June 30, 2020. Upon joining the Management Board of MorphoSys AG, Dr. Enzelberger was granted a one-time incentive consisting of treasury shares held by MorphoSys valued at € 400,000. In the 2017 financial year, the granting of these shares was recognized as personnel expenses from performance shares as defined by IFRS 2.

In the years 2017 and 2016, there were no other long-term benefits in accordance with IAS 24.17 (c) or benefits upon termination of employment in accordance with IAS 24.17 (d) accruing to the Management Board or Supervisory Board.

In 2017, the total remuneration for the Supervisory Board, excluding reimbursed travel costs, amounted to € 523,015 (2016: € 529,680).

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2017 AND 2016:

	Fixed Compensation		Attendance Fees[1]		Total Compensation	
in €	2017	2016	2017	2016	2017	2016
Dr. Gerald Möller	95,156	91,400	36,800	43,400	131,956	134,800
Dr. Frank Morich	57,240	57,240	23,200	26,800	80,440	84,040
Dr. Marc Cluzel	52,160	52,160	26,800	34,600	78,960	86,760
Krisja Vermeylen[2]	28,961	-	16,000	-	44,961	-
Wendy Johnson	46,160	46,160	38,000	33,800	84,160	79,960
Klaus Kühn	46,160	46,160	22,000	21,400	68,160	67,560
Karin Eastham[3]	19,578	52,160	14,800	24,400	34,378	76,560
TOTAL	**345,415**	**345,280**	**177,600**	**184,400**	**523,015**	**529,680**

[1] The attendance fee contains expense allowances for the attendance at the Supervisory Board and the Committee meetings.
[2] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.
[3] Karin Eastham has left the Supervisory Board of MorphoSys AG on May 17, 2017.

No other agreements presently exist with current or former members of the Supervisory Board.

On December 31, 2017, the Senior Management Group held 35,978 stock options (December 31, 2016: 0), 13,233 convertible bonds (December 31, 2016: 136,588) and 67,149 performance shares (December 31, 2016: 82,143) granted by the Company. In 2017, a new stock option program and a new performance share program were granted to the Senior Management Group (see Items 7.1* and 7.3.5*). On April 1, 2017, the Senior Management Group was allocated 21,248 shares from the 2013 LTI program and 548 shares on October 1, 2017. In each case there was the option to receive these shares within a six-month period. As of December 2017, the Senior Management Group had exercised options to receive 21,796 shares.

*CROSS-REFERENCE *to page 141 and page 146*

8 Additional Notes

8.1 OBLIGATIONS ARISING FROM OPERATING LEASES, RENTAL AND OTHER CONTRACTS

The Group leases facilities and equipment under long-term operating leases. In financial years 2017 and 2016, leasing expenses amounted to € 2.6 million and € 3.1 million. The 2016 amount includes the recognition of a provision for onerous contracts from rent obligations for office premises. Leasing expenses for 2017 and 2016 include expenses for company cars and machinery totaling € 0.2 million and € 0.2 million, respectively. The majority of these contracts can be renewed on a yearly or quarterly basis. Some of these agreements may be terminated prematurely.

In 2016 a rental agreement was signed for the premises at Semmelweisstraße 7, Planegg. The contract includes a minimum rental period of ten years.

The future minimum payments under non-terminable operating leases, insurance contracts and other services as of December 31, 2017 are shown in the following table.

in 000' €	Rent and Leasing	Other	Total
Up to One Year	2,918	733	3,651
Between One and Five Years	11,209	0	11,209
More than Five Years	11,190	0	11,190
TOTAL	**25,317**	**733**	**26,050**

Additionally, the future payments shown in the table below may become due for outsourced studies after December 31, 2017. These amounts could be shifted or substantially lower due to changes in the study timeline or premature study termination.

in million €	Total 2017
Up to One Year	56.1
Between One and Five Years	66.1
More than Five Years	0.0
TOTAL	**122.2**

8.2 CONTINGENT ASSETS/CONTINGENT LIABILITIES

Contingent liabilities are potential obligations from past events that exist only when the occurrence of one or more uncertain future events – beyond the Company's control – is confirmed. Current obligations can represent a contingent liability if it is not probable enough that an outflow of resources justifies the recognition of a provision. Moreover, it is not possible to make a sufficiently reliable estimate of the amount of the obligations.

The Management Board is unaware of any proceedings that may result in a significant obligation for the Group and may lead to a material adverse effect on the Group's net assets, financial position or results of operations.

If certain milestones are achieved in the Proprietary Development segment, for example, filing an application for an investigational new drug (IND) for specific target molecules, this may trigger regulatory and sales milestone payments to licensors of up to an aggregate of $ 287 million. The next milestone payment in the amount of $ 12.5 million could occur in approximately 18 to 24 months.

If a partner achieves certain milestones in the Partnered Discovery segment, for example, filing an application for an investigational new drug (IND) for specific target molecules or the transfer of technology, this may trigger milestone payments to MorphoSys. However, no further details can be published since the timing, and the achievement of such milestones are uncertain.

Obligations may arise from enforcing the Company's patents against third parties. It is also conceivable that competitors may challenge the patents of the MorphoSys Group companies. MorphoSys may also come to the conclusion that MorphoSys's patents or patent families have been infringed upon by competitors, which may prompt MorphoSys to take legal action against competitors. At present, there are no specific indications that liabilities have occurred as described above.

8.3 CORPORATE GOVERNANCE

The Group has submitted the Declaration of Conformity with the recommendations of the Government Commission on the German Corporate Governance Code for the 2017 financial year under Sec. 161 of the German Stock Corporation Act (AktG). This declaration was published on the Group's website (www.morphosys.com) on December 1, 2017 and made permanently available to the public.

8.4 RESEARCH AND DEVELOPMENT AGREEMENTS

The Group has entered numerous research and development agreements as part of its proprietary research and development activities and its partnered research strategy. The following information describes the agreements that have a material effect on the Group and the developments under the research and development agreements in the 2017 financial year.

8.4.1 PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development segment, partnerships are entered into as part of the Group's strategy to develop its own drugs in its core areas of oncology and inflammatory diseases. Our partners include (in alphabetical order): G7 Therapeutics, Galapagos, GlaxoSmithKline, I-Mab Biopharma, Immatics Biotechnologies, Merck Serono, MD Anderson Cancer Center and Xencor.

In August 2014, MorphoSys and Aptevo Therapeutics Inc., a spin-off of Emergent BioSolutions, announced a co-development and co-promotion agreement for MOR209/ES414. MOR209/ES414 is a bi-specific anti-PSMA/anti-CD3 antibody based on Aptevo's (formerly Emergent) proprietary ADAPTIR™ platform (modular protein technology). In the process of prioritizing its development programs, MorphoSys ended the cooperation with Aptevo Therapeutics Inc. at the end of 2017. The rights to the drug's development and commercialization were returned to Aptevo. As a result of ending the cooperation, impairment for the in-process research and development MOR209/ES414 program in the amount of € 9.8 million was recognized in 2017.

In August 2015, MorphoSys and Swiss-based G7 Therapeutics AG announced a new collaboration to develop novel antibody therapeutics targeting G protein-coupled receptors (GPCRs) and other potentially disease-related transmembrane proteins, such as ion channels. Under this agreement, G7 Therapeutics will give MorphoSys a choice of various receptors that can be linked to the emergence of a variety of diseases. MorphoSys will use its proprietary Ylanthia antibody library to identify and develop antibody compounds directed against these receptors. MorphoSys has the right to sublicense to partners access to these target molecules in conjunction with therapeutic antibody programs.

In November 2008, MorphoSys and Galapagos announced a long-term drug discovery and co-development cooperation aimed at exploring novel mechanisms for the treatment of inflammatory diseases and developing antibody therapies against these diseases. The agreement covers all activities ranging from the probing of target molecules to the completion of clinical trials for novel therapeutic antibodies. After demonstrating clinical efficacy in humans, the programs may be outlicensed to partners for further development, approval, and commercialization. Both companies contributed their core technologies and expertise to the alliance. Along with the use of its adenovirus-based platform for the exploration of new target molecules for the development of antibodies, Galapagos provided access to target molecules already identified that are associated with bone and joint diseases. MorphoSys provided access to its antibody technologies used for generating fully human antibodies directed against these target molecules. Under the terms of the agreement, Galapagos and MorphoSys will share the research and development costs. In July 2014, the collaboration advanced into the preclinical development of MOR106, an antibody from MorphoSys's next-generation library Ylanthia directed against a novel Galapagos target molecule. The antibody will be co-developed in the area of inflammatory diseases.

In June 2013, MorphoSys announced it had entered into a global agreement with GlaxoSmithKline (GSK) for the development and commercialization of MOR103. MOR103/GSK3196165 is MorphoSys's proprietary HuCAL antibody against the GM-CSF target molecule. Under the agreement, GSK assumes responsibility for the compound's entire development and commercialization. MorphoSys received an immediate upfront payment of € 22.5 million as part of this agreement. Depending on the achievement of certain developmental stages and regulatory, commercial and revenue-related milestones, MorphoSys is eligible to receive additional payments from GSK in the amount of up to € 423 million, as well as tiered double-digit royalties on net sales. The drug is currently undergoing development in a phase 2b study in patients with rheumatoid arthritis and a 2a study in patients with osteoarthritis of the hand. GSK also initiated a mechanistic phase 2a study of MOR103/GSK3196165 in rheumatoid arthritis to further investigate the GM-CSF signaling pathway affected by the HuCAL antibody.

In the reporting year, MorphoSys announced it had signed an exclusive regional licensing agreement with I-Mab Biopharma to develop and commercialize MOR202 in China, Taiwan, Hong Kong and Macao. MOR202 is MorphoSys's proprietary antibody targeting CD38. MOR202 is being evaluated in a phase 1/2a clinical trial in Europe in patients with multiple myeloma. Under the terms of the agreement, I-Mab Biopharma has the exclusive rights for the subsequent development and commercialization of MOR202 in the agreed regions. MorphoSys received an immediate upfront payment of US$ 20.0 million. MorphoSys is also entitled to receive additional success-based clinical and commercial milestone payments from I-Mab of up to approximately US$ 100 million, as well as tiered double-digit, staggered royalties on net sales of MOR202 in the agreed regions.

In August 2015, MorphoSys announced a strategic alliance in the field of immuno-oncology* with the German company Immatics Biotechnologies GmbH. The alliance was formed to develop novel antibody-based therapies against a variety of cancer antigens that are recognized by T cells. The alliance agreement gives MorphoSys access to several of Immatics's proprietary tumor-associated peptides (TUMAPs). In return, Immatics receives the right to develop MorphoSys's Ylanthia antibodies against several TUMAPs. The companies will pay each other milestone payments and royalties on commercialized products based on the companies' development progress.

*SEE GLOSSARY – *page 170*

In June 2014, MorphoSys and Merck KGaA announced an agreement to identify and develop therapeutic antibodies against target molecules of the class of immune checkpoints. Under this agreement, both MorphoSys and Merck Serono, the biopharmaceutical division of Merck, will co-develop therapies intended to trigger the immune system to attack tumors. MorphoSys will use its proprietary Ylanthia antibody library and other technology platforms to generate antibodies directed against the selected target molecules. Merck Serono is contributing its expertise in the field of immuno-oncology and clinical development and will assume full project responsibility starting with phase 1 of clinical development.

In May 2016, MorphoSys and the University of Texas MD Anderson Cancer Center announced a long-term strategic alliance. With MorphoSys applying its Ylanthia technology platform, the partners will work together to identify, validate and develop novel anti-cancer antibodies through to clinical proof of concept by researching targets in a variety of oncology indications. MorphoSys and MD Anderson will conduct early clinical studies of therapeutic antibody candidates after which MorphoSys has the option to continue developing selected antibodies in later stages of clinical development for its own proprietary pipeline.

In June 2010, MorphoSys AG and the US-based biopharmaceutical company Xencor signed an exclusive global licensing and cooperation agreement under which MorphoSys receives exclusive global licensing rights to the XmAb5574/MOR208 antibody for the treatment of cancer and other indications. The companies jointly conducted a phase 1/2a trial in the US in patients with chronic lymphocytic leukemia. MorphoSys is solely responsible for further clinical development after the successful completion of the phase 1 clinical trial. Xencor received an upfront payment of US$ 13.0 million (approx. € 10.5 million) from MorphoSys, which was capitalized under in-process R&D programs. Xencor is entitled to development, regulatory, and commercially related milestone payments as well as tiered royalties on product sales.

8.4.2 PARTNERED DISCOVERY SEGMENT

Commercial partnerships in the Partnered Discovery segment provide MorphoSys with various types of payments that are spread over the duration of the agreements or recognized in full as revenue when reaching a predefined target or milestone. These payments include upfront payments upon signature, annual license fees in exchange for access to MorphoSys's technologies and payments for funded research to be performed by MorphoSys on behalf of the partner. In addition, MorphoSys is entitled to development-related milestone payments and royalties on product sales for specific antibody programs.

Prior to the 2017 financial year, active collaborations with a number of partners had already ended because the agreements had expired. However, drug development programs initiated in the active phase are designed so that they can be continued by the partner and, therefore, still result in performance-based payments for the achievement of the defined milestones.

Partnerships in the Partnered Discovery segment that ended before the beginning of 2017 but where drug development programs were still being pursued, include (in alphabetical order): Astellas, Bayer AG, Boehringer Ingelheim, Daiichi-Sankyo, Fibron Ltd. (continuation of contract with Prochon Biotech Ltd.), Janssen Biotech, Merck & Co., OncoMed Pharmaceuticals, Pfizer, Roche and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships that were still active in 2017 include (in alphabetical order): GeneFrontier Corporation/Kaneka, Heptares, LEO Pharma and Novartis.

The Group's alliance with Novartis AG ended in November 2017. The companies started working together in 2004, which has led to the creation of several ongoing therapeutic antibody programs against a number of diseases. In December 2007, MorphoSys and Novartis significantly expanded their existing relationship and forged a strategic alliance in the discovery and development of biopharmaceuticals. The payments for technology access, internalization charges, and R&D services amounted to € 450.5 million over the ten-year contract. Additionally, MorphoSys receives performance-based milestones, contingent upon the successful clinical development and regulatory approval of several products. In addition to these payments, MorphoSys is also entitled to royalties on any future product sales. The partnership with Novartis ended at the end of November 2017 according to the contract. Novartis did not exercise its option to extend the contract.

8.5 SUBSEQUENT EVENTS

No other events occurred after the balance sheet date of December 31, 2017 that require reporting.

8.6 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 Group's net assets, financial position and results of operations, and the group management report provides 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 Group's expected development.

MorphoSys AG, Planegg, March 8, 2018

Dr. Simon Moroney
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Malte Peters
Chief Development Officer

Dr. Markus Enzelberger
Chief Scientific Officer

Independent Auditor's Report

To MorphoSys AG, Planegg

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

AUDIT OPINIONS

We have audited the consolidated financial statements of MorphoSys AG, Planegg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from January 1, to December 31, 2017, and notes to the consolidated financial statements including a summary of significant accounting policies. In addition, we have audited the group management report of MorphoSys AG for the financial year from January 1, to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of goodwill and intangible assets with indefinite useful lives
2. Revenue recognition in connection with the out-licensing of the antibody "MOR202"

Our presentation of these key audit matters has been structured in each case as follows:

1) Matter and issue
2) Audit approach and findings
3) Reference to further information

Hereinafter we present the key audit matters:

1. Recoverability of goodwill and intangible assets with indefinite useful lives

1) In the Company's consolidated financial statements an amount of EUR 7.4 million is reported under the "Goodwill" balance sheet item. Furthermore, intangible assets with indefinite useful lives totaling EUR 52.2 million are reported under the "In-process R&D programs" balance sheet item. This balance sheet item includes capitalized upfront payments from the in-licensing of compounds as well as compounds from acquisitions. The assets are not yet available for use and therefore not subject to amortization. Goodwill and intangible assets with indefinite useful lives are tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is performed at the level of the cash-generating units. In an impairment test, the carrying amounts of the respective goodwill and the intangible assets with indefinite useful lives are compared with the corresponding recoverable amounts. This is the higher of the value in use and fair value less costs of disposal. The present value of the future cash inflows and outflows from the respective group of cash-generating units normally serves as the basis of valuation of goodwill. The present values of the future cash inflows and outflows of the cash-generating unit serve as the valuation basis for the in-process R&D programs. The present values are calculated using discounted cash flow models. For this purpose, the Company's cash flow forecast forms the starting point for future projections based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital. The impairment test determined that no impairment losses had to be recognized with respect to goodwill. Due to the write-downs with respect to the antibody "MOR209/ES414" and the decrease in expected future cash inflows, impairment losses amounting to EUR 9.8 million were recognized with respect to the intangible assets of the in-process R&D programs. The result of this measurement depends to a large extent on the executive directors' estimation of future cash inflows as well as the discount rate used, and is therefore subject to material uncertainty. Against this background and due to the underlying complexity of the measurement models used, this matter was of particular significance for our audit.

2) As part of our audit, we revaluated, among other things, the methodology used to perform impairment tests and assessed the calculation of the weighted cost of capital. We evaluated the appropriateness of the future cash inflows used in the measurement by, inter alia, comparing this data with the current budget in the Group's cash flow forecast prepared by the executive directors and acknowledged by the supervisory board, and by reconciling them against general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, due to the materiality of goodwill and the capitalized R&D programs, we also performed our own sensitivity analyses for the cash-generating units (comparison of carrying and recoverable amounts) and determined that the respective carrying amounts were sufficiently covered by the discounted future cash flows. To assess the write-down on the in-process R&D program with respect to the antibody "MOR209/ES414", we examined the contractual documents and evaluated the resulting event that trigged the write-down. Furthermore, on the basis of the findings from the contractual documents, we assessed the calculation of the expenses and write-downs as well as their recognition in the correct period. Overall, the measurement parameters and assumptions used by the executive directors are in line with our expectations.

3) The Company's disclosures pertaining to goodwill and intangible assets with indefinite useful lives are contained in sections 2.5.1, 2.8.6, 5.7.3 and 5.7.5 of the notes to the consolidated financial statements.

2. Revenue recognition in connection with the out-licensing of antibody "MOR202"

1) In MorphoSys AG's consolidated financial statements revenue amounting to EUR 16.8 million is reported in the consolidated statement of income , which results from the out-licensing of the antibody "MOR202" within the financial year 2017 in the form of a technology transfer to further develop this antibody under an agreement dated November 30, 2017. Revenue is reported and recognized in accordance with IAS 18 and is subject to certain highly discretionary criteria. Accordingly, it is necessary that the payment is contractually fixed and is not contingent on future events with regard to the amount and that no reimbursement of the payments made is provided for. The contractual agreement regarding the out-licensing must be non-terminable. Furthermore, the licensee must be able to exercise the rights associated with the license freely and at its own discretion. The licensor may not retain any material outstanding obligations for the licensee after the transfer of the license. In light of the extensive and complex contractual agreement, recognizing revenue in connection with the out-licensing of the antibody "MOR202" is subject to a significant risk and to a certain extent is based on estimates made by the executive directors. Against this background, this matter was of particular significance for our audit.

2) Our audit included the evaluation of the appropriateness and effectiveness of the established internal control system of the Group with regard to the complete and correct recognition of revenue in connection with the out-licensing, including the IT systems used. Furthermore, we obtained an understanding of the underlying contractual agreement and assessed it with regard to the timing of revenue recognition in accordance with the requirements of IAS 18. In a further step, we evaluated the basis for recognizing revenue in connection with the technology transfer and the amounts thereof. We used and evaluated the corresponding contractual documents to assess the recognition of revenue. We also inspected and evaluated payment records. As part of our evaluation of the technology transfer we also examined the data transfer to the contractual partner. Overall, we were able to satisfy ourselves that the established systems and processes as well as controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue in connection with this out-licensing is appropriately recognized.

3) The Company's disclosures on revenue are contained in sections 2.7.1 and 4.1 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior of the date of our auditor's report:

- the group statement on corporate governance pursuant to § 315d HGB included in the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (except for the remuneration report)

The annual report is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on May 17, 2017. We were engaged by the supervisory board on October 10, 2017. We have been the group auditor of the MorphoSys AG, Planegg, without interruption since the financial year 2011.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dietmar Eglauer.

Report of the Supervisory Board

COOPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

During the 2017 financial year, the Supervisory Board comprehensively performed the duties assigned to it by law, the Articles of Association, Rules of Procedure and – with one exception – the recommendations of the German Corporate Governance Code (hereinafter referred to as the "Code"). We regularly advised and continually oversaw the Management Board in its management of the Company and dealt extensively with the operational and strategic development of the Group. The Management Board fulfilled its duty to inform and furnish us with periodic written and verbal reports containing timely and detailed information on all business transactions and events of significant relevance to the Company. The Management Board prepared these reports in collaboration with the respective departments. In our Committee meetings and plenary sessions, we had the opportunity to fully discuss the Management Board's reports and the proposed resolutions. The Management Board answered our questions on strategic topics affecting the Company with a great level of detail and submitted the relevant documents in a timely manner. Any deviations from the business plan were thoroughly explained to us, and we were directly involved at an early stage in all decisions relevant to the Company.

A corresponding resolution was passed when the Supervisory Board's approval for individual actions was required by law, the Articles of Association or the Rules of Procedure. The Supervisory Board members routinely prepared resolutions for Management Board actions requiring Supervisory Board approval based on the documentation provided in advance by the Management Board. When necessary, the Supervisory Board received the support of the relevant committees and, together with the Management Board, discussed any projects pending decision. All matters requiring approval were submitted for review to the Supervisory Board on a timely basis.

Outside of the meetings of the Supervisory Board plenum and the Committees, the chairperson of the Supervisory Board regularly exchanged information and ideas with the Management Board and especially the Chief Executive Officer, Dr. Simon Moroney. The Supervisory Board chairperson was always kept promptly informed of the current business situation and any significant business transactions. The other Supervisory Board members also had regular contact with the individual Management Board members.

KEY ITEMS OF DISCUSSION AT THE SUPERVISORY BOARD MEETINGS IN THE 2017 FINANCIAL YEAR

A total of eight Supervisory Board meetings were held in the 2017 financial year, whereby two meetings were conducted by telephone. All Supervisory Board members were present at all Supervisory Board meetings. In urgent cases occurring outside of meetings, the Supervisory Board passed resolutions by written procedure.

In addition to the above, a one-day strategy meeting took place between the Management Board and the Supervisory Board in July 2017 that primarily addressed

- the Company's strategic focus; and
- the further development of the Company's product portfolio and its impact on the net assets, financial position and results of operations.

During the 2017 financial year, the Supervisory Board paid particular attention to the following topics and passed resolutions on these topics after a thorough review and discussion:

- the evaluation of the Company's achievement of the 2016 financial year corporate targets, an interim review and minor adjustment to the corporate targets defined by the Supervisory Board at the end of 2016 for the 2017 financial year and defining the corporate targets for the 2018 financial year;
- modification of the rules of procedure and schedule of responsibilities for the Management Board;
- the agenda and proposed resolutions for the 2017 Annual General Meeting, particularly the nominations of Dr. Frank Morich, Klaus Kühn, Wendy Johnson and Krisja Vermeylen as Supervisory Board candidates for election and re-election at the 2017 Annual General Meeting;
- re-election of the chair and deputy chair of the Supervisory Board and establishment and staffing of the Committees in the Board's constituent meeting following the 2017 Annual General Meeting;
- definition of the targets relating to the proportion of women on the Supervisory and Management Boards for the coming five years;
- updating the objectives for the composition of the Supervisory Board and establishing a skills profile for the entire Supervisory Board;
- termination of the licensing and co-development agreement with Aptevo Research & Development LLC for MOR209, an immunotherapeutic for the treatment of metastatic, castration-resistant prostate cancer, as part of the prioritization of programs within the portfolio;

- establishment of a list of permitted and pre-approved non-audit services of the auditor, including the maximum amounts and the corresponding amendment of the rules of procedure for the Supervisory Board and the statutes of the Audit Committee;
- award of the audit contract to the auditor for the 2017 financial year;
- evaluation of partnership opportunities for MOR202 and conclusion of the regional license agreement with I-Mab for exclusive development and commercialization rights to MOR202 in China, Taiwan, Hong Kong and Macao;
- the budget for the 2018 financial year.

We also passed a resolution in the Supervisory Board plenum on the remuneration of Management Board members for the period July 1, 2017 to June 30, 2018 taking external benchmarking into consideration. We evaluated the achievement of the 2016 corporate targets that were agreed with the Management Board and discussed the corporate targets for 2017. We commissioned an independent remuneration consultant to confirm the appropriateness of the Management Board's compensation and its comparison to the remuneration of various levels of employees. We discussed and adopted the key performance indicators for the long-term incentive plans for both the Management Board and the Senior Management Group. We also addressed the temporary leave as of April 15, 2017 for family reasons and later resignation as of October 31, 2017 of Dr. Marlies Sproll as Chief Scientific Officer for ongoing family reasons. To fill this gap, we appointed Dr. Markus Enzelberger as Interim Chief Scientific Officer as of April 15, 2017 followed by Chief Scientific Officer as of November 1, 2017 as Dr. Sproll's successor. The management board agreement of Dr. Sproll was adjusted for her period of absence and then rescinded with effect from the date of her departure. We drew up and approved a new management board agreement for Dr. Markus Enzelberger as Interim Chief Scientific Officer and later as Chief Scientific Officer. Dr. Enzelberger's initial term will end on June 30, 2020.

Furthermore, we approved the financial statements for the 2016 financial year and dealt with the Corporate Governance Report and the Statement on Corporate Governance.

The focus of our regular discussions in the Supervisory Board's plenary meetings were MorphoSys's revenue and earnings development, the financial reports, the progress of the two business segments Partnered Discovery and Proprietary Development, the results and progress of the clinical programs for the development of proprietary drugs, the future development strategy and the development of new technologies. Furthermore, we discussed the financial outlook for the 2019/2020 financial years and MorphoSys's associated future potential financing needs as well as the effects of the expiry of the contract with Novartis. In addition, we carried out an efficiency review of the Supervisory Board's work. And lastly, we kept ourselves regularly informed with respect to the Company's cash investment policy, risk management, internal audit results, internal control system and compliance management system.

CONFLICTS OF INTEREST WITHIN THE SUPERVISORY BOARD

No conflicts of interest arose within the Supervisory Board in the 2017 financial year.

ACTIVITIES AND MEETINGS OF SUPERVISORY BOARD COMMITTEES

To ensure that its duties are performed efficiently, the Supervisory Board has established three committees – the Audit Committee, the Remuneration and Nomination Committee and the Science and Technology Committee – to prepare the issues that fall within the Supervisory Board's respective areas of responsibility for the Supervisory Board plenum. In each Supervisory Board meeting, the chairs of the Committees report to the Supervisory Board on the Committees' work. The minutes of the Committee meetings are made available to all Supervisory Board members. The composition of these committees can be found in the "Statement on Corporate Governance," which is available on the Company's website under the heading "Media & Investors > Corporate Governance > Statement on Corporate Governance," and in the Annual Report on pages 73 to 79.

The **Audit Committee** met on six occasions in the 2017 financial year, two of those meetings were held by telephone. All Committee members were present at all Audit Committee meetings. The Committee dealt mainly with accounting issues, quarterly reports, financial statements and consolidated financial statements. The Committee discussed these topics with the Management Board and recommended the approval of the statements to the Supervisory Board. The auditor took part in four Audit Committee meetings and informed its members of the audit results. The Audit Committee also made a recommendation to the Supervisory Board with respect to the Supervisory Board's proposal at the Annual General Meeting for the election of the independent auditor. The Audit Committee also discussed the appointment of the auditor for the 2017 financial year and the new requirements for the external and internal rotation of the auditor and the related requirement to carry out a public tender for the audit in accordance with the Auditors Reform Act. In this context, the Audit Committee decided to carry out the public invitation to tender for the 2018 annual audit on a voluntary basis, accompanied the relevant process and, as a result, made a recommendation to the Supervisory Board. In addition, the Audit Committee dealt with the preparation of a list of permitted and pre-approved non-audit services of the auditor, including maximum amounts, and made a proposal to the Supervisory Board to amend the rules of procedure for the Supervisory Board and the statutes of the Audit Committee. The Committee also discussed the risk management system, the compliance management system and the results of the

internal audit conducted in the 2017 financial year, as well as specific accounting issues under International Accounting Standards (IFRS) relevant to the Company. In addition, the Committee regularly discussed the Company's cash investment policy and the investment recommendations made by the Management Board. The Committee also discussed in depth the 2018 budget and the financial outlook for the 2019/2020 financial years, as well as any future financing measures that may be derived from this in the coming years, along with a potential commercialization strategy for the Company's proprietary drug candidates. Finally, the Committee dealt with the preparation, accomplishment and results of the unobjected sampling of the consolidated financial statements, group management report, annual financial statements and the management report for the 2016 financial year by the German Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung e.V.* – DPR).

To increase efficiency, there is a common **Remuneration and Nomination Committee**, in which the Committees fulfill their respective roles. The Committee met on five occasions in the 2017 financial year, with two of those meetings held by telephone. All Committee members were present at all Committee meetings. In its function as a remuneration committee, the Remuneration and Nomination Committee mainly dealt with the Management Board's remuneration system and level of compensation. In this context, the Committee also commissioned an independent remuneration expert with the task of preparing a Management Board remuneration report to verify the appropriateness of the Management Board's remuneration. Based on this report, the Committee prepared a recommendation as to the future structure of the Management Board's compensation and submitted this to the Supervisory Board for approval. In doing so, the Committee also dealt with the ratio of compensation between the Management Board and the Senior Management Group and the staff overall and had this ratio reviewed by the commissioned remuneration expert. This expert confirmed the appropriateness of the "vertical" compensation ratios. In addition, the Committee gave careful consideration to the corporate targets as a basis for the Management Board's short-term variable remuneration and offered appropriate recommendations to the Supervisory Board for resolution. The Committee discussed the key performance indicators of the long-term incentive plans for the Management Board, Senior Management Group and other employees in key positions. In its function as the Nomination Committee, the Committee dealt with the appointment of Dr. Markus Enzelberger as Interim Chief Scientific Officer for the duration of Dr. Marlies Sproll's absence, the preparation of a corresponding management board agreement for Dr. Enzelberger, a modification of the management board agreement with Dr. Sproll for the duration of her absence and the appointment of Dr. Markus Enzelberger as Dr. Sproll's successor as Chief Scientific Officer due to Dr. Sproll's resignation. The Committee also prepared the corresponding management board agreement for Dr. Enzelberger and the termination agreement for Dr. Sproll, which were then submitted to the Supervisory Board for resolution. In addition, the Nomination Committee handled the preparations for the election of two new members of the Supervisory Board at the 2018 Annual General Meeting. This was necessary due to the approaching end of the term of office of Dr. Gerald Möller, who served 19 years as chairman of the Supervisory Board, as of the end of the 2018 Annual General Meeting and the early resignation of Klaus Kühn for personal reasons also as of the end of the Annual General Meeting 2018. In light of Dr. Möller's and Mr. Kühn's upcoming departure from the Supervisory Board, the Nomination Committee commissioned a recruitment agency to offer professional support in the search for suitable new Supervisory Board candidates. The Nomination Committee in consultation with the Supervisory Board developed a list of requirements that candidates should possess in order to be nominated to the Supervisory Board. The Nomination Committee also conducted interviews with Supervisory Board candidates and submitted two recommendations for Supervisory Board nominations to be proposed at the Annual General Meeting, which were in turn approved by the Supervisory Board. Supervisory Board member Dr. Marc Cluzel, whose term will also end at the end of the 2018 Annual General Meeting, will stand for reappointment for another term.

The **Science and Technology Committee** met on five occasions during the 2017 financial year. All Committee members were present at all Committee meetings. This Committee dealt mainly with the progress and expansion of the Company's portfolio, the development of new technologies and the Company's drug development plans including the required budget resources. The discussions focused on the initiation of new development programs, development plans for current and planned clinical studies, the development of proprietary drug candidates, the results of the related clinical trials, as well as the future development strategy and positioning versus competitive products. The Committee addressed the production of clinical trial materials for the Company's proprietary drug candidates, the competitive and patent situations of the Company's proprietary product candidates and the identification of suitable drug candidates for in-licensing based on the Company's activities.

CORPORATE GOVERNANCE

The Supervisory Board devoted its attention to the further development of MorphoSys's corporate governance taking into consideration the Code's amendments made by the Government Commission German Corporate Governance Code in February 2017. The detailed Corporate Government Report, including the Corporate Governance Statement according to Section 289f HGB (German Commercial Code), can be found on the Company's website under the heading "Media & Investors > Corporate Governance > Corporate Governance Report" and in the Annual Report on pages 73 to 101.

We also discussed with the Management Board the Company's compliance with the Code's recommendations and in one justified case approved an exception to the Code's recommendations. Based on this consultation, the Management Board and the Supervisory Board submitted the annual Declaration of Conformity on December 1, 2017. The current version of the Declaration of Conformity can be found in this Annual Report and is permanently available to MorphoSys's shareholders on the Company's website under the heading "Media & Investors > Corporate Governance > Declaration of Conformity."

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The following changes in the composition of the Management Board took place during the reporting period. With effect from March 1, 2017, Dr. Malte Peters was newly appointed as a member of the Management Board and Chief Development Officer. The former Chief Development Officer, Dr. Arndt Schottelius, resigned from his position on the Company's Management Board effective February 28, 2017. Effective April 15, 2017, Dr. Markus Enzelberger was appointed Interim Chief Scientific Officer for the duration of the absence of Dr. Marlies Sproll. Dr. Sproll resigned from her position on the Management Board effective October 31, 2017, and Dr. Markus Enzelberger was appointed as Chief Scientific Officer effective November 1, 2017 as the successor of Dr. Sproll.

The following changes in the composition of the Supervisory Board took place during the reporting period. Karin Eastham resigned from her office as a member of the Supervisory Board for personal reasons as of the conclusion of the 2017 Annual General Meeting, and Krisja Vermeylen was newly elected to the Supervisory Board by the 2017 Annual General Meeting. Dr. Frank Morich, Klaus Kühn and Wendy Johnson were all re-elected to the Supervisory Board by the 2017 Annual General Meeting, whereby Klaus Kühn has resigned from his office as member of the Supervisory Board for personal reasons as of the end of the 2018 Annual General Meeting.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

For the 2017 financial year, the Company commissioned PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich ("PwC") as its auditor. The audit contract was awarded by the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 17, 2017. In accordance with Item 7.2.1 of the Code, the Supervisory Board obtained a declaration of independence from the auditor in advance.

The annual financial statements and the consolidated financial statements of MorphoSys AG, as well as the Management Report and Group Management Report for the 2017 financial year, were properly audited by PwC and issued with an unqualified Auditor's Report. The key topics of the audit for the consolidated and annual financial statements for the 2017 financial year were the presentation and measurement of cash investments, the accounting for in-process research and development programs, preparation of the Group Management Report in light of the new Auditor's Opinion, the effects of the expiry of the contract with Novartis, the measurement of the carrying amounts of goodwill and intangible assets with indefinite useful lives, the recognition and measurement of the 2017 long-term incentive program, the effectiveness of internal controls, as well as the recognition of revenue from the out-licensing of MOR202 to I-Mab.

In addition, the auditor confirmed that the Management Board had established an appropriate reporting and monitoring system that is suitable in its design and administration for the early detection of developments that could threaten the Company's existence.

The audit reports and documents relating to the annual financial statements and consolidated financial statements were provided on a timely basis to all Supervisory Board members for review. The audit report, the consolidated financial statements, the Group Management Report of the MorphoSys Group and the audit report, the annual financial statements and the Management Report of MorphoSys AG were discussed in detail at the Audit Committee meeting on March 8, 2018, and the meeting of the Supervisory Board on March 9, 2018. The auditor attended all meetings concerning the financial statements and quarterly statements and reported on the key results of his audit. The auditor also explained the scope and focus of the audit and was available to the Audit Committee and the Supervisory Board to answer questions and provide further information.

The Audit Committee discussed the audit results in detail and recommended to the Supervisory Board that it approve the financial statements prepared by the Management Board. The Supervisory Board also took note of the audit results and, in turn, reviewed the financial statements and management reports in accordance with the statutory provisions. Following its own examination, the Supervisory Board also determined that it sees no cause for objection. The annual financial statements and consolidated financial statements prepared by the Management Board and reviewed by the auditor, as well as the Management Report and Group Management Report, were subsequently approved by the Supervisory Board. Thus, the annual financial statements were adopted.

RECOGNITION FOR DEDICATED SERVICE

On behalf of the entire Supervisory Board, I would like to thank the members of the Management Board and the employees of MorphoSys for their achievements, their dedicated service and the inspirational work environment witnessed during this past financial year. Through their efforts, MorphoSys's portfolio has continued to mature and expand, and important milestones have been achieved.

At this point, the Supervisory Board would also like to thank our departed Management Board member Dr. Marlies Sproll for her excellent work and great dedication. The Supervisory Board also thanks Supervisory Board member Klaus Kühn, who will terminate his office at the conclusion of the 2018 Annual General Meeting, for his commitment and constructive cooperation.

Planegg, March 9, 2018

Dr. Gerald Möller
Chairman of the Supervisory Board

Supervisory Board of MorphoSys AG

DR. GERALD MÖLLER
Chairman, Heidelberg, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
4sigma, Inc.*, Bermuda (Chairman of the Board of Directors)
Ayoxxa Biosystems GmbH*, Germany (Chairman of the Advisory Board)

DR. FRANK MORICH
Deputy Chairman, Berlin, Germany

NO OTHER SUPERVISORY BOARD MEMBERSHIPS

DR. MARC CLUZEL
Board Member, Montpellier, France

MEMBER OF THE SUPERVISORY BOARD OF:
Moleac Pte. Ltd.*, Singapore (Member of the Board of Directors)

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

KRISJA VERMEYLEN
Board Member, Hellerup, Denmark

NO OTHER SUPERVISORY BOARD MEMBERSHIPS

WENDY JOHNSON
Board Member, San Diego, CA, USA

MEMBER OF THE SUPERVISORY BOARD OF:
AmpliPhi Biosciences Corp.*, USA (Member of the Board of Directors)

KLAUS KÜHN
Board Member, Grevenbroich, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
Flossbach von Storch AG, Germany (Chairman of the Supervisory Board)
Hella KGaA Hueck & Co.*, Germany (Member of the Supervisory Board, Member of the Shareholders' Committe)

Senior Management Group of MorphoSys AG

YEN CHING CHUA
Head of Clinical Operations

MARTIN CLARK
Head of Central Purchasing & Logistics

KLAUS DE WALL
Head of Accounting & Tax

SILVIA DERMIETZEL
Head of Human Resources

DR. GABRIELE ELBL
Head of Regulatory Affairs

DR. GÜNTER FINGERLE-ROWSON
Business Team Head

DR. BERND HUTTER
Head of Intellectual Property

DR. TIANTOM JARUTAT
Business Team Head

DR. BARBARA KREBS-POHL
Head of Business Development & Portfolio Management

ANKE LINNARTZ
Head of Corporate Communications & Investor Relations

CHARLOTTE LOHMANN
General Counsel

DR. BODO MARR
Director Corporate Finance & Corporate Development

DR. RALF OSTENDORP
Head of Protein Sciences & CMC

STEFFEN POHLENZ
Head of IT

LARA SMITH WEBER
Head of Controlling, Interim Head of Corporate Finance

DR. MARLIES SPROLL
Special Advisor to the CEO

DR. STEFAN STEIDL
Head of Preclinical Development

DR. KATHRIN TISSOT
Business Team Head

DR. MARGIT URBAN
Head of Discovery Alliances & Technologies

DR. ANNETTE VELTMAR
Head of Commercial

DR. HARALD WATZKA
Head of Alliance Management

DR. ARMIN WEIDMANN
Head of Compliance & Quality Assurance

DR. DOMINIKA WEINELT
Head of Drug Safety & Pharmacovigilance

DR. GÜNTER WELLNHOFER
Head of Technical Operations

DR. GUIDO WÜRTH
Head of Clinical Development & Medical Affairs, Business Team Head

Glossary

A

ADC – *Antibody drug conjugate; a tumor growth-inhibiting substance (cytostatic) that is coupled to an antibody to attack tumors in an even more targeted manner*

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*

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

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

B

B cells – *White blood cells, part of the immune system, capable of generation antibodies*

B-MIND – *Study to evaluate **B**endamustine-**M**OR208 **IN** **D**LBCL*

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

Bispecific – *Antibody consisting of parts from two different antibodies, thereby being able to bind two different antigens*

BTK inhibitor – *Bruton's tyrosine kinase, a key kinase of the B cell receptor signaling pathway that plays a significant role in the proliferation, differentiation and survival of B cells*

C

CAR-T technology – *New therapeutic approach in which immune cells are reprogrammed*

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, certain leukemias and solid tumors*

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*

COSMOS – ***C**LL patients assessed for **O**RR / **S**afety in **MO**R208 **S**tudy*

CR – *Complete response*

CRO – *Contract research organization*

CTO – *Contract testing organization*

D

Discounted cash flow model – *Method of valuing assets, especially for due diligence*

DLBCL – *Diffuse large B cell lymphoma, a subform of* ›› NHL

DoR – *duration of response*

E

EGFR – *Epidermal growth factor receptor; cell-surface receptor for members of the epidermal growth factor family (EGF-family) of extracellular protein ligands; the epidermal growth factor receptor is a receptor tyrosine kinase*

EMA – *European Medicines Agency*

F

Fab format – *The antigen binding fragment of the antibody*

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 – *Granulocyte-macrophage colony-stimulating factor; underlying target molecule of MOR103 program*

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

H

HuCAL – *Human Combinatorial Antibody Library; proprietary antibody library enabling rapid generation of specific human antibodies for all applications*

Human – *Of human origin*

I

IFRS – *International Financial Reporting Standards; accounting standards issued by the IASB and adopted by the EU*

Immuno-oncology – *New class of compounds that stimulate the immune system to attack tumors*

L

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

L-MIND – *Study to evaluate **L**analidomide-**M**OR208 **IN D**LBCL*

M

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

mCRPC – *Metastatic castration-resistant prostate cancer*

Mesothelioma – *Diffusely growing tissue tumor affecting for example the pleura*

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

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

N

Nasdaq Biotech Index – *Stock market index made up of biotechnological or pharmaceutical companies listed at the US stock exchange NASDAQ*

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

O

ORR – *Overall response rate*

OS – *Overall survival*

P

Palmoplantar pustulosis – *Psoriasis on hands and feet*

PFS – *Progression-free survival*

Pharmacodynamics – *Study of the effects of drugs on the body*

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

PR – *Partial response*

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*

Psoriasis – *A chronic, non-contagious autoimmune disease which affects the skin and joints*

Psoriatic arthritis (PsA) – *Chronic joint inflammation that occures in connection with psoriasis*

R

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

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

Glossary

S

SLL – *Small lymphocytic lymphoma*

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

Small molecules – *Low molecular compounds*

SOP system – *SOP = standard operating procedure*

T

Target – *Target molecule for therapeutic intervention, e.g. on the surface of diseased cells*

T cells – *An abbreviation for T-lymphocytes; a subtype of white blood cells that together with B-lymphocytes are responsible for the body's immune defense*

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

TTP – *Time to progression*

Toxicity – *Poisonousness*

Y

Ylanthia – *The novel next-generation antibody platform of MorphoSys*

List of Figures and Tables

Figures

Tables

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Key Figures (IFRS)

MorphoSys Group (in million €, if not stated otherwise)

	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08
RESULTS[1]										
Revenues	**66.8**	49.7	106.2	64.0	78.0	51.9	82.1	87.0	81.0	71.6
Cost of Goods Sold	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	7.3	6.7	7.1
R&D Expenses	**116.8**	95.7	78.7	56.0	49.2	37.7	55.9	46.9	39.0	27.6
SG&A Expenses	**17.0**	14.1	15.1	14.1	18.8	12.1	14.9	23.2	23.9	20.5
Personnel Expenses (Excluding Stock-Based Compensation)	**37.1**	33.7	32.4	26.7	27.4	24.1	27.7	29.6	26.1	21.5
Capital Expenditure	**13.1**	2.9	8.8	20.5	5.6	1.8	2.9	13.8	3.8	3.8
Depreciation of Tangible Assets	**2.0**	1.8	1.5	1.4	1.5	1.7	1.7	2.1	1.6	1.5
Amortization of Intangible Assets	**2.1**	2.0	1.9	2.7	3.3	3.5	3.8	4.0	3.8	4.8
EBIT	**(67.6)**	(59.9)	17.2	(5.9)	9.9	2.5	9.8	13.1	12.8	16.5
Net Profit/(Loss)	**(69.8)**	(60.4)	14.9	(3.0)	13.3	1.9	8.2	9.2	9.0	13.2
Net Profit/(Loss) from Discontinued Operations	**–**	–	–	–	6.0	(0.4)	0.0	–	–	–
BALANCE SHEET										
Total Assets	**415.4**	463.6	400.1	426.5	447.7	224.3	228.4	209.8	206.1	203.3
Cash, Marketable Securities and Other Financial Assets	**312.2**	359.5	298.4	352.8	390.7	135.7	134.4	108.4	135.1	137.9
Intangible Assets	**67.8**	67.9	79.6	46.0	35.1	35.0	66.0	69.2	17.4	19.7
Total Liabilities	**56.7**	48.1	37.3	77.7	95.5	22.3	31.3	23.9	32.2	41.3
Stockholders' Equity	**359.0**	415.5	362.7	348.8	352.1	202.0	197.1	185.9	173.9	162.0
Equity Ratio (in %)	**86%**	90%	91%	82%	79%	90%	86%	89%	84%	80%
MORPHOSYS SHARE										
Number of Shares Issued	**29,420,785**	29,159,770	26,537,682	26,456,834	26,220,882	23,358,228	23,112,167	22,890,252	22,660,557	22,478,787
Group Earnings/(Loss) per Share, Basic and Diluted (in €)	**(2.41)**	(2.28)	0.57	(0.12)	0.54	0.08	0.36	0.40	0.40	0.59
Dividend (in €)	**–**	–	–	–	–	–	–	–	–	–
Share Price (in €)	**76.58**	48.75	57.65	76.63	55.85	29.30	17.53	18.53	17.04	18.75
PERSONNEL DATA										
Total Group Employees (Number[2])	**326**	345	365	329	299	421	446	464	404	334

1 Due to the agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the AbD Serotec segment, for the years 2013, 2012 and 2011, revenues, income and expenses in connection with the transaction are shown in the line item "Net Profit/(Loss) from Discontinued Operations." All other line items consist of amounts from continuing operations.

2 2007 to 2012 including employees from the discontinued operations of AbD Serotec.

Financial Calendar 2018

March 13

PUBLICATION OF 2017
YEAR-END RESULTS

May 3

PUBLICATION OF FIRST QUARTER
INTERIM STATEMENT 2018

May 17

2018 ANNUAL GENERAL
MEETING IN MUNICH

August 2

PUBLICATION OF 2018
HALF-YEAR REPORT

November 6

PUBLICATION OF THIRD QUARTER
INTERIM STATEMENT 2018

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