

**Written report of the Management Board on Agenda Item 10 in accordance with section 221 para. 4 sentence 2 in conjunction with section 186 para. 4 sentence 2 AktG**

By resolution of the Annual General Meeting on June 2, 2016, Conditional Capital 2016-I in the amount of 5,307,536.00 € was created in accordance with Article 5 para. 6b of the Company's Articles of Association. The related authorization to issue bonds with conversion or warrant rights to shares in the Company expires on April 30, 2021. In order to maintain the Company's statutory options for raising capital in the future, a new authorization to issue bonds with conversion or warrant rights to shares in the Company and a new Conditional Capital 2021-I are to be created.

**1. Report on the issue of convertible bonds**

The Company issued bonds on October 16, 2020 based on the authorization granted by the Annual General Meeting on June 2, 2016.

Specifically, on October 13, 2020, the Company resolved to issue convertible bonds in the total amount of 325,000,000.00 € with an interest coupon of 0.625 % per annum and a regular term until October 16, 2025, based on the authorization granted by the Annual General Meeting on June 2, 2016 under Agenda Item 7. The convertible bonds were issued on October 16, 2020. The convertible bonds can be converted at a conversion price of 131.29 € per share, subject to an adjustment of the conversion price in accordance with the bond terms and conditions. The issue of the convertible bonds is based on Conditional Capital 2016-I in accordance with Article 5 para. 6b of the Company's Articles of Association. The subscription rights of the Company's shareholders to subscribe for the convertible bonds have been excluded.

**2. Creation of new Conditional Capital 2021-I and authorization to issue convertible bonds or bonds with warrants and related benefits for the Company**

The proposed creation of new Conditional Capital 2021-I and the authorization to issue convertible bonds and bonds with warrants (collectively "**bonds**") is intended to facilitate the issue of bonds on as favorable terms as possible and in the Company's interest while fully meeting the requirements of the capital markets. This will ensure the Company's sufficient

## ***Convenience translation only***

capitalization, which is essential for its business development in the cost-intensive field of biotechnology. By issuing bonds, the Company is able to take advantage of attractive financing opportunities to raise debt capital at favorable interest rates, depending on the market situation. The granting of conversion or warrant rights or conversion obligations provides the Company with the additional opportunity of retaining part of the funds raised by issuing bonds as equity. The proposed authorization provides for the issue of bonds with conversion or warrant rights or conversion obligations to shares in MorphoSys AG, with the consent of the Supervisory Board, in an amount of up to 650 million €.

In the area of these so-called hybrid financing instruments, financing forms that also provide for an unlimited term are now common. The authorization therefore provides for the possibility of issuing bonds that do not contain a maturity limit. The authorization also gives the Company the necessary flexibility to place the bonds itself or via direct or indirect majority shareholdings. Bonds may also be issued in currencies other than the euro.

The authorization is limited until and including the date of May 18, 2026. A new Conditional Capital 2021-I is to be created for the shares that may be issued to fulfill this authorization. The further details of the bonds are to be determined in each case by the Management Board with the consent of the Supervisory Board.

The authorization to issue bonds granted by the Annual General Meeting on June 2, 2016 expires on April 30, 2021. The previous Conditional Capital 2016-I provided for this expired authorization can therefore be partially canceled to the extent that it is not still used to service convertible bonds issued on October 16, 2020.

The notional interest in the share capital represented by the new shares to be subscribed for per bond may not exceed the nominal amount of the respective bond or an issue price of the respective bond that is lower than the nominal amount.

The conversion or warrant price for one share to be set in each case or to be determined within a range to be specified on the basis of future stock exchange prices must correspond to at least 80 % of the average of the closing prices on the five Xetra trading days prior to the decision of the Management Board to issue the bond. If shareholders are granted a subscription right to the bond and this subscription right is traded on the Frankfurt Stock Exchange, the closing prices of the MorphoSys AG share on the days of subscription rights trading, with the exception of the last two trading days of subscription rights trading, shall be

## ***Convenience translation only***

used to determine the average closing price. Sections 9 para. 1 and 199 para. 2 AktG remain unaffected.

### **3. Exclusion of subscription rights**

In principle, the shareholders of the Company have a subscription right to newly issued bonds in a number corresponding to their respective previous participation in the share capital of the Company. In this context, the bonds are generally to be underwritten by at least one credit institution or at least one company operating in accordance with section 53 para. 1 sentence 1 or section 53b para. 1 sentence 1 or para. 7 KWG with the obligation to offer them to the shareholders for subscription. This serves to facilitate settlement and is not to be regarded as an exclusion of subscription rights, as shareholders are granted an indirect subscription right to the bonds.

The proposed resolution provides for an authorization to exclude this subscription right, which generally exists when bonds are issued, for certain purposes specified in detail in the proposed resolution in accordance with the relevant statutory provisions. In the view of the Management Board and the Supervisory Board, this authorization to exclude shareholders' subscription rights is objectively justified, taking into account all the circumstances, for the reasons explained below and is appropriate for the shareholders.

- a) Above all, the Management Board and Supervisory Board are to be authorized to issue bonds excluding shareholders' subscription rights, provided that the new shares to be issued on the basis of the conversion or warrant rights do not exceed a total of 10 % of the Company's share capital, either at the time this authorization takes effect or at the time it is exercised. This allows the Company to take advantage of favorable stock market situations at short notice and to achieve the best possible terms for the bond issue by setting the conditions close to the market.

This is not possible if the subscription right is maintained because the length of the subscription period restricts the ability to respond to market conditions at short notice. Uncertainty about the exercise of subscription rights may also impair the successful placement of the bonds with third parties. In addition, in the case of rights issues, a not inconsiderable security discount is generally required in order to ensure the attractiveness of the issue. Furthermore, the exclusion of subscription rights provides the Company with the opportunity to further broaden its shareholder base to include international investors.

## ***Convenience translation only***

The legal basis for this exclusion of subscription rights is provided by sections 221 para. 4 sentence 2 and 186 para. 3 sentence 4 AktG. The purpose of these standards is to protect shareholders from an unacceptable dilution of their shareholdings. Whether such a dilution effect occurs can be calculated. The hypothetical stock market price of the bond can be determined using the Black/Scholes model or other recognized financial mathematical methods, which then also determines any dilution effect by comparison with the issue price. According to the authorization, the issue price may not be significantly lower than the theoretical market value calculated using recognized financial mathematical methods. This means that the calculated market value of a subscription right will be virtually zero, so that shareholders cannot suffer any significant economic disadvantage as a result of the exclusion of subscription rights. This also safeguards the interests of the shareholders. Shareholders also have the opportunity to maintain their share in the Company's share capital at approximately the same conditions by purchasing shares on the stock exchange. In this way, their pecuniary interests are adequately taken into account. Nothing therefore applies other than in the case of a capital increase with exclusion of subscription rights pursuant to section 186 para. 3 sentence 4 AktG.

When setting the price, the Management Board and Supervisory Board will keep the discount to the market value as low as possible while taking the respective capital market environment into account and guarantee protection against dilution. In doing so, the Management Board will seek expert advice and, if necessary, use the support of experts. Such support may be received by obtaining an expert opinion from an investment bank or auditing firm on the question of dilution.

In the interest of shareholders in minimizing dilution, the Management Board and Supervisory Board will include the following shares in the limit of 10 % of the share capital provided for in the authorization:

- shares issued during the term of this authorization, excluding shareholders' subscription rights, in accordance with or by mutatis mutandis application of section 186 para. 3 sentence 4 AktG and
- shares issued or to be issued to service bonds with conversion or warrant rights on the basis of other authorizations, insofar as and to the extent that the bonds are issued excluding shareholders' subscription rights during the term of these

**Convenience translation only**

authorizations in mutatis mutandis application of section 186 para. 3 sentence 4 AktG.

The maximum limit reduced in accordance with the above sentences of this paragraph shall be increased again when a new authorization to exclude shareholders' subscription rights resolved by the Annual General Meeting takes effect in accordance with section 186 para. 3 sentence 4 AktG after the reduction, in the amount of the new authorization, up to a maximum of 10 % of the share capital in accordance with the requirements of this subsection.

- b) The proposed authorization to exclude subscription rights for the utilization of fractional amounts makes it possible to present a practicable subscription ratio. Otherwise, particularly in the case of the issue of bonds with round amounts, the handling of the capital measure would be more difficult. Fractional amounts arise if, as a result of the subscription ratio and the amount of the issue, not all new bonds can be issued equally to the shareholders. The costs of trading subscription rights for fractional amounts are disproportionate to the benefit to shareholders. The bonds free of subscription rights created by the exclusion of subscription rights for fractional amounts will be realized in the best possible way for the Company by sale on the stock exchange (if possible) or in some other way. The possible dilution effect is low due to the restriction to fractional amounts.
- c) The authorization to exclude subscription rights in favor of the holders of conversion or warrant rights serves the purpose of not having to reduce the warrant or conversion price for the warrant and conversion rights already issued or to make an additional cash payment. Instead, it should be possible to grant the holders of such rights a subscription right to the new bonds to the extent to which they would be entitled after exercising their rights in order to ensure their protection against dilution. It is common practice to provide bonds with such protection against dilution.

The authorizations to exclude subscription rights contained in the above paragraphs are limited to a total amount that does not exceed 10 % of the share capital calculated either at the time this authorization takes effect or at the time this authorization is exercised, based on whichever amount is lower. The aforementioned 10 % limit shall include treasury shares sold with the exclusion of subscription rights during the term of this authorization and shares issued with the exclusion of subscription rights during the term of this authorization, provided that these shares do not serve to service claims of board members and/or employees of the

## ***Convenience translation only***

Company and/or its affiliated companies from employee participation programs. Furthermore, the limit shall include shares to be issued to service convertible bonds and/or bonds with warrants if these convertible bonds and/or bonds with warrants were issued on the basis of another authorization pursuant to section 221 para. 2 AktG during the term of this authorization under exclusion of subscription rights, insofar as the shares also do not serve to service claims of board members and/or employees of the Company and/or its affiliated companies from employee participation programs. The maximum limit reduced in accordance with the above sentences of this paragraph shall be increased again when a new authorization to exclude shareholders' subscription rights resolved by the Annual General Meeting takes effect after the reduction, in the amount of the new authorization, up to a maximum of 10 % of the share capital in accordance with the requirements of sentence 1 of this paragraph.

All conditional and authorized capital of the Company, also taking into account the further resolutions proposed in this context to the Annual General Meeting on May 19, 2021 and including the amount of Authorized Capital 2021-I of up to 4,861,376.00 €, and the corresponding number of up to 4,861,376 new shares, together correspond to a proportion of 50 % of the current share capital.

Conditional Capital 2021-I is required to service the conversion or warrant rights associated with the bonds. The amount of Conditional Capital 2021-I, also in conjunction with the other conditional capital of the Company which continues to exist, does not exceed the statutory maximum limits pursuant to section 192 para. 3 sentence 1 AktG.

The conversion or warrant price for a new share shall be determined by the Management Board with the consent of the Supervisory Board, taking into account the market conditions at the time the bonds are issued, and may not be set below 80 % of the reference price defined in the authorization (see above, Agenda Item 10 a)).

#### **4. Utilization of Conditional Capital 2021-I**

The Management Board will report to the Annual General Meeting on each utilization of Conditional Capital 2021-I.

Planegg, March 26, 2021

***Convenience translation only***

MorphoSys AG

The Management Board

Jean-Paul Kress, M.D.  
Chief Executive Officer

Sung Lee  
Chief Financial Officer

Malte Peters, M.D.  
Chief Research and Development Officer

Roland Wandeler, Ph.D.  
Chief Operating Officer