Annual Report 2015
Engineering the Medicines of Tomorrow

morphosys

Engineering the Medicines of Tomorrow

Product Pipeline

MorphoSys's Product Pipeline, as of December 31, 2015

PROGRAM / PARTNER INDICATION	MOST ADVANCED DEVELOPMENT STAGE DISCOVERY	PRECLINIC	PHASE 1	PHASE 2	PHASE 3	MARKET
Bimagrumab/BYM338 (Novartis) sIBM (musculoskeletal)	■	■	■	■	■	□
Guselkumab/CNTO1959 (Janssen/J&J) Psoriasis	■	■	■	■	■	□
Gantenerumab (Roche) Alzheimer's disease	■	■	■	■	■	□
MOR208 (not partnered) CLL, NHL	■	■	■	■	□	□
MOR202 (not partnered) Multiple myeloma	■	■	■	■	□	□
MOR103/GSK3196165 (GlaxoSmithKline) Rheumatoid Arthritis (RA)	■	■	■	■	□	□
Anetumab Ravtansine/BAY94-9343 (Bayer) Mesothelioma	■	■	■	■	□	□
BHQ880 (Novartis) Multiple myeloma	■	■	■	■	□	□
BPS804 (Mereo/Novartis) Brittle bone syndrome	■	■	■	■	□	□
CNTO3157 (Janssen/J&J) Inflammation	■	■	■	■	□	□
CNTO6785 (Janssen/J&J) Inflammation	■	■	■	■	□	□
LFG316 (Novartis) Eye diseases	■	■	■	■	□	□
LJM716 (Novartis) Cancer	■	■	■	■	□	□
Tarextumab/OMP-59R5 (OncoMed) Solid tumors	■	■	■	■	□	□
VAY736 (Novartis) Inflammation	■	■	■	■	□	□
MOR209/ES414 (Emergent) Prostate cancer	■	■	■	□	□	□

PROGRAM / PARTNER INDICATION	MOST ADVANCED DEVELOPMENT STAGE DISCOVERY	PRECLINIC	PHASE 1	PHASE 2	PHASE 3	MARKET
BAY1093884 (Bayer) Hemophilia	■	■	■	□	□	□
BI-836845 (BI) Solid tumors	■	■	■	□	□	□
NOV-7 (Novartis) Eye diseases	■	■	■	□	□	□
NOV-8 (Novartis) Inflammation	■	■	■	□	□	□
NOV-9 (Novartis) Diabetic eye diseases	■	■	■	□	□	□
NOV-10 (Novartis) Cancer	■	■	■	□	□	□
NOV-11 (Novartis) Blood disorders	■	■	■	□	□	□
PF-05082566 (Pfizer) Solid tumors	■	■	■	□	□	□
Vantictumab/OMP-18R5 (OncoMed) Solid tumors	■	■	■	□	□	□
MOR106 (Galapagos) Inflammation	■	■	□	□	□	□
MOR107/LP2 (not partnered) Fibrosis	■	■	□	□	□	□
25 partnered programs Various	■	■	□	□	□	□
Immuno-oncology program (Merck Serono) Cancer	■	□	□	□	□	□
Immuno-oncology program (Immatics) Cancer	■	□	□	□	□	□
6 MOR programs Various	■	□	□	□	□	□
43 partnered programs Various	■	□	□	□	□	□

LEGEND:

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

103

Programs in Total

1	13	89
Out-licensed Program	*Proprietary Programs*	*Partnered Discovery Programs*

25

Clinical Product Candidates

10	12	3
in Phase 1	*in Phase 2*	*in Phase 3*

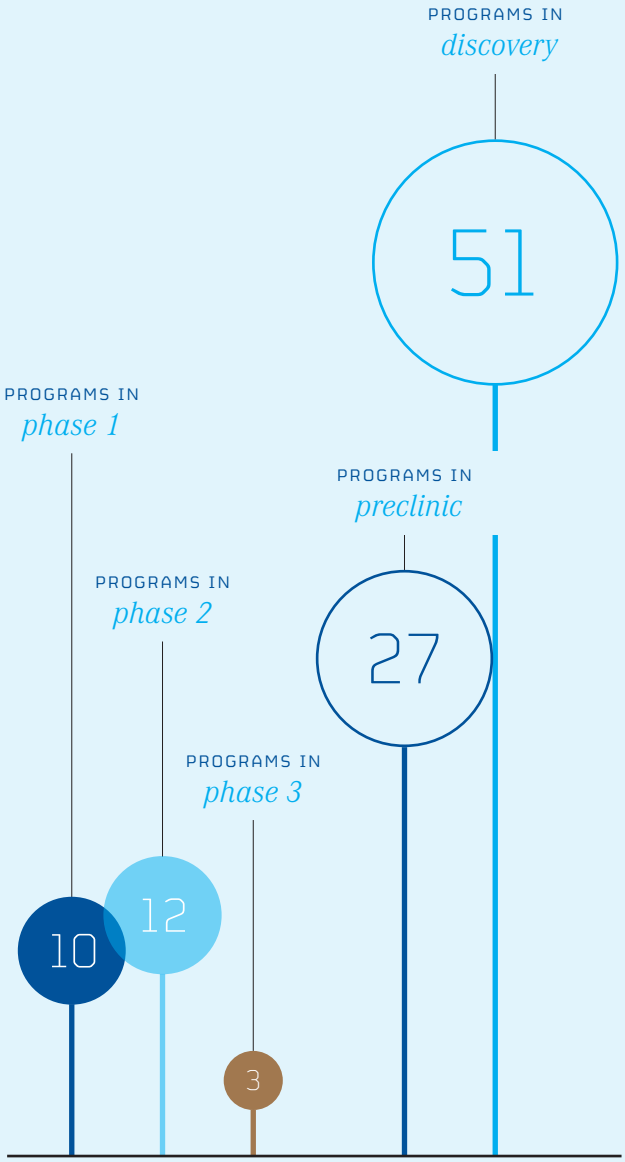
In addition, 8 proprietary programs and 43 partnered discovery programs are in discovery stage, 2 proprietary and 25 partnered discovery programs are in preclinic.

Engineering the Medicines of Tomorrow

Our mission is to build the most valuable pipeline of biopharmaceuticals in the biotechnology industry. We are driven by an ambition to develop exceptional new treatments for patients suffering from serious diseases. Innovative technologies and smart development strategies are central to our approach. Success is based on our people living the Company's core values. By focusing on innovation, collaborating closely across disciplines, and moving quickly, we can make the medicines of tomorrow a reality.

MorphoSys at a glance

Figures, data, facts (as of December 31, 2015)



>50

active clinical studies

>10,000

patients

have been and are going to be treated in the near future with MorphoSys antibodies in clinical trials

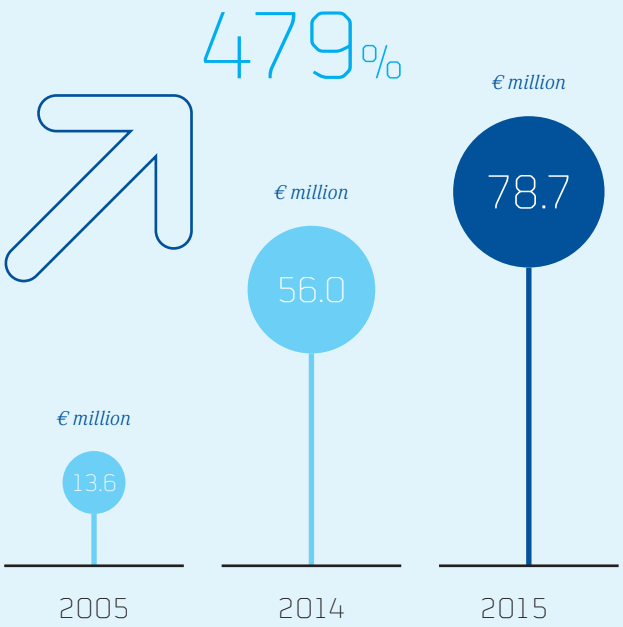
>35

partnerships

with leading pharmaceutical and biotechnology companies as well as research organizations

Increase in R&D expenses

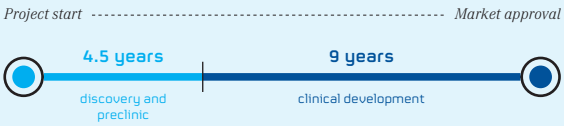
FROM 2005 TO 2015 IN TOTAL



13.5

years

average period from project start through to market approval



365

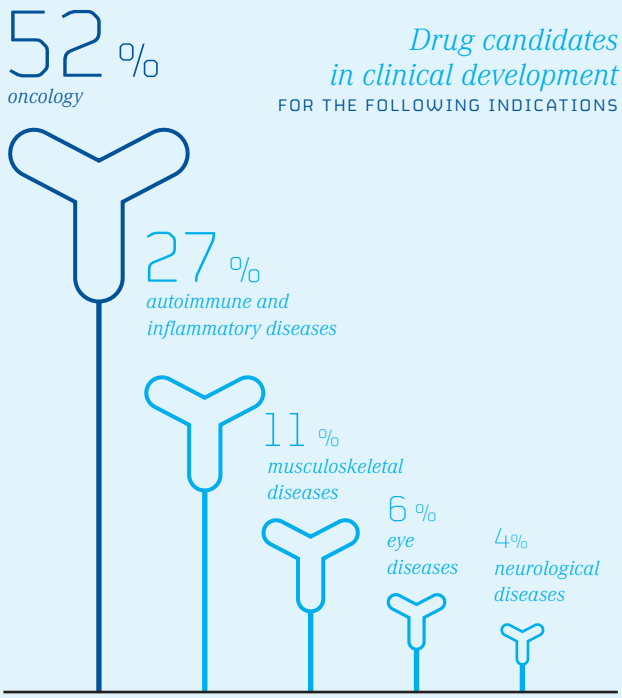
employees

29

nations

Drug candidates in clinical development

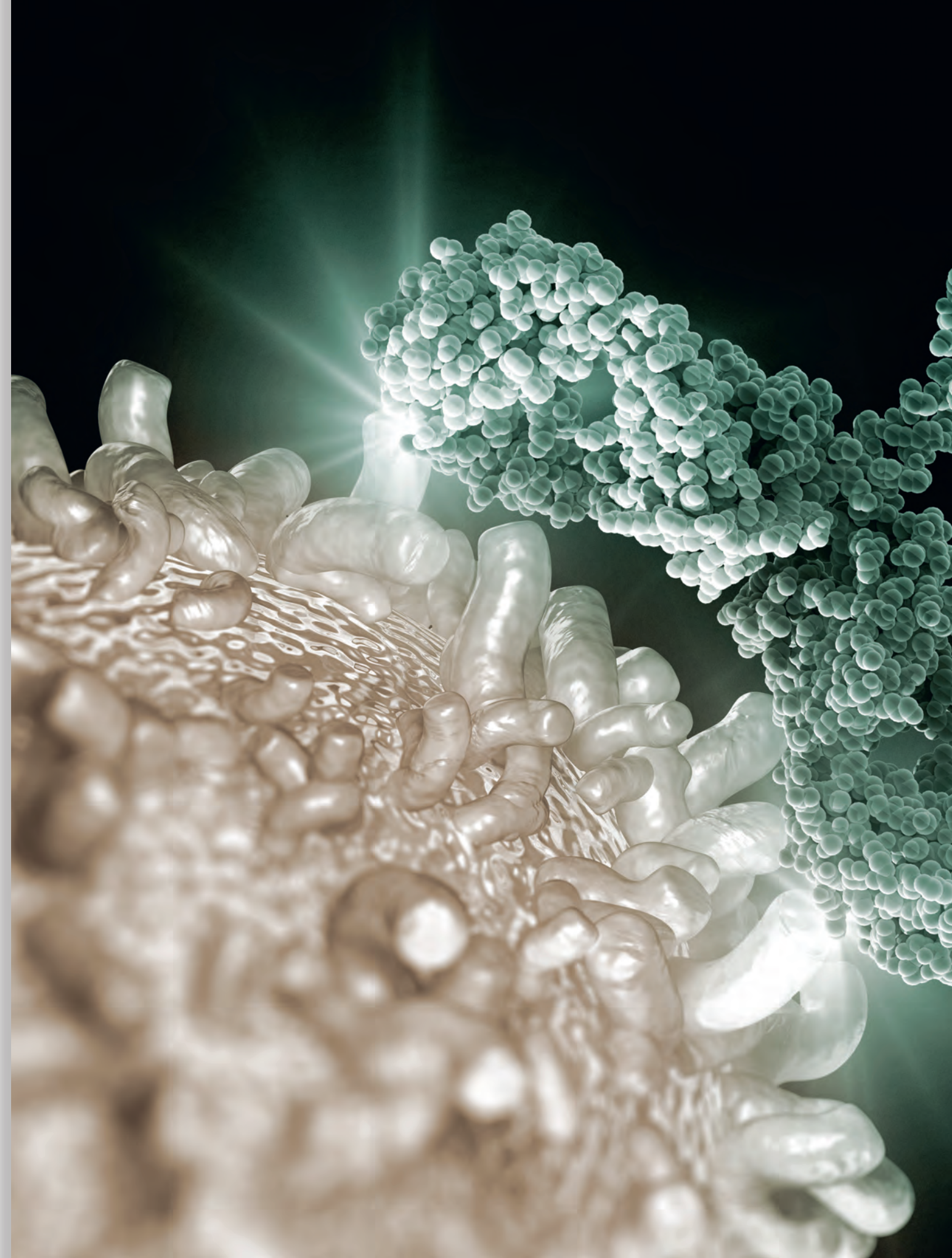
FOR THE FOLLOWING INDICATIONS

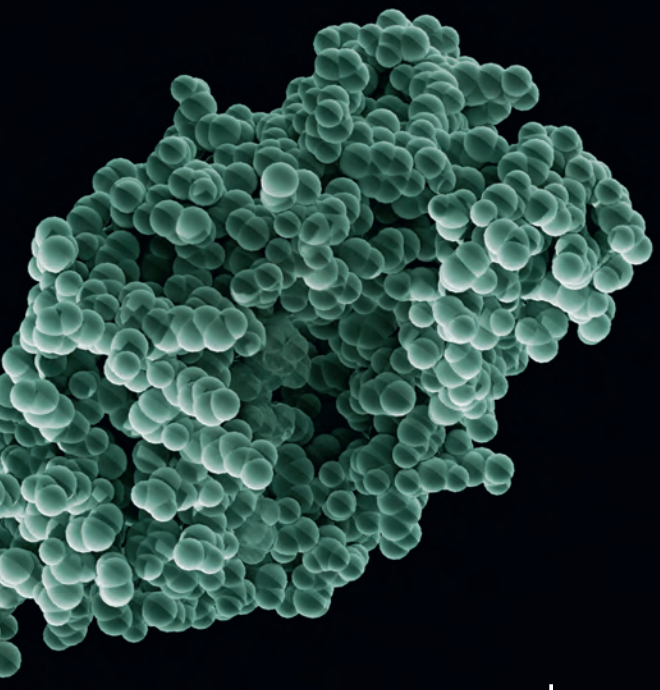


Nearly one million people worldwide were diagnosed with blood cancer in 2015.

OUR RESEARCH: FIGHTING BLOOD CANCER

Learn more in our Online Magazine





Antibodies attack blood cancer cells in a targeted manner.

OUR ANTIBODY MOR208: MODE OF ACTION

Learn more in our Online Magazine

New developments in the treatment of blood cancer benefiting patients.

THE MOR208 ANTIBODY IN CLINICAL DEVELOPMENT

Learn more in our Online Magazine

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Management Board of MorphoSys AG

DR. SIMON MORONEY
Chief Executive Officer

» Excellent progress over the last year means that today our pipeline is broader and more mature than ever before. The first therapeutic antibodies are nearing market approval, bringing us closer to a product-based revenue stream. Meanwhile, our proprietary development portfolio is expanding and the two most advanced programs are approaching decisive stages of clinical development. Across our entire pipeline, we see many programs with outstanding therapeutic potential, to the benefit of all of our stakeholders, not least the patients who they will help. «

Manag
of Morp

Letter to the Shareholders

Dear Shareholders,

I am very pleased to present our 2015 Annual Report following a year of solid progress for MorphoSys. Comprising 103 programs in 60 active clinical trials, our product pipeline – the primary source of the Company's value – is broader and more mature than ever before. The first therapeutic antibodies are nearing market approval, bringing us closer to a product-based revenue stream that we expect to grow significantly in the years ahead. Meanwhile, our proprietary development portfolio is expanding and the two most advanced programs are approaching the decisive stage of clinical development. Across our entire pipeline, we see many programs which have the potential to transform the treatment of the diseases they address, to the benefit of all of our stakeholders, not least, the patients who they will help.

MOR208 is our most advanced proprietary program and our key focus. We are developing this antibody to treat B cell malignancies and are aiming to offer patients in this area of substantial unmet medical need a new, effective and durable treatment option. In the past year, MOR208 has delivered compelling phase 2 clinical data in two indications, confirming the progress we are making and the outstanding potential of the program. Based on our findings, we have initiated a campaign of several clinical studies to drive MOR208's development forward in the settings where it can make the greatest difference to current medical practice. At the center of this campaign are two studies in diffuse large B cell lymphoma, one of which we expect to transition directly into phase 3 in 2017. This could become the first pivotal study within our proprietary development activities and would mark yet another major milestone in the history of MorphoSys. Chronic lymphocytic leukemia is a second focus indication for MOR208, specifically in patients who no longer respond to ibrutinib, for whom the prognosis is very poor. In both of these indications, the medical need is great, and the options are few.

MOR202, our second clinical antibody for blood cancers, also made encouraging progress in the reporting year. Despite an unexpected setback in March 2015 when our partnership with Celgene ended, we reported very encouraging clinical data in December. Based on all the efficacy and safety data we have collected so far, MOR202 is shaping up to be a genuine advance in the treatment of multiple myeloma.

The two most advanced programs in our proprietary development portfolio were augmented in 2015 by a third clinical candidate, MOR209/ES414. This bispecific antibody is being developed to treat prostate cancer, in partnership with the U.S. biotechnology company Emergent BioSolutions. Shortly after MOR209/ES414 entered the clinic, our acquisition of Lanthio Pharma brought us MOR107, a product of their highly innovative lanthipeptide platform, which we aim to take into clinical trials in 2016. Furthermore, we are fast approaching the start of clinical development of MOR106, an exciting antibody from our collaboration with Galapagos. By year-end 2016, our Proprietary Development segment could comprise six clinical programs, which would be an all-time high, and validation of our efforts to build a sustainable therapeutic portfolio.

As we advance our proprietary programs, we are nearing the first market introductions of products emerging from our partnered discovery alliances. Novartis's bimagrumab could become the first therapeutic antibody to reach the market from our proprietary HuCAL platform. In the first half of this year, we expect decisive phase 3 data with this agent in sporadic inclusion body myositis – a rare disease for which there is no effective treatment. We are also looking forward to phase 3 results for guselkumab, a HuCAL antibody for the treatment of psoriasis, being developed by Janssen. As I write this, there are 89 programs in our Partnered Discovery segment, 12 of which are in phase 2 or phase 3 clinical development.

Manag
of Morp

MorphoSys has entered a very exciting stage of its corporate development. Over the past several years you have seen us progress from being one of the leading providers of antibody technology to become a drug discovery and development organization with a highly attractive therapeutic portfolio. Our proprietary development programs, led by our cancer antibody MOR208, are now approaching an important stage of development and now is the time to scale our investment to ensure that we capture the full value of our portfolio. Our long-term ambition is to become a fully-integrated, commercial biopharmaceutical company marketing its own products. We are convinced that this is how we can best build substantial value for our stakeholders and are well-positioned to execute this strategy.

Since the beginning of 2016, MorphoSys's shares and those of many other biotechnology companies have been affected by the tremendous volatility that has hit stock markets globally. Nevertheless, MorphoSys, with financial resources of EUR 298 million at the end of the reporting year, is in a position of strength. Our solid financial foundation, combined with our well-known disciplined approach to investment, provides a firm basis from which we can build future value.

We owe our success to the efforts of our highly dedicated employees. I would like to thank them for their consistent hard work on behalf of the MorphoSys Management Board and all of our important stakeholders, including our partners, investors, and, increasingly, patients. I would also like to thank you, our shareholders, for your continued support. I am sure you will join me in wishing our Company a successful 2016.

DR. SIMON MORONEY
Chief Executive Officer

Manag
of Morp

» With financial resources of close to EUR 300 million at year-end 2015, MorphoSys continues to operate from a position of strength. Our solid financial base has been the foundation for MorphoSys's successful development over the years, allowing us to continue making targeted investments and grow the Company's value without losing sight of our prudent and efficient use of resources. «

JENS HOLSTEIN
Chief Financial Officer

DR. MARLIES SPROLL
Chief Scientific Officer

» During 2015, our product pipeline became broader and more mature than ever before. Our partnered programs are on the cusp of reaping the first rewards of our long-time efforts. In 2016, Novartis's bimagrumab and Janssen's guselkumab will be the first HuCAL antibodies to deliver phase 3 data, and we may see the first MorphoSys antibody reach the market before year-end – another exciting year is lying ahead. «

» In 2015 we generated encouraging clinical data with our proprietary cancer agents. We are now expanding these programs and moving them, step-by-step, towards approval and commercial viability. At the center of this campaign will be the start of three combination studies with our most advanced antibody MOR208 in DLBCL and CLL in 2016, one of which is expected to progress directly into a pivotal study next year, marking yet another major milestone in the history of MorphoSys. «

DR. ARNDT SCHOTTELIUS
Chief Development Officer

Group Management Report

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During the 2015 financial year, MorphoSys vigorously pursued its strategy of building a broad and advanced pipeline of valuable biopharmaceutical compounds. The Company's emphasis is increasingly shifting towards the development of proprietary drug candidates. During the financial year we presented promising results from our antibody programs MOR208 and MOR202 in several hematological indications. Our partnered discovery programs also delivered positive performance and generated solid success-based revenues. Two of these compounds are expected to deliver decisive clinical data in 2016, which could lead to the first regulatory approvals of antibodies based on MorphoSys's technology. After the end of the partnership with Celgene in March 2015 MorphoSys continued the clinical development of MOR202 independently and went on to publish compelling clinical data by year-end. We have initiated an ambitious investment program for 2016 so that we can further accelerate the clinical development of our proprietary candidates MOR208, MOR202 and MOR209/ES414 and begin clinical development of MOR106 and MOR107. This will mark another step forward on our path to becoming a fully integrated, commercial biopharmaceutical company with our own products on the market.

Operations and Business Environment

Strategy and Group Management

STRATEGY AND OBJECTIVES

MorphoSys's goal is to build the most valuable biopharmaceutical pipeline in the biotech industry. In line with this goal, the Company is successfully transitioning from a technology provider to a drug development organization. The Company's powerful technology platform for generation of therapeutic antibodies has led to more than 100 drug candidates in development, three of which are in phase 3 studies. The majority of development programs are conducted in partnership with pharmaceutical and biotechnology companies. The revenues generated from these partnerships are used to expand MorphoSys's proprietary development portfolio. This segment, which currently comprises 14 programs, is gaining in importance and builds on top of an even bigger pipeline of programs generated on behalf of partners. With so many development programs ongoing, any potential setbacks that may arise during the lengthy drug development process can be compensated and the value of our technology can be maximized.

The Proprietary Development segment is focused on developing therapeutic agents based on the Company's proprietary technology platforms as well as candidates in-licensed from other companies. During clinical development, the Company decides 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 selected cases, individual projects may be developed on a proprietary basis until they are ready for commercialization.

In the Partnered Discovery segment, MorphoSys's role is limited to generating antibody* candidates for partners in the pharmaceutical and biotechnology industries. MorphoSys receives contractual payments including 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 based on the Company's innovative technologies. The foremost growth drivers are HuCAL*, the industry's most successful antibody library* measured by the number of clinical development candidates it has produced and the follow-on platform Ylanthia*, which is today's largest known antibody library based on antibody Fab fragments. Through the acquisition of the biopharmaceutical company Lanthio Pharma B.V. in the reporting year, MorphoSys added an innovative and complementary platform of therapeutic peptides. Additionally, the Company uses its financial resources to expand and deepen its technological base, for example through in-licensing.

*SEE GLOSSARY – *page 142*

Along with investing in proprietary development and new technologies, MorphoSys supplements its long-term growth by in-licensing. The in-licensed programs MOR208 and MOR209/ES414 and the acquisition of Lanthio Pharma are good examples of how we are successfully implementing this strategy.

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

GROUP MANAGEMENT AND PERFORMANCE INDICATORS

MorphoSys uses both financial as well as non-financial indicators to steer the Group, monitor the success of strategic decisions and give the Company the opportunity to take corrective action promptly when necessary. Additionally, management monitors and evaluates selected early indicators to thoroughly assess a project's progress and act quickly if there are any undesirable developments.

FINANCIAL PERFORMANCE INDICATORS

Our financial performance indicators are described in detail in the section "Analysis of Net Assets, Financial Position and Results of Operations." Revenues and earnings before interest and taxes (EBIT) are the key financial indicators used to measure operational business performance. The performance of the segments is reviewed monthly and the current financial year's budget is revised and updated on a quarterly basis. The Company prepares a mid-term plan once a year that encompasses the following three years. A thorough cost analysis is made regularly and is used to monitor the Company's adherence to financial targets and make comparisons with 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 being given to the statement of income, existing and future liquidity and available investment opportunities. The net present value of investments is calculated using discounted cash flow models*.

01 **TABLE**
Development of Financial Performance Indicators[1]

in million €	2015	2014	2013	2012	2011
MORPHOSYS GROUP					
Revenues from continuing operations[2]	106.2	64.0	78.0	51.9	82.1
EBIT (Earnings before interest and taxes) from continuing operations[3]	17.2	(5.9)	9.9	2.4	9.8
PROPRIETARY DEVELOPMENT					
Segment revenues	59.9	15.0	26.9	7.0	2.4
Segment result	10.7	(18.4)	(0.5)	(11.0)	(32.2)
PARTNERED DISCOVERY					
Segment revenues	46.3	49.0	51.0	44.7	79.3
Segment result	20.4	25.9	25.4	23.0	55.7

[1] Differences due to rounding
[2] Revenues from discontinued operations 2013 – 2011: 2013: € 0.6 million, 2012: € 17.7 million, 2011: € 18.7 million
[3] Contains unallocated expenses (see also item 3.3 of the Notes): 2015: € 13.9 million, 2014: € 13.4 million, 2013: € 15.0 million, 2012: € 9.6 million, 2011: € 13.7 million

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators are equally important for managing the Company. For reporting purposes, MorphoSys uses the Sustainable Development Key Performance Indicators (SD KPIs*) recommended by the SD KPI standard that include success in proprietary research and development (SD KPI 1) and achievements in partnered programs as benchmarks for the commercialization rate (SD KPI 2). In the 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).

*SEE GLOSSARY – *page 142*

To secure its lead in the market for therapeutics, MorphoSys relies on the steady progress of its product pipeline, not only in terms of the number of therapeutic antibody candidates – 103 at the end of the reporting year – but also based on the progress of its development pipeline and prospective market potential. Since successful products are based on superior technologies, another 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 at the heart of our success. This refers to new contracts as well as the continued strategic development of existing alliances. Details on these performance indicators can be found in the section "Research and Development and Business Development" (page 26).

The non-financial performance indicators described in the section "Sustainable Business Development" (page 48) are also used to manage the MorphoSys Group successfully.

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

	2015	2014	2013	2012	2011
PROPRIETARY DEVELOPMENT (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	8	5	3	2	2
Programs in Preclinic	2	2	0	0	0
Programs in Phase I	1	1	1	1	2
Programs in Phase II[1]	3	2	2	2	1
TOTAL[1]	**14**	**10**	**6**	**5**	**5**
PARTNERED DISCOVERY (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	43	40	37	34	30
Programs in Preclinic	25	25	22	20	24
Programs in Phase I	9	8	6	8	9
Programs in Phase II	9	8	8	6	6
Programs in Phase III	3	3	2	1	0
TOTAL	**89**	**84**	**75**	**69**	**69**
R&D EXPENSES (IN MILLION €)					
R&D Expenses on behalf of Partners	22.1	19.6	17.5	16.0	19.1
Proprietary Development Expenses	54.1	33.5	27.5	18.1	33.9
Expenses for Technology Development	2.5	2.9	4.2	3.6	2.9
TOTAL	**78.7**	**56.0**	**49.2**	**37.7**	**55.9**

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

LEADING INDICATORS

MorphoSys monitors a variety of leading indicators for 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 from external financial reports as macroeconomic leading indicators. The Company carefully reviews these reports and looks for information on industry transactions, changes in the legal environment and the availability of research funds.

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 early when there are any negative developments and provide it with information on expected milestones and related payments well in advance. Partners in non-active collaborations report to MorphoSys regularly in writing so that we can follow the progress of ongoing therapeutic programs.

The business development area uses market analyses to get an 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.

Before a therapeutic product is developed, a target product profile* (TPP) is created and continually updated during the development process. This approach gives an early indication of the properties the product needs to be successful in the market and answers important questions, such as the level of efficacy to be achieved and whether development should be focused on improving the safety profile or changing the drug candidate's dosage form. The TPP also includes a detailed description of how the product could be positioned in the market and the relevant patient groups. By continuously monitoring the criteria and their fulfillment, the Company can always take the key factors into account during product development and respond promptly to any changes.

Business Activities

DRUG DEVELOPMENT

MorphoSys develops drugs using its own research and development (R&D) and in cooperation with pharmaceutical and biotechnology partners. Our core business activity is developing new treatments for patients suffering from serious diseases. The Company possesses one of the broadest pipelines in the biotechnology industry and had a total of 103 individual therapeutic antibody programs at the end of 2015, three of which are in phase 3 trials.

TECHNOLOGIES

MorphoSys has developed a number of technologies that provide 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 is Ylanthia, which represents the next generation of antibody technology and is currently the largest known antibody library in Fab format* based on an innovative concept for generating highly specific and fully human antibodies. MorphoSys expects Ylanthia to influence the pharmaceutical industry's development of therapeutic antibodies in this decade and beyond. Slonomics* gives MorphoSys a patented, fully automated technology for gene synthesis and modification for generating highly diverse gene libraries in a controlled process. The lanthipeptide* technology developed by Lanthio Pharma B.V., and fully acquired in the reporting year, is a valuable addition to our existing library of antibodies and opens up new possibilities for discovering potential drugs based on stabilized peptides.

›› SEE FIGURE 01 – *Revenues of the MorphoSys Group by Segment*
›› SEE FIGURE 02 – *MorphoSys's Product Pipeline*

PROPRIETARY DEVELOPMENT

An important goal of MorphoSys is to increase enterprise value through the proprietary development of innovative antibodies, focusing on cancer and inflammatory diseases.

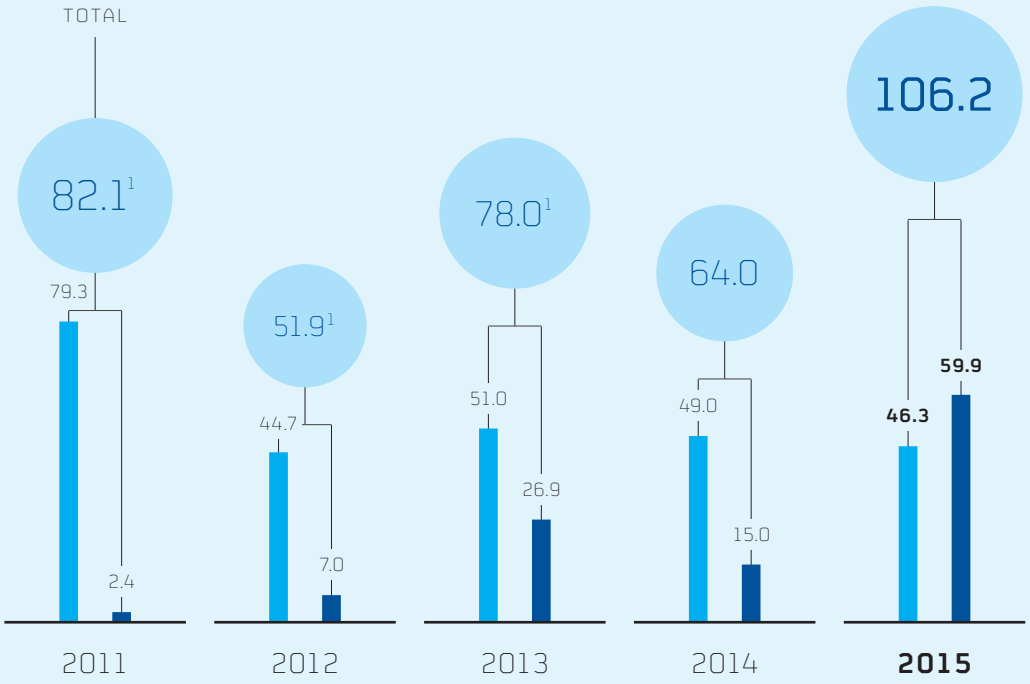
ONCOLOGY

The ability of monoclonal antibodies* to bind specific antigens* has led to their dominant role in targeted cancer therapies. Referring to a study by IMS Institute for Healthcare Informatics expenditure in oncology is expected to amount up to US$ 83 – 88 billion worldwide in 2016 and thus represent the largest therapy class in the healthcare sector. Within this sector innovative biological therapies show an important option for cancer treatment. The Company is currently investing in the clinical development of three cancer programs: MOR208, MOR202 and MOR209/ES414.

MOR208 is directed against the target* molecule CD19*, which is of particular interest for many B cell malignancies. The market research firm Decision Resources expects the therapeutic market for the B cell malignancy non-Hodgkin's lymphoma (NHL*) to reach approximately US$ 10 billion in 2022. Current biological therapies for the treatment of B cell malignancies, including the blockbuster rituximab (trade name Rituxan®), obinutuzumab (trade name Gazyva®), and ofatumumab (trade name Arzerra®) are directed against the CD20* target molecule. Because the target molecule CD19 is expressed on a larger number of B cell subtypes in comparison to CD20, the CD19 antibodies may offer a better therapeutic approach. The activity of MOR208 is enhanced by a change in the constant Fc part* of the antibody, which leads to higher antibody-dependent cell-mediated cytotoxicity (ADCC*) and an improvement in antibody-dependent cellular phagocytosis (ADCP*). The most advanced therapeutic approach against CD19 is the bispecific* antibody blinatumomab (trade name Blincyto®), which is 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. 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 that are then altered outside of the body so that they can be better directed to 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.

*SEE GLOSSARY – *page 142*

01 **FIGURE**
Revenues of the MorphoSys Group by Segment (in million €)



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

The business develop
indication of the marke
tinuously monitoring th
to trends and require
partnerships.

Before a therapeutic pr
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Business Acti

DRUG DEVELOPMENT

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TECHNOLOGIES

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›› SEE FIGURE 01 – *Revenues*
›› SEE FIGURE 02 – *MorphoSy*

02 **FIGURE**
MorphoSys's Product Pipeline (as of December 31, 2015)

PROGRAM / PARTNER INDICATIONS	PHASE 1	2	3	M[1]
Bimagrumab (Novartis)				
sIBM* (RESILIENT)	■	■	■	□
sIBM* (extension study)	■	■	■	□
sIMB* (long-term study)	■	■	■	□
Hip fracture surgery	■	■	□	□
Cachexia (COPD)	■	■	□	□
Sarcopenia (dose-making)	■	■	□	□
Sarcopenia (extension study)	■	■	□	□
Guselkumab (Janssen/J&J)				
Psoriasis (VOYAGE 1)	■	■	■	□
Psoriasis (VOYAGE 2)	■	■	■	□
Psoriasis (NAVIGATE)	■	■	■	□
Pustular or erythrodermic psoriasis	■	■	■	□
Moderate to serious Plaque Psoriasis	■	■	■	□
Palmoplantar pustulosis	■	■	■	□
Active psoriatic arthritis	■	■	□	□
Gantenerumab (Roche)				
Mild Alzheimer's disease (Marguerite RoAD)	■	■	■	□
Prodromal Alzheimer's disease	■	■	■	□
Genetically predisposed individuals (DIAN)	■	■	■	□
MOR208 (Not partnered)				
NHL*	■	■	□	□
CLL*	■	■	□	□
MOR202 (Not partnered)				
Multiple myeloma	■	■	□	□
MOR103/GSK3196165 (GlaxoSmithKline)				
Rheumatoid arthritis* (RA)	■	■	□	□
Anetumab Ravtansine (Bayer HealthCare)				
Mesothelioma	■	■	□	□
Advanced malignancies (Japan)	■	□	□	□
Solid tumors	■	□	□	□
Advanced solid tumors	■	□	□	□
BHQ880 (Novartis)				
Multiple myeloma (renal insufficiency)	■	■	□	□
Smoldering multiple myeloma	■	■	□	□
BPS804 (Mereo/Novartis)				
Osteoporosis	■	■	□	□
Hypophosphatasia (HPP)	■	■	□	□
Brittle bone disease (OI)	■	■	□	□
CNTO3157 (Janssen/J&J)				
Asthma	■	■	□	□
Safety/Pharmacokinetics	■	□	□	□
CNTO6785 (Janssen/J&J)				
COPD*	■	■	□	□
Rheumatoid arthritis* (RA)	■	■	□	□
LFG316 (Novartis)				
Age related macular degeneration	■	■	□	□
Geographic atrophy (combo with CLG561)	■	■	□	□
Panuveitis	■	■	□	□
Paroxysmal nocturnal hemoglobinuria	■	■	□	□

PROGRAM / PARTNER INDICATIONS	PHASE 1	2	3	M[1]
LJM716 (Novartis)				
ESCC*, combo with BYL719	■	■	□	□
HER2+ cancer (combo with BYL719 & trastuzumab)	■	□	□	□
HER2+ cancer, combination with trastuzumab	■	□	□	□
Tarextumab (OncoMed)				
Pancreatic cancer (ALPINE)	■	■	□	□
Small cell lung cancer (PINNACLE)	■	■	□	□
Solid tumors	■	□	□	□
VAY736 (Novartis)				
Pemphigus Vulgaris	■	■	□	□
Primary Sjögren's syndrome	■	■	□	□
Primary Sjögren's syndrome	■	■	□	□
MOR209/ES414 (Emergent BioSolutions)				
Metastatic, castration-resistant prostate cancer (mCRPC*)	■	□	□	□
BAY1093884 (Bayer HealthCare)				
Bleeding disorders (hemophilia)	■	□	□	□
BI-836845 (Boehringer Ingelheim)				
Solid tumors, Japanese patients	■	□	□	□
(EGFR*) Mutant Non-small Cell Lung Cancer	■	□	□	□
Breast cancer	■	□	□	□
Castration-resistant Prostate Cancer (CRPC) + enzalutamide	■	□	□	□
Various solid cancer	■	□	□	□
Advanced solid tumors	■	□	□	□
NOV-7 (Novartis)				
Eye disease	■	□	□	□
NOV-8 (Novartis)				
Inflammation	■	□	□	□
NOV-9 (Novartis)				
Diabetic eye disease	■	□	□	□
NOV-10 (Novartis)				
Cancer	■	□	□	□
NOV-11 (Novartis)				
Blood disorders	■	□	□	□
PF-05082566 (Pfizer)				
Solid tumors, combination with avelumab	■	□	□	□
Solid tumors, NHL (+rituximab)	■	□	□	□
Solid tumors, combination with PD-1 inhibitor MK-3475	■	□	□	□
Advanced solid tumors, combination with mogamulizumab	■	□	□	□
Vantictumab (OncoMed)				
Solid tumors	■	□	□	□
Breast cancer	■	□	□	□
Pancreatic cancer	■	□	□	□
Non-small-cell lung carcinoma	■	□	□	□

LEGEND:
■ PROPRIETARY PROGRAM ■ OUT-LICENSED PROGRAM ■ PARTNERED PROGRAM [1] MARKET

*SEE GLOSSARY – *page 142*

MOR202 is currently being developed for the treatment of multiple myeloma* (MM) and is directed against the CD38* target molecule. After MorphoSys regained its rights to MOR202 from Celgene in March 2015, the Company continued developing MOR202 independently. Although MM is a relatively small area of oncology in terms of frequency of occurrence, the MM market has shown impressive growth. Significant achievements in clinical practice and the introduction of effective new treatments have helped the market expand. However, there is still untapped market potential in terms of therapy forms that have better survival rates and lower side effects compared to the compounds currently available. Despite significantly higher survival rates, the 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 by the FDA* (Food and Drug Administration) in November 2015 of the CD38 antibody daratumumab (trade name Darzalex®) validated this treatment approach.

In March 2015, MorphoSys and Emergent BioSolutions announced the commencement of a phase 1 clinical study to investigate the safety, tolerability and clinical activity of **MOR209/ES414** in patients suffering from metastatic castration-resistant prostate cancer (mCRPC*). MOR209/ES414 is a bispecific anti-PSMA/anti-CD3* antibody based on Emergent's ADAPTIR™ platform (modular protein technology). The immunotherapeutic protein* activates the body's T cell immune response against prostate cancer cells bearing prostate specific membrane antigen (PSMA), an antigen commonly over-expressed in this tumor. The anti-CD3 binding domains of the molecule selectively bind to the T cell receptor on cytotoxic T cells, which become activated when the anti-PSMA binding domains crosslink them to the cancer cells. Prostate cancer is the most commonly occurring cancer in men with approximately 900,000 new cases annually worldwide. As preclinical* *in vitro* and *in vivo* studies have shown, MOR209/ES414 redirects T cell cytotoxicity towards prostate cancer cells expressing PSMA.

INFLAMMATORY AND AUTOIMMUNE DISEASES*

Chronic inflammatory and autoimmune diseases affect millions of patients worldwide and impose an enormous social and economic burden. The IMS Institute for Healthcare Informatics (IMS Health) expects the global market for the treatment of autoimmune diseases to reach US$ 33 – 36 billion in the year 2016.

MOR103, the antibody fully out-licensed by MorphoSys to GlaxoSmithKline (GSK) in 2013, targets GM-CSF* (granulocyte macrophage colony-stimulating factor) – a central factor in the emergence of inflammatory diseases, such as rheumatoid arthritis* (RA). The market for drugs treating rheumatoid arthritis has tremendous commercial potential and biotechnologically produced drugs already comprise the majority of this market's total revenue. The overall RA market is growing steadily and Datamonitor expects that it will reach US$ 18 billion in the year 2020. MOR103 has the potential to become the first antibody in the anti-GM-CSF antibody class of drugs. Comparable drugs currently in development are targeted against the GM-CSF target molecule or the GM-CSF receptor.

New mechanisms for treating inflammatory diseases are being examined in cooperation with the Belgian company Galapagos NV with the goal of developing new antibody therapies to treat these diseases. **MOR106** is the first drug candidate from this cooperation to enter preclinical development and is scheduled to enter clinical development in 2016. Under this alliance both partners contribute their core technologies and expertise and have an equal share in research and development costs and all future revenues.

The acquisition of the Dutch pharmaceutical company Lanthio Pharma B.V. in May 2015 enhanced MorphoSys's proprietary portfolio with the addition of **MOR107** (formerly LP2), a novel lanthipeptide in development for diabetic nephropathy* and fibrotic diseases. MOR107 has demonstrated potent angiotensin II type 2 (AT2) receptor-dependent activity in preclinical *in vivo* studies.

*SEE GLOSSARY – *page 142*

INFLUENCING FACTORS

Many countries strive to provide proper medical care for the public as the need for new forms of therapy continues to grow in the face of demographic change. Cost-cutting could slow down the industry's development. As part of their austerity measures, governments in Europe, the United States and Asia have stepped up their healthcare restrictions and are closely monitoring drug reimbursement.

Generic competition, which is already common in the field of small molecule drugs, now poses an increasing challenge to the biotechnology industry because of drug patent expiries. The technical barriers for generic biopharmaceuticals, so-called biosimilars*, will remain high. Nevertheless, many drug manufacturers, particularly those from Europe and Asia, are now penetrating this market and placing more competitive pressure on established biotechnology companies. In the US, the approval of biosimilars as an alternative form of treatment has been very slow; however, they are gaining more attention because of increasing pressure in the healthcare sector to reduce costs. According to industry experts, the global market for biosimilars is expected to reach US$ 20 billion in 2025.

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 was expanded in 2012 through a supplementary cooperation agreement under which the companies will collaborate on creating therapeutic antibodies using MorphoSys's next generation antibody platform Ylanthia in addition to HuCAL.

Developing drugs with partners gives MorphoSys the opportunity to be involved in indications where it lacks proprietary expertise and typically would not pursue a program on its own. Examples of this include:

The HuCAL antibody **bimagrumab**, being developed by MorphoSys's partner Novartis for **sporadic inclusion body myositis* (sIBM*)** and other muscle-wasting disorders, is one of the most promising treatments in MorphoSys's pipeline. This antibody is currently in a phase 3 trial and received "breakthrough therapy designation" from the US Food and Drug Administration (FDA*) and "orphan drug designation" (in Europe and the USA) for sIBM. Novartis announced that it may file for regulatory approval of this antibody in 2016.

Guselkumab, a HuCAL antibody against **psoriasis*** developed by MorphoSys's partner Janssen, is currently in six phase 3 clinical trials* and in a phase 2 trial in psoriatic arthritis. Data are expected from the first completed phase 3 trials in 2016, which could lead to a filing for regulatory approval in 2016.

*SEE GLOSSARY – *page 142*

The HuCAL antibody **gantenerumab**, developed by MorphoSys's partner Roche, adds a promising treatment for **Alzheimer's disease** to MorphoSys's pipeline. This compound is being investigated in three clinical studies to see if there is a positive effect from intervening at an early stage in the disease's progression. In one of these studies, Roche is evaluating the compound in around 1,000 patients with mild Alzheimer's disease. This study is ongoing as an open label study, in which higher doses of gantenerumab are being tested. A second trial with roughly 800 patients with prodromal Alzheimer's disease was converted into an open-label study after being discontinued temporarily at the end of 2014. A further study, run by the Dominantly Inherited Alzheimer Network (DIAN), is assessing the safety, tolerability and biomarker efficacy in individuals with a genetic predisposition to Alzheimer's disease. There are currently no drugs that fundamentally improve the course of Alzheimer's disease, which means there is still a very high medical need for new treatment options in this indication.

03 **TABLE**
Market Data from Selected Phase 3 Partnered Programs

Program name	MorphoSys partner	Indication	Market potential
Bimagrumab/BYM338	Novartis	Sporadic inclusion body myositis, cachexia, sarcopenia, muscle wastage after hip fracture surgery	Sporadic inclusion body myositis: • Slowly progressive degenerative inflammatory disease of the skeletal muscles with very low prevalence of 4.9 to 9.3/1,000,000 (orphan disease) • No curative therapy available • Indication's peak sales potential: US$ 400 to 890 million Cachexia: • Emaciation through degradation of muscle and fatty tissue • Indication's peak sales potential: US$ 1.0 to 2.0 billion Peak sales potential of all indications in clinical testing (sporadic inclusion body myositis, cachexia, sarcopenia, muscular atrophy after hip fracture surgery): US$ 2.6 to 4.9 billion
Guselkumab/CNTO1959	Janssen/J&J	Psoriasis, psoriatic arthritis	Psoriasis: • Lifelong disease with high morbidity; has a negative influence on the quality of life • Prevalence: 16 million patients[1] in 2015 Psoriatic arthritis: • Inflammatory joint disease, usually accompanied by psoriasis • up to 30% of psoriasis patients are affected Peak sales potential (psoriasis, psoriatic arthritis): US$ 2.8 billion

[1] Seven key markets: USA, Japan, France, Germany, Italy, Spain and Great Britain
Sources: Defined Health, Decision Resources, Medscape

INNOVATION CAPITAL*

MorphoSys started its Innovation Capital initiative to combine the traditional investment approach of an industry partner with the cooperative elements of compound development as flexibly as possible. Under this initiative, the Company intends to invest selectively in promising start-ups who have products and technologies that interest MorphoSys. Activities are focused on antibodies, technologies to generate antibody-like structures (scaffolds*), proteins and peptides.

The initiative set the stage for the acquisition of the Dutch pharmaceutical company Lanthio Pharma B.V. in May 2015. MorphoSys had initially acquired a 19.98% interest in the company in 2012 under the Innovation Capital initiative. In 2014, MorphoSys exercised its option and acquired the technology and, in this past financial year, went on to purchase all of the remaining shares in Lanthio Pharma B.V., which is specialized in the research and development of lanthipeptides*. Lanthipeptides are a novel class of therapeutics demonstrating high target molecule selectivity* and improved compound properties. This transaction adds MOR107 (formerly LP2) to MorphoSys's proprietary portfolio and three other earlier-stage molecules. MOR107 is a novel lanthipeptide with potential to treat diabetic nephropathy and fibrotic diseases.

*SEE GLOSSARY – *page 142*

Organizational Structure

ORGANIZATION OF THE MORPHOSYS GROUP

The MorphoSys Group, consisting of MorphoSys AG and its subsidiaries, develops and commercializes high-quality antibodies for therapeutic applications. The activities of the Group's two business segments are based on leading-edge proprietary technologies. The Proprietary Development segment combines all of the Company's proprietary research and development of therapeutic compounds. MorphoSys initially develops its proprietary and in-licensed compounds independently with the option to bring them into partnerships or out-license them. The second business segment, Partnered Discovery, uses MorphoSys's cutting-edge technologies to make human antibody-based therapeutics on behalf of partners in the pharmaceutical industry. This segment encompasses all business activities related to these collaborations and most of the technological development.

MorphoSys AG acquired the remaining interest in the Dutch biopharmaceutical company Lanthio Pharma B.V., headquartered in Groningen, the Netherlands, for a price of € 20.0 million on May 7, 2015. Prior to the acquisition, the Company held 19.98 % of Lanthio Pharma B.V. The company Lanthio Pharma B.V. wholly owns LanthioPep B.V., which is also headquartered in Groningen. These companies were consolidated by the MorphoSys Group for the first time as of May 7, 2015.

Poole Real Estate Ltd. was liquidated and the remaining assets were distributed to MorphoSys AG as the sole shareholder on December 9, 2015.

In the 2015 financial year, the Group maintained both the registered office of the parent company, MorphoSys AG, in Martinsried near Munich and the registered office of Lanthio Pharma B.V. and LanthioPep B.V. in Groningen, the Netherlands. The Martinsried office houses the central Group functions such as accounting, controlling, human resources, legal, patents, corporate communications and investor relations, as well as the Proprietary Development and Partnered Discovery segments. 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 functions, as well as human resources, accounting and business development departments.

Additional information on consolidated companies can be found in the Notes (Item 2.2.1).

LEGAL STRUCTURE OF THE MORPHOSYS GROUP: GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG, a German stock corporation listed in the Prime Standard segment of the Frankfurt Stock Exchange, is the parent company of the MorphoSys Group. In accordance with the German Stock Corporation Act, the Company has a dual management structure with the Management Board as the governing body whose four members are appointed and supervised by the Supervisory Board. The Supervisory Board is elected by the Annual General Meeting and currently consists of six members. Detailed information concerning the Group's management and control and its corporate governance principles can be found in the Corporate Governance Report (page 67). The Senior Management Group, made up of 20 managers from various departments, supports the Management Board of MorphoSys AG.

Research and Development and Business Development

2015 BUSINESS PERFORMANCE

MorphoSys strongly focuses its business activities on advancing its therapeutic programs in research and development to increase the Company's enterprise value. The clinical development of proprietary drug candidates is at the core of the Company's focus. In this context, the Company strives to gain access to novel disease-specific target molecules, advanced product candidates and innovative technology platforms to expand its proprietary development pipeline. MorphoSys also participates in the development success of its partners' therapeutic programs. The first of these antibodies based on MorphoSys's technology are approaching the market.

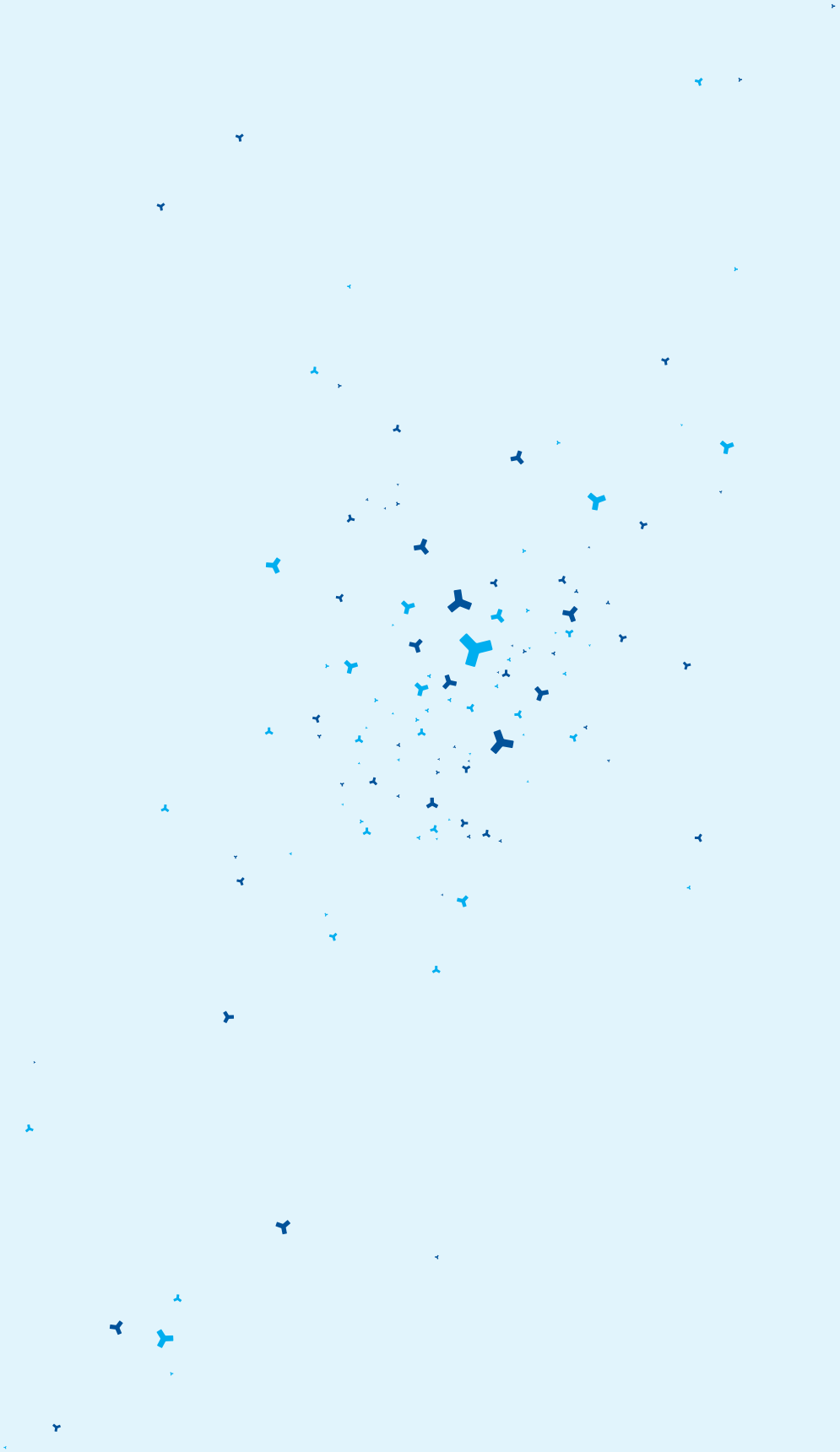
To MorphoSys, the fundamental measures for success in pharmaceutical research and development include:

- industry partnerships which create a broad development pipeline, leverage the MorphoSys technology platform and/or enable the commercialization of its therapeutic programs
- focused progression of its development programs
- clinical and preclinical 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

New contracts and contract terminations in 2015 almost exclusively involved the Proprietary Development segment.

At the end of March 2015, MorphoSys and **Celgene Corporation** agreed to end the existing co-development and co-promotion agreement for MOR202. Following this termination, MorphoSys regained the rights to MOR202. We expect lucrative opportunities to open up – such as a new partnership – provided that sufficiently competitive clinical efficacy and safety data can be generated. The Company is no longer entitled to receive royalties and milestone payments announced under this alliance. MorphoSys is continuing the compound's clinical development as planned in a phase 1/2a study in patients with relapsed/refractory multiple myeloma with MOR202 alone and in combination with the compounds lenalidomide and pomalidomide, which are provided to MorphoSys by Celgene.



TRIAL EXTENSIONS

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grew to a total of 103
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were in clinical devel-
or the discovery phase.
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414 entered a phase 1
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phase 1 clinical study
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Additional information
the Notes (Item 2.2.1).

LEGAL STRUCTURE OF GROUP MANAGEMENT

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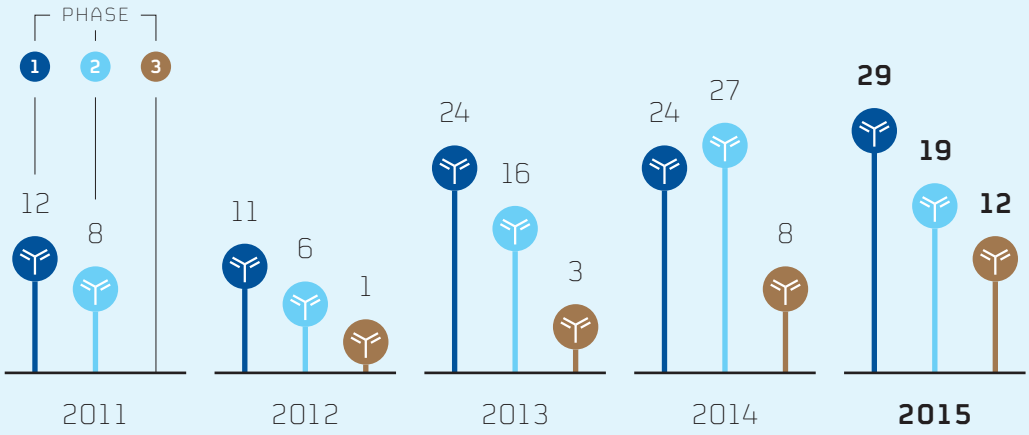
03 **FIGURE**
Active Clinical Studies with MorphoSys Antibodies (31 December)



MorphoSys concluded transactions with several industry partners in 2015, including the purchase of the remaining shares in the Dutch biopharmaceutical company **Lanthio Pharma B.V.** for € 20.0 million in May. This purchase added new development candidates to the Company's proprietary portfolio, including LP2 for various fibrotic diseases. Following the acquisition, LP2 was renamed MOR107. MOR107 is a lanthipeptide with potential to treat diabetic nephropathy and fibrotic diseases. Lanthipeptides are a novel class of therapeutics demonstrating high target molecule selectivity and drug-like properties. Their high specificity is expected to open up new therapeutic applications with potential in indications that are not usually targeted with antibodies. Prior to the acquisition, MorphoSys held 19.98 % of Lanthio Pharma, which it had acquired under its Innovative Capital initiative in 2012 as part of Lanthio Pharma's Series A funding.

In August 2015, MorphoSys and Swiss-based **G7 Therapeutics AG** announced a new collaboration to develop novel antibody therapeutics targeting G protein-coupled receptors (GPCRs*) and other potentially disease-related transmembrane proteins, such as ion channels. Under this agreement, G7 Therapeutics will give MorphoSys a choice of various receptors that can be linked to the emergence of a variety of diseases. MorphoSys will use its proprietary Ylanthia antibody library to identify and develop antibodies directed against these receptors. MorphoSys has the right to sublicense access to these target molecules in conjunction with therapeutic antibody programs.

In August 2015, MorphoSys also announced a strategic alliance in the field of immuno-oncology* with the German company **Immatics Biotechnologies GmbH**. The alliance was formed to develop novel antibody-based therapies against a variety of cancer antigens that are recognized by T cells. The agreement gives MorphoSys access to several of Immatics's proprietary tumor-associated peptides (TUMAPs). In return, Immatics receives the right to develop MorphoSys's Ylanthia antibodies against several TUMAPs. The companies will pay each other milestone payments and royalties on commercialized products based on the companies' development progress.

*SEE GLOSSARY – *page 142*

PROJECT INITIATIONS AND PROGRESS, TRIAL EXTENSIONS

During the 2015 financial year, the number of individual therapeutic antibodies in the MorphoSys pipeline grew to a total of 103 (December 31, 2014: 94 individual antibodies) Proprietary Development and Partnered Discovery projects. At the end of 2015, MorphoSys had 14 projects (December 31, 2014: ten) in its Proprietary Development portfolio, four of which were in clinical development and ten in preclinical development or the discovery phase. The number of programs being pursued by our partners in the Partnered Discovery segment grew to a total of 89 (December 31, 2014: 84), 21 of which were in clinical development, 25 in preclinical development and 43 in the discovery phase. MorphoSys's partnered and proprietary clinical pipeline currently comprises 25 unique antibody molecules which are being evaluated in more than 50 clinical trials.

›› SEE FIGURE 03 – *Active Clinical Studies with MorphoSys Antibodies*

PROPRIETARY DEVELOPMENT

When the bispecific antibody MOR209/ES414 entered a phase 1 trial in 2015, it became the fourth clinical-stage drug candidate in MorphoSys's Proprietary Development segment. In early March 2015, MorphoSys and its development partner Emergent BioSolutions announced the commencement of a phase 1 clinical study with MOR209/ES414 in up to 130 patients suffering from metastatic castration-resistant prostate cancer (mCRPC). The study is being conducted in clinical centers in the USA and Australia and will evaluate the safety, tolerability and clinical activity of the compound in two stages. Stage one's main objective is to identify the maximum tolerated dose (MTD) and stage two's objective is to investigate the clinical activity. The study's launch triggered a milestone payment to Emergent of € 4.7 million. The existing cooperation agreement was updated in the past financial year. After a joint examination of the initial data, the companies decided to adjust the dosing regimen and administration of MOR209/ES414. Clinical development will continue in 2016 with an adapted clinical development plan. Under the terms of the updated agreement, the parties have reduced MorphoSys's cost sharing in the years 2016 to 2018 and have reduced future milestone payments payable by MorphoSys to Emergent BioSolutions to a total of up to US$ 74 million. Other financial terms and the split of the commercial rights remain unchanged.

MOR103 was fully out-licensed to GlaxoSmithKline (GSK) in 2013. In the third quarter of 2015, GSK announced the commencement of a phase 2 study with MOR103 (re-named GSK3196165) for rheumatoid arthritis. GSK also plans to initiate a second phase 1b/2a study in hand osteoarthritis during 2016.

In 2015, an ongoing investigator-initiated clinical trial with the anti-CD19 antibody MOR208 for patients with relapsed/refractory chronic lymphocytic leukemia (CLL*) conducted at the Ohio State University was expanded to include patients with Richter's transformation*, a particularly aggressive sub-type of CLL. These patients will be treated with a combined therapy of MOR208 and ibrutinib. A phase 2 clinical trial of MOR208 as monotherapy for patients with acute lymphoblastic leukemia (ALL) was terminated in the first quarter in order to focus on a planned investigator-initiated pediatric study* using MOR208 in combination with an immune cell transplantation. This study is scheduled to begin in 2016.

PARTNERED DISCOVERY

In early April 2015, MorphoSys announced its receipt of a clinical milestone payment from its partner **Janssen**. This payment was triggered by the initiation of a phase 2 clinical study with the HuCAL antibody guselkumab (CNTO1959) in a new indication, psoriasis arthritis, and was recognized in the first quarter of 2015.

In July 2015, MorphoSys announced the receipt of a clinical milestone payment from its partner **Novartis**. The payment was triggered by the initiation of a phase 1 study of a HuCAL antibody in the field of blood disorders. This became the 11th therapeutic antibody based on MorphoSys's technologies that Novartis is evaluating in clinical trials. The milestone payment was recognized in the second quarter of 2015.

In July 2015, MorphoSys also announced that its partner **Heptares Therapeutics**, a wholly owned subsidiary of Japan's Sosei Group Corporation, exercised an option to initiate its own therapeutic antibody program under the research alliance entered into by the companies in February 2013. The program will use MorphoSys's Ylanthia technology to generate antibody candidates against disease-relevant molecules targeting G protein-coupled receptors (GPCRs). Heptares intends to pursue the subsequent development and later commercialization of a program with MorphoSys receiving research funding and development-dependent milestone payments as well as royalties on sales of the resulting therapeutic antibodies.

In October 2015, MorphoSys announced the receipt of a milestone payment from its partner **Bayer HealthCare** for the initiation of a phase 1 clinical trial of a HuCAL antibody (BAY1093884) in the field of bleeding disorders. The antibody targets the tissue factor pathway inhibitor (TFPI), a major inhibitor of tissue factor-initiated blood clotting. The study is focused on for the treatment of hemophilia A, the most common type of hemophilia, which affects approximately 400,000 people worldwide.

In January 2016, MorphoSys's partner Bayer initiated a phase 2 clinical study in mesothelioma with the mesothelin-targeting anetumab ravtansine antibody (BAY94-9343). The objective is to support registration of the compound based on the study's results if successful. The related milestone payment was recognized in the first quarter of 2016.

CLINICAL STUDY DATA FROM CURRENT PROJECTS

PROPRIETARY DEVELOPMENT

In 2015, MorphoSys announced interim data from clinical studies for its proprietary drug programs MOR202 and MOR208 at several industry conferences.

Advanced and progressively more detailed data from the ongoing phase 2a study with the anti-CD19 antibody **MOR208** in patients with subtypes of relapsed or refractory non-Hodgkin's lymphoma (NHL) were presented at the 2015 American Society of Clinical Oncology (ASCO) Annual Meeting in May/June, the European Hematology Association (EHA) congress in June 2015 and the annual American Society of Hematology (ASH) meeting in December 2015. In this open-label multicenter study, MOR208 was tested as a single-agent in 92 patients with diffuse large B cell lymphoma (DLBCL*), follicular lymphoma (FL*), mantle cell lymphoma (MCL*) and other indolent NHLs (iNHL). MOR208 monotherapy was well tolerated in the study and showed encouraging clinical activity. The data presented at the ASH annual meeting in December showed an overall response rate (ORR) of 28% across all four NHL subtypes, reaching 36% in the DLBCL subgroup (both based on evaluable patients). At the time of the most recent analysis, several patients – a total of 9 out of 21 – had an ongoing response to the single-agent treatment. The longest response duration exceeded 20 months in both DLBCL and FL. Based on these results, MorphoSys is planning to initiate combination studies of MOR208 in 2016.

*SEE GLOSSARY – *page 142*

The first promising results on safety and clinical activity from another ongoing phase 2 study with MOR208 were announced at the ASH annual conference in December. In this investigator-initiated clinical trial conducted by scientists at the Ohio State University, combination of MOR208 and the immunomodulator lenalidomide is being evaluated in relapsed/refractory and treatment-naïve chronic lymphocytic leukemia (CLL) patients. Patient recruitment was still underway in both patient groups at the time of the presentation, whereby 16 patients were already enrolled and 11 evaluated. The combination of MOR208 with lenalidomide was generally well tolerated. In patients with relapsed/refractory CLL, three patients showed a partial response (PR) and two patients showed stable disease (SD). Four of the treatment-naïve CLL patients showed partial responses (PR). Patient response generally deepened over time, and five patients were able to complete a 12-week therapy cycle with MOR208.

MorphoSys's anti-CD38 antibody **MOR202** is currently being evaluated in an ongoing phase 1/2a clinical study. Meaningful and encouraging interim data from this safety and tolerability study were released at a number of conferences in 2015, including the ASCO annual conference in May/June, the EHA congress in June, the Multiple Myeloma Workshop in September and the ASH annual meeting in December. The study evaluates MOR202 at escalating doses alone and in combination with the immunomodulatory drugs lenalidomide and pomalidomide in a total of 52 heavily pretreated patients with relapsed/refractory multiple myeloma. In this study, MOR202 showed encouraging clinical activity, an excellent safety profile and best-in-class infusion tolerability with just a two-hour infusion time. The data presented at the ASH conference in December showed the following clinical efficacy: Among the patients receiving MOR202 alone, three out of nine in groups with clinically relevant dose regimens showed an objective tumor response (ORR = 33%) and the other six patients showed stable disease. In the combination therapy at 8 mg/kg MOR202 with lenalidomide or pomalidomide, one of the six patients showed a very good partial response (VGPR), two showed partial responses (PR) and one showed a minimal response (MR). Other patients were scheduled to receive 16 mg/kg MOR202 in combination with pomalidomide or lenalidomide. Further patient therapy is planned to validate the recommended dose of MOR202 alone and in combination with pomalidomide or lenalidomide.

At the 2015 ASH conference, MorphoSys also presented promising preclinical data on MOR202 which demonstrated synergy of MOR202 in combination with different compounds commonly used in the treatment of multiple myeloma. Another set of preclinical experiments focused on MOR202's ability to kill targeted cells via antibody-dependent cell-mediated cytotoxicity (ADCC). MOR202 showed a level of killing of multiple myeloma cells via ADCC equivalent to that of surrogates of the competing anti-CD38 antibodies daratumumab and isatuximab, but exhibited significantly reduced killing of natural killer cells (NK cells*) from the body's own immune system. NK cells, as effector cells, are needed for the killing of the tumor cells. These results suggest that MOR202 may show a more durable clinical response than other compounds of its class by sparing the NK cells needed for ADCC.

PARTNERED DISCOVERY

MorphoSys's partners continued developing their antibody programs in the reporting year and presented their progress at various scientific conferences.

At the 2015 American Society of Clinical Oncology (ASCO) Annual Meeting at the end of May/early June in Chicago, several of MorphoSys's partners presented clinical data for a number of HuCAL antibodies.

Pfizer presented phase 1 data from its study of anti-4-1BB antibody **PF-05082566** in patients with non-Hodgkin's lymphoma (NHL). The combination of PF-05082566 with rituximab was well tolerated and showed anti-tumor activity as well as biomarker modulation.

Novartis presented results from its phase 1 combination trial evaluating the HuCAL antibody **LJM716** in combination with BYL719 and trastuzumab in patients with HER2-positive metastatic breast cancer. The study created a safety profile for the combination therapy and demonstrated the therapy's anti-tumor activity. Novartis presented preclinical data at the annual American Association for Cancer Research (AACR) conference in April 2015 showing that LJM716 successfully inhibited the target molecules HER3* and EGFR* in lung squamous cell carcinoma* cell lines and showed preclinical anti-tumor activity.

*SEE GLOSSARY – *page 142*

OncoMed published the final results of its phase 1a study of **tarextumab** (OMP-59R5) in combination with an etoposide and platinum-based therapy (EP) in small cell lung cancer (PINNACLE trial). The combination was well tolerated and showed encouraging anti-tumor activity. Additionally, a dosage was determined that is currently being tested in an ongoing, randomized placebo-controlled phase 2 study. At the World Conference on Lung Cancer in September 2015, OncoMed announced new biomarker data and updated its clinical phase 1 data for tarextumab (OMP-59R5).

MorphoSys's partner Bayer also presented new clinical results from a phase 1 study at the World Conference on Lung Cancer in September 2015. The study evaluated different doses of the HuCAL antibody **anetumab ravtansine** (BAY94-9343) in 77 patients with advanced mesothelioma and other solid tumors. Anetumab ravtansine is an antibody drug conjugate (ADC*) directed against the mesothelin target molecule. The study determined the maximum tolerated dose (MTD) that showed encouraging efficacy in mesothelioma patients.

*SEE GLOSSARY – *page 142*

REGULATORY EVENTS

PARTNERED DISCOVERY

In the first quarter of 2015, MorphoSys announced that its partner OncoMed had received orphan drug status from the US Food and Drug Administration for the HuCAL antibody **tarextumab** in pancreatic cancer and small cell lung cancer. The program is currently in clinical development for both indications.

There were no regulatory decisions announced relevant to the Partnered Discovery segment.

PATENTS

During the 2015 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.

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

Group Headcount Development

The success of MorphoSys is based on highly qualified, dedicated employees who are creative and motivated. On December 31, 2015, the MorphoSys Group had 365 employees (December 31, 2014: 329), 145 of whom hold PhD degrees (December 31, 2014: 124). The MorphoSys Group employed an average of 356 employees in 2015 (2014: 315).

>> SEE FIGURE 04 – *Headcount of the MorphoSys Group*

A competitive and attractive remuneration system is a decisive factor when competing for the best employees. To be a competitive employer, MorphoSys compares 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.

A "spot bonus" (given "on the spot") is promptly awarded to employees for exceptional accomplishments.

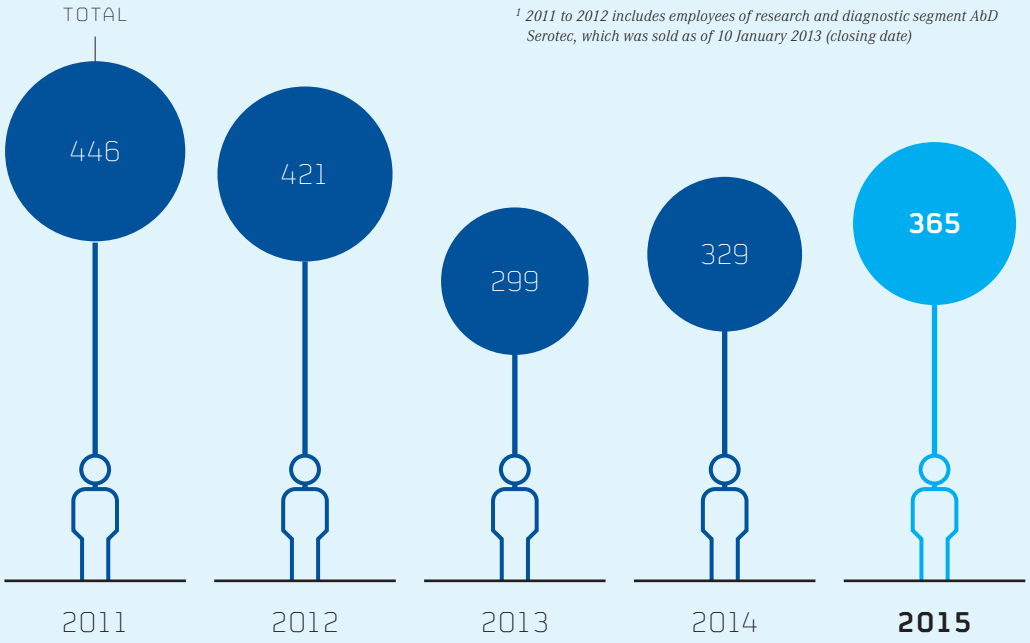
A detailed overview of headcount development and MorphoSys's activities to promote successful long-term human resource developments can be found in the section "Sustainable Business Development."

Changes in the Business Environment

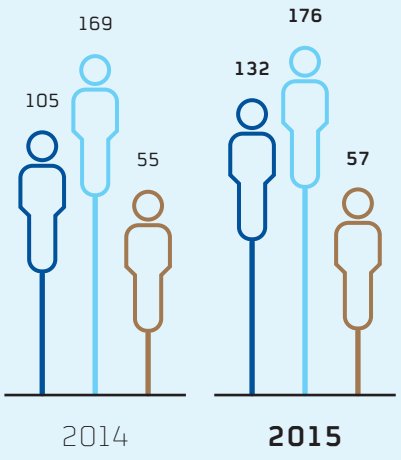
The global economy lost more steam in 2015. In its latest forecast in January 2016, the International Monetary Fund (IMF) expects global growth to be a modest 3.1 % in 2015 following 3.4 % in 2014. Weak growth in China, the fall in commodity prices and geopolitical tensions, particularly in Russia and the Middle East, will continue to weigh on global growth.

04 **FIGURE**
Headcount of the MorphoSys Group (31 December)[1]

[1] *2011 to 2012 includes employees of research and diagnostic segment AbD Serotec, which was sold as of 10 January 2013 (closing date)*

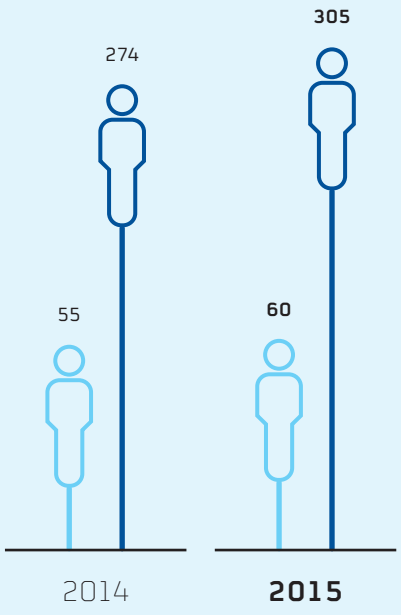


EMPLOYEES BY SEGMENT



- PROPRIETARY DEVELOPMENT
- PARTNERED DISCOVERY
- UNALLOCATED

EMPLOYEES BY FUNCTION



- EMPLOYEES IN GENERAL AND ADMINISTRATIVE
- EMPLOYEES IN R&D

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*SEE GLOSSARY – *page 142*

REGULATORY EVENTS

PARTNERED DISCOVERY

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PATENTS

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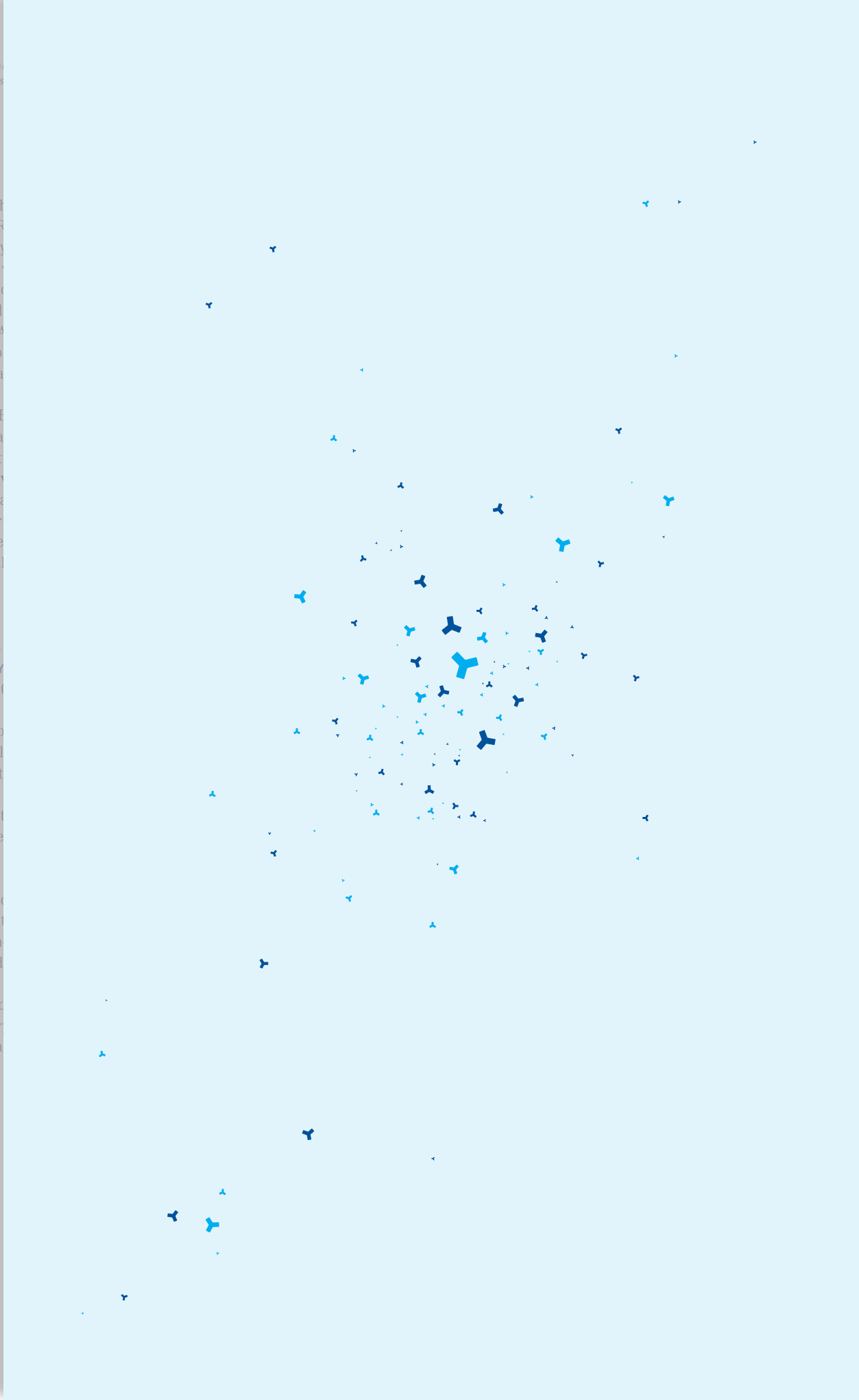


While the advanced economies had another year of slightly increasing growth momentum and reported 1.9% growth in 2015 (2014: 1.8%), the expansion in emerging markets and developing economies slowed significantly with growth reported at 4.0% (2014: 4.6%). Growth in the eurozone rose 1.5% (2014: 0.9%) compared to the previous year due to a boost in exports because of the weak euro. Germany's growth held fairly steady at 1.5% (2014: 1.6%). Growth momentum in the USA was again much stronger with the economy growing 2.5% (2014: 2.4%).

China, which has been the driving force of the world economy, continued to falter and reported growth in 2015 of 6.9% (2014: 7.3%). The pace of growth and the outlook during the year deteriorated progressively, which placed tremendous pressure on both the Chinese and global financial markets in the fourth quarter. The two large emerging countries, Russia (2015: – 3.7% versus 2014: 0.6%) and Brazil (2015: – 3.8% versus 2014: 0.1%) were in deep recession in 2015.

Economists expect the ongoing risks to keep the economy vulnerable to setbacks. Global economic uncertainty and rising geopolitical tensions are also a threat to the growth of the global pharmaceutical and biotechnology industries, particularly because fading euphoria in the capital markets and less favorable financing conditions can have an adverse impact on sectors heavily reliant on research financing, such as the biotechnology sector.

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.

REGULATORY ENVIRONMENT

The healthcare industry's regulatory environment is dominated by ever-increasing product quality, safety and efficacy requirements and places high demands on companies. Novel drugs need to demonstrate a significant benefit over existing therapies in order to be approved, gain the market's acceptance and be reimbursed by the healthcare system.

The industry is also subject to potential pricing restrictions because of the dominant role played by cost savings in the healthcare system's regulatory requirements. References to overpricing and potentially more stringent price control in the US drug market made by presidential candidate Hillary Clinton during the US primaries in September 2015 stirred up uncertainty in the biotech and related sectors.

Despite the high demands placed on the sector, the market's situation continues to be positive, particularly in the USA. The US Food and Drug Administration granted approval to 45 drugs in 2015, surpassing the already high number of approvals in the previous year (2014: 41). From 2006 to 2014, the FDA approved an average of 28 new compounds every year, which corroborates the importance of the industry's commitment to innovation for developing technologically better products and optimizing approved treatment methods.

The FDA supports compounds with exceptional medicinal potential through measures such as the "breakthrough therapy designation," introduced in 2013, and the "fast-track" program, both of which help expedite product development and testing. MorphoSys received fast-track status for its proprietary compound MOR208, which is currently undergoing phase 2 clinical evaluation for patients suffering from diffuse large B cell lymphoma (DLBCL). Closer cooperation with the regulatory authorities facilitates the antibody's targeted development and may help bring it more quickly to the market.

DEVELOPMENT OF THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTORS

The global pharmaceutical industry had a stellar year in 2015. After years of stagnating sales, the 20 largest global pharmaceutical companies saw the reemergence of sustainable sales growth: On a constant currency basis, Group sales increased 7% on average. Experts believe two key factors are responsible for this positive performance: First, companies have overcome the impact of expiring patents and related sales declines, and second, the sector has seen tremendous success in terms of research and development and regulatory approvals for products.

The market for cancer drugs, which is the most important market for MorphoSys's pipeline development, is one of the most attractive and fastest-growing segments in pharmaceuticals. The US market research institute IMS Health estimates that in 2014, global sales of oncological compounds exceeded US$ 100 billion for the first time and will continue to grow on average by 6 to 8% annually until 2018. The aging global population has sustained this growth trend. The World Health Organization (WHO) expects the number of new cancer cases to rise 70% in the next 20 years.

However, there are also factors that could slow down the pharmaceutical market. Political and public opposition to higher drug prices became abundantly evident in 2015, particularly in connection with the launch of a new hepatitis C drug by Gilead Sciences priced at US$ 1,000 per pill. Price pressure on biotechnology drugs emerged with the successful development of generically manufactured, patent-free imitation products. Experts also expect pharmaceutical prices to come under pressure due to competition within the biotech and pharmaceutical industry as a result of the global expansion of research pipelines.

The number of mergers and acquisitions in the pharmaceutical and biotechnology sectors has grown dramatically. In the first half of 2015, transactions reached a record US$ 210 billion and were triple their level in the same period of the previous year; at the end of the full year, transactions in the medical sector had reached US$ 724 billion, or one-seventh of the aggregate volume of mergers and acquisitions worldwide.

More information on the development of the stock market can be found in the section "Shares and the Capital Market" on page 45.

DEVELOPMENT OF THE ANTIBODY SECTOR

The year 2015 marked a very successful year for the clinical development of therapeutic antibodies. The FDA set a record with its approval of nine antibodies. According to the scientific publication, mAbs Journal, there are currently 53 antibodies in phase 3 clinical studies and 16 of those are to treat cancer. The "Antibodies to Watch in 2016" list presented by mAbs Journal at the Antibody Engineering Conference in San Diego in December 2015 included guselkumab which is derived from MorphoSys's technology platform and is being developed by Janssen. Results are expected in 2016 from a phase 3 clinical study of this compound in psoriasis.

Antibodies in the field of cancer immunotherapy continued to dominate headlines in 2015. Clinical data was shown that further corroborated the efficacy of the anti-PD1 and anti-PD-L1 antibodies which act by blocking immune checkpoints. These compounds, which reactivate the body's immune system for identifying and killing tumor cells, was also a dominant theme at the May/June 2015 ASCO conference, the world's premier cancer conference. Companies presented promising clinical study results particularly in the areas of skin cancer (melanoma) and lung cancer.

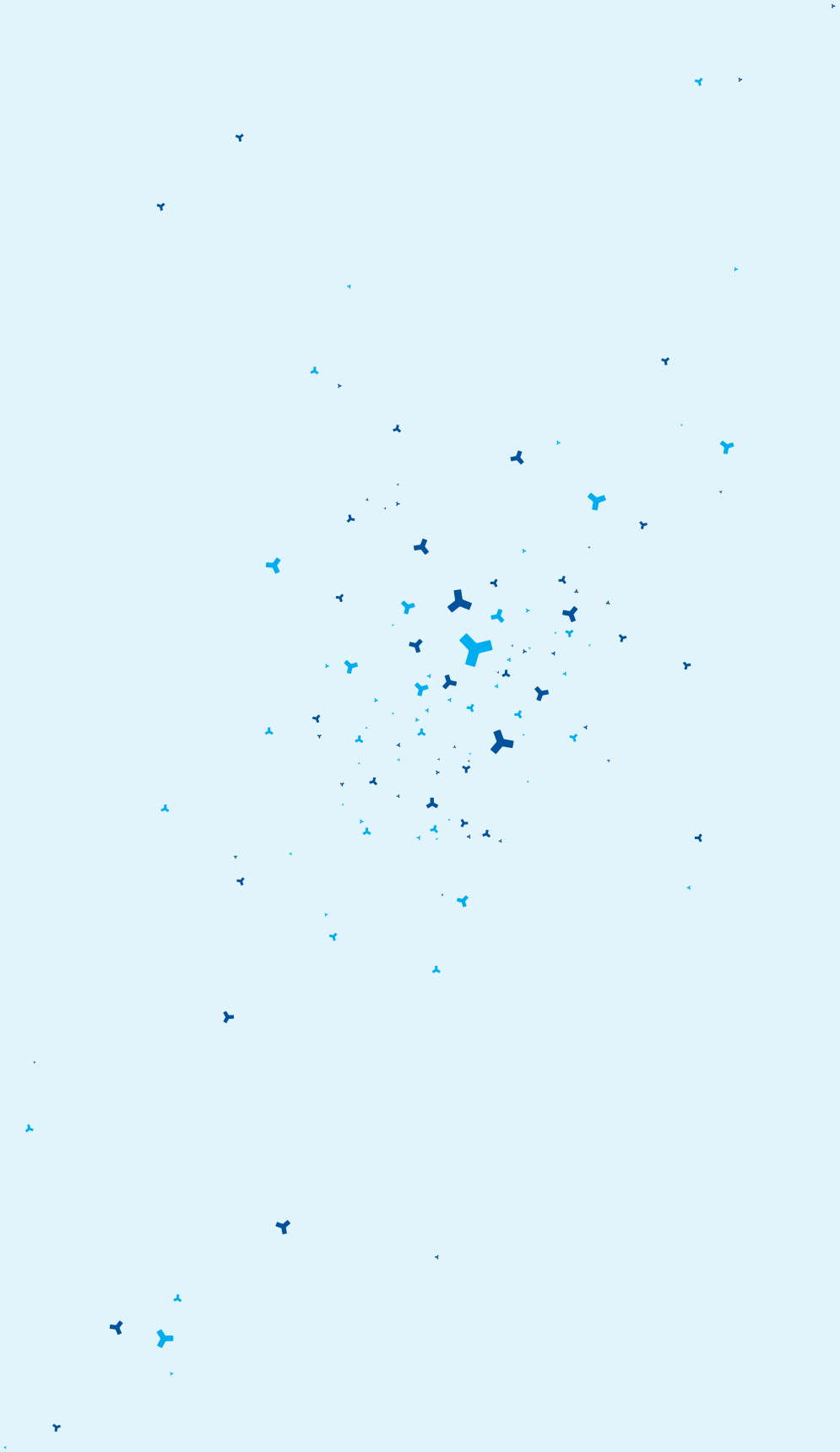
Additionally, the following antibodies received approval in 2015:

- Secukinumab (trade name Cosentyx®), the first monoclonal antibody targeting IL 17a for treating patients with moderate to severe psoriasis was approved in the USA and EU.
- Daratumumab (trade name Darzalex®) targeting the CD 38 antigen became the first antibody to receive FDA approval for treating patients with multiple myeloma, a form of bone cancer.
- Elotuzumab (trade name Empliciti®), another potent antibody for treating multiple myeloma targeting glycoprotein SLAMF7 (Signaling Lymphocytic Activation Molecule Family Member 7) received FDA approval.

CURRENCY DEVELOPMENTS

The European debt crisis, a faster-growing US economy and a stronger US dollar on the back of the US key interest rate increase in December resulted in an even weaker euro. Falling energy prices brought down European inflation rates, which raised the monetary regulator's deflationary concerns, and the European Central Bank reinforced its expansionary monetary policy, putting additional pressure on the euro. At the end of 2015, the euro was quoted at US$ 1.09, or roughly 10% lower than its level at the start of the year. According to experts, the euro will continue to move closer to parity with the dollar.

Changes in these currencies could have an effect on MorphoSys's future costs and revenues because most of the Company's business is transacted in euros and US dollars. The ongoing weakness in the euro versus the US dollar has a direct influence on the Company's operating results because a growing share of its clinical study costs are incurred in the USA.



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DEVELOPMENT OF THE

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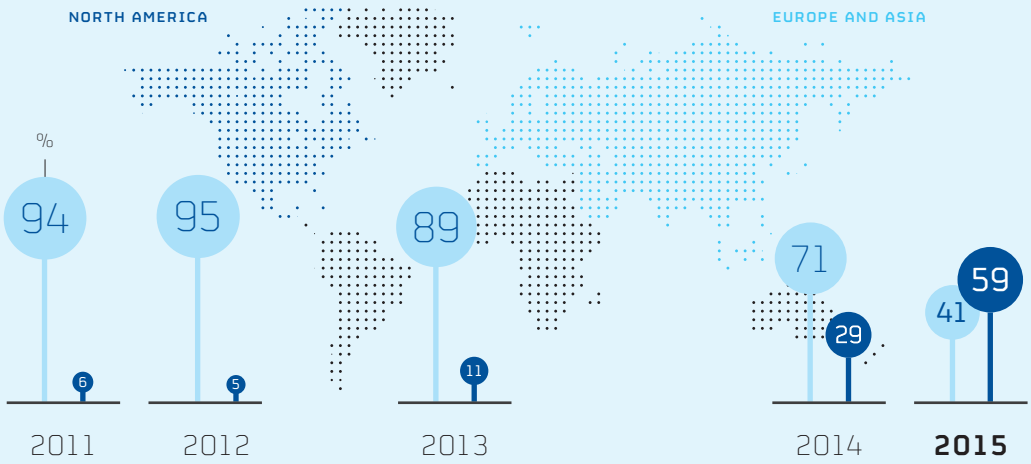
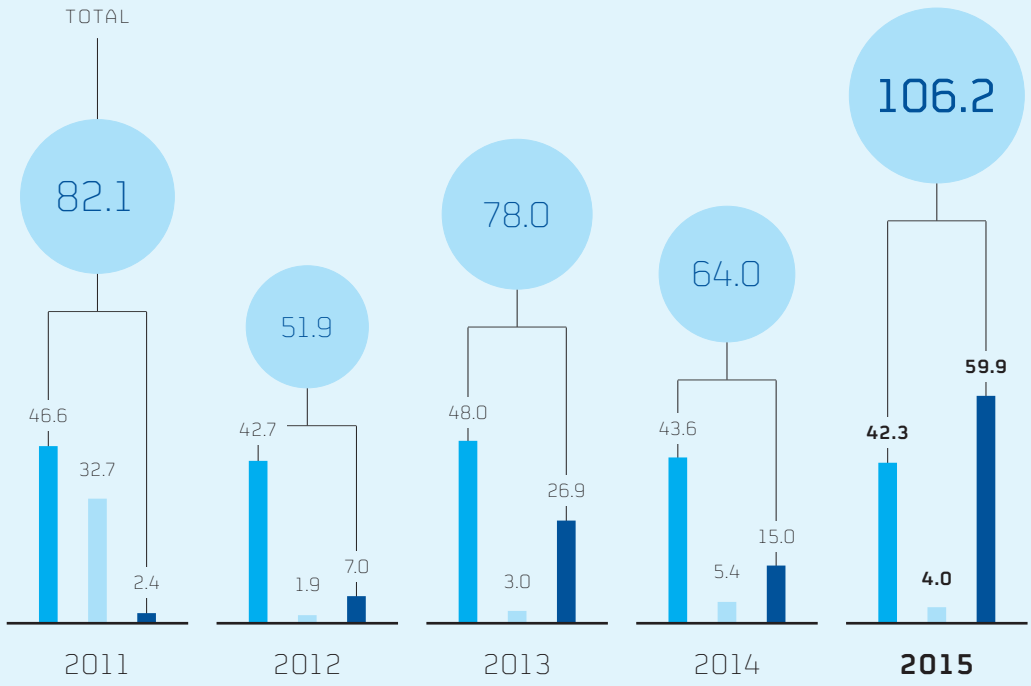
05 FIGURE
Revenue of the MorphoSys Group by Region (in %)



06 FIGURE
Revenues Proprietary Development and Partnered Discovery (in million €)



- **PARTNERED DISCOVERY SEGMENT** – *funded research and licensing fees*
- **PARTNERED DISCOVERY SEGMENT** – *success-based payments*
- **PROPRIETARY DEVELOPMENT SEGMENT**

Analysis of Net Assets, Financial Position and Results of Operations

The MorphoSys Group's scope of consolidation changed as of December 31, 2015. The consolidated financial statements as of December 31, 2015 include MorphoSys AG, Sloning BioTechnology GmbH, Lanthio Pharma B.V. and its subsidiary LanthioPep B.V. Further information on the Group's organizational structure can be found on page 25.

Revenues

Group revenues increased 66 % year-on-year to € 106.2 million (2014: € 64.0 million). This increase mainly originated from the realization of deferred revenue resulting from the termination of the MOR202 co-development and co-promotion agreement with Celgene.

Success-based payments amounted to 4 % (2014: 8 %) of total revenue.

On a regional basis, MorphoSys generated 59 %, or € 62.2 million, of its commercial revenues with biotechnology and pharmaceutical companies and non-profit organizations headquartered in North America and 41 %, or € 44.0 million, with customers headquartered primarily in Europe and Asia. In the same period of the previous year the distribution was 29 % and 71 %, respectively.

›› SEE FIGURE 05 – *Revenue of the MorphoSys Group by Region*

Roughly 97 % of Group revenues are attributable to activities with our partners Celgene, Novartis and Pfizer (2014: 92 % with Novartis, Celgene and Centocor).

PROPRIETARY DEVELOPMENT SEGMENT

The Proprietary Development segment achieved revenues of € 59.9 million in 2015 (2014: € 15.0 million). Most of this revenue resulted from the termination of co-development activities with Celgene in the first quarter of 2015.

PARTNERED DISCOVERY SEGMENT

The revenues generated by the Partnered Discovery segment included € 42.3 million in funded research and license fees (2014: € 43.6 million) and € 4.0 million in success-based payments (2014: € 5.4 million).

›› SEE FIGURE 06 – *Revenues Proprietary Development and Partnered Discovery*

Based on the average foreign exchange rates in 2014, the revenues of the Proprietary Development and Partnered Discovery segments would have totaled € 106.1 million.

Operating Expenses

In 2015, operating expenses increased 34 % to € 93.7 million (2014: € 70.1 million). Expenses consisted of research and development expenses of € 78.7 million (2014: € 56.0 million) and general and administrative expenses of € 15.1 million (2014: € 14.1 million). Research and development expenses increased as planned due to ongoing projects.

Operating expenses in the Proprietary Development segment rose from € 33.5 million to € 54.1 million and in the Partnered Discovery segment increased to € 25.9 million (2014: € 23.0 million).

Personnel expenses from share-based payments are included in general and administrative expenses and research and development expenses. These expenses amounted to € 3.6 million in 2015 (2014: € 4.0 million).

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased by € 22.7 million in 2015 to a total of € 78.7 million (2014: € 56.0 million) and consist of expenses for external laboratory services (2015: € 29.2 million; 2014: € 14.9 million), personnel expenses (2015: € 25.6 million; 2014: € 21.0 million), expenses for intangible assets (2015: € 7.2 million; 2014: € 8.1 million), expenses for external services (2015: € 5.2 million; 2014: € 2.7 million), technical infrastructure expenses (2015: € 5.2 million; 2014: € 4.1 million), other expenses (2015: € 3.4 million; 2014: € 2.9 million) and expenses for consumables (2015: € 3.0 million; 2014: € 2.3 million). In 2015, a € 3.7 million impairment was recognized on goodwill resulting from the acquisition of Sloning BioTechnology GmbH. In 2014, expenses for intangible assets included impairment on patents, license rights and laboratory facilities of € 4.1 million.

›› SEE FIGURE 07 – *Selected R&D Expenses*

In 2015, the Company incurred proprietary development expenses of € 54.1 million (2014: € 33.5 million) and € 2.5 million (2014: € 2.9 million) for technology development.

›› SEE FIGURE 08 – *Distribution of R&D Expenses*

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were above the previous year's level and amounted to € 15.1 million (2014: € 14.1 million). They mainly consisted of personnel expenses (2015: € 10.4 million; 2014: € 9.6 million), expenses for external services (2015: € 2.6 million; 2014: € 2.7 million), technical infrastructure expenses (2015: € 1.0 million; 2014: € 0.8 million) and other expenses (2015: € 1.1 million; 2014: € 1.0 million).

Other Income and Expenses

Other income totaled € 5.5 million (2014: € 0.8 million) and mainly stemmed from earnings effects from the fair-value measurement of the shares already held in Lanthio Pharma B.V. in the amount of € 4.5 million. Other income also included income from grants received and currency gains. Other expenses totaled € 0.8 million (2014: € 0.6 million) and mainly resulted from currency losses.

EBIT

Earnings before interest and taxes (EBIT) amounted to € 17.2 million compared to € – 5.9 million in the previous year. The Proprietary Development segment reported EBIT of € 10.7 million (2014: € –18.4 million), while the Partnered Discovery segment achieved EBIT of € 20.4 million (2014: € 25.9 million).

Finance Income and Expenses

Finance income of € 3.8 million (2014: € 1.8 million) was generated in 2015 and included mainly interest income as well as realized and unrealized gains from currency hedging transactions. Finance expenses amounted to € 0.4 million (2014: € 0.2 million) and resulted mainly from realized and unrealized losses from currency hedging transactions.

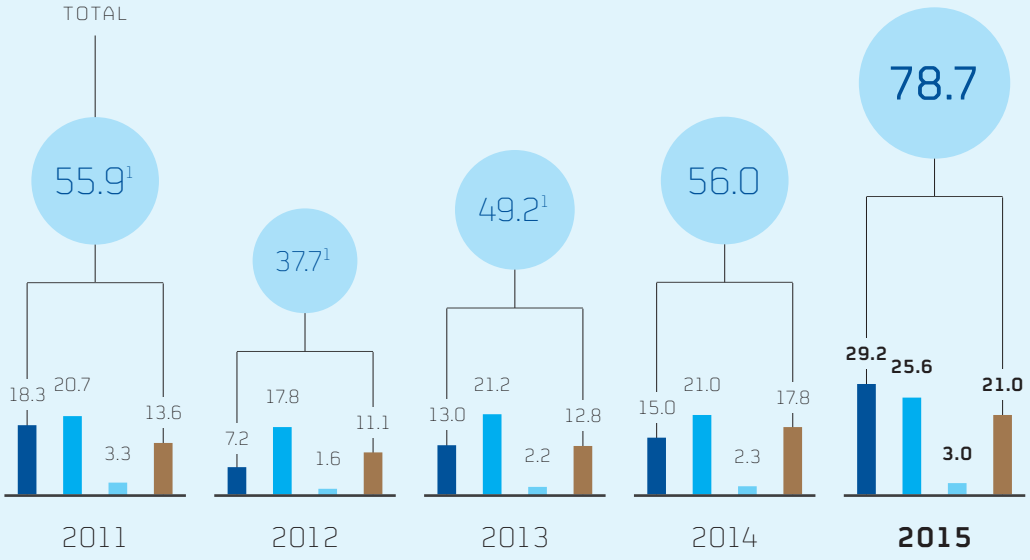
Taxes

The Group reported income tax expenses of € 5.7 million in 2015 (2014: tax benefit of € 1.3 million) consisting of current tax expenses of € 4.2 million and deferred tax expenses of € 1.5 million.

Consolidated Net Profit/Loss for the Period

In 2015, the Company generated a net profit of € 14.9 million (2014: net loss of € – 3.0 million). The basic net result per share for 2015 is € 0.57 (2014: € – 0.12).

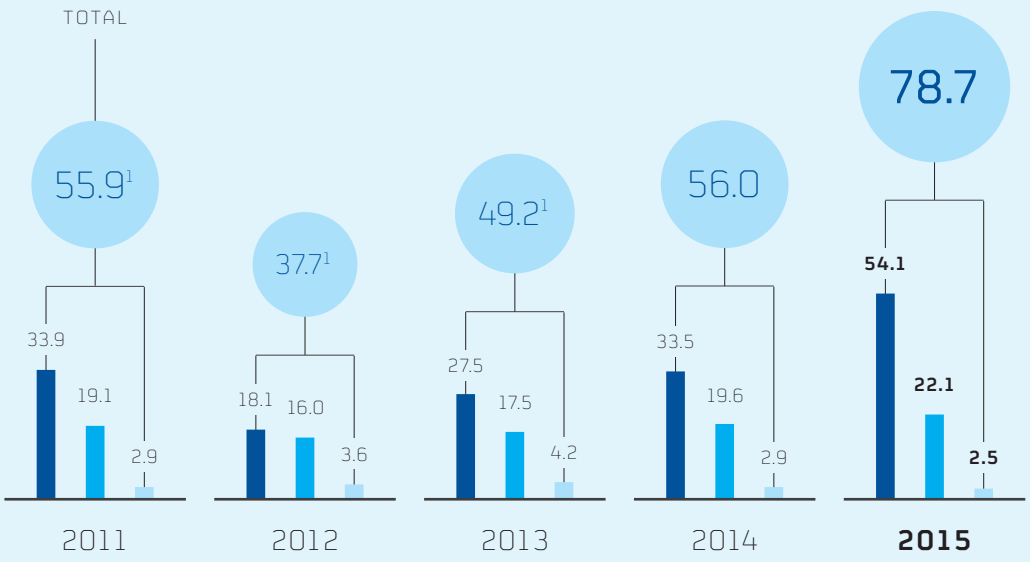
07 **FIGURE**
Selected R&D Expenses (in million €)



EXTERNAL LABORATORY FUNDING
PERSONNEL
CONSUMABLES
OTHER *(includes expenses for intangible assets, technical infrastructure, and external services)*

[1] *Due to the sale of sub-stantially all of the AbD Serotec operating segment with of closing date of 10 January 2013, the figures for the years*

08 **FIGURE**
Distribution of R&D Expenses (in million €)



PROPRIETARY DEVELOPMENT EXPENSES
R&D EXPENSES ON BEHALF OF PARTNERS
TECHNOLOGY DEVELOPMENT EXPENSES

[1] *Due to the sale of sub-stantially all of the AbD Serotec operating segment with of closing date of 10 January 2013, the figures for the years*

2012[2]	2011[2]
51.9	82.1
37.7	55.9
12.1	14.9
0.3	(1.5)
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Multi-Year Overview – Income Statement

04 **TABLE**
Multiple-Year Overview – Income Statement[1]

in million €	2015	2014	2013[2]	2012[2]	2011[2]
Revenues	106.2	64.0	78.0	51.9	82.1
Research and Development Expenses	78.7	56.0	49.2	37.7	55.9
General and Administrative Expenses	15.1	14.1	18.8	12.1	14.9
Other Income/Expenses	4.7	0.2	(0.1)	0.3	(1.5)
EBIT	17.2	(5.9)	9.9	2.5	9.8
Finance Income/Expenses	3.4	1.6	0.8	0.6	1.4
Income Tax Income/Expenses	(5.7)	1.3	(3.3)	(0.7)	(3.0)
Profit/(Loss) for the Year from Continuing Operations	14.9	(3.0)	7.4	2.4	8.2
Profit/(Loss) for the Year from Discontinued Operations[2]	0.0	0.0	6.0	(0.4)	0.01
Consolidated Net Profits/(Loss)	14.9	(3.0)	13.3	1.9	8.2

[1] Differences due to rounding
[2] Due to the sale of substantially all of the AbD Serotec business agreed in December 2012, line items in the income statement related to this transaction are recorded in a single line titled "Results from discontinued operations" from the year 2011 onwards. Other line items contain the results of the continuing operations.

Financial Position

PRINCIPLES OF FINANCIAL MANAGEMENT

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

CASH FLOWS*

The net cash outflow from operating activities in 2015 totaled € 23.5 million (2014: cash outflow of € 14.2 million).

*SEE GLOSSARY – *page 142*

In 2015, the Company invested in a variety of financial assets such as available-for-sale securities and bonds and financial assets classified as loans and receivables. These investments brought cash inflows of € 86.3 million (2014: cash outflow of € 21.5 million).

In 2015, financing activities led to a cash outflow of € 4.1 million (2014: cash outflow of € 3.9 million).

INVESTMENTS

In 2015, MorphoSys invested € 1.4 million in property, plant and equipment (2014: € 2.9 million) mainly for laboratory equipment (i.e., machinery) and computer hardware. Depreciation of property, plant and equipment increased slightly to € 1.5 million (2014: € 1.4 million).

The Company invested € 7.4 million in intangible assets in 2015 (2014: € 17.6 million). Amortization of intangible assets was slightly below the prior year's level and amounted to € 1.9 million in 2015 (2014: € 2.7 million). In 2015, impairments of € 0.02 million (2014: on patents, licenses and laboratory equipment of € 4.1 million) were recognized on patents.

LIQUIDITY

On December 31, 2015, the Company held liquid funds, marketable securities and other financial assets of € 298.4 million versus € 352.8 million on December 31, 2014.

This amount consisted of cash and cash equivalents of € 90.9 million (December 31, 2014: € 32.2 million), marketable securities and bonds of € 97.4 million (December 31, 2014: € 113.5 million) and other financial assets in the amount of € 94.6 million (December 31, 2014: € 157.0 million) that are categorized as "loans and receivables" under "other receivables" contained in "current assets." Other investments under the category of "loans and receivables" of € 15.5 million were reported under non-current assets as of December 31, 2015 (December 31, 2014: € 50.0 million).

The decrease in marketable securities and other financial assets mainly resulted from the acquisition of the remaining shares in Lanthio Pharma B.V., the share buyback, the milestone payment to Emergent and the use of cash for operating activities in 2015.

05 **TABLE**
Multiple-Year Overview – Financial Situation[1]

in million €	2015	2014	2013	2012	2011
Net Cash Provided by/Used in Operating Activities[2, 4]	(23.5)	(14.2)	89.1	1.8	27.1
Net Cash Provided by/Used in Investing Activities[4]	86.3	(21.5)	(193.9)	(12.1)	(18.1)
Net Cash Provided by/Used in Financing Activities[2, 4]	(4.1)	(3.9)	130.6	1.6	1.3
Cash and Cash Equivalents (as of 31 December)[3]	90.9	32.2	71.9	40.7	54.6
Available-for-sale Financial Assets	64.3	106.0	188.4	79.7	79.8
Bonds, Available-for-sale	33.1	7.5	11.1	0.0	0.0
Financial Assets Categorized as Loans and Receivables, Current Portion	94.6	157.0	119.3	10.0	0.0
Financial Assets Categorized as Loans and Receivables, Net of Current Portion	15.5	50.0	0.0	0.0	0.0

[1] Differences due to rounding
[2] In 2011, purchases of derivative financial instruments and proceeds from the sale of derivative financial instruments were reclassified from financing activities to operating activities in the statement of cash flows. In order to provide comparative information for the previous year, the figures for 2010 have been adjusted accordingly.
[3] In 2012, € 5.3 million in cash and cash equivalents was recorded under assets of disposal group classified as held for sale.
[4] In 2015, interest paid and interest received were reclassified from operating activities into investing activities and financing activities in the statement of cash flows. In order to provide comparative information for the previous year, the figures for 2014 have been adjusted accordingly.

Net Assets

ASSETS

As of December 31, 2015, total assets amounted to € 400.1 million and were € 26.4 million lower compared to December 31, 2014 (€ 426.5 million). Current assets declined by € 22.3 million. The rise in cash and cash equivalents and available-for-sale bonds was overcompensated by the use of cash for operating activities in 2015, the cash payment of € 20.0 million for the acquisition of the remaining shares in Lanthio Pharma B.V. and the decline in accounts receivable.

Most of the cash and cash equivalents were invested in various securities. As of December 31, 2015, an amount of € 64.3 million (December 31, 2014: € 106.0 million) was invested in various money market funds and reported under "available-for-sale financial assets." The item "bonds, available-for-sale" contained bonds totaling € 33.1 million (December 31, 2014: € 7.5 million). Financial instruments totaling € 94.6 million (December 31, 2014: € 157.0 million) were allocated to the category "loans and receivables." These instruments were mainly term deposits with either fixed or variable interest rates.

Non-current assets declined by € 4.1 million year-on-year to € 100.0 million due to the reclassification of cash invested in long-term assets to current assets because maturities had fallen below 12 months. The effect of this reclassification was largely compensated by the rise in R&D programs under development of € 32.7 million from the purchase of preclinical programs through the acquisition of Lanthio Pharma B.V. and a milestone payment to Emergent. The preclinical program MOR107 (formerly LP2) as well as three further molecules at an earlier stage of development acquired through the acquisition of Lanthio Pharma B.V. have been part of MorphoSys's proprietary portfolio since May 2015.

LIABILITIES

Current liabilities declined from € 32.7 million on December 31, 2014 to € 27.5 million on December 31, 2015. This effect mainly resulted from a decrease in the item "deferred revenue, net of current portion" and was partially compensated by higher accounts payable and accrued expenses.

Non-current liabilities (December 31, 2015: € 9.9 million; December 31, 2014: € 45.0 million) declined by € 35.1 million year-on-year mainly due to the recognition of deferred revenues through profit and loss after the termination of the co-development and co-promotion agreement with Celgene for the MOR202 program.

STOCKHOLDERS' EQUITY

As of December 31, 2015, Group equity totaled € 362.7 million compared to € 348.8 million on December 31, 2014.

The number of shares issued totaled 26,537,682 as of December 31, 2015, of which 26,103,012 shares were outstanding (December 31, 2014: 26,456,834 shares issued and 26,005,944 shares outstanding).

The number of authorized ordinary shares increased from 4,957,910 on December 31, 2014 to 13,206,421 as a result of the creation of € 10,584,333 in new Authorized Capital 2015-I and the cancellation of € 2,335,822 in Authorized Capital 2013-I at the Annual General Meeting on May 8, 2015.

The number of ordinary shares of conditional capital declined from 7,166,848 to 7,086,000 after the exercise of 80,848 conversion rights in 2015.

The value of treasury stock increased from € 14,251,962 on December 31, 2014 to € 15,827,946 on December 31, 2015 mainly as the result of MorphoSys's repurchase of 88,670 of its own shares on the stock exchange. The repurchase, which totaled € 5,389,984, was carried out at an average share price of € 60.79. Brokerage fees for the repurchase totaled € 2,947. The effect of this repurchase was offset by the transfer of 104,890 of the Company's own shares from the 2011 long-term incentive plan (LTI plan) amounting to € 3,816,947 to the Management Board and Senior Management Group. The vesting period for this LTI program expired on June 1, 2015. As of December 31, 2015, the Company held a total of 434,670 of its own shares.

Financing

As of December 31, 2015, the Company's equity ratio had risen to 91 % compared to 82 % on December 31, 2014. The Group is currently not financed by debt.

Off-Balance Sheet Financing

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

Credit Rating

There is no agency currently assessing the creditworthiness of MorphoSys.

Multi-Year Overview – Balance Sheet Structure

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

in million €	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011
Assets					
Current Assets	300.1	322.4	406.6	142.9	153.9
Non-current Assets	100.0	104.1	41.1	40.6	73.7
Assets of Disposal Group Classified as Held for Sale	0.0	0.0	0.0	40.9	0.8
Total	400.1	426.5	447.7	224.3	228.4
Equity and Liabilities					
Current Liabilities	27.5	32.7	35.4	11.9	23.8
Non-current Liabilities	9.9	45.0	60.1	6.6	7.5
Liabilities of Disposal Group Classified as Held for Sale	0.0	0.0	0.0	3.7	0.0
Stockholders' Equity	362.7	348.8	352.1	202.0	197.1
Total	400.1	426.5	447.7	224.3	228.4

[1] Differences due to rounding

Comparison of Actual Business Results to Forecasts

In the 2015 reporting year, MorphoSys demonstrated solid financial performance. The revenue and earnings targets published at the start of the financial year were revised in March 2015 following the termination of the cooperation with Celgene to develop MOR202. The full recognition of deferred revenue from the original agreement and a one-time payment from Celgene prompted an upward revision in the revenue and earnings forecasts. The related projected costs for proprietary research and development were also raised.

A detailed comparison of our forecasts with the actual results can be found in Table 7.

07 **TABLE**
Comparison of Actual Business Results to Forecasts

	2015 Targets	2015 Results
Financial targets	Group revenue between € 101 million and € 106 million (initial guidance € 58 million to € 63 million, updated on March 26, 2015 with the announcement of termination of Celgene cooperation)	Group revenue of € 106.2 million
	Expenses for proprietary product and technology development of € 56 million to € 63 million (initial guidance € 48 million to € 58 million, updated on March 26, 2015 with the announcement of termination of Celgene cooperation)	Expenses for proprietary product and technology development of € 56.6 million
	EBIT of € 9 million to € 16 million (initial guidance € – 20 million to € – 30 million, updated on March 26, 2015 with the announcement of termination of Celgene cooperation)	EBIT of € 17.2 million
Proprietary Development	MOR208 • Continuation of the phase 2 study in NHL and B-ALL* • Initiation of further combination studies in NHL	MOR208 • Presentation of clinical data from the ongoing phase 2a study in NHL at the ASCO Annual Meeting in May/June, the EHA conference in June and the annual ASH meeting in December • Planned initiation of further combination studies in 2016 based on data presented in the 2015 financial year
	MOR202 • Continuation of the phase 1/2a study in additional cohorts and combination studies with pomalidomide and lenalidomide	MOR202 • Presentation of clinical data from the ongoing phase 1/2a study at the ASCO Annual Meeting in May/June, the EHA conference in June and the annual ASH meeting in December • Initiated treatment of additional patient groups in combination with pomalidomide or lenalidomide shortly after financial year end
	MOR209/ES414 • Initiation of phase 1 trial in mCRPC under the cooperation with Emergent	MOR209/ES414 • Initiation in March 2015 of a phase 1 trial in up to 130 patients suffering from mCRPC
Partnered Discovery	Progress of partnered development programs	• Net addition of five partnered programs • Initiation of a phase 2 clinical study with the HuCAL antibody guselkumab (CNTO1959) in psoriasis arthritis by partner Janssen • Initiation of a phase 1 trial of a HuCAL antibody in the field of blood disorders by partner Novartis • Exercise of the option by partner Heptares to initiate its own therapeutic antibody program under an existing research alliance • Initiation of a phase 1 trial of the HuCAL antibody BAY1093884 in the field of bleeding disorders by partner Bayer HealthCare

*SEE GLOSSARY – *page 142*

The Management Board's General Assessment of Business Performance

The 2015 financial year marked a successful year for the Group overall, even though not all targets were reached. We made solid progress in growing our pipeline and raised our number of development programs to 103 by the end of 2015 (2014: 94).

The Group's revenue increased to € 106.2 million in the 2015 financial year, and EBIT grew to € 17.2 million. The rise in revenue and the positive operating result were mainly driven by the recognition of deferred revenues arising from the termination of the Celgene cooperation. Net cash outflows from operating activities in 2015 totaled € 23.5 million. These outflows stemmed from increased investment in the proprietary R&D, in line with expectations. The equity ratio of 91 % and liquidity of € 298.4 million underscore the Group's very sound financial position.

The number of development programs in the Proprietary Development segment increased to 14. Promising results from preclinical and clinical studies of MOR202 and MOR208 were presented at major medical conferences. MorphoSys is developing both of these programs independently after the cooperation with Celgene to develop MOR202 ended in March. In the first quarter, MOR209/ES414 commenced clinical development, and GSK announced the initiation of an additional study of MOR103 in osteoarthritis. The acquisition of Lanthio Pharma added four development candidates to MorphoSys's portfolio. Collaborations with Immatics, Heptares and G7 give the Company broader access to innovative targets to be validated as part of our R&D activities.

Solid progress was also made in our Partnered Discovery segment. The number of programs in this segment increased to 89, with three of these programs in clinical phase 3 studies, nine antibody programs in clinical phase 2 and a further nine development candidates in clinical phase 1.

Accounting Judgements

In preparing the 2015 consolidated financial statements, no accounting policies or accounting options were used that differ from those in prior years and that, if used or exercised differently, would have had a material effect on the Company's net assets, financial position or balance sheet structure. Information on the effects of the Management Board's use of estimates, assumptions and judgments can be found in the Notes to the Consolidated Financial Statements.

Outlook and Forecast

MorphoSys is increasingly focusing on the development of its proprietary therapeutic antibodies. These activities are supplemented by numerous partnered programs. By maximizing the number of development programs, MorphoSys raises its future growth potential and limits the overall risk inherent in developing novel drugs.

General Statement on Expected Development

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

Revenues from R&D funding, license and milestone payments and a strong liquidity position enable the Company to build its commercial operations by investing in the development of proprietary drugs and technologies. The Management Board expects the following developments in 2016:

- Higher investment in proprietary product candidates by initiating further clinical studies.
- Continued expansion of proprietary development activities through in-licensing and possibly also through company acquisitions as well as co-development or new proprietary development activities.
- New strategic agreements based on proprietary technologies focused on gaining access to innovative target molecules and compounds.
- Investments in technology development to maintain the Company's lead in the field of antibodies and related technologies, such as lanthipeptides.
- Expansion of the therapeutic antibody pipeline as part of the partnership with Novartis.

Strategic Outlook

MorphoSys's business model is based on its proprietary technologies, including the HuCAL and Ylanthia antibody libraries, the Slonomics platform and the lanthipeptide library. We use these technologies to develop innovative drug candidates so that patients have access to better treatment alternatives. MorphoSys's management intends to continue expanding the Company's proprietary portfolio of drug candidates and increase its investment in its proprietary development portfolio. MorphoSys will also continue to concentrate on using 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 inflammatory diseases and oncology. Decisions to enter into alliances to develop MorphoSys's proprietary candidates will be made on an individual basis. In some cases projects can remain in proprietary development for a longer period – even until their commercialization.

The Partnered Discovery segment generates contractually secured cash flows based on long-term cooperation agreements. The partnership with Novartis is responsible for the majority of development candidates. This partnership is scheduled to end in December 2017 with an option for Novartis to extend it for an additional two years. The development of candidates from this partnership and others continues even after the contract expires and can lead to further milestone payments. The Company's broad pipeline promises an impressive number of market-ready, therapeutic antibodies in the coming years and financial participation in the form of royalty payments from product sales. Results from phase 3 trials of two product candidates are expected in 2016. If the study results are positive, the antibodies could receive approval as early as 2016/2017.

For the foreseeable future, MorphoSys plans to invest a substantial portion of its financial resources in proprietary R&D. Management believes that this is the best way to expand the Company's portfolio of proprietary development candidates and strengthen its technology platform and thereby, maximize shareholder value.

Expected Economic Development

The International Monetary Fund (IMF) expects the growth of the global economy in 2016 to be higher than in 2015 but, because of increasing global risk, growth is anticipated to be lower than previously expected. In its January forecast, the IMF estimates growth will reach 3.4 % in the current year (2015: 3.1 %), whereas in its fall 2015 forecast the IMF still expected growth of 3.6 %. The reasons given for the higher level of economic uncertainty at the start of the year were the ongoing slowdown in China and several other emerging markets, the sharp drop in oil and commodity prices and the unpredictable impact of the refugee crisis. The global economy and the capital markets were also shaken by the massive declines in stock markets in the first few weeks of the year.

Based on reduced growth prospects in the emerging economies, the economic outlook was further reduced by other institutions. In its latest update from February 2016, OECD reduced its estimate for global growth to 3.0 % (previously 3.3 %).

The advanced economies should grow by a total of 2.1 % on average in 2016 compared to the previous year (2015: 1.9 %). The IMF expects Germany to grow 1.7 % in 2016 (2015: 1.5 %), which is the average rate expected for the eurozone (2016: 1.7 %, 2015: 1.5 %), but below European countries such as Spain and Great Britain. Europe's growth is expected to be more consumer-led rather than export-led because the very low level of inflation coupled with sluggish growth in the emerging markets will pressure exports. The US economy is expected to remain more robust and could reach growth of 2.6 % (2015: 2.5 %). In 2016, the emerging markets are expected to achieve overall growth of 4.3 % following 4.0 % in 2015 but will still be pressured by weaker growth in China, which the IMF has estimated at 6.3 % (2015: 6.9 %). There is also some concern about Brazil, which is expected to remain in a deep recession (2016: -3.5 % versus 2015: -3.8 %), and Russia, whose economy is also expected to shrink (2016: -1.0 % versus 2015: -3.7 %).

Expected Development of the Life Sciences Sector

After four years (2012 – 2015) of outstanding performance for biotechnology shares, during which the Nasdaq Biotechnology Index* more than tripled, the industry news service BioCentury expects the sector's performance in 2016 to be more in line with the overall market. The sector's volatility is expected to increase because of potential discussions during the US presidential campaign on price controls in the pharmaceutical industry. The sector has already come under massive pressure on the stock markets in early 2016 with the Nasdaq Biotechnology Index falling to a 15-month low. The significantly greater volatility of the capital markets means that it has become more difficult to forecast development of the sector's financing conditions in 2016.

*SEE GLOSSARY – *page 142*

Fundamentally, the sector is still on a strong footing. Scientific advances and a growing understanding of biological relationships, such as those in combination therapies in the area of immuno-oncology, coupled with a continued high unmet medical need particularly in the areas of cancer and rare diseases, lead industry experts to expect more innovation and new drug approvals. After an exceptional year 2015 in which the FDA granted 45 approvals, BioCentury has already listed a potential 35 approvals for the year 2016.

Expected Business Development

MorphoSys will use the majority of the proceeds from the Novartis contract, which are guaranteed until at least the end of November 2017, and its strong liquidity position to concentrate on expanding and increasing the value of its development pipeline.

The Company expects the Partnered Discovery segment to start ten new partnered programs every year on average until the end of 2017. The customary attrition rates in drug development mean that the net growth of the overall pipeline, however, will be somewhat lower. The Company aims to enter new partnerships with pharmaceutical and biotechnology companies based on the Ylanthia technology. These collaborations and those with academic institutes are also expected to provide access to new target molecules and technologies.

In a best-case scenario, the Company may see the first approval of a therapeutic antibody from one of its partnerships in 2016. Results from a phase 3 study of bimagrumab (BYM338) are expected in the first half of 2016. Novartis is solely responsible for the development of this antibody and recently announced that it will seek approval in 2016 if the study results are positive. An application for approval might also be submitted for guselkumab (CNTO1959), being developed by Janssen.

Expected Personnel Development

The number of employees in the Proprietary Development and Partnered Discovery segments is expected to remain stable during the 2016 financial year.

Future Research and Development

The Company's R&D budget for proprietary drug development will rise significantly again in the 2016 financial year compared to the prior year. The majority of investment will fund the clinical development of the most advanced drug candidates MOR208, MOR202 and MOR209/ES414. Further investment is planned in the areas of target molecule validation and antibody and technology development.

The steps planned for the Company's proprietary portfolio in 2016 are expected to include:

- Initiation of the L-MIND combination study of MOR208 in combination with lenalidomide in DLBCL
- Initiation of a safety evaluation of MOR208 in combination with bendamustine (B-MIND); this study is expected to be transitioned into a pivotal phase 3 study in 2017 in which MOR208 in combination with bendamustine is tested in comparison to rituximab and bendamustine
- Initiation of the combination study of MOR208 in combination with idelalisib in CLL
- Continuation of the phase 1/2a study of MOR202 with additional patients and a recommended dosage of 16 mg/kg alone and in combination with pomalidomide and lenalidomide
- Continuation of an adapted phase 1 trial of MOR209/ES414 in mCRPC as part of the cooperation with Emergent
- Continuation and initiation of a phase 1 study of the MOR106 co-development program with Galapagos
- Initiation of a phase 1 study of MOR107
- In-licensing of one or more target molecules or compounds to reinforce the proprietary portfolio
- Further development of the lanthipeptide technology
- Initiation and continuation of new development programs in the field of antibody identification and preclinical development

Expected Development of the Financial Position and Liquidity

MorphoSys has a solid financial base and predictable revenues that stem mainly from its collaboration with Novartis. Additionally, MorphoSys receives performance-based milestone payments for the successful development of product candidates. Based on these factors, the Management Board expects Group revenue for the 2016 financial year in the range of € 47 million to € 52 million. This forecast does not include any additional revenue from new collaborations. The majority of the Group's revenue is expected to be generated by the Partnered Discovery segment.

Based on management's current projections, R&D expenses for proprietary programs and technology development in 2016 should be in the range of € 76 million to € 83 million. MorphoSys plans to initiate further clinical studies in addition to continuing the current ongoing studies for MOR208, MOR202 and MOR209/ES414. R&D expenses in the Partnered Discovery segment are expected to be at roughly the same level as the previous year.

The Company's EBIT in 2016 is expected to be in the range of € – 58 million to € – 68 million. This guidance does not include any potential in-licensing or co-development of further development candidates. The Partnered Discovery segment is expected to generate operating results in 2016 at roughly the same level as the previous year. MorphoSys anticipates the Proprietary Development segment to report a significant loss brought on by higher expenses for proprietary R&D.

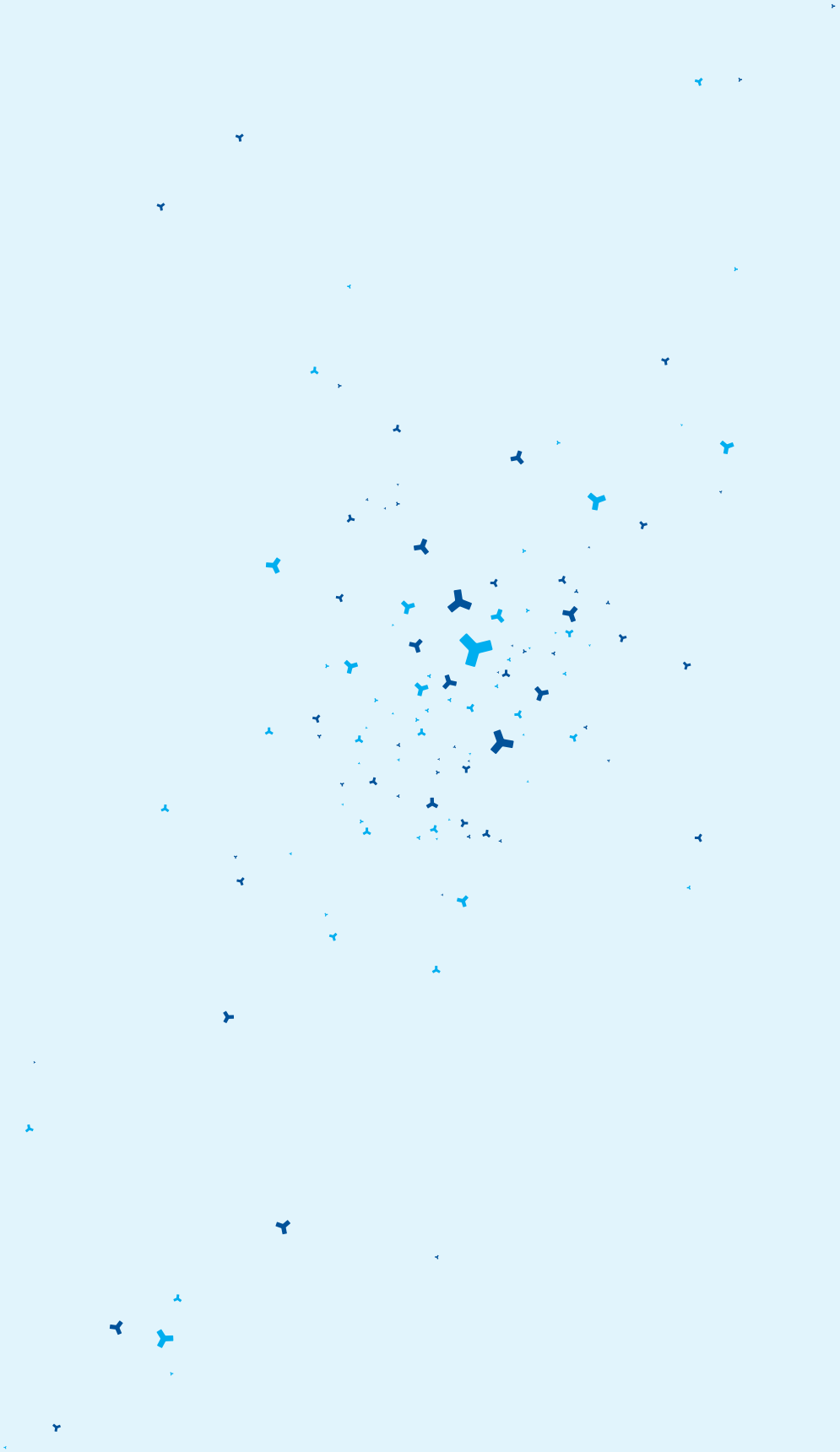
In the years ahead, there will be an increasing impact on net assets and the financial position from one-time events, such as in-licensing and out-licensing proprietary product candidates, major milestone payments as well as royalties related to HuCAL or Ylanthia antibodies that reach the market. Just as failures in drug development can have a negative impact on the MorphoSys Group, these types of events can lead to a significant change in our financial targets. Near-term revenue growth depends on the Company's ability to enter new partnerships and/or out-license proprietary programs. Royalties for commercialized products could start contributing to revenue growth as of 2017.

At the end of the 2015 financial year, MorphoSys had liquid funds of € 298.4 million (December 31, 2014: € 352.8 million). This decline resulted from proprietary R&D expenses as well as the acquisition of the remaining shares in Lanthio Pharma B.V. The projected loss in 2016 will cause the liquidity position to decline even further. MorphoSys considers its solid cash position as an advantage that can be used to accelerate its future growth through strategic activities, such as in-licensing compounds and investments in promising companies. The funds can also be used for increased research and development in the Company's portfolio of drug candidates.

DIVIDEND

Based on German accounting principles, MorphoSys's financial statements report an accumulated profit that could be used for dividends. Based on the expected losses in 2016, the Company no longer expects to report any accumulated income. MorphoSys will continue investing in the development of proprietary drugs and intends to do further in-licensing and acquisitions so that it can continue creating shareholder value and open up new growth opportunities. For this reason, the Company does not expect to pay a dividend in the foreseeable future.

This outlook is based on Management Board assumptions and factors that were known at the time of preparing this Annual Report that could influence the Company in 2016 and beyond. Future results may differ materially from the expectations described in the section "Outlook and Forecast." Key risks are described in the risk report.



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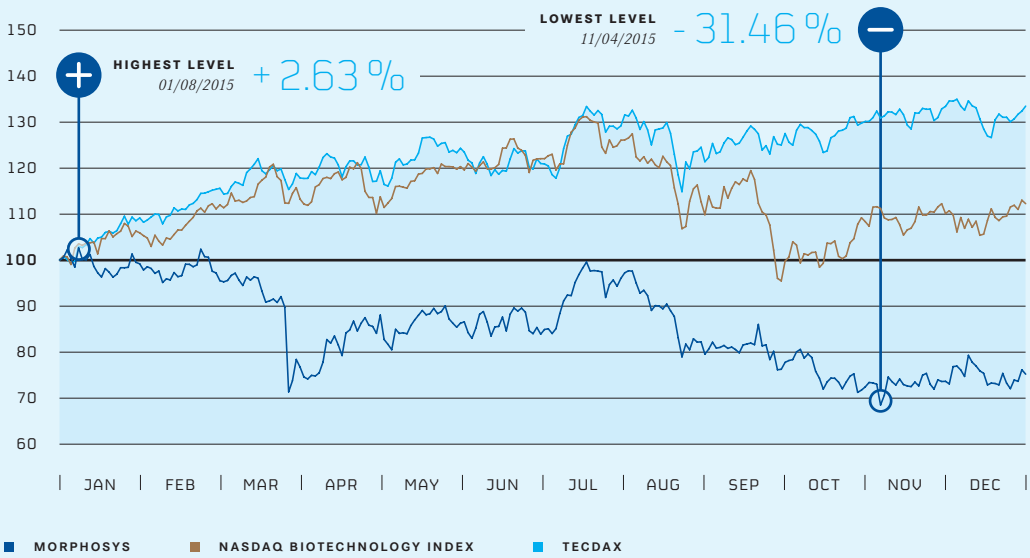
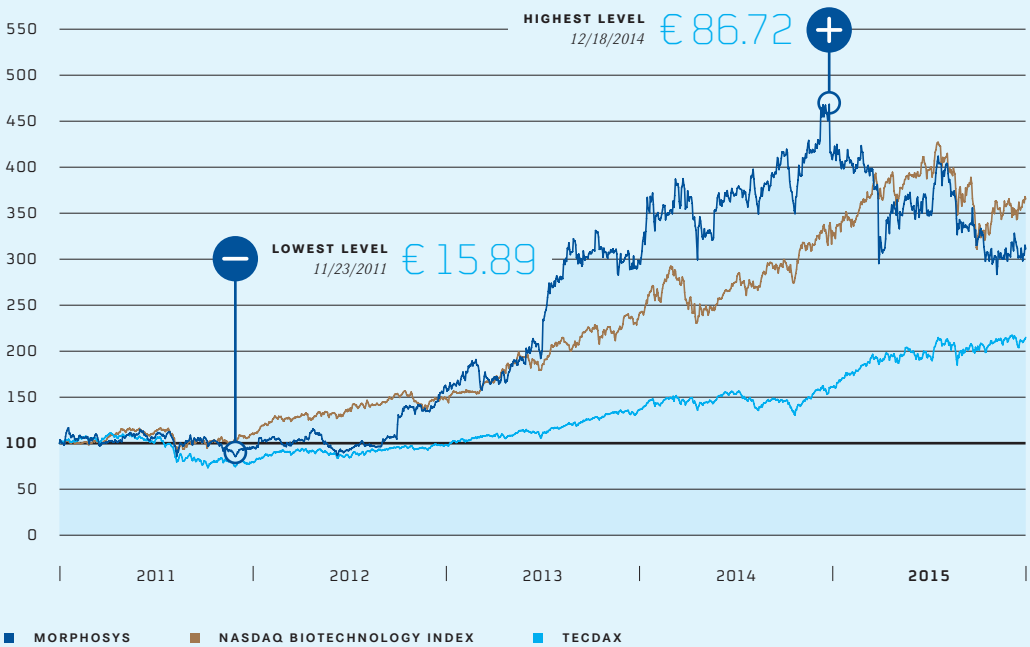
09 FIGURE

Performance of the MorphoSys Share in 2015 (1 January 2015 = 100 %)



10 FIGURE

Comparison of the MorphoSys Share Price Development between 2011 and 2015 (1 January 2011 = 100 %)



Shares and the Capital Market

MorphoSys's share price was highly volatile during the reporting year. The year's high of € 78 was reached on January 8, 2015 and the year's low of € 52.52 was set in early November 2015. The main reason for the poor share price performance was the termination of the cooperation with Celgene. The shares closed the financial year at € 57.65, giving the Company a market capitalization* of € 1.53 billion. MorphoSys's share price performance lagged behind the performance of the benchmark indices, which increased 34 % (TecDAX*) and 11 % (Nasdaq Biotechnology Index) in the 2015 financial year.

*SEE GLOSSARY – *page 142*
>> SEE FIGURE 09 – *Performance of the MorphoSys Share in 2015*
>> SEE FIGURE 10 – *Comparison of the MorphoSys Share Price Development between 2011 and 2015*

Stock Market Development

For global stock markets 2015 was a turbulent year. The DAX, Germany's leading index, closed the year with sharp price gains for the fourth consecutive year. As in previous years, performance in Germany was supported by lower interest rates that offset the negative effects of falling oil prices and a slide in the Chinese stock market. After a six-year rally in the US Dow Jones Index that ended in 2014, US stock markets had to accept a decline in the 2015 reporting year.

MorphoSys's investor relations activities in 2015 continued to target Europe and the USA. There continued to be tremendous interest in biotechnology shares from US investors.

Liquidity and Index Membership

In 2015, stronger interest in MorphoSys shares boosted their year-on-year average daily trading volume across all trading platforms in the regulated market to € 14.9 million (2014: € 12.0 million). The trading volume of the shares traded on the TecDAX, the index for the 30 largest technology stocks on the Frankfurt Stock Exchange, increased by almost 15 % on average. By the end of 2015, MorphoSys improved its standing in the TecDAX and was ranked 8th in terms of trading volume (year-end 2014: 9th). In terms of market capitalization, MorphoSys was ranked 10th (year-end 2014: 8th).

In addition, the average daily trading volume in MorphoSys shares on the alternative trading platforms ("dark pools") in 2015 amounted to approximately 89,800 shares valued at € 5.8 million (2014: approx. 64,400 shares valued at € 4.6 million).

Common Stock

The exercise of 80,848 convertible bonds in 2015 prompted a rise in the Company's common stock to 26,537,682 shares or € 26,537,682.00.

MorphoSys issued stock options and non-interest-bearing convertible bonds under its employee incentive program until 2010. In 2011, the Company introduced a performance-based long-term incentive (LTI) plan. The Company repurchases shares annually for this plan. A detailed description of this program can be found in the Corporate Governance Report contained in this Annual Report. In April 2015, 40,425 performance shares were issued to the Management Board and the Senior Management Group under the LTI plan. For more information, please refer to the Notes (see section 8.2.5). Stock options were not issued to the Management Board, members of the Senior Management Group or the workforce in the reporting year.

08 **TABLE**
Key Data for the MorphoSys Share (as of December 31)

	2015	2014	2013	2012	2011
Total Stockholders' Equity (in million €)	362.7	348.8	352.1	202.0	197.1
Number of Shares Issued (number)	26,537,682	26,456,834	26,220,882	23,358,228	23,112,167
Market Capitalization (in million €)	1,530	2,027	1,464	685	405
Closing Price in € (Xetra)	57.65	76.63	55.85	29.30	17.53
Average Daily Trading Volume (in million €)[1]	14.9	11.9	6.9	1.9	1.8
Average Daily Trading Volume (in % of Share Capital)[1]	0.87	0.65	0.59	0.38	0.38

[1] Figures of 2011 only include trading on Xetra and German regional exchanges.

International Investor Base

Various voting right notifications were issued during the reporting year in accordance with Sections 21, 25 and 26 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 – Shareholder Structure.

According to the definition given by the Deutsche Börse, 98.3% of MorphoSys AG's shares were in free float at the end of the reporting year. Novartis Pharma AG (Basel, Switzerland) held roughly 4.1% and Celgene Netherlands II BV (Amsterdam, the Netherlands) held about 3% of the shares. International institutional investors continued to hold approximately 70% of the shares. According to the latest voting right announcements, our largest single shareholders were Flossbach von Storch Invest S.A. (Luxembourg) with 5.8%, Baillie Gifford & Co. (Edinburgh, UK) with 5.0%, Templeton Investment Counsel, LLC (Wilmington, DE, USA) with 3.1%, Templeton Global Advisors Limited (Nassau, Bahamas) with 3.1%, and Invesco Holding Company Limited (Henley-on-Thames, UK) with 3.0%.

An overview of the current shareholder structure can also be found on the Company's website (Media and Investors – Stock Information – Shareholder Structure).

Annual General Meeting

The Management and Supervisory Boards of MorphoSys AG welcomed shareholders to the Company's 17th Annual General Meeting in Munich on May 8, 2015. The shareholders and proxies attending represented more than 50% of the common stock of MorphoSys AG (2014: 47.8% of the common stock). All 15 agenda items submitted for resolution were adopted by a clear majority. This year's Annual General Meeting is scheduled for June 2, 2016 and will take place again in Munich.

Investor Relations Activities

During the 2015 financial year, MorphoSys continued to strengthen its communication with the capital markets. The Company took part in 20 international investor conferences and held several road shows and private meetings in both Europe and the USA. There continued to be strong interest from specialized healthcare investors headquartered in the USA. With the Company's publication of the annual, half-yearly and quarterly results, the Management Board held conference calls to report past and expected business developments and answer questions from analysts and investors.

In private meetings, investors were not only interested in the general progress of the drug pipeline but were especially interested in the development of the proprietary portfolio, which had a total of 14 active programs at the end of the reporting year.

Ten analysts were covering MorphoSys shares at the end of 2015.

09 **TABLE**
Analyst Recommendations (as of December 31, 2015)

Buy/Overweight	Hold	Sell	n/a
5	4	0	1

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

For the second consecutive year, MorphoSys was awarded the first prize in the "Investors' Darling 2015 – Capital Market Strategist of the Year" competition for the TecDAX. The Handelshochschule Leipzig, supported by the Manager Magazine, evaluated the capital market communications of all index-listed stock companies. The evaluation included the quality of standard financial reporting, the IR website, investor presentations and capital market performance.

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

Sustainable Business Development

At MorphoSys, sustainability is a value firmly anchored in the Company's corporate culture to ensure it acts in an environmentally and socially responsible manner for the benefit of present and future generations. Complying with the highest ethical, social and environmental standards goes hand in hand with long-term economic success. This section describes the measures taken in the reporting year to ensure the Company meets these standards. To ensure compliance with these standards, MorphoSys uses selected non-financial performance indicators in addition to the financial performance indicators discussed in the section "Analysis of Net Assets, Financial Position and Results of Operations". The Corporate Governance Report details MorphoSys's management structure and corporate governance practices.

Sustainable Corporate Management

Sustainability is a hallmark of MorphoSys's corporate management and plays a major role in the pursuit of corporate goals and 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. Because of a growing and aging population, biotechnology-derived drugs represent a growing portion of the overall healthcare system. In the opinion of management, all aspects of the current business model of MorphoSys support the sustainable investment interests of its shareholders.

A comprehensive risk management system ensures that factors that could threaten sustainable corporate performance are identified early and corrected if necessary. MorphoSys only assumes risk when there is an opportunity to increase the Company's enterprise value. At the same time, a great effort is made to systematically identify new opportunities and leverage its business success (more information on risks and opportunities can be found on page 53).

Group-wide compliance with the sustainability strategy is monitored by the entire Management Board, chaired by the Chief Financial Officer. The Code of Conduct's credo, which is available in German and English and applies to employees group-wide, regulates the strategy's implementation in daily operations. 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 Code of Conduct Committee consists of four members (a Chairperson and three other members) and is available to employees at all times. A Compliance Officer coordinates MorphoSys's Compliance Management System. Detailed information on this subject can be found on page 78 of the Corporate Governance Report. Employees can ask for advice on all matters concerning legal compliance and corporate responsibility and report any suspected violations. This may be done on an anonymous basis, if preferred. Violations are systematically pursued and appropriate remedial action is taken. No such violations have been reported to date, and the Company believes it is unlikely in the future that any serious offenses would occur that could materially affect the Group's net assets, financial position and results of operations.

Detailed information on the KPIs for sustainable development used by MorphoSys is provided in the section "Strategy and Group Management" (page 19). 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 updated in January 2015.

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 contracts 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, within certain circumstances, 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.

*SEE GLOSSARY – *page 142*

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 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 this end, 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.

PROCUREMENT

The Central Purchasing and Logistics Department is responsible for purchasing external goods, consulting and services for MorphoSys in specified areas. New systems and processes were introduced during the reporting year to improve efficiency and reduce purchasing costs. This department reinforced MorphoSys's position in key areas by introducing special framework agreements and establishing preferred partnerships with suppliers. All suppliers selected by MorphoSys agree to comply with all anti-corruption standards, human rights practices and internationally recognized labor standards and data protection laws.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

Because the biotechnology industry is subject to stringent regulatory requirements, environmental protection and occupational safety are important tasks of Group management. The Environmental Protection and Occupational Safety Department monitors 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.

For the seventh consecutive year, the Company took part in a survey conducted by the Carbon Disclosure Project (CDP), an independent non-profit organization whose aim is to reduce greenhouse gases and ensure the sustainable use of water. As in previous years, the study results showed that there is no need for the Company to take any action. The results are used for the current monitoring of consumption and provide an additional control indicator.

MorphoSys was certified for the sixth consecutive year as a "bicycle-friendly company" for its participation in the "Bike to Work" initiative sponsored by the German Bicycle Club (ADFC) and a German health insurance company. MorphoSys also offers employees an extensive range of preventative healthcare options, such as autogenic training, ball sports, weight training and marathons.

With one reportable occupational accident in the reporting year, the number of accidents remained below the previous year's low level of two accidents and placed the ratio of reportable accidents at MorphoSys significantly below the average ratio in Germany (22.3 reportable occupational accidents per 1,000 full-time employees in the latest survey conducted in 2014).

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 labeling antibodies with radioactive substances.

›› SEE FIGURE 11 – *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 assures that the data are measured reliably and processed correctly.

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

*SEE GLOSSARY – *page 142*

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 and was also issued a certificate from the German authorities of Upper Bavaria confirming the Company's compliance with Good Manufacturing Practice (GMP) standards and guidelines.

›› SEE FIGURE 12 – *Quality Management System at MorphoSys*

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 patents and other appropriate measures so that they may be utilized exclusively and effectively.

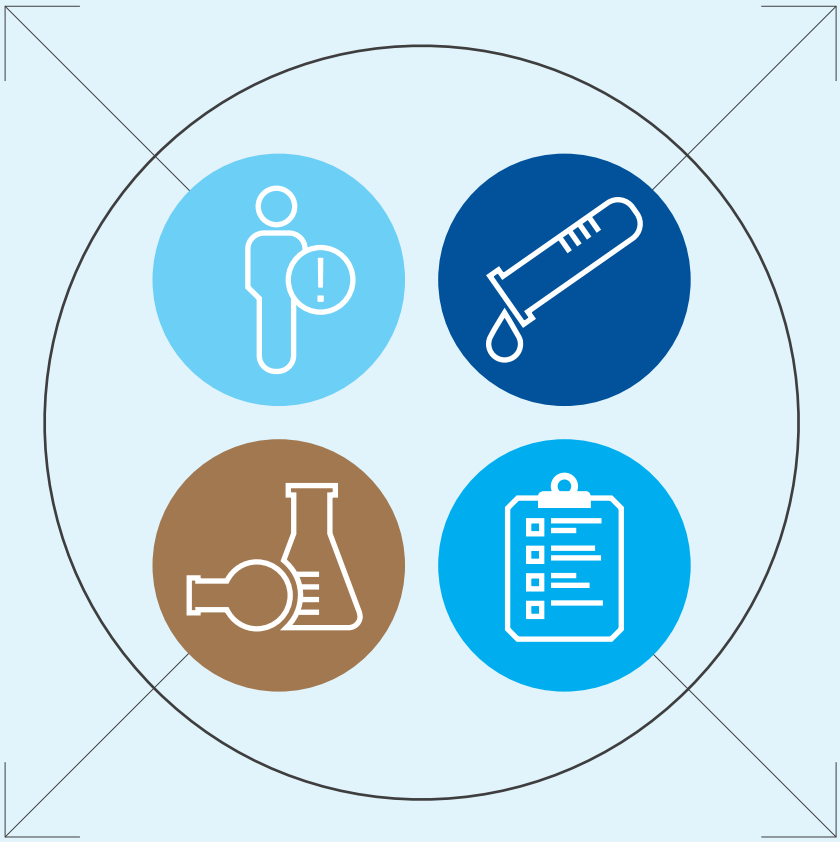
MorphoSys's core technologies – HuCAL, Ylanthia, Slonomics and lanthipeptide technology – form the Company's basis for success. Each single technology is protected by a number of patent families that are complemented by various independent technology patents. Most of these have now been issued in all major markets, including Asian markets such as China.

Our development program portfolio was also strengthened this past financial year through the acquisition of Lanthio Pharma and the related development of the MOR107 drug candidate. This program, like other proprietary drug programs, is protected by the

11 **FIGURE**
Occupational Safety at MorphoSys

ONLY SPECIALLY TRAINED EMPLOYEES ARE ALLOWED TO WORK WITH TOXIC SUBSTANCES; PATHOGENIC ORGANISMS ARE PROCESSED IN LABORATORIES WITH PARTICULAR SAFETY STANDARDS

LOWEST POSSIBLE AMOUNTS OF HAZARDOUS SUBSTANCES USED



ONLY CERTIFIED COMPANIES ARE AUTHORIZED BY MORPHOSYS TO DISPOSE OF CHEMICAL WASTE

INTRODUCTION OF HAZARDOUS MATERIALS FOR R&D PURPOSES:

- *A dedicated biosafety team as defined by the "Gentechnik Sicherheitsverordung" (German Genetic Engineering Safety Directive) and other safety professionals perform an internal audit to assess the risk involved*
- *Specific safety and evacuation training for the employees working with the substances*
- *Assurance that all safety measures are implemented before actual work commences*

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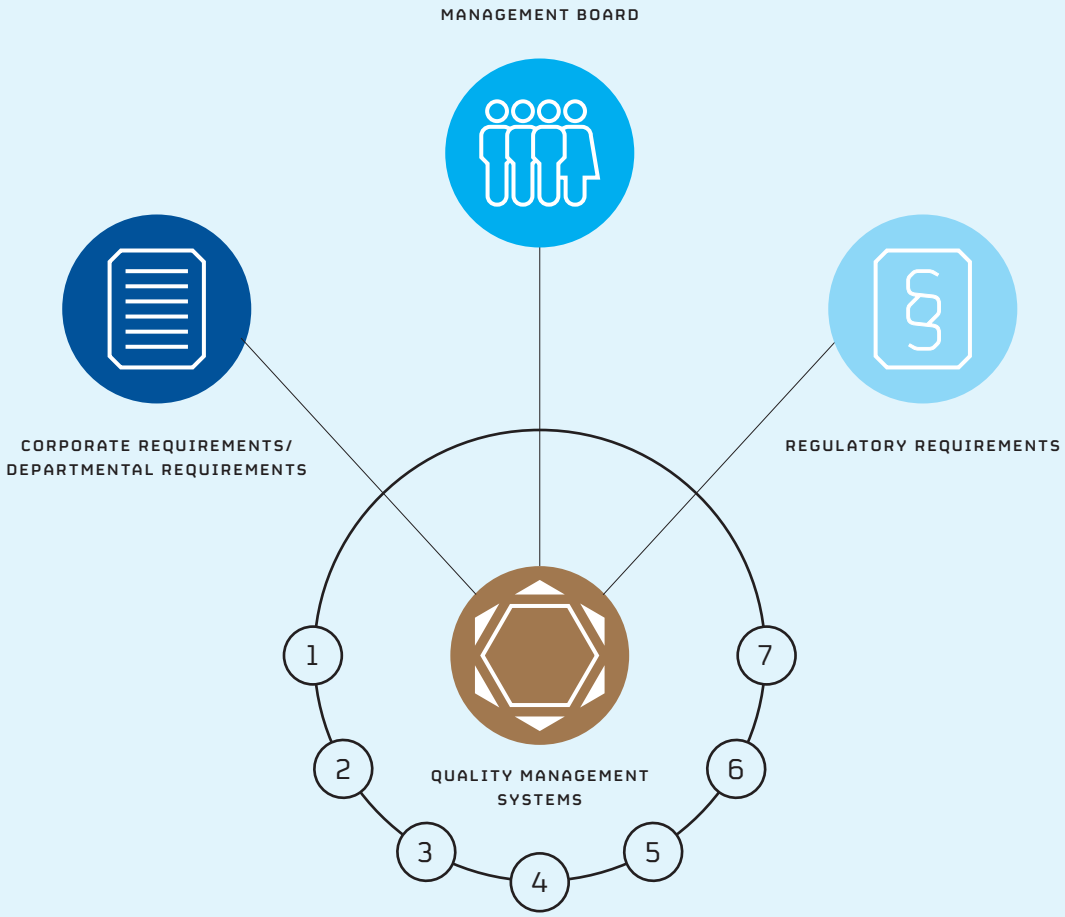
12 **FIGURE**
Quality Management System at MorphoSys



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)*

*SEE GLOSSARY – *page 142*

appropriate patents and applications. The development candidates MOR103 (out-licensed to GSK) and MOR202 are each protected by more than half a dozen issued patents and patent applications that cover various aspects of the compounds and provide effective protection. The relevant patents and associated protection certificates 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), excluding any consideration given to possible regulatory or patent office extensions. Patent applications covering MOR209/ES414 are scheduled to expire in 2032 at the earliest, also without giving any consideration to 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. Patents covering all drug development programs have durations that significantly exceed those of the underlying technologies.

MorphoSys's patent lawyers are currently maintaining 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 operates 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 the biotechnology industry, in which success is largely dependent on the creativity and commitment of staff, employee retention and satisfaction are crucial success factors. At the end of the reporting year, MorphoSys had employees representing 29 different nationalities (2014: 22) employed at the Company for an average of 6.0 years (2014: 5.8 years).

›› SEE FIGURE 13 – *Employees by Gender*
›› SEE FIGURE 14 – *Seniority*

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

MorphoSys requires all executives with management responsibility to take part in management seminars created exclusively for the Company. The training is based on several thematically related components that aim to provide not only theoretical knowledge but also prepare participants for the special demands placed on the Company's executives. As in previous years, all executives in the reporting year took part in an external workshop that fully addressed the challenges of management under the motto "Mission: Management."

MorphoSys also actively promoted the professional career paths of specialists and experts during the reporting year. The goal of this type of career promotion – also for those without personnel responsibilities – is to maintain flat hierarchies and put 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, 2015, MorphoSys had three trainees in the IT department and six biology laboratory trainees (December 31, 2014: two IT trainees; six biology laboratory trainees).

Transparent communication among employees is a central aspect of MorphoSys's corporate culture as stated in the Company's credo. In meetings held every two weeks, the Management Board presents the Company's recent developments and answers questions, and employees are given the opportunity to present selected projects. Questions and feedback from the staff can be taken directly in the meeting or submitted in advance in writing – anonymously if desired. The Company's intranet was technologically and conceptually redesigned in the reporting year to streamline internal communication. The new design ensures that the Company is using the latest generation of document management systems and applications. Employees have access to a broader range of information on external communication especially created for the internal target group.

To improve employer branding, MorphoSys started a Facebook career page in March 2015. The target group is potential applicants who want to gain a better understanding of the Company. Employee profiles and information on a variety of activities that extend beyond a typical workday are presented to give an authentic and positive impression of the Company.

MorphoSys helps new employees become more familiar with the Group through extensive onboarding activities. Employees can learn about the Company's processes in two-day orientation seminars with presentations from all operating departments and by participating in laboratory tours.

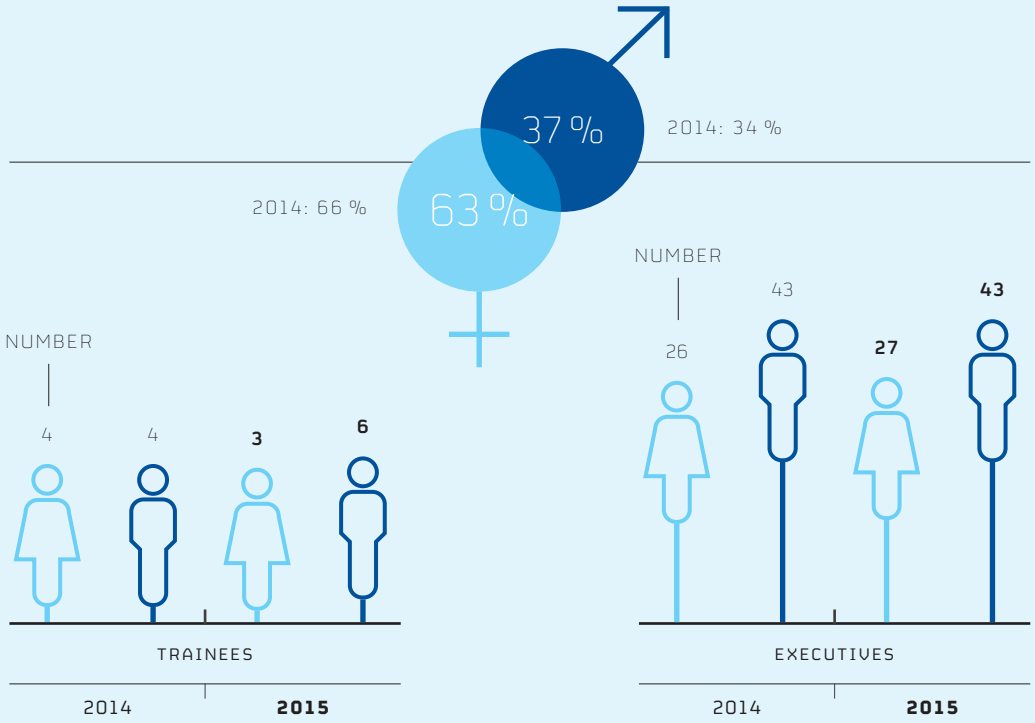
Free sport and relaxation options, such as the recently introduced barbell weight training for strengthening the back muscles, soccer, volleyball and basketball, as well as autogenic training and massage for a fee promote health and socializing among employees across departments. All of the members of the Senior Management Group accepted an offer for free health checkups.

Feasible concepts for reconciling professional development with personal life are a strategic success factor for progressive companies and the reason MorphoSys has offered employees a diverse range of options, such as flexible work hours and special part-time employment arrangements, for many years. 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 re-enter the workforce and combine work and family life. MorphoSys is also a co-founder of the "Biokids" kindergarten in Martinsried. Special arrangements for other services for working family members have also been made with a German service provider.

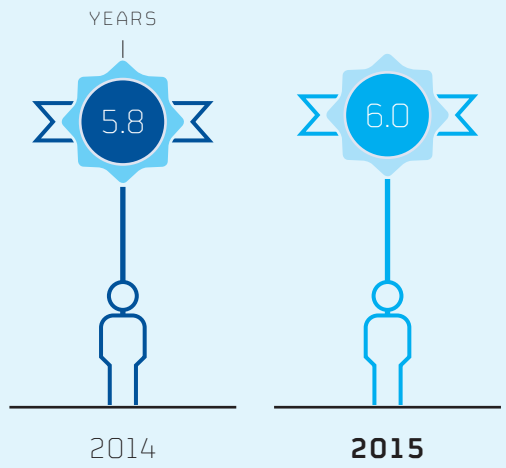
MorphoSys makes every effort to protect employees from workplace hazards and maintain their health through preventative measures. The extremely low number of occupational accidents illustrates the success of the Company's strict monitoring of all occupational protection and safety measures. During the 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. The continued decline in the fluctuation rate during the reporting year to 4.1 % (2014: 5.6 %) is another indication of employees' strong identification with the Company.

›› SEE FIGURE 15 – *Labor Turnover Rate*

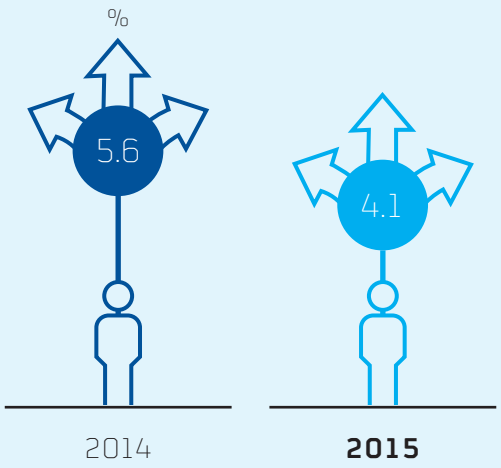
13 **FIGURE**
Employees by Gender (2015)



14 **FIGURE**
Seniority (average duration in years)



15 **FIGURE**
Labor Turnover Rate (in %)



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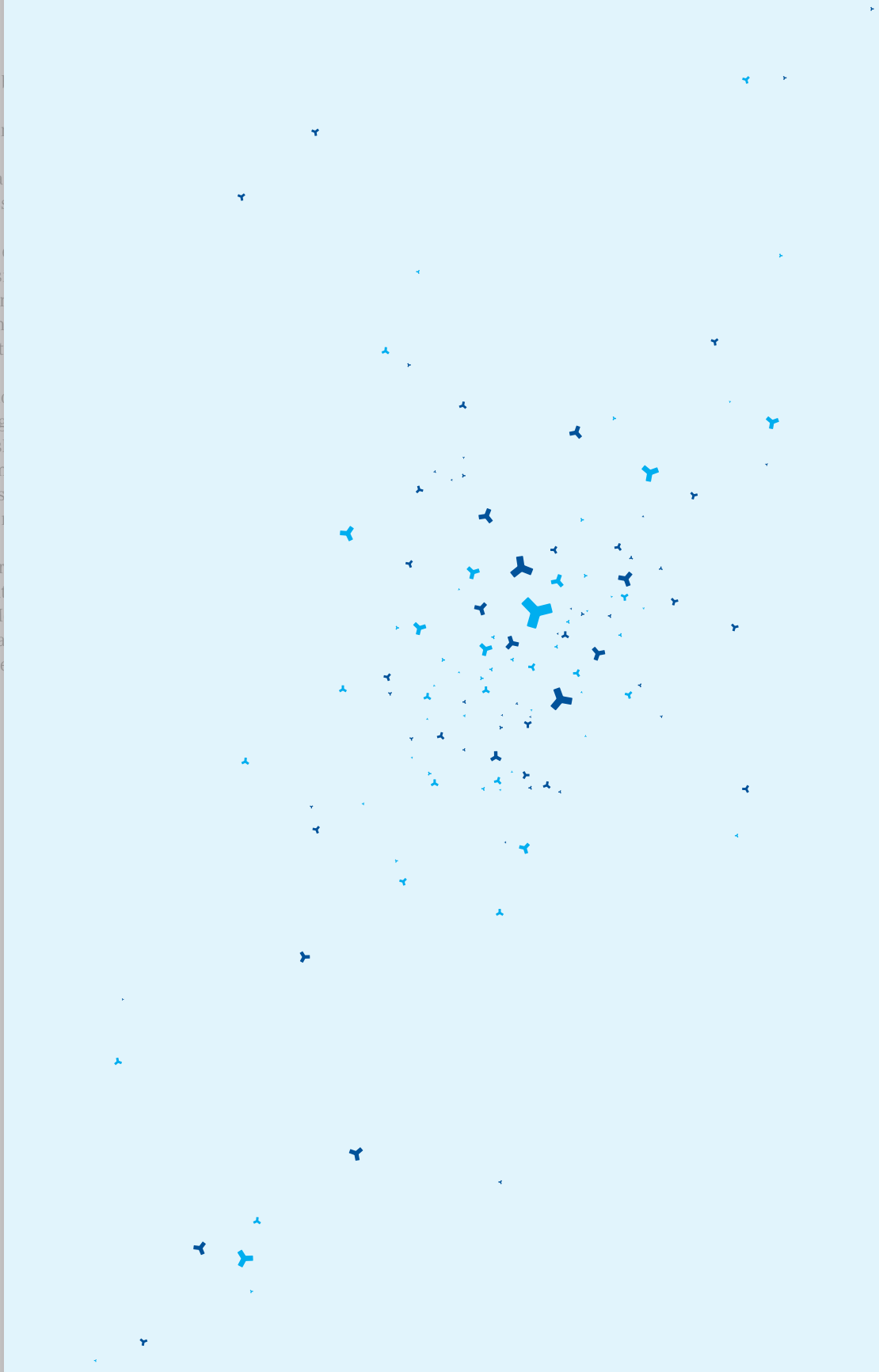


Risk and Opportunity Report

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 the healthcare systems.

MorphoSys makes a 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 of 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 at a very early stage, making it possible to take action to limit operating losses and monitor risks that could jeopardize the Company. All actions to minimize risk are assigned to risk officers, most of whom belong to 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 process that is carried out twice a year. Risks are assessed by comparing their quantifiable financial impact on the MorphoSys Group with their probability of occurrence with and without initiating a risk mitigation process. This method is applied over a 12-month assessment period as well as a period of three years to include risks related to the Company's proprietary development that have longer durations. Additionally, there is a strategic risk assessment that spans more than three years. An overview of MorphoSys's current risk assessment activities can be found in Tables 10 and 11 (page 60).

Risk managers enter their risks into a Group-wide IT platform that makes monitoring, analyzing and documenting risks much easier. Any changes can be tracked in this system. The risk management system distinguishes risk owners from risk managers. Risk owners are typically the relevant department heads (usually members of the Senior Management Group). Risk managers can be department employees when the risks that fall under their area of responsibility are included in the risk management system. Risk owners and risk managers are required to review and 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 presented to the Management Board and Supervisory Board twice a year. The entire evaluation process is based on standardized forms and diagrams and includes a "heat map" as well as a detailed description of the major risks over one- and three-year time frames. The heat map graphically illustrates the effectiveness of the controls implemented for the five largest risks (one- and three-year time frames) so that the effect of the monitoring activities for various risks can be visualized. 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. Risk owners and risk managers are also required to report risks outside of these periodic assessments when the risks exceed a certain threshold (ad hoc reporting). An 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 in the area of strategic risks and opportunities. The top-down approach systematically identifies global strategic risks and opportunities and completes the overview of the overall risks and opportunities. Examples include environmental and industry risks, personnel risks and other risks that may result from the public perception of the Company. As part of the top-down approach, a workshop is held with selected members of the Senior Management Group in which the strategic risks and opportunities in different areas of the Company are assessed and discussed including those exceeding a period of three years. These workshops are held twice a year as part of the routine risk assessment. The evaluation process is solely qualitative. These risks are listed in Table 11 (page 60).

Principles of Risk and Opportunity Management

MorphoSys continually encounters both risks and opportunities. These could have a potential material impact on the 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 goals. There is a direct relationship between opportunity and risk. Seizing opportunities has a positive influence on Company goals, whereas risk emergence has a negative influence.

Responsibilities under the Risk and Opportunity Management System

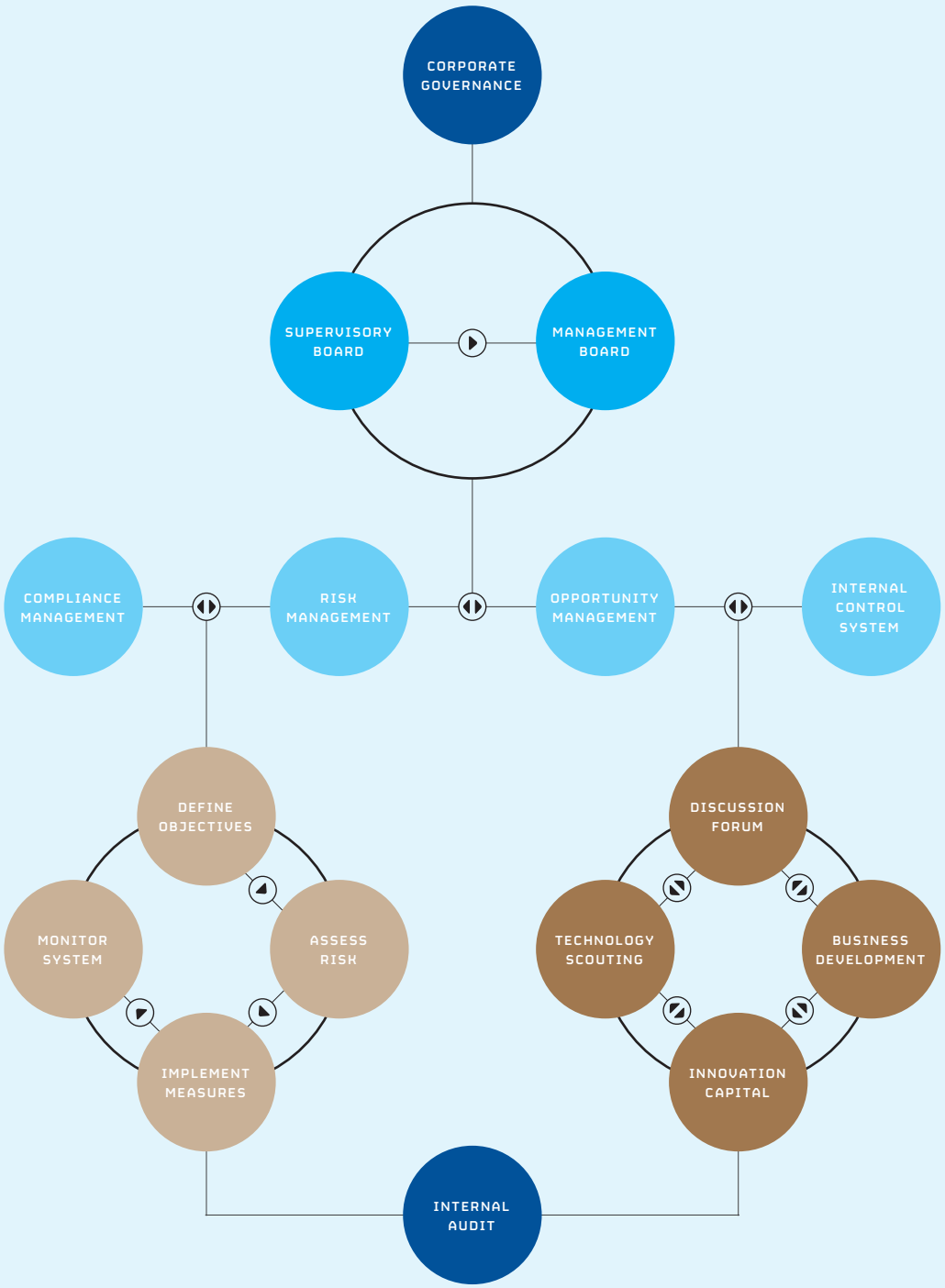
The Management Board of MorphoSys AG is responsible for the risk and opportunity management system and ensures that all risks and opportunities are evaluated, monitored and presented in their entirety. The Corporate Finance & Corporate Development Department oversees the risk management process and reports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

>> SEE FIGURE 16 – *The Risk and Opportunity Management System at MorphoSys*

Accounting-Related Internal Control System

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

16 **FIGURE**
The Risk and Opportunity Management System at MorphoSys



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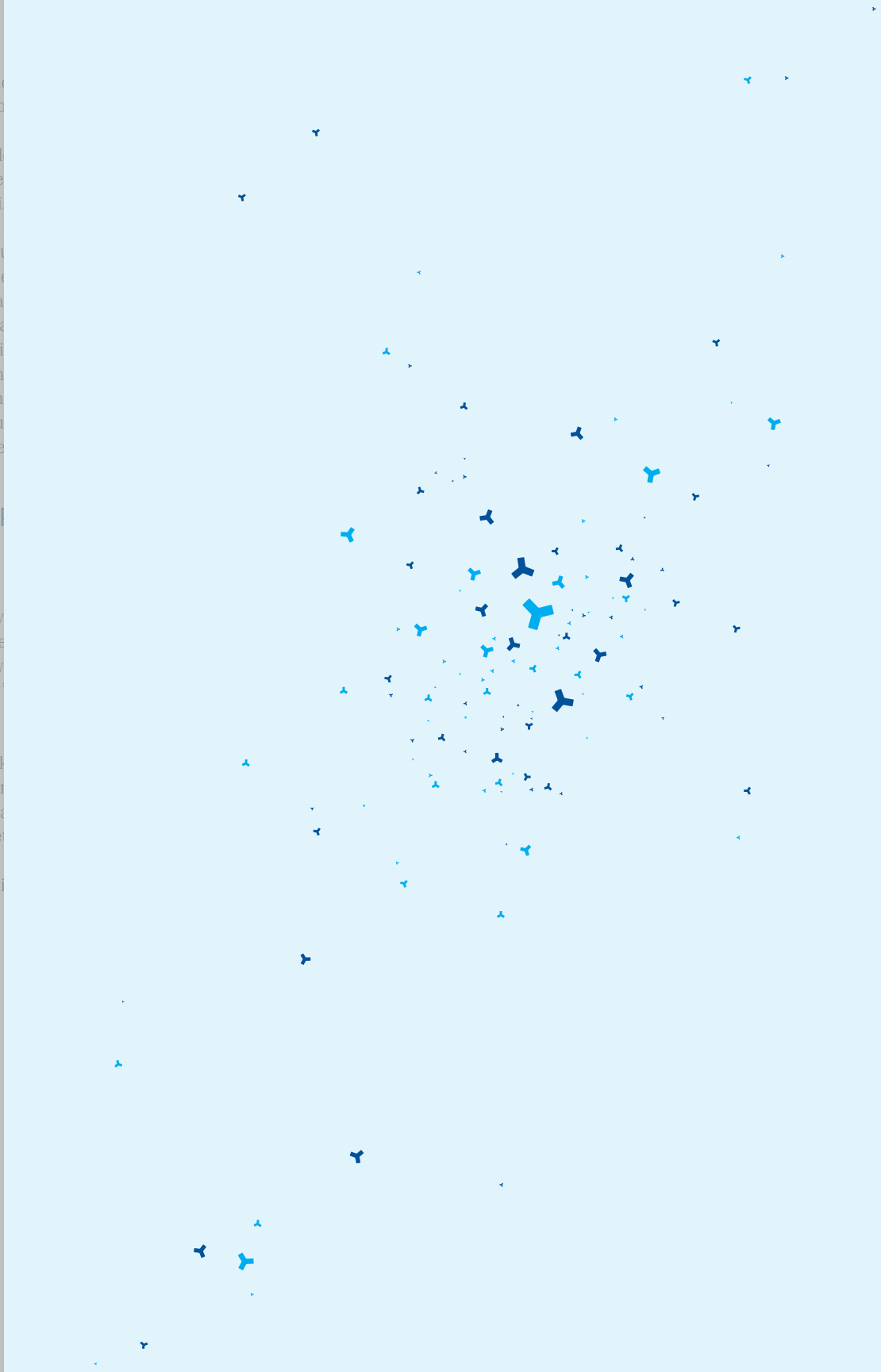


Risks

RISK CATEGORIES

MorphoSys divides its key risks into the following six categories:

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

*SEE GLOSSARY – *page 142*

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 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 by successfully partnering MOR103. The financial risk relating to the fully proprietary programs MOR202 and MOR208 remains entirely with MorphoSys. The Company's increasing focus on proprietary development programs means the risks related to this area of MorphoSys's business model will gain in importance. The termination of individual programs or clinical trials may have a significant effect on the Company's short-, medium-, and long-term financial planning. The termination of in-licensed programs can result in extraordinary amortization and negatively affect the net assets and results of operations. MorphoSys retains some risk with respect to the clinical development of programs introduced into partnerships. 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 securities and bank instruments deemed safe – to the extent this is possible and can be estimated – and that have maintained their high rating and/or are secured by a strong partner and are liquid (short-term investment horizon). MorphoSys has simulated various scenarios and set up appropriate contingency plans. Adequate returns on financial assets also represent a risk. Short-term interest rates in the eurozone are currently negative, for example the three-month Euribor interest rate was at the beginning of February 2016 at –17 basis points. In addition, the higher the credit quality, the lower the respective interest rate. In this environment, MorphoSys has opted for higher safety at the expense of lower return.

In future, MorphoSys will continue to spend substantial resources on the development of product candidates, including the identification of target molecules and drug candidates, the conducting of preclinical studies and clinical trials, the manufacturing of material and the support of collaborations and joint development of programs as well as the acquisition of new technologies and the in-licensing of new development candidates. The current financial resources and expected future cash in-flows should be sufficient to meet the Company's current and near-term capital requirements. However, it is not guaranteed that funding will be sufficient at all times.

OPERATIONAL RISK

Operational risk includes risks related to the exploration and development of proprietary drug candidates and the risks associated with antibody production.

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, show unexpected adverse side effects or were 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.

As part of the development of compounds, however, results and findings may come to light which cause a failure or adaptation of the development steps, administration and development timelines. These findings and those from competing companies can lead to changes in the development plan, market potential and timeline. The risk involved in drug development is difficult to control.

Antibody production is a significant cost factor in the development of this class of drugs. The Company's obligation to comply with international drug regulatory agencies' requirements at every step of production in order to ensure the highest quality compounds and patient safety plays a critical role in its costs. The production process for biopharmaceuticals is usually performed in cell culture systems with several thousand liters of culture volume and requires a number of steps to be carried out under strict supervision and controlled conditions until the individual investigational medicinal products are ready for use in patients. Therefore, depending on the phase of the project, lead times of one to two years must be scheduled for the supply of antibody material. This planning, coupled with early strategic financial investments, represent major factors in drug development because of the high complexity and risk involved in both the production process and clinical trial planning, which can have a considerable effect on the speed and cost of development.

STRATEGIC RISK

Strategic risk exists in relation to the proprietary portfolios of therapeutic candidates. After successfully introducing an existing proprietary program into a partnership, the focus continues to be on forming further partnerships and adding to the portfolio. Risk can emerge from a lack of attractive targets, compounds or innovative technologies or from missed or failed M&A transactions that would have provided access to strategically important assets. MorphoSys mitigates these risks by forming multidisciplinary teams responsible for adding to the proprietary portfolio and identifying suitable therapeutic candidates. In the Company's search for new drug candidates, a New Discovery Team searches for suitable targets for developing novel therapeutic molecules using proprietary or external technology platforms. MorphoSys also started the Innovation Capital program, which invests in innovative start-up companies to secure long-term options on new technologies and therapeutic molecules.

Development programs introduced into partnerships can also fail, and 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 revenue for MorphoSys due to delayed market entry.

Another strategic risk is the emergence of better molecules or more beneficial therapeutic approaches that could destroy the competitiveness of antibodies in the future or delay a drug candidate's market entry. This risk could also be classified as industry risk. MorphoSys tries to minimize this risk by conducting its own discovery activities and using detailed time schedules for its proprietary programs. The Company's Innovation Capital program is an effective tool for identifying and investing in new trends early on so that MorphoSys can join in their development. MorphoSys also has its own scouting team that searches worldwide for new and innovative technologies and keeps track of the competition.

Another strategic risk is the possible non-renewal of the cooperation agreement with Novartis. The current agreement runs until the end of November 2017 and Novartis has the option to extend the agreement an additional two years. If Novartis does not exercise this option, MorphoSys will stand to lose annual revenues of approximately € 40 million as of the 2018 financial year.

EXTERNAL RISK

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 from enforcing the Company's patents against third parties. External risks can also emerge from changes in the regulatory environment. These risks are minimized by providing ongoing training to the relevant personnel and by audits and discussions with external

experts. It is also conceivable that competitors challenge patents of MorphoSys Group companies or that MorphoSys concludes that MorphoSys's patents or patent families are infringed by competitors, which may prompt MorphoSys to take legal action against competitors. This type of legal action, particularly when it occurs in the USA, involves high costs and poses a significant financial risk.

Another area where external risk can arise is our collaborations with service providers in preclinical and clinical development and the processing of clinical data. Insufficient or poor performance from service providers can lead to development delays, financial loss or even threaten entire programs.

As an internationally operating biotechnology company with numerous partnerships and an in-house research and development department for developing drug candidates, the MorphoSys Group is subject to a number of legal risks. These risks include those related to patent, competition, tax and antitrust law, potential liability claims from existing partnerships, and environmental protection. 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.

ORGANIZATIONAL RISK

The Proprietary Development, Partnered Discovery and Technical Operations areas, among others, are subject to organizational risk. Proprietary Development and Partnered Discovery may suffer quality problems or delays within the organization if the number of programs or their complexity increases. To reduce complexity and thereby reduce risk, the Company introduced uniform procedures and monitors their compliance by means of routine audits.

Risk in the Technical Operations area concerns procedures that may cause lasting damage, business interruptions or accidents involving harmful or polluting substances. Measures taken to avoid these types of disruptions include the routine inspection and maintenance of equipment and facilities and providing training and tutorials for the employees concerned. These risks are reduced even further using electronic monitoring systems. Financial risk in this area is generally covered by insurance. Additional information on MorphoSys's operating environment can be found in the section "Sustainable Business Development."

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. The system is also routinely checked by external specialists and subjected to repeat testing by an internal, independent in-house quality assurance department.

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.

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 external lawyers and auditors.

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

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

- As in previous years, the major Group objectives have been reached.
- The MorphoSys Group has an exceptionally high equity ratio.
- The Management Board firmly believes that the MorphoSys Group is well positioned to cope with any adverse events that may occur.
- The Group controls a comprehensive portfolio of preclinical and clinical programs in partnerships with a number of large pharmaceutical companies and has a strong base 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, powerful strategic alliances, 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. Due to this fact and thanks to the Company's extensive technological and product development expertise, MorphoSys has identified a number of future growth opportunities.

MorphoSys's technologies for developing and optimizing therapeutic antibody candidates have distinct advantages that can lead to higher success rates and shorter development times in the drug development process. The transfer and application of MorphoSys's core capabilities – even those outside of the field of antibodies – opens up new opportunities for the Group because many classes of compounds have similar molecular structures. The Innovation Capital initiative seizes previously unavailable opportunities by making MorphoSys a strategic investor in young, innovative companies and allowing it to use synergies effectively.

OPPORTUNITY MANAGEMENT SYSTEM

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

Opportunity management is based on four 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
- the Innovation Capital initiative.

Committees discuss specific opportunities and decide what action should be taken to exploit these opportunities. The meetings and their outcomes are recorded in detail, and any subsequent action is reviewed and monitored. The Group's Business Development Team takes part in numerous conferences and in the process identifies different opportunities that can enhance the Company's growth. These opportunities are presented and evaluated within the committee using an evaluation process. The Technology Scouting Team searches specifically for innovative technologies that can generate synergies with MorphoSys's technological infrastructure and identify new therapeutic molecules. These outcomes are also discussed and evaluated in interdepartmental committees. The Innovative Capital initiative already described also allows MorphoSys to participate in these early innovations and make it possible for the Company to use them in the future. A proven process for evaluating opportunities gives MorphoSys a qualitative and replicable 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 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 lanthipeptide technology acquired in the reporting year can all be used to develop products addressing high unmet medical needs.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

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

Secured cash flows from the Partnered Discovery segment have allowed MorphoSys to strengthen its proprietary portfolio continously. By investigating new disease areas, MorphoSys will continue to expand its proprietary portfolio by adding clinical trials using the Company's key drug candidates. MorphoSys intends to enhance its portfolio with additional programs and in doing so could take advantage of existing and future opportunities for co-development or partnerships. The Company is also looking for more opportunities to in-license interesting drug candidates.

Drug candidates MOR208 and MOR202 may give MorphoSys its first opportunity to market a drug on its own.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By developing drugs with a number of partners, MorphoSys has been able to spread the risk inextricably linked with drug development over a broader spectrum. With around 90 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. In 2015, three antibodies were in phase 3 clinical development. If the results of the clinical studies are positive, it is conceivable that an approval could be granted in the near future. Our partner Novartis, for example, has announced that it may file for the approval of bimagrumab in 2016.

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 different partners.

These types of technological advances 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.

MorphoSys plans to move forward with its acquisition strategy in the year ahead in order to enhance its existing portfolio and technology platform and secure access to patents and licenses for novel proprietary technologies and products.

FINANCIAL OPPORTUNITIES

Exchange rate and interest rate developments can positively or negatively affect the Group's financial results. Interest rate and financial market developments are continuously monitored – particularly during this period of extremely low interest rates – to promptly identify and take advantage of opportunities.

10 **TABLE**
Summary of Key Short- and Medium-Term Risks at MorphoSys

	1-Year Assessment		3-Year Assessment	
FINANCIAL RISK				
Risk of missing revenue targets/incorrect budgeting	••	Moderate	••	Moderate
Risk of bank insolvencies	••	Moderate	•	Low
OPERATIONAL RISK				
Risk related to development of proprietary antibodies	•••	High	•••	High
Risk related to antibody production	••	Moderate	••	Moderate
STRATEGIC RISK				
Risk of failure to in-license new therapeutic molecules	••	Moderate	••	Moderate
Risk of missed acquisition opportunities	•	Low	•	Low
EXTERNAL RISK				
Patent-related risk (related to lawsuits, patent situation of technology platform, new national/international regulations)	••	Moderate	••	Moderate
Risk related to external service providers in the clinical area	••	Moderate	••	Moderate
ORGANIZATIONAL RISK				
Risk due to growing number and complexity of programs	••	Moderate	••	Moderate
Risk in the technical operations area	•	Low	•	Low
COMPLIANCE RISK				
Quality risk related to legal requirements	••	Moderate	••	Moderate
Legal risk	•	Low	•	Low

LEGEND

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

11 **TABLE**
Summary of Key Long-Term Risks at MorphoSys

Segment	Risk	Order of Importance[1]
Proprietary Development	Lack of competitiveness of the MorphoSys pipeline	1
Partnered Discovery	Termination of partnered programs	2
Proprietary Development	Lack of funding for proprietary development activities	3
Proprietary Development	Premature establishment of sales structure with delayed development of proprietary drug candidates	4

[1] Declining importance of risk from 1 to 4, whereby 1 represents the most important risk.

Statement on Corporate Governance and Corporate Governance Report

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

Statement on Corporate Governance under Sec. 289a (HGB) for the 2015 Financial Year

In the Statement on Corporate Governance under Sec. 289a HGB, the Management Board and the Supervisory Board report on corporate governance. In addition to the annual Declaration of Conformity in accordance with Sec. 161 of the Stock Corporation Act (AktG), 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 Sec. 161 of the German Stock Corporation Act:

1. Since the last Declaration of Conformity on December 5, 2014, MorphoSys AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" dated June 24, 2014 and the version from May 5, 2015 with the following exceptions:
   a. There is no cap on the overall or individual variable remuneration components of Management Board members' remuneration (see Item 4.2.3 Para. 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.
   b. Until July 21, 2015, the Supervisory Board refrained from fully applying the recommendations in Item 5.4.1 Paras. 2 and 3 sentence 1 of the Code. According to Item 5.4.1 Para 2, the Supervisory Board shall specify certain objectives regarding the Board's composition that provides for an appropriate level of female participation. Recommendations made by the Supervisory Board to the responsible election bodies shall take these objectives into account in accordance with Item 5.4.1 Para. 3 sentence 1. The Supervisory Board has established concrete objectives for its composition and has thereby resolved to strive for adequate female representation. An exact quota of women was not specified because qualification and not gender should be the deciding criteria in appointing members of the Supervisory Board. As of July 22, 2015, the recommendations in Item 5.4.1 Paras. 2 and 3 sentence 1 of the Code have been fully applied because on this date a corresponding quota was established.
2. MorphoSys will continue to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated May 5, 2015 with the exceptions described under Item 1a.

Martinsried/Planegg, December 3, 2015

MorphoSys AG

On behalf of the Management Board:	On behalf of the Supervisory Board:
Dr. Simon Moroney Chief Executive Officer	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 Group-wide application of the following documents: the Code of Conduct, the Compliance Handbook and supplementary internal guidelines.

MorphoSys's Code of Conduct sets out the fundamental principles and key policies and practices for business behavior. The code is a valuable tool for employees and executives, particularly in business, legal and ethical situations of conflict. It reinforces the principles of transparent and sound management and fosters trust in the Company from the financial markets, business partners, employees and the public. Compliance with the Code of Conduct is carefully monitored. The Group-wide application of the Code is overseen by a Code of Conduct 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 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 offices at MorphoSys.

The Compliance Officer monitors the communication between the individual compliance posts within MorphoSys and makes adjustments to the system as needed in consultation with the Management Board. The Compliance Officer also routinely reports all relevant developments in the Company's compliance system to the Chief Executive Officer.

The Compliance Officer is supported by a Compliance Committee that meets at regular intervals to discuss compliance issues. This committee serves as a liaison between the various departments dealing with compliance issues and facilitates the identification and discussion of all the compliance posts' relevant issues. This is the basis upon which the Compliance Officer periodically verifies adherence to the compliance management system and MorphoSys's compliance status.

More information on MorphoSys's compliance management system can be found in the Corporate Governance Report on page 78.

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 defines the different areas of responsibility as follows:

- Dr. Simon Moroney, Chief Executive Officer, responsible for Strategy and Planning; Compliance and Quality Assurance; Internal Audit; Human Resources; Business Development & Portfolio Management; Legal; the coordination of individual areas of the Management Board; and representation of the Management Board to the Supervisory Board.
- Jens Holstein, Chief Financial Officer, responsible for Accounting and Taxes; Controlling; Corporate Finance & Corporate Development; Risk Management; IT; Technical Operations; Procurement & Logistics; Corporate Communications and Investor Relations; and Environmental Social Governance (ESG).
- Dr. Arndt Schottelius, Chief Development Officer, responsible for Preclinical Development; Clinical Research; Clinical Operations; Drug Safety & Pharmacovigilance; Regulatory Affairs; and Project Management.
- Dr. Marlies Sproll, Chief Scientific Officer responsible for Development Partnerships & Technology Development; Target Molecule & Antibody Research; Protein Chemistry; Alliance Management; and Intellectual Property.

SUPERVISORY BOARD

As of December 31, 2015, 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, acting 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 members are duly elected by the shareholders during the Annual General Meeting. The Chairperson of the Supervisory Board is not a former member of MorphoSys AG's Management Board. The terms of office of all six Supervisory Board members ended with the conclusion of the 2015 Annual General Meeting and, therefore, six Supervisory Board members were either elected or reelected to the Supervisory Board during the 2015 Annual General Meeting. The members of the Supervisory Board and its committees are listed in the table below.

12 **TABLE**
Composition of the Supvervisory Board until Termination of the 2015 Annual General Meeting

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

Independent Financial Expert · Chairperson · Member

13 **TABLE**
Composition of the Supvervisory Board since Termination of the 2015 Annual General Meeting

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

Independent Financial Expert · Chairperson · Member

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 the legislator and the Boards' bylaws and Articles of Association. The stated objective of MorphoSys AG's Management Board and Supervisory Board is to sustainably increase Company value. The Boards work closely together to make decisions and take actions for the Company's benefit.

Management Board members have their own area of responsibility defined in the schedule of responsibilities and regularly report to their Management Board colleagues. Cooperation among Management Board members is governed by the bylaws. The Supervisory Board ratifies both the schedule of responsibilities and the bylaws. Management Board meetings are typically held weekly and 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 e-mail). A written protocol is completed for each meeting of the full Management Board and is submitted for approval to the full Management Board and for signature to the chief executive officer at the following meeting.

Management Board strategy workshops are also held in which the Group-wide strategic objectives are developed and prioritized.

The Management Board promptly and comprehensively informs the Supervisory Board in writing and at Supervisory Board meetings about planning, business development, the Group's position, risk management and other compliance issues. Extraordinary meetings of the Supervisory Board are also called for material events. The Management Board involves the Supervisory Board in the strategy, planning and all fundamental Company issues. In addition to routine Supervisory Board meetings, a strategy meeting takes place between the Management Board and Supervisory Board once annually to discuss MorphoSys's strategic direction. The Management Board's bylaws specify that material business transactions require the approval of the Supervisory Board. Detailed information on the cooperation of the Management Board and Supervisory Board and important items of discussion during the 2015 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 rules of procedure that apply to its duties: 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 passed with a simple majority unless the law prescribes otherwise. In the event of a tied vote, the Chairperson of the Supervisory Board's vote decides.

Protocols are completed for Supervisory Board meetings, and resolutions passed outside of meetings. A copy of the Supervisory Board's protocol 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.

14 **TABLE**
Participation of Supervisory Board Members

SUPERVISORY BOARD MEETINGS

	by phone		by phone				Strategy Meeting		
Name	01/16/2015	02/25/2015	03/18/2015	05/07/2015	05/08/2015	07/22/2015	07/23/2015	10/01/2015	12/03/2015
Dr. Gerald Möller	✆	✓	✆	✓	✓	✓	✓	✓	✓
Dr. Geoffrey Vernon	✆	✓	✆	✓					
Dr. Walter Blättler	✆	✓	✆	✓					
Dr. Daniel Camus	✆	✓	✆	✓					
Dr. Marc Cluzel	✆	✓	✆	✓	✓	✓	✓	✓	✓
Karin Eastham	✆	✓	✆	✓	✓	✓	✓	✓	✓
Dr. Frank Morich					✓	✓	✓	✓	✓
Klaus Kühn					✓	✓	✓	✓	✓
Wendy Johnson					✓	✓	✓	✓	✓

MEETINGS OF THE AUDIT COMMITTEE

		by phone	by phone			by phone	
Name	02/25/2015	03/18/2015	04/29/2015	07/22/2015	10/01/2015	11/03/2015	12/03/2015
Dr. Daniel Camus	✓	✆	✆				
Dr. Geoffrey Vernon	✓	✆	✆				
Karin Eastham	✓	✆	✆	✓	✓	✆	✓
Klaus Kühn				✓	✓	✆	✓
Wendy Johnson				✓	✓	✆	✓

MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE

	by phone		by phone		
Name	02/20/2015	02/25/2015	03/03/2015	05/07/2015	12/02/2015
Dr. Gerald Möller	✆	✓	✆	✓	✓
Dr. Marc Cluzel	✆	✓	✆	✓	✓
Karin Eastham	✆	✓	✆	✓	✓

MEETINGS OF THE SCIENCE AND TECHNOLOGY COMMITTEE

Name	02/25/2015	by phone 04/30/2015	05/07/2015	07/22/2015	by phone 09/15/2015	10/01/2015	by phone 11/09/2015	12/03/2015
Dr. Walter Blättler	✓	☎	✓					
Dr. Marc Cluzel	✓	☎	✓	✓	☎	✓	☎	✓
Wendy Johnson				✓	–	✓	☎	✓
Frank Morich				✓	☎	✓	–	✓

✓ ATTENDED IN PERSON
☎ PARTICIPATED BY PHONE

AUDIT COMMITTEE

The main task of the Audit Committee is to support the Supervisory Board in fulfilling its supervisory duties with respect to the accuracy of the annual and consolidated financial statements, the activities of the auditor and internal control functions, such as risk management, compliance and internal auditing. The Audit Committee submits a recommendation to the Supervisory Board for the election at the Annual General Meeting of an independent auditor. The members of the Audit Committee until May 8, 2015, were Dr. Daniel Camus (Chairman), Dr. Geoffrey Vernon and Karin Eastham, who all fulfill the prerequisite of being independent financial experts. The members of the Audit Committee as of May 8, 2015, were Klaus Kühn (Chairman), Karin Eastham and Wendy Johnson. Klaus Kühn and Karin Eastham fulfill the prerequisite of being independent financial experts.

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 Dr. Gerald Möller (Chairman until May 8, 2015), Dr. Marc Cluzel and Ms. Karin Eastham (Chairperson as of May 8, 2015).

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 until May 8, 2015 were Dr. Walter Blättler (Chairman) and Dr. Marc Cluzel. As of May 8, 2015, the members of the Science and Technology Committee are Dr. Marc Cluzel (Chairman), Dr. Frank Morich and Ms. 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 assumes a high priority. Good corporate governance is an essential aspect of MorphoSys's corporate management and forms the framework for the Group's management and supervision, which includes the Group's organization, commercial principles and tools for its guidance and control.

The German Corporate Governance Code ("the Code") provides a standard for the transparent monitoring and management of companies that strongly emphasizes shareholder interests. Many of the corporate governance principles contained in the Code have been practiced at MorphoSys for many years. Corporate governance issues at MorphoSys AG are detailed in the Statement on Corporate Governance under Sec. 289a 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 corporate communication principle is to simultaneously and fully inform institutional investors, private shareholders, financial analysts, employees and all other stakeholders 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 publications 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 meeting 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

MorphoSys AG's Supervisory Board has a total of six members. The Supervisory Board believes a ratio of at least two non-German members, or at least two members having extensive international experience, provides a fair share of diversity given the Company's international orientation. The Supervisory Board currently meets this ratio.

The Supervisory Board also strives to have at least four independent members. The Supervisory Board currently meets this ratio. Material and lasting conflicts of interest should be avoided, particularly those arising from activities for major competitors. No such conflict of interest currently exists.

The Supervisory Board has two female members and the Company intends to maintain this ratio in the future.

The age limit of 75 years contained in the Supervisory Board's bylaws is respected but the Supervisory Board may make an exception to this provision in specific cases.

At the Annual General Meeting, the Supervisory Board intends to propose an initial period of office of two years for Supervisory Board members. The Supervisory Board still intends to allow reappointment only once 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 third or potentially fourth term of three years each.

The Supervisory Board intends to respect the targets described in future election proposals.

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

In July 2015, the Supervisory Board established a women's quota for the Supervisory Board and Management Board:

MorphoSys AG's Supervisory Board has a total of six members. Two of those members are women, which places the current ratio of female members on the Company's Supervisory Board above 30%, at 33.33%. The Supervisory Board intends to maintain this ratio in the future.

MorphoSys AG's Management Board has a total of four members. One of those members is a woman, which places the current ratio of female members on the Company's Management Board below 30%, at 25%. The Supervisory Board intends to maintain this ratio in the future.

In July 2015, the Management Board established a women's quota for the two management levels below the Management Board:

At the time of the decision, the first management level below the Management Board (the Senior Management Group) consisted of 20 members, seven of who were women, placing the level of female representation above 30%, at 35%. The Management Board intends to maintain a minimum ratio of 30%.

At the time of the decision, the second management level below the Management Board (executives outside of the Senior Management Group) consisted of 48 members, 19 of who were women, placing the level of female representation above 30%, at 39.59%. The Management Board intends to maintain a minimum ratio of 30%.

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 Code's recommendations.

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 individual and corporate targets (short-term incentive – STI), a variable compensation component with a long-term incentive (long-term incentive – LTI) and other remuneration components. The variable remuneration component with long-term incentive consists of a performance share plan and convertible bond programs from prior years. 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 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, their personal achievement of goals, the Company's economic situation and success and the Company's business prospects versus its competition. All decisions concerning adjustments to the remuneration package are made by the entire Supervisory Board. The Management Board's remuneration and index-linked pension scheme were last adjusted in July 2015.

OVERVIEW

In the 2015 financial year, total benefits of € 4,464,154 (2014: € 5,065,240) were granted to the Management Board in accordance with the provisions of the Corporate Governance Code.

Of the remuneration for the year 2015, € 2,613,470 was cash compensation and € 1,850,684, or 41%, resulted from personnel expenses for share-based compensation (performance share plan and convertible bond plan) (remuneration with long-term incentive – LTI).

The total amount of benefits paid to the Management Board in the 2015 financial year was € 9,508,884 (2014: € 6,984,419). In addition to cash compensation payments of € 2,869,901 (2014: € 2,893,199), this amount includes the value of exercised convertible bonds and the transfer of treasury shares from a performance-based share plan (share-based compensation) amounting to € 6,638,983 (2014: € 4,091,220) relevant under German tax law.

Management Board members exercised 51,800 convertible bonds in the course of 2015. On June 1, 2015 a total of 71,949 treasury shares were transferred to the Management Board from the 2011 performance-based share plan because the vesting period for this LTI program had expired. 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 and on the Company's website.

In accordance with the requirements of Item 4.2.5, Para. 3 of the Code, the following table provides detailed mandatory information on the remuneration of the individual Management Board members.

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

*SEE GLOSSARY – *page 142*

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 payable taxes. 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 are met by Allianz Pensions-Management e.V.

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

Each member of the Management Board receives performance-based compensation in the form of an annual bonus of up to 70% of the gross base salary when 100% of his or her goals have been achieved. These bonus payments are dependent on the achievement of both corporate and personal goals specified by the Supervisory Board at the start of each financial year. Corporate goals comprise 80% of performance-based compensation. These are based on the Company's performance measured by revenue, operating result, the progress of the partnered pipeline, the Company's proprietary portfolio and the achievement of technology targets. Individual goals comprise 20% of annual performance-based compensation and include operating objectives that the respective Management Board members are expected to fulfill. At the start of the year, the Supervisory Board assesses the degree to which corporate and personal 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 gross base salary). Performance-based compensation can be omitted if the goals are not achieved. The bonus for the 2015 financial year will be paid in February 2016.

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

In 2011, MorphoSys introduced a new, long-term incentive compensation plan (Performance Share Plan) for the Management Board and members of the Senior Management Group. The LTI-program is based on the allocation of shares 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, 2015, the Management Board was granted 21,948 shares. Each Management Board member received an entitlement benefit for a specific number of shares. For more information, please refer to Item 8.2.5 in the Notes to the Consolidated Financial Statements and the explanation on share buybacks in the Corporate Governance Report.

The Supervisory Board sets the long-term performance targets along with the allocation of shares for a given year. The target for the 2015 LTI-program was the performance of the MorphoSys share compared to a benchmark index consisting equally of the Nasdaq Biotechnology Index and the TecDAX Index. LTI-program participants are awarded shares annually based on the daily relative performance of the MorphoSys share versus the benchmark index. There is a hurdle of 50% and a cap of 200% for the price performance in any given year. For example, if the relative performance of the MorphoSys shares versus the benchmark index is less than 50%, participants will not receive any entitlement benefits for the relevant year. Participants also do not receive entitlement benefits for additional shares when the share price performance exceeds 200%.

The ultimate number of performance shares allocated to the LTI-program participants is determined at the completion of the program, namely after four years. This calculation incorporates the number of shares initially allocated after adjusting for the share price development of the MorphoSys share versus the benchmark index and 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.

MISCELLANEOUS

Management Board members were not 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 position as a member of the Management Board.

TERMINATION OF MANAGEMENT BOARD EMPLOYMENT CONTRACTS/ CHANGE OF CONTROL

If a Management Board member's employment contract terminates due to 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 in 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 convertible bonds and performance shares granted will become vested immediately and can be exercised after the expiration of the statutory vesting period. 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.

15 **TABLE**
Compensation of the Management Board in 2015 and 2014 (Disclosure in Accordance with the German Corporate Governance Code)

BENEFITS GRANTED TO THE MANAGEMENT BOARD

	Dr. Simon Moroney Chief Executive Officer				Jens Holstein Chief Financial Officer			
in €	2014	2015	2015 (Minimum)	2015 (Maximum)	2014	2015	2015 (Minimum)	2015 (Maximum)
Fixed Compensation	426,502	445,736	445,736	445,736	289,335	302,384	302,384	302,384
Fringe Benefits	29,444	36,887	36,887	36,887	33,722	39,735	39,735	39,735
Total Fixed Compensation	455,946	482,623	482,623	482,623	323,057	342,119	342,119	342,119
One -Year Variable Compensation[1]	324,696	238,692	0	390,019	220,271	161,926	0	264,585
Multi-Year Variable Compensation:								
2010 Convertible Bonds Program[2] (Vesting Period 4 Years)	6,010	0	0	0	0	0	0	0
2013 Convertible Bonds Program[2] (Vesting Period 4 Years)	310,530	164,969	164,969	164,969	318,087	168,984	168,984	168,984
2014 Long-Term Incentive Program[3] (Vesting Period 4 Years)	402,413	0	0	0	275,625	0	0	0
2015 Long-Term Incentive Program[3] (Vesting Period 4 Years)	0	422,533	0	1,690,132	0	289,406	0	1,157,624
Total Variable Compensation	1,043,649	826,194	164,969	2,245,120	813,983	620,316	168,984	1,591,193
Service Cost	125,730	138,280	138,280	138,280	86,866	90,800	90,800	90,800
Total Compensation	1,625,325	1,447,097	785,872	2,866,023	1,223,906	1,053,235	601,903	2,024,112

[1] The one-year compensation granted for the 2015 financial year represents the bonus accrual for 2015 that will be paid in February 2016. The bonus granted for the 2014 financial year was paid in February 2015.
[2] 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.
[3] 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.

	Dr. Arndt Schottelius Chief Development Officer				Dr. Marlies Sproll Chief Scientific Officer				Total			
	2014	2015	2015 (Minimum)	2015 (Maximum)	2014	2015	2015 (Minimum)	2015 (Maximum)	2014	2015	2015 (Minimum)	2015 (Maximum)
	289,335	302,384	302,384	302,384	289,335	302,384	302,384	302,384	1,294,507	1,352,888	1,352,888	1,352,888
	32,508	29,889	29,889	29,889	22,828	22,954	22,954	22,954	118,502	129,465	129,465	129,465
	321,843	332,273	332,273	332,273	312,163	325,338	325,338	325,338	1,413,009	1,482,353	1,482,353	1,482,353
	215,208	156,635	0	264,585	210,144	156,635	0	264,585	970,319	713,888	0	1,183,774
	3,373	0	0	0	3,373	0	0	0	12,756	0	0	0
	212,687	112,990	112,990	112,990	212,687	112,990	112,990	112,990	1,053,991	559,933	559,933	559,933
	275,625	0	0	0	275,625	0	0	0	1,229,288	0	0	0
	0	289,406	0	1,157,624	0	289,406	0	1,157,624	0	1,290,751	0	5,163,004
	706,893	559,031	112,990	1,535,199	701,829	559,031	112,990	1,535,199	3,266,354	2,564,572	559,933	6,906,711
	86,653	94,064	94,064	94,064	86,628	94,085	94,085	94,085	385,877	417,229	417,229	417,229
	1,115,389	985,368	539,327	1,961,536	1,100,620	978,454	532,413	1,954,622	5,065,240	4,464,154	2,459,515	8,806,293

PAYMENTS DURING THE FINANCIAL YEAR

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
in €	2014	2015	2014	2015
Fixed Compensation	426,502	445,736	289,335	302,384
Fringe Benefits	29,444	36,887	33,722	39,735
Total Fixed Compensation	455,946	482,623	323,057	342,119
One -Year Variable Compensation[1]	360,543	324,696	244,590	220,271
Multi-Year Variable Compensation:				
2010 Convertible Bonds Program[2] (Vesting Period 4 Years)	2,386,110	737,148	0	0
2011 Long-Term Incentive Program[2] (Vesting Period 4 Years)	0	1,513,045	0	1,036,320
Other[3]	0	0	0	0
Total Variable Compensation	2,746,653	2,574,889	244,590	1,256,591
Service Cost	125,730	138,280	86,866	90,800
Total Compensation	3,328,329	3,195,792	654,513	1,689,510

[1] The one-year variable compensation presented here represents the bonus paid in the respective financial year for the previous financial year.
[2] 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.
[3] No compensation recovery claims against the Management Board existed in 2015 or 2014.

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 2015 financial year, Supervisory Board members received fixed compensation, attendance fees and expense allowances for their participation in Supervisory Board and committee meetings. Since 2014, 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. Compensation is paid quarterly on a pro-rated basis. A resolution of the Annual General Meeting on May 8, 2015 made two changes to the rules governing Supervisory Board remuneration: Participation in a Supervisory Board meeting by telephone or video conference results in a 50% reduction in compensation for meeting participation and, in certain cases, a fixed expense allowance is granted for travel time when a meeting is personally attended. Therefore, 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 2015 financial year, Supervisory Board members received a total of € 529,270 (2014: € 514,480) 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.

	Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
	2014	2015	2014	2015	2014	2015
	289,335	302,384	289,335	302,384	1,294,507	1,352,888
	32,508	29,889	22,828	22,954	118,502	129,465
	321,843	332,273	312,163	325,338	1,413,009	1,482,353
	244,590	215,208	244,590	210,144	1,094,313	970,319
	1,705,110	0	0	1,279,830	4,091,220	2,016,978
	0	1,036,320	0	1,036,320	0	4,622,005
	0	0	0	0	0	0
	1,949,700	1,251,528	244,590	2,526,294	5,185,533	7,609,302
	86,653	94,064	86,628	94,085	385,877	417,229
	2,358,196	1,677,865	643,381	2,945,717	6,984,419	9,508,884

16 **TABLE**
Compensation of the Supervisory Board in 2015 and 2014

	Fixed Compensation		Attendance Fees[3]		Total Compensation	
in €	2015	2014	2015	2014	2015	2014
Dr. Gerald Möller	93,521	97,400	36,200	38,000	129,721	135,400
Dr. Walter Blättler[1]	16,188	46,160	13,000	25,200	29,188	71,360
Dr. Daniel Camus[1]	16,188	46,160	8,400	23,200	24,588	69,360
Dr. Marc Cluzel	50,089	46,160	28,000	32,400	78,089	78,560
Karin Eastham	50,089	46,160	36,800	32,400	86,889	78,560
Dr. Geoffrey Vernon[1]	20,073	57,240	8,400	24,000	28,473	81,240
Dr. Frank Morich[2]	37,324	–	14,200	–	51,524	–
Wendy Johnson[2]	30,099	–	26,400	–	56,499	–
Klaus Kühn[2]	30,099	–	14,200	–	44,299	–
Total	343,670	339,280	185,600	175,200	529,270	514,480

[1] Dr. Walter Blättler, Dr. Daniel Camus and Dr. Geoffrey Vernon left the Supervisory Board of MorphoSys AG on May 8, 2015.
[2] Dr. Frank Morich, Wendy Johnson and Klaus Kühn joined the Supervisory Board of MorphoSys AG on May 8, 2015.
[3] The attendance fee contains expense allowances for the attendance on Supervisory Board and committee meeting.

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

17 **TABLE**
Directors' Holdings

SHARES

	01/01/2015	Additions	Forfeitures	Sales	12/31/2015
MANAGEMENT BOARD					
Dr. Simon Moroney	452,885	42,353	0	0	495,238
Jens Holstein	2,000	16,132	0	14,132	4,000
Dr. Arndt Schottelius	2,000	16,132	0	16,132	2,000
Dr. Marlies Sproll	28,620	49,132	0	27,000	50,752
TOTAL	**485,505**	**123,749**	**0**	**57,264**	**551,990**
SUPERVISORY BOARD					
Dr. Gerald Möller	9,000	2,000	0	0	11,000
Dr. Walter Blättler[1]	2,019	0	0	0	–
Dr. Daniel Camus[1]	0	0	0	0	–
Dr. Marc Cluzel	500	0	0	0	500
Karin Eastham	1,000	1,000	0	0	2,000
Dr. Geoffrey Vernon[1]	0	0	0	0	–
Dr. Frank Morich[2]	–	1,000	0	0	1,000
Wendy Johnson[2, 3]	–	0	0	0	500
Klaus Kühn[2]	–	0	0	0	0
TOTAL	**12,519**	**4,000**	**0**	**0**	**15,000**

[1] Dr. Walter Blättler, Dr. Daniel Camus and Dr. Geoffrey Vernon left the Supervisory Board of MorphoSys AG on 08. May 2015.
[2] Dr. Frank Morich, Wendy Johnson and Klaus Kühn joined the Supervisory Board of MorphoSys AG on 08. May 2015.
[3] 500 shares have been acquired by Wendy Johnson before joining the Supervisory Board of MorphoSys AG.

CONVERTIBLE BONDS

	01/01/2015	Additions	Forfeitures	Exercises	12/31/2015
MANAGEMENT BOARD					
Dr. Simon Moroney	107,186	0	0	18,800	88,386
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius	60,537	0	0	0	60,537
Dr. Marlies Sproll	93,537	0	0	33,000	60,537
TOTAL	**351,797**	**0**	**0**	**51,800**	**299,997**

PERFORMANCE SHARES

	01/01/2015	Additions	Forfeitures	Allocations	12/31/2015
MANAGEMENT BOARD					
Dr. Simon Moroney	54,655	13,062	0	23,553	44,164
Jens Holstein	37,434	8,946	0	16,132	30,248
Dr. Arndt Schottelius	37,434	8,946	0	16,132	30,248
Dr. Marlies Sproll	37,434	8,946	0	16,132	30,248
TOTAL	**166,957**	**39,900**	**0**	**71,949**	**134,908**

DIRECTORS' DEALINGS

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 under Sec. 15a of the German Securities Trading Act (WpHG).

During the reporting year, MorphoSys received the following notifications under Sec. 15a WpHG listed in the table below.

18 **TABLE**
Directors' Dealings (2015)

Party Subject to the Notification Requirement	Function	Date of Transaction in 2015	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price	Transaction Volume
Dr. Simon Moroney	CEO	12/16/2015	Purchase; convertible bonds were converted into MorphoSys AG shares; Dr. Moroney is holding the shares received	18,800	€ 16.79	€ 315,652.00
Dr. Marlies Sproll	CSO	12/16/2015	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	9,500	€ 56.1934	€ 533,837.30
Dr. Marlies Sproll	CSO	12/15/2015	Purchase; convertible bonds were converted into MorphoSys AG shares; Dr. Sproll is holding the shares received	14,000	€ 16.79	€ 235,060.00
Dr. Marlies Sproll	CSO	12/15/2015	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	9,500	€ 56.0253	€ 532,240.35
Dr. Arndt Schottelius	CDO	06/03/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	5,392	€ 66.1085	€ 356,457.03
Dr. Arndt Schottelius	CDO	06/03/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	5,370	€ 65.6735	€ 352,666.70
Dr. Arndt Schottelius	CDO	06/02/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	5,370	€ 66.0633	€ 354,759.92
Dr. Marlies Sproll	CSO	06/04/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	2,667	€ 65.6343	€ 175,046.68
Dr. Marlies Sproll	CSO	06/03/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	2,667	€ 65.8605	€ 175,649.95
Dr. Marlies Sproll	CSO	06/02/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	2,666	€ 65.6746	€ 175,088.48
Jens Holstein	CFO	06/04/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	3,381	€ 65.6343	€ 221,909.57
Jens Holstein	CFO	06/03/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	5,381	€ 65.8605	€ 354,395.35
Jens Holstein	CFO	06/02/2015	Sale of MorphoSys AG shares; the shares were granted on 06/01/2015 within MorphoSys's long term incentive (LTI) program 2011 after a four-year waiting period. The shares were subsequently sold.	5,370	€ 65.6746	€ 352,672.60
Dr. Frank Morich	Deputy Chairman of the Supervisory Board	05/12/2015	Purchase of MorphoSys AG shares	1,000	€ 63.51	€ 63,510.00
Dr. Gerald Möller	Chairman of the Supervisory Board	03/27/2015	Purchase of MorphoSys AG shares	2,000	€ 56.70	€ 113,400.00
Karin Eastham	Member of the Supervisory Board	03/27/2015	Purchase of MorphoSys AG shares	1,000	US$ 61.8129	US$ 61,812.90

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. There were no conflicts of interest in the 2015 financial year.

STOCK REPURCHASES

By resolution of the Annual General Meeting on May 19, 2011 and superseded by the Annual General Meeting resolution on May 23, 2014, MorphoSys is authorized in accordance with Sec. 71 Para. 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 April 2015, MorphoSys repurchased a total of 88,670 of its own shares based on the authorization from the year 2014. The Company plans to use these shares for a long-term incentive program for the Management Board and Senior Management Group. The authorization also permits the shares to be used for other lawful purposes.

INFORMATION TECHNOLOGY

During the 2015 financial year, the Information Technology department focused on IT security and optimizing the IT infrastructure. The entire IT infrastructure was tested for vulnerabilities and threat vectors allowing cyber-attacks using a detailed, multistage safety check by external IT experts. The results confirmed that MorphoSys has a state-of-the-art IT security system. The potential for optimization that was identified prompted further improvements.

A decisive factor for maintaining comprehensive IT security is not only technical security testing but also the behavior of employees. As part of an IT security campaign called the "IT Security Awareness Campaign," employees were made more aware of IT security through a variety of activities.

In the R&D area, the software and databases that support company-specific processes and technologies in antibody selection, characterization and production were developed further during the reporting year. The software used in this area is based on the GeneData Biologics software which is used throughout the industry and allows MorphoSys to quickly and reliably identify the most promising and differentiated drug candidates from the high number of antibody molecules technically available.

INFORMATION ON THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM CONCERNING THE ACCOUNTING PROCESS UNDER SEC. 289 PARA. 5 AND SEC. 315 PARA. 2 NO. 5 HGB

In the 2015 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 all controls so that financial figures can be reported as precisely and accurately as possible. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) defines the corresponding COSO framework ("Internal Control – Integrated Framework"). This is the 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 for external purposes adopted by the European Union.

The consolidated financial statements are subjected to a number of preparation, review and control processes so that the statements can be reported promptly to the market and 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-eye 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 the 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 insignificant cause for action. The appropriate corrective actions are being planned, and their implementation will be reviewed again in the following year.

Predicting future events is not the purpose 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 as soon as possible. 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" (page 53).

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 2015 Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2015 financial year. As proof of its independence, the auditor submitted a Declaration of Independence to the Supervisory Board. Lead auditors of these consolidated financial statements were Mr. Dietmar Eglauer and Mr. Bodo Kleinschrod. Information on other consulting, audit and valuation services provided by PricewaterhouseCoopers AG to MorphoSys AG during the 2015 financial year can be found in the Notes (Item 7.1).

COMPLIANCE MANAGEMENT SYSTEM

The basic mechanisms of the compliance management system at MorphoSys are presented in the section entitled "Relevant Information on Corporate Governance Practices" on page 62. In addition to this information, the responsibilities within the compliance organization are shown in Figure 17.

>> SEE FIGURE 17 – *Compliance Management System (CMS)*

INTERNAL AUDIT DEPARTMENT

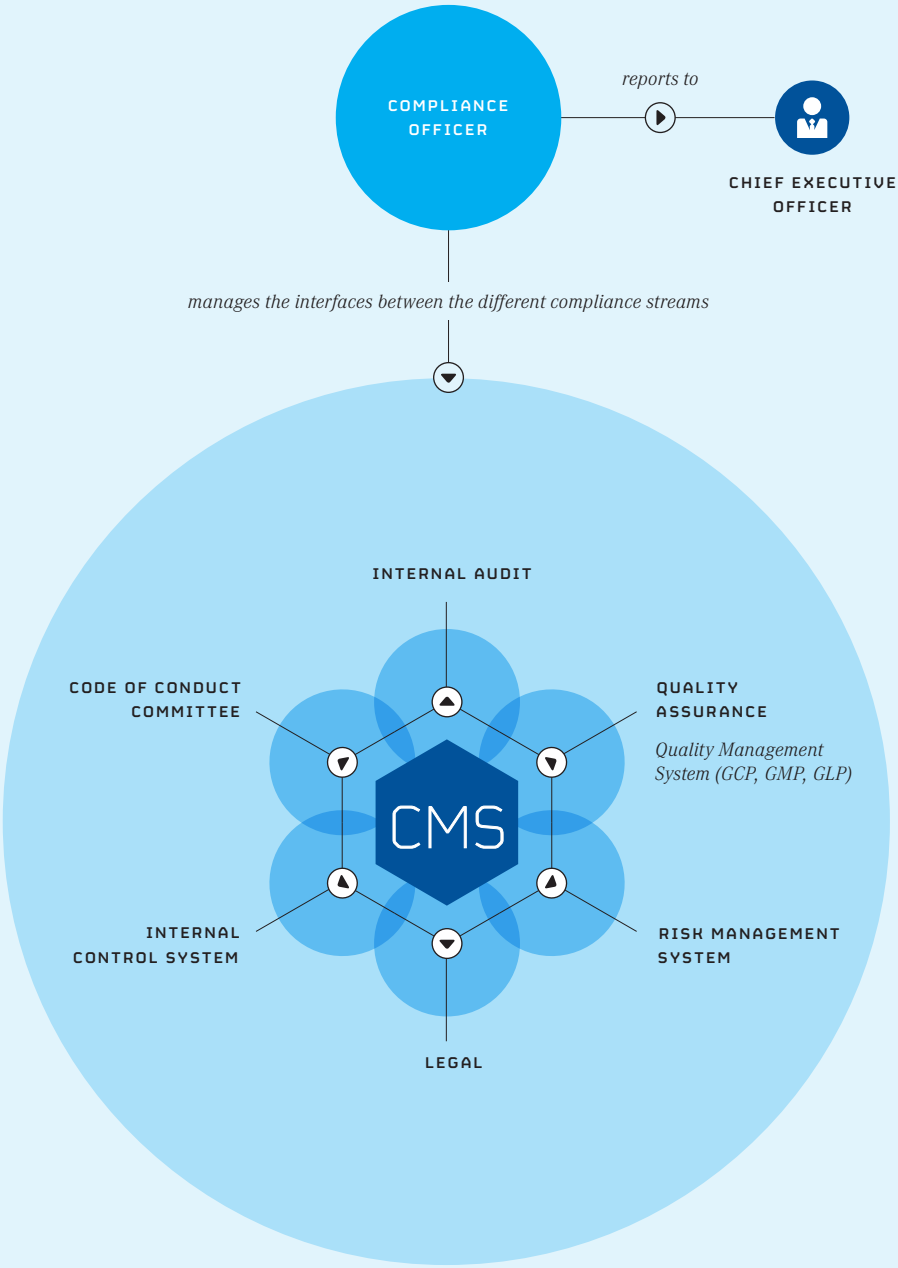
The Internal Audit Department is a key component of the Company's compliance management system whose main duty is to provide the MorphoSys Group with a systematic and uniform approach for evaluating and improving the effectiveness of risk management and supporting the management and monitoring activities when meeting set targets. The audit and consulting firm KPMG was reappointed in 2015 to act as a co-sourcing partner in the internal auditing process.

Internal auditing is based on a risk-oriented internal audit plan that is largely based on the results of the most recent risk surveys. The Management Board 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.

Four audits were conducted successfully in the course of 2015. A few 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 to carry out four audits in 2016.

17 **FIGURE**
Compliance Management System (CMS)



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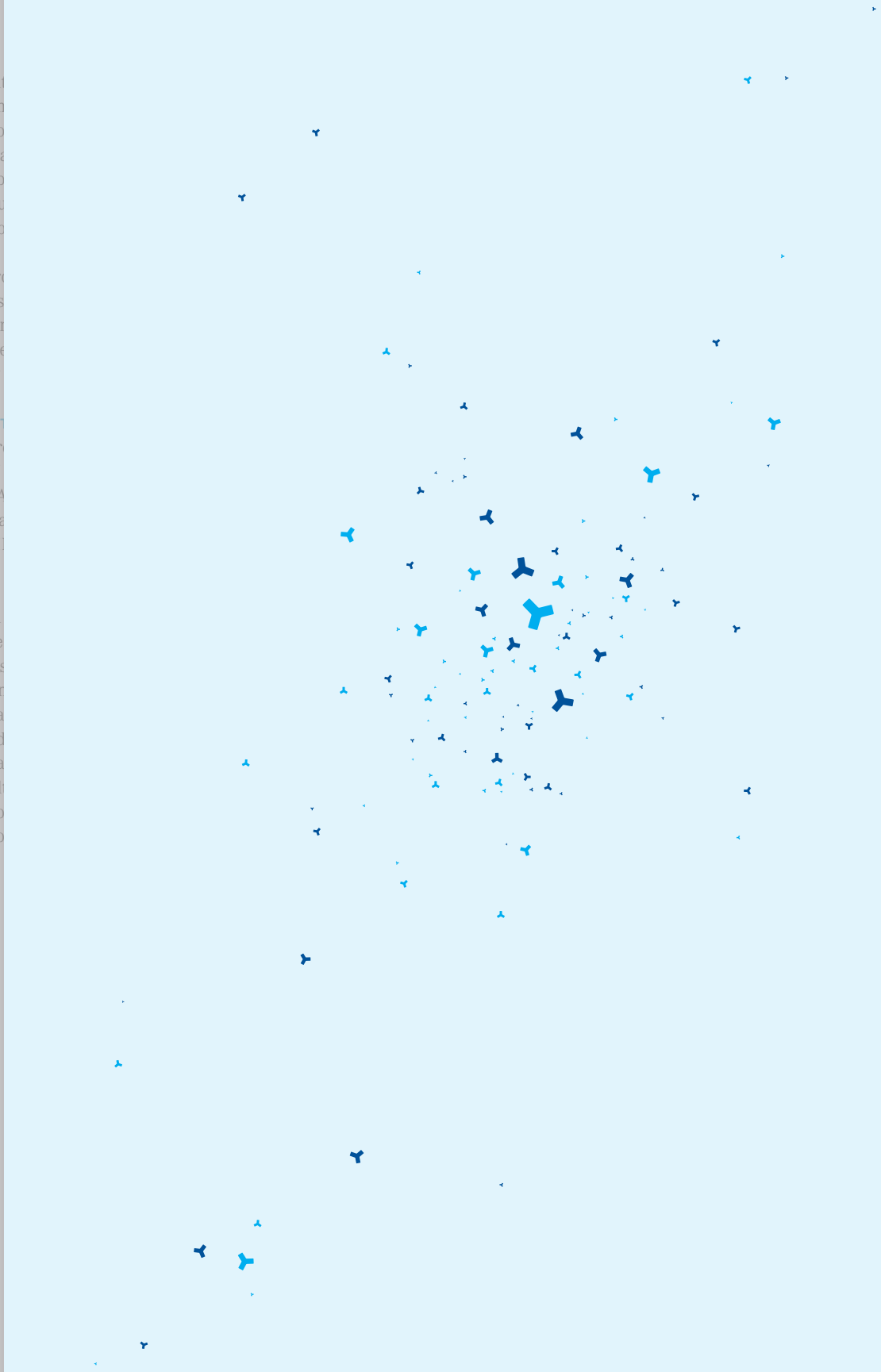

Disclosures under Sec. 289 Para. 4, Sec. 315 Para. 4 HGB and Explanatory Report of the Management Board under Sec. 176 Para. 1 Sentence 1 AktG

COMPOSITION OF COMMON STOCK

As of December 31, 2015, the Company's statutory common stock amounted to € 26,456,834.00 and was divided into 26,456,834 no-par-value bearer shares. Except for the 434,670 treasury shares held by the Company, the shares concerned are bearer shares with voting rights with each share carrying one vote at the Annual General Meeting.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions 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 Sec. 136 AktG, or the provisions for treasury shares under Sec. 71b AktG.

SHAREHOLDINGS IN COMMON STOCK EXCEEDING 10 % OF VOTING RIGHTS

We have not been notified of or are aware 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 Sec. 6 of the Articles of Association and Sec. 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 Sec. 84 Para. 3 AktG. If a required member of the Management Board is absent, one will be appointed by the court in cases of urgency under Sec. 85 AktG.

As a rule, the Articles of Association can only be amended by a resolution of the Annual General Meeting in accordance with Sec. 179 Para. 1 sentence 1 AktG. Under Sec. 179 Para. 2 sentence 2 AktG in conjunction with Sec. 20 of the Articles of Association, MorphoSys's 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 Sec. 179 Para. 1 sentence 2 AktG in conjunction with Sec. 12 Para. 3 of the Articles of Association.

POWER OF THE MANAGEMENT BOARD TO ISSUE SHARES

The Management Board's power to issue shares is granted under Sec. 5 Para. 5 through Para. 6e of the Company's Articles of Association as of December 31, 2015 and the following statutory provisions:

1. Authorized Capital
   a. According to Sec. 5 Para. 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 € 10,584,333.00 for cash contributions or contributions in kind by issuing up to 10,584,333 new, no-par-value bearer shares until and including April 30, 2020 (Authorized Capital 2015-I).

      Shareholders are principally entitled to subscription rights. 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 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 pre-emptive 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 pre-emptive 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 pre-emptive rights during the effective period of 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 pre-emptive 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. According to Sec. 5 Para. 6 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 € 2,622,088.00 for cash contributions by issuing up to 2,622,088 new, no-par-value bearer shares until and including April 30, 2019 (Authorized Capital 2014-I).

Shareholders are principally entitled to subscription rights. 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 at the time of the final determination of the issue price and the total number of shares issued against contribution in cash, excluding subscription rights during the term of this authorization, does not exceed 10% of the common stock on the date this authorization takes effect or at the time it is exercised, in accordance with or in the respective application of Sec. 186 Para. 3 sentence 4 AktG.

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. The previous Conditional Capital 1999-I under Sec. 5 Para. 6a of the Articles of Association was canceled by a resolution of the Annual General Meeting on May 23, 2014.

b. According to Sec. 5 Para. 6b of the Articles of Association, the Company's common stock is conditionally increased by up to € 6,600,000.00, divided into a maximum of 6,600,000 no-par-value bearer shares (Conditional Capital 2011-I). The conditional capital increase will only be executed to the extent that the holders of warrants or conversion rights resulting from convertible bonds or bonds with warrants, which were conferred by the Company until April 30, 2016 under the authorization of the Annual General Meeting of May 19, 2011, make use of their subscription rights or that the holders of convertible bonds, issued by the Company or one of its direct or indirect domestic or foreign wholly owned subsidiaries until April 30, 2016 and who are subject to a conversion obligation, meet their obligation to convert. The new shares participate in the Company's profits from the beginning of the financial year in which they were created through the exercise of conversion rights or the fulfillment of conversion obligations.

c. According to Sec. 5 Para. 6c of the Articles of Association, the Company's common stock is conditionally increased by up to € 116,848.00 through the issue of up to 116,848 new no-par-value bearer shares of the Company (Conditional Capital 2003-II). The conditional capital increase will only be executed to the extent that holders of convertible bonds exercise their conversion rights for conversion into ordinary shares of the Company. The new shares are first entitled to dividends for the financial year for which there was no resolution of the Annual General Meeting at the time of issuance as to the appropriation of accumulated income. With the Supervisory Board's consent, the Management Board is authorized to determine the further details of the capital increase and its implementation.

d. The previous Conditional Capital 2008-II under Sec. 5 Para. 6d of the Articles of Association was canceled by a resolution of the Annual General Meeting on May 23, 2014.
e. According to Sec. 5 Para. 6e of the Articles of Association, the Company's common stock is conditionally increased by up to € 450,000.00 through the issue of up to 450,000 new no-par- value bearer shares of the Company (Conditional Capital 2008-III). The conditional capital increase will only be executed to the extent that holders of 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 start of the financial year, for which there was no resolution at the time of issuance on the appropriation of accumulated income. With the Supervisory Board's consent, the Management Board is authorized to determine the further details of the capital increase and its implementation.

POWER OF MANAGEMENT BOARD TO REPURCHASE SHARES

The Management Board's power to repurchase the Company's own shares is granted in Sec. 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 shares 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:

a. The shares may be redeemed without the redemption or its execution requiring a further resolution of the Annual General Meeting.
b. The shares may be sold 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.
c. 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.
d. The shares may be used to fulfill subscription or conversion rights resulting from the exercise of options and/or conversion rights or conversion obligations for Company shares.
e. 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 are agreed with the employees, members of the senior management of the Company and its 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. Under this agreement, in specific cases of a change of control, Novartis Pharma AG is entitled but not obliged to take various measures that include the partial or complete termination of the collaboration agreement.

Under Sections 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, 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.

Subsequent Events

There have been no significant changes in the industry environment since the end of the 2015 financial year. Other events having a material impact on the net assets, financial position and results of operations have also not occurred after the end of the financial year.

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Consolidated Statement of Income (IFRS)

in €	Note	2015	2014
Revenues	2.7.1, 5.1	106,222,897	63,977,978
Operating Expenses			
Research and Development	2.7.2, 5.2.1	78,655,788	55,962,693
General and Administrative	2.7.2, 5.2.2	15,072,046	14,146,042
Total Operating Expenses		93,727,834	70,108,735
Other Income	2.7.3, 5.3	5,498,041	782,273
Other Expenses	2.7.4, 5.3	758,772	550,084
Earnings before Interest and Taxes (EBIT)		17,234,332	(5,898,568)
Finance Income	2.7.5, 5.3	3,827,177	1,809,751
Finance Expenses	2.7.6, 5.3	435,941	219,879
Income Tax (Expenses)/Income	2.7.7, 5.4	(5,724,800)	1,296,067
Consolidated Net Profit/(Loss)		14,900,768	(3,012,629)
Basic Net Profit/(Loss) per Share	2.7.8, 5.5	0.57	(0.12)
Diluted Net Profit/(Loss) per Share	2.7.8, 5.5	0.57	(0.12)
Shares Used in Computing Basic Net Result per Share	2.7.8, 5.5	26,019,855	25,903,995
Shares Used in Computing Diluted Net Result per Share	2.7.8, 5.5	26,244,292	26,190,314

Consolidated Statement of Comprehensive Income (IFRS)[1]

in €	2015	2014
Consolidated Net Profit/(Loss)	14,900,768	(3,012,629)
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds	(268,749)	(347,517)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	14,500	318,957
Change of Current Tax Effects presented in Other Comprehensive Income on Available-for-sale Financial Assets and Bonds	53,497	244,151
Deferred Taxes	17,736	(141,657)
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	(197,516)	(245,023)
Foreign Currency (Losses)/Gains from Consolidation	(293,846)	101,290
Comprehensive Income	(491,362)	(143,733)
Total Comprehensive Income	14,409,406	(3,156,362)

[1] In financial years 2015 and 2014, the statement of comprehensive income only comprised components, which will be reclassified in terms of IAS 1.82A(b) to profit and loss in subsequent periods when specific conditions are met.

Consolidated Balance Sheet (IFRS)

in €	Note	12/31/2015	12/31/2014
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.8.1, 6.1	90,927,673	32,238,161
Available-for-sale Financial Assets	2.8.1, 6.2	64,292,830	106,039,373
Bonds, Available-for-sale	2.8.1, 6.2	33,120,117	7,488,259
Financial Assets classified as Loans and Receivables	2.8.1, 6.2	94,587,528	156,993,068
Accounts Receivable	2.8.2, 6.3	11,442,059	14,990,532
Tax Receivables	2.8.2, 6.5	826,102	1,120,563
Other Receivables	2.8.2, 6.4	1,324,236	100,194
Inventories, Net	2.8.3, 6.5	368,782	556,171
Prepaid Expenses and Other Current Assets	2.8.4, 6.5	3,227,008	2,869,067
Total Current Assets		300,116,335	322,395,388
Non-current Assets			
Property, Plant and Equipment, Net	2.8.5, 6.6	3,474,018	3,557,729
Patents, Net	2.8.6, 6.7.1	6,141,061	6,987,910
Licenses, Net	2.8.6, 6.7.2	3,244,800	1,343,188
In-process R&D Programs	2.8.6, 6.7.3	60,959,887	28,254,201
Software, Net	2.8.6, 6.7.4	1,936,268	2,042,206
Goodwill	2.8.6, 6.7.5	7,364,802	7,352,467
Financial Assets classified as Loans and Receivables, Net of Current Portion	2.8.1, 6.2	15,510,989	50,030,000
Shares Available-for-sale, Net of Current Portion	2.8.7, 6.8	0	1,726,633
Deferred Tax Asset	2.9.6, 5.4	381,949	1,737,387
Prepaid Expenses and Other Assets, Net of Current Portion	2.8.8, 6.9	949,381	1,050,864
Total Non-current Assets		99,963,155	104,082,585
TOTAL ASSETS		**400,079,490**	**426,477,973**

in €	Note	12/31/2015	12/31/2014
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	2.9.1, 7.1	22,341,663	17,830,792
Tax Provisions	2.9.2, 7.2	1,698,276	777,281
Provisions	2.9.1, 7.2	1,436,384	19,541
Current Portion of Deferred Revenue	2.9.3, 7.3	1,994,120	14,075,166
Total Current Liabilities		27,470,443	32,702,780
Non-current Liabilities			
Provisions, Net of Current Portion	2.9.1, 7.2	43,344	43,344
Deferred Revenue, Net of Current Portion	2.9.4, 7.3	2,512,666	44,677,035
Convertible Bonds due to Related Parties	2.9.5	225,000	251,679
Deferred Tax Liability	2.9.6, 5.4	7,092,030	0
Total Non-current Liabilities		9,873,040	44,972,058
Total Liabilities		37,343,483	77,674,838
Stockholders' Equity			
Common Stock	2.9.7, 7.4.1	26,537,682	26,456,834
Ordinary Shares Issued (26,537,682 and 26,456,834 for 2015 and 2014, respectively)			
Ordinary Shares Outstanding (26,103,012 and 26,005,944 for 2015 and 2014, respectively)			
Treasury Stock (434,670 and 450,890 shares for 2015 and 2014, respectively), at Cost	2.9.7, 7.4.4	(15,827,946)	(14,251,962)
Additional Paid-in Capital	2.9.7, 7.4.5	319,394,322	318,375,720
Revaluation Reserve	2.9.7, 7.4.6	(202,158)	(4,642)
Translation Reserve	2.9.7, 7.4.7	0	293,846
Accumulated Income	2.9.7, 7.4.8	32,834,107	17,933,339
Total Stockholders' Equity		362,736,007	348,803,135
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		400,079,490	426,477,973

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock		
	Shares	€	
BALANCE AS OF JANUARY 1, 2014	**26,220,882**	**26,220,882**	
Compensation Related to the Grant of Convertible Bonds and Performance Shares	0	0	
Exercise of Convertible Bonds Issued to Related Parties	235,952	235,952	
Repurchase of Treasury Stock in Consideration of Bank Fees	0	0	
Reserves:			
Change in Unrealized Gain on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	0	0	
Foreign Currency Gains from Consolidation	0	0	
Consolidated Net Loss	0	0	
Total Comprehensive Income	0	0	
BALANCE AS OF DECEMBER 31, 2014	**26,456,834**	**26,456,834**	
BALANCE AS OF JANUARY 1, 2015	**26,456,834**	**26,456,834**	
Compensation Related to the Grant of Convertible Bonds and Performance Shares	0	0	
Exercise of Convertible Bonds Issued to Related Parties	80,848	80,848	
Repurchase of Treasury Stock in Consideration of Bank Fees	0	0	
Transfer of Treasury Stock for Long-Term Incentive Program	0	0	
Reserves:			
Change in Unrealized Gain on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	0	0	
Foreign Currency Losses from Consolidation	0	0	
Consolidated Net Profit	0	0	
Total Comprehensive Income	0	0	
BALANCE AS OF DECEMBER 31, 2015	**26,537,682**	**26,537,682**	

	Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Income	Total Stock-holders' Equity
	Shares	€	€	€	€	€	€
	339,890	**(6,418,018)**	**310,963,651**	**240,381**	**192,556**	**20,945,968**	**352,145,420**
	0	0	3,686,387	0	0	0	3,686,387
	0	0	3,725,682	0	0	0	3,961,634
	111,000	(7,833,944)	0	0	0	0	(7,833,944)
	0	0	0	(245,023)	0	0	(245,023)
	0	0	0	0	101,290	0	101,290
	0	0	0	0	0	(3,012,629)	(3,012,629)
	0	**0**	**0**	**(245,023)**	**101,290**	**(3,012,629)**	**(3,156,362)**
	450,890	**(14,251,962)**	**318,375,720**	**(4,642)**	**293,846**	**17,933,339**	**348,803,135**
	450,890	**(14,251,962)**	**318,375,720**	**(4,642)**	**293,846**	**17,933,339**	**348,803,135**
	0	0	3,558,960	0	0	0	3,558,960
	0	0	1,276,589	0	0	0	1,357,437
	88,670	(5,392,931)	0	0	0	0	(5,392,931)
	(104,890)	3,816,947	(3,816,947)	0	0	0	0
	0	0	0	(197,516)	0	0	(197,516)
	0	0	0	0	(293,846)	0	(293,846)
	0	0	0	0	0	14,900,768	14,900,768
	0	**0**	**0**	**(197,516)**	**(293,846)**	**14,900,768**	**14,409,406**
	434,670	**(15,827,946)**	**319,394,322**	**(202,158)**	**0**	**32,834,107**	**362,736,007**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2015	2014
OPERATING ACTIVITIES:			
Consolidated Net Profit/(Loss)		14,900,768	(3,012,629)
Adjustments to Reconcile Net Profit/(Loss) to Net Cash Provided by/(Used in) Operating Activities:			
Impairment of Assets	6.6, 6.7	3,723,736	4,117,590
Depreciation and Amortization of Tangible and Intangible Assets	6.6, 6.7	3,454,842	4,134,479
Net Gain on Sales of Available-for-sale Financial Assets	6.2	1,016	(727,979)
Purchase of Derivative Financial Instruments		0	(15,820)
Proceeds from Derivative Financial Instruments	6.4	858,768	9,503
Net (Gain)/Loss on Derivative Financial Instruments	6.4	(1,539,207)	(38,189)
(Gain)/Loss on Sale of Property, Plant and Equipment		27,710	(7,269)
(Gain)/Loss from Liquidation of Subsidiaries		(295,124)	76,489
Recognition of Deferred Revenue	7.3	(72,378,320)	(33,546,601)
Stock-based Compensation	5.2.3, 8	3,558,960	3,959,340
Income Tax Expenses/(Income)	5.4	5,724,801	(1,296,067)
Gain from Revaluation of Participations	4	(4,495,020)	0
Changes in Operating Assets and Liabilities:			
Accounts Receivable	6.3	3,635,172	(4,720,210)
Prepaid Expenses, Other Assets and Tax Receivables	6.4, 6.5	(3,892,870)	1,670,253
Accounts Payable and Accrued Expenses and Provisions	7.1, 7.2	7,454,023	101,378
Other Liabilities	7.1	584,104	156,411
Deferred Revenue	7.3	18,132,906	17,863,327
Income Taxes Paid		(2,970,114)	(2,942,362)
Net Cash Provided by/(Used in) Operating Activities		(23,513,849)	(14,218,356)

in €	Note	2015	2014
INVESTING ACTIVITIES:			
Purchase of Available-for-sale Financial Assets	6.2	(25,600,000)	(149,061,725)
Proceeds from Sales of Available-for-sale Financial Assets	6.2	67,505,472	231,934,641
Purchase of Bonds, Available-for-sale	6.2	(27,681,550)	(7,571,909)
Proceeds from Sales of Bonds, Available-for-sale	6.2	1,621,000	11,156,203
Purchase of Financial Assets Classified as Loans and Receivables	6.2	(31,592,379)	(241,635,544)
Proceeds from Sales of Financial Assets Classified as Loans and Receivables	6.2	127,482,204	148,703,792
Acquisitions, Net of Cash Acquired	4	(18,169,658)	0
Purchase of Property, Plant and Equipment	6.6	(1,386,639)	(2,899,662)
Proceeds from Disposals of Property, Plant and Equipment		3,050	5,000
Purchase of Intangible Assets	6.7	(7,378,758)	(17,579,001)
Proceeds from Closing of an Escrow Account		0	4,686,883
Interest Received		1,466,156	762,680
Net Cash Provided by/(Used in) Investing Activities		86,268,898	(21,498,642)
FINANCING ACTIVITIES:			
Repurchase of Treasury Stock in Consideration of Bank Fees	7.4.4	(5,392,931)	(7,833,944)
Proceeds from the Exercise of Convertible Bonds Granted to Related Parties		1,330,758	4,032,078
Interest Paid		(3,433)	(117,371)
Net Cash Provided by/(Used in) Financing Activities		(4,065,606)	(3,919,237)
Effect of Exchange Rate Differences on Cash		69	700
Increase/(Decrease) in Cash and Cash Equivalents		58,689,512	(39,635,535)
Cash and Cash Equivalents at the Beginning of the Period		32,238,161	71,873,696
Cash and Cash Equivalents at the End of the Period		90,927,673	32,238,161

Notes

1 General Information

BUSINESS ACTIVITIES AND THE COMPANY

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

2 Summary of Significant Accounting Policies

2.1 BASIS OF AND CHANGES IN ACCOUNTING STANDARDS

2.1.1 BASIS OF APPLICATION

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

These consolidated financial statements as of December 31, 2015 comprise MorphoSys AG and its subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group").

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

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

Financial assets classified as loans and receivables were presented separately in 2015 for better transparency of the consolidated balance sheet. In the 2014 consolidated financial statements, these financial assets were included in other receivables. The prior year's consolidated balance sheet was adjusted accordingly to ensure comparability.

In the consolidated statement of cash flows, interest paid and interest received were reclassified from operating activities into investing activities and financing activities. The prior year's amounts were adjusted accordingly to ensure comparability.

For better transparency, the presentation of reserves in the balance sheet is divided into "Revaluation Reserve" and "Translation Reserve".

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

2.1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Impact on MorphoSys
IFRIC 21	Levies	06/17/2014	yes	none
	Improvements to International Financial Reporting Standards, 2011 – 2013 cycle	01/01/2015	yes	none

The following new and revised standards and interpretations, which were not yet mandatory for the financial year or were not yet adopted by the European Union, were not applied. Standards with the remark "yes" are likely to have an impact on the consolidated financial statements, and their impact is currently being assessed by the Group. Standards with the remark "none" are not likely to have a material impact on the consolidated financial statements.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Possible impact on MorphoSys
IFRS 9	Financial Instruments	01/01/2018	no	yes
IFRS 14	Regulatory Deferral Accounts	01/01/2016	no	none
IFRS 15	Revenue from Contracts with Customers	01/01/2018	no	yes
IFRS 16	Leases	01/01/2019	no	yes
IFRS 10/12 and IAS 28 (A)	Investment Entities – Applying the Consolidation Exception	01/01/2016	no	none
IFRS 11 (A)	Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	yes	none
IAS 1 (A)	Disclosure Initiative	01/01/2016	yes	yes
IAS 16 and IAS 38 (A)	Clarification of Acceptable Methods of Depreciation and Amortization	01/01/2016	yes	none
IAS 16 and IAS 41 (A)	Bearer Plants	01/01/2016	yes	none
IAS 19 (A)	Defined Benefit Plans: Employee Contributions	02/01/2015	yes	none
IAS 27 (A)	Equity Method in Separate Financial Statements	01/01/2016	yes	none
	Improvements to International Financial Reporting Standards, 2010 – 2012 cycle	02/01/2015	yes	none
	Improvements to International Financial Reporting Standards, 2012 – 2014 cycle	01/01/2016	yes	none

(A) Amended

The new IFRS 15 standard on revenue recognition was reviewed for its potential impact on the revenue recognition of existing contracts and future contracts with partners and/or licensees. The review for the existing contractual arrangements revealed that no material quantitative effects on the consolidated financial statements compared to the provision currently applied are to be expected. Qualitative adjustments of the required disclosures in the Notes under IFRS 15 will be expected, however they will not be made until the standard's first-time application as of January 1, 2018.

2.2 CONSOLIDATION PRINCIPLES

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated when preparing consolidated financial statements pursuant to IFRS 10.B86. Unrealized losses are eliminated in the same manner as unrealized gains but are considered an indication of the transferred asset's possible impairment. Accounting policies have been applied consistently for all subsidiaries.

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

2.2.1 CONSOLIDATED COMPANIES AND SCOPE OF CONSOLIDATION

MorphoSys AG as ultimate parent company of the Group is located in Martinsried near Munich. MorphoSys AG has two wholly owned subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group"): Sloning BioTechnology GmbH (Martinsried) and, as of May 7, 2015, Lanthio Pharma B.V. (Groningen, The Netherlands; see also Item 4* of these Notes). Additionally, MorphoSys AG's investment in Lanthio Pharma B.V. indirectly gives it 100 % ownership in LanthioPep B.V. (Groningen, The Netherlands).

*CROSS-REFERENCE *to page 108*

Poole Real Estate Ltd., Oxford, UK, was liquidated during the financial year 2015. The remaining assets were distributed to MorphoSys AG as the sole shareholder.

SCOPE OF CONSOLIDATION AS OF DECEMBER 31, 2015

Company name and registered office	Share of Capital %
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)	
Sloning BioTechnology GmbH, Martinsried, Germany	100
Lanthio Pharma B.V., Groningen, The Netherlands	100
LanthioPep B.V., Groningen, The Netherlands[1]	100

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

The consolidated financial statements for the year ended December 31, 2015 were prepared and approved by the Management Board in its meeting on February 16, 2016 by a resolution of the Management Board. The Management Board members are Dr. Simon Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer), and Dr. Arndt Schottelius (Chief Development Officer). The Supervisory Board is authorized to amend the financial statements after their approval by the Management Board. MorphoSys Group's headquarters are located at Lena-Christ-Straße 48, 82152 Martinsried, Germany.

2.2.2 CONSOLIDATION METHODS

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

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

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

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

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

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

2.2.3 BASIS OF FOREIGN CURRENCY TRANSLATION

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

2.3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

2.3.1 CREDIT RISK AND LIQUIDITY RISK

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

One of the Group's policies requires all customers who wish to transact business on credit terms to undergo a credit assessment based on external ratings. Nevertheless, the Group's revenues and accounts receivable are still subject to credit risk from customer concentration. The Group's most significant single customer accounted for € 8.3 million of trade receivables as of December 31, 2015 (December 31, 2014: € 9.3 million). This customer accounted for 73 % of the Group's accounts receivable at the end of 2015. Three individual customers of the Group accounted for 56 %, 39 %, and 2 % of the total revenues in 2015. On December 31, 2014, one customer had accounted for 62 % of the Group's accounts receivable and three customers had individually accounted for 68 %, 21 %, and 3 % of the Group's revenues in 2014. Based on the Management Board's assessment, no allowances were required in the financial years 2015 and 2014. The carrying amounts of financial assets represent the maximum credit risk.

The table below shows the credit risk of trade receivables by region as of the reporting date.

in €	12/31/2015	12/31/2014
Europe and Asia	10,809,051	10,264,935
USA and Canada	633,008	4,725,597
Other	0	0
TOTAL	**11,442,059**	**14,990,532**

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

in €; A/R are due since	12/31/2015 0–30 days	12/31/2015 30–60 days	12/31/2015 60+ days	12/31/2015 Total
Accounts Receivable	11,442,059	0	0	11,442,059
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	11,442,059	0	0	11,442,059

in €; A/R are due since	12/31/2014 0–30 days	12/31/2014 30–60 days	12/31/2014 60+ days	12/31/2014 Total
Accounts Receivable	14,666,085	324,447	0	14,990,532
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	14,666,085	324,447	0	14,990,532

As of December 31, 2015 and December 31, 2014, the Group was not exposed to a credit risk from derivative financial instruments. The maximum credit risk of financial guarantees (rent deposits) on the reporting date amounted to € 0.6 million (December 31, 2014: € 0.6 million).

The contractually agreed maturities and the corresponding cash outflows of accounts payable are within one year. Convertible bonds issued to related parties mature on March 31, 2020 (maximum cash outflow: € 0.2 million).

2.3.2 MARKET RISK

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

CURRENCY RISK

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

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

as of December 31, 2015; in €	EUR	USD	Other	Total
Cash and Cash Equivalents	90,206,933	720,740	0	90,927,673
Available-for-sale Financial Assets	64,292,830	0	0	64,292,830
Bonds, Available-for-sale	33,120,117	0	0	33,120,117
Financial Assets classified as Loans and Receivables	94,587,528	0	0	94,587,528
Financial Assets classified as Loans and Receivables, Net of Current Portion	15,510,989	0	0	15,510,989
Accounts Receivable	11,365,659	76,400	0	11,442,059
Accounts Payable and Accrued Expenses	(22,308,082)	(28,548)	(5,033)	(22,341,663)
TOTAL	**286,775,974**	**768,592**	**(5,033)**	**287,539,533**

as of December 31, 2014; in €	EUR	USD	Other	Total
Cash and Cash Equivalents	32,130,970	107,191	0	32,238,161
Available-for-sale Financial Assets	106,039,373	0	0	106,039,373
Bonds, Available-for-sale	7,488,259	0	0	7,488,259
Financial Assets classified as Loans and Receivables	156,993,068	0	0	156,993,068
Financial Assets classified as Loans and Receivables, Net of Current Portion	50,030,000	0	0	50,030,000
Accounts Receivable	14,887,707	102,825	0	14,990,532
Accounts Payable and Accrued Expenses	(17,763,146)	(67,646)	0	(17,830,792)
TOTAL	**349,806,231**	**142,370**	**0**	**349,948,601**

Various foreign exchange rates and their impact on assets and liabilities were simulated in an in-depth sensitivity analysis to determine the effects on income. A 10% increase in the euro versus the US dollar as of December 31, 2015 would have reduced the Group's income (assuming stable interest rates) by € 0.1 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by € 0.1 million.

A 10% increase in the euro versus the US dollar as of December 31, 2014 would have reduced the Group's income by less than € 0.1 million (assuming stable interest rates). A 10% decline in the euro versus the US dollar would have increased the Group's income by less than € 0.1 million.

If the foreign exchange rates for the US dollar versus the euro had remained at the prior year's average rate, the Group's revenues would have been € 0.1 million lower. In 2014, Group revenues would have been € 0.1 million higher.

INTEREST RATE RISK

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

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

2.3.3 FAIR VALUE HIERARCHY AND MEASUREMENT PROCEDURES

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

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

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities to which the Company has access.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximate their fair value because of their short-term maturities.

HIERARCHY LEVEL 1

The fair value of financial instruments traded in active markets is based on the quoted market prices on the reporting date. A market is considered active if quoted prices are available from an exchange, dealer, broker, industry group, pricing service or regulatory body that is easily and regularly accessible and prices reflect current and regularly occurring market transactions at arm's length conditions. For assets held by the Group, the appropriate quoted market price is the buyer's bid price. These instruments fall under Level 1 of the hierarchy (see also Item 6.2* of these Notes).

*CROSS-REFERENCE *to page 113*

HIERARCHY LEVEL 2

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

Hierarchy level 2 contains the forward exchange contracts used for hedging. Future cash flows for these forward exchange contracts are based on forward curves. The fair value of these instruments is determined using discounted cash flows.

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

There were no transfers from one fair value hierarchy level to another in 2015 or 2014.

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

December 31, 2015 (in 000's €)	Note	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	6.1	90,928	0	0	90,928	90,928
Financial Assets classified as Loans and Receivables	6.2	94,588	0	0	94,588	94,588
Accounts Receivable	6.3	11,442	0	0	11,442	*
Forward Exchange Contracts Used for Hedging	6.4	750	0	0	750	0
Other Receivables	6.4	574	0	0	574	574
Financial Assets classified as Loans and Receivables, Net of Current Portion	6.2	15,511	0	0	15,511	15,511
Available-for-sale Financial Assets	6.2	0	64,293	0	64,293	64,293
Bonds, Available-for-sale	6.2	0	33,120	0	33,120	33,120
TOTAL		**213,793**	**97,413**	**0**	**311,206**	**299,014**
Convertible Bonds - Liability Component	8.1	0	0	(225)	(225)	(225)
Accounts Payable and Accrued Expenses	7.1	0	0	(22,342)	(22,342)	*
Forward Exchange Contracts Used for Hedging	6.4	0	0	(25)	(25)	(25)
TOTAL		**0**	**0**	**(22,592)**	**(22,592)**	**(250)**

* Declaration waived in line with IFRS 7.29 (a)

December 31, 2014 (in 000's €)	Note	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	6.1	32,238	0	0	32,238	32,238
Financial Assets classified as Loans and Receivables	6.2	156,993	0	0	156,993	156,993
Accounts Receivable	6.3	14,991	0	0	14,991	*
Other Receivables	6.4	100	0	0	100	100
Financial Assets classified as Loans and Receivables, Net of Current Portion	6.2	50,030	0	0	50,030	50,030
Shares Available-for-sale, Net of Current Portion	6.8	0	1,727	0	1,727	*
Available-for-sale Financial Assets	6.2	0	106,039	0	106,039	106,039
Bonds, Available-for-sale	6.2	0	7,488	0	7,488	7,488
TOTAL		**254,352**	**115,254**	**0**	**369,606**	**352,888**
Convertible Bonds - Liability Component	8.1	0	0	(252)	(252)	(252)
Accounts Payable and Accrued Expenses	7.1	0	0	(17,831)	(17,831)	*
TOTAL		**0**	**0**	**(18,083)**	**(18,083)**	**(252)**

* Declaration waived in line with IFRS 7.29 (a)

2.4 IMPAIRMENTS

2.4.1 NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

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

2.4.2 RECEIVABLES

The Group considers evidence of the impairment of receivables both on an individual and a collective level. All individually significant receivables are tested specifically for impairment. All individually significant receivables found not to be expressly impaired are then collectively tested for any impairment that occurred but was not yet identified. Individually non-significant receivables are collectively tested for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of default probabilities of the timing of impairment reversals and the amount of loss incurred. These are then adjusted to management's assessment of whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends.

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

2.4.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Impairment of available-for-sale financial assets is recognized by reclassifying the accumulated losses from the revaluation reserve in equity to profit and loss. The amount of the accumulated loss to be reclassified from equity to profit and loss is the difference between the acquisition cost less amortization and any principal repayment and the current fair value less any impairment previously recognized in profit or loss. If in a subsequent period the fair value of an impaired available-for-sale financial asset increases and this increase can be objectively linked to an event occurring after the impairment was recognized in profit or loss, then the impairment loss is reversed, and the amount of the reversal is recognized in profit or loss. Any subsequent increase in the fair value of an available-for-sale financial instrument is recognized under equity in other comprehensive income.

2.4.4 NON-FINANCIAL ASSETS

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

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

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

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

2.5 ADDITIONAL INFORMATION

2.5.1 KEY ESTIMATES AND ASSUMPTIONS

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

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

GOODWILL

The Group performs a yearly test to determine whether goodwill is subject to impairment in accordance with the accounting policies discussed in Item 2.4.4*. The recoverable amounts from cash-generating units have been determined using value-in-use calculations and are subjected to a sensitivity analysis. These calculations require the use of estimates (see also Item 6.7.5* of the Notes).

*CROSS-REFERENCE *to page 101 and page 117*

INCOME TAXES

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

As of December 31, 2015, deferred tax assets on tax loss carryforwards in the amount of € 1.2 million (December 31, 2014: € 1.8 million) were recognized as a result of profits expected from Sloning BioTechnology GmbH in financial years 2016 to 2020.

As of December 31, 2015, no deferred tax assets on tax loss carryforwards in the amount of € 8.6 million were recognized as a result of losses expected from the Lanthio Group in financial years 2016 to 2020.

2.5.2 CAPITAL MANAGEMENT

The Management Board's policy for capital management is to preserve a strong and sustainable capital base in order to maintain the confidence of investors, business partners, and the market and to support future business development. As of December 31, 2015, the equity ratio was 90.7% (December 31, 2014: 81.8%; see also the following overview). The Group does not currently have any financial debt.

Under the respective incentive plans resolved by the Annual General Meeting, the Management Board and employees may participate in the Group's performance through long-term performance-related remuneration consisting of convertible bonds. MorphoSys also established long-term incentive programs (LTI plan) in 2011, 2012, 2013, 2014 and 2015. These programs are based on the performance-related issue of shares, or "performance shares", which are granted when certain predefined success criteria have been achieved (for more information, please refer to Item 8.2* of the Notes). There were no changes in the Group's approach to capital management during the year.

*CROSS-REFERENCE *to page 122*

in 000' €	12/31/2015	12/31/2014
Stockholders' Equity	362,736	348,803
In % of Total Capital	90.7%	81.8%
Debt	37,343	77,675
In % of Total Capital	9.3%	18.2%
TOTAL CAPITAL	**400,079**	**426,478**

2.6 USE OF INTEREST RATES FOR VALUATION

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

2.7 ACCOUNTING POLICIES APPLIED TO LINE ITEMS OF THE INCOME STATEMENT

2.7.1 REVENUES AND REVENUE RECOGNITION

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

LICENSE FEES AND MILESTONE PAYMENTS

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

SERVICE FEES

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

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

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

2.7.2 OPERATING EXPENSES

PERSONNEL EXPENSES RESULTING FROM STOCK OPTIONS

The Group applies the provisions of IFRS 2 "Share-based Payment", which require the Group to recognize as a compensation expense share-based payments at their fair value on the value date for the period in which the beneficiaries provide the services related to granting the share-based payments.

RESEARCH AND DEVELOPMENT

Research costs are expensed in the period they occur. Development costs are generally expensed as incurred in accordance with IAS 38.5 and IAS 38.11 to 38.23. Development costs are recognized as an intangible asset when the criteria of IAS 38.21 (probability of expected future economic benefits, reliability of cost measurement) are met and if the Group can provide proof under IAS 38.57.

GENERAL AND ADMINISTRATIVE

This line item contains personnel expenses, consumables, operating costs, amortization of intangible assets, expenses for external services, infrastructure costs and depreciation.

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. According to SIC-15, all incentive agreements in the context of operating leases are recognized as an integral part of the net consideration agreed for the use of the leased asset. The total amount of income from incentives is recognized as a reduction in lease expenses on a straight-line basis over the term of the lease.

All of the Group's lease agreements are classified exclusively as operating leases. The Group did not engage in any finance lease arrangements in which the Group, as lessee, capitalized the assets at the start of the lease at the lower of fair value or the net present value of the minimum-lease payments and then depreciated the assets on a straight-line basis over their economic life.

2.7.3 OTHER INCOME

GOVERNMENT GRANTS

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

Basically, government grants are cost subsidies, and their recognition through profit and loss is limited to the corresponding costs. No payments were granted in the 2015 financial year that are required to be classified as investment subsidies.

2.7.4 OTHER EXPENSES

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

2.7.5 FINANCE INCOME

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

2.7.6 FINANCE EXPENSES

Borrowing costs are expensed in the period they occur and included in finance expenses in the income statement.

2.7.7 INCOME TAX EXPENSES/INCOME

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

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

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

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

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

2.7.8 EARNINGS PER SHARE

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

2.8 ACCOUNTING POLICIES APPLIED TO THE ASSETS OF THE BALANCE SHEET

2.8.1 LIQUIDITY

LIQUID ASSETS

The Group defines liquid assets as all cash at banks and on hand and all short-term deposits with an original maturity of three months or less. The Group invests most of its liquid assets at several major financial institutions: Commerzbank, UniCredit, Bayern LB, LBBW, BNP Paribas, Deutsche Bank and Rabobank.

The Group recognizes liquid assets at their nominal value. Securities are recognized and measured at fair value. Any fluctuations in the fair value of securities consisting mainly of money market funds are directly recognized in equity. Permanent impairment is recognized in profit and loss.

NON-DERIVATIVE FINANCIAL INSTRUMENT

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

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

The Group applies IAS 39 for financial instruments in the form of debt and equity instruments. At the time of purchase, the Management Board determines the financial instrument's classification and reviews this classification at each reporting date. The classification depends on the purpose of acquiring the financial instrument. As of December 31, 2015 and December 31, 2014, some financial instruments held by the Group were classified as "available-for-sale". These financial instruments are recognized or derecognized as of the date on which the Group commits to the financial instrument's purchase or sale. Following their initial recognition, available-for-sale financial assets are measured at fair value, and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, otherwise disposed of or considered impaired, at which time the accumulated loss is reported in profit and loss.

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risk. In accordance with IAS 39.9, all derivative financial instruments are held exclusively for trading and are initially recognized at fair value. After their initial recognition, derivative financial instruments are measured at fair value, which is defined as their quoted market price on the reporting date. Any resulting gain or loss from derivatives is recognized in profit and loss because the Group currently does not apply hedge accounting. According to the Group's foreign currency hedging policy, the Group only hedges highly probable future cash flows and clearly identifiable receivables that can be collected within a 24-month period.

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

2.8.2 ACCOUNTS RECEIVABLE, INCOME TAX RECEIVABLES AND OTHER RECEIVABLES

Accounts receivable are measured at amortized cost less any impairment; for example, allowances for doubtful accounts (see Items 2.4.2* and 6.3* of the Notes).

*CROSS-REFERENCE *to page 101 and page 114*

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

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

2.8.3 INVENTORIES

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

2.8.4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

2.8.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at historical cost less accumulated depreciation (see also Item 6.6* of the Notes) and any impairment (see Item 2.4.4* of the Notes). Historical cost includes expenditures directly related to the purchase at the time of the acquisition. Replacements purchases, building alterations and improvements are capitalized while repair and maintenance expenses are charged as expenses as they are incurred. Property, plant and equipment is depreciated on a straight-line basis over its useful life (see table below). Leasehold improvements are depreciated on a straight-line basis over the asset's estimated useful life.

*CROSS-REFERENCE *to page 115 and page 101*

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

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

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

2.8.6 INTANGIBLE ASSETS

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

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

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

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

PATENTS

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

*CROSS-REFERENCE *to page 101*

LICENSE RIGHTS

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

IN-PROCESS R&D PROGRAMS

This line item contains capitalized upfront payments from the in-licensing of two compounds for the Proprietary Development segment as well as a milestone payment for one of these compounds which was paid at a later time. Additionally, two compounds are included resulting from an acquisition. The assets are recorded at acquisition cost and are not yet available for use and therefore not subject to amortization. The assets were tested for impairment on the reporting date as required by IAS 36.

SOFTWARE

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

*CROSS-REFERENCE *to page 101*

GOODWILL

Goodwill is recognized for expected synergies from business combinations and the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also Item 6.7.5* of the Notes).

*CROSS-REFERENCE *to page 117*

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

2.8.7 SHARES AVAILABLE-FOR-SALE

The 19.98% interest in Dutch Lanthio Pharma B.V. was recognized at amortized cost and recorded as a financial instrument under the category "available-for-sale" in the prior year. Following the acquisition of all outstanding shares of Lanthio Pharma B.V. on May 7, 2015, the entity was fully included in MorphoSys' consolidated financial statements.

2.8.8 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

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

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

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

2.9.1 ACCOUNTS PAYABLE, OTHER LIABILITIES AND OTHER PROVISIONS

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

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

2.9.2 TAX PROVISIONS

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

2.9.3 CURRENT PORTION OF DEFERRED REVENUE

Upfront payments from customers for services to be rendered by the Group are recognized as deferred revenue in accordance with IAS 18.13 and measured at the lower of fair or nominal value. The corresponding rendering of services and revenue recognition occurs within the 12-month period following the reporting date.

2.9.4 DEFERRED REVENUE

This line item includes the non-current portion of deferred upfront payments from customers in accordance with IAS 18.13, which are measured at the lower of fair or nominal value. Due to its low materiality, this line item is not discounted to its present value in the financial year despite its long-term maturity.

2.9.5 CONVERTIBLE BONDS DUE TO RELATED PARTIES

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

2.9.6 DEFERRED TAXES

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

Deferred tax assets and liabilities are recorded separately in the balance sheet. Deferred tax liabilities take into account the future tax effects of temporary differences between the value of assets and liabilities in the balance sheet and tax loss carryforwards.

Deferred tax assets are offset against deferred tax liabilities if the taxes are levied by the same taxation authority and have matching terms. Pursuant to IAS 12, deferred tax assets and liabilities may not be discounted.

2.9.7 STOCKHOLDERS' EQUITY

COMMON STOCK

Ordinary shares are classified as stockholders' equity. Incremental costs directly attributable to the issue of ordinary shares and stock options are recognized as a deduction from stockholders' equity, net of any tax effects. When common stock that was recorded as stockholders' equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognized as a deduction from stockholders' equity net of taxes and is classified as treasury shares. When treasury shares are subsequently sold or reissued, the proceeds are recognized as an increase in stockholders' equity, and the profit or loss resulting from the transaction is offset against accumulated income.

TREASURY STOCK

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

ADDITIONAL PAID- IN CAPITAL

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

REVALUATION RESERVE

The revaluation reserve mainly consists of unrealized gains and losses on available-for-sale securities that are measured directly in equity until they are sold.

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences that are not recognized in profit and loss.

ACCUMULATED INCOME

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

3 Segment Reporting

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

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

The Management Board evaluates a segment's economic success using selected key figures so that all income and expenses are included. Operating earnings before interest and taxes, or EBIT, is the key benchmark for measuring and evaluating the operating results. The EBIT margin reflects the ratio of EBIT to revenues.

The Group consists of the following operating segments.

3.1 PROPRIETARY DEVELOPMENT

This segment comprises all activities related to the proprietary development of therapeutic antibodies and peptides. The activities of this segment currently comprise 14 antibodies and peptides in total, including the clinical development of the proprietary programs MOR208, MOR209/ES414 and MOR202. The MOR202 cooperation with Celgene was terminated as of March 26, 2015. MOR202 is continued by MorphoSys. The proprietary program MOR103, which is also included in this segment, was out-licensed to GSK with all activities now conducted by GSK. MorphoSys is also pursuing other programs that are either at an early stage of proprietary development or fall under co-development agreements. This includes since May 2015 the MOR107 preclinical program (formerly LP2) resulting from the acquisition of Lanthio Pharma B.V. The program MOR106, a cooperation with the partner Galapagos, is also in pre-clinical development. A further eight programs are in the pre-clinical search.

3.2 PARTNERED DISCOVERY

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

3.3 CROSS-SEGMENT DISCLOSURE

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

For the 12-month Period Ended 31 December (in 000's €)	Proprietary Development		Partnered Discovery		Unallocated		Group	
	2015	2014	2015	2014	2015	2014	2015	2014
External Revenues	59,939	15,041	46,284	48,937	0	0	106,223	63,978
Other Operating Expenses	54,057	33,535	25,918	23,041	13,753	13,533	93,728	70,109
Other Income	4,849	105	5	22	644	655	5,498	782
Other Expenses	8	0	2	0	749	550	759	550
SEGMENT EBIT	**10,723**	**(18,389)**	**20,369**	**25,918**	**(13,858)**	**(13,428)**	**17,234**	**(5,899)**
Finance Income	0	0	0	0	3,827	1,810	3,827	1,810
Finance Expenses	0	0	0	0	436	220	436	220
PROFIT BEFORE TAXES	**10,723**	**(18,389)**	**20,369**	**25,918**	**(10,467)**	**(11,838)**	**20,625**	**(4,309)**
Income Tax (Expenses)/Income	0	0	0	0	(5,725)	1,296	(5,725)	1,296
NET PROFIT/(LOSS)	**10,723**	**(18,389)**	**20,369**	**25,918**	**(16,191)**	**(10,542)**	**14,901**	**(3,013)**
Current Assets	6,789	6,200	17,840	25,887	275,487	290,308	300,116	322,395
Non-current Assets	69,353	30,079	11,269	17,347	19,341	56,657	99,963	104,083
TOTAL SEGMENT ASSETS	**76,142**	**36,279**	**29,109**	**43,234**	**294,828**	**346,965**	**400,079**	**426,478**
Current Liabilities	16,975	25,343	3,382	2,558	7,113	4,802	27,470	32,703
Non-current Liabilities	7,037	40,414	2,568	4,263	268	295	9,873	44,972
Stockholders' Equity	0	0	0	0	362,736	348,803	362,736	348,803
TOTAL SEGMENT LIABILITIES AND EQUITY	**24,012**	**65,757**	**5,950**	**6,821**	**370,117**	**353,900**	**400,079**	**426,478**
Capital Expenditure	7,487	17,335	995	2,512	284	631	8,766	20,478
Depreciation and Amortization	858	1,149	2,243	2,621	354	364	3,455	4,134

The segment result is defined as a segment's revenue less the segment's operating expenses. In the 2015 financial year, impairments totaling € 3.7 million were recognized in the Partnered Discovery segment (2014: impairments of € 2.1 million were attributable to the Proprietary Development segment and € 2.0 million to the Partnered Discovery segment).

The Group's key customers are allocated to the Partnered Discovery segment and Proprietary Development segment. As of December 31, 2015, the single most important customer represented accounts receivables of a carrying amount of € 8.3 million (December 31, 2014: € 9.3 million). Three of the Group's individual customers contributed € 59.3 million, € 41.5 million and € 1.9 million to total revenues in 2015, respectively. The largest customer was allocated to the Proprietary Development segment and the other two customers to the Partnered Discovery segment. In 2014, three customers mainly assigned to the Partnered Discovery segment accounted for € 43.2 million, € 13.5 million and € 2.0 million of the Group's total revenues.

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

in 000' €	2015	2014
Germany	2,183	733
Europe and Asia	41,800	44,628
USA and Canada	62,240	18,617
TOTAL	**106,223**	**63,978**

A total of € 67.5 million (December 31, 2014: € 102.3 million) and € 32.1 million (December 31, 2014: € 0) of the Group's non-current assets, excluding deferred tax assets, are located in Germany and the Netherlands, respectively. The Group's total investments of € 8.7 million (December 31, 2014: € 20.5 million) were made in Germany, except for € 0.1 million (December 31, 2014: € 0), which were made in the Netherlands. In accordance with internal definitions, investments only include additions to property, plant and equipment as well as intangible assets which are not related to business combinations.

4 Business Combinations

On May 7, 2015, MorphoSys acquired all outstanding shares of the Dutch biopharmaceutical company Lanthio Pharma B.V. for a one-time payment of € 20.0 million. Since this date, Lanthio Pharma B.V.'s activities have been fully included in MorphoSys's consolidated financial statements. Prior to the acquisition, MorphoSys held 19.98 % of Lanthio Pharma B.V. The transaction added Lanthio Pharma's leading LP2 program – a novel lanthipeptide currently in development for diabetic nephropathy and possibly other fibrotic diseases – to MorphoSys's growing proprietary portfolio.

In accordance with IFRS 3, this business combination is accounted for according to the acquisition method under which the acquired identifiable assets and liabilities are recognized at their fair value as of the acquisition date. The positive difference between the business combination's acquisition costs and the share in the net fair value of the assets, liabilities and contingent liabilities identified during the acquisition is separately recognized as goodwill and allocated to the respective cash-generating unit.

The fair value of the acquired receivables was € 0.5 million. This amount corresponded to the gross amount of the receivables.

In the period from May 7, 2015 to December 31, 2015, the acquired company contributed a net loss of € 2.2 million to the Group's net profit. Group revenues were not affected by the acquisition.

Had the acquisition occurred on January 1, 2015, management estimates that the Group's net profit as of December 31, 2015, would have amounted to € 14.1 million.

The cash consideration paid for all outstanding shares was € 20,000,000. Furthermore, the conversion right included in the loan (€ 0.7 million) was exercised in exchange for shares in the company. As a result, the share in the company temporarily increased to 25.63 %.

The earnings effect resulting from the measurement of the initial interest in Lanthio Pharma B.V. at fair value amounted to € 4.5 million and was recognized in "other operating income".

As of May 7, 2015, the acquired and identifiable assets and liabilities resulting from the acquisition included the following items:

in 000' €	Fair value
Cash and Cash Equivalents	1,830
Trade and Other Receivables	537
Prepaid Expenses and Other Current Assets	144
Property, Plant and Equipment	127
In-process R&D Programs	28,211
Software	1
Deferred Tax Asset	124
Other Non-current Assets	29
Accounts Payable and Accrued Expenses and Provisions	(752)
Deferred Tax Liabilities	(7,047)
Fair Value of Net Assets and Liabilities	**23,204**
Goodwill on Acquisition	3,689
Fair Value of Investment (25.63 %)	6,893
Consideration Paid	**20,000**
Cash (acquired)	(1,830)
Net Cash Outflow	**18,170**

The following amount of goodwill was recognized as a result of the acquisition:

Consideration Paid	20,000
Fair Value of Investment (25.63 %)	6,893
Fair Value of Identifiable Net Assets and Liabilities	(23,204)
Goodwill	**3,689**

Goodwill is primarily attributable to synergy effects expected from the entities' integration into the Group's Proprietary Development segment and partially attributable to the know-how of the employees acquired.

The Company incurred transaction-related costs of € 0.2 million that mainly related to fees for external legal advice, valuations in the context of the purchase price allocation and notary costs. All transaction-related costs are included in the consolidated income statement under "general and administrative expenses".

5 Notes to the Income Statement

5.1 REVENUES

In 2015, revenues consisted of license fees and milestone payments totaling € 85.4 million (2014: € 43.5 million). The Proprietary Development segment contributed revenue of € 59.2 million (2014: € 14.4 million), and the Partnered Discovery segment contributed revenue of € 26.2 million (2013: € 29.1 million).

Of the service fees totaling € 20.8 million (2014: € 20.5 million), € 0.7 million (2014: € 0.6 million) were attributable to the Proprietary Development segment and € 20.1 million (2014: € 19.9 million) to the Partnered Discovery segment.

5.2 OPERATING EXPENSES

5.2.1 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the items below.

in 000' €	2015	2014
Personnel Expenses	25,557	21,048
Consumable Supplies	2,971	2,327
Other Operating Expenses	3,352	2,863
Amortization and Other Costs of Intangible Assets	7,177	8,050
External Services	34,411	17,549
Depreciation and Other Costs for Infrastructure	5,188	4,126
TOTAL	**78,656**	**55,963**

in million €	2015	2014	2013	2012	2011
R&D Expenses on behalf of Partners	22.1	19.5	17.5	16.0	19.1
Proprietary Development Expenses	54.1	33.6	27.5	18.1	33.9
Technology Development Expenses	2.5	2.9	4.2	3.6	2.9
R&D TOTAL	**78.7**	**56.0**	**49.2**	**37.7**	**55.9**

5.2.2 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the items below.

in 000' €	2015	2014
Personnel Expenses	10,354	9,612
Consumable Supplies	77	77
Other Operating Expenses	913	835
Amortization of Intangible Assets	109	129
External Services	2,643	2,685
Depreciation and Other Costs for Infrastructure	976	808
TOTAL	**15,072**	**14,146**

5.2.3 PERSONNEL EXPENSES

Personnel expenses include the items below.

in 000' €	2015	2014
Wages and Salaries	26,559	22,353
Social Security Contributions	4,271	3,689
Stock-based Compensation Expense	3,559	3,959
Temporary Staff (External)	610	200
Other	912	459
TOTAL	**35,911**	**30,660**

In 2015 and 2014, other personnel expenses consisted mainly of recruitment costs.

The average number of employees in the 2015 financial year was 356 (2014: 315). Of the 365 employees on December 31, 2015 (December 31, 2014: 329), 305 were active in research and development (December 31, 2014: 274) and 60 were engaged in general and administrative functions (December 31, 2014: 55 employees). As of December 31, 2015, there were 132 employees in the Proprietary Development segment and 176 employees in the Partnered Discovery segment; 57 employees were not allocated to any specific segment (December 31, 2014: 105 in the Proprietary Development segment, 169 employees in the Partnered Discovery segment and 55 employees were unallocated). Costs for defined-contribution plans amounted to € 0.5 million in 2015 (2014: € 0.4 million).

5.3 OTHER INCOME AND EXPENSES, FINANCE INCOME AND FINANCE EXPENSES

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

in 000' €	2015	2014
Gain from Revaluation of Participations	4,495	0
Grant Income	359	127
Gain on Exchange	306	422
Appreciation of Accounts Receivable Previously Deemed Impaired	0	202
Miscellaneous Income	338	31
Other Income	**5,498**	**782**
Loss on Exchange	(460)	(449)
Impairment of Other Receivables	(214)	0
Miscellaneous Expenses	(85)	(101)
Other Expenses	**(759)**	**(550)**
Gain on Marketable Securities	94	761
Interest Income	1,907	1,004
Gain on Derivatives	1,826	45
Finance Income	**3,827**	**1,810**
Interest Expenses	(20)	(118)
Loss on Derivatives	(287)	(6)
Bank Fees	(34)	(63)
Loss on Marketable Securities	(95)	(33)
Finance Expenses	**(436)**	**(220)**
TOTAL	**8,130**	**1,822**

5.4 INCOME TAX EXPENSES/INCOME

MorphoSys AG and its German subsidiary Sloning BioTechnology GmbH are subject to corporate taxes, the solidarity surcharge and trade taxes. The Company's corporate tax rate of 15.0%, the solidarity surcharge of 5.5% and the effective trade tax rate of 10.5% have all remained unchanged. In the 2016 financial year, the effective trade tax rate will increase to 10.85%.

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

Income taxes for the past financial year consist of the items listed below.

in 000' €	2015	2014
Current Tax Expense (Thereof Regarding Prior Years: k€ 3; 2014: 2014: k€ 6)	(4,182)	(283)
Deferred Tax Income/(Expenses)	(1,543)	1,579
Total Income Tax Income/(Expense)	(5,725)	1,296
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Equity	(1)	0
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	38	(15)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	35	17
Total Amount of Tax-Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income	72	2

The following table reconciles the expected income tax expense with the actual income tax expense as presented in the consolidated financial statements. The combined income tax rate of 26.33% in the 2015 financial year (2014: 26.33%) was applied to profit before taxes to calculate the statutory income tax expense. This rate consisted of a corporate income tax of 15.0%, a solidarity surcharge of 5.5% on the corporate tax and an average trade tax of 10.5% applicable to the Group.

in 000' €	2015	2014
Profit Before Income Taxes	20,626	(4,309)
Expected Tax Rate	26.33%	26.33%
Expected Income Tax	(5,431)	1,134
Tax Effects Resulting from:		
Deferred Tax Asset on Tax Loss Carryforwards	0	629
Stock-based Compensation	(221)	(424)
Non-Tax-Deductible Items	(1,039)	(179)
Differences in Profit and Loss Neutral Adjustments	1,689	107
Non-Recognition of Deferred Tax Assets on Current Year Tax Losses	(684)	0
Tax Rate Differences to Local Tax Rates	(28)	0
Effect of Tax Rate Changes	(4)	0
Prior Year Taxes	(3)	(6)
Other Effects	(4)	35
Actual Income Tax	(5,725)	1,296

As of December 31, 2015, deferred tax assets on tax loss carryforwards of € 1.2 million were recognized as a result of the profit expected from Sloning BioTechnology GmbH for financial years 2016 to 2020 (December 31, 2014: € 1.8 million). The tax loss carryforwards may be carried forward indefinitely and in unlimited amounts. Since 2004, German tax law restricts the offsetting of taxable income against existing tax loss carryforwards up to an amount of € 1.0 million plus 60 % of taxable income exceeding € 1.0 million.

As of December 31, 2015, no deferred tax assets on tax loss carryforwards in the amount of € 8.6 million were recognized as a result of losses expected from the Lanthio Group in financial years 2016 to 2020.

As of December 31, 2014, deferred tax assets on tax loss carryforwards of € 1.2 million were recognized as a result of the profits expected from MorphoSys AG for financial years 2015 to 2019. The tax loss carryforwards were fully utilized in 2015.

Deferred tax assets and liabilities are composed as follows.

in 000's €, as of December 31	Deferred Tax Asset 2015	Deferred Tax Asset 2014	Deferred Tax Liabillty 2015	Deferred Tax Liability 2014
Intangible Assets	0	0	8,685	1,829
Receivables and Other Assets	0	0	200	0
Prepaid Expenses and Deferred Charges	0	0	4	7
Short-term Securities Investments	90	54	54	37
Provisions	921	533	0	0
Tax Losses	1,222	3,023	0	0
TOTAL	**2,233**	**3,610**	**8,943**	**1,873**

	Changes in Deferred Taxes in 2015		
in 000's €, as of December 31	Recognized in Profit and Loss Income/(Expense)	Recognized in Other Comprehensive Income	First-time Recognition of Deferred Taxes from Business Combination
Intangible Assets	197	0	(7,053)
Receivables and Other Assets	(206)	0	6
Prepaid Expenses and Deferred Charges	3	0	0
Short-term Securities Investments	0	19	0
Provisions	263	0	125
Tax Losses	(1,801)	0	0
TOTAL	**(1,544)**	**19**	**(6,922)**

As of December 31, 2015, temporary differences existed in connection with investments in subsidiaries (known as outside basis differences) of € 0.3 million for which no deferred tax liabilities were recognized.

5.5 EARNINGS (LOSS)/CONSOLIDATED NET PROFIT PER SHARE

Basic earnings (loss) per share is computed by dividing the 2015 consolidated net profit of € 14,900,768 (2014: consolidated net loss of € 3,012,629) by the weighted average number of ordinary shares outstanding during the respective year (2015: 26,019,855; 2014: 25,903,995).

The table below shows the calculation of the weighted average number of ordinary shares.

	2015	2014
SHARES ISSUED ON JANUARY 1	**26,456,834**	**26,220,882**
Effect of Treasury Shares Held	(450,890)	(339,890)
Effect of Repurchase of Treasury Stock	(63,054)	(88,492)
Effect of Transfer of Treasury Stock to Management Board and Senior Management Group	60,894	0
Effect of Shares Issued in January	975	0
Effect of Shares Issued in February	2,650	0
Effect of Shares Issued in March	1,578	0
Effect of Shares Issued in April	0	58,746
Effect of Shares Issued in May	0	2,198
Effect of Shares Issued in June	3,875	37,063
Effect of Shares Issued in July	3,208	0
Effect of Shares Issued in August	1,021	2,122
Effect of Shares Issued in September	0	4,030
Effect of Shares Issued in October	0	1,781
Effect of Shares Issued in November	629	4,936
Effect of Shares Issued in December	2,135	619
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**26,019,855**	**25,903,995**

Diluted earnings (loss) per share is calculated by taking into account the potential increase in the Group's ordinary shares as the result of granted convertible bonds.

The following table shows the reconciliation of basic earnings per share with diluted earnings per share (in €, except for disclosures per share).

	2015	2014
Numerator		
Consolidated Net Profit/(Loss)	14,900,768	(3,012,629)
Denominator		
Weighted-average Shares Used for Basic EPS	26,019,855	25,903,995
Dilutive Shares Arising from Convertible Bonds	224,437	286,319
TOTAL DENOMINATOR	**26,244,292**	**26,190,314**
Earnings per Share (in €)		
Basic	0.57	(0.12)
Diluted	0.57	(0.12)

6 Notes to the Assets of the Balance Sheet

6.1 CASH AND CASH EQUIVALENTS

in 000' €	12/31/2015	12/31/2014
Bank Balances and Cash in Hand	90,928	32,238
Term Deposits	631	573
Restricted Cash	(631)	(573)
Cash and Cash Equivalents	90,928	32,238

The increase in cash and cash equivalents resulted mainly from the maturity of term deposits close to the balance sheet date that will be reinvested in 2016.

Restricted cash of € 0.6 million mainly consisted of rent deposits (2014: € 0.6 million).

6.2 FINANCIAL ASSETS/SECURITIES

As of December 31, 2015 and December 31, 2014, available-for-sale financial assets consisted of the items below.

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
DECEMBER 31, 2015					
Money Market Funds	daily	64,089	204	0	64,293
Restricted Cash					0
TOTAL					**64,293**
DECEMBER 31, 2014					
Money Market Funds	daily	105,961	142	64	106,039
Restricted Cash					0
TOTAL					**106,039**

The Group's gross unrealized gain from available-for-sale money market funds in the amount of € 203,738 as of December 31, 2015, the gross unrealized gain of € 141,640 and the unrealized loss of € 64,291 as of December 31, 2014 were recorded as a separate item within equity (revaluation reserve). In 2015, the Group recorded a net gain of € 32,539 from the disposal of financial assets contained in the income statement. This gain was previously recognized in stockholders' equity (2014: € 710,518).

As of December 31, 2015 and December 31, 2014, bonds available-for-sale consisted of the items below.

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
DECEMBER 31, 2015					
Bonds	daily	33,599	1	480	33,120
TOTAL					**33,120**
DECEMBER 31, 2014					
Bonds	daily	7,572	0	84	7,488
TOTAL					**7,488**

The Group's gross unrealized gain from available-for-sale bonds in the amount of € 1,050, the gross unrealized loss of € 479,837 as of December 31, 2015 and the gross unrealized loss of € 83,650 as of December 31, 2014 were recognized as a separate item within equity (revaluation reserve). In 2015, the Group recorded a net loss of € 33,555 from the disposal of financial assets contained in the income statement that were previously recognized in stockholders' equity (2014: net gain of € 17,460). The bonds were purchased at a price above their nominal value. The loss that resulted from the product-specific price development is offset by the bond's interest income and results in a positive overall result.

As of December 31, 2015, the Company held current financial assets of € 94.6 million (December 31, 2014: € 157.0 million) and non-current financial assets of € 15.5 million (December 31, 2014: € 50.0 million), which were allocated to the "loans and receivables" category in accordance with IAS 39 "Financial Instruments". These financial assets consisted mainly of term deposits with fixed or variable interest rates. The carrying amounts included interest receivables of € 1.2 million (December 31, 2014: € 0.4 million).

Interest income from financial assets under "loans and receivables" amounted to € 1,858,793 (2014: € 914,140) and was recorded in the finance result. The risk associated with these financial instruments primarily result from bank credit risks. There was no indication of impairment in the financial year 2015.

Further information on accounting for financial assets is provided in Item 2.8.1* of the Notes.

*CROSS-REFERENCE *to page 103*

6.3 ACCOUNTS RECEIVABLE

All accounts receivable are non-interest bearing and generally have payment terms of between 30 and 45 days. As of December 31, 2015 and December 31, 2014, accounts receivable included unbilled receivables amounting to € 3,878,771 and € 3,649,124, respectively.

Based on the Management Board's estimate, no net loss for allowances for doubtful receivables was recognized in profit and loss in 2015 and 2014.

6.4 OTHER RECEIVABLES

Under the Group's hedging policy, highly probable cash flows and definite foreign-currency receivables collectable within a 24-month period are tested to determine if they should be hedged. MorphoSys began using foreign currency options and forwards to hedge its foreign exchange risk against US dollar receivables in 2003. These derivatives are recorded at their fair values under "other receivables".

As of December 31, 2015, there were 15 unsettled forward rate agreements with terms ranging from one to 12 months (December 31, 2014: 24 unsettled forward rate agreements). The resulting unrealized gain of € 749,929 (December 31, 2014: € 44,506) and unrealized loss of € 24,984 (December 31, 2014: €0) as of December 31, 2015 were recorded in the finance result.

Impairments of € 0.2 million were taken into account for other receivables, as there is a doubt on the enforcement of the claims.

6.5 INCOME TAX RECEIVABLES, INVENTORIES, PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2015, tax receivables amounted to € 2.7 million (December 31, 2014: € 2.8 million) and consisted of receivables due from tax authorities for value-added taxes payable in the amount of € 1.8 million (December 31, 2014: € 1.7 million) and receivables from capital gain taxes withheld and taxes for prior years in the amount of € 0.8 million (December 31, 2014: € 1.1 million).

Inventories amounting to € 0.4 million as of December 31, 2015 were stored at the Martinsried location and consisted of raw materials and supplies. As in the previous year, no inventories were carried at fair value less selling costs as of December 31, 2015.

As of December 31, 2014, inventories amounting to € 0.6 million were stored at the Martinsried location and consisted of raw materials and supplies.

As of December 31, 2015, prepaid expenses and other current assets mainly consisted of prepaid fees for external laboratory services of € 0.6 million (December 31, 2014: € 0.5 million), prepaid fees for sublicenses of € 0.3 million (December 31, 2014: € 0.2 million) and other prepayments amounting to € 0.5 million (December 31, 2014: € 0.5 million).

6.6 PROPERTY, PLANT AND EQUIPMENT

in 000' €	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost			
JANUARY 1, 2015	**13,963**	**1,765**	**15,728**
Additions	1,372	15	1,387
Additions from business combination	126	0	126
Disposals	(421)	0	(421)
DECEMBER 31, 2015	**15,040**	**1,780**	**16,820**
Accumulated Depreciation			
JANUARY 1, 2015	**10,560**	**1,610**	**12,170**
Depreciation Charge for the Year	1,497	45	1,542
Write-offs for the Year	25	0	25
Disposals	(391)	0	(391)
DECEMBER 31, 2015	**11,691**	**1,655**	**13,346**
Carrying Amount			
JANUARY 1, 2015	**3,403**	**155**	**3,558**
DECEMBER 31, 2015	**3,349**	**125**	**3,474**
Cost			
JANUARY 1, 2014	**12,161**	**1,867**	**14,028**
Additions	2,864	35	2,899
Disposals	(1,062)	(137)	(1,199)
DECEMBER 31, 2014	**13,963**	**1,765**	**15,728**
Accumulated Depreciation			
JANUARY 1, 2014	**10,173**	**1,687**	**11,860**
Depreciation Charge for the Year	1,386	60	1,446
Write-offs for the Year	57	0	57
Disposals	(1,056)	(137)	(1,193)
DECEMBER 31, 2014	**10,560**	**1,610**	**12,170**
Carrying Amount			
JANUARY 1, 2014	**1,988**	**180**	**2,168**
DECEMBER 31, 2014	**3,403**	**155**	**3,558**

Impairment of property, plant and equipment was immaterial in the 2015 financial year. In 2014, impairment of property, plant and equipment amounted to € 0.1 million and mainly related to laboratory equipment in the Partnered Discovery segment. The impairment occurred because an economic benefit is no longer expected from these assets.

No borrowing costs were capitalized during the reporting period. There were neither restrictions on retention of title nor property, plant and equipment pledged as security for liabilities. There were no material contractual commitments for the purchase of property, plant and equipment as of the reporting date.

Depreciation is included in the following line items of the income statement.

in 000' €	2015	2014
Research and Development	1,295	1,208
Research and Development (Write-off)	25	57
General and Administrative	247	238
TOTAL	**1,567**	**1,503**

6.7 INTANGIBLE ASSETS

in 000' €	Patents	License Rights	In-process R&D Programs	Software	Goodwill	Total
Cost						
JANUARY 1, 2015	**15,743**	**21,896**	**28,254**	**5,180**	**7,352**	**78,425**
Additions	321	2,000	4,495	563	0	7,379
Additions from business combination	0	0	28,211	1	3,689	31,901
DECEMBER 31, 2015	**16,064**	**23,896**	**60,960**	**5,744**	**11,041**	**117,705**
Accumulated Depreciation						
JANUARY 1, 2015	**8,755**	**20,553**	**0**	**3,138**	**0**	**32,446**
Depreciation Charge for the Year	1,145	98	0	670	0	1,913
Write-offs for the Year	23	0	0	0	3,676	3,699
DECEMBER 31, 2015	**9,923**	**20,651**	**0**	**3,808**	**3,676**	**38,058**
Carrying Amount						
JANUARY 1, 2015	**6,988**	**1,343**	**28,254**	**2,042**	**7,352**	**45,979**
DECEMBER 31, 2015	**6,141**	**3,245**	**60,960**	**1,936**	**7,365**	**79,647**
Cost						
JANUARY 1, 2014	**15,470**	**25,001**	**12,808**	**4,376**	**7,352**	**65,007**
Additions	273	815	15,446	1,045	0	17,579
Disposals	0	(3,920)	0	(241)	0	(4,161)
DECEMBER 31, 2014	**15,743**	**21,896**	**28,254**	**5,180**	**7,352**	**78,425**
Accumulated Depreciation						
JANUARY 1, 2014	**7,635**	**19,604**	**0**	**2,619**	**0**	**29,858**
Depreciation Charge for the Year	1,120	824	0	744	0	2,688
Write-offs for the Year	0	4,045	0	16	0	4,061
Disposals	0	(3,920)	0	(241)	0	(4,161)
DECEMBER 31, 2014	**8,755**	**20,553**	**0**	**3,138**	**0**	**32,446**
Carrying Amount						
JANUARY 1, 2014	**7,835**	**5,397**	**12,808**	**1,757**	**7,352**	**35,149**
DECEMBER 31, 2014	**6,988**	**1,343**	**28,254**	**2,042**	**7,352**	**45,979**

Impairment of patents and licenses was immaterial in the 2015 financial year. In 2014, impairment totaled € 4.1 million. Of this amount, € 2.1 million was recognized in the Proprietary Development segment and € 2.0 million in the Partnered Discovery segment. These impairments were incurred because these assets were no longer expected to generate economic benefits. Further detail information concerning the goodwill impairment can be taken from number 6.7.5* of these notes.

*CROSS-REFERENCE *to page 117*

As of December 31, 2015 in-process research and development programs were subject to an impairment test as required by IAS 36. This test did not reveal any impairment.

Amortization is included in the following line items of the income statement.

in 000' €	2015	2014
Research and Development	1,806	2,562
Research and Development (Write-off)	3,699	4,058
General and Administrative	107	126
General and Administrative (Write-Off)	0	3
TOTAL	**5,612**	**6,749**

6.7.1 PATENTS

In the 2015 financial year, the carrying amount of patents declined by € 0.9 million from € 7.0 million to € 6.1 million. This was the result of additions amounting to € 0.3 million for patent applications, particularly for proprietary programs and technologies, which were mainly offset by straight-line amortization of € 1.1 million.

6.7.2 LICENSES

The carrying amount of licenses increased by € 1.9 million rising from € 1.3 million to € 3.2 million in 2015. Additions during the financial year included one-time payments totaling € 2.0 million for access to target molecules and technologies. Amortization was € 0.1 million.

6.7.3 IN-PROCESS R&D PROGRAMS

The carrying amount of in-process R&D programs increased from € 28.3 million to € 61.0 million in 2015. This increase was primarily the result of the preclinical programs purchased as part of the Lanthio Pharma B.V. acquisition and a milestone payment to Emergent. The MOR107 preclinical program (formerly known as LP2) obtained in the acquisition of Lanthio Pharma B.V. has been included in the proprietary portfolio of MorphoSys since May 2015.

6.7.4 SOFTWARE

In the 2015 financial year, additions to this line item totaled € 0.6 million. The carrying amount decreased by € 0.1 million from € 2.0 million in 2014 to € 1.9 million in 2015. Additions were offset by amortization of € 0.7 million.

6.7.5 GOODWILL

As of September 30, 2015, goodwill of € 7.4 million from the 2010 acquisition of Sloning BioTechnology GmbH was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit Slonomics technology, which is part of the Partnered Discovery segment, was determined on the basis of value-in-use calculations. The calculation showed that the recoverable amount was lower than the carrying amount of the cash-generating unit and resulted in a goodwill impairment of € 3.7 million. The cash-flow forecasts took into account the payments expected under existing contracts as well as the future free cash flows from the contribution of the Slonomics technology to partnered programs and was offset by expected personnel and administrative expenses. Cash-flow forecasts are based on a period of ten years because the Management Board believes that commercialization through licensing agreements, upfront payments, milestone payments, funded development services and royalties is only feasible by means of medium- to long-term contracts. For this reason, a planning horizon of ten years is considered appropriate for the value-in-use calculation. The comparably lower cash-flow forecasts are largely the result of weaker business expectations. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). Based on the updated ten-year cash-flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2014: 1.2), WACC of 12.7 % (2014: 11.5 %) and a perpetual growth rate of 1 % (2014: 1 %). A detailed sensitivity analysis was performed for the cash-flow components, the growth rate and the discount rate for calculating value-in-use. This analysis did not reveal any additional need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information.

As of September 30, 2015, goodwill of € 3.7 million from the Lanthio Group acquisition on May 7, 2015 was tested for impairment. The recoverable amount of the cash-generating unit Lanthio Group, which is part of the Proprietary Development segment, was determined on the basis of value-in-use calculations. The value-in-use was higher than the carrying amount of the cash-generating unit. The cash-flow forecasts included planned cash inflows from the potential sale of compounds based on lanthipeptides expected to achieve market approval. These cash inflows are offset by expected operating expenses for compound development and clinical trials as well as sales and administrative expenses. The duration and likelihood of individual stages of the study were taken into consideration. Cash-flow forecasts are based on a period of 30 years because the Management Board believes that after the successful approval of compounds, the drugs that follow can generate free cash flows within that period of time. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). On the basis of the updated cash-flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 and WACC of 13.6 %. A detailed sensitivity analysis was also performed on the components of cash flow and discount rate. This analysis did not reveal any need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information.

6.8 SHARES, AVAILABLE-FOR-SALE

Shares available-for-sale as of December 31, 2014 consisted of the 19.98 % interest in Dutch Lanthio Pharma B.V. On May 7, 2015, MorphoSys acquired all of the company's outstanding shares. The business combination is accounted for according to IFRS 3 (see Item 4* of the Notes).

*CROSS-REFERENCE *to page 108*

6.9 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

This line item included the non-current portion of prepaid expenses and other assets. The Group has classified certain line items under other assets as "restricted cash" that are not available for use in the Group's operations (see Items 2.8.1*, 6.1*, and 6.2* of the Notes). As of December 31, 2015 and December 31, 2014, the Group disposed of restricted cash in the amount of € 0.6 million for issued rent guarantees in each case and in the amount of € 0.2 million and € 0.3 million for convertible bonds granted to employees, respectively.

*CROSS-REFERENCE *to page 103 and page 112–113*

The table below shows the breakdown of this line item.

in 000' €	12/31/2015	12/31/2014
Prepaid Expenses, Net of Current Portion	67	183
Other Current Assets	882	868
TOTAL	**949**	**1,051**

7 Notes to Equity and Liabilities of the Balance Sheet

7.1 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts payable are listed in the table below.

in 000' €	12/31/2015	12/31/2014
Trade Accounts Payable	237	569
Licenses Payable	158	89
Accrued Expenses	20,275	16,101
Other Liabilities	1,672	1,072
TOTAL	**22,342**	**17,831**

Accrued expenses include accrued personnel expenses for payments to employees and management amounting to € 3.1 million (December 31, 2014: € 3.1 million), provisions for outstanding invoices in the amount of € 2.7 million (December 31, 2014: € 2.0 million), external laboratory services in the amount of € 13.9 million (December 31, 2014: € 10.5 million), license payments in the amount of € 0.1 million (December 31, 2014: € 0.4 million), audit fees and other audit-related costs in the amount of € 0.1 million (December 31, 2014: € 0.1 million) and expenses for legal advice in the amount of € 0.4 million (December 31, 2014: insignificant).

At the Company's Annual General Meeting in May 2015, the Supervisory Board was authorized to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC AG), Munich, as the auditor.

In the 2015 financial year, PwC AG received compensation from MorphoSys in the amount of € 264,001, which included audit fees of € 188,495, fees for other audit-related and valuation services of € 36,506 (review of the half-year-report) as well as fees for other services of € 39,000. PwC AG did not provide any tax advisory services in 2015.

7.2 TAX PROVISIONS AND OTHER PROVISIONS

As of December 31, 2015, the Group recorded tax provisions and other provisions of € 3.1 million (2014: € 0.8 million for the entire Group).

Tax provisions mainly consisted of income tax expenses and other provisions included provisions for onerous contracts and lease obligations for office premises, which will not be used anymore in the future.

As of December 31, 2015, tax provisions and other provisions were uncertain in their amount and are expected to be utilized in 2016.

The table below shows the development of tax provisions and other provisions in the 2015 financial year.

in 000' €	01/01/2015	Additions	Utilized	Released	12/31/2015
Tax Provisions	777	1,603	679	3	1,698
Provisions	63	1,445	20	8	1,480
TOTAL	**840**	**3,048**	**699**	**11**	**3,178**

7.3 DEFERRED REVENUES

Deferred revenues are payments received from customers for which the services have not been rendered. The table below shows the development of this line item.

in 000' €	2015	2014
OPENING BALANCE	**58,752**	**74,435**
Prepayments Received in the Fiscal Year	18,133	17,863
Revenue Recognised through Release of Prepayments in line with Services Performed in the Fiscal Year	(72,378)	(33,546)
CLOSING BALANCE	**4,507**	**58,752**
thereof short-term	1,994	14,075
thereof long-term	2,513	44,677

7.4 STOCKHOLDERS' EQUITY

7.4.1 COMMON STOCK

As of December 31, 2015, the Company's common stock, including treasury stock, had increased by € 80,848 to € 26,537,682 from its level of € 26,456,834 as of December 31, 2014. Each no-par value bearer share is entitled to one vote. Common stock increased by € 80,848 or 80,848 shares as a result of the exercise of 80,848 convertible bonds granted to the Management Board and the Senior Management Group. The weighted-average exercise price for each convertible bond exercised amounted to € 16.79.

As of December 31, 2015, the Company held 434,670 shares of treasury stock amounting to € 15,827,946 which represents an increase of € 1,575,984 compared to December 31, 2014 (450,890 shares, € 14,251,962). This increase was mainly the result of MorphoSys's repurchase of 88,670 of its own shares on the stock exchange. The repurchase totaling € 5,389,984 was carried out at a weighted-average share price of € 60.79. Brokerage fees for the repurchase totaled € 2,947. Shares of treasury stock can be used for the 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. The rise in treasury stock mentioned above was offset by the transfer of 104,890 own shares to the Management Board and Senior Management Group from the 2011 long-term incentive plan (LTI plan), totaling € 3,816,947. The four-year vesting period for this LTI program expired on June 1, 2015. As a result, the number of treasury shares as of December 31, 2015 amounted to 434,670.

7.4.2 AUTHORIZED CAPITAL

Compared to December 31, 2014, the number of authorized ordinary shares increased from 4,957,910 to 13,206,421. This resulted from the cancelation of Authorized Capital 2013-I totaling € 2,335,822 and the creation of new Authorized Capital 2015-I of € 10,584,333 at the Annual General Meeting on May 8, 2015. With the Supervisory Board's consent, the Management Board is authorized under Authorized Capital 2015-I to increase the Company's common stock on one or more occasions by up to € 10,584,333 by issuing up to 10,584,333 new, no-par value bearer shares until and including the date of April 30, 2020.

7.4.3 CONDITIONAL CAPITAL

Compared to December 31, 2014, the number of ordinary shares of conditional capital decreased from 7,166,848 to 7,086,000 as a result of the exercise of 80,848 conversion rights in 2015. Entry in the commercial register of the reduction in Conditional Capital through the exercise of 80,848 conversion rights was applied for in January 2016.

7.4.4 TREASURY STOCK

In the years 2014 and 2015, the Group repurchased own shares. The composition and development of this line item is listed in the following table.

	Number of Shares	Value
As of 12/31/2010	79,896	9,774
Purchase in 2011	84,019	1,747,067
As of 12/31/2011	163,915	1,756,841
Purchase in 2012	91,500	1,837,552
As of 12/31/2012	255,415	3,594,393
Purchase in 2013	84,475	2,823,625
As of 12/31/2013	339,890	6,418,018
Purchase in 2014	111,000	7,833,944
As of 12/31/2014	450,890	14,251,962
Purchase in 2015	88,670	5,392,931
Transfer in 2015	(104,890)	(3,816,947)
As of 12/31/2015	434,670	15,827,946

The weighted average share price was € 60.79 per share (2014: € 70.53 per share) at the time of the repurchases in 2015. Treasury shares are recognized at acquisition cost.

7.4.5 ADDITIONAL PAID-IN CAPITAL

As of December 31, 2015, additional paid-in capital amounted to € 319,394,322 (December 31, 2014: € 318,375,720). The total increase of € 1,018,602 resulted from the exercise of convertible bonds granted, totaling € 1,276,590. Personnel expenses resulting from share-based payments increased additional paid-in capital by € 3,558,959. The reclassification of treasury shares of € 3,816,947 in the context of the allocation of shares under the 2011 performance-based share plan had a compensating effect.

In 2014, additional paid-in capital increased by € 7,412,069 and stemmed from the exercise of convertible bonds granted (€ 3,725,682) as well as from personnel expenses resulting from share-based payments (€ 3,686,387).

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

*CROSS-REFERENCE *to page 118 and page 118–119*

7.4.6 REVALUATION RESERVE

As of December 31, 2015, the revaluation reserve amounted to € -202,158 (December 31, 2014: € -4,642). The reduction amounting to a total of € 197,516 arose from a change in the unrealized gain on available-for-sale securities and bonds of € 268,749, which was partly offset by the equity-related recognition of deferred taxes of € 71,233.

7.4.7 TRANSLATION RESERVE

The translation reserve decreased by € 293,846 from € 293,846 on December 31, 2014 to € 0 on December 31, 2015. This item included exchange rate differences from the revaluation of financial statements of Group entities prepared in foreign currencies as well as differences between the exchange rates used in the balance sheet and the income statement. As of December 31, 2015, the Group consisted exclusively of entities preparing their financial statements in euro.

7.4.8 ACCUMULATED INCOME

The consolidated net profit of € 14,900,768 is reported in accumulated income, causing a rise in accumulated income from € 17,933,339 in 2014 to € 32,834,107 in 2015.

8 Remuneration System for the Management Board and Employees of the Group

8.1 CONVERTIBLE BONDS

8.1.1 2010 PROGRAM

On April 1, 2010, a total of 352,800 convertible bonds were granted to members of the Management Board and Senior Management Group. The exercise price of the convertible bonds was € 16.79 and equaled the Company's share price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the convertible bonds' issue. Each convertible bond had a value of € 0.33 and was converted into one no-par value bearer share of the Group against payment of the exercise price. The beneficiaries were only permitted to exercise their conversion rights after a vesting period of four years beginning after the grant date. Exercise of the conversion rights was only possible if, on one trading day during the lifetime of the convertible bond, the share price reached at least 110% of the exercise price as of the grant date.

In the 2015 financial year, a total of 80,848 convertible bonds were exercised at a weighted-average share price of € 59.86 (2014: 235,952 convertible bonds at a weighted-average share price of € 69.69).

8.1.2 2013 PROGRAM

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

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

The exercise of the conversion rights is only admissible after the expiration of a four-year vesting period from the grant date. In the event of a change of control, the vesting period is shortened to two years from the grant date. For every year without a notice of termination of the employment relationship with the Company or an affiliated company, 25% of the conversion rights become vested. In the event of a change of control, all unvested conversion rights become vested.

If an employment or service contract of a beneficiary is terminated without notice, no further conversion rights can be vested under the above mentioned vesting scheme. Thus, upon rendition of the notice, all conversion rights still unvested by this time will expire without substitution. In the event of a contractual notice of termination of such employment or service contract with the beneficiary or a mutually agreed dissolution contract, the previous sentence applies and becomes effective as of the date of termination of the employment or service contract.

The following table shows the development of the convertible bond plans for Group employees in the 2015 and 2014 financial years.

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2014	**766,799**	**25.65**
Granted	0	0.00
Exercised	(235,952)	16.79
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2014	**530,847**	**29.58**
OUTSTANDING ON JANUARY 1, 2015	**530,847**	**29.58**
Granted	0	0.00
Exercised	(80,848)	16.79
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2015	**449,999**	**31.88**

As of December 31, 2015, the number of vested convertible bonds totaled 225,000 shares (December 31, 2014: 193,348 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, 2015.

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	449,999	4.25	31.88	225,000	31.88
	449,999	**4.25**	**31.88**	**225,000**	**31.88**

The Group recognizes personnel expenses resulting from convertible bonds in accordance with IFRS 2 and IAS 32.28. The equity component of the convertible bonds is presented separately under additional paid-in capital. The corresponding amount is recognized as personnel expenses from convertible bonds. In 2015 and 2014, compensation expenses related to convertible bonds amounted to € 839,906 and € 1,609,086, respectively.

8.2 LONG-TERM INCENTIVE PROGRAMS

8.2.1 2011 LONG-TERM INCENTIVE PROGRAM

On June 1, 2011, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and is paid out in ordinary shares of MorphoSys AG if predefined key performance criteria are achieved. These criteria are assessed and approved annually by the Supervisory Board and include revenue, EBIT and the number of projects in the R&D portfolio. The fulfillment of these criteria is set at 100% for three years and 110% for one year. The Supervisory Board set the "company factor" at 1.3, meaning the number of shares to be allocated is scaled by a factor of 1.3. This factor also resulted in additional personnel expenses of € 0.5 million in the 2015 financial year. Previously, personnel expenses resulting from the 2011 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 104,890 ordinary shares of MorphoSys AG was allocated to beneficiaries on June 1, 2015 after the expiration of the four-year vesting period. The Management Board received 71,949 shares (for further information, please see the tables titled "Shares" and "Performance Shares" in Item 8.3* "Related Parties"), and the Senior Management Group received 32,941 shares.

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In 2015, personnel expenses from stock options under the Group's 2011 LTI plan amounted to € 558,740 (2014: € 172,311).

8.2.2 2012 LONG-TERM INCENTIVE PROGRAM

On April 1, 2012, MorphoSys established a second long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria are achieved. These criteria are approved annually by the Supervisory Board.

The grant date was April 1, 2012 and the vesting period is four years. One fourth of the performance shares will become vested in each year of the four-year vesting period, provided that the performance criteria set for the respective period were met in full. The annual number of vested shares will be reduced to the extent that the performance criteria of the relevant year have been fulfilled between only 50% and 99%, and increased to the extent that the performance criteria were met by more than 100% (maximum 200%). If in one year the specified performance criteria are achieved by less than 50%, no shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment seems unreasonable with regard to the general development of the Company. The right to receive a certain allocation of shares under the LTI plan, however, occurs only at the end of the four-year vesting period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash 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 prematurely ceases to hold an office at the MorphoSys Group before expiration of the four-year performance period, this member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis. If a Management Board member prematurely ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the four-year vesting period, all performance shares will be considered fully vested. In each case above, the right to receive a certain allocation of shares under the LTI plan only occurs at the end of the four-year vesting period.

In April 2012, MorphoSys repurchased 91,500 of its own shares on the stock exchange at an average price of € 20.08 per share for the 2012 LTI plan. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meetings on May 19, 2011 and May 23, 2014, particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

These 91,500 shares were allocated to the beneficiaries retroactively on April 1, 2012 and included 57,967 shares for the Management Board (for further information, please see the table titled "Performance Shares" in Item 8.3* "Related Parties") and 33,533 shares for the Senior Management Group. The number of shares allocated is based on the full achievement of performance criteria and a company factor of 1. The fair value of the performance shares was € 19.24 per share on the grant date (April 1, 2012). No dividends were considered in determining the fair value of the repurchased shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2015, two beneficiaries left MorphoSys and, therefore, 4,051 performance shares were forfeited.

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

In 2015, personnel expenses from stock options under the Group's 2012 LTI plan amounted to € 108,619 (2014: € 293,904).

8.2.3 2013 LONG-TERM INCENTIVE PROGRAM

On April 1, 2013, MorphoSys established another long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares 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, 2013 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 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 achieved by less than 50 %, no shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is considered unreasonable in view of the Company's general development. The right to receive a certain allocation of shares under the LTI plan occurs only at the end of the four-year vesting period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash 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 prematurely ceases to hold an office at the MorphoSys Group before expiration of the four-year performance period, the member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis. If a Management Board member prematurely ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the four-year vesting period, all performance shares will be considered fully vested. In each case above, the right to receive a certain allocation of shares under the LTI plan only occurs at the end of the four-year vesting period.

In April and May of 2013, MorphoSys repurchased 84,475 of its own shares on the stock exchange at an average price of € 33.43 per share. The repurchased shares can be used for all purposes named in the authorizations of the Annual General Meetings on May 19, 2011 and 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.

Of these shares, 61,600 were allocated to beneficiaries retroactively effective April 1, 2013. This included 36,729 shares for the Management Board (for further information, please see the table titled "Performance Shares" in Item 8.3* "Related Parties") and 24,871 shares for the Senior Management Group. The number of shares allocated is based on the full achievement of performance criteria and a company factor of 1. On the grant date (April 1, 2013), the fair value of the performance shares was € 31.88 per share. No dividends were included in the determination of the fair value of the repurchased shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2015, one beneficiary left MorphoSys and, therefore, 772 performance shares were forfeited. For the calculation of the personnel expenses resulting from share-based payments under the 2013 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

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

In 2015, personnel expenses from stock options under the Group's 2013 LTI plan amounted to € 299,024 (2014: € 594,309).

8.2.4 2014 LONG-TERM INCENTIVE PROGRAM

On April 1, 2014, MorphoSys established a fourth long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares 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 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 shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of shares under the LTI plan, however, occurs only at the end of the four-year vesting period.

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

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

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

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

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

A total of 32,513 of these shares were allocated to beneficiaries on April 1, 2014 with 18,264 allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 8.3* "Related parties") and 14,249 shares to the Senior Management Group. The number of 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 € 67.30 per share. This price was equivalent to the share price on the Frankfurt Stock Exchange (Xetra) on the trading day preceding the grant date. No dividends were included in the determination of the fair value of the repurchased shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2015, one beneficiary left MorphoSys and, therefore, 608 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2014 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

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In 2015, personnel expenses resulting from stock options under the Group's 2014 LTI plan amounted to € 647,941 (2014: € 1,016,776).

8.2.5 2015 LONG-TERM INCENTIVE PROGRAM

On April 1, 2015, MorphoSys established a fifth long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares 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 vested each year is 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 exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of shares under the LTI plan only occurs at the end of the four-year vesting period.

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

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

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

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

In April 2015, MorphoSys repurchased 88,670 of its own shares on the stock exchange at an average price of € 60.79 per share for a total amount 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: 21,948 were allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 8.3* "Related parties") and 18,477 shares to the Senior Management Group. The number of shares allocated is based on the 100% achievement of the performance criteria and a company factor of 1. The fair value of the performance shares as of the grant date (April 1, 2015) was € 58.81 per share. No dividends were considered in the determination of the fair value of the repurchased shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2015, no beneficiary left MorphoSys, and no performance shares have been forfeited. For the calculation of the personnel expenses from share-based payments under the 2015 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

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In 2015, personnel expenses from stock options under the Group's 2015 LTI plan amounted to € 1,104,730.

8.3 RELATED PARTIES

Related parties that can be influenced by the Group or can have a significant influence on the Group can be divided into subsidiaries, members of management in key positions and other related entities.

The Group engages in business relationships with members of the Management Board and Supervisory Board as related parties responsible for the planning, management and monitoring of the Group. In addition to cash compensation, the Group has granted the Management Board convertible bonds and performance shares. The tables below show the shares, convertible bonds and performance shares held by the members of the Management Board and Supervisory Board, as well as the changes in their ownership during the 2015 financial year.

SHARES

	01/01/2015	Additions	Forfeitures	Sales	12/31/2015
MANAGEMENT BOARD					
Dr. Simon Moroney	452,885	42,353	0	0	495,238
Jens Holstein	2,000	16,132	0	14,132	4,000
Dr. Arndt Schottelius	2,000	16,132	0	16,132	2,000
Dr. Marlies Sproll	28,620	49,132	0	27,000	50,752
TOTAL	**485,505**	**123,749**	**0**	**57,264**	**551,990**
SUPERVISORY BOARD					
Dr. Gerald Möller	9,000	2,000	0	0	11,000
Dr. Walter Blättler[1]	2,019	0	0	0	–
Dr. Daniel Camus[1]	0	0	0	0	–
Dr. Marc Cluzel	500	0	0	0	500
Karin Eastham	1,000	1,000	0	0	2,000
Dr. Geoffrey Vernon[1]	0	0	0	0	–
Dr. Frank Morich[2]	–	1,000	0	0	1,000
Wendy Johnson[2, 3]	–	0	0	0	500
Klaus Kühn[2]	–	0	0	0	0
TOTAL	**12,519**	**4,000**	**0**	**0**	**15,000**

[1] Dr. Walter Blättler, Dr. Daniel Camus and Dr. Geoffrey Vernon left the Supervisory Board of MorphoSys AG on 08. May 2015.
[2] Dr. Frank Morich, Wendy Johnson and Klaus Kühn joined the Supervisory Board of MorphoSys AG on 08. May 2015.
[3] 500 shares have been acquired by Wendy Johnson before joining the Supervisory Board of MorphoSys AG.

CONVERTIBLE BONDS

	01/01/2015	Additions	Forfeitures	Exercises	12/31/2015
MANAGEMENT BOARD					
Dr. Simon Moroney	107,186	0	0	18,800	88,386
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius	60,537	0	0	0	60,537
Dr. Marlies Sproll	93,537	0	0	33,000	60,537
TOTAL	**351,797**	**0**	**0**	**51,800**	**299,997**

PERFORMANCE SHARES

	01/01/2015	Additions	Forfeitures	Allocations	12/31/2015
MANAGEMENT BOARD					
Dr. Simon Moroney	54,655	13,062	0	23,553	44,164
Jens Holstein	37,434	8,946	0	16,132	30,248
Dr. Arndt Schottelius	37,434	8,946	0	16,132	30,248
Dr. Marlies Sproll	37,434	8,946	0	16,132	30,248
TOTAL	**166,957**	**39,900**	**0**	**71,949**	**134,908**

MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2015 AND 2014 (IAS 24):

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
	2014	2015	2014	2015
Fixed Compensation	426,502	445,736	289,335	302,384
Fringe Benefits	29,444	36,887	33,722	39,735
One-Year Variable Compensation	324,696	238,692	220,271	161,926
Total Short-Term Employee Benefits (IAS 24.17 (a))	780,642	721,315	543,328	504,045
Service Cost	125,730	138,280	86,866	90,800
Total Benefit Expenses – Post-Employment Benefits (IAS 24.17 (b))	125,730	138,280	86,866	90,800
Multi-Year Variable Compensation[1]:				
2010 Convertible Bonds Program (Vesting Period 4 Years)	6,010	0	0	0
2013 Convertible Bonds Program (Vesting Period 4 Years)	310,530	164,969	318,087	168,984
2011 Long-Term Incentive Program (Vesting Period 4 Years)	40,060	129,900	27,439	88,974
2012 Long-Term Incentive Program (Vesting Period 4 Years)	62,218	22,755	42,615	15,585
2013 Long-Term Incentive Program (Vesting Period 4 Years)	113,270	57,029	77,583	39,061
2014 Long-Term Incentive Program (Vesting Period 4 Years)	186,964	119,143	128,057	81,605
2015 Long-Term Incentive Program (Vesting Period 4 Years)	0	196,345	0	134,483
Total Stock-Based Compensation (IAS 24.17 (e))	719,052	690,141	593,781	528,692
Total Compensation	1,625,424	1,549,736	1,223,975	1,123,537

[1] The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payments". This table shows the pro-rata share of personnel expenses resulting from stock-based compensation for the respective financial year. Further details can be found in Sections 8.1* and 8.2*.

*CROSS-REFERENCE *to page 120 and page 121*

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

The total remuneration of the Management Board consists of several components, including fixed compensation, an annual cash bonus that is dependent upon the achievement of corporate and personal targets (short-term incentives – STI), variable compensation components with long-term incentives (LTI) and other remuneration components. Following the expiration of the relevant contract term, the service contracts of the Management Board members stipulate a non-competition clause for a period of six months. During this period, the Management Board member is entitled to compensation payments amounting to 100 % of the pro rata fixed compensation.

In 2015, the total remuneration of the Supervisory Board, excluding reimbursement for travel costs, amounted to € 529,270 (2013: € 514,480).

While the remuneration of the Management Board and the Supervisory Board as members in key management positions is presented in accordance with the provisions of the Corporate Governance Code in the management report, the following tables show the expense-based view in accordance with IAS 24.

	Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
	2014	2015	2014	2015	2014	2015
	289,335	302,384	289,335	302,384	1,294,507	1,352,888
	32,508	29,889	22,828	22,954	118,502	129,465
	215,208	156,635	210,144	156,635	970,319	713,888
	537,051	488,908	522,307	481,973	2,383,328	2,196,241
	86,653	94,064	86,628	94,085	385,877	417,229
	86,653	94,064	86,628	94,085	385,877	417,229
	3,373	0	3,373	0	12,756	0
	212,687	112,990	212,687	112,990	1,053,991	559,933
	27,439	88,974	27,439	88,974	122,377	396,822
	42,615	15,585	42,615	15,585	190,063	69,510
	77,583	39,061	77,583	39,061	346,019	174,212
	128,057	81,605	128,057	81,605	571,135	363,958
	0	134,483	0	134,483	0	599,794
	491,754	472,698	491,754	472,698	2,296,341	2,164,229
	1,115,458	1,055,670	1,100,689	1,048,756	5,065,546	4,777,699

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2015 AND 2014:

	Fixed Compensation		Attendance Fees[3]		Total Compensation	
in €	2015	2014	2015	2014	2015	2014
Dr. Gerald Möller	93,521	97,400	36,200	38,000	129,721	135,400
Dr. Walter Blättler[1]	16,188	46,160	13,000	25,200	29,188	71,360
Dr. Daniel Camus[1]	16,188	46,160	8,400	23,200	24,588	69,360
Dr. Marc Cluzel	50,089	46,160	28,000	32,400	78,089	78,560
Karin Eastham	50,089	46,160	36,800	32,400	86,889	78,560
Dr. Geoffrey Vernon[1]	20,073	57,240	8,400	24,000	28,473	81,240
Dr. Frank Morich[2]	37,324	–	14,200	–	51,524	–
Wendy Johnson[2]	30,099	–	26,400	–	56,499	–
Klaus Kühn[2]	30,099	–	14,200	–	44,299	–
TOTAL	**343,670**	**339,280**	**185,600**	**175,200**	**529,270**	**514,480**

[1] Dr. Walter Blättler, Dr. Daniel Camus and Dr. Geoffrey Vernon left the Supervisory Board of MorphoSys AG on 08. May 2015.
[2] Dr. Frank Morich, Wendy Johnson and Klaus Kühn joined the Supervisory Board of MorphoSys AG on 08. May 2015.
[3] The attendance fee contains expense allowances for the attendance at Supervisory Board and Committee meetings.

In the years 2015 and 2014, there were no other long-term benefits in accordance with IAS 24.17 (c) or benefits upon termination of employment in accordance with IAS 24.17 (d) accruing to the Management Board or Supervisory Board.

There are presently no other agreements with current or former members of the Supervisory Board.

As of December 31, 2015, the Senior Management Group held 150,002 convertible bonds (December 31, 2014: 169,050 units) and 85,542 performance shares (December 31, 2014: 91,807), which were granted by the Company. In 2015, an additional long-term incentive program was allocated to the Management Board and Senior Management Group. As part of this program, the Senior Management Group was allocated 18,477 performance shares. On June 1, 2015, a total of 29,360 shares under the 2011 LTI plan were granted to the Senior Management Group, reducing the number of performance shares. A total of 19,048 convertible bonds were exercised in 2015 (2014: 130,952) while no stock appreciation rights were exercised during the same period (2014: 15,000). In 2015, a total of 1,380 performance shares forfeited because one beneficiary had left MorphoSys.

9 Additional Notes

9.1 OBLIGATIONS ARISING FROM OPERATING LEASES, RENTAL AND OTHER CONTRACTS

The Group leases facilities and equipment under long-term operating leases. In financial years 2015 and 2014, leasing expenses amounted to € 2,978,254 and € 1,939,537. The 2015 amount includes the recognition of a provision for onerous contracts from rent obligations for office premises. Leasing expenses for 2015 and 2014 include expenses for company cars and machinery totaling € 229,153 and € 192,597, respectively. The majority of these contracts can be renewed on a yearly or quarterly basis. Some of these agreements may be terminated prematurely.

The components of future minimum payments under non-terminable operating leases, insurance contracts are shown in the following table.

in 000' €	Rent and Leasing 2015	Rent and Leasing 2014	Other 2015	Other 2014	Total 2015	Total 2014
Up to One Year	2,349	2,415	840	1,057	3,189	3,472
Between One and Five Years	13,438	3,142	5	5	13,443	3,147
More than Five Years	13,875	0	0	0	13,875	0
TOTAL	**29,662**	**5,557**	**845**	**1,062**	**30,507**	**6,619**

Compared to the previous year, the increase in the category "Rent and Leasing" mainly resulted from a new rental contract for a building signed in December 2015 and the related perennial obligations.

Additionally, the future payments shown in the table below may become due from currently active, terminable contracts for outsourced studies. These amounts can be substantially lower because of the respective contractual clauses if the study is terminated prematurely.

in 000' €	Total 2015
Up to One Year	46,735
Between One and Five Years	114,227
More than Five Years	0
TOTAL	**160,962**

9.2 CONTINGENT ASSETS/CONTINGENT LIABILITIES

Contingent liabilities are potential obligations from past events that exist only when the occurrence of one or more uncertain future events – beyond the Company's control – is confirmed. Current obligations can represent a contingent liability if it is not probable enough that an outflow of resources justifies the recognition of a provision. Moreover, it is not possible to make a sufficiently reliable estimate of the amount of the obligations.

The Management Board is unaware of any proceedings that may result in a significant obligation for the Group and may lead to a material adverse effect on the Group's net assets, financial position or results of operations.

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

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

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

9.3 CORPORATE GOVERNANCE

The Group has submitted the Declaration of Conformity with the recommendations of the Government Commission on the German Corporate Governance Code for the 2015 financial year under Sec. 161 of the German Stock Corporation Act (AktG). This declaration was published on the Group's website (www.morphosys.com) on December 3, 2015 and made permanently available to the public.

9.4 RESEARCH AND DEVELOPMENT AGREEMENTS

The Group has entered numerous research and development agreements as part of its proprietary research and development activities and its partnered research strategy.

9.4.1 PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development segment, partnerships are entered into as part of the Group's strategy to develop its own drugs in its core areas of oncology and inflammatory diseases. Our partners include (in alphabetical order): Emergent BioSolutions, G7 Therapeutics, Galapagos, GlaxoSmithKline, Immatics Biotechnologies, Merck Serono, Temple University and Xencor.

In August 2014, MorphoSys and Emergent BioSolutions announced a co-development and co-promotion agreement for MOR209/ES414. This compound is a bispecific anti-PSMA/anti-CD3 antibody targeting prostate cancer that was developed by Emergent based on its proprietary ADAPTIR™ platform (modular protein technology). In early March 2015, MorphoSys and its development partner Emergent BioSolutions announced the commencement of a phase 1 clinical study with MOR209/ES414 in up to 130 patients suffering from metastatic castration-resistant prostate cancer (mCRPC). The study's launch triggered a milestone payment to Emergent of € 4.7 million. The existing cooperation agreement was updated in the past financial year. After a joint examination of the clinical results, the companies decided to adjust the dosing regimen and administration of MOR209/ES414. Clinical development will continue in 2016 with an adapted clinical development plan. A change in the contractual agreement brought down MorphoSys's share in the costs for the years 2016 through 2018 and lowers MorphoSys's potential milestone payment to Emergent to a maximum of US$ 74 million. There were no changes made to the remaining financial agreements or the division of commercial rights.

In August 2015, MorphoSys and Swiss-based G7 Therapeutics AG announced a new collaboration to develop novel antibody therapeutics targeting G protein-coupled receptors (GPCRs) and other potentially disease-related transmembrane proteins, such as ion channels. Under this agreement, G7 Therapeutics will give MorphoSys a choice of various receptors that can be linked to the emergence of a variety of diseases. MorphoSys will use its proprietary Ylanthia antibody library to identify and develop antibody compounds directed against these receptors. MorphoSys has the right to sublicense to partners access to these target molecules in conjunction with therapeutic antibody programs.

In November 2008, MorphoSys and Galapagos announced a long-term drug discovery and co-development cooperation aimed at exploring novel mechanisms for the treatment of inflammatory diseases and developing antibody therapies against these diseases. The agreement covers all activities ranging from the probing of target molecules to the completion of clinical trials for novel therapeutic antibodies. After demonstrating clinical efficacy in humans, the programs may be out-licensed to partners for further development, approval, and commercialization. Both companies contributed their core technologies and expertise to the alliance. Along with the use of its adenovirus-based platform for the exploration of new target molecules for the development of antibodies, Galapagos provided access to target molecules already identified that are associated with bone and joint diseases. MorphoSys provided access to its antibody technologies used for generating fully human antibodies directed against these target molecules. Under the terms of the agreement, Galapagos and MorphoSys will share the research and development costs. In July 2014, the collaboration advanced into the preclinical development of MOR106, an antibody from MorphoSys' next-generation library Ylanthia directed against a novel Galapagos target molecule. The antibody will be co-developed in the area of inflammatory diseases.

In June 2013, MorphoSys announced it had entered into a global agreement with GlaxoSmithKline (GSK) for the development and commercialization of MOR103. MOR103/GSK3196165 is MorphoSys's proprietary HuCAL antibody against the GM-CSF target molecule. Under the agreement, GSK assumes responsibility for the compound's entire development and commercialization. MorphoSys received an immediate upfront payment of € 22.5 million as part of this agreement. Depending on the achievement of certain developmental stages and regulatory, commercial and revenue-related milestones, MorphoSys is eligible to receive additional payments from GSK in the amount of up to € 423 million, as well as tiered double-digit royalties on net sales. In the third quarter of 2015, GlaxoSmithKline announced the initiation of a phase 2 study with MOR103/GSK3196165 for rheumatoid arthritis. GSK also plans to initiate a second phase 2 study in osteoarthritis of the hand during the 2016 financial year.

In August 2015, MorphoSys announced a strategic alliance in the field of immuno-oncology with the German company Immatics Biotechnologies GmbH. The alliance was formed to develop novel antibody-based therapies against a variety of cancer antigens that are recognized by T cells. The alliance agreement gives MorphoSys access to several of Immatics's proprietary tumor-associated peptides (TUMAPs). In return, Immatics receives the right to develop MorphoSys's Ylanthia antibodies against several TUMAPs. The companies will pay each other milestone payments and royalties on commercialized products based on the companies' development progress.

In June 2014, MorphoSys and Merck KGaA announced an agreement to identify and develop therapeutic antibodies against target molecules of the class of immune checkpoints. Under this agreement, both MorphoSys and Merck Serono, the biopharmaceutical division of Merck, will co-develop therapies intended to trigger the immune system to attack tumors. MorphoSys will use its proprietary Ylanthia antibody library and other technology platforms to generate antibodies directed against the selected target molecules. Merck Serono is contributing its broad portfolio and expertise in the field of immuno-oncology and clinical development and will assume full project responsibility starting with phase 1 of clinical development.

In April 2014, MorphoSys agreed to a strategic partnership with the Moulder Center for Drug Discovery Research, a division of the School of Pharmacy at Temple University, USA, to discover new therapeutic antibodies. Under this cooperation, the Moulder Center receives access to MorphoSys's Ylanthia technology for validating new disease-related target molecules and generating therapeutic antibodies directed against these molecules. MorphoSys receives an exclusive option to further develop each antibody resulting from the cooperation. The department for new bio-therapeutic compound discovery at the Moulder Center deals with the compound's design and optimization of lead candidates in various disease areas, including cancer, Alzheimer's disease, cardiovascular, metabolic and viral diseases.

In June 2010, MorphoSys AG and the US-based biopharmaceutical company Xencor signed an exclusive global licensing and cooperation agreement under which MorphoSys receives exclusive global licensing rights to the XmAb5574/MOR208 antibody for the treatment of cancer and other indications. The companies jointly conducted a phase 1/2a trial in the US in patients with chronic lymphocytic leukemia. MorphoSys is solely responsible for further clinical development after the successful completion of the phase 1 clinical trial. Xencor received an upfront payment of US$ 13 million (approx. € 10.5 million) from MorphoSys, which was capitalized under in-process R&D programs. Xencor is entitled to development, regulatory, and commercially-related milestone payments as well as tiered royalties on product sales.

In May 2015, MorphoSys acquired the Dutch company Lanthio Pharma B.V., which specializes in research and development of lanthipeptides. MorphoSys had initially acquired almost a 20% interest in the biopharmaceutical company in 2012 as part of its Innovation Capital initiative before acquiring the remaining shares in the past financial year. Lanthipeptides are a novel class of therapeutics demonstrating high target molecule selectivity and improved compound properties. This transaction adds MOR107 (formerly LP2) to MorphoSys's proprietary portfolio. MOR107 is a novel lanthipeptide in development for diabetic nephropathy and fibrotic diseases.

9.4.2 PARTNERED DISCOVERY SEGMENT

Commercial partnerships in the Partnered Discovery segment provide MorphoSys with various types of payments that are spread over the duration of the agreements or recognized in full as revenue when reaching a predefined target or milestone. These payments include upfront payments upon signature, annual license fees in exchange for access to MorphoSys's technologies and payments for funded research to be performed by MorphoSys on behalf of the partner. In addition, MorphoSys is entitled to development-related milestone payments and royalties on product sales for specific antibody programs.

Prior to the 2015 financial year, active collaborations with a number of partners had already ended because the agreements had expired. However, drug development programs initiated in the active phase are designed so that they can be continued by the partner and, therefore, still result in performance-based payments for the achievement of the defined milestones. For more detailed information on individual drug candidates within the various alliances – limited to information available to the public – please refer to the section "Research and Development" contained in this annual report and the overview of the Group's drug pipeline. Detailed information on the Group's individual research alliances is available on the Group's website.

Partnerships in the Partnered Discovery segment that ended before the beginning of 2015 but where drug development programs were still being pursued, include (in alphabetical order): Astellas, Bayer Healthcare Pharmaceuticals, Boehringer Ingelheim, ContraFect, Daiichi-Sankyo, F. Hoffmann-La Roche, GPC Biotech, Immunogen, Janssen Biotech, Merck & Co., OncoMed Pharmaceuticals, Pfizer, Fibron Ltd. (transfer of the contract from Prochon Biotech Ltd.) and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships that were still active in 2015 include (in alphabetical order): GeneFrontier Corporation/Kaneka, Heptares and Novartis.

The Group's most comprehensive alliance is with Novartis AG. Both companies started working together in 2004, which has led to the creation of several ongoing therapeutic antibody programs against a number of diseases. In December 2007, MorphoSys and Novartis significantly expanded their previous relationship and forged one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. The contractually guaranteed annual payments for technology access, internalization charges, and R&D services amount to more than € 400 million over the contract term of ten years. The total amount of guaranteed payments and probability-weighted performance-based milestones, contingent upon the successful clinical development and regulatory approval of several products, could exceed € 650 million by the expiration of the contract underlying the collaboration. In addition to these payments, MorphoSys is also entitled to royalties on any future product sales.

In November 2012, MorphoSys and Novartis entered into a cooperation agreement for the use of the new Ylanthia technology platform. This was an extension of the existing strategic cooperation.

9.5 SUBSEQUENT EVENTS

There have been no significant changes in the industry environment since the end of the 2015 financial year. Other events having a material impact on the net assets, financial position and results of operations have also not occurred after the end of the financial year.

9.6 RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge and in accordance with applicable reporting principles that the consolidated financial statements give a true and fair view of the Group's assets, liabilities, financial position and results of operations and that the Group Management Report provides a fair review of the Group's business development, results and position as well as a description of the principal opportunities and risks associated with its expected development.

Martinsried, February 16, 2016

Dr. Simon Moroney
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

Auditor's Report

We have audited the consolidated financial statements prepared by MorphoSys AG, Martinsried, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the group management report for the business year from January 1, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and supplementary provisions of the articles of incorporation are the responsibility of the Parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, February 17, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer
Wirtschaftsprüfer
(German Public Auditor)

ppa. Bodo Kleinschrod
Wirtschaftsprüfer
(German Public Auditor)

Report of the Supervisory Board

COOPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

During the 2015 financial year, the Supervisory Board comprehensively performed the duties assigned to it by law, the Articles of Association, its own Rules of Procedure and – with a few exceptions – the recommendations of the German Corporate Governance Code (the "Code"). We regularly advised and continually oversaw the Management Board in its management of the Company and dealt extensively with the operational and strategic development of the Group. The Management Board fulfilled its duty to inform and furnish us with periodic written and verbal reports containing timely and detailed information on all business transactions and events of significant relevance to the Company. The Management Board prepared these reports in collaboration with the respective departments. In our committee meetings and plenary sessions, we had the opportunity to fully discuss the Management Board's reports and the proposed resolutions. The Management Board answered our questions on strategic topics affecting the Company with a great level of detail and submitted the relevant documents in a timely manner. Any deviations from the business plan were thoroughly explained to us, and we were directly involved at an early stage in all decisions relevant to the Company.

A corresponding resolution was passed if the Supervisory Board's approval for individual actions was required by law, the Articles of Association or by the Rules of Procedure. The Supervisory Board members regularly prepared resolutions for Management Board actions requiring Supervisory Board approval based on the documentation provided in advance by the Management Board. If necessary, the Supervisory Board received the support of the relevant committees and, together with the Management Board, discussed any projects pending decision. All matters requiring approval were submitted for review to the Supervisory Board on a timely basis.

Outside of the meetings of the Supervisory Board plenum and the committees, the chairperson of the Supervisory Board regularly exchanged information and ideas with the Management Board and especially the Chief Executive Officer, Dr. Simon Moroney. The Supervisory Board chairperson was also kept informed of the current business situation and any significant business transactions. Discussions also took place between the chairperson of the Supervisory Board and members of the Senior Management Group in consultation with the Management Board. The other Supervisory Board members also had regular contact with the individual Management Board members.

KEY ITEMS OF DISCUSSION AT THE SUPERVISORY BOARD MEETINGS IN THE 2015 FINANCIAL YEAR

A total of eight Supervisory Board meetings were held in the 2015 financial year, two of which were conducted by telephone. All Supervisory Board members were present at all meetings. In urgent cases occurring outside of the meetings, the Supervisory Board passed resolutions by written procedure.

In addition to the above, a one-day strategy meeting took place in July 2015 between the Management Board and the Supervisory Board that primarily addressed the following topics:

- the Company's strategic focus; and
- the further development of the Company's product portfolio and the related impact on the net assets and results of operations.

During the 2015 financial year, the Supervisory Board paid particular attention to the following topics and passed resolutions on these topics after thorough examination and discussion:

- the Company's achievement of the 2014 financial year targets, the corporate objectives for the 2015 financial year and setting the corporate objectives for the 2016 financial year;
- the agenda and proposed resolutions for the 2015 Annual General Meeting; specifically the nominations to the 2015 Annual General Meeting of Wendy Johnson, Klaus Kühn and Dr. Frank Morich as new candidates for the Supervisory Board;
- termination of the collaboration with Celgene Corporation to develop MOR202;
- purchase of all remaining shares in the biopharmaceutical company Lanthio Pharma B.V.;
- the conclusion of the cooperation with G7 Therapeutics AG for developing innovative antibody compounds;
- the formation of a strategic alliance in the field of immuno-oncology with Immatics Biotechnologies GmbH;
- the new resolution on the composition of the Supervisory Board and the level of female representation on the Management Board and Supervisory Board;
- review and revision of schedule of responsibilities for the Management Board; and
- the budget for the 2016 financial year.

We also passed a resolution in the Supervisory Board plenum on the remuneration of Management Board members for the period from July 1, 2015 to June 30, 2016 taking external benchmarking into consideration. We also evaluated the achievement of individual bonus targets for 2014 agreed with the members of the Management Board and dealt with the bonus targets with these members for both 2015 and 2016. We had the appropriateness of the Management Board's compensation and its comparison to the remuneration of various levels of employees confirmed by an independent remuneration consultant and discussed and adopted the key performance indicators for the long-term incentive plans for both the Management Board and the Senior Management Group.

Furthermore, we approved the financial statements for the 2014 financial year and the Management Board's proposal for the appropriation of profits. We also dealt with the Corporate Governance Report as well as the Statement on Corporate Governance.

The focus of our regular discussions in the Supervisory Board's plenary meetings were MorphoSys's revenue and earnings development, the financial reports, the progress of the two business segments Partnered Discovery and Proprietary Development, the results and progress of the clinical programs for the development of proprietary drugs, the future development strategy and the development of new technologies. In addition, we discussed the results of the efficiency review of the Supervisory Board's work carried out in 2015 by an external consultant and evaluated possibilities for improvement. Finally, we have kept ourselves regularly informed with respect to risk management, the internal control system and of the results of the internal audit.

CONFLICTS OF INTEREST IN THE SUPERVISORY BOARD

In the 2015 financial year, no conflicts of interest occurred within the Supervisory Board.

ACTIVITIES AND MEETINGS OF SUPERVISORY BOARD COMMITTEES

In order to perform its duties efficiently, the Supervisory Board has established three committees that prepare the issues falling within their respective areas of competence for the Supervisory Board plenum: the Audit Committee, the Remuneration and Nomination Committee and the Science and Technology Committee. In each Supervisory Board meeting, the committee chairs report to the Supervisory Board on the work of the committees and the minutes of the committee meetings are made available to all Supervisory Board members. The composition of these committees can be found in the "Statement on Corporate Governance," which is available on the Company's website under the heading "Media & Investors > Corporate Governance > Statement on Corporate Governance," and in the Annual Report on pages 61 to 66. All members attended all committee meetings, except for one meeting.

The **Audit Committee** met on seven occasions in the 2015 financial year (of those meeting, three were by telephone). The Committee dealt mainly with accounting issues, the quarterly reports and the financial statements and consolidated financial statements. The Committee discussed these topics with the Management Board and recommended the approval of these statements to the Supervisory Board. The auditor took part in three Audit Committee meetings and informed its members of the audit results. The Audit Committee also made a recommendation to the Supervisory Board for its proposal at the Annual General Meeting for the election of the independent auditor. The Committee deliberated on the risk management system and the results of the internal audit carried out in the 2015 financial year. The Committee regularly advised on the Company's cash investment policy and the investment recommendations of the Management Board. Additionally, the Committee was informed of improvements in IT security.

For efficiency reasons, there is a common **Remuneration and Nomination Committee**, which meets in its respective role. This Committee met on five occasions in the 2015 financial year (including twice by telephone) and, in its function as Remuneration Committee, mainly dealt with the Management Board's remuneration system and the level of the Management Board's compensation. In this context, the Committee also commissioned an independent remuneration expert with the task of preparing a Management Board remuneration report to verify the appropriateness of the Management Board's remuneration. Based on this report, the Committee prepared a recommendation as to the future structure of the Management Board's compensation and submitted this to the Supervisory Board for approval. The Committee also dealt with the ratio of compensation between the Management Board and the Senior Management Group and the staff overall and had this ratio reviewed by the commissioned remuneration expert. This expert confirmed the appropriateness of the "vertical" compensation ratios. The Committee also dealt with the individual bonus targets of the Management Board members and the Company's targets and offered recommendations to the Supervisory Board for approval. The Committee discussed the key performance indicators for the Management Board's and Senior Management Group's long-term incentive plans. In its function as Nomination Committee, the Committee dealt with the preparations for the required election of all Supervisory Board members in the context of the 2015 Annual General Meeting. In coordination with the Supervisory Board, the Committee prepared the required profiles for the Supervisory Board candidates up for election, conducted the corresponding interviews with the Supervisory Board candidates and submitted its recommendation to the Supervisory Board for its proposals to the Annual General Meeting for the election of Supervisory Board members. In this context, the Committee commissioned a personnel consulting firm for professional support in the Committee's search for suitable new Supervisory Board candidates.

The **Science and Technology Committee** met on eight occasions during the 2015 financial year (three of these meetings were by telephone). This Committee dealt mainly with the progress and expansion of the Company's portfolio, the development of new technologies and the Company's drug development plans including the required budget resources. The discussions focused on the start of new development programs, the results of ongoing clinical studies for the development of proprietary drug candidates, development plans for current and planned clinical studies as well as the development strategy. The Committee addressed the production of clinical trial materials for the Company's proprietary drug candidates, the competitive and patent situations of the Company's proprietary product candidates and discussed the Management Board's recommendations on strengthening the portfolio.

CORPORATE GOVERNANCE

The Supervisory Board dealt with the further development of MorphoSys's corporate governance keeping in mind the amendments made in the Code in May 2015 by the Government Commission German Corporate Governance Code. The detailed Corporate Government Report, including the Corporate Governance Statement according to Sec. 289a HGB (German Commercial Code), may be found on the Company's website under the heading "Media & Investors > Corporate Governance > Corporate Governance Report" and can also be found in the Annual Report on pages 61 – 82.

We also discussed with the Management Board the Company's compliance with the Code's recommendations and, in justified cases, approved a few exceptions to the Code's recommendations. Based on this consultation, the Management Board and the Supervisory Board submitted the annual Declaration of Conformity on December 3, 2015. The current version of the annual Declaration of Conformity can be found in this Annual Report and is permanently available to MorphoSys's shareholders on the Company's website under the heading "Media & Investors > Corporate Governance > Declaration of Conformity."

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no changes in the composition of the Management Board in the reporting period.

The changes made to the Supervisory Board's composition during the reporting period are listed below. The terms of office of all Supervisory Board members ended with the conclusion of the 2015 Annual General Meeting. Supervisory Board members Dr. Geoffrey Vernon, Dr. Daniel Camus and Dr. Walter Blättler departed from the Supervisory Board at the conclusion of the 2015 Annual General Meeting. Newly appointed in their place were Dr. Frank Morich, Klaus Kühn and Wendy Johnson. The Supervisory Board members Dr. Gerald Möller, Dr. Marc Cluzel and Karin Eastham were up for reappointment and were reappointed to the Supervisory Board at the Annual General Meeting. In its constituent meeting following the 2015 Annual General Meeting, Dr. Gerald Möller was reappointed as chairman of the Supervisory Board and Dr. Frank Morich was appointed as deputy chairman of the Supervisory Board.

AUDIT OF THE FINANCIAL STATEMENTS

For the 2015 financial year, the Company commissioned PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich ("PwC") as its auditor. The audit contract was awarded by the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 8, 2015. In accordance with Item 7.2.1 of the Code, the Supervisory Board obtained a declaration of independence from the auditor in advance.

The financial statements and the consolidated financial statements of MorphoSys AG, as well as the Management Report and Group Management Report for the 2015 financial year were properly audited by PwC and issued with an unqualified Auditor's Report. The key topics of the audit for the consolidated and separate financial statements for the 2015 financial year were the presentation and valuation of cash investments, the valuation of the carrying amounts of goodwill and intangible assets with indefinite useful lives, the presentation and valuation of the stock option programs, the calculation of current and deferred taxes, the revenue recognition and the completeness and accuracy of the Notes.

In addition, the auditor confirmed that the Management Board has established an appropriate reporting and monitoring system that is suitable in terms of its design and administration for the early detection of developments that could threaten the Company's existence.

The audit reports and documents relating to the financial statements and consolidated financial statements were provided on a timely basis to all Supervisory Board members for review. The audit report, the consolidated financial statements and the Management Report of the MorphoSys Group were discussed in detail at the Audit Committee meeting on February 24, 2016 and the subsequent meeting of the Supervisory Board on the same day. The audit report, the financial statements and the Management Report of MorphoSys AG were discussed in detail at the Audit Committee meeting on March 16, 2016 and the subsequent meeting of the Supervisory Board on the same day. The auditor attended all meetings concerning the financial statements and reported on the key results of his audit. He also explained the scope and focus of the audit and was available to both the Audit Committee and the Supervisory Board to answer questions and provide further information.

The Audit Committee discussed the audit results in detail and recommended to the Supervisory Board that it approve the financial statements prepared by the Management Board. The Supervisory Board also took note of the audit results and, in turn, reviewed the financial statements and management reports in accordance with the statutory provisions. Following its own examination, the Supervisory Board also determined that it sees no cause for objection. The financial statements and consolidated financial statements prepared by the Management Board and reviewed by the auditor, as well as the Management Report and Group Management Report, were subsequently approved by the Supervisory Board. Thus, the financial statements were adopted. The Supervisory Board also reviewed the Management Board's proposal for the appropriation of profits and agreed to this proposal.

RECOGNITION FOR DEDICATED SERVICE

On behalf of the entire Supervisory Board, I would like to thank the members of the Management Board and the employees of MorphoSys for their achievements, their dedicated service and the inspirational work environment witnessed during this past financial year. Through their efforts, MorphoSys's portfolio has continued to mature and expand, and important milestones have been achieved.

The Supervisory Board would also like to thank our longstanding Supervisory Board members Dr. Geoffrey Vernon, Dr. Daniel Camus and Dr. Walter Blättler, whose term of office ended in 2015, for their dedication and constructive cooperation.

Martinsried/Planegg, March 16, 2016
Dr. Gerald Möller
Chairman of the Supervisory Board

Supervisory Board of MorphoSys AG

DR. GERALD MÖLLER
Chairman
Heidelberg, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
- 4sigma, Inc.*, Bermuda
  (Chairman of the Board of Directors)
- Adrenomed AG, Germany
  (Member of the Supervisory Board)
- Ayoxxa Biosystems GmbH*, Germany
  (Chairman of the Advisory Board)
- Genticel SA*, France
  (Deputy Chairman of the Supervisory Board)
- Invendo Medical GmbH*, Germany
  (Chairman of the Advisory Board)

DR. FRANK MORICH
Deputy Chairman
Berlin, Germany

NO OTHER SUPERVISORY BOARD MEMBERSHIPS

DR. MARC CLUZEL
Board Member
Montpellier, France

MEMBER OF THE SUPERVISORY BOARD OF:
- Moleac Pte. Ltd.*, Singapore
  (Member of the Board of Directors)

* Membership in comparable domestic and foreign supervisory boards of commercial enterprises

KARIN EASTHAM
Board Member
Rancho Santa Fe, CA, USA

MEMBER OF THE SUPERVISORY BOARD OF:
- Geron Corp.*, USA
  (Member of the Board of Directors)
- Illumina, Inc.*, USA
  (Member of the Board of Directors)
- Veracyte, Inc.*, USA
  (Member of the Board of Directors)

WENDY JOHNSON
Board Member
San Diego, CA, USA

MEMBER OF THE SUPERVISORY BOARD OF:
- AmpliPhi Biosciences Corp.*, USA
  (Member of the Board of Directors)

KLAUS KÜHN
Board Member
Grevenbroich, Germany

MEMBER OF THE SUPERVISORY BOARD OF:
- Flossbach von Storch AG, Germany
  (Chairman of the Supervisory Board)
- Hella KGaA Hueck & Co.*, Germany
  (Member of the Supervisory Board, Member of the Shareholders' Committee)

Senior Management Group of MorphoSys AG

SASCHA ALILOVIC
Head of Corporate Finance & Corporate Development

MARTIN CLARK
Head of Central Purchasing & Logistics

KLAUS DE WALL
Head of Accounting & Tax

SILVIA DERMIETZEL
Head of Human Resources

DR. GABRIELE ELBL
Head of Regulatory Affairs

DR. MARKUS ENZELBERGER
Head of Discovery Alliances & Technologies

DR. CLAUDIA GUTJAHR-LÖSER
Head of Corporate Communications & Investor Relations

DR. STEFFEN HEEGER
Head of Clinical Development

DR. BERND HUTTER
Head of Intellectual Property

DR. BARBARA KREBS-POHL
Head of Business Development

DR. MARKUS LANG
Head of Project Management

CHARLOTTE LOHMANN
General Counsel

DR. RALF OSTENDORP
Head of Protein Sciences & CMC

STEFFEN POHLENZ
Head of IT

LARA SMITH WEBER
Head of Controlling

DR. STEFAN STEIDL
Head of Preclinical Development

DR. HARALD WATZKA
Head of Alliance Management

DR. ARMIN WEIDMANN
Head of Compliance & Quality Assurance

DR. DOMINIKA WEINELT
Head of Drug Safety & Pharmacovigilance

DR. GÜNTER WELLNHOFER
Head of Technical Operations

Glossary

A

ADC – *Antibody drug conjugate; a tumor growth-inhibiting substance (cytostatic) that is coupled to an antibody to attack tumors in an even more targeted manner*

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

ADCP – *Antibody-dependent cellular phagocytosis*

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

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

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

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

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

B

B-ALL – *Acute lymphoblastic B cell leukemia, blood cancer affecting white blood cells, subform of* ›› ALL

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

Bispecific – *Antibody consisting of parts from two different antibodies*

C

CAR-T technology – *New therapeutic approach in which immune cells are reprogrammed*

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

CD3 – *Surface antigen on T cells*

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

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

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

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

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

COPD – *Chronic obstructive pulmonary disease*

CRO – *Contract research organization*

D

Diabetic nephropathy – *Kidney disease due to diabetes mellitus*

Discounted cash flow model – *Method of valuing assets, especially for due diligence*

DLBCL – *Diffuse large B cell lymphoma, a subform of* ›› NHL

E

EGFR – *Epidermal growth factor receptor; cell-surface receptor for members of the epidermal growth factor family (EGF-family) of extracellular protein ligands; the epidermal growth factor receptor is a receptor tyrosine kinase*

EMA – *European Medicines Agency*

ESCC – ›› SQUAMOUS-CELL CARCINOMA*; malignant skin or mucous tumor*

F

Fab format – *The antigen binding fragment of the antibody*

Fc part – *Constant part of an antibody known as the Fc (fragment, crystallizable) region*

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

FL – *Follicular lymphoma, a subform of* ›› NHL

G

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

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

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

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

GPCR – *G protein-coupled receptor; receptors in the cell membrane that transfers signals to the cell interior*

H

HER3 – *Human epidermal growth factor receptor 3; member of the epidermal growth factor receptor (EGFR/ERBB) family of receptor tyrosine kinases*

HuCAL – *Human Combinatorial Antibody Library; proprietary antibody library enabling rapid generation of specific human antibodies for all applications*

Human – *Of human origin*

I

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

Immuno-oncology – *New class of compounds that stimulate the immune system to attack tumors*

Inclusion body myositis – *Inflammatory muscle disease (›› sIBM)*

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

L

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

M

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

MCL – *Mantle cell lymphoma, a subform of ›› NHL*

mCRPC – *Metastatic castration-resistant prostate cancer*

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

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

N

Nasdaq Biotech Index – *Stock market index made up of biotechnological or pharmaceutical companies listed at the US stock exchange NASDAQ*

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

NK cells – *Natural killer cells of the body's immune system; cells capable of recognizing and killing abnormal cells, e.g. tumor cells*

P

Pediatric study – *A study conducted in the area of children and adolescent medicine*

Pharmacodynamics – *Study of the effects of drugs on the body*

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

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

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

Psoriasis – *A chronic, non-contagious autoimmune disease which affects the skin and joints*

R

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

Richter's transformation – *the (often rapid) transition of chronic lymphatic leukemia (›› CLL) in a higher malignant, diffuse form*

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

S

Scaffolds – *Proteins with antibody-like capabilities*

sIBM – *Sporadic ›› inclusion body myositis, inflammatory muscle disease*

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

Small molecules – *Low molecular compounds*

SOP system – *SOP = standard operating procedure*

Squamous-cell carcinoma – *malignant skin or mucous tumor*

T

Target – *Target molecule for therapeutic intervention, e.g. on the surface of diseased cells*

Target molecule selectivity – *Criteria to describe to what degree an antibody binds to other structures besides its target molecule*

Target product profile (TPP) – *Summary of specifications on a planned therapeutic product*

T cells – *An abbreviation for T-lymphocytes; a subtype of white blood cells that together with B-lymphocytes are responsible for the body's immune defense*

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

Toxicity – *Poisonousness*

Y

Ylanthia – *The novel next-generation antibody platform of MorphoSys*

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Key Figures (IFRS)

MorphoSys Group (in million €, if not stated otherwise)

	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06
RESULTS[1]										
Revenues	**106.2**	64.0	78.0	51.9	82.1	87.0	81.0	71.6	62.0	53.0
Cost of Goods Sold	**0.0**	0.0	0.0	0.0	0.0	7.3	6.7	7.1	7.9	8.0
R&D Expenses	**78.7**	56.0	49.2	37.7	55.9	46.9	39.0	27.6	22.2	17.5
SG&A Expenses	**15.1**	14.1	18.8	12.1	14.9	23.2	23.9	20.5	24.8	21.4
Personnel Expenses (Excluding Stock-Based Compensation)	**32.4**	26.7	27.4	24.1	27.7	29.6	26.1	21.5	18.8	18.1
Capital Expenditure	**8.8**	20.5	5.6	1.8	2.9	13.8	3.8	3.8	12.0	4.0
Depreciation of Tangible Assets	**1.5**	1.4	1.5	1.7	1.7	2.1	1.6	1.5	1.5	1.5
Amortization of Intangible Assets	**1.9**	2.7	3.3	3.5	3.8	4.0	3.8	4.8	3.7	3.4
EBIT	**17.2**	(5.9)	9.9	2.5	9.8	13.1	12.8	16.5	8.3	5.4
Net Profit/(Loss)	**14.9**	(3.0)	13.3	1.9	8.2	9.2	9.0	13.2	11.5	6.0
Net Profit/(Loss) from Discontinued Operations	**–**	–	6.0	(0.4)	0.0	–	–	–	–	–
BALANCE SHEET										
Total Assets	**400.1**	426.5	447.7	224.3	228.4	209.8	206.1	203.3	184.7	127.8
Cash, Marketable Securities and Other Financial Assets	**298.4**	352.8	390.7	135.7	134.4	108.4	135.1	137.9	106.9	66.0
Intangible Assets	**79.6**	46.0	35.1	35.0	66.0	69.2	17.4	19.7	22.3	14.8
Total Liabilities	**37.3**	77.7	95.5	22.3	31.3	23.9	32.2	41.3	39.2	27.8
Stockholders' Equity	**362.7**	348.8	352.1	202.0	197.1	185.9	173.9	162.0	145.5	100.1
Equity Ratio (in %)	**91%**	82%	79%	90%	86%	89%	84%	80%	79%	78%
MORPHOSYS SHARE										
Number of Shares Issued	**26,537,682**	26,456,834	26,220,882	23,358,228	23,112,167	22,890,252	22,660,557	22,478,787	22,160,259	20,145,966
Group Earnings/(Loss) per Share, Diluted (in €)	**0.57**	(0.12)	0.54	0.08	0.36	0.4	0.4	0.59	0.53	0.31
Dividend (in €)	**–**	–	–	–	–	–	–	–	–	–
Share Price (in €)	**57.65**	76.63	55.85	29.3	17.53	18.53	17.04	18.75	16.1	18.12
PERSONNEL DATA										
Total Group Employees (Number[2])	**365**	329	299	421	446	464	404	334	295	279

1 Due to the agreement between Bio-Rad and MorphoSys, signed in December 2012, to acquire substantially all of the AbD Serotec segment, for the years 2013, 2012 and 2011, revenues, income and expenses in connection with the transaction are shown in the line item "Net Profit/(Loss) from Discontinued Operations." All other line items consist of amounts from continuing operations.

2 2005 to 2012 including employees from the discontinued operations of AbD Serotec.

Financial Calendar 2016

2 March
PUBLICATION OF 2015
YEAR-END RESULTS

3 May
PUBLICATION OF 2016
THREE MONTHS' REPORT

2 June
2016 ANNUAL GENERAL
MEETING IN MUNICH

1 August
PUBLICATION OF 2016
SIX MONTHS' REPORT

7 November
PUBLICATION OF 2016
NINE MONTHS' REPORT

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