Letter to the Shareholders

Dear fellow shareholders, ladies and gentlemen,

In 2017, MorphoSys took a large step towards our goal of becoming a fully integrated biopharmaceutical company. We made substantial progress in both the Partnered Discovery and Proprietary Development segments of our business. The major highlights were, first, the approval of our partner Janssen's Tremfya® and second, clinical data that, we hope, hint at a bright future for our proprietary program MOR208. These and other developments point to the successful execution of our strategy, which is focused on developing innovative biopharmaceuticals to help patients suffering from serious diseases.

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Our heritage is that of a company that commands a technology for making therapeutics belonging to an important class – human antibodies. It has always been our ambition to make active substances that are optimized for their safety, therapeutic activity and ideally, their convenience. We believe that by selecting and optimizing the best possible molecule from our antibody library, we can have a positive impact on a patient's disease and on his or her quality of life. This is the motivation that drives all of us at MorphoSys, from the lab scientist to the office worker.

In July 2017, we witnessed a wonderful illustration of how our technology can deliver great drugs when our partner Janssen brought a new product, Tremfya®, to the market. This drug, which comprises an antibody made using our proprietary HuCAL technology as the active substance, is for the treatment of moderate-to-severe psoriasis, a terribly debilitating disease. The vision that underlies all of our therapeutic projects looks like being realized in Tremfya®: data from clinical trials showed that it is highly effective in treating psoriasis, with a bi-monthly self-administration that is very convenient for patients. Janssen is continuing the development of Tremfya® in psoriasis as well as in other indications. In the meantime, Tremfya® has been approved by regulatory authorities in the United States, Europe and Canada and we are hopeful that it will become a highly successful drug.

In October, a second major milestone was reached when we received breakthrough therapy designation (BTD) from the US Food and Drug Administration (FDA) for our proprietary product candidate MOR208. BTD is awarded for an investigational drug to treat a serious condition when preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy on a clinically significant endpoint. The evidence that led to this award came from our L-MIND trial, which is investigating a combination of lenalidomide and MOR208 in older patients suffering from a particularly aggressive form of lymphoma, for which there are no

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approved treatments. Preliminary data showed that over half the patients in the trial experienced a response, with a third of them showing a complete response. The data also revealed that the responses were long lasting and, in the vast majority of responding patients, are still ongoing. Our goal now is to complete clinical testing within the L-MIND study. We will continue the ongoing discussion with the FDA on the potential path to market for MOR208, including the possibility of an expedited regulatory submission primarily based on L-MIND.

We believe that if MOR208 approval is obtained, it offers a great opportunity for us to advance MorphoSys to a fully-integrated commercial biopharmaceutical company. It is a product that could be used in a relatively limited number of hemato-oncology centers, which can be targeted with a relatively modestly-sized sales force. We are convinced that by pursuing our own commercialization strategy for MOR208, we can maximize the value within this therapeutic program.

Tremfya® and MOR208 were the two most visible highlights of a strong year for our pipeline of therapeutic agents. Two others worthy of mention are MOR202 and MOR106. In November, we entered our first ever deal with a Chinese company, when we signed a deal with I-Mab Biopharma, who will develop MOR202 in the Chinese region. The Chinese market for pharmaceuticals is huge, is developing extremely rapidly and is becoming much more accessible to medicines from the west. In I-Mab, we believe we have found an ideal partner for MOR202, and we look forward to supporting them in their objective of developing MOR202 quickly. We expect I-Mab to start clinical trials in China later this year. Meanwhile, we are exploring opportunities for the further development of MOR202, either alone or with partners, in one or more oncology indications, including non-small-cell lung cancer.

In October, we published first results from our phase 1 trial of MOR106. This antibody, which is being co-developed under a 50 : 50 cost- and rights-sharing agreement with Galapagos, is being tested for the treatment of atopic dermatitis, a very widespread and poorly treated skin disease. The phase 1 data showed that MOR106 was generally well tolerated, and showed first signs of activity in reducing the signs and symptoms of the disease. We also observed that the effect was durable – although the drug was only administered for four weeks, the positive impact on the disease was observable for up to three months. The next step is phase 2 development, which is planned to commence in 2018.

We are deliberately evolving away from our earlier business model in which we provided discovery services to pharmaceutical companies. This change gives us a greater opportunity to create long-term value, as has been seen in the development of our share price over the last couple of years. It is, however, not without short-term consequences. For example the end of our collaboration with Novartis, which came, as planned, in November 2017 has an immediate negative impact on our revenues. I am convinced that this is the right step in the long run for several reasons – we have more freedom over which projects we work on, more control over their development and most importantly, retain more value for the company. The programs we have worked on with our pharmaceutical partners will, nonetheless, serve us extremely well in the years to come. Tremfya® is just one of 100 Partnered Discovery programs on which we could earn milestones and royalties well into the future. This will form a solid foundation for our plans and activities in the years to come.

MorphoSys is extremely fortunate in having a wonderful group of employees. Without their dedication, inspiration and close collaboration, the achievements we made in the last year would not have been possible. On behalf of the MorphoSys Management Board, I would like to thank them for their continuing efforts and hard work.

The year 2018 will see the departure of Dr. Gerald Möller, who will retire as Chairman of the Supervisory Board in May. With his retirement, MorphoSys will lose a very special supporter, who has been instrumental in helping us build the company over the last 19 years. We thank him for everything he has done for us, and wish him the very best for his retirement.

MorphoSys is poised at an exciting time in its development, and I look forward to a successful 2018. I trust that we can count on the continued engagement of you, our shareholders, and thank you for your support over the last year.

DR. SIMON MORONEY
CHIEF EXECUTIVE OFFICER

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