

Letter to the Shareholders

Dear Shareholders,

The year 2012 was one of the most successful in the history of MorphoSys. Major advances in the development of several programs in our clinical pipeline were the decisive events of the year. The positive reaction of our share price illustrates the importance of these programs for the Company's value proposition. Our long-term strategy of using innovative technology to engineer the medicines of tomorrow is paying off as momentum builds in the pipeline. For this reason we decided to divest AbD Serotec, the diagnostic and research antibody unit, in order to focus MorphoSys on the huge opportunities we have in the therapeutic segment of our business.

We have made remarkable progress with our proprietary drug portfolio. The positive outcome of the phase 1b/2a trial of MOR103 in rheumatoid arthritis provides a solid foundation for out-licensing the product, while the quality of the clinical data is a testament to our research and development capabilities. We are continuing to develop our other proprietary clinical candidates MOR208 and MOR202 at full speed and also aim to expand our proprietary portfolio.

Recent progress in the partnered portion of our pipeline has also been very encouraging. In particular, interest in the HuCAL antibody gantenerumab, being developed by Roche for Alzheimer's disease, increased significantly in 2012. Alzheimer's is one of the greatest medical challenges faced by society today, so an effective treatment would have blockbuster potential. Clinical data from other programs suggest that Roche's strategy of intervening early in the clinical progression of Alzheimer's is one of the most promising therapeutic approaches to the disease. While gantenerumab is the first HuCAL antibody to progress to a potentially pivotal phase 2/3 study, there are a further nine partner programs currently in phase 2 development.

Regarding technology, we aim to enhance our position as an originator of the most advanced platforms for the development of therapeutic antibodies. The latest advance in this area is our antibody library Ylanthia, which we began commercializing in the fourth quarter of 2012. It was in our interest to begin this next phase of growth with our biggest partner, Novartis. This collaboration, which will continue at least until 2017, has generated six clinical candidates so far and will continue to contribute to our pipeline of therapeutic antibodies. We are convinced that we can make the collaboration even more productive using the latest technologies. It was equally important that we should have the flexibility to partner Ylanthia further and we have also ensured this.

Our ability to construct high quality protein libraries and use these in drug development creates opportunities with molecules other than antibodies. This is behind our partnership with the start-up company Lanthio Pharma, our first venture beyond antibodies into a new molecular class. Lanthio Pharma's lantipeptides comprise an exciting class of compounds whose applications could complement those of antibodies, thereby expanding our therapeutic reach. The cooperation with Lanthio Pharma is also associated with another new aspect for MorphoSys, namely the minority equity stake we have taken in the company.

The AbD Serotec segment was established to complement our therapeutics activities by commercializing antibodies in the research and diagnostics markets. As our drug pipeline advanced, it became clear that opportunities to generate value for our shareholders through enhanced efforts in the therapeutic field substantially exceed the potential in research and diagnostics. The time was therefore right to separate the two business areas. The sale of AbD Serotec to Bio-Rad for a total consideration of EUR 53 million, which we announced at the end of 2012, provided a financially attractive opportunity for us to adopt a pure focus on therapeutics. At the same time, our former colleagues at AbD Serotec become part of an international research and diagnostics group which will benefit from their experience and know-how.

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In the past year, MorphoSys was again able to invest significantly in proprietary research and development while remaining profitable. Financial stability, based on cash and cash equivalents of currently more than EUR 180 million together with a cash-generating partner business continues to be one of the greatest strengths of our company. Cash provides us with great strategic flexibility as we consider further transactions such as acquisition, equity participation and other deals as a means of accessing new drug candidates and technologies. We will also invest, as necessary, to generate the maximum possible value from our portfolio of drug candidates.

Overall, 2012 was a landmark year for MorphoSys and 2013 could be even more exciting. The out-licensing of proprietary drug candidates such as MOR103 will be an important factor that will drive the company’s financial performance in the years to come. Now, more than ever, we are committed to building a company that is focused on drug development and built on a foundation of innovative technology.

Our success is only possible thanks to the hard work, loyalty and creativity of our employees, to whom I would like to express my sincerest thanks. I would also like to thank you, our shareholders, for your continued support. Together with you, I wish our company a successful 2013.



Dr. Simon E. Moroney
Chief Executive Officer