

# Annual Financial Statements as of 31 December 2014 (German GAAP)

MorphoSys AG, Martinsried

## Management Report

During the 2014 financial year, MorphoSys successfully forged ahead with its strategy of building a broad pipeline of biopharmaceutical compounds. Advancing the proprietary portfolio within this pipeline was a key focus for the organization. We succeeded in in-licensing the bi-specific antibody MOR209/ES414, an innovative development candidate for the treatment of prostate cancer. The Company presented promising clinical data for its compound MOR208 in non-Hodgkin's lymphoma. The projects initiated by our partners in the Partnered Discovery business segment also developed well, and the number of active development projects continued to increase. Although our partner Roche stopped a phase 3 study of the Alzheimer's compound gantenerumab shortly before the end of 2014, two other clinical trials with this development candidate are continuing. This event highlights the strength of MorphoSys's business model, namely to have a broad pipeline of development candidates.

# Operations and Business Environment

## Strategy and Group Management

### STRATEGY AND OBJECTIVES

MorphoSys's goal is to build the most valuable biopharmaceutical pipeline in the biotech industry. Based on its powerful technology for the discovery of therapeutic antibodies, the Company has produced more than 90 drug candidates in development, of which three are currently in pivotal studies. The majority of the development programs are conducted in partnership with leading pharmaceutical and biotechnology companies. MorphoSys uses the revenues generated from these partnerships to expand its proprietary portfolio, which now comprises ten programs, two of which are already in clinical phase 2 trials. Our strategy to develop compounds for partners was expanded many years ago to include the proprietary development of drug candidates up until commercialization. We will continue to execute our two-pillar strategy to develop compounds for partners as well as proprietary drug candidates and to generate added value as we have done in the past.

The Proprietary Development segment first discovers and develops antibody programs based on the Company's proprietary technology platforms or candidates which were in-licensed from other companies. During clinical development, a decision is made on a case-by-case basis whether and at what point a partnership for the drug candidate's subsequent development and commercialization will be pursued. The drug candidate can then be either entirely out-licensed or developed further in cooperation with a pharmaceutical or biotechnology company (co-development). In certain circumstances, individual projects can also be brought to the point of commercialization using internal resources.

In the Partnered Discovery segment, MorphoSys develops optimized therapeutic antibodies, also based on its proprietary technologies, for its partners in the pharmaceutical industry. The contractual payments that result include license fees for technologies and funded research as well as success-based payments and royalties on product sales. The funds generated from these partnerships support our long-term business model and secure a large portion of the funding for our proprietary development activities via the high number of programs in our pipeline.

Both segments are based on the Company's innovative technologies. The foremost growth drivers in these segments are HuCAL, the industry's most successful antibody library measured by the number of clinical development candidates and the ensuing platform, Ylanthia, which is currently the largest known antibody library based on the antibody Fab fragment. MorphoSys also uses its financial resources to expand and deepen its technological base through in-licensing. During the reporting year, for example, MorphoSys was able to expand its existing technology platform to include a very promising approach by acquiring the lanthipeptide technology from Lanthio Pharma.

In addition to investing in proprietary development and new technologies, MorphoSys secures long-term growth by closely following the international biotechnology sector for acquisition candidates and in-licensing opportunities. The Company's goal is to increase enterprise value by investing significantly in its proprietary development activities while maintaining financial discipline and strict cost control.

## MANAGEMENT AND PERFORMANCE INDICATORS

MorphoSys uses both financial as well as non-financial indicators to manage the Company. These help monitor the success of strategic decisions and allow MorphoSys to promptly take the appropriate countermeasures when necessary. In addition, the management monitors and evaluates selected early indicators to give a thorough assessment of a project's progress and quickly employs countermeasures if there are any undesirable developments.

### 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." Revenues and the result from ordinary activities are the key financial indicators for measuring operational business performance. The performance of both segments is ascertained monthly and budget planning for the current financial year is revised and updated quarterly. We also prepare a medium-term plan once a year that covers the following three years. A thorough cost analysis is carried out on an ongoing basis. The Company uses this analysis to monitor its adherence to financial targets and to make comparisons with previous periods.

The MorphoSys business performance is influenced by factors such as milestone and license payments, research and development expenses, other operating cash flows, existing and expected liquidity and working capital. These indicators are also analyzed and evaluated on a routine basis, whereby the main focus is on the statement of income, existing and future liquidity and available investment opportunities. The net present value of investments is determined using discounted cash flow models.

### NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial indicators are used equally for managing the Company. For reporting purposes, MorphoSys uses Sustainable Development Key Performance Indicators (SD KPIs) that are also recommended by the SD KPI standard. These include success in proprietary research and development (SD KPI 1) and achievements in partnered programs as benchmarks for the commercialization rate (SD KPI 2). In the last five years, no products have been recalled and no fines or settlements have been imposed as the result of disputes in the areas of product safety and product liability (SD KPI 3).

MorphoSys relies on the consistent progress of its product pipeline to secure its leading position in the market for therapeutics. This refers to both the number of therapeutic antibodies – 94 at the end of the reporting year – as well as the progress of the development pipeline and the possible market potential. Since successful products are based on first-class technologies, the progress of our technology development forms another key performance indicator. Not only the quality of research and development, but also the professional management of partnerships is at the heart of success. This is true for new contracts as well as for the further strategic development of existing alliances. Details on these performance indicators can be found in the section "Research and Development and Business Development."

The non-performance indicators described in detail in the chapter "Sustainable Business Development" are also used to manage the Company successfully.

**TAB. 1: SUSTAINABLE DEVELOPMENT OF KEY PERFORMANCE INDICATORS (SD KPIS) AT MORPHOSYS (31 DECEMBER)**

	2014	2013	2012	2011	2010
<b>Performance in Proprietary Research &amp; Development</b>	(Number of individual antibodies)				
Programs in Discovery	5	3	2	2	5
Programs in Preclinic	2	0	0	0	1
Programs in Phase I	1	1	1	2	1
Programs in Phase II	2	2	2	1	1
<b>Total</b>	<b>10</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>8</b>
<b>Performance in Partnered Programs</b>	(Number of individual antibodies)				
Programs in Discovery	40	37	34	30	32
Programs in Preclinic	25	22	20	24	20
Programs in Phase I	8	6	8	9	10
Programs in Phase II	8	8	6	6	4
Programs in Phase III	3	2	1	0	0
<b>Total</b>	<b>84</b>	<b>75</b>	<b>69</b>	<b>69</b>	<b>66</b>

#### LEADING INDICATORS

MorphoSys monitors a variety of leading indicators concerning the macroeconomic environment, the industry and the Company itself on a monthly basis. On a company level, economic data on the progress of individual programs is gathered for both segments. For macroeconomic leading indicators, MorphoSys relies on general market data from external financial studies which are reviewed for industry transactions, changes in the legal environment and the availability of research funds.

A joint steering committee meets regularly concerning each active collaboration. The role of this committee is to update and monitor the programs' progress and the emergence of any potential milestone payments. These ongoing reviews give us the opportunity to intervene early on when any negative developments occur and also provide us with information on expected milestone payments at a very early stage. For non-active collaborations, the partner prepares a report that helps MorphoSys track the status of ongoing therapeutic programs.

In the area of business development, market analysis provides early indicators and helps determine the market's demand for new technologies. Permanent monitoring of the market allows MorphoSys to react to trends and demands at an early stage and initiate its own new activities or partnerships.

Prior to the development of a therapeutic product, a target product profile (TPP) is created and updated continually in the course of the development process. This procedure provides an early indication of the properties a product must have in order to be successful in the market. Important questions are also clarified during this process, such as the level of efficacy to be achieved, whether an improvement in the safety profile is at the center of development, or whether the focus should be on a change in the dosage form of the drug candidate. A detailed description of the product's possible market positioning and the relevant patient groups are also part of the TPP. Permanent monitoring of criteria and their fulfillment ensure that the most important factors are considered during product development and that changes can be responded to in a timely manner.

## Business Activities

### DRUG DEVELOPMENT

MorphoSys develops drugs using its own research and development as well as in cooperation with pharmaceutical and biotechnology partners. The development of new treatments for patients who suffer from serious diseases is our core business activity. With a total of 94 individual therapeutic antibody programs at the end of 2014, three of which are in pivotal phase 3 trials, the Company possesses one of the broadest pipelines in the industry.

### TECHNOLOGIES

MorphoSys has developed a number of technologies which offer direct access to fully human antibodies for the treatment of diseases. The most widely-known technologies of MorphoSys include HuCAL, which is a collection of billions of fully human antibodies and a system for their optimization. Ylanthia, the next generation of antibody technology from MorphoSys, is currently the largest known antibody library in Fab format, and is based on an innovative concept for the generation of highly specific and fully human antibodies. MorphoSys believes Ylanthia will establish a new standard in the pharmaceutical industry's development of therapeutic antibodies in this decade and beyond. Through Slonomics, MorphoSys has a patented, fully automated technology for gene synthesis and modification for the generation of highly diverse gene libraries in a controlled process. The lanthipeptide technology acquired in the reporting year is a valuable addition to our existing library of antibodies and opens up new possibilities to search for potential drugs comprising stabilized peptides.

### PROPRIETARY DEVELOPMENT

An important goal of the Company is to generate higher enterprise value through the proprietary development of innovative antibodies. Table 2 gives a summary of the proprietary clinical product candidates that are being developed for the indications of inflammatory diseases and cancer.

### ONCOLOGY

The ability of monoclonal antibodies to bind specific antigens has led to their dominant position in the field of targeted cancer therapies. The global market for innovative biological therapies for cancer treatment is growing rapidly. Two of the MorphoSys proprietary cancer programs, MOR208 and MOR202 are currently in clinical development.

The MorphoSys antibody **MOR208** is directed against the target molecule CD19, which is of special interest with regard to many B-cell malignancies. According to the market research firm, Decision Resources, the therapeutic market for the B-cell malignancy non-Hodgkin's lymphoma will reach a size of approximately US\$ 10 billion in 2022. Current biological therapies for the treatment of B-cell malignancies, including the blockbuster rituximab (trade name Rituxan<sup>®</sup>) and the antibody obinutuzumab (trade name Gazyva<sup>®</sup>), are directed against the CD20 target molecule. Since CD19 is expressed on a larger number of B-cell subtypes in comparison to CD20, the CD19 antibodies may provide a better therapeutic approach. MOR208 was further improved by changing the constant Fc part of the antibody. This modification leads to both a higher antibody-dependent cell-mediated cytotoxicity (ADCC) as well as to an improvement in antibody-dependent cellular phagocytosis (ADCP). The most advanced therapeutic approach against CD19 is the bi-specific antibody blinatumomab (trade name Blincyto<sup>™</sup>) which received approval in the reporting year for the indication acute lymphoblastic leukemia (ALL). Other clinical programs directed against the same target molecule use alternative approaches in order to increase the efficacy of the antibody, e.g. coupling with toxic substances or a change in the antibody's glycosylation pattern. Another therapeutic approach against CD19 is the CAR-T technology. This immune therapy extracts immune cells (T cells) from the patient's blood. The T cells are subsequently altered outside of the body so that they can be better directed to and kill the patient's tumor cells. When these T cells are later re-administered to the patient's blood by infusion, they bind the targeted cancer cells and destroy them. In the area of B-cell malignancies, different approaches with small molecules are also being developed.

MorphoSys's antibody **MOR202** is currently being developed for the treatment of multiple myeloma (MM) and is directed against the CD38 target molecule. This project was successfully brought into a partnership with Celgene in 2013. Measured in terms of frequency of occurrence, MM is a relatively small area of oncology. Nevertheless, the MM market has shown impressive revenues in recent years and represents a potential market of more than US\$ 9 billion in 2015. Significant achievements in clinical practice and the introduction of effective and highly priced pharmaceutical products have led to an expansion of the market. However, compared with the compounds currently available, there is still untapped market potential in terms of developing different forms of therapy for improving the chances of survival and reducing side effects. Despite much higher survival rates, the disease is seldom curable and a majority of patients experience a relapse. This has led to a particularly high demand for alternative treatments, such as those that target the CD38 surface antigen. Apart from MOR202, the industry has two other clinical development programs targeting CD38.

In August 2014, a co-development and co-promotion agreement for **MOR209/ES414** was signed with Emergent BioSolutions. The compound will be developed for patients suffering from metastatic castration-resistant prostate cancer (mCRPC). MOR209/ES414 is a bi-specific anti-PSMA/anti-CD3 antibody based on Emergent's ADAPTIR<sup>™</sup> platform. The immunotherapeutic protein activates the patient's T-cell immunity against prostate cancer cells expressing prostate specific membrane antigen (PSMA). This antigen is commonly overexpressed in prostate cancer cells. The anti-CD3 binding domains of the molecule selectively bind to the T cell receptor on cytotoxic T cells which become activated when the anti-PSMA binding domains crosslink them to the cancer cells. The two pairs of binding domains of MOR209/ES414 are linked to opposite ends of an immunoglobulin Fc domain to extend the compound's half-life and enable the use of a purification process typical of immunoglobulin-based molecules. Prostate cancer is the most common cancer in men with approximately 900,000 new cases annually worldwide. As preclinical *in vitro* and *in vivo* studies have shown, MOR209/ES414 redirects T cell cytotoxicity towards prostate cancer cells expressing PSMA.

#### INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory and autoimmune diseases affect millions of patients worldwide and pose a considerable social and economic burden. The IMS Institute for Healthcare Informatics (IMS Health) forecasts a world market for the treatment of autoimmune diseases of US\$ 33-36 billion by the year 2016.

**MOR103**, the antibody fully out-licensed by MorphoSys to GlaxoSmithKline (GSK) in 2013, is targeted against the GM-CSF (granulocyte macrophage colony-stimulating factor) target molecule – a central factor in the emergence of inflammatory diseases such as rheumatoid arthritis and multiple sclerosis (MS). The market for drugs treating rheumatoid arthritis has tremendous commercial potential. Biotechnologically produced drugs already comprise the major part of the total revenues achieved in this market. The market overall is growing continuously. Datamonitor expects the RA-market to reach US\$ 18 billion by the year 2020. Currently, the best-selling MS drugs have combined annual revenues of approximately US\$ 11 billion, and the market is expected to continue to grow. MOR103 has the potential to become the first member of the anti-GM-CSF antibody class of drugs. Comparable drugs currently in development are targeted against the GM-CSF molecule or against the GM-CSF receptor.

New mechanisms for treating inflammatory diseases such as rheumatoid arthritis, osteoporosis or osteoarthritis are being examined in cooperation with the Belgian company Galapagos NV with the aim of developing new antibody therapies to treat these diseases. The first candidate from this cooperation – **MOR106** – entered preclinical development in the reporting year. Both companies contribute their core technologies and expertise as part of this alliance. In accordance with the agreement, Galapagos and MorphoSys share research and development costs and all future revenues equally.

#### INFLUENCING FACTORS

Proper medical care for the public is the stated objective of many countries, and the need for new forms of therapy continues to grow in the face of demographic change. However, cost-cutting could slow down the industry's development. As part of their austerity measures, governments in Europe, the United States and Asia have stepped up their healthcare controls and are monitoring drug reimbursement closely.

As already seen in the field of small molecule drugs, generic competition is now becoming an increasing challenge in the biotechnology industry due to the expiry of patent protection for drugs. The technical barriers to copying bioengineered drugs remain high. Nevertheless, many drug manufacturers, particularly those from Europe and Asia, are now penetrating this market and placing more competitive pressure on established biotechnology companies. According to a study by IMS Health, the global market for biosimilars will grow from US\$ 693 million in 2011 to US\$ 4-6 billion by 2016.

TAB. 2: PROPRIETARY<sup>1</sup> CLINICAL PRODUCT CANDIDATES

	MOR103 <sup>2</sup>	MOR202	MOR208	MOR209/ES414
Compound	<ul style="list-style-type: none"> <li>• HuCAL antibody against the GM-CSF (granulocyte macrophage colony-stimulating factor) cytokine, a target molecule for a broad range of inflammatory diseases</li> <li>• Out-licensed in 2013</li> </ul>	<ul style="list-style-type: none"> <li>• HuCAL antibody against CD38, a target molecule for the treatment of multiple myeloma and certain leukemias</li> <li>• Entered into a cooperation agreement for further development in 2013</li> </ul>	<ul style="list-style-type: none"> <li>• Humanized, Fc-optimized anti-CD 19 antibody for the treatment of B-cell malignancies</li> <li>• In-licensed in 2010</li> </ul>	<ul style="list-style-type: none"> <li>• Bi-specific anti-PSMA/anti-CD3 antibody based on Emergent's ADAPTIR™ platform</li> <li>• Entered into a cooperation agreement for further development in 2014</li> </ul>
Characteristics	<ul style="list-style-type: none"> <li>• Targets both monocytes and macrophages</li> <li>• Extremely high binding affinity</li> <li>• Rapid therapeutic effect</li> </ul>	<ul style="list-style-type: none"> <li>• Binds to a unique epitope</li> <li>• Cytotoxic effects cause death of cancer cells</li> <li>• Preclinical trials show a synergistic effect with pomalidomide and lenalidomide</li> <li>• Administration via 2-hour infusion</li> </ul>	<ul style="list-style-type: none"> <li>• Fc-optimization triggers significantly higher immune response by means of antibody-dependent cellular cytotoxicity (ADCC)</li> <li>• Favorable form of administration</li> <li>• Simple method of production</li> </ul>	<ul style="list-style-type: none"> <li>• Directs cytotoxic T cells against prostate cancer cells expressing prostate-specific membrane antigen (PSMA)</li> <li>• Promising preclinical <i>in vitro</i> and <i>in vivo</i> data</li> </ul>
Funding	<p>Global licensing agreement with GSK</p> <ul style="list-style-type: none"> <li>• GSK is responsible for all further development and promotion of MOR103 in all indications</li> <li>• MorphoSys received an upfront payment of €22.5 million in 2013</li> <li>• Entitled to receive additional milestone payments from GSK of up to €423 million as well as tiered double-digit royalties on net sales</li> </ul>	<p>Co-development and co-promotion with Celgene</p> <ul style="list-style-type: none"> <li>• Both companies co-develop MOR202 globally; cost sharing is 2/3 Celgene and 1/3 MorphoSys</li> <li>• Upfront payment of €70.8 million plus equity investment of €46.2 million</li> <li>• Milestone-related payments of up to €511 million</li> <li>• A 50:50 share in profits from promotion in Europe; outside this market, MorphoSys receives tiered double-digit royalties on net sales</li> </ul>	<p>Completely under the control of MorphoSys</p> <ul style="list-style-type: none"> <li>• Current funding is completely provided by MorphoSys</li> </ul>	<p>Co-development and co-promotion with Emergent</p> <ul style="list-style-type: none"> <li>• MorphoSys has global promotion rights with the exception of the USA and Canada (promotion rights for Emergent)</li> <li>• Emergent received upfront payment of US\$ 20 million and is entitled to potential milestone payments of up to US\$ 163 million</li> <li>• 64% of development costs are borne by MorphoSys and 36% by Emergent</li> <li>• Emergent receives low-single-digit royalties on product sales in the MorphoSys sales regions and MorphoSys receives tiered royalties in the mid-single-digit percentage range up to 20% on product sales in Emergent's sales regions</li> </ul>
Current Status	<ul style="list-style-type: none"> <li>• Phase 1b/2a trial for rheumatoid arthritis completed successfully</li> <li>• Phase 1b trial in multiple sclerosis completed successfully</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of the phase 1/2a trial in patients with multiple myeloma with lenalidomide and pomalidomide as new combination partner</li> <li>• First clinical data expected in H1/2015</li> </ul>	<ul style="list-style-type: none"> <li>• Promising data on NHL with 4 subtypes presented in December 2014</li> <li>• Data on ALL trial with 30 patients expected in H1/2015</li> <li>• Phase 2 combination trial with lenalidomide in CLL performed independently by Ohio State University (IST)</li> </ul>	<ul style="list-style-type: none"> <li>• Initiation of a clinical phase 1 trial planned in early 2015 by our partner Emergent with up to 130 patients with metastatic castration-resistant prostate cancer (mCRPC)</li> </ul>

1) MorphoSys has control/owns the patent rights for the development candidate

2) In 2013, MOR103 was completely out-licensed to GlaxoSmithKline. After the conclusion of the license agreement, MorphoSys was still responsible for the clinical development of MOR103 in multiple sclerosis in a phase 1b clinical trial. The trial data was presented in September 2014. With the completion of this trial, the compound's further development lies entirely with GSK.

#### PARTNERED DISCOVERY

In the Partnered Discovery segment, MorphoSys uses technologies for the research, development and optimization of therapeutic antibodies as drug candidates in extensive partnerships with pharmaceutical and biotechnology companies. While the development costs are borne by the respective partners, MorphoSys is compensated in the form of research financing, milestone payments and potential royalties on product sales of successful programs.

The strategic alliance formed with Novartis in 2007 – a pharmaceutical partner with a growing pipeline of biotechnologically developed drugs – is the Company's largest alliance to date. This alliance was expanded in 2012 by a further agreement under which the companies will collaborate in the use of MorphoSys's next generation antibody platform Ylanthia, in order to create therapeutic antibodies.

Developing drugs with partners provides MorphoSys with the opportunity to be involved in indications for which the Company lacks proprietary expertise and would normally not pursue a program itself.

Examples of this are:

With the HuCAL antibody **bimagrumab**, developed by its partner Novartis, MorphoSys has a promising treatment in its pipeline for **sporadic inclusion body myositis (sIBM)** and other muscle-wasting disorders. This antibody is currently in a pivotal phase 2/3 trial and received the "breakthrough therapy designation" from the US Food and Drug Administration (FDA), and was also awarded the "orphan drug designation" (in Europe and the USA) for the indication of sIBM.

With the HuCAL antibody **gantenerumab**, developed by its partner Roche, MorphoSys has a promising treatment for **Alzheimer's** disease in its pipeline. Both of the compound's most advanced trials are examining ways to achieve a positive benefit by intervening at an early stage in the disease's progression. Roche is evaluating the compound in approx. 1,000 patients with mild Alzheimer's disease. In a second trial, run by the Dominantly Inherited Alzheimer Network (DIAN), the safety, tolerability and biomarker efficacy in individuals who have a genetic predisposition for Alzheimer's disease are being assessed. In December 2014, Roche announced the termination of a third phase 3 trial of the compound in prodromal Alzheimer's patients. The decision was based on a pre-planned futility analysis and a recommendation by the independent Data Monitoring Committee. Currently, there are no drugs that fundamentally improve the course of Alzheimer's disease, i.e. there is still high unmet medical need for new treatment options in this indication.

During this reporting year, **guselkumab**, a HuCAL antibody against **psoriasis** developed by MorphoSys' partner Janssen, was brought into phase 3 clinical development. Three different pivotal studies are expected to be completed in 2016.

TAB. 3: MARKET DATA FROM SELECTED PHASE 2 AND PHASE 3 PARTNERED PROGRAMS

Program Name	MorphoSys Partner	Indication	Market Potential
Bimagrumab/ BYM338	Novartis	Sporadic inclusion body myositis (sIBM), cachexia	<p>Sporadic inclusion body myositis:</p> <ul style="list-style-type: none"> <li>• Slowly progressive degenerative inflammatory disease of the skeletal muscles with very low prevalence of 1-9/100,000 (orphan disease)</li> <li>• No curative therapy available</li> </ul> <p>Cachexia:</p> <ul style="list-style-type: none"> <li>• Emaciation through degradation of muscle and fatty tissue</li> <li>• 80% of patients with advanced cancer are affected; responsible for at least 20% of deaths in cancer patients</li> </ul>
Gantenerumab	Roche	Alzheimer's disease	<ul style="list-style-type: none"> <li>• High medical need due to lack of disease-modifying drugs</li> <li>• High market growth potential due to aging population, earlier and improved diagnosis, and the advent of accompanying immune therapies that are prescribed in addition to existing therapies</li> <li>• In 2013, 8.4 million<sup>1</sup> people suffered from Alzheimer's disease</li> <li>• Market expected to grow from US\$ 3.1 billion in the year 2013 to over US\$ 12.7 billion by the year 2023<sup>1</sup></li> </ul>
Guselkumab/ CNTO1959	Janssen/J&J	Psoriasis	<p>Psoriasis:</p> <ul style="list-style-type: none"> <li>• Lifelong disease with high morbidity; has a negative influence on the quality of life</li> <li>• Prevalence: 11.6 million patients in 2013<sup>1</sup></li> <li>• Market expected to grow from US\$ 6.6 million in 2013 to over US\$ 10.7 billion by the year 2023<sup>1</sup></li> </ul>
BHQ880	Novartis	Multiple myeloma	<ul style="list-style-type: none"> <li>• Malignant tumor of the bone marrow (also called plasmacytoma)</li> <li>• Incidence: 46,960 patients in 2012<sup>1</sup></li> <li>• Market expected to grow to more than US\$ 9 billion in 2015</li> </ul>
LFG316	Novartis	Age-related macular degeneration (AMD), uveitis	<p>AMD:</p> <ul style="list-style-type: none"> <li>• Main cause of severe, irreversible visual impairment in the industrialized nations</li> <li>• Prevalence: 2.4 million patients suffered from wet AMD in 2013<sup>1)</sup> and 1.7 million from dry AMD</li> <li>• Market expected to grow from US\$ 5 billion in 2013 to over US\$ 8.9 billion in the year 2023<sup>1</sup></li> </ul> <p>Uveitis (inflammation of the iris):</p> <ul style="list-style-type: none"> <li>• Inflammation of the uvea, which may be caused by autoimmune diseases (also through rheumatoid arthritis)</li> <li>• Affects approximately 1 in 4,500 people and is more prevalent in those between 20 and 60 years of age; men and women are equally affected</li> </ul>
VAY736	Novartis	Pemphigus vulgaris, primary Sjögren's syndrome, relapsing-remitting MS	<p>Pemphigus vulgaris:</p> <ul style="list-style-type: none"> <li>• Skin disease characterized by blister formation in the lower layers of the epidermis</li> <li>• Very low incidence of 0.5-3.2/100,000 (orphan disease)</li> <li>• 10(20) % of patients die due to the consequences of side effects from long-term therapy with glucocorticoids and immunosuppressives</li> </ul> <p>Primary Sjögren's syndrome:</p> <ul style="list-style-type: none"> <li>• Autoimmune disease that attacks the salivary and lachrymal glands</li> <li>• Incidence: 3-6/100,000</li> </ul> <p>Relapsing-remitting MS:</p> <ul style="list-style-type: none"> <li>• Chronic inflammatory disease in which the myelin sheaths are attacked in the central nervous system</li> <li>• Prevalence: 700,000 patients in 2013<sup>1</sup></li> </ul>
LJM716	Novartis	Esophageal cancer, HER2-pos. cancer, solid tumors	<p>Esophageal cancer:</p> <ul style="list-style-type: none"> <li>• Neoplasia of the epithelium of the esophagus</li> <li>• Incidence: 10/100,000</li> </ul> <p>HER2- positive cancer:</p> <ul style="list-style-type: none"> <li>• HER2 is a growth factor receptor, which may be overexpressed in patients with breast cancer, ovarian cancer, or prostate cancer and may worsen the prognosis for survival</li> </ul>

Program Name	MorphoSys Partner	Indication	Market Potential
Tarextumab/ OMP(59)R5	OncoMed/ GSK	Pancreatic cancer	<ul style="list-style-type: none"> <li>• High mortality rate (relative five-year survival rate of 5%)</li> <li>• Limited therapeutic treatment options</li> <li>• Incidence: 116,500 cases in the year 2012<sup>1</sup></li> <li>• Market expected to grow from US\$ 700 million in the year 2012 to more than US\$ 1.3 billion by the year 2023<sup>1</sup></li> </ul>
CNT03157	Janssen/J&J	Asthma	<ul style="list-style-type: none"> <li>• Prevalence: 58.1 million patients in 2013<sup>1</sup></li> <li>• Market expected to grow from US\$ 15 billion in 2013 to more than US\$ 16.1 billion by the year 2023<sup>1</sup></li> </ul>
CNT06785	Janssen/J&J	Rheumatoid arthritis	<ul style="list-style-type: none"> <li>• Inflammatory autoimmune disease which leads to reduced mobility</li> <li>• In 2013, approximately 5.3 million people<sup>1</sup> suffered from rheumatoid arthritis</li> <li>• Market expected to grow to more than US\$ 18 billion by the year 2020<sup>1</sup></li> </ul>

1) Seven key markets: USA, Japan, France, Germany, Italy, Spain and Great Britain

Sources: Datamonitor, Decision Resources, www.pharmatimes.com, Visiongain, Globocan, GBI Research, www.bioportfolio.net, Decision Resources, Medscape

#### INNOVATION CAPITAL

MorphoSys started its Innovation Capital initiative to combine the traditional investment approach of an industry partner with the cooperative elements of compound development as flexibly as possible. The Company seeks to invest in promising start-ups whose technology and products are aligned with the interests of MorphoSys. Antibodies, technologies to generate antibody-like structures (scaffolds), proteins and peptides are the primary focus of these activities.

Currently, the privately owned biopharmaceutical company Lanthio Pharma is the only portfolio company. Lanthio Pharma specializes in the research and development of lanthipeptides. These are a new class of therapeutics demonstrating high target molecule selectivity and improved compound properties. In October 2014, MorphoSys acquired the lanthipeptide technology from Lanthio Pharma as part of the ongoing collaboration. MorphoSys will use the technology for drug discovery.

## Organizational Structure

#### ORGANIZATION OF MORPHOSYS AG

MorphoSys AG develops and commercializes high-quality antibodies for therapeutic applications. Leading-edge proprietary technologies form the basis of the business segments' operating activities. The Proprietary Development segment first independently researches and develops antibody programs which are further developed entirely in-house or brought into partnerships during the clinical phase. In the second business segment, Partnered Discovery, MorphoSys optimizes therapeutic antibodies for partners in the pharmaceutical industry in return for contractual payments (see figure 1: "Organizational Structure of MorphoSys AG").

With its entry into the commercial register on 13 August 2014 and based on the merger agreement dated 27 June 2014, MorphoSys IP GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with the effective date of 1 January 2014.

MorphoSys USA, Inc. was liquidated on 30 September 2014. The remaining assets were distributed to MorphoSys AG as the sole shareholder.

In the 2014 financial year, the MorphoSys Group only maintained the location of the parent company, MorphoSys AG, in Martinsried near Munich. This location houses the central Company functions such as accounting, controlling, human resources, legal, patents, corporate communications and investor relations, and the Proprietary Development and Partnered Discovery segments.

**FIG. 1: ORGANIZATIONAL STRUCTURE OF MORPHOSYS AG**



#### LEGAL STRUCTURE OF MORPHOSYS: MANAGEMENT AND SUPERVISION

MorphoSys AG is the parent Company of the MorphoSys Group, a German stock corporation listed in the Prime Standard segment of the Frankfurt Stock Exchange. In accordance with the German Stock Corporation Act, the Company has a dual management structure consisting of a Management Board and a Supervisory Board. The Management Board consists of four members and is responsible for managing the Company. The Supervisory Board appoints, oversees and advises Management Board in the management of the Company. More detailed information concerning the Company's management and control, as well as corporate governance principles, may be found in the Corporate Governance Report. The Senior Management Group supports the Management Board of MorphoSys AG and consists of 19 managers from various departments.

## Research and Development and Business Development

#### BUSINESS PERFORMANCE IN 2014

MorphoSys's business activities are currently heavily focused on strengthening its proprietary product development through access to new disease-specific target molecules, advanced product candidates and innovative technology platforms. As a research-intensive biopharmaceutical Company, our business performance is closely linked to the results of our compound and technology development. Project progress, regulatory decisions of health authorities, preclinical and clinical research results of our proprietary product candidates, as well as our projects with our partners, all provide information on the

probability of success and future market potential. Extending and strengthening the existing patent protection of our product candidates and technologies secures this market potential over our competitors.

#### NEW CONTRACTS

In April, MorphoSys announced the start of a strategic partnership with the Moulder Center for Drug Discovery Research, a department of the School of Pharmacy at the American **Temple University**. The Moulder Center was given access to the MorphoSys Ylanthia technology to validate new disease-related target molecules and generate therapeutic antibodies against them. MorphoSys has an exclusive option to further develop any antibodies resulting from this partnership. The participating department for new biotherapeutic compound discovery at the Moulder Center deals with the compound's design and optimization of lead candidates in various disease areas, including cancer, Alzheimer's disease, cardiovascular, metabolic and viral diseases.

In 2014, MorphoSys also concluded contracts with industry partners. In May, MorphoSys entered into an agreement with the German drugmaker **Merck KGaA** to discover and develop therapeutic antibodies against target molecules of the class of immune checkpoints. MorphoSys and Merck Serono, the biopharmaceutical division of Merck, agreed to co-develop therapeutic antibodies that are intended to stimulate the immune system to attack tumors (immuno-oncology). MorphoSys will use its proprietary antibody library, Ylanthia, and other technology platforms to generate antibodies against selected target molecules. Merck Serono brings a broad portfolio and expertise in the field of immuno-oncology and clinical development and will be completely responsible for the project starting with phase 1 clinical development. MorphoSys will share the cooperation's research and development costs and has the option to end the co-development phase at a predetermined time. MorphoSys will receive development and commercial milestone payments and tiered royalties on product sales in an amount reflecting the duration of the co-development phase. Merck Serono will be responsible for the commercialization of the resulting products.

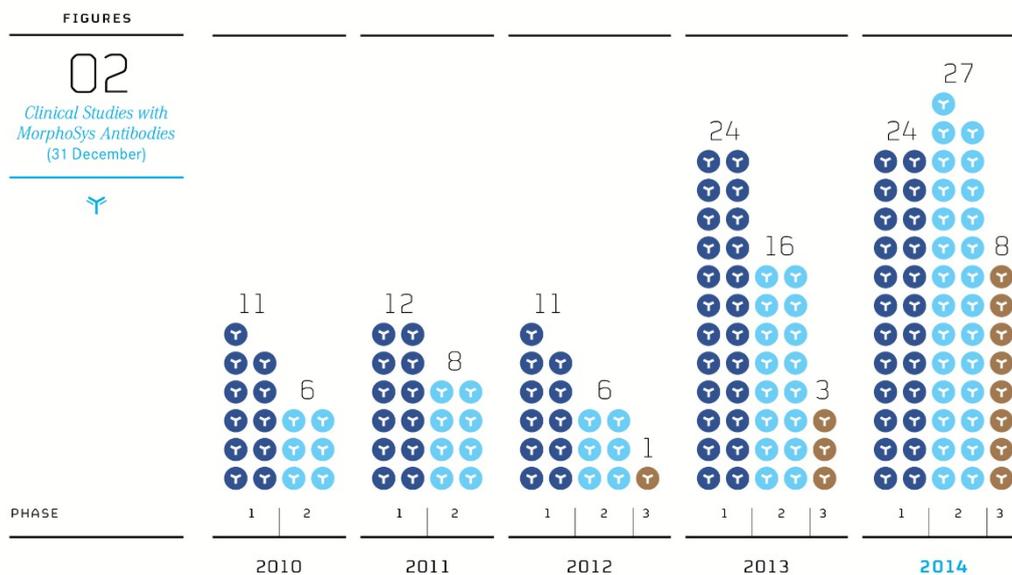
In August, MorphoSys and the American company **Emergent BioSolutions Inc.** announced an agreement for the co-development and co-promotion of the MOR209/ES414 compound. This is a bi-specific antibody against prostate cancer. MorphoSys secured the compound's worldwide promotion rights with the exception of the United States and Canada where Emergent retains promotion rights. Emergent received an upfront payment of US\$ 20 million and is entitled to receive potential milestone payments of up to US\$ 163 million. Milestone payments are linked to certain events, including the development of MOR209/ES414 in multiple indications and the approval in various markets. MorphoSys and Emergent will co-develop MOR209/ES414, with MorphoSys assuming 64 % of the research and development expenses and Emergent assuming 36 % of these expenses. Emergent will manufacture and supply clinical material from its production facilities in Baltimore, Maryland/USA. Emergent will receive low-single-digit royalties on product sales in the MorphoSys sales regions, and MorphoSys will receive tiered royalties ranging from the mid-single-digits up to 20 % on product sales in Emergent's sales regions.

In October, MorphoSys announced the acquisition of the lanthipeptide technology from **Lanthio Pharma** for drug development. The purchase was triggered when MorphoSys exercised an option under an existing agreement between the two companies from November 2012. The decision was based on a feasibility study for the development of high-quality, highly diverse lanthipeptide libraries. By exercising the option, MorphoSys receives the lanthipeptide technology and all related patents. Financial details were not disclosed. MorphoSys intends to continue working on an expanded lanthipeptide platform in the 2015 financial year.

## PROJECT INITIATIONS AND PROGRESS, TRIAL EXTENSIONS

In the course of the 2014 financial year, the number of individual therapeutic antibodies in the MorphoSys pipeline grew to a total of 94 (31 December 2013: 81 individual antibodies). Of those, 22 antibodies were in clinical development, 27 in preclinical development and 45 in the discovery phase by the year's end. In the Proprietary Development segment, MorphoSys had ten projects in its portfolio at the end of 2014 (31 December 2013: six). In the Partnered Discovery segment, the number of compounds initiated and developed by our partners grew to 84 programs (31 December 2013: 75).

**FIG.2: CLINICAL STUDIES WITH MORPHOSYS ANTIBODIES**



### PROPRIETARY DEVELOPMENT

In the course of 2014, one new clinical trial with a proprietary development candidate, MOR208, has been started.

At the turn of the year 2013/2014, the Ohio State University's (OSU) Department of Internal Medicine, led by Prof. Dr. John Byrd, Director of Hematology, initiated a phase 2 clinical trial to evaluate the efficacy and safety of **MOR208**. The trial tests a combination of MOR208 with the approved drug lenalidomide (trade name: Revlimid®, manufactured by Celgene) in patients with chronic lymphocytic leukemia (CLL). These trials progressed further during the reporting year. The trial is being conducted by the sponsor investigator Dr. Jennifer Woyach, Assistant Professor of Internal Medicine at the OSU, and is expected to enroll up to 40 either untreated CLL patients or those with relapsed/refractory acute forms. As an "investigator sponsored trial" (IST) it is largely funded by the study center. MorphoSys only provides the clinical material of MOR208.

In 2013, MorphoSys fully licensed the **MOR103** program to GlaxoSmithKline, which at the time conducted a phase 1b study in patients with multiple sclerosis. The Company was able to complete this study in the reporting year and to report positive data.

For the **MOR202** program, MorphoSys and its partner Celgene have decided to expand the clinical development plan in multiple myeloma. Cohorts with a weekly dosing schedule, with or without the addition of dexamethasone, will be added to the current dose-escalation trial of MOR202, with a bi-weekly dosing regimen. Cohorts with combination therapy of MOR202 with lenalidomide (trade name: Revlimid<sup>®</sup>, manufactured by Celgene) and pomalidomide (trade name Pomalyst<sup>®</sup>, manufactured by Celgene) will start in the middle of 2015.

#### **PARTNERED DISCOVERY**

Three antibodies in this segment proceeded into phase 1 clinical development during the 2014 financial year – all from the collaboration with Novartis. In February and October, MorphoSys communicated the successful initiation of clinical trials for two antibodies in the field of ophthalmology. Initiation of a phase 1 clinical trial in oncology was announced in December. All three compounds are fully human HuCAL antibodies. All of these events triggered milestone payments to MorphoSys.

The MorphoSys partner Janssen has brought guselkumab, the HuCAL antibody for the treatment of psoriasis, into phase 3 clinical development. Four different phase 3 studies with more than 2,500 patients planned for recruitment were initiated during 2014. According to the study design, three of studies are to be completed in 2016. This underpins Janssen's previously published plans to submit the compound for approval in the year 2017. The launch of the first phase 3 clinical trial triggered a milestone payment to MorphoSys.

MorphoSys's partner Roche announced the initiation of a new clinical phase 3 trial called Marguerite RoAD. This trial will test the gantenerumab compound on up to 1,000 patients suffering from a mild form of Alzheimer's disease.

In addition, the following studies have either been initiated or announced by the MorphoSys partners:

- A planned Boehringer Ingelheim phase 1 clinical trial with the HuCAL antibody BI 836845 to test the antibody in combination with the enzalutamide compound on up to 160 prostate cancer patients.
- A planned Boehringer Ingelheim phase 1 clinical trial with the HuCAL antibody BI 836845 to test the antibody in combination with the afatinib compound on up to 60 patients with non-small-cell lung cancer.
- A phase 1 clinical trial with the HuCAL antibody BI 836845 conducted in Japan by Boehringer Ingelheim on up to 18 patients with advanced tumors.
- A new study conducted by Janssen on the antibody compound guselkumab, in which it will investigate whether genetic analysis can predict a response to treatment with the compound in psoriasis patients.
- A phase 2 trial with the HuCAL antibody guselkumab conducted by Janssen for the treatment of psoriatic arthritis.
- A phase 2 trial with the HuCAL antibody bimagrumab initiated by Novartis in the USA, Europe and Japan, in which the compound will be tested on up to 210 patients following hip surgery.
- A long-term phase 2/3 trial with the HuCAL antibody bimagrumab to examine the efficacy, safety and tolerability in up to 14 patients with sporadic inclusion body myositis who have already received the antibody during an earlier phase 2 trial. This trial is conducted by Novartis.
- A phase 1 trial with LJM716, which will be tested in combination with the compounds BYL719 and trastuzumab on up to 48 patients with HER2-positive breast tumors. This trial is conducted by Novartis in collaboration with the US Memorial Sloan-Kettering Cancer Center.
- A planned phase 1b combination study with the HuCAL antibody PF-05082566 in combination with the anti-CCR4 antibody mogamulizumab to test the safety and tolerability of the combination in

patients with solid tumors. This study is being conducted by Pfizer and Kyowa Hakko Kirin and is scheduled to start in 2015.

- A planned phase 1/2 combination trial with the HuCAL antibody PF-05082566 in combination with Merck's cancer drug MK-3475, a PD-1 inhibitor and conducted by Pfizer and Merck.
- MorphoSys's partner OncoMed was able to continue a previously interrupted phase 1 trial with the antibody compound vantiactumab using a modified protocol. The decision of the US Food and Drug Administration FDA was announced in August. Changes to the study protocol include a modified dosage regimen, a change in inclusion criteria, the closer monitoring of patients and measures to counteract the effects on bone metabolism.

In addition, the following trials conducted by MorphoSys's partners were stopped:

- Novartis withdrew a phase 2 study with bimagrumab for mechanically ventilated patients before patients were admitted to the trial.
- In December 2014, Roche announced the completion of the phase 3 trial of the gantenerumab compound in prodromal Alzheimer's disease patients. Two other advanced trials in patients with mild Alzheimer's disease and in individuals with a genetic predisposition to Alzheimer's disease are still in progress.

Overall, 19 antibody programs in clinical development conducted by partners were tested in more than 50 trials.

## CLINICAL STUDY DATA FROM CURRENT PROJECTS

### PROPRIETARY DEVELOPMENT

In September, clinical data from the phase 1b trial in multiple sclerosis for the **MOR103** program (fully out-licensed to GSK) was presented at the ACTRIMS-ECTRIMS meeting. The data substantiated earlier trial results on the tolerance of MOR103 and showed the first signs of efficacy. At the trial's completion, the full responsibility for further development was transferred to the MorphoSys partner GlaxoSmithKline. Therefore, the decision of whether MOR103 will be developed for the indication of multiple sclerosis in addition to rheumatoid arthritis lies with GlaxoSmithKline.

In December, MorphoSys published promising clinical data from the ongoing phase 2 study of **MOR208** for the treatment of non-Hodgkin's lymphoma (NHL) at the 56th Annual Meeting of the American Society of Hematology (ASH). The data was generated from the treatment of 89 patients with four different NHL subtypes and shows that MOR208 was well tolerated as monotherapy and has shown encouraging signs of efficacy. The study examines MOR208 antibody in patients with follicular lymphoma (FL), mantle cell lymphoma (MCL), diffuse large B-cell lymphomas (DLBCL) and other indolent NHL forms. Patients received a weekly dose of the antibody during the first eight weeks of treatment. Patients in which this dosage resulted in at least a stabilization of the disease were given MOR208 for another four weeks. After this 12-week treatment program, patients who responded to therapy switched to maintenance therapy with bi-weekly dosing up to the time of progression. This approach has confirmed promising development options for MOR208, particularly the subtypes DLBCL and FL. In both subpopulations, the administration of the compound demonstrated cases of complete clinical response as well as a partial response.

MorphoSys presented further preclinical data at the ASH conference for the **MOR202** program which studied a combination of the compound with pomalidomide. The results showed a synergistic interaction

between the two compounds and an increased ability to kill cancer cells. The combination of MOR202 and pomalidomide is set for clinical testing during the 2015 financial year.

#### **PARTNERED DISCOVERY**

MorphoSys's partner Janssen presented promising data on the anti-inflammatory HuCAL antibody guselkumab at the 72nd Annual Meeting of the American Academy of Dermatology. The data originated from the X-PLORE study that tested guselkumab in 293 patients with moderate to severe psoriasis. Guselkumab binds specifically the target molecule IL-23 and thus differs from Janssen's approved drug Stelara® which neutralizes IL-23 as well as IL-12.

According to the results published, the randomized phase 2b study conducted at multiple study centers and using several dosages of guselkumab in comparison to placebo and adalimumab (trade name Humira®, manufactured by AbbVie) achieved the trials primary objective. The compound significantly reduced typical psoriasis symptoms in patients after 16 weeks as measured by the Physician's Global Assessment (PGA) value of 0 (cleared) or 1 (minimal). A total of 34% of patients achieved these values at the lowest dose of 5 mg. The best result at a dose of 100 mg was 86% in comparison to approximately 7% in the placebo group and around 58% when treated with adalimumab. In addition, guselkumab is currently in a phase 2 clinical trial in psoriatic arthritis (PsA).

At the ASCO Annual Meeting and the AACR conference - two of the most important international conferences in oncology - data was presented from the trials of several of our partnered programs. The results from programs such as PF-05082566, tarextumab, LJM716 and BI 836845 support the development of these projects.

MorphoSys's partner OncoMed published a number of preclinical and clinical research findings during the year on the two HuCAL programs tarextumab and vantictumab. In late September, OncoMed presented clinical data on tarextumab at the Congress of the European Society for Medical Oncology (ESMO) in Madrid. The interim results of ongoing studies substantiated the promising potential of the antibody in the area of pancreatic cancer and non-small-cell lung cancer.

#### **REGULATORY EVENTS**

##### **PROPRIETARY DEVELOPMENT**

In May 2014, the US Food and Drug Administration confirmed the orphan drug status for the MOR208 project for the treatment of chronic lymphocytic leukemia (CLL) and small-cell lymphocytic lymphoma (SLL). In addition, MorphoSys has received a positive recommendation from the European Medicines Agency EMA to grant MOR208 the status as a medicinal product for rare disorders (orphan medicinal product) in the same indications. The EMA's recommendation was confirmed later in the year by the European Commission.

The designation "orphan drug" and "orphan medicinal product" are awarded by the US and European health authorities to support the development of promising drug candidates for diseases affecting fewer than 200,000 patients in the US or not more than five for every 10,000 people in the European Union. The receipt of this classification is accompanied by benefits such as seven years of market exclusivity following approval in the United States and ten years in the European Union. Other potential benefits may be in the form of support for protocols, the opportunity to apply for research funding, tax benefits for certain research expenses and waived fees for regulatory processes.

In November, MorphoSys announced that the US Food and Drug Administration (FDA) had awarded the MOR208 program fast-track designation. The FDA's fast track program promotes the accelerated development and testing of compounds that have the potential to meet unmet medical need of serious or even life-threatening diseases. Working more closely with the FDA, which is made possible through this program, could accelerate the development of MOR208 for patients with this particular type of non-Hodgkin's lymphoma.

Shortly before the end of the year, the US and European health authorities also confirmed the award of orphan drug and orphan medicinal product status for the MOR208 project for the treatment of diffuse large B-cell lymphoma (DLBCL).

The MOR208 compound program was significantly strengthened by the regulatory decisions taken in the course of the financial year, particularly those in the disease areas DLBCL and CLL, for which positive clinical data already exists and new data is expected to be generated.

During 2014, there were no relevant regulatory decisions announced by the Partnered Discovery segment.

## **PATENTS**

During the 2014 financial year, MorphoSys continued to consolidate and expand the patent protection of its development programs and its growing technology portfolio – the Company's most important value drivers.

The US Patent and Trademark Office (USPTO) granted further patents for the Company's most recent antibody library, Ylanthia, which has been commercially available for new and existing partners since 2012. The first US patent was granted in the first quarter of the past year. The State Intellectual Property Office of the People's Republic of China also granted a patent related to this technology.

In addition, MorphoSys acquired the lanthipeptide technology and all related intellectual property from the Dutch company Lanthio Pharma.

Currently, the Company maintains more than 40 different proprietary patent families worldwide in addition to the numerous patent families it pursues in collaboration with its partners.

## Headcount Development

MorphoSys's success is based on its highly qualified staff and their creativity and motivation. On 31 December 2014 there were 325 employees at MorphoSys AG (31 December 2013: 295), of whom 124 hold Ph.D. degrees (31 December 2013: 118). MorphoSys AG had an annual average of 311 employees in 2014 (2013: 286).

It is crucial for a company to have a competitive and attractive remuneration system when competing for the best employees. In order for MorphoSys to compete successfully as an employer, an annual comparison of the compensation paid in the biotech industry and in other industries comparable with MorphoSys is carried out and, if necessary, the salary structure is adjusted accordingly. On 1 January 2014, an adaptation of the existing remuneration system was launched in order to better meet the changing requirements of a modern compensation system. This adaptation involves a shift of some elements of variable compensation in favor of fixed compensation. This adaptation applies to all employees with the exception of the Management Board. Thus, the annual bonus is now linked exclusively to the achievement of corporate goals. A "spot bonus" was also introduced and promptly rewards ("on the spot") any exceptional accomplishments of employees.

The chapter titled "Sustainable Business Development" contains a detailed overview of headcount development and MorphoSys's activities for promoting successful long-term efforts in human resources.

## Changes in the Business Environment

Uncertainty in the financial markets and geopolitical tensions during the year brought global economic growth to another standstill. At the end of the year, the OECD reported a rather subdued global growth rate of 3.3% and growth of a meager 0.8% for the eurozone.

The escalation of conflicts in Ukraine and the Middle East had a significant negative impact on economic activity, particularly in Europe. In several of the industrialized countries, special factors had a dampening effect on economic development and caused quarterly fluctuations in production. Although the unusually harsh winter in the United States at the start of the year resulted in dwindling economic activity, American economic development picked up again in the course of the year and, according to OECD estimates, entered the new year with a growth rate of about 2.2%. Japan's economic development was overshadowed by the VAT increase and grew only 0.4%. In addition to their economic problems, emerging markets suffered from weaker growth momentum. China, however, managed to announce economic growth of around 7%, but still battled with factors threatening its financial stability.

In Germany, the economic environment remained challenging. In November, the Centre for European Economic Research (ZEW) reported some stabilization in the economy and thus a cautiously rising economy.

Toward the year's end, several indicators pointed to a slow rise in global economic activity. The improvement, however, was limited mainly to the advanced economies and especially the United States. In comparison, the economic climate indicators for the whole of Europe and the emerging markets have been mixed until recently. Experts believe that the world economy will continue to expand moderately for the time being but will remain vulnerable to setbacks.

The uneven economic recovery in Europe and geopolitical tensions also pose serious risks to the growth of the global pharmaceutical and biotechnology industries. MorphoSys steers its entrepreneurial activities while weighing all of the potential risks and opportunities, including those in the macroeconomic environment. Nevertheless, global political uncertainties did not cause us to refrain from or modify any crucial activities during the past financial year. Fluctuations within individual countries had no influence on MorphoSys's operations. In this respect, global economic developments had no immediate impact on the Company's business performance.

#### **REGULATORY ENVIRONMENT**

The healthcare industry's regulatory environment is dominated by ever higher standards of product quality, safety and effectiveness, and places high demands on the companies. Novel drugs must demonstrate a significant benefit over existing therapies in order to be approved, gain the acceptance of the market and receive funding from the healthcare system. The industry is also heavily restricted in its pricing due to the legal requirements of the healthcare system, which are dominated by the issue of cost savings, particularly in Europe.

Despite continued pressure on the industry, the situation in the market seems to be improving gradually, particularly in the USA. In 2014, the US FDA granted approval to 41 drugs – significantly more than in the previous year (2013: 27 drugs). Twenty biotechnological compounds were among the compounds approved. This highlights the importance for the industry of continuous innovation in order to develop technologically advanced products and optimize treatments already approved.

The FDA promotes compounds with exceptional drug potential through measures such as the "breakthrough therapy designation," introduced in 2013, and the "fast track" program, which help expedite product development and testing. In November, the FDA also issued fast track status to MorphoSys's proprietary compound MOR208, which is currently in a phase 2 clinical trial for patients suffering from diffuse large B-cell lymphoma (DLBCL). Closer cooperation with the audit and approval authorities facilitates the targeted development of the antibody and may help to bring it faster to the market.

#### **DEVELOPMENT OF THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTORS**

The price pressure on drug suppliers in the past year was clearly evident, especially in competitive indications such as oncology or multiple sclerosis. Competitive pressure on providers in the generics market also grew. Specifically, generic versions of biopharmaceuticals, called biosimilars, represent an important and increasingly competitive growth market. This trend is expected to continue in the coming years, as some of the best-selling biological compounds will lose their patent protection.

Given the global aging population and market developments in emerging markets such as China and India, the general growth trend in the healthcare industry continues unabated. The US market research firm IMS Health estimates that the worldwide revenues of the pharmaceutical industry in 2014 were well over a trillion dollars – an almost 20% increase over the previous year. At around 40%, North America still generates the lion's share of global industry sales.

The appreciable economic recovery and local healthcare reform had a positive impact on the US market in particular. The US pharmaceutical industry benefited from fewer patent expiries than in previous years, the launch of innovative products and a significant rise in drug prices. The market was particularly excited about the new hepatitis C drug Sovaldi<sup>®</sup>, which was placed on the market by Gilead Sciences with great success and at a price of approx. US\$ 1,000 per tablet.

In Europe, the generally weak economic situation and restrained spending in the healthcare sector in connection with some countries' debt reductions led to comparatively weak revenue growth. The need to promote innovation was also evident in Europe. At least European biotechnology companies made a conservative comeback on the stock markets compared to their peers in the USA. In 2014, ten biotech companies went public on European stock exchanges. The principal reason for this positive development was the tax incentives available for innovative companies, such as those available in France, and an internationally visible growth segment, such as seen in the UK. Germany could not participate in this trend, however, and had not one single new IPO from this industry. The stagnation in both sales and research investment in Germany is probably due in part to the rather adverse conditions: Cost considerations are making it increasingly difficult for businesses to establish a proprietary research pipeline due to the absence of tax incentives for research and development and a distinct lack of venture capital. In addition, innovative vendors, also those outside of Germany, are being placed under pressure by the growing generics market.

#### **DEVELOPMENT OF THE ANTIBODY SECTOR**

Antibody compounds in cancer immunotherapy monopolized the headlines in the 2014 financial year. The international ASCO Meeting in June was also dominated by these compounds. Roche, Merck & Co., Bristol-Myers Squibb and various other companies presented promising clinical results of studies in areas such as melanoma, bladder cancer and lung cancer. In 2014, anti-PD1 antibodies represented an important class of drugs approaching market readiness. In July, the compound nivolumab, developed by the pharmaceutical company Bristol-Myers Squibb, received approval in Japan for the treatment of unresectable melanoma. The compound pembrolizumab, developed by Merck, Inc. in the USA, is a new antibody for the treatment of patients with malignant melanoma. This compound received approval in the United States under the trade name Keytruda<sup>®</sup>.

With antibodies against the target molecule PCSK9, a class of antibodies took a step into the last phase of clinical development in 2014. This opens up a whole new disease area for the treatment of high blood pressure and high cholesterol and demonstrates once more the diversity of these compounds' potential applications.

In addition, the following antibodies were granted approval in 2014:

- The angiogenesis inhibitor ramucirumab (trade name: Cyramza<sup>®</sup>), a first monoclonal antibody for the treatment of patients with advanced gastric cancer, was approved in the United States.
- The compound siltuximab (trade name: Sylvant<sup>®</sup>) was approved for the treatment of patients with Castleman's disease.
- The antibody vedolizumab (trade name: Entyvio<sup>®</sup>), used to treat moderate to severe ulcerative colitis or Crohn's disease, received approval.

#### **CURRENCY DEVELOPMENTS**

In 2014, the euro weakened again as a result of the debt crises. Falling energy prices put even more downward pressure on inflation in Europe. This is increasing the worries of monetary authorities about deflation or a spiral of falling prices and a shrinking economy. Therefore, the European Central Bank decided to purchase government bonds in large scale to avert the threat of deflation in the euro area. The currency suffered as a result and, at around US\$ 1.23 in 2014, the euro was at its lowest level since 2010.

Since the Company's business is carried out mainly in euros and US dollars, changes in these two currencies may have an effect on MorphoSys's costs and revenues in the future. The ongoing weakening of the euro against the US\$ has a direct impact on the operational result, as costs for clinical studies occur at an increasing extent in the US.

# Analysis of Net Assets, Financial Position and Results of Operations

MorphoSys AG had two wholly-owned subsidiaries (collectively referred to as the “MorphoSys Group” or the “Group”): Sloning BioTechnology GmbH and Poole Real Estate Ltd. (formerly Biogenesis UK Ltd.). Upon entry into the commercial register on 13 August 2014 and based on the merger agreement dated 27 June 2014, MorphoSys IP GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with the effective date of 1 January 2014. MorphoSys USA, Inc., Charlotte, North Carolina, USA, was liquidated in financial year 2014. The remaining assets were distributed to MorphoSys AG as the sole shareholder. On 31 December 2014, Poole Real Estate Ltd., Oxford, UK, was in the process of liquidation. The liquidation was resolved by the shareholders and entered into the commercial register of the United Kingdom (Companies House) on 20 March 2014.

## Revenues

Compared to the previous year, revenues decreased by 19 % to € 61.9 million (2013: € 76.1 million). This decrease mainly resulted from one-time effects in connection with the out-licensing of MOR103 to GlaxoSmithKline as well as from license fees generated from the sale of the AbD Serotec business unit to Bio-Rad in 2013. The Proprietary Development und Partnered Discovery segments contributed € 14.6 million (2013: € 26.7 million) and € 47.3 million (2013: € 49.3 million) to total revenue.

Of total revenues, € 0.7 million (2013: € 0.03 million) related to companies located in Germany and € 16.5 million (2013: 6.9 Mio. €) to biotechnology and pharma companies as well as non-profit organizations located in North America. Revenues in the amount of € 44.6 million were generated with companies located in Europe and Asia (2012: € 69.2 million).

## Cost of Goods Sold

Cost of goods sold mainly comprised research and development expenses and slightly increased by € 1.1 million to € 63.1 million (2013: € 62.0 million). This change was primarily resulting from higher costs for external services (2014: € 18.4 million; 2013: € 15.7 million). Costs for external services mainly increased due to higher expenses for external laboratory funding in connection with MorphoSys’s proprietary development. In 2014, the Company accounted for impairment on licenses for concessions, commercial property rights and similar rights as well as on laboratory equipment in the amount of € 4.1 million. This increase was offset by lower personnel expenses since effects from the exercise of share-based remuneration programs and the related taxation of monetary benefits were lower compared to the previous year.

## Selling Expenses

Selling expenses decreased by € 0.7 million to € 2.5 million (2013: € 3.2 million) as a result of lower costs for external services.

## General Administration Expenses

General administration expenses amounted to € 19.2 million (2013: € 27.4 million). This decrease is mainly caused by lower costs for external services (2014: € 3.0 million; 2013: € 7.1 million) and lower personnel costs (2014: € 14.3 million; 2013: € 17.1 million). In 2013, costs for external services comprised transaction-related costs in the amount of € 1.8 million in connection with the sale of the AbD Serotec business unit. The decrease in personnel expenses was mainly caused by lower effects from the exercise of share-based remuneration programs and the related taxation of monetary benefits for the employees compared to the previous year.

## Other Operating Income, Other Operating Expenses, Other Interest and Similar Income as well as Other Interest and Similar Expenses

Other operating income amounted to € 17.0 million and decreased by € 4.9 million compared to 2013. This decrease was primarily the result of the taxation of monetary benefits in connection with the exercise of share-based payment programs by employees of the Company. Compared to the previous year, the number of exercises related to share-based remuneration programs was substantially lower. The decrease of this item has to be regarded in the context of lower personnel expenses in cost of goods sold and general administration expenses. This effect was offset by higher reimbursements from other companies in the course of research co-operations.

Other operating expenses decreased from € 0.9 million in 2013 to € 0.5 million in 2014. The main driver for this decrease was a one-time effect from the impairment of receivables in the previous year.

Other interest and similar income increased from € 0.4 million in 2013 to € 1.1 million in 2014, and mainly comprised interest income from bank deposits and financial investments. Other interest and similar expenses increased from € 0.1 million to € 0.2 million.

## Income from Investments

In business year 2014, an amount of € 0.9 million from retained earnings of the subsidiary Poole Real Estate Ltd. was transferred to MorphoSys AG.

## Income from Other Securities and Loans Presented under Financial Assets as well as Losses from Other Securities and Loans Presented under Financial Assets

Income from other securities and loans presented under financial assets in the amount of € 0.7 million (2013: € 0.5 million) were composed of realized gains from securities. Losses from other securities and loans presented under financial assets amounted to € 0.1 million in financial year 2014 (2013: € 0.04million).

## Impairment of Financial Assets and of Current Securities

In business year 2014, the impairment on financial assets and current securities mainly related to a write-down of the share in Poole Real Estate Ltd. in the amount of € 1.0 million.

## Extraordinary Result

The extraordinary result 2014 occurred from a merger loss in connection with the merger of MorphoSys IP GmbH and MorphoSys AG. The extraordinary result 2013 amounted to € 14.3 million and resulted from the sale of the shares in MorphoSys UK Ltd. including its subsidiaries to Bio-Rad as well as from the transfer of additional assets and liabilities of MorphoSys AG to Bio-Rad in connection with the sale of AbD Serotec business unit.

## Income Tax

Following a tax expense of € 3.6 million in the previous year, a tax income for losses carried back for income tax purposes in the amount of € 0.1 million was recorded in 2014 as a consequence of the negative result of ordinary activities.

## Result from Ordinary Activities

The above mentioned fluctuations led to a result from ordinary activities of € -5.0 million (2013: € 8.7 million) and a net loss in the amount of € 4.9 million (2013: net profit of € 19.4 million).

## Financial Position

### PRINCIPLES OF FINANCIAL MANAGEMENT

At MorphoSys, the primary objective of financial management is to have sufficient liquidity reserves available for industry-specific fluctuations and for the continued growth of the Company at all times. The main source of this liquidity is the operational business activities of the various parts of the Company and the resulting cash inflows. Scenario projections and cash flow projections are used to determine our liquidity requirements.

### INVESTMENTS

MorphoSys's investment in property, plant and equipment amounted to € 2.9 million and increased by € 1.9 million in comparison to the previous year. Depreciation of property, plant and equipment has not changed compared to the previous year and amounted to € 1.4 million in 2014 (2013: € 1.4 million).

In 2014, the Company invested € 17.3 million (2013: € 3.9 million) in intangible assets, namely an in-licensed research program as well as software. Amortization of intangible assets amounted to € 1.6 million and decreased in comparison to the previous year (2013: € 1.8 million). In business year 2014,

impairments in the amount of €4.1 million were recognized on patents, licenses and laboratory equipment.

## **LIQUIDITY**

As of 31 December 2014, the Company held liquid funds, bank deposits, other securities presented under current assets and other financial assets in the amount of €337.4 million, compared to €373.0 million on 31 December 2013.

The decrease in liquidity compared to the previous year mainly resulted from the financing of operating activities as well as from the in-licensing of a research program from Emergent BioSolutions.

## **Net Assets**

### **ASSETS**

As of 31 December 2014, total assets decreased by €23.9 million to €413.2 million, compared to €437.1 million on 31 December 2013. Intangible assets increased by €11.6 million mainly due to the in-licensing of a research program from Emergent BioSolutions. As a consequence of the repayment of capital by Sloning BioTechnology GmbH and the resulting reduction of financial assets in the amount of €10.0 million, intercompany receivables increased by the same amount. A shift from securities to other assets resulted from the reallocation of investments as part of the company's asset management policy. In addition, liquid funds decreased due to the financing of operating activities and the above mentioned in-licensing.

### **ACCRUALS AND LIABILITIES**

As of 31 December 2014, accruals totaled €20.9 million, compared to €20.8 million in the previous year. The decrease in tax liabilities from €2.7 million to €0.8 million was offset by a corresponding increase in other accruals, mainly as a result of higher accruals for outstanding invoices for external laboratory services (2014: €10.5 million; 2013: €6.8 million).

Deferred revenues decreased from €67.4 million as of 31 December 2013 to €52.6 million as of 31 December 2014.

## STOCKHOLDERS' EQUITY

As of 31 December 2014, equity totaled €337.7 million, compared to €346.4 million on 31 December 2013.

The number of shares issued totaled 26,456,834 as of 31 December 2014 of which 26,005,944 shares were outstanding (31 December 2013: 26,220,882 and 25,880,992 shares, respectively).

Compared to 31 December 2013, the number of authorized ordinary shares increased from 2,335,822 to 4,957,910. This resulted from the creation of the new Authorized Capital 2014-I at the Annual General Meeting of 23 May 2014. In turn, the number of ordinary shares of conditional capital decreased from 8,057,470 to 7,166,848 as the Conditional Capital 1999-I in the amount of €70,329 and the Conditional Capital 2008/II in the amount of €212,077 were canceled. Conditional Capital 2003-II was reduced by €372,264 from €725,064 to €352,800. A further reduction of Conditional Capital 2003-II by €235,952 to a total of €116,848 resulted from the exercise of 235,952 conversion rights in 2014. The reduction of Conditional Capital through the exercise of 235,952 conversion rights was registered for entry in the commercial register in January 2015.

As of 31 December 2014, the value of treasury stock increased by €7,833,944 to €14,251,962, compared to its level on 31 December 2013 as a result of MorphoSys's repurchase of 111,000 of its own shares on the stock exchange. As of 31 December 2014, MorphoSys held 450,890 of its own shares (31 December 2013: 339,890).

As of 31 December 2014, capital surplus amounted to €294.0 million, compared to €290.2 million as of 31 December 2013. The increase by €3.8 million primarily resulted from additions in connection with the exercise of convertible bonds.

Other earnings reserves decreased from €13.1 million as of 31 December 2013 to €5.4 million as of 31 December 2014. In 2014, an amount of €7.7 million (2103: €2.7 million) was released from other earnings reserves due to the repurchase of own shares for long-term incentive programs (LTI) and was netted with the difference from the repurchase of own shares. The net loss 2014 in the amount of €4.9 million was netted with accumulated income 2013 in the amount of €17.2 million, and the resulting accumulated income 2014 was carried forward. As of 31 December 2014, accumulated income amounted to €12.3 million (2013: €17.2 million).

## Financing

As of 31 December 2014, the Company's equity ratio amounted to 82% compared to 79% on 31 December 2013. Currently, the Company is not financed by debt.

## 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

Currently, MorphoSys is not being assessed for its creditworthiness by any agency.

## Comparison of Actual Business Results to Forecasts

In the 2014 reporting year, MorphoSys demonstrated very solid financial performance. The revenue and earnings targets published at the beginning of the financial year were raised by the Company in October. This upward revision was the result of lower than expected development costs as well as milestone payments from partners that had a direct impact on our results.

A detailed comparison of our forecasts with the actual results can be found in Table 4.

**TAB. 4: COMPARISON OF ACTUAL BUSINESS RESULTS TO FORECASTS**

	2014 Targets	2014 Results
<b>Financial Targets</b>	Revenues in the range of €56 million to €61 million	Revenues of €61.9 million
	Investment in proprietary products and technologies in an amount of €36 million to €41 million	Investment in proprietary products and technologies in an amount of €36.5 million
	Result from ordinary activities of € (11) million to € (16) million	Result from ordinary activities of € (5.0) million
<b>Proprietary R&amp;D</b>	MOR103 (out-licensed to GSK) <ul style="list-style-type: none"> <li>• Presentation of phase 1b trial data in multiple sclerosis (MS)</li> </ul>	MOR103 <ul style="list-style-type: none"> <li>• Presentation of clinical data from phase 1b trial in MS at the ACRIMS-ECTRIMS meeting in September</li> <li>• Transfer of complete responsibility for further development to GlaxoSmithKline upon the trial's completion</li> </ul>
	MOR202 <ul style="list-style-type: none"> <li>• Data from the phase 1/2a trial in multiple myeloma</li> <li>• Plan further trials with partner Celgene</li> </ul>	MOR202 <ul style="list-style-type: none"> <li>• Data from the phase 1/2a trial in multiple myeloma expected in 2015</li> <li>• Decision to expand clinical development plan in multiple myeloma with partner Celgene: pomalidomide as new combination partner</li> </ul>
	MOR208 <ul style="list-style-type: none"> <li>• Conclusion and preliminary data from phase 2 trial B-ALL in the second half of 2014</li> <li>• Continuation of phase 2 trial in NHL, preliminary data before the year end</li> </ul>	MOR208 <ul style="list-style-type: none"> <li>• Presentation of final data from the phase 1/2a trial in CLL/SLL at the ASH annual conference</li> <li>• Presentation of clinical phase 2 data for NHL monotherapy at the ASH annual conference</li> </ul>
<b>Partner Pipeline</b>	Progress of partnered development programs	<ul style="list-style-type: none"> <li>• Net increase of nine partnered programs</li> <li>• Initiation of a phase 1 trial of a HuCAL antibody against inflammatory diseases by partner Novartis</li> <li>• Initiation of a phase 1 trial of a HuCAL antibody in the area of diabetic eye disease by partner Novartis</li> <li>• Initiation of a phase 1 trial of a HuCAL antibody in the area of oncology by partner Novartis</li> <li>• Initiation of phase 3 trials of the HuCAL antibody guselkumab (CNT01959) in moderate to severe psoriasis by partner Janssen Biotech</li> </ul>

## The Management Board's General Assessment of Business Performance

The Management Board can look back on a successful 2014 financial year for MorphoSys AG. As intended, MorphoSys expanded its pipeline further and ongoing programs advanced successfully. A number of promising results were announced by the more advanced trials. MorphoSys strengthened its proprietary portfolio through the in-licensing of the promising drug candidate MOR209/ES414 from Emergent BioSolutions and also through the acquisition of the lanthipeptide technology for drug development from Lanthio Pharma. Several collaborations this year verified that the Ylanthia technology of MorphoSys has the potential to win clearly differentiated antibodies against selected target molecules, including a major alliance with Merck Serono in the area of immuno-oncology.

In the Partnered Discovery business segment, the projects initiated by our partners are developing well. However, shortly before the year's end MorphoSys's partner Roche announced it had stopped one of three ongoing phase 3 trials with the Alzheimer's compound gantenerumab. As a result, potential market approval of gantenerumab may be delayed by several years. This event highlights the advantages of our business model and of a broad pipeline of development candidates.

In the 2014 financial year, revenues of MorphoSys AG reached €61.9 million. The Company had a result from ordinary activities of € -5.0 million and incurred a loss as a result of the intensified development of its proprietary research pipeline, as already announced. The equity ratio of 82 % and liquidity of €337.4 million testify to the Company's solid financial position.

In the reporting year, the Partnered Discovery segment again made the largest contribution to our business success. The Proprietary Development segment also generated revenue from the partnerships concluded with GlaxoSmithKline and Celgene in 2013. Due to the successful development of both business segments, MorphoSys has continued to invest significantly in its proprietary product and technology development.

These investments were directly reflected in the product pipeline. MorphoSys's partnered and proprietary pipeline made strong progress. Janssen brought the HuCAL antibody guselkumab into phase 3, whereby MorphoSys already has three programs in pivotal trials.

## Accounting Judgments

In the 2014 annual financial statements, no accounting policies were applied nor related options exercised that differed from those in prior years and that, if applied or exercised differently, would have had a material effect on net assets, financial position, 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 Annual Financial Statements.

## Outlook and Forecast

MorphoSys has always enjoyed a solid reputation for its leading-edge technology, but it is the Company's extensive pipeline that is now becoming the center of attention. By maximizing the number of development programs, MorphoSys raises its future potential and limits the risk associated with the development of new drugs.

### Overall Statement on Expected Development

The strategic focus of MorphoSys lies in the development of a broad and sustainable pipeline of innovative drug candidates, both on a proprietary basis and with partners. The foundation of these drug candidates is MorphoSys's established and proven technologies, and the Company continues to invest in their development. In the therapeutic area, the commercialization of these technologies provides cash flows secured by contracts from long-term partnerships with large pharmaceutical companies. MorphoSys also profits from the successful development of drug candidates through milestone payments and royalties from product sales as soon as the drugs reach the market.

The Company's stable cash flow and strong liquidity make it possible to further invest in the proprietary development of drugs and technologies. In the year 2015, the Management Board expects the following developments:

- Further investment in proprietary product candidates resulting from the start of additional clinical trials.
- Continued expansion of proprietary development activities through in-licensing and possibly company acquisitions, co-development, or new proprietary development.
- Investments in technology development to maintain the Company's leading position in the field of antibody and related technologies. The Company expects to sign new strategic agreements based on its proprietary technology, with a focus on gaining access to innovative target molecules and compounds.
- Expansion of the therapeutic antibody pipeline as part of the partnership with Novartis.

## Strategic Outlook

MorphoSys's business model is based on its proprietary technologies, including the HuCAL antibody library, the Slonomics platform, the Ylanthia antibody library, as well as the Company's ability to develop innovative drug candidates. The management at MorphoSys intends to expand the Company's portfolio of proprietary drug candidates and will drive investment in this area accordingly. MorphoSys will also continue to concentrate on the use and expansion of its technologies in fast-growing and innovation-driven areas of the healthcare sector.

In the Proprietary Development segment, MorphoSys develops proprietary therapeutic antibodies in the area of inflammatory disease and oncology. MorphoSys will consider entering into alliances for the further development of its proprietary candidates on a case-by-case basis. Under certain conditions, individual projects could remain in proprietary development for an extended period of time and possibly to the point of commercialization.

The Partnered Discovery segment generates cash flows secured by contracts based on long-term collaborations. The development of therapeutic antibodies within partnerships will remain a central pillar of MorphoSys's strategy. The therapeutic pipeline should continue to grow and mature in the years to come and lead to additional milestone payments. The broad pipeline promises an impressive number of market-ready, therapeutic antibodies in the coming years and, consequently, financial participation in the form of royalty payments from product sales.

In the foreseeable future, MorphoSys will invest the majority of its financial resources in its own R&D activities so that it may expand its portfolio of proprietary compound candidates and strengthen its technology platform.

## Expected Economic Development

According to forecasts by the World Bank, the global economy has not fully recovered from the effects of the financial crisis. In the new world economic outlook, the American organization predicts global growth of about 3%. The loose monetary policies of central banks and the recovery in labor markets contributed significantly to a recovery in the USA and in the UK. The euro area and Japan are experiencing a hesitant recovery. China is also seeing a slowdown in the tempo of growth. In 2015, falling commodity prices, low interest rates and weaker world trade should become more visible in global growth. Support is coming from the impact of the sharp decline in oil prices.

The German economy is expected to strengthen again later this year and the average annual growth in 2015 is expected to reach approximately 1%. Consumer spending continues to be one of the main reasons for the continued growth. However, the introduction of nationwide minimum wage and pension packages could weaken the labor market and therefore consumption in the future. The weakening of the euro could, however, lead to an increase in German exports.

The US economy regained its former growth momentum and is predicted to see steady growth. Japan, while still lagging the US, China and India, is still the fourth largest economy in the world and will probably see better annual performance in 2015. Another stimulus program of nearly €25 billion was launched to accelerate economic growth.

At the end of 2014, the euro crisis regained importance. Concerns surrounding the stability of the euro area surfaced again after the definite failure of the presidential elections in Greece and the subsequent victory by the left-wing populist party SYRIZA in the new elections in January 2015. Should Greece terminate the savings agreements with the EU and the International Monetary Fund (IMF), speculation would grow about Greece exiting the euro. In addition, the risk premiums for southern European government bonds would increase, which could be critical for Italy, in particular.

To prevent a further weakening of the euro exchange rate and counteract the threat of deflation, the European Central Bank resolved a comprehensive program for the purchase of European government bonds. Bonds with a volume of €60 billion are to be purchased monthly, and the total volume of the measure adopted amounts to €1.1 trillion. The aim of the program is to avoid deflation, lower the interest rate level of bonds in crisis countries, ease the pressure on government budgets and stabilize the euro in the long-term.

## Expected Development of the Life Sciences Sector

After three very successful years for the biotechnology sector, 2015 is expected to be another year of continued positive development. Historically low interest rates and a recovering global economy should result in a continued flow of money into the sector. Scientific progress and a better understanding of biological relationships, such as those in the field of immuno-oncology, led to both innovation and new drug approvals. In 2014, four out of ten newly approved drugs were for rare diseases and another 40 % were based on novel mechanisms of action and were new compounds. This trend will continue. According to a newly released report “The Global Outlook for Medicines Through 2018” from IMS Health, global spending on pharmaceuticals will increase by 30 % to US\$ 1.3 trillion by the year 2018.

New drug approvals and innovations, as well as clearer guidelines for approval and a strong demand for novel drugs, will continue to lead to growth in the pharmaceutical and biotechnology industries. The number of approvals could stay at a high level or even increase. Although the average revenue potential of newly approved drugs continues to rise, pricing and reimbursement policies will remain the center of attention.

## Expected Business Development

The contractually guaranteed proceeds until at least the end of 2017 from the Novartis agreement, the financial impact of the Celgene contract and our strong liquidity position, will allow MorphoSys to continue concentrating on expanding its partnered pipeline and increasing the value of its proprietary portfolio.

Over the next few years, the Company expects to start ten new partnered programs per year on average for its Partnered Discovery segment. However, due to the usual attrition rates in drug development, the net growth of the overall pipeline will be somewhat lower. Additional partnerships with pharmaceutical and biotechnology companies based on the Ylanthia technology are expected to occur. MorphoSys is striving to gain a larger share in the development activities of these collaborations. These partnerships, including those with academic institutes, are also expected to provide access to new target molecules and therapeutic programs.

The approval of a therapeutic antibody based on proprietary technology is not expected before 2016/2017. As one of the first partners, Novartis has announced publicly that it may possibly submit the therapeutic antibody bimagrumab (BYM338) for approval in 2016. Approval for guselkumab (CNT01959), an antibody compound being developed by Janssen, may be applied for in 2016/2017.

## Expected Personnel Development

The Company's workforce in the two segments Proprietary Development and Partnered Discovery is expected to grow by approximately 10% during the 2015 financial year. Additional staff will be needed for the initiation of additional clinical trials for the Company's proprietary development programs MOR208, MOR202 and MOR209, the expansion of early proprietary development activities and the development of existing and new technologies such as the lanthipeptide technology.

## Future Research and Development

The Company's R&D budget for proprietary drug development will rise significantly in 2015 in comparison to previous years. The majority of these investments will flow to the clinical development of the most advanced drug candidates MOR208, MOR202 and MOR209. Further investments are planned in the areas of target validation and antibody development as well as in the area of technology development.

The steps planned for the Company's proprietary portfolio in 2015 are expected to include:

- Continuation of a phase 2 trials of MOR208 in NHL and B-ALL
- Initiation of further combination trials for MOR208 in NHL
- Continuation of a phase 1/2a trial of MOR202 with additional cohorts with weekly dosing as well as a combination of MOR202 with pomalidomide and lenalidomide
- Initiation of the phase 1 trial for MOR209/ES414 in mCRPC as part of the cooperation with Emergent
- Continuation of the co-development program for MOR106 with Galapagos
- In-licensing of one or more target molecules or compounds for strengthening the proprietary development portfolio
- Further development of the lanthipeptide technology
- Initiation and continuation of new development programs in the area of antibody discovery and preclinical development

## Expected Development of the Financial Position and Liquidity

MorphoSys has a solid financial base and predictable revenues, mainly due to its collaboration with Novartis and its development partnership with Celgene. In addition, MorphoSys receives performance-based milestone payments upon the successful development of product candidates. Based on this, the Management Board expects revenues for the 2015 financial year in the amount of € 56 million to € 61 million.

Based on management's current planning, R&D expenses for proprietary programs and the development of technology are expected to increase to a range of € 48 million to € 58 million in 2015. MorphoSys plans to initiate more clinical trials in addition to continuing the trials currently underway for MOR208 and MOR202.

The Company expects a result from ordinary activities of approximately € -22 million to € -32 million in 2015. This 2015 forecast does not include any additional development costs for newly in-licensed programs.

In the years ahead, there will be an increasing impact on net assets and the financial position from one-time events, such as the in-licensing and out-licensing of proprietary products, major milestone payments and royalties related to HuCAL antibodies that reach the market. Just as such events can cause us to significantly exceed our financial targets; failures in drug development can also have a negative impact on the MorphoSys Group. In the near future, the Company's revenue growth will depend on its entry into new partnerships and/or on out-licensing proprietary programs. Starting in 2016/2017, royalties on marketed products could begin to contribute to revenue growth.

At the end of the 2014 fiscal year, the liquidity position of MorphoSys amounted to € 337.4 million (31 December 2013: € 373.0 million). The decrease in the liquidity position was due to investment in the Company's proprietary research and development. In connection with the estimated negative financial result for 2015, the liquidity position is expected to further decrease. MorphoSys sees the advantage of having a strong liquidity position that can be used to accelerate future growth through strategic measures, such as the in-licensing of compounds and investments in promising companies. The funds can also be used to increase investment in the Company's proprietary portfolio of therapeutic antibodies.

### **DIVIDENDS**

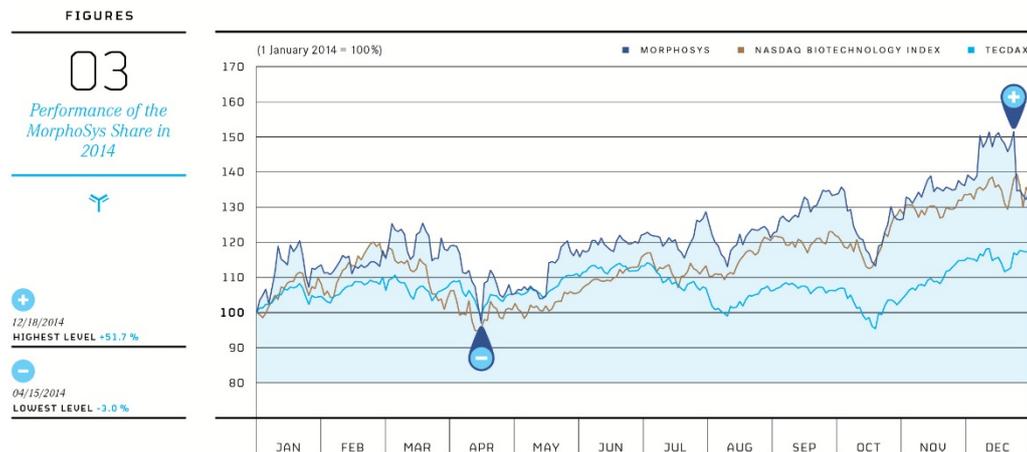
The financial statements of MorphoSys AG under German accounting principles report an accumulated profit which can be used for distribution. With the estimated losses for 2015, the Company will no longer report an accumulated profit. MorphoSys will continue to invest in the development of proprietary drugs as well as in further in-licensing and acquisition projects in order to continue to create shareholder value and open up new growth opportunities. Therefore, the Company does not anticipate paying a dividend in the foreseeable future.

This outlook is based on the assumptions of the Management Board and takes into account all factors which were known at the time of preparing this Annual Report and those which could influence our Company in the year 2015 and in the years thereafter. Future results may differ materially from expectations, which are described in the section "Outlook and Forecast." The most important risks are discussed in the risk report.

# Shares and the Capital Market

MorphoSys shares performed in line with the development of our pipeline and were extremely positive during the 2014 financial year. The shares rose to a multi-year high of €86 and above in mid-December 2014. The market capitalization of MorphoSys AG reached €2 billion in September 2014. In December 2014, with the termination of one of three trials with the Alzheimer’s disease candidate gantenerumab by MorphoSys’s partner Roche, the share price declined until the year’s end by almost 12% from its highest level, but still gained 37% for the full year. Thus, MorphoSys shares outperformed the benchmark indices: During the same period, the TecDAX rose 18% and the NASDAQ Biotech Index increased 34%.

**FIG. 3: PERFORMANCE OF THE MORPHOSYS SHARE IN 2014 (1 JANUARY 2014 = 100 %)**



**FIG. 4: COMPARISON OF THE MORPHOSYS SHARE PRICE DEVELOPMENT WITH BENCHMARK INDICES BETWEEN 2010 AND 2014 (1 JANUARY 2010 = 100 %)**



## Stock Market Development

The year 2014 was a turbulent year for the stock market, particularly in Europe. Economic fears dominated the eurozone and political uncertainties weighed heavily on the export-led German economy. The US stock markets, however, delivered an impressive performance during the reporting year due to strong economic data. In the US alone, there were nearly US\$ 9.3 billion in proceeds from 106 IPOs executed by companies in the life science industry (2013: US\$ 7 billion, 52 IPOs). In 2014, as in previous years, the US market was a focus of MorphoSys's investor relations activities due to strong interest in investing in biotechnology companies.

## Liquidity and Index Membership

The average daily trading volume of MorphoSys's shares across all trading platforms in the regulated market has nearly doubled in 2014 compared to the previous year, rising to €11.9 million (2013: €6.9 million). This development is associated with a higher interest in the stock and due to the increase in share price during the year. On the TecDAX, the index for the 30 largest technology stocks on the Frankfurt Stock Exchange, the trading volume of the average shares traded also grew more than 40%. MorphoSys was able to further consolidate its position in the TecDAX in 2014. By the end of the year, MorphoSys ranked 9th in terms of trading volume (year-end 2013: ranked 11th) and ranked number 8 measured in terms of market capitalization (year-end 2013: ranked 7th).

In addition, the daily trading average on the alternative trading platforms ("dark pools") amounted to approximately 61,900 MorphoSys AG shares valued at €4.4 million in 2014 (2013: approx. 35,000 shares valued at €1.6 million).

## Common Stock

The Company's common stock increased to 26,456,834 shares or €26,456,834.00 in 2014. This increase resulted from the exercise of 235,952 convertible bonds.

Until the year 2010, MorphoSys issued stock options and non-interest-bearing convertible bonds under its employee incentive program. In 2011, this plan was converted into a performance share plan. The Company repurchases shares annually for this plan. A detailed description of this program can be found in the Corporate Governance Report of this Annual Report. In April 2014, 32,513 performance shares were issued to the Management Board and the Senior Management Group under the long-term incentive plan (LTI plan). For more information on this topic, please refer to the Notes. During the reporting year, no additional stock options were issued to the Management Board, members of the Senior Management Group or the workforce.

**TAB. 5: KEY DATA FOR THE MORPHOSYS SHARE (AS OF 31 DECEMBER OF EACH YEAR)**

	2014	2013	2012	2011	2010
Total Stockholders' Equity (in million €)	337.7	346.4	192.1	189.8	180.3
Number of Shares Issued (number)	26,456,834	26,220,882	23,358,228	23,112,167	22,890,252
Market Capitalization (in million €)	2,027	1,464	685	405	424
Closing Price in € (Xetra)	76.63	55.85	29.30	17.53	18.53
Average Daily Trading Volume (in million €) <sup>1</sup>	11.9	6.9	1.9	1.8	1.1
Average Daily Trading Volume (in % of Share Capital) <sup>1</sup>	0.65	0.59	0.38	0.38	0.26

1) Figures from 2010 to 2011 only include trading on Xetra and German regional exchanges.

## International Investor Base

During the reporting year, various voting right notifications were issued in accordance with Sections 21, 25 and 26 of the German Securities Trading Act (WpHG). These notifications were published on the MorphoSys website under the heading Media & Investors – Stock Information – Shareholder Structure.

According to the definition given by the Deutsche Börse, at the end of the reporting year 92.7% of the shares of MorphoSys AG were in free float. Novartis Pharma AG (Basel, Switzerland) held about 5.6% and Celgene Netherlands II BV (Amsterdam, The Netherlands) about 3% of the shares. The share of international institutional investors stayed at approx. 70%. According to the latest voting rights announcement, our largest additional single shareholders were Massachusetts Mutual Life Insurance (Oppenheimer Funds, Springfield, MA, USA) holding 4.98%, Perceptive Life Sciences Master Fund (New York, NY, USA) holding 4.89%, Baillie Gifford Overseas Limited (Edinburgh, UK) holding 3.1% and Invesco Advisers Inc. (Atlanta, GA, USA) holding 3%.

An overview of the current shareholder structure is also accessible on the Company's website (Media & Investors – Stock Information – Shareholder Structure).

## Annual General Meeting

On 23 May 2014, the Management and Supervisory Boards of MorphoSys AG welcomed shareholders to the Company's 16th Annual General Meeting in Munich. The shareholders and proxies attending represented nearly 48% of the common stock of MorphoSys AG (2013: 41.6% of the common stock represented). All nine agenda items submitted for resolution were adopted by a clear majority. This year, the Annual General Meeting is scheduled for 8 May 2015 and will take place again in Munich.

## Investor Relations Activities

In the course of the 2014 financial year, MorphoSys further increased its communication with the capital markets. The Company presented at 26 international investor conferences and at a number of road shows and individual meetings in Europe and the US. The greatest interest was seen in the USA, where a large number of specialized healthcare investors have their headquarters. At the publication of the annual, half-yearly and quarterly results, the Management Board also held telephone conferences where they reported on past and future business developments and answered questions from analysts and investors.

Of particular interest at the investor meetings, aside from the general progress of the drug pipeline, was the development of the proprietary portfolios, which included ten active programs at the end of the reporting year.

At the end of the year, as in the prior year, there were a total of 11 analysts monitoring and evaluating the development of the MorphoSys share.

**TAB. 6: ANALYST RECOMMENDATIONS (AS OF 31 DECEMBER 2014)**

Buy/Overweight	Hold	Sell	n/a
6	4	0	1

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

MorphoSys took first place for the TecDAX in the competition “Investors’ Darling 2014 - Capital Market Strategist of the Year” in which Manager Magazine and the Handelshochschule Leipzig evaluated the capital market communications of all index-listed stock companies. Next to the quality of classical financial reporting and the IR website, the evaluation also included investor presentations and capital market performance.

More detailed information on the MorphoSys share, the financial ratios, the Company’s strategic direction and the recent developments in the Company may be found on the Company’s website (“Media & Investors”).

## Sustainable Business Development

In addition to the financial performance indicators, which are presented in the chapter “Analysis of Net Assets, Financial Position and Results of Operations,” MorphoSys uses carefully selected non-financial performance indicators to promote sustainable business development. The Company sees sustainability as an environmental and social responsibility towards present and future generations. As a research-based biotechnology company, adherence to the highest environmental, social and ethical standards goes hand in hand with long-term economic success. This chapter outlines the measures that have been taken during the reporting year to meet these standards. Information on the management structure and the corporate governance practices of MorphoSys can be found in the Corporate Governance Report.

## Sustainable Corporate Management

A hallmark of MorphoSys’s corporate management is sustainable and responsible behavior in order to add important value to society. This is true at all levels of management from both a short- and long-term perspective. This goal is inherent to the Company’s core activity of developing ever more effective and safer drugs. In daily operations, high value is placed on working in harmony with strict ecological and social principles. Therefore, MorphoSys follows a business model aimed at sustainable growth that protects the interests of its shareholders, creates long-term value and evaluates processes in terms of their effect on the environment, society, patients and employees. Internally, this business model is reflected in our forward-looking human resources policy, which takes the needs of the employees seriously.

MorphoSys bases its long-term and sustainable business success on targeted and innovative research and development. Biotechnologically produced drugs command an increasing share of the healthcare of a growing and aging population. Comprehensive healthcare is one of the main challenges of the future and MorphoSys can make a valuable contribution through its drug candidates. In management’s opinion, MorphoSys’s present business model does not contain any components which are contrary to the sustainable investment interests of the shareholders.

A comprehensive risk management system ensures that factors which could threaten sustainable corporate performance are identified at an early stage and that appropriate countermeasures are taken, if necessary. MorphoSys only assumes a risk if there is ample opportunity to increase the enterprise value. At the same time, tremendous effort is being made to systematically identify new opportunities and to leverage our business success (more information on risks and opportunities).

The entire Management Board, chaired by the Chief Executive Officer, monitors compliance with the sustainability strategy Company-wide. The Credo as part of the Code of Conduct regulates the implementation of the strategy by employees in daily operations. It is valid for all employees of the Company and is available in German and English. Routine employee training on the Code of Conduct in general and on specific sections of the Code ensures that the guidelines are understood and implemented. The Code of Conduct Committee consists of four members (the Chairperson and three other members) who are at the disposal of and may be contacted by all employees. A Compliance Officer coordinates the Compliance Management System. Detailed information on this topic can be found in the Corporate Governance Report. Each employee can receive advice on all matters relating to legal compliance and corporate responsibility and report suspected cases or violations. This may be done on an anonymous basis, if preferred. Breaches of compliance are earnestly pursued and appropriate countermeasures are taken. However, no such violation has been reported to date, and the Company believes serious

offenses that could materially affect the Company's net assets, financial position and results of operations are unlikely in the future.

Detailed information on the SD KPIs used by MorphoSys can be found in the section "Strategy and Company Management". The following report on the implementation of the corporate strategy of MorphoSys and its sustainable business development also follows the recommendations of the German Sustainability Code. These recommendations were originally presented by the Council for Sustainable Development in October 2011 with an updated version in October 2014.

## Non-Financial Performance Indicators

### ETHICAL STANDARDS AND COMMUNICATION WITH STAKEHOLDERS

The highest scientific and ethical principles when conducting human clinical trials or animal testing are anchored in MorphoSys's Code of Conduct. Above all, the Company follows the "Declaration of Helsinki" of the World Medical Association (WMA). Strict compliance with nationally and internationally applied regulations is mandatory for all MorphoSys employees as well as for sub-contractors.

Since European legislation requires the use of animal testing to determine the toxicity, pharmacokinetics and pharmacodynamics of a compound candidate, the biotechnology industry cannot forgo such testing. MorphoSys does not have research laboratories of its own that are suitable for animal trials. Therefore, the Company passes these trials on to contract research organizations (CROs). In the course of its product development activities, MorphoSys contracts out animal trials according to the principles of good animal welfare and the respectful treatment of animals as set out in national and European regulations. MorphoSys has launched a quality assurance and control system with written standard operating procedures (SOPs). This system is maintained and continually improved to ensure that only those contract research organizations that follow the local, national and international regulations are contracted for animal studies. Trials are only carried out after the approval of the relevant ethics committee concerned and under the constant supervision of a veterinarian.

Institutes cooperating with MorphoSys must comply with the legal requirements for research involving animals and, under certain circumstances, also possess the quality assurance verification of Good Laboratory Practice (GLP). This is how MorphoSys ensures that it is fulfilling its moral obligation for the respectful treatment of animals. In addition, as part of auditing, the trial sites, contract research institutes, the training and competency of the relevant staff, as well as animal welfare are all verified on location and conducted prior to the final award of the contract.

The Declaration of Helsinki mentioned above also defines the ethical principles followed by MorphoSys in dealing with healthy volunteers and patients during clinical trials. These trials are also carried out in compliance with Good Clinical Practice (GCP). The trials are carried out in compliance with the relevant provisions on privacy and confidentiality. Respect for the rights, safety and welfare of all participants involved in clinical trials has the highest priority at MorphoSys. Clinical trials are initiated only after approval by the independent ethics committee concerned and/or the institutional review panel. Before participating in a clinical trial, each participant must voluntarily submit an informed consent.

The goal of MorphoSys's business activities is to improve the health of patients through its scientific work. However, the Company can only reach this objective if its activities also find social acceptance. This requires a continuous and open dialog with stakeholders in order for MorphoSys to understand the potential concerns regarding biotechnological approaches and so that it may explain its activities and their benefits. Consequently, MorphoSys is active in a variety of ways which range from participation in public information events to active support for the Communication and Public Relations task force of BIO Deutschland e.V.

## PROCUREMENT

The Department of Central Purchasing and Logistics is responsible for the purchase of external goods, services, consulting and logistics services for MorphoSys. Last year the department installed a considerable number of new systems and processes to increase the long-term efficiency of its procurement management and to establish cost-effective purchasing solutions. In 2014, several preferred partnerships with suppliers were strategically strengthened through the introduction of special framework agreements. All suppliers selected by MorphoSys undertake to comply with all anti-corruption standards, human rights practices, internationally recognized labor standards and data protection laws. In the reporting year, the activities of the Department of Central Purchasing and Logistics secured savings of approximately 7 % of the expenditures incurred in 2014.

## ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

In an industry subject to stringent regulatory requirements, environmental protection and occupational safety are the key tasks of Company management. The department of environmental protection and occupational safety monitors the compliance with all relevant requirements Company-wide. Beyond the Company's strict compliance with all legal requirements, MorphoSys has also initiated a number of Company-wide efforts for sustainable environmental management and the effective protection of its employees.

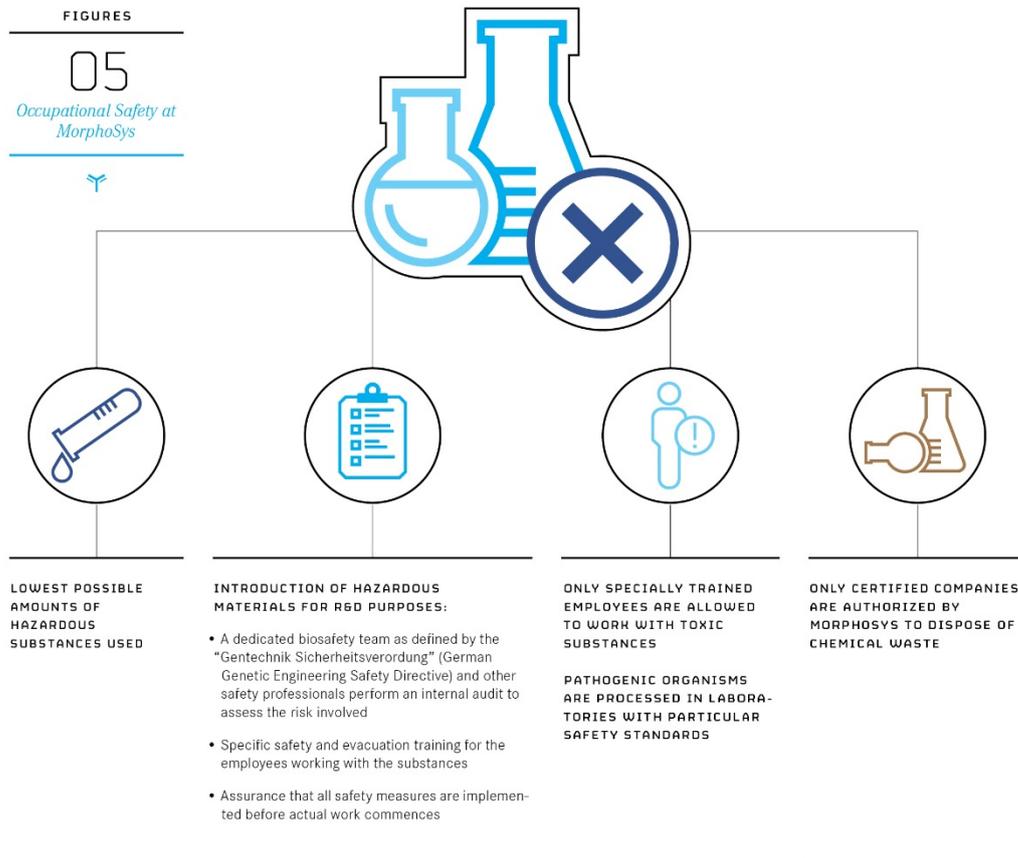
A central task is the conservation of resources. In 2014, MorphoSys participated once again in the survey of the Carbon Disclosure Project (CDP) for monitoring internal resource consumption. For the sixth consecutive year, the Company took part in the study of this independent non-profit organization whose aim is to reduce greenhouse gases and ensure the sustainable use of water supplies. Once again, the study results showed that it was not necessary for the Company to take any action. Nevertheless, MorphoSys uses the annual study results to routinely observe its consumption in an organized manner. This makes it easier for the Company to promptly correct any excessive consumption. Any resource conservation measures implemented in the past were also actively pursued in the reporting year. These measures included energy and cost saving screenings, energy-efficient laboratory equipment and measures for the economical use of paper and printer toner.

In 2014, MorphoSys again supported the joint initiative "Bike to Work" sponsored by a German health insurance company and the German Bicycle Club (ADFC). Because of this commitment, MorphoSys has been certified as a "bicycle-friendly operation" for the fifth consecutive time. In addition to this initiative, employees were offered an extensive range of preventative healthcare and health-promoting activities such as autogenic training, Pilates, back muscle training, ball sports, participation in marathons, etc. In seminars and lectures accompanied by psychologists, the staff was made familiar with the topic of mental stress and other types of stress. In an exploratory survey carried out at the end of 2014, all employees were asked to evaluate their current level of psychological distress in the workplace. This analysis intended to serve as a leading indicator in order to initiate the necessary corrective measures on a timely basis.

With two reportable accidents, the number of occupational accidents in the reporting year equaled the previous year's level. This rate is well below the average rate in Germany (14.5 accidents per 1,000 full-time employees as reported in the latest survey in 2013).

MorphoSys tries to minimize the amount of pollutants used in laboratory work. Only a specially trained group of people are permitted to deal with toxins. Work involving contagious pathogens can only be carried out only in secure laboratories. For the disposal of chemical waste, MorphoSys commissions only those companies certified to dispose of chemical waste. MorphoSys also refrains from labeling antibodies with radioactive substances.

FIG. 5: OCCUPATIONAL SAFETY AT MORPHOSYS



## QUALITY ASSURANCE

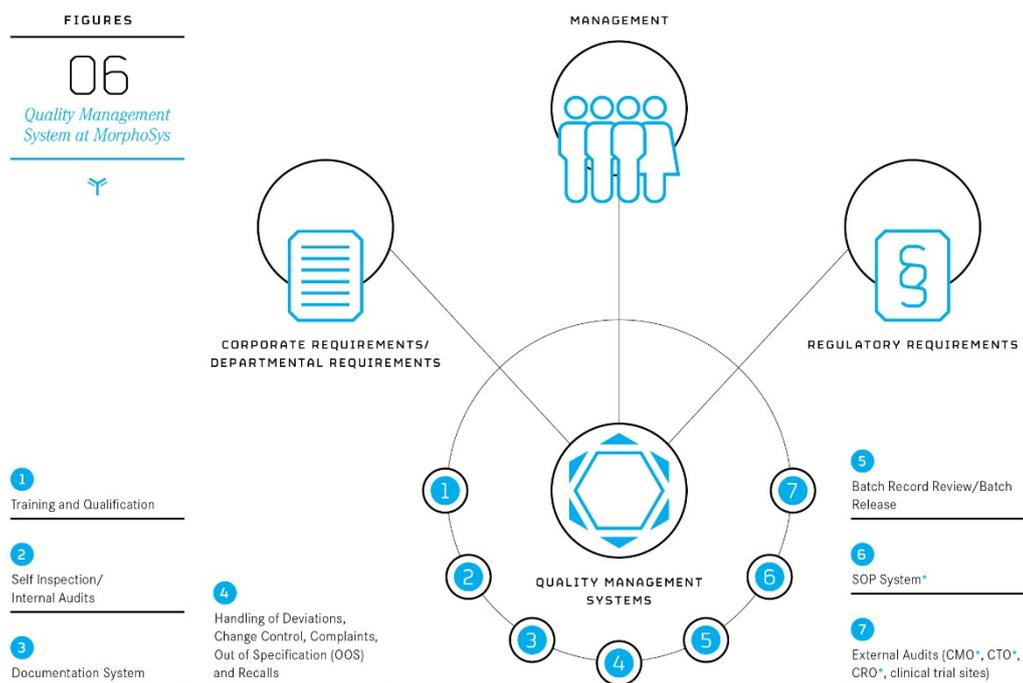
It is the special responsibility of a biopharmaceutical company to adhere to the highest standards of quality and safety. MorphoSys follows detailed procedures and strict rules to avoid any security risks in drug development that may pose a serious threat to the patient and, thus, to the economic situation of the Company. This is how the Company guarantees the quality of the compound being tested, keeps the risks to participants of clinical trials as low as possible and ensures that the data can be collected reliably and correctly processed.

In order to control and regulate these processes, MorphoSys created an integrated quality management system for its proprietary development department that follows the principles of Good Manufacturing Practice (GMP), Good Clinical Practice (GCP) and Good Laboratory Practices (GLP). An independent quality assurance department ensures that all development activities comply with national and international laws, rules and regulations. The Quality Assurance Manager reports to the CEO and coordinates all activities directly with him. This helps us to achieve the high-quality standards that guarantee product quality, data integrity and ensures the safety of the subjects.

The Quality Assurance department created a verification procedure using a risk-based approach. Based on this procedure, an audit is carried out on a selection of contract research institutes, suppliers and research sites included in the clinical trials, as well as on MorphoSys's own departments.

For its proprietary development activities, MorphoSys has a manufacturing license for the approval of tested compounds. The Company has also been issued a certificate by the German authorities of the Government of Upper Bavaria confirming its compliance with the standards and guidelines of Good Manufacturing Practice (GMP).

**FIG. 6: QUALITY MANAGEMENT SYSTEM AT MORPHOSYS**



## INTELLECTUAL PROPERTY

The proprietary technology and the ensuing drug candidates are MorphoSys's most valuable asset. Therefore, it is critical to the Company's success that these assets are protected by the corresponding patents and other appropriate measures so that they may be efficiently and exclusively utilized.

MorphoSys's key technologies – HuCAL, Ylanthia and Slonomics – form the Company's basis for success. Each single technology is protected by a number of patent families, which, in turn, are complemented by various independent technology patents. Most of these have now been issued in all major markets, including in the Asian markets, such as China. The spectrum of technology patents was enhanced sustainably in October 2014, with the acquisition of the lanthipeptide technology from Lanthio Pharma.

Our portfolio of development programs was also strengthened this financial year by the licensing agreement with Emergent BioSolutions for the co-development and co-promotion of the drug candidate MOR209/ES414. Like other proprietary development programs, this program is protected by a variety of patents and applications that address various aspects of the molecules and their use. The development

candidates MOR103 (out-licensed to GSK) and MOR202 (in partnership with Celgene) are each protected by more than half a dozen different patent applications covering different aspects of the compounds and thus provide effective protection. The relevant patents and associated protection certificates are expected to expire by the year 2031. The MOR208 program is also protected by various patents lasting until their scheduled maturity. Excluding any potential patent office or regulatory extensions, this would mean the patent in the United States would run until the year 2029 and, in the case of the European patent, until 2027. Excluding any possible patent office or regulatory extensions, patent protection for MOR209/ES414 is scheduled to run until at least 2032, assuming pending applications are granted.

The programs that are developed in conjunction with or for partner companies are also protected by comprehensive patent protection. There is close cooperation between the patent department of MorphoSys and the corresponding partners. All drug development programs have a term that greatly exceeds the term of the underlying technologies.

Currently, MorphoSys's patent lawyers are maintaining more than 40 different patent families, in addition to the numerous patent families pursued by the Company together with its partners. The patent portfolio is regularly analyzed and adapted to the Company's corporate strategy.

## PERSONNEL

MorphoSys relies on a future-oriented personnel policy in order to bind professionally and personally suitable employees from different disciplines to the Company. In an industry such as biotechnology, in which success relies heavily on the creativity and commitment of the workforce, employee retention and satisfaction are crucial factors for success. At the end of the financial year, the staff at MorphoSys comprised employees from 22 different nationalities (2013: 18), who have belonged to the Company for 5.8 years on average (2013: 5.4 years).

**FIG. 7: SENIORITY**

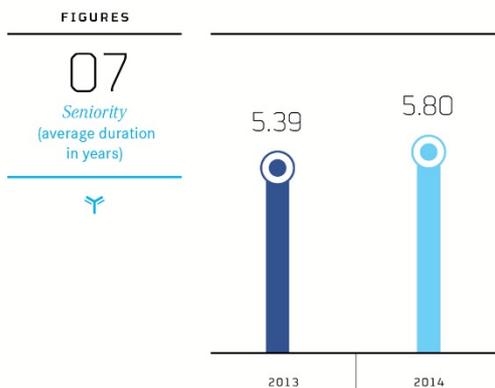
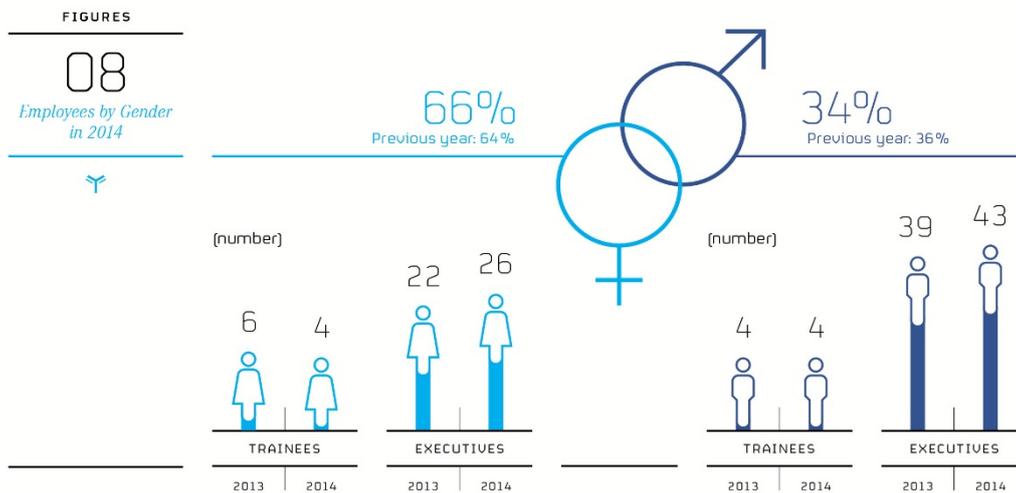


FIG. 8: EMPLOYEES BY GENDER



Opportunities for extensive training, internal and external training programs, special training and development programs and visiting conferences are available to employees of the various departments. In addition to technical training, MorphoSys also promotes the personal development of its employees. In some cases, this can include individualized coaching.

Executives assuming management responsibility at MorphoSys for the first time are required to take part in management seminars explicitly designed for MorphoSys. This training is offered in a group of several thematically related courses. The goal is to provide participants with not only theoretical management knowledge, but also special knowledge that the Company expects its executives to know.

In 2014, as in the previous year, a two-day workshop took place for all MorphoSys managers. Under the motto "Entrepreneurship," there were discussions on the Company's strategy and its implementation, process optimization, goal-oriented problem-solving and creativity management. By the end of this workshop, managers had jointly prepared the basis for a Company-wide mission statement detailing the corporate goals, core values and drivers for the day-to-day work activities.

MorphoSys also actively promotes a career path for specialists and experts. This type of career promotion succeeds in maintaining flat hierarchies – even without staff responsibility. The goal is to give equal footing to traditional management career paths and professional careers, as well as to title and compensation structures.

MorphoSys offers in-house vocational training in order to open up the prospects for a promising career, especially for young people. Equal consideration is even given to students without a diploma for occupations requiring training. As of 31 December 2014, MorphoSys had two trainees in its IT department and six trainees learning to become biology laboratory assistants (31 December 2013: three IT trainees; six trainees learning to become biology laboratory assistants; and one trainee training as a personnel services clerk).

As previously mentioned, the remuneration structure was adjusted for all employees in 2014. The annual bonus is now linked exclusively to the achievement of corporate goals. The individual performance of each employee is monitored by agreed personal targets and continues to be a key element of individual development. Employees showing extraordinary performance or outstanding ideas are now rewarded promptly with an on-the-spot bonus payment in the form of cash, vouchers, or gift certificates for leisure activities.

Transparent communication within the workforce is a permanent component of MorphoSys's corporate culture, as stated in the principles (Credo) of the Company. Every two weeks, general meetings are held, in which the Management Board shares the latest Company developments with all employees. Employees present selected projects followed by an open question and answer session. Questions and feedback from the workforce can be taken directly in the meeting or submitted in advance in writing – anonymously if desired. In addition, the Company's intranet with its integrated document management system provides all employees current relevant information in an organized manner.

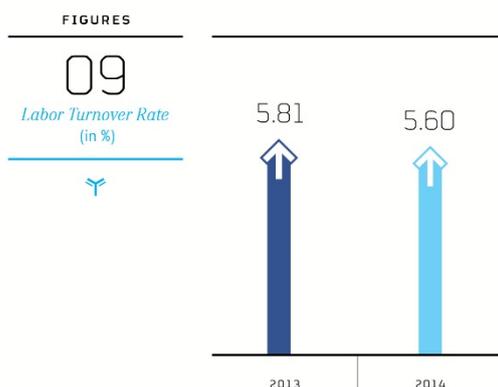
In two-day introductory courses, new employees are made familiar with the Company and can become fully aware of the Company's business processes by taking advantage of the information and individual presentations provided by all departments.

Free exercise and relaxation options, such as Pilates lessons or courses on autogenic training, promote health and socializing among employees beyond the departmental boundaries.

Appropriate policies for reconciling professional development with personal life are a strategic success factor for future-oriented companies. For several years, MorphoSys has therefore been offering employees a variety of options, such as flexible working hours and individual part-time packages. Modern IT equipment also allows employees to work seamlessly while traveling on business or from their home office. MorphoSys makes it easier for employees with family to re-enter into the work life through special offers and helps them combine work and family life. MorphoSys is a co-founder of the "BioKids" kindergarten in Martinsried. There are also special arrangements through a German service provider offering additional services for working family members.

MorphoSys makes every effort to protect employees from workplace hazards and maintain their health through preventive measures. The extremely low number of occupational accidents demonstrates the success of our strict supervision of all occupational health and safety measures. During the year under review, as in the prior year, there were two reportable accidents at work. MorphoSys tries to keep the number of accidents at this low level and the safety and well-being of all employees at the highest level possible. The Company does this through policies and training provided by the Department of Health & Safety and by offering routine medical examinations. The fall in attrition rate in the reporting year to 5.6% (2013: 5.8%) is another indication of employees' strong identification with the Company.

**FIG. 9: LABOR TURNOVER RATE**



# Risk and Opportunity Report

MorphoSys belongs to an industry characterized by constant change and progress. The challenges and opportunities in the healthcare industry are influenced by a wide variety of factors. Global demographic changes, medical advances and the desire for an ever increasing quality of life, all provide solid growth prospects for the pharmaceutical and biotechnology industries. Growing regulatory requirements in the field of drug development and the cost pressure on health systems in particular must also be taken into account.

MorphoSys strives to systematically identify new opportunities and utilize them for business success and generate a long-term increase in enterprise value. However, entrepreneurial success is not possible without conscious risk taking. Through its worldwide operations, MorphoSys is subject to a number of risks that may affect its business. MorphoSys's risk management system identifies these risks, evaluates them and takes the appropriate measures to avoid these risks and achieve its corporate objectives. Regular strategy review ensures that the opportunities and risks are well balanced. MorphoSys only assumes a risk if it also offers the Company an opportunity to increase its value.

## Risk Management System

The risk management system is a central component of MorphoSys's corporate governance and serves to ensure the principles of good corporate governance and the fulfillment of regulatory requirements.

MorphoSys has a comprehensive system in place to identify, assess, communicate and handle risks safely in all parts of the Company. Its risk management system identifies risks early, allowing the appropriate action to be taken to limit operating losses and avoid any risks that could jeopardize the Company's existence. All measures used to minimize risk are assigned to individual risk officers, most of whom belong to the Senior Management Group of MorphoSys.

As part of a systematic risk assessment process, all important risks concerning the Company's different business segments and the Company as a whole are assessed. These risk assessments are held twice a year. Risks are assessed by comparing their quantifiable financial impact on MorphoSys and their probability of occurrence with or without the initiation of a risk minimization process. This methodology is applied for an evaluation period of twelve months and over a medium-term period of three years in order to include obligations taken on for the Company's proprietary development with longer maturities. In addition, the expanded strategic risk assessment is based on a long-term period of more than three years. An overview of MorphoSys's current risk assessment can be found in Tables 7 and 8.

Risk managers enter their risks into a Company-wide IT platform, which makes monitoring, analyzing and documenting risk much easier. The risk management system distinguishes between risk owners and risk managers. A risk owner is usually the relevant department head (typically a member of the Senior Management Group). Department employees can also be risk managers if the risks that fall under their area of responsibility are recognized by the risk management system. Risk owners and risk managers are asked to update and reevaluate their risks at half-yearly intervals. The process for this is coordinated and managed by the Corporate Finance & Corporate Development department. This department also

oversees the assessment process, summarizes the main contents and presents them to the Management Board and the Supervisory Board on a regular basis. The entire evaluation procedure is based on standardized evaluation methods. The system was improved in the reporting year by adding a “heat map.” The heat map represents graphically the effectiveness of the controls implemented for the five major risks (one-year and three-year view). Thus, the effects of the monitoring activities for the various risks can be graphically visualized. Risk management and the monitoring of operations are carried out by the individual managers. The changes in the risk profile brought about by these measures are recorded at regular intervals. A periodic audit by external consultants ensures that the risk management system is being developed steadily and that possible changes in Company’s risk areas are promptly corrected. The risks and opportunities management system consists of a bottom-up method to identify short- and medium-term risks, as well as a top-down approach in the area of strategic risks and opportunities. The top-down approach systematically identifies global strategic risks and opportunities to get a complete picture of the opportunities and risks. Examples of these risks include environmental and industry risks, personal risks and risks that may result from the public perception of the Company. Twice a year, at the same regular intervals used for recognizing other risks, a workshop on the top-down approach takes place with selected members of the Senior Management Group. This workshop addresses various areas of the Company and recognizes and discusses strategic risks and opportunities, also those occurring over a period of three years and more. The evaluation process is exclusively qualitative. A presentation of these risks is listed in Table 8.

## Principles of Risk and Opportunity Management

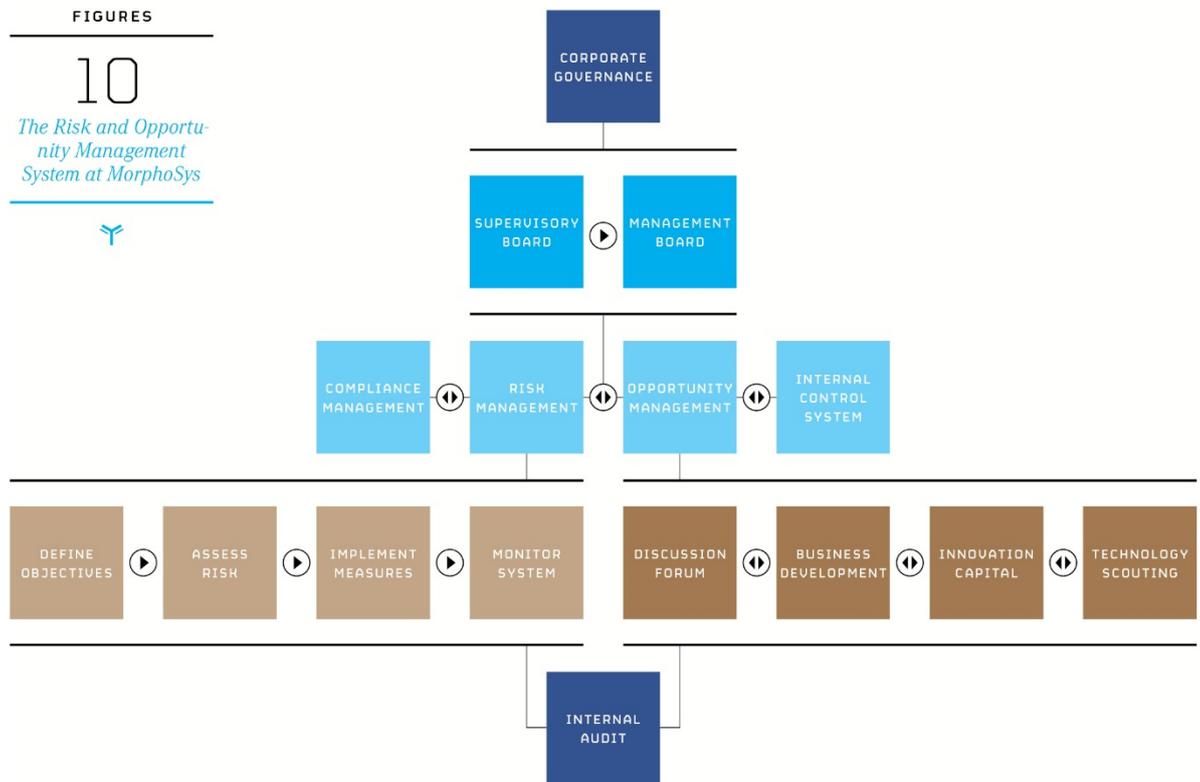
MorphoSys always encounters both risks and opportunities. This may cause a tangible impact on net assets and financial position or have a direct influence on intangible assets, such as the Company’s image within the industry, or on the Company’s trademark.

MorphoSys defines risk as internal or external events having an immediate impact on the Company. This includes an assessment of the potential financial impact on the Company’s targets. Opportunities are in direct relation to risk and seizing opportunities positively impacts the Company’s targets, whereas the occurrence of risks 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. The Board ensures that all opportunities and risks are presented, evaluated and monitored in a comprehensive manner. The Department of Corporate Finance & Corporate Development coordinates the implementation of these measures and routinely reports to the Management Board. The Supervisory Board has appointed the Audit Committee to monitor the effectiveness of the Company’s risk management system. The Audit Committee routinely reports its findings to the entire Supervisory Board, which is also informed by the Management Board twice a year.

**FIG. 10: THE RISK AND OPPORTUNITY MANAGEMENT SYSTEM AT MORPHOSYS**



## Accounting-Related Internal Control System

MorphoSys uses strict internal controls, Company-wide reporting guidelines and other measures such as employee training and ongoing professional training with the goal of maintaining accurate bookkeeping and accounting and ensuring the reliability of the financial reporting in the annual financial statements and the Management Report. The essential components of accounting are prevention, monitoring and detection measures intended to ensure the security and control in accounting and operational functions. More details on the internal control system for financial reporting can be found in the Corporate Governance Report.

## Risks

### RISK CATEGORIES

MorphoSys categorizes its key risks in the following six categories:

- Financial risks (for example, risks resulting from insolvencies and payment defaults; license fees, research funding and milestones that are lower-than-anticipated; and risks associated with any form of financing and financial instruments, such as cash investments, bank failures, currencies, interest rates, taxes and debt collection).
- Operational risks (risks such as those in the areas of procurement/production, customers, personnel, risks customary for the biotechnology industry such as risks related to preclinical or clinical trial results).
- Strategic risks (for example, mergers and acquisitions (M&A), investments, R&D, corporate image, superior products and technologies of competitors, portfolio development).
- External risks (risks beyond the Company's control, such as economic, political and legal risks, as well as risks associated with companies in the biotechnology and pharmaceutical industry, such as intellectual property protection and risks in the regulatory environment when seeking the approval of new drugs).
- Organizational risks (for example, those concerning IT, facilities management, succession planning, business interruption and process delays as a result of the exaggerated complexity and an excessive number of projects).
- Compliance risks (for example, breach of US FDA and European EMA regulations, quality management policies, accounting standards, corporate governance, as well as violations of the German Stock Corporation Act).

### FINANCIAL RISKS

Financial risk management at MorphoSys aims to limit financial risks and reconcile these risks with the requirements of its business.

Financial risks may arise within the context of licensing agreements, for example when projects (products or technologies) are delayed or do not materialize, or are out-licensed to a different degree than planned. A corresponding risk also arises when revenues do not reach the level projected or when costs are higher than planned due to higher resource requirements. Detailed project preparation, for example through an intensive exchange with internal and external partners and consultants, ensures optimal positioning early in the process and thus represents an important measure for minimizing risk. Financial risks associated with the Company's proprietary programs could be considerably reduced by the successful introduction of MOR103 and MOR202 into partnerships in the 2013 financial year. The financial risks relating to MOR208, a completely proprietary program, remain entirely with MorphoSys. With the programs introduced into partnerships, MorphoSys retains some risk with respect to the clinical development. The early termination of concluded development partnerships may force MorphoSys to bear future development costs on its own. Such a termination could have a major impact on the income statement and the financial planning.

Due to the continued difficult European economic situation, bank insolvencies still pose a financial risk. Therefore, MorphoSys continues to invest only in funds and products deemed safe – to the extent this is possible and can be estimated – from banks that have maintained their high rating and/or are secured by a strong partner. We have simulated various scenarios and have formed appropriate contingency

plans. In addition, the appropriate returns of financial assets represent a risk, especially since key interest rates have reached an extremely low level.

#### **OPERATIONAL RISKS**

Operational risks include risks relating to the exploration and development of proprietary drug candidates and those found in the Corporate Purchasing and Logistics department. Operational risks also include personnel risks, such as the risk of being able to recruit suitable employees or the loss of highly qualified and experienced staff.

The failure of a clinical trial before out-licensing to partners – which does not necessarily imply the failure of an entire program – can result if the trial data did not produce the expected results, showed unexpected adverse side effects, or the compilation of the data was incorrect. The design of clinical trials and the draft of development plans are always completed with the utmost care. This has given the trials in clinical testing the best opportunity to show clinically relevant data and convince regulatory agencies and potential partners. In addition to the existing internal know-how, external experts are also involved. Special steering committees and panels are formed to monitor the progress of clinical programs.

Antibody production is a significant cost factor in the area of drug development. A crucial role is played by the obligation to comply with the requirements of the international drug regulatory agencies at every step of production in order to guarantee the highest quality of the compounds and ensure patient safety. The production process for biopharmaceuticals is usually performed in cell culture systems of several thousand liters of culture volume and entails a variety of process steps that need to be carried out under strict supervision and officially controlled conditions up to the completion of the individual investigational medicinal products for use in patients. Therefore, lead times of up to one to two years – depending on the phase of the project – must be scheduled for the supply of antibody material. This supply planning, coupled with early strategic financial investments, are major factors in drug development due to the high complexity and associated risks involved in the production process and in clinical trial planning since they can both have a considerable effect on the speed and cost of development.

The Procurement & Logistics department cooperates closely with suppliers to avoid delivery delays, delivery bottlenecks and avert any additional costs. This relationship is supported by a periodic vendor evaluation that identifies potential problems and finds solutions that are communicated both internally and externally to the managers responsible.

Personnel risks occur in the area of recruitment and from the loss of “key performers.” Such risks become apparent when recruiting employees, particularly in light of how difficult it is to find candidates with the appropriate qualifications. The Company’s Human Resources department takes every opportunity to respond to these risks – including collaborations with external organizations – and improve the recruitment process. We begin our search for suitable employees as early as possible. In addition, the attractiveness of MorphoSys as an employer is presented to the public through advertising and trade shows portraying the Company as having an open and creative corporate culture. Next to recruitment, employee retention is also a key element of human resource management in order to minimize the loss of key performers from the resignation of experienced and highly qualified employees. The continual comparison of industry-standard salary schemes ensures employees are paid fairly and competitively. Furthermore, suitable salary components and employee interviews ensure a performance-based incentive system and support the long-term goal of binding the employee to the Company. Company parties, team building activities, sports and social events, contribute to a good working atmosphere.

### STRATEGIC RISKS

Strategic risks occur in the proprietary portfolios of therapeutic molecules. After successfully introducing two existing proprietary programs into partnerships, making additions to the portfolio becomes the focus. Here, risks may arise if there is a lack of attractive targets and compounds or innovative technologies. These risks are also related to missed or failed M&A transactions that would have provided access to strategically important assets. One way MorphoSys responds to these types of risks, is to form multidisciplinary teams to take care of additions to the proprietary portfolios and identify which of the suitable therapeutic molecules can be in-licensed. A New Discovery team searches for suitable targets for developing novel therapeutic molecules using proprietary or external technological platforms. In order to obtain long-term options for new technologies or therapeutic molecules, a program called "Innovation Capital" has been established, which invests venture capital in innovative start-up companies.

Development programs brought into partnerships can also fail or see the partnerships end on short notice or prematurely. This could force MorphoSys to search for new development partners or to bear substantial costs of further development fully on its own. There may be a delay or even a termination in the development of individual candidates. Not only could this lead to additional costs for MorphoSys, but it could also lead to a long-term loss of revenue due to delayed market entry.

Another strategic risk is that therapeutic antibodies will no longer be competitive in the distant future due to the existence of better molecules or more favorable therapeutic approaches or because proprietary drug candidates take too long to reach market readiness. This risk can also be classified as industry risk. MorphoSys attempts to minimize these risks using its own discovery activities and detailed time schedules for its proprietary development programs. Here again, through the creation of Innovation Capital, MorphoSys has a suitable tool to identify new trends at an early stage, invest in innovation and thereby participate in development. A scouting team also searches worldwide for new and innovative technologies and analyzes MorphoSys's competitors regularly.

There is also a strategic risk of a possible non-renewal of the cooperation agreement with Novartis. The current agreement is valid through 2017 and Novartis has an option to extend the agreement by an additional two years. Should Novartis not exercise this option, MorphoSys would lose annual revenues of approximately €40 million as of the 2018 financial year.

### EXTERNAL RISKS

External risks for MorphoSys are found, among others, in the context of its intellectual property. Patent protection of proprietary technologies is particularly important for MorphoSys. To reduce the risks in this area, MorphoSys is always on the lookout for published patents and patent applications. The Company analyzes and monitors its findings and develops circumvention strategies for external patents, which may one day be relevant, before they are issued. By following this strategy, MorphoSys has achieved growing success over the years and has secured ample room to maneuver in terms of its proprietary technology platforms and products for many years to come.

Another area where external risks can occur is in our work with service providers in both preclinical and clinical development, including the processing of clinical data. Here, insufficient or poor performance can lead to development delays, financial loss, or even endanger the programs in their entirety.

As a global biotechnology company with numerous partnerships and its own research and development department for the development of drug candidates, MorphoSys is exposed to a variety of legal risks. These include risks relating to patent law, potential liability claims from existing partnerships, competition and antitrust law, as well as tax law and environmental protection. Future lawsuits are conceivable but are currently unpredictable. Therefore, we cannot rule out a significant impact on our business and results from expenses incurred as a result of legal or regulatory judgments, or from agreed settlements that are not, or not fully, covered or that can only be partially covered by insurance.

#### **ORGANIZATIONAL RISKS**

Organizational risks occur in the areas of Partnered Discovery, Technical Operations and IT, among others. The Partnered Discovery area may suffer from a loss of quality or delays may occur within the organization due to a higher number of programs or their increasing complexity. To reduce complexity and, in turn, lower risk, we have introduced uniform processes that are monitored for compliance by regular audits.

Risks found in the Technical Operations area relate to procedures that could cause lasting damage, business interruptions, or accidents involving hazardous or polluting substances. To avoid these types of disruptions, we take measures such as the routine inspection and maintenance of equipment and facilities and providing training and tutorials for the employees concerned. These risks can be reduced even further with the use of suitable electronic monitoring systems. Financial risks affecting this area are generally covered by insurance. Further information on MorphoSys's operating environment may be found in the chapter titled "Sustainable Business Development."

Business activities can be exposed to risks resulting from disruptions in the IT infrastructure or IT security. These risks are managed using backup copies created several times per day and through the use of highly reliable firewall and antivirus scanning systems to ensure the safety and stability of the data. MorphoSys also minimizes the risks associated with the availability, reliability and efficiency of its IT systems through continuous testing (for example, simulations of gradual hacker attacks) and updates to the software and hardware systems. The IT strategy is also reviewed and adjusted on an annual basis.

#### **COMPLIANCE RISKS**

Compliance risks can arise when quality standards are not met or business processes are not handled properly from a legal standpoint. MorphoSys is committed to meeting the highest quality standards in its business operations, as set out in the Sustainability Report, to counter these risks. The system is also routinely reviewed by external experts and subjected to periodic inspections by an internal, independent quality assurance department to limit risk.

Specific risks could arise, for example, when the internal quality management system does not meet the legal requirements, or when there is a failure to implement the internal systems for detecting quality defects. In the event that the internal controls are not able to detect violations of the Good Manufacturing Practice (GMP), Good Clinical Practice (GCP), or Good Laboratory Practice (GLP), this would also constitute a compliance risk.

Insufficient or delayed financial communication could result in fines or legal actions. Annual General Meetings executed incorrectly could lead to legal disputes with shareholders. This would lead to significant costs from either attempting to avert a challenge of the Annual General Meeting or, if this is not possible, to repeat the Annual General Meeting. Capital measures up for resolution (for example, a capital increase) could possibly also be at risk. The preparation and execution of the Annual General

Meeting, as well as all relevant documentation and processes, are closely monitored and reviewed by the internal departments responsible and by external lawyers and auditors to minimize this risk.

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

The Management Board of MorphoSys AG considers the overall risk to be appropriate and trusts the effectiveness of the risk management system with regard to the changes in the environment and the needs of the current business. It is the Management Board's view that the continued existence of MorphoSys AG is not jeopardized. This assessment is based on a variety of factors which are summarized below:

- MorphoSys AG has an exceptionally high equity ratio and has successfully confirmed its corporate objectives in the past few years;
- the Management Board of the Company is confident that MorphoSys is well positioned to cope with any adverse events which may occur;
- the Company has an extremely large and broad portfolio of preclinical and clinical programs in partnerships with a number of large pharmaceutical companies and a strong technological base for further expanding its proprietary portfolio.

Risks, however, cannot be excluded, controlled or influenced in their 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. Because this therapeutic class of molecules now belongs to one of the most successful and best-selling drugs in cancer therapy, there are a significant number of pharmaceutical and biotechnology companies active in the field of antibodies who could become future customers and partners for MorphoSys's products and technologies. For this reason and due to MorphoSys's long-standing expertise in the field of technology and product development, the Company has identified a number of growth opportunities for the years to come.

MorphoSys's antibody technologies for the development and optimization of therapeutic antibody candidates offer crucial 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 competencies, also outside of the antibody segment, present the Company with new opportunities since many classes of compounds are similar in their molecular structure. The "Innovation Capital" initiative is able to seize opportunities that were previously unavailable by having MorphoSys act as a strategic investor in young, innovative companies allowing it to use synergies effectively.

#### **OPPORTUNITY MANAGEMENT SYSTEM**

The opportunity management system is an important part of the corporate management at MorphoSys. It serves to identify opportunities at an early stage and to generate added value for the Company.

Opportunity management relies on four pillars:

- a routine discussion forum comprised of the Management Board and selected members of the Senior Management Group;
- the Company's business development activities;
- a technology scouting team; and
- the "Innovation Capital" initiative.

At committee meetings, selected opportunities are discussed and, where applicable, actions are agreed upon for seizing these opportunities. The meetings and their results are recorded in detail and further actions are monitored and reviewed. The Company's Business Development team takes part in numerous conferences where it identifies various opportunities that can contribute to the Company's growth. These are presented in the committee meetings and assessed through evaluation processes. The technology scouting team specifically searches out innovative technologies that can generate synergies with the technological infrastructure of MorphoSys, suitable for identifying new therapeutic molecules. These results are also discussed and evaluated by internal committees existing across all departments. The "Innovation Capital" initiative described above also allows MorphoSys to participate in early innovations and utilize these for the benefit of the Company in the future. An established opportunity evaluation process ensures a qualitative and reproducible evaluation of opportunities.

## **GENERAL STATEMENT ON OPPORTUNITIES**

Increased life expectancy in industrialized countries and the changing income situation and lifestyle in emerging countries are expected to drive demand for additional and innovative treatment options and advanced technologies. Scientific and medical progress has led to a better understanding of the biological processes of diseases, which, in turn, 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. In addition, therapeutic compounds based on proteins – also known as biological compounds or "biologics" – are threatened less by competition from generics than chemically produced molecules because the production of biological compounds is far more complex. Therefore, the demand for antibodies and the interest in this category of drugs has risen sharply over the past two to three years as demonstrated by the various acquisitions and significant licensing agreements in this field.

## **MARKET OPPORTUNITIES**

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

## **THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT**

It is expected that the pharmaceutical industry will increase its in-licensing of new drugs in order to refill its pipelines and replace previous key products and revenue drivers which have lost patent protection. With its most advanced compounds, MOR103, MOR202 and MOR208, MorphoSys is in a good position to capitalize on the needs of pharmaceutical companies. This is highlighted by the partnerships for MOR103 and MOR202 and the partnership for MOR209/ES414 that was completed successfully in 2014.

The guaranteed cash flows from the Partnered Discovery segment in the years to come place MorphoSys in a position to continuously strengthen its proprietary portfolio. MorphoSys will expand its proprietary portfolio by adding clinical trials with its most important drug candidates by investigating new disease areas, for example. MorphoSys intends to complement its portfolio with other programs and could use existing and future opportunities for co-development projects or partnerships. The Company is also looking for more opportunities to in-license interesting drug candidates.

With the drug candidates MOR208 and MOR202, MorphoSys may have the chance for the first time to market a drug itself.

### **THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY**

By working with a number of partners in drug development, MorphoSys has been able to better spread the risk that is inextricably linked with the development of individual drugs. With over 80 individual therapeutic antibodies currently in development programs with partners, the chance that MorphoSys will participate financially in the marketing of drugs is becoming more likely. In 2014, there were already three antibodies in clinical phase 3. If the clinical trial results are positive, it is possible that an approval may even be awarded in the near future. Our partner Novartis has already announced that a filing for the approval of its bimagrumab antibody could be made in 2016.

### **TECHNOLOGY DEVELOPMENT**

MorphoSys continues to invest in its existing and new technologies in order to maintain its technological leadership. With Ylanthia, MorphoSys has established a new technology platform which, unlike its predecessor HuCAL, is again available for broader licensing to different partners. The commercialization of the Ylanthia antibody library was started in 2012.

Technological advances of this kind could put the Company in a position to expand its list of partners and increase both the speed and the success rate of partnered and proprietary drug development programs. New technology modules that enable the production of antibodies against novel classes of target molecules could also open up new disease areas in which antibody-based treatments are still under-represented.

Technology development is driven by a team of scientists focused on the further development of the Company's technologies. But instead of only relying on internal technology development, MorphoSys also uses external sources of development for strengthening its technology. The cooperation and participation in Lanthio Pharma, a Dutch company dealing with the development of lanthipeptide, is a good example of such activities.

### **ACQUISITION OPPORTUNITIES**

In the past, MorphoSys has proven its ability to make acquisitions of compounds and technologies to accelerate its growth. Potential acquisition candidates are systematically presented, discussed and evaluated within the scope of the routine meetings with the Management Board and members of the Senior Management Group already described. Subsequent to these meetings, promising candidates are examined for strategic synergies and evaluated by an internal specialist committee. Protocols are completed on all candidates and assessments and are then systematically archived for observation and follow-up. A proprietary database helps to administer this information and keep it available.

MorphoSys plans to drive its acquisition strategy forward in the new year so that it can complement its existing portfolio and technology platform and secure access to patents and licenses for the development of novel proprietary technologies and products.

## FINANCIAL OPPORTUNITIES

Exchange rate and interest rate developments can have a positive or negative effect on the Company's financial results. Interest rates and financial market developments are continuously monitored to promptly identify and seize any available opportunities.

**TAB. 7: PRESENTATION OF THE KEY SHORT- AND MEDIUM- TERM RISKS AT MORPHOSYS**

	1-Year Assessment	3-Year Assessment
<b>Financial Risk</b>		
Risk of missing revenue targets	• Low	••• High
Risks due to bank insolvencies	•• Moderate	•• Moderate
<b>Operational Risk</b>		
Risks related to the development of proprietary antibodies	•• Moderate	•• Moderate
Risks related to Human Resources	• Low	• Low
<b>Strategic Risk</b>		
The risk of not being able to in-license novel therapeutic molecules	•• Moderate	••• High
Early termination of drug development partnerships	•• Moderate	••• High
Patent-related risks (with regard to the patent situation of the technology platform)	•• Moderate	•• Moderate
<b>External Risk</b>		
Risks related to external service providers in the clinical area	••• High	• Low
Patent-related risks (with regard to new national/international regulations)	•• Moderate	•• Moderate
<b>Organizational Risk</b>		
Risks arising from the growing amount and complexity of programs	•• Moderate	•• Moderate
Risks in the technical operations area	• Low	• Low
<b>Compliance Risk</b>		
Quality risks due to legal requirements	•• Moderate	•• Moderate
Legal risks	• Low	• 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

**TAB. 8: SUMMARY OF THE MOST IMPORTANT LONG-TERM RISKS AT MORPHOSYS**

<b>Segments</b>	<b>Risk</b>	<b>Order</b>
Proprietary Development	Lack of competitiveness of the MorphoSys pipeline	1
Partnered Discovery	Termination of partnered programs	2
Proprietary Development	Insufficient expansion of the MorphoSys pipeline	3
Partnered Discovery	Lack of new strategic alliances	4

Legend: Declining importance of risk from 1 to 4, whereby 1 represents the most important risk

# Statement on Corporate Governance and Corporate Governance Report

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

## Statement on Corporate Governance Pursuant to Sec. 289a (HGB) for the 2014 Financial Year

In the Declaration on Corporate Governance pursuant to Sec. 289a HGB, the Management Board and the Supervisory Board report on corporate governance. In addition to the annual Declaration of Conformity in accordance with Sec. 161 of the Stock Corporation Act (AktG) it also includes relevant information on corporate governance practices and other aspects of corporate governance, particularly 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 THE SUPERVISORY BOARD OF MORPHOSYS AG**

The Management Board and the Supervisory Board of MorphoSys AG declare the following pursuant to Sec. 161 of the German Stock Corporation Act:

1. Since the last Declaration of Conformity on 6 December 2013, MorphoSys AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" – with the exceptions described below under item no. 3 – in the Code version dated 13 May 2013 and 24 June 2014.
2. MorphoSys AG will continue to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" in the Code version dated 24 June 2014 – with the exceptions described below under item no. 3.
3. Exceptions:
  - Remuneration of Management Board members does not provide for a cap, neither overall nor for individual compensation components (see item 4.2.3 Para. 2 sentence 6 of the Code). In view of the Supervisory Board's existing limitation possibilities concerning the variable compensation components for the Management Board and its annual allocation, the Supervisory Board does not believe that an additional cap is required.
  - The Supervisory Board has refrained from full application of the recommendations in item 5.4.1 Para. 2 and Para. 3 sentence 1 of the Code. Pursuant to item 5.4.1 Para. 2, the Supervisory Board shall specify concrete objectives regarding the Board's composition, which shall stipulate, in particular, an appropriate level of female representation. According to item 5.4.1 Para. 3 sentence 1, proposals by the Supervisory Board to the competent election bodies shall take these objectives into account. The Supervisory Board has established concrete objectives regarding its composition and has thereby also decided to strive for an adequate representation of women on the Supervisory Board. However, a concrete quota of female members on the Supervisory Board has

not been provided since qualifications and not gender should be the decisive criteria in the individual cases for appointment to the Supervisory Board.

Martinsried/Planegg, 5 December 2014

MorphoSys AG

On behalf of the Management Board:

Dr. Simon Moroney  
Chief Executive Officer

On behalf of the Supervisory Board:

Dr. Gerald Möller  
Chairman of the Supervisory Board

## RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES

MorphoSys ensures compliance with the rules of conduct and laws through the use of a Company-wide Code of Conduct, a compliance 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 serves as a valuable tool for employees and managers, particularly in business, legal, or ethical situations of conflict. The Code of Conduct also supports transparent and consistent management principles and strengthens the trust of the financial markets, business partners, employees and the public in the Company. Compliance with the Code of Conduct is carefully monitored. The Company-wide implementation of the Code is guided by the Code of Conduct Committee. The Code of Conduct is also regularly reviewed and amended if necessary. The Code of Conduct can be downloaded from the Company's website under Media & Investors – Corporate Governance.

The compliance handbook describes the compliance management system implemented by MorphoSys. This system ensures compliance with all legal requirements and also implements high ethical standards that are mandatory for both the Management Board and all employees. The overall responsibility for the compliance management system lies with the Management Board who regularly reports to the Supervisory Board and the Audit Committee. In carrying out its compliance responsibility, the Management Board has transferred the respective tasks to various positions at MorphoSys.

The Compliance Officer monitors the interfaces of the individual pillars of compliance within MorphoSys and, if necessary, adapts the Company's existing compliance organization in consultation with the Management Board. The Compliance Officer also regularly reports to the CEO on all of the relevant developments in the Company's compliance organization.

The Compliance Officer is assisted in his duties by a Compliance Committee that meets regularly to discuss compliance issues. The Compliance Committee serves as an interface between the different departments of MorphoSys dealing with compliance issues and facilitates the identification and discussion of all relevant issues concerning the individual compliance pillars. On this basis, the Compliance Officer routinely verifies the observance of the compliance management system as well as the compliance status of MorphoSys.

Further information on the compliance management system at MorphoSys can be found in the Corporate Governance Report.

## COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

### THE MANAGEMENT BOARD

The Management Board of MorphoSys AG consists of the Chief Executive Officer and three other members. In the schedule of responsibilities, the various areas of responsibility are defined as follows:

- Dr. Simon Moroney, Chief Executive Officer, responsible for Strategy and Planning; Compliance and Quality Assurance; Internal Audit; Human Resources; Business Development & Portfolio Management; Legal; and the coordination of individual areas of the Management Board; and representation of the Management Board to the Supervisory Board.

- Jens Holstein, Chief Financial Officer, responsible for Accounting and Taxes; Controlling; Corporate Finance & Corporate Development; Risk Management; IT & Technical Operations; Procurement and Logistics; Corporate Communications & Investor Relations.
- Dr. Arndt Schottelius, Chief Development Officer, responsible for Preclinical Development; Clinical Research; Clinical Operations; Drug Safety & Pharmacovigilance; Regulatory Affairs; and Project Management.
- Dr. Marlies Sproll, Chief Scientific Officer, responsible for Development Partnerships & Technology Development; Target Molecule & Antibody Research; Protein Chemistry; Alliance Management; and Intellectual Property.

#### SUPERVISORY BOARD

As of 31 December 2014, the Supervisory Board of MorphoSys AG consisted of six members, who oversee and advise the Management Board. The present Supervisory Board consists of professionally qualified members representing the shareholders of MorphoSys AG. Dr. Gerald Möller, acting Chairman of the Supervisory Board, coordinates the Board's activities, chairs the Supervisory Board meetings and represents the concerns of the Supervisory Board externally. As defined by the German Corporate Governance Code, all members of the Supervisory Board are independent and have many years of experience in the biotechnology and pharmaceutical industries. They are duly elected by the shareholders in the course of the Annual General Meeting. The Chairman of the Supervisory Board is not a former member of the Management Board of MorphoSys AG. With the conclusion of the Annual General Meeting 2015 ends the term of office of all six members of the Supervisory Board. Regular elections are therefore planned for the Annual General Meeting 2015. The precise composition of the Supervisory Board and its committees is contained in the following table.

**TAB. 9: COMPOSITION OF THE SUPERVISORY BOARD**

	Position	Initial Appointment	End of Period <sup>1</sup>	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2015			
Dr. Geoffrey Vernon 	Deputy Chairman	1999	2015			
Dr. Walter Blättler	Member	2007	2015			
Dr. Daniel Camus 	Member	2002	2015			
Dr. Marc Cluzel	Member	2012	2015			
Karin Eastham 	Member	2012	2015			

1) Period ends with termination of Annual General Meeting 2015.

 Independent Financial Expert

 Chairman

 Member

## WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

To ensure good corporate governance, open and comprehensive information provided on a routine basis is a guiding principle of the cooperation of the Management Board and Supervisory Board of MorphoSys AG. The dual management system required by the German Stock Corporation Act clearly differentiates between the management and the supervision of a Company. The responsibilities of both Boards are clearly defined by the legislator and by the Boards' bylaws and Articles of Association. MorphoSys AG's Management and Supervisory Boards work closely together and take actions and decisions for the benefit of the Company. Their stated objective is to sustainably increase the Company's value.

Each Management Board member has their own area of responsibility, which is defined in the schedule of responsibilities. Each member regularly reports to their Management Board colleagues on their respective area of responsibility. The collaboration of Management Board members is governed by the bylaws. Both the schedule of responsibilities and the bylaws were enacted by the Supervisory Board. Meetings of the Management Board typically take place once a week and are chaired by the Chief Executive Officer. At the meetings, resolutions related to actions and transactions are passed that require the approval of the entire Management Board under the rules of procedure. In order to pass resolutions, at least half of the members of the Management Board must participate in the vote. Resolutions of the Management Board are passed by a simple majority. In the event of a tied vote, the vote of the Chief Executive Officer decides. In the case of significant events, each member of the Management Board or the Supervisory Board may convene an extraordinary meeting of the Management Board as a whole. Resolutions of the Management Board may also be passed outside of its meetings by voting verbally, by telephone, or in writing (including email). A protocol is made of each meeting of the full Management Board. This protocol is then submitted for approval at the subsequent meeting of the full Management Board and signed by the Chief Executive Officer.

In addition to the regular Management Board meetings, Management Board strategy workshops are held. In this workshops, the Management Board prioritizes the strategic objectives across the Group and outlines the future strategy.

The Management Board informs the Supervisory Board with respect to planning, business development and the Company's position, including risk management and compliance issues, in a timely and comprehensive manner in writing, as well as at the Supervisory Board meetings. An extraordinary meeting of the Supervisory Board shall be convened if necessary in the case of a material event. The Supervisory Board is involved by the Management Board in the strategy and planning, as well as in all decisions of fundamental importance to the Company. In addition to the regular Supervisory Board meetings, a further strategy meeting between the Management Board and the Supervisory Board is held once annually in which the focus of discussion is the strategic orientation of MorphoSys. According to the Management Board's rules of procedure, important business transactions are subject to the consent of the Supervisory Board. Detailed information on the collaboration between the Management Board and the Supervisory Board and on important topics discussed in the 2014 financial year can be found in the "Report of the Supervisory Board".

The Supervisory Board shall hold at least two meetings per calendar half-year and at least six per calendar year. In addition to the provisions of the Articles of Association, the Supervisory Board has added rules of procedure with regard to its duties: The Supervisory Board Chairman coordinates the work of the Supervisory Board, chairs its meetings and represents the affairs of the Board externally. The Supervisory Board usually makes its decisions in meetings. However, decisions can also be made by telephone, video conference, or outside of the meetings.

The Supervisory Board constitutes a quorum when at least two-thirds of its members (including either the Chairman or the Deputy Chairman of the Supervisory Board) participate in the vote. Generally, resolutions of the Supervisory Board are adopted by a simple majority of the votes cast unless the law prescribes a different majority. In the event of a tied vote, the vote of the Supervisory Board Chairman decides.

Supervisory Board meetings are recorded in writing. Resolutions which are taken outside of the meetings are also recorded. A copy of the minutes and the resolutions adopted outside of meetings is provided to all members of the Supervisory Board. In accordance with the recommendation in item no. 5.6 of the Code, the Supervisory Board evaluates the efficiency of its work on a regular basis.

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

The Management Board has not established any committees.

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

**TAB. 10: PARTICIPATION OF SUPERVISORY BOARD MEMBERS  
SUPERVISORY BOARD MEETINGS**

Name	by phone		by phone		Strategy Meeting		by phone		
	01/17 2014	02/27 2014	03/24 2014	05/22 2014	07/25 2014	09/05-06 2014	11/04 2014	12/10 2014	12/17 2014
Dr. Gerald Möller	X	X	X	X	X	X	X	-	X
Dr. Geoffrey Vernon	X	X	X	X	X	X	X	by phone	X
Dr. Walter Blättler	X	X	X	X	X	X	X	X	X
Dr. Daniel Camus	X	X	X	X	X	X	X	X	-
Dr. Marc Cluzel	X	X	X	X	X	X	X	X	X
Karin Eastham	X	X	X	X	X	X	X	by phone	X

**MEETINGS OF THE AUDIT COMMITTEE**

Name	02/27/2014	by phone		07/25/2014	11/04/2014	12/10/2014
		03/24/2014	04/25/2014			
Dr. Daniel Camus	X	X	X	X	X	X
Karin Eastham	X	X	X	X	X	by phone
Dr. Geoffrey Vernon	X	X	X	X	X	-

**MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE**

Name	02/27/2014	05/22/2014	07/24/2014	11/04/2014	12/10/2014	by phone
						12/18/2014
Dr. Gerald Möller	X	X	X	X	-	X
Dr. Marc Cluzel	X	X	X	X	X	X
Karin Eastham	X	X	X	X	by phone	X

**MEETINGS OF THE SCIENCE AND TECHNOLOGY COMMITTEE**

Name	02/27/2014	05/22/2014	by phone		11/04/2014	12/10/2014
			06/26/2014	07/25/2014		
Dr. Walter Blättler	X	X	X	X	X	X
Dr. Marc Cluzel	X	X	X	X	X	X

**AUDIT COMMITTEE**

The central task of the Audit Committee is to assist the Supervisory Board in fulfilling its supervisory duties with respect to the accuracy of the annual and consolidated financial statements, the activities of the external auditors, the internal control functions, risk management, compliance and internal audit. The Audit Committee also submits a recommendation to the Supervisory Board for the election of the independent auditor which takes place at the Annual General Meeting. The members of the Audit Committee are Dr. Daniel Camus (Chairman), Dr. Geoffrey Vernon and Ms. Karin Eastham. All three members are independent financial experts.

**REMUNERATION AND NOMINATION COMMITTEE**

The Remuneration and Nomination Committee is responsible for the preparation and annual review of the Management Board's compensation system before its final approval. The committee also monitors, when necessary, the search for suitable candidates for appointment as Management Board members or as Supervisory Board members and submits proposals to the Supervisory Board in this regard. The Committee also prepares contracts with Management Board members. The members of the Remuneration and Nomination Committee are Dr. Gerald Möller (Chairman), Dr. Marc Cluzel and Ms. Karin Eastham.

#### **SCIENCE AND TECHNOLOGY COMMITTEE**

The Science and Technology Committee advises the Supervisory Board on matters concerning proprietary drug and technology development and also prepares the relevant Supervisory Board resolutions. The members of the Science and Technology Committee are Dr. Walter Blättler (Chairman) and Dr. Marc Cluzel.

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

## **Corporate Governance Report**

MorphoSys makes responsible, sustainable and value-oriented corporate governance its highest priority. Good corporate governance is a central component of corporate management at MorphoSys. It forms the framework for the management and supervision of the Company, which includes its organization, commercial principles and measures for guidance and control.

With the creation of the German Corporate Governance Code (the "Code"), a standard was established for the transparent monitoring and control of companies, which is particularly oriented towards the interests of shareholders. Many of the principles contained in the Corporate Governance Code have been practiced at MorphoSys for a long period of time. Individual issues relating to corporate governance at MorphoSys AG are detailed in the Declaration on Corporate Governance pursuant to Sec. 289a HGB. This declaration also includes the annual Declaration of Conformity, relevant information on corporate governance practices and a description of the working practices of the Management and Supervisory Boards. Additional information can be found in this Corporate Governance Report.

#### **COMMUNICATION WITH THE CAPITAL MARKETS**

One of the most important principles of corporate communication at MorphoSys is to inform institutional investors, private shareholders, financial analysts, employees and all other stakeholders simultaneously and comprehensively on the situation of the Company. This is accomplished through regular, transparent and timely communication. All essential information provided to financial analysts and similar addressees are also promptly made available to shareholders in both the German and English languages. The Company is strictly committed to the principle of fair information practices.

A central component of investor relations at MorphoSys is routine meetings with analysts and investors in the context of roadshows and individual meetings. Conference calls accompany the publication of the quarterly results and give analysts and investors an opportunity to ask questions on the Company's development. Company presentations prepared for on-site events are accessible to all interested parties on the Company website. Video and audio recordings of key events can always be found on the Company website. Transcripts of the conference calls are also made promptly available.

MorphoSys uses its corporate website [www.morphosys.com](http://www.morphosys.com) as a central platform for providing current information on the Company and its progress. Here financial reports, presentations for analyst and investor conferences, as well as the Company's press releases and ad hoc statements can be retrieved. The dates of the main recurring publications and events (annual reports, interim reports, Annual General Meetings, press and analyst conferences) are published in our financial calendar well in advance.

The MorphoSys website was technically and structurally redesigned at the end of 2014 and will be re-introduced with a new design in the first quarter of 2015.

#### **ESTABLISHMENT OF SPECIFIC TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD**

The Supervisory Board of MorphoSys AG has a total of six members. In view of the Company's international orientation and to ensure a fair share of diversity, the Supervisory Board maintains a ratio of at least two non-German Supervisory Board members or at least two members having extensive international experience. This ratio is currently being met.

We also strive to have at least four independent members represented on our Supervisory Board. This ratio is also currently being met. Material conflicts of interest and those which are not merely temporary, in particular conflicts arising from tasks for major competitors, should be avoided. Currently, no such conflict of interest exists.

Furthermore, it is intended that an adequate proportion of women shall be represented on the Supervisory Board. The Supervisory Board is aware that such an adequate proportion of women may not be reached immediately. Nevertheless, the Supervisory Board intends to include qualified women when assessing potential candidates for vacant positions on the Supervisory Board. A prerequisite for proposing the election of female candidates shall be their qualification and concrete suitability for the Company. At the Supervisory Board election that took place at the 2012 Annual General Meeting, Ms. Karin Eastham was elected as a new Supervisory Board member.

The provision regarding the age limit of 75 years that is contained in the rules of procedure of the Supervisory Board is currently respected. However, the Supervisory Board may approve exceptions in individual cases.

The Supervisory Board plans to consider the targets mentioned above for future nominations.

#### **REMUNERATION REPORT**

The Remuneration Report presents the principles, structure and amount of compensation paid to the Management Board and the Supervisory Board. It reflects the legal provisions and gives consideration to the recommendations of the Code.

#### MANAGEMENT BOARD REMUNERATION

The remuneration system for the Management Board is intended to provide an incentive for performance-oriented and sustainable corporate management. Therefore, the aggregate compensation of the Management Board members consists of different components, such as fixed components, an annual cash bonus based on the achievement of individual and corporate targets (short-term incentive - STI), as well as a variable compensation component with a long-term incentive (long-term incentive - LTI) and of other compensation components. The variable remuneration component with long-term incentive consists of a performance share plan. The Management Board members also receive fringe benefits in the form of non-cash benefits. These benefits essentially consist of a company car and insurance premiums. As a component of remuneration, the fringe benefits of each Management Board member are taxable. All total remuneration packages are reviewed annually by the Remuneration and Nomination Committee for their scope and appropriateness and compared to the results of an annual management board compensation analysis. The amount of compensation paid to Management Board members highly depends on their individual areas of responsibility, their personal achievement of goals, business performance, as well as on the Company's success and the economic prospects in relation to the competition. All decisions concerning adjustments to the total remuneration package are taken by the entire Supervisory Board. The salaries of the Management Board as well as the contributions to a pension plan in the form of a provident fund were last adjusted in July 2014.

**OVERVIEW**

In the 2014 financial year, €5,065,240 (2013: €5,326,352) in benefits were granted to the Management Board in accordance with the provisions of the Corporate Governance Code.

Of this total remuneration for the year 2014, €2,769,205 was cash compensation and €2,296,035, or 45%, resulted from personnel expenses for share-based compensation (performance share plan, stock option plan and convertible bond plan) (remuneration with long-term incentive - LTI).

The total amount of benefits paid to the Management Board in the 2014 financial year amounted to €6,984,419 (2013: €16,837,592). In addition to cash remuneration of €2,893,199 (2013: €2,473,883) paid during the financial year, this also includes the value from the exercise of convertible bonds (share-based compensation) of €4,091,220 (2013: €14,363,709) relevant under German tax law.

Members of the Management Board exercised convertible bonds in the course of 2014. All transactions in MorphoSys shares executed by Management Board members were reported as required by law and published in the Corporate Governance Report and on the Company's website. In accordance with the requirements of Section 4.2.5, Para. 3 of the Code, the following represents detailed information on an individualized basis required by the Code regarding the remuneration of individual Management Board members:

Please note, the following tables in the Corporate Governance Report deviate from the information on Management Board remuneration provided in the Notes of this Annual Report. This is due to the varying presentation requirements under the Corporate Governance Code and those in accordance with German GAAP.

**TAB. 11: COMPENSATION OF THE MANAGEMENT BOARD IN 2014 AND 2013 (DISCLOSURE IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE)**

**BENEFITS GRANTED TO THE MANAGEMENT BOARD:**

in €	Dr. Simon Moroney Chief Executive Officer				Jens Holstein Chief Financial Officer			
	2013	2014	2014 (Minimum)	2014 (Maximum)	2013	2014	2014 (Minimum)	2014 (Maximum)
Fixed Compensation	412,049	426,502	426,502	426,502	279,531	289,335	289,335	289,335
Fringe Benefits	67,132	29,444	29,444	29,444	28,138	33,722	33,722	33,722
<b>Total Fixed Compensation</b>	<b>479,181</b>	<b>455,946</b>	<b>455,946</b>	<b>455,946</b>	<b>307,669</b>	<b>323,057</b>	<b>323,057</b>	<b>323,057</b>
One -Year Variable Compensation *	360,543	324,696	0	373,189	244,590	220,271	0	253,168
Multi-Year Variable Compensation:								
2009 Stock Option Plan ** (Vesting Period 4 Years)	5,704	0	0	0	0	0	0	0
2010 Convertible Bonds Program ** (Vesting Period 4 Years)	32,051	6,010	6,010	6,010	0	0	0	0
2013 Convertible Bonds Program ** (Vesting Period 4 Years)	363,903	310,530	310,530	310,530	372,759	318,087	318,087	318,087
2013 Long-Term Incentive Program *** (Vesting Period 4 Years)	383,250	0	0	0	262,500	0	0	0
2014 Long-Term Incentive Program *** (Vesting Period 4 Years)	0	402,413	0	1,609,652	0	275,625	0	1,102,500
<b>Total Variable Compensation</b>	<b>1,145,451</b>	<b>1,043,649</b>	<b>316,540</b>	<b>2,299,381</b>	<b>879,849</b>	<b>813,983</b>	<b>318,087</b>	<b>1,673,755</b>
Service Cost	112,221	125,730	125,730	125,730	78,177	86,866	86,866	86,866
<b>Total Compensation</b>	<b>1,736,853</b>	<b>1,625,325</b>	<b>898,216</b>	<b>2,881,057</b>	<b>1,265,695</b>	<b>1,223,906</b>	<b>728,010</b>	<b>2,083,678</b>

\*) The one-year compensation granted for the 2014 financial year represents the bonus accrual for 2014 that will be paid out in February 2015. The bonus granted for the 2013 financial year was paid out in February 2014.

\*\*) 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 stock options and convertible bonds is presented for each financial year.

\*\*\*) 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 performance shares are presented for the entire term at the time of issue.

Dr. Arndt Schottelius Chief Development Officer				Dr. Marlies Sproll Chief Scientific Officer				Total			
2013	2014	2014 (Minimum)	2014 (Maximum)	2013	2014	2014 (Minimum)	2014 (Maximum)	2013	2014	2014 (Minimum)	2014 (Maximum)
279,531	289,335	289,335	289,335	279,531	289,335	289,335	289,335	1,250,642	1,294,507	1,294,507	1,294,507
29,143	32,508	32,508	32,508	21,579	22,828	22,828	22,828	145,992	118,502	118,502	118,502
<b>308,674</b>	<b>321,843</b>	<b>321,843</b>	<b>321,843</b>	<b>301,110</b>	<b>312,163</b>	<b>312,163</b>	<b>312,163</b>	<b>1,396,634</b>	<b>1,413,009</b>	<b>1,413,009</b>	<b>1,413,009</b>
244,590	215,208	0	253,168	244,590	210,144	0	253,168	1,094,313	970,319	0	1,132,693
								0	0	0	0
6,337	0	0	0	2,577	0	0	0	14,618	0	0	0
17,988	3,373	3,373	3,373	17,988	3,373	3,373	3,373	68,027	12,756	12,756	12,756
249,243	212,687	212,687	212,687	249,243	212,687	212,687	212,687	1,235,148	1,053,991	1,053,991	1,053,991
262,500	0	0	0	262,500	0	0	0	1,170,750	0	0	0
0	275,625	0	1,102,500	0	275,625	0	1,102,500	0	1,229,288	0	4,917,152
<b>780,658</b>	<b>706,893</b>	<b>216,060</b>	<b>1,571,728</b>	<b>776,898</b>	<b>701,829</b>	<b>216,060</b>	<b>1,571,728</b>	<b>3,582,856</b>	<b>3,266,354</b>	<b>1,066,747</b>	<b>7,116,592</b>
78,294	86,653	86,653	86,653	78,170	86,628	86,628	86,628	346,862	385,877	385,877	385,877
<b>1,167,626</b>	<b>1,115,389</b>	<b>624,556</b>	<b>1,980,224</b>	<b>1,156,178</b>	<b>1,100,620</b>	<b>614,851</b>	<b>1,970,519</b>	<b>5,326,352</b>	<b>5,065,240</b>	<b>2,865,633</b>	<b>8,915,478</b>

**PAYMENTS DURING THE FINANCIAL YEAR:**

in €	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
	2013	2014	2013	2014
Fixed Compensation	412,049	426,502	279,531	289,335
Fringe Benefits	67,132	29,444	28,138	33,722
<b>Total Fixed Compensation</b>	<b>479,181</b>	<b>455,946</b>	<b>307,669</b>	<b>323,057</b>
One -Year Variable Compensation *	226,689	360,543	176,890	244,590
Multi-Year Variable Compensation:				
2008 Stock Option Plan ** (Vesting Period 4 Years)	3,992,587	0	0	0
2009 Stock Option Plan ** (Vesting Period 4 Years)	3,356,537	0	0	0
2010 Convertible Bonds Program ** (Vesting Period 4 Years)	0	2,386,110	0	0
Other ***	0	0	0	0
<b>Total Variable Compensation</b>	<b>7,575,813</b>	<b>2,746,653</b>	<b>176,890</b>	<b>244,590</b>
Service Cost	112,221	125,730	78,177	86,866
<b>Total Compensation</b>	<b>8,167,215</b>	<b>3,328,329</b>	<b>562,736</b>	<b>654,513</b>

\*) The one-year variable compensation presented here represents the bonus paid in the respective financial year for the previous financial year.

\*\*) 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 and stock options.

\*\*\*) No compensation recovery claims against the Management Board existed in 2014 or 2013.

Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
2013	2014	2013	2014	2013	2014
279,531	289,335	279,531	289,335	1,250,642	1,294,507
29,143	32,508	21,579	22,828	145,992	118,502
<b>308,674</b>	<b>321,843</b>	<b>301,110</b>	<b>312,163</b>	<b>1,396,634</b>	<b>1,413,009</b>
164,155	244,590	162,653	244,590	730,387	1,094,313
				0	0
0	0	2,410,143	0	6,402,730	0
3,273,300	0	1,331,142	0	7,960,979	0
0	1,705,110	0	0	0	4,091,220
0	0	0	0	0	0
<b>3,437,455</b>	<b>1,949,700</b>	<b>3,903,938</b>	<b>244,590</b>	<b>15,094,096</b>	<b>5,185,533</b>
78,294	86,653	78,170	86,628	346,862	385,877
<b>3,824,423</b>	<b>2,358,196</b>	<b>4,283,218</b>	<b>643,381</b>	<b>16,837,592</b>	<b>6,984,419</b>

#### FIXED REMUNERATION AND FRINGE BENEFITS

The non-performance related remuneration of the Management Board is composed of fixed remuneration and additional benefits, which mainly include the use of company cars and also include subsidies for health, welfare and disability insurance.

#### PENSION EXPENSES

Furthermore, the Company provides payments to Management Board members of up to 10 % of each Management Board member's fixed annual salary plus taxes to be paid. These payments are to be used by the Management Board members for their individual retirement plans. In addition, 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 this provident fund are met by Allianz Pensions-Management e.V.

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

As performance-based remuneration, each member of the Management Board receives an annual cash bonus amounting to up to 70 % of the gross base salary upon the 100 % achievement of objectives. These bonus payments are dependent upon the achievement of corporate and personal objectives which are determined by the Supervisory Board at the beginning of each financial year. Corporate targets comprise 80 % of performance-based remuneration and are based on business development measured by revenue and operating results. The progress of the partnered pipeline and the Company's proprietary portfolio, as well as technology targets, is also taken into consideration. Personal targets comprise 20 % of performance-based remuneration and include the fulfillment of operational targets for which the respective Management Board member is responsible. At the start of the year, the Supervisory Board assesses the degree to which the corporate and personal objectives were achieved in the prior year and determines the corresponding bonus. The bonus is subject to a ceiling of 125 % of the target amount

(corresponding to 87.5 % of gross basic salary). If targets are not achieved, the performance-based remuneration may be completely omitted. The bonus for the 2014 financial year will be paid in February 2015.

#### **LONG-TERM INCENTIVE COMPENSATION (LTI)**

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

Each year the Supervisory Board decides on the number of shares to be allocated to the Management Board. On 1 April 2014, the Management Board was granted 18,264 shares; whereby each Management Board member received an entitlement to a certain number of shares. For more details, please refer to the Notes to the Annual Financial Statement and the comments on share buybacks in the Corporate Governance Report.

With the allotment of shares for a given year, the Supervisory Board sets the long-term performance targets. For the 2014 LTI program, the target was defined as the share price performance of the MorphoSys share compared to a benchmark index, which is comprised of equal parts of the NASDAQ Biotech Index and the TecDAX index. Shares are annually awarded on the basis of a daily comparison of the MorphoSys share with the benchmark. For the price performance in a given year, there is a hurdle of 50 % and a maximum limit of 200 %. For example, in comparing the performance of the MorphoSys share with that of the index, performance of less than 50 % in the relevant year means that no shares would be allocated. Performance of more than 200 %, however, would result in no additional shares being allocated.

The final number of performance shares allocated to the beneficiaries of the LTI program is determined after the completion of the program, specifically after a period of four years. This calculation incorporates the number of shares initially allocated, after adjusting the Company's share price performance versus the benchmark index and at the discretion of the Supervisory Board with regards to a "company factor." The company factor is a number between 0 and 2 and is determined by the Supervisory Board depending on the Company's situation. The predefined default value of the company factor is 1.

#### **MISCELLANEOUS**

Management Board members were not granted any loans or similar benefits in the reporting year nor have members of the Management Board received any benefits from third parties that were either promised or granted based on their position as a Management Board member.

#### **TERMINATION OF MANAGEMENT BOARD EMPLOYMENT CONTRACTS/CHANGE OF CONTROL**

If a Management Board member's service contract terminates as a result of death, their 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 in control, each Management Board member is entitled to exercise their extraordinary right to terminate their employment contract, including entitlement to any outstanding amounts of fixed salary for the remainder of the agreed contract period. Moreover, in such a case, all stock options, convertible bonds and performance shares granted will become vested immediately and are exercisable after the expiration of the statutory vesting period or blackout periods. A change in control occurs particularly when: (i) MorphoSys transfers assets or a substantial part of its assets to unaffiliated third

parties, (ii) MorphoSys merges with a non-affiliated company, or (iii) a shareholder or third party holds 30% or more of the voting rights in MorphoSys.

#### REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is governed by the Company's Articles of Association and a corresponding resolution on Supervisory Board remuneration of the Annual General Meeting. In 2014 financial year, the members of the Supervisory Board received fixed remuneration and attendance fees for their participation in Supervisory Board and Committee meetings. According to the resolution of the Annual General Meeting of 23 May 2014, each Supervisory Board member receives an annual flat compensation (€85,400 for the Chairman, €51,240 for the Vice Chairman and €34,160 for all other members) for their membership in the Supervisory Board. The Chairman receives €4,000 for each Supervisory Board meeting he chairs and the remaining members receive €2,000 each time they attend a Supervisory Board meeting. For Committee work, the Committee Chairman receives €12,000 and the remaining committee members each receive €6,000. In addition, Committee members receive €1,200 for each Committee meeting they participate in. Compensation is paid quarterly on a pro-rated basis.

Supervisory Board members are also reimbursed for travel costs and for value-added taxes (VAT) due on their remuneration.

In the 2014 financial year, Supervisory Board members received total compensation of €514,480 (2013: €458,280), excluding the reimbursement of travel expenses. This amount consists of the fixed remuneration and attendance fees.

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

The following table shows the remuneration of the Supervisory Board in detail:

**TAB. 12: COMPENSATION OF THE SUPERVISORY BOARD IN 2014 AND 2013**

in €	Fixed Compensation		Attendance Fees		Total Compensation	
	2014	2013	2014	2013	2014	2013
Dr. Gerald Möller	97,400	94,400	38,000	32,000	135,400	126,400
Dr. Walter Blättler	46,160	43,160	25,200	17,000	71,360	60,160
Dr. Daniel Camus	46,160	43,160	23,200	19,500	69,360	62,660
Dr. Marc Cluzel	46,160	46,160	32,400	23,500	78,560	69,660
Karin Eastham	46,160	40,160	32,400	22,500	78,560	62,660
Dr. Geoffrey Vernon	57,240	57,240	24,000	19,500	81,240	76,740
<b>Total</b>	<b>339,280</b>	<b>324,280</b>	<b>175,200</b>	<b>134,000</b>	<b>514,480</b>	<b>458,280</b>

#### DIRECTOR'S HOLDINGS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

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 and convertible bonds held by each member of the Management Board and the Supervisory Board are listed below.

TAB. 13: DIRECTOR'S HOLDINGS

Shares	01/01/2013	Additions	Forfeitures	Sales	12/31/2014
<b>Management Board</b>					
Dr. Simon Moroney	452,885	40,000	0	40,000	452,885
Jens Holstein	6,500	0	0	4,500	2,000
Dr. Arndt Schottelius	2,000	33,000	0	33,000	2,000
Dr. Marlies Sproll	27,370	1,250	0	0	28,620
<b>Total</b>	<b>488,755</b>	<b>74,250</b>	<b>0</b>	<b>77,500</b>	<b>485,505</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	9,000	0	0	0	9,000
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Marc Cluzel	0	500	0	0	500
Karin Eastham	1,000	0	0	0	1,000
Dr. Geoffrey Vernon	0	0	0	0	0
<b>Total</b>	<b>12,019</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>12,519</b>
<b>Convertible Bonds</b>					
	01/01/2013	Additions	Forfeitures	Exercises	12/31/2014
<b>Management Board</b>					
Dr. Simon Moroney	147,186	0	0	40,000	107,186
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius	93,537	0	0	33,000	60,537
Dr. Marlies Sproll	93,537	0	0	0	93,537
<b>Total</b>	<b>424,797</b>	<b>0</b>	<b>0</b>	<b>73,000</b>	<b>351,797</b>
<b>Performance Shares</b>					
	01/01/2013	Additions	Forfeitures	Allocations	12/31/2014
<b>Management Board</b>					
Dr. Simon Moroney	48,676	5,979	0	0	54,655
Jens Holstein	33,339	4,095	0	0	37,434
Dr. Arndt Schottelius	33,339	4,095	0	0	37,434
Dr. Marlies Sproll	33,339	4,095	0	0	37,434
<b>Total</b>	<b>148,693</b>	<b>18,264</b>	<b>0</b>	<b>0</b>	<b>166,957</b>

## DIRECTORS' DEALINGS

Members of the Management Board and Supervisory Board of MorphoSys AG, as well as closely related persons to such members, are obligated to disclose trading in MorphoSys shares in accordance with Sec. 15a of the German Securities Trading Act (WpHG).

During the reporting year, MorphoSys received the following notifications pursuant to Sec. 15a WpHG which are listed in the following table.

**TAB. 14: DIRECTOR'S DEALINGS IN 2014**

Party Subject to the Notification Requirement	Function	Date of Transaction in 2014	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price	Transaction Volume
Dr. Marlies Sproll	CSO	12/03/2014	Purchase of MorphoSys AG shares	1,250	79.52396 €	99,404.95 €
Dr. Simon Moroney	CEO	11/20/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	5,000	76.8745 €	384,372.50 €
Dr. Simon Moroney	CEO	11/19/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	5,000	77.7346 €	388,673.00 €
Dr. Simon Moroney	CEO	11/18/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	10,000	77.2813 €	772,813.00 €
Dr. Simon Moroney	CEO	11/17/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	20,000	76.4454 €	1,528,908.00 €
Dr. Arndt Schottelius	CDO	06/13/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	11,000	68.1948 €	750,142.80 €
Dr. Arndt Schottelius	CDO	06/12/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	22,000	69.7598 €	1,534,715.60 €
Jens Holstein	CFO	03/26/2014	Sale of MorphoSys AG shares	4,500	65.52 €	294,826.30 €
Dr. Marc Cluzel (via C&F Consulting)	Member of the Supervisory Board	03/13/2014	Purchase of MorphoSys AG shares	500	67.60 €	38,802.00 €

#### PREVENTING CONFLICTS OF INTEREST

Members of the Management Board and the Supervisory Board are obliged to refrain from actions that could lead to conflicts of interest with their functions performed at MorphoSys AG. Such transactions or secondary employment of the Management Board must be disclosed immediately to the Supervisory Board and are subject to its approval. The Supervisory Board, in turn, must inform the Annual General Meeting of any conflicts of interest and their treatment. In the 2014 financial year, no conflicts of interest occurred.

## STOCK REPURCHASES

By resolution of the Annual General Meeting of 19 May 2011, which was replaced by the resolution of the Annual General Meeting of 23 May 2014, in accordance with Sec. 71 Para. 1 no. 8 AktG, MorphoSys is authorized to repurchase its own shares in an amount up to 10% of the existing common stock. This authorization may be exercised in whole or in part, once or on several occasions, by the Company or a third party on behalf of the Company, for the purposes specified in the authorizing resolution. It is at the discretion of the Management Board as to whether the repurchase is carried out on the stock exchange, by a public offer or a public call to tender.

In March 2014, MorphoSys repurchased a total of 111,000 of its own shares on the basis of the authorization from 2011. The Company plans to use these treasury shares for a long-term incentive plan for the Management Board and the Senior Management Group. However, this authorization also permits the shares to be used for other lawful purposes.

## INFORMATION AND COMMUNICATION

During the 2014 financial year, the optimization of business processes based on the ERP and Corporate Performance Management systems (CPM) was continued successfully within the planned project budget and time frame.

Based on modern IT security technology, new IT services were established for working securely off-site within the IT security infrastructure. As part of this expansion, new services were brought into operation to provide a more secure exchange of data with external business partners.

The new IT security infrastructure was successfully reviewed by means of an external security audit under the existing organizational controls in order to ensure the protection of information at MorphoSys.

Since April of this reporting year, R&D data from antibody selection, characterization and production has been collected, stored, analyzed and processed in a database called YBase, which was developed specifically for MorphoSys's workflows and technologies.

This software solution is based on the software of GeneData Biologics, which was developed in close collaboration with the provider and is used industry-wide. It enables MorphoSys to completely record the massive rise in the selection of antibody candidates from new technologies such as Ylanthia and Slonomics, and to identify the most promising drug candidates quickly and reliably.

## INFORMATION ON INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH REGARD TO THE ACCOUNTING PROCESS PURSUANT TO SEC. 289 PARA. 5 AND SEC. 315 PARA. 2 NO. 5 HGB

In the 2014 financial year, MorphoSys completed a routine update of the documentation for its existing internal control and risk management systems in order to maintain adequate internal control over financial reporting. This ensures the availability of all controls so that the financial figures can be reported as precisely and as accurately as possible. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) defines the corresponding COSO framework ("Internal Control - Integrated Framework"). This is the basis most commonly used for internal control over financial reporting and is also the framework used by MorphoSys.

In view of system constraints, there is no absolute assurance that internal controls can prevent or completely uncover a misrepresentation in the context of financial reporting at all times. Internal controls can only give reasonable assurance that the financial reporting is reliable and verify that the preparation of the financial statements is in accordance with the IFRS standards for external purposes adopted by the European Union.

To ensure the accuracy of the reported financial indicators and the underlying execution of all accounting processes, MorphoSys has implemented a strict four-eye principle. The effectiveness and efficiency of these processes are also routinely reviewed and monitored by external service providers. The annual financial statements go through a large number of preparation, audit and control processes in order that they are promptly reported to the market and to shareholders. This is done using a plan, agreed on by the management, for which the necessary resources are made available both internally as well as externally.

Furthermore, numerous rules and guidelines ensure the strict separation of planning, posting and executing financial transactions. Compliance with and implementation of these guidelines is regularly reviewed. This functional separation is ensured with all IT systems through the appropriate assignment of rights.

Predictions of future events are not part of the internal control and risk management systems. However, MorphoSys does use a risk management system that guarantees the early detection and assessment of business-specific risks. Through the appropriate countermeasures, the risks identified can be eliminated or at least minimized to an acceptable level. Special attention is given to those risks that could potentially jeopardize the Company's existence.

The Management Board ensures the permanent and responsible dealing with risks and keeps the Supervisory Board informed of existing risks and their development. Detailed information on the opportunities and risks at MorphoSys can be found in the "Risks and Opportunities Report".

#### **ACCOUNTING AND EXTERNAL AUDIT**

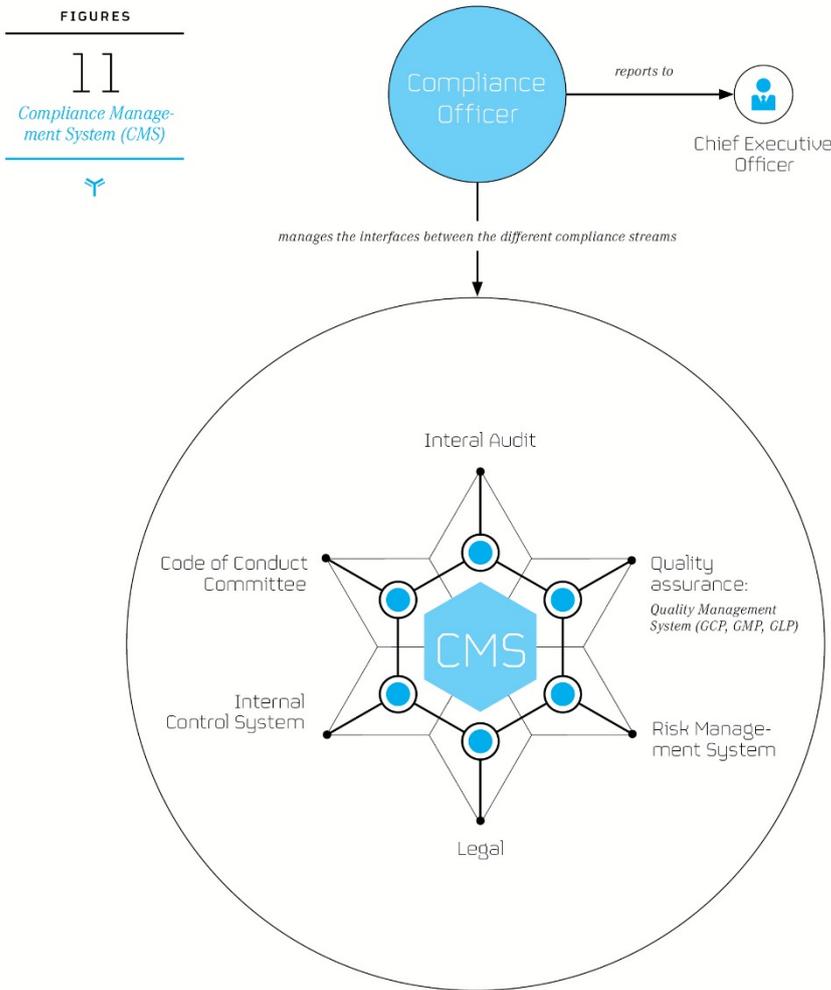
MorphoSys AG prepares its financial statements in accordance with the provisions of the German Commercial Code (HGB) and the Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the 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 2014 Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2014 financial year. As evidence of its independence, the auditor submitted a Declaration of Independence to the Supervisory Board. Lead auditors of these consolidated financial statements were Mr. Dietmar Eglauer and Mr. Bodo Kleinschrod. Information on further consulting, audit and valuation services provided by PricewaterhouseCoopers AG to MorphoSys AG during the 2014 financial year can be found in the Notes.

**COMPLIANCE MANAGEMENT SYSTEM**

The basic mechanisms of the compliance management system at MorphoSys are presented in the relevant information on corporate governance practices. In addition to this information, the responsibilities within the compliance organization are shown in figure 11.

**FIG. 11: COMPLIANCE MANAGEMENT SYSTEM (CMS)**



**INTERNAL AUDIT**

The Internal Audit department plays a key role within the compliance management system. The task of the Internal Audit department is to assist MorphoSys AG with a systematic and consistent approach for evaluating and improving the effectiveness of risk management and to support the management and monitoring functions in meeting the set targets. In 2014, the accounting and consulting firm KPMG was appointed for the Internal Audit department as a co-sourcing partner for the performance of the audit.

The internal audit is based on a risk-oriented internal audit plan, which is largely based on the results of the most recent risk surveys. Audit requirements and recommendations of the Management Board and the Audit Committee of the Supervisory Board also filter into this audit plan.

The Internal Audit department reports to the Management Board at regular intervals. The Head of Internal Audit and the Chief Executive Officer report to the Audit Committee of the Supervisory Board twice annually, or immediately, if necessary.

In the course of 2014, five audits were successfully conducted. A few areas requiring action were identified and the appropriate corrections were initiated and performed. In the case of complaints, appropriate countermeasures were initiated during the reporting year. The 2015 audit plan of the Internal Audit department prescribes a number of audits similar to the number in 2014.

## Disclosures Pursuant to Sec. 289 Para. 4, Sec. 315 Para. 4 HGB and Explanatory Report of the Management Board Pursuant to Sec. 176 Para. 1 Sentence 1 AktG

### COMPOSITION OF COMMON STOCK

As of 31 December 2014, the Company's statutory common stock amounted to €26,456,834.00 and was divided into 26,456,834 no-par-value bearer shares. This concerns bearer shares with voting rights, except for the 450,890 treasury shares held by the Company, whereby each share carries one vote at the Annual General Meeting.

### RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

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

Furthermore, restrictions on voting rights could also arise from the provisions of the German Stock Corporation Act (AktG), such as those according to Sec. 136 AktG, or for treasury shares pursuant to Sec. 71b AktG.

### SHAREHOLDINGS IN THE COMMON STOCK EXCEEDING 10 % OF THE VOTING RIGHTS

We have not been notified of or are aware of any direct or indirect interests in the common stock of the Company which 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 IN THE CAPITAL

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

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

The determination of the number of Management Board members, their appointment and dismissal and the nomination of the Chief Executive Officer, are carried out by the Supervisory Board in accordance with Sec. 6 of the Articles of Association and Sec. 84 AktG. The Management Board of the Company currently consists of the Chief Executive Officer and three other members. Management Board members may be appointed for a maximum period of five years. A reappointment or extension of the term of office is permitted up to a maximum 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 Sec. 84 Para. 3 AktG. If a required member of the Management Board is absent, one will be appointed by the court in cases of urgency pursuant to Sec. 85 AktG.

In principle, the Articles of Association may only be amended by a resolution of the Annual General Meeting in accordance with Sec. 179 Para. 1 sentence 1 AktG. Pursuant to Sec. 179 Para. 2 sentence 2 AktG in conjunction with Sec. 20 of the Articles of Association, the Annual General Meeting of MorphoSys 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. To the extent that the law stipulates a mandatory greater majority of votes or capital, this shall be applied. However, amendments to the Articles of Association that only affect their wording can be resolved by the Supervisory Board in accordance with Sec. 179 Para. 1 sentence 2 AktG in conjunction with Sec. 12 Para. 3 of the Articles of Association.

## **POWER OF THE MANAGEMENT BOARD TO ISSUE SHARES**

The Management Board's power to issue shares is provided for in Sec. 5 Para. 5 to Para. 6e of the Company's Articles of the Association as of 31 December 2014 and the statutory provisions:

### 1. Authorized Capital

- a. According to Sec. 5 Para. 5 of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's common stock on one or more occasions by up to € 2,335,822.00 for cash contributions or contributions in kind by issuing up to 2,335,822 new, no-par-value bearer shares until and including 30 April 2018 (Authorized Capital 2013-I).

If there is a capital increase, the shareholders are principally entitled to subscription rights. The shares may also be subscribed for by one or several credit institutions with the obligation to offer the shares to shareholders for subscription. However, the Management Board is authorized to exclude the subscription rights of shareholders with the consent of the Supervisory Board:

#### aa)

in the case of a capital increase for cash contribution, to the extent that this is necessary for avoiding fractional shares; or

bb)

in the case of a capital increase against contribution in kind, to the extent that the capital increase is used for the acquisition of companies, interests in companies, patents or other intellectual property rights or license rights; or of assets which constitute a business in its entirety; or

cc)

in the case of a capital increase for cash contribution, to the extent that the new shares are placed on a domestic and/or foreign stock exchange in the context of a listing.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the capital increase and its implementation.

- b. According to Sec. 5 Para. 6 of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's common stock on one or more occasions by up to € 2,622,088.00 for cash contribution by issuing up to 2,622,088 new no-par-value bearer shares until and including 30 April 2019 (Authorized Capital 2014-I).

Shareholders are principally entitled to subscription rights. The shares may also be subscribed for by one or several credit institutions with the obligation to offer the shares to shareholders for subscription. However, the Management Board is authorized to exclude the subscription rights of shareholders with the consent of the Supervisory Board:

aa)

to the extent that this is necessary for avoiding fractional shares; or

bb)

if the issue price of the new shares is not significantly below the market price of already listed shares of the same class at the time of the final determination of the issue price 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, neither at the date this authorization takes effect nor at the time it is exercised, in accordance with or in the respective application of Sec. 186 Para. 3 sentence 4 AktG.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the capital increase and its implementation.

## 2. Conditional Capital

- a. The previous Conditional Capital 1999-I according to Sec. 5 Para. 6a of the Articles of Association was canceled by a resolution of the Annual General Meeting on 23 May 2014.
- b. According to Sec. 5 Para. 6b of the Articles of Association, the Company's common stock is conditionally increased by up to € 6,600,000.00, divided into a maximum of 6,600,000 no-par-value bearer shares (Conditional Capital 2011-I). The conditional capital increase will only be executed to the extent that the holders of warrants or conversion rights resulting from convertible bonds or bonds with warrants, which were conferred by the Company until 30 April 2016 under the authorization of the Annual General Meeting of 19 May 2011, make use of their subscription rights or that the holders of convertible bonds, issued by the Company or one of its direct or indirect domestic or foreign wholly owned subsidiaries until 30 April 2016,

and who are subject to a conversion obligation, meet their obligation to convert. The new shares participate in the Company's profits from the beginning of the financial year in which they were created through the exercise of conversion rights or the fulfillment of conversion obligations.

- c. According to Sec. 5 Para. 6c of the Articles of Association, the Company's common stock is conditionally increased by up to € 352,800.00 through the issue of up to 352,800 new no-par-value bearer shares of the Company (Conditional Capital 2003-II). The conditional capital increase will only be executed to the extent that holders of convertible bonds issued exercise their conversion rights for conversion into ordinary shares of the Company. The new shares are first entitled to dividends for the financial year, for which there has been no resolution of the Annual General Meeting on the appropriation of accumulated income at the time of issuance. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the conditional capital increase and its implementation.
- d. The previous Conditional Capital 2008-II according to Sec. 5 Para. 6d of the Articles of Association was canceled by a resolution of the Annual General Meeting on 23 May 2014.
- e. According to Sec. 5 Para. 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 convertible bonds issued 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. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the conditional capital increase and its implementation.

#### **POWER OF MANAGEMENT BOARD TO REPURCHASE SHARES**

The Management Board's power to repurchase the Company's own shares is provided for in Sec. 71 AktG and by the authorization by the Annual General Meeting of 23 May 2014:

Until and including 30 April 2019, the Company is authorized to repurchase its own shares totaling 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 either on the stock exchange, through a public offer, or by a public invitation to submit a bid. The authorization may not be used for the purpose of trading in own shares. The intended use of treasury shares acquired under this authorization may be found under agenda item 9 of the Annual General Meeting of 23 May 2014. In particular, the shares may be used as follows:

- a. The shares may be redeemed without the redemption or its execution requiring a further resolution of the Annual General Meeting.
- b. The shares may be sold in ways other than via the stock exchange or by an offer to shareholders if the shares are sold for cash payment 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.

- c. The shares may be sold for contribution in kind, particularly in conjunction with the acquisition of companies, parts of companies, interests in companies, or mergers of companies.
- d. The shares may be used to fulfill subscription or conversion rights resulting from the exercise of options and/or conversion rights or conversion obligations into shares of the Company.
- e. The shares may be offered or transferred to employees of the Company and employees of affiliated companies as well as to members of the management of the Company and the management of affiliated companies; and/or used for the fulfillment of commitments concerning the purchase or the obligation to purchase Company shares that were or will be granted to employees of the Company and employees of affiliated companies as well as members of the Company's management and managers of affiliated companies. In particular, the shares may also be used for the fulfillment of obligations or rights to purchase Company shares which will be agreed with employees or members of senior management of the Company and its affiliates in the context of employee participation programs.

If shares are used for the purposes mentioned above, the subscription rights of shareholders are excluded, with the exception of redemption of shares.

#### **MATERIAL AGREEMENTS MADE BY THE COMPANY THAT FALL UNDER THE CONDITION OF A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID**

In 2012, MorphoSys and Novartis Pharma AG expanded their original collaboration agreement. Under this agreement, in specific cases of a change of control, Novartis Pharma AG is entitled, but not obliged, to take various measures, which include the partial or complete termination of the collaboration agreement.

Under Sec. 29 and 30 of the German Securities Acquisition and Takeover Act (WpÜG), a change of control applies, in particular, when 30 % or more of the voting rights in the Company are acquired.

In June 2013, MorphoSys signed a global agreement with Celgene Corporation for the co-development of the cancer program MOR202 and its co-promotion in Europe. Under this agreement, Celgene has the right to terminate MorphoSys's promotion rights for MOR202 in the event of a business combination involving MorphoSys and a third entity. Such a business combination is defined as the acquisition of at least 50 % of the voting rights of MorphoSys, a merger between MorphoSys and another entity, or the transfer of all material assets of MorphoSys to a third party. In the event of such a business combination with a third party who is pursuing a development program competing with MOR202, but which does not constitute a breach of non-competition clauses, the research and development activities that are required under the agreement with Celgene shall be carried out separately from the research and development activities of the competing development program.

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

Following a change of control, each member of the Management Board 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 are exercisable after the expiration of the statutory waiting times or blackout periods.

Following a change of control, each member of the Senior Management Group may also terminate their employment contract and demand a severance payment equal to one annual gross fixed salary. Moreover, in such a case, any stock options, convertible bonds and performance shares granted will also become vested immediately and are exercisable after the expiration of the statutory waiting times or blackout periods.

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

## Allocation of Profit

For fiscal year 2014, MorphoSys AG accounts for an accumulated income of € 12,299,300.63 (31 December 2013: € 17,222,133.94). In the Supervisory Board meeting on 25 February 2015, the Management Board proposed to the Supervisory Board to propose to the Annual General Meeting on 08 May 2015 the following resolution:

In €	2014
a. Allocation to Shareholders	0,00
b. Allocation to Other Earnings Reserves	0,00
c. Profit Carried Forward	12,299,300.63
d. Accumulated Income	12,299,300.63

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

## Subsequent Events

Subsequent to the end of the 2014 financial year, there have not been any significant changes in the industry environment. Other events having a material impact on the net assets, financial position and results of operations have also not occurred since the end of the financial year.

# Annual Financial Statements of MorphoSys AG as of 31 December 2014 (German GAAP)

MorphoSys AG, Martinsried



## Balance Sheet as of 31 December 2014

ASSETS		12/31/2014 EUR	12/31/2014 EUR	12/31/2013 EUR
<b>A.</b>	<b>FIXED ASSETS</b>			
<b>I.</b>	<b>Intangible Assets</b>			
	Paid concessions, commercial property rights and similar rights and assets and licenses to such rights and assets	31,639,588	31,639,588	19,962,340
<b>II.</b>	<b>Tangible Assets</b>			
1.	Land, leasehold rights and buildings, including leasehold improvements	73,682		105,867
2.	Other equipment, furniture and fixtures	3,435,129		1,993,541
			3,508,811	2,099,408
<b>III.</b>	<b>Financial Assets</b>			
1.	Shares in affiliated companies	9,090,736		20,070,149
2.	Shares in participations	1,726,633		1,726,633
			10,817,369	21,796,782
<b>B.</b>	<b>CURRENT ASSETS</b>			
<b>I.</b>	<b>Inventories</b>			
1.	Raw materials, supplies and production materials	289,126		265,701
2.	Semi-finished Goods	0		198,203
			289,126	463,904
<b>II.</b>	<b>Receivables and Other Assets</b>			
1.	Trade accounts receivable (thereof due within one year EUR 14,887,707, prior year: EUR 10,270,322)	14,887,707		10,270,322
2.	Receivables due from affiliated companies (thereof due within one year EUR 10,008,659, prior year: EUR 3,284,714)	10,008,659		3,284,714
3.	Other assets (thereof due after one year EUR 50,030,000 prior year: EUR 298,602)	201,979,394		80,167,921
			226,875,760	93,722,957
<b>III.</b>	<b>Securities</b>			
	Other securities	107,085,971		231,276,116
			107,085,971	231,276,116
<b>IV.</b>	<b>Cash on Hand and Cash at Banks</b>	31,656,113	31,656,113	64,410,761
<b>C.</b>	<b>PREPAID EXPENSES</b>	1,377,255	1,377,255	3,370,609
			413,249,993	437,102,877

LIABILITIES AND SHAREHOLDERS EQUITY	12/31/2014 EUR	12/31/2014 EUR	12/31/2013 EUR
<b>A. EQUITY</b>			
<b>I. Capital Subscribed</b> (Nominal Value of the Conditional Capital as of 31 December 2014: € 7,166,848; December 2013: € 8,057,470)	26,456,834		26,220,882
Treasury Stock	(450,890)		(339,890)
		<b>26,005,944</b>	<b>25,880,992</b>
<b>II. Capital Surplus</b>	293,951,248	293,951,248	290,225,565
<b>III. Earnings Reserves</b>			
Other earnings reserves	5,394,497	5,394,497	13,110,441
<b>IV. Accumulated Income</b>	12,299,301	12,299,301	17,222,134
		<b>337,650,990</b>	<b>346,439,132</b>
<b>B. PROVISIONS</b>			
1. Tax provisions	777,281		2,669,591
2. Other provisions	20,133,427		18,107,440
		<b>20,910,708</b>	<b>20,777,031</b>
<b>C. LIABILITIES</b>			
1. Bonds (thereof convertible EUR 251,679, prior year: EUR 298,602)	251,679		298,602
2. Trade accounts payable	246,989		984,296
3. Liabilities due to affiliated companies	134,652		138,515
4. Other liabilities (thereof due within one year EUR 1,476,811, prior year: EUR 1,099,369) (thereof for taxes EUR 842,598, prior year: EUR 777,195)	1,476,811		1,099,369
		<b>2,110,131</b>	<b>2,520,782</b>
<b>D. DEFERRED INCOME</b>	52,578,164	52,578,164	67,365,932
		<b>413,249,993</b>	<b>437,102,877</b>

## Statement of Income from 1 January through 31 December 2014

		2014 EUR	2013 EUR
<b>1.</b>	<b>Sales</b>	<b>61,889,600</b>	<b>76,134,520</b>
2.	Cost of sales	(63,148,655)	(62,019,807)
<b>3.</b>	<b>Gross profit on sales</b>	<b>(1,259,055)</b>	<b>14,114,713</b>
4.	Selling expenses	(2,548,876)	(3,153,225)
5.	General administration expenses	(19,163,858)	(27,393,405)
6.	Other operating income	16,993,743	21,861,368
	thereof gain on exchange	403,312	121,639
7.	Other operating expenses	(528,441)	(883,556)
	thereof loss on exchange	(449,074)	(359,140)
8.	Income from profit pooling agreements	0	3,272,480
9.	Income from investments	946,372	0
	thereof from affiliated companies	946,372	0
10.	Income from other securities and loans presented under financial assets	732,487	517,386
11.	Other interest and similar income	1,072,773	437,009
	thereof interest income from the deduction of accrued interest of non-current provisions	92,143	95,325
12.	Impairment of financial assets and of current securities	(950,585)	0
	thereof from affiliated companies	(950,585)	0
13.	Losses from other securities and loans presented under financial assets	(138,963)	(41,750)
14.	Other Interest and similar expenses	(200,589)	(51,591)
	thereof interest expense from the addition of accrued interest of non-current provisions	(98,213)	(51,591)
<b>15.</b>	<b>Result from ordinary activities</b>	<b>(5,044,992)</b>	<b>8,679,429</b>
16.	Extraordinary expenses	(1,109)	0
17.	Extraordinary income	0	14,282,757
<b>18.</b>	<b>Extraordinary result</b>	<b>(1,109)</b>	<b>14,282,757</b>
19.	Income tax	136,041	(3,570,478)
20.	Other taxes	(12,773)	(10,603)
<b>21.</b>	<b>(Net loss) / Net profit</b>	<b>(4,922,833)</b>	<b>19,381,105</b>
22.	Profit carried forward	17,222,134	3,114,618
23.	Withdrawal from other earnings reserves	7,715,944	2,669,028
24.	Settlement with the difference from purchase of treasury stock	(7,715,944)	(2,669,028)
25.	Allocation to other earnings reserves	0	(5,273,589)
<b>26.</b>	<b>Accumulated Income</b>	<b>12,299,301</b>	<b>17,222,134</b>

# Notes to the Financial Statements

## General Information

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

These annual financial statements were prepared in accordance with the regulations for large corporations. The statement of income has been structured in accordance with the cost of sales method for the purposes of comparison with the consolidated financial statements prepared pursuant to IFRS. The financial year corresponds to the calendar year.

The Company's registered office is located at Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany. The MorphoSys AG consolidated and separate financial statements can be viewed at this address.

## Accounting and Valuation Principles

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

If intangible assets acquired are subject to depletion, they are amortized according to the straight-line method over the course of their expected useful lives. In-licensed research programs are recognized at acquisition cost and are only subject to amortization when their usefulness has been demonstrated in studies on the efficacy of the respective antibody program. These assets are reviewed at the balance sheet date and are carried at the lower of their carrying amount or fair value.

Tangible assets are carried at acquisition cost and depreciated on a straight-line basis over their expected useful lives. Low-value assets up to a value of € 150 are fully depreciated in the year they are acquired. Low-value assets with a value between € 150 and € 1,000 are depreciated according to the straight-line method over a period of five years that commences with the start of the year they were acquired pursuant to tax regulations for collective items.

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

Pursuant to Sec. 256 HGB, inventories are measured according to the FIFO method. Inventories are not subject to third party rights, with the exception of the customary retention of title.

Receivables and other assets are carried at nominal value. Risks are taken into account by means of write-downs or impairments. Receivables denominated in foreign currencies are carried in accordance with Sec. 256a HGB. The realization principle is applied to non-current receivables.

The measurement of forward rate agreements qualifying as derivative financial instruments is based on the change in forward exchange rates. Recognition and measurement follow the imparity principle. Valuation units were not formed in the past financial year.

Other securities are carried at the lower of acquisition cost or fair value in accordance with Sec. 253 Para. 4 HGB.

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

Prepayments are recognized as prepaid expenses at the balance sheet date insofar as they represent expenses for a certain period subsequent to the balance sheet date.

Capital subscribed is carried at nominal value. The nominal value of the shares repurchased is offset against the capital subscribed in accordance with Sec. 272 Para. 1a HGB, while the remaining amount of the total purchase price is offset against the other earnings reserves within equity.

Other provisions cover all identifiable risks and uncertain obligations and are recognized at the settlement amount required according to prudent business judgment.

The liabilities are measured at the settlement amount. Liabilities denominated in foreign currencies are measured in accordance with Sec. 256a HGB. The imparity principle is applied to non-current liabilities.

Provisions have been recognized on a pro rata basis for personnel expenses resulting from long-term incentive plans introduced on 1 June 2011, 1 April 2012, 1 April 2013, and 1 April 2014 because the repurchase of treasury shares for servicing the long-term incentive plan constitutes a financial burden to the Company.

The recognition of revenue for income from collaboration and research agreements is carried on the basis of the contractual terms and takes into account the realization principle of Sec. 252 Para. 1 no. 4 HGB and the accrual-based method of Sec. 250 Para. 2 HGB based on the contract period. Upfront payments made at the time of the conclusion of a contract that grant access to MorphoSys technology (e.g., HuCAL or Ylanthia) are spread over the term during which the rights of use are granted. License fees are recognized over the contract period. Revenue from milestone payments is recognized upon the fulfillment of certain criteria. Service fees pertaining to research and development collaborations are recognized in the period the services were rendered.

For differences between the carrying amounts of assets, liabilities, accruals and deferrals prescribed by commercial law, and their tax carrying amounts that are likely to diminish in subsequent financial years, any total tax charge that results is recognized as a deferred tax liability in the balance sheet in accordance with Sec. 274 HGB. Any tax relief that results is not recognized as deferred tax assets in the balance sheet pursuant to the option granted in Sec. 274 Para. 1 sent. 2 HGB. The amount of the resulting tax charge and relief is measured at the Company-specific tax rates applicable at the time the differences are reversed and are not discounted. The line items reported are reversed as soon as the tax charge or benefit occurs or is no longer expected. The income or expense from changes in deferred tax assets or liabilities is recorded separately in the statement of income under the line item "Income tax".

Most amounts in this report are rounded to the nearest euro or million euros.

## FOREIGN CURRENCY TRANSLATION

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

## Notes to the Balance Sheet

### INTANGIBLE ASSETS

Paid concessions, commercial property rights and similar rights and assets, as well as licenses to such rights and assets, amounted to € 31,639,588 as of 31 December 2014 (31 December 2013: € 19,962,340); this included in-licensed research programs in the amount of € 28,254,201 (31 December 2013: € 12,807,800). The increase by € 15,446,401 relates mainly to the US\$ 20 million payment made to Emergent for an in-licensed research program. The in-licensed research programs were examined for impairment, and a need for impairment was not identified as of the reporting date. Impairment losses of € 4,060,651 were recognized, however, on licenses for concessions, commercial property rights and similar rights and assets.

Asset Class	Useful Life	Amortisation Rates
Paid concessions, commercial property rights and similar rights and assets and licenses to such rights and assets	8 - 10 years	13 % - 10 %
In-licensed Research Program	not yet subject for amortization	-
Software	3 - 5 years	33 % - 20 %

The development of intangible assets and the respective amortization in the financial year is presented in the statement of fixed assets.

### TANGIBLE ASSETS

The development of the individual line items under tangible assets and the respective depreciation in the financial year are presented in the statement of fixed assets.

Asset Class	Useful Life	Depreciation Rates
Computer Hardware	3 years	33%
Low-Value Laboratory and Office Equipment below € 150	Immediately	100%
Low-Value Laboratory and Office Equipment between € 150 and € 1,000	5 years	20%
Leasehold Improvements to Property/Buildings	10 years	10%
Office Equipment	8 years	13%
Laboratory Equipment	4 years	25%

## FINANCIAL ASSETS

As of the 31 December 2014 reporting date, the Company recorded shares in affiliated companies of € 9,090,736 compared to € 20,070,149 as of 31 December 2013. This amount included the interest in Sloning BioTechnology GmbH of € 9,048,830 (31 December 2013: € 19,048,830) and the interest in Poole Real Estate Ltd. of € 41,906 (31 December 2013: € 988,278).

The change in this balance sheet item resulted from a € 10,000,000 reduction in the capital surplus of Sloning BioTechnology GmbH, a € 946,372 distribution of the profit carried forward of Poole Real Estate Ltd., the merger of MorphoSys IP GmbH as the transferring legal entity (carrying amount of the interest as of 31 December 2013: € 25,000) to MorphoSys AG as the acquiring legal entity, and the liquidation of MorphoSys USA, Inc. (carrying amount of the interest as of 31 December 2013: € 8,041).

Upon entry into the commercial register on 13 August 2014 and based on the merger agreement dated 27 June 2014, MorphoSys IP GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with retroactive effect from 1 January 2014. As part of the merger, mainly bank balances in the amount of € 110,949 and marketable securities in the amount of € 3,185,669, as well as tax receivables amounting to € 6,815 were transferred to MorphoSys AG. In addition, liabilities were offset amounting to € 3,280,040 due from MorphoSys IP GmbH to MorphoSys AG under the control and profit transfer agreement that was in place until the merger.

Poole Real Estate Ltd. has been in liquidation as of 31 December 2014. The liquidation was resolved by the shareholders and entered into the commercial register of the United Kingdom (Companies House) on 20 March 2014.

As of 31 December 2014, the investment in Lanthio Pharma B.V., a Groningen Netherlands-based privately held company was unchanged at € 1,726,633 (31 December 2013: € 1,726,633). As of the 31 December 2014 reporting date, the Company continued to hold an unchanged interest of 19.98 % (31 December 2013: 19.98 %) in the share capital of Lanthio Pharma B.V.

Equity investments are detailed in the table below.

	Currency	Exchange Rate on Dec 31, 2014 one Unit of Euro in Local Currency	Stake in %	Equity in domestic currency	Profit / Loss for the Year in domestic currency
<b>Foreign</b>					
Poole Real Estate Ltd., Oxford, UK	£	0.78266	100.00	12,215	(4,484)
Lanthio Pharma B.V., Groningen, Netherlands	€	-	19.98	854,492	(1,365,959)
<b>Domestic</b>					
Sloning BioTechnology GmbH, Martinsried, Germany	€	-	100.00	1,611,766	2,851,189

## INVENTORIES

As of the balance sheet date, inventories amounted to € 289,126 (31 December 2013: € 463,904) and consisted exclusively of raw materials, supplies, and production materials (31 December 2013: € 265,701). Semi-finished goods did not exist as of the 31 December 2014 reporting date (31 December 2013: € 198,203).

## TRADE ACCOUNTS RECEIVABLE

As of 31 December 2014, MorphoSys AG recorded trade accounts receivable in the amount of € 14,887,707 (31 December 2013: € 10,270,322). All trade accounts receivable are due within one year. Based on the conclusion of the Management Board's assessment, valuation allowances were not made in the 2014 financial year (31 December 2013: € 238,900).

## RECEIVABLES DUE FROM AFFILIATED COMPANIES

As of 31 December 2014, receivables due from affiliated companies amounted to € 10,008,659 (31 December 2013: € 3,284,714). This amount included receivables due from Sloning BioTechnology GmbH in the amount of € 10,000,000 resulting from a reduction in the capital surplus and trade accounts receivable of € 8,659 (31 December 2013: € 4,674).

As of 31 December 2013, a profit transfer of € 3,272,480 of MorphoSys IP GmbH was agreed and recognized as a receivable due from affiliated companies. This receivable was offset against the corresponding liability of MorphoSys IP GmbH as part of the merger of MorphoSys IP GmbH with MorphoSys AG.

## OTHER ASSETS

Other assets totaled € 201,979,394 as of 31 December 2014 (31 December 2013: € 80,167,921).

As of 31 December 2014, the Company held financial assets of € 198,623,068. These were recorded under other assets and comprised various fixed deposits (31 December 2013: € 77,361,849). A portion of the purchase price amounting to € 4,682,363, held in an escrow account as of 31 December 2013 for the divested AbD Serotec business, was released during the third quarter of 2014. Interest income of

€ 894,189 (31 December 2013: € 243,152) from these financial assets was recognized in the statement of income in the line item other interest and similar income. The risk associated with these financial instruments is primarily the credit risk of the banks. In the 2014 financial year, there were no indications for impairment.

According to the Group's hedging policy, highly probable future cash flows and clearly identifiable foreign currency receivables expected to be collected within a 24-month period are reviewed for hedging requirements. As of 31 December 2014, there were 24 outstanding forward rate agreements with terms of up to 24 months and a nominal value of € 8,333,170. The nominal volume is equal to the contract values of the individual forward rate agreements. The fair value of these contracts as of 31 December 2014 is equivalent to an unrealized gross profit of € 44,506. As of 31 December 2013, the Company did not hold any derivative financial instruments.

Rent security deposits granted in previous years and amounting to € 551,497 (31 December 2013: € 1,247,069) were recognized separately and reported under other assets.

The line item other assets also contains a receivable due from tax authorities from excess VAT payments.

## **SECURITIES**

Securities consisted of marketable securities in the amount of € 99,597,712 (31 December 2013: € 178,219,325) and marketable bonds in the amount of € 7,488,259 (2013: € 11,096,992). In 2014, impairments in the amount of € 64,291 (2013: € 0) for unrealized losses on marketable securities and € 83,650 (2013: € 41,750) related to marketable bonds were recognized in profit and loss. As of 31 December 2013, this item also included current commercial papers of € 41,959,799.

## **CAPITAL SUBSCRIBED**

On 31 December 2014, the Company's capital subscribed amounted to € 26,456,834 (31 December 2013: to € 26,220,882), divided into 26,456,834 no-par value bearer shares (31 December 2013: 26,220,882 shares). With the exception of the 450,890 (2013: 339,890 shares) treasury shares held by the Company, the shares entitle the bearers to vote and receive dividends, with each share being entitled to one vote at the Annual General Meeting.

The rise in capital subscribed of € 235,952, or 235,952 shares, resulted from the exercise of convertible bonds held by the Management Board and Senior Management Group.

Pursuant to Sec. 200 AktG, the capital increases from conditional capital became effective with the issuance of the new shares. In accordance with Sec. 203 AktG in conjunction with Sec. 189 AktG, the capital increases are deemed executed and became effective with the entry into the commercial register.

## TREASURY STOCK

The Company's treasury stock is offset against the capital subscribed and developed as follows.

	Number of Company Shares	Value of Capital Subscribed in €
Treasury Stock as of 31 December 2010	79,896	79,896
Repurchase of Treasury Stock	84,019	84,019
Treasury Stock as of 31 December 2011	163,915	163,915
Repurchase of Treasury Stock	91,500	91,500
Treasury Stock as of 31 December 2012	255,415	255,415
Repurchase of Treasury Stock	84,475	84,475
Treasury Stock as of 31 December 2013	339,890	339,890
Repurchase of Treasury Stock	111,000	111,000
Treasury Stock as of 31 December 2014	450,890	450,890

As of 31 December 2014, treasury stock amounted to 1.70 % (31 December 2013: 1.30 %) of the capital subscribed.

In March 2014, the Company repurchased 111,000 MorphoSys shares with a nominal value of € 1.00 each (0.42 % of the capital subscribed as of 31 December 2014) on the stock exchange and increased the amount of treasury stock accordingly. The treasury stock may be used for all purposes named in the authorization of the Annual General Meetings of 19 May 2011 and 23 May 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed.

## AUTHORIZED AND CONDITIONAL CAPITAL

Compared to 31 December 2013, the number of authorized ordinary shares increased from 2,335,822 to 4,957,910. This resulted from the creation of the new Authorized Capital 2014-I at the Annual General Meeting of 23 May 2014. 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 € 2,622,088 by issuing up to 2,622,088 new no-par value bearer shares up to and including the date of 30 April 2019.

The number of ordinary shares of conditional capital decreased to 7,166,848 compared to 8,057,470 on 31 December 2013. At the Annual General Meeting on 23 May 2014, the Conditional Capital 1999-I in the amount of € 70,329 and the Conditional Capital 2008/II in the amount of € 212,077 were canceled. Conditional Capital 2003-II was reduced by € 372,264 from € 725,064 to € 352,800. A further reduction of Conditional Capital 2003-II of € 235,952 to a total of € 116,848 resulted from the exercise of 235,952 conversion rights in 2014.

## CAPITAL SURPLUS

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

	€
Status on 1 January 2014	290,225,565
Additions in Connection with the Exercise of Convertible Bonds	3,725,683
Status on 31 December 2014	293,951,248

The rise in capital surplus of € 3,725,683 resulted entirely from the exercise of convertible bonds.

## EARNINGS RESERVES

Other earnings reserves amounted to € 5,394,497 (31 December 2013: € 13,110,441).

In the 2014 financial year, other earnings reserves developed as follows.

	€
<b>Other earnings reserve as of 1 January 2014</b>	<b>13,110,441</b>
Settlement with the difference from purchase of treasury stock	(7,715,944)
<b>Other earnings reserve as of 31 December 2014</b>	<b>5,394,497</b>

In 2014, an amount of € 7,715,944 for the repurchase of treasury stock to service the long-term incentive plan was offset against other earnings reserves.

## ACCUMULATED INCOME

In consideration of the appropriation of the net loss for the 2014 financial year, accumulated income developed as follows.

	€
<b>Accumulated Income as of 1 January 2014</b>	<b>17,222,134</b>
Net loss	(4,922,833)
Withdrawal from other earnings reserves	7,715,944
Settlement with the difference from purchase of treasury stock	(7,715,944)
<b>Accumulated Income as of 31 December 2014</b>	<b>12,299,301</b>

In accordance with the resolution of the Annual General Meeting, the accumulated income as of 31 December 2013 was carried forward.

On 25 February 2015, the Supervisory Board and Management Board resolved to offset the net loss of € 4,922,833.31 for the 2014 financial year with accumulated income.

The Supervisory Board and the Management Board also unanimously resolved to propose to the 2015 Annual General Meeting to carry over the accumulated income of € 12,299,300.63.

## CONVERTIBLE BONDS

In the 2014 financial year, 235,952 convertible bonds were exercised at a weighted-average share price of € 69.69. Further information can be found in the section titled “Related Parties” in the Notes.

### 2010 PROGRAM

On 1 April 2010, 352,800 convertible bonds were granted to members of the Management Board and employees of MorphoSys AG. The exercise price of the convertible bonds was € 16.79 and equaled 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. Each convertible bond with a par value of € 0.33 entitles the conversion into one no-par value bearer share of the Group against payment of the exercise price. The beneficiaries may only exercise their conversion rights after a vesting period of four years from the day they were granted. The exercise of conversion rights is only possible if, on one trading day during the lifetime of the convertible bond, the share price reaches at least 110 % of the exercise price as of the grant date. These convertible bonds cannot be exercised after 31 December 2015. If the conversion rights are not exercised, the beneficiaries are reimbursed for the amount paid to acquire the conversion rights (€ 0.33 per convertible bond/share). Convertible bonds are recorded at their accreted value, which closely approximates the principal amount on their due date.

### 2013 PROGRAM

On 1 April 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 granted into shares of the Company. Each convertible bond may be exchanged for one of the Company’s bearer shares equal to the proportional amount of common stock, which currently stands at € 1. The 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 issuance of the convertible bonds. The exercise of the conversion rights is admissible if, on at least one trading day during the lifetime of the convertible bonds, the Company’s share price amounted to more than 120 % of the price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

The exercise of the conversion rights is only admissible after the expiration of a four-year vesting period from the grant date. In the event of a change of control, the vesting period will be shortened to two years 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 will become vested. In the event of a change of control, all unvested conversion rights become vested.

If an employment or service contract of a beneficiary is terminated without notice, no further conversion rights may be vested under the vesting scheme mentioned above. Thus, upon rendition of the notice, all conversion rights still unvested by this time will expire without substitution. In the event of a contractual notice of termination of such employment or service contract with the beneficiary, or a

mutually agreed dissolution contract, the previous sentence applies and becomes effective as of the date of termination of the employment or service contract.

The following table shows the development of the Company's convertible bond plans for employees in financial years 2014 and 2013.

	Convertible Bonds	Weighted-average Price €
Outstanding as of 1 January 2013	320,550	16.79
Granted	449,999	31.88
Exercised	0	0.00
Forfeited	(3,750)	16.79
Expired	0	0.00
<b>Outstanding as of 31 December 2013</b>	<b>766,799</b>	<b>25.65</b>
<b>Outstanding as of 1 January 2014</b>	<b>766,799</b>	<b>25.65</b>
Granted	0	0.00
Exercised	(235,952)	16.79
Forfeited	0	0.00
Expired	0	0.00
<b>Outstanding as of 31 December 2014</b>	<b>530,847</b>	<b>29.58</b>

On 31 December 2014, the number of exercisable convertible bonds totaled 193,348 shares (31 December 2013: zero 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 31 December 2014.

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted- average Exercise Price (€)	Number Exercisable	Weighted- average Exercise Price (€)
€ 10.00 - € 25.00	80,848	1.00	16.79	80,848	16.79
€ 25.01 - € 40.00	449,999	5.25	31.88	112,500	31.88
	<b>530,847</b>	<b>4.60</b>	<b>29.58</b>	<b>193,348</b>	<b>29.58</b>

## STOCK APPRECIATION RIGHTS

On 1 October 2010, employees of MorphoSys AG were granted 15,000 stock appreciation rights at the same conditions as the convertible bonds granted on 1 April 2010. In the 2014 financial year, all stock appreciation rights were exercised at an average share price of € 74.44.

## LONG-TERM INCENTIVE PLANS

In 2013, the vesting periods of the LTI plans 2011 and 2012 were modified so that the beneficiaries' claims from the LTI plan 2011 become vested by one quarter on a yearly basis. However, in the case of the LTI plan 2012, claims become vested on a pro rata basis. With this modification, changes in the interpretation and development of labor law were taken into account.

### LONG-TERM INCENTIVE PROGRAM 2011

On 1 June 2011, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are assessed and approved annually by the Supervisory Board. These key performance criteria presently consist of revenues, EBIT, and the number of projects in the R&D portfolio.

The grant date was 1 June 2011 and the vesting period is four years. A total of 25 % of the performance shares will become vested in each year of the four-year vesting period, provided that the performance criteria set for the respective period were met by 100 %. The annual number of vested shares shall be reduced to the extent that the performance criteria for the relevant year were fulfilled only between 50 % and 99 %, and increased to the extent that the performance criteria were achieved by more than 100 % (maximum 110 %). In consideration of these conditions, the ordinary shares of MorphoSys AG will be delivered to the beneficiaries after the four-year vesting period. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group that generally amounts to "1". The Supervisory Board may depart from this factor, for example, if the level of payments is considered to be inappropriate given the general development of the Group.

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 equivalent to the value 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 office at MorphoSys Group prematurely before expiration of the four-year performance period, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis. If a member of the Management Board ceases to hold office prematurely within the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the course of the four-year vesting period, all performance shares are considered fully vested. In each case named above, the allocation of the performance shares only occurs at the end of the four-year vesting period.

In June 2011, MorphoSys repurchased 84,019 of its own shares on the stock exchange at an average price of € 20.79 per share for the 2011 LTI plan. The treasury stock may be used for all purposes named in the authorization of the Annual General Meetings of 19 May 2011 and 23 May 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed. These 84,019 shares were granted to the beneficiaries retroactively on 1 June 2011. This included 53,997 shares for the Management Board (for further information, please see the table in the section titled "Management Board Remuneration") and 30,022 shares for the Senior Management Group. The fair value of the performance shares was € 21.34 per share on the grant date.

(1 June 2011). Dividends were not considered in the determination of the fair value of the shares repurchased since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2014, three beneficiaries have left MorphoSys and, therefore, 5,216 performance shares were forfeited.

In 2014, personnel expenses resulting from stock options under the 2011 LTI plan amounted to € 416,002 (2013: € 414,848).

#### **LONG-TERM INCENTIVE PLAN 2012**

On 1 April 2012, MorphoSys established a second long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are approved annually by the Supervisory Board.

The grant date was 1 April 2012 and the vesting period is four years. One fourth of the performance shares will become vested in each year of the four-year vesting period, provided that the performance criteria set for the respective period were met in full. The annual number of vested shares shall be reduced to the extent that the performance criteria of the relevant year have been fulfilled only between 50 % and 99 %, and increased to the extent that the performance criteria were met by more than 100 % (maximum 200 %). If in a single year, the specified performance criteria are achieved by less than 50 %, no 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 seems unreasonable with regard to the general development of the Company. The right to receive a certain allocation of shares under the LTI plan, however, only arises at the end of the four-year vesting 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 equivalent to the value 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 office within MorphoSys Group prematurely before expiration of the four-year performance period, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis. If a member of the Management Board ceases to hold office within MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) prematurely before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the course of the four-year vesting period, all performance shares are considered fully vested. In each case named above, the right to receive a certain allocation of shares under the LTI plan only arises at the end of the four-year vesting period.

In April 2012, MorphoSys repurchased 91,500 of its own shares on the stock exchange at an average price of € 20.08 per share for the 2012 LTI plan. The treasury stock may be used for all purposes named in the authorization of the Annual General Meetings of 19 May 2011 and 23 May 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed. These 91,500 shares were granted to the beneficiaries retroactively on 1 April 2012. This amount included 57,967 shares for the Management Board (for further information, please see the table in the section titled “Management Board Remuneration”) and 33,533 shares for the Senior Management Group. The fair value of the performance shares was € 19.24 per share on the grant date (1 April 2012). Dividends were not considered in the determination of the fair value of the shares repurchased since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2013, two beneficiaries have left MorphoSys and thus 4,051 performance shares were forfeited.

On 1 October 2012, MorphoSys established a further long-term incentive plan (LTI plan) for members of the Senior Management Group. The terms of the plan were identical to the program of 1 April 2012. A total of 2,292 shares were granted. The fair value was € 24.00 per share on the grant date.

In 2014, personnel expenses resulting from stock options under the 2012 LTI plan amounted to € 473,743 (2013: € 462,976).

#### **LONG-TERM INCENTIVE PLAN 2013**

On 1 April 2013, MorphoSys established a further long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was 1 April 2013 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are met by 100 %, 25 % of the performance shares become vested in each year of the four-year vesting period. The number of shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year were achieved between 50 % and 99.9 % (<100 %) or that the achievement of the performance criteria has exceeded 100 % (maximum 200 %). If in one year, the performance criteria are achieved by less than 50 %, “0” 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 shares under the LTI plan, however, only arises at the end of the four-year vesting 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 equivalent to the value 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 office within MorphoSys Group prematurely before expiration of the four-year performance period, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis. If a member of the Management Board ceases to hold office within MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) prematurely before expiration of the four-year performance

period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the course of the four-year vesting period, all performance shares are considered fully vested. In each case named above, the right to receive a certain allocation of shares under the LTI plan only arises at the end of the four-year vesting period.

In April and May of the year 2013, MorphoSys repurchased 84,475 of its own shares on the stock exchange at an average price of € 33.43 per share. This treasury stock may be used for all purposes named in the authorization of the Annual General Meetings of 19 May 2011 and 23 May 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed. Of these shares, 61,600 were granted retroactively to the beneficiaries on 1 April 2013. This included 36,729 shares for the Management Board (for further information, please see the table in the section titled "Management Board Remuneration") and 24,871 shares for the Senior Management Group. On the grant date (1 April 2013), the fair value of the performance shares was € 31.88 per share. Dividends were not considered in the determination of the fair value of the shares repurchased since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2013, no beneficiary left MorphoSys and performance shares were not forfeited. For the calculation of personnel expenses resulting from share-based payments under the 2013 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

On 1 October 2013, MorphoSys established an additional long-term incentive plan (LTI plan) for members of the Senior Management Group. The terms of the plan were identical to the program of 1 April 2013. A total of 549 shares were granted, and the fair value on the grant date was € 57.39 per share.

In 2014, personnel expenses resulting from stock options under the 2013 LTI plan amounted to € 518,789 (2013: € 389,091).

#### **LONG-TERM INCENTIVE PLAN 2014**

On 1 April 2014, MorphoSys established a fourth long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. This LTI plan is a performance-related share plan to be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was 1 April 2014 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are met by 100 %, 25 % of the performance shares become vested in each year of the four-year vesting period. The number of shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year were achieved between 50 % and 99.9 % (<100 %) or that the achievement of the performance criteria has exceeded 100 % (maximum 200 %). If in one year, the performance criteria are met by less than 50 %, "0" 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 shares under the LTI plan, however, only arises at the end of the four-year vesting 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 equivalent to the value 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 office within the MorphoSys Group through termination (or if the member of the Management Board terminates the employment contract), resignation, death, injury, disability, or by reaching retirement age (receipt of a regular 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 his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis.

If a member of the Management Board ceases to hold office within 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 an allocation of performance shares.

If a change of control occurs during the course of the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of shares under the LTI plan only arises 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 treasury stock may be used for all purposes named in the authorization of the Annual General Meetings of 19 May 2011 and 23 May 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed. A total of 32,513 of these shares were granted to beneficiaries on 1 April 2014: 18,264 were granted to the Management Board (for further information, please see the table in the section titled "Management Board Remuneration") and 14,249 shares were granted to the Senior Management Group. The fair value of the performance shares as of the grant date (1 April 2014) was € 67.30 per share. This was equivalent to the share price on the Frankfurt Stock Exchange (Xetra) on the trading day preceding the grant date. Dividends were not considered in the determination of the fair value of the shares repurchased since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2014, no beneficiary left MorphoSys and performance shares were not forfeited. For the calculation of the personnel expenses resulting from share-based payments under the 2014 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

In 2014, personnel expenses resulting from stock options under the 2014 LTI plan amounted to € 418,049 (2013: € 0).

#### **TAX PROVISIONS**

As of 31 December 2014, MorphoSys recorded tax provisions of € 777,281 (31 December 2013: € 2,669,591). This decline is mainly due to the negative result from ordinary activities in the 2014 financial year and due to tax payments made for prior years.

#### **OTHER PROVISIONS**

The provisions cover all identifiable risks and uncertain liabilities. They consist mainly of expenses for third-party laboratory services (2014: € 10,495,196; 2013: € 6,758,692); bonus payments (2014: € 2,532,125; 2013: € 4,946,683) personnel expenses resulting from stock options under the LTI plan and stock appreciation rights (2014: € 3,971,975; 2013: € 2,718,582), consulting services (2014: € 309,879; 2013: € 661,381), license and inventor's remuneration (2014: € 419,520; 2013: € 512,099), outstanding vacation entitlements (2014: € 450,000; 2013: € 385,000), and legal consultation (2014: € 3,000; 2013: € 254,650).

## LIABILITIES

The maturities of the liabilities are shown in the following overview. All liabilities are unsecured.

Type	Remaining Term of Liabilities			Total	
	up to 1 year	1 to 5 years	more than 5 years	12/31/2014 EUR	12/31/2013 EUR
1. Bonds, thereof convertible	26,680	224,999	0	251,679	298,602
2. Trade accounts payable	246,989	0	0	246,989	984,296
3. Liabilities due to affiliated companies	134,652	0	0	134,652	138,515
4. Other Liabilities	1,476,811	0	0	1,476,811	1,099,369
Of which Taxes	842,598	0	0	842,598	777,195

## BONDS

On 31 December 2014, the Company had liabilities in connection with the granting of convertible bonds to Management Board members and employees of MorphoSys AG amounting to € 251,679 (31 December 2013: € 298,602).

## TRADE ACCOUNTS PAYABLE

As of 31 December 2014, MorphoSys had trade accounts payable in the amount of € 246,989 (31 December 2013: € 984,296).

## LIABILITIES DUE TO AFFILIATED COMPANIES

As of 31 December 2014, MorphoSys had liabilities due to affiliated companies of € 134,652 (31 December 2013: € 138,515), which solely comprised trade accounts payable (31 December 2013: € 138,016).

## OTHER LIABILITIES

Other liabilities included mainly liabilities to the tax authorities for the deduction and payment of income tax in the amount of € 842,598 (31 December 2013: € 777,195), as well as debtors with credit balances of € 405,015 (31 December 2013: € 207,753).

## DEFERRED INCOME

Deferred income consists of deferred revenue for payments received from customers for which the service was not yet rendered.

In the years 2014 and 2013, deferred income developed as follows.

in €	2014	2013
<b>Opening Balance</b>	<b>67,365,932</b>	<b>1,359,165</b>
Prepayments Received	16,773,412	88,888,544
Revenue Recognised through Release of Prepayments in line with Services Performed	(31,561,180)	(22,468,178)
Disposal due to Sale of Assets and Liabilities to Bio-Rad	0	(413,599)
<b>Closing Balance</b>	<b>52,578,164</b>	<b>67,365,932</b>

## OTHER FINANCIAL OBLIGATIONS

The following overview shows other financial obligations from rental and lease agreements, insurance, and other services as of 31 December 2014.

in €	Rent and Leasing	Other	Total
2015	2,414,690	1,056,667	3,471,357
2016	2,089,066	4,478	2,093,544
2017	1,053,347	0	1,053,347
2018	0	0	0
2019	0	0	0
more	0	0	0
<b>Total</b>	<b>5,557,103</b>	<b>1,061,145</b>	<b>6,618,248</b>

In addition, the following future payments may become due from currently active, terminable contracts for outsourced trials. These amounts may be substantially lower in the event of a trial's premature termination based on the respective contractual clauses.

in 000's €	Total 2014
up to 1 year	14,865
Between one year and five years	53,056
More than five years	0
<b>Total</b>	<b>67,921</b>

If certain milestones are achieved in the Proprietary Development segment, such as the application for an investigational new drug (IND) with regard to specific target molecules, this may trigger milestone payments to licensors. However, no further details can be published since the timing and achievement of such milestones are uncertain.

If a partner achieves certain milestones in the Partnered Discovery segment, such as the application for an investigational new drug (IND) with regard to specific target molecules or the transfer of a technology, this may trigger milestone payments to MorphoSys. However, no further details can be published since the timing and achievement of such milestones are uncertain.

Contingent liabilities do not currently exist.

## Notes to the Statement of Income

### SALES

Sales in the 2014 financial year declined 19 % to € 61,889,600 (2013: € 76,134,520) compared to the prior year. This decline was primarily due to one-time effects related to the out-licensing of MOR103 to GlaxoSmithKline and to license income connected to the sale of the AbD Serotec segment to Bio-Rad in 2013.

In the 2014 financial year, the majority of sales were generated as part of the antibody collaborations and license agreements with Novartis, Celgene, and Centocor. Sales of the Partnered Discovery and Proprietary Development segments contributed € 47,254,566 and € 14,635,034, respectively, to total sales in the year 2014 (2013: € 49,316,918 and € 26,739,361, respectively). In 2013, sales of € 78,242 were not allocated to any segment because they stemmed either from transactions between affiliated companies or from the former AbD Serotec segment.

Of the total sales, € 733,317 (2013: € 33,328) were attributed to domestic sales and € 16,528,682 (2013: € 6,918,146) were attributed to biotechnology and pharmaceutical companies as well as to non-profit organizations based in North America. Other European countries and Asia generated sales of € 44,627,600 (2013: € 69,183,047).

### COST OF SALES

Cost of sales of € 63,148,655 (2013: € 62,019,807) included research and development costs comprising personnel expenses of € 27,104,397 (2013: € 29,751,488), costs for external services of € 18,428,150 (2013: € 15,696,307), costs related to intangible assets of € 8,294,117 (2013: € 8,339,393), material costs of € 2,323,843 (2013: € 2,156,863), infrastructure costs of € 4,398,287 (2013: € 3,661,729), and other costs of € 2,599,862 (2013: € 2,414,028). The decline in personnel expenses is mainly due to the taxation of non-cash employee benefits from the exercise of share-based remuneration programs (see "Personnel Expenses"). Costs for external services grew mainly as a result of higher expenses for external laboratory services related to MorphoSys's proprietary product development. In 2014, impairment losses of € 4,060,650 were recognized on licenses for concessions and commercial property rights and similar rights and assets (2013: € 747,155). In 2014, no impairment was recognized on land, leasehold rights and buildings (2013: € 10,212), or on obsolete software (2013: € 12,714).

## SELLING EXPENSES

Selling expenses of € 2,548,876 (2013: € 3,153,225) consisted of personnel expenses of € 1,851,430 (2013: € 1,963,785), costs for external services of € 412,375 (2013: € 818,995) and other costs of € 285,071 (2013: € 370,445).

## GENERAL ADMINISTRATION EXPENSES

General administration expenses of € 19,163,858 (2013: € 27,393,405) included mainly personnel expenses of € 14,305,338 (2013: € 17,093,623), costs for external services of € 3,034,763 (2013: € 7,091,590), infrastructure costs of € 558,468 (2013: € 1,208,449), costs related to intangible assets of € 357,976 (2013: € 1,093,197), and other costs of € 907,313 (2013: € 906,546). The decline in personnel expenses is mainly due to the taxation of non-cash employee benefits from the exercise of share-based remuneration programs (see "Personnel Expenses"). In 2013, costs for external services contained transaction costs in connection with the sale of the AbD Serotec business unit in the amount of € 1,816,324 as well as legal and consulting costs related to the out-licensing of the proprietary programs MOR103 and MOR202.

## PERSONNEL EXPENSES

Personnel expenses of € 43,261,164 (2013: € 48,808,896) consisted of wages and salaries totaling € 36,229,042 (2013: € 42,939,971), social security contributions of € 3,224,919 (2013: € 2,754,628), personnel expenses resulting from stock options under the LTI plan and stock appreciation rights of € 2,113,873 (2013: € 1,716,336), pension costs of € 765,339 (2013: € 540,485), costs for external support staff/temporary employees of € 319,598 (2013: € 646,748), and other costs amounting to € 608,393 (2013: € 210,728). As in the year 2013, other personnel expenses were primarily recruitment-related expenses.

The reduction in wages and salaries largely resulted from the decline in the taxation of employee non-cash benefits due to a lower level of shares exercised under share-based remuneration programs of MorphoSys AG in comparison to the previous year. In the 2014 financial year, 235,952 convertible bonds were exercised (2013: 500,000 stock options). MorphoSys executes the taxation of this non-cash benefit for active employees; however, the employees are obliged to refund MorphoSys for the tax payment. In order to execute this taxation via the payroll, the basis used for the assessment must be recorded under personnel expenses. From an accounting standpoint, this expense is offset by other operating income in an amount equal to the assessment basis and the resulting attributable taxes (see "Other Operating Income"). In the year 2014, this amount was € 11,764,354 (2013: € 19,222,228). The decline in the assessment basis in 2014 was due to the lower number of exercises in comparison to the previous year, partly offset by share prices which were on average higher than in 2013.

The increase in personnel expenses from stock options under the LTI plans totaling € 397,537 resulted from the issue of new performance shares for the 2014 LTI plan.

## MATERIAL EXPENSES

Material expenses of € 2,402,698 (2013: € 2,188,462) were mainly expenses for raw materials, supplies, and production materials of € 2,334,044 (2013: € 2,116,953) and costs for printed material of € 86,660 (2013: € 12,702). Material expenses did not contain any purchased services in the years 2014 and 2013.

#### **OTHER OPERATING INCOME**

Other operating income amounted to € 16,993,742 compared to € 21,861,368 in 2013. This amount included € 11,896,973 (2013: € 19,352,457) in refunded taxes paid as well as the correction of the assessment base for the taxation of non-cash benefits (see also the explanations on “Personnel Expenses”). This amount also included € 2,140,631 (2013: € 21,048) in personnel expenses passed on in the context of co-development agreements and for orders rendered by an affiliated company. Other operating income also included government grants in the amount of € 127,410 (2013: € 208,568), income related to prior periods resulting from the release of provisions recognized in the previous year and incoming payments for receivables impaired in the previous year of € 2,355,349 (2013: € 1,720,650) as well as currency gains of € 403,312 (2013: € 121,639).

#### **OTHER OPERATING EXPENSES**

Other operating expenses amounted to € 528,441 (2013: € 883,556) and consisted mainly of currency losses amounting to € 449,074 (2013: € 359,140), as well as bank fees in the amount of € 61,437 (2013: € 51,688). In 2014, no valuation allowances for receivables were recognized in other operating expenses (2013: € 238,900).

#### **INCOME FROM PROFIT POOLING AGREEMENTS**

Upon its entry into the commercial register on 13 August 2014 and based on the merger agreement dated 27 June 2014, MorphoSys IP GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with retroactive effect from 1 January 2014. Therefore, as of the 2014 financial year, there was no longer income from profit pooling agreements to be reported. In 2013, a profit of € 3,272,480 was transferred from MorphoSys IP GmbH, Martinsried, to MorphoSys AG, Martinsried.

#### **INCOME FROM INVESTMENTS**

In the 2014 financial year, € 946,372 of the profit carried forward of the subsidiary Poole Real Estate Ltd. were distributed to MorphoSys AG.

#### **INCOME FROM OTHER SECURITIES AND LOANS PRESENTED UNDER FINANCIAL ASSETS**

Income from other securities and loans presented under financial assets of € 732,487 (2013: € 517,386) solely comprised realized gains on marketable securities.

#### **OTHER INTEREST AND SIMILAR INCOME**

This line item amounted to € 1,072,773 (2013: € 437,009) and mainly consisted of interest income from bank deposits amounting to € 978,071 (2013: € 341,684) and interest income of € 92,143 from the discounting of non-current provisions for personnel expenses resulting from stock options under the LTI plan (2013: € 95,325). Interest income from bank deposits in 2014 included interest amounting to € 894,189 from financial investments that were classified as other assets (2013: € 273,207).

#### **IMPAIRMENT OF FINANCIAL ASSETS AND OF CURRENT SECURITIES**

As part of the distribution made by the subsidiary Poole Real Estate Ltd. to MorphoSys AG, the carrying amount of the investment in this associated company was reduced correspondingly by an amount of € 946,372. Moreover, due to the liquidation of MorphoSys USA, Inc., the remaining carrying amount of this associated company was fully written down after having distributed the assets. This resulted in an expense of € 4,214.

#### **LOSSES FROM OTHER SECURITIES AND LOANS PRESENTED UNDER FINANCIAL ASSETS**

Losses from other securities and loans presented under financial assets in the amount of € 138,963 (2013: € 41,750) included unrealized losses resulting from the measurement and realized losses from the sale of marketable securities and bonds.

#### **OTHER INTEREST AND SIMILAR EXPENSES**

Interest expense included € 98,213 (2013: € 51,591) from the addition of accrued interest for non-current provisions for personnel expenses resulting from stock options under the LTI plan. Expenses also included interest on corporate bonds totaling € 102,214 (2013: € 0).

#### **EXTRAORDINARY RESULT**

In 2014, the extraordinary result of € -1,109 was due to a merger loss in the context of the merger of MorphoSys IP GmbH into MorphoSys AG. The extraordinary result in 2013 amounted to € 14,282,757 and resulted from the sale of the interest in MorphoSys UK Ltd. including its subsidiaries and the transfer of additional assets and liabilities of MorphoSys AG to Bio-Rad in the context of the sale of the AbD Serotec business unit.

#### **INCOME TAX**

After tax expenses of € 3,570,478 in 2013, an income tax benefit of € 136,041 was recognized in 2014. The decline is mainly due to the negative result from ordinary activities in the 2014 financial year. The tax benefit arose from a tax loss carryback for corporate tax purposes for the 2014 financial year as defined by Sec. 8 Para. 1 KStG (Corporation Tax Act) in conjunction with Sec. 10d Para. 1 sent. 1 EStG (Income Tax Act).

The net loss in the 2014 financial year resulted in tax loss carryforwards for corporate tax purposes in the amount of € 4,378,879 and for trade tax purposes in the amount of € 4,945,773. As of 31 December 2013, MorphoSys AG did not have tax loss carryforwards.

Differences between commercial law and tax law regulations resulted in the recognition of temporary differences in MorphoSys AG's balance sheet. The determination of these temporary differences was based on a tax rate of 26.33 %. The Company has opted to offset deferred tax assets against deferred tax liabilities. The resulting total deferred tax relief is not recognized in the balance sheet as deferred tax assets pursuant to the option granted in Sec. 274 Para. 1 sent. 2 HGB. The deferred differences existing as of 31 December 2014 and 31 December 2013 resulted from temporary differences from the impairment of the carrying amount of an affiliated company in the balance sheet under commercial law, from the varied recognition of additional acquisition costs for paid concessions, commercial property rights and similar rights and assets and licenses to such rights and assets, and from the recognition of provisions. In addition, a tax reconciliation item in 2014 related to other securities caused temporary differences in the balance sheet under commercial law and tax law. These differences would have resulted in deferred tax assets. As of 31 December 2014 and 31 December 2013, there were no deferred differences that would have resulted in deferred tax liabilities. Accordingly, the statement of income for the 2014 and 2013 financial years did not include any tax effects from the change in recognized deferred taxes.

## Other Information

### SUPERVISORY BOARD

As of 31 December 2014, the Supervisory Board members of the Company were active in the Supervisory Boards or comparable supervisory bodies of the following companies.

Name Place of Residence Year of Birth	Actual Occupation	MorphoSys Supervisory Board	Memberships in other Supervisory Boards or Executive Bodies
Dr. Gerald Möller Heidelberg, Germany Year of Birth: 1943	Chairman of the Supervisory Board of MorphoSys AG as well as member of another supervisory board and member of comparable foreign supervisory boards of commercial enterprises	Member since 1999 Chairman Chairman of the Remuneration & Nomination Committee	llumina, Inc., USA (Member of the <i>Board of Directors</i> ) Invendo Medical GmbH, DE (Chairman of the Advisory Board) 4sigma Inc., BM (Chairman of the <i>Board of Directors</i> ) Adrenomed AG, DE (Member of the Supervisory Board) Gentecel SA, FR (Deputy Chairman of the Supervisory Board)
Dr. Walter Blättler Brookline, Massachusetts, USA Year of Birth: 1949	Independent Consultant	Member since 2007 Member Chairman of the Science & Technology Committee	AvidBiologics, Inc., KA (Board Member, <i>Chief Advisor R&amp;D</i> )
Dr. Daniel Camus Genf, Switzerland Year of Birth: 1952	CFO The Global Fund, Switzerland	Member since 2002 Member Chairman of the Audit Committee	Cameco Corp., KA (Member of the <i>Board of Directors</i> ) SGL Group SE, DE (Member of the Supervisory Board) Valéo SA, FR (Member of the <i>Board of Directors</i> ) Vivendi SA, FR (Member of the Supervisory Board)
Dr. Marc Cluzel Montpellier, France Year of Birth: 1955	Member of the Supervisory Board of MorphoSys AG as well as member of a comparable foreign supervisory board of a commercial enterprise	Member since 2012 Member Member of the Science & Technology Committee Member of the Remuneration & Nomination Committee	Moleac Pte. Ltd., SG (Member of the <i>Board of Directors</i> )
Karin Eastham Rancho Santa Fe, California, USA Year of Birth: 1949	Member of the Supervisory Board of MorphoSys AG as well as member of comparable foreign supervisory boards of commercial enterprises	Member since 2012 Member Member of the Audit Committee Member of the Remuneration & Nomination Committee	llumina, Inc., USA (Member of the <i>Board of Directors</i> ) Geron Corp., USA (Member of the <i>Board of Directors</i> ) Veracyte, Inc., USA (Member of the <i>Board of Directors</i> ) AltheaDX, Inc., USA (Member of the <i>Board of Directors</i> )
Dr. Geoffrey Vernon Devon, GB Year of Birth: 1952	CEO and Chairman at Ziggus Holdings Ltd., GB	Member since 1999 Deputy Chairman Member of the Audit Committee	Veryan Medical Ltd., GB (Chairman of the <i>Board of Directors</i> ) Ziggus Holdings Ltd., GB (Chairman of the <i>Board of Directors</i> )

## CORPORATE GOVERNANCE

In December 2002, the Company pledged to adhere to the corporate governance principles in compliance with the provisions of the German Corporate Governance Code, which has subsequently been amended.

On 5 December 2014, the Company published the Declaration of Conformity of the Management Board and Supervisory Board pursuant to Sec. 161 AktG and made it permanently available to its shareholders. This declaration can be found on Company's website ([www.morphosys.com](http://www.morphosys.com)).

## MANAGEMENT BOARD

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

Jens Holstein, Business Administration graduate, Grünwald, Germany (Chief Financial Officer)

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

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

Management Board members do not have mandates on the supervisory boards of other publicly listed companies. However, Dr. Moroney was a Member of the Supervisory Board of ProtAffin AG, Graz, Austria, until 15 January 2015. Dr. Sproll is a Member of the Supervisory Board of Lanthio Pharma B.V., Groningen, the Netherlands. These activities were approved by the Supervisory Board.

## TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The remuneration of the Management Board and the Supervisory Board comprised fixed and variable components, as well as other remuneration. If a member is not reappointed and the employment relationship is not extended, the employment contract expires at the end of the contract period without a severance payment. Following the end of the contract, there is a six-month non-compete agreement. During this period, the Management Board member is entitled to a compensation payment of 100 % of the contractually fixed remuneration. In the year 2014, the total remuneration of the Supervisory Board, excluding reimbursements for travel costs, amounted to € 514,480 (2013: € 458,280).

While in the management report the remuneration of the Management Board and Supervisory Board, as members of management in key positions, is presented in accordance with the provisions of the German Corporate Governance Code, the following tables show in detail the information as required according to Sec. 285 number 9 HGB.

**MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2014 AND 2013:**

in €	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
	2013	2014	2013	2014
Fixed Compensation	412,049	426,502	279,531	289,335
Fringe Benefits	67,132	29,444	28,138	33,722
One -Year Variable Compensation	360,543	324,696	244,590	220,271
<b>Total Short-Term Employee Benefits</b>	<b>839,724</b>	<b>780,642</b>	<b>552,259</b>	<b>543,328</b>
Service Cost	112,221	125,730	78,177	86,866
<b>Total Benefit Expenses - Post-Employment Benefits</b>	<b>112,221</b>	<b>125,730</b>	<b>78,177</b>	<b>86,866</b>
Multi-Year Variable Compensation* .**:				
2011 Long-Term Incentive Program (Vesting Period 4 Years)	91,887	91,887	62,937	62,937
2012 Long-Term Incentive Program (Vesting Period 4 Years)	95,271	95,271	65,254	65,254
2013 Long-Term Incentive Program (Vesting Period 4 Years)	75,275	100,367	51,558	68,744
2014 Long-Term Incentive Program (Vesting Period 4 Years)	0	79,074	0	54,160
<b>Total Stock-Based Compensation</b>	<b>262,433</b>	<b>366,599</b>	<b>179,749</b>	<b>251,095</b>
<b>Total Compensation</b>	<b>1,214,378</b>	<b>1,272,971</b>	<b>810,185</b>	<b>881,289</b>

\*) The fair value was determined at the grant date in accordance with the provisions of Sec. 285 no. 9a HGB. This table depicts the pro rata share of personnel expenses resulting from share-based payments for the respective financial year. Further details can be found in the Notes.

\*\*) The amounts presented deviate from those found in the consolidated financial statements because, for IFRS purposes, the fair value was determined according to the provisions of IFRS 2 "Share-based Payment". In the consolidated financial statements, this item shows the pro rata share of personnel expenses resulting from share-based payments for the respective financial year.

Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
2013	2014	2013	2014	2013	2014
279,531	289,335	279,531	289,335	1,250,642	1,294,507
29,143	32,508	21,579	22,828	145,992	118,502
244,590	215,208	244,590	210,144	1,094,313	970,319
<b>553,264</b>	<b>537,051</b>	<b>545,700</b>	<b>522,307</b>	<b>2,490,947</b>	<b>2,383,328</b>
78,294	86,653	78,170	86,628	346,862	385,877
<b>78,294</b>	<b>86,653</b>	<b>78,170</b>	<b>86,628</b>	<b>346,862</b>	<b>385,877</b>
62,937	62,937	62,937	62,937	280,698	280,698
65,254	65,254	65,254	65,254	291,033	291,033
51,558	68,744	51,558	68,744	229,949	306,599
0	54,160	0	54,160	0	241,554
<b>179,749</b>	<b>251,095</b>	<b>179,749</b>	<b>251,095</b>	<b>801,680</b>	<b>1,119,884</b>
<b>811,307</b>	<b>874,799</b>	<b>803,619</b>	<b>860,030</b>	<b>3,639,489</b>	<b>3,889,089</b>

#### SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2014 AND 2013:

Supervisory Board	Fixed Compensation		Attendance Fees		Total Compensation	
	2014	2013	2014	2013	2014	2013
Dr. Gerald Möller	97,400	94,400	38,000	32,000	135,400	126,400
Dr. Walter Blättler	46,160	43,160	25,200	17,000	71,360	60,160
Dr. Daniel Camus	46,160	43,160	23,200	19,500	69,360	62,660
Dr. Marc Cluzel	46,160	46,160	32,400	23,500	78,560	69,660
Karin Eastham	46,160	40,160	32,400	22,500	78,560	62,660
Dr. Geoffrey Vernon	57,240	57,240	24,000	19,500	81,240	76,740
<b>Total</b>	<b>339,280</b>	<b>324,280</b>	<b>175,200</b>	<b>134,000</b>	<b>514,480</b>	<b>458,280</b>

Presently, there are no other agreements with current or former members of the Supervisory Board.

In addition, the members of the Management Board and the Supervisory Board hold the following shares and convertible bonds of MorphoSys AG.

Shares	01/01/2014	Additions	Sales	12/31/2014
<b>Management Board</b>				
Dr. Simon Moroney	452,885	40,000	40,000	452,885
Jens Holstein	6,500	0	4,500	2,000
Dr. Arndt Schottelius	2,000	33,000	33,000	2,000
Dr. Marlies Sproll	27,370	1,250	0	28,620
<b>Total</b>	<b>488,755</b>	<b>74,250</b>	<b>77,500</b>	<b>485,505</b>
<b>Supervisory Board</b>				
Dr. Gerald Möller	9,000	0	0	9,000
Dr. Walter Blättler	2,019	0	0	2,019
Dr. Daniel Camus	0	0	0	0
Dr. Marc Cluzel	0	500	0	500
Karin Eastham	1,000	0	0	1,000
Dr. Geoffrey Vernon	0	0	0	0
<b>Total</b>	<b>12,019</b>	<b>500</b>	<b>0</b>	<b>12,519</b>

Convertible Bonds	01/01/2014	Additions	Forfeitures	Exercises	12/31/2014
<b>Management Board</b>					
Dr. Simon Moroney	147,186	0	0	40,000	107,186
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius	93,537	0	0	33,000	60,537
Dr. Marlies Sproll	93,537	0	0	0	93,537
<b>Total</b>	<b>424,797</b>	<b>0</b>	<b>0</b>	<b>73,000</b>	<b>351,797</b>

Performance Shares	01/01/2014	Additions	Forfeitures	Allocations	12/31/2014
<b>Management Board</b>					
Dr. Simon Moroney	48,676	5,979	0	0	54,655
Jens Holstein	33,339	4,095	0	0	37,434
Dr. Arndt Schottelius	33,339	4,095	0	0	37,434
Dr. Marlies Sproll	33,339	4,095	0	0	37,434
<b>Total</b>	<b>148,693</b>	<b>18,264</b>	<b>0</b>	<b>0</b>	<b>166,957</b>

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

## RELATED PARTIES

As of 31 December 2014, the Senior Management Group held 137,050 convertible bonds (31 December 2013: 300,002 units) and 91,807 performance shares (31 December 2013: 77,558 units) granted by the Company, but did not hold stock appreciation rights (SARs) (31 December 2013: 15,000 units). In 2014, an additional long-term incentive plan was issued to the Management Board and the Senior

Management Group. The Management Board was granted 18,264 performance shares and the Senior Management Group was granted 14,249 performance shares under this program. Stock options were not exercised in 2014 (2013: 150,026). There were, however, 162,952 convertible bonds (2013: none) and 15,000 stock appreciation rights (2013: none) exercised during the year. In 2014, neither performance shares nor convertible bonds were forfeited.

#### **REMUNERATION OF THE AUDITOR**

At the Company's Annual General Meeting in May 2014, the Supervisory Board was given authorization to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC AG), Munich, as the auditor.

In the 2014 financial year, PwC AG received remuneration from MorphoSys in the amount of € 265,483, including audit fees totaling € 175,900, fees for other auditing and valuation services in the amount of € 52,300, tax advisory services in the amount of € 5,855, as well as fees for other services of € 31,428.

#### **HUMAN RESOURCES**

As of 31 December 2014, MorphoSys AG engaged a total of 325 employees (31 December 2013: 295) in addition to the four Management Board members and ten trainees.

Of these 325 employees, 272 were employed in research and development, and 53 in sales, general and administration (31 December 2013: 251 in R&D and 44 in sales, general and administration). The average number of employees was 311 (2013: 286) in the 2014 reporting year. A total of 262 employees of the 311 average number of employees reported in 2014 were engaged in research and development, and 49 were active in the area of sales, general and administration.

The 325 employees as of 31 December 2014 comprised 19 senior executives (31 December 2013: 19) and 306 non-executives (31 December 2013: 276).

#### **DIVIDENDS**

In accordance with the resolution of the Annual General Meeting, the accumulated income as of 31 December 2013 was carried forward. The Supervisory Board and the Management Board have unanimously resolved to allocate the net loss for the year to accumulated income. The Supervisory Board and the Management Board also unanimously resolved to propose to the 2015 Annual General Meeting that accumulated income as of 31 December 2014 be carried forward. In line with standard practice in the biotechnology industry, MorphoSys does not expect to pay a dividend in the foreseeable future. The majority of the profit generated by the Company is expected to be reinvested in the operating business, particularly in the area of proprietary drug development, in order to create additional shareholder value and to take advantage of growth opportunities.

## **MANDATORY DISCLOSURE IN ACCORDANCE WITH THE GERMAN SECURITIES TRADING ACT (WpHG)**

The company received the following information regarding voting rights notifications pursuant to Sec. 21 WpHG (status as of 31 December 2014):

### **BLACKROCK, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 28 MARCH 2014**

BlackRock, Inc., New York, NY, USA, notified us on 26 March 2014 pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company exceeded the threshold of 3% on 21 March 2014 and amounted to 3.01% (789,084 voting rights) as per this date. Of these voting rights, 3.01% (789,084 voting rights) are to be attributed to BlackRock, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, DE, USA, notified us on 26 March 2014 pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company exceeded the threshold of 3% on 21 March 2014 and amounted to 3.01% (788,988 voting rights) as per this date.

Of these voting rights, 3.01% (788,988 voting rights) are to be attributed to BlackRock Holdco 2, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Financial Management, Inc., New York, NY, USA, notified us on 26 March 2014 pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company exceeded the threshold of 3% on 21 March 2014 and amounted to 3.01% (788,988 voting rights) as per this date.

Of these voting rights, 3.01% (788,988 voting rights) are to be attributed to BlackRock Financial Management, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

### **BLACKROCK, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 2 APRIL 2014**

BlackRock, Inc., New York, NY, USA, notified us on 31 March 2014 pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company fell below the threshold of 3% on 27 March 2014 and amounted to 2.99% (783,530 voting rights) as per this date. Of these voting rights, 2.99% (783,530 voting rights) are to be attributed to BlackRock, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, DE, USA, notified us on 31 March 2014 pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company fell below the threshold of 3% on 27 March 2014 and amounted to 2.99% (783,434 voting rights) as per this date.

Of these voting rights, 2.99% (783,434 voting rights) are to be attributed to BlackRock Holdco 2, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Financial Management, Inc., New York, NY, USA, notified us on 31 March 2014 pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company fell below the threshold of 3% on 27 March 2014 and amounted to 2.99% (783,434 voting rights) as per this date.

Of these voting rights, 2.99% (783,434 voting rights) are to be attributed to BlackRock Financial Management, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

**BLACKROCK, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 3 APRIL 2014**

BlackRock, Inc., New York, NY, USA, notified us on 03 April 2014 pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company exceeded the threshold of 3% on 01 April 2014 and amounted to 3.01% (788,095 voting rights) as per this date. Of these voting rights, 3.01% (788,095 voting rights) are to be attributed to BlackRock, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, DE, USA, notified us on 03 April 2014 pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company exceeded the threshold of 3% on 01 April 2014 and amounted to 3.01% (787,999 voting rights) as per this date.

Of these voting rights, 3.01% (787,999 voting rights) are to be attributed to BlackRock Holdco 2, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Financial Management, Inc., New York, NY, USA, notified us on 03 April 2014 pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company exceeded the threshold of 3% on 01 April 2014 and amounted to 3.01% (787,999 voting rights) as per this date.

Of these voting rights, 3.01% (787,999 voting rights) are to be attributed to BlackRock Financial Management, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

**BLACKROCK, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 15 APRIL 2014**

BlackRock, Inc., New York, NY, USA, notified us on 14 April 2014 pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company fell below the threshold of 3% on 10 April 2014 and amounted to 2.97% (780,024 voting rights) as per this date. Of these voting rights, 2.97% (780,024 voting rights) are to be attributed to BlackRock, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, DE, USA, notified us on 14 April 2014 pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company fell below the threshold of 3% on 10 April 2014 and amounted to 2.97% (779,928 voting rights) as per this date.

Of these voting rights, 2.97% (779,928 voting rights) are to be attributed to BlackRock Holdco 2, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

BlackRock Financial Management, Inc., New York, NY, USA, notified us on 14 April 2014 pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG), that its percentage of voting rights in our company fell below the threshold of 3% on 10 April 2014 and amounted to 2.97% (779,928 voting rights) as per this date.

Of these voting rights, 2.97% (779,928 voting rights) are to be attributed to BlackRock Financial Management, Inc., pursuant to section 22 para. 1 sentence 1 No. 6 in connection with sentence 2 WpHG.

**CREDIT SUISSE, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 4 JUNE 2014**

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Credit Suisse Fund Management S.A., Luxembourg, Luxembourg

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Exceeding threshold

4. Threshold(s) crossed or reached:

3 %

5. Date on which the threshold is crossed or reached:

30 May 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %: < 3 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights direct: 548,486

Amount of voting rights indirect: 244,492

Amount of voting rights in % direct: 2.09 %

Amount of voting rights in % indirect: 0.93 %

Total amount of voting rights: 792,978

Total amount of voting rights in %: 3.01 %

**PERCEPTIVE, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 21 AUGUST 2014**

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Perceptive Life Sciences Master Fund, Ltd., New York, NY, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

07 July 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %:

5.01 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights direct: 1,289,115

Amount of voting rights in % direct: 4.89 %

Total amount of voting rights: 1,289,115

Total amount of voting rights in %: 4.89 %

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Perceptive Advisors LLC, New York, NY, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

07 July 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %:

5.01 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 1.289,115

Amount of voting rights in % indirect: 4.89 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6

Total amount of voting rights: 1.289,115

Total amount of voting rights in %: 4.89 %

8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:

Perceptive Life Sciences Master Fund, Ltd.

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the person subject to the notification obligation (notifier):

Joseph Edelman, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

07 July 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %:

5.01 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 1.289,115

Amount of voting rights in % indirect: 4.89 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG

Total amount of voting rights: 1.289,115

Total amount of voting rights in %: 4.89 %

8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:  
Perceptive Life Sciences Master Fund, Ltd.

In addition, we have received the following notification of voting rights pursuant to section 21 para. 1 WpHG on 19 August 2014:

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Perceptive Life Sciences Master Fund, Ltd., New York, NY, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

3 %

5. Date on which the threshold is crossed or reached:

18 August 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %:

4.89 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights direct: 779,055

Amount of voting rights in % direct: 2.95 %

Total amount of voting rights: 779,055

Total amount of voting rights in %: 2.95 %

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Perceptive Advisors LLC, New York, NY, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

3 %

5. Date on which the threshold is crossed or reached:

18 August 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %:

4.89 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 779,055

Amount of voting rights in % indirect: 2.95 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6

Total amount of voting rights: 779,055

Total amount of voting rights in %: 2.95 %

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the person subject to the notification obligation (notifier):

Joseph Edelman, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

3 %

5. Date on which the threshold is crossed or reached:

18 August 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %:

4.89 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 779,055

Amount of voting rights in % indirect: 2.95 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG

Total amount of voting rights: 779,055

Total amount of voting rights in %: 2.95 %

#### **OPPENHEIMER, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 15 SEPTEMBER 2014**

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Oppenheimer Acquisition Corp., New York, NY, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

08 September 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %: 5.14 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 1,298,653

Amount of voting rights in % indirect: 4.92 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG

Total amount of voting rights: 1,298,653

Total amount of voting rights in %: 4.92 %

8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:  
Oppenheimer Global Opportunities Fund

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

OppenheimerFunds, Inc., New York, NY, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

08 September 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %: 5.14 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 1,272,169

Amount of voting rights in % indirect: 4.82 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG

Amount of voting rights indirect: 26,484

Amount of voting rights in % indirect: 0.10 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG

Total amount of voting rights: 1,298,653

Total amount of voting rights in %: 4.92 %

8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:  
Oppenheimer Global Opportunities Fund

**MASSACHUSETTS MUTUAL/OPPENHEIMER, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG  
ON 1 OCTOBER 2014**

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

Massachusetts Mutual Life Insurance Company, Springfield, MA, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

24 September 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %: 5.14 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 1,314,752

Amount of voting rights in % indirect: 4.98 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG

Total amount of voting rights: 1,314,752

Total amount of voting rights in %: 4.98 %

8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:

Oppenheimer Global Opportunities Fund

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

MassMutual Holding LLC, Springfield, MA, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

24 September 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %: 5.14 %

Amount of voting rights on day of triggering threshold:

Amount of voting rights indirect: 1,314,752

Amount of voting rights in % indirect: 4.98 %

Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG

Total amount of voting rights: 1,314,752

Total amount of voting rights in %: 4.98 %

8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:

Oppenheimer Global Opportunities Fund

1. Details of listed company:

MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany

2. Details of the company subject to the notification obligation (notifier):

MM Asset Management Holding LLC, Springfield, MA, USA

3.1 Reason for notification:

Acquisition/Disposal of shares to which voting rights are attached

3.2 Triggering event:

Falling below threshold

4. Threshold(s) crossed or reached:

5 %

5. Date on which the threshold is crossed or reached:

24 September 2014

6. Voting rights:

ISIN of shares: DE0006632003

Total amount of voting rights of last notification in %: 7.27 %

Amount of voting rights on day of triggering threshold:  
 Amount of voting rights indirect: 1,314,752  
 Amount of voting rights in % indirect: 4.98 %  
 Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG  
 Total amount of voting rights: 1,314,752  
 Total amount of voting rights in %: 4.98 %  
 8. Name of shareholder holding directly 3 % voting rights or more which are attributed to the notifier:  
 Oppenheimer Global Opportunities Fund

**CREDIT SUISSE, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 8 OCTOBER 2014**

1. Details of listed company:  
 MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany  
 2. Details of the company subject to the notification obligation (notifier):  
 Credit Suisse Fund Management S.A., Luxembourg, Luxembourg  
 3.1 Reason for notification:  
 Acquisition/Disposal of shares to which voting rights are attached  
 3.2 Triggering event:  
 Falling below threshold  
 4. Threshold(s) crossed or reached:  
 3 %  
 5. Date on which the threshold is crossed or reached:  
 2 October 2014  
 6. Voting rights:  
 ISIN of shares: DE0006632003  
 Amount of voting rights on day of triggering threshold:  
 Amount of voting rights direct: 526,960  
 Amount of voting rights indirect: 254,128  
 Amount of voting rights in % direct: 2.00 %  
 Amount of voting rights in % indirect: 0.96 %  
 Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG  
 Total amount of voting rights: 781,088  
 Total amount of voting rights in %: 2.96 %

**BAILLIE GIFFORD, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 19 DECEMBER 2014**

1. Details of listed company:  
 MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany  
 2. Details of the company subject to the notification obligation (notifier):  
 Baillie Gifford & Co, Edinburgh, Scotland, UK  
 3.1 Reason for notification:  
 Acquisition/Disposal of shares to which voting rights are attached  
 3.2 Triggering event:  
 Exceeding threshold  
 4. Threshold(s) crossed or reached:  
 3 %  
 5. Date on which the threshold is crossed or reached:  
 16 December 2014  
 6. Voting rights:  
 ISIN of shares: DE0006632003

Amount of voting rights on day of triggering threshold:  
Amount of voting rights indirect: 119,220  
Amount of voting rights in % indirect: 0.45 %  
Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG  
Amount of voting rights indirect: 684,262  
Amount of voting rights in % indirect: 2.59 %  
Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 WpHG  
Total amount of voting rights: 803,482  
Total amount of voting rights in %: 3.04 %

**BAILLIE GIFFORD, PUBLICATION PURUSANT TO SECTION 21 (1) WPHG ON 23 DECEMBER 2014**

1. Details of listed company:  
MorphoSys AG, Lena-Christ-Straße 48, 82152 Martinsried/Planegg, Germany  
2. Details of the company subject to the notification obligation (notifier):  
Baillie Gifford Overseas Limited, Edinburgh, Scotland, UK  
3.1 Reason for notification:  
Acquisition/Disposal of shares to which voting rights are attached  
3.2 Triggering event:  
Exceeding threshold  
4. Threshold(s) crossed or reached:  
3 %  
5. Date on which the threshold is crossed or reached:  
19 December 2014  
6. Voting rights:  
ISIN of shares: DE0006632003  
Amount of voting rights on day of triggering threshold:  
Amount of voting rights indirect: 820,009  
Amount of voting rights in % indirect: 3.10 %  
Attribution pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG  
Total amount of voting rights: 820,009  
Total amount of voting rights in %: 3.10 %

## Responsibility Statement

We confirm to the best of our knowledge and in accordance with the applicable reporting principles, that the annual financial statements give a true and fair view of the Company's assets, liabilities, financial position, and results of operations and that the management report includes a fair review of the development of the business, including the Company's results and its position, together with a description of the principal opportunities and risks related to the Company's expected development .

Martinsried, 10 March 2015

Dr. Simon Moroney  
Chief Executive Officer

Jens Holstein  
Chief Financial Officer

Dr. Arndt Schottelius  
Chief Development Officer

Dr. Marlies Sproll  
Chief Scientific Officer



## Statement of Fixed Assets

		Aquisition and Production Cost				
		01/01/2014	Additions	Addition from Merger *	Disposals	12/31/2014
		EUR	EUR	EUR	EUR	EUR
<b>A.</b>	<b>Fixed Assets</b>					
<b>I.</b>	<b>Intangible Assets</b>					
	Paid concessions, commercial property rights and similar rights and assets and licenses to such rights					
1.		39,116,873	17,306,655	25,000,000	4,184,483	77,239,045
		<b>39,116,873</b>	<b>17,306,655</b>	<b>25,000,000</b>	<b>4,184,483</b>	<b>77,239,045</b>
<b>II.</b>	<b>Tangible Assets</b>					
	Land, leasehold rights and buildings, including leasehold improvements					
1.		1,271,631	0	0	12,934	1,258,697
2.	Other equipment, furniture and fixtures	12,600,760	2,899,663	0	1,186,088	14,314,335
		<b>13,872,391</b>	<b>2,899,663</b>	<b>0</b>	<b>1,199,022</b>	<b>15,573,032</b>
<b>III.</b>	<b>Financial Assets</b>					
1.	Shares in affiliated companies	20,251,350	0	0	10,214,242	10,037,108
2.	Shares in participations	1,726,633	0	0	0	1,726,633
		<b>21,977,983</b>	<b>0</b>	<b>0</b>	<b>10,214,242</b>	<b>11,763,741</b>
		<b>74,967,247</b>	<b>20,206,318</b>	<b>25,000,000</b>	<b>15,597,747</b>	<b>104,575,818</b>

\* Effects resulting from the merger of MorphoSys IP GmbH with MorphoSys AG

Accumulated Depreciation						Net Book Values	
01/01/2014 EUR	Additions EUR	Addition from Merger * EUR	Write-offs EUR	Disposals EUR	12/31/2014 EUR	12/31/2014 EUR	12/31/2013 EUR
19,154,533	1,568,717	25,000,000	4,060,651	4,184,444	45,599,457	31,639,588	19,962,340
<b>19,154,533</b>	<b>1,568,717</b>	<b>25,000,000</b>	<b>4,060,651</b>	<b>4,184,444</b>	<b>45,599,457</b>	<b>31,639,588</b>	<b>19,962,340</b>
1,165,764	32,183	0		12,932	1,185,015	73,682	105,867
10,607,219	1,403,309	0	48,203	1,179,525	10,879,206	3,435,129	1,993,541
<b>11,772,983</b>	<b>1,435,492</b>	<b>0</b>	<b>48,203</b>	<b>1,192,457</b>	<b>12,064,221</b>	<b>3,508,811</b>	<b>2,099,408</b>
181,201	0	0	950,586	185,415	946,372	9,090,736	20,070,149
0	0	0	0	0	0	1,726,633	1,726,633
<b>181,201</b>	<b>0</b>	<b>0</b>	<b>950,586</b>	<b>185,415</b>	<b>946,372</b>	<b>10,817,369</b>	<b>21,796,782</b>
<b>31,108,717</b>	<b>3,004,209</b>	<b>25,000,000</b>	<b>5,059,440</b>	<b>5,562,316</b>	<b>58,610,050</b>	<b>45,965,768</b>	<b>43,858,530</b>

## Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the statement of income and the notes, together with the bookkeeping system and the management report of the MorphoSys AG, Martinsried, for the business year from January 1 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 11 March 2015

**PricewaterhouseCoopers**  
**Aktiengesellschaft**  
**Wirtschaftsprüfungsgesellschaft**

Dietmar Eglauer  
Auditor

Bodo Kleinschrod  
Auditor

# Imprint

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These separate financial statements are also available in German and are available our website.

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