Separate Financial Statements of MorphoSys AG as of December 31, 2017 (German GAAP)

MorphoSys AG, Planegg

Engineering the Medicines of Tomorrow

Management Report

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

Operations and Business Environment

Strategy and Management

STRATEGY AND OBJECTIVES

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

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

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

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

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

MANAGEMENT AND PERFORMANCE INDICATORS

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

FINANCIAL PERFORMANCE INDICATORS

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

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

NON-FINANCIAL PERFORMANCE INDICATORS

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

To secure and expand its position in the therapeutics market, MorphoSys relies on the steady progress of its product pipeline, not only in terms of the number of therapeutic product candidates (114 at the end of the reporting year) but also based on the progress of its development pipeline and prospective market potential. Innovative technologies, when applied appropriately, can be used to generate superior product candidates and therefore a further key performance indicator is the progress of the Company's technology development. In addition to the quality of our research and development, our professional management of partnerships is also a core element of our success, as demonstrated by new contracts and the ongoing progress made within existing alliances. Details on these performance indicators can be found in the section entitled "Research and Development and Business Performance".

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

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

	2017	2016	2015	2014	2013
Proprietary Development	(number of individual antibodies)				
Programs in Discovery	7	8	8	5	3
Programs in Preclinic	1	1	2	2	0
Programs in Phase 1	2	2	1	1	1
Programs in Phase 2[1]	2	3	3	2	2
Programs in Phase 3	1	0	0	0	0
Total[1]	**13**	**14**	**14**	**10**	**6**
Partnered Discovery	(number of individual antibodies)				
Programs in Discovery	54	54	43	40	37
Programs in Preclinic	24	22	25	25	22
Programs in Phase 1	11	10	9	8	6
Programs in Phase 2	10	12	9	8	8
Programs in Phase 3[2]	2	2	3	3	2
Programs Launched[2]	1	0	0	0	0
Total	**101**	**100**	**89**	**84**	**75**

[1]Thereof one out-licensed program: MOR103/GSK3196165, out-licensed to GSK.

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

LEADING INDICATORS

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

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

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

Organizational Structure

ORGANIZATION OF MORPHOSYS

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

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

LEGAL STRUCTURE OF MORPHOSYS: MANAGEMENT AND SUPERVISION

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

Business Activities

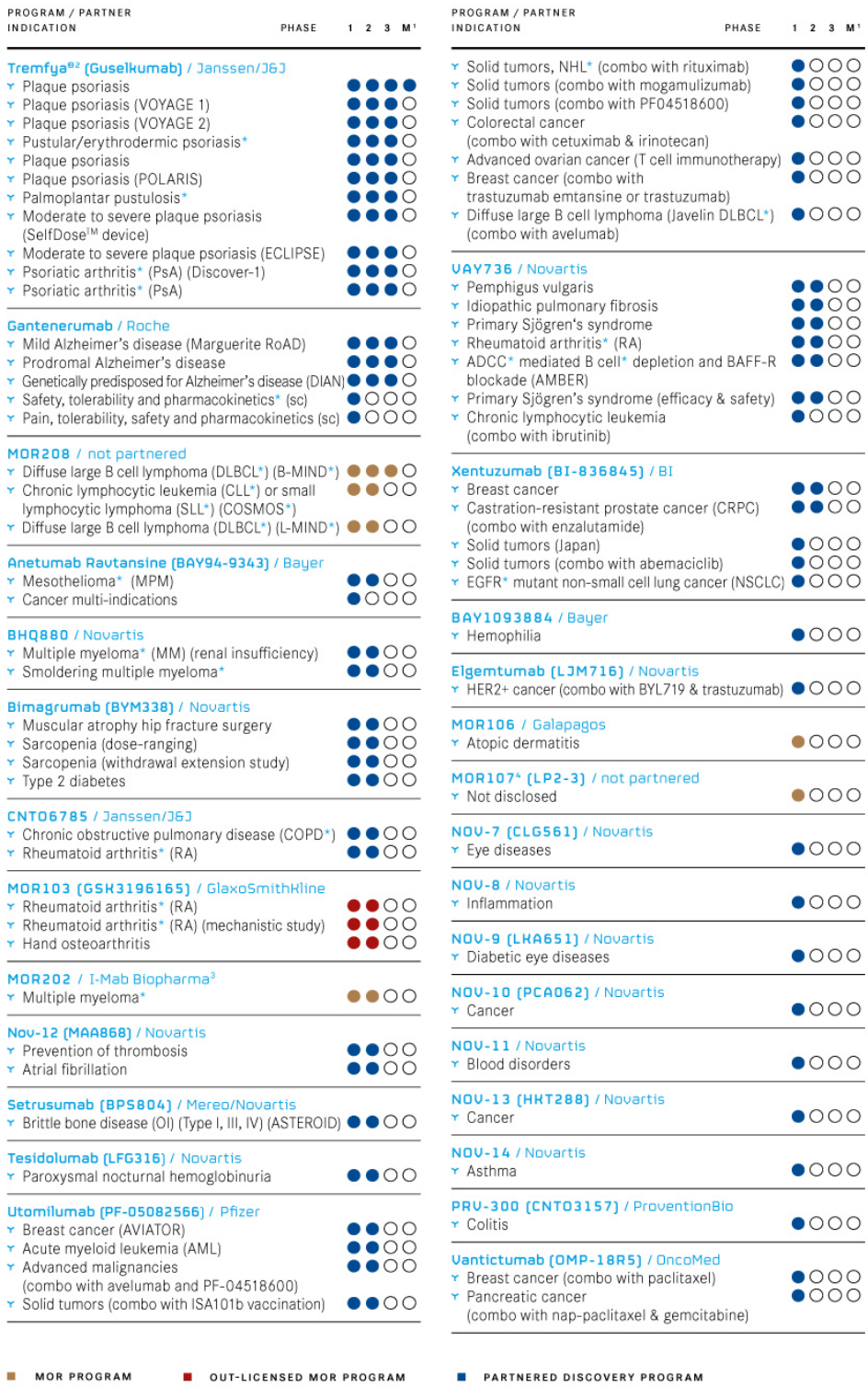
DRUG DEVELOPMENT

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

TECHNOLOGIES

MorphoSys has developed a number of technologies providing direct access to fully human antibodies for treating diseases. One of the most widely known MorphoSys technologies is HuCAL, which is a collection of billions of fully human antibodies and a system for their optimization. Another fundamental platform is Ylanthia, which represents the next generation of antibody technology and is currently the largest known antibody library. Ylanthia is based on an innovative concept for generating highly specific and fully human antibodies. MorphoSys expects Ylanthia to set a new standard for the pharmaceutical industry's development of therapeutic antibodies in this decade and beyond. Slonomics is the Company's patented, fully automated technology for gene synthesis and modification, which is used to generate highly diverse gene libraries in a controlled process to be used e.g. for the improvement of antibody properties. The lanthipeptide technology developed by Lanthio Pharma B.V., a fully owned MorphoSys subsidiary, is a valuable addition to our existing library of antibodies and opens up new possibilities for discovering potential drugs based on stabilized peptides.

FIG. 1: MORPHOSYS'S PRODUCT PIPELINE (MARCH 8, 2018)



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

PROPRIETARY DEVELOPMENT

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

ONCOLOGY

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

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

MOR202 is directed against the target molecule CD38 and is currently being developed for the treatment of multiple myeloma (MM), a form of bone marrow cancer. CD38 is a highly expressed and validated target in multiple myeloma. Preclinical findings also support an anti-CD38 approach in other therapeutic fields beyond multiple myeloma including solid tumors such as non-small cell lung cancer (NSCLC). After MorphoSys regained its rights to MOR202 from Celgene in March 2015, the Company continued developing MOR202 independently in an ongoing phase 1/2a study. Although MM is a relatively small area of oncology in terms of frequency of occurrence, the MM market has shown strong growth in recent years. However, there is still no standard treatment for MM available and a medical need for treatment options with better survival rates and lower side effects. Despite significantly higher survival rates, this disease is seldom curable, and a majority of patients experience a relapse. This has

increased the attractiveness of alternative treatments, such as those targeting CD38. The approval of the CD38 antibody daratumumab (trade name Darzalex®) by the FDA (Food and Drug Administration) in November 2015 validated this treatment approach. MorphoSys is seeking a partner for the further development of MOR202 in MM. The Company entered its first regional partnership in China with I-Mab at the end of 2017.

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

INFLAMMATORY AND AUTOIMMUNE DISEASES

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

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

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

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

INFLUENCING FACTORS

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

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

PARTNERED DISCOVERY

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

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

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

Examples of Partnered Discovery programs include the following:

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

suffering from cases that are considered moderate-to-severe. Independent market experts forecast the market for psoriasis to grow from € 7.5 billion in 2014 to € 12 billion in the year 2024.

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

Research and Development and Business Performance

2017 BUSINESS PERFORMANCE

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

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

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

COLLABORATIONS AND PARTNERSHIPS

PROPRIETARY DEVELOPMENT

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

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

PARTNERED DISCOVERY

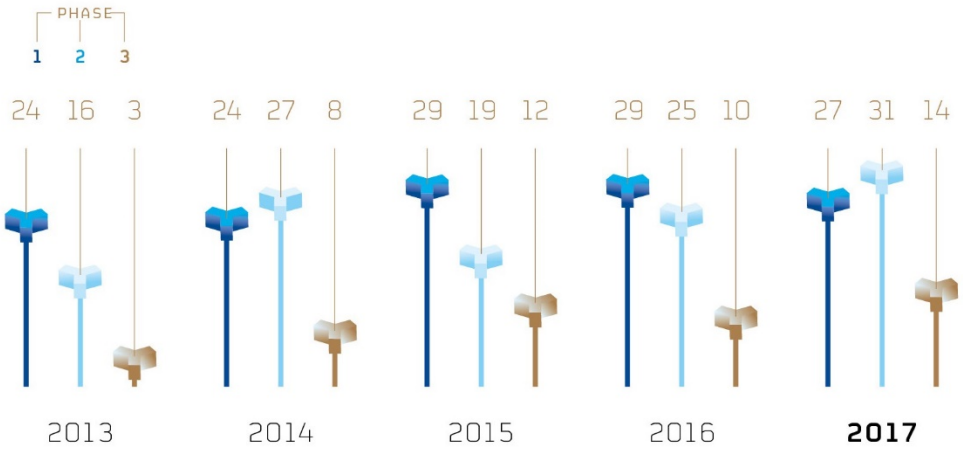
In November 2016, MorphoSys and LEO Pharma agreed to form a strategic alliance for the discovery and development of therapeutic antibodies for the treatment of skin diseases. Under the terms of the agreement, MorphoSys is applying its Ylanthia technology platform to generate antibody candidates against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

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

PROJECT INITIATIONS AND PROGRESS, TRIAL EXTENSIONS

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

FIG. 2: ACTIVE CLINICAL STUDIES WITH MORPHOSYS ANTIBODIES (DECEMBER 31)



PROPRIETARY DEVELOPMENT

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

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

- The L-MIND (Lenalidomide-MOR208 IN DLBCL) study initiated in April 2016 is evaluating MOR208 in combination with the immunomodulatory drug lenalidomide in patients suffering from relapsed or refractory diffuse large B cell lymphoma (DLBCL). The trial is an open-label, single-arm study with the primary endpoint being the overall response rate (ORR) and multiple secondary endpoints, including progression-free survival (PFS), overall survival (OS) and time to progression (TTP).
- The phase 2/3 clinical trial B-MIND (Bendamustine-MOR208 IN DLBCL) is designed to evaluate the safety and efficacy of MOR208 combined with the chemotherapeutic agent bendamustine in comparison to rituximab plus bendamustine. In June 2017 this study transitioned into its pivotal phase 3 part. The start of the phase 3 trial triggered a milestone payment to Xencor, Inc. that was paid in July 2017. B-MIND will enroll 330 adult patients worldwide with relapsed or refractory DLBCL who are not eligible for autologous stem cell transplantation and high-dose chemotherapy. This is the first pivotal study of an antibody from MorphoSys's proprietary pipeline.
- In addition to the two trials in r/r DLBCL, MorphoSys is currently evaluating MOR208 in a phase 2 trial in chronic lymphocytic leukemia (CLL) and small lymphocytic lymphoma (SLL). The trial, named COSMOS (CLL patients assessed for ORR & Safety in MOR208 Study), is designed to evaluate MOR208 in combination with the cancer drugs idelalisib (since 2016) and venetoclax (since 2017). The study enrolls patients for whom prior therapy with a BTK inhibitor such as ibrutinib was either unsuccessful or no longer successful. Currently these patients have very limited therapy options and

therefore, this indication represents a high unmet medical need. The study is currently investigating the clinical safety of the treatment combinations.

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

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

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

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

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

PARTNERED DISCOVERY

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

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

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

CLINICAL STUDY DATA FROM CURRENT PROJECTS

PROPRIETARY DEVELOPMENT

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

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

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

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

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

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

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

PARTNERED DISCOVERY

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

In March 2017, MorphoSys announced that its licensee Janssen presented positive results from two phase 3 studies evaluating guselkumab, a fully human anti-IL-23 monoclonal antibody, in patients with moderate-to-severe plaque psoriasis. Janssen presented data from the VOYAGE-2 and NAVIGATE studies at the 2017 annual meeting of the American Academy of Dermatology (AAD) in Orlando, Florida. As previously announced in November 2016, the results of both studies were included in Janssen's application for guselkumab's market approval in the United States and Europe. In February 2018,

Janssen reported data from the phase 3 VOYAGE-2 study of guselkumab, which demonstrated long-term skin clearance in patients with moderate-to-severe plaque psoriasis. According to Janssen, the new data showed that a vast majority of patients (or 86%) with moderate-to-severe plaque psoriasis receiving guselkumab who achieved at least 90 percent improvement of the signs and symptoms of their psoriasis measured by the Psoriasis Area and Severity Index (PASI 90) at week 28, maintained a PASI 90 response with continuous treatment through week 72.

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

REGULATORY EVENTS

PROPRIETARY DEVELOPMENT

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

PARTNERED DISCOVERY

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

PATENTS

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

In February 2017, MorphoSys announced that it added a second patent with US Patent Number 9,200,061 to its lawsuit against Janssen Biotech and Genmab, A/S. Later in the year, MorphoSys added a

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

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

Company Development

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

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

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

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

Company treasury shares. A request was made in November 2017 upon which a total of 4,956 of the Company's treasury shares was transferred to Dr. Enzelberger.

Headcount Development

On December 31, 2017, MorphoSys had 313 employees (December 31, 2016: 333), 123 of whom hold PhD degrees (December 31, 2016: 127). MorphoSys employed an average of 331 employees in 2017 (2016: 342).

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

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

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

Changes in the Business Environment

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

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

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

MorphoSys takes into account all potential macroeconomic risks and opportunities when conducting business activities. Political uncertainty in the global markets did not cause the Company to refrain from or change any of its key activities in the past financial year. MorphoSys's operations were also not

affected by any fluctuations within individual countries and, therefore, in this respect were not directly impacted by global economic developments.

CURRENCY DEVELOPMENTS

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

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

REGULATORY ENVIRONMENT

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

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

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

DEVELOPMENT OF THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTORS

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

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

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

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

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

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

DEVELOPMENT OF THE ANTIBODY SECTOR

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

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

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

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

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

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

Analysis of Net Assets, Financial Position and Results of Operations

Revenues

Compared to the previous year, revenues increased as planned by 37% to € 66.5 million (2016: € 48.7 million), mainly due to the recording of the upfront payment received in the amount of USD 20.0 million (€ 16.8 million) in connection with signing an exclusive regional license agreement with I-Mab Biopharma for the development and commercialization of MOR202 in China, Taiwan, Hong Kong and Macao. The Proprietary Development und Partnered Discovery segments contributed € 18.9 million (2016: € 2.0 million) and € 47.1 million (2016: € 46.6 million) to total revenues, respectively.

Of total revenues, € 1.4 million (2016: € 1.9 million) related to companies located in Germany and € 6.9 million (2016: 2.8 Mio. €) to biotechnology and pharma companies as well as non-profit organizations located in North America. Revenues in the amount of € 58.2 million were generated with companies located in Europe (excluding Germany) and Asia (2016: € 44.0 million).

Cost of Goods Sold

Cost of goods sold mainly comprised research and development expenses and increased by € 21.9 million to € 116.7 million (2016: € 94.8 million). This change was primarily resulting from higher costs for external services (2017: € 60.3 million; 2016: € 44.4 million) and higher personnel costs (2017: € 33.3 million; 2016: € 26.7 million).

Selling Expenses

Selling expenses increased by € 2.7 million to € 5.2 million (2016: € 2.5 million), mainly as a result of higher costs for external services and higher personnel costs.

General Administration Expenses

General administration expenses amounted to € 22.8 million (2016: € 18.6 million). This increase was mainly caused by higher personnel costs (2017: € 17.9 million; 2016: € 11.2 million). The increase was partly offset by the decrease in costs for external services in connection with the capital increase carried out in November 2016.

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

Other operating income amounted to € 14.3 million and increased by € 7.6 million compared to 2016. This item primarily included effects from the taxation of monetary benefits in connection with the exercise of share-based payment programs by employees of the Company as well as from the release of accruals and provisions.

Other operating expenses increased from € 0.5 million in 2016 to € 2.5 million in 2017. The main drivers for the increased other operating expenses were losses from forward rate agreements in the amount of € 1.4 million (2016: € 0) and foreign exchange losses (2017: € 0.8 million; 2016: € 0.4 million).

Other interest and similar income decreased from € 1.2 million in 2016 to € 0.2 million in 2017, and mainly comprised interest income from bank deposits and financial investments as well as interest income from the discounting of accruals.

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 € 0.03 million (2016: € 0.3 million) comprised realized gains from securities. Losses from other securities and loans presented under financial assets amounted to € 0.06 million in financial year 2017 (2016: € 0.9 million) and comprised unrealized losses from the valuation as well as realized losses from the sale of marketable securities.

Income Tax

Following a tax income for losses carried back for income tax purposes in the amount of € 0.2 million in 2016, a tax expense of € 0.1 million was recorded in 2017. The tax expense in 2017 resulted from additional payments of income and trade tax for fiscal year 2015.

Result after Taxes / Net Profit / Net Loss

The aforementioned effects led to a result after taxes in the amount of € -66.3 million (2016: € -60.2 million) and a net loss in the amount of € -66.3 million (2016: net loss of € -60.2 million).

Financial Position

PRINCIPLES OF FINANCIAL MANAGEMENT

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

INVESTMENTS

MorphoSys's investments in property, plant and equipment amounted to € 1.3 million and decreased by € 1.1 million in comparison to the previous year. Depreciation of property, plant and equipment slightly increased compared to the previous year and amounted to € 1.9 million in 2017 (2016: € 1.7 million).

In 2017, the Company invested € 11.2 million (2016: € 0.1 million) in intangible assets, namely for an in-process R&D program. Amortization of intangible assets remained unchanged in comparison to the previous year and amounted to € 0.8 million in 2017 (2016: € 0.8 million). In financial year 2017, an impairment in the amount of € 9.8 million was recognized on the in-process R&D program MOR209/ES414.

LIQUIDITY

As of December 31, 2017, the Company held liquid funds, bank deposits, other securities presented under current assets and other financial assets in the amount of € 298.3 million, compared to € 343.8 million on December 31, 2016.

The decrease in liquidity mainly resulted from the consumption of cash for operating activities in 2017.

Net Assets

ASSETS

Total assets decreased by € 45.5 million to € 399.8 million as of December 31, 2017 compared to € 445.3 million as of December 31, 2016. The decrease in other assets (- € 59.1 million), prepaid expenses (- € 1.8 million) as well as trade receivables (- € 1.1 million) was partly offset by an increase in securities by € 16.6 million). A decrease of intangible assets from the partial impairment of the in-process R&D program MOR209/ES414 was overcompensated by the capitalization of a milestone payment for an in-process R&D program. The changes in other assets, in securities and in liquid funds resulted from the reallocation of investments in connection with the portfolio optimization as well as from the consumption of liquid funds in the course of operating activities.

ACCRUALS AND LIABILITIES

As of December 31, 2017, accruals amounted to € 42.4 million, compared to € 31.2 million in the previous year. The increase of other provisions from € 29.7 million to € 42.3 million was mainly caused by higher accrued expenses for outstanding invoices for external laboratory services (2017: € 26.1 million; 2016: € 15.9 million).

Trade accounts payable decreased from € 8.4 million to € 4.7 million. The decrease arose from liabilities for external laboratory services not due as of the balance sheet date.

EQUITY

As of December 31, 2017, equity totaled € 349.8 million compared to € 404.1 million on December 31, 2016.

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

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

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

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

As of December 31, 2017, additional paid-in capital amounted to € 416.9 million, compared to € 408.0 million as of December 31, 2106. The increase by € 8.9 million resulted from the exercise of conversion rights and the allocation of treasury shares to the Management Board and the Senior Management Group.

Net loss for 2017 in the amount of € -66.3 million increased the accumulated deficit carried forward from 2016 in the amount of € -45.4 million to a total of € -111.6 million.

Financing

As of December 31, 2017, the Company's equity ratio amounted to 88%, compared to 91% on December 31, 2016. The Group currently does not have any financial liabilities owed to financial institutions.

Off-Balance-Sheet Financing

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

Credit Rating

There is no agency currently assessing the creditworthiness of MorphoSys.

Comparison of Actual Business Results Versus Forecasts

MorphoSys demonstrated solid financial performance during the 2017 reporting year. A detailed comparison of the Company's forecasts versus the actual results can be found in Table 2.

TAB. 2: COMPARISON OF ACTUAL BUSINESS RESULTS VERSUS FORECASTS

	2017 Targets	2017 Results
Financial targets	Revenues between € 46 million and € 51 million	Revenues of € 66.5 million; original guidance exceeded due to signing of a regional license agreement for MOR202 with I-Mab on November 30, 2017
	Expenses for proprietary product and technology development of € 81 million to € 91 million	Expenses for proprietary product and technology development of € 96.1 million; original guidance was not met due to changes in individual project plans
	EBT of € –70 million to € –80 million	EBT of € –66.2 million; guided bandwidth for EBT was not met due to signing of a regional license agreement for MOR202 with I-Mab on November 30, 2017
	Proprietary Development segment: Result significantly negative	Proprietary Development segment: Result significantly negative
	Partnered Discovery segment: Result significantly positive	Partnered Discovery segment: Result significantly positive
Proprietary Development	MOR208 • Presentation of first preliminary data of the L-MIND study (phase 2 combination study of lenalidomide in DLBCL) • Completion of the phase 2 safety part of the B-MIND study (combination study of bendamustine in DLBCL) and initiation of the pivotal phase 3 part of the study (in comparison to rituximab and bendamustine) • Initiation of another study arm of the COSMOS trial (another combination drug in addition to existing combination with idelalisib in CLL)	MOR208 • Presentation of preliminary data of the L-MIND study at the 2017 Annual Meeting of the American Society of Clinical Oncology (ASCO) in June • Transition of the B-MIND trial to a pivotal phase 3 part in June • Expansion of the COSMOS trial through the combination arm with venetoclax • Breakthrough therapy designation based on L-MIND study granted by FDA
	MOR202 • Completion of the phase 1/2a dose-escalation study in multiple myeloma, including data from the highest dose of 16 mg/kg alone and in combination with pomalidomide and lenalidomide	MOR202 • Presentation of updated safety and efficacy data from the phase 1/2a study at the ASCO Annual Meeting in June; patient enrollment for the study has been completed; subsequent observation will continue
	MOR209/ES414 • Continuation of the phase 1 trial with adjusted dosing regimen in mCRPC under the cooperation with Aptevo Therapeutics	MOR209/ES414 • Termination of cooperation with Aptevo in September with return of all development and commercialization rights to Aptevo for MOR209/ES414
	MOR106 • Completion of a phase 1 trial in atopic dermatitis as part of the co-development program with Galapagos	MOR106 • Completion of phase 1 trial in August and presentation of first data in September indicating clinical activity
	MOR107 • Initiation of a phase 1 trial in healthy volunteers	MOR107 • Initiation of phase 1 trial in healthy volunteers in February followed by completion of the first part of the trial in May
	Initiation and continuation of new development programs in the area of antibody discovery and preclinical development	• Initiation of preclinical development of an anti-C5aR antibody in the fourth quarter

	2017 Targets	2017 Results
Partnered Discovery	Progress of partnered development programs	• Increasing number of partnered programs (101) as maturity progresses • First HuCAL antibody Tremfya® (guselkumab) for treating plaque psoriasis receives marketing approval in the US, Europe and Canada (partner is Janssen) • Partner Novartis initiates phase 2 trial of HuCAL antibody bimagrumab in obese patients with type 2 diabetes • Partner Roche initiates new pivotal phase 3 trials of gantenerumab in patients with prodromal to mild Alzheimer's disease • Partner Janssen initiates new phase 3 trials of HuCAL antibody guselkumab in plaque psoriasis (comparative study with secukinumab) and psoriatic arthritis; notification of a further phase 3 study in Crohn's disease

The Management Board's General Assessment of Business Performance

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

Revenues in the 2017 financial year increased to € 66.5 million, and earnings before taxes amounted to € -66.2 million. The increase in revenues and the improved operating result compared to the previous year were largely the result of entering into a regional partnership for our proprietary antibody MOR202. This agreement resulted in a one-time payment of € 16.8 million, which also prompted us to raise our financial forecast for the 2017 financial year. Our equity ratio of 88% and liquid funds of € 298.3 million are a confirmation of the strength of the Company's financial resources.

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

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

Accounting Judgments

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

Outlook and Forecast

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

General Statement on Expected Development

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

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

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

Strategic Outlook

MorphoSys's business model is based on the development of innovative drug candidates derived from the Company's proprietary technologies, such as its HuCAL and Ylanthia antibody libraries. Drug candidates are developed both on a proprietary basis and together with partners to provide patients

access to better treatment alternatives. The focus of proprietary development is oncology and inflammatory diseases. MorphoSys's management intends to advance the Company's portfolio of drug candidates and develop individual candidates towards the market. MorphoSys will also concentrate on applying and expanding its technologies in fast-growing, innovation-driven areas of the life sciences sector.

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

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

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

Expected Economic Development

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

According to the IMF, growth in the emerging and developing countries in 2018 is expected to reach 4.9% (2017E: 4.6%). Growth in China should reach 6.5% in 2018 (2017E: 6.2%) while Russia is expected

to grow 1.6% compared to growth of 1.1% in 2017. The trend in Brazil is also expected to turn around with economic growth projected at 1.5% for 2018 after positive growth of 0.5% in the prior year.

Expected Development of the Life Sciences Sector

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

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

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

Future Research and Development and Expected Business Performance

PROPRIETARY DEVELOPMENT

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

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

- Update on interactions with the FDA during the breakthrough therapy designation process for MOR208.
- Completion of treatment of 81 patients under the current study protocol of the fully recruited L-MIND trial and the start of data evaluation.

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

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

PARTNERED DISCOVERY

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

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

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

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

Expected Personnel Development

While the number of employees in the Proprietary Development segment is expected to increase slightly during the 2018 financial year, the number of employees in the Partnered Discovery segment is

expected to see a slight decline. Due to the initiation of building up commercial capacities, the number of employees in G&A is expected to increase slightly.

Expected Development of the Financial Position and Liquidity

MorphoSys had financial resources of € 298.3 million at the end of the 2017 financial year. Revenues in the 2018 financial year are expected to be below those achieved in the prior year. The reasons for this expected decline are primarily two items that will not reoccur in the 2018 financial year, namely € 37 million in revenues from the partnership with Novartis that ended in accordance with the contract in November 2017 and the one-time payment of € 16.8 million for partnering MOR202. Although the partnership with Novartis has ended, MorphoSys will continue to be eligible for success-based milestone payments and royalties in the event of the successful development of product candidates by Novartis. The Management Board is projecting revenues of € 23 million to € 28 million in the 2018 financial year. Revenues are expected to include royalty income from Tremfya® ranging from € 12 to17 million on constant US-$ currency. This forecast does not take into account revenues from future collaborations and/or licensing agreements.

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

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

The Company expects earnings before taxes of approximately € –107 million to € –117 million in 2018. This guidance does not include revenues from potential future partnerships or licensing agreements nor milestones for MOR103 that could occur in the course of 2018. Effects from potential in-licensing or co-development deals for new development candidates are not included in the guidance either. The Partnered Discovery segment is expected to generate a positive operating result in 2018. The Proprietary Development segment is expected to report sharply negative earnings before taxes due to planned R&D expenditures on proprietary programs.

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

At the end of the 2017 financial year, MorphoSys had liquidity of € 298.3 million (December 31, 2016: € 343.8 million). The loss projected for 2018 will cause a decline in liquidity. MorphoSys sees its solid cash position as an advantage that can be used to accelerate its future growth through strategic

activities such as the in-licensing of compounds and investments in promising companies. Available liquidity can also be used to fund research and development expenses for the Company's proprietary portfolio of therapeutic antibodies.

DIVIDEND

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

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

Shares and the Capital Market

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

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

FIG. 3: PERFORMANCE OF THE MORPHOSYS SHARE IN 2017 (JANUARY 1, 2017 = 100%)

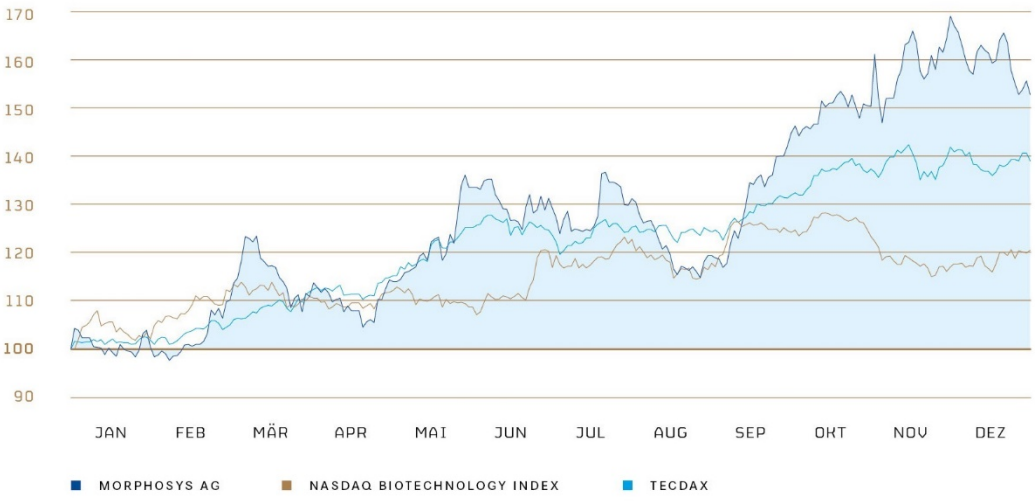
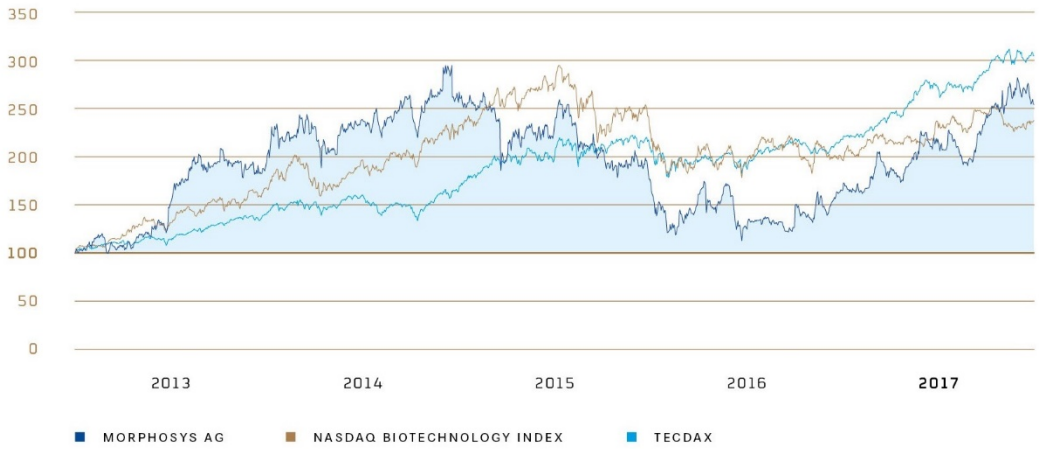


FIG. 4: PERFORMANCE OF THE MORPHOSYS SHARE 2013–2017 (JANUARY 1, 2013 = 100%)



Stock Market Development

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

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

Liquidity and Index Membership

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

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

Common Stock

The Company’s common stock increased to 29,420,785 shares, or € 29,420,785.00, in the reporting year due to the exercise of convertible bonds granted to the Management Board and the Senior Management

Group in 2013. A detailed description of the convertible bond program can be found in the Notes (Item 7.1).

A long-term incentive plan (2013 LTI program), which was granted to the Management Board and members of the Senior Management Group in 2013, was allocated in the year under review. As part of this 2013 LTI program, 61,597 treasury shares were transferred from the Company to the Management Board and Senior Management Group during the reporting year. A detailed description of this program can be found in the Corporate Governance Report and in the Notes (Item 7) of this Annual Report. In addition, the two new Management Board members, Dr. Malte Peters and Dr. Markus Enzelberger, were granted a total of 14,461 MorphoSys shares held by the Company as treasury stock. This reduced the holdings of MorphoSys AG's treasury stock to 319,678 shares.

TAB. 3: KEY DATA FOR THE MORPHOSYS SHARE (DECEMBER 31)

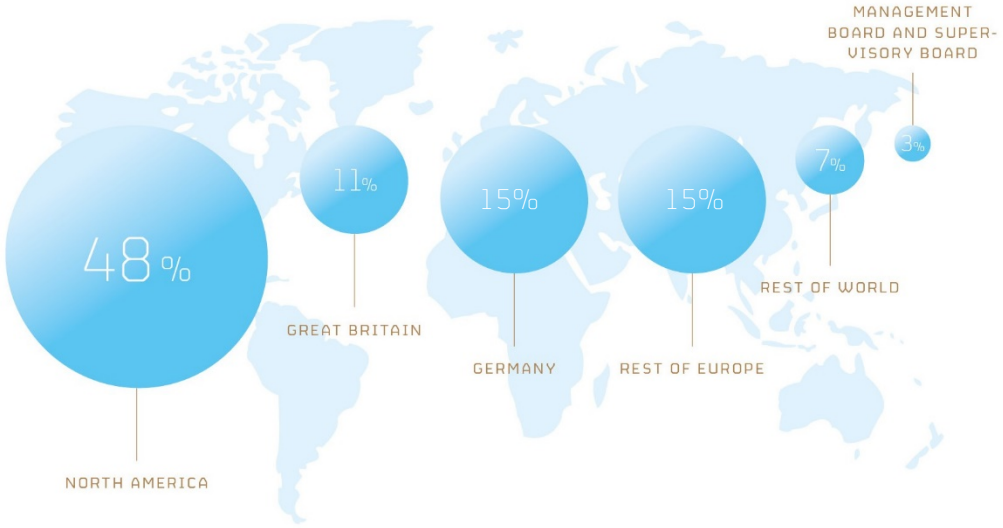
	2017	2016	2015	2014	2013
Total stockholders' equity (in million €)	349.8	404.1	349.5	337.7	346.4
Number of shares issued (number)	29,420,785	29,159,770	26,537,682	26,456,834	26,220,882
Market capitalization (in million €)	2,253	1,422	1,530	2,027	1,464
Closing price in € (Xetra)	76.58	48.75	57.65	76.63	55.85
Average daily trading volume (in million €)	15.6	9.7	14.9	11.9	6.9
Average daily trading volume (in % of common stock)	0.83	0.78	0.87	0.65	0.59

International Investor Base

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

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

FIG. 5: SHAREHOLDERS OF MORPHOSYS AG BY REGION[1] (DECEMBER 31, 2017)



[1]Source: Bloomberg

Annual General Meeting

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

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

Investor Relations Activities

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

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

specialized healthcare investors are located. Meanwhile, approximately 45% of MorphoSys AG shares are held by US institutional investors.

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

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

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

TAB. 4: ANALYST RECOMMENDATIONS (DECEMBER 31, 2017)

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

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

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

Sustainable Business Development

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

Sustainable Corporate Management

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

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

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

Group-wide compliance with the sustainability strategy is monitored by the entire Management Board, with primary responsibility assigned to the Chief Financial Officer. The sustainability strategy is based on the Company's Credo, which contains the ethical principles forming the foundation of all activities of MorphoSys and its employees. The Credo is developed further by MorphoSys's Code of Conduct. Employee training on general and specific sections of the Code of Conduct is conducted regularly to ensure that the guidelines are understood and implemented. The Compliance Committee consists of five members and is available to employees at all times. The Compliance Officer, who is also a member of the committee, coordinates the elements of MorphoSys's Compliance Management System. More information on this subject can be found on page 62 of the Corporate Governance Report. Employees can ask for advice on all matters concerning legal compliance and corporate responsibility and report any suspected violations. If preferred, this may be done on an anonymous basis. Violations are systematically pursued, and appropriate remedial action is taken. No such violations have been reported to date, and the Company believes it is unlikely in the future that any serious offenses would occur that could materially affect the Group's net assets, financial position and results of operations.

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

Non-Financial Performance Indicators

ETHICAL STANDARDS AND COMMUNICATION WITH STAKEHOLDERS

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

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

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

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

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

PROCUREMENT

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

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

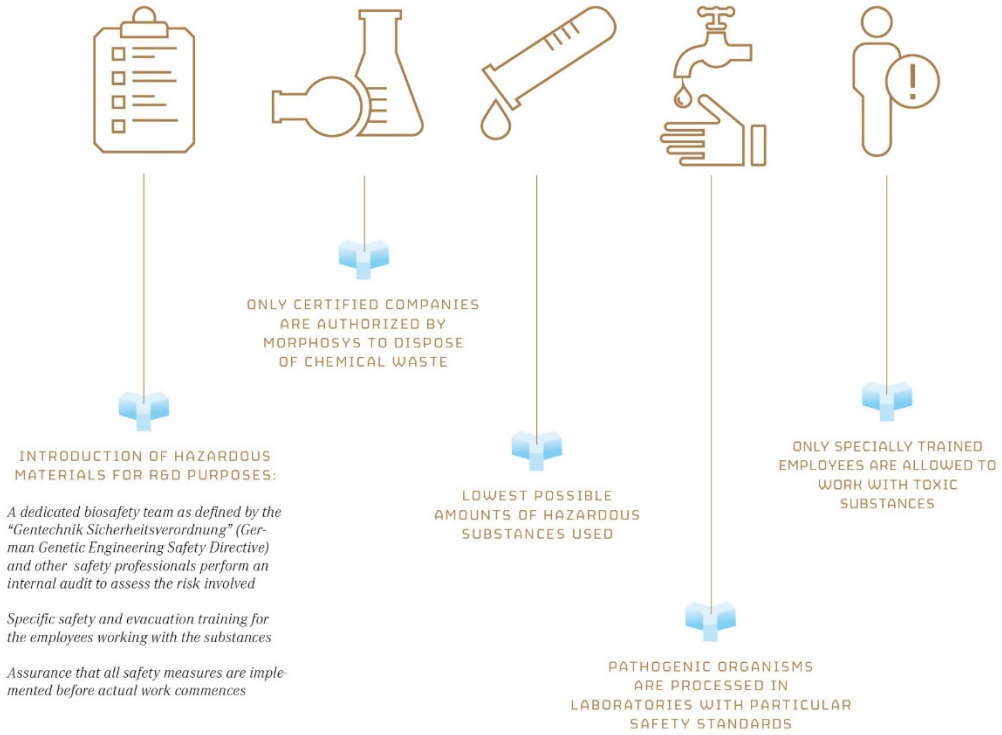
Because the biotechnology industry is subject to stringent regulatory requirements, environmental protection and occupational safety are important tasks of management. The Technical Operations Department and its subsections monitor Group-wide compliance with all relevant requirements. In addition to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

MorphoSys offers employees an extensive range of preventative healthcare options. A sample of these options can be found in the section entitled “Human Resources”.

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

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

FIG 6: OCCUPATIONAL SAFETY AT MORPHOSYS



QUALITY ASSURANCE

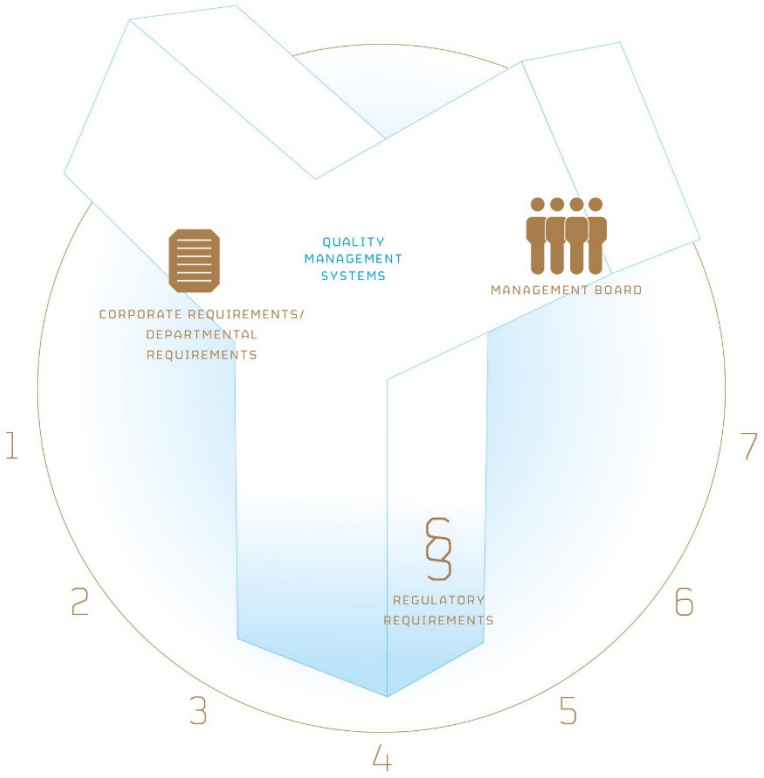
Biopharmaceutical companies bear a special responsibility to comply with the highest quality and safety standards. MorphoSys follows detailed procedures and stringent rules in drug development to avoid safety risks that may pose a threat to patients and, in turn, the Company's financial situation. This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

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

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

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

FIG. 7: QUALITY MANAGEMENT SYSTEM AT MORPHOSYS



1 TRAINING AND QUALIFICATION

2 SELF-INSPECTION/INTERNAL AUDITS

3 DOCUMENTATION SYSTEM

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

5 BATCH RECORD REVIEW/BATCH RELEASE

6 SOP SYSTEM*

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

INTELLECTUAL PROPERTY

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

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

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

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

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

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

HUMAN RESOURCES

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

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

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

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

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

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

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

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

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

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

and combine work and family life. The Company cooperates with an external provider offering employees additional services related to care and nursing.

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

Risk and Opportunity Report

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

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

Risk Management System

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

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

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

Risk managers enter their risks into an IT platform that makes monitoring, analyzing and documenting risks much easier. The risk management system distinguishes risk owners from risk managers. For risks relating to clinical development, the risk owner is the responsible business team head for the respective clinical program. For non-clinical risks, the risk owner is the responsible department head. Employees from the respective area of the risk owner can be risk managers as long as the risks included in the risk management system fall under their area of responsibility. Risk owners and risk managers are required to update their risks and assessments at half-yearly intervals. The process for this is

coordinated and led by the Corporate Finance & Corporate Development Department, which is also responsible for monitoring the evaluation process and summarizing the key information. The information is regularly presented to the Management Board which, in turn, presents the results to the Supervisory Board twice a year. The entire evaluation process is based on standardized forms for the evaluations. Risk management and monitoring activities are carried out by the relevant managers. The changes in the risk profile resulting from these activities are recorded at regular intervals. It is also possible to report important risks on an ad hoc basis when they occur outside of the regular intervals. A regular audit by external consultants ensures the ongoing development of the risk management system and that any potential changes in the Company's risk areas are promptly incorporated. The risk and opportunity management system combines a bottom-up approach for recognizing both short- and medium-term risks with a top-down approach that systematically identifies long-term global risks and opportunities. As part of the top-down approach, workshops are held twice per year with selected members of the Senior Management Group. These workshops assess and discuss the long-term risks and opportunities in different areas of the Company, including those exceeding a period of three years. The evaluation process is solely qualitative. These risks are listed in Table 10.

Principles of Risk and Opportunity Management

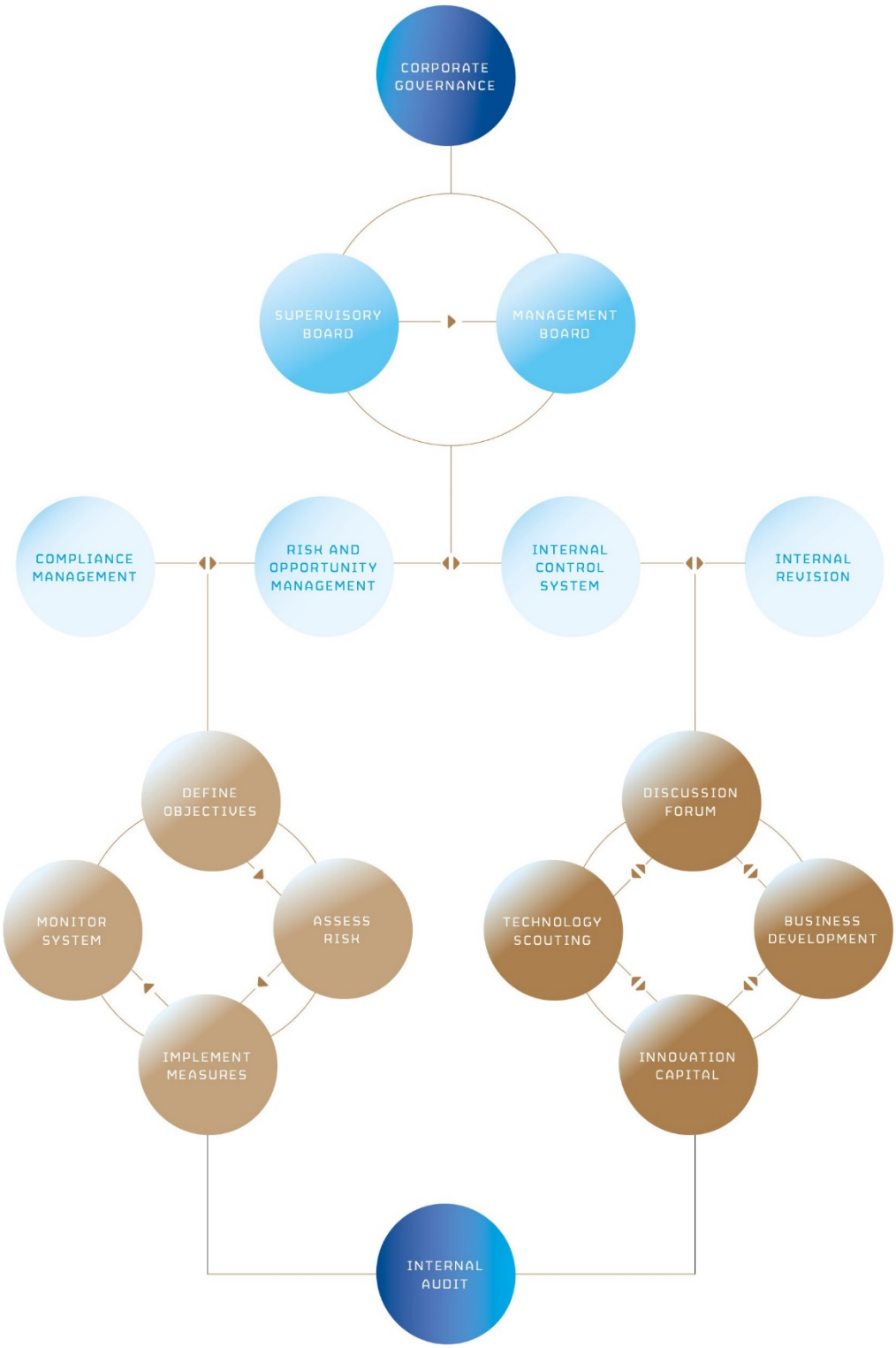
MorphoSys continually encounters both risks and opportunities. These could have a potential material impact on the Company's net assets and financial position as well as a direct effect on intangible assets, such as the Company's image in the sector or the Company's trademark.

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

Responsibilities Under the Risk and Opportunity Management System

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

FIG. 8: RISK AND OPPORTUNITY MANAGEMENT SYSTEM AT MORPHOSYS



Accounting-Related Internal Control System

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

Risks

RISK CATEGORIES

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

FINANCIAL RISK

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

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

Continuing economic difficulties in Europe indicate that potential bank insolvencies still pose a financial risk. For this reason, MorphoSys continues to invest only in funds and bank instruments deemed safe – to the extent this is possible and can be estimated – and that have a high rating and/or are secured by a strong partner. MorphoSys limits its dependence on individual financial institutions by diversifying and/or investing in lower risk money market funds. However, a strategy that eliminates all risks of bank insolvency would be too costly and impractical. For example, German government bonds are a very secure form of investment but currently trade with negative interest rates. A further risk is the receipt of adequate interest on financial investments, particularly in light of today's negative interest rates. It is currently very difficult for MorphoSys to invest within the scope of company policies and still avoid

negative interest rates. MorphoSys invests when possible in instruments that yield positive interest rates. However, there is no guarantee that positive interest-bearing investments will always be available.

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

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

OPERATIONAL RISK

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

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

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

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

STRATEGIC RISK

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

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

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

EXTERNAL RISKS

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

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

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

ORGANIZATIONAL RISK

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

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

COMPLIANCE RISK

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

Specific risk can arise, for example, when the internal quality management system does not meet the legal requirements or when there is no internal system for detecting quality problems. If the internal controls are not able to detect violations of Good Manufacturing Practice (GMP), Good Clinical Practice (GCP) or Good Laboratory Practice (GLP) then this also would represent a compliance risk. To minimize

risk, the internal quality management system is also regularly audited by external experts and subjected to recurring audits by an internal, independent quality assurance department.

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

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

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

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

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

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

Opportunities

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

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

OPPORTUNITY MANAGEMENT SYSTEM

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

Opportunity management is based on the following pillars:

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

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

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

GENERAL STATEMENT ON OPPORTUNITIES

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

MARKET OPPORTUNITIES

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

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

It is reasonable to assume that the pharmaceutical industry will continue or even increase its in-licensing of drugs to refill its pipelines and replace key products and blockbusters that have lost patent

protection. MorphoSys's most advanced compounds MOR103/GSK3196165, MOR202, MOR208 and MOR106 place the Company in an excellent position to capitalize on the needs of pharmaceutical companies.

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

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

THERAPEUTIC ANTIBODIES – PARTNERED DEVELOPMENT

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

TECHNOLOGY DEVELOPMENT

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

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

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

ACQUISITION OPPORTUNITIES

In the past, MorphoSys has proven its ability to acquire compounds and technologies that accelerate its growth. Potential acquisition candidates are also systematically presented, discussed and evaluated during the routine meetings described above between the Management Board and selected members of the Senior Management Group. After these meetings, promising candidates are reviewed in terms of their strategic synergies and evaluated by internal specialist committees. Protocols are completed on all

candidates and evaluations are systematically archived for follow-up and monitoring. A proprietary database helps administer this information and keep it available.

FINANCIAL OPPORTUNITIES

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

TAB. 5: SUMMARY OF MORPHOSYS'S KEY SHORT- AND MEDIUM-TERM RISKS

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

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

Legend

●	Low risk:	low probability of occurrence, low impact
●●	Moderate risk:	moderate probability of occurrence, moderate impact
●●●	High risk:	moderate probability of occurrence, moderate to strong impact
●●●●	Catastrophic risk:	high probability of occurrence, severe impact

TAB. 6: SUMMARY OF MORPHOSYS'S KEY LONG-TERM RISKS

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

Legend

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

TAB. 7: SUMMARY OF MORPHOSYS'S KEY OPPORTUNITIES

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

Legend

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

Statement on Corporate Governance and Corporate Governance Report

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

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

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

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

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

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

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

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

Planegg, December 1, 2017

MorphoSys AG

On behalf of the Management Board:
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 laws and rules of conduct through the Company-wide application of the following documents: the Code of Conduct, the Compliance Management Handbook and supplementary internal guidelines.

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

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

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

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

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

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT BOARD

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

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

- Jens Holstein, Chief Financial Officer: Accounting and Tax, Controlling, Corporate Finance & Corporate Development, Risk Management, IT, Technical Operations, Procurement & Logistics, Corporate Communications & Investor Relations, Environmental Social Governance (ESG)
- Dr. Marlies Sproll, Chief Scientific Officer (until October 31, 2017): Discovery Alliances & Technology Development, Protein Sciences, Alliance Management, Intellectual Property, Lanthio Pharma
- Dr. Markus Enzelberger, Interim Chief Scientific Officer (from April 15, 2017 to October 31, 2017 and Chief Scientific Officer (since November 1, 2017): Discovery Alliances & Technology Development, Protein Sciences, Alliance Management, Intellectual Property, Lanthio Pharma
- Dr. Arndt Schottelius, Chief Development Officer (until February 28, 2017): Preclinical Development, Clinical Research, Clinical Operations, Drug Safety & Pharmacovigilance, Regulatory Affairs
- Dr. Malte Peters, Chief Development Officer (since March 1, 2017): Preclinical Research, Clinical Development, Clinical Operations, Drug Safety & Pharmacovigilance, Regulatory Affairs

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

SUPERVISORY BOARD

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

TAB. 8: COMPOSITION OF THE SUPERVISORY BOARD UNTIL TERMINATION OF THE 2017 ANNUAL GENERAL MEETING

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

Independent financial expert

TAB. 9: COMPOSITION OF THE SUPERVISORY BOARD SINCE TERMINATION OF THE 2017 ANNUAL GENERAL MEETING

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

Independent financial expert

WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

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

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

The Management Board promptly and comprehensively informs the Supervisory Board in writing and at Supervisory Board meetings about planning, business development, the Company's position, risk

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

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

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

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

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

The Management Board has not formed any committees.

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

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

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

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

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

MEETINGS OF THE AUDIT COMMITTEE

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

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

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

MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE

Name	by phone 01/16/2017	03/07/2017	05/16/2017	10/10/2017	by phone 12/04/2017
Dr. Gerald Möller	X	X	X	X	X
Dr. Marc Cluzel	X	X	X	X	X
Karin Eastham[1)]	X	X	X		
Krisja Vermeylen[2)]				X	X
Frank Morich als Gast				X	

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

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

MEETINGS OF THE SCIENCE AND TECHNOLOGY COMMITTEE

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

AUDIT COMMITTEE

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

REMUNERATION AND NOMINATION COMMITTEE

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

SCIENCE AND TECHNOLOGY COMMITTEE

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

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

Corporate Governance Report

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

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

COMMUNICATION WITH THE CAPITAL MARKETS

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

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

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

ESTABLISHMENT OF SPECIFIC TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

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

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

APPROPRIATE REPRESENTATION OF WOMEN AND DIVERSITY

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

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

INDEPENDENCE

The Supervisory Board considers it appropriate that at least four of its members are independent (Section 5.4.2 of the German Corporate Governance Code). Members of the Supervisory Board are

considered independent when they have no personal or business relationship with MorphoSys, its management, a controlling shareholder or an affiliate that may give rise to a material and more than temporary conflict of interest. All six current members of the Supervisory Board meet the criteria to be classified as independent. Therefore, the Supervisory Board currently meets the quota of four independent members.

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

AGE LIMIT

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

TERM OF APPOINTMENT

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

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

SKILL AND EXPERIENCE PROFILE FOR THE SUPERVISORY BOARD AS A WHOLE

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

PROFESSIONAL EXPERTISE AND EXPERIENCE

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

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

GENERAL KNOWLEDGE

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

PROFESSIONAL EXPERTISE

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

The Company currently meets the above targets.

SUFFICIENT AVAILABILITY OF TIME

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

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

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

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

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

The Company continues to meet this target.

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

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

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

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

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

The Company continues to meet this target.

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

The Company continues to meet this target.

DIVERSITY PLAN

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

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

REMUNERATION REPORT

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

MANAGEMENT BOARD REMUNERATION

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

OVERVIEW

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

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

As of April 3, 2017, a total of 36,729 treasury shares from the 2013 performance-based share plan for the Management Board vested because the vesting period for this LTI program had expired. The beneficiaries had the option to receive the shares at a time of their choosing within a six-month period

ending on October 2, 2017. All transactions in MorphoSys shares executed by members of the Management Board were reported as required by law and published in the Corporate Governance Report as well as on the Company's website.

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

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

TAB. 11: COMPENSATION OF THE MANAGEMENT BOARD IN 2017 AND 2016 (DISCLOSURE IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE)
BENEFITS GRANTED TO THE MANAGEMENT BOARD

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

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

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

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

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

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

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

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

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

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

PAYMENTS DURING THE FINANCIAL YEAR:

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

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

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

[2] The one-year variable compensation presented here represents the bonus paid in the respective financial year for the previous financial year.

[3] The date and value of the payments is the date and value applicable under German tax law. Therefore, this table shows the non-cash benefits arising in the respective financial year from the difference between the exercise or conversion price and the stock market price at the time of exercising the convertible bonds or at the time of transfer of own shares from a performance share plan.

[4] No compensation recovery claims against the Management Board existed in 2016 or 2015.

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

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

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

FIXED REMUNERATION AND FRINGE BENEFITS

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

PENSION EXPENSES

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

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

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

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

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

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

Long-term performance targets are set by the Supervisory Board at the time the shares are allocated for a specific year. The defined targets for the 2017 Performance Share Plan were the absolute performance of MorphoSys shares, as well as the relative performance of MorphoSys shares relative to a benchmark index comprising of equal parts of the NASDAQ Biotechnology Index and the TecDAX Index. The absolute and relative performance of the share price for each of the four assessment periods (one year

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

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

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

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

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

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

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

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

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

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

MISCELLANEOUS

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

TERMINATION OF MANAGEMENT BOARD EMPLOYMENT CONTRACTS/CHANGE OF CONTROL

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

CHANGE IN THE COMPOSITION OF THE MANAGEMENT BOARD

On January 5, 2017, MorphoSys announced that Dr. Malte Peters would succeed Dr. Arndt Schottelius as the Chief Development Officer and member of the Management Board of MorphoSys AG. Dr. Schottelius resigned from his position as Chief Development Officer effective February 28, 2017 to pursue new

challenges. For the period leading up to the end of his employment contract on April 30, 2017, Dr. Schottelius and MorphoSys entered into an exemption agreement. According to the agreement, Dr. Schottelius was entitled to the remuneration agreed in his employment contract until April 30, 2017. The remuneration included a contractually agreed payment of a pro rata amount of his annual gross base salary of € 103,252.96 and a bonus of € 23,490.05. Dr. Schottelius also exercised the convertible bonds granted to him in 2013. In addition, he received shares that had vested after the four-year vesting period under the 2013 Performance Share Plan. Dr. Schottelius still has a pro rata entitlement based on the 2014, 2015 and 2016 Performance Share Plans, which can be exercised after a total of four years at the earliest. Dr. Schottelius did not participate in the 2017 Performance Share Plan. Effective March 1, 2017, Dr. Malte Peters was appointed Chief Development Officer of MorphoSys AG. His employment contract runs until June 30, 2019. As an additional incentive to join MorphoSys, Dr. Peters was granted a one-time compensation payment for the lost compensation from his former employment. This compensation was in the form of treasury shares held by MorphoSys valued at € 500,000.

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

SUPERVISORY BOARD REMUNERATION

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

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

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

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

The table below details the Supervisory Board's remuneration.

TAB. 12: COMPENSATION OF THE SUPERVISORY BOARD IN 2017 AND 2016

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

[1] The attendance fee contains expense allowances for the attendance at the Supervisory Board and the Committee meetings.

[2] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.

[3] Karin Eastham has left the Supervisory Board of MorphoSys AG on May 17, 2017.

HOLDINGS OF MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

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

TAB. 13: DIRECTORS' HOLDINGS
SHARES

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

STOCK OPTIONS

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

CONVERTIBLE BONDS

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

PERFORMANCE SHARES

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

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

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

MANAGERS TRANSACTIONS

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

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

TAB. 14: MANAGERS TRANSACTIONS IN 2017

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

Party Subject to the Notification Requirement	Function	Date of Transaction in 2017	Type of Transaction	Aggregated Share Price	Aggregated Volume	Place of Transaction
Jens Holstein	Chief Financial Officer	04/05/2017	Purchase of shares based on conversion of convertible bonds as part of his remuneration as member of the Managing Board (Convertible Bonds Program 2013)	31.88 €	956,250.00 €	outside a trading venue
Jens Holstein	Chief Financial Officer	04/05/2017	Disposal	54.42 €	714,711.86 €	Xetra
Jens Holstein	Chief Financial Officer	04/05/2017	Disposal	54.30 €	1,145,753.65 €	outside a trading venue
Jens Holstein	Chief Financial Officer	04/03/2017	Allocation of 8,235 shares as part his remuneration as member of the Managing Board (Long-Term Incentive Program 2013) (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Simon Moroney	Chief Executive Officer	04/03/2017	Allocation of 12,024 shares as part of his remuneration as member of the Managing Board (Long-Term Incentive Program 2013) (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Marlies Sproll	Chief Scientific Officer	04/03/2017	Allocation of 8,235 shares as part of her remuneration as member of the Managing Board (Long-Term Incentive Program 2013) (issuer's own shares)	not numberable	not numberable	outside a trading venue
Dr. Malte Peters	Chief Development Officer	03/27/2017	Purchase of 9,505 shares as part of his reumuneration as member of the Managing Board (issuer's own shares)	not numberable	not numberable	outside a trading venue

AVOIDING CONFLICTS OF INTEREST

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

STOCK REPURCHASES

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

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

INFORMATION TECHNOLOGY

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

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

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

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

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

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

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

The financial statements are subjected to numerous preparation, review and control processes so that they can be reported promptly to the market and to shareholders. To accomplish this, the Company’s executives have a coordinated plan for which all internal and external resources are made available. MorphoSys also uses a strict four-eyes principle to ensure the accuracy of the key financial ratios reported and the underlying execution of all accounting processes. Numerous rules and guidelines are also followed to ensure the strict separation of the planning, posting and execution of financial transactions. This functional separation of processes is ensured by all of the Company’s operating IT systems through an appropriate assignment of rights. External service providers routinely review the

implementation of and compliance with these guidelines as well as the efficiency of the accounting processes. The reporting year's most recent review showed no cause for action.

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

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

ACCOUNTING AND EXTERNAL AUDIT

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

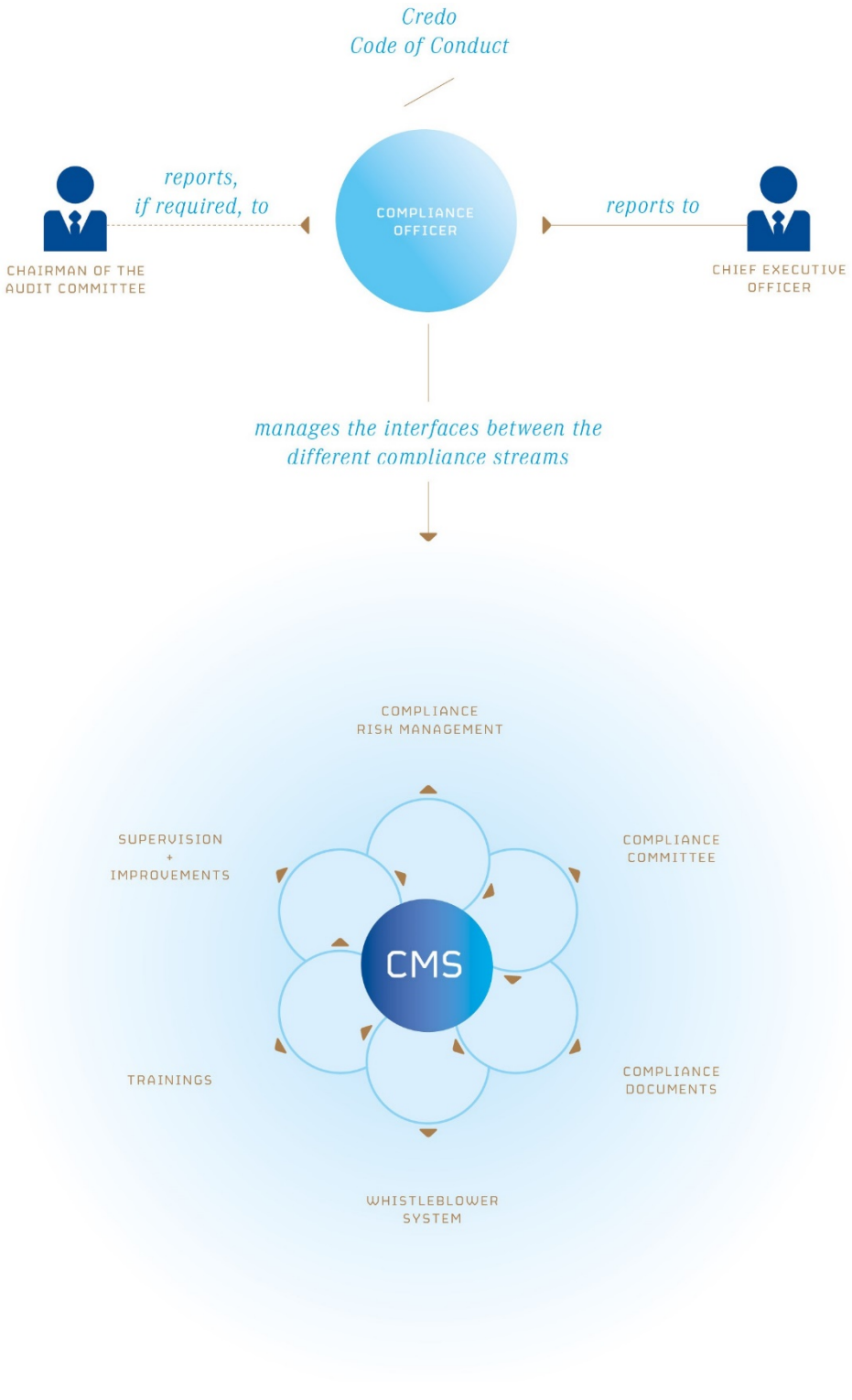
For the election of the Company auditor, the Audit Committee of the Supervisory Board submits a nomination proposal to the Supervisory Board. At the 2017 Annual General Meeting, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2017 financial year. As proof of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

COMPLIANCE MANAGEMENT SYSTEM

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

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

FIG. 9: COMPLIANCE-MANAGEMENT-SYSTEM (CMS)



INTERNAL AUDIT DEPARTMENT

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

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

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

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

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

COMPOSITION OF COMMON STOCK

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

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

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

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

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

SHAREHOLDINGS IN COMMON STOCK EXCEEDING 10% OF VOTING RIGHTS

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

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

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

CONTROL OVER VOTING RIGHTS WITH REGARD TO EMPLOYEE OWNERSHIP OF CAPITAL

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

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

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

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

POWER OF THE MANAGEMENT BOARD TO ISSUE SHARES

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

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

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

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

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

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

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

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

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

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

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

bb) if the issue price of the new shares is not significantly below the market price of shares of the same class already listed and the total number of shares issued against

contribution in cash, excluding subscription rights, during the term of this authorization does not exceed 10% of the common stock on the date this authorization takes effect or at the time it is exercised, in accordance with or in the respective application of Section 186 (3) sentence 4 AktG.

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

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

2. Conditional Capital

a. According to Section 5 (6b) of the Articles of Association, the Company's common stock is conditionally increased by up to € 5,307,536.00, divided into a maximum of 5,307,536 no-par-value bearer shares (Conditional Capital 2016-I). The conditional capital increase serves solely as a means to grant new shares to the holders of conversion or warrant rights, which will be issued by the company or companies in which the Company has a direct or indirect majority interest according to the authorizing resolution of the Annual General Meeting on June 2, 2016, under Agenda Item 7 letter a). The shares will be issued at the respective conversion or exercise price to be determined in accordance with the resolution above. The conditional capital increase will only be carried out to the extent that the holders of conversion or warrant rights exercise these rights or fulfill conversion obligations under such bonds. The shares will be entitled to dividends as of the beginning of the previous financial year, provided they were issued before the start of the Company's Annual General Meeting, or as of the beginning of the financial year in which they were issued.

b. According to Section 5 (6e) of the Articles of Association, the Company's common stock is conditionally increased by up to € 450,000.00 through the issue of up to 450,000 new no-par-value bearer shares of the Company (Conditional Capital 2008-III). The conditional capital increase will only be executed to the extent that holders of the convertible bonds exercise their conversion rights for conversion into ordinary shares of the Company. The new shares participate in the Company's profits from the beginning of the financial year, for which there has been no resolution on the appropriation of accumulated income at the time of issuance. With the Supervisory Board's consent, the Management Board is authorized to determine the

further details of the capital increase and its implementation.
At its meeting on December 13, 2017, the Supervisory Board of MorphoSys AG resolved to amend the amount of Conditional Capital 2008-III after the issuance of new shares resulting from the exercise of convertible bonds in 2017. The amendment of the Company's Conditional Capital 2008-III took effect upon its entry in the commercial register on January 4, 2018 and amounts to € 188,985, divided into 188,985 no-par-value bearer shares.

c. According to Section 5 (6g) of the Articles of Association, the Company's common stock is conditionally increased by up to € 995,162.00 through the issue of up to 995,162 new no-par-value bearer shares of the Company (Conditional Capital 2016-III). The conditional capital serves to meet the obligations of subscription rights that have been issued and exercised based on the authorization resolved by the Annual General Meeting of June 2, 2016 under Agenda Item 9 letter a). The conditional capital increase will only be executed to the extent that holders of subscription rights exercise their right to subscribe to shares of the Company. The shares will be issued at the exercise price set in each case as the issue amount in accordance with Agenda Item 9 letter a) subparagraph (8) of the Annual General Meeting's resolution dated June 2, 2016; Section 9 (1) AktG remains unaffected. The new shares are entitled to dividends for the first time for the financial year for which there has been no resolution by the Annual General Meeting on the appropriation of accumulated income. The Management Board, and the Company's Supervisory Board where members of the Management Board are concerned, is authorized to determine the additional details of the conditional capital increase and its execution.

POWER OF MANAGEMENT BOARD TO REPURCHASE SHARES

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

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

1. The shares may be redeemed without the redemption or its execution requiring a further resolution of the Annual General Meeting.
2. The shares may be sold other than on the stock exchange or shareholder offer if the shares are sold for cash at a price that is not significantly below the market price of the Company's shares of the same class at the time of the sale.
3. The shares may be sold for contribution in kind, particularly in conjunction with company mergers, acquisitions of companies, parts of companies or interests in companies.
4. The shares may be used to fulfill subscription or conversion rights resulting from the exercise of options and/or conversion rights or conversion obligations for Company shares.
5. The shares may be offered or transferred to employees of the Company and those of affiliated companies, members of the Company's management and those of affiliated

companies and/or used to meet commitments or obligations to purchase Company shares that were or will be granted to employees of the Company or those of affiliated companies, members of the Company's management or managers of affiliated companies. The shares may also be used to fulfill obligations or rights to purchase Company shares that will be agreed with the Company's employees, members of the senior management and affiliates in the context of employee participation programs.

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

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

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

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

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

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

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

List of Figures and Tables

Separate Financial Statements of MorphoSys AG as of December 31, 2017 (German GAAP)

MorphoSys AG, Planegg

Balance Sheet as of December 31, 2017

ASSETS		12/31/2017 in €	12/31/2017 in €	12/31/2016 in €
A.	**FIXED ASSETS**			
I.	**Intangible Assets**			
	Paid concessions, commercial property rights and similar rights and assets and licenses to such rights and assets	27,152,100	27,152,100	26,540,211
II.	**Tangible Assets**			
1.	Land, leasehold rights and buildings, including leasehold improvements	435,485		428,112
2.	Other equipment, furniture and fixtures	2,956,672		3,598,516
			3,392,157	**4,026,628**
III.	**Financial Assets**			
	Shares in affiliated companies	39,624,278		39,624,278
			39,624,278	**39,624,278**
			70,168,535	**70,191,117**
B.	**CURRENT ASSETS**			
I.	**Inventories**			
	Raw materials, supplies and production materials	167,231		176,844
			167,231	**176,844**
II.	**Receivables and Other Assets**			
1.	Trade accounts receivable (thereof due within one year EUR 11,172,746, prior year: EUR 12,301,741)	11,172,746		12,301,741
2.	Receivables due from affiliated companies (thereof due within one year EUR 12,468, prior year: EUR 517,797)	12,468		517,797
3.	Other assets (thereof due after one year EUR 0, prior year: EUR 79,521,181)	164,560,617		223,662,335
			175,745,831	**236,481,873**
III.	**Securities**			
	Other securities	86,538,195		69,890,401
			86,538,195	**69,890,401**
IV.	**Cash on Hand and Cash at Banks**	**62,668,030**	**62,668,030**	**62,305,600**
			325,119,287	**368,854,718**
C.	**PREPAID EXPENSES**	**4,491,369**	**4,491,369**	**6,299,580**
			399,779,191	**445,345,415**

	LIABILITIES AND SHAREHOLDERS EQUITY	12/31/2017 in €	12/31/2017 in €	12/31/2016 in €
A.	**EQUITY**			
I.	**Common Stock (Nominal Value of the Conditional Capital as of December 31, 2017: € 6,491,683; December 31, 2016: € 6,752,698)**	**29,420,785**		**29,159,770**
	Treasury Stock	(319,678)		(396,010)
			29,101,107	**28,763,760**
II.	**Additional Paid-in Capital**	**416,940,949**	**416,940,949**	**407,977,621**
III.	**Earnings Reserves**			
	Other earnings reserves	15,412,183	15,412,183	12,667,285
IV.	**Accumulated Income / (Deficit)**	**(111,625,357)**	**(111,625,357)**	**(45,353,159)**
			349,828,882	**404,055,507**
B.	**PROVISIONS**			
1.	Tax provisions	95,000		1,498,309
2.	Other provisions	42,294,257		29,658,016
			42,389,257	**31,156,325**
C.	**LIABILITIES**			
1.	Bonds (thereof convertible EUR 87,785, prior year: EUR 218,293)	87,785		218,293
2.	Trade Accounts Payable	4,673,354		8,358,489
3.	Liabilities due to Affiliated Companies	134,169		134,257
4.	Other liabilities (thereof due within one year EUR 2,105,735, prior year: EUR 781,266) (thereof for taxes EUR 1,970,597, prior year: EUR 614,929)	2,105,735		781,266
			7,001,043	**9,492,305**
D.	**DEFERRED REVENUE**	**560,009**	**560,009**	**641,278**
			399,779,191	**445,345,415**

Statement of Income from January 1, through December 31, 2017

		2017 in €	2016 in €
1.	Sales	66,495,873	48,714,087
2.	Cost of sales	(116,703,520)	(94,760,075)
3.	**Gross profit on sales**	**(50,207,647)**	**(46,045,988)**
4.	Selling expenses	(5,177,647)	(2,504,568)
5.	General administration expenses	(22,795,605)	(18,582,320)
6.	Other operating income	14,261,582	6,646,051
	thereof gain on exchange	484,840	192,391
7.	Other operating expenses	(2,427,881)	(455,261)
	thereof loss on exchange	(844,415)	(359,321)
8.	Income from other securities and loans presented under financial assets	35,309	293,553
9.	Other interest and similar income	237,569	1,231,980
	thereof interest income from the deduction of accrued interest of non-current provisions	55,234	68,762
10.	Losses from other securities and loans presented under financial assets	(62,594)	(891,956)
11.	Other Interest and similar expenses	(70,358)	(39,821)
	thereof interest expense from the addition of accrued interest of non-current provisions	(69,327)	(38,829)
12.	Income tax	(86,310)	158,250
13.	**Result after taxation**	**(66,293,582)**	**(60,190,080)**
14.	Other taxes	21,384	(20,139)
15.	**Net loss**	**(66,272,198)**	**(60,210,219)**
16.	Profit / (Loss) carried forward	(45,353,159)	14,857,060
17.	Withdrawal from Other Earnings Reserves	0	2,127,668
18.	Settlement with the difference from purchase of Treasury Stock	0	(2,127,668)
19.	Settlement with the difference from transfer of Treasury Stock	2,744,899	1,526,112
20.	Allocation to Other Earnings Reserves	(2,744,899)	(1,526,112)
21.	**Accumulated Deficit**	**(111,625,357)**	**(45,353,159)**

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 Regulated Market (Prime Standard segment) 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 Semmelweisstraße 7, 82152 Planegg, Germany. The MorphoSys AG consolidated and separate financial statements can be viewed at this address. The Company is recorded in the Commercial Register B of the District Court of Munich, Germany, under the number HRB 121023.

Accounting and Valuation Principles

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

When intangible assets acquired are subject to depletion, they are amortized using the straight-line method over the course of their expected useful lives. Research and development programs under development are recognized at acquisition cost and are only subject to amortization when the studies on the efficacy of the respective antibody program are completely finalized. The values of these assets are reviewed at the balance sheet date, and the assets 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 € 410 are fully depreciated in the year they are acquired.

Financial assets are recognized 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, except for the customary retention of title.

Receivables and other assets are recognized at nominal value. Risks are taken into account by means of write-downs or impairment. 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 curves. Recognition and measurement follow the imparity principle. Valuation units were not formed in the past financial year.

Other securities are recognized 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 on 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.

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

Liabilities are measured at the settlement amount. 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 programs introduced in 2014, 2015, 2016 and 2017 because the repurchase of treasury shares for servicing the long-term incentive programs constitutes a financial burden on 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 grants 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 achievement of certain criteria. Service fees pertaining to research and development collaborations are recognized in the period the services were rendered.

Any total tax charge that results from a difference between the carrying amounts of assets, liabilities, accruals and deferrals prescribed by commercial law and these items' tax carrying amounts that are likely to diminish in subsequent financial years, is recognized as a deferred tax liability in the balance sheet in accordance with Sec. 274 HGB. Any total 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."

All amounts in this report are rounded to the nearest euro, thousand euros 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 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 € 27,152k as of December 31, 2017 (December 31, 2016: € 26,540k). This sum included in-process research and development programs in the amount of € 23,948k (December 31, 2016: € 22,608k). The in-process research and development programs were examined for impairment as of the reporting date. The reason for the rise in the carrying amount of in-process research and development programs was the capitalization of a milestone payment made that led to an addition of € 11,140k and offset the impairment of MOR209/ES414 in the amount of € 9,800k. This impairment was a result of ending the cooperation with Aptevo Therapeutics in 2017. No further need for impairment was identified. In 2017 and 2016, there was no impairment recognized 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-process R&D Programs	not yet subject for amortization	-
Software	3 - 5 years	33% - 20%

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

FIXED ASSETS

The development of the individual line items under fixed 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 € 410	Immediately	100%
Leasehold Improvements to Property/Buildings	10 years	10%
Office Equipment	8 years	13%
Laboratory Equipment	4 years	25%

FINANCIAL ASSETS

As of the December 31, 2017 reporting date, the Company recorded interests in affiliated companies of € 39,624k (December 31, 2016: € 39,624k). This amount included the interests in Lanthio Pharma B.V. of € 33,575k (December 31, 2016: € 33,575k) and Sloning BioTechnology GmbH of € 6,049k (December 31, 2016: € 6,049k).

The interests in affiliated companies are listed in the following overview.

	Currency	Stake in %	Equity in domestic currency	Profit / Loss for the Year in domestic currency
Foreign				
Lanthio Pharma B.V., Groningen, The Netherlands	€	100.00	3,751,018 [2]	681,168
LanthioPep B.V., Groningen, The Netherlands [1]	€	100.00	- [2]	(5,478,805)
Domestic				
Sloning BioTechnology GmbH, Planegg, Germany	€	100.00	7,921,596	2,941,763

[1] Indirect subsidiary via Lanthio Pharma B.V.

[2] Disclosure of equity of the Lanthio Group

INVENTORIES

As of the balance sheet date, inventories amounted to € 167k (December 31, 2016: € 177k) and consisted exclusively of raw materials, supplies, and production materials.

TRADE ACCOUNTS RECEIVABLE

As of December 31, 2017, MorphoSys AG recorded trade accounts receivable of € 11,173k (December 31, 2016: € 12,302k). All trade accounts receivable are due within one year. Based on the Management Board's assessment, valuation allowances were not made in the 2017 and 2016 financial years.

RECEIVABLES DUE FROM AFFILIATED COMPANIES

As of December 31, 2017, receivables due from affiliated companies amounted to € 12k (December 31, 2016: € 518k) and included exclusively trade accounts receivable as in the prior year.

OTHER ASSETS

Other assets totaled € 164,561k as of December 31, 2017 (December 31, 2016: € 223,662k).

As of December 31, 2017, the Company held financial assets of € 149,056k. These were recorded under other assets and comprised various fixed deposits (December 31, 2016: € 211,630k). Interest income from these financial assets was recognized in the statement of income under the line item other interest and similar income. The risk associated with these financial instruments is primarily bank credit risk. There was no indication of impairment in the 2017 financial year.

Combination drugs in the amount of € 11,229k were recognized in other assets (December 31, 2016: € 7,337k).

Lease security deposits amounting to € 1,103k (December 31, 2016: € 1,223k) were recognized separately under other assets.

Other assets also contained a receivable due from tax authorities from excess VAT payments of € 2,433k (December 31, 2016: € 2,816k).

No impairment was recognized in other assets in 2017 (December 31, 2016: € 7k).

SECURITIES

Securities consisted of marketable securities in the amount of € 86,538k (December 31, 2016: € 63,360k). The Company was not holding any marketable bonds as of December 31, 2017 (December 31, 2016: € 6,530k). As of December 31, 2017, impairment for unrealized losses on marketable securities was € 105k (December 31, 2016: € 73k) and € 0k (December 31, 2016: € 90k) on marketable bonds. The changes of € 33k and € 90k were recognized in profit and loss.

COMMON STOCK

On December 31, 2017, the Company had common stock in the amount of € 29,421k (December 31, 2016: € 29,160k) divided into 29,420,785 no-par-value bearer shares (December 31, 2016: 26, 159,770 shares). With the exception of the 319,678 treasury shares (2016: 396,010 treasury shares) held by the Company, the shares concerned are bearer shares with dividend entitlements and voting rights with each share carrying one vote at the Annual General Meeting. The exercise of 261,015 convertible bonds by the Management Board and Senior Management Group resulted in an increase in common stock of € 261k.

TREASURY STOCK

The nominal value of the Company's treasury stock is offset against the common stock. The development of treasury stock is shown below.

	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 December 31, 2014	450,890	450,890
Repurchase of Treasury Stock	88,670	88,670
Transfer of Treasury Stock	(104,890)	(104,890)
Treasury Stock as of December 31, 2015	434,670	434,670
Repurchase of Treasury Stock	52,295	52,295
Transfer of Treasury Stock	(90,955)	(90,955)
Treasury Stock as of 31 December 2016	396,010	396,010
Transfer of Treasury Stock	(76,332)	(76,332)
Treasury Stock as of 31 December 2017	319,678	319,678

As of December 31, 2017, treasury stock amounted to 1.09% (December 31, 2016: 1.36%) of common stock.

The cause of this decline was the transfer of 61,871 of the Company's own shares to the Management Board and Senior Management Group under the performance-based 2013 long-term incentive program (LTI program). The vesting period for this LTI program expired on April 1, 2017 and October 1, 2017 and provides or provided beneficiaries a six-month option to receive a total of 61,871 shares. In addition, in March 2017, a total of 9,505 treasury shares were transferred to Chief Development Officer Dr. Peters, and in November 2017 a total of 4,956 treasury shares were transferred to Chief Scientific Officer Dr. Enzelberger.

AUTHORIZED AND CONDITIONAL CAPITAL

The number of authorized ordinary shares increased from 10,584,333 on December 31, 2016, to 14,579,885. This increase resulted from the cancellation of Authorized Capital 2015-I amounting to € 10,584,333 and the creation of Authorized Capital 2017-I in the amount of € 2,915,977 and Authorized Capital 2017-II in the amount of € 11,663,908 at the Annual General Meeting on May 17, 2017. Within the scope of Authorized Capital 2017-I and 2017-II, with the Supervisory Board's approval, the Management Board received authorization to increase the Company's common stock on one or more occasions until and including April 30, 2022 by up to € 2,915,977 and € 11,663,908, respectively, by issuing up to 2,915,977 and 11,663,908 new, no-par-value bearer shares.

The number of ordinary shares of conditional capital compared to December 31, 2016 decreased from 6,752,698 to 6,491,683 shares due to the exercise of 261,015 conversion rights in 2017. The reduction in ordinary shares of conditional capital through the exercise of 261,015 conversion rights was entered in the commercial register in December 2017.

ADDITIONAL PAID-IN CAPITAL

In the 2017 financial year, additional paid-in capital developed as follows:

	in 000's €
Status on January 1, 2017	**407,978**
Additions in connection with the Exercise of Convertible Bonds	8,059
Additions in connection with the Transfer of Treasury Stock	904
Status on December 31, 2017	**416,941**

The rise in additional paid-in capital totaling € 8,963k resulted from the exercise of convertible bonds and the issue of treasury shares to the Management Board and the Senior Management Group.

EARNINGS RESERVES

Other earnings reserves amounted to € 15,412k (December 31, 2016: € 12,667k).

Other earnings reserves in the 2017 financial year developed as follows.

	in 000's €
Other earnings reserve as of January 1, 2017	**12,667**
Settlement with the difference from transfer of Treasury Stock by Allocation to Other Earnings Reserves	2,745
Other earnings reserve as of December 31, 2017	**15,412**

The increase of € 2,745k resulted solely from the reclassification of other provisions related to the allocation of treasury shares under the 2013 long-term incentive program and the one-time allocations to the Chief Development Officer Dr. Peters and the Chief Scientific Officer Dr. Enzelberger when they assumed their roles on the Company's Management Board.

ACCUMULATED DEFICIT

The prior year's accumulated deficit developed in the reporting year as follows:

	in 000's €
Accumulated Deficit as of January 1, 2017	**(45,353)**
Net loss	(66,272)
Settlement with the difference from transfer of Treasury Stock	2,745
Allocation to Other Earnings Reserves	(2,745)
Accumulated Deficit as of December 31, 2017	**(111,625)**

The Company's net loss for the 2017 financial year of € -66,272k was offset against the prior year's accumulated deficit (€ -45,353k). MorphoSys AG's accumulated deficit for the 2017 financial year amounted to € -111,625k (December 31, 2016: accumulated deficit of € -45,353k).

STOCK OPTIONS

2017 STOCK OPTION PLAN

On April 1, 2017, MorphoSys established a stock option plan (SOP) for the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group. The grant date was April 1, 2017, and the vesting period/performance period is four years. The stock options vest each year by 25% within the four-year vesting period, provided that the performance criteria specified for the respective period have been 100% fulfilled. The number of stock options earned per year is calculated based on the performance criteria of the absolute and relative price performance of MorphoSys shares versus the NASDAQ Biotech Index and the TecDAX Index. The performance criteria can be met annually up to a maximum of 200%. If the specified performance criteria are met by less than 0% in one year, no shares will be earned for that year (entitlement). The right to exercise a stock option, however, arises only at the end of the four-year vesting period/performance period.

The exercise price, derived from the average market price of the Company's shares in the XETRA closing auction on the Frankfurt Stock Exchange from the 30 trading days prior to the issue of the stock options, is € 55.52.

MorphoSys reserves the right to settle the exercise of stock options through newly created shares from Conditional Capital 2016-III, through the issuance of treasury shares or in cash. The exercise period is three years after the end of the four-year vesting period/performance period.

If a member of the Management Board ceases to hold an office at MorphoSys through termination (or the Management Board member terminates the employment contract), resignation, death, injury, disability or the attainment of retirement age (receipt of a standard retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to a precise daily pro rata number of stock options.

If a member of the Management Board ceases to hold an office at MorphoSys for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB), all unexercised stock options will be forfeited without any entitlement to compensation.

If a change of control occurs during the four-year vesting period, the stock options will become fully vested. In this case, however, the right to exercise the stock options arises only at the end of the four-year vesting period.

As of April 1, 2017, a total of 81,157 stock options had been granted to the beneficiaries, of which 40,319 had been granted to the Management Board (further details can be found in the table "Remuneration of the Management Board"), 37,660 to the Senior Management Group and 3,178 to the Company employees who do not belong to the Senior Management Group. The stated number of stock options granted is based on 100% target achievement. The fair value of the stock options on the grant date (April 1, 2017) was € 21.41 per stock option. In the period from the grant date to December 31, 2017, one beneficiary had left MorphoSys, resulting in the forfeiture of 1,402 stock options. For the

calculation of personnel expenses resulting from share-based payments under the 2017 Stock Option Plan, the assumption is that two beneficiaries would leave the Company during the four-year period.

CONVERTIBLE BONDS

2013 CONVERTIBLE BOND PROGRAM

On April 1, 2013, MorphoSys AG granted the Management Board and members of the Senior Management Group convertible bonds with a total nominal value of € 225,000 and divided into 449,999 bearer bonds with equal rights from "Conditional Capital 2008-III". The beneficiaries have the right to convert the bonds into Company shares. Each convertible bond can be exchanged for one of the Company's bearer shares equal to the proportional amount of common stock, which currently stands at € 1. Exercise of the convertible bonds is subject to several conditions, such as the achievement of performance targets, the expiration of vesting periods, the exercisability of the conversion rights, the existence of an employment or service contract that is not under notice and the commencement of the exercise period.

The conversion price amounted to € 31.88 and was derived from the Company's share price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issue of the convertible bonds. The exercise of the conversion rights is admissible because on at least one trading day during the lifetime of the convertible bonds, the share price of the Company had risen to more than 120% of the price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issue of the convertible bonds.

The exercise of the conversion rights is now admissible because the four-year vesting period after the grant date has expired. For every year without a notice of termination of the employment relationship with the Company or an affiliated company, 25% of the conversion rights become vested.

The following table shows the development of the convertible bond plans for Company employees in the 2017 and 2016 financial years.

	Convertible Bonds	Weighted-average Price €
Outstanding as of January 1, 2016	**449,999**	**31.88**
Granted	0	0.00
Exercised	0	0.00
Forfeited	(13,414)	31.88
Expired	0	0.00
Outstanding as of December 31, 2016	**436,585**	**31.88**
Outstanding as of January 1, 2017	**436,585**	**31.88**
Granted	0	0.00
Exercised	(261,015)	31.88
Forfeited	0	0.00
Expired	0	0.00
Outstanding as of December 31, 2017	**175,570**	**31.88**

In the period from the grant date to December 31, 2017, one beneficiary has left MorphoSys resulting in the forfeiture of 13,414 convertible bonds. The convertible bonds exercisable on December 31, 2017 amounted to 175,570 shares (December 31, 2016: 327,439 shares).

The following overview includes the weighted average exercise price as well as information on the contract duration of significant groups of convertible bonds as of December 31, 2017.

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Exercise Price (€)
€ 25.00 - € 40.00	175,570	2.25	31.88	175,570	31.88
	175,570	**2.25**	**31.88**	**175,570**	**31.88**

LONG-TERM INCENTIVE PROGRAMS

2013 LONG-TERM INCENTIVE PROGRAM

On April 1, 2013, MorphoSys established a long-term incentive program (LTI program) for the Management Board and the Senior Management Group. The vesting period of this program expired on April 1, 2017. The LTI program is a performance-related share program and is paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are approved annually by the Supervisory Board. The performance criteria are based on a mathematical comparison of the absolute and relative performance of MorphoSys shares versus the NASDAQ Biotech Index and the TecDAX Index. The fulfillment of these criteria was set at 200% for one year, 54% for one year and 0% for two years. The Supervisory Board set the “company factor” at 1.57, meaning the number of performance shares to be allocated was scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 1,015k in the 2017 financial

year. Previously, personnel expenses resulting from the 2013 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 61,323 performance shares of MorphoSys AG was transferred to beneficiaries on October 2, 2017 after the expiration of the four-year vesting period. The Management Board received 36,729 performance shares (for further information, please see the tables in the section entitled “Remuneration of the Management Board”), the Senior Management Group received 21,248 performance shares and former members of the Senior Management Group who have since left the Company received 3,346 performance shares.

On October 1, 2013, MorphoSys established another long-term incentive program (LTI program) for Senior Management Group members. The vesting period of this program expired on October 1, 2017. The terms of this program were identical to the April 1, 2013 program. The fulfillment of the performance criteria was set at 200% for one year, 54.8% for one year and 0% for two years. The Supervisory Board set the “company factor” at 1.57, meaning the number of performance shares to be allocated was scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 16k in the 2017 financial year. Previously, personnel expenses resulting from the 2013 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 548 performance shares of MorphoSys AG was allocated to beneficiaries after the expiration of the four-year vesting period in December 2017. The Senior Management Group received all of the 548 performance shares.

In 2017, personnel expenses from performance shares under the 2013 LTI program amounted to € 1,144k (2016: € 308k).

2014 LONG-TERM INCENTIVE PROGRAM

On April 1, 2014, MorphoSys established a long-term incentive program (LTI program) for the Management Board and the Senior Management Group. The LTI program is a performance-related share program and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2014 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of shares earned per year is calculated based on the performance criteria of the absolute and relative price performance of MorphoSys shares versus the NASDAQ Biotech Index and the TecDAX Index. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Company, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI program, however, occurs only at the end of the four-year vesting period.

At the end of the four-year vesting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI program, MorphoSys reserves the right to pay a certain amount of the LTI program in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at MorphoSys because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at MorphoSys for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI program occurs only at the end of the four-year vesting period.

In March 2014, MorphoSys repurchased 111,000 of its own shares on the stock exchange at an average price of € 70.53 per share. The repurchased shares may be used for all purposes named in the authorizations of the Annual General Meetings on May 19, 2011 and May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 32,513 of these shares were allocated to beneficiaries on April 1, 2014 with 18,264 performance shares allocated to the Management Board (further details may be found in the table in the section entitled "Remuneration of the Management Board"), and 14,249 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2014) was € 62.17 per share. No dividends were included in the determination of the fair value of the performance shares because the Company does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, three beneficiaries left MorphoSys and, therefore, 1,829 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2014 LTI program, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

In 2017, personnel expenses resulting from performance shares under the 2014 LTI program amounted to € 480k (2016: € 394k).

2015 LONG-TERM INCENTIVE PROGRAM

On April 1, 2015, MorphoSys established a long-term incentive program (LTI program) for the Management Board and the Senior Management Group. The LTI program is a performance-related share program and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the

Supervisory Board. The grant date was April 1, 2015 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of shares earned per year is calculated based on the performance criteria of the absolute and relative price performance of MorphoSys shares versus the NASDAQ Biotech Index and the TecDAX Index. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a set factor, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI program, however, occurs only at the end of the four-year vesting period.

At the end of the four-year waiting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI program, MorphoSys reserves the right to pay a certain amount of the LTI program in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at MorphoSys because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at MorphoSys for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI program occurs only at the end of the four-year vesting period.

In April 2015, MorphoSys repurchased 88,670 of its own shares on the stock exchange at an average price of € 60.79 per share for a total of € 5,389,984. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 40,425 of these shares were allocated to beneficiaries on April 1, 2015 with 21,948 performance shares allocated to the Management Board (further details may be found in the table in

the section titled “Remuneration of the Management Board”), and 18,477 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2015) was € 61.40 per share. No dividends were included in the determination of the fair value of the performance shares because the Company does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, two beneficiaries left MorphoSys, and therefore 3,055 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2015 LTI program, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

In 2017, personnel expenses resulting from performance shares under the 2015 LTI program amounted to € 595k (2016: € 591k).

2016 LONG-TERM INCENTIVE PROGRAM

On April 1, 2016, MorphoSys established a long-term incentive program (LTI program) for the Management Board and the Senior Management Group. The LTI program is a performance-related share program and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2016 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of shares earned per year is calculated based on the performance criteria of the absolute and relative price performance of MorphoSys shares versus the NASDAQ Biotech Index and the TecDAX Index. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a set factor, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI program, however, occurs only at the end of the four-year vesting/performance period.

At the end of the four-year waiting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI program, MorphoSys reserves the right to pay a certain amount of the LTI program in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at MorphoSys because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or

under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at MorphoSys for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI program occurs only at the end of the four-year vesting period.

In March 2016, MorphoSys repurchased 52,295 of its own shares on the stock exchange at an average price of € 41.69 per share totaling € 2,179,963. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 68,143 of these shares were allocated to beneficiaries on April 1, 2016 with 35,681 performance shares allocated to the Management Board (further details may be found in the table in the section titled "Remuneration of the Management Board"), and 32,462 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2016) was € 46.86 per share. No dividends were included in the determination of the fair value of the performance shares because the Company does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, four beneficiaries left MorphoSys, and therefore 9,350 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2016 LTI program, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

In 2017, personnel expenses resulting from performance shares under the 2016 LTI program amounted to € 703k (2016: € 535k).

2017 LONG-TERM INCENTIVE PROGRAM

On April 1, 2017, MorphoSys established another long-term incentive program (LTI program) for the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group. The LTI program is a performance-related share program and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. The grant date was April 1, 2017, and the vesting/performance period is four years. If the predefined performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares earned per year is calculated based on the performance criteria of the absolute and relative performance of MorphoSys shares versus the NASDAQ Biotech Index and the TecDAX Index. The performance criteria can be met annually up to a maximum of 300% and up to 200% for the entire four-year period. If the specified performance criteria are met by less than 0% in one year, no shares will be earned for that year (entitlement). In any case, the maximum pay-out at the end of the four-year

period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI program, however, occurs only at the end of the four-year vesting/performance period.

At the end of the four-year waiting period, there is a six-month exercise period during which the Company can transfer the shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

If the number of repurchased shares is not sufficient for servicing the LTI program, MorphoSys reserves the right to pay a certain amount of the LTI program in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at MorphoSys because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

If a member of the Management Board ceases to hold an office at MorphoSys for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to performance shares.

If a change of control occurs during the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of performance shares under the LTI program occurs only at the end of the four-year vesting period.

A total of 31,549 of these shares were allocated to beneficiaries on April 1, 2017 with 15,675 performance shares allocated to the Management Board (further details may be found in the table Remuneration of the Management Board), 14,640 performance shares allocated to the Senior Management Group and 1,234 performance shares allocated to employees of the Company who are not members of the Senior Management Group. The number of s performance hares allocated is based on 100% achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2017) was € 70.52 per share. From the grant date until December 31, 2017, one beneficiary left MorphoSys, and therefore 545 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2017 LTI program, the assumption is that two beneficiaries would leave the company during the four-year period.

In 2017, personnel expenses resulting from performance shares under the 2017 LTI program amounted to € 385k.

TAX PROVISIONS

As of December 31, 2017, MorphoSys AG's tax provisions for taxes from previous years were € 95k (December 31, 2016: € 1,498k).

OTHER PROVISIONS

The provisions cover all identifiable risks and uncertain liabilities. They consist mainly of expenses for third-party laboratory services (2017: € 26,105k; 2016: € 15,949k); personnel expenses resulting from performance shares under the LTI programs (2017: € 5,036k; 2016: € 4,579k); bonus payments (2017: € 2,976k; 2016: € 1,879k); legal consultation (2017: € 2,101k; 2016: € 983k); consulting services (2017: € 746k; 2016: € 572k); outstanding vacation entitlements (2017: € 525k; 2016: € 515k); and license and inventor's remuneration (2017: € 161k; 2016: € 80k).

As of December 31, 2017, provisions for onerous contracts in connection with lease obligations for office premises, which will not be used anymore in the future, as well as for unrealized losses from outstanding forward exchange contracts were accounted for.. Furthermore, provisions comprised obligations resulting from an agreement with a contract manufacturing organization. These provisions amounted to a total of € 1,186k as of December 31, 2017. As of December 31, 2016, there were provisions for onerous contracts related to leased office premises that will no longer be in use as well as an agreement with a contract manufacturer in the amount of € 2,625k.

Under the Company's hedging policy, highly probable future cash flows and clearly identifiable foreign currency receivables that are expected to be collected within a 12-month period are reviewed for hedging requirements. As of December 31, 2017, there were 12 outstanding forward rate agreements with terms of 1 to 12 months with a nominal volume of € 10,589k (December 31, 2016: 11 forward rate agreements with a nominal value of € 15,957k). The nominal volume is equal to the contract values of the individual forward rate agreements. The fair value of these contracts as of December 31, 2017 is equivalent to an unrealized gross loss of € 300k (December 31, 2016: unrealized gross gain of € 520k).

LIABILITIES

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

		Remaining Term of Liabilities			Total	
	Type	up to 1 year	1 to 5 years	more than 5 years	12/31/2017 in 000's €	12/31/2016 in 000's €
1.	Bonds, thereof convertible	88	0	0	88	218
2.	Trade Accounts Payable	4,673	0	0	4,673	8,358
3.	Liabilities due to Affiliated Companies	134	0	0	134	134
4.	Other Liabilities	2,106	0	0	2,106	781
	thereof Taxes	1,994	0	0	1,994	615

BONDS

On December 31, 2017, the Company had liabilities related to convertible bonds granted to Management Board members and employees of MorphoSys AG amounting to € 88k (December 31, 2016: € 218k).

TRADE ACCOUNTS PAYABLE

As of December 31, 2017, MorphoSys AG had trade accounts payable of € 4,673k (December 31, 2016: € 8,358k). The decrease is due to a lower level of liabilities for external laboratory services, which were not yet due on the reporting date.

LIABILITIES DUE TO AFFILIATED COMPANIES

As of December 31, 2017, liabilities due to affiliated companies amounted to € 134k (December 2016: € 134k), which solely contained trade accounts payable.

OTHER LIABILITIES

Other liabilities as of December 31, 2017, include mainly liabilities to tax authorities for the deduction and payment of income tax in the amount of € 1,971k (December 31, 2016: € 615k).

DEFERRED REVENUE

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

In the years 2017 and 2016, deferred revenue developed as follows:

in 000's €	2017	2016
Opening Balance	**641**	**650**
Prepayments Received	17,594	16,829
Revenue Recognised through Release of Prepayments in line with Services Performed	(17,675)	(16,838)
Closing Balance	**560**	**641**

OTHER FINANCIAL OBLIGATIONS

The following overview shows other financial obligations from rental and lease agreements, insurance and other services as of December 31, 2017.

in 000's €	Rent and Leasing	Other	Total
2018	2,837	733	3,570
2019	2,805	0	2,805
2020	2,763	0	2,763
2021	2,720	0	2,720
2022	2,686	0	2,686
more	11,189	0	11,189
Total	**25,000**	**733**	**25,733**

In addition, future payments may become due from outsourced studies after December 31, 2017. These amounts could be substantially lower or incurred at different times if a study were to be terminated prematurely or delayed.

in million €	Total 2017
up to 1 year	56.1
Between one year and five years	66.1
more than 5 years	0.0
Total	**122.2**

If certain milestones are achieved in the Proprietary Development segment, for example, filing an application for an investigational new drug (IND) for specific target molecules, this may trigger regulatory and sales milestone payments to licensors of up to an aggregate of USD 287 million. The next milestone payment in the amount of USD 12.5 million could occur in approximately 18 to 24 months.

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.

Obligations may arise from enforcing the Company's patents against third parties. It is also conceivable that competitors may challenge the patents of the MorphoSys Group companies. MorphoSys may also come to the conclusion that MorphoSys's patents or patent families have been infringed upon by competitors, which may prompt MorphoSys to take legal action against competitors. At present, there are no specific indications that liabilities have occurred as described above.

Notes to the Statement of Income

REVENUES

Revenues in the 2017 financial year increased by 37% to € 66,496k versus the prior year (2016: € 48,714k). The increase in revenue is primarily the result of the US$ 20.0 million (€ 16.8 million) upfront payment received in 2017 after signing of an exclusive regional licensing agreement for the

development and commercialization of MOR202 in China, Taiwan, Hong Kong and Macao with I-Mab Biopharma.

In the 2017 financial year, the majority of revenues were generated from the antibody collaborations and license agreements with Novartis, I-Mab, and Janssen. Revenues of the Proprietary Development and Partnered Discovery segments contributed € 18,895k and € 47,138k to total revenues in 2017 (2016: € 1,983k and € 46,626k, respectively). Revenues not allocated to any of the segments amounted to € 463k in the reporting year (2016: € 105k).

Of total revenues, € 1,396k (2016: € 1,927k) was attributed to domestic revenues and € 6,858k (2016: € 2,823k) to biotechnology and pharmaceutical companies and non-profit organizations based in North America. Revenues from other European countries and Asia were € 58,242k (2016: € 43,964k).

COST OF GOODS SOLD

Cost of goods sold of € 116,704k (2016: € 94,760k) included research and development costs comprising costs for external services of € 60,333k (2016: € 44,357k), personnel expenses of € 33,320k (2016: € 26,713k), costs related to intangible assets of € 13,363k (2016: € 13,741k), material costs of € 2,442k (2016: € 2,205k), infrastructure costs of € 4,582k (2016: € 5,203k) and other costs of € 2,665k (2016: € 2,540k). The increase in personnel expenses was mainly due to higher taxable non-cash employee benefits from the transfer of share-based remuneration programs to employees in the research and development area compared to 2016 (see explanation under “Personnel Expenses”) and higher personnel expenses from the performance shares from the LTI programs. The rise in costs for external services is largely the result of higher expenditures for external laboratory services for MorphoSys’s proprietary product development. In 2017, MorphoSys AG recognized an impairment on licenses for concessions, commercial property rights and similar rights and assets amounting to € 9,864k (2016: € 10,141k) mainly for the impairment of the compound MOR209/ES414. The effect in 2016 was also influenced almost exclusively by this fact, as a partial impairment had already been recognized.

SELLING EXPENSES

Selling expenses of € 5,177k (2016: € 2,505k) included personnel expenses of € 2,132k (2016: € 1,722k), costs for external services of € 2,658k (2016: € 338k) and other costs of € 387k (2016: € 444k).

GENERAL ADMINISTRATION EXPENSES

General administration expenses of € 22,796k (2016: € 18,582k) contained primarily personnel expenses of € 17,920k (2016: € 11,244k), costs for external services of € 2,734k (2016: € 5,167k), costs related to intangible assets of € 634k (2016: € 452k), infrastructure costs of € 778k (2016: € 798k) and other costs of € 730k (2016: € 921k). The increase in personnel expenses was mainly due to the higher taxable non-cash employee benefits from the transfer of share-based remuneration programs to employees in the administrative area compared to 2016 (see explanation under “Personnel Expenses”). The decline in costs for external services resulted from the costs that occurred solely in 2016 that were associated with the capital increase executed in November 2016.

PERSONNEL EXPENSES

Personnel expenses of € 53,372k (2016: € 39,679k) consisted of wages and salaries of € 40,389k (2016: € 31,472k), social security contributions of € 3,471k (2016: € 3,537k); personnel expenses from the LTI program's performance shares of € 4,192k (2016: € 1,973k), pension costs of € 1,116k (2016: € 1,038k), costs for external support staff/temporary employees of € 881k (2016: € 786k) and other costs of € 3,324k (2016: € 873k). In 2017, other personnel expenses consisted primarily of severance payments, recruitment and development costs.

The increase in personnel expenses was driven mainly by higher salary expenses (€ 8,917k) due to the higher taxable non-cash employee benefits from the transfer of share-based remuneration programs to employees of MorphoSys AG and due to higher expenses from the LTI Plan's performance shares (€ 2,191k).

Although MorphoSys AG executes the taxation of the non-cash benefits for active employees from the allocation and exercise of share-based remuneration, the employees are obliged to refund MorphoSys for this tax payment. In order to technically execute this taxation over the payroll, the basis for the assessment must be recorded under personnel expenses. For accounting purposes, this expense is offset by other operating income (see "Other Operating Income"). In 2017, this amount was € 11,683k (2016: € 3,714k). The increase in the assessment basis in 2017 was due to the higher number of transactions versus the previous year.

MATERIAL EXPENSES

Material expenses of € 2,491k (2016: € 2,303k) mostly concerned expenses for raw materials, supplies and production materials of € 2,406k (2016: € 2,161k) and costs for printed materials of € 60k (2016: € 58k). Material expenses in the years 2017 and 2016 did not contain any purchased services.

OTHER OPERATING INCOME

Other operating income amounted to € 14,262k compared to € 6,646k in 2016. This amount included € 12,056k (2016: € 3,959k) 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"). Other operating income also included income related to prior periods from the release of provisions recognized in the previous year as well as other operating income of € 1,275k (2016: € 1,745k), currency gains of € 485k (2016: € 192k) and gains from currency hedges of € 445k (2016: € 750k).

OTHER OPERATING EXPENSES

Other operating expenses totaled € 2,428k (2016: € 455k) and consisted mainly of losses from forward rate agreements in the amount of € 1,335k (2016: € 0k) and currency losses of € 844k (2106: € 359k). The year 2016 also included the impairment of other assets in the amount of € 7k.

INCOME FROM OTHER SECURITIES AND LOANS PRESENTED UNDER FINANCIAL ASSETS

Income from other securities and loans presented under financial assets of € 35k (2016: € 294k) solely comprised realized gains on marketable securities.

OTHER INTEREST AND SIMILAR INCOME

This line item in the amount of € 238k (2016: € 1,232k) consisted mainly of interest income from bank deposits and financial investments classified as other assets amounting to € 182k (2016: € 1,163k) and interest income of € 55k from the discounting of non-current provisions for personnel expenses resulting from performance shares from the LTI program (2016: € 69k).

LOSSES FROM OTHER SECURITIES AND LOANS PRESENTED UNDER FINANCIAL ASSETS

Losses from other securities and loans presented under financial assets in the amount of € 63k (2016: € 892k) included unrealized losses resulting from the valuation and realized losses from the sale of marketable securities and bonds.

OTHER INTEREST AND SIMILAR EXPENSES

Interest expenses included € 70k (2016: € 40k), which were mainly related to the accrued interest on non-current provisions for personnel expenses from the LTI programs' performance shares.

TAXES ON INCOME

After an income tax benefit of € 158k was recognized in 2016, the year 2017 recorded a tax expense of € 86k. The income tax expense in 2017 mainly arose from corporate and trade tax back payments for the 2015 taxable period.

As of December 31, 2017, MorphoSys AG had tax loss carryforwards for corporate tax purposes of € 126,028k and € 126,152k for trade tax purposes.

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 26.675%. 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 December 31, 2017 and December 31, 2016 resulted from temporary differences from the varied recognition of paid concessions, commercial property rights, similar rights and assets, and licenses to such rights and the recognition of provisions and other liabilities. In addition, a tax reconciliation item 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 December 31, 2017 and December 31, 2016, there were no deferred differences that would have resulted in deferred tax liabilities. Accordingly, the statement of income for the 2017 and 2016 financial years did not include any tax effects from the change in recognized deferred taxes.

Other Information

SUPERVISORY BOARD

As of December 31, 2017, the Company's Supervisory Board members 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	Chief Executive Officer, Adrenomed AG; Chairman of the Supervisory Board of MorphoSys AG as well as member of another supervisory board of domestic and Foreign supervisory boards of commercial enterprises	Member since 1999 Chairman Chairman of the Remuneration & Nomination Committee	4sigma Inc., BM (Chairman of the Board of Directors) Ayoxxa Biosystems GmbH, DE (Chairman of the Advisory Board)
Dr. Frank Morich Berlin, Germany Year of Birth: 1953	Independent Consultant of the life sciences and healthcare industries	Member since 2015 Deputy Chairman Member of the Science & Technology Committee	No memberships
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 Chairman of the Science & Technology Committee Member of the Remuneration & Nomination Committee	Moleac Pte. Ltd., SG (Member of the *Board of Directors*)
Wendy Johnson San Diego, California, USA Year of Birth: 1952	Managing Director, Gemini Advisors; Chief Operating Officer, Reneo Pharmaceuticals, Inc.	Member since 2015 Member Member of the Audit Committee Member of the Science & Technology Committee	AmpliPhi Biosciences, USA (Member of the *Board of Directors*)
Klaus Kühn Grevenbroich, Germany Year of Birth: 1952	Member of the Supervisory Board of MorphoSys AG as well as chairman and member of comparable domestic supervisory boards of commercial enterprises	Member since 2015 Member Chairman of the Audit Committee	Flossbach von Storch AG, DE (Chairman of the Supervisory Board) Hella KGaA Hueck & Co., DE (Member of the Supervisory Board, Member of the Shareholders' Committee)
Krisja Vermeylen Hellerup, Denmark Year of Birth: 1962	Senior Vice President Corporate People & Organisation, Novo Nordisk A/S, Denmark	Member since 2017 Member Member of the Audit Committee Member of the Remuneration & Nomination Committee	No memberships

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 December 1, 2017, 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).

MANAGEMENT BOARD

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

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

Dr. Malte Peters, Physician, Munich, Germany (Chief Development Officer since March 1, 2017)

Dr. Markus Enzelberger, Chemist, Planegg, Germany (Chief Scientific Officer since November 1, 2017)

Dr. Arndt Schottelius, Physician, Munich, Germany (Chief Development Officer until February 28, 2017)

Dr. Marlies Sproll, Biologist, Munich, Germany (Chief Scientific Officer until October 31, 2017)

Management Board members do not have mandates on supervisory boards of other publicly listed companies.

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 2017, the total remuneration of the Supervisory Board, excluding reimbursements for travel costs, amounted to € 523k (2016: € 530k).

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 No. 9 HGB.

MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2017 AND 2016:

in €	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer		Dr. Malte Peters Chief Development Officer	
					Appointment: March 1, 2017	
	2016	2017	2016	2017	2016	2017
Fixed Compensation	463,457	500,876	314,405	372,652	-	281,500
Fringe Benefits [1]	34,270	35,912	46,300	42,905	-	568,644
One -Year Variable Compensation	210,873	368,144	143,054	273,899	-	206,903
Total Short-Term Employee Benefits	**708,600**	**904,932**	**503,759**	**689,456**	**-**	**1,057,047**
Service Cost	142,096	149,567	92,875	99,949	-	60,967
Total Benefit Expenses - Post-Employment Benefits	**142,096**	**149,567**	**92,875**	**99,949**	**-**	**60,967**
Multi-Year Variable Compensation [2, 3]						
2012 Long-Term Incentive Program (Vesting Period 4 Years)	(21,508)	0	(14,732)	0	-	0
2013 Long-Term Incentive Program (Vesting Period 4 Years)	51,796	222,837	35,460	152,617	-	0
2014 Long-Term Incentive Program (Vesting Period 4 Years)	71,049	92,929	48,655	63,647	-	0
2015 Long-Term Incentive Program (Vesting Period 4 Years)	111,115	110,290	82,436	75,537	-	0
2016 Long-Term Incentive Program (Vesting Period 4 Years)	105,718	140,957	69,263	92,351	-	0
2017 Long-Term Incentive Program (Vesting Period 4 Years)	0	64,314	0	42,140	-	42,140
Total Stock-Based Compensation	**318,170**	**631,327**	**221,082**	**426,292**	**-**	**42,140**
Total Compensation	**1,168,866**	**1,685,826**	**817,716**	**1,215,697**	**-**	**1,160,154**

Dr. Markus Enzelberger [4] Chief Scientific Officer Appointment (Interim-CSO): April 15, 2017 Appointment: November 1, 2017		Dr. Marlies Sproll [5] Chief Scientific Officer Temporary Leave: April 15, 2017 - October 31, 2017 Resignation: October 31, 2017		Dr. Arndt Schottelius Chief Development Officer Resignation: February 28, 2017		Total	
2016	2017	2016	2017	2016	2017	2016	2017
-	204,698	314,405	222,450	309,759	103,253	1,402,026	1,685,429
-	417,158	24,141	20,427	28,388	9,161	133,099	1,094,207
-	121,688	143,054	67,745	140,940	23,490	637,921	1,061,869
-	**743,544**	**481,600**	**310,622**	**479,087**	**135,904**	**2,173,046**	**3,841,505**
-	29,186	92,876	77,976	95,473	28,245	423,320	445,890
-	**29,186**	**92,876**	**77,976**	**95,473**	**28,245**	**423,320**	**445,890**
						0	0
-	0	(14,732)	0	(14,732)	0	(65,704)	0
-	0	35,460	152,617	35,460	152,617	158,176	680,688
-	0	48,655	63,647	48,655	21,143	217,014	241,366
-	0	82,436	75,537	82,436	25,093	358,423	286,457
-	0	69,263	92,351	69,263	30,425	313,507	356,084
-	27,066	0	31,602	0	-	0	207,262
-	**27,066**	**221,082**	**415,754**	**221,082**	**229,278**	**981,416**	**1,771,857**
-	**799,796**	**795,558**	**804,352**	**795,642**	**393,427**	**3,577,782**	**6,059,252**

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

[2] The 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.

[3] 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.

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

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

On January 5, 2017, MorphoSys announced that Dr. Malte Peters would succeed Dr. Arndt Schottelius as the Chief Development Officer and member of the Management Board of MorphoSys AG. Dr. Schottelius resigned from his position as Chief Development Officer effective February 28, 2017 to pursue new challenges. For the period leading up to the end of his employment contract on April 30, 2017, Dr. Schottelius and MorphoSys entered into an exemption agreement. According to the agreement, Dr.

Schottelius was entitled to the remuneration agreed in his employment contract until the date of April 30, 2017. The remuneration included a contractually agreed payment of a pro rata amount of his annual gross base salary of € 103,252.96 and a bonus of € 23,490.05. Dr. Schottelius also exercised the convertible bonds granted to him in 2013. In addition, he received shares that had vested after the four-year vesting period under the 2013 Performance Share Plan. Dr. Schottelius still has a pro rata entitlement based on the 2014, 2015 and 2016 Performance Share Plans, which can be exercised after a total of 4 years at the earliest. Dr. Schottelius did not participate in the 2017 Performance Share Plan. Effective March 1, 2017, Dr. Malte Peters was appointed Chief Development Officer of MorphoSys AG. His employment contract runs until June 30, 2019. As an additional incentive to join MorphoSys, Dr. Peters was granted a one-time compensation payment for the lost compensation from his former employment. This compensation was in the form of treasury shares held by MorphoSys valued at € 500,000. In the 2017 financial year, the granting of these shares was recognized as personnel expenses from performance shares.

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

In 2017, the total remuneration for the Supervisory Board, excluding reimbursed travel costs, amounted to € 523,015 (2016: € 529,680).

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2017 AND 2016:

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

[1] The attendance fee contains expense allowances for the attendance at Supervisory Board and Committee meetings.

[2] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.

[3] Karin Eastham left the Supervisory Board of MorphoSys AG on MorphoSys AG zum May 17 2017.

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

Stock Options

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

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

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

[1] Dr. Malte Peters joined the Management Board of MorphoSys AG on March 1, 2017.

[2] Dr. Markus Enzelberger joined the Management Board of MorphoSys AG on November 1, 2017. Prior to his appointment as member of the Management Board 4,906 shares have been held by Dr. Markus Enzelberger. Under the Long-Term Incentive Programs 2014 to 2016, Dr. Markus Enzelberger was granted 3,940 performance shares as a member of the Senior Management prior to his appointment as member of the Management Board.

[3] Dr. Arndt Schottelius left the Management Board of MorphoSys AG on February 28, 2017. The exercises and allocations presented in the tables "Convertible Bonds" and "Performance Shares" were made after resignation from the Management Board. The respective convertible bonds and performance shares were granted in previous years. The table "Shares" shows no further changes in the number of shares after resignation from the Management Board of MorphoSys AG.

[4] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. The exercises presented in the table "Convertible Bonds" were made after resignation from the Management Board. The respective convertible bonds were granted in a previous year. The table "Shares" shows no further changes in the number of shares after resignation from the Management Board of MorphoSys.

[5] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.

[6] Karin Eastham left the Supervisory Board of MorphoSys AG on May 17, 2017. Changes in the number of shares after resignation from the Supervisory Board of MorphoSys AG are not presented in the tables.

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

RELATED PARTIES

As of December 31, 2017, the Senior Management Group held 35,978 stock options (December 31, 2016: 0 stock options), 13,233 convertible bonds (December 31, 2016: 136,588 bonds) and 67,149 performance shares (December 31, 2016: 82,143 shares), which were granted by the Company. In 2017,

a new stock option plan and performance share program were issued to the Senior Management Group. On April 1, 2017, members of the Senior Management Group were allocated 21,248 shares and on October 1, 2017 a total of 548 shares from the 2013 LTI program with an option to receive the shares within a period of six months. Until December 31, 2017, this option was exercised by members of the Senior Management Group for a total of 21,796 shares.

COMPENSATION OF THE AUDITOR

At the Company's Annual General Meeting in May 2017, the Supervisory Board was given authorization to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH), Munich, as the auditor.

In the 2017 financial year, PwC GmbH received compensation from MorphoSys in the amount of € 351,044, including audit fees in the amount of € 252,725 as well as fees for other services in the amount of € 98,319. PwC GmbH did neither provide other audit-related and valuation services nor tax consultation services in 2017.

HUMAN RESOURCES

As of December 31, 2017, MorphoSys AG engaged a total of 313 employees (December 31, 2016: 333) in addition to the four Management Board members and 8 trainees (December 31, 2016: 8 trainees).

Of these 313 employees, 255 were employed in research and development and 58 in sales, general and administration (December 31, 2016: 280 in R&D and 53 in sales, general and administration). The average number of employees in the 2017 financial year was 331 (2016: 342). Of the 331 average number of employees in 2017, a total of 276 were employed in research and development and 55 in sales, general and administration.

The 313 employees as of December 31, 2017 consisted of 25 senior executives (December 31, 2016: 22) and 288 non-executive employees (December 31, 2016: 311).

DIVIDEND

The net loss in 2017 was offset against the prior year's accumulated deficit, resulting in an accumulated deficit as of December 31, 2017. In line with the standard practice in the biotechnology industry, MorphoSys does not expect to pay a dividend in the foreseeable future. The majority of profits potentially generated by the Company in the future 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 published the following information regarding voting rights notifications pursuant to Sec. 26 Para. 1 WpHG (status as of December 31, 2017):

TEMPLETON FUNDS TRUST, ON JUNE 21, 2017

1. Issuer:
MorphoSys AG, Semmelweisstr. 7, 82152 Planegg, Germany

2. Reason for notification:
Acquisiton/disposal of shares with voting rights
3. Details of person subject to the notification obligation:
Templeton Funds Trust, Wilmington, Delaware, USA
5. Date of which threshold was crossed or reached:
12.06.2017
6. Total positions
new:
% of voting rights attached to shares: 3.09 %
% of voting right through instruments: 0 %
Total of both in %: 3.09 %
Total number of voting rights of issuer: 29,324,110
7. Notified details of the resulting situation
a. Voting rights attached to shares (§§ 21, 22 WpHG)
ISIN: DE0006632003
absolute – direct (§ 21 WpHG): 906,960
in % – direct (§ 21 WpHG): 3.09 %
Total
absolute 906,960
in % 3.09 %
8. Information in relation to the person subject to the notification obligation:
Person subject to the notification obligation is not controlled and does itself not control any other undertaking (s) holding directly or indirectly an interest in the (underlying) issuer (1.).

MR. MARK N. LAMPERT, ON NOVEMBER 14, 2017

1. Issuer:
MorphoSys AG, Semmelweisstr. 7, 82152 Planegg, Germany
2. Reason for notification:
Acquisiton/disposal of shares with voting rights
3. Details of person subject to the notification obligation:
Herr Mark N. Lampert, Date of birth: 20.03.1960
5. Date of which threshold was crossed or reached:
08.11.2017
6. Total position
new:
% of voting rights attached to shares: 2.33 %
% of voting right through instruments: 0 %
Total of both in %: 2.33 %
Total number of voting rights of issuer: 29,358,748
old:
% of voting rights attached to shares: 4.17 %
% of voting right through instruments: 0 %
Total of both in %: 4.17 %
7. Notified details of the resulting situation
a. Voting rights attached to shares (§§ 21, 22 WpHG)
ISIN: DE0006632003
absolute – indirect (§ 22 WpHG): 684,942
in % – indirect (§ 22 WpHG): 2.33 %
Total
absolut: 684,942
in %: 2.33 %
8. Information in relation to the person subject to the notification obligation:
Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:
Mark N. Lampert
BVF Inc.
BVF Partners, L.P.
Biotechnology Value Fund, L.P.

Mark N. Lampert
BVF Inc.
BVF Partners, L.P.
Biotechnology Value Fund II, L.P.

Mark N. Lampert
BVF Inc.
BVF Partners, L.P.
BVF Partners OS Ltd.
Biotechnology Value Trading Fund OS L.P.

OPPENHEIMERFUNDS, INC., ON DECEMBER 14, 2017

1. Issuer:
MorphoSys AG, Semmelweisstr. 7, 82152 Planegg, Germany
2. Reason for notification:
Acquisiton/disposal of shares with voting rights
3. Details of person subject to the notification obligation:
OppenheimerFunds, Inc., Denver, Colorado, USA
4. Name of shareholder (s) holding directly 3% or more voting rights, if different from 3.:
Oppenheimer Global Opportunities Fund
5. Date on which threshold was crossed or reached:
08.12.2017
6. Total positions
new:
% of voting rights attached to shares: 5.05%
% of voting right through instruments: 0 %
Total of both in %: 5.05 %
Total number of voting rights of issuer: 29,419,285
old:
% of voting rights attached to shares: 4.92 %
% of voting right through instruments: 0 %
Total of both in %: 4.92 %
7. Notified details of the resulting situation
a. Voting rights attached to shares (§§ 21, 22 WpHG)
ISIN: DE0006632003
absolute – indirect (§ 22 WpHG): 1,484,241
in % – indirect (§ 22 WpHG): 5.05 %
total
absolute: 1,484,241
in %: 5.05 %
8. Information in relation to the person subject to the notification obligation:
Person subject to the notification obligation is not controlled and does itself not control any other undertaking (s) holding directly or indirectly an interest in the (underlying) issuer (1.).

Appropriation of Accumulated Profit/Deficit

As of December 31, 2017, MorphoSys AG's accumulated deficit amounted to € 111,625,357.42 (December 31, 2016: accumulated deficit of € 45,353,158.76).

In Euro	2017
a. Allocation to Shareholders	0,00
b. Allocation to Other Earnings Reserves	0,00
c. Loss Carried Forward	-111,625,357.42
d. Accumulated Deficit	-111.625.357.42

Subsequent Events

After the balance sheet date of December 31, 2017 no events occurred that require reporting.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the Company's net assets, financial position and results of operations, and the management report provides a fair review of the development and performance of the business and the position of the Company together with a description of the principal opportunities and risks associated with the Company's expected development.

Planegg, March 8, 2018

Dr. Simon Moroney
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Malte Peters
Chief Development Officer

Dr. Markus Enzelberger
Chief Scientific Officer

Statement of Fixed Assets

		Aquisition and Production Cost			
		01/01/2017 in €	Additions in €	Disposals in €	12/31/2017 in €
A.	**Fixed Assets**				
I.	**Intangible Assets**				
1.	Paid concessions, commercial property rights and similar rights and assets and licenses to such rights and assets	83,853,413	11,192,422	21,678,760	73,367,075
		83,853,413	**11,192,422**	**21,678,760**	**73,367,075**
II.	**Tangible Assets**				
1.	Land, leasehold rights and buildings, including leasehold improvements	1,691,295	50,815	0	1,742,110
2.	Other equipment, furniture and fixtures	16,994,203	1,248,228	528,154	17,714,277
		18,685,498	**1,299,043**	**528,154**	**19,456,387**
III.	**Financial Assets**				
1.	Shares in affiliated companies	39,624,278	0	0	39,624,278
		39,624,278	**0**	**0**	**39,624,278**
		142,163,189	**12,491,465**	**22,206,914**	**132,447,740**

	Accumulated Depreciation					Net Book Values	
	01/01/2017 in €	Additions in €	Write-offs in €	Disposals in €	12/31/2017 in €	12/31/2017 in €	12/31/2016 in €
	57,313,202	780,532	9,800,000	21,678,759	46,214,975	27,152,100	26,540,211
	57,313,202	**780,532**	**9,800,000**	**21,678,759**	**46,214,975**	**27,152,100**	**26,540,211**
	1,263,183	43,442	0	0	1,306,625	435,485	428,112
	13,395,687	1,878,676	0	516,758	14,757,605	2,956,672	3,598,516
	14,658,870	**1,922,118**	**0**	**516,758**	**16,064,230**	**3,392,157**	**4,026,628**
	0	0	0	0	0	39,624,278	39,624,278
	0	**0**	**0**	**0**	**0**	**39,624,278**	**39,624,278**
	71,972,072	**2,702,650**	**9,800,000**	**22,195,517**	**62,279,205**	**70,168,535**	**70,191,117**

“Independent Auditor’s Report

To MorphoSys AG, Planegg

Report on the Audit of the Annual Financial Statements and of the Management Report

AUDIT OPINIONS

We have audited the annual financial statements of MorphoSys AG, Planegg, which comprise the balance sheet as at December 31, 2017, and the statement of profit and loss for the financial year from January 1, to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of MorphoSys AG for the financial year from January 1, to December 31, 2017. We have not audited the content of those parts of the management report listed in the “Other Information” section of our auditor’s report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1, to December 31, 2017, in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 [HGB Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our

other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of financial assets
2. Recoverability of the in-process program “MOR208”
3. Revenue recognition in connection with the out-licensing of the antibody “MOR202”

Our presentation of these key audit matters has been structured in each case as follows:

1) Matter and issue
2) Audit approach and findings
3) Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of financial assets
    1) In the annual financial statements of the Company shares in affiliated companies amounting to EUR 39,624,278 are reported under the "Financial assets" balance sheet item. Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The fair values are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial asset. On the basis of the values determined and supplementary documentation, no write-downs were required in the financial year. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors of the future cash flows, and on the respective discount rates and rates of growth applied. The valuation is therefore subject to material uncertainties. Against this background and due to the highly complex nature of the valuation and its material significance for the Company's assets, liabilities, and financial performance, this matter was of particular significance in the context of our audit.
    2) As part of our audit, we evaluated the methodology used for the purposes of the measurement, among other things. In particular, we assessed whether the fair values had been appropriately determined using discounted cash flow models in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and

sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key planning value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Overall, taking into consideration the information available, in our view the measurement parameters applied and underlying assumptions used by the executive directors are appropriate for the purpose of appropriately measuring shares in affiliated companies.

3) The Company's disclosures regarding financial assets are contained in section “financial assets” of the notes to the financial statements.

2. Recoverability of the in-process program “MOR208”

1) In the annual financial statements of the Company an amount of EUR 23,948,000 is reported under the "Intangible assets" balance sheet item for an acquired program that is still in-process for the antibody "MOR208". The program is measured at the lower of cost and fair value, provided the impairment is expected to be permanent. Fair value is generally determined on the basis of the present value of expected future cash flows from the program, which is calculated using a discounted cash flow model. For this purpose, the cash flow budget prepared by the executive directors forms the starting point for future projections based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used was the Company's weighted average cost of capital. No impairment was determined for the financial year on this basis and thus no write-downs were required. The result of this measurement depends to a large extent on executive directors' estimation of future cash flows of the program and the discount rate used, and is therefore subject to material uncertainties. Against this background and due to the highly complex nature of the measurement, this matter was of particular significance during our audit.

2) As part of our audit, we assessed the methodology used for the purposes of conducting the valuation, among other things. We assessed the appropriateness of the calculation of fair values by comparing – taking the relevant measurement standards into consideration – the future cash flows used in the calculation with the current budget from the cash flow budget prepared by the executive directors and acknowledged by the supervisory board and by reconciling them with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the fair values calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, we conducted our own sensitivity analyses. Overall, taking into consideration the information available, the measurement parameters applied and underlying assumptions used by the executive directors are in our view appropriate for the purpose of appropriately measuring the program for the antibody "MOR208".

3) The Company's disclosures regarding intangible assets are contained in section “intangible assets” of the notes to the financial statements.

3. Revenue recognition in connection with the out-licensing of the antibody “MOR202”

1) In the annual financial statements of the Company revenue amounting to EUR 16.8 million (25% of revenue) is reported in the income statement, which results from the out-licensing of the antibody "MOR202" within the financial year in the form of a technology transfer to further develop this antibody under an agreement dated November 30, 2017. The recognition of revenue depends in particular on whether the structure of the license agreement means that the beneficial ownership of the rights associated with the license is transferred to the licensee. The relevant license agreement cannot be terminated. Furthermore, the licensee is able to exercise the rights associated with the license freely and at its own discretion. The licensor does not have to perform any material services for the licensee after the transfer of the license. In light of the extensive and complex contractual agreement and the amount of revenue resulting from the transaction, recognizing revenue in connection with the out-licensing of the antibody "MOR202" is subject to significant risk and to a certain extent is based on estimates made by the executive directors. Against this background, this matter was of particular significance for our audit.
2) Our audit included the evaluation of the appropriateness and effectiveness of the established internal control system of the Group with regard to the complete and correct recognition of revenue in connection with the out-licensing, including the IT systems used. Furthermore, we obtained an understanding of the underlying contractual agreement and assessed it with regard to the timing of revenue recognition in accordance with German commercial law. In a further step, we evaluated the basis for recognizing revenue in connection with the technology transfer and the amounts thereof. We used and evaluated the corresponding contractual documents to assess the recognition of revenue. We also inspected and evaluated payment records. Furthermore, we also examined the data transfer of the technology to the contractual partner. Overall, we were able to satisfy ourselves that the established systems and processes as well as controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue in connection with this out-licensing is appropriately recognized.
3) The Company's disclosures on revenue are contained in section “revenues” of the notes to the financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant to § 289f HGB included in the management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (except for the remuneration report)

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters

that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on May 17, 2017. We were engaged by the supervisory board on October 10, 2017. We have been the auditor of the MorphoSys AG, Planegg, without interruption since the financial year 2011.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dietmar Eglauer."

Imprint

Contact Information

CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

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