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# Consolidated Statement of Income (IFRS)

| in € | Note | 2017 | 2016 |
|---|---|---|---|
| Revenues | 2.7.1, 4.1 | 66,790,840 | 49,743,515 |
| Operating Expenses | | | |
| Research and Development | 2.7.2, 4.2.1 | (116,808,575) | (95,723,069) |
| General and Administrative | 2.7.2, 4.2.2 | (17,038,720) | (14,116,085) |
| Total Operating Expenses | | (133,847,295) | (109,839,154) |
| Other Income | 2.7.3, 4.3 | 1,119,598 | 708,571 |
| Other Expenses | 2.7.4, 4.3 | (1,670,792) | (553,925) |
| Earnings before Interest and Taxes (EBIT) | 3 | (67,607,649) | (59,940,993) |
| Finance Income | 2.7.5, 4.3 | 712,397 | 1,385,164 |
| Finance Expenses | 2.7.6, 4.3 | (1,894,852) | (1,308,322) |
| Income Tax Expenses | 2.7.7, 4.4 | (1,036,365) | (518,625) |
| Consolidated Net Loss | | (69,826,469) | (60,382,776) |
| Earnings per Share, basic and diluted | 2.7.8, 4.5 | (2.41) | (2.28) |
| Shares Used in Computing Earnings per Share, basic and diluted | 2.7.8, 4.5 | 28,947,566 | 26,443,415 |

The notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income (IFRS)*

| in € | 2017 | 2016 |
|---|---|---|
| Consolidated Net Loss | (69,826,469) | (60,382,776) |
| Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds (Thereof € 86,685 and € 251,455 for 2017 and 2016, respectively, Reclassifications of realized Gains and Losses to Profit and Loss) | 54,170 | 115,396 |
| Change of Tax Effects presented in Other Comprehensive Income on Available-for-sale Financial Assets and Bonds | 63,659 | (136,550) |
| Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects | 117,829 | (21,154) |
| Change in Unrealized Gains and Losses on Cash Flow Hedges (Thereof € 256,085 and € 0 for 2017 and 2016, respectively, Reclassifications of realized Losses to Profit and Loss) | (490,164) | 490,164 |
| Change of Tax Effects presented in Other Comprehensive Income on Cash Flow Hedges | 130,751 | (130,751) |
| Change in Unrealized Gains and Losses on Cash Flow Hedges, Net of Tax Effects | (359,413) | 359,413 |
| Other Comprehensive Income | (241,584) | 338,259 |
| Total Comprehensive Income | (70,068,053) | (60,044,517) |

* In financial years 2017 and 2016, 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.

The notes are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet (IFRS)

| in € | Note | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 2.8.1, 5.1 | 76,589,129 | 73,928,661 |
| Available-for-sale Financial Assets | 2.8.1, 5.2 | 86,538,195 | 63,361,727 |
| Bonds, Available-for-sale | 2.8.1, 5.2 | 0 | 6,532,060 |
| Financial Assets classified as Loans and Receivables | 2.8.1, 5.2 | 149,059,254 | 136,108,749 |
| Accounts Receivable | 2.8.2, 5.3 | 11,234,308 | 12,596,655 |
| Income Tax Receivables | 2.8.2, 5.5 | 654,511 | 519,915 |
| Other Receivables | 2.8.2, 5.4 | 84,727 | 656,887 |
| Inventories, Net | 2.8.3, 5.5 | 300,753 | 310,366 |
| Prepaid Expenses and Other Current Assets | 2.8.4, 5.5 | 16,219,761 | 14,041,469 |
| Total Current Assets | | 340,680,638 | 308,056,489 |
| Non-current Assets | | | |
| Property, Plant and Equipment, Net | 2.8.5, 5.6 | 3,526,351 | 4,189,108 |
| Patents, Net | 2.8.6, 5.7.1 | 4,669,128 | 5,323,341 |
| Licenses, Net | 2.8.6, 5.7.2 | 2,999,074 | 3,146,937 |
| In-process R&D Programs | 2.8.6, 5.7.3 | 52,158,527 | 50,818,700 |
| Software, Net | 2.8.6, 5.7.4 | 655,399 | 1,285,474 |
| Goodwill | 2.8.6, 5.7.5 | 7,364,802 | 7,364,802 |
| Financial Assets classified as Loans and Receivables, Net of Current Portion | 2.8.1, 5.2 | 0 | 79,521,181 |
| Prepaid Expenses and Other Assets, Net of Current Portion | 2.8.7, 5.8 | 3,344,292 | 3,894,085 |
| Total Non-current Assets | | 74,717,573 | 155,543,628 |
| **TOTAL ASSETS** | | **415,398,211** | **463,600,117** |

The notes are an integral part of these consolidated financial statements.

| in € | Note | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Current Liabilities | | | |
| Accounts Payable and Accrued Expenses | 2.9.1, 6.1 | 44,811,718 | 32,222,616 |
| Tax Provisions | 2.9.2, 6.2 | 314,944 | 1,652,006 |
| Provisions | 2.9.1, 6.2 | 1,185,741 | 3,195,252 |
| Current Portion of Deferred Revenue | 2.9.3, 6.3 | 1,388,638 | 1,232,072 |
| Total Current Liabilities | | 47,701,041 | 38,301,946 |
| Non-current Liabilities | | | |
| Provisions, Net of Current Portion | 2.9.1, 6.2 | 23,166 | 23,166 |
| Deferred Revenue, Net of Current Portion | 2.9.4, 6.3 | 306,385 | 1,672,872 |
| Convertible Bonds due to Related Parties | 2.9.5 | 87,785 | 218,293 |
| Deferred Tax Liability | 2.9.6, 4.4 | 7,811,258 | 7,421,835 |
| Other Liabilities, Net of Current Portion | 2.9.7, 6.4 | 797,537 | 501,840 |
| Total Non-current Liabilities | | 9,026,131 | 9,838,006 |
| Total Liabilities | | 56,727,172 | 48,139,952 |
| | | | |
| Stockholders' Equity | | | |
| Common Stock | 2.9.8, 6.5.1 | 29,420,785 | 29,159,770 |
| Ordinary Shares Issued (29,420,785 and 29,159,770 for 2017 and 2016, respectively) | | | |
| Ordinary Shares Outstanding (29,101,107 and 28,763,760 for 2017 and 2016, respectively) | | | |
| Treasury Stock (319,678 and 396,010 shares for 2017 and 2016, respectively), at Cost | 2.9.8, 6.5.4 | (11,826,981) | (14,648,212) |
| Additional Paid-in Capital | 2.9.8, 6.5.5 | 438,557,856 | 428,361,175 |
| Revaluation Reserve | 2.9.8, 6.5.6 | (105,483) | 136,101 |
| Accumulated Deficit | 2.9.8, 6.5.7 | (97,375,138) | (27,548,669) |
| Total Stockholders' Equity | | 358,671,039 | 415,460,165 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | **415,398,211** | **463,600,117** |

The notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Stockholders' Equity (IFRS)

| | | Common Stock | |
|---|---|---|---|
| | Note | Shares | € |
| **BALANCE AS OF JANUARY 1, 2016** | | **26,537,682** | **26,537,682** |
| Capital Increase, Net of Issuance Cost of € 2,778,652 | | 2,622,088 | 2,622,088 |
| Compensation Related to the Grant of Convertible Bonds and Performance Shares | | 0 | 0 |
| Repurchase of Treasury Stock, Net of Bank Fees | 6.5.4 | 0 | 0 |
| Transfer of Treasury Stock for Long-Term Incentive Program | | 0 | 0 |
| Reserves: | | | |
| Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects | | 0 | 0 |
| Change in Unrealized Gains on Cash Flow Hedges, Net of Tax Effects | | 0 | 0 |
| Consolidated Net Loss | | 0 | 0 |
| Total Comprehensive Income | | 0 | 0 |
| **BALANCE AS OF DECEMBER 31, 2016** | | **29,159,770** | **29,159,770** |
| **BALANCE AS OF JANUARY 1, 2017** | | **29,159,770** | **29,159,770** |
| Compensation Related to the Grant of Stock Options, Convertible Bonds and Performance Shares | 7.1, 7.2, 7.3 | 0 | 0 |
| Exercise of Convertible Bonds Issued to Related Parties | 7.2, 7.4 | 261,015 | 261,015 |
| Transfer of Treasury Stock for Long-Term Incentive Program | 7.3.1, 7.4 | 0 | 0 |
| Transfer of Treasury Stock to Members of the Management Board | 6.5.1, 7.4 | 0 | 0 |
| Reserves: | | | |
| Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects | 6.5.6 | 0 | 0 |
| Change in Unrealized Gains and Losses on Cash Flow Hedges, Net of Tax Effects | 6.5.6 | 0 | 0 |
| Consolidated Net Loss | 6.5.7 | 0 | 0 |
| Total Comprehensive Income | | 0 | 0 |
| **BALANCE AS OF DECEMBER 31, 2017** | | **29,420,785** | **29,420,785** |

The notes are an integral part of these consolidated financial statements.

| Treasury Stock | | Additional Paid-in Capital | Revaluation Reserve | Accumulated Income/(Deficit) | Total Stock-holders' Equity |
|---|---|---|---|---|---|
| Shares | € | € | € | € | € |
| **434,670** | **(15,827,946)** | **319,394,322** | **(202,158)** | **32,834,107** | **362,736,007** |
| 0 | 0 | 109,971,132 | 0 | 0 | 112,593,220 |
| 0 | 0 | 2,357,418 | 0 | 0 | 2,357,418 |
| 52,295 | (2,181,963) | 0 | 0 | 0 | (2,181,963) |
| (90,955) | 3,361,697 | (3,361,697) | 0 | 0 | 0 |
| | | | | | |
| 0 | 0 | 0 | (21,154) | 0 | (21,154) |
| 0 | 0 | 0 | 359,413 | 0 | 359,413 |
| 0 | 0 | 0 | 0 | (60,382,776) | (60,382,776) |
| 0 | 0 | 0 | 338,259 | (60,382,776) | (60,044,517) |
| **396,010** | **(14,648,212)** | **428,361,175** | **136,101** | **(27,548,669)** | **415,460,165** |
| **396,010** | **(14,648,212)** | **428,361,175** | **136,101** | **(27,548,669)** | **415,460,165** |
| 0 | 0 | 4,974,599 | 0 | 0 | 4,974,599 |
| 0 | 0 | 8,043,313 | 0 | 0 | 8,304,328 |
| (61,871) | 2,286,752 | (2,286,752) | 0 | 0 | 0 |
| (14,461) | 534,479 | (534,479) | 0 | 0 | 0 |
| | | | | | |
| 0 | 0 | 0 | 117,829 | 0 | 117,829 |
| 0 | 0 | 0 | (359,413) | 0 | (359,413) |
| 0 | 0 | 0 | 0 | (69,826,469) | (69,826,469) |
| 0 | 0 | 0 | (241,584) | (69,826,469) | (70,068,053) |
| **319,678** | **(11,826,981)** | **438,557,856** | **(105,483)** | **(97,375,138)** | **358,671,039** |

# Consolidated Statement of Cash Flows (IFRS)

| in € | Note | 2017 | 2016 |
|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | |
| Consolidated Net Loss | | (69,826,469) | (60,382,776) |
| Adjustments to Reconcile Net Loss to Net Cash Provided by/(Used in) Operating Activities: | | | |
| Impairment of Assets | 5.6, 5.7 | 9,863,582 | 10,141,187 |
| Depreciation and Amortization of Tangible and Intangible Assets | 5.6, 5.7 | 4,028,948 | 3,763,813 |
| Net (Gain)/Loss on Sales of Available-for-sale Financial Assets | 5.2 | 84,841 | 915,201 |
| Proceeds from Derivative Financial Instruments | 5.4 | (589,134) | 725,157 |
| Net (Gain)/Loss on Derivative Financial Instruments | 5.4 | 919,042 | (29,879) |
| Net (Gain)/Loss on Sale of Property, Plant and Equipment | | 11,314 | (4,037) |
| Recognition of Deferred Revenue | 6.3 | (19,595,746) | (19,042,772) |
| Stock-based Compensation | 4.2.3, 7 | 4,974,599 | 2,357,418 |
| Income Tax Expenses | 4.4 | 1,036,365 | 518,625 |
| Changes in Operating Assets and Liabilities: | | | |
| Accounts Receivable | 5.3 | 1,362,347 | (1,154,597) |
| Prepaid Expenses and Other Assets, Tax Receivables and Other Receivables | 5.4, 5.5 | 1,807,670 | (13,912,263) |
| Accounts Payable and Accrued Expenses, Tax Provisions and Provisions | 6.1, 6.2 | 7,819,386 | 13,010,160 |
| Other Liabilities | 6.1 | 3,133,558 | (421,492) |
| Deferred Revenue | 6.3 | 18,385,824 | 17,440,930 |
| Income Taxes Paid | | (1,861,982) | (540,383) |
| Net Cash Provided by/(Used in) Operating Activities | | (38,445,855) | (46,615,708) |

The notes are an integral part of these consolidated financial statements.

| in € | Note | 2017 | 2016 |
|---|---|---|---|
| **INVESTING ACTIVITIES:** | | | |
| Purchase of Available-for-sale Financial Assets | 5.2 | (56,406,580) | (166,923,795) |
| Proceeds from Sales of Available-for-sale Financial Assets | 5.2 | 33,231,500 | 167,873,152 |
| Proceeds from Sales of Bonds, Available-for-sale | 5.2 | 6,500,000 | 25,770,000 |
| Purchase of Financial Assets Classified as Loans and Receivables | 5.2 | (108,000,000) | (256,499,997) |
| Proceeds from Sales of Financial Assets Classified as Loans and Receivables | 5.2 | 170,498,593 | 149,894,769 |
| Purchase of Property, Plant and Equipment | 5.6 | (1,317,058) | (2,502,286) |
| Proceeds from Disposals of Property, Plant and Equipment | | 84 | 5,000 |
| Purchase of Intangible Assets | 5.7 | (11,831,789) | (411,204) |
| Interest Received | | 257,752 | 2,008,325 |
| Net Cash Provided by/(Used in) Investing Activities | | 32,932,502 | (80,786,036) |
| | | | |
| **FINANCING ACTIVITIES:** | | | |
| Repurchase of Treasury Stock, Net of Bank Fees | 6.5.4 | 0 | (2,181,963) |
| Proceeds of Share Issuance | 6.5 | 0 | 115,371,872 |
| Cost of Share Issuance | | (15,525) | (2,778,652) |
| Proceeds in Connection with Convertible Bonds Granted to Related Parties | | 8,189,345 | 0 |
| Outflows in Connection with Convertible Bonds Granted to Related Parties | | 0 | (6,707) |
| Interest Paid | | 0 | (1,819) |
| Net Cash Provided by/(Used in) Financing Activities | | 8,173,820 | 110,402,731 |
| Increase/(Decrease) in Cash and Cash Equivalents | | 2,660,467 | (16,999,013) |
| Cash and Cash Equivalents at the Beginning of the Period | | 73,928,661 | 90,927,673 |
| Cash and Cash Equivalents at the End of the Period | | 76,589,129 | 73,928,661 |

The notes are an integral part of these consolidated financial statements.

# Notes

## 1 General Information

### BUSINESS ACTIVITIES AND THE COMPANY

MorphoSys AG (“the Company” or “MorphoSys”) develops and applies technologies for generating therapeutic antibodies. The Company has a broad proprietary portfolio of compounds and a broad pipeline of compounds developed with partners from the pharmaceutical and biotechnology 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 previous 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 as issued by the International Accounting Standards Board (IASB), (“IFRS”). 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 and for the financial years ended December 31, 2017 and 2016, 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 functional currency of all entities in the MorphoSys Group. 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.

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 |
|---|---|---|---|---|
| IAS 7 (A) | Disclosure Initiative | 01/01/2017 | yes | none |
| IAS 12 (A) | Recognition of Deferred Tax Assets for Unrealised Losses | 01/01/2017 | yes | yes |
| | | | | |
| | Annual Improvements to IFRS Standards 2014 – 2016 Cycle | 01/01/2017 | yes | none |
| | | | | |
| (A) Amendments | | | | |

The impact on the consolidated financial statements of the Amendments to IAS 12 is not deemed to be material.

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. Only material impacts will be described in more detail. The impact on the consolidated financial statements of the Amendments to IFRS 2 and IFRIC 22 is not expected to be material and is therefore not individually described. 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 | yes | yes |
| IFRS 15 and IFRS 15 (A) | Revenue from Contracts with Customers | 01/01/2018 | yes | yes |
| IFRS 16 | Leases | 01/01/2019 | yes | yes |
| IFRS 17 | Insurance Contracts | 01/01/2021 | no | none |
| IFRS 2 (A) | Classification and Measurement of Share-based Payment Transactions | 01/01/2018 | no | yes |
| IFRS 4 (A) | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 01/01/2018 | yes | none |
| IFRS 9 (A) | Prepayment Features with Negative Compensation | 01/01/2019 | no | none |
| IFRS 15 (C) | Revenue from Contracts with Customers | 01/01/2018 | yes | yes |
| IAS 19 (A) | Plan Amendment, Curtailment or Settlement | 01/01/2019 | no | none |
| IAS 28 (A) | Long-term Interests in Associates and Joint Ventures | 01/01/2019 | no | none |
| IAS 40 (A) | Transfers of Investment Property | 01/01/2018 | no | none |
| IFRIC (I) 22 | Foreign Currency Transactions and Advance Consideration | 01/01/2018 | no | yes |
| IFRIC (I) 23 | Uncertainty over Income Tax Treatments | 01/01/2019 | no | none |
| | | | | |
| | Annual Improvements to IFRS Standards 2014 – 2016 Cycle | 01/01/2018 | yes | none |
| | Annual Improvements to IFRS Standards 2015 – 2017 Cycle | 01/01/2019 | no | none |
| | | | | |
| (A) Amendments | | | | |
| (C) Clarifications | | | | |
| (I) Interpretation | | | | |

IFRS 9, the new standard governing financial instruments, may lead to changes in the classification and measurement of financial assets and financial liabilities. Upon first-time recognition, financial assets are classified as assets to be measured “at fair value” or “at amortized cost”, depending on the business model and the contractually agreed cash flows of the respective financial instruments. Depending on the classification, the subsequent measurement of financial assets is carried out either at amortized cost or at fair value. Changes in the fair value are to be recognized in profit or loss or in other comprehensive income. The requirements for the de-recognition of financial assets and liabilities and the general accounting of financial liabilities have been adopted to a large extent from IAS 39. Changes to the classification result in changes to MorphoSys’s financial assets that are classified as “available-for-sale” or “loans and receivables” in accordance with IAS 39. There are no material conversion effects with regard to the measurement of financial assets and financial liabilities. Hitherto, “available-for-sale” financial instruments are measured already at fair value in accordance with IAS 39 and thus no conversion effects will arise.

The provisions in the new standard for the recognition of impairments are based on the expected credit loss model and replace the model of incurred losses applied under IAS 39. Unlike under IAS 39, financial assets are to be divided into different risk classes according to historical and future expected loss probabilities, and a risk provision must be recognized before the occurrence of loss events. Past experience and the Group’s expectations regarding the performance of existing assets do only suggest minor future losses. Therefore no additional impairment should be recognized at the time of initial application other than the twelve-month expected credit loss in accordance with IFRS 9. For “Accounts receivable” the simplified impairment model will be applied with recognition of a loss allowance based on lifetime expected credit losses.

IFRS 9 is not expected to have an impact on the recognition of hedging relationships. As of December 31, 2017, there is neither a forward rate agreement that is subject to hedge accounting in accordance with IAS 39 nor any other hedging instrument that will be subject to hedge accounting.

Qualitative and quantitative adjustments to the disclosures in accordance with IFRS 7 are expected due to the implementation of IFRS 9, however, only for the fiscal year 2018.

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. IFRS 15 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers and replaces IAS 18 “Revenue”. This review revealed that, compared to the regulations currently applied to the existing contractual arrangements, quantitative effects on the consolidated financial statements are to be expected since for some contracts, revenue under IFRS 15 has to be recognized at a point in time rather than over time as under IAS 18. The Group will implement the new standard on January 1, 2018 and will apply the modified retrospective method which requires the recognition of the cumulative effect of applying IFRS 15 as at January 1, 2018 to accumulated deficit, and not restate prior years. Therefore, the Group estimates that deferred revenue will be reduced by € 1.1 million and accumulated deficit will be reduced by € 1.1 million on January 1, 2018, accordingly. Qualitative adjustments of the required disclosures in the Notes under IFRS 15 are expected, however, not before the standard’s first-time application as of January 1, 2018.

The Group also reviewed the new IFRS 16 standard governing leases for its potential impact on existing lease contracts. Currently, all leases are accounted for as operating leases pursuant to IAS 17. As of January 1, 2019, right-of-use assets under existing lease contracts will be capitalized and lease liabilities will be recognized. Rental costs currently recognized in the statement of income will be replaced by depreciation on the respective assets and interest expenses, i.e. the related costs will be presented in different line items in the statement of income and may differ in their overall amount compared to the application of IAS 17. From today’s perspective, the implementation of IFRS 16 will have material quantitative effects on the consolidated balance sheet due to the rented premises at Semmelweisstraße 7, Planegg. The exact amount of assets and lease liabilities and the transitional provisions to be applied when switching from IAS 17 to IFRS 16 have not yet been determined.

## 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. 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 Planegg near Munich. MorphoSys AG has two wholly owned subsidiaries (collectively referred to as the “MorphoSys Group” or the “Group”): Sloning BioTechnology GmbH (Planegg) and Lanthio Pharma B.V. (Groningen, The Netherlands). Additionally, MorphoSys AG’s investment in Lanthio Pharma B.V. indirectly gives it 100 % ownership in LanthioPep B.V. (Groningen, The Netherlands).

The consolidated financial statements for the year ended December 31, 2017 were prepared and approved by the Management Board in its meeting on March 8, 2018 by means of a resolution. The Management Board members are Dr. Simon Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Markus Enzelberger (Chief Scientific Officer), and Dr. Malte Peters (Chief Development Officer).

Dr. Arndt Schottelius was Chief Development Officer until February 28, 2017. Dr. Malte Peters assumed the position on March 1, 2017. Dr. Markus Enzelberger, who served as Interim CSO from April 15, 2017, was appointed Chief Scientific Officer (CSO) effective November 1, 2017. He succeeded Dr. Marlies Sproll, who resigned from her CSO position effective end of October 31, 2017.

The Supervisory Board is authorized to amend the financial statements after their approval by the Management Board. MorphoSys Group's registered head office is located in Planegg (district of Munich), and the registered business address is Semmelweisstraße 7, 82152 Planegg, Germany. The company is registered in the Commercial Register, Section B, of the District Court of Munich under the number HRB 121023.

### 2.2.2 CONSOLIDATION METHODS

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

| Company | 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 for the financial year. Any foreign exchange rate differences derived from these translations are recognized in the consolidated statement of income.

## 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 include primarily cash and cash equivalents, marketable securities (consisting of available-for-sale financial assets and bonds), financial assets of the loans and receivables category, derivative financial instruments and receivables. The Group's cash and cash equivalents are principally denominated in euros. Marketable securities and financial assets of the loans and receivables category represent investments in high-quality securities. Cash, cash equivalents, marketable securities and financial assets of the loans and receivables category 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 € 5.1 million of accounts receivables as of December 31, 2017 (December 31, 2016: € 8.4 million) or 45 % of the Group's accounts receivable at the end of 2017. The top three individual customers of the Group accounted for of 55 %, 25 % and 10 %, respectively, of the total revenues in 2017. On December 31, 2016, one customer had accounted for 66 % of the Group's accounts receivable, and the top three customers had individually accounted for 85 %, 5 % and 5 % of the Group's revenues in 2016. Based on the Management Board's assessment, no allowances were required in the financial years 2017 and 2016. The carrying amounts of financial assets represent the maximum credit risk.

The table below shows the accounts receivables by region as of the reporting date.

| in € | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Europe and Asia | 8,838,884 | 9,852,273 |
| USA and Canada | 2,395,424 | 2,744,382 |
| Other | 0 | 0 |
| **TOTAL** | **11,234,308** | **12,596,655** |

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

| in €; Accounts Receivable are due since | 12/31/2017 0 – 30 days | 12/31/2017 30 – 60 days | 12/31/2017 60+ days | 12/31/2017 Total |
|---|---|---|---|---|
| Accounts Receivable | 11,234,308 | 0 | 0 | 11,234,308 |
| Write-off | 0 | 0 | 0 | 0 |
| Accounts Receivable, Net of Allowance for Impairment | 11,234,308 | 0 | 0 | 11,234,308 |

| in €; Accounts Receivable are due since | 12/31/2016 0 – 30 days | 12/31/2016 30 – 60 days | 12/31/2016 60+ days | 12/31/2016 Total |
|---|---|---|---|---|
| Accounts Receivable | 12,596,655 | 0 | 0 | 12,596,655 |
| Write-off | 0 | 0 | 0 | 0 |
| Accounts Receivable, Net of Allowance for Impairment | 12,596,655 | 0 | 0 | 12,596,655 |

On December 31, 2017 and December 31, 2016, 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 € 1.1 million (December 31, 2016: € 1.3 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: € 0.1 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.

Under the Group's hedging policy, highly probable cash flows and definite foreign currency receivables collectable within a twelve-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 provisions as of December 31, 2017, since the fair value is negative.

As of December 31, 2017, there were twelve unsettled forward rate agreements with terms of one month to twelve months (December 31, 2016: ten unsettled forward rate agreements). The unrealized gross loss from these agreements amounted to € 0.3 million as of December 31, 2017 and was reported in the finance result (December 31, 2016: less than € 0.1 million unrealized gross gain).

One forward rate agreement dating back to January 2016 with an original maturity in early April 2017 was subject to hedge accounting as a cash flow hedge and at the original term's expiry was extended until the beginning of July 2017. In July 2017, a net loss of € 0.3 million was recognized in the income statement for this hedging instrument, which was previously recognized as gross gains and losses in other comprehensive income.

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

| as of December 31, 2017; in € | EUR | US$ | Other | Total |
|---|---|---|---|---|
| Cash and Cash Equivalents | 74,289,250 | 2,299,879 | 0 | 76,589,129 |
| Available-for-sale Financial Assets | 86,538,195 | 0 | 0 | 86,538,195 |
| Financial Assets classified as Loans and Receivables | 149,059,254 | 0 | 0 | 149,059,254 |
| Accounts Receivable | 11,199,652 | 34,656 | 0 | 11,234,308 |
| Restricted Cash (included in Other Current Assets) | 1,132,782 | 0 | 0 | 1,132,782 |
| Accounts Payable and Accrued Expenses | (44,655,328) | (156,390) | 0 | (44,811,718) |
| **TOTAL** | **277,563,805** | **2,178,145** | **0** | **279,741,950** |

| as of December 31, 2016; in € | EUR | US$ | Other | Total |
|---|---|---|---|---|
| Cash and Cash Equivalents | 73,456,907 | 471,754 | 0 | 73,928,661 |
| Available-for-sale Financial Assets | 63,361,727 | 0 | 0 | 63,361,727 |
| Bonds, Available-for-sale | 6,532,060 | 0 | 0 | 6,532,060 |
| Financial Assets classified as Loans and Receivables | 136,108,749 | 0 | 0 | 136,108,749 |
| Financial Assets classified as Loans and Receivables, Net of Current Portion | 79,521,181 | 0 | 0 | 79,521,181 |
| Accounts Receivable | 12,215,814 | 380,841 | 0 | 12,596,655 |
| Restricted Cash (included in Other Current Assets) | 1,252,405 | 0 | 0 | 1,252,405 |
| Accounts Payable and Accrued Expenses | (31,794,114) | (428,502) | 0 | (32,222,616) |
| **TOTAL** | **340,654,729** | **424,093** | **0** | **341,078,822** |

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, 2017 would have reduced the Group's income by € 0.2 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by € 0.2 million.

A 10% increase in the euro versus the US dollar as of December 31, 2016 would have reduced the Group's income by less than € 0.1 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by less than € 0.1 million.

#### INTEREST RATE RISK

The Group's risk exposure to changes in interest rates mainly relates to fixed term deposits and bonds, available-for-sale. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these securities. The Group's investment focus places the safety of an investment ahead of its return. Interest rate risk is limited because all securities 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 financial assets of the loans and receivables category and 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 5.2* of these Notes).

*CROSS-REFERENCE *to page 134*

### HIERARCHY LEVEL 2 AND 3

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 significant inputs required for measuring fair value by using valuation methods are observable, the instrument is allocated to level 2. If significant 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 currency hedging. Future cash flows for these forward exchange contracts are determined based on forward exchange rate curves. The fair value of these instruments corresponds to their 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 2017 or 2016.

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

| December 31, 2017 (in 000' €) | Note | Hierarchy Level | Loans and Receivables | Available-for-sale | Other Financial Liabilities | Total Carrying Amount | Fair value |
|---|---|---|---|---|---|---|---|
| Cash and Cash Equivalents | 5.1 | [1] | 76,589 | 0 | 0 | 76,589 | [1] |
| Financial Assets classified as Loans and Receivables | 5.2 | [1] | 149,059 | 0 | 0 | 149,059 | [1] |
| Accounts Receivable | 5.3 | [1] | 11,234 | 0 | 0 | 11,234 | [1] |
| Restricted Cash (included in Other Current Assets) | 5.4 | [1] | 1,133 | 0 | 0 | 1,133 | [1] |
| Other Receivables | 5.4 | [1] | 85 | 0 | 0 | 85 | [1] |
| Available-for-sale Financial Assets | 5.2 | 1 | 0 | 86,538 | 0 | 86,538 | 86,538 |
| **TOTAL** | | | **238,100** | **86,538** | **0** | **324,638** | |
| Convertible Bonds – Liability Component | 7.2 | 2 | 0 | 0 | (88) | (88) | (88) |
| Accounts Payable and Accrued Expenses | 6.1 | [1] | 0 | 0 | (44,812) | (44,812) | [1] |
| Forward Exchange Contracts Used for Hedging (included in Provisions) | 6.2 | 2 | 0 | 0 | (300) | (300) | (300) |
| **TOTAL** | | | **0** | **0** | **(45,200)** | **(45,200)** | |

[1] Declaration waived in line with IFRS 7.29 (a). For these instruments carrying value is a reasonable approximation of fair value.

| December 31, 2016 (in 000' €) | Note | Hierarchy Level | Loans and Receivables | Available-for-sale | Other Financial Liabilities | Total Carrying Amount | Fair value |
|---|---|---|---|---|---|---|---|
| Cash and Cash Equivalents | 5.1 | [1] | 73,929 | 0 | 0 | 73,929 | [1] |
| Financial Assets classified as Loans and Receivables | 5.2 | [1] | 136,109 | 0 | 0 | 136,109 | [1] |
| Accounts Receivable | 5.3 | [1] | 12,597 | 0 | 0 | 12,597 | [1] |
| Forward Exchange Contracts Used for Hedging (included in Other Receivables) | 5.4 | 2 | 520 | 0 | 0 | 520 | 520 |
| Restricted Cash (included in Other Current Assets) | 5.4 | [1] | 1,252 | 0 | 0 | 1,252 | [1] |
| Other Receivables | 5.4 | [1] | 137 | 0 | 0 | 137 | [1] |
| Financial Assets classified as Loans and Receivables, Net of Current Portion | 5.2 | [1] | 79,521 | 0 | 0 | 79,521 | 79,521 |
| Available-for-sale Financial Assets | 5.2 | 1 | 0 | 63,362 | 0 | 63,362 | 63,362 |
| Bonds, Available-for-sale | 5.2 | 1 | 0 | 6,532 | 0 | 6,532 | 6,532 |
| **TOTAL** | | | **304,065** | **69,894** | **0** | **373,959** | |
| Convertible Bonds – Liability Component | 7.2 | 2 | 0 | 0 | (218) | (218) | (218) |
| Accounts Payable and Accrued Expenses | 6.1 | [1] | 0 | 0 | (32,223) | (32,223) | [1] |
| **TOTAL** | | | **0** | **0** | **(32,441)** | **(32,441)** | |

[1] Declaration waived in line with IFRS 7.29 (a). For these instruments carrying value is a reasonable approximation of fair value.

## 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 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 marketable security. A significant or prolonged decline in a financial instrument'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 on an individual level. All individually significant receivables are tested specifically for impairment.

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. 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

In case of objective indications, 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. Impairment losses recognized in profit and loss for an investment in a financial instrument classified as available-for-sale are not reversed through profit and loss. If in a subsequent period the fair value of an impaired available-for-sale debt instrument 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.

### 2.4.4 NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets and inventories are reviewed at each reporting date for any indication of impairment. The non-financial asset's recoverable amount and inventories' net realizable value 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, or on an interim basis, if required. 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 are 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 may be 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.

#### IN-PROCESS R&D PROGRAMS AND GOODWILL

The Group performs a yearly test to determine whether in-process R&D programs or goodwill is subject to impairment in accordance with the accounting policies discussed in Item 2.4.4*. The recoverable amounts from in-process R&D programs and 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 Items 5.7.3* and 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 120 and page 138*

#### INCOME TAXES

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

Deferred tax assets on tax loss carryforwards are recognized based on the expected business performance of the relevant Group entity. For details on tax loss carryforwards and any recognized deferred tax assets, please refer to Item 4.4* in the Notes.

*CROSS-REFERENCE *to page 130*

### 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 capital market and to support future business development. As of December 31, 2017, the equity ratio was 86.3% (December 31, 2016: 89.6%; 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 issued in 2013 and a stock option plan (SOP) set up in 2017. MorphoSys also established long-term incentive programs (LTI plan) in 2013, 2014, 2015, 2016 and 2017. 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 and the vesting period has expired (for more information, please refer to Item 7.3* in the Notes). There were no changes in the Group's approach to capital management during the year.

*CROSS-REFERENCE *to page 143*

| in 000' € | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Stockholders' Equity | 358,671 | 415,460 |
| In % of Total Capital | 86.3% | 89.6% |
| Total Liabilities | 56,727 | 48,140 |
| In % of Total Capital | 13.7% | 10.4% |
| **TOTAL CAPITAL** | **415,398** | **463,600** |

## 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 of 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 and service fees. 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 consists 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 under IFRS 2 "Share-based Payment", which require the Group to spread compensation expenses from the estimated fair values of share-based payments on the reporting date over the period in which the beneficiaries provide the services which triggered the granting of the share-based payments.

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, 7.3* and 7.4* in the Notes.

*CROSS-REFERENCE *to page 141–147*

### 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.

This line item contains personnel expenses, consumables supplies, other operating expenses, impairment, amortization and other costs of intangible assets (additional information can be found under Item 5.7* in the Notes), external services and depreciation and other costs for infrastructure.

*CROSS-REFERENCE *to page 137*

### GENERAL AND ADMINISTRATIVE

This line item contains personnel expenses, consumable supplies, other operating expenses, amortization of intangible assets (software; additional information can be found under Item 5.7* in the Notes), expenses for external services, and depreciation and other costs for infrastructure.

*CROSS-REFERENCE *to page 137*

### 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.

## 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.

When the repayment of cost subsidies depends on the success of the development project, these cost subsidies are recognized as other liabilities until success has been achieved. If the condition for repayment is not met, then the grant is recognized under "other income".

No payments were granted in the 2017 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 and the repayment of cost subsidies.

## 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

Finance expenses are expensed in the income statement in the period they occur.

#### 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.

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 that refers to the 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 are offset against deferred tax liabilities if the taxes are levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

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 under consideration of IAS 33.41. 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 stock options and convertible bonds granted to the Management Board and employees.

In 2017 and 2016, diluted earnings per share equal basic earnings per share. The effect of 87,904 potentially dilutive shares in 2017 (2016: 99,764 dilutive shares) resulting from stock options and convertible bonds granted to the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group, has been excluded from the diluted earnings per share because it would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

The 62,071 stock options not yet vested as of December 31, 2017, were not included in the calculation of potentially dilutive shares, as they are antidilutive for the 2017 financial year. These shares could potentially have a dilutive effect in the future.

### 2.8 ACCOUNTING POLICIES APPLIED TO THE ASSETS OF THE BALANCE SHEET

#### 2.8.1 LIQUIDITY

##### CASH AND CASH EQUIVALENTS AND MARKETABLE SECURITIES

The Group regards all cash at banks and on hand and all short-term deposits with a maturity of three months or less as cash and cash equivalents. The Group invests most of its cash and cash equivalents at several major financial institutions: Commerzbank, UniCredit, BayernLB, LBBW, BNP Paribas, Deutsche Bank, Sparkasse and Rabobank.

Cash and cash equivalents are recognized at nominal value. Marketable securities are recognized and measured at fair value. Any fluctuations in the fair value of marketable securities are directly recognized in equity. Permanent impairment is recognized in profit and loss

##### NON-DERIVATIVE FINANCIAL INSTRUMENTS

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, 2017 and December 31, 2016, 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 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 foreign exchange rate risk and cash flows. In accordance with IAS 39.9, standalone derivative financial instruments are predominantly held 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 unless the derivatives are effective and designated as hedging instruments under a hedging relationship (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 twelve-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.

#### HEDGE ACCOUNTING

The Group has designated hedging instruments to hedge cash flows (cash flow hedges) during the fiscal years 2017 and 2016.

At the beginning of the hedge accounting, the hedging relationship between the underlying and the hedge transaction are documented, including the risk management objectives and corporate strategy underlying the hedging relationship. Additionally, when concluding the hedge and also during the term of the hedge, the Group regularly provides documentation if the hedging instrument designated for the hedging relationship is highly effective in terms of the hedged risk to compensate for any changes of the underlying transaction's cash flows.

For information on the fair value of derivatives used for hedging, please refer to Item 2.3.2* in the Notes.

*CROSS-REFERENCE *to page 116*

#### CASHFLOW HEDGES

The effective portion of the change in fair value of derivatives that are suitable for cash flow hedges and designated as such is recognized within other comprehensive income. The gain/loss attributable to the ineffective portion is immediately recognized in profit and loss with "other operating income/expenses".

Amounts recognized within other comprehensive income are reclassified to the consolidated statement of income in the period in which the underlying transaction is recognized in profit and loss. The gain/loss is recorded in the same line item of the consolidated statement of income as the underlying transaction.

The hedging relationship is no longer accounted for if the Group dissolves the hedging relationship, the hedging instrument expires, is sold, terminated or exercised or no longer is suitable for hedging purposes. The full gain/loss recognized in other comprehensive income and accrued within equity remains in equity when the hedge accounting ends and is only recognized in profit and loss once the expected transaction is also recognized in profit and loss. If the transaction is no longer expected to materialize, the full gain/loss recognized in equity is immediately reclassified into the consolidated statement of income.

### 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 5.3* in the Notes).

*CROSS-REFERENCE *to page 120 and page 135*

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 first-in first-out 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 and restricted cash, such as rent deposits. 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 5.6* in the Notes) and any impairment (see Item 2.4.4* in the Notes). Historical cost includes expenditures directly related to the purchase at the time of the acquisition. Replacement 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 lesser of the asset's estimated useful life or the remaining term of the lease.

*CROSS-REFERENCE *to page 136 and page 120*

| 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* in 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 120*

#### 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 sublicenses. 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. Sublicense 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 compounds for the Proprietary Development segment, as well as milestone payments for these compounds subsequently paid as milestones are achieved. Additionally, the line item also includes compounds resulting from acquisitions. The assets are recorded at acquisition cost and are not yet available for use and therefore not subject to scheduled amortization. The assets are tested for impairment annually or in case of triggering events, 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* in 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 120*

#### 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 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 138*

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

### 2.8.7 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 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.

The Group has entered into various research and development contracts with research institutions and other companies. These agreements are generally cancelable, and related payments are recorded as research and development expenses as incurred. The Group records accruals for estimated ongoing research costs that have been incurred. When evaluating the adequacy of the accrued expenses, the Group analyzes progress of the studies, including the phase or completion of events, invoices received and contracted costs. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ from the Group's estimates. The Group's historical accrual estimates have not been materially different from the actual costs.

### 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 entities 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 value or nominal amount of cash received or receivable. The corresponding rendering of services and revenue recognition is expected to occur within a twelve-month period after the reporting date.

### 2.9.4 DEFERRED REVENUE, NET OF CURRENT PORTION

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 value or nominal amount of cash received or receivable.

### 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 and take into account the future tax effect resulting from temporary differences between values in the balance sheet for assets, liabilities as well as for tax loss carryforwards.

Deferred tax assets are offset against deferred tax liabilities if the taxes are levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Pursuant to IAS 12, deferred tax assets and liabilities may not be discounted.

#### 2.9.7 OTHER LIABILITIES

Other liabilities are made up of rent-free periods. The corresponding release over the minimum rent period are calculated based on the effective interest method. Other liabilities are discounted due to their long-term maturities.

#### 2.9.8 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.

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 as a deduction from common stock.

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 any difference between the proceeds from the transaction and the initial acquisition costs is recognized in additional paid-in capital.

The allocation of treasury shares to beneficiaries (in this case: performance shares) under long-term incentive programs is reflected in this line item based on the set number of shares to be allocated after the expiration of the four-year vesting period (quantity structure) multiplied by the weighted-average purchase price of the treasury shares (value structure). The adjustment is carried out directly in equity by reducing the treasury stock line item, which is a deduction from common stock, while simultaneously reducing the amount of additional paid-in capital. Further information can be found in Item 7.3.1* in the Notes.

*CROSS-REFERENCE *to page 143*

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 financial assets and bonds that are measured directly in equity until they are sold as well as cash flow hedges.

ACCUMULATED INCOME/DEFICIT

The "accumulated income/deficit" 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 "Operating Segments". An operating segment is defined as a unit 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, the Management Board, 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 relevant income and expenses are included. EBIT, which the Company defines as earnings before finance income, finance expenses and income taxes, is the key benchmark for measuring and evaluating the operating results. Refer to the table in Note 3.3 for a reconciliation of EBIT to Net income as well as to the table in Note 4.3 for a breakdown of finance income and expenses. Other key internal reporting figures include revenues, operating expenses, segment results and the liquidity position.

The Group consists of the following operating segments.

### 3.1 PROPRIETARY DEVELOPMENT

The segment comprises all activities related to the proprietary development of therapeutic antibodies and peptides. These activities currently comprise a total of 13 antibodies and peptides, including the proprietary clinical programs MOR208, MOR202, and MOR106, which is co-developed with Galapagos. The proprietary program MOR103, also included in this segment, was out-licensed to GlaxoSmithKline (GSK) in 2013 and all activities since that time are conducted by GSK. This program has been allocated to this segment since the beginning of its development and will, therefore, continue to be reported under this segment. MorphoSys is also pursuing other programs that are either at an early stage of proprietary development or fall under co-development agreements. One of these programs is the clinical program MOR107 (formerly LP2) resulting from the acquisition of Lanthio Pharma B.V. A further eight programs are in the discovery phase. The development of proprietary technologies is allocated to the Proprietary Development segment.

### 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.

### 3.3 CROSS-SEGMENT DISCLOSURE

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

| For the Twelve-month Period Ended 31 December (in 000' €) | Proprietary Development 2017 | Proprietary Development 2016 | Partnered Discovery 2017 | Partnered Discovery 2016 | Unallocated 2017 | Unallocated 2016 | Group 2017 | Group 2016 |
|---|---|---|---|---|---|---|---|---|
| External Revenues | 17,635 | 621 | 49,156 | 49,123 | 0 | 0 | 66,791 | 49,744 |
| Other Operating Expenses | (99,106) | (78,515) | (18,906) | (18,113) | (15,835) | (13,212) | (133,847) | (109,840) |
| **SEGMENT RESULT** | **(81,471)** | **(77,894)** | **30,250** | **31,010** | **(15,835)** | **(13,212)** | **(67,056)** | **(60,096)** |
| Other Income | 157 | 327 | 0 | 0 | 963 | 382 | 1,120 | 709 |
| Other Expenses | 0 | 0 | 0 | 0 | (1,671) | (554) | (1,671) | (554) |
| **SEGMENT EBIT** | **(81,314)** | **(77,567)** | **30,250** | **31,010** | **(16,543)** | **(13,384)** | **(67,607)** | **(59,941)** |
| Finance Income | | | | | | | 712 | 1,385 |
| Finance Expenses | | | | | | | (1,895) | (1,308) |
| **PROFIT BEFORE TAXES** | | | | | | | **(68,790)** | **(59,864)** |
| Income Tax Expenses | | | | | | | (1,036) | (519) |
| **NET LOSS** | | | | | | | **(69,826)** | **(60,383)** |
| Current Assets | 8,802 | 13,157 | 18,054 | 18,415 | 313,825 | 276,484 | 340,681 | 308,056 |
| Non-current Assets | 60,658 | 59,292 | 8,490 | 10,165 | 5,569 | 86,087 | 74,717 | 155,544 |
| **TOTAL SEGMENT ASSETS** | **69,460** | **72,449** | **26,544** | **28,580** | **319,394** | **362,571** | **415,398** | **463,600** |
| Current Liabilities | 33,008 | 20,948 | 4,083 | 2,512 | 10,610 | 14,842 | 47,701 | 38,302 |
| Non-current Liabilities | 7,072 | 6,930 | 1,045 | 2,165 | 909 | 743 | 9,026 | 9,838 |
| Stockholders' Equity | 0 | 0 | 0 | 0 | 358,671 | 415,460 | 358,671 | 415,460 |
| **TOTAL SEGMENT LIABILITIES AND EQUITY** | **40,080** | **27,878** | **5,128** | **4,677** | **370,190** | **431,045** | **415,398** | **463,600** |
| Capital Expenditure | 12,344 | 1,358 | 602 | 1,181 | 204 | 374 | 13,150 | 2,913 |
| Depreciation and Amortization | 1,555 | 1,272 | 2,075 | 2,117 | 400 | 375 | 4,030 | 3,764 |

The segment result is defined as a segment's revenue less the segment's operating expenses. The unallocated other operating expenses of € 15.8 million (2016: € 13.2 million) included primarily expenses for central administrative functions that are not allocated to one of the two segments. Finance income, finance expense and income tax are also not allocated to the segments as they are managed on a group basis. In the 2017 financial year, impairments totaling € 9.9 million were recognized in the Proprietary Development segment (2016: impairments of € 10.1 million in the Proprietary Discovery segment).

The Group's key customers are allocated to the Partnered Discovery and Proprietary Development segments. As of December 31, 2017, the single most important customer represented accounts receivable with a carrying amount of € 5.1 million (December 31, 2016: € 8.4 million). The largest customer accounted for revenues in 2017 of € 36.9 million, the second largest for € 16.8 million and the third largest for € 6.7 million. The largest and third largest customers were allocated to the Partnered Discovery segment and the second largest customer to the Proprietary Development segment. The top three of the Group's customers that were all allocated to the Partnered Discovery segment accounted for € 42.1 million, € 2.5 million and € 2.5 million, respectively, of the total revenues in 2016.

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

| in 000' € | 2017 | 2016 |
|---|---|---|
| Germany | 851 | 1,621 |
| Europe and Asia | 57,229 | 43,046 |
| USA and Canada | 8,711 | 5,077 |
| **TOTAL** | **66,791** | **49,744** |

A total of € 42.2 million (December 31, 2016: € 123.7 million) and € 32.6 million (December 31, 2016: € 32.6 million) 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 € 13.1 million (December 31, 2016: € 2.8 million) were made in Germany, except for € 0.1 million (December 31, 2016: € 0.1 million), which were made in the Netherlands. In accordance with internal definitions, investments only included additions to property, plant and equipment as well as intangible assets which are not related to business combinations. MorphoSys defines investments as additions to non-current assets that are not related to acquisitions.

# 4 Notes to the Income Statement

### 4.1 REVENUES

In 2017, revenues consisted of license fees and milestone payments totaling € 44.8 million (2016: € 28.4 million). Of this total, € 16.8 million was generated by the Proprietary Development segment and € 28.0 million was generated by the Partnered Discovery segment. In 2016, all such revenues of € 28.4 million were generated by the Partnered Discovery segment.

Of the service fee revenues totaling € 22.0 million (2016: € 21.4 million), € 0.8 million (2016: € 0.6 million) were attributable to the Proprietary Development segment and € 21.2 million (2016: € 20.8 million) to the Partnered Discovery segment.

### 4.2 OPERATING EXPENSES

#### 4.2.1 RESEARCH AND DEVELOPMENT EXPENSES

Research and development increased compared to the prior year due to a high level of investment in our proprietary product pipeline (namely, external services) and increased personnel expenses. Research and development expenses consisted of the items below.

| in 000' € | 2017 | 2016 |
|---|---|---|
| Personnel Expenses | 29,735 | 26,493 |
| Consumable Supplies | 2,588 | 2,321 |
| Other Operating Expenses | 3,065 | 2,922 |
| Impairment, Amortization and Other Costs of Intangible Assets | 13,503 | 13,689 |
| External Services | 63,053 | 44,409 |
| Depreciation and Other Costs for Infrastructure | 4,865 | 5,889 |
| **TOTAL** | **116,809** | **95,723** |

| in million € | 2017 | 2016 |
|---|---|---|
| R&D Expenses on behalf of Partners | 17.7 | 17.2 |
| Proprietary Development Expenses | 97.7 | 77.1 |
| Technology Development Expenses | 1.4 | 1.4 |
| **R&D TOTAL** | **116.8** | **95.7** |

### 4.2.2 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses included the items below.

| in 000' € | 2017 | 2016 |
|---|---|---|
| Personnel Expenses | 12,315 | 9,521 |
| Consumable Supplies | 33 | 97 |
| Other Operating Expenses | 794 | 978 |
| Amortization of Intangible Assets | 112 | 111 |
| External Services | 2,947 | 2,484 |
| Depreciation and Other Costs for Infrastructure | 838 | 925 |
| **TOTAL** | **17,039** | **14,116** |

### 4.2.3 PERSONNEL EXPENSES

Personnel expenses included the items below.

| in 000' € | 2017 | 2016 |
|---|---|---|
| Wages and Salaries | 28,196 | 27,146 |
| Social Security Contributions | 4,542 | 4,570 |
| Stock-based Compensation Expense | 4,975 | 2,357 |
| Temporary Staff (External) | 881 | 1,061 |
| Other | 3,456 | 880 |
| **TOTAL** | **42,050** | **36,014** |

In 2017, other personnel expenses consisted primarily of severance payments, recruitment and development costs. In 2016, other personnel expenses consisted mainly of recruitment costs.

The average number of employees in the 2017 financial year was 344 (2016: 354). Of the 326 employees on December 31, 2017 (December 31, 2016: 345), 263 were active in research and development (December 31, 2016: 289) and 63 were engaged in general and administrative functions (December 31, 2016: 56 employees). As of December 31, 2017, there were 161 employees in the Proprietary Development segment and 105 employees in the Partnered Discovery segment; 60 employees were not allocated to a segment (December 31, 2016: 135 in the Proprietary Development segment, 156 employees in the Partnered Discovery segment and 54 employees were unallocated). Costs for defined-contribution plans amounted to € 0.6 million in 2017 (2016: € 0.5 million).

### 4.3 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' € | 2017 | 2016 |
|---|---|---|
| Grant Income | 157 | 327 |
| Gain on Foreign Exchange | 485 | 192 |
| Reversal of Impairment for Accounts Receivable Previously Deemed Impaired | 76 | 15 |
| Miscellaneous Income | 402 | 175 |
| Other Income | 1,120 | 709 |
| | | |
| Loss on Foreign Exchange | (844) | (400) |
| Impairment of Other Receivables | 0 | (7) |
| Miscellaneous Expenses | (827) | (147) |
| Other Expenses | (1,671) | (554) |
| | | |
| Gain on Available-for-sale Financial Assets and Bonds | 35 | 294 |
| Interest Income | 236 | 1,017 |
| Gain on Derivatives | 441 | 74 |
| Finance Income | 712 | 1,385 |
| | | |
| Interest Expenses | (374) | (20) |
| Loss on Derivatives | (1,360) | (44) |
| Bank Fees | (41) | (35) |
| Loss on Available-for-sale Financial Assets and Bonds | (120) | (1,209) |
| Finance Expenses | (1,895) | (1,308) |

### 4.4 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 is 15.0 % and the solidarity surcharge 5.5 %. The effective trade tax rate is 10.85 % and remained unchanged.

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 consist of the items listed below.

| in 000' € | 2017 | 2016 |
|---|---|---|
| Current Tax Income/(Expense) (Thereof Regarding Prior Years: k€ 171; 2016: k€ (60)) | (534) | 45 |
| Deferred Tax Expenses | (502) | (564) |
| Total Income Tax Expense | (1,036) | (519) |
| Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income | 0 | (82) |
| Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income | 0 | (112) |
| Total Amount of Tax-Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income | 0 | (194) |

| in 000' € | 2017 | 2016 |
|---|---|---|
| Profit Before Income Taxes | (68,790) | (59,864) |
| Expected Tax Rate | 26.675% | 26.675% |
| Expected Income Tax | 18,350 | 15,969 |
| Tax Effects Resulting from: | | |
| Stock-based Compensation | (290) | 5 |
| Non-Tax-Deductible Items | (134) | (135) |
| Differences in Profit and Loss Neutral Adjustments | 37 | 812 |
| Non-Recognition of Deferred Tax Assets on Temporary Differences | 3,256 | (3,766) |
| Non-Recognition of Deferred Tax Assets on Current Year Tax Losses | (22.007) | (13,354) |
| Tax Rate Differences to Local Tax Rates | (71) | (46) |
| Prior Year Taxes | (171) | 0 |
| Other Effects | (6) | (4) |
| Actual Income Tax | (1,036) | (519) |

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 26.675% in the 2017 financial year (2016: 26.675%) 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 10.85% applicable to the Group.

As of December 31, 2017, neither deferred tax assets in the amount of € 33.6 million on tax loss carryforwards (December 31, 2016: € 12.8 million) nor deferred tax assets on temporary differences in the amount of € 0.5 million (December 31, 2016: € 3.8 million) were recognized by MorphoSys AG due to continued substantial investments in proprietary product development and related business development.

As of December 31, 2017, tax loss carryforwards of Sloning BioTechnology GmbH were fully exhausted. As of December 31, 2016, deferred tax assets in the amount of € 0.5 million were recognized on tax loss carryforwards.

As of December 31, 2017, deferred tax assets in the amount of € 3.8 million on tax loss carryforwards (December 31, 2016: € 2.5 million) were not recognized for the Lanthio Group due to continued substantial investments in proprietary product development and related business development.

Deferred tax assets and deferred tax liabilities are composed as follows.

| in 000's €, as of December 31 | Deferred Tax Asset 2017 | Deferred Tax Asset 2016 | Deferred Tax Liability 2017 | Deferred Tax Liability 2016 |
|---|---|---|---|---|
| Intangible Assets | 0 | 0 | 8,297 | 8,068 |
| Receivables and Other Assets | 0 | 0 | 0 | 8 |
| Prepaid Expenses and Deferred Charges | 0 | 0 | 3 | 3 |
| Short-term Securities Investments | 0 | 19 | 0 | 131 |
| Provisions | 253 | 130 | 0 | 0 |
| Other Liabilities | 236 | 123 | 0 | 0 |
| Tax Losses | 0 | 516 | 0 | 0 |
| **TOTAL** | **489** | **788** | **8,300** | **8,210** |

| | Changes in Deferred Taxes in 2017 | |
|---|---|---|
| in 000's €, as of December 31 | Recognized in Profit and Loss Income/(Expense) | Recognized in Other Comprehensive Income |
| Intangible Assets | (229) | 0 |
| Receivables and Other Assets | 8 | 0 |
| Short-term Securities Investments and cash flow hedge | 0 | 112 |
| Provisions | 123 | 0 |
| Other Liabilities | 113 | 0 |
| Tax Losses | (516) | 0 |
| **TOTAL** | **(501)** | **112** |

As of December 31, 2017, temporary differences existed in connection with investments in subsidiaries (known as outside basis differences) of € 0.2 million (December 31, 2016: € 0.3 million) for which no deferred tax liabilities were recognized.

### 4.5 EARNINGS PER SHARE

Earnings per share is computed by dividing the 2017 consolidated net loss of € 69,826,469 (2016: consolidated net loss of € 60,382,776) by the weighted-average number of ordinary shares outstanding during the respective year (2017: 28,947,566; 2016: 26,443,415).

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

| | 2017 | 2016 |
|---|---|---|
| **SHARES ISSUED ON JANUARY 1** | **29,159,770** | **26,537,682** |
| Effect of Treasury Shares Held on January 1 | (396,010) | (434,670) |
| Effect of Repurchase of Treasury Stock | 0 | (34,812) |
| Effect of Share Issuance | 0 | 327,761 |
| Effect of Transfer of Treasury Stock to Members of the Management Board | 7,759 | 0 |
| Effect of Transfer of Treasury Stock / Shares Issued in January | 0 | 0 |
| Effect of Transfer of Treasury Stock / Shares Issued in February | 0 | 0 |
| Effect of Transfer of Treasury Stock / Shares Issued in March | 0 | 0 |
| Effect of Transfer of Treasury Stock / Shares Issued in April | 154,250 | 12,638 |
| Effect of Transfer of Treasury Stock / Shares Issued in May | 3,778 | 10,039 |
| Effect of Transfer of Treasury Stock / Shares Issued in June | 1,094 | 17,749 |
| Effect of Transfer of Treasury Stock / Shares Issued in July | 2,038 | 0 |
| Effect of Transfer of Treasury Stock / Shares Issued in August | 2,669 | 6,463 |
| Effect of Transfer of Treasury Stock / Shares Issued in September | 3,976 | 490 |
| Effect of Transfer of Treasury Stock / Shares Issued in October | 2,566 | 76 |
| Effect of Transfer of Treasury Stock / Shares Issued in November | 5,549 | 0 |
| Effect of Transfer of Treasury Stock / Shares Issued in December | 127 | 0 |
| **WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK** | **28,947,566** | **26,443,415** |

In 2017 and 2016, diluted earnings per share equal basic earnings per share. The effect of 87,904 potentially dilutive shares in 2017 (2016: 99,764 dilutive shares) resulting from stock options and convertible bonds granted to the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group, has been excluded from the diluted earnings per share because it would result in a decrease in the loss per share and is therefore not to be treated as dilutive.

# 5 Notes to the Assets of the Balance Sheet

### 5.1 CASH AND CASH EQUIVALENTS

| in 000' € | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Bank Balances and Cash in Hand | 76,589 | 73,929 |
| Term Deposits | 1,133 | 1,252 |
| Restricted Cash | (1,133) | (1,252) |
| Cash and Cash Equivalents | 76,589 | 73,929 |

Restricted cash of € 1.1 million mainly consisted of rent deposits (2016: € 1.3 million).

### 5.2 FINANCIAL ASSETS AND BONDS, AVAILABLE-FOR-SALE AND FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

As of December 31, 2017 and December 31, 2016, available-for-sale financial assets consisted of the items below.

| | | | Gross Unrealized | | |
|---|---|---|---|---|---|
| in 000' € | Maturity | Cost | Gains | Losses | Market Value |
| **DECEMBER 31, 2017** | | | | | |
| Money Market Funds | daily | 86,644 | 0 | 106 | 86,538 |
| **TOTAL** | | | | | **86,538** |
| **DECEMBER 31, 2016** | | | | | |
| Money Market Funds | daily | 63,433 | 2 | 73 | 63,362 |
| **TOTAL** | | | | | **63,362** |

In 2017, the Group recorded a net gain of less than € 0.1 million in the income statement from the disposal of financial assets. This gain was previously recognized in stockholders' equity (2016: net gain of € 0.3 million).

As of December 31, 2017 and December 31, 2016, bonds, available-for-sale consisted of the items below.

| | | | Gross Unrealized | | |
|---|---|---|---|---|---|
| in 000' € | Maturity | Cost | Gains | Losses | Market Value |
| **DECEMBER 31, 2017** | | | | | |
| Bonds | daily | 0 | 0 | 0 | 0 |
| **TOTAL** | | | | | **0** |
| **DECEMBER 31, 2016** | | | | | |
| Bonds | daily | 6,620 | 2 | 90 | 6,532 |
| **TOTAL** | | | | | **6,532** |

In 2017, the Group recorded a net loss of € 0.1 million from the disposal of financial assets contained in the income statement that were previously recognized in stockholders' equity (2016: net loss of € 1.2 million). The bonds were purchased at a price above their nominal value. The loss that resulted from the product-specific price development is more than offset by the bond's interest income.

As of December 31, 2017, the Company held current financial assets of € 149.1 million (December 31, 2016: € 136.1 million) and no non-current financial assets (December 31, 2016: € 79.5 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 decline in financial assets resulted from the expiry of their agreed holding periods and the use of the related cash released for operating activities. The carrying amounts included interest receivables of € 0.1 million (December 31, 2016: € 0.1 million).

Interest income from financial assets under "loans and receivables" amounted to € 0.2 million (2016: € 0.9 million) and was recorded in the finance result. The risk associated with these financial instruments primarily resulted from bank credit risks. There was no indication of impairment in the financial year 2017.

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

*CROSS-REFERENCE *to page 123*

### 5.3 ACCOUNTS RECEIVABLE

All accounts receivable are non-interest bearing, and generally have payment terms of between 30 and 45 days. As of December 31, 2017 and December 31, 2016, accounts receivable included unbilled receivables amounting to € 5.3 million and € 3.3 million, respectively.

Based on the Management Board's estimate, no net loss for allowances for doubtful receivables was recognized in profit and loss in 2017 and 2016.

### 5.4 OTHER RECEIVABLES

As of December 31, 2017, there were no impairments recognized for other receivables. An immaterial amount of impairments had been recognized as of December 31, 2016.

### 5.5 INCOME TAX RECEIVABLES, INVENTORIES, PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2017 income tax receivables amounted to € 0.7 million (December 31, 2016: € 0.5 million) and consisted of receivables from capital gain taxes withheld and income taxes for prior years.

Inventories amounting to € 0.3 million as of December 31, 2017 (December 31, 2016: € 0.3 million) were stored at the Planegg 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 the reporting date.

As of December 31, 2017, prepaid expenses and other current assets mainly consisted of combination compounds of € 11.2 million (December 31, 2016: € 7.3 million), receivables due from tax authorities for the remaining surplus from prepayments for value-added taxes of € 2.4 million (December 31, 2016: € 2.8 million), prepaid fees for external laboratory services of € 0.6 million (December 31, 2016: € 2.4 million), prepaid fees for sublicenses of € 0.4 million (December 31, 2016: € 0.3 million), restricted cash for rent deposits of € 0.4 million (December 31, 2016: € 0.4 million) and other prepayments amounting to € 1.1 million (December 31, 2016: € 0.8 million).

## 5.6 PROPERTY, PLANT AND EQUIPMENT

| in 000' € | Office and Laboratory Equipment | Furniture and Fixtures | Total |
|---|---|---|---|
| Cost | | | |
| **JANUARY 1, 2017** | **16,658** | **2,389** | **19,047** |
| Additions | 1,205 | 112 | 1,317 |
| Disposals | (528) | 0 | (528) |
| **DECEMBER 31, 2017** | **17,335** | **2,501** | **19,836** |
| | | | |
| Accumulated Depreciation and Impairment | | | |
| **JANUARY 1, 2017** | **13,120** | **1,738** | **14,858** |
| Depreciation Charge for the Year | 1,887 | 82 | 1,969 |
| Impairment | 0 | 0 | 0 |
| Disposals | (517) | 0 | (517) |
| **DECEMBER 31, 2017** | **14,490** | **1,820** | **16,310** |
| | | | |
| Carrying Amount | | | |
| **JANUARY 1, 2017** | **3,538** | **651** | **4,189** |
| **DECEMBER 31, 2017** | **2,845** | **681** | **3,526** |
| | | | |
| Cost | | | |
| **JANUARY 1, 2016** | **15,040** | **1,780** | **16,820** |
| Additions | 1,890 | 612 | 2,502 |
| Disposals | (272) | (3) | (275) |
| **DECEMBER 31, 2016** | **16,658** | **2,389** | **19,047** |
| | | | |
| Accumulated Depreciation and Impairment | | | |
| **JANUARY 1, 2016** | **11,691** | **1,655** | **13,346** |
| Depreciation Charge for the Year | 1,700 | 86 | 1,786 |
| Impairment | 0 | 0 | 0 |
| Disposals | (271) | (3) | (274) |
| **DECEMBER 31, 2016** | **13,120** | **1,738** | **14,858** |
| | | | |
| Carrying Amount | | | |
| **JANUARY 1, 2016** | **3,349** | **125** | **3,474** |
| **DECEMBER 31, 2016** | **3,538** | **651** | **4,189** |

No impairment of property, plant and equipment was recognized in the 2017 and 2016 financial years.

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' € | 2017 | 2016 |
|---|---|---|
| Research and Development | 1,672 | 1,518 |
| General and Administrative | 297 | 268 |
| **TOTAL** | **1,969** | **1,786** |

## 5.7 INTANGIBLE ASSETS

| in 000' € | Patents | License Rights | In-process R&D Programs | Software | Goodwill | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| **JANUARY 1, 2017** | **16,419** | **23,896** | **60,960** | **5,800** | **11,041** | **118,116** |
| Additions | 640 | 0 | 11,140 | 53 | 0 | 11,833 |
| Disposals | (64) | 0 | (19,941) | 0 | 0 | (20,005) |
| **DECEMBER 31, 2017** | **16,995** | **23,896** | **52,159** | **5,853** | **11,041** | **109,944** |
| Accumulated Amortization and Impairment | | | | | | |
| **JANUARY 1, 2017** | **11,096** | **20,749** | **10,141** | **4,515** | **3,676** | **50,177** |
| Amortization Charge for the Year | 1,230 | 148 | 0 | 683 | 0 | 2,061 |
| Impairment | 64 | 0 | 9,800 | 0 | 0 | 9,864 |
| Disposals | (64) | 0 | (19,941) | 0 | 0 | (20,005) |
| **DECEMBER 31, 2017** | **12,326** | **20,897** | **0** | **5,198** | **3,676** | **42,097** |
| Carrying Amount | | | | | | |
| **JANUARY 1, 2017** | **5,323** | **3,147** | **50,819** | **1,285** | **7,365** | **67,939** |
| **DECEMBER 31, 2017** | **4,669** | **2,999** | **52,159** | **655** | **7,365** | **67,847** |
| Cost | | | | | | |
| **JANUARY 1, 2016** | **16,064** | **23,896** | **60,960** | **5,744** | **11,041** | **117,705** |
| Additions | 355 | 0 | 0 | 56 | 0 | 411 |
| **DECEMBER 31, 2016** | **16,419** | **23,896** | **60,960** | **5,800** | **11,041** | **118,116** |
| Accumulated Amortization and Impairment | | | | | | |
| **JANUARY 1, 2016** | **9,923** | **20,651** | **0** | **3,808** | **3,676** | **38,058** |
| Amortization Charge for the Year | 1,173 | 98 | 0 | 707 | 0 | 1,978 |
| Impairment | 0 | 0 | 10,141 | 0 | 0 | 10,141 |
| **DECEMBER 31, 2016** | **11,096** | **20,749** | **10,141** | **4,515** | **3,676** | **50,177** |
| Carrying Amount | | | | | | |
| **JANUARY 1, 2016** | **6,141** | **3,245** | **60,960** | **1,936** | **7,365** | **79,647** |
| **DECEMBER 31, 2016** | **5,323** | **3,147** | **50,819** | **1,285** | **7,365** | **67,939** |

In the 2017 financial year, impairment losses of € 0.1 million were recognized on patents and licenses. No impairment of patents and licenses was recognized in the 2016 financial year.

As of December 31, 2017, in-process research and development programs were subject to an impairment test as required by IAS 36. This test indicated no need for impairment. Further details on the impairment of in-process research and development programs can be found in Item 5.7.3* in the Notes.
*CROSS-REFERENCE *to page 138*

The carrying amount of intangible assets pledged as security amounts to € 26.5 million and relates to a government grant in the amount of € 1.5 million.

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

| in 000' € | 2017 | 2016 |
|---|---|---|
| Research and Development | 1,958 | 1,872 |
| Research and Development (Write-off) | 9,864 | 10,141 |
| General and Administrative | 103 | 106 |
| **TOTAL** | **11,925** | **12,119** |

### 5.7.1 PATENTS

In the 2017 financial year, the carrying amount of patents declined by € 0.6 million from € 5.3 million to € 4.7 million. This was the result of additions amounting to € 0.6 million for patent applications, particularly for proprietary programs and technologies, which were offset by straight-line amortization of € 1.2 million.

#### 5.7.2 LICENSES

In the 2017 financial year, the carrying amount of licenses declined by € 0.1 million from € 3.1 million to € 3.0 million.

#### 5.7.3 IN-PROCESS R&D PROGRAMS

In the 2017 financial year, the carrying amount of in-process R&D programs increased by € 1.3 million to € 52.2 million. The reason for this increase was the capitalization of a milestone payment made in the amount of € 11.1 million, which was offset by an impairment on MOR209/ES414 of € 9.8 million. The reason for the impairment was the termination of the cooperation with Aptevo Therapeutics in 2017 due to the expectation of a delay in the development plan, a delayed market entry and a delay in the occurrence of future cash flows compared to previous assumptions.

As of December 31, 2017, this balance sheet item contained capitalized upfront payments from the in-licensing of one compound for the Proprietary Development segment as well as subsequent milestone payments for this compound which were paid at a later point in time. Additionally, the line item also included two compounds resulting from an acquisition.

The annual impairment test was performed on September 30, 2017. At that time, the compound MOR208, an intangible asset with indefinite useful life and a carrying amount of € 23.9 million, was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit MOR208, which is part of the Proprietary Development segment, was determined on the basis of value-in-use calculations. The calculation showed that the recoverable amount was higher than the carrying amount of the cash-generating unit. The cash flow forecasts took into account expected cash inflows from the potential commercialization of the compound and cash outflows from the expected research and development as well as commercialization costs. The cash flow forecasts are based on the term with patent protection for MOR208. For this reason, a planning horizon of about 20 years is considered appropriate for the value-in-use calculation. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). Based on the updated cash flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2016: 1.2) and WACC before taxes of 9.4 % (2016: 8.6 %). A detailed sensitivity analysis was performed for the discount rate. A sensitivity analysis for changes in the cash flows has not been performed since the cash flows from research and development as well as commercialization of the compound have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success of phases in clinical trials. The 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. No indicators for impairments were identified at December 31, 2017.

#### 5.7.4 SOFTWARE

In the 2017 financial year, additions to this line item totaled € 0.1 million. The carrying amount decreased by € 0.6 million from € 1.3 million in 2016 to € 0.7 million in 2017. Additions were offset by amortization of € 0.7 million.

#### 5.7.5 GOODWILL

The annual goodwill impairment test was performed on September 30, 2017.

As of September 30, 2017, goodwill of € 3.7 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 higher than the carrying amount of the cash-generating unit. 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 cash flow forecasts are largely based on the assumption that the Slonomics technology is very beneficial for existing customers. 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 (2016: 1.2), WACC before taxes of 10.6 % (2016: 12.2 %) and a perpetual growth rate of 1 % (2016: 1 %). A detailed sensitivity analysis was performed for the growth rate and the discount rate for calculating value-in-use. The sensitivity analysis took into account the change in one assumption, with the remaining assumptions remaining unchanged from the original calculation. A sensitivity analysis for changes in the cash flows has not been performed since the cash flows have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success of phases in clinical trials. 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, 2017, goodwill of € 3.7 million and related intangible assets with indefinite useful life of € 28.2 million from the Lanthio Group acquisition 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 were 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 (2016: 1.2) and WACC before taxes of 12.1 % (2016: 11.9 %). A detailed sensitivity analysis was performed with regard to the discount rate. A sensitivity analysis for changes in the cash flows has not been performed since the cash flows from research and development as well as commercialization of the compounds have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success of phases in clinical trials. 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.

No indicators for impairments were identified at December 31, 2017.

### 5.8 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

This line item included the non-current portion of prepaid expenses and other assets and mainly resulted from prepaid rent for the premises in Semmelweisstraße 7 in Planegg. The Group 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* and 5.1* in the Notes). As of December 31, 2017 and December 31, 2016, the Group held long-term restricted cash in the amount of € 0.7 million and € 0.9 million, respectively, for issued rent guarantees and of € 0.1 million for convertible bonds granted to employees (December 31, 2016: € 0.2 million).

*CROSS-REFERENCE *to page 123 and page 133*

The table below shows the breakdown of this line item.

| in 000' € | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Prepaid Expenses, Net of Current Portion | 2,546 | 2,783 |
| Other Current Assets | 798 | 1,111 |
| **TOTAL** | **3,344** | **3,894** |

## 6 Notes to Equity and Liabilities of the Balance Sheet

### 6.1 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts payable are listed in the table below.

| in 000' € | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Trade Accounts Payable | 4,622 | 8,457 |
| Licenses Payable | 196 | 179 |
| Accrued Expenses | 36,408 | 22,838 |
| Other Liabilities | 3,586 | 749 |
| **TOTAL** | **44,812** | **32,223** |

Accrued expenses mainly included accrued personnel expenses for payments to employees and management amounting to € 5.0 million (December 31, 2016: € 2.8 million), provisions for outstanding invoices in the amount of € 2.6 million (December 31, 2016: € 2.6 million), external laboratory services in the amount of € 26.3 million (December 31, 2016: € 16.2 million), license payments in the amount of € 0.2 million (December 31, 2016: € 0.1 million), audit fees and other audit-related costs in the amount of € 0.2 million (December 31, 2016: € 0.1 million) and expenses for legal advice in the amount of € 2.1 million (December 31, 2016: € 1.0 million).

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

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

### 6.2 TAX PROVISIONS AND PROVISIONS

As of December 31, 2017, the Group recorded tax provisions and provisions of € 1.5 million (2016: € 4.9 million).

Tax provisions mainly consisted of income tax expenses and provisions included provisions for onerous contracts and lease obligations for office premises, which will not be used anymore in the future, as well as for potential losses resulting from unsettled forward rate agreements. Furthermore provisions comprised obligations resulting from an agreement with a contract manufacturing organization.

As of December 31, 2017, tax provisions and provisions are uncertain in their amount and are expected to be utilized in 2018.

The table below shows the development of tax provisions and current and non-current provisions in the 2017 financial year.

| in 000' € | 01/01/2017 | Additions | Utilized | Released | 12/31/2017 |
|---|---|---|---|---|---|
| Tax Provisions | 1,652 | 147 | 1,484 | 0 | 315 |
| Provisions | 3,218 | 1,116 | 1,841 | 1,284 | 1,209 |
| **TOTAL** | **4,870** | **1,263** | **3,325** | **1,284** | **1,524** |

### 6.3 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' € | 2017 | 2016 |
|---|---|---|
| **OPENING BALANCE** | **2,905** | **4,507** |
| Prepayments Received in the Fiscal Year | 18,386 | 17,441 |
| Revenue Recognized through Release of Prepayments in line with Services Performed in the Fiscal Year | (19,596) | (19,043) |
| **CLOSING BALANCE** | **1,695** | **2,905** |
| thereof short-term | 1,389 | 1,232 |
| thereof long-term | 306 | 1,673 |

### 6.4 OTHER LIABILITIES

Other liabilities exclusively consisted of the deferred amount of the rent-free period for the building located at Semmelweisstraße 7, Planegg, as agreed in the lease contract. This item is released over the contractually agreed minimum rent period.

The current portion amounting to € 0.1 million of this liability was included in the item accounts payable and accrued expenses.

### 6.5 STOCKHOLDERS' EQUITY

#### 6.5.1 COMMON STOCK

On December 31, 2017, the Company's common stock, including treasury stock, increased by € 261,015 to € 29,420,785 from its level of € 29,159,770 on December 31, 2016. Each no-par value share is entitled to one vote. Common stock increased by € 261,015 as a result of the exercise of 261,015 convertible bonds granted to the Management Board and the Senior Management Group. The weighted-average exercise price of the exercised convertible bonds was € 31.88.

On December 31, 2017, the Company held 319,678 shares of treasury stock amounting to € 11,826,981 which represents a decrease of € 2,821,231 compared to December 31, 2016 (396,010 shares, € 14,648,212). This decrease was the result of the transfer of 61,871 shares of treasury stock to the Management Board and Senior Management under the performance-based 2013 long-term incentive plan (LTI plan) totaling € 2,286,752. The vesting period for this LTI program expired on April 1, 2017 and October 1, 2017 and provides or provided beneficiaries a six-month option to receive a total of 61,871 shares. In addition, in March 2017, Chief Development Officer Dr. Peters received 9,505 treasury shares worth € 351,305. In November 2017, Chief Scientific Officer Dr. Enzelberger received 4,956 treasury shares worth € 183,174. As a result, the number of MorphoSys shares held by the Company as of December 31, 2017 amounted to 319,678 (December 31 2016: 396,010).

#### 6.5.2 AUTHORIZED CAPITAL

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

Pursuant to the Company's articles of association, the shareholders may authorize the Management Board to increase the share capital with the consent of the Supervisory Board within a period of five years by issuing shares for a certain total amount, which are referred to as authorized capital (genehmigtes Kapital) and is a concept under German law that enables the Company to issue shares without going through the process of obtaining another shareholders' resolution. The aggregate nominal amount of the authorized capital created by the shareholders may not exceed one-half of the share capital existing at the time of registration of the authorized capital with the commercial register.

#### 6.5.3 CONDITIONAL CAPITAL

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

The shareholders may resolve to amend or create conditional capital (bedingtes Kapital). However, they may do so only to issue conversion or subscription rights to holders of convertible bonds, in preparation for a merger with another company or to issue subscription rights to employees and members of the Management Board of the Company or of an affiliated company by way of a consent or authorization resolution. According to German law, the aggregate nominal amount of the conditional capital created at the shareholders' meeting may not exceed

one-half of the share capital existing at the time of the shareholders' meeting adopting such resolution. The aggregate nominal amount of the conditional capital created for the purpose of granting subscription rights to employees and members of the management of our company or of an affiliated company may not exceed 10% of the share capital existing at the time of the shareholders' meeting adopting such resolution.

#### 6.5.4 TREASURY STOCK

In contrast to the year 2016, the Group did not repurchase any of its own shares in 2017. 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 |
| Purchase in 2016 | 52,295 | 2,181,963 |
| Transfer in 2016 | (90,955) | (3,361,697) |
| As of 12/31/2016 | 396,010 | 14,648,212 |
| Transfer in 2017 | (76,332) | (2,821,231) |
| As of 12/31/2017 | 319,678 | 11,826,981 |

#### 6.5.5 ADDITIONAL PAID-IN CAPITAL

On December 31, 2017, additional paid-in capital amounted to € 438,557,857 (December 31, 2016: € 428,361,175). The total increase of € 10,196,682 resulted mainly from the exercise of convertible bonds in the amount of € 8,043,313 and the allocation of personnel expenses resulting from share-based payments in the amount of € 4,974,599. There was an offsetting effect from the decline in the reclassification of treasury shares in the context of the allocation of shares under the 2013 performance-based share plan in the amount of € 2,286,752 and the allocation of treasury shares to Dr. Peters and Dr. Enzelberger in the amount of € 534,479.

#### 6.5.6 REVALUATION RESERVE

As of December 31, 2017, the revaluation reserve amounted to € – 105,483 (December 31, 2016: € 136,101). The decline of € 241,584 resulted from the change in the unrealized gains and losses from available-for-sale securities and bonds in the amount of € 117,829 and the change in unrealized losses of € – 359,413 from cash flow hedges.

#### 6.5.7 ACCUMULATED DEFICIT

The consolidated net loss of € – 69,826,469 is reported in accumulated deficit. The accumulated deficit increased from € – 27,548,669 in the year 2016 to € – 97,375,138 in 2017.

## 7 Remuneration System for the Management Board and Employees of the Group

### 7.1 2017 STOCK OPTION PLAN

On April 1, 2017, MorphoSys established a stock option plan (SOP) for the Management Board, the Senior Management Group and employees of the Company who are not members of the Senior Management Group. In accordance with IFRS 2, the program is considered an equity-settled share-based payment and is accounted for accordingly. The grant date was April 1, 2017 and the vesting period/performance period is four years. The stock options vest each year by 25% within the four-year vesting period, provided that the performance criteria specified for the respective period have been 100% fulfilled. The number of stock options vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The performance criteria can be met annually up to a maximum of 200%. If the specified performance criteria are met by less than 0% in one year, no shares will be earned for that year (entitlement). The right to exercise a stock option, however, arises only at the end of the four-year vesting period/performance period.

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

MorphoSys reserves the right to settle the exercise of stock options through newly created shares from Conditional Capital 2016-III, through the issuance of treasury shares or in cash. The exercise period is three years after the end of the four-year vesting period/performance period, which is March 31, 2024.

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

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

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

As of April 1, 2017, a total of 81,157 stock options had been granted to the beneficiaries, of which 40,319 had been granted to the Management Board (further details can be found in the "Stock Options" table in Note 7.4* "Related Parties"), 37,660 to the Senior Management Group and 3,178 to the Company employees who do not belong to the Senior Management Group. The stated number of stock options granted is based on 100% target achievement. The fair value of the stock options on the grant date (April 1, 2017) was € 21.41 per stock option. In the period from the grant date to December 31, 2017, one beneficiary had left MorphoSys, resulting in the forfeiture of 1,402 stock options. For the calculation of personnel expenses resulting from share-based payments under the 2017 Stock Option Plan, the assumption is that two beneficiaries would leave the company during the four-year period.

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In 2017, personnel expenses from stock options under the Group's 2017 SOP amounted to € 801,330.

The fair value of the stock options from the 2017 Stock Option Plan has been determined with a Monte Carlo simulation. The expected volatility is based on the development of the share volatility of the last four years. Furthermore, the calculation of fair value equally considered the performance criteria of the absolute and relative performance of MorphoSys shares compared to the development of the NASDAQ Biotech Index and the TecDAX Index. The parameters of each program are listed in the table below.

| | April 2017 Stock Option Plan |
|---|---|
| Share Price on Grant Date in € | 55.07 |
| Strike Price in € | 55.52 |
| Expected Volatility of the MorphoSys share in % | 37.49 |
| Expected Volatility of the NASDAQ Biotech Index in % | 25.07 |
| Expected Volatility of the TecDAX Index in % | 16.94 |
| Performance Term of Program in Years | 4.0 |
| Dividend Yield in % | n/a |
| Risk-free Interest Rate in % | between 0.03 and 0.23 |

### 7.2 CONVERTIBLE BONDS – 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 since, 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 since the expiration of the four-year vesting period 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.

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

| | Convertible Bonds | Weighted-average Price (€) |
|---|---|---|
| **OUTSTANDING ON JANUARY 1, 2016** | **449,999** | **31.88** |
| Granted | 0 | 0.00 |
| Exercised | 0 | 0.00 |
| Forfeited | (13,414) | 31.88 |
| Expired | 0 | 0.00 |
| **OUTSTANDING ON DECEMBER 31, 2016** | **436,585** | **31.88** |
| | | |
| **OUTSTANDING ON JANUARY 1, 2017** | **436,585** | **31.88** |
| Granted | 0 | 0.00 |
| Exercised | (261,015) | 31.88 |
| Forfeited | 0 | 0.00 |
| Expired | 0 | 0.00 |
| **OUTSTANDING ON DECEMBER 31, 2017** | **175,570** | **31.88** |

From the grant date until December 31, 2017, one beneficiary left MorphoSys and, therefore, 13,414 convertible bonds were forfeited. As December 31, 2017, the number of vested convertible bonds totaled 175,570 shares (December 31, 2016: 327,439 shares).

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

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

The Group recognizes personnel expenses resulting from convertible bonds on a straight-line basis 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 2017 and 2016, compensation expenses related to convertible bonds amounted to € 287,601 and € 40,375, respectively.

## 7.3 LONG-TERM INCENTIVE PROGRAMS

### 7.3.1 2013 LONG-TERM INCENTIVE PROGRAM

On April 1, 2013, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The vesting period of this plan expired on April 1, 2017. 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 is paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. The key performance criteria are based on the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. These criteria are approved annually by the Supervisory Board. The fulfillment of these criteria was set at 200 % for one year, 54 % for one year and 0 % for two years. The Supervisory Board set the “company factor” at 1.57, meaning the number of performance shares to be allocated was scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 1.0 million in the 2017 financial year. Previously, personnel expenses resulting from the 2013 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 61,323 performance shares of MorphoSys AG was transferred to beneficiaries on October 2, 2017 after the expiration of the four-year vesting period. The Management Board received 36,729 performance shares (for further information, please see the tables titled “Shares” and “Performance Shares” in Item 7.4* “Related Parties”), the Senior Management Group received 21,248 performance shares and former members of the Senior Management Group who have since left the Company received 3,346 performance shares.

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On October 1, 2013, MorphoSys established another long-term incentive plan (LTI plan) for Senior Management Group members. The vesting period of this plan expired on October 1, 2017. The terms of this plan were identical to the April 1, 2013 plan. The fulfillment of the performance criteria was set at 200 % for one year, 54.8 % for one year and 0 % for two years. The Supervisory Board set the “company factor” at 1.57, meaning the number of performance shares to be allocated was scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 0.02 million in the 2017 financial year. Previously, personnel expenses resulting from the 2013 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 548 performance shares of MorphoSys AG was allocated to beneficiaries after the expiration of the four-year vesting period in December 2017. The Senior Management Group received all of the 548 performance shares.

In 2017, personnel expenses from stock options under the Group’s 2013 LTI plan amounted to € 1,038,639 (2016: € – 23,571).

### 7.3.2 2014 LONG-TERM INCENTIVE PROGRAM

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

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

If the number of repurchased shares is not sufficient for servicing the LTI 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 performance 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 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties") and 14,249 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2014) was € 62.17 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, three beneficiaries left MorphoSys and, therefore, 1,829 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2014 LTI plan, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

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In 2017, personnel expenses resulting from performance shares under the Group's 2014 LTI plan amounted to € 55,759 (2016: € 178,518).

#### 7.3.3 2015 LONG-TERM INCENTIVE PROGRAM

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

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

If the number of repurchased shares is not sufficient for servicing the LTI 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 performance 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. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 40,425 of these shares were allocated to beneficiaries on April 1, 2015 with 21,948 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties") and 18,477 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2015) was € 61.40 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, two beneficiaries left MorphoSys, and therefore 3,055 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2015 LTI plan, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

*CROSS-REFERENCE *to page 147*

In 2017, personnel expenses resulting from performance shares under the Group's 2015 LTI plan amounted to € 201,608 (2016: € 837,153).

### 7.3.4 2016 LONG-TERM INCENTIVE PROGRAM

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

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

If the number of repurchased shares is not sufficient for servicing the LTI 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 performance shares under the LTI plan occurs only at the end of the four-year vesting period.

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

A total of 68,143 of these shares were allocated to beneficiaries on April 1, 2016 with 35,681 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties") and 32,462 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2016) was € 46.86 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2017, four beneficiaries left MorphoSys, and therefore 9,350 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2016 LTI plan, it was initially assumed that one beneficiary would leave the Company during the four-year period. This assumption was updated in 2017.

*CROSS-REFERENCE *to page 147*

In 2017, personnel expenses resulting from performance shares under the Group's 2016 LTI plan amounted to € 663,624 (2016: € 1,483,694).

### 7.3.5 2017 LONG-TERM INCENTIVE PLAN

On April 1, 2017, MorphoSys established another long-term incentive plan (LTI plan) for the Management Board, the Senior Management Group and employees of the Company who are not members of 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 (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. The grant date was April 1, 2017 and the vesting/performance period is four years. If the predefined performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute MorphoSys share price performance and the relative MorphoSys share price performance compared to the NASDAQ Biotechnology Index and the TecDAX Index. The performance criteria can be met annually up to a maximum of 300% and up to 200% for the entire four-year period. If the specified performance criteria are met by less than 0% in one year, no shares will be earned for that year (entitlement). In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan, however, occurs only at the end of the four-year vesting/performance period.

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

If the number of repurchased shares is not sufficient for servicing the LTI 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 performance shares under the LTI plan occurs only at the end of the four-year vesting period.

A total of 31,549 of these shares were allocated to beneficiaries on April 1, 2017 with 15,675 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.4* "Related parties"), 14,640 performance shares allocated to the Senior Management Group and 1,234 performance shares allocated to employees of the Company who are not members of the Senior Management Group. The number of performance shares allocated is based on 100% achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2017) was € 70.52 per share. From the grant date until December 31, 2017, one beneficiary left MorphoSys, and therefore 545 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2017 LTI plan, the assumption is that two beneficiaries would leave the company during the four-year period.

*CROSS-REFERENCE *to page 147*

In 2017, personnel expenses resulting from performance shares under the Group's 2017 LTI plan amounted to € 1,026,037.

The fair value of the performance shares from the long-term incentive plans 2014 until 2017 has been determined with a Monte Carlo simulation. The expected volatility is based on the development of the share volatility of the last four years. Furthermore, the calculation of fair value equally considered the performance criteria of the absolute and relative performance of MorphoSys shares compared to the development of the NASDAQ Biotech Index and the TecDAX Index. The parameters of each program are listed in the table below.

| | April 2014 Long-Term Incentive Program | April 2015 Long-Term Incentive Program | April 2016 Long-Term Incentive Program | April 2017 Long-Term Incentive Program |
|---|---|---|---|---|
| Share Price on Grant Date in € | 68.08 | 57.18 | 43.28 | 55.07 |
| Strike Price in € | n/a | n/a | n/a | n/a |
| Expected Volatility of the MorphoSys share in % | 30.87 | 33.09 | 34.64 | 37.49 |
| Expected Volatility of the NASDAQ Biotech Index in % | 20.28 | 20.70 | 23.39 | 25.07 |
| Expected Volatility of the TecDAX Index in % | 20.18 | 20.10 | 17.01 | 16.94 |
| Performance Term of Program in Years | 4.0 | 4.0 | 4.0 | 4.0 |
| Dividend Yield in % | n/a | n/a | n/a | n/a |
| Risk-free Interest Rate in % | 0.44 | 0.07 | 0.05 | between 0.03 and 0.23 |

### 7.4 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, stock options, 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 2017 financial year.

## SHARES

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

## STOCK OPTIONS

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

## CONVERTIBLE BONDS

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

**PERFORMANCE SHARES**

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

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

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

The remuneration system for the Management Board is intended to encourage sustainable, results-oriented corporate governance. The Management Board’s total remuneration consists of several components, including fixed compensation, an annual cash bonus that is dependent upon the achievement of corporate targets (short-term incentives – STI), variable compensation components with long-term incentives (LTI) and other remuneration components. Variable remuneration components with long-term incentive consist of performance share plans from previous years and the current year, a convertible bond program from 2013 and a stock option plan from the current year. The members of the Management Board additionally receive fringe benefits in the form of benefits in kind, essentially consisting of a company car and insurance premiums. All total remuneration packages are reviewed annually by the Remuneration and Nomination Committee and compared to an annual Management Board remuneration analysis to check the scope and appropriateness of the remuneration packages. The amount of remuneration paid to members of the Management Board is based largely on the duties of the respective Management Board member, the financial situation and the performance and business outlook for the Company versus its competition. All resolutions on adjustments to the overall remuneration packages are passed by the plenum of the Supervisory Board. The remuneration of the Management Board and the index-linked pension scheme were last adjusted in July 2017. The remuneration of the new Management Board member, Dr. Markus Enzelberger, was amended as of November 1, 2017.

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

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

**MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2017 AND 2016 (IAS 24):**

| | Dr. Simon Moroney Chief Executive Officer | | Jens Holstein Chief Financial Officer | | Dr. Malte Peters Chief Development Officer Appointment: March 1, 2017 | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Fixed Compensation | 463,457 | 500,876 | 314,405 | 372,652 | – | 281,500 |
| Fringe Benefits[1] | 34,270 | 35,912 | 46,300 | 42,905 | – | 568,644 |
| One-Year Variable Compensation | 210,873 | 368,144 | 143,054 | 273,899 | – | 206,903 |
| Total Short-Term Employee Benefits (IAS 24.17 (a)) | 708,600 | 904,932 | 503,759 | 689,456 | – | 1,057,047 |
| Service Cost | 142,096 | 149,567 | 92,875 | 99,949 | – | 60,967 |
| Total Benefit Expenses – Post-Employment Benefits (IAS 24.17 (b)) | 142,096 | 149,567 | 92,875 | 99,949 | – | 60,967 |
| Multi-Year Variable Compensation[2]: | | | | | | |
| 2013 Convertible Bonds Program (Vesting Period 4 Years) | 33,964 | 58,224 | 34,791 | 59,641 | – | 0 |
| 2012 Long-Term Incentive Program (Vesting Period 4 Years) | (42,350) | 0 | (29,007) | 0 | – | 0 |
| 2013 Long-Term Incentive Program (Vesting Period 4 Years) | (10,303) | 202,349 | (7,075) | 138,585 | – | 0 |
| 2014 Long-Term Incentive Program (Vesting Period 4 Years) | 32,972 | 22,460 | 22,572 | 15,383 | – | 0 |
| 2015 Long-Term Incentive Program (Vesting Period 4 Years) | 148,799 | 67,635 | 101,906 | 46,324 | – | 0 |
| 2016 Long-Term Incentive Program (Vesting Period 4 Years) | 269,420 | 171,688 | 176,511 | 112,481 | – | 0 |
| 2017 Long-Term Incentive Program (Vesting Period 4 Years) | 0 | 163,906 | 0 | 107,395 | – | 107,395 |
| 2017 Stock Option Plan (Vesting Period 4 Years) | 0 | 127,997 | 0 | 83,861 | – | 83,861 |
| Total Stock-Based Compensation (IAS 24.17 (e)) | 432,502 | 814,259 | 299,698 | 563,670 | – | 191,256 |
| Total Compensation | 1,283,198 | 1,868,758 | 896,332 | 1,353,075 | – | 1,309,270 |

[1] In 2017, the fringe benefits of Dr. Malte Peters and Dr. Markus Enzelberger each included a one-time compensation in the form of MorphoSys shares as an incentive to join the Management Board of MorphoSys AG.
[2] The fair value was determined 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 7.1*, 7.2* and 7.3*.
[3] The figures presented for Dr. Markus Enzelberger do not include any compensation granted for his activities as a member of the Senior Management Group as they do not relate to his appointment as a member of the Management Board.
[4] Dr. Marlies Sproll left the Management Board of MorphoSys AG on October 31, 2017. Since November 1, 2017, Dr. Marlies Sproll has taken on a new part-time role at MorphoSys as Special Adviser to the CEO. Therefore, the figures presented for Dr. Marlies Sproll do not include any remuneration granted for these activities.

*CROSS-REFERENCE *to page 141–143*

On January 5, 2017, MorphoSys announced that Dr. Malte Peters would succeed Dr. Arndt Schottelius as the Chief Development Officer and member of the Management Board of MorphoSys AG. Dr. Schottelius resigned from his position as Chief Development Officer effective February 28, 2017 to pursue new challenges. For the period leading up to the end of his employment contract on April 30, 2017, Dr. Schottelius and MorphoSys entered into an exemption agreement. According to the agreement, Dr. Schottelius was entitled to the remuneration agreed in his employment contract until the date of April 30, 2017. The remuneration included a contractually agreed payment of a pro rata amount of his annual gross base salary of € 103,252.96 and a bonus of € 23,490.05. Dr. Schottelius also exercised the convertible bonds granted to him in 2013. In addition, he received shares that had vested after the four-year vesting period under the 2013 Performance Share Plan. Dr. Schottelius still has a pro rata entitlement based on the 2014, 2015 and 2016 Performance Share Plans, which can be exercised after a total of four years at the earliest. Dr. Schottelius did not participate in the 2017 Performance Share Plan. Effective March 1, 2017, Dr. Malte Peters was appointed Chief Development Officer of MorphoSys AG. His employment contract runs until June 30, 2019. As an additional incentive to join MorphoSys, Dr. Peters was granted a one-time compensation payment for the lost compensation from his former employment. This compensation was in the form of treasury shares held by MorphoSys valued at € 500,000. In the 2017 financial year, the granting of these shares was recognized as personnel expenses from performance shares as defined by IFRS 2.

On October 30, 2017, MorphoSys announced that Dr. Markus Enzelberger would succeed Dr. Marlies Sproll as Chief Scientific Officer at MorphoSys AG. Dr. Sproll had been on a temporary leave of absence

| Dr. Markus Enzelberger[3] Chief Scientific Officer Appointment (Interim-CSO): April 15, 2017 Appointment: November 1, 2017 | | Dr. Marlies Sproll[4] Chief Scientific Officer Temporary Leave: April 15, 2017 – October 31, 2017 Resignation: October 31, 2017 | | Dr. Arndt Schottelius Chief Development Officer Resignation: February 28, 2017 | | Total | |
|---|---|---|---|---|---|---|---|
| 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| – | 204,698 | 314,405 | 222,450 | 309,759 | 103,253 | 1,402,026 | 1,685,429 |
| – | 417,158 | 24,141 | 20,427 | 28,388 | 9,161 | 133,099 | 1,094,207 |
| – | 121,688 | 143,054 | 67,745 | 140,940 | 23,490 | 637,921 | 1,061,869 |
| – | 743,544 | 481,600 | 310,622 | 479,087 | 135,904 | 2,173,046 | 3,841,505 |
| – | 29,186 | 92,876 | 77,976 | 95,473 | 28,245 | 423,320 | 445,890 |
| – | 29,186 | 92,876 | 77,976 | 95,473 | 28,245 | 423,320 | 445,890 |
| | | | | | | | |
| – | 0 | 23,263 | 39,879 | 23,263 | 39,879 | 115,281 | 197,623 |
| – | 0 | (29,007) | 0 | (29,007) | 0 | (129,371) | 0 |
| – | 0 | (7,075) | 138,585 | (7,075) | 138,585 | (31,528) | 618,104 |
| – | 0 | 22,572 | 15,383 | 22,572 | (42,038) | 100,688 | 11,188 |
| – | 0 | 101,906 | 46,324 | 101,906 | (79,105) | 454,517 | 81,178 |
| – | 0 | 176,511 | 112,481 | 176,511 | (76,828) | 798,953 | 319,822 |
| – | 68,979 | 0 | 80,538 | 0 | – | 0 | 528,213 |
| – | 53,875 | 0 | 62,898 | 0 | – | 0 | 412,492 |
| – | 122,854 | 288,170 | 496,088 | 288,170 | (19,507) | 1,308,540 | 2,168,620 |
| – | 895,584 | 862,646 | 884,686 | 862,730 | 144,642 | 3,904,906 | 6,456,015 |

since April 15, 2017 and eventually resigned from her post as Chief Scientific Officer effective October 31, 2017. She was working as a Special Advisor to the CEO of MorphoSys, Simon Moroney, on a part-time basis since November 1, 2017. She received remuneration until October 31, 2017 in accordance with her employment contract. Dr. Sproll's long-term compensation granted to her during her time as a member of the Management Board will be settled in accordance with the plans' terms. Effective November 1, 2017, Dr. Enzelberger was appointed Chief Scientific Officer of MorphoSys AG after having served as the Interim Chief Scientific Officer since April 15, 2017. Dr. Enzelberger has held various management positions in research and development at MorphoSys since 2002. His Management Board employment contract runs until June 30, 2020. Upon joining the Management Board of MorphoSys AG, Dr. Enzelberger was granted a one-time incentive consisting of treasury shares held by MorphoSys valued at € 400,000. In the 2017 financial year, the granting of these shares was recognized as personnel expenses from performance shares as defined by IFRS 2.

In the years 2017 and 2016, 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.

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

**SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2017 AND 2016:**

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

[1] The attendance fee contains expense allowances for the attendance at the Supervisory Board and the Committee meetings.
[2] Krisja Vermeylen joined the Supervisory Board of MorphoSys AG on May 17, 2017.
[3] Karin Eastham has left the Supervisory Board of MorphoSys AG on May 17, 2017.

No other agreements presently exist with current or former members of the Supervisory Board.

On December 31, 2017, the Senior Management Group held 35,978 stock options (December 31, 2016: 0), 13,233 convertible bonds (December 31, 2016: 136,588) and 67,149 performance shares (December 31, 2016: 82,143) granted by the Company. In 2017, a new stock option program and a new performance share program were granted to the Senior Management Group (see Items 7.1* and 7.3.5*). On April 1, 2017, the Senior Management Group was allocated 21,248 shares from the 2013 LTI program and 548 shares on October 1, 2017. In each case there was the option to receive these shares within a six-month period. As of December 2017, the Senior Management Group had exercised options to receive 21,796 shares.

*CROSS-REFERENCE *to page 141 and page 146*

# 8 Additional Notes

## 8.1 OBLIGATIONS ARISING FROM OPERATING LEASES, RENTAL AND OTHER CONTRACTS

The Group leases facilities and equipment under long-term operating leases. In financial years 2017 and 2016, leasing expenses amounted to € 2.6 million and € 3.1 million. The 2016 amount includes the recognition of a provision for onerous contracts from rent obligations for office premises. Leasing expenses for 2017 and 2016 include expenses for company cars and machinery totaling € 0.2 million and € 0.2 million, respectively. The majority of these contracts can be renewed on a yearly or quarterly basis. Some of these agreements may be terminated prematurely.

In 2016 a rental agreement was signed for the premises at Semmelweisstraße 7, Planegg. The contract includes a minimum rental period of ten years.

The future minimum payments under non-terminable operating leases, insurance contracts and other services as of December 31, 2017 are shown in the following table.

| in 000' € | Rent and Leasing | Other | Total |
|---|---|---|---|
| Up to One Year | 2,918 | 733 | 3,651 |
| Between One and Five Years | 11,209 | 0 | 11,209 |
| More than Five Years | 11,190 | 0 | 11,190 |
| **TOTAL** | **25,317** | **733** | **26,050** |

Additionally, the future payments shown in the table below may become due for outsourced studies after December 31, 2017. These amounts could be shifted or substantially lower due to changes in the study timeline or premature study termination.

| in million € | Total 2017 |
|---|---|
| Up to One Year | 56.1 |
| Between One and Five Years | 66.1 |
| More than Five Years | 0.0 |
| **TOTAL** | **122.2** |

## 8.2 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 regulatory and sales milestone payments to licensors of up to an aggregate of $ 287 million. The next milestone payment in the amount of $ 12.5 million could occur in approximately 18 to 24 months.

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

### 8.3 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 2017 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 1, 2017 and made permanently available to the public.

### 8.4 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. The following information describes the agreements that have a material e ect on the Group and the developments under the research and development agreements in the 2017 financial year.

#### 8.4.1 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): G7 Therapeutics, Galapagos, GlaxoSmithKline, I-Mab Biopharma, Immatics Biotechnologies, Merck Serono, MD Anderson Cancer Center and Xencor.

In August 2014, MorphoSys and Aptevo Therapeutics Inc., a spin-o of Emergent BioSolutions, announced a co-development and co-promotion agreement for MOR209/ES414. MOR209/ES414 is a bi-specific anti-PSMA/anti-CD3 antibody based on Aptevo's (formerly Emergent) proprietary ADAPTIR™ platform (modular protein technology). In the process of prioritizing its development programs, MorphoSys ended the cooperation with Aptevo Therapeutics Inc. at the end of 2017. The rights to the drug's development and commercialization were returned to Aptevo. As a result of ending the cooperation, impairment for the in-process research and development MOR209/ES414 program in the amount of € 9.8 million was recognized in 2017.

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 e cacy in humans, the programs may be outlicensed 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's next-generation library Ylanthia directed against a novel Galapagos target molecule. The antibody will be codeveloped 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. The drug is currently undergoing development in a phase 2b study in patients with rheumatoid arthritis and a 2a study in patients with osteoarthritis of the hand. GSK also initiated a mechanistic phase 2a study of MOR103/GSK3196165 in rheumatoid arthritis to further investigate the GM-CSF signaling pathway a ected by the HuCAL antibody.

In the reporting year, MorphoSys announced it had signed an exclusive regional licensing agreement with I-Mab Biopharma to develop and commercialize MOR202 in China, Taiwan, Hong Kong and Macao. MOR202 is MorphoSys's proprietary antibody targeting CD38. MOR202 is being evaluated in a phase 1/2a clinical trial in Europe in patients with multiple myeloma. Under the terms of the agreement, I-Mab Biopharma has the exclusive rights for the subsequent development and commercialization of MOR202 in the agreed regions. MorphoSys received an immediate upfront payment of US$ 20.0 million. MorphoSys is also entitled to receive additional success-based clinical and commercial milestone payments from I-Mab of up to approximately US$ 100 million, as well as tiered double-digit, staggered royalties on net sales of MOR202 in the agreed regions.

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.

*SEE GLOSSARY – *page 170*

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 expertise in the field of immuno-oncology and clinical development and will assume full project responsibility starting with phase 1 of clinical development.

In May 2016, MorphoSys and the University of Texas MD Anderson Cancer Center announced a long-term strategic alliance. With MorphoSys applying its Ylanthia technology platform, the partners will work together to identify, validate and develop novel anti-cancer antibodies through to clinical proof of concept by researching targets in a variety of oncology indications. MorphoSys and MD Anderson will conduct early clinical studies of therapeutic antibody candidates after which MorphoSys has the option to continue developing selected antibodies in later stages of clinical development for its own proprietary pipeline.

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$ 13.0 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.

### 8.4.2 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 2017 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.

Partnerships in the Partnered Discovery segment that ended before the beginning of 2017 but where drug development programs were still being pursued, include (in alphabetical order): Astellas, Bayer AG, Boehringer Ingelheim, Daiichi-Sankyo, Fibron Ltd. (continuation of contract with Prochon Biotech Ltd.), Janssen Biotech, Merck & Co., OncoMed Pharmaceuticals, Pfizer, Roche and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships that were still active in 2017 include (in alphabetical order): GeneFrontier Corporation/Kaneka, Heptares, LEO Pharma and Novartis.

The Group's alliance with Novartis AG ended in November 2017. The 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 existing relationship and forged a strategic alliance in the discovery and development of biopharmaceuticals. The payments for technology access, internalization charges, and R&D services amounted to € 450.5 million over the ten-year contract. Additionally, MorphoSys receives performance-based milestones, contingent upon the successful clinical development and regulatory approval of several products. In addition to these payments, MorphoSys is also entitled to royalties on any future product sales. The partnership with Novartis ended at the end of November 2017 according to the contract. Novartis did not exercise its option to extend the contract.

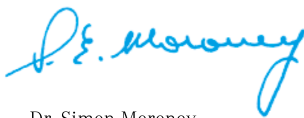
### 8.5 SUBSEQUENT EVENTS

No other events occurred after the balance sheet date of December 31, 2017 that require reporting.

### 8.6 RESPONSIBILITY STATEMENT

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

MorphoSys AG, Planegg, March 8, 2018



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