Financial Statements

— NOTES

Consolidated Statement of Profit or Loss (IFRS)

in €	Note	2019	2018	2017
Revenues	2.7.1, 4.1	71,755,303	76,442,505	66,790,840
Operating Expenses				
Cost of Sales	2.7.2, 4.2.1	(12,085,198)	(1,796,629)	0
Research and Development	2.7.2, 4.2.2	(108,431,600)	(106,397,017)	(113,313,679)
Selling	2.7.2, 4.2.3	(22,671,481)	(6,382,510)	(4,816,038)
General and Administrative	2.7.2, 4.2.4	(36,664,666)	(21,927,731)	(15,717,578)
Total Operating Expenses		(179,852,945)	(136,503,887)	(133,847,295)
Other Income	2.7.3, 4.3	804,739	1,644,632	1,119,598
Other Expenses	2.7.4, 4.3	(626,678)	(689,343)	(1,670,792)
Earnings before Interest and Taxes (EBIT)		(107,919,581)	(59,106,093)	(67,607,649)
Finance Income	2.7.5, 4.3	2,799,473	417,886	712,397
Finance Expenses	2.7.5, 4.3	(2,272,369)	(753,588)	(1,894,852)
Income from Reversals of Impairment Losses/(Impairment Losses) on Financial Assets	2.3.1	872,000	(1,035,000)	0
Income Tax Benefit/(Expenses)	2.7.4, 4.4	3,506,419	4,304,674	(1,036,365)
Consolidated Net Loss		(103,014,058)	(56,172,121)	(69,826,469)
Earnings per Share, basic and diluted	2.7.7, 4.5	(3.26)	(1.79)	(2.41)
Shares Used in Computing Earnings per Share, basic and diluted	2.7.7, 4.5	31,611,155	31,338,948	28,947,566

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

Consolidated Statement of Comprehensive Income (IFRS)

in €	2019	2018	2017
Consolidated Net Loss	(103,014,058)	(56,172,121)	(69,826,469)
Items that will not be reclassified to Profit or Loss			
Change in Fair Value of Shares through Other Comprehensive Income	(1,160,160)	(127,458)	0
Items that may be reclassified to Profit or Loss			
Foreign Currency Translation Differences from Consolidation	75,332	(83,432)	0
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds (Thereof € 0 for 2019, € 0 for 2018 and € 86,685 for 2017, respectively, Reclassifications of realized Gains and Losses to Profit or Loss)	0	0	54,170
Change of Tax Effects presented in Other Comprehensive Income on Available-for-sale Financial Assets and Bonds	0	0	63,659
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	0	0	117,829
Change in Unrealized Gains and Losses on Cash Flow Hedges (Thereof € 0 for 2019, € 0 for 2018 and € 256,085 for 2017, respectively, Reclassifications of realized Losses to Profit or Loss)	0	0	(490,164)
Change of Tax Effects presented in Other Comprehensive Income on Cash Flow Hedges	0	0	130,751
Change in Unrealized Gains and Losses on Cash Flow Hedges, Net of Tax Effects	0	0	(359,413)
Other Comprehensive Income	(1,084,828)	(210,890)	(241,584)
Total Comprehensive Income	(104,098,886)	(56,383,011)	(70,068,053)

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

Consolidated Balance Sheet (IFRS)

in €	Note	12/31/2019	12/31/2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.8.1, 5.1	44,314,050	45,459,836
Financial Assets at Fair Value through Profit or Loss	2.1.2, 5.2	20,454,949	44,581,264
Other Financial Assets at Amortized Cost	2.1.2, 5.2	207,735,195	268,922,724
Accounts Receivable	2.8.2, 5.3	15,081,702	17,732,933
Income Tax Receivables	2.8.2, 5.5	145,817	161,048
Other Receivables	2.8.2, 5.4	1,613,254	147,449
Inventories, Net	2.8.3, 5.5	288,212	245,161
Prepaid Expenses and Other Current Assets	2.8.4, 5.5	14,059,627	11,654,880
Total Current Assets		303,692,806	388,905,295
Non-current Assets			
Property, Plant and Equipment, Net	2.8.5, 5.6	4,652,838	3,530,709
Right-of-Use Assets, Net	2.1.2, 2.8.6, 5.7	43,160,253	0
Patents, Net	2.8.7, 5.8.1	2,981,282	3,938,739
Licenses, Net	2.8.7, 5.8.2	2,350,002	2,526,829
In-process R&D Programs	2.8.7, 5.8.3	35,683,709	37,019,370
Software, Net	2.8.7, 5.8.4	107,137	203,807
Goodwill	2.8.7, 5.8.5	3,676,233	3,676,233
Other Financial Assets at Amortized Cost, Net of Current Portion	2.1.2, 5.2	84,922,176	95,749,059
Shares at Fair Value through Other Comprehensive Income	2.8.8, 5.9	14,076,836	232,000
Prepaid Expenses and Other Assets, Net of Current Portion	2.8.9, 5.10	1,136,030	2,981,716
Total Non-current Assets		192,746,496	149,858,462
TOTAL ASSETS		496,439,302	538,763,757

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

in €	Note	12/31/2019	12/31/2018
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accruals	2.9.1, 6.1	57,041,902	44,760,615
Current Portion of Lease Liabilities	2.1.2, 2.8.6, 5.7	2,515,097	0
Tax Provisions	2.9.2, 6.2	94,732	208,034
Other Provisions	2.9.1, 6.2	323,000	160,411
Current Portion of Contract Liability	2.9.3, 6.3	1,570,801	794,230
Convertible Bonds due to Related Parties	2.9.5	12,324	0
Total Current Liabilities		61,557,856	45,923,290
Non-current Liabilities			
Lease Liabilities, Net of Current Portion	2.1.2, 2.8.6, 5.7	40,041,581	0
Other Provisions, Net of Current Portion	2.9.1, 6.2	23,166	23,166
Contract Liability, Net of Current Portion	2.9.4, 6.3	114,927	158,024
Convertible Bonds due to Related Parties	2.9.5	0	71,517
Deferred Tax Liability	2.9.6, 4.4	0	3,507,233
Other Liabilities, Net of Current Portion	2.9.7, 6.4	0	707,893
Total Non-current Liabilities		40,179,674	4,467,833
Total Liabilities		101,737,530	50,391,123
Stockholders' Equity			
Common Stock	2.9.8, 6.5.1	31,957,958	31,839,572
Ordinary Shares Issued (31,957,958 and 31,839,572 for 2019 and 2018, respectively)			
Ordinary Shares Outstanding (31,732,158 and 31,558,536 for 2019 and 2018, respectively)			
Treasury Stock (225,800 and 281,036 shares for 2019 and 2018, respectively), at Cost	2.9.8, 6.5.4	(8,357,250)	(10,398,773)
Additional Paid-in Capital	2.9.8, 6.5.5	628,176,568	619,908,453
Other Comprehensive Income Reserve	2.9.8, 6.5.7	(1,295,718)	(210,890)
Accumulated Deficit	2.9.8, 6.5.8	(255,779,786)	(152,765,728)
Total Stockholders' Equity		394,701,772	488,372,634
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		496,439,302	538,763,757

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, 2017		**29,159,770**	**29,159,770**
Compensation Related to the Grant of Stock Options, Convertible Bonds and Performance Shares		0	0
Exercise of Convertible Bonds Issued to Related Parties		261,015	261,015
Transfer of Treasury Stock for Long-Term Incentive Program		0	0
Transfer of Treasury Stock to Members of the Management Board		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, 2017		**29,420,785**	**29,420,785**
Application of IFRS 9		0	0
Application of IFRS 15		0	0
BALANCE AS OF JANUARY 1, 2018		**29,420,785**	**29,420,785**
Capital Increase, Net of Issuance Cost of € 15,038,362		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	32,537	32,537
Transfer of Treasury Stock for Long-Term Incentive Program	7.3.1	0	0
Transfer of Treasury Stock to Related Parties		0	0
Reserves:			
Change in Fair Value of Shares through Other Comprehensive Income	5.9, 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**
BALANCE AS OF JANUARY 1, 2019		**31,839,572**	**31,839,572**
Compensation Related to the Grant of Stock Options and Performance Shares	7.1, 7.3	0	0
Exercise of Convertible Bonds Issued	7.2, 7.5	118,386	118,386
Transfer of Treasury Stock for Long-Term Incentive Program	6.5.4, 7.3.2, 7.5	0	0
Transfer of Treasury Stock to Related Parties	6.5.4, 7.3.8	0	0
Reserves:			
Change in Fair Value of Shares through Other Comprehensive Income	5.9, 6.5.7	0	0
Foreign Currency Gains 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, 2019		**31,957,958**	**31,957,958**

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

Treasury Stock Shares	Treasury Stock €	Additional Paid-in Capital €	Revaluation Reserve €	Other Comprehensive Income Reserve €	Accumulated Deficit €	Total Stockholders' Equity €
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**
281,036	**(10,398,773)**	**619,908,453**	**0**	**(210,890)**	**(152,765,728)**	**488,372,634**
0	0	6,654,470	0	0	0	6,654,470
0	0	3,655,168	0	0	0	3,773,554
(52,328)	1,934,043	(1,934,043)	0	0	0	0
(2,908)	107,480	(107,480)	0	0	0	0
0	0	0	0	(1,160,160)	0	(1,160,160)
0	0	0	0	75,332	0	75,332
0	0	0	0	0	(103,014,058)	(103,014,058)
0	0	0	0	(1,084,828)	(103,014,058)	(104,098,886)
225,800	**(8,357,250)**	**628,176,568**	**0**	**(1,295,718)**	**(255,779,786)**	**394,701,772**

Consolidated Statement of Cash Flows (IFRS)

In €	Note	2019	2018	2017
OPERATING ACTIVITIES:				
Consolidated Net Loss		(103,014,058)	(56,172,121)	(69,826,469)
Adjustments to Reconcile Net Loss to Net Cash Provided by/(Used in) Operating Activities:				
Impairment of Assets	5.6, 5.8	2,317,489	24,033,479	9,863,582
Depreciation and Amortization of Tangible and Intangible Assets and of Right-of-Use Assets	5.6, 5.7, 5.8	6,245,162	3,750,259	4,028,948
Net (Gain)/Loss of Financial Assets at Fair Value through Profit or Loss (2017: Available-for-sales Financial Assets)	5.2	(752,257)	79,330	84,841
Net (Gain)/Loss of Financial Assets at Amortized Cost	5.2	705,952	0	0
(Income) from Reversals of Impairment Losses/Impairment Losses on Financial Assets	2.3.1	(872,000)	1,035,000	0
Proceeds from Derivative Financial Instruments	5.4	931,595	(488,201)	(589,134)
Net (Gain)/Loss on Derivative Financial Instruments	5.4	(1,261,618)	121,717	919,042
Net (Gain)/Loss on Sale of Property, Plant and Equipment		(21,408)	(24,093)	11,314
Non-cash Income from Recognition of previously unrecognized Intangible Assets	5.9	0	(350,000)	0
Recognition of Contract Liability (2017: Recognition of Deferred Revenue)	6.3	(5,335,977)	(1,993,763)	(19,595,746)
Share-based Payment	4.2.5, 7	6,654,470	5,584,969	4,974,599
Income Tax (Benefit)/Expenses	4.4	(3,506,419)	(4,304,674)	1,036,365
Changes in Operating Assets and Liabilities:				
Accounts Receivable	5.3	2,667,232	(6,610,625)	1,362,347
Prepaid Expenses and Other Assets, Tax Receivables and Other Receivables	5.4, 5.5	(4,422,409)	545,816	1,807,670
Accounts Payable and Accruals, Lease Liabilities, Tax Provisions and Other Provisions	6.1, 6.2	13,202,429	1,890,046	7,819,386
Other Liabilities	6.4	316,288	(2,718,825)	3,133,558
Contract Liability (2017: Deferred Revenue)	6.3	6,069,450	2,386,009	18,385,824
Income Taxes Paid		(62,560)	(33,837)	(1,861,982)
Net Cash Provided by/(Used in) Operating Activities		(80,138,639)	(33,269,514)	(38,445,855)

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

In €	Note	2019	2018	2017
INVESTING ACTIVITIES:				
Purchase of Financial Assets at Fair Value through Profit or Loss (2017: Available-for-sale Financial Assets)		(28,305,339)	(84,511,324)	(56,406,580)
Proceeds from Sales of Financial Assets at Fair Value through Profit or Loss (2017: Available-for-sale Financial Assets)		53,159,814	126,388,925	33,231,500
Proceeds from Sales of Bonds, Available-for-sale		0	0	6,500,000
Purchase of Other Financial Assets at Amortized Cost (2017: Financial Assets Classified as Loans and Receivables)		(246,461,961)	(366,810,000)	(108,000,000)
Proceeds from Sales of Other Financial Assets at Amortized Cost (2017: Financial Assets Classified as Loans and Receivables)		318,720,000	149,980,211	170,498,593
Purchase of Property, Plant and Equipment	5.6	(3,103,330)	(1,820,749)	(1,317,058)
Proceeds from Sales of Property, Plant and Equipment		20,469	28,444	84
Purchase of Intangible Assets	5.8	(562,314)	(644,575)	(11,831,789)
Purchase of Shares at Fair Value through Other Comprehensive Income	5.9	(15,004,996)	(9,458)	0
Interest Received		90,156	136,124	257,752
Net Cash Provided by/(Used in) Investing Activities		78,552,499	(177,262,402)	32,932,502
FINANCING ACTIVITIES:				
Proceeds of Share Issuance		0	193,613,868	0
Cost of Share Issuance		0	(15,038,362)	(15,525)
Proceeds in Connection with Convertible Bonds Granted to Related Parties	7.2	3,714,361	1,020,849	8,189,345
Principal Elements of Lease Payments	5.7	(2,349,801)	0	0
Interest Paid	5.7	(1,011,321)	(134,269)	0
Net Cash Provided by/(Used in) Financing Activities		353,239	179,462,086	8,173,820
Effect of Exchange Rate Differences on Cash		87,115	(59,463)	0
Increase/(Decrease) in Cash and Cash Equivalents		(1,145,786)	(31,129,293)	2,660,467
Cash and Cash Equivalents at the Beginning of the Period		45,459,836	76,589,129	73,928,661
Cash and Cash Equivalents at the End of the Period		44,314,050	45,459,836	76,589,129

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 proprietary portfolio of compounds and a 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, 2019 and adopted by the European Union (EU). As of December 31, 2019, there were no standards or interpretations that affected our consolidated financial statements for the years ended December 31, 2019, 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). In accordance with the regulations of the United States Securities and Exchange Commission, the statement of profit or loss is presented for a comparative period of three years. This extends beyond the comparative period of two years in accordance with the requirements of IFRS as adopted by the EU.

The consolidated financial statements as of December 31, 2019 and 2018, as well as each of the years in the three-year period ended December 31, 2019, pertain to MorphoSys AG and its subsidiaries (collectively, 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 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 euros prior to their consolidation. The consolidated financial statements were prepared in euros.

The annual financial statements are based on historical cost, with the exception of the following assets and liabilities, which are recorded at their respective fair values: derivative financial instruments and financial assets at fair value. All figures in this report have been rounded to the nearest euro, thousand euros or million euros.

Unless stated otherwise, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2.1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting principles applied generally correspond to the policies used in the prior year.

NEW OR REVISED STANDARDS AND INTERPRETATIONS ADOPTED 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 (A)	Prepayment Features with Negative Compensation	01/01/2019	yes	none
IFRS 16	Leases	01/01/2019	yes	yes
IAS 19 (A)	Plan Amendment, Curtailment or Settlement	01/01/2019	yes	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	yes
	Annual Improvements to IFRS Standards 2015 – 2017 Cycle	01/01/2019	yes	none
(A) Amendments				

IFRS 16 – LEASES

The Group has adopted the new standard on leases, IFRS 16, since January 1, 2019. In the 2018 financial year, leases were accounted for in accordance with IAS 17 and the associated interpretations (IFRIC 4, SIC 15, and SIC 27). Leases recognized as operating leases under IAS 17 until December 31, 2018 were recognized as lease liabilities in the Group upon the first-time adoption of IFRS 16. In accordance with IAS 17, payments made under operating leases less incentives were recognized in the statement of profit or loss on a straight-line basis over the term of the lease.

IFRS 16 was applied for the first time as of January 1, 2019, using the modified retrospective method. The Group has not retrospectively adjusted comparative amounts for the 2018 financial year and, in accordance with IFRS 16.C8 (b) (ii), recognized the right-of-use assets in the amount of the lease liabilities on January 1, 2019. Exemptions in accordance with IFRS 16.C9 (a) for low-value leases and IFRS 16.C10 for leases previously classified as operating leases in accordance with IAS 17 have been applied. Leases entered into prior to the transition date were not reassessed to determine whether an agreement contains or is a lease at the time of initial adoption but instead retains the assessment previously made under IAS 17.

The Group assesses whether an agreement constitutes or contains a lease at the time of the agreement's inception. The following categories of leases have been identified where the transition to IFRS 16 as of January 1, 2019 resulted in the recognition of leases previously recognized as operating leases as leases under the new standard: buildings, vehicles and technical equipment. For agreements concluded after January 1, 2019, the assessment of whether an agreement contains or is a lease is made in accordance with IFRS 16. This is the case if the agreement entitles the holder to control the use of an identified asset for a specified period of time in return for the payment of a fee.

The lease liability was measured at its present value as of January 1, 2019. To determine the present value, the remaining lease payments were discounted to January 1, 2019 using the lessee's incremental borrowing rate. The weighted-average interest rate was 2.17 % and was based primarily on hypothetical bank loans granted for an asset with a value and term comparable to the right-of-use assets.

Based on the operating lease obligations as of December 31, 2018, the following reconciliation to the opening balance sheet value of the lease obligations resulted as of January 1, 2019.

in 000' €	**Lease Liabilities**
Operating Lease Commitments disclosed as of December 31, 2018	22,530
Commitments for Not Identifiable Assets	(90)
Leases of Low Value Assets, Expensed on a Straight-Line Basis	(56)
Other	28
Lease Liabilities, undiscounted, as of January 1, 2019	22,412
Adjustments as a Result of Different Assessment of Extension Options	26,855
Gross Lease Liabilities as of January 1, 2019	49,267
Discounting	(8,484)
Lease Liabilities as of January 1, 2019	40,783
thereof short-term	2,026
thereof long-term	38,757

For one building, extension options (twice five years after a minimum lease period of ten years) were included in the determination of the lease liability as of January 1, 2019, as it is sufficiently certain that these options will be exercised. This assessment is based on the fact that extensive conversion work has been carried out on this building to meet the Group's requirements. Consequently, there is only a limited number of alternatives to the existing building.

As a result of the first-time adoption of IFRS 16 as of January 1, 2019, right-of-use assets and lease liabilities of € 40.8 million were recognized in the balance sheet. In addition, current prepaid expenses of € 0.4 million and non-current prepaid expenses of € 2.1 million resulting from rent paid in advance were reclassified to the capitalized right-of-use assets as of January 1, 2019. Other current liabilities of € 0.1 million and other non-current liabilities of € 0.7 million from deferred rent-free periods were offset against the right-of-use assets as of January 1, 2019. These reclassifications as of January 1, 2019 resulted in right-of-use assets (€ 42.5 million) and lease liabilities (€ 40.8 million) in differing amounts and, consequently, deferred tax liabilities of € 0.2 million.

IFRS 16 has a significant effect on the components of the consolidated financial statements and the presentation of the net assets, financial position and results of operations. With the increase in total assets, the equity ratio has declined. The first-time adoption of IFRS 16 had no effect on the amount of equity as of January 1, 2019 and no material impact on the Group EBIT.

IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENT

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multination environment, it assessed whether the interpretation had an impact on the consolidated financial statements.

Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing.

NEW OR REVISED STANDARDS AND INTERPRETATIONS NOT YET MANDATORILY APPLICABLE

The following new or revised standards and interpretations that were not yet mandatory in the reporting period or have not yet been adopted by the European Union, have not been applied prematurely. The effects on the consolidated financial statements of standards marked with "yes" are considered probable and are currently being examined by the Group. Only significant effects are described in more detail. The effects on the consolidated financial statements of the extensions to IAS 1 and IAS 8 are not considered material and, therefore, not explained separately. Standards with the comment "none" are not expected 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 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	01/01/2020	yes	none
IFRS 17	Insurance Contracts	01/01/2021	no	none
IAS 1 and IAS 8 (A)	Definition of Material	01/01/2020	yes	yes
	Amendments to References to the Conceptual Framework in IFRS Standards	01/01/2020	yes	none
(A) Amendments				

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. (Boston, Massachusetts, USA) and Lanthio Pharma B.V. (Groningen, The Netherlands). Additionally, MorphoSys AG's investment in Lanthio Pharma B.V. indirectly gives it 100 % ownership in LanthioPep B.V. (Groningen, The Netherlands).

The consolidated financial statements for the year ended December 31, 2019 were prepared and approved by the Management Board on March 11, 2020 by means of a resolution. The Management Board members are Dr. Jean-Paul Kress (Chief Executive Officer), Jens Holstein (Chief Financial Officer) and Dr. Malte Peters (Chief Development Officer).

Dr. Markus Enzelberger resigned from the management board as of February 29, 2020.

On March 11, 2020, 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 PRINCIPLES 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 the consolidated statement of 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 the consolidated statement of profit or loss. Other foreign currency differences at the Group level are recognized in the item "Other Comprehensive Income Reserve" (stockholder's 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 and 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 in Germany. With respect to its positions, 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 (see Note 2.4*) in the statement of profit or loss for the financial years 2019 and 2018 under the item impairment losses on financial assets were as follows. Negative values represent additions and positive values represent reversals of risk provisions. There were no impairments in the 2019 financial year. The decline in this risk provision compared with January 1, 2019 resulted from lower premiums for credit default swaps of counterparties, which are used for the determination of any impairment losses.

*CROSS-REFERENCE *to page 140*

	General Impairment Model			Simplified Impairment Model		Total
in 000' €	Stage 1	Stage 2	Stage 3	Stage 2	Stage 3	
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)
Balance as of January 1, 2019	(665)	(506)	0	(90)	0	(1,261)
Unused Amounts Reversed	445	427	0	90	0	962
Increase in Impairment Losses for Credit Risks recognized in Profit or Loss during the Year	0	0	0	(80)	0	(80)
Change between Impairment Stages	(79)	79	0	0	0	0
Amounts written off during the Year as uncollectible	0	0	0	0	0	0
Balance as of December 31, 2019	(299)	0	0	(80)	0	(379)

The Group recognizes impairment losses for default risks for financial assets as follows:

Balance Sheet Item as of December 31, 2019	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	44,314	0	44,314	0.0%
Other Financial Assets at Amortized Cost	low	Expected Twelve-Month Loss	293,958	(299)	293,659	0.1%
Accounts Receivable	low	Lifetime Expected Credit Losses	15,162	(80)	15,082	0.5%

Balance Sheet Item as of December 31, 2018	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, 2019, the maximum credit risk corresponded to the carrying amounts of these investments amounting to € 20.5 million (December 31, 2018: € 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 € 8.0 million of accounts receivables as of December 31, 2019 (December 31, 2018: € 5.9 million) or 53% of the Group's total accounts receivable at the end of 2019. The Group's top three single customers individually accounted for 45%, 31% and 13% of the total revenue in 2019. On December 31, 2018, one customer had accounted for 33% of the Group's accounts receivable. In 2018, the top three customers individually accounted for 65%, 25% and 5% of the Group's revenue. The top three customers had individually accounted for 55%, 25% and 10% of the Group's revenue in 2017. The carrying amounts of financial assets represent the maximum credit risk.

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

in €	12/31/2019	12/31/2018
Europe and Asia	6,984,944	13,176,523
USA and Canada	8,176,758	4,646,410
Other	0	0
Impairment	(80,000)	(90,000)
TOTAL	**15,081,702**	**17,732,933**

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, 2019 (December 31, 2018: 0.5 %).

in €; due since	12/31/2019 0–30 days	12/31/2019 30–60 days	12/31/2019 60+ days	12/31/2019 Total
Accounts Receivable	15,161,702	0	0	15,161,702
Impairment	(80,000)	0	0	(80,000)
Accounts Receivable, Net of Allowance for Impairment	15,081,702	0	0	15,081,702

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

On December 31, 2019 and December 31, 2018, the Group's exposure to credit risk from derivative financial instruments was assessed as low. The maximum credit risk (equal to the carrying amount) for rent deposits and other deposits on the reporting date amounted to € 1.0 million (December 31, 2018: € 0.7 million).

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

in €; due in	12/31/2019 Between One and Twelve Months	12/31/2019 More than 12 Months	12/31/2019 Total
Trade Accounts Payable	10,655,014	0	10,655,014
Convertible Bonds due to Related Parties	12,324	0	12,324

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

Financial assets and financial liabilities were not netted as of December 31, 2019. Currently, there is no legal right to offset amounts recognized, to settle on a net basis, or to realize an asset and settle a liability simultaneously. There were no financial instruments pledged as collateral as of December 31, 2019. There was no netting potential as of December 31, 2019 under the scope of the existing netting agreements.

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 incurred largely 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 necessity 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 recorded in other receivables and for derivatives with a negative fair value, unrealized losses are recorded in other liabilities.

As of December 31, 2019, there was one unsettled forward rate agreement with a term of one month (December 31, 2018: nine unsettled forward rate agreements; December 31, 2017: twelve unsettled forward rate agreements). The unrealized gross gain from this agreement amounted to € 0.4 million as of December 31, 2019, and was recorded in the finance result (December 31, 2018: € 0.1 million unrealized gross gain; December 31, 2017: € 0.3 million unrealized gross loss).

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

as of December 31, 2019; in €	Euro	US$	Other	Impairment	Total
Cash and Cash Equivalents	26,400,595	17,913,455	0	0	44,314,050
Financial Assets at Fair Value through Profit or Loss	4,233,141	16,221,808	0	0	20,454,949
Other Financial Assets at Amortized Cost	251,199,363	41,756,008	0	(298,000)	292,657,371
Accounts Receivable	14,183,334	978,368	0	(80,000)	15,081,702
Restricted Cash (included in Other Current Assets)	713,232	289,537	0	(1,000)	1,001,769
Accounts Payable and Accruals	(52,126,110)	(4,910,130)	(5,662)	0	(57,041.902)
TOTAL	**244,603,555**	**72,249,046**	**(5,662)**	**(379,000)**	**316,467,939**

as of December 31, 2018; in €	Euro	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**

Different foreign exchange rates and their impact on assets and liabilities were simulated in a sensitivity analysis to determine the effects on profit or loss. A 10% increase in the euro versus the US dollar as of December 31, 2019, would have increased the consolidated net loss by € 6.7 million. A 10% decline in the euro versus the US dollar would have reduced the consolidated net loss by € 7.9 million.

A 10% increase in the euro versus the US dollar as of December 31, 2018, would have increased the consolidated net loss by € 1.4 million. A 10% decline in the euro versus the US dollar would have reduced the consolidated net loss by € 1.7 million.

A 10% increase in the euro versus the US dollar as of December 31, 2017, would have increased the consolidated net loss by € 0.2 million. A 10% decline in the euro versus the US dollar would have reduced the consolidated net loss by € 0.2 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 rates 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 reduced the consolidated net loss by € 0.3 million as of December 31, 2019 (December 31, 2018: € 0.4 million; December 31, 2017: € 0.6 million). A decrease of the variable interest rate by 0.5% would have increased the consolidated net loss by € 0.3 million as of December 31, 2019 (December 31, 2018: € 0.1 million; December 31, 2017: € 0.4 million). Changes in the interest rate had no material impact on equity as of December 31, 2019 or December 31, 2018.

The Group is not subject to significant interest rate risks from the liabilities currently reported on the balance sheet.

2.3.3 FAIR VALUE HIERARCHY AND MEASUREMENT METHODS

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 Note 5.2* and 5.9*).

*CROSS-REFERENCE *to page 158 and page 164*

HIERARCHY LEVELS 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 Note 5.9.* No financial liabilities were assigned to Hierarchy Level 3.

*CROSS-REFERENCE *to page 164*

There were no transfers from one fair value hierarchy level to another in 2019 or 2018.

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

December 31, 2019; in 000' €	Note	Hierarchy Level	Not classified into a Measurement Category	Financial Assets at Amortized Cost
Cash and Cash Equivalents	5.1	*		44,314
Financial Assets at Fair Value through Profit or Loss	5.2	1		0
Other Financial Assets at Amortized Cost	5.2	*		207,735
Accounts Receivable	5.3	*		15,082
Other Receivables				
thereof Financial Assets		*		1,217
thereof Forward Exchange Contracts used for Hedging	5.4	2		0
Current Assets				268,348
Other Financial Assets at Amortized Cost, Net of Current Portion	5.2	2		84,922
Shares at Fair Value through Other Comprehensive Income	5.9			
thereof Shares at Level 1		1		0
thereof Shares at Level 3		3		0
Prepaid Expenses and Other Assets, Net of Current Portion	5.10			
thereof Non-Financial Assets		n/a	147	
thereof Restricted Cash		2		989
Non-current Assets			147	85,911
TOTAL			**147**	**354,259**
Accounts Payable and Accruals	6.1	*		0
Current Portion of Lease Liabilities	5.7	n/a	(2,515)	
Convertible Bonds - Liability Component		2		0
Current Liabilities				0
Lease Liabilities, Net of Current Portion	5.7	n/a	(40,042)	
Non-current Liabilities				0
TOTAL				**0**

* Declaration waived in line with IFRS 7.29 (a). For these instruments the carrying amount is a reasonable approximation of fair value.
** Declaration waived in line with IFRS 7.29 (d) as disclosure is not required for lease liabilities.

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	5.9	3		0
Prepaid Expenses and Other Assets, Net of Current Portion	5.10			
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 line with IFRS 7.29 (a). For these instruments the 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	44,314	*
	20,455	0	0	0	20,455	20,455
	0	0	0	0	207,735	*
	0	0		0	15,082	*
					1,613	
			0		1,217	*
	396	0	0	0	396	396
	20,851	0	0	0	289,199	
	0	0	0	0	84,922	84,922
					14,077	
	0	13,690	0	0	13,690	13,690
	0	387	0	0	387	387
					1,136	
			0		147	n/a
	0	0	0	0	989	989
	0	14,077	0	0	100,135	
	20,851	14,077		0	389,334	
	0	0	(57,042)	0	(57,042)	*
					(2,515)	**
	0	0	(12)	0	(12)	(12)
	0	0	(57,054)	0	(59,569)	
					(40,042)	**
	0	0	0	0	(40,042)	
	0	0	(57,054)	0	(99,611)	

	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	232
					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)	

2.4 IMPAIRMENT

2.4.1 FINANCIAL INSTRUMENTS

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost (term deposits with fixed and variable interest rates and 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 impairment 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 when the premium on a counterparty credit default swap has increased by 100 basis points since the initial recognition of the instrument (Level 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 there is objective evidence of this. Impairment of financial instruments is recognized under impairment losses on financial assets.

2.4.2 RECEIVABLES

In the case of accounts receivable, the Group applies the simplified approach under IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the receivables (Level 2). In the case of insufficient reason to expect recovery, the expected loss must 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 recognized 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, the 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 assumptions are continually evaluated and based on historical experience and other factors, including the expectation 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.

REVENUES

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 141*

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.

LEASES

In determining the lease term, all facts and circumstances are considered that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

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 Note 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 Notes 5.8.3* and 5.8.5*).

*CROSS-REFERENCE *to page 140, page 163 and page 164*

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 Note 4.4*.

*CROSS-REFERENCE *to page 154*

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, 2019, the equity ratio was 79.5% (December 31, 2018: 90.6%; see also the following overview). The Group does not currently have any financial liabilities.

The Management Board and employees can participate in the Group's performance through long-term, performance-related remuneration components. These components consist of convertible bonds issued in 2013 and stock option plans (SOP) granted to the Management Board and certain employees of MorphoSys AG in 2017, 2018 and 2019, in accordance with the bonus system approved by the Annual General Meeting. In addition, MorphoSys established a Long-Term Incentive Plan (LTI Plan) for the Management Board and certain employees of MorphoSys AG in 2015, 2016, 2017, 2018 and 2019. In 2019, MorphoSys established long-term incentive programs (Long-Term Incentive Plan – LTI Plan and Restricted Stock Unit Plan – RSU Plan) for the President and certain employees of MorphoSys US Inc. These LTI Plans are based on the performance-related issuance of shares ("performance shares" and shares still to be created from authorized capital under the RSU Plan), which are finally allocated upon achievement of specific predefined performance criteria and after the expiration of the vesting period (see Notes 7.3* and 7.4*). The Group did not make any changes to its capital management during the year.

*CROSS-REFERENCE *to page 172 and page 177*

in 000' €	12/31/2019	12/31/2018
Stockholders' Equity	394,702	488,373
In % of Total Capital	79.5%	90.6%
Total Liabilities	101,738	50,391
In % of Total Capital	20.5%	9.4%
TOTAL CAPITAL	**496,439**	**538,764**

2.6 USE OF INTEREST RATES FOR MEASUREMENT

The Group uses interest rates to measure fair value. When calculating share-based payments, 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 THE STATEMENT OF PROFIT OR LOSS

2.7.1 REVENUES AND REVENUE RECOGNITION

As of January 1, 2018, the Group has adopted IFRS 15.
The IFRS 15 standard on revenues 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. The Group must make an assessment as to whether such a license represents a right-to-use the IP (at a point in time) or a right to access the IP (over time). Revenue for a right-to-use license is recognized by the Group when the licensee can use the IP and benefit from it and after the license term begins, e.g., the Group has no further obligations in the context of the out-licensing of a drug candidate or technology. A license is considered a right to access the intellectual property when the Group undertakes activities during the license term that significantly affect the IP, 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 the right to access the IP are recognized on a straight-line basis over the license term.

Milestone payments for research and development are contingent upon the occurrence of a future event and represent variable consideration. The Group's management estimates at the contract's inception that the most likely amount for milestone payments is zero. The most likely amount method of estimation is considered the most predictive for the outcome since the outcome is binary; for example, achieving a specific success in clinical development (or not). The Group includes milestone payments in the total transaction price when the milestone is more likely than not to be realized and it is highly unlikely that there will be a material reversal of accumulated revenue in future periods.

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

SERVICE FEES

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

ROYALTIES

Revenue recognition for royalties (income based on a percentage of sales of a marketed product), is based on the same revenue recognition principles that apply to 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, an assessment must be made as to whether the license is distinct from the 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 goods and services not sold separately on the basis of comparable transactions with other customers. The residual approach is the method used to estimate a 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 who contribute to the provision of a specific good or service to a customer, the Group company assesses 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 recognizes 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; 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. Generally, an assessment as to whether a Group company is acting as a principal or an agent in a transaction requires a considerable degree of judgment.

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. Should that be the case, the agreement would not fall within the scope of IFRS 15 because the parties share equally in the risk of co-developing a drug and in the future profits from the marketing of the approved drug.

REVENUE RECOGNITION THROUGH DECEMBER 31, 2017

The Group applied the revenue recognition principles under IAS 18 "Revenue" through December 31, 2017.

The Group's revenues in 2017 included license fees, milestone payments and service fees. Under IAS 18.9, revenues were measured at the 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 would receive the economic benefits associated with the transaction.

LICENSE FEES AND MILESTONE PAYMENTS

Revenues related to non-refundable fees for providing access to technologies, fees for the use of technologies and license fees were recognized immediately and in full when all of the IAS 18.14 criteria were met and, specifically, when the material risks and rewards of license ownership were transferred to the customer and a Group company did not retain any continuing managerial involvement or effective control. If these criteria were not met, revenues were deferred on a straight-line basis over the period of the agreement, unless a more appropriate method of revenue recognition was available. The term of the agreement usually corresponded to the contractually agreed term of the research project or, in the case of contracts without an agreed term, the expected term of the collaboration. Revenues from milestone payments were recognized upon the achievement of certain contractual criteria.

SERVICE FEES

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

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, revenues from multiple-component contracts were 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 contains personnel expenses, impairment on inventories, other operating expenses and costs for external services.

RESEARCH AND DEVELOPMENT EXPENSES

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 when the Group can provide proof in accordance with IAS 38.57.

This line item contains personnel expenses, consumable supplies, other operating expenses, impairment charges, amortization and other costs related to intangible assets (additional information can be found under Note 5.8*), costs for external services, infrastructure costs and depreciation.

*CROSS-REFERENCE *to page 162*

SELLING EXPENSES

The item includes personnel expenses, consumable supplies, operating costs, amortization of intangible assets (software; additional information can be found under Note 5.8*), costs for external services, infrastructure costs and depreciation.

*CROSS-REFERENCE *to page 162*

GENERAL AND ADMINISTRATIVE EXPENSES

The item includes personnel expenses, consumable supplies, operating costs, amortization of intangible assets (software; additional information can be found under Note 5.8*), costs for external services, infrastructure costs and depreciation.

*CROSS-REFERENCE *to page 162*

PERSONNEL EXPENSES FROM STOCK OPTIONS

The Group applies the provisions of IFRS 2 “Share-based Payment,” which oblige 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 that triggered the granting of the share-based payments.

IFRS 2 “Share-based Payment” requires the consideration of the effects of share-based payments when 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 most important effect of IFRS 2 on the Group is the personnel expense resulting from the use of an option pricing model for share-based incentives for the Management Board and employees. Additional information on this topic can be found in Notes 7.1*, 7.2*, 7.3*, 7.4* and 7.5*.

*CROSS-REFERENCE *to page 168 – 177*

OPERATING LEASE PAYMENTS

Until December 31, 2018, payments made within the scope of operating leases were recognized according to IAS 18 in profit or loss on a straight-line basis over the term of the lease. According to SIC-15, all incentive agreements within the scope 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.

The Group’s lease agreements were classified exclusively as operating leases until December 31, 2018. The Group did not engage in any finance lease arrangements.

2.7.3 OTHER INCOME

In addition to currency gains from operating activities, other income consists primarily of income originating from the Company’s own canteen.

GOVERNMENT GRANTS

Non-repayable grants 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.

The government grants are generally cost subsidies, and their recognition through profit or loss is limited to the corresponding costs.

When the repayment of cost subsidies is linked to 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 2019, 2018 or 2017 financial years that are required to be classified as investment subsidies.

2.7.4 OTHER EXPENSES

The line item “other expenses” consists mainly of currency losses from the operating business.

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/BENEFITS

Current income taxes are calculated based on the respective local taxable income and local tax rules for the period. In addition, current income taxes presented for the period include adjustments for uncertain tax payments or tax refunds for periods not yet finally assessed, excluding interest expenses and penalties on the underpayment of taxes. In the event that amounts included in the tax return are considered unlikely to be accepted by the tax authorities (uncertain tax positions), a provision for income taxes is recognized. The amount is based on the best possible assessment of the tax payment expected. Tax refund claims from uncertain tax positions are recognized when it is probable that they can be realized.

Deferred tax assets or liabilities are calculated for temporary differences between the tax bases and the financial statement carrying amounts, including differences from consolidation, unused tax loss carry-forwards, and unused tax credits. Measurement is based on enacted or substantively enacted tax rates and tax rules.

Deferred tax assets are offset against deferred tax liabilities when the taxes are levied by the same taxation authority and the entity has a legally enforceable right to offset current tax assets against current tax liabilities.

Assessments as to the recoverability of deferred tax assets require the use of judgment regarding assumptions related to estimated future taxable profits. This includes the character and amounts of taxable future profits, the periods in which those profits are expected to occur, and the availability of tax planning opportunities. The Group recognizes a write-down of deferred tax assets when it is unlikely that a corresponding amount of future taxable profit will be available against which the deductible temporary differences, tax loss carry forwards and tax credits can be utilized.

The analysis and forecasting required in this process are performed for individual jurisdictions by qualified local tax and financial professionals. Given the potential significance surrounding the underlying estimates and assumptions, group-wide policies and procedures have been designed to ensure consistency and reliability around the recoverability assessment process. Forecast operating results are based upon approved business plans, which are themselves subject to a well-defined process of control. As a matter of policy, especially strong evidence supporting the recognition of deferred tax assets is required if an entity has suffered a loss in either the current or the preceding period.

Changes in deferred tax assets and liabilities are generally recognized through profit and loss in the consolidated statement of profit or loss, except for changes recognized directly in equity. 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 in accordance with IAS 33.41. Basic earnings per share are computed by dividing the net profit or loss attributable to parent company shareholders by the weighted-average number of ordinary shares outstanding for the reporting period. Diluted earnings per share are 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 2019, 2018 and 2017, diluted earnings per share equaled basic earnings per share. The effect of 57,035 potentially dilutive shares in 2019 (2018: 120,214 dilutive shares; 2017: 87,904 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 as it would result in a decline in the loss per share and should, therefore, not be treated as dilutive.

The 115,684 stock options still unvested as of December 31, 2019 are not included in the calculation of potentially dilutive shares, as they were anti-dilutive for the 2019 financial year. These shares may potentially have a dilutive effect in the future.

2.8 ACCOUNTING POLICIES APPLIED TO BALANCE SHEET ASSETS

2.8.1 LIQUIDITY

CLASSIFICATION

The Group classifies its financial assets (debt instruments) in the measurement categories of those subsequently measured at fair value (either through other comprehensive income or profit or loss) and those 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 in other comprehensive income or in profit or loss. The Group only reclassifies debt instruments when the business model for managing such assets changes.

The Group defines all cash held at banks and on hand, as well as all short-term deposits with a maturity of three months or less as of the purchase date, as cash and cash equivalents. The Group invests the majority of its cash and cash equivalents at several major financial institutions including, Commerzbank, UniCredit, BayernLB, LBBW, BNP Paribas, Deutsche Bank, Sparkasse, Rabobank, Banque Européenne du Crédit Mutuel and Bank of America Merrill Lynch.

Guarantees granted for rent deposits and obligations from convertible bonds issued to employees are recorded as restricted cash under “other assets” because 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 and – when the financial asset is not subsequently measured at fair value in profit or loss – plus transaction costs directly attributable to the acquisition of that asset. 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 described below.

Assets that are held in order to collect the contractual cash flows and for which these cash flows represent interest and principal payments only are measured at amortized cost. Interest income from these financial assets is recognized in finance income using the effective interest method. Gains and losses upon 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 principal and interest payments only are measured at fair value through other comprehensive income. Changes in the carrying amounts are recognized in other comprehensive income, with the exception of impairment losses, income from impairment reversals, interest income and foreign currency gains and losses, which are recognized in profit or loss. Upon the 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 and losses on debt instruments that are 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 measured at fair value at the end of each reporting period. Changes in the fair value of a derivative instrument that is not accounted for as a hedging relationship are recognized directly in profit or loss in the finance result.

MorphoSys has not applied hedge accounting in the financial years 2019 and 2018.

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 Notes 2.3.1*, 2.4.2* and 5.3*).

*CROSS-REFERENCE *to page 132, page 140 and page 159*

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 purchase costs, including those incurred in bringing the inventories into operating condition, and take 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.

In addition, inventory comprises manufacturing costs for the fermentation runs of antibody material (tafasitamab) that is required for the approval process in the United States. If successfully approved, the material may be used later for commercialization. Commercialization is regarded as a sale in the ordinary course of business in accordance with IAS 2, hence the material is accounted for as inventory. According to the Group’s accounting policies, these quantities qualify as inventory. Before tafasitamab has received market approval, this inventory is valued at a net realizable value of zero. The resulting impairment is accounted for in cost of sales.

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 from tax authorities from input tax surpluses, 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 Note 5.6*) and any impairment losses (see Note 2.4.*). Historical cost includes expenditures directly related to the purchase at the time of the acquisition. Replacement purchases, building alterations and improvements are capitalized, whereas repair and maintenance expenses are recognized 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 either the asset's estimated useful life or the remaining term of the lease – whichever is shorter.

*CROSS-REFERENCE *to page 160 and page 140*

Asset Class	Useful Life	Depreciation Rates
Computer Hardware	3 years	33%
Low-value Laboratory and Office Equipment	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 when necessary.

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's operating business is funded with equity.

2.8.6 LEASES

As of January 1, 2019, the Group applies IFRS 16, the new standard on leases, using the modified retrospective method (see Note 2.1.2*).

*CROSS-REFERENCE *to page 129*

For lessees, IFRS 16 introduces an uniform approach to the recognition of leases, according to which assets for the right-of-use assets of the leased assets and liabilities for the payment obligations entered into are required to be recognized in the balance sheet for all leases. At the time a leased asset becomes available for the Group's use, a right-of-use asset and corresponding lease liability are recognized in the balance sheet.

Right-of-use assets are measured at cost, which is calculated as the lease liability plus lease payments made at or before the date on which the asset is made available for use, less lease incentives received, initial direct costs and dismantling obligations. Subsequent measurement of right-of-use assets is at cost. The right-of-use assets are amortized on a straight-line basis over either the useful life or the term of the lease agreement – whichever is shorter.

The lease liability is the present value of the fixed and variable lease payments that are paid during the term of the lease less any lease incentives receivable. The discounting is carried out based on the implied interest rate underlying the lease contract if the rate can be determined. If not, discounting is carried out based on the lessee's incremental borrowing rate, i.e., the interest rate a lessee would need to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value and condition to the right-of-use asset in a similar economic environment.

In subsequent measurement, the carrying amount of the lease liability is increased to reflect the interest expense on the lease liability and reduced to reflect the lease payments made. Each lease installment is separated into a repayment portion and a financing expense portion. Finance expenses are recognized in profit or loss over the term of the lease.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

As of January 1, 2019, the rental expenses recognized in the statement of profit or loss up to and including the 2018 financial year were replaced by depreciation and amortization of assets and interest expenses from the compounding of lease liabilities. This means that the related costs are recorded in various items of the statement of profit or loss and differ in their total amount compared to the application of IAS 17. As a result of the interest expenses recorded under financial expenses in the statement of profit or loss, there is a material effect on Group EBIT in the financial year compared with the application of IAS 17. In accordance with IAS 17, interest expenses were part of rental expenses and were recorded under operating expenses in the statement of profit or loss.

The payments for the redemption of lease liabilities and the payments attributable to the interest portion of the lease liabilities are allocated to cash flow from financing activities.

For low-value leases and short-term leases (terms of less than twelve months), mainly technical equipment, use is made of the simplified application under IFRS 16. Accordingly, no right-of-use assets or lease liabilities are recognized, instead the lease payments are recognized as an expense over the term of the lease.

To examine the necessity of an impairment of a right-of-use asset, the Group applies IAS 36 and recognizes impairment losses in accordance with the principles described in section 2.4.3*.

*CROSS-REFERENCE *to page 140*

2.8.7 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 benefit 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 Note 2.4.3*). 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 140*

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 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 and 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. Given that the Group applies the cost accumulation approach, milestones in the near future are not accounted for. 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 Note 2.4.3*). 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 140*

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 Note 5.8.5*).

*CROSS-REFERENCE *to page 164*

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	-

2.8.8 SHARES AT FAIR VALUE, WITH CHANGES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

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

2.8.9 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

The non-current portion of expenses incurred prior to the reporting date but 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 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 that are uncertain in their 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 in the amount required to settle the respective obligation and discounted to the reporting date when the interest effect is material. The amount required to meet the obligation also includes expected price and cost increases. The interest portion of the addition to 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 recognizes provisions for estimated ongoing research costs that have been incurred. When evaluating the appropriateness of the deferred expenses, the Group analyzes the progress of the studies, including the phase and completion of events, invoices received and contractually agreed costs. Significant judgments and estimates are made in determining the deferred balances at the end of any reporting period. Actual results may 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.

2.9.4 CONTRACT LIABILITIES, NET OF CURRENT PORTION

This line item includes the non-current portion of deferred customers upfront payments and revenue that must be recognized over a period of time in accordance with IFRS 15.35. Contractual liabilities are measured at the nominal amount of cash received.

2.9.5 CONVERTIBLE BOND OBLIGATIONS TO RELATED PARTIES

The Group has issued convertible bonds to the Group's Management Board and employees. In accordance with IAS 32.28, the equity component of a convertible bond must be recorded separately under additional paid-in capital. The equity component is determined by deducting the separately determined amount of the liability component from the fair value of the convertible bond. The effect of the equity component on profit or loss is recognized in personnel expenses from stock options, 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" to 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 commonly used 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 carrying amounts in the balance sheet for assets and liabilities and tax loss carryforwards.

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

2.9.7 OTHER LIABILITIES

The line item "other liabilities" consisted until December 31, 2018 of a deferred amount related to rent-free periods as agreed. The corresponding reversal of these liabilities over the minimum rent period is calculated based on the effective interest method. Other liabilities are discounted at an interest rate equivalent to the rent period due to their long-term maturities. Further information on the treatment of this position as of January 1, 2019 can be found in Notes 2.1.2*.

*CROSS-REFERENCE *to page 129*

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 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 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) and multiplied by the weighted-average purchase price of the treasury shares (value structure). The adjustment is carried out directly in equity through a reduction in 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 Notes 7.3.1* and 7.3.2*.

*CROSS-REFERENCE *to page 172*

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.

OTHER COMPREHENSIVE INCOME RESERVE

The line item "other comprehensive income reserve" includes changes in the fair value of equity instruments that are recognized in other comprehensive income and currency 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, income from impairment reversals/expenses from 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 operating segments described below.

*CROSS-REFERENCE *to page 150 and page 154*

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 tafasitamab 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 in July 2018. Also included is the proprietary program otilimab, 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 a further six programs are in drug discovery. The Proprietary Development segment also manages the development of proprietary technologies.

3.2 PARTNERED DISCOVERY

MorphoSys possesses a technology 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 INFORMATION

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

For the Twelve-month Period Ended December 31 (in 000' €)	Proprietary Development			Partnered Discovery		
	2019	2018	2017	2019	2018	2017
External Revenues	34,286	53,610	17,635	37,469	22,832	49,156
Operating Expenses	(143,459)	(107,019)	– 99,106	(10,671)	(9,516)	(18,906)
SEGMENT RESULT	**(109,173)**	**(53,409)**	**– 81,471**	**26,798**	**13,316**	**30,250**
Other Income	125	159	157	0	0	0
Other Expenses	(19)	0	0	0	0	0
SEGMENT EBIT	**(109,067)**	**(53,250)**	**– 81,314**	**26,798**	**13,316**	**30,250**
Finance Income						
Finance Expenses						
Income from Reversals of Impairment Losses/(Impairment Losses) on Financial Assets						
EARNINGS BEFORE TAXES						
Income Tax Benefit/(Expenses)						
NET LOSS						
Current Assets	12,155	15,842	8,802	11,078	7,114	18,054
Non-current Assets	72,928	42,041	60,658	11,851	6,288	8,490
TOTAL SEGMENT ASSETS	**85,083**	**57,883**	**69,460**	**22,929**	**13,402**	**26,544**
Current Liabilities	36,176	32,167	33,008	2,877	1,471	4,083
Non-current Liabilities	27,775	3,291	7,072	5,771	158	1,045
Stockholders' Equity	0	0	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**63,951**	**35,458**	**40,080**	**8,648**	**1,629**	**5,128**
Capital Expenditure	2,830	1,319	12,344	625	879	602
Depreciation and Amortization	1,718	1,903	1,555	1,385	1,429	2,075

The segment result is defined as the segment's revenue, less the segment's operating expenses. The unallocated operating expenses of € 25.7 million (2018: € 20.0 million; 2017: € 15.8 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. Unallocated segment assets and liabilities have the same background as unallocated operating expenses. In the 2019 financial year, impairments totaling € 1.6 million were recognized in the Proprietary Development segment on property, plant and equipment es well as intangible assets (2018: impairments of € 19.2 million in the Proprietary Development segment; 2017: impairments of € 9.9 million in the Proprietary Development segment).

The Group's key customers are allocated to both the Proprietary Development and the Partnered Discovery segments. As of December 31, 2019, the single most important customer represented accounts receivable with a carrying amount of € 8.0 million (December 31, 2018: € 5.9 million). The largest customer for the Group accounted for revenues in 2019 of € 32.3 million, the second largest for € 22.0 million and the third largest for € 9.4 million. The largest customer was allocated to the Partnered Discovery segment and the second largest and third largest customers to the Proprietary Development segment. In 2018, € 49.5 million of the Group's total revenues came from the largest customer, € 19.0 million from the second largest customer and € 3.9 million from the third largest customer. The largest and third largest customers were 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 following overview shows the Group's regional distribution of revenue:

in 000' €	2019	2018	2017
Germany	145	309	851
Europe and Asia	39,322	56,784	57,229
USA and Canada	32,288	19,350	8,711
TOTAL	**71,755**	**76,443**	**66,791**

	Unallocated			Group		
	2019	2018	2017	2019	2018	2017
	0	0	0	71,755	76,442	66,791
	(25,723)	(19,969)	(15,835)	(179,853)	(136,504)	(133,847)
	(25,723)	**(19,969)**	**(15,835)**	**(108,098)**	**(60,062)**	**(67,056)**
	680	1,486	963	805	1,645	1,120
	(608)	(689)	(1,671)	(627)	(689)	(1,671)
	(25,651)	**(19,172)**	**(16,543)**	**(107,920)**	**(59,106)**	**(67,607)**
				2,799	418	712
				(2,272)	(754)	(1,895)
				872	(1,035)	0
				(106,521)	**(60,477)**	**(68,790)**
				3,506	4,305	(1,036)
				(103,015)	**(56,172)**	**(69,826)**
	280,460	365,949	313,825	303,693	388,905	340,681
	107,967	101,530	5,569	192,746	149,859	74,717
	388,427	**467,479**	**319,394**	**496,439**	**538,764**	**415,398**
	22,505	12,285	10,610	61,558	45,923	47,701
	6,633	1,019	909	40,179	4,468	9,026
	394,702	488,373	358,671	394,702	488,373	358,671
	423,840	**501,677**	**370,190**	**496,439**	**538,764**	**415,398**
	207	268	204	3,662	2,466	13,150
	355	418	400	3,458	3,750	4,030

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

	Proprietary Development		Partnered Discovery	
in 000' €	2019	2018	2019	2018
At a Point in Time thereof performance obligations fulfilled in previous periods:in Proprietar Development € 29.1 million in 2019 and € 0 in 2018 and in Partnered Discovery € 32.9 million in 2019 and € 19.0 million in 2018	34,286	53,610	36,984	22,268
Over Time	0	0	485	564
TOTAL	**34,286**	**53,610**	**37,469**	**22,832**

A total of € 175.8 million (December 31, 2018: € 136.1 million) € 12.5 million (December 31, 2018: € 13.7 million) and € 4.4 million of the Group's non-current assets, excluding deferred tax assets, are located in Germany, the Netherlands and the USA, respectively. There were no non-current assets in the USA as of December 31, 2018. Of the Group's investments, € 2.3 million (December 31, 2018: € 2.4 million) were made in Germany, € 1.3 million (December 31, 2018: € 0) in the USA and less than € 0.1 million (December 31, 2018: € 0.1 million) in the Netherlands. In accordance with internal definitions, investments solely include additions to property, plant and equipment and intangible assets not related to leases and business combinations.

4 Notes to Profit or Loss

4.1 REVENUES

In 2019, revenues consisted of milestone payments and royalties totaling € 62.3 million (2018: € 19.3 million; 2017: € 7.3 million). Of this amount, € 29.1 million was generated in the Proprietary Development segment and € 33.2 million in the Partnered Discovery segment. In 2018 and 2017 the revenues from milestone payments and royalties were entirely generated by the Partnered Discovery segment.

Revenues from license fees (excluding milestone payments and royalties) amounted to € 0.3 million in 2019 (2018: € 51.2 million; 2017: € 37.5 million) and originated entirely from the Partnered Discovery segment. In 2018, revenues from license fees (excluding milestone payments and royalties) from the Proprietary Development segment amounted to € 50.6 million and € 0.6 million originated from the Partnered Discovery segment (2017: € 16.8 million and € 20.7 million, respectively).

Revenues from service fees totaled € 9.2 million (2018: € 5.9 million; 2017: € 22.0 million) in the reporting year with € 5.2 million of this amount attributable to the Proprietary Development segment (2018: € 3.0 million; 2017: € 0.8 million). Revenues from service fees of € 4.0 million were attributable to the Partnered Discovery segment (2018: € 2.9 million; 2017: € 21.2 million). Substantially all service fee revenues relate to revenue on a gross basis (principal).

Of the total revenues generated in 2019, a total of € 62.0 million were recognized from performance obligations that were fulfilled in previous periods and concern milestone payments and royalties (2018: € 19.0 million; 2017: € 7.8 million).

4.2 OPERATING EXPENSES

4.2.1 COST OF SALES

Cost of sales consists of the following:

in 000' €	2019	2018	2017
Personnel Expenses	3,233	1,797	0
Impairment on Inventories	8,685	0	0
Other Operating Expenses	18	0	0
External Services	49	0	0
Other	100	0	0
TOTAL	**12,085**	**1,797**	**0**

4.2.2 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the following:

in 000' €	2019	2018	2017
Personnel Expenses	30,131	25,288	28,482
Consumable Supplies	2,874	2,310	2,588
Other Operating Expenses	3,142	2,761	2,757
Impairment, Amortization and Other Costs of Intangible Assets	5,631	22,760	13,503
External Services	60,710	47,889	61,119
Depreciation and Other Costs for Infrastructure	5,944	5,389	4,865
TOTAL	**108,432**	**106,397**	**113,314**

4.2.3 SELLING EXPENSES

Selling expenses consist of the following:

in 000' €	2019	2018	2017
Personnel Expenses	6,967	2,536	1,771
Consumable Supplies	14	3	1
Other Operating Expenses	1,158	538	386
Amortization of Intangible Assets	11	25	0
External Services	14,150	2,953	2,658
Depreciation and Other Costs for Infrastructure	371	328	0
TOTAL	**22,671**	**6,383**	**4,816**

4.2.4 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

in 000' €	2019	2018	2017
Personnel Expenses	23,382	15,016	11,797
Consumable Supplies	389	15	33
Other Operating Expenses	1,875	1,012	714
Amortization of Intangible Assets	39	97	112
External Services	9,241	4,475	2,224
Depreciation and Other Costs for Infrastructure	1,739	1,313	838
TOTAL	**36,665**	**21,928**	**15,718**

4.2.5 PERSONNEL EXPENSES

Personnel expenses consist of the following:

in 000' €	2019	2018	2017
Wages and Salaries	43,476	30,349	28,196
Social Security Contributions	5,686	4,341	4,542
Share-based Payment Expense	6,654	5,585	4,975
Temporary Staff (External)	2,633	1,241	881
Other	5,264	3,121	3,456
TOTAL	**63,713**	**44,637**	**42,050**

In the years 2019, 2018 and 2017, other personnel expenses consisted mainly of costs for personnel support and personnel development.

The average number of employees in the 2019 financial year was 374 (2018: 327; 2017: 344). Of the 426 employees on December 31, 2019 (December 31, 2018: 329; December 31, 2017: 326), 300 were active in research and development (December 31, 2018: 246; December 31, 2017: 253), 40 in sales (December 31, 2018: 21; December 31, 2017: 14), and 86 were engaged in general and administrative functions (December 31, 2018: 62 employees; December 31, 2017: 59 employees). As of December 31, 2019, there were 249 employees in the Proprietary Development segment and 61 employees in the Partnered Discovery segment while 116 employees were not allocated to a specific segment (December 31, 2018: 209 in the Proprietary Development segment, 49 employees in the Partnered Discovery segment and 71 employees were unallocated; December 31, 2017: 161 in the Proprietary Development segment, 105 employees in the Partnered Discovery segment and 60 employees were unallocated). Costs for defined-contribution plans amounted to € 0.7 million in 2019 (2018: € 0.7 million; 2017: € 0.6 million).

4.3 OTHER INCOME AND EXPENSES, FINANCE INCOME AND FINANCE EXPENSES

in 000' €	2019	2018	2017
Gain on Foreign Exchange	233	677	485
Grant Income	98	153	157
Gain from recognition of previously unrecognized intangible assets	0	350	0
Reversal of Impairment for Accounts Receivable Previously Deemed Impaired	0	0	76
Miscellaneous Income	474	465	402
Other Income	805	1,645	1,120
Loss on Foreign Exchange	(413)	(457)	(844)
Miscellaneous Expenses	(214)	(232)	(827)
Other Expenses	(627)	(689)	(1,671)
Gain on Derivatives	1,476	322	441
Gain on Financial Assets at Fair Value through Profit or Loss (2017: Gain on Available-for-sale Financial Assets and Bonds)	980	5	35
Interest Income on Other Financial Assets at Amortized Cost	343	91	236
Finance Income	2,799	418	712
Loss on Derivatives	(214)	(444)	(1,360)
Loss on Financial Assets at Fair Value through Profit or Loss (2017: Loss on Available-for-sale Financial Assets and Bonds)	(299)	(85)	(120)
Interest Expenses for Other Financial Assets at Amortized Cost	(796)	(53)	(374)
Interest Expenses on Lease Liabilities	(932)	0	0
Interest Expenses for Financial Liabilites at Amortized Cost	0	(126)	0
Bank Fees	(31)	(46)	(41)
Finance Expenses	(2,273)	(754)	(1,895)

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

in 000' €	2019	2018	2017
Financial Assets at Fair Value through Profit or Loss	2,063	(202)	(919)
Other Financial Assets at Amortized Cost	299	(978)	0
Shares at Fair Value through Other Comprehensive Income	(1,160)	(127)	0
Financial Liabilities at Amortized Cost	0	(126)	0
Available-for-sale Financial Assets	0	0	(190)
Financial Assets classified as Loans and Receivables	0	0	(164)
TOTAL	1,202	(1,433)	(1,273)

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

4.4 INCOME TAX EXPENSES/BENEFITS

MorphoSys AG is subject to corporate taxes, the solidarity surcharge and trade taxes. The Company's corporate tax rate in the reporting year 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 of 21 % and the State Income Tax in Boston, Massachusetts of 8 %.

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 19 %. Depending on certain conditions, the Dutch “Innovation Box” may be applicable. This “Innovation Box” provides for a special tax regulation under which all income to be allocated to qualifying intellectual property is subject to an effective Dutch corporate income tax rate of previously 5 %, and now 7 % since January 1, 2018.

In the Netherlands the reduction of corporate income tax from 25 % to 21.7% on an annual income exceeding € 200.00 was decided in 2019 and will be effective from 2021. The corresponding deferred taxes were therefore revalued. Deferred taxes expected to reverse in 2020 were measured at the effective tax rate of 25 % applicable at that time. For fiscal years after December 31, 2020, the Group has applied the new tax rate of 21.7 %. In addition, 70 % of income was considered taxable under the “Innovation Box”, resulting in a weighted tax rate of 11.41 %.

in 000’ €	2019	2018	2017
Current Tax IncomeBenefit/(Expense) (Thereof Regarding Prior Years: € 0; 2018: k€ 1; 2017: k€ 171)	(1)	1	(534)
Deferred Tax Benefit/(Expenses)	3,507	4,304	(502)
Total Income Tax Benefit/(Expenses)	3,506	4,305	(1,036)

The deferred tax benefit in 2019 resulted mainly from the Dutch entities Lanthio Pharma B.V. and LanthioPep B.V. with the mentioned change in the applicable tax rate. This effect from change in tax rates were recognized in the statement of profit or loss with an amount of € 1.8 million tax benefit, as they did not affect any items that had previously been recognized directly in equity. A tax benefit of € 1.4 million is recognized from deferred taxes on loss carryforwards previously not recognized.

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 2019 financial year (2018: 26.675 %; 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’ €	2019	2018	2017
Earnings Before Income Taxes	(106,520)	(60,477)	(68,790)
Expected Tax Rate	26,675 %	26,675 %	26,675 %
Expected Income Tax	28,414	16,132	18,350
Tax Effects Resulting from:			
Share-based Payment	(387)	(363)	(290)
Permanent Differences	(101)	0	0
Non-Tax-Deductible Items	(151)	(126)	(134)
Differences in Profit or Loss-Neutral Adjustments	(310)	3,716	37
Non-Recognition of Deferred Tax Assets on Temporary Differences	0	(349)	3,256
Non-Recognition of Deferred Tax Assets on Current Year Tax Losses	(24,285)	(14,497)	(22,007)
Tax Rate Differences to Local Tax Rates	(1,461)	(268)	(71)
Effect of Tax Rate Changes	1,789	0	0
Prior Year Taxes	0	1	(171)
Other Effects	(2)	59	(6)
Actual Income Tax	3,506	4,305	(1,036)

As of December 31, 2019, due to losses that are expected to be incurred as a result of continued substantial investment in proprietary product development and related business development of the MorphoSys Group, no deferred tax assets in the amount of € 76.0 million (December 31, 2018: € 51.0 million) were recognized for tax loss carryforwards.

In Germany, due to uncertain forecasts, a deferred tax asset can only be capitalized to the extent sufficient deferred tax liabilities from temporary differences exist. Due to the history of losses and the current uncertainties regarding the realization of planned taxable income, corresponding deferred tax assets of € 6.3 million were not recognized.

in 000' €	Unlimited Carry-Forward of Tax Losses	Limited Carry-Forward of Tax Losses; Expiry 2020 to 2025	Total
Tax Losses from Prior Years	177,317	17,478	194,795
Tax Losses from Current Year	118,100	2,961	121,061
Expiry of Tax Losses in 2019	0	(4)	(4)
Total Tax Losses as of December 31, 2019	295,417	20,435	315,852
Expected Deferred Tax Assets on Total Tax Losses	77,607	2,322	79,939
Write-Down of on Deferred Tax Assets on Total Tax Losses	75,115	981	76,096
Deferred Tax Assets on Tax Losses as of December 31, 2019	2,492	1,351	3,843

Deferred tax assets and deferred tax liabilities consist of the following.

in 000's €, as of December 31	Deferred Tax Asset 2019	Deferred Tax Asset 2018	Deferred Tax Liability 2019	Deferred Tax Liability 2018
Leases	1	0	448	0
Intangible Assets	8,138	0	1,351	4,317
Receivables and Other Assets	0	319	55	0
Other Provisions	0	278	9,778	0
Other Liabilities	0	213	350	0
Tax Losses	3,873	0	0	0
Offsetting	(11,982)	(810)	(11,982)	(810)
TOTAL	**0**	**0**	**0**	**3,507**

	Changes in Deferred Taxes in 2019	
in 000's €, as of December 31	Recognized in Profit or Loss Income/(Expense)	Recognized in Other Comprehensive Income
Leases	(447)	0
Intangible Assets	11,103	0
Receivables and Other Assets	(373)	0
Other Provisions	(10,056)	0
Other Liabilities	(563)	0
Tax Losses	3,843	0
TOTAL	**3,507**	**0**

As of December 31, 2019, temporary differences amounted to € 0.6 million (December 31, 2018: € 1.0 million) in connection with investments in subsidiaries ("outside basis differences") for which no deferred tax liabilities were recognized (2018: no deferred tax assets).

4.5 EARNINGS PER SHARE

Earnings per share are calculated by dividing the 2019 consolidated net loss of € 103,014,058 (2018: consolidated net loss of € 56,172,121; 2017: consolidated net loss of € 69,826,469) by the weighted-average number of ordinary shares outstanding during the respective year (2019: 31,611,155; 2018: 31,338,948; 2017: 28,947,566).

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

	2019	2018
SHARES ISSUED ON JANUARY 1	31,839,572	29,420,785
Effect of Treasury Shares Held on January 1	(281,036)	(319,678)
Effect of Share Issuance	0	2,208,146
Effect of Transfer of Treasury Stock/ Shares Issued in January	247	278
Effect of Transfer of Treasury Stock/ Shares Issued in February	230	0
Effect of Transfer of Treasury Stock/ Shares Issued in March	208	0
Effect of Transfer of Treasury Stock/ Shares Issued in April	10,500	1,863
Effect of Transfer of Treasury Stock/ Shares Issued in May	5,789	4,128
Effect of Transfer of Treasury Stock/ Shares Issued in June	296	756
Effect of Transfer of Treasury Stock/ Shares Issued in July	588	1,874
Effect of Transfer of Treasury Stock/ Shares Issued in August	1,533	17,754
Effect of Transfer of Treasury Stock/ Shares Issued in September	25,122	2,818
Effect of Transfer of Treasury Stock/ Shares Issued in October	331	76
Effect of Transfer of Treasury Stock/ Shares Issued in November	7,702	85
Effect of Transfer of Treasury Stock/ Shares Issued in December	73	63
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	31,611,155	31,338,948

In 2019, 2018 and 2017, diluted earnings per share equaled basic earnings per share. The effect of 115,684 potentially dilutive shares in 2019 (2018: 52,930 dilutive shares; 2017: 87,904 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' €	12/31/2019	12/31/2018
Bank Balances and Cash in Hand	44,314	45,476
Impairment	0	(16)
Cash and Cash Equivalents	44,314	45,460

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 Note 2.3.1*.

*CROSS-REFERENCE *to page 132*

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

in 000' €	Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
DECEMBER 31, 2019					
Money Market Funds	daily	20,330	125	0	20,455
TOTAL					**20,455**
DECEMBER 31, 2018					
Money Market Funds	daily	44,718	0	(137)	44,581
TOTAL					**44,581**

Since January 1, 2018, 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 resulted in a net gain of € 0.4 million in 2019 (2018: 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.

in 000' €	Maturity	Cost	Unrealized Interest Gain	Impairment	Carrying amount
DECEMBER 31, 2019					
Term Deposits, Current Portion	4 – 12 Months	207,846	90	(201)	207,735
Corporate Bonds	More than 12 Months	10,000	1	0	10,001
Term Deposits, Net of Current Portion	More than 12 Months	75,000	18	(97)	74,921
TOTAL					**292,657**
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**

As of December 31, 2019, these assets mainly consisted of term deposits with fixed or variable interest rates, as well as corporate bonds with fixed interest.

Interest income from financial assets "at amortized cost" amounted to € 0.1 million in 2019 (2018: € 0.1 million in interest income from financial assets "at amortized cost"; 2017: € 0.2 million in interest income from "loans and receivables") and were recognized in the finance result.

The risk associated with these financial instruments results primarily from bank credit risks. The presentation of the development of the expected twelve-month loss that is to be recognized under IFRS 9 and the lifetime expected credit loss for term deposits and corporate bonds can be found in Note 2.3.1*.

*CROSS-REFERENCE *to page 132*

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

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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, 2019 and December 31, 2018, accounts receivable included unbilled receivables amounting to € 13.4 million and € 14.1 million, respectively. Unbilled receivables decreased mainly due to royalty payments not yet received and unbilled services associated 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 2019 and 2018 financial years for accounts receivable using the simplified impairment model can be found in Note 2.3.1*.

*CROSS-REFERENCE *to page 132*

5.4 OTHER RECEIVABLES

Other receivables as of December 31, 2019, mainly consisted of receivables from unrealized gross gains on forward rate agreements in the amount of € 0.4 million (December 31, 2018: € 0.1 million unrealized gross gain). The forward rate agreements were classified as financial assets at fair value through profit or loss in accordance with IFRS 9.

As of December 31, 2019 and December 31, 2018, there were no impairments recognized on other receivables.

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

As of December 31, 2019 income tax receivables amounted to € 0.1 million (December 31, 2018: € 0.2 million) and consisted of receivables from capital gain taxes withheld and income taxes for prior years.

Inventories amounting to € 0.3 million as of December 31, 2019 (December 31, 2018: € 0.2 million) were stored at the Planegg location and consisted of raw materials and supplies. In addition to raw materials and supplies, inventory as of December 31, 2019, also comprised manufacturing costs for the fermentation runs of antibody material (tafasitamab) that is required for the approval process in the United States. If successfully approved, the material may be used later for commercialization. Commercialization is regarded as a sale in the ordinary course of business in accordance with IAS 2, hence the material is accounted for as inventory. According to the Group's accounting policies, these quantities qualify as inventory. For the time being, this inventory is valued at a net realizable value of zero because tafasitamab has not yet received market approval. The resulting expenses in the amount of € 8.7 million was accounted for in cost of sales.

As of December 31, 2019, prepaid expenses and other current assets mainly consisted of combination compounds in the amount of € 4.8 million (December 31, 2018: € 5.4 million), receivables due from tax authorities from input tax surplus of € 3.5 million (December 31, 2018: € 2.7 million), upfront fees for external laboratory services of € 0.7 million (December 31, 2018: € 1.9 million), upfront fees for sublicenses of € 0.5 million (December 31, 2018: € 0.4 million) and other prepayments amounting to € 4.6 million (December 31, 2018: € 1.3 million). An impairment of € 0.3 million was recognized on combination compounds in 2019 (December 31, 2018: € 4.8 million).

5.6 PROPERTY, PLANT AND EQUIPMENT

in 000' €	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost			
JANUARY 1, 2019	**17,658**	**939**	**18,597**
Additions	1,647	1,452	3,099
Disposals	(919)	(1)	(920)
DECEMBER 31, 2019	**18,386**	**2,390**	**20,776**
Accumulated Depreciation and Impairment			
JANUARY 1, 2019	**14,758**	**308**	**15,066**
Depreciation Charge for the Year	1,805	161	1,966
Impairment	10	0	10
Disposals	(919)	0	(919)
DECEMBER 31, 2019	**15,654**	**469**	**16,123**
Carrying Amount			
JANUARY 1, 2019	**2,900**	**631**	**3,531**
DECEMBER 31, 2019	**2,732**	**1,921**	**4,653**
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**

No borrowing costs were capitalized during the reporting period, and there were neither restrictions on the 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 contained in the following line items of profit or loss.

in 000' €	2019	2018	2017
Research and Development	1,478	1,398	1,672
Research and Development (Impairment)	10	0	0
Selling	92	87	0
General and Administrative	396	327	297
TOTAL	**1,976**	**1,812**	**1,969**

5.7 LEASES

The development of the right-of-use assets and lease liabilities in the 2019 financial year is shown below.

in 000' €	Right-of-Use Assets Building	Cars	Technical Equipment	Total	Lease Liabilities
Balance as of January 1, 2019	42,094	244	168	42,506	40,783
Additions	3,009	138	312	3,459	4,122
Depreciation of Right-of-Use Assets	(2,517)	(144)	(144)	(2,805)	0
Interest Expenses on Lease Liabilities	0	0	0	0	932
Lease Payments	0	0	0	0	(3,280)
Balance as of December 31, 2019	42,586	238	336	43,160	42,557

In the 2019 financial year, IFRS 16 had the following effects on the statement of profit or loss:

in 000' €	2019
Depreciation of Right-of-Use Assets	(2,805)
Interest Expenses on Lease Liabilities	(932)
Expenses for Short Term Leases	0
Expenses for Leases of Low Value Assets	(41)
TOTAL	(3,778)

The maturity analysis of the lease liabilities as of December 31, 2019 is as follows.

December 31, 2019; in 000' € Contractual Maturities of Financial Liabilities	Up to One Year	Between One and Five Years	More than Five Years	Total Contractual Cash Flows	Carrying Amount Liabilities
Lease Liabilities	3,515	13,460	33,883	50,858	42,557

The rental conditions for leases are negotiated individually and include different terms. Leases are generally concluded for fixed periods but may include extension options. Such contractual conditions offer the Group the greatest possible operational flexibility. In determining the term of the lease, all facts and circumstances are taken into account that provide an economic incentive to exercise extension options. If extension options are exercised with sufficient certainty, they are taken into account when determining the term of the contract. The leases contain fixed and variable lease payments linked to an index.

The Group has entered into a lease for a building in Boston and moved into the office on September 19, 2019, the commencement date according to IFRS 16. The minimum lease term of seven years results in a contractually agreed cash outflow of US$ 5.0 million (€ 4.4 million). The contract contains an extension option for five years and a lease incentive of US$ 0.7 million (€ 0.7 million).

The Group has entered into an additional lease for office space in Boston in January 2020. The minimum lease term of six and a half years results in a contractually agreed cash outflow of US$ 5.6 million (€ 5.0 million).

5.8 INTANGIBLE ASSETS

in 000' €	Patents	Licenses	In-process R&D Programs	Software	Goodwill	Total
Cost						
JANUARY 1, 2019	**17,585**	**23,896**	**52,159**	**5,644**	**11,041**	**110,325**
Additions	449	0	0	114	0	563
DECEMBER 31, 2019	**18,034**	**23,896**	**52,159**	**5,758**	**11,041**	**110,888**
Accumulated Amortization and Impairment						
JANUARY 1, 2019	**13,646**	**21,369**	**15,140**	**5,440**	**7,365**	**62,960**
Amortization Charge for the Year	1,209	72	0	211	0	1,492
Impairment	198	105	1,335	0	0	303
December 31, 2019	15,053	21,546	16,475	5,651	7,365	64,755
Carrying Amount						
JANUARY 1, 2019	**3,939**	**2,527**	**37,019**	**204**	**3,676**	**47,365**
DECEMBER 31, 2019	**2,981**	**2,350**	**35,684**	**107**	**3,676**	**44,798**
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**

In the 2019 financial year, € 0.3 million of impairment losses were recognized on patents and licenses. In the 2018 financial year, € 0.4 million of impairment losses were recognized on licenses. In the 2017 financial year, € 0.1 million of impairment losses were recognized on patents and licenses.

As of December 31, 2019, 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 can be found in Note 5.8.3*.
*CROSS-REFERENCE *to page 163*

The carrying amount of intangible assets pledged as security was € 11.7 million and relates to a government grant in the amount of € 1.5 million.

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

in 000' €	2019	2018	2017
Research and Development	1,444	1,822	1,958
Research and Development (Impairment)	1,639	19,189	9,864
Selling	11	25	0
General and Administrative	37	91	103
TOTAL	**3,131**	**21,127**	**11,925**

5.8.1 PATENTS

In the 2019 financial year, the carrying amount of patents declined by € 0.9 million from € 3.9 million to € 3.0 million. This decline resulted from additions amounting to € 0.4 million for patent applications, particularly for proprietary programs and technologies, which were offset by straight-line amortization of € 1.2 million and impairments of € 0.2 million.

5.8.2 LICENSES

In the 2019 financial year, the carrying amount of licenses declined by € 0.2 million from € 2.5 million to € 2.3 million as a result of scheduled amortization and impairment..

5.8.3 IN-PROCESS R&D PROGRAMS

The carrying amount of in-process R&D programs decreased by € 1.3 million to € 35.7 million in 2019. This decline was due to an impairment in the amount of € 1.3 million (see information on the Lanthio Group).

As of December 31, 2019, this balance sheet item included capitalized payments from the in-licensing of a compound for the Proprietary Development segment, as well as milestone payments made for this compound at a later date. A compound obtained through an acquisition was also included.

TAFASITAMAB

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, tafasitamab was subject to an annual impairment test on September 30, 2019, as required by IAS 36. The recoverable amount of the tafasitamab 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 tafasitamab, the cash outflows for anticipated research and development, and the costs for tafasitamab's commercialization. The cash flow forecasts are based on the period of patent protection for tafasitamab. 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 (2018: 1.2) and WACC before taxes of 10.1 % (2018: 10.0 %). 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 on December 31, 2019.

LANTHIO GROUP

On September 30, 2019, an intangible asset not yet available for use (MOR107) from the Lanthio Group acquisition was subject to an annual impairment test. 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 also 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 the 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. The value-in-use amounted to € 12.1 million, which was below the carrying amount of the cash-generating unit, resulting in an impairment of € 1.3 million for in-process R&D programs. After impairment, the carrying amount of in-process R&D programs amounted to € 11.7 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 (2018: 1.2) and WACC before taxes of 11.3 % (2018: 11.5 %). 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 as of December 31, 2019.

5.8.4 SOFTWARE

In the 2019 financial year, additions to this balance sheet item totaled € 0.1 million. The carrying amount decreased by € 0.1 million from € 0.2 million in 2018 to € 0.1 million in 2019. Additions were offset by amortization of € 0.2 million.

5.8.5 GOODWILL

The annual goodwill impairment test was performed on September 30, 2019.

SLONOMICS TECHNOLOGY

As of September 30, 2019, 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 value-in-use was higher than the carrying amount of the cash-generating unit. The cash flow forecasts took into account future free cash flows from the contribution of the Slonomics technology to partnered programs. The cash flow forecasts are based on a period of ten years because the Management Board believes that commercialization through licensing agreements, milestone payments, 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 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 (2018: 1.2), WACC before taxes of 9.4 % (2018: 9.6 %) and a perpetual growth rate of 1 % (2018: 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.

No indicators for impairment were identified as of December 31, 2019.

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

This item concerns investments in adivo GmbH, Martinsried, Germany, and Vivoryon Therapeutics AG, Halle (Saale), Germany.

In July 2018, MorphoSys AG acquired a 19.9 % stake in adivo GmbH in the context of start-up financing. MorphoSys made a cash contribution of € 9,458 and a contribution in kind of € 350,000. The contribution in kind comprised the adivo brand and a license for a fully synthetic canine-based antibody library. The fair value as of December 31, 2019 was € 0.4 million (December 31, 2018: € 0.2 million).

In July 2019, MorphoSys and Vivoryon Therapeutics AG announced an agreement under which MorphoSys received an exclusive license option for Vivoryon's small molecule QPCTL inhibitors in the field of oncology. In return, MorphoSys took a minority stake in Vivoryon as part of a capital increase planned for the end of 2019. This capital increase was executed on October 24, 2019 through the issue of a total of 7,674,106 ordinary bearer shares. The increase was recorded in the commercial register on October 25, 2019. MorphoSys acquired a 13.4 % stake in Vivoryon through the subscription of 2,673,796 ordinary bearer shares valued at € 15.0 million. As of December 31, 2019, the fair value of the investment was valued at € 13.7 million.

	Currency	Stake in %	Equity in Domestic Currency	Profit / Loss for the Year in Domestic Currency
adivo GmbH, Martinsried, Germany	€	19.9	120,581	(276,947)
Vivoryon Therapeutics AG, Haale (Saale), Germany	€	13.4	1,542,624	(7,703,473)

In the financial years 2019 and 2018, neither dividends from the investments were recognized in profit or loss nor were reclassifications of gains or losses within equity made.

Vivoryon Therapeutics AG is listed on an active market, so the fair value of this investment is determined by means of the stock market price on a reporting date. No observable market data is available for the determination of the fair value of the investment in adivo GmbH. The change in the investment in adivo GmbH is shown below.

in 000' €	2019	2018
Opening Balance	232	0
Additions	0	359
Disposals	0	0
Through Other Comprehensive Income	155	(127)
Through Profit or Loss	0	0
Closing Balance	387	232

The significant unobservable input parameters used in the measurement of the investment in adivo GmbH 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 suitable 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.

5.10 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

This balance sheet item included the non-current portion of prepaid expenses and other assets. The decline in prepaid expenses mainly resulted from the offset as of January 1, 2019, of prepaid rent for the premises in Semmelweisstrasse 7 in Planegg against the right-of-use asset due to the application of IFRS 16. Further information can be found in Notes 2.1.2*.

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The Group classified certain line items in other assets as "restricted cash" that are not available for use in the Group's operations (see Notes 2.8.1* and 5.1*). As of December 31, 2019, the Group held non-current restricted cash in the amount of € 0.8 million for issued rent deposits (December 31, 2018: € 0.7 million) and of less than € 0.1 million for convertible bonds granted to employees (December 31, 2018: € 0.1 million). As of December 31, 2019, € 0.2 million were deposited as collateral by MorphoSys US Inc.

*CROSS-REFERENCE *to page 144 and page 157*

This line item consists of the following:

in 000' €	12/31/2019	12/31/2018
Prepaid Expenses, Net of Current Portion	134	2,199
Other Current Assets	1,002	783
TOTAL	1,136	2,982

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' €	12/31/2019	12/31/2018
Trade Accounts Payable	10,655	7,215
Licenses Payable	357	184
Accruals	44,971	36,530
Other Liabilities	1,059	832
TOTAL	57,042	44,761

Accruals mainly included provisions for external laboratory services in the amount of € 24.4 million (December 31, 2018: € 26.2 million), accrued personnel expenses from payments to employees and management in the amount of € 14.0 million (December 31, 2018: € 5.1 million), provisions for outstanding invoices in the amount of € 5.6 million (December 31, 2018: € 2.8 million), legal fees of € 0.3 million (December 31, 2018: € 1.5 million), audit fees and other related costs of € 0.7 million (December 31, 2018: € 0.5 million) and license payments of € 0.1 million (December 31, 2018: € 0.1 million).

At the Company's Annual General Meeting in May 2019, the PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH), Munich, was appointed as the auditor. The Supervisory Board engaged PwC GmbH to audit the financial statements.

In the 2019 financial year, PwC GmbH received total fees from MorphoSys of € 1,191,435, including fees for audit services for non-audit projects of € 872,785 and fees for other assurance services in connection with a comfort letter of € 318,650. PwC GmbH did not provide tax advisory services and other services in 2019.

6.2 TAX PROVISIONS AND OTHER PROVISIONS

As of December 31, 2019, the Group recorded tax provisions and other provisions of € 0.4 million (2018: € 0.4 million).

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

As of December 31, 2019, tax provisions and other provisions were uncertain in their amount and were expected to be utilized in 2020.

The table below shows the development of tax provisions and current and non-current other provisions in the 2019 financial year.

in 000' €	01/01/2019	Additions	Utilized	Released	12/31/2019
Tax Provisions	208	0	113	0	95
Other Provisions	184	1,074	714	198	346
TOTAL	**392**	**1,074**	**827**	**198**	**441**

6.3 CONTRACT LIABILITIES

Contract liabilities related to transaction prices paid by customers that were allocated to unfulfilled performance obligations as of December 31, 2019. It is expected that current contract liabilities will be realized in the 2020 financial year and non-current contract liabilities mainly in the 2021 financial year. The changes in this item are set out below.

in 000' €	2019	2018
OPENING BALANCE BEFORE APPLICATION OF IFRS 15	–	**1,695**
Application of IFRS 15	–	(1,135)
OPENING BALANCE AFTER APPLICATION OF IFRS 15	**952**	**560**
Prepayments Received in the Fiscal Year	6,070	2,386
Revenues Recognized in the Reporting Period that was included in the Contract Liability at the Beginning of the Period	(794)	(306)
Revenues Recognized for Received Prepayments and Services Performed in the Fiscal Year	(4,542)	(1,688)
CLOSING BALANCE	**1,686**	**952**
thereof short-term	1,571	794
thereof long-term	115	158

6.4 OTHER LIABILITIES

As of December 31, 2018, other liabilities exclusively consisted of the accrued amount related to the rent-free period for the building located at Semmelweisstrasse 7, Planegg, as agreed in the lease contract. This item was released over the contractually agreed minimum rent period.

As of December 31, 2018, the current portion amounting to € 0.1 million of this liability was included in the item accounts payable and accruals.

As of January 1, 2019, both positions were offset against the right-of-use asset due to the application of IFRS 16. Further information can be found in Notes 2.1.2*.

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6.5 STOCKHOLDERS' EQUITY

6.5.1 COMMON STOCK

As of December 31, 2019, the Company's common stock, including treasury shares, amounted to € 31,957,958, representing an increase of € 118,386 compared to the level of € 31,839,572 as of December 31, 2018. Each share of common stock grants one vote. Common stock increased by € 118,386 or 118,386 shares as a result of the exercise of 118,386 convertible bonds granted to the Management Board and former employees. The weighted-average exercise price of the exercised convertible bonds was € 31.88.

6.5.2 AUTHORIZED CAPITAL

Compared to December 31, 2018, the number of authorized ordinary shares increased from 14,684,291 to 14,843,488. At the Annual General Meeting on May 22, 2019, new Authorized Capital 2019-I in the amount of € 159,197 was created. Under the Authorized Capital 2019-I, the Management Board was authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions by a total of up to €159,197 by issuing up to 159,197 new no-par-value bearer shares until and including the date of April 30, 2024.

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 specific total amount referred to as authorized capital (Genehmigtes Kapital), which is a concept under German law that enables the company to issue shares without going through the process of obtaining an additional 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 in the commercial register.

6.5.3 CONDITIONAL CAPITAL

The number of ordinary shares of conditional capital compared to December 31, 2018 decreased from 6,459,146 to 6,340,760 shares due to the exercise of 118,386 conversion rights in 2019. The reduction in ordinary shares of conditional capital through the exercise of 118,386 conversion rights was recorded in the commercial register in January 2020.

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 2019 and 2018, the Group did not repurchase any of its own shares. The composition and development of this line item are 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
Transfer in 2019	(55,236)	(2,041,523)
As of 12/31/2019	225,800	8,357,250

As of December 31, 2019, the Company held 225,800 shares of treasury stock valued at € 8,357,250, representing a decline of € 2,041,523 compared to December 31, 2018 (281,036 shares; € 10,398,773). The reason for this decline was the transfer of 52,328 shares of treasury stock to the Management Board and Senior Management Group from the 2015 Long-Term Incentive Plan (LTI Plan) in the amount of € 1,934,043. The vesting period for this LTI program expired on April 1, 2019, and the beneficiaries had or have the option within eight months to receive a total of 52,328 shares.

In addition, 2,908 shares of treasury stock valued at €107,480 were transferred to related parties. As a result, the number of MorphoSys shares owned by the Company as of December 31, 2019, was 225,800 (December 31, 2018: 281,036). The repurchased shares may be used for all of the purposes named in the authorization granted by the Annual General Meeting on May 23, 2014, particularly for existing and future employee stock option programs and/or to finance acquisitions. The shares may also be redeemed.

6.5.5 ADDITIONAL PAID-IN CAPITAL

On December 31, 2019, additional paid-in capital amounted to € 628,176,568 (December 31, 2018: € 619,908,453). The total increase of € 8,268,115 resulted mainly from the allocation of personnel expenses resulting from share-based payments in the amount of € 6,654,470, as well as the exercise of convertible bonds in the amount of € 3,655,168. There was an offsetting effect from the reclassification of shares of treasury stock related to the allocation of shares under the 2015 performance-based share plan in the amount of € 1,934,043 and the allocation of shares of treasury stock to related parties in the amount of € 107,480.

6.5.6 REVALUATION RESERVE
Since January 1, 2018, this equity line item is no longer reported due to the adoption of the new standard for financial instruments IFRS 9.

6.5.7 OTHER COMPREHENSIVE INCOME RESERVE
Reporting the line item “other comprehensive income reserve” began as of January 1, 2018. As of December 31, 2019, this reserve contains changes in the fair value of equity instruments recognized directly in equity in the amount of € -1,160,160 (December 31, 2018: € -127.458) as well as currency gains from consolidation in the amount of € 75,332 (December 31, 2018: currency losses of € -83,432). The currency gains and losses from consolidation include exchange rate differences from the revaluation of the financial statements of Group companies in foreign currencies and the differences between the exchange rates used in the balance sheet and profit or loss.

6.5.8 ACCUMULATED DEFICIT
The consolidated net loss for the year of € 103,014,058 is reported under “accumulated deficit”. As a result, the accumulated deficit increased from € 152,765,728 in the year 2018 to € 255,779,786 in 2019.

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 in 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 and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 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 loses his or her position at MorphoSys Group through termination (or the Management Board member terminates the service 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 loses his or her position 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 7.5* “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 achievement of performance criteria to date, the target achievement is expected to be 130.9 %. 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 vesting period/performance period would currently increase to 95,222 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, 2019, 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 since 2018.

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In 2019, personnel expenses from stock options under the Group’s 2017 SOP amounted to € 252,393 (2018: € 436,154).

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 in 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 and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 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 € 81.04.

MorphoSys reserves the right to settle the exercise of stock options using either newly created shares from Conditional Capital 2016-III, issuing 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 loses his or her position 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 loses his or her position 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 7.5* "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. Based on the achievement of performance criteria to date, the target achievement is expected to be 105.9 %. 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 68,341 shares. 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, 2019, four beneficiaries left MorphoSys, resulting in the forfeiture of 2,443 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 177*

In 2019, personnel expenses from stock options under the Group's 2018 SOP amounted to € 704,954 (2018: € 925,635).

7.1.3 2019 STOCK OPTION PLAN

On April 1, 2019, 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, 2019, and the vesting period/performance period is four years. Each stock option grants up to two subscription rights to shares in 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 and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 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 € 87.86.

MorphoSys reserves the right to settle the exercise of stock options using either newly created shares from Conditional Capital 2016-III, issuing 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, 2026.

If a member of the Management Board loses his or her position 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 loses his or her position 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, 2019, a total of 76,482 stock options had been granted to beneficiaries, of which 31,395 had been granted to the Management Board (further details can be found in the "Stock Options" table in Note 7.5* "Related Parties"), 38,005 to the Senior Management Group and 7,082 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 was € 31.81 per stock option. In the period from the grant date to December 31, 2019, one beneficiary had left MorphoSys, resulting in the forfeiture of 267 stock options. For the calculation of personnel expenses resulting from share-based payment under the 2019 Stock Option Plan, the assumption is that four beneficiaries would leave the Company during the four-year period.

*CROSS-REFERENCE *to page 177*

On October 1, 2019, MorphoSys established a further stock option plan (SOP) for one member of the Management Board. The terms and conditions were identical to those of the program established on April 1, 2019. A total of 57,078 stock options were granted. The exercise price is € 106.16. The fair value of the stock options on the grant date was € 35.04 per stock option.

In 2019, personnel expenses from stock options under the Group's 2019 SOP amounted to € 1,718,087.

The fair value of the stock options from the 2017, 2018 and 2019 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	April 2019 Stock Option Plan	October 2019 Stock Option Plan
Share Price on Grant Date in €	55.07	81.05	85.00	98.10
Exercise Price in €	55.52	81.04	87.86	106.16
Expected Volatility of the MorphoSys share in %	37.49	35.95	37.76	38.02
Expected Volatility of the Nasdaq Biotech Index in %	25.07	25.10	18.61	18.17
Expected Volatility of the TecDAX Index in %	16.94	17.73	26.46	24.82
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 %	between 0.03 and 0.23	between 0.02 and 0.15	between 0.02 and 0.13	between 0.0 and 0.02

7.2 2013 CONVERTIBLE BOND 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 table below shows the development of the convertible bond programs for Group employees in the 2019, 2018 and 2017 financial years.

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON JANUARY 1, 2017	**436,585**	**31.88**
Granted	0	0.00
Exercised	0	0.00
Forfeited	(261,015)	31.88
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**
OUTSTANDING ON JANUARY 1, 2019	**143,033**	**31.88**
Granted	0	0.00
Exercised	(118,386)	31.88
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2019	**24,647**	**31.88**

From the grant date until December 31, 2019, one beneficiary left MorphoSys and, therefore, 13,414 convertible bonds were forfeited. As of December 31, 2019, the number of vested convertible bonds totaled 24,647 shares (December 31, 2018: 143,033 shares; December 31, 2017: 175,570 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, 2019.

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	24,647	0.25	31.88	24,647	31.88
	24,647	0.25	31.88	24,647	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 2019, € 0 in 2018 and € 287,601 in 2017.

7.3 LONG-TERM INCENTIVE PROGRAMS

7.3.1 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. In accordance with 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, see the tables entitled "Shares" and "Performance Shares" in Note 7.5* "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.

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In 2019, personnel expenses resulting from performance shares under the Group's 2014 LTI Plan amounted to € 0 (2018: € 6,388; 2017: € 55,759).

7.3.2 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). The vesting period for this LTI Plan expired on April 1, 2019. The program is considered an equity-settled share-based payment in accordance with IFRS 2 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 performance criteria are based on a mathematical comparison of the absolute and relative performance of the MorphoSys share price against the Nasdaq Biotech Index and the TecDAX Index. Achievement of these criteria was set at 100% for one year, 94% for one year and 200% for two years. In addition, the Supervisory Board set a "company factor" as "1", which determines the number of performance shares to be issued. Based on these conditions and the set factor, 52,328 performance shares of MorphoSys AG were transferred to the beneficiaries after the four-year vesting period in the period ending December 31, 2019. In August 2019, the original six-month transfer period for the performance shares was extended from October 14, 2019 to December 31, 2019, which had no impact on the fair value of the performance shares and the period over which compensation expense is recognized. The Management Board received 19,815 performance shares (for further details, see the tables entitled "Shares" and "Performance shares" in Note 7.5* "Related parties"), the Senior Management Group received 18,798 performance shares. A total of 13,715 performance shares were granted to former members of the Management Board and the Senior Management Group who have since left the Company.

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In 2019, personnel expenses resulting from performance shares under the Group's 2015 LTI Plan amounted to € 6,714 (2018: € 109,511; 2017: € 201,608).

7.3.3 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). In accordance with IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI Plan is a performance-related share plan and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2016, and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 payout 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 specific 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 performance shares to the beneficiaries. The beneficiaries are free to choose the award date within this exercise period.

If the number of repurchased shares is not sufficient to service the LTI Plan, MorphoSys reserves the right to pay a specific 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 loses his or her position at MorphoSys Group due to termination (or if the Management Board member terminates the service contract), resignation, death, injury, disability, by reaching 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 performance shares.

If a member of the Management Board loses his or her position 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 specific allocation of performance shares under the LTI Plan occurs only at the end of the four-year vesting period.

A total of 68,143 treasury shares were allocated to beneficiaries on April 1, 2016, with 35,681 performance shares allocated to the Management Board (for further details see the tables entitled "Performance Shares" in Note 7.5* "Related parties") and 32,462 performance shares to the Senior Management Group. The original number of performance shares allocated was based on the 100 % target achievement of the performance criteria and a company factor of 1. Based on the achievement of performance criteria to date, the overall achievement of the target is expected to be 148.5 %. 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 vesting period/performance period would currently increase to 84,290 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, 2019, nine 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.

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In 2019, personnel expenses resulting from performance shares under the Group's 2016 LTI Plan amounted to € 141,473 (2018: € 330,727; 2017: € 663,624).

7.3.4 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). In accordance with IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI Plan is a performance-related share plan and will be paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. The grant date was April 1, 2017, and the vesting/performance period is four years. If the predefined performance criteria for the respective period are fully met, 25 % of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 payout 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 Company's general development. The right to receive a specific 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 performance shares to the beneficiaries. The beneficiaries are free to choose the award 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 specific 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 loses his or her position at MorphoSys Group because of termination (or if the Management Board member terminates the service contract), resignation, death, injury, disability, by reaching 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 performance shares determined on a precise daily pro rata basis.

If a member of the Management Board loses his or her position 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 specific allocation of performance shares under the LTI Plan occurs only at the end of the four-year vesting period.

A total of 31,549 treasury shares were allocated to beneficiaries on April 1, 2017, with 15,675 performance shares allocated to the Management Board (for further details see the table entitled “Performance Shares” in Note 7.5* “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 100% target achievement of the performance criteria and a company factor of 1. Based on the achievement of performance criteria to date, the overall achievement of the target is expected to be 155%. 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 vesting period/performance period would currently increase to 48,832 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, 2019, eight 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.
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In 2019, personnel expenses resulting from performance shares under the Group’s 2017 LTI Plan amounted to € 323,165 (2018: € 558,446; 2017: € 1,026,037).

7.3.5 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). In accordance with 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 100% met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 payout 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 specific 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 performance shares to the beneficiaries. The beneficiaries are free to choose the award 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 specific 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 loses his or her position at MorphoSys Group before the end of the vesting/performance period, 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 loses his or her position 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 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 specific allocation of performance shares under the LTI Plan occurs only at the end of the four-year vesting period.

As of April 1, 2018, a total of 20,357 treasury shares were allocated to beneficiaries with 8,804 performance shares allocated to the Management Board, 10,291 performance shares allocated to the Senior Management Group and 1,262 to 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 100% target achievement of the performance criteria and a company factor of 1. Based on the achievement of performance criteria to date, the overall achievement of the target is expected to be 105%. 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 vesting period/performance period would currently increase to 21,163 shares. 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, 2019, four beneficiaries left MorphoSys, resulting in the forfeiture of 703 performance shares. For the calculation of 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 2019, personnel expenses resulting from performance shares under the Group's 2018 LTI Plan amounted to € 720,764 (2018: € 946,346).

7.3.6 2019 LONG-TERM INCENTIVE PLAN

On April 1, 2019, 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). In accordance with 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, 2019, and the vesting/performance period is four years. If the predefined performance criteria for the respective period are 100% met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested per year is calculated based on the key performance criteria of the absolute and relative MorphoSys share price performance compared to the Nasdaq Biotech 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 payout 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 specific 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 performance shares to the beneficiaries.

If the number of repurchased shares is not sufficient for servicing the LTI Plan, MorphoSys reserves the right to pay a specific 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 loses his or her position at MorphoSys Group before the end of the vesting/performance period, 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 loses his or her position 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 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 specific allocation of performance shares under the LTI Plan occurs only at the end of the four-year vesting period.

As of April 1, 2019, a total of 22,763 treasury shares were allocated to beneficiaries with 9,347 performance shares allocated to the Management Board, 11,306 performance shares allocated to the Senior Management Group and 2,110 to performance shares allocated to selected employees of the Company who are not members of the Senior Management Group. The stated number of shares allocated is based on the 100% target achievement of the performance criteria and a company factor of 1. The fair value of the performance shares on the grant date was € 106.85 per share. From the grant date until December 31, 2019, one beneficiary left MorphoSys resulting in the forfeiture of 137 performance shares. For the calculation of personnel expenses from share-based payment under the 2019 LTI Plan, the assumption is that four beneficiaries would leave the Company during the four-year period.

In 2019, personnel expenses resulting from performance shares under the Group's 2019 LTI Plan amounted to € 1,294,974.

The fair value of the performance shares from the Long-Term Incentive Plans 2015 until 2019 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 2016 Long-Term Incentive Program	April 2017 Long-Term Incentive Program	April 2018 Long-Term Incentive Program	April 2019 Long-Term Incentive Program
Share Price on Grant Date in €	43.28	55.07	81.05	85.00
Exercise Price in €	n/a	n/a	n/a	n/a
Expected Volatility of the MorphoSys share in %	34.64	37.49	35.95	37.76
Expected Volatility of the Nasdaq Biotech Index in %	23.39	25.07	25.1	18.61
Expected Volatility of the TecDAX Index in %	17.01	16.94	17.73	26.46
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 %	0.05	between 0.03 and 0.23	between 0.02 and 0.15	between 0.02 and 0.13

7.3.7 MORPHOSYS US INC. – 2019 LONG-TERM INCENTIVE PROGRAM

On April 1, 2019, MorphoSys established a Long-Term Incentive Plan (LTI Plan) for the President and selected employees of MorphoSys US Inc. (beneficiaries). In accordance with 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 plan has a term of four years and comprises four one-year performance periods. If the predefined performance criteria for the respective period are fully met, 25 % of the performance shares become vested in each year. The number of shares vested per year is calculated based on key performance criteria of MorphoSys US Inc. during the annual performance period. The performance criteria can be met up to a maximum of 125 % per year. If less than 0 % of the defined performance criteria are met in any one year, no shares will be vested for that year. After the end of each one-year performance period, there is a six-month period during which the performance shares can be transferred from the Company to the beneficiaries.

If the number of repurchased shares is not sufficient for servicing the LTI Plan, MorphoSys reserves the right to pay a specific 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 average market price of one share of the Company in the XETRA closing auction on the Frankfurt Stock Exchange during the 30 trading days preceding the grant of the performance shares.

If a beneficiary loses his or her position or ends his or her employment at MorphoSys US Inc. before the end of the performance period, the beneficiary will be entitled to performance shares determined on a precise daily pro rata basis for performance periods that have ended or started.

As of April 1, 2019, a total of 14,283 treasury shares has been allocated to US beneficiaries, of which 5,065 treasury share were granted to the President and 9,218 to selected employees of MorphoSys US Inc. The stated number of shares allocated is based on 100 % target achievement. The fair value of the performance shares on December 31, 2019 was € 126.80 per share. From April 1 to December 31, 2019, one US beneficiary had left MorphoSys US Inc. resulting in the forfeiture of 1,815 performance shares. For the calculation of personnel expenses resulting from share-based payment under the 2019 LTI Plan, the assumption is that one beneficiary would leave the Company during the four-year period.

In 2019, personnel expenses resulting from performance shares under the MorphoSys US Inc.’s 2019 LTI Plan amounted to € 1,076,158.

7.3.8 SHARE PLAN

On September 10, 2018, MorphoSys established a share plan for one employee of MorphoSys US Inc. In accordance with IFRS 2, this program was considered a share-based payment program with settlement in equity instruments (treasury shares of MorphoSys AG). The grant date was September 25, 2018. The fair value at the grant date was € 91.90 per share and the vesting period was one year. The total number of shares granted was calculated by dividing the total plan value of US$ 370,000 by the average XETRA share price on the Frankfurt Stock Exchange over the 30 trading days prior to the start date of the program (€ 102.95). As a result, the share plan thus comprised a maximum of 3,104 shares. With the end of the vesting period in 2019, all 3,104 shares were transferred to the beneficiary.

7.4 MORPHOSYS US INC. – RESTRICTED STOCK UNIT PLAN (RSUP)

On October 1, 2019, MorphoSys established a Long-Term Incentive Plan (LTI Plan) for selected employees of MorphoSys US Inc. (beneficiaries). According to IFRS 2, the program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI Plan is a Restricted Stock Unit Plan (RSUP) and is paid out in shares of MorphoSys AG that are to be created from authorized capital provided predefined performance criteria have been fulfilled. The term of the plan is three years and includes three one-year performance periods. If the predefined performance criteria for the respective period are fully met, 33.3% of the performance shares become vested in each year. The number of performance shares vested per year is calculated based on the key performance criteria of MorphoSys US Inc. and the MorphoSys share price performance during the annual performance period. The performance criteria can be met up to a maximum of 125% per year. If less than 0% of the defined performance criteria are met in any one year, no shares will be vested for that year. At the end of the total three-year performance period, the corresponding number of shares eventually vested is calculated, and the shares created from authorized capital are transferred from the Company to the beneficiaries.

MorphoSys reserves the right to pay a specific amount of the LTI Plan in cash at the end of the performance period, equal to the value of the performance shares granted.

If a beneficiary loses his or her position or terminates his or her employment with MorphoSys US Inc. prior to the end of a one-year performance period, the beneficiary loses his or her entitlement to a pro rata number of performance shares in the relevant one-year performance period and for future performance periods. The beneficiary retains the entitlements from previously completed one-year performance periods.

As of October 1, 2019, 14,990 “Restricted Shares” were granted to US beneficiaries. The stated number of shares granted is based on 100% target achievement. The fair value of the performance shares as of October 1, 2019 was € 98.10 per share. From October 1, 2019 to December 31, 2019, no US beneficiary had left MorphoSys US Inc. and therefore no restricted shares were forfeited. For the calculation of personnel expenses resulting from share-based payment under the 2019 LTI Plan, the assumption is that one beneficiary would leave the Company during the four-year period.

In 2019, personnel expenses resulting from performance shares under the MorphoSys US Inc.’s 2019 RSUP amounted to € 296,415.

7.5 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 2019 financial year.

SHARES

	01/01/2019	Additions	Sales	12/31/2019
MANAGEMENT BOARD				
Dr. Jean-Paul Kress[1]	–	0	0	0
Jens Holstein	17,017	39,808	37,308	19,517
Dr. Malte Peters	12,818	0	9,505	3,313
Dr. Markus Enzelberger	1,676	1,837	1,837	1,676
Dr. Simon Moroney[2]	483,709	0	0	–
TOTAL	**515,220**	**41,645**	**48,650**	**24,506**
SUPERVISORY BOARD				
Dr. Marc Cluzel	500	250	0	750
Dr. Frank Morich	1,000	0	0	1,000
Michael Brosnan	0	0	0	0
Sharon Curran[3]	–	0	0	0
Dr. George Golumbeski	0	0	0	0
Wendy Johnson	500	0	0	500
Krisja Vermeylen	350	0	0	350
TOTAL	**2,350**	**250**	**0**	**2,600**

STOCK OPTIONS

	01/01/2019	Additions	Forfeitures	Exercises	12/31/2019
MANAGEMENT BOARD					
Dr. Jean-Paul Kress[1]	–	57,078	0	0	57,078
Jens Holstein	14,673	6,936	0	0	21,609
Dr. Malte Peters	14,673	6,936	0	0	21,609
Dr. Markus Enzelberger	11,742	6,936	0	0	18,678
Dr. Simon Moroney[2]	22,395	10,587	0	0	–
TOTAL	**63,483**	**88,473**	**0**	**0**	**118,974**

CONVERTIBLE BONDS

	01/01/2019	Additions	Forfeitures	Exercises	12/31/2019
MANAGEMENT BOARD					
Dr. Jean-Paul Kress[1]	–	0	0	0	0
Jens Holstein	30,000	0	0	30,000	0
Dr. Malte Peters	0	0	0	0	0
Dr. Markus Enzelberger	0	0	0	0	0
Dr. Simon Moroney[2]	88,386	0	0	0	–
TOTAL	**118,386**	**0**	**0**	**30,000**	**0**

PERFORMANCE SHARES

	01/01/2019	Additions	Forfeitures	Allocations[4]	12/31/2019
MANAGEMENT BOARD					
Dr. Jean-Paul Kress[1]	–	0	0	0	0
Jens Holstein	17,936	2,065	0	7,308	12,693
Dr. Malte Peters	5,132	2,065	0	0	7,197
Dr. Markus Enzelberger	7,031	2,065	0	1,837	7,259
Dr. Simon Moroney[2]	27,050	3,152	0	0	–
TOTAL	**57,149**	**9,347**	**0**	**9,145**	**27,149**

[1] Dr. Jean-Paul Kress has joined the Management Board of MorphoSys AG on September 1, 2019.
[2] Dr. Simon Moroney resigned from the management board and his function as Chief Executive Officer as of August 31, 2019. Changes in the number of shares after resignation from the Management Board of MorphoSys AG are not presented in the tables.
[3] Sharon Curran has joined the Supervisory Board of MorphoSys AG on June 14, 2019.
[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.

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 Management Board's total remuneration package and the index-linked pension contracts were thoroughly reviewed and then adjusted by the Supervisory Board in 2019.

If a Management Board member's service 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 service 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 Section 291 AktG is entered into with MorphoSys as a dependent company, MorphoSys is integrated under Section 319 AktG or (iv) a shareholder or third party holds 30% or more of MorphoSys's voting rights.

Whereas the management report presents the remuneration of the Management Board and Supervisory Boards as members in key management positions 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 2019 AND 2018 (IAS 24):

	Dr. Jean-Paul Kress Chief Executive Officer Appointment: September 1, 2019		Jens Holstein Chief Financial Officer		Dr. Malte Peters Chief Development Officer	
	2018	2019	2018	2019	2018	2019
Fixed Compensation	0	233,333	402,235	418,324	397,800	413,712
Fringe Benefits	0	93,551	46,725	44,090	30,613	32,892
One -Year Variable Compensation	0	196,000	337,877	351,392	334,152	347,518
One-Time Bonus	0	1,000,000	0	500,000	0	500,000
Total Short-Term Employee Benefits (IAS 24.17 (a))	0	1,522,884	786,837	1,313,806	762,565	1,294,122
Service Cost	0	44,965	111,233	114,224	76,190	77,787
Total Benefit Expenses - Post-Employment Benefits (IAS 24.17 (b))	0	44,965	111,233	114,224	76,190	77,787
Termination Benefits	0	0	0	0	0	0
Total Termination Benefits (IAS 24.17 (d))	0	0	0	0	0	0
One-Time Bonus in Shares	0	0	358,857	0	354,900	0
Multi-Year Variable Compensation[1]:						
2014 Long-Term Incentive Program (Vesting Period 4 Years)	0	0	994	0	0	0
2015 Long-Term Incentive Program (Vesting Period 4 Years)	0	0	18,257	1,180	0	0
2016 Long-Term Incentive Program (Vesting Period 4 Years)	0	0	56,632	22,320	0	0
2017 Long-Term Incentive Program (Vesting Period 4 Years)	0	0	68,437	34,457	68,437	34,457
2018 Long-Term Incentive Program (Vesting Period 4 Years)	0	0	91,595	66,087	91,595	66,087
2019 Long-Term Incentive Program (Vesting Period 4 Years)	0	0	0	97,952	0	97,952
2017 Stock Option Plan (Vesting Period 4 Years)	0	0	53,441	26,906	53,441	26,906
2018 Stock Option Plan (Vesting Period 4 Years)	0	0	89,593	64,642	89,593	64,642
2019 Stock Option Plan (Vesting Period 4 Years)	0	422,919	0	97,978	0	97,978
Total Share-Based Payment (IAS 24.17 (e))	0	422,919	737,806	411,522	657,966	388,022
Total Compensation	0	1,990,768	1,635,876	1,839,552	1,496,721	1,759,931

[1] 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*.

[2] Dr. Simon Moroney resigned from the management board and his function as Chief Executive Officer as of August 31, 2019. Due to his many years of service for the Company, the Supervisory Board decided that Dr. Simon Moroney will be entitled not only to a pro-rated share but to the entire long-term share-based compensation components granted (stock options and performance shares) – provided that all other conditions of the plans are fulfilled.

*CROSS-REFERENCE *to page 168, page 170 and page 172*

Dr. Markus Enzelberger Chief Scientific Officer		Dr. Simon Moroney[2] Chief Executive Officer Resignation: August 31, 2019		Total	
2018	2019	2018	2019	2018	2019
321,300	334,152	542,074	372,154	1,663,409	1,771,675
31,211	31,365	32,654	28,304	141,203	230,202
269,892	280,688	455,343	328,859	1,397,264	1,504,457
0	200,000	0	0	0	2,200,000
622,403	846,205	1,030,071	729,317	3,201,876	5,706,334
68,515	69,805	158,788	107,263	414,726	414,044
68,515	69,805	158,788	107,263	414,726	414,044
0	104,483	0	1,086,602	0	1,191,085
0	104,483	0	1,086,602	0	1,191,085
286,650	0	483,616	0	1,484,023	0
0	0	1,452	0	2,446	0
0	0	26,657	1,723	44,914	2,903
0	0	86,435	36,266	143,067	58,586
105,222	23,301	104,449	74,654	346,545	166,869
91,595	74,512	140,040	167,489	414,825	374,175
0	123,292	0	336,791	0	655,987
82,185	18,199	81,566	58,298	270,633	130,309
89,593	72,888	136,980	163,791	405,759	365,963
0	123,284	0	336,772	0	1,078,931
655,245	435,476	1,061,195	1,175,784	3,112,212	2,833,723
1,346,163	1,455,969	2,250,054	3,098,966	6,728,814	10,145,186

In the years 2019 and 2018, there were no other long-term benefits in accordance with IAS 24.17 (c) accruing to the Management Board or Supervisory Board. No benefits upon termination of service in accordance with IAS 24.17 (d) were accrued for the Supervisory Board in the years 2019 and 2018.

On October 1, 2019, the new CEO Dr. Jean-Paul Kress (CEO since September 1, 2019) was granted stock options valued at € 1,500,000.00 and an additional one-time, sign-on stock option package worth € 500,000.00 for a total of 57,078 stock options.

In 2019, the total remuneration for the Supervisory Board, excluding reimbursed travel costs, amounted to € 633,597 (2018: € 525,428).

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2019 AND 2018:

	Fixed Compensation		Attendance Fees[1]		Total Compensation	
in €	2019	2018	2019	2018	2019	2018
Dr. Marc Cluzel	104,210	76,742	44,400	32,400	148,610	109,142
Dr. Frank Morich	70,926	61,004	33,600	23,200	104,526	84,204
Michael Brosnan	51,284	28,961	34,000	18,600	85,284	47,561
Sharon Curran[2]	27,791	–	11,600	–	39,391	–
Dr. George Golumbeski	51,284	28,961	31,600	25,200	82,884	54,161
Wendy Johnson	47,618	46,160	35,600	37,400	83,218	83,560
Krisja Vermeylen	57,284	49,916	32,400	24,400	89,684	74,316
Dr. Gerald Möller[3]	–	36,558	–	11,800	–	48,358
Klaus Kühn[3]	–	17,326	–	6,800	–	24,126
TOTAL	**410,397**	**345,628**	**223,200**	**179,800**	**633,597**	**525,428**

[1] The attendance fee contains expense allowances for the attendance at the Supervisory Board and the Committee meetings.
[2] Sharon Curran has joined the Supervisory Board of MorphoSys AG on June 14, 2019.
[3] Dr. Gerald Möller and Klaus Kühn have left the Supervisory Board of MorphoSys AG on May 17, 2018.

No other agreements currently exist with present or former members of the Supervisory Board.

As of December 31, 2019, the Senior Management Group held 100,832 stock options (December 31, 2018: 72,604 stock options), 11,233 convertible bonds (December 31, 2018: 11,233 convertible bonds) and 63,786 performance shares (December 31, 2018: 83,660 performance shares), granted by the Company. On December 31, 2019, the President of MorphoSys US Inc. held 5,065 performance shares (December 31, 2018: 0 performance shares) granted to him by the Company.

In 2019, a new stock option plan and a new performance share program were issued to the Senior Management Group (see Notes 7.1.3* and 7.3.6*), as well as a new performance share program to the President of MorphoSys US Inc. (see Note 7.3.7*).

*CROSS-REFERENCE *to page 169, page 175 and page 176*

On April 1, 2019, the Senior Management Group was allocated 18,798 shares under the 2015 LTI Plan and had the option to receive these shares within eight months. As of December 31, 2019, the Senior Management Group exercised the option for 18,798 shares.

8 Additional Notes

8.1 OBLIGATIONS ARISING FROM LEASES AND OTHER CONTRACTS

The future minimum payments under non-terminable leases of low value assets, contracts for insurances and other services as of December 31, 2019 are shown in the table below.

in 000' €	Leases of Low Value Assets	Other	Total
Up to One Year	59	1,235	1,294
Between One and Five Years	41	297	338
More than Five Years	0	0	0
TOTAL	**100**	**1,532**	**1,632**

Additionally, the future payments shown in the table below may become due for outsourced studies after December 31, 2019. These amounts could be shifted or substantially lower due to changes in the study timeline or premature study termination.

in million €	Total 2019
Up to One Year	64.4
Between One and Five Years	100.3
More than Five Years	0.0
TOTAL	164.7

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 sum of obligations.

The Management Board is unaware of any proceedings that may result in a significant obligation for the Group or lead to a material adverse effect on the Group's net assets, financial position or results of operations.

If certain milestones are achieved in the Proprietary Development segment (for example, submitting an investigational new drug (IND) application for specific target molecules), this may trigger milestone payments to licensors of up to an aggregate of US$ 287 million related to regulatory events or the achievement of sales targets. The next milestone payments of US$ 37.5 million are anticipated to occur in the next 12 months.

Milestone payments to MorphoSys may be triggered by the achievement of specific milestones by one of our partners (submitting an investigational new drug (IND) application for specific target molecules or the transfer of technology, among others) in the Partnered Discovery segment. As the timing and achievement of such milestones are uncertain, further details cannot be published.

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.

On January 31, 2019, MorphoSys announced that it had resolved its dispute with Janssen Biotech and Genmab A/S. The parties agreed to drop their counterclaims in connection with the litigation. MorphoSys withdrew its claims of alleged patent infringement against Janssen Biotech and Genmab A/S and agreed not to appeal against the court order of January 25, 2019. Janssen and Genmab withdrew their counterclaims against MorphoSys.

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 29, 2019 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 2019 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 proprietary drugs in its core areas of oncology and inflammatory diseases. Partnerships currently exist with (in alphabetical order) Galapagos, GlaxoSmithKline, I-Mab Biopharma, Immatics Biotechnologies, 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 out-licensed to partners for further development, approval and commercialization. Both MorphoSys and Galapagos contributed their core technologies and expertise to this alliance. Along with the use of its adenovirus-based platform to explore new target molecules for the development of antibodies, Galapagos provided access to already identified target molecules that are associated with bone and joint diseases. MorphoSys provided access to its antibody technologies used to generate 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 commercialization costs for MOR106 will be borne by Novartis. 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 of the MOR106 program, MorphoSys and Galapagos jointly received a payment of € 95 million. Of this amount, MorphoSys recognized its 50%

share of that amount – € 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 from a low 10% to a low 20% of net sales. According to their 2008 agreement, MorphoSys and Galapagos will share equally in all payments (50/50). In October 2019, MorphoSys, Galapagos and Novartis announced a stop in the clinical development of MOR106 in atopic dermatitis. The decision was based on the results of a benefit-based interim analysis of the IGUANA phase 2 study. The three parties are currently evaluating the future strategy for MOR106.

In June 2013, MorphoSys announced it had entered into a global agreement with GlaxoSmithKline (GSK) for the development and commercialization of otilimab. Otilimab 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 a 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 of up to € 423 million, depending on the achievement of certain developmental stages, as well as regulatory, commercial and revenue-related milestones. GSK is clinically investigating otilimab in rheumatoid arthritis and, in July 2019, started a phase 3 development program in this indication. The treatment of the first patients in this program triggered a milestone payment of € 22.0 million to MorphoSys.

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. MorphoSys is currently evaluating MOR202 in Europe in a phase 1/2 study in multiple myeloma and in a phase 1/2 study in an inflammatory autoimmune disease of the kidneys. Under the terms of the agreement, I-Mab Biopharma has the exclusive right for the later development and commercialization of MOR202 in the agreed regions. MorphoSys received a 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 be entitled to receive double-digit, staggered royalties on net revenue of MOR202 in the agreed regions. I-Mab is evaluating MOR202/TJ202 in a pivotal phase 2 trial initiated in March 2019 as a third-line therapy in r/r multiple myeloma and in a phase 3 trial in combination with lenalidomide as a second-line therapy in multiple myeloma initiated in April 2019.

In 2018, 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 a 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 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 with the German company Immatics Biotechnologies GmbH in the field of immuno-oncology. 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) and, 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, intended to co-develop therapies for triggering the immune system to attack tumors. In April 2019, Merck announced that the joint development and license agreement would be terminated in the second quarter of 2019. As a result, the active collaboration was terminated in 2019 and the respective rights reverted to the partners.

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

In June 2010, MorphoSys AG and the US-based biopharmaceutical company Xencor Inc. signed an exclusive global licensing and cooperation agreement under which MorphoSys receives exclusive global licensing rights to tafasitamab the antibody for the treatment of cancer and other indications. The companies jointly conducted a phase 1/2a trial in the U.S. in patients with chronic lymphocytic leukemia. MorphoSys is solely responsible for further clinical development after the successful completion of the phase 1 clinical trial. Upon signing the license and cooperation agreement, Xencor received a 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

Through its commercial partnerships in the Partnered Discovery segment, MorphoSys receives various types of payments that are spread over the duration of the agreements or recognized in full as revenue as predefined targets and milestones are reached. These payments include 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. MorphoSys is also entitled to development-related milestone payments and royalties on product sales for specific antibody programs.

Prior to the 2019 financial year, active collaborations with a number of partners had already ended. 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 2019 but where drug development programs were still being pursued include (in alphabetical order): Bayer AG, Boehringer Ingelheim, Fibron Ltd. (transfer of contract from Prochon Biotech Ltd.), Janssen Biotech, Novartis, OncoMed Pharmaceuticals (fully acquired in April 2019 by Mereo BioPharma Group), Pfizer and Roche.

Partnerships that were still active in 2019 include (in alphabetical order): GeneFrontier Corporation/Kaneka, Sosei Heptares and LEO Pharma.

In MorphoSys's strategic alliance with LEO Pharma, which has been in place since 2016, the two companies are working together to discover and develop antibody-based therapies for dermatology. This alliance was expanded in 2018 to include peptide-derived therapeutics with the goal of identifying novel, peptide-derived drugs for treating diseases with a high unmet medical need. This expansion represents a valuable addition to the development pipelines of both companies.

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 13, 2020, we and Incyte announced that both companies entered into a collaboration and license agreement to further develop and commercialize MorphoSys' proprietary anti-CD19 antibody tafasitamab globally. Under the terms of the agreement, we will receive an upfront payment of US$ 750 million. In addition, Incyte has made an equity investment into MorphoSys of US$ 150 million in new American Depositary Shares (ADS) of MorphoSys at a premium to the share price at signing of the agreement. Depending on the achievement of certain developmental, regulatory and commercial milestones, we will be eligible to receive milestone payments amounting to up to US$ 1.1 billion. We will also receive tiered royalties on ex-U.S. net sales of tafasitamab in a mid-teens to mid-twenties percentage range. In the U.S., MorphoSys and Incyte will co-commercialize tafasitamab, with MorphoSys leading the commercialization strategy and recording all revenues from sales of tafasitamab. Incyte and MorphoSys will be jointly responsible for commercialization activities in the U.S. and will share profits and losses on a 50:50 basis. Outside the U.S., Incyte will have exclusive commercialization rights, and will lead the commercialization strategy and record all revenues from sales of tafasitamab, paying MorphoSys royalties on ex-U.S. net sales. Furthermore, the companies will share development costs associated with global and U.S.-specific trials at a rate of 55% (Incyte) and 45 % (MorphoSys); Incyte will cover 100% of the future development costs for trials that are specific to ex-U.S.countries. We have agreed to develop tafasitamab broadly in relapsed/refractory diffuse large B cell lymphoma (r/r DLBCL), frontline DLBCL and in other indications beyond DLBCL, such as follicular lymphoma (FL), marginal zone lymphoma (MZL) and chronic lymphocytic leukemia (CLL). Incyte will be responsible for initiating a combination study of its PI3K delta inhibitor parsaclisib and tafasitamab in relapsed or refractory B cell malignancies. Incyte will also be responsible for leading any potential pivotal studies in CLL and for a phase 3 trial in r/r FL/MZL. We will continue to be responsible for our ongoing clinical studies with tafasitamab in non-Hodgkin's lymphoma (NHL), CLL, r/r DLBCL and frontline DLBCL. We, together with Incyte, will share responsibility for initiating further global clinical trials. Incyte intends to pursue development in other territories, such as Japan and China. The agreement between MorphoSys and Incyte, including the equity investment, was subject to clearance by the U.S. antitrust authorities under the Hart-Scott-Rodino Act as well as by the German and Austrian antitrust authorities. The agreement has received antitrust clearance on or before March 2, 2020, and became effective on March 3, 2020. The agreement becoming effective triggered the US$ 750 million upfront payment by Incyte to MorphoSys, as well as Incyte's equity investment into MorphoSys of US$ 150 million in new American Depositary Shares (ADS) within the defined timelines.

On February 4, 2020 we announced the initiation of an expanded access program (EAP) in the U.S. for tafasitamab. The EAP may provide access to tafasitamab for use in patients with relapsed or refractory diffuse large B-cell lymphoma (r/r DLBCL) in combination with lenalidomide. According to the U.S. FDA, expanded access programs - sometimes called "compassionate use" - provide a pathway for a patient to receive an investigational medicine for a serious disease or condition. They are often made available when there are no comparable or satisfactory alternative therapies to treat the disease or condition; patient enrollment in clinical trials is not possible; potential patient benefit justifies the potential risk of treatment and providing the investigational medicine will not interfere with investigational trials that could support the medicine's marketing approval for the treatment indication. To qualify for the tafasitamab EAP, patients with r/r DLBCL need to meet the EAP inclusion/exclusion criteria that are aligned with the MorphoSys' L-MIND study. Treatment of DLBCL patients in the EAP is recommended with tafasitamab in combination with lenalidomide according to the treatment schedule in L-MIND. The EAP will be available for a limited time while the U.S. FDA reviews MorphoSys' Biologics License Application (BLA) for tafasitamab. Requests for expanded access to tafasitamab must be made by a U.S. licensed, treating physician. The tafasitamab EAP will be administered by Clinigen Healthcare Ltd.

On March 2, 2020, we announced that the U.S. Food and Drug Administration (FDA) accepted filing of MorphoSys' Biologics License Application (BLA) and granted priority review for tafasitamab, under review in combination with lenalidomide for the treatment of relapsed or refractory diffuse large B cell lymphoma (r/r DLBCL).The FDA has set a Prescription Drug User Fee Act (PDUFA) goal date of August 30, 2020. The FDA has informed MorphoSys that they are not currently planning to hold an advisory committee meeting to discuss the application.

On March 4, 2020, MorphoSys announced that its Management Board, with the approval of the Supervisory Board, has resolved to increase the share capital of MorphoSys AG by issuing 907,441 new ordinary shares from the authorized capital 2017-I, excluding pre-emptive rights of existing shareholders, to implement the purchase of 3,629,764 American Depositary Shares (ADSs) by Incyte. Each ADS will represent 1/4 of a MorphoSys ordinary share. The new ordinary shares underlying the ADSs represent 2.84 % of the registered share capital of MorphoSys prior to the consummation of the capital increase. Incyte's purchase of ADSs in the aggregate amount of US$ 150 million is part of the consideration due under its collaboration and licensing agreement with MorphoSys for the further development and commercialization of MorphoSys' investigational compound tafasitamab; the agreement has become effective upon receiving antitrust clearance. Incyte will purchase the 3,629,764 new ADSs at a price of $ 41.32 per ADS, including a premium of 20 percent on the volume-weighted average price of ADSs thirty days prior to execution of the collaboration and licensing agreement. Incyte has agreed, subject to limited exceptions, not to sell or otherwise transfer any of the new ADSs, which will represent 2.76 % of the registered share capital of MorphoSys following the capital increase, for an 18-month period.

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 11, 2020

Dr. Jean-Paul Kress
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Malte Peters
Chief Development Officer