Financial Statements

116 *Consolidated Statement of Profit or Loss (IFRS)*
117 *Consolidated Statement of Comprehensive Income (IFRS)*
118 *Consolidated Balance Sheet (IFRS)*
120 *Consolidated Statement of Changes in Stockholders' Equity (IFRS)*
122 *Consolidated Statement of Cash Flows (IFRS)*

NOTES

124 *General Information*
124 *Summary of Significant Accounting Policies*
143 *Segment Reporting*
146 *Notes to Profit or Loss*
151 *Notes to the Assets of the Balance Sheet*
158 *Notes to Equity and Liabilities of the Balance Sheet*
161 *Remuneration System for the Management Board and Employees of the Group*
172 *Additional Notes*

Consolidated Statement of Profit or Loss (IFRS)

in €	Note	2018	2017	2016
Revenues	2.7.1, 4.1	76,442,505	66,790,840	49,743,515
Operating Expenses				
Cost of Sales	2.1.1, 2.7.2, 4.2.1	(1,796,629)	0	0
Research and Development	2.7.2, 4.2.2	(106,397,017)	(113,313,679)	(93,962,975)
Selling	2.1.1, 2.7.2, 4.2.3	(6,382,510)	(4,816,038)	(2,444,224)
General and Administrative	2.7.2, 4.2.4	(21,927,731)	(15,717,578)	(13,431,955)
Total Operating Expenses		(136,503,887)	(133,847,295)	(109,839,154)
Other Income	2.7.3, 4.3	1,644,632	1,119,598	708,571
Other Expenses	2.7.4, 4.3	(689,343)	(1,670,792)	(553,925)
Earnings before Interest and Taxes (EBIT)		(59,106,093)	(67,607,649)	(59,940,993)
Finance Income	2.7.5, 4.3	417,886	712,397	1,385,164
Finance Expenses	2.7.5, 4.3	(753,588)	(1,894,852)	(1,308,322)
Impairment Losses on Financial Assets	2.3.1	(1,035,000)	0	0
Income Tax Benefit/(Expenses)	2.7.6, 4.4	4,304,674	(1,036,365)	(518,625)
Consolidated Net Loss		(56,172,121)	(69,826,469)	(60,382,776)
Earnings per Share, basic and diluted	2.7.7, 4.5	(1.79)	(2.41)	(2.28)
Shares Used in Computing Earnings per Share, basic and diluted	2.7.7, 4.5	31,338,948	28,947,566	26,443,415

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

Consolidated Statement of Comprehensive Income (IFRS)[1]

in €	2018	2017	2016
Consolidated Net Loss	(56,172,121)	(69,826,469)	(60,382,776)
Change in Fair Value of Equity Instruments through Other Comprehensive Income[2]	(127,458)	0	0
Foreign Currency Translation Differences from Consolidation[3]	(83,432)	0	0
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds (Thereof € 0 for 2018, € 86,685 for 2017 and € 251,455 for 2016, respectively, Reclassifications of realized Gains and Losses to Profit or Loss)	0	54,170	115,396
Change of Tax Effects presented in Other Comprehensive Income on Available-for-sale Financial Assets and Bonds	0	63,659	(136,550)
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	0	117,829	(21,154)
Change in Unrealized Gains and Losses on Cash Flow Hedges (Thereof € 0 for 2018, € 256,085 for 2017 and € 0 for 2016, respectively, Reclassifications of realized Losses to Profit or Loss)	0	(490,164)	490,164
Change of Tax Effects presented in Other Comprehensive Income on Cash Flow Hedges	0	130,751	(130,751)
Change in Unrealized Gains and Losses on Cash Flow Hedges, Net of Tax Effects	0	(359,413)	359,413
Other Comprehensive Income	(210,890)	(241,584)	338,259
Total Comprehensive Income	(56,383,011)	(70,068,053)	(60,044,517)

[1] In financial years 2017 and 2016, the statement of comprehensive income only comprised components which will be reclassified in terms of IAS 1.82A(a)(ii) to profit or loss in subsequent periods when specific conditions are met.
[2] Item will not be reclassified in terms of IAS 1.82A(a)(i) to profit or loss in subsequent periods.
[3] Item will be reclassified in terms of IAS 1.82A(a)(ii) to profit or 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	12/31/2018	12/31/2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.8.1, 5.1	45,459,836	76,589,129
Available-for-sale Financial Assets	2.8.1, 5.2	0	86,538,195
Financial Assets classified as Loans and Receivables	2.8.1, 5.2	0	149,059,254
Financial Assets at Fair Value through Profit or Loss	2.1.2, 5.2	44,581,264	0
Other Financial Assets at Amortized Cost	2.1.2, 5.2	268,922,724	0
Accounts Receivable	2.8.2, 5.3	17,732,933	11,234,308
Income Tax Receivables	2.8.2, 5.5	161,048	654,511
Other Receivables	2.8.2, 5.4	147,449	84,727
Inventories, Net	2.8.3, 5.5	245,161	300,753
Prepaid Expenses and Other Current Assets	2.8.4, 5.5	11,654,880	16,219,761
Total Current Assets		388,905,295	340,680,638
Non-current Assets			
Property, Plant and Equipment, Net	2.8.5, 5.6	3,530,709	3,526,351
Patents, Net	2.8.6, 5.7.1	3,938,739	4,669,128
Licenses, Net	2.8.6, 5.7.2	2,526,829	2,999,074
In-process R&D Programs	2.8.6, 5.7.3	37,019,370	52,158,527
Software, Net	2.8.6, 5.7.4	203,807	655,399
Goodwill	2.8.6, 5.7.5	3,676,233	7,364,802
Other Financial Assets at Amortized Cost, Net of Current Portion	2.8.1, 5.2	95,749,059	0
Shares at Fair Value through Other Comprehensive Income	2.8.7, 5.8	232,000	0
Prepaid Expenses and Other Assets, Net of Current Portion	2.8.8, 5.9	2,981,716	3,344,292
Total Non-current Assets		149,858,462	74,717,573
TOTAL ASSETS		**538,763,757**	**415,398,211**

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

in €	Note	12/31/2018	12/31/2017
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accruals	2.9.1, 6.1	44,760,615	44,811,718
Tax Provisions	2.9.2, 6.2	208,034	314,944
Other Provisions	2.9.1, 6.2	160,411	1,185,741
Current Portion of Contract Liability (2017: Current Portion of Deferred Revenue)	2.9.3, 6.3	794,230	1,388,638
Total Current Liabilities		45,923,290	47,701,041
Non-current Liabilities			
Other Provisions, Net of Current Portion	2.9.1, 6.2	23,166	23,166
Contract Liability, Net of Current Portion (2017: Deferred Revenue, Net of Current Portion)	2.9.4, 6.3	158,024	306,385
Convertible Bonds due to Related Parties	2.9.5	71,517	87,785
Deferred Tax Liability	2.9.6, 4.4	3,507,233	7,811,258
Other Liabilities, Net of Current Portion	2.9.7, 6.4	707,893	797,537
Total Non-current Liabilities		4,467,833	9,026,131
Total Liabilities		50,391,123	56,727,172
Stockholders' Equity			
Common Stock	2.9.8, 6.5.1	31,839,572	29,420,785
Ordinary Shares Issued (31,839,572 and 29,420,785 for 2018 and 2017, respectively)			
Ordinary Shares Outstanding (31,558,536 and 29,101,107 for 2018 and 2017, respectively)			
Treasury Stock (281,036 and 319,678 shares for 2018 and 2017, respectively), at Cost	2.9.8, 6.5.4	(10,398,773)	(11,826,981)
Additional Paid-in Capital	2.9.8, 6.5.5	619,908,453	438,557,856
Revaluation Reserve	2.9.8, 6.5.6	0	(105,483)
Other Comprehensive Income Reserve	2.9.8, 6.5.7	(210,890)	0
Accumulated Deficit	2.9.8, 6.5.8	(152,765,728)	(97,375,138)
Total Stockholders' Equity		488,372,634	358,671,039
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**538,763,757**	**415,398,211**

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		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	261,015	261,015
Transfer of Treasury Stock for Long-Term Incentive Program	7.3.1	0	0
Transfer of Treasury Stock to Members of the Management Board	7.4	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	6.5.8	0	0
Total Comprehensive Income		0	0
BALANCE AS OF DECEMBER 31, 2017		**29,420,785**	**29,420,785**
Application of IFRS 9	2.1.2, 6.5.6, 6.5.8	0	0
Application of IFRS 15	2.1.2, 6.5.8	0	0
BALANCE AS OF JANUARY 1, 2018		**29,420,785**	**29,420,785**
Capital Increase, Net of Issuance Cost of € 15,038,362	6.5.1, 6.5.5	2,386,250	2,386,250
Compensation Related to the Grant of Stock Options and Performance Shares	7.1, 7.3	0	0
Exercise of Convertible Bonds Issued to Related Parties	7.2, 7.4	32,537	32,537
Transfer of Treasury Stock for Long-Term Incentive Program	7.3.2, 7.4	0	0
Transfer of Treasury Stock to Related Parties	6.5.4, 7.3.7, 7.4	0	0
Reserves:			
Change in Fair Value of Equity Instruments through Other Comprehensive Income	5.8, 6.5.7	0	0
Foreign Currency Losses from Consolidation	6.5.7	0	0
Consolidated Net Loss	6.5.8	0	0
Total Comprehensive Income		0	0
BALANCE AS OF DECEMBER 31, 2018		**31,839,572**	**31,839,572**

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

Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Other Comprehensive Income Reserve	Accumulated Deficit	Total Stockholders' Equity
Shares	€	€	€	€	€	€
434,670	**(15,827,946)**	**319,394,322**	**(202,158)**	**0**	**32,834,107**	**362,736,007**
0	0	109,971,132	0	0	0	112,593,220
0	0	2,357,418	0	0	0	2,357,418
52,295	(2,181,963)	0	0	0	0	(2,181,963)
(90,955)	3,361,697	(3,361,697)	0	0	0	0
0	0	0	(21,154)	0	0	(21,154)
0	0	0	359,413	0	0	359,413
0	0	0		0	(60,382,776)	(60,382,776)
0	0	0	338,259	0	(60,382,776)	(60,044,517)
396,010	**(14,648,212)**	**428,361,175**	**136,101**	**0**	**(27,548,669)**	**415,460,165**
396,010	**(14,648,212)**	**428,361,175**	**136,101**	**0**	**(27,548,669)**	**415,460,165**
0	0	4,974,599	0	0	0	4,974,599
0	0	8,043,313	0	0	0	8,304,328
(61,871)	2,286,752	(2,286,752)	0	0	0	0
(14,461)	534,479	(534,479)	0	0	0	0
0	0	0	117,829	0	0	117,829
0	0	0	(359,413)	0	0	(359,413)
0	0	0	0	0	(69,826,469)	(69,826,469)
0	0	0	(241,584)	0	(69,826,469)	(70,068,053)
319,678	**(11,826,981)**	**438,557,856**	**(105,483)**	**0**	**(97,375,138)**	**358,671,039**
0	0	0	105,483	0	(353,483)	(248,000)
0	0	0	0	0	1,135,014	1,135,014
319,678	**(11,826,981)**	**438,557,856**	**0**	**0**	**(96,593,607)**	**359,558,053**
0	0	176,189,256	0	0	0	178,575,506
0	0	5,584,969	0	0	0	5,584,969
0	0	1,004,580	0	0	0	1,037,117
(17,219)	636,414	(636,414)	0	0	0	0
(21,423)	791,794	(791,794)	0	0	0	0
0	0	0	0	(127,458)	0	(127,458)
0	0	0	0	(83,432)	0	(83,432)
0	0	0	0	0	(56,172,121)	(56,172,121)
0	0	0	0	(210,890)	(56,172,121)	(56,383,011)
281,036	**(10,398,773)**	**619,908,453**	**0**	**(210,890)**	**(152,765,728)**	**488,372,634**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2018	2017	2016
OPERATING ACTIVITIES:				
Consolidated Net Loss		(56,172,121)	(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	24,033,479	9,863,582	10,141,187
Depreciation and Amortization of Tangible and Intangible Assets	5.6, 5.7	3,750,259	4,028,948	3,763,813
Net (Gain)/Loss on Sales of Financial Assets at Fair Value through Profit or Loss (2017 and 2016: Available-for-sale Financial Assets)	5.2	1,114,330	84,841	915,201
Proceeds from Derivative Financial Instruments	5.4	(488,201)	(589,134)	725,157
Net (Gain)/Loss on Derivative Financial Instruments	5.4	121,717	919,042	(29,879)
Net (Gain)/Loss on Sale of Property, Plant and Equipment		(24,093)	11,314	(4,037)
Proceeds from Recognition of previously unrecognized Intangible Assets	5.8	(350,000)	0	0
Recognition of Contract Liability (2017 and 2016: Recognition of Deferred Revenue)	6.3	(1,993,763)	(19,595,746)	(19,042,772)
Share-based Payment	4.2.5, 7	5,584,969	4,974,599	2,357,418
Income Tax (Benefit)/Expenses	4.4	(4,304,674)	1,036,365	518,625
Changes in Operating Assets and Liabilities:				
Accounts Receivable	5.3	(6,610,625)	1,362,347	(1,154,597)
Prepaid Expenses and Other Assets, Tax Receivables and Other Receivables	5.4, 5.5	545,816	1,807,670	(13,912,263)
Accounts Payable and Accruals, Tax Provisions and Other Provisions	6.1, 6.2	1,890,046	7,819,386	13,010,160
Other Liabilities	6.4	(2,718,825)	3,133,558	(421,492)
Contract Liability (2017 and 2016: Deferred Revenue)	6.3	2,386,009	18,385,824	17,440,930
Income Taxes Paid		(33,837)	(1,861,982)	(540,383)
Net Cash Provided by/(Used in) Operating Activities		(33,269,514)	(38,445,855)	(46,615,708)

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

in €	Note	2018	2017	2016
INVESTING ACTIVITIES:				
Purchase of Financial Assets at Fair Value through Profit or Loss (2017 and 2016: Available-for-sale Financial Assets)	5.2	(84,511,324)	(56,406,580)	(166,923,795)
Proceeds from Sales of Financial Assets at Fair Value through Profit or Loss (2017 and 2016: Available-for-sale Financial Assets)	5.2	126,388,925	33,231,500	167,873,152
Proceeds from Sales of Bonds, Available-for-sale	5.2	0	6,500,000	25,770,000
Purchase of Other Financial Assets at Amortized Cost (2017 and 2016: Financial Assets Classified as Loans and Receivables)	5.2	(366,810,000)	(108,000,000)	(256,499,997)
Proceeds from Sales of Other Financial Assets at Amortized Cost (2017 and 2016: Financial Assets Classified as Loans and Receivables)	5.2	149,980,211	170,498,593	149,894,769
Purchase of Property, Plant and Equipment	5.6	(1,820,749)	(1,317,058)	(2,502,286)
Proceeds from Disposals of Property, Plant and Equipment		28,444	84	5,000
Purchase of Intangible Assets	5.7	(644,575)	(11,831,789)	(411,204)
Purchase of Financial Assets at Fair Value through Other Comprehensive Income	5.8	(9,458)	0	0
Interest Received		136,124	257,752	2,008,325
Net Cash Provided by/(Used in) Investing Activities		(177,262,402)	32,932,502	(80,786,036)
FINANCING ACTIVITIES:				
Repurchase of Treasury Stock, Net of Bank Fees		0	0	(2,181,963)
Proceeds of Share Issuance	6.5	193,613,868	0	115,371,872
Cost of Share Issuance	6.5	(15,038,362)	(15,525)	(2,778,652)
Proceeds in Connection with Convertible Bonds Granted to Related Parties	7.2	1,020,849	8,189,345	0
Outflows in Connection with Convertible Bonds Granted to Related Parties		0	0	(6,707)
Interest Paid		(134,269)	0	(1,819)
Net Cash Provided by/(Used in) Financing Activities		179,462,086	8,173,820	110,402,731
Effect of Exchange Rate Differences on Cash		(59,463)	0	0
Increase/(Decrease) in Cash and Cash Equivalents		(31,129,293)	2,660,467	(16,999,013)
Cash and Cash Equivalents at the Beginning of the Period		76,589,129	73,928,661	90,927,673
Cash and Cash Equivalents at the End of the Period		45,459,836	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. MorphoSys 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 segment of the Deutsche Börse at that time designated for high-growth companies. On January 15, 2003, MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange. On April 18, 2018, MorphoSys completed an IPO on the Nasdaq Global Market through the issue of American Depositary Shares (ADS). MorphoSys AG’s registered 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 B of the District Court of Munich under the number HRB 121023.

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 (“IFRS”), taking into account the recommendations of the International Financial Reporting Standards Interpretations Committee (IFRS IC). We have applied all standards and interpretations that were in force as of December 31, 2018 and adopted by the European Union (EU). As of December 31, 2018, there were no standards or interpretations that affected our consolidated financial statements for the years ended December 31, 2018 and 2017 that were in effect but not yet endorsed into European law. As a result, our consolidated financial statements comply with both the IFRSs published by the International Accounting Standards Board (IASB) and those adopted by the EU. These consolidated financial statements also take into account the supplementary provisions under commercial law, which must be applied in accordance with Section 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB).

These consolidated financial statements as of December 31, 2018 and 2017 and for each of the years in the three years period ended December 31, 2018, 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 annual financial statements of the foreign Group companies are prepared in their respective functional currencies and converted into the euro prior to their consolidation. The consolidated financial statements were prepared in euros.

The financial statements are prepared on the basis of historical cost, with the exception of derivative financial instruments and financial assets at fair value, which are recognized at their respective fair value. All figures in this report have been rounded to the nearest euro, thousand euros or million euros.

The line item “cost of sales” in profit or loss was first introduced in the third quarter of 2018 and includes the expenses related to the provision of services for the transfer of projects to customers. The rationale for introducing this item is the generally increasing significance of this item in the course of the Group’s planned business development. In 2017 and 2016, there were no material comparable transactions to be reported under this item.

Since January 1, 2018, the Group has reported the line item “selling expenses” separately under “operating expenses” in profit or loss. The reason for introducing this new line item and the concomitant changes to the presentation of existing items is the increasing importance of marketing expenses in connection with the preparations planned for the commercialization of MOR208. To ensure comparability of the information, the previous year’s figures have been adjusted accordingly. The disclosure of selling expenses resulted in a change in the recording of research and development and general and administrative expenses in 2017, which reduced these items in 2017 by € 3.5 million and € 1.3 million and in 2016 by € 1.7 million and € 0.7 million, respectively. The corresponding amounts are now reported in “selling expenses”.

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.

NEW AND REVISED STANDARDS AND INTERPRETATIONS 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
IFRS 9	Instruments	01/01/2018	yes	yes
IFRS 15 and IFRS 15 (A)	Financial Revenue from Contracts with Customers	01/01/2018	yes	yes
IFRS 2 (A)	Classification and Measurement of Share-based Payment Transactions	01/01/2018	yes	yes
IFRS 4 (A)	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	01/01/2018	yes	none
IFRS 15 (C)	Revenue from Contracts with Customers	01/01/2018	yes	yes
IAS 40 (A)	Transfers of Investment Property	01/01/2018	yes	none
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	yes	none
	Annual Improvements to IFRS Standards 2014 – 2016 Cycle	01/01/2018	yes	none
(A) Amendments				
(C) Clarifications				

The impact of the amendments to IFRS 2 on the consolidated financial statements is deemed not to be material.

IFRS 9 – FINANCIAL INSTRUMENTS

As of January 1, 2018, the Group has been applying the new standard for financial instruments, IFRS 9. In this context, the exception granted by IFRS 9 Section 7.2.15 is applied for the transitional provisions for classification and measurement according to which the adjustment of prior year figures is not required. Financial instruments were accounted for in accordance with IAS 39 in fiscal years 2017 and 2016. The Group applied the provisions of IAS 39 on the classification, recognition, measurement and derecognition of financial instruments.

As of January 1, 2018, financial instruments, namely money market funds, previously reported in accordance with IAS 39 until December 31, 2017, in the balance sheet item “available-for-sale financial assets” are now classified as “financial assets at fair value, with changes recognized in profit or loss” in accordance with IFRS 9. These items do not meet the IFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest.

Financial instruments, namely term deposits with fixed and variable interest rates as well as corporate bonds, previously classified in accordance with IAS 39 as “financial assets classified as loans and receivables” until December 31, 2017, are now presented in the balance sheet item “other financial assets at amortized cost” in accordance with IFRS 9. At the date of initial application the Group’s business model is to hold these financial instruments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount.

in 000' €	Available-for-sale Financial Assets	Financial Assets at Fair Value through Profit or Loss	Financial Assets classified as Loans and Receivables	Other Financial Assets at Amortized Cost
Balance as of December 31, 2017	86,538	0	149,059	0
Reclassifications of “Available-for-sale Financial Assets” to “Financial Assets at Fair Value through Profit or Loss”	(86,538)	86,538	0	0
Reclassifications of “Financial Assets classified as Loans and Receivables” to “Other Financial Assets at Amortized Cost”	0	0	(149,059)	149,059
Impairment	0	0	0	(136)
Balance as of January 1, 2018	0	86,538	0	148,923

As of January 1, 2018, there was no difference between the previous carrying amounts of financial instruments in accordance with IAS 39 and the carrying amounts in accordance with IFRS 9. As a result, no change in value has been recognized in accumulated deficit as of January 1, 2018. For financial instruments classified as “at amortized cost”, impairment losses for the expected twelve-month loss were recognized in accumulated deficit as of January 1, 2018. For financial instruments previously classified as “available-for-sale financial assets”, all unrealized gains and losses recognized in the revaluation reserve as of December 31, 2017 were reclassified to accumulated deficit as of January 1, 2018, as these financial instruments are now classified as “financial assets at fair value, with changes recognized in profit or loss”. No reclassification adjustment was required to be made to other financial assets at amortized cost under IFRS 9 compared to the application of IAS 39.

in 000' €	Revaluation Reserve	Accumulated Deficit
Balance as of December 31, 2017	(105)	0
Reclassifications of “Available-for-sale Financial Assets” to “Financial Assets at Fair Value through Profit or Loss”	105	(105)
Balance as of January 1, 2018	0	(105)

The group recognized impairments on financial instruments in accordance with the incurred loss model of IAS 39 until December 31, 2017, by recognizing an allowance once objective evidence of impairment occurred. On January 1, 2018, an expected twelve-month loss for financial instruments, namely for the cash and cash equivalents as well as the term deposits, amounting to € 0.1 million, was recognized as strictly required by IFRS 9. All of these debt investments at amortized cost are considered to have a low credit risk, and the risk provision recognized was therefore limited to twelve-month expected losses. For accounts receivable, the simplified impairment model was applied, which requires expected lifetime losses to be recognized. This resulted in a risk provision of € 0.1 million as of January 1, 2018.

in 000' €	Impair-ment IAS 39	General Impairment Model			Simplified Impairment Model		Accumu-lated Deficit
		Stage 1	Stage 2	Stage 3	Stage 2	Stage 3	
Balance as of December 31, 2017	0	0	0	0	0	0	0
Other Financial Assets at Amortized Cost	0	(136)	0	0	0	0	(136)
Accounts Receivable	0	0	0	0	(112)	0	(112)
Balance as of January 1, 2018	0	(136)	0	0	(112)	0	(248)

MorphoSys did not apply hedge accounting under IAS 39 as of December 31, 2017, nor during the year 2018, therefore the first time application of IFRS 9 has no impact on the accounting of hedging relationships.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Since January 1, 2018, the Group has been applying IFRS 15, the new accounting standard governing revenue recognition, using the modified retrospective method. Using this method requires that the cumulative effects of the first adoption of IFRS 15 to be recognized in accumulated deficit as of January 1, 2018 without an adjustment of previous periods. Hence, deferred revenue and accumulated deficit each decreased by € 1.1 million. This effect resulted from license payments which, under IFRS 15, are to be realized at a specific point in time rather than over a period of time, as was the case under IAS 18.

in 000' €	Current Portion of Contract Liability (2017: Current Portion of Deferred Revenue)	Contract Liability, Net of Current Portion (2017: Deferred Revenue, Net of Current Portion)	Accumulated Deficit
Balance as of December 31, 2017	1,389	306	0
Application of IFRS 15	(1,041)	(94)	1,135
Balance as of January 1, 2018	348	212	1,135

Had revenues in the 2018 financial year continued to be recognized in accordance with IAS 18, revenues would have been € 1.1 million higher. This reflects the aforementioned effect as of January 1, 2018, which would have been fully realized as revenue until December 31, 2018, without the application of the new IFRS 15 standard. For the revenue realized under IFRS 15 in the 2018 financial year, the accounting under IAS 18 would have resulted in revenue recognition in the same amount and at the same point in time.

Accounting principles for accounts receivable assets are presented in Items 2.4.2*, 2.5.1* and 2.8.2* of these Notes.

*CROSS-REFERENCE *to page 136 and page 140*

As of January 1, 2018, contract liabilities as defined by IFRS 15 rather than deferred revenue were recorded in the consolidated balance sheet. The accounting policies that apply to contract liabilities are presented in Items 2.9.3* and 2.9.4* of the Notes.

*CROSS-REFERENCE *to page 142*

NEW AND REVISED STANDARDS AND INTERPRETATIONS THAT WERE NOT YET MANDATORY

The following new and revised standards and interpretations that 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 those standards having a material impact are described in more detail. The impact on the consolidated financial statements of the amendments to IAS 1 and IAS 8 is not expected to be material and therefore these are not explained separately. Standards with the remark "none" are unlikely 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 3 (A)	Business Combinations	01/01/2020	no	none
IFRS 16	Leases	01/01/2019	yes	yes
IFRS 17	Insurance Contracts	01/01/2021	no	none
IFRS 9 (A)	Prepayment Features with Negative Compensation	01/01/2019	yes	none
IAS 1 and IAS 8 (A)	Definition of Material	01/01/2020	no	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	yes	none
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	yes	none
	Amendments to References to the Conceptual Framework in IFRS Standards	01/01/2020	no	none
	Annual Improvements to IFRS Standards 2015 – 2017 Cycle	01/01/2019	no	none
(A) Amendments				

IFRS 16 – LEASES

As of January 1, 2019, the new IFRS 16 standard for leases, replaces the previous IAS 17 standard for leases, including the related interpretations (IFRIC 4, SIC-15, SIC-27). Currently, all leases are accounted for as operating leases in accordance with IAS 17.

The Group reviewed IFRS 16 for its potential impact on existing lease contracts and will apply the standard for the first time as of the date of its mandatory adoption on January 1, 2019, using the modified retrospective method. The Group will not retroactively adjust comparative amounts for the year prior to first-time adoption and will recognize right-of-use assets in the amount of the lease liabilities in accordance with IFRS 9.C8 (b)(ii) on January 1, 2019. The analysis of the first-time application of IFRS 16 showed that IFRS 16 will have a material impact on components of the consolidated financial statements and the presentation of net assets, financial position and results of operations.

For lessees, IFRS 16 introduces a uniform approach to the accounting treatment of leases, whereby assets for the right of use and liabilities for the payment obligations must be recognized in the balance sheet for all leases. The right of use is initially measured at the present value of the future lease payments plus the initial direct costs and subsequently amortized over the term of the lease. The lease liability is the present value of the lease payments that are paid during the term of the lease. For subsequent measurement, the carrying amount of the lease liabilities is compounded with the interest rate or the incremental borrowing rate underlying the lease and reduced by lease payments made. For low value lease assets or short-term leases (less than twelve months), the simplified method is applied. Under this method, the lease payments are recognized as expenses over the term of the lease.

The analysis of the first-time application of IFRS 16 has shown that, as of January 1, 2019, the conversion is expected to result in the recognition of rights of us right-of-use assets and lease liabilities of around € 40.6 million in the balance sheet. In addition, current prepaid expenses of € 0.3 million resulting from rent paid in advance and non-current prepaid expenses of € 2.1 million are reclassified to the capitalized right-of-use asset as of January 1, 2019. Furthermore, as of January 1, 2019, current other liabilities of € 0.1 million and non-current other liabilities of € 0.7 million resulting from deferred rent-free periods are offset against the right-of-use asset. The resulting expansion in total liabilities is expected to decrease the equity ratio. The first-time adoption of IFRS 16 is not expected to have an impact on equity as of January 1, 2019.

The lease expenses currently recognized in the statement of income will be replaced by depreciation on assets and interest expenses from the compounding of lease liabilities. This means that the related costs will be presented in different line items in the statement of income and may differ in their total amount compared to the application of IAS 17. The first-time application of IFRS 16 is not expected to have a material impact on Group EBIT.

Payments for the repayment of lease liabilities and payments relating to the interest portion of the lease liability will be allocated to cash flow from financing activities.

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 the ultimate parent company, is located in Planegg, near Munich. MorphoSys AG has two wholly owned subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group"): MorphoSys US Inc. (Princeton, New Jersey) 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).

On July 2, 2018, MorphoSys AG established the wholly owned subsidiary, MorphoSys US Inc., under Section 102 of the General Corporation Law of the State of Delaware. Since its foundation, the company has been fully included in the MorphoSys AG scope of consolidation.

Upon entry into the commercial register on June 28, 2018, and based on the merger agreement dated May 17, 2018, Sloning BioTechnology GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with retroactive effect from January 1, 2018.

The consolidated financial statements for the year ended December 31, 2018, were prepared and approved by the Management Board in its meeting on March 13, 2019, 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).

On March 13, 2019, the Management Board authorized the consolidated financial statements for issue and passed it through to the Supervisory Board for review and authorization.

2.2.2 CONSOLIDATION METHODS

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

Company	Purchase of Shares/ Establishment	Included in Basis of Consolidation since
Lanthio Pharma B.V.	May 2015	05/07/2015
LanthioPep B.V.	May 2015	05/07/2015
MorphoSys US Inc.	July 2018	07/02/2018

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 and 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 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".

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 or 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 profit or loss. Any other foreign exchange rate differences at the group level are recognized in the "Other Comprehensive Income Reserve" (stockholders' equity).

2.3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

2.3.1 CREDIT RISK AND LIQUIDITY RISK

Financial instruments in which the Group may have a concentration of credit and liquidity risk are mainly cash and cash equivalents, financial assets at fair value, with changes recognized in profit or loss, other financial assets at amortized cost, derivative financial instruments and receivables. The Group's cash and cash equivalents are mainly denominated in euros. Financial assets at fair value, with changes recognized in profit or loss and other financial assets at amortized cost are high-quality assets. Cash, cash equivalents, financial assets at fair value, with changes recognized in profit or loss and other financial assets at amortized cost are generally held at numerous reputable financial institutions. With respect to its investments, the Group continuously monitors the financial institutions that are its counterparties to the financial instruments, as well as their creditworthiness, and does not anticipate any risk of non-performance.

The changes in impairment losses for credit risks required to be recognized under IFRS 9 on the financial year's profit or loss in the line item "impairment losses on financial assets" (see Item 2.4* of the Notes) were as follows. Negative values represent additions and positive values represent reversals of this risk provision. No utilization of impairments was recognized in 2018. The increase of this risk provision resulted from a higher volume of financial assets at amortized cost due to the cash raised in connection with the IPO on the Nasdaq and higher premiums on counterparties' credit default swaps compared with January 1, 2018.

*CROSS-REFERENCE *to page 136*

in 000' €	Stage 1	General Impairment Model Stage 2	General Impairment Model Stage 3	Simplified Impairment Model Stage 2	Simplified Impairment Model Stage 3	Total
Balance as of January 1, 2018	(136)	0	0	(112)	0	(248)
Unused Amounts Reversed	0	0	0	112	0	112
Increase in Impairment Losses for Credit Risks recognized in Profit or Loss during the Year	(570)	(465)	0	(90)	0	(1,125)
Change between Impairment Stages	41	(41)	0	0	0	0
Amounts written off during the Year as uncollectible	0	0	0	0	0	0
Balance as of December 31, 2018	(665)	(506)	0	(90)	0	(1,261)

The Group recognizes impairment losses for credit risks on financial assets as of December 31, 2018 as follows.

Balance Sheet Item	Internal Credit Rating	Basis for Recognition of Expected Credit Loss Provision	Gross Carrying Amount (in 000' €)	Impairment (in 000' €)	Carrying Amount (in 000' €)	Average Impairment Rate
Cash and Cash Equivalents	low	Expected Twelve-Month Loss	43,165	(16)	43,149	0.0%
Other Financial Assets at Amortized Cost	low	Expected Twelve-Month Loss	275,805	(649)	275,156	0.2%
	medium	Lifetime Expected Credit Losses	93,102	(506)	92,596	0.5%
Accounts Receivable	low	Lifetime Expected Credit Losses	17,823	(90)	17,733	0.5%

The Group is also exposed to credit risk from debt instruments that are measured at fair value in profit or loss. As of December 31, 2018, the maximum credit risk corresponded to the carrying amounts of these investments amounting to € 44.6 million.

One of the Group's policies requires that all customers who wish to transact business on credit undergo a credit assessment based on external ratings. Nevertheless, the Group's revenue and accounts receivable are still subject to credit risk from customer concentration. The Group's most significant single customer accounted for € 5.9 million of accounts receivables as of December 31, 2018 (December 31, 2017: € 5.1 million) or 33% of the Group's total accounts receivable at the end of 2018. The Group's top three single customers accounted for of 65%, 25% and 5% of the total revenue in 2018. On December 31, 2017, one customer had accounted for 45% of the Group's accounts receivable, and the top three customers had individually accounted for 55%, 25% and 10% of the Group's revenue in 2017. In 2016, the top three customers had individually accounted for 85%, 5% and 5% of the Group's revenue. The carrying amounts of financial assets represented the maximum credit risk.

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

in €	12/31/2018	12/31/2017
Europe and Asia	13,176,523	8,838,884
USA and Canada	4,646,410	2,395,424
Other	0	0
Impairment	(90,000)	0
TOTAL	**17,732,933**	**11,234,308**

The following table shows the aging of accounts receivable as of the reporting date. The loss rate for accounts receivable is valued at 0.5% as of December 31, 2018.

in €; due since	12/31/2018 0–30 days	12/31/2018 30–60 days	12/31/2018 60+ days	12/31/2018 Total
Accounts Receivable	17,822,933	0	0	17,822,933
Impairment	(90,000)	0	0	(90,000)
Accounts Receivable, Net of Allowance for Impairment	17,732,933	0	0	17,732,933

in €; 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

On December 31, 2018 and December 31, 2017, the Group's exposure to credit risk from derivative financial instruments was assessed as low. The maximum credit risk (is equal to carrying amount) for rent deposits on the reporting date amounted to € 0.7 million (December 31, 2017: € 1.1 million).

The following table shows the maturities of accounts payable as of the reporting date.

in €; due in	12/31/2018 Between One and Twelve Months	12/31/2018 More than 12 Months	12/31/2018 Total
Trade Accounts Payable	7,215,127	0	7,215,127
Convertible Bonds due to Related Parties	71,517	0	71,517

in €; due in	12/31/2017 Between One and Twelve Months	12/31/2017 More than 12 Months	12/31/2017 Total
Trade Accounts Payable	4,621,918	0	4,621,918
Convertible Bonds due to Related Parties	87,785	0	87,785

Financial assets and financial liabilities were not netted as of December 31, 2018. There is no current legal right to offset amounts recognized against each other, to settle on a net basis or to settle an associated liability simultaneously with the realisation of an asset. There were no financial instruments pledged as collateral as of December 31, 2018. Under existing framework netting agreements, there was no netting potential as of December 31, 2018.

2.3.2 MARKET RISK

Market risk represents the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's results of operations or the value of the financial instruments held. The Group is exposed to both 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 collectible within a twelve-month period are tested to determine if they should be hedged. MorphoSys had begun using foreign currency options and forwards to hedge its foreign exchange risk against US dollar receivables in 2003. For derivatives with a positive fair value, unrealized gains are reported in other receivables and for derivatives with a negative fair value, unrealized losses are reported in other liabilities.

As of December 31, 2018, there were nine unsettled forward rate agreements with terms ranging from one month to nine months (December 31, 2017: twelve unsettled forward rate agreements; December 31, 2016: ten unsettled forward rate agreements). The unrealized gross gains from these agreements amounted to € 0.1 million as of December 31, 2018, and were reported in the finance result (December 31, 2017: € 0.3 million unrealized gross loss; December 31, 2016: less than € 0.1 million unrealized gross gain).

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

as of December 31, 2018; in €	EUR	US$	Other	Impairment	Total
Cash and Cash Equivalents	38,732,565	6,743,271	0	(16,000)	45,459,836
Financial Assets at Fair Value through Profit or Loss	34,971,116	9,610,148	0	0	44,581,264
Other Financial Assets at Amortized Cost	365,823,783	0	0	(1,152,000)	364,671,783
Accounts Receivable	17,570,035	252,898	0	(90,000)	17,732,933
Restricted Cash (included in Other Current Assets)	772,425	12,901	0	(3,000)	782,326
Accounts Payable and Accruals	(43,638,268)	(1,122,347)	0	0	(44,760,615)
TOTAL	**414,231,656**	**15,496,871**	**0**	**(1,261,000)**	**428,467,527**

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

Various foreign exchange rates and their impact on assets and liabilities were simulated in an in-depth sensitivity analysis to determine the effects on profit or loss. A 10 % increase in the euro versus the US dollar as of December 31, 2018, would have reduced the Group's income by € 1.4 million. A 10 % decline in the euro versus the US dollar would have increased the Group's income by € 1.7 million.

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 corporate bonds. 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 risks are limited because all securities can be liquidated within a maximum of two years and due to the partially fixed interest commitment during the term.

Different interest rates and their effects on existing investments with variable interest rates were simulated in a detailed sensitivity analysis in order to determine the effects on profit or loss. An increase of the variable interest rate by 0.5 % would have increased the Group's result by € 0.4 million as of December 31, 2018 (December 31, 2017: € 0.6 million; December 31, 2016: € 0.3 million). A decrease of the variable

interest rate by 0.5% would have reduced the Group's result by € 0.1 million as of December 31, 2018 (December 31, 2017: € 0.4 million; December 31, 2016: € 0.5 million). Changes in the interest rate had no material impact on equity as of December 31, 2017 or December 31, 2016.

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 applies the following hierarchy in 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 assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for 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 other financial assets at amortized cost, as well as 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 Hierarchy Level 1 (see Item 5.2* of the Notes).

*CROSS-REFERENCE *to page 152*

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 Hierarchy Level 2. If significant inputs are not based on observable market data, the instrument is allocated to Hierarchy Level 3.

Hierarchy Level 2 contains forward exchange contracts to hedge exchange rate fluctuations, term deposits and restricted cash. 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. The fair value of the term deposits and restricted cash is determined by discounting the expected cash flows at market interest rates.

Financial assets belonging to Hierarchy Level 3 are shown in Item 5.7* of the Notes to the Consolidated Financial Statements. No financial liabilities were assigned to Hierarchy Level 3, and there were no Hierarchy Level 3 balance sheet items measured at fair value in 2017.

*CROSS-REFERENCE *to page 155*

There were no transfers from one fair value hierarchy level to another in 2018 or 2017.

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

December 31, 2018 (in 000' €)	Note	Hierarchy Level	Not classified into a Measurement Category	Financial Assets at Amortized Cost
Cash and Cash Equivalents	5.1	*		45,460
Financial Assets at Fair Value through Profit or Loss	5.2	1		0
Other Financial Assets at Amortized Cost	5.2	*		268,923
Accounts Receivable	5.3	*		17,733
Other Receivables				
thereof Financial Assets		*		81
thereof Forward Exchange Contracts used for Hedging	5.4	2		0
Current Assets				332,197
Other Financial Assets at Amortized Cost, Net of Current Portion	5.2	2		95,749
Shares at Fair Value through Other Comprehensive Income	5.8	3		0
Prepaid Expenses and Other Assets, Net of Current Portion	5.9			
thereof Non-Financial Assets		n/a	2,271	
thereof Restricted Cash		2		711
Non-current Assets			2,271	96,460
TOTAL			**2,271**	**428,657**
Accounts Payable and Accruals	6.1	*		0
Current Liabilities				0
Convertible Bonds - Liability Component		2		0
Non-current Liabilities				0
TOTAL				**0**

* Declaration waived in accordance with IFRS 7.29 (a). For these instruments the carrying amount is a reasonable approximation of fair value.

December 31, 2017 (in 000' €)	Note	Hierarchy Level	Not classified into a Measurement Category	Loans and Receivables
Cash and Cash Equivalents	5.1	*		76,589
Available-for-sale Financial Assets	5.2	1		0
Financial Assets classified as Loans and Receivables	5.2	*		149,059
Accounts Receivable	5.3	*		11,234
Other Receivables	5.4	*		85
Prepaid Expenses and Other Current Assets				
thereof Non-Financial Assets		n/a	15,788	
thereof Restricted Cash	5.5	*		432
Current Assets			15,788	237,399
Prepaid Expenses and Other Assets, Net of Current Portion	5.9			
thereof Non-Financial Assets		n/a	2,643	
thereof Restricted Cash		2		701
Non-current Assets			2,643	701
TOTAL			**18,431**	**238,100**
Accounts Payable and Accruals	6.1	*		0
Other Provisions				
thereof Non-Financial Liabilities		n/a	(886)	
thereof Forward Exchange Contracts used for Hedging		2		0
Current Liabilities			(886)	0
Convertible Bonds - Liability Component		2		0
Non-current Liabilities				0
TOTAL			**(886)**	**0**

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

Financial Assets at Fair Value (Through Profit or Loss)	Financial Assets at Fair Value (Through Other Comprehensive Income)	Financial Liabilities at Amortized Cost	Financial Liabilities at Fair Value	Total Carrying Amount	Fair value
0	0	0	0	45,460	*
44,581	0	0	0	44,581	44,581
0	0	0	0	268,923	*
0	0	0	0	17,733	*
				147	
				81	*
66	0	0	0	66	66
44,647	**0**	**0**	**0**	**376,844**	
0	0	0	0	95,749	95,749
0	232	0	0	232	0
				2,982	
				2,271	n/a
0	0	0	0	711	701
0	**232**	**0**	**0**	**98,963**	
44,647	**232**	**0**	**0**	**475,807**	
0	0	(44,761)	0	(44,761)	*
0	**0**	**(44,761)**	**0**	**(44,761)**	
0	0	(72)	0	(72)	(72)
0	**0**	**(72)**	**0**	**(72)**	
0	**0**	**(44,833)**	**0**	**(44,833)**	

Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
0	0	76,589	*
86,538	0	86,538	86,538
0	0	149,059	*
0	0	11,234	*
0	0	85	*
		16,220	
		15,788	n/a
0	0	432	*
86,538	**0**	**339,725**	
		3,344	
		2,643	n/a
0	0	701	701
0	**0**	**3,344**	
86,538	**0**	**343,069**	
0	(44,812)	(44,812)	*
		(1,186)	
		(886)	n/a
0	(300)	(300)	(300)
0	**(45,112)**	**(45,998)**	
0	(88)	(88)	(88)
0	**(88)**	**(88)**	
0	**(45,200)**	**(46,086)**	

2.4 IMPAIRMENTS

2.4.1 FINANCIAL INSTRUMENTS

As of January 1, 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost, namely term deposits with fixed and variable interest rates as well as corporate bonds. The impairment method applied depends on whether there has been a significant increase in credit risk. If, at the reporting date, the credit risk of a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to twelve-month expected credit losses (Level 1). In case the credit risk of a financial instrument has increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses. The Group currently classifies an increase in credit risk on debt instruments as significant if the premium on a counterparty credit default swap exceeds 100 basis points at the reporting date (Leve 2). If there is an objective indication of impairment, the interest received must also be adjusted so that as of that date the interest is accrued on the basis of the net carrying amount (carrying amount less risk provisions) of the financial instrument (Level 3).

Objective evidence of a financial instrument's impairment may arise from material financial difficulties of the issuer or the borrower, a breach of contract such as a default or delay in interest or principal payments, an increased likelihood of insolvency or other remediation process, or from the disappearance of an active market for a financial asset due to financial difficulties.

Financial instruments are derecognized when it can be reasonably expected that they will not be recovered and when one of the objective evidences occurs. Impairment of financial intruments is reported under impairment losses on financial assets.

2.4.2 RECEIVABLES

In the case of accounts receivable, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the receivables (Leve 2). In the case of insufficient reason to expect recovery, the expected loss shall be calculated as the difference between the gross carrying amount and the present value of the expected cash flows discounted at the original effective interest rate (Level 3). An indicator that there is insufficient reason to expect recovery includes a situation, among others, when internal or external information indicates that the Group will not fully receive the contractual amounts outstanding.

All accounts receivable were aggregated to measure the expected credit losses as they all share the same credit risk characteristics. All accounts receivable are currently due from customers in the same industry and are therefore exposed to the same credit risks. The impairment is determined on the basis of the premium for an industry credit default swap. In the event that accounts receivable cannot be grouped together, they are measured individually.

Accounts receivable are derecognized when it can be reasonably expected that they will not be recovered. Impairment of accounts receivable is reported under other expenses. If in subsequent periods amounts are received that were previously impaired, these amounts are recognized in other income.

2.4.3 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 or 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.

REVENUE

Revenues from milestones, royalties and contracts with multiple performance obligations are subject to assumptions regarding probabilities of occurrence and individual selling prices within the scope of the accounting and measurement principles explained in Note 2.7.1*.

*CROSS-REFERENCE *to page 137*

FINANCIAL ASSETS

Impairment losses on financial assets in the form of debt instruments and accounts receivable are based on assumptions about credit risk. The Group exercises discretion in making these assumptions and in selecting the inputs to calculate the impairment based on past experience, current market conditions and forward-looking estimates at the end of each reporting period.

IN-PROCESS R&D PROGRAMS AND GOODWILL

The Group performs an annual review to determine whether in-process R&D programs or goodwill is subject to impairment in accordance with the accounting policies discussed in Item 2.4.3*. 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 Items 5.7.3* and 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 136 and page 156*

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 authorities, tax calculations are generally subject to an elevated amount of uncertainty. To the extent necessary, possible tax risks are 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 148*

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, 2018, the equity ratio was 90.6% (December 31, 2017: 86.3%; see also the following overview). The Group does not currently have any financial liabilities.

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 stock option plans (SOP) set up in 2017 and 2018. MorphoSys also established Long-Term Incentive plans (LTI plan) in 2014, 2015, 2016, 2017 and 2018. 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 163*

in 000' €	12/31/2018	12/31/2017
Stockholders' Equity	488,373	358,671
In % of Total Capital	90.6%	86.3%
Total Liabilities	50,391	56,727
In % of Total Capital	9.4%	13.7%
TOTAL CAPITAL	**538,764**	**415,398**

2.6 USE OF INTEREST RATES FOR MEASUREMENT

The Group uses interest rates to measure fair value. When calculating share-based payment, MorphoSys uses the interest rate on four-year German government bonds on the date the share-based payment was granted.

2.7 ACCOUNTING POLICIES APPLIED TO LINE ITEMS OF PROFIT OR LOSS

2.7.1 REVENUES AND REVENUE RECOGNITION

As of January 1, 2018, the Group has adopted IFRS 15, the new accounting standard governing revenue recognition, using the modified retrospective method.

The application of IFRS 15 requires a five-stage approach:

- Identification of the contract
- Identification of performance obligations
- Determination of the transaction price
- Allocation of the transaction price
- Revenue recognition

The Group's revenues typically include license fees, milestone payments, service fees, and royalties.

LICENSE FEES AND MILESTONE PAYMENTS

The Group recognizes revenues from license fees for intellectual property (IP) both at a point in time and over a period of time. An assessment needs to be made as to whether such a license represents a right to use (at a point in time) or a right to access (over time). Revenue for a right to use a license is recognized by the Group when the customer can use the IP and benefit from it as well as when the license term begins, e.g. for outlicensing of a drug candidate or technology without any further obligations for the Group. A license is treated as a right to access if the Group will undertake activities that significantly affect the IP during the license term, and the customer is directly exposed to any positive or negative effects of these activities, and these activities do not result in the transfer of a good or service to the customer. Revenues from right to access licenses are recognized linear over the license term.

Milestone payments for research and development are contingent upon occurrence of a future event and represent variable consideration. The Group determines that at contract inception the most likely amount for milestone payments is zero. The most likely amount method of estimation is considered to be the most predictive for the outcome, since the outcome is binary, such as achieving a certain success in clinical development (or not). The Group will recognize milestone payments as revenue when it is highly unlikely that there will be a material reversal of cumulative revenue in future periods.

Sales-based milestone payments included in contracts for licenses of IP are considered by the Group to be sales-based license fees because they are solely determined by sales of an approved drug. Accordingly, such milestones are recognized as revenue once sales of such drug occur or later if the performance obligation has not been fulfilled.

SERVICE FEES

Service fees for the assignment of personnel in research and development collaborations are recognized as revenues in the period the services are provided. In case a Group company acts as agent, revenues are recognized on a net basis.

ROYALTIES

With regard to royalties (income based on a percentage of sales of a marketed product), the same revenue recognition principles apply as for sales-based milestones as described above.

AGREEMENTS WITH MULTIPLE PERFORMANCE OBLIGATIONS

A Group company may enter into agreements with multiple performance obligations that include both licenses and services. In such cases, it has to be assessed as to whether the license is distinct from services (or other performance obligations) provided under the same agreement. The transaction price is allocated to separate performance obligations based on the relative stand-alone selling price of the performance obligations in the agreement. The Group company estimates stand-alone selling prices for non-individually sold goods and services on the basis of comparable transactions with other customers. A residual approach is used as a method to estimate the stand-alone selling price when the selling price for a good or service is highly variable or uncertain.

PRINCIPLE-AGENT RELATIONSHIPS

In agreements involving two or more independent parties that contribute to the provision of a specific good or service to a customer, a Group company assesses as to whether it has promised to provide the specific good or service itself (the company acting as a principal) or to arrange for this specific good or service to be provided by another party (the company acting as an agent). Depending on the result of this assessment, the Group company records revenues on a gross (principal) or net (agent) basis. A Group company is an agent and recognizes revenue on a net basis if its obligation is to arrange for another party to provide goods or services, i.e., the Group company does not control the specified good or service before it is transferred to the customer. Indicators to assist a company in determining whether it does not control the good or service before it is provided to a customer, and is therefore an agent, include, but are not limited to, the following criteria:

- Another party is primarily responsible for fulfilling the contract.
- The company does not have inventory risk.
- The company does not have discretion in establishing the price.

No single indicator is determinative or weighted more heavily than other indicators. However, some indicators may provide stronger evidence than others, depending on the individual facts and circumstances. A Group company's control needs to be substantive, so obtaining legal title of a good or service only momentarily before it is transferred to the customer does not necessarily indicate that a Group company is a principal. In general, the assessment whether a Group company is acting as a principal or as an agent in a transaction requires significant judgement.

Based on the relevant facts and circumstances, the assessment of an agreement may lead to the conclusion that the counterparty is a cooperation partner or partner rather than a customer, meaning the agreement does not fall in the scope of IFRS 15 because the parties equally share the risks of co-developing a drug and the future profits from the marketing of the approved drug.

REVENUE RECOGNITION THROUGH DECEMBER 31, 2017

The group applied the revenue recognition principles of IAS 18 Revenue through December 31, 2017.

The Group's revenue included license fees, milestone payments and service fees in 2017 and 2016. Under IAS 18.9, revenues were measured at fair value of the consideration received or receivable. In accordance with IAS 18.20b, revenues were recognized only to the extent that it was sufficiently probable that the Company will have received 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 were recognized immediately and in full, if all IAS 18.14 criteria were met. Specifically, when significant risks and rewards of a license ownership have transferred to the customer and a Group company does not retain any continuing managerial involvement or effective control. In case these criteria were not met, revenues were recognized on a straight-line basis over the period of the agreement unless a more appropriate method of revenue recognition was available. The period of the agreement usually corresponded 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. Revenues from milestone payments were recognized upon achievement of certain contractual criteria.

SERVICE FEES

Service fees from research and development collaborations were recognized in the period the services were provided.

Discounts that were likely to be granted and whose amount could be reliably determined were recognized as a reduction in revenue at the time of revenue recognition. The timing of the transfer of risks and rewards varied depending on the terms of the sales contract. In accordance with IAS 18.21 and 18.25, revenue from multiple-component contracts was 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 were assessed separately for each component.

2.7.2 OPERATING EXPENSES

COST OF SALES

Cost of sales is recognized as an expense in the period in which the associated revenue accrues. This line item currently includes personnel expenses only.

RESEARCH AND DEVELOPMENT

Research costs are expensed in the period in which 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 charges, amortization and other costs of intangible assets (additional information can be found under Item 5.7* in the Notes), costs for external services and depreciation and other costs for infrastructure.

*CROSS-REFERENCE *to page 155*

SELLING

The item includes personnel expenses, consumables, operating costs, amortization of intangible assets (software; further details in Item 5.7* of the Notes), costs for external services, infrastructure costs and depreciation.

*CROSS-REFERENCE *to page 155*

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 155*

PERSONNEL EXPENSES RESULTING FROM STOCK OPTIONS

The Group applies the provisions of 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 personnel expense resulting from the use of an option pricing model in relation to share-based incentives for the Management Board and employees. Additional information can be found under Items 7.1*, 7.2*, 7.3* and 7.4* in the Notes.

*CROSS-REFERENCE *to page 161–167*

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in profit or loss 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

In addition to government grants, other income primarily included currency gains from operating activities and income related to the Company's canteen.

GOVERNMENT GRANTS

Grants, not repayable, received from government agencies to fund specific research and development projects are recognized in profit or loss 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 or 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 2018, 2017 and 2016 financial year that are required to be classified as investment subsidies.

2.7.4 OTHER EXPENSES

The line item "other expenses" consisted mainly of currency losses from the operating business.

2.7.5 FINANCE INCOME AND FINANCE EXPENSES

Gains and losses arising from changes in fair value, as well as interest effects from the application of the effective interest method to financial assets are recognized in profit or loss when incurred.

2.7.6 INCOME TAX EXPENSES/BENEFIT

Income taxes consist of current and deferred taxes and are recognized in profit or loss 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 assets' 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.

2.7.7 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 2018, 2017 and 2016, diluted earnings per share equaled basic earnings per share. The effect of 120,214 potentially dilutive shares in 2018 (2017: 87,904 dilutive shares; 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 should therefore not be treated as dilutive.

The 52,930 stock options not yet vested as of December 31, 2018 are not included in the calculation of potentially dilutive shares, as they are anti-dilutive for the 2018 fiscal year. These shares could possibly have a dilutive effect in the future.

2.8 ACCOUNTING POLICIES APPLIED TO THE ASSETS OF THE BALANCE SHEET

2.8.1 LIQUIDITY

CLASSIFICATION

As of January 1, 2018, the Group classifies its financial assets (debt instruments) in the following measurement categories: those that are subsequently measured at fair value (either through other comprehensive income or profit or loss) and those that are measured at amortized cost. The classification depends on the Company's business model with respect to the management of the financial assets and the contractual cash flows. For assets measured at fair value, gains and losses are recognized either within other comprehensive income or profit or loss. The Group only reclassifies debt instruments when the business model for managing such assets changes.

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, Rabobank and Bank of America Merrill Lynch.

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.

RECOGNITION AND DERECOGNITION

A purchase or sale of financial assets in a manner that is customary for the market is recognized as of the trade date, which is the date on which the Group commits to buying or selling the asset. Financial assets are derecognized when the claims to receive cash flows from the financial assets expire or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

MEASUREMENT

Upon initial recognition, the Group measures a financial asset at fair value plus transaction costs directly attributable to the acquisition of that asset when a financial asset is not subsequently measured at fair value in profit or loss. Transaction costs of financial assets measured at fair value through profit or loss are recognized as expenses in profit or loss.

The subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the asset's cash flow characteristics. The Group classifies its debt instruments in one of the following measurement categories.

Assets that are held in order to collect the contractual cash flows and for which these cash flows represent only interest and principal payments are measured at amortized cost. Interest income from these financial assets is recognized in finance income using the effective interest method. Gains or losses on derecognition are recognized directly in profit or loss and recorded in the finance result. Impairment losses are recognized as a separate line item in profit or loss.

Assets that are held to collect the contractual cash flows and to sell the financial assets and where the cash flows represent solely principle and interest payments are measured at fair value through other comprehensive income. Changes in the carrying amount are recognized in other comprehensive income, with the exception of impairment losses and income from the reversal of impairment, interest income, and foreign currency gains and losses, which are recognized in profit or loss. Upon derecognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and is recorded in the finance result. Interest income from these financial assets is reported in finance income using the effective interest method. Foreign exchange gains and losses are shown under other income/expenses, and impairment losses are included in a separate line item in profit or loss.

Assets that do not meet the criteria of the categories at amortized cost or at fair value through other comprehensive income are allocated to the category at fair value through profit or loss. Gains or losses on a debt instrument that is subsequently measured at fair value through profit or loss, are recognized on a net basis in the finance result in the period in which they occur.

DERIVATIVES

The Group uses derivatives to hedge its foreign exchange risk and cash flows. The use of derivatives is subject to a Group policy approved by the Management Board, which sets out a written guideline on the use of derivatives. According to the Group's hedging policy, only highly probable future cash flows and clearly identifiable receivables that can be collected within a twelve-month period are hedged.

Derivatives are initially recognized at fair value at the time of the conclusion of a derivative transaction and subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of a derivative instrument that are not accounted for as a hedging relationship are recognized directly in the finance result in profit or loss.

MorphoSys did not apply hedge accounting under IAS 39 as at December 31, 2017, nor during the year 2018, therefore IFRS 9 has no impact on the recognition of hedging relationships.

2.8.2 ACCOUNTS RECEIVABLE, INCOME TAX RECEIVABLES AND OTHER RECEIVABLES

Accounts receivable are measured at amortized cost less any impairment using the simplified impairment model (see Items 2.3.1*, 2.4.2* and 5.3* in the Notes).

*CROSS-REFERENCE *to page 129, page 136 and page 153*

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.

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 upfront payments for external laboratory services not yet performed. Other current assets primarily consist of receivables towards tax authorities from input tax surplus resulting from value-added taxes, combination compounds and receivables from upfront payments. 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 Item 5.6* in the Notes) and any impairment (see Item 2.4.3* 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 estimated 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 154 and page 136*

Asset Class	Useful Life	Depreciation Rates
Computer Hardware	3 years	33%
Low-value Laboratory and Office Equipment between € 250 and € 800	Immediately	100%
Permanent Improvements to Property/Buildings	10 years	10%
Office Equipment	8 years	13%
Laboratory Equipment	4 years	25%

The residual values and useful lives of assets 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 of intangible assets 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 2.4.3* 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 136*

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 in accordance with 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 were achieved. Additionally, this line item also includes compounds or antibody programs 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 2.4.3* in the Notes). Amortization is recognized in profit or 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 136*

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 Item 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 156*

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 INVESTMENTS AT FAIR VALUE, WITH CHANGES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

The investment in adivo GmbH is accounted for as an equity instrument at fair value. Changes in fair value are recognized in other comprehensive income. This was irrevocably determined when the investment was first recognized. This investment is a strategic financial investment, and the Group considers this classification to be more meaningful. If the investment is derecognized, no subsequent reclassification of gains or losses to profit or loss will occur. Dividends from this investment are recognized in profit or loss when there is a justified right to receive payment.

2.8.8 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

The non-current portion of expenses that occurred prior to the reporting date, but are to be recognized in subsequent financial years is recorded in 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 OTHER PROVISIONS

Accounts payable and other liabilities are initially recognized at fair value and subsequently at amortized cost using the effective interest method. 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 other 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 costs 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 accruals, the Group analyzes the 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 CONTRACT LIABILITIES

Upfront payments from customers for services to be rendered by the Group and revenue that must be recognized over a period of time in accordance with IFRS 15.35 are deferred and measured at the nominal amount of cash received. The corresponding rendering of services and revenue recognition is expected to occur within a twelve-month period following the reporting date. Prior to December 31, 2017, this item was recognized as deferred revenue.

2.9.4 CONTRACT LIABILITIES, NET OF CURRENT PORTION

This line item includes the non-current portion of deferred upfront payments and income from customers that is required to be recognized over a period of time in accordance with IFRS 15.35. These are measured at the nominal amount of cash received. Prior to December 31, 2017, this item was reported as deferred revenue, net of current portion.

2.9.5 CONVERTIBLE BONDS DUE TO RELATED PARTIES

The Group had 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 credited separately in 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 debit effect of the equity component is recognized in profit or loss in personnel expenses from share-based payments, whereas the effect on profit or loss from the liability component is recognized as interest expense. The Group applies the provisions of IFRS 2 "Share-based Payment" 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

The line item "other liabilities" consists of a deferred amount related to rent-free periods as agreed. The corresponding reduction of these liabilities over the minimum rent period is calculated based on the effective interest method. Other liabilities are discounted due to their long-term maturities at an interest rate equivalent to the rent term.

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 is 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 under Long-Term Incentive plans (in this case: performance shares) 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 line item treasury stock, which is a deduction from common stock, while simultaneously reducing additional paid-in capital. Further information can be found in Items 7.3.1* and 7.3.2* in the Notes.
*CROSS-REFERENCE *to page 163*

ADDITIONAL PAID- IN CAPITAL

Additional paid-in capital mainly consists of personnel expenses resulting from the grant of stock options, convertible bonds and performance shares and the proceeds from newly created shares in excess of their nominal value.

REVALUATION RESERVE

The revaluation reserve mainly consisted of unrealized gains and losses on available-for-sale financial assets that were measured directly in equity until they were sold. Starting with the application of IFRS 9 as of January 1, 2018, the reporting of this reserve is no longer required.

OTHER COMPREHENSIVE INCOME RESERVE

The item "other comprehensive income reserve" includes changes in the fair value of equity instruments that are recognized in other comprehensive income and foreign exchange differences that are not recognized in profit or loss.

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, impairment losses on financial assets 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.
*CROSS-REFERENCE *to page 144 and page 148*

3.1 PROPRIETARY DEVELOPMENT

The segment comprises all activities related to the proprietary development of therapeutic antibodies and peptides. Currently, this segment's activities comprise a total of twelve antibodies and peptides, with MOR208 representing the Company's most advanced proprietary clinical program. Also included are the antibody MOR202, which was partially out-licensed to I-Mab Biopharma and MOR106, which had been co-developed with Galapagos and was out-licensed to Novartis during the reporting year. Also included is the Company's MOR103 program, which was out-licensed to GlaxoSmithKline (GSK) in 2013. The partially or completely out-licensed programs have been part of the Proprietary Development segment since the beginning of their development and will therefore continue to be reported in this segment. MorphoSys is also pursuing other early-stage proprietary development and co-development programs. These include the clinical program MOR107 (formerly LP2), which originated from the acquisition of Lanthio Pharma B.V. This program was evaluated in a phase 1 study in healthy volunteers and is currently undergoing preclinical studies for oncology indications. One other program is in preclinical development and another six programs are in drug discovery. The Proprietary Development segment also manages the development of proprietary technologies.

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 December 31	Proprietary Development			Partnered Discovery		
	2018	2017	2016	2018	2017	2016
External Revenues	53,610	17,635	621	22,832	49,156	49,123
Operating Expenses	(107,019)	(99,106)	(78,515)	(9,516)	(18,906)	(18,113)
SEGMENT RESULT	**(53,409)**	**(81,471)**	**(77,894)**	**13,316**	**30,250**	**31,010**
Other Income	159	157	327	0	0	0
Other Expenses	0	0	0	0	0	0
SEGMENT EBIT	**(53,250)**	**(81,314)**	**(77,567)**	**13,316**	**30,250**	**31,010**
Finance Income						
Finance Expenses						
Impairment Losses on Financial Assets						
EARNINGS BEFORE TAXES						
Income Tax Benefit/(Expenses)						
NET LOSS						
Current Assets	15,842	8,802	13,157	7,114	18,054	18,415
Non-current Assets	42,041	60,658	59,292	6,288	8,490	10,165
TOTAL SEGMENT ASSETS	**57,883**	**69,460**	**72,449**	**13,402**	**26,544**	**28,580**
Current Liabilities	32,167	33,008	20,948	1,471	4,083	2,512
Non-current Liabilities	3,291	7,072	6,930	158	1,045	2,165
Stockholders' Equity	0	0	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**35,458**	**40,080**	**27,878**	**1,629**	**5,128**	**4,677**
Capital Expenditure	1,319	12,344	1,358	879	602	1,181
Depreciation and Amortization	1,903	1,555	1,272	1,429	2,075	2,117

The segment result is defined as a segment's revenue less the segment's operating expenses. The unallocated other operating expenses of € 20.0 million (2017: € 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 2018 financial y ear, impairments totaling € 19.2 million were recognized in the Proprietary Development segment (2017: impairments of € 9.9 million in the Proprietary Development segment; 2016: impairments of € 10.1million in the Proprietary Development segment).

The Group's key customers are allocated to either the Proprietary Development or Partnered Discovery segments. As of December 31, 2018, the single most important customer represented accounts receivable with a carrying amount of € 5.9 million (December 31, 2017: € 5.1 million). The largest customer accounted for revenues in 2018 of € 49.5 million, the second largest for € 19.0 million and the third largest for € 3.9 million. The largest and third largest customers are allocated to the Proprietary Development segment and the second largest customer to the Partnered Discovery segment. In 2017, the largest customer accounted for € 36.9 million of the Group's total revenue, the second largest € 16.8 million and the third largest € 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' €	2018	2017	2016
Germany	309	851	1,621
Europe and Asia	56,784	57,229	43,046
USA and Canada	19,350	8,711	5,077
TOTAL	**76,443**	**66,791**	**49,744**

Unallocated			Group		
2018	2017	2016	2018	2017	2016
0	0	0	76,442	66,791	49,744
(19,969)	(15,835)	(13,212)	(136,504)	(133,847)	(109,840)
(19,969)	**(15,835)**	**(13,212)**	**(60,062)**	**(67,056)**	**(60,096)**
1,486	963	382	1,645	1,120	709
(689)	(1,671)	(554)	(689)	(1,671)	(554)
(19,172)	**(16,543)**	**(13,384)**	**(59,106)**	**(67,607)**	**(59,941)**
			418	712	1,385
			(754)	(1,895)	(1,308)
			(1,035)	0	0
			(60,477)	**(68,790)**	**(59,864)**
			4,305	(1,036)	(519)
			(56,172)	**(69,826)**	**(60,383)**
365,949	313,825	276,484	388,905	340,681	308,056
101,530	5,569	86,087	149,859	74,717	155,544
467,479	**319,394**	**362,571**	**538,764**	**415,398**	**463,600**
12,285	10,610	14,842	45,923	47,701	38,302
1,019	909	743	4,468	9,026	9,838
488,373	358,671	415,460	488,373	358,671	415,460
501,677	**370,190**	**431,045**	**538,764**	**415,398**	**463,600**
268	204	374	2,466	13,150	2,913
418	400	375	3,750	4,030	3,764

The following overview shows the timing of the satisfaction of performance obligations in 2018.

in 000' €	Proprietary Development	Partnered Discovery
At a Point in Time thereof performance obligations fulfilled in previous periods: € 0 in Proprietary Development and € 19.0 million in Partnered Discovery	53,610	22,268
Over Time	0	564
TOTAL	**53,610**	**22,832**

A total of € 136.1 million (December 31, 2017: € 42.2 million) and € 13.7 million (December 31, 2017: € 32.6 million) of the Group's non-current assets, excluding deferred tax assets, are located in Germany and the Netherlands, respectively. There are no non-current assets in the USA as of December 31, 2018. The Group's total investments of € 2.4 million (December 31, 2017: € 13.1 million) were made in Germany, except for € 0.1 million (December 31, 2017: € 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.

4 Notes to Profit or Loss

4.1 REVENUES

In 2018, revenues consisted of milestone payments and royalties totaling € 19.3 million (2017: € 7.3 million; 2016: € 5.6 million). In 2018, 2017 and 2016 these were entirely generated by the Partnered Discovery segment.

Revenues from license fees (except milestone payments and royalties) amounted to € 51.2 million in 2018 (2017: € 37.5 million; 2016: € 22.8 million) and was attributable to the Proprietary Development segment in the amount of € 50.6 million (2017: € 16.8 million), and to the Partnered Discovery segment in the amount of € 0.6 million (2017: € 20.7 million; 2016: € 22.8 million).

Of the service fee revenues totaling € 5.9 million (2017: € 22.0 million; 2016: € 21.4 million), € 3.0 million (2017: € 0.8 million; 2016: € 0.6 million) was attributable to the Proprietary Development segment, and € 2.9 million (2017: € 21.2 million; 2016: € 20.8 million) to the Partnered Discovery segment. Substantially all service fee revenues relate to revenue on a gross basis (principal).

Of the total revenues in 2018, revenues of € 19.0 million were recognized from performance obligations that were fulfilled in previous periods and relate to milestone payments and royalties (2017: € 7.8 million; 2016: € 7.1 million).

4.2 OPERATING EXPENSES

4.2.1 COST OF SALES

Cost of sales consists of the items below.

in 000' €	2018	2017	2016
Personnel Expenses	1,797	0	0
TOTAL	**1,797**	**0**	**0**

4.2.2 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are composed of the items below.

in 000' €	2018	2017	2016
Personnel Expenses	25,288	28,482	25,145
Consumable Supplies	2,310	2,588	2,321
Other Operating Expenses	2,761	2,757	2,608
Impairment, Amortization and Other Costs of Intangible Assets	22,760	13,503	13,689
External Services	47,889	61,119	44,311
Depreciation and Other Costs for Infrastructure	5,389	4,865	5,889
TOTAL	**106,397**	**113,314**	**93,963**

4.2.3 SELLING EXPENSES

Selling expenses consist of the items below.

in 000' €	2018	2017	2016
Personnel Expenses	2,536	1,771	1,661
Consumable Supplies	3	1	1
Other Operating Expenses	538	386	444
Amortization of Intangible Assets	25	0	0
External Services	2,953	2,658	338
Depreciation and Other Costs for Infrastructure	328	0	0
TOTAL	**6,383**	**4,816**	**2,444**

4.2.4 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses included the items below.

in 000' €	2018	2017	2016
Personnel Expenses	15,016	11,797	9,208
Consumable Supplies	15	33	97
Other Operating Expenses	1,012	714	847
Amortization of Intangible Assets	97	112	111
External Services	4,475	2,224	2,244
Depreciation and Other Costs for Infrastructure	1,313	838	925
TOTAL	**21,928**	**15,718**	**13,432**

4.2.5 PERSONNEL EXPENSES

Personnel expenses included the items below.

in 000' €	2018	2017	2016
Wages and Salaries	30,349	28,196	27,146
Social Security Contributions	4,341	4,542	4,570
Share-based Payment Expense	5,585	4,975	2,357
Temporary Staff (External)	1,241	881	1,061
Other	3,121	3,456	880
TOTAL	**44,637**	**42,050**	**36,014**

Personnel expenses from share-based payment in 2018 included a one-time entitlement granted to related parties to receive treasury shares amounting to € 2.1 million. Further details can be found in Item 6.5.4* of the Notes.

*CROSS-REFERENCE *to page 160*

In 2018, other personnel expenses mainly included costs for personnel recruitment as well as promotion and development measures. In 2017, this item consisted primarily of costs for severance payments and measures to recruit, promote and develop personnel. In 2016, other personnel expenses comprised mainly of recruitment costs.

Due to the increasing importance of selling expenses in connection with the planned preparations for the commercialization of MOR208, the existing functions presented in profit or loss were expanded in 2018 to include the area of "sales". In order to ensure the comparability of information, the previous year's figures have been adjusted accordingly. The average number of employees in the 2018 financial year was 327 (2017: 344; 2016: 354). Of the 329 employees on December 31, 2018 (December 31, 2017: 326; December 31, 2016: 345), 246 were active in research and development (December 31, 2017: 253; December 31, 2016: 280), 21 in sales (December 31, 2017: 14; December 31, 2016: 12), and 62 were engaged in general and administrative functions (December 31, 2017: 59 employees; December 31, 2016: 53 employees). As of December 31, 2018, there were 209 employees in the Proprietary Development segment and 49 employees in the Partnered Discovery segment while 71 employees were not allocated to a specific segment (December 31, 2017: 161 in the Proprietary Development segment, 105 employees in the Partnered Discovery segment and 60 employees were unallocated; 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 € 0.7 million in 2018 (2017: € 0.6 million; 2016: € 0.5 million).

4.3 OTHER INCOME AND EXPENSES, FINANCE INCOME AND FINANCE EXPENSES

in 000' €	2018	2017	2016
Grant Income	153	157	327
Gain on Foreign Exchange	677	485	192
Gain from recognition of previously unrecognized intangible assets	350	0	0
Reversal of Impairment for Accounts Receivable Previously Deemed Impaired	0	76	15
Miscellaneous Income	465	402	175
Other Income	1,645	1,120	709
Loss on Foreign Exchange	(457)	(844)	(400)
Impairment of Other Receivables	0	0	(7)
Miscellaneous Expenses	(232)	(827)	(147)
Other Expenses	(689)	(1,671)	(554)
Gain on Financial Assets at Fair Value through Profit or Loss (2017 and 2016: Gain on Available-for-sale Financial Assets and Bonds)	5	35	294
Interest Income on Other Financial Assets at Amortized Cost	91	236	1,017
Gain on Derivatives	322	441	74
Finance Income	418	712	1,385
Loss on Financial Assets at Fair Value through Profit or Loss (2017 and 2016: Loss on Available-for-sale Financial Assets and Bonds)	(85)	(120)	(1,209)
Interest Expenses for Other Financial Assets at Amortized Cost	(53)	(374)	(20)
Interest Expenses for Financial Liabilites at Amortized Cost	(126)	0	0
Loss on Derivatives	(444)	(1,360)	(44)
Bank Fees	(46)	(41)	(35)
Finance Expenses	(754)	(1,895)	(1,308)

The following net gains or losses resulted from financial instruments in the fiscal year.

in 000' €	2018	2017	2016
Financial Assets at Fair Value through Profit or Loss	(202)	(919)	30
Other Financial Assets at Amortized Cost	(978)	0	0
Shares at Fair Value through Other Comprehensive Income	(127)	0	0
Financial Liabilities at Amortized Cost	(126)	0	0
Available-for-sale Financial Assets	0	(190)	(1,069)
Financial Assets classified as Loans and Receivables	0	(164)	918
TOTAL	(1,433)	(1,273)	(121)

Net gains or losses mainly comprised gains and losses on derivatives, interest income and expenses as well as valuation effects from changes in fair value.

4.4 INCOME TAX EXPENSES/BENEFIT

MorphoSys AG is subject to corporate taxes, the solidarity surcharge and trade taxes. The Company's corporate tax rate in 2018 remained unchanged (15.0 %) as did the solidarity surcharge (5.5 %) and the effective trade tax rate (10.85 %).

MorphoSys US Inc. is subject to Federal Corporate Income Tax (21 %) and the State Income Tax for Princeton, New Jersey (9 %).

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 %. Depending on certain conditions, a tax rate of previously 5 % and from January 1, 2018, 7 % may be applicable under what is known as the "Innovation Box."

Income taxes consist of the items listed below.

in 000' €	2018	2017	2016
Current Tax Income/(Expense) (Thereof Regarding Prior Years: k€ 1; 2017: k€ 171; 2016: k€ (60))	1	(534)	45
Deferred Tax Benefit/(Expenses)	4,304	(502)	(564)
Total Income Tax Benefit/(Expenses)	4,305	(1,036)	(519)
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	0	0	(82)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	0	0	(112)
Total Amount of Tax Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income	0	0	(194)

The deferred tax benefit in 2018 mainly resulted from the impairment on intangible assets within the cash-generating unit, the Lanthio Group (€ 3.8 million). Further information can be found in Item 5.7.5* in the Notes.

*CROSS-REFERENCE *to page 156*

The following table reconciles the expected income tax expense to the actual income tax expense as presented in the consolidated financial statements. The combined income tax rate of 26.675 % in the 2018 financial year (2017: 26.675 %) was applied to profit before taxes to calculate the statutory income tax expense. This rate consisted of 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.

in 000' €	2018	2017	2016
Earnings Before Income Taxes	(60,477)	(68,790)	(59,864)
Expected Tax Rate	26,675 %	26,675 %	26,675 %
Expected Income Tax	16,132	18,350	15,969
Tax Effects Resulting from:			
Share-based Payment	(363)	(290)	5
Non-Tax-Deductible Items	(126)	(134)	(135)
Differences in Profit or Loss-Neutral Adjustments	3,716	37	812
Non-Recognition of Deferred Tax Assets on Temporary Differences	(349)	3,256	(3,766)
Non-Recognition of Deferred Tax Assets on Current Year Tax Losses	(14,497)	(22,007)	(13,354)
Tax Rate Differences to Local Tax Rates	(268)	(71)	(46)
Prior Year Taxes	1	(171)	0
Other Effects	59	(6)	(4)
Actual Income Tax	4,305	(1,036)	(519)

The differences in profit or loss-neutral adjustments mainly contained the permanent differences of the issuance costs from the Nasdaq IPO.

As of December 31, 2018, neither deferred tax assets on tax loss carryforwards in the amount of € 51.0 million (December 31, 2017: € 37.4 million) nor deferred tax assets on temporary differences in the amount of € 0.7 million (December 31, 2017: € 0.5 million) were recognized by MorphoSys Group due to losses to be incurred as a result of 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 2018	Deferred Tax Asset 2017	Deferred Tax Liability 2018	Deferred Tax Liability 2017
Intangible Assets	0	0	4,317	8,297
Receivables and Other Assets	319	0	0	0
Prepaid Expenses and Deferred Charges	0	0	0	3
Other Provisions	278	253	0	0
Other Liabilities	213	236	0	0
TOTAL	**810**	**489**	**4,317**	**8,300**

	Changes in Deferred Taxes in 2018	
in 000's €, as of December 31	Recognized in Profit or Loss Income/(Expense)	Recognized in Other Comprehensive Income
Intangible Assets	3,980	0
Receivables and Other Assets	319	0
Prepaid Expenses and Deferred Charges	3	0
Other Provisions	25	0
Other Liabilities	(23)	0
TOTAL	**4,304**	**0**

As of December 31, 2018, temporary differences of € 1.0 million (December 31, 2017: € 0.2 million) existed in connection with investments in subsidiaries (known as outside basis differences) for which no deferred tax assets were recognized (2017: no deferred tax liabilities).

4.5 EARNINGS PER SHARE

Earnings per share are computed by dividing the 2018 consolidated net loss of € 56,172,121 (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 (2018: 31,338,948; 2017: 28,947,566; 2016: 26,443,415).

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

	2018	2017
SHARES ISSUED ON JANUARY 1	29,420,785	29,159,770
Effect of Treasury Shares Held on January 1	(319,678)	(396,010)
Effect of Share Issuance	2,208,146	0
Effect of Transfer of Treasury Stock to Members of the Management Board	0	7,759
Effect of Transfer of Treasury Stock/ Shares Issued in January	278	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	1,863	154,250
Effect of Transfer of Treasury Stock/ Shares Issued in May	4,128	3,778
Effect of Transfer of Treasury Stock/ Shares Issued in June	756	1,094
Effect of Transfer of Treasury Stock/ Shares Issued in July	1,874	2,038
Effect of Transfer of Treasury Stock/ Shares Issued in August	17,754	2,669
Effect of Transfer of Treasury Stock/ Shares Issued in September	2,818	3,976
Effect of Transfer of Treasury Stock/ Shares Issued in October	76	2,566
Effect of Transfer of Treasury Stock/ Shares Issued in November	85	5,549
Effect of Transfer of Treasury Stock/ Shares Issued in December	63	127
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	31,338,948	28,947,566

In 2018 and 2017, diluted earnings per share equaled basic earnings per share. The effect of 52,930 potentially dilutive shares in 2018 (2017: 87,904 dilutive shares; 2016: 99,764 dilutive shares) resulting from stock options 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' €	12/31/2018	12/31/2017
Bank Balances and Cash in Hand	45,476	76,589
Impairment	(16)	0
Cash and Cash Equivalents	45,460	76,589

Restricted cash of € 0.7 million mainly consisted of rent deposits (2017: € 1.1 million). The presentation of the development of the expected twelve-month loss for cash and cash equivalents to be recognized under IFRS 9 can be found in Item 2.3.1* of the Notes.

*CROSS-REFERENCE *to page 129*

5.2 FINANCIAL ASSETS AT FAIR VALUE, WITH CHANGES RECOGNIZED IN PROFIT OR LOSS AND OTHER FINANCIAL INCOME AT AMORTIZED COSTS

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
DECEMBER 31, 2018					
Money Market Funds	daily	44,718	0	(137)	44,581
TOTAL					44,581
DECEMBER 31, 2017					
Money Market Funds	daily	86,644	0	(106)	86,538
TOTAL					86,538

As of January 1, 2019, realized and unrealized gains and losses on money market funds held or sold were recognized in the finance result in profit or loss in accordance with IFRS 9. The sale of financial assets in 2018 resulted in net losses of less than € 0.1 million. In 2017, in accordance with IAS 39, the Group recognized a net gain of less than € 0.1 million in profit or loss resulting from the sale of financial assets previously recognized in equity (2016: net gain of € 0.3 million).

in 000' €	Maturity	Cost	Unrealized Interest Gain	Impairment	Carrying amount
DECEMBER 31, 2018					
Term Deposits, Current Portion	4 – 12 Months	219,720	2	(744)	218,978
Commercial Papers	4 – 12 Months	50,000	0	(55)	49,945
Term Deposits, Net of Current Portion	More than 12 Months	96,090	12	(353)	95,749
TOTAL					364,672
DECEMBER 31, 2017					
Term Deposits, Current Portion	4 – 12 Months	149,000	59	0	149,059
TOTAL					149,059

In 2018, current and non-current financial assets were categorized as "at amortized cost" in accordance with IFRS 9 "Financial Instruments", and in 2017 as "loans and receivables" in accordance with IAS 39 "Financial Instruments". These assets mainly consisted of term deposits with fixed or variable interest rates as well as corporate bonds without interest, in which the nominal value invested is credited at their maturity. The increase in financial assets resulted mainly from the capital increases executed in April 2018 in connection with the IPO on the Nasdaq.

Interest income from financial assets "at amortized cost" in 2018 amounted to € 0.1 million in 2018 (2017: € 0.2 million from financial assets "loans and receivables"; 2016: € 0.9 million from financial assets "loans and receivables") and were recorded in the finance result.

The risk associated with these financial instruments primarily resulted from bank credit risks. The presentation of the development of the expected twelve-month loss and the lifetime expected credit loss for term deposits and commercial papers, which must be recognized under IFRS 9 can be found in Item 2.3.1* of the Notes.

*CROSS-REFERENCE *to page 129*

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

*CROSS-REFERENCE *to page 140*

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, 2018 and December 31, 2017, accounts receivable included unbilled receivables amounting to € 14.1 million and € 5.3 million, respectively. Unbilled receivables increased mainly due to unbilled amounts related to royalties and the provision of services in connection with the transfer of projects to customers.

The presentation of the development of the risk provisions to be recognized in accordance with IFRS 9 in the 2018 financial year for accounts receivable using the simplified impairment model can be found in Item 2.3.1* of the Notes.

*CROSS-REFERENCE *to page 129*

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

5.4 OTHER RECEIVABLES

Other receivables as of December 31, 2018, mainly consisted of receivables from unrealized gross gains on forward rate agreements in the amount of € 0.1 million (December 31, 2017: € 0.3 million unrealized gross loss, included under provisions for onerous contracts. This can be found in Item 6.2* of the Notes.). The forward rate agreements were classified as financial assets at fair value through profit or loss in accordance with IFRS 9.

*CROSS-REFERENCE *to page 158*

As of December 31, 2018 and December 31, 2017, there were no impairments recognized for other receivables.

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

As of December 31, 2018 income tax receivables amounted to € 0.2 million (December 31, 2017: € 0.7 million) and consisted of receivables from capital gain taxes withheld and income taxes for prior years.

Inventories amounting to € 0.2 million as of December 31, 2018 (December 31, 2017: € 0.3 million) were stored at the Planegg location and consisted of raw materials and supplies. As in the previous year, there were no inventories recognized at fair value less selling costs as of the reporting date.

As of December 31, 2018, prepaid expenses and other current assets mainly consisted of combination compounds in the amount of € 5.4 million (December 31, 2017: € 11.2 million), receivables towards tax authorities from input tax surplus of € 2.7 million (December 31, 2017: € 2.4 million), upfront fees for external laboratory services of € 1.9 million (December 31, 2017: € 0.6 million), upfront fees for sublicenses of € 0.4 million (December 31, 2017: € 0.4 million), restricted cash for rent deposits of € 0.0 million (December 31, 2017: € 0.4 million) and other prepayments amounting to € 1.3 million (December 31, 2017: € 1.1 million). An impairment of € 4.5 million was recognized on combination compounds in 2018.

5.6 PROPERTY, PLANT AND EQUIPMENT

in 000' €	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost			
JANUARY 1, 2018	**17,335**	**2,501**	**19,836**
Additions	1,780	41	1,821
Disposals	(1,457)	(1,603)	(3,060)
DECEMBER 31, 2018	**17,658**	**939**	**18,597**
Accumulated Depreciation and Impairment			
JANUARY 1, 2018	**14,490**	**1,820**	**16,310**
Depreciation Charge for the Year	1,723	89	1,812
Disposals	(1,455)	(1,601)	(3,056)
DECEMBER 31, 2018	**14,758**	**308**	**15,066**
Carrying Amount			
JANUARY 1, 2018	**2,845**	**681**	**3,526**
DECEMBER 31, 2018	**2,900**	**631**	**3,531**
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**

No impairment losses on property, plant and equipment were recognized in the 2018, 2017 and 2016 financial years.

No borrowing costs were capitalized during the reporting period, and 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 profit or loss.

in 000' €	2018	2017	2016
Research and Development	1,398	1,672	1,518
Selling	87	0	0
General and Administrative	327	297	268
TOTAL	**1,812**	**1,969**	**1,786**

5.7 INTANGIBLE ASSETS

in 000' €	Patents	License Rights	In-process R&D Programs	Software	Goodwill	Total
Cost						
JANUARY 1, 2018	**16,995**	**23,896**	**52,159**	**5,853**	**11,041**	**109,944**
Additions	590	0	0	55	0	645
Disposals	0	0	0	(264)	0	(264)
DECEMBER 31, 2018	**17,585**	**23,896**	**52,159**	**5,644**	**11,041**	**110,325**
Accumulated Amortization and Impairment						
JANUARY 1, 2018	**12,326**	**20,897**	**0**	**5,198**	**3,676**	**42,097**
Amortization Charge for the Year	1,320	112	0	506	0	1,938
Impairment	0	360	15,140	0	3,689	19,189
Disposals	0	0	0	(264)	0	(264)
DECEMBER 31, 2018	**13,646**	**21,369**	**15,140**	**5,440**	**7,365**	**62,960**
Carrying Amount						
JANUARY 1, 2018	**4,669**	**2,999**	**52,159**	**655**	**7,365**	**67,847**
DECEMBER 31, 2018	**3,939**	**2,527**	**37,019**	**204**	**3,676**	**47,365**
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**

Impairment losses of € 0.4 million were recognized on licenses in the 2018 financial year. In the 2017 financial year, € 0.1 million of impairment losses were recognized on patents and licenses. No impairment on patents and licenses was recognized in the 2016 financial year.

As of December 31, 2018, in-process research and development programs were subject to an impairment test as required by IAS 36. This test indicated a need for impairment. Further details on the impairment of in-process research and development programs and goodwill can be found in Items 5.7.3* and 5.7.5* in the Notes.
*CROSS-REFERENCE *to page 156*

The carrying amount of intangible assets pledged as security amounts to € 13.1 million and relates to a government grant in the amount of € 1.5 million.

Amortization is included in the following line items of profit or loss.

in 000' €	2018	2017	2016
Research and Development	1,822	1,958	1,872
Research and Development (Write-off)	19,189	9,864	10,141
Selling	25	0	0
General and Administrative	91	103	106
TOTAL	**21,127**	**11,925**	**12,119**

5.7.1 PATENTS

In the 2018 financial year, the carrying amount of patents declined by € 0.8 million from € 4.7 million to € 3.9 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 € 1.3 million.

5.7.2 LICENSES

In the 2018 financial year, the carrying amount of licenses declined by € 0.5 million from € 3.0 million to € 2.5 million as a result of scheduled and unscheduled amortization.

5.7.3 IN-PROCESS R&D PROGRAMS

The carrying amount of in-process R&D programs decreased in 2018 by € 15.1 million to € 37.0 million. This was due to impairments in a total amount of € 15.1 million. These included € 1.7 million in the second quarter of 2018 and € 13.4 million in the fourth quarter of 2018 (see section Lanthio Group in Item 5.7.5* of these Notes).

*CROSS-REFERENCE *to page 156*

As of December 31, 2018, 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 that were paid at a later point in time. This line item also included one compound resulting from an acquisition (see Item 5.7.5* in the Notes).

*CROSS-REFERENCE *to page 156*

MOR208

As an intangible asset with indefinite useful life (no foreseeable limit to the period over which this compound is expected to generate cash flows) and a carrying amount of € 23.9 million, MOR208 was subject to an annual impairment test on September 30, 2018, as required by IAS 36. The recoverable amount of the MOR208 cash-generating unit was determined on the basis of value-in-use calculations, which concluded that the recoverable amount of the cash-generating unit exceeded its carrying amount. The cash flow forecasts took into account expected cash inflows from the potential commercialization of MOR208, the cash outflows for anticipated research and development, and the costs for MOR208's commercialization. The cash flow forecasts are based on the period of patent protection for MOR208. For this reason, a planning horizon of approximately 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 (2017: 1.2) and WACC before taxes of 10.0% (2017: 9.4%). A detailed sensitivity analysis was performed for the discount rate. A sensitivity analysis for changes in the cash flows was not performed since the cash flows from research and development and the commercialization of the compound have already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success in phases of 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 of impairment were identified at December 31, 2018.

5.7.4 SOFTWARE

In the 2018 financial year, additions to this line item totaled € 0.1 million. The carrying amount decreased by € 0.5 million from € 0.7 million in 2017 to € 0.2 million in 2018. Additions were offset by amortization of € 0.6 million.

5.7.5 GOODWILL

The annual goodwill impairment test was performed on September 30, 2018.

SLONOMICS TECHNOLOGY

As of September 30, 2018, 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 (2017: 1.2), WACC before taxes of 9.6 % (2017: 10.6 %) and a perpetual growth rate of 1 % (2017: 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 in phases of 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.

LANTHIO GROUP

As a result of a regular review of the Company's proprietary portfolio it was decided in the second quarter of 2018 to discontinue a project in the research stage of the cash-generating unit, the Lanthio Group, in the Proprietary Development operating segment. Accordingly, an impairment of € 1.7 million was recorded in research and development expenses as of June 30, 2018.

On September 30, 2018, goodwill of € 3.7 million and the related intangible asset with indefinite useful life (no foreseeable limit to the period over which MOR208 is expected to generate cash flows) of € 26.5 million from the Lanthio Group acquisition were subject to an annual impairment test. This did not result in an impairment loss as of September 30, 2018.

In the fourth quarter of 2018, updated study data led to the need for further studies, and the existing development plan was adjusted accordingly. This resulted in the expectation of a delayed market entry and a delay in the occurrence of future cash flows compared to previous assumptions. 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 as 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 recoverable amount resulting from this adjusted cash flow forecast 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 and amounted to € 13.3 million, i.e., the recoverable amount of the cash-generating unit was lower than its carrying amount. This resulted in an impairment of € 17.1 million, consisting of € 3.7 million attributed to goodwill and € 13.4 million to in-process R&D programs. After impairment, the carrying amount of in-process R&D programs amounted to € 13.1 million. 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 (2017: 1.2) and WACC before taxes of 11.5 % (2017: 12.1 %). 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 had already been probability-adjusted in the value-in-use calculations so as to reflect the probabilities of success in phases of clinical trials. This analysis did not reveal the need for any additional 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 additional impairments were identified at December 31, 2018.

5.8 INVESTMENTS AT FAIR VALUE, WITH CHANGES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

This line item consisted of an investment in adivo GmbH, Martinsried, amounting to 19.9 %, which was purchased by MorphoSys AG in July 2018 in the context of start-up financing. MorphoSys paid a cash contribution of € 9,458 and a contribution in kind of € 350,000, which consisted of the adivo brand and a license to a fully synthetic canine-based antibody library.

The change in investments in the 2018 financial year is shown below.

in 000' €	01/01/2018	Additions	Disposals	Through Other Comprehensive Income	Through Profit or Loss	12/31/2018
Shareholdings	0	359	0	(127)	0	232

As of December 31, 2018, the fair value of the investment was measured at € 0.2 million. The decrease of € 0.1 million was recognized directly in equity.

The significant unobservable input parameters used in the measurement were corporate planning assumptions, the probability-weighted estimate of cash flows and the discount rate. From the information currently available, a material change in corporate planning is not considered likely and therefore the cash flow forecasts used are considered as a suitable basis for determining the fair value. A change in the pre-tax WACC of +/−1.0 % would cause a € 0.1 million lower or € 0.1 million higher amount of equity. A sensitivity analysis for changes in cash flows was not performed because the cash flows have already been probability-adjusted in the fair value calculation to reflect the probabilities of success in the various stages of development. There are no significant relationships between the significant unobservable input parameters.

5.9 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 in 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, 2018, the Group held long-term restricted cash in the amount of € 0.7 million for issued rent deposits (December 31, 2017: € 0.7 million) and of € 0.1 million for convertible bonds granted to employees (December 31, 2017: € 0.1 million).

*CROSS-REFERENCE *to page 140 and page 151*

The breakdown of this line item is shown in the table below.

in 000' €	12/31/2018	12/31/2017
Prepaid Expenses, Net of Current Portion	2,199	2,546
Other Current Assets	783	798
TOTAL	**2,982**	**3,344**

6 Notes to Equity and Liabilities of the Balance Sheet

6.1 ACCOUNTS PAYABLE AND ACCRUALS

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

Accounts payable are listed in the table below.

in 000' €	12/31/2018	12/31/2017
Trade Accounts Payable	7,215	4,622
Licenses Payable	184	196
Accruals	36,530	36,408
Other Liabilities	832	3,586
TOTAL	**44,761**	**44,812**

Accruals consisted mainly of accruals for external laboratory services in the amount of € 26.2 million (December 31, 2017: € 26.3 million), accrued personnel expenses for payments to employees and management amounting to € 5.1 million (December 31, 2017: € 5.0 million), provisions for outstanding invoices in the amount of € 2.8 million (December 31, 2017: € 2.6 million), expenses for legal advice in the amount of € 1.5 million (December 31, 2017: € 2.1 million), audit fees and other audit-related costs in the amount of € 0.5 million (December 31, 2017: € 0.2 million) and license payments in the amount of € 0.1 million (December 31, 2017: € 0.2 million).

At the Company's Annual General Meeting in May 2018, the PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH), Munich, was appointed as the auditor. The Supervisory Board engaged the PwC GmbH to audit the financial statements.

In the 2018 financial year, PwC GmbH received a total fee from MorphoSys in the amount of € 1,274,165, including audit fees in the amount of € 468,803, audit-relatd fees of € 516,408, as well as all other fees for other services in the amount of € 288,954. PwC GmbH did not provide tax services in 2018.

6.2 TAX PROVISIONS AND OTHER PROVISIONS

As of December 31, 2018, the Group recorded tax provisions and other provisions of € 0.4 million (2017: € 1.5 million).

Tax provisions mainly consisted of income tax expenses and other provisions mainly included expenses for personnel recruitment.

As of December 31, 2018, tax provisions and other provisions were uncertain in their amount and are expected to be utilized in 2019.

The table below shows the development of tax provisions and current and non-current other provisions in the 2018 financial year.

in 000' €	01/01/2018	Additions	Utilized	Released	12/31/2018
Tax Provisions	315	0	72	35	208
Other Provisions	1,209	773	1,192	606	184
TOTAL	**1,524**	**773**	**1,264**	**641**	**392**

6.3 CONTRACT LIABILITIES

Contract liabilities related to transaction prices paid by customers, which were allocated to the performance obligations not fulfilled as of December 31, 2018. It is expected that current contract liabilities will be realized in the 2019 financial year and non-current contract liabilities mainly in the 2020 financial year. The changes in this item are set out below.

in 000' €	2018	2017
OPENING BALANCE BEFORE APPLICATION OF IFRS 15	**1,695**	**2,905**
Application of IFRS 15	(1,135)	0
OPENING BALANCE AFTER APPLICATION OF IFRS 15	**560**	**2,905**
Prepayments Received in the Fiscal Year	2,386	18,386
Revenues Recognized in the Reporting Period that was included in the Contract Liability at the Beginning of the Period	(306)	0
Revenues Recognized for Received Prepayments and Services Performed in the Fiscal Year	(1,688)	(19,596)
CLOSING BALANCE	**952**	**1,695**
thereof short-term	794	1,389
thereof long-term	158	306

6.4 OTHER LIABILITIES

Other liabilities exclusively consisted of the deferred amount related to 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 accruals.

6.5 STOCKHOLDERS' EQUITY

6.5.1 COMMON STOCK

As of December 31, 2018, the Company's common stock including treasury stock amounted to € 31,839,572, which represents an increase of € 2,418,787 compared to € 29,420,785 on December 31, 2017. Each share of common stock grants one vote. The increase in common stock resulted from the capital increases carried out in April 2018 following the IPO on the Nasdaq Global Market. The capital increases were made through American Depositary Shares ("ADS"), with each ADS representing 1/4 of a MorphoSys ordinary share. A total of 2,075,000 new shares were issued from Authorized Capital 2017-II on April 18, 2018 followed by 311,250 new shares on April 26, 2018. Common stock also increased by € 32,537 as a result of the exercise of 32,537 convertible bonds that were granted to the Management Board and the Senior Management Group. The weighted-average exercise price of the convertible bonds exercised amounted to € 31.88.

6.5.2 AUTHORIZED CAPITAL

Compared to December 31, 2017, the number of authorized ordinary shares increased from 14,579,885 to 14,684,291. This overall change comprised a decline in the number of authorized ordinary shares as a result of the two capital increases from Authorized Capital 2017-II totaling 2,386,250 ordinary shares in April 2018 in the context of the IPO in the United States. At the Annual General Meeting on May 17, 2018, Authorized Capital 2018-I in the amount of € 11,768,314 was created and the remaining Authorized Capital 2017-II in the amount of € 9,277,658 was canceled. Under the terms of Authorized Capital 2018-I, the Management Board, with the Supervisory Board's consent, was authorized to increase the Company's share capital once or several times until April 30, 2023, (inclusive) by a total of € 11,768,314 by issuing up to 11,768,314 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 are 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 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, 2017 decreased from 6,491,683 to 6,459,146 shares due to the exercise of 32,537 conversion rights in 2018. The reduction in ordinary shares of conditional capital through the exercise of 32,537 conversion rights was entered in the commercial register in February 2019.

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 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 the years 2018 and 2017, the Group did not repurchase any of its own shares. 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
Transfer in 2018	(38,642)	(1,428,208)
As of 12/31/2018	281,036	10,398,773

As of December 31, 2018, the Company held 281,036 shares of treasury stock valued at € 10,398,773, representing a decline of € 1,428,208 compared to December 31, 2017 (319,678 shares; € 11,826,981). The reason for this decline was the transfer of 17,219 shares of treasury stock to the Management Board and Senior Management Group from the 2014 Long-Term Incentive plan (LTI plan) in the amount of € 636,414. The vesting period for this LTI program expired on April 1, 2018 and all beneficiaries had or have the option within six months to receive a total of 17,219 shares.

In May 2018, the Management Board, the Senior Management Group and certain employees of the Company who are not members of the Senior Management Group received a one-time entitlement in a total fixed amount of € 2.1 million. This entitlement was settled in treasury shares of the Company when the option was exercised by the beneficiaries. Beneficiaries were free to choose the exercise day within a vesting period expiring on December 31, 2018. Upon exercise, the fixed amount of the entitlement was divided by the XETRA closing price on the exercise date and the resulting number of treasury shares was transferred to the beneficiary. As of December 31, 2018, a total of 20,105 shares valued at € 2.1 million were transferred as part of this entitlement.

In addition, a total of 1,318 treasury shares in the amount of € 48,713 were transferred to related parties. As a result, the number of MorphoSys shares owned by the Company as of December 31, 2018, was 281,036 (December 31, 2017: 319,678). 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.

6.5.5 ADDITIONAL PAID-IN CAPITAL

On December 31, 2018, additional paid-in capital amounted to € 619,908,453 (December 31, 2017: € 438,557,857). The total increase of € 181,350,597 resulted mainly from two capital increases in April 2018 with total proceeds of € 176,189,256. The allocation of personnel expenses resulting from share-based payments amounted to € 5,584,969, and the exercise of convertible bonds totaled an amount of € 1,004,580. There was an offsetting effect from the decline in the reclassification of treasury shares in the context of the allocation of shares under the 2014 performance-based share plan in the amount of € 636,414 and the allocation of treasury shares to related persons in the amount of € 763,076.

6.5.6 REVALUATION RESERVE

On December 31, 2018, the revaluation reserve amounted to € 0 (December 31, 2017: € –105,483). The change by € 105,483 resulted from the adoption of the new IFRS 9 standard for financial instruments. Hence, since January 1, 2018, the reporting of this equity position is no longer required.

6.5.7 OTHER COMPREHENSIVE INCOME RESERVE

The other comprehensive income reserve is being reported for the first time as of January 1, 2018. On December 31, 2018, this reserve contained changes in the fair value of equity instruments through other comprehensive income in the amount of € 127,458, and currency losses from consolidation of € 83,432. The currency losses from consolidation include exchange differences from the revaluation of foreign currency financial statements of Group companies and differences between the exchange rates used in the balance sheet and profit or loss. As of December 31, 2017, the Group consisted solely of companies with financial statements prepared in euros.

6.5.8 ACCUMULATED DEFICIT

The consolidated net loss for the year of € –56,172,121 is reported under accumulated deficit. The first-time adoption of IFRS 9 and IFRS 15 resulted in an adjustment of € –248,000 and € 1,135,014, respectively. Further details can be found in Item 2.1.2* of the Notes. The accumulated deficit being a result of the effects above therefore increased from € –97,375,138 in 2017 to € –152,765,728 in 2018.

*CROSS-REFERENCE *to page 125*

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

7.1 STOCK OPTION PLANS

7.1.1 2017 STOCK OPTION PLAN

On April 1, 2017, MorphoSys established a stock option plan (SOP) for the Management Board, the Senior Management Group and selected employees of the Company who are not members of the Senior Management Group (beneficiaries). 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. Each stock option grants up to two subscription rights to shares of the Company. The subscription rights 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 subscription rights 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 share price development falls short of the program's performance parameters, the target achievement for that year is 0 %.

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, 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 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 amount of subscription rights.

If a member of the Management Board ceases to hold an office at MorphoSys Group for good reason as defined by Section 626 (2) of the German Civil Code (BGB), all unexercised 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 selected Company employees who do not belong to the Senior Management Group. The original number of stock options granted was based on 100 % target achievement. Based on the performance criteria that have been met to date, the target achievement is expected to be 125 %. For performance criteria that have not yet been met, 100 % target achievement is assumed. Under this assumption, the total number of subscription rights to be exercised, i.e., the total number of shares to be issued at the end of the four-year holding period/performance period would currently increase to 90,949 shares. 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, 2018, seven beneficiaries left MorphoSys, resulting in the forfeiture of 8,398 stock options. For the calculation of personnel expenses resulting from share-based payment under the 2017 Stock Option Plan, the assumption is that two beneficiaries would leave the Company during the four-year period. This assumption was updated in 2018.

*CROSS-REFERENCE *to page 167*

In 2018, personnel expenses from stock options under the Group's 2017 SOP amounted to € 436,154 (2017: € 801,330).

7.1.2 2018 STOCK OPTION PLAN

On April 1, 2018, MorphoSys established a stock option plan (SOP) for the Management Board, the Senior Management Group and selected Company employees who are not members of the Senior Management Group (beneficiaries). 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, 2018 and the vesting period/performance period is four years. Each stock option grants up to two subscription rights to shares of the Company. The subscription rights 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 subscription rights 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 program's performance criteria can be met annually up to a maximum of 200 %. If the share price development falls short of the performance parameters, the target achievement for that year is 0 %.

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 € 81.04.

MorphoSys reserves the right to settle the exercise of stock options through either newly created shares from Conditional Capital 2016-III or, alternatively, through the issuance of treasury shares or in cash should the exercise from Conditional Capital 2016-III not be possible. The exercise period is three years after the end of the four-year vesting period/performance period, which is March 31, 2025.

If a member of the Management Board ceases to hold an office at MorphoSys Group prior to the end of the four-year vesting period/performance period, the Management Board member (or the member's heirs) is entitled to a precise daily pro rata amount of subscription rights.

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

If a cumulative absence of more than 90 days occurs during the four-year vesting period/performance period, the beneficiary is entitled to a precise daily pro rata amount of subscription rights. Absence is defined as either a continued period of lost work time due to illness or inactivity of a beneficiary or employment relationship without continued pay.

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, 2018, a total of 67,778 stock options had been granted to beneficiaries, of which 29,312 had been granted to the Management Board (further details can be found in the "Stock Options" table in Note 7.4* "Related Parties"), 34,276 to the Senior Management Group and 4,190 to selected 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, 2018) was € 30.43 per stock option. In the period from the grant date to December 31, 2018, two beneficiaries left MorphoSys, resulting in the forfeiture of 2,136 stock options. For the calculation of personnel expenses resulting from share-based payment under the 2018 Stock Option Plan, the assumption is that four beneficiaries would leave the Company during the four-year period.
*CROSS-REFERENCE *to page 167*

In 2018, personnel expenses from stock options under the Group's 2018 SOP amounted to € 925,635.

The fair value of the stock options from the 2018 and 2017 stock option plans was determined using 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	April 2018 Stock Option Plan
Share Price on Grant Date in €	55.07	81.05
Strike Price in €	55.52	81.04
Expected Volatility of the MorphoSys share in %	37.49	35.95
Expected Volatility of the Nasdaq Biotech Index in %	25.07	25.10
Expected Volatility of the TecDAX Index in %	16.94	17.73
Performance Term of Program in Years	4.0	4.0
Dividend Yield in %	n/a	n/a
Risk-free Interest Rate in %	between 0.03 and 0.23	between 0.02 and 0.15

7.2 CONVERTIBLE BONDS – 2013 PROGRAM

On April 1, 2013, MorphoSys AG granted the Management Board and members of the Senior Management Group (beneficiaries) convertible bonds with a total nominal value of € 225,000, divided into 449,999 no-par-value 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 no-par-value 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 following table shows the development of the convertible bond plans for Group employees in the 2018, 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
OUTSTANDING ON JANUARY 1, 2018	175,570	31.88
Granted	0	0.00
Exercised	(32,537)	31.88
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2018	143,033	31.88

From the grant date until December 31, 2018, one beneficiary left MorphoSys and, therefore, 13,414 convertible bonds were forfeited. As of December 31, 2018, the number of vested convertible bonds totaled 143,033 shares (December 31, 2017: 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, 2018.

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	143,033	1.25	31.88	143,033	31.88
	143,033	**1.25**	**31.88**	**143,033**	**31.88**

The Group recognized 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 was recognized as personnel expenses from convertible bonds. Compensation expenses related to convertible bonds amounted to € 0 in 2018, to € 287.601 in 2017 and to € 40.375 in 2016.

7.3 LONG-TERM INCENTIVE PROGRAMS

7.3.1 2013 LONG-TERM INCENTIVE PLAN

On April 1, 2013, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group (beneficiaries). 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 € 1.0million 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 until 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.

*CROSS-REFERENCE *to page 167*

On October 1, 2013, MorphoSys established another long-term incentive plan (LTI plan) for Senior Management Group members (beneficiaries). The vesting period of this plan expired on October 1, 2017. The terms of this plan were identical to the plan granted as of April 1, 2013. 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 2018, personnel expenses from performance shares under the Group's 2013 LTI plan amounted to € 0 (2017: € 1,038,639; 2016: € –23,571).

7.3.2 2014 LONG-TERM INCENTIVE PLAN

On April 1, 2014, MorphoSys established a Long-Term Incentive plan (LTI plan) for the Management Board and the Senior Management Group (beneficiaries). The vesting period of this plan expired on April 1, 2018. 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 1.0, meaning the number of performance shares to be allocated was scaled by a factor of 1.0. Based on these terms and the company factor, a total of 17,219 performance shares of MorphoSys AG was transferred to beneficiaries until October 10, 2018 after the expiration of the four-year vesting period. The Management Board received 6,969 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 8,216 performance shares and former members of the Management Board and Senior Management Group, who have since left the Company, received 2,034 performance shares.

*CROSS-REFERENCE *to page 167*

In 2018, personnel expenses resulting from performance shares under the Group's 2014 LTI plan amounted to € 6.388 (2017: € 55,759; 2016: € 178.518).

7.3.3 2015 LONG-TERM INCENTIVE PLAN

On April 1, 2015, MorphoSys established a Long-Term Incentive plan (LTI plan) for the Management Board and the Senior Management Group (beneficiaries). 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 key performance criteria comprising 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 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 a precise daily pro rata amount of performance shares.

If a member of the Management Board ceases to hold an office at MorphoSys Group for good reason as defined by Section 626 (2) of the German Civil Code (BGB) and/or as defined by Section 84 (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 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 original number of performance shares allocated was based on the full achievement of the performance criteria and a company factor of 1. Based on the performance criteria that have been met to date, the overall achievement of the target is expected to be 123.5 %. For performance criteria that have not yet been met, 100 % target achievement is assumed. Under this assumption, the total number of performance shares to be allocated at the end of the four-year holding period/performance period would currently increase to 44,599 shares. 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, 2018, five beneficiaries left MorphoSys, and therefore 3,093 performance shares were forfeited. For the calculation of the personnel expenses from share-based payment 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 2018.

*CROSS-REFERENCE *to page 167*

In 2018, personnel expenses resulting from performance shares under the Group's 2015 LTI plan amounted to € 109,511 (2017: € 201,608: 2016: € 837.153).

7.3.4 2016 LONG-TERM INCENTIVE PLAN

On April 1, 2016, MorphoSys established a Long-Term Incentive plan (LTI plan) for the Management Board and the Senior Management Group (beneficiaries). 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 key performance criteria comprising 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 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 precise daily pro rata amount of performance shares.

If a member of the Management Board ceases to hold an office at MorphoSys Group for good reason as defined by Section 626 (2) of the German Civil Code (BGB) and/or as defined by Section 84 (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 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 original number of performance shares allocated was based on the full achievement of the performance criteria and a company factor of 1. Based on the performance criteria that have been met to date, the overall achievement of the target is expected to be 123.5 %. For performance criteria that have not yet been met, 100 % target achievement is assumed. Under this assumption, the total number of performance shares to be allocated at the end of the four-year holding period/performance period would currently increase to 68,595 shares. 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, 2018, eight beneficiaries left MorphoSys, and therefore 10,998 performance shares were forfeited. For the calculation of the personnel expenses from share-based payment 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 2018.

*CROSS-REFERENCE *to page 167*

In 2018, personnel expenses resulting from performance shares under the Group's 2016 LTI plan amounted to € 330,727 (2017: € 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 selected employees of the Company who are not members of the Senior Management Group (beneficiaries). 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 key performance criteria comprising 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 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 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 MorphoSys Group for good reason as defined by Section 626 (2) of the German Civil Code (BGB) and/or as defined by Section 84 (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 selected employees of the Company who are not members of the Senior Management Group. The original number of performance shares allocated was based on the full achievement of the performance criteria and a company factor of 1. Based on the performance criteria that have been met to date, the overall achievement of the target is expected to be 150%. For performance criteria that have not yet been met, 100% target achievement is assumed. Under this assumption, the total number of performance shares to be allocated at the end of the four-year holding period/performance period would currently increase to 43,196 shares. 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, 2018, seven beneficiaries left MorphoSys, and therefore 1,711 performance shares were forfeited. For the calculation of the personnel expenses from share-based payment under the 2017 LTI plan, the assumption is that two beneficiaries would leave the Company during the four-year period. This assumption was updated in 2018.

*CROSS-REFERENCE *to page 167*

In 2018, personnel expenses resulting from performance shares under the Group's 2017 LTI plan amounted to € 558,446 (2017: € 1,026,037)

7.3.6 2018 LONG-TERM INCENTIVE PLAN

On April 1, 2018, MorphoSys established another Long-Term Incentive plan (LTI plan) for the Management Board, the Senior Management Group and selected employees of the Company who are not members of the Senior Management Group (beneficiaries). 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, 2018 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 key performance criteria comprising 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 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 MorphoSys Group prior to the end of the four-year vesting period, the Management Board member (or the member's heirs) is entitled to a precise daily pro rata amount of performance shares.

If a member of the Management Board ceases to hold an office at MorphoSys Group for good reason as defined by Section 626 (2) of the German Civil Code (BGB), the beneficiary will not be entitled to performance shares.

If a cumulative absence of more than 90 days occurs during the four-year vesting period/performance period, the beneficiary is entitled to a precise daily pro rata amount of performance shares. Absence is defined as either a continued period of lost work time due to illness or inactivity of a beneficiary or employment relationship without continued pay.

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 20,357 of these shares were allocated to beneficiaries on April 1, 2018 with 8,804 performance shares allocated to the Management Board, 10,291 performance shares allocated to the Senior Management Group and 1,262 performance shares allocated to selected 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, 2018) was € 103.58 per share. From the grant date until December 31, 2018, two beneficiaries left MorphoSys, and therefore 641 performance shares were forfeited. For the calculation of the personnel expenses from share-based payment under the 2018 LTI plan, the assumption is that four beneficiaries would leave the Company during the four-year period.

In 2018, personnel expenses resulting from performance shares under the Group's 2018 LTI plan amounted to € 946,346.

The fair value of the performance shares from the Long-Term Incentive plans 2015 until 2018 has been determined using 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 2015 Long-Term Incentive Program	April 2016 Long-Term Incentive Program	April 2017 Long-Term Incentive Program	April 2018 Long-Term Incentive Program
Share Price on Grant Date in €	57.18	43.28	55.07	81.05
Strike Price in €	n/a	n/a	n/a	n/a
Expected Volatility of the MorphoSys share in %	33.09	34.637	37.49	35.95
Expected Volatility of the Nasdaq Biotech Index in %	20.70	23.39	25.07	25.10
Expected Volatility of the TecDAX Index in %	20.10	17.01	16.94	17.73
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 %	0.07	0.05	between 0.03 und 0.23	between 0.02 und 0.15

7.3.7 INITIAL EQUITY GRANT

On September 10, 2018, MorphoSys established an initial equity grant for one employee of MorphoSys US Inc. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments (treasury shares of MorphoSys AG) and is accounted for accordingly. The grant date was September 25, 2018 and the total vesting/performance period is one year with the shares vesting on a monthly basis, provided that the beneficiary is still with the company as of the respective vesting date. A portion of the shares is transferred to the beneficiary as soon as a monthly vesting period has ended. The total number of shares granted was calculated by dividing the overall grant value of US$ 370,000 by the average closing price of MorphoSys shares as quoted in Xetra on the Frankfurt Stock Exchange on the 30 trading days prior to the start date of the grant (€ 102.95). As a result, the grant comprised a maximum of 3,104 shares. The fair value as of the grant date amounted to € 91.90 per share.

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 the Supervisory Board, 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 2018 financial year.

SHARES

	01/01/2018	Additions	Sales	12/31/2018
MANAGEMENT BOARD				
Dr. Simon Moroney	483,709	8,928	8,928	483,709
Jens Holstein	11,000	36,554	30,537	17,017
Dr. Malte Peters	9,505	3,313	0	12,818
Dr. Markus Enzelberger	7,262	3,248	8,834	1,676
TOTAL	**511,476**	**52,043**	**48,299**	**515,220**
SUPERVISORY BOARD				
Dr. Marc Cluzel	500	0	0	500
Dr. Frank Morich	1,000	0	0	1,000
Krisja Vermeylen	350	0	0	350
Wendy Johnson	500	0	0	500
Dr. George Golumbeski[1]	–	0	0	0
Michael Brosnan[1]	–	0	0	0
Dr. Gerald Möller[2]	11,000	900	0	–
Klaus Kühn[2]	0	0	0	–
TOTAL	**13,350**	**900**	**0**	**2,350**

STOCK OPTIONS

	01/01/2018	Additions	Forfeitures[3]	Exercises	12/31/2018
MANAGEMENT BOARD					
Dr. Simon Moroney	12,511	9,884	0	0	22,395
Jens Holstein	8,197	6,476	0	0	14,673
Dr. Malte Peters	8,197	6,476	0	0	14,673
Dr. Markus Enzelberger	5,266	6,476	0	0	11,742
TOTAL	**34,171**	**29,312**	**0**	**0**	**63,483**

CONVERTIBLE BONDS

	01/01/2018	Additions	Forfeitures[3]	Exercises	12/31/2018
MANAGEMENT BOARD					
Dr. Simon Moroney	88,386	0	0	0	88,386
Jens Holstein	60,537	0	0	30,537	30,000
Dr. Malte Peters	0	0	0	0	0
Dr. Markus Enzelberger	0	0	0	0	0
TOTAL	**148,923**	**0**	**0**	**30,537**	**118,386**

PERFORMANCE SHARES

	01/01/2018	Additions	Forfeitures[3]	Allocations[4]	12/31/2018
MANAGEMENT BOARD					
Dr. Simon Moroney	30,060	2,969	2,182	3,797	27,050
Jens Holstein	20,086	1,945	1,495	2,600	17,936
Dr. Malte Peters	3,187	1,945	0	0	5,132
Dr. Markus Enzelberger	5,987	1,945	329	572	7,031
TOTAL	**59,320**	**8,804**	**4,006**	**6,969**	**57,149**

[1] Dr. George Golumbeski and Michael Brosnan have joined the Supervisory Board of MorphoSys AG on May 17, 2018.
[2] Dr. Gerald Möller and Klaus Kühn have left the Supervisory Board of MorphoSys AG on May 17, 2018. Changes in the number of shares after resignation from the Supervisory Board of MorphoSys AG are not presented in the tables.
[3] Forfeited performance Shares are a result of the KPI achievement rate of 63.5% and a company factor of 1.0 as determined at the end of the performance period of the LTI plan 2014.
[4] Allocations are made as soon as performance shares are transferred within the six-month exercise period after the end of the four-year waiting period.

In May 2018, the Management Board was granted a one-time entitlement to treasury shares of the Company with a fixed total amount of € 1.5 million, which could be exercised by December 31, 2018. Further details can be found in Item 6.5.4* of the Notes. Dr. Moroney exercised 5,131 shares with a value of € 483,597 from this program, Mr. Holstein exercised 3,417 shares with a value of € 358,785, Dr. Peters exercised 3,313 shares with a value of € 354,822 and Dr. Enzelberger exercised 2,676 shares valued at € 285,600.
*CROSS-REFERENCE *to page 160*

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 Long-Term Incentive plans (LTI plan) from previous years and the current year, a convertible bond program from 2013 and stock option plans from the prior and current years. 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 pension contract were last adjusted in July 2018.

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 and the annual bonus for the remainder of the agreed contract period, but at least 200 % of the annual gross fixed salary and the annual bonus. 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, (iii) an agreement pursuant to § 291 AktG is entered into with MorphoSys as a dependent company or MorphoSys is incorporated pursuant to § 319 AktG or (iv) 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 2018 AND 2017 (IAS 24):

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer		Dr. Malte Peters Chief Development Officer Appointment: March 1, 2017	
	2017	2018	2017	2018	2017	2018
Fixed Compensation	500,876	542,074	372,652	402,235	281,500	397,800
Fringe Benefits[1]	35,912	32,654	42,905	46,725	568,644	30,613
One -Year Variable Compensation	368,144	455,343	273,899	337,877	206,903	334,152
Total Short-Term Employee Benefits (IAS 24.17 (a))	904,932	1,030,071	689,456	786,837	1,057,047	762,565
Service Cost	149,567	158,788	99,949	111,233	60,967	76,190
Total Benefit Expenses - Post-Employment Benefits (IAS 24.17 (b))	149,567	158,788	99,949	111,233	60,967	76,190
One-Time Bonus in Shares	0	483,616	0	358,857	-	354,900
Multi-Year Variable Compensation[2]:						
2013 Convertible Bonds Program (Vesting Period 4 Years)	58,224	0	59,641	0	0	0
2013 Long-Term Incentive Program (Vesting Period 4 Years)	202,349	0	138,585	0	0	0
2014 Long-Term Incentive Program (Vesting Period 4 Years)	22,460	1,452	15,383	994	0	0
2015 Long-Term Incentive Program (Vesting Period 4 Years)	67,635	26,657	46,324	18,257	0	0
2016 Long-Term Incentive Program (Vesting Period 4 Years)	171,688	86,435	112,481	56,632	0	0
2017 Long-Term Incentive Program (Vesting Period 4 Years)	163,906	104,449	107,395	68,437	107,395	68,437
2018 Long-Term Incentive Program (Vesting Period 4 Years)	0	140,040	0	91,595	0	91,595
2017 Stock Option Plan (Vesting Period 4 Years)	127,997	81,566	83,861	53,441	83,861	53,441
2018 Stock Option Plan (Vesting Period 4 Years)	0	136,980	0	89,593	0	89,593
Total Share-Based Payment (IAS 24.17 (e))	814,259	1,061,195	563,670	737,806	191,256	657,966
Total Compensation	1,868,758	2,250,054	1,353,075	1,635,876	1,309,270	1,496,721

[1] In 2017, the fringe benefits of Dr. Malte Peters und 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 payment". This table shows the pro-rata share of personnel expenses resulting from share-based payment for the respective financial year. Further details can be found in Sections 7.1*, 7.2*. and 7.3*.
[3] The figures presented for 2017 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 161–163*

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	
2017	2018	2017	2018	2017	2018	2017	2018
204,698	321,300	222,450	–	103,253	–	1,685,429	1,663,409
417,158	31,211	20,427	–	9,161	–	1,094,207	141,203
121,688	269,892	67,745	–	23,490	–	1,061,869	1,397,264
743,544	622,403	310,622	–	135,904	–	3,841,505	3,201,876
29,186	68,515	77,976	–	28,245	–	445,890	414,726
29,186	68,515	77,976	–	28,245	–	445,890	414,726
–	286,650	0	–	0	–	0	1,484,023
0	0	39,879	–	39,879	–	197,623	0
0	0	138,585	–	138,585	–	618,104	0
0	0	15,383	–	(42,038)	–	11,188	2,446
0	0	46,324	–	(79,105)	–	81,178	44,914
0	0	112,481	–	(76,828)	–	319,822	143,067
68,979	105,222	80,538	–	–	–	528,213	346,545
0	91,595	0	–	–	–	0	414,825
53,875	82,185	62,898	–	–	–	412,492	270,633
0	89,593	0	–	–	–		405,759
122,854	655,245	496,088	–	(19,507)	–	2,168,620	3,112,212
895,584	1,346,163	884,686	–	144,642	–	6,456,015	6,728,814

In the years 2018 and 2017, 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 2018, the total remuneration for the Supervisory Board, excluding reimbursed travel costs, amounted to € 525,428 (2017: € 523,015).

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2018 AND 2017:

	Fixed Compensation		Attendance Fees[1]		Total Compensation	
in €	2018	2017	2018	2017	2018	2017
Dr. Marc Cluzel	76,742	52,160	32,400	26,800	109,142	78,960
Dr. Frank Morich	61,004	57,240	23,200	23,200	84,204	80,440
Krisja Vermeylen	49,916	28,961	24,400	16,000	74,316	44,961
Wendy Johnson	46,160	46,160	37,400	38,000	83,560	84,160
Dr. George Golumbeski[2]	28,961	–	25,200	–	54,161	–
Michael Brosnan[2]	28,961	–	18,600	–	47,561	–
Dr. Gerald Möller[3]	36,558	95,156	11,800	36,800	48,358	131,956
Klaus Kühn[3]	17,326	46,160	6,800	22,000	24,126	68,160
Karin Eastham[4]	–	19,578	–	14,800	–	34,378
TOTAL	**345,628**	**345,415**	**179,800**	**177,600**	**525,428**	**523,015**

[1] The attendance fee contains expense allowances for the attendence at the Supervisory Board and the Committee meetings.
[2] Dr. George Golumbeski and Michael Brosnan have joined the Supervisory Board of MorphoSys AG on May 17, 2018.
[3] Dr. Gerald Möller and Klaus Kühn have left the Supervisory Board of MorphoSys AG AG on May 17, 2018.
[4] Karin Eastham has left the Supervisory Board of MorphoSys AG AG on May 17, 2017.

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

As of December 31, 2018, the Senior Management Group held 72,604 stock options (December 31, 2017: 35,978 shares), 11,233 convertible bonds (December 31, 2017: 13,233 convertible bonds) and 83,660 performance shares (December 31, 2017: 67,149 performance shares), which had been granted by the Company. In 2018, a new stock option program and a new performance share program were issued to the Senior Management Group (see paragraphs 7.1.2* and 7.3.6*). In May 2018, the Senior Management Group was granted a one-time entitlement to treasury shares of the Company with a fixed total amount of € 0.5 million, which could be exercised by December 31, 2018. Further details can be found in Item 6.5.4* of the Notes. By December 31, 2018, 4,685 shares under this entitlement worth € 0.5 million had been transferred to the Senior Management Group. On April 1, 2018, the Senior Management Group was granted 9,360 shares under the 2014 LTI program, which had the option to receive these shares within six months. As of December 31, 2018, the option was exercised by the Senior Management Group for 9,360 shares.

*CROSS-REFERENCE *to page 161, page 166 and page 160*

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 2018 and 2017, leasing expenses amounted to € 3.2 million and € 2.6 million. Leasing expenses for the financial years 2018 and 2017 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, 2018 are shown in the table below.

in 000' €	Rent and Leasing	Other	Total
Up to One Year	2,935	1,577	4,512
Between One and Five Years	11,091	0	11,091
More than Five Years	8,504	0	8,504
TOTAL	**22,530**	**1,577**	**24,107**

Additionally, the future payments shown in the table below may become due for outsourced studies after December 31, 2018. These amounts could be shifted or substantially lower due to changes in the study timeline or premature study termination.

in million €	Total 2018
Up to One Year	51.4
Between One and Five Years	45.6
More than Five Years	0.0
TOTAL	97.0

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, such as filing an application for an investigational new drug (IND) for specific target molecules, this may trigger milestone payments to licensors of up to an aggregate of US$ 287 million related to regulatory events and achievement of sales targets. The next milestone payment of US$ 12.5 million will presumably be due in approximately 12 to 18 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 patent rights versus third parties. It is also conceivable that competitors may challenge the patents of MorphoSys Group or MorphoSys may also come to the conclusion that MorphoSys's patents or patent families have been infringed upon by competitors. This could prompt MorphoSys to take legal action against competitors or lead competitors to file counterclaims against MorphoSys. Currently, there are no specific indications such obligations have arisen.

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 2018 financial year under Section 161 of the German Stock Corporation Act (AktG). This declaration was published on the Group's website (www.morphosys.com) on November 30, 2018 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 effect on the Group and the developments under the research and development agreements in the 2018 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): Galapagos, GlaxoSmithKline, I-Mab Biopharma, Immatics Biotechnologies, Merck Serono, MD Anderson Cancer Center, Novartis and Xencor.

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 efficacy 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' next-generation library Ylanthia directed against a novel Galapagos target molecule.

On July 19, 2018, MorphoSys announced an exclusive global agreement between MorphoSys and Galapagos with Novartis Pharma AG for the development and commercialization of MOR106. Under the agreement, the companies will work together to significantly expand the existing development plan for MOR106. Novartis exclusively holds all rights to the product's commercialization resulting from the agreement. With the signing of the agreement, all future research, development, manufacturing and marketing costs for MOR106 will be borne by Novartis. Included in this is the ongoing phase 2 trial "IGUANA" in patients with atopic dermatitis, as well as the phase 1 trial also initiated to evaluate the safety and efficacy of the subcutaneous administration of MOR106

in healthy volunteers and patients with atopic dermatitis. MorphoSys and Galapagos also intend to conduct further studies to support the development of MOR106 in atopic dermatitis. As part of this agreement, Novartis will explore the potential of MOR106 in other indications beyond atopic dermatitis. In addition to receiving financing from Novartis' for the current and future development program for MOR106, MorphoSys and Galapagos also jointly received an upfront payment of € 95 million. Of this amount, MorphoSys recognized its 50 % share of € 47.5 million as revenue in 2018. MorphoSys and Galapagos will continue to jointly receive significant milestone payments of up to approximately US$ 1 billion (based on the current euro-dollar exchange rate at the time the agreement was signed) when specific development, regulatory, commercial and revenue milestones are met. MorphoSys and Galapagos also stand to jointly receive tiered royalties ranging up to a low 10 % to low 20 % range of net sales. According to their 2008 agreement, MorphoSys and Galapagos will share in all payments equally (50/50).

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 has already received an upfront payment of € 22.5 million under this agreement and, next to tiered double-digit royalties on net sales, is still eligible to receive additional payments from GSK in an amount of up to € 423 million, depending on the achievement of certain developmental stages and regulatory, commercial and revenue-related milestones. GSK has clinically tested MOR103 in rheumatoid arthritis (RA) and inflammatory hand osteoarthritis in, among others, a phase 2b study in RA and a 2a study in patients with inflammatory hand osteoarthritis. The respective study data was presented in October 2018 at the annual conference of the American College of Rheumatology (ACR). At the same time, GSK also announced that it does not intend to continue to pursue further development in the indication of hand osteoarthritis.

In 2017, 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 was evaluated in a phase 1/2a clinical trial in Europe in patients with multiple myeloma. MorphoSys is currently evaluating the further development of the antibody in autoimmune diseases. Under the terms of the agreement, I-Mab Biopharma has the exclusive rights for the later development and commercialization of MOR202 in the agreed regions. MorphoSys received an upfront payment of US$ 20.0 million and is also entitled to receive additional success-based clinical and commercial milestone payments from I-Mab of up to roughly US$ 100 million. In addition, MorphoSys will also be entitled to receive double-digit, staggered royalties on net revenue of MOR202 in the agreed regions. I-Mab now plans to launch a pivotal study in early 2019.

In the reporting year, MorphoSys announced the completion of an exclusive strategic development collaboration and regional licensing agreement with I-Mab Biopharma for the MOR210 antibody. MOR210 is a preclinical antibody candidate developed by MorphoSys against C5aR with the potential for development in immuno-oncology. I-Mab has exclusive rights to develop and market MOR210 in China, Hong Kong, Macao, Taiwan and South Korea, while MorphoSys retains the rights for the rest of the world. Under the terms of the agreement, I-Mab will exercise the exclusive rights to develop and market MOR210 in its contracted territories. With the support of MorphoSys, I-Mab will undertake and fund all global development activities, including clinical trials in China and the United States, to clinical proof of concept in cancer medicine. MorphoSys received an upfront payment of US$ 3.5 million and is further eligible to receive performance-related clinical and sales-based milestone payments of up to US$ 101.5 million. MorphoSys recognized the upfront payment of US$ 3.5 million (€ 3.1 million) as revenue in 2018. In addition, MorphoSys will receive tiered royalties in the mid-single-digit percentage range of net sales on the contracted territory of I-Mab. In return for conducting a successful clinical proof of concept trial, I-Mab is entitled to low-single-digit royalties on net sales of MOR210 outside the I-Mab territory, as well as staggered shares of proceeds from the further out-licensing of MOR210.

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.

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 2018 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 2018 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., Novartis, OncoMed Pharmaceuticals, Pfizer, Roche and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships that were still active in 2018 include (in alphabetical order): GeneFrontier Corporation/Kaneka, Heptares and LEO Pharma.

In the year under review, MorphoSys announced that it expanded its existing strategic alliance with LEO Pharma to include peptide-based therapeutics. The goal of the partnership is to discover new, peptide-based drugs for the treatment of diseases with high unmet medical needs and that are a valuable addition to the development pipelines of both companies. The collaboration extends the two companies' partnership to discover and develop antibody-based therapies for dermatology, which has already been in place since November 2016. Under this agreement, LEO Pharma will select therapeutic target molecules against which MorphoSys will identify target molecules using its proprietary peptide technology platform. LEO Pharma will then either choose to further develop these target molecules or use them to create other drug candidates. LEO Pharma will retain exclusive worldwide rights to the active ingredients and be responsible for the development and commercialization of the dermatology medicines that result. MorphoSys will retain an exclusive option to secure worldwide rights to all oncology medicines stemming from the collaboration.

The Group's alliance with Novartis AG for the research and development of biopharmaceuticals came to an end in November 2017. The companies' collaboration began in 2004 and led to the creation of several ongoing therapeutic antibody programs against a number of diseases. 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.

8.5 SUBSEQUENT EVENTS

On January 26, 2019, we announced that in our lawsuit against Janssen Biotech and Genmab A/S, the United States (U.S.) District Court of Delaware, based on a hearing held November 27, 2018, ruled in a Court Order on January 25, 2019, that the asserted claims of three MorphoSys patents with U.S. Patent Numbers 8,263,746, 9,200,061 and 9,758,590 are invalid. The Court thus granted a motion for Summary Judgement of invalidity filed by Janssen Biotech and Genmab, A/S against the three patents held by MorphoSys. As a result of this decision, the jury trial scheduled for February 2019 to consider Janssen's and Genmab's alleged infringement and the validity of the MorphoSys patents did not take place. On January 31, 2019 we announced that we had settled the dispute with Janssen Biotech and Genmab A/S. The parties agreed to drop the mutual claims related to the litigation: MorphoSys dismissed claims for alleged patent infringement against Janssen Biotech and Genmab A/S and agreed not to appeal from the court order dated January 25, 2019. Janssen and Genmab dismissed their counterclaims against MorphoSys.

In early February 2019, we announced the appointment of David Trexler as President and Member of the Board of Directors of MorphoSys US Inc. effective February 6, 2019. Mr. Trexler will lead the further development of MorphoSys's U.S. subsidiary with a focus on building commercial capabilities. Mr. Trexler joins MorphoSys from EMD Serono, a subsidiary of Merck KGaA, Darmstadt. AT EMD Serono, he was responsible, among other things, for establishing the first commercial organization of Merck KGaA's oncology division in the U.S. and for the market launch of the cancer drug avelumab for the treatment of metastatic Merkel cell carcinoma.

On February 19, 2019, Simon Moroney, CEO and co-founder of MorphoSys AG (informed the Company's Supervisory Board that he has decided not to renew his contract as a member of the company's Management Board. As a result of his decision, Dr. Moroney will step down as CEO on expiry of his current contract on June 30, 2020, or when a successor is appointed, whichever comes sooner.

At the end of February 2019, our partner Janssen announced that it had received U.S. FDA approval for Tremfya® One-Press, a single-dose, patient-controlled injector for adults with moderate-to-severe plaque psoriasis. This is a device that allows patients to administer the drug subcutaneously by themselves and is thus intended to provide a higher convenience to psoriasis patients with respect to the treatment of their chronic disease.

On March 7, 2019 MorphoSys announced that during the first quarter of 2019, the Company in agreement with the FDA implemented an amendment of the B-MIND study by introducing a co-primary endpoint into the trial. The scientific rationale for the amendment is based on published literature as well as MorphoSys's own pre-clinical data, which indicate that MOR208 might be particularly active in patients who can be characterized by the presence of a certain biomarker. Discussions with the FDA regarding the biomarker assay are currently being planned and are expected to take place in the middle of 2019. The pre-planned, event-driven interim analysis of B-MIND remains projected to take place in the second half of 2019. Depending on the outcome of the interim analysis, an increase from 330 to 450 patients may be required, in which case an event-driven primary analysis of the study is expected in the first half of 2021.

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.

Planegg, March 13, 2019

Dr. Simon Moroney
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Malte Peters
Chief Development Officer

Dr. Markus Enzelberger
Chief Scientific Officer