

Management Board of MorphoSys AG

Letter to the Shareholders

Dear Shareholders,

It's a great pleasure for me to introduce this report following another stellar year for MorphoSys. Once again, the Company's progress is based on our success in building a valuable drug pipeline. Our product pipeline is larger and more mature than ever, now comprising 94 programs in around 60 clinical trials, with three of our antibodies in phase 3 development and 10 in phase 2. First product approvals are getting nearer. Most importantly, the Company is in an excellent position to create substantial value in the years to come.

The lion's share of our R&D investment goes into our proprietary development programs. Here we made excellent progress in 2014, not least with MOR208. This antibody, which is being developed to treat B-cell malignancies, hit important regulatory and clinical milestones during the year. Clinical data from our trials in CLL and NHL showed that this antibody has clear therapeutic activity and the potential to make a real difference for patients. Receiving fast-track designation from the FDA for the indication DLBCL was a highlight in 2014 and will enable us to accelerate development in this under-served indication.



In August, we added another very innovative molecule – MOR209/ES414 – to our portfolio when we entered a co-development and co-commercialization agreement with Emergent BioSolutions. The agreement is another step on our path to establishing a future commercial portfolio, as we secured sole rights to the program outside of North America. Combined with our other programs in formal development, MOR103, MOR202 and MOR106, this adds up to an attractive portfolio.

As our clinical programs advance, we are not neglecting our earlier portfolio, which is an essential component of ensuring that our business is sustainable. In the field of oncology, we entered an alliance with a new partner, Merck Serono, to co-develop antibodies against selected “checkpoint” targets. This collaboration increases our involvement in this new and rapidly growing area of cancer research.

Our agreement with Temple University is aimed at increasing our access to early target discovery. We look forward to harvesting the fruits of this and other research relationships in the years to come.

Our proprietary R&D is aimed at building a valuable portfolio of new therapeutic agents for unmet medical needs. The resulting therapeutic programs represent the tip of a very large iceberg of drug candidates currently in development. Amongst these are a number of very promising partnered programs in advanced development, two of which are nearing the market.

The program that generated the most attention in 2014 was guselkumab, an HuCAL antibody being developed by Janssen, for which positive phase 2b data was reported, and which is now the subject of five phase 3 trials for psoriasis.

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A second antibody in late-stage development, Novartis's bimagrumab, could become the first therapeutic HuCAL antibody on the market, depending on the outcome of the ongoing trial in sporadic inclusion body myositis.

Towards the end of the year, we were reminded of the uncertainty of drug development when a phase 3 trial of Roche's gantenerumab in prodromal Alzheimer's patients was stopped for lack of efficacy. Two late-stage trials are continuing, however, including a 1,000-patient trial in mild Alzheimer's patients that Roche initiated at the beginning of 2014. Risk in drug development is best mitigated by having a broad pipeline, which we have, and which is a truly distinguishing feature of MorphoSys.

Our financial soundness, based on a healthy balance sheet as well as revenues secured through long-term partnerships, continues to be one of MorphoSys's key strengths. This gives us the ability to invest in developing innovative products, expanding, enriching and diversifying our portfolio. This is essential if we are to continue to build the Company's value.

For the third year in a row, our investors enjoyed a strong share price performance. Even with a dip at year-end, the MorphoSys share price increased by 37% in 2014. Increasingly, the performance of our share price reflects progress in the pipeline rather than obvious financial parameters, as is to be expected for a development-stage biopharmaceutical company.



Armed with industry-leading technology, a full product pipeline and a great team, we look forward with confidence. Our most advanced proprietary program, MOR208, will be the main focus of our proprietary R&D investment in 2015. The results we've seen in the clinic so far justify our ambitious plans for this exciting drug candidate. The fast track designation we received from the FDA in 2014 will help shorten the time to market. We also look forward to clinical data from some of our partnered programs, most notably the pivotal trial of bimagrumab in sporadic inclusion body myositis as well as phase 2 read-outs from four other programs.

Success does not just happen: it is the result of the efforts of employees who are creative, dedicated and hard-working. MorphoSys is very fortunate in having such employees, to whom I would like to extend my deepest thanks for their hard work on the behalf of all of our stakeholders - colleagues, 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 2015.

Dr. Simon Moroney
Chief Executive Officer