

Report of the Supervisory Board

COOPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

During the 2017 financial year, the Supervisory Board comprehensively performed the duties assigned to it by law, the Articles of Association, Rules of Procedure and – with one exception – the recommendations of the German Corporate Governance Code (hereinafter referred to as the “Code”). We regularly advised and continually oversaw the Management Board in its management of the Company and dealt extensively with the operational and strategic development of the Group. The Management Board fulfilled its duty to inform and furnish us with periodic written and verbal reports containing timely and detailed information on all business transactions and events of significant relevance to the Company. The Management Board prepared these reports in collaboration with the respective departments. In our Committee meetings and plenary sessions, we had the opportunity to fully discuss the Management Board’s reports and the proposed resolutions. The Management Board answered our questions on strategic topics affecting the Company with a great level of detail and submitted the relevant documents in a timely manner. Any deviations from the business plan were thoroughly explained to us, and we were directly involved at an early stage in all decisions relevant to the Company.

A corresponding resolution was passed when the Supervisory Board’s approval for individual actions was required by law, the Articles of Association or the Rules of Procedure. The Supervisory Board members routinely prepared resolutions for Management Board actions requiring Supervisory Board approval based on the documentation provided in advance by the Management Board. When necessary, the Supervisory Board received the support of the relevant committees and, together with the Management Board, discussed any projects pending decision. All matters requiring approval were submitted for review to the Supervisory Board on a timely basis.

Outside of the meetings of the Supervisory Board plenum and the Committees, the chairperson of the Supervisory Board regularly exchanged information and ideas with the Management Board and especially the Chief Executive Officer, Dr. Simon Moroney. The Supervisory Board chairperson was always kept promptly informed of the current business situation and any significant business transactions. The other Supervisory Board members also had regular contact with the individual Management Board members.

KEY ITEMS OF DISCUSSION AT THE SUPERVISORY BOARD MEETINGS IN THE 2017 FINANCIAL YEAR

A total of eight Supervisory Board meetings were held in the 2017 financial year, whereby two meetings were conducted by telephone. All Supervisory Board members were present at all Supervisory Board meetings. In urgent cases occurring outside of meetings, the Supervisory Board passed resolutions by written procedure.

In addition to the above, a one-day strategy meeting took place between the Management Board and the Supervisory Board in July 2017 that primarily addressed

- the Company’s strategic focus; and
- the further development of the Company’s product portfolio and its impact on the net assets, financial position and results of operations.

During the 2017 financial year, the Supervisory Board paid particular attention to the following topics and passed resolutions on these topics after a thorough review and discussion:

- the evaluation of the Company’s achievement of the 2016 financial year corporate targets, an interim review and minor adjustment to the corporate targets defined by the Supervisory Board at the end of 2016 for the 2017 financial year and defining the corporate targets for the 2018 financial year;
- modification of the rules of procedure and schedule of responsibilities for the Management Board;
- the agenda and proposed resolutions for the 2017 Annual General Meeting, particularly the nominations of Dr. Frank Morich, Klaus Kühn, Wendy Johnson and Krisja Vermeylen as Supervisory Board candidates for election and re-election at the 2017 Annual General Meeting;
- re-election of the chair and deputy chair of the Supervisory Board and establishment and staffing of the Committees in the Board’s constituent meeting following the 2017 Annual General Meeting;
- definition of the targets relating to the proportion of women on the Supervisory and Management Boards for the coming five years;
- updating the objectives for the composition of the Supervisory Board and establishing a skills profile for the entire Supervisory Board;
- termination of the licensing and co-development agreement with Aptevo Research & Development LLC for MOR209, an immunotherapeutic for the treatment of metastatic, castration-resistant prostate cancer, as part of the prioritization of programs within the portfolio;

- establishment of a list of permitted and pre-approved non-audit services of the auditor, including the maximum amounts and the corresponding amendment of the rules of procedure for the Supervisory Board and the statutes of the Audit Committee;
- award of the audit contract to the auditor for the 2017 financial year;
- evaluation of partnership opportunities for MOR202 and conclusion of the regional license agreement with I-Mab for exclusive development and commercialization rights to MOR202 in China, Taiwan, Hong Kong and Macao;
- the budget for the 2018 financial year.

We also passed a resolution in the Supervisory Board plenum on the remuneration of Management Board members for the period July 1, 2017 to June 30, 2018 taking external benchmarking into consideration. We evaluated the achievement of the 2016 corporate targets that were agreed with the Management Board and discussed the corporate targets for 2017. We commissioned an independent remuneration consultant to confirm the appropriateness of the Management Board's compensation and its comparison to the remuneration of various levels of employees. We discussed and adopted the key performance indicators for the long-term incentive plans for both the Management Board and the Senior Management Group. We also addressed the temporary leave as of April 15, 2017 for family reasons and later resignation as of October 31, 2017 of Dr. Marlies Sproll as Chief Scientific Officer for ongoing family reasons. To fill this gap, we appointed Dr. Markus Enzelberger as Interim Chief Scientific Officer as of April 15, 2017 followed by Chief Scientific Officer as of November 1, 2017 as Dr. Sproll's successor. The management board agreement of Dr. Sproll was adjusted for her period of absence and then rescinded with effect from the date of her departure. We drew up and approved a new management board agreement for Dr. Markus Enzelberger as Interim Chief Scientific Officer and later as Chief Scientific Officer. Dr. Enzelberger's initial term will end on June 30, 2020.

Furthermore, we approved the financial statements for the 2016 financial year and dealt with the Corporate Governance Report and the Statement on Corporate Governance.

The focus of our regular discussions in the Supervisory Board's plenary meetings were MorphoSys's revenue and earnings development, the financial reports, the progress of the two business segments Partnered Discovery and Proprietary Development, the results and progress of the clinical programs for the development of proprietary drugs, the future development strategy and the development of new technologies. Furthermore, we discussed the financial outlook for the 2019/2020 financial years and MorphoSys's associated future potential financing needs as well as the effects of the expiry of the contract with Novartis. In addition, we carried out an efficiency review of the Supervisory Board's work. And lastly, we kept

ourselves regularly informed with respect to the Company's cash investment policy, risk management, internal audit results, internal control system and compliance management system.

CONFLICTS OF INTEREST WITHIN THE SUPERVISORY BOARD

No conflicts of interest arose within the Supervisory Board in the 2017 financial year.

ACTIVITIES AND MEETINGS OF SUPERVISORY BOARD COMMITTEES

To ensure that its duties are performed efficiently, the Supervisory Board has established three committees - the Audit Committee, the Remuneration and Nomination Committee and the Science and Technology Committee - to prepare the issues that fall within the Supervisory Board's respective areas of responsibility for the Supervisory Board plenum. In each Supervisory Board meeting, the chairs of the Committees report to the Supervisory Board on the Committees' work. The minutes of the Committee meetings are made available to all Supervisory Board members. The composition of these committees can be found in the "Statement on Corporate Governance," which is available on the Company's website under the heading "Media & Investors > Corporate Governance > Statement on Corporate Governance," and in the Annual Report on pages 73 to 79.

The **Audit Committee** met on six occasions in the 2017 financial year, two of those meetings were held by telephone. All Committee members were present at all Audit Committee meetings. The Committee dealt mainly with accounting issues, quarterly reports, financial statements and consolidated financial statements. The Committee discussed these topics with the Management Board and recommended the approval of the statements to the Supervisory Board. The auditor took part in four Audit Committee meetings and informed its members of the audit results. The Audit Committee also made a recommendation to the Supervisory Board with respect to the Supervisory Board's proposal at the Annual General Meeting for the election of the independent auditor. The Audit Committee also discussed the appointment of the auditor for the 2017 financial year and the new requirements for the external and internal rotation of the auditor and the related requirement to carry out a public tender for the audit in accordance with the Auditors Reform Act. In this context, the Audit Committee decided to carry out the public invitation to tender for the 2018 annual audit on a voluntary basis, accompanied the relevant process and, as a result, made a recommendation to the Supervisory Board. In addition, the Audit Committee dealt with the preparation of a list of permitted and pre-approved non-audit services of the auditor, including maximum amounts, and made a proposal to the Supervisory Board to amend the rules of procedure for the Supervisory Board and the statutes of the Audit Committee. The Committee also discussed the risk management system, the compliance management system and the results of the

internal audit conducted in the 2017 financial year, as well as specific accounting issues under International Accounting Standards (IFRS) relevant to the Company. In addition, the Committee regularly discussed the Company's cash investment policy and the investment recommendations made by the Management Board. The Committee also discussed in depth the 2018 budget and the financial outlook for the 2019/2020 financial years, as well as any future financing measures that may be derived from this in the coming years, along with a potential commercialization strategy for the Company's proprietary drug candidates. Finally, the Committee dealt with the preparation, accomplishment and results of the unobjected sampling of the consolidated financial statements, group management report, annual financial statements and the management report for the 2016 financial year by the German Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung e.V.* – DPR).

To increase efficiency, there is a common **Remuneration and Nomination Committee**, in which the Committees fulfill their respective roles. The Committee met on five occasions in the 2017 financial year, with two of those meetings held by telephone. All Committee members were present at all Committee meetings. In its function as a remuneration committee, the Remuneration and Nomination Committee mainly dealt with the Management Board's remuneration system and level of compensation. In this context, the Committee also commissioned an independent remuneration expert with the task of preparing a Management Board remuneration report to verify the appropriateness of the Management Board's remuneration. Based on this report, the Committee prepared a recommendation as to the future structure of the Management Board's compensation and submitted this to the Supervisory Board for approval. In doing so, the Committee also dealt with the ratio of compensation between the Management Board and the Senior Management Group and the staff overall and had this ratio reviewed by the commissioned remuneration expert. This expert confirmed the appropriateness of the "vertical" compensation ratios. In addition, the Committee gave careful consideration to the corporate targets as a basis for the Management Board's short-term variable remuneration and offered appropriate recommendations to the Supervisory Board for resolution. The Committee discussed the key performance indicators of the long-term incentive plans for the Management Board, Senior Management Group and other employees in key positions. In its function as the Nomination Committee, the Committee dealt with the appointment of Dr. Markus Enzelberger as Interim Chief Scientific Officer for the duration of Dr. Marlies Sproll's absence, the preparation of a corresponding management board agreement for Dr. Enzelberger, a modification of the management board agreement with Dr. Sproll for the duration of her absence and the appointment of Dr. Markus Enzelberger as Dr. Sproll's successor as Chief Scientific Officer due to Dr. Sproll's resignation. The Committee also prepared the corresponding management board agreement for Dr. Enzelberger

and the termination agreement for Dr. Sproll, which were then submitted to the Supervisory Board for resolution. In addition, the Nomination Committee handled the preparations for the election of two new members of the Supervisory Board at the 2018 Annual General Meeting. This was necessary due to the approaching end of the term of office of Dr. Gerald Möller, who served 19 years as chairman of the Supervisory Board, as of the end of the 2018 Annual General Meeting and the early resignation of Klaus Kühn for personal reasons also as of the end of the Annual General Meeting 2018. In light of Dr. Möller's and Mr. Kühn's upcoming departure from the Supervisory Board, the Nomination Committee commissioned a recruitment agency to offer professional support in the search for suitable new Supervisory Board candidates. The Nomination Committee in consultation with the Supervisory Board developed a list of requirements that candidates should possess in order to be nominated to the Supervisory Board. The Nomination Committee also conducted interviews with Supervisory Board candidates and submitted two recommendations for Supervisory Board nominations to be proposed at the Annual General Meeting, which were in turn approved by the Supervisory Board. Supervisory Board member Dr. Marc Cluzel, whose term will also end at the end of the 2018 Annual General Meeting, will stand for reappointment for another term.

The **Science and Technology Committee** met on five occasions during the 2017 financial year. All Committee members were present at all Committee meetings. This Committee dealt mainly with the progress and expansion of the Company's portfolio, the development of new technologies and the Company's drug development plans including the required budget resources. The discussions focused on the initiation of new development programs, development plans for current and planned clinical studies, the development of proprietary drug candidates, the results of the related clinical trials, as well as the future development strategy and positioning versus competitive products. The Committee addressed the production of clinical trial materials for the Company's proprietary drug candidates, the competitive and patent situations of the Company's proprietary product candidates and the identification of suitable drug candidates for in-licensing based on the Company's activities.

CORPORATE GOVERNANCE

The Supervisory Board devoted its attention to the further development of MorphoSys's corporate governance taking into consideration the Code's amendments made by the Government Commission German Corporate Governance Code in February 2017. The detailed Corporate Government Report, including the Corporate Governance Statement according to Section 289f HGB (German Commercial Code), can be found on the Company's website under the heading "Media & Investors > Corporate Governance > Corporate Governance Report" and in the Annual Report on pages 73 to 101.

We also discussed with the Management Board the Company's compliance with the Code's recommendations and in one justified case approved an exception to the Code's recommendations. Based on this consultation, the Management Board and the Supervisory Board submitted the annual Declaration of Conformity on December 1, 2017. The current version of the Declaration of Conformity can be found in this Annual Report and is permanently available to MorphoSys's shareholders on the Company's website under the heading "Media & Investors > Corporate Governance > Declaration of Conformity."

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The following changes in the composition of the Management Board took place during the reporting period. With effect from March 1, 2017, Dr. Malte Peters was newly appointed as a member of the Management Board and Chief Development Officer. The former Chief Development Officer, Dr. Arndt Schottelius, resigned from his position on the Company's Management Board effective February 28, 2017. Effective April 15, 2017, Dr. Markus Enzelberger was appointed Interim Chief Scientific Officer for the duration of the absence of Dr. Marlies Sproll. Dr. Sproll resigned from her position on the Management Board effective October 31, 2017, and Dr. Markus Enzelberger was appointed as Chief Scientific Officer effective November 1, 2017 as the successor of Dr. Sproll.

The following changes in the composition of the Supervisory Board took place during the reporting period. Karin Eastham resigned from her office as a member of the Supervisory Board for personal reasons as of the conclusion of the 2017 Annual General Meeting, and Krisja Vermeylen was newly elected to the Supervisory Board by the 2017 Annual General Meeting. Dr. Frank Morich, Klaus Kühn and Wendy Johnson were all re-elected to the Supervisory Board by the 2017 Annual General Meeting, whereby Klaus Kühn has resigned from his office as member of the Supervisory Board for personal reasons as of the end of the 2018 Annual General Meeting.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

For the 2017 financial year, the Company commissioned PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich ("PwC") as its auditor. The audit contract was awarded by the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 17, 2017. In accordance with Item 7.2.1 of the Code, the Supervisory Board obtained a declaration of independence from the auditor in advance.

The annual financial statements and the consolidated financial statements of MorphoSys AG, as well as the Management Report and Group Management Report for the 2017 financial year, were properly audited by PwC and issued with an unqualified Auditor's Report. The key topics of the audit for the consolidated and annual financial statements for the 2017 financial year were the presentation and measurement of cash investments, the accounting for in-process research and development programs, preparation of the Group Management Report in light of the new Auditor's Opinion, the effects of the expiry of the contract with Novartis, the measurement of the carrying amounts of goodwill and intangible assets with indefinite useful lives, the recognition and measurement of the 2017 long-term incentive program, the effectiveness of internal controls, as well as the recognition of revenue from the out-licensing of MOR202 to I-Mab.

In addition, the auditor confirmed that the Management Board had established an appropriate reporting and monitoring system that is suitable in its design and administration for the early detection of developments that could threaten the Company's existence.

The audit reports and documents relating to the annual financial statements and consolidated financial statements were provided on a timely basis to all Supervisory Board members for review. The audit report, the consolidated financial statements, the Group Management Report of the MorphoSys Group and the audit report, the annual financial statements and the Management Report of MorphoSys AG were discussed in detail at the Audit Committee meeting on March 8, 2018, and the meeting of the Supervisory Board on March 9, 2018. The auditor attended all meetings concerning the financial statements and quarterly statements and reported on the key results of his audit. The auditor also explained the scope and focus of the audit and was available to the Audit Committee and the Supervisory Board to answer questions and provide further information.

The Audit Committee discussed the audit results in detail and recommended to the Supervisory Board that it approve the financial statements prepared by the Management Board. The Supervisory Board also took note of the audit results and, in turn, reviewed the financial statements and management reports in accordance with the statutory provisions. Following its own examination, the Supervisory Board also determined that it sees no cause for objection. The annual financial statements and consolidated financial statements prepared by the Management Board and reviewed by the auditor, as well as the Management Report and Group Management Report, were subsequently approved by the Supervisory Board. Thus, the annual financial statements were adopted.

RECOGNITION FOR DEDICATED SERVICE

On behalf of the entire Supervisory Board, I would like to thank the members of the Management Board and the employees of MorphoSys for their achievements, their dedicated service and the inspirational work environment witnessed during this past financial year. Through their efforts, MorphoSys's portfolio has continued to mature and expand, and important milestones have been achieved.

At this point, the Supervisory Board would also like to thank our departed Management Board member Dr. Marlies Sproll for her excellent work and great dedication. The Supervisory Board also thanks Supervisory Board member Klaus Kühn, who will terminate his office at the conclusion of the 2018 Annual General Meeting, for his commitment and constructive cooperation.

Planegg, March 9, 2018



Dr. Gerald Möller
Chairman of the Supervisory Board