CONSOLIDATED FINANCIAL STATEMENTS *(IFRS)*

2014

morphosys

Engineering the Medicines of Tomorrow

The Contents

During the 2014 financial year, MorphoSys successfully forged ahead with its strategy of building a broad pipeline of biopharmaceutical compounds. Advancing the proprietary portfolio within this pipeline was a key focus for the organization. We succeeded in in-licensing the bi-specific antibody* MOR209/ES414, an innovative development candidate for the treatment of prostate cancer. The Company presented promising clinical data for its compound MOR208 in non-Hodgkin's lymphoma. The projects initiated by our partners in the Partnered Discovery business segment also developed well, and the number of active development projects continued to increase. Although our partner Roche stopped a phase 3 study of the Alzheimer's compound gantenerumab shortly before the end of 2014, two other clinical trials with this development candidate are continuing. This event highlights the strength of MorphoSys's business model, namely to have a broad pipeline of development candidates.*

Operations and Business Environment

Strategy and Group Management

STRATEGY AND OBJECTIVES

MorphoSys's goal is to build the most valuable biopharmaceutical pipeline in the biotech industry. Based on its powerful technology for the discovery of therapeutic antibodies, the Company has produced more than 90 drug candidates in development, of which three are currently in pivotal studies. The majority of the development programs are conducted in partnership with leading pharmaceutical and biotechnology companies. MorphoSys uses the revenues generated from these partnerships to expand its proprietary portfolio, which now compromises ten programs, two of which are already in clinical phase 2 trials*. Our strategy to develop compounds for partners was expanded many years ago to include the proprietary development of drug candidates up until commercialization. We will continue to execute our two-pillar strategy to develop compounds for partners as well as proprietary drug candidates and to generate added value as we have done in the past.

*SEE GLOSSARY PAGE 128

The Proprietary Development segment first discovers and develops antibody programs based on the Company's proprietary technology platforms or candidates which were in-licensed from other companies. During clinical development, a decision is made on a case-by-case basis whether and at what point a partnership for the drug candidate's subsequent development and commercialization will be pursued. The drug candidate can then be either entirely out-licensed or developed further in cooperation with a pharmaceutical or biotechnology company (co-development). In certain circumstances, individual projects can also be brought to the point of commercialization using internal resources.

In the Partnered Discovery segment, MorphoSys develops optimized therapeutic antibodies, also based on its proprietary technologies, for its partners in the pharmaceutical industry. The contractual payments that result include license fees for technologies and funded research as well as success-based payments and royalties* on product sales. The funds generated from these partnerships support our long-term business model and secure a large portion of the funding for our proprietary development activities via the high number of programs in our pipeline.

Both segments are based on the Company's innovative technologies. The foremost growth drivers in these segments are HuCAL*, the industry's most successful antibody library* measured by the number of clinical development candidates and the ensuing platform, Ylanthia*, which is currently the largest known antibody library based on the antibody Fab fragment. MorphoSys also uses its financial resources to expand and deepen its technological base through in-licensing. During the reporting year, for example, MorphoSys was able to expand its existing technology platform to include a very promising approach by acquiring the lanthipeptide technology from Lanthio Pharma.

In addition to investing in proprietary development and new technologies, MorphoSys secures long-term growth by closely following the international biotechnology sector for acquisition candidates and in-licensing opportunities. The Company's goal is to increase enterprise value by investing significantly in its proprietary development activities while maintaining financial discipline and strict cost control.

GROUP MANAGEMENT AND PERFORMANCE INDICATORS

MorphoSys uses both financial as well as non-financial indicators to manage the Group. These help monitor the success of strategic decisions and allow MorphoSys to promptly take the appropriate countermeasures when necessary. In addition, the management monitors and evaluates selected early indicators to give a thorough assessment of a project's progress and quickly employs countermeasures if there are any undesirable developments.

FINANCIAL PERFORMANCE INDICATORS

Our financial performance indicators are described in detail in the section entitled "Analysis of Net Assets, Financial Position and Results of Operations." Revenues and earnings before interest and taxes (EBIT) are the key financial indicators for measuring operational business performance. The performance of both segments is ascertained monthly and budget planning for the current financial year is revised and updated quarterly. We also prepare a medium-term plan once a year that covers the following three years. A thorough cost analysis is carried out on an ongoing basis. The Company uses this analysis to monitor its adherence to financial targets and to make comparisons with previous periods.

The MorphoSys business performance is influenced by factors such as milestone and license payments, research and development (R&D) expenses, other operating cash flows, existing and expected liquidity and working capital. These indicators are also analyzed and evaluated on a routine basis, whereby the main focus is on the statement of income, existing and future liquidity and available investment opportunities. The net present value of investments is determined using discounted cash flow models*.

*SEE GLOSSARY PAGE 128

TABLE 01

Development of Financial Performance Indicators[1]

in million €	2014	2013	2012	2011	2010
MORPHOSYS GROUP					
Revenues from continuing operations[2]	64.0	78.0	51.9	82.1	87.0
EBIT (Earnings before interest and taxes) from continuing operations[3, 4]	(5.9)	9.9	2.4	9.8	9.8
PROPRIETARY DEVELOPMENT					
Segment revenues	15.0	26.9	7.0	2.4	1.8
Segment result	(18.4)	(0.5)	(11.0)	(32.2)	(24.5)
PARTNERED DISCOVERY					
Segment revenues	49.0	51.0	44.7	79.3	66.3
Segment result	25.9	25.4	23.0	55.7	42.7

[1] Differences due to rounding
[2] Revenues of discontinued operations 2013 – 2011: 2013: € 0.6 million, 2012: € 17.7 million, 2011: € 18.7 million; 2010 total Group revenues
[3] 2010: profit from operations
[4] Contains unallocated expenses (see also item 3.4 of the Notes): 2014: € 13.4 million, 2013: € 15.0 million, 2012: € 9.6 million, 2011: € 13.7 million, 2010: € 8.4 million incl. segment result AbD Serotec € +1.2 million

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial indicators are used equally for managing the Company. For reporting purposes, MorphoSys uses Sustainable Development Key Performance Indicators (SD KPIs) that are also recommended by the SD KPI standard. These include success in proprietary research and development (SD KPI 1) and achievements in partnered programs as benchmarks for the commercialization rate (SD KPI 2). In the last five years, no products have been recalled and no fines or settlements have been imposed as the result of disputes in the areas of product safety and product liability (SD KPI 3).

MorphoSys relies on the consistent progress of its product pipeline to secure its leading position in the market for therapeutics. This refers to both the number of therapeutic antibodies – 94 at the end of the reporting year – as well as the progress of the development pipeline and the possible market potential. Since successful products are based on first-class technologies, the progress of our technology development forms another key performance indicator. Not only the quality of research and development, but also the professional management of partnerships is at the heart of success. This is true for new contracts as well as for the further strategic development of existing alliances. Details on these performance indicators can be found in the section "Research and Development and Business Development" (page 12).

The non-performance indicators described in detail in the chapter "Sustainable Business Development" (page 39) are also used to manage the MorphoSys Group successfully.

TABLE 02

Sustainable Development of Key Performance Indicators (SD KPIs) at MorphoSys (31 December)

	2014	2013	2012	2011	2010
PERFORMANCE IN PROPRIETARY R&D (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	5	3	2	2	5
Programs in Preclinic	2	0	0	0	1
Programs in Phase I	1	1	1	2	1
Programs in Phase II	2	2	2	1	1
TOTAL	**10**	**6**	**5**	**5**	**8**
PERFORMANCE IN PARTNERED PROGRAMS (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	40	37	34	30	32
Programs in Preclinic	25	22	20	24	20
Programs in Phase I	8	6	8	9	10
Programs in Phase II	8	8	6	6	4
Programs in Phase III	3	2	1	0	0
TOTAL	**84**	**75**	**69**	**69**	**66**
R&D EXPENSES (IN MILLION €)					
R&D Expenses on behalf of Partners	19.6	17.5	16.0	19.1	18.9
Proprietary Development Expenses	33.5	27.5	18.1	33.9	25.9
Expenses for Technology Development	2.9	4.2	3.6	2.9	2.1
TOTAL	**56.0**	**49.2**	**37.7**	**55.9**	**46.9**

LEADING INDICATORS

MorphoSys monitors a variety of leading indicators concerning the macroeconomic environment, the industry and the Company itself on a monthly basis. On a company level, economic data on the progress of individual programs is gathered for both segments. For macroeconomic leading indicators, MorphoSys relies on general market data from external financial studies which are reviewed for industry transactions, changes in the legal environment and the availability of research funds.

A joint steering committee meets regularly concerning each active collaboration. The role of this committee is to update and monitor the programs' progress and the emergence of any potential milestone payments. These ongoing reviews give us the opportunity to intervene early on when any negative developments occur and also provide us with information on expected milestone payments at a very early stage. For non-active collaborations, the partner prepares a report that helps MorphoSys track the status of ongoing therapeutic programs.

In the area of business development, market analysis provides early indicators and helps determine the market's demand for new technologies. Permanent monitoring of the market allows MorphoSys to react to trends and demands at an early stage and initiate its own new activities or partnerships.

Prior to the development of a therapeutic product, a target product profile (TPP) is created and updated continually in the course of the development process. This procedure provides an early indication of the properties a product must have in order to be successful in the market. Important questions are also clarified during this process, such as the level of efficacy to be achieved, whether an improvement in the safety profile is at the center of development, or whether the focus should be on a change in the dosage form of the drug candidate. A detailed description of the product's possible market positioning and the relevant patient groups are also part of the TPP. Permanent monitoring of criteria and their fulfillment ensure that the most important factors are considered during product development and that changes can be responded to in a timely manner.

Business Activities

DRUG DEVELOPMENT

MorphoSys develops drugs using its own research and development as well as in cooperation with pharmaceutical and biotechnology partners. The development of new treatments for patients who suffer from serious diseases is our core business activity. With a total of 94 individual therapeutic antibody programs at the end of 2014, three of which are in pivotal phase 3 trials, the Company possesses one of the broadest pipelines in the industry.

TECHNOLOGIES

MorphoSys has developed a number of technologies which offer direct access to fully human* antibodies for the treatment of diseases. The most widely-known technologies of MorphoSys include HuCAL, which is a collection of billions of fully human antibodies and a system for their optimization. Ylanthia, the next generation of antibody technology from MorphoSys, is currently the largest known antibody library in Fab format*, and is based on an innovative concept for the generation of highly specific and fully human antibodies. MorphoSys believes Ylanthia will establish a new standard in the pharmaceutical industry's development of therapeutic antibodies in this decade and beyond. Through Slonomics*, MorphoSys has a patented, fully automated technology for gene synthesis and modification for the generation of highly diverse gene libraries in a controlled process. The lanthipeptide technology acquired in the reporting year is a valuable addition to our existing library of antibodies and opens up new possibilities to search for potential drugs comprising stabilized peptides.

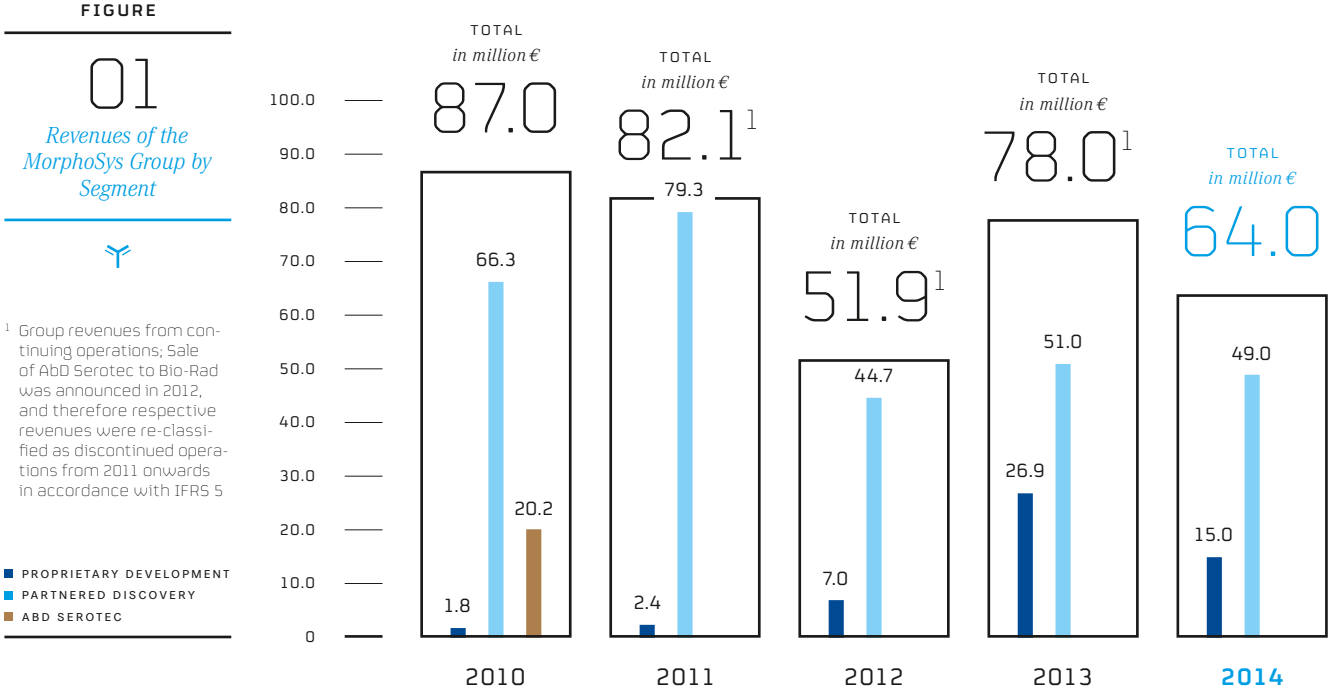
*SEE GLOSSARY PAGE 128

FIGURE

01

Revenues of the MorphoSys Group by Segment

[1] Group revenues from continuing operations; Sale of AbD Serotec to Bio-Rad was announced in 2012, and therefore respective revenues were re-classified as discontinued operations from 2011 onwards in accordance with IFRS 5



PROPRIETARY DEVELOPMENT

An important goal of the Company is to generate higher enterprise value through the proprietary development of innovative antibodies. Table 3 gives a summary of the proprietary clinical product candidates that are being developed for the indications of inflammatory diseases and cancer.

ONCOLOGY

The ability of monoclonal antibodies* to bind specific antigens has led to their dominant position in the field of targeted cancer therapies. The global market for innovative biological therapies for cancer treatment is growing rapidly. Two of the MorphoSys proprietary cancer programs, MOR208 and MOR202 are currently in clinical development.

The MorphoSys antibody **MOR208** is directed against the target* molecule CD19*, which is of special interest with regard to many B-cell malignancies. According to the market research firm, Decision Resources, the therapeutic market for the B-cell malignancy non-Hodgkin's lymphoma will reach a size of approximately US$ 10 billion in 2022. Current biological therapies for the treatment of B-cell malignancies, including the blockbuster rituximab (trade name Rituxan®) and the antibody obinutuzumab (trade name Gazyva®), are directed against the CD20* target molecule. Since CD19 is expressed on a larger number of B-cell subtypes in comparison to CD20, the CD19 antibodies may provide a better therapeutic approach. MOR208 was further improved by changing the constant Fc part* of the antibody. This modification leads to both a higher antibody-dependent cell-mediated cytotoxicity (ADCC*) as well as to an improvement in antibody-dependent cellular phagocytosis (ADCP*). The most advanced therapeutic approach against CD19 is the bi-specific* antibody blinatumomab (trade name Blincyto™) which received approval in the reporting year for the indication acute lymphoblastic leukemia (ALL*). Other clinical programs directed against the same target molecule use alternative approaches in order to increase the efficacy of the antibody, e.g. coupling with toxic substances or a change in the antibody's glycosylation pattern. Another therapeutic approach against CD19 is the CAR-T* technology. This immune therapy extracts immune cells (T cells) from the patient's blood. The T cells are subsequently altered outside of the body so that they can be better directed to and kill the patient's tumor cells. When these T cells are later re-administered to the patient's blood by infusion, they bind the targeted cancer cells and destroy them. In the area of B-cell malignancies, different approaches with small molecules* are also being developed.

*SEE GLOSSARY PAGE 128

MorphoSys's antibody **MOR202** is currently being developed for the treatment of multiple myeloma* (MM) and is directed against the CD38* target molecule. This project was successfully brought into a partnership with Celgene in 2013. Measured in terms of frequency of occurrence, MM is a relatively small area of oncology. Nevertheless, the MM market has shown impressive revenues in recent years and represents a potential market of more than US$ 9 billion in 2015. Significant achievements in clinical practice and the introduction of effective and highly priced pharmaceutical products have led to an expansion of the market. However, compared with the compounds currently available, there is still untapped market potential in terms of developing different forms of therapy for improving the chances of survival and reducing side effects. Despite much higher survival rates, the disease is seldom curable and a majority of patients experience a relapse. This has led to a particularly high demand for alternative treatments, such as those that target the CD38 surface antigen. Apart from MOR202, the industry has two other clinical development programs targeting CD38.

In August 2014, a co-development and co-promotion agreement for **MOR209/ES414** was signed with Emergent BioSolutions. The compound will be developed for patients suffering from metastatic castration-resistant prostate cancer (mCRPC*). MOR209/ES414 is a bi-specific anti-PSMA/anti-CD3* antibody based on Emergent's ADAPTIRTM platform. The immunotherapeutic protein* activates the patient's T-cell immunity against prostate cancer cells expressing prostate specific membrane antigen (PSMA). This antigen* is commonly overexpressed in prostate cancer cells. The anti-CD3 binding domains of the molecule selectively bind to the T cell receptor on cytotoxic T cells which become activated when the anti-PSMA binding domains crosslink them to the cancer cells. The two pairs of binding domains of MOR209/ES414 are linked to opposite ends of an immunoglobulin Fc domain to extend the compound's half-life and enable the use of a purification process typical of immunoglobulin-based molecules. Prostate cancer is the most common cancer in men with approximately 900,000 new cases annually worldwide. As preclinical* *in vitro* and *in vivo* studies have shown, MOR209/ES414 redirects T cell cytotoxicity towards prostate cancer cells expressing PSMA.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory and autoimmune diseases affect millions of patients worldwide and pose a considerable social and economic burden. The IMS Institute for Healthcare Informatics (IMS Health) forecasts a world market for the treatment of autoimmune diseases of US$ 33 – 36 billion by the year 2016.

MOR103, the antibody fully out-licensed by MorphoSys to GlaxoSmithKline (GSK) in 2013, is targeted against the GM-CSF* (granulocyte macrophage colony-stimulating factor) target molecule – a central factor in the emergence of inflammatory diseases such as rheumatoid arthritis* and multiple sclerosis* (MS). The market for drugs treating rheumatoid arthritis has tremendous commercial potential. Biotechnologically produced drugs already comprise the major part of the total revenues achieved in this market. The market overall is growing continuously. Datamonitor expects the RA-market to reach US$ 18 billion by the year 2020. Currently, the best-selling MS drugs have combined annual revenues of approximately US$ 11 billion, and the market is expected to continue to grow. MOR103 has the potential to become the first member of the anti-GM-CSF antibody class of drugs. Comparable drugs currently in development are targeted against the GM-CSF molecule or against the GM-CSF receptor.

New mechanisms for treating inflammatory diseases such as rheumatoid arthritis, osteoporosis or osteoarthritis are being examined in cooperation with the Belgian company Galapagos NV with the aim of developing new antibody therapies to treat these diseases. The first candidate from this cooperation – **MOR106** – entered preclinical development in the reporting year. Both companies contribute their core technologies and expertise as part of this alliance. In accordance with the agreement, Galapagos and MorphoSys share research and development costs and all future revenues equally.

INFLUENCING FACTORS

Proper medical care for the public is the stated objective of many countries, and the need for new forms of therapy continues to grow in the face of demographic change. However, cost-cutting could slow down the industry's development. As part of their austerity measures, governments in Europe, the United States and Asia have stepped up their healthcare controls and are monitoring drug reimbursement closely.

As already seen in the field of small molecule drugs, generic competition is now becoming an increasing challenge in the biotechnology industry due to the expiry of patent protection for drugs. The technical barriers to copying bioengineered drugs remain high. Nevertheless, many drug manufacturers, particularly those from Europe and Asia, are now penetrating this market and placing more competitive pressure on established biotechnology companies. According to a study by IMS Health, the global market for biosimilars* will grow from US$ 693 million in 2011 to US$ 4 – 6 billion by 2016.

*SEE GLOSSARY PAGE 128

TABLE 03

Proprietary[1] Clinical Product Candidates

	MOR103[2]	MOR202	MOR208	MOR209/ES414
Compound	• HuCAL antibody against the GM-CSF (granulocyte macrophage colony-stimulating factor) cytokine, a target molecule for a broad range of inflammatory diseases • Out-licensed in 2013	• HuCAL antibody against CD38, a target molecule for the treatment of multiple myeloma and certain leukemias • Entered into a cooperation agreement for further development in 2013	• Humanized, Fc-optimized anti-CD 19 antibody for the treatment of B-cell malignancies • In-licensed in 2010	• Bi-specific anti-PSMA/anti-CD3 antibody based on Emergent's ADAPTIR™ platform • Entered into a cooperation agreement for further development in 2014
Characteristics	• Targets both monocytes and macrophages • Extremely high binding affinity • Rapid therapeutic effect	• Binds to a unique epitope • Cytotoxic effects cause death of cancer cells • Preclinical trials show a synergistic effect with pomalidomide and lenalidomide • Administration via 2-hour infusion	• Fc-optimization triggers significantly higher immune response by means of antibody-dependent cellular cytotoxicity (ADCC) • Favorable form of administration • Simple method of production	• Directs cytotoxic T cells against prostate cancer cells expressing prostate-specific membrane antigen (PSMA) • Promising preclinical *in vitro* and *in vivo* data
Funding	Global licensing agreement with GSK • GSK is responsible for all further development and promotion of MOR103 in all indications • MorphoSys received an upfront payment of € 22.5 million in 2013 • Entitled to receive additional milestone payments from GSK of up to € 423 million as well as tiered double-digit royalties on net sales	Co-development and co-promotion with Celgene • Both companies co-develop MOR202 globally; cost sharing is 2/3 Celgene and 1/3 MorphoSys • Upfront payment of € 70.8 million plus equity investment of € 46.2 million • Milestone-related payments of up to € 511 million • A 50:50 share in profits from promotion in Europe; outside this market, MorphoSys receives tiered double-digit royalties on net sales	Completely under the control of MorphoSys • Current funding is completely provided by MorphoSys	Co-development and co-promotion with Emergent • MorphoSys has global promotion rights with the exception of the USA and Canada (promotion rights for Emergent) • Emergent received upfront payment of US$ 20 million and is entitled to potential milestone payments of up to US$ 163 million • 64% of development costs are borne by MorphoSys and 36% by Emergent • Emergent receives low-single-digit royalties on product sales in the MorphoSys sales regions and MorphoSys receives tiered royalties in the mid-single-digit percentage range up to 20% on product sales in Emergent's sales regions
Current Status	• Phase 1b/2a trial for rheumatoid arthritis completed successfully • Phase 1b trial in multiple sclerosis completed successfully	• Expansion of the phase 1/2a trial in patients with multiple myeloma with lenalidomide and pomalidomide as new combination partner • First clinical data expected in H1/2015	• Promising data on NHL* with 4 subtypes presented in December 2014 • Data on ALL trial with 30 patients expected in H1/2015 • Phase 2 combination trial with lenalidomide in CLL* performed independently by Ohio State University (IST*)	• Initiation of a clinical phase 1 trial planned in early 2015 by our partner Emergent with up to 130 patients with metastatic castration-resistant prostate cancer (mCRPC)

[1] MorphoSys has control/owns the patent rights for the development candidate

[2] In 2013, MOR103 was completely out-licensed to GlaxoSmithKline. After the conclusion of the license agreement, MorphoSys was still responsible for the clinical development of MOR103 in multiple sclerosis in a phase 1b clinical trial. The trial data was presented in September 2014. With the completion of this trial, the compound's further development lies entirely with GSK.

*SEE GLOSSARY PAGE 128

PARTNERED DISCOVERY

In the Partnered Discovery segment, MorphoSys uses technologies for the research, development and optimization of therapeutic antibodies as drug candidates in extensive partnerships with pharmaceutical and biotechnology companies. While the development costs are borne by the respective partners, MorphoSys is compensated in the form of research financing, milestone payments and potential royalties on product sales of successful programs.

The strategic alliance formed with Novartis in 2007 – a pharmaceutical partner with a growing pipeline of biotechnologically developed drugs – is the Company's largest alliance to date. This alliance was expanded in 2012 by a further agreement under which the companies will collaborate in the use of MorphoSys's next generation antibody platform Ylanthia, in order to create therapeutic antibodies.

Developing drugs with partners provides MorphoSys with the opportunity to be involved in indications for which the Company lacks proprietary expertise and would normally not pursue a program itself. Examples of this are:

With the HuCAL antibody **bimagrumab**, developed by its partner Novartis, MorphoSys has a promising treatment in its pipeline for **sporadic inclusion body myositis*** (sIBM*) and other muscle-wasting disorders. This antibody is currently in a pivotal phase 2/3 trial and received the "breakthrough therapy designation" from the US Food and Drug Administration (FDA*), and was also awarded the "orphan drug designation" (in Europe and the USA) for the indication of sIBM.

*SEE GLOSSARY PAGE 128

With the HuCAL antibody **gantenerumab**, developed by its partner Roche, MorphoSys has a promising treatment for **Alzheimer's disease** in its pipeline. Both of the compound's most advanced trials are examining ways to achieve a positive benefit by intervening at an early stage in the disease's progression. Roche is evaluating the compound in approx. 1,000 patients with mild Alzheimer's disease. In a second trial, run by the Dominantly Inherited Alzheimer Network (DIAN), the safety, tolerability and biomarker efficacy in individuals who have a genetic predisposition for Alzheimer's disease are being assessed. In December 2014, Roche announced the termination of a third phase 3 trial of the compound in prodromal Alzheimer's patients. The decision was based on a pre-planned futility analysis and a recommendation by the independent Data Monitoring Committee. Currently, there are no drugs that fundamentally improve the course of Alzheimer's disease, i.e. there is still high unmet medical need for new treatment options in this indication.

During this reporting year, **guselkumab**, a HuCAL antibody against **psoriasis** developed by MorphoSys' partner Janssen, was brought into phase 3 clinical development. Three different pivotal studies are expected to be completed in 2016.

TABLE 04

Market Data from Selected Phase 2 and Phase 3 Partnered Programs

Program Name	MorphoSys Partner	Indication	Market Potential
Bimagrumab/ BYM338	Novartis	Sporadic inclusion body myositis (sIBM), cachexia	Sporadic inclusion body myositis: • Slowly progressive degenerative inflammatory disease of the skeletal muscles with very low prevalence of 1 – 9/100,000 (orphan disease) • No curative therapy available Cachexia: • Emaciation through degradation of muscle and fatty tissue • 80% of patients with advanced cancer are affected; responsible for at least 20% of deaths in cancer patients
Gantenerumab	Roche	Alzheimer's disease	• High medical need due to lack of disease-modifying drugs • High market growth potential due to aging population, earlier and improved diagnosis, and the advent of accompanying immune therapies that are prescribed in addition to existing therapies • In 2013, 8.4 million[1] people suffered from Alzheimer's disease • Market expected to grow from US$ 3.1 billion in the year 2013 to over US$ 12.7 billion by the year 2023[1]
Guselkumab/ CNTO1959	Janssen/J&J	Psoriasis*	Psoriasis: • Lifelong disease with high morbidity; has a negative influence on the quality of life • Prevalence: 11.6 million patients in 2013[1] • Market expected to grow from US$ 6.6 million in 2013 to over US$ 10.7 billion by the year 2023[1]
BHQ880	Novartis	Multiple myeloma	• Malignant tumor of the bone marrow (also called plasmacytoma) • Incidence: 46,960 patients in 2012[1] • Market expected to grow to more than US$ 9 billion in 2015
LFG316	Novartis	Age-related macular degeneration (AMD), uveitis	AMD: • Main cause of severe, irreversible visual impairment in the industrialized nations • Prevalence: 2.4 million patients suffered from wet AMD in 2013[1] and 1.7 million from dry AMD • Market expected to grow from US$ 5 billion in 2013 to over US$ 8.9 billion in the year 2023[1] Uveitis (inflammation of the iris): • Inflammation of the uvea, which may be caused by autoimmune diseases (also through rheumatoid arthritis) • Affects approximately 1 in 4,500 people and is more prevalent in those between 20 and 60 years of age; men and women are equally affected
VAY736	Novartis	Pemphigus vulgaris, primary Sjögren's syndrome, relapsing-remitting MS	Pemphigus vulgaris: • Skin disease characterized by blister formation in the lower layers of the epidermis • Very low incidence of 0.5 – 3.2/100,000 (orphan disease) • 10 – 20% of patients die due to the consequences of side effects from long-term therapy with glucocorticoids and immunosuppressives Primary Sjögren's syndrome: • Autoimmune disease* that attacks the salivary and lachrymal glands • Incidence: 3 – 6/100,000 Relapsing-remitting MS: • Chronic inflammatory disease in which the myelin sheaths are attacked in the central nervous system • Prevalence: 700,000 patients in 2013[1]

*SEE GLOSSARY PAGE 128

Program Name	MorphoSys Partner	Indication	Market Potential
LJM716	Novartis	Esophageal cancer, HER2-pos. cancer, solid tumors	Esophageal cancer: • Neoplasia of the epithelium of the esophagus • Incidence: 10/100,000 HER2- positive cancer: • HER2 is a growth factor receptor, which may be overexpressed in patients with breast cancer, ovarian cancer, or prostate cancer and may worsen the prognosis for survival
Tarextumab/ OMP59R5	OncoMed/GSK	Pancreatic cancer	• High mortality rate (relative five-year survival rate of 5%) • Limited therapeutic treatment options • Incidence: 116,500 cases in the year 2012[1] • Market expected to grow from US$ 700 million in the year 2012 to more than US$ 1.3 billion by the year 2023[1]
CNTO3157	Janssen/J&J	Asthma	• Prevalence: 58.1 million patients in 2013[1] • Market expected to grow from US$ 15 billion in 2013 to more than US$ 16.1 billion by the year 2023[1]
CNTO6785	Janssen/J&J	Rheumatoid arthritis	• Inflammatory autoimmune disease which leads to reduced mobility • In 2013, approximately 5.3 million people[1] suffered from rheumatoid arthritis • Market expected to grow to more than US$ 18 billion by the year 2020[1]

[1] Seven key markets: USA, Japan, France, Germany, Italy, Spain and Great Britain
Sources: Datamonitor, Decision Resources, www.pharmatimes.com, Visiongain, Globocan, GBI Research, www.bioportfolio.net, Decision Resources, Medscape

INNOVATION CAPITAL*

MorphoSys started its Innovation Capital initiative to combine the traditional investment approach of an industry partner with the cooperative elements of compound development as flexibly as possible. The Company seeks to invest in promising start-ups whose technology and products are aligned with the interests of MorphoSys. Antibodies, technologies to generate antibody-like structures (scaffolds*), proteins and peptides are the primary focus of these activities.

Currently, the privately owned biopharmaceutical company Lanthio Pharma is the only portfolio company. Lanthio Pharma specializes in the research and development of lanthipeptides*. These are a new class of therapeutics demonstrating high target molecule selectivity* and improved compound properties. In October 2014, MorphoSys acquired the lanthipeptide technology from Lanthio Pharma as part of the ongoing collaboration. MorphoSys will use the technology for drug discovery.

*SEE GLOSSARY PAGE 128

Organizational Structure

ORGANIZATION OF THE MORPHOSYS GROUP

The MorphoSys Group consists of MorphoSys AG and its subsidiaries. The Group develops and commercializes high-quality antibodies for therapeutic applications. Leading-edge proprietary technologies form the basis of the business segments' operating activities. The Proprietary Development segment first independently researches and develops antibody programs which are further developed entirely in-house or brought into partnerships during the clinical phase. In the second business segment, Partnered Discovery, MorphoSys optimizes therapeutic antibodies for partners in the pharmaceutical industry in return for contractual payments.

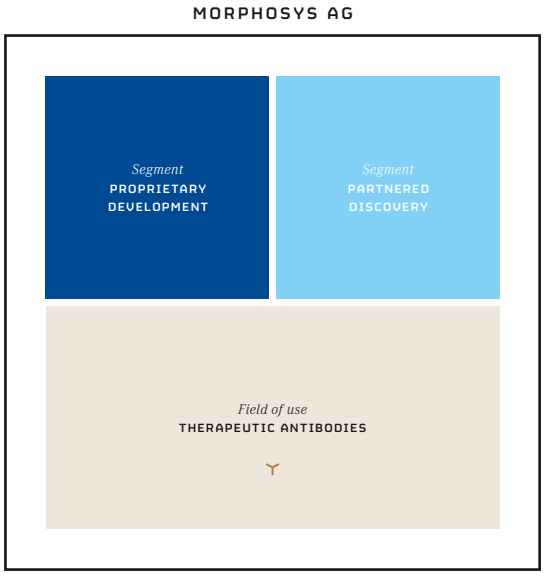
SEE FIGURE 02, ORGANIZATIONAL STRUCTURE OF THE MORPHOSYS GROUP

With its entry into the commercial register on 13 August 2014 and based on the merger agreement dated 27 June 2014, MorphoSys IP GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with the effective date of 1 January 2014.

FIGURE

02

Organizational Structure of the MorphoSys Group



MorphoSys USA, Inc. was liquidated on 30 September 2014. The remaining assets were distributed to MorphoSys AG as the sole shareholder.

Upon the disposal of the majority of the AbD Serotec business to Bio-Rad on 10 January 2013, the quantitative and qualitative criteria of IFRS* 8.12 f. were no longer met. As a result, this segment was no longer a reportable segment under IFRS 8.11. Thus, the results generated by the AbD Serotec segment up to 10 January 2013, which were insignificant, were re-classified to "Unallocated."

*SEE GLOSSARY PAGE 128

In the 2014 financial year, the Group only maintained the location of the parent company, MorphoSys AG, in Martinsried near Munich. This location houses the central Group functions such as accounting, controlling, human resources, legal, patents, corporate communications and investor relations, and the Proprietary Development and Partnered Discovery segments.

LEGAL STRUCTURE OF THE MORPHOSYS GROUP: GROUP MANAGEMENT AND SUPERVISION

MorphoSys AG is the parent Company of the MorphoSys Group, a German stock corporation listed in the Prime Standard segment of the Frankfurt Stock Exchange. In accordance with the German Stock Corporation Act, the Company has a dual management structure consisting of a Management Board and a Supervisory Board. The Management Board consist of four members and is responsible for managing the Company. The Supervisory Board appoints, oversees and advises Management Board in the management of the Company. More detailed information concerning the Group's management and control, as well as corporate governance principles, may be found in the Corporate Governance Report. The Senior Management Group supports the Management Board of MorphoSys AG and consists of 19 managers from various departments.

Research and Development and Business Development

BUSINESS PERFORMANCE IN 2014

MorphoSys's business activities are currently heavily focused on strengthening its proprietary product development through access to new disease-specific target molecules, advanced product candidates and innovative technology platforms. As a research-intensive biopharmaceutical Company, our business performance is closely linked to the results of our compound and technology development. Project progress, regulatory decisions of health authorities, preclinical and clinical research results of our proprietary product candidates, as well as our projects with our partners, all provide information on the probability of success and future market potential. Extending and strengthening the existing patent protection of our product candidates and technologies secures this market potential over our competitors.

NEW CONTRACTS

In April, MorphoSys announced the start of a strategic partnership with the Moulder Center for Drug Discovery Research, a department of the School of Pharmacy at the American **Temple University**. The Moulder Center was given access to the MorphoSys Ylanthia technology to validate new disease-related target molecules and generate therapeutic antibodies against them. MorphoSys has an exclusive option to further develop any antibodies resulting from this partnership. The participating department for new biotherapeutic compound discovery at the Moulder Center deals with the compound's design and optimization of lead candidates in various disease areas, including cancer, Alzheimer's disease, cardiovascular, metabolic and viral diseases.

In 2014, MorphoSys also concluded contracts with industry partners. In May, MorphoSys entered into an agreement with the German drugmaker **Merck KGaA** to discover and develop therapeutic antibodies against target molecules of the class of immune checkpoints. MorphoSys and Merck Serono, the biopharmaceutical division of Merck, agreed to co-develop therapeutic antibodies that are intended to stimulate the immune system to attack tumors (immuno-oncology*). MorphoSys will use its proprietary antibody library, Ylanthia, and other technology platforms to generate antibodies against selected target molecules. Merck Serono brings a broad portfolio and expertise in the field of immuno-oncology and clinical development and will be completely responsible for the project starting with phase 1 clinical development. MorphoSys will share the cooperation's research and development costs and has the option to end the co-development phase at a predetermined time. MorphoSys will receive development and commercial milestone payments and tiered royalties on product sales in an amount reflecting the duration of the co-development phase. Merck Serono will be responsible for the commercialization of the resulting products.

*SEE GLOSSARY PAGE 128

In August, MorphoSys and the American company **Emergent BioSolutions Inc.** announced an agreement for the co-development and co-promotion of the MOR209/ES414 compound. This is a bi-specific antibody against prostate cancer. MorphoSys secured the compound's worldwide promotion rights with the exception of the United States and Canada where Emergent retains promotion rights. Emergent received an upfront payment of US$ 20 million and is entitled to receive potential milestone payments of up to US$ 163 million. Milestone payments are linked to certain events, including the development of MOR209/ES414 in multiple indications and the approval in various markets. MorphoSys and Emergent will co-develop MOR209/ES414, with MorphoSys assuming 64% of the research and development expenses and Emergent assuming 36% of these expenses. Emergent will manufacture and supply clinical material from its production facilities in Baltimore, Maryland/USA. Emergent will receive low-single-digit royalties on product sales in the MorphoSys sales regions, and MorphoSys will receive tiered royalties ranging from the mid-single-digits up to 20% on product sales in Emergent's sales regions.

In October, MorphoSys announced the acquisition of the lanthipeptide technology from **Lanthio Pharma** for drug development. The purchase was triggered when MorphoSys exercised an option under an existing agreement between the two companies from November 2012. The decision was based on a feasibility study for the development of high-quality, highly diverse lanthipeptide libraries. By exercising the option, MorphoSys receives the lanthipeptide technology and all related patents. Financial details were not disclosed. MorphoSys intends to continue working on an expanded lanthipeptide platform in the 2015 financial year.

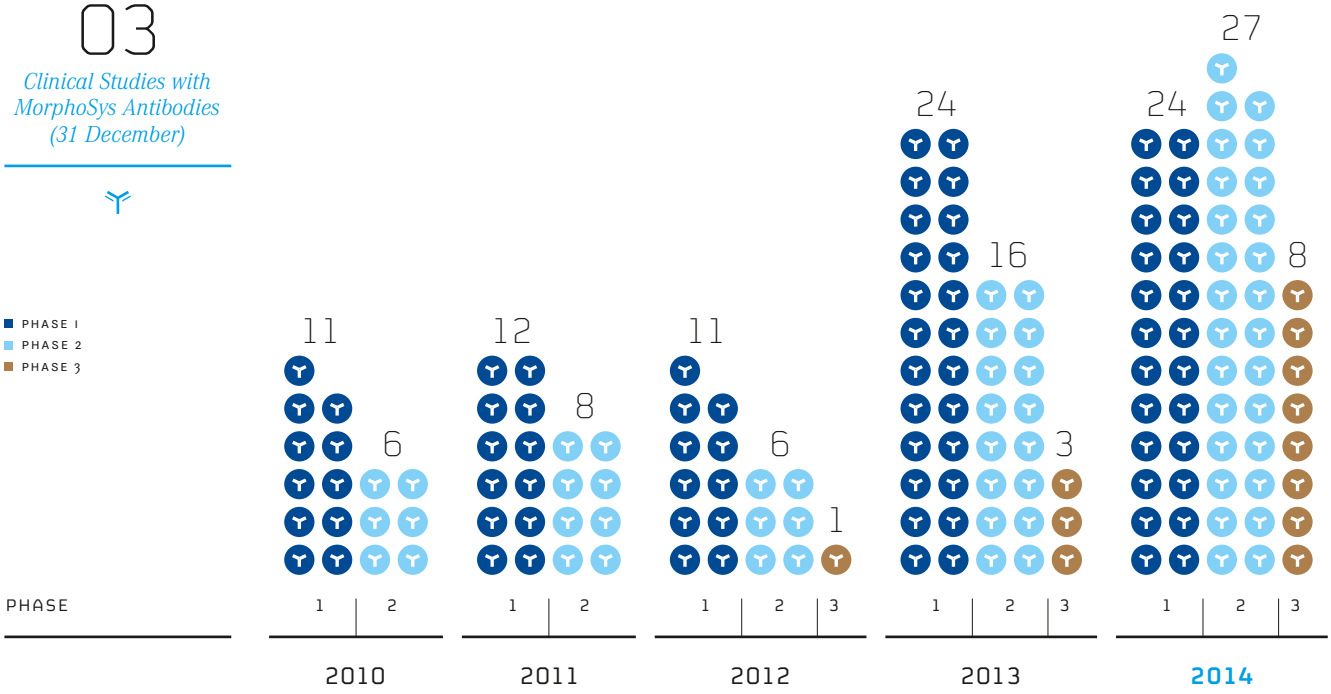
PROJECT INITIATIONS AND PROGRESS, TRIAL EXTENSIONS

In the course of the 2014 financial year, the number of individual therapeutic antibodies in the MorphoSys pipeline grew to a total of 94 (31 December 2013: 81 individual antibodies). Of those, 22 antibodies were in clinical development, 27 in preclinical development and 45 in the discovery phase by the year's end. In the Proprietary Development segment, MorphoSys had ten projects in its portfolio at the end of 2014 (31 December 2013: six). In the Partnered Discovery segment, the number of compounds initiated and developed by our partners grew to 84 programs (31 December 2013: 75).

FIGURE

03

Clinical Studies with MorphoSys Antibodies (31 December)



PROPRIETARY DEVELOPMENT

In the course of 2014, one new clinical trial with a proprietary development candidate, MOR208, has been started.

At the turn of the year 2013/2014, the Ohio State University's (OSU) Department of Internal Medicine, led by Prof. Dr. John Byrd, Director of Hematology, initiated a phase 2 clinical trial to evaluate the efficacy and safety of **MOR208**. The trial tests a combination of MOR208 with the approved drug lenalidomide (trade name: Revlimid®, manufactured by Celgene) in patients with chronic lymphocytic leukemia (CLL). These trials progressed further during the reporting year. The trial is being conducted by the sponsor investigator Dr. Jennifer Woyach, Assistant Professor of Internal Medicine at the OSU, and is expected to enroll up to 40 either untreated CLL patients or those with relapsed/refractory acute forms. As an "investigator sponsored trial" (IST) it is largely funded by the study center. MorphoSys only provides the clinical material of MOR208.

In 2013, MorphoSys fully licensed the **MOR103** program to GlaxoSmithKline, which at the time conducted a phase 1b study in patients with multiple sclerosis. The Company was able to complete this study in the reporting year and to report positive data.

For the **MOR202** program, MorphoSys and its partner Celgene have decided to expand the clinical development plan in multiple myeloma. Cohorts with a weekly dosing schedule, with or without the addition of dexamethasone, will be added to the current dose-escalation trial of MOR202, with a bi-weekly dosing regimen. Cohorts with combination therapy of MOR202 with lenalidomide (trade name: Revlimid®, manufactured by Celgene) and pomalidomide (trade name Pomalyst®, manufactured by Celgene) will start in the middle of 2015.

PARTNERED DISCOVERY

Three antibodies in this segment proceeded into phase 1 clinical development during the 2014 financial year –all from the collaboration with Novartis. In February and October, MorphoSys communicated the successful initiation of clinical trials for two antibodies in the field of ophthalmology. Initiation of a phase 1 clinical trial in oncology was announced in December. All three compounds are fully human HuCAL antibodies. All of these events triggered milestone payments to MorphoSys.

The MorphoSys partner Janssen has brought guselkumab, the HuCAL antibody for the treatment of psoriasis, into phase 3 clinical development. Four different phase 3 studies with more than 2,500 patients planned for recruitment were initiated during 2014. According to the study design, three of studies are to be completed in 2016. This underpins Janssen's previously published plans to submit the compound for approval in the year 2017. The launch of the first phase 3 clinical trial triggered a milestone payment to MorphoSys.

MorphoSys's partner Roche announced the initiation of a new clinical phase 3 trial called Marguerite RoAD. This trial will test the gantenerumab compound on up to 1,000 patients suffering from a mild form of Alzheimer's disease.

In addition, the following studies have either been initiated or announced by the MorphoSys partners:

- A planned Boehringer Ingelheim phase 1 clinical trial with the HuCAL antibody BI 836845 to test the antibody in combination with the enzalutamide compound on up to 160 prostate cancer patients.
- A planned Boehringer Ingelheim phase 1 clinical trial with the HuCAL antibody BI 836845 to test the antibody in combination with the afatinib compound on up to 60 patients with non-small-cell lung cancer.
- A phase 1 clinical trial with the HuCAL antibody BI 836845 conducted in Japan by Boehringer Ingelheim on up to 18 patients with advanced tumors.
- A new study conducted by Janssen on the antibody compound guselkumab, in which it will investigate whether genetic analysis can predict a response to treatment with the compound in psoriasis patients.
- A phase 2 trial with the HuCAL antibody guselkumab conducted by Janssen for the treatment of psoriatic arthritis.
- A phase 2 trial with the HuCAL antibody bimagrumab initiated by Novartis in the USA, Europe and Japan, in which the compound will be tested on up to 210 patients following hip surgery.
- A long-term phase 2/3 trial with the HuCAL antibody bimagrumab to examine the efficacy, safety and tolerability in up to 14 patients with sporadic inclusion body myositis who have already received the antibody during an earlier phase 2 trial. This trial is conducted by Novartis.
- A phase 1 trial with LJM716, which will be tested in combination with the compounds BYL719 and trastuzumab on up to 48 patients with HER2-positive breast tumors. This trial is conducted by Novartis in collaboration with the US Memorial Sloan-Kettering Cancer Center.
- A planned phase 1b combination study with the HuCAL antibody PF-05082566 in combination with the anti-CCR4 antibody mogamulizumab to test the safety and tolerability of the combination in patients with solid tumors. This study is being conducted by Pfizer and Kyowa Hakko Kirin and is scheduled to start in 2015.
- A planned phase 1/2 combination trial with the HuCAL antibody PF-05082566 in combination with Merck's cancer drug MK-3475, a PD-1 inhibitor and conducted by Pfizer and Merck.
- MorphoSys's partner OncoMed was able to continue a previously interrupted phase 1 trial with the antibody compound vantictumab using a modified protocol. The decision of the US Food and Drug Administration FDA was announced in August. Changes to the study protocol include a modified dosage regimen, a change in inclusion criteria, the closer monitoring of patients and measures to counteract the effects on bone metabolism.

In addition, the following trials conducted by MorphoSys's partners were stopped:

- Novartis withdrew a phase 2 study with bimagrumab for mechanically ventilated patients before patients were admitted to the trial.
- In December 2014, Roche announced the completion of the phase 3 trial of the gantenerumab compound in prodromal Alzheimer's disease patients. Two other advanced trials in patients with mild Alzheimer's disease and in individuals with a genetic predisposition to Alzheimer's disease are still in progress.

Overall, 19 antibody programs in clinical development conducted by partners were tested in more than 50 trials.

CLINICAL STUDY DATA FROM CURRENT PROJECTS

PROPRIETARY DEVELOPMENT

In September, clinical data from the phase 1b trial in multiple sclerosis for the **MOR103** program (fully out-licensed to GSK) was presented at the ACTRIMS-ECTRIMS meeting. The data substantiated earlier trial results on the tolerance of MOR103 and showed the first signs of efficacy. At the trial's completion, the full responsibility for further development was transferred to the MorphoSys partner GlaxoSmithKline. Therefore, the decision of whether MOR103 will be developed for the indication of multiple sclerosis in addition to rheumatoid arthritis lies with GlaxoSmithKline.

In December, MorphoSys published promising clinical data from the ongoing phase 2 study of **MOR208** for the treatment of non-Hodgkin's lymphoma (NHL) at the 56th Annual Meeting of the American Society of Hematology (ASH). The data was generated from the treatment of 89 patients with four different NHL subtypes and shows that MOR208 was well tolerated as monotherapy and has shown encouraging signs of efficacy. The study examines MOR208 antibody in patients with follicular lymphoma (FL*), mantle cell lymphoma (MCL), diffuse large B-cell lymphomas (DLBCL*) and other indolent NHL forms. Patients received a weekly dose of the antibody during the first eight weeks of treatment. Patients in which this dosage resulted in at least a stabilization of the disease were given MOR208 for another four weeks. After this 12-week treatment program, patients who responded to therapy switched to maintenance therapy with bi-weekly dosing up to the time of progression. This approach has confirmed promising development options for MOR208, particularly the subtypes DLBCL and FL. In both subpopulations, the administration of the compound demonstrated cases of complete clinical response as well as a partial response.

MorphoSys presented further preclinical data at the ASH conference for the **MOR202** program which studied a combination of the compound with pomalidomide. The results showed a synergistic interaction between the two compounds and an increased ability to kill cancer cells. The combination of MOR202 and pomalidomide is set for clinical testing during the 2015 financial year.

PARTNERED DISCOVERY

MorphoSys's partner Janssen presented promising data on the anti-inflammatory HuCAL antibody guselkumab at the 72nd Annual Meeting of the American Academy of Dermatology. The data originated from the X-PLORE study that tested guselkumab in 293 patients with moderate to severe psoriasis. Guselkumab binds specifically the target molecule IL-23 and thus differs from Janssen's approved drug Stelara® which neutralizes IL-23 as well as IL-12.

According to the results published, the randomized phase 2b study conducted at multiple study centers and using several dosages of guselkumab in comparison to placebo and adalimumab (trade name Humira®, manufactured by AbbVie) achieved the trials primary objective. The compound significantly reduced typical psoriasis symptoms in patients after 16 weeks as measured by the Physician's Global Assessment (PGA) value of 0 (cleared) or 1 (minimal). A total of 34 % of patients achieved these values at the lowest dose of 5 mg. The best result at a dose of 100 mg was 86 % in comparison to approximately 7 % in the placebo group and around 58 % when treated with adalimumab. In addition, guselkumab is currently in a phase 2 clinical trial in psoriatic arthritis (PsA).

At the ASCO Annual Meeting and the AACR conference – two of the most important international conferences in oncology – data was presented from the trials of several of our partnered programs. The results from programs such as PF-05082566, tarextumab, LJM716 and BI 836845 support the development of these projects.

MorphoSys's partner OncoMed published a number of preclinical and clinical research findings during the year on the two HuCAL programs tarextumab and vantictumab. In late September, OncoMed presented clinical data on tarextumab at the Congress of the European Society for Medical Oncology (ESMO) in Madrid. The interim results of ongoing studies substantiated the promising potential of the antibody in the area of pancreatic cancer and non-small-cell lung cancer.

REGULATORY EVENTS

PROPRIETARY DEVELOPMENT

In May 2014, the US Food and Drug Administration confirmed the orphan drug status for the MOR208 project for the treatment of chronic lymphocytic leukemia (CLL) and small-cell lymphocytic lymphoma (SLL*). In addition, MorphoSys has received a positive recommendation from the European Medicines Agency EMA* to grant MOR208 the status as a medicinal product for rare disorders (orphan medicinal product) in the same indications. The EMA's recommendation was confirmed later in the year by the European Commission.

*SEE GLOSSARY PAGE 128

The designation "orphan drug" and "orphan medicinal product" are awarded by the US and European health authorities to support the development of promising drug candidates for diseases affecting fewer than 200,000 patients in the US or not more than five for every 10,000 people in the European Union. The receipt of this classification is accompanied by benefits such as seven years of market exclusivity following approval in the United States and ten years in the European Union. Other potential benefits may be in the form of support for protocols, the opportunity to apply for research funding, tax benefits for certain research expenses and waived fees for regulatory processes.

In November, MorphoSys announced that the US Food and Drug Administration (FDA) had awarded the MOR208 program fast-track designation. The FDA's fast track program promotes the accelerated development and testing of compounds that have the potential to meet unmet medical need of serious or even life-threatening diseases. Working more closely with the FDA, which is made possible through this program, could accelerate the development of MOR208 for patients with this particular type of non-Hodgkin's lymphoma.

Shortly before the end of the year, the US and European health authorities also confirmed the award of orphan drug and orphan medicinal product status for the MOR208 project for the treatment of diffuse large B-cell lymphoma (DLBCL).

The MOR208 compound program was significantly strengthened by the regulatory decisions taken in the course of the financial year, particularly those in the disease areas DLBCL and CLL, for which positive clinical data already exists and new data is expected to be generated.

During 2014, there were no relevant regulatory decisions announced by the Partnered Discovery segment.

PATENTS

During the 2014 financial year, MorphoSys continued to consolidate and expand the patent protection of its development programs and its growing technology portfolio – the Company's most important value drivers.

The US Patent and Trademark Office (USPTO) granted further patents for the Company's most recent antibody library, Ylanthia, which has been commercially available for new and existing partners since 2012. The first US patent was granted in the first quarter of the past year. The State Intellectual Property Office of the People's Republic of China also granted a patent related to this technology.

In addition, MorphoSys acquired the lanthipeptide technology and all related intellectual property from the Dutch company Lanthio Pharma.

Currently, the Company maintains more than 40 different proprietary patent families worldwide in addition to the numerous patent families it pursues in collaboration with its partners.

Group Headcount Development

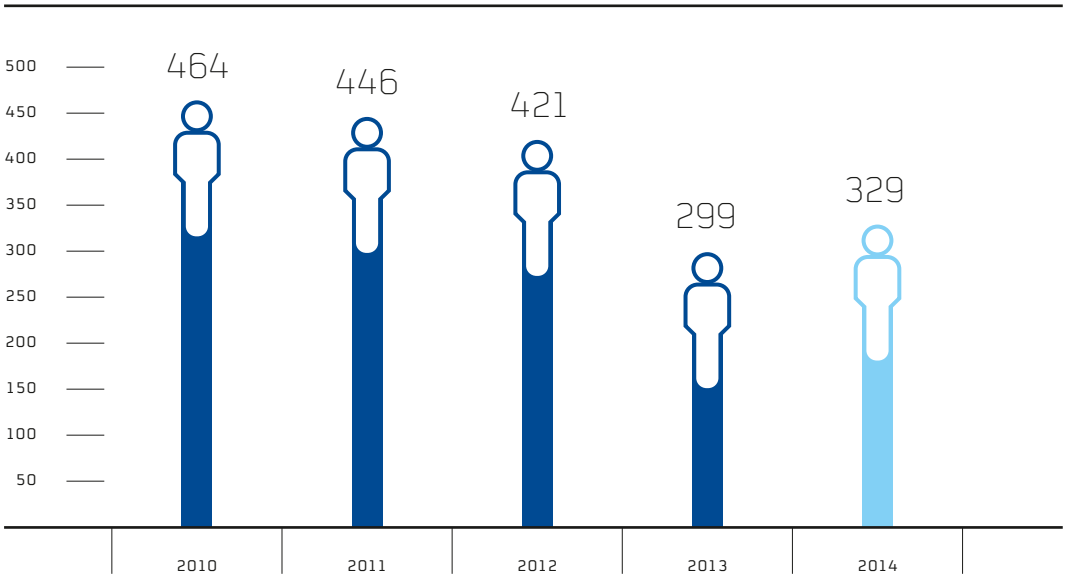
MorphoSys's success is based on its highly qualified staff and their creativity and motivation. On 31 December 2014 there were 329 employees at the MorphoSys Group (31 December 2013: 299), of whom 124 hold Ph.D. degrees (31 December 2013: 118). The MorphoSys Group had an annual average of 315 employees in 2014 (2013: 290).

It is crucial for a company to have a competitive and attractive remuneration system when competing for the best employees. In order for MorphoSys to compete successfully as an employer, an annual comparison of the compensation paid in the biotech industry and in other industries comparable with MorphoSys is carried out and, if necessary, the salary structure is adjusted accordingly. On 1 January 2014, an adaptation of the existing remuneration system was launched in order to better meet the changing requirements of a modern compensation system. This adaptation involves a shift of some elements of variable compensation in favor of fixed compensation. This adaptation applies to all employees with the exception of the Management Board. Thus, the annual bonus is now linked exclusively to the achievement of corporate goals. A "spot bonus" was also introduced and promptly rewards ("on the spot") any exceptional accomplishments of employees.

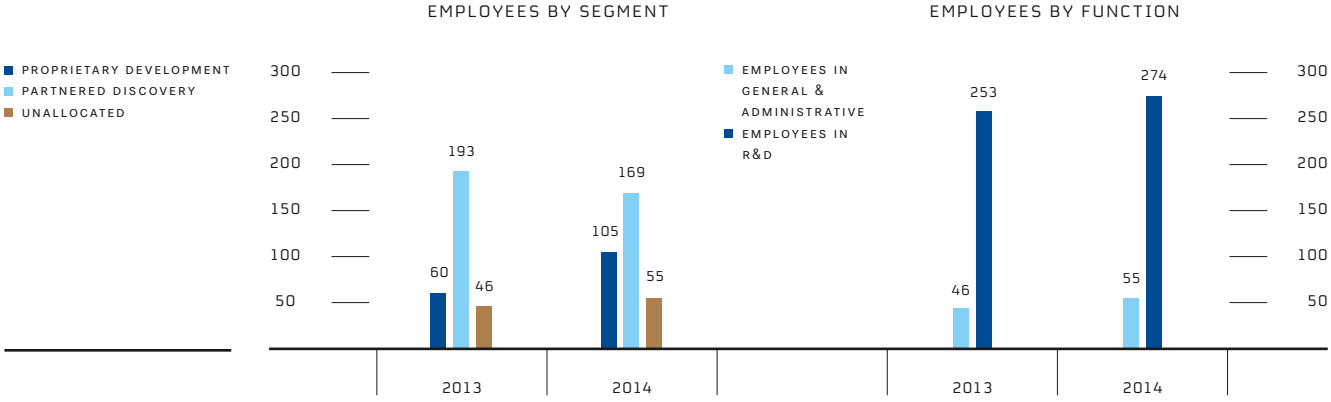
The chapter titled "Sustainable Business Development" contains a detailed overview of headcount development and MorphoSys's activities for promoting successful long-term efforts in human resources.

FIGURE 04

Headcount of the MorphoSys Group (31 December)[1]



[1] 2010 to 2012 includes employees of research and diagnostic segment AbD Serotec, which was sold as of 10 January 2013 (closing date)



Changes in the Business Environment

Uncertainty in the financial markets and geopolitical tensions during the year brought global economic growth to another standstill. At the end of the year, the OECD reported a rather subdued global growth rate of 3.3% and growth of a meager 0.8% for the eurozone.

The escalation of conflicts in Ukraine and the Middle East had a significant negative impact on economic activity, particularly in Europe. In several of the industrialized countries, special factors had a dampening effect on economic development and caused quarterly fluctuations in production. Although the unusually harsh winter in the United States at the start of the year resulted in dwindling economic activity, American economic development picked up again in the course of the year and, according to OECD

estimates, entered the new year with a growth rate of about 2.2%. Japan's economic development was overshadowed by the VAT increase and grew only 0.4%. In addition to their economic problems, emerging markets suffered from weaker growth momentum. China, however, managed to announce economic growth of around 7%, but still battled with factors threatening its financial stability.

In Germany, the economic environment remained challenging. In November, the Centre for European Economic Research (ZEW) reported some stabilization in the economy and thus a cautiously rising economy.

Toward the year's end, several indicators pointed to a slow rise in global economic activity. The improvement, however, was limited mainly to the advanced economies and especially the United States. In comparison, the economic climate indicators for the whole of Europe and the emerging markets have been mixed until recently. Experts believe that the world economy will continue to expand moderately for the time being but will remain vulnerable to setbacks.

The uneven economic recovery in Europe and geopolitical tensions also pose serious risks to the growth of the global pharmaceutical and biotechnology industries. MorphoSys steers its entrepreneurial activities while weighing all of the potential risks and opportunities, including those in the macroeconomic environment. Nevertheless, global political uncertainties did not cause us to refrain from or modify any crucial activities during the past financial year. Fluctuations within individual countries had no influence on MorphoSys's operations. In this respect, global economic developments had no immediate impact on the Company's business performance.

REGULATORY ENVIRONMENT

The healthcare industry's regulatory environment is dominated by ever higher standards of product quality, safety and effectiveness, and places high demands on the companies. Novel drugs must demonstrate a significant benefit over existing therapies in order to be approved, gain the acceptance of the market and receive funding from the healthcare system. The industry is also heavily restricted in its pricing due to the legal requirements of the healthcare system, which are dominated by the issue of cost savings, particularly in Europe.

Despite continued pressure on the industry, the situation in the market seems to be improving gradually, particularly in the USA. In 2014, the US FDA granted approval to 41 drugs – significantly more than in the previous year (2013: 27 drugs). Twenty biotechnological compounds were among the compounds approved. This highlights the importance for the industry of continuous innovation in order to develop technologically advanced products and optimize treatments already approved.

The FDA promotes compounds with exceptional drug potential through measures such as the "breakthrough therapy designation," introduced in 2013, and the "fast track" program, which help expedite product development and testing. In November, the FDA also issued fast track status to MorphoSys's proprietary compound MOR208, which is currently in a phase 2 clinical trial for patients suffering from diffuse large B-cell lymphoma (DLBCL). Closer cooperation with the audit and approval authorities facilitates the targeted development of the antibody and may help to bring it faster to the market.

DEVELOPMENT OF THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTORS

The price pressure on drug suppliers in the past year was clearly evident, especially in competitive indications such as oncology or multiple sclerosis. Competitive pressure on providers in the generics market also grew. Specifically, generic versions of biopharmaceuticals, called biosimilars, represent an important and increasingly competitive growth market. This trend is expected to continue in the coming years, as some of the best-selling biological compounds will lose their patent protection.

Given the global aging population and market developments in emerging markets such as China and India, the general growth trend in the healthcare industry continues unabated. The US market research firm IMS Health estimates that the worldwide revenues of the pharmaceutical industry in 2014 were well over a trillion dollars – an almost 20% increase over the previous year. At around 40%, North America still generates the lion's share of global industry sales.

The appreciable economic recovery and local healthcare reform had a positive impact on the US market in particular. The US pharmaceutical industry benefited from fewer patent expiries than in previous years, the launch of innovative products and a significant rise in drug prices. The market was particularly excited about the new hepatitis C drug Sovaldi®, which was placed on the market by Gilead Sciences with great success and at a price of approx. US$ 1,000 per tablet.

In Europe, the generally weak economic situation and restrained spending in the healthcare sector in connection with some countries' debt reductions led to comparatively weak revenue growth. The need to promote innovation was also evident in Europe. At least European biotechnology companies made a conservative comeback on the stock markets compared to their peers in the USA. In 2014, ten biotech companies went public on European stock exchanges. The principal reason for this positive development was the tax incentives available for innovative companies, such as those available in France, and an internationally visible growth segment, such as seen in the UK. Germany could not participate in this trend, however, and had not one single new IPO from this industry. The stagnation in both sales and research investment in Germany is probably due in part to the rather adverse conditions: Cost considerations are making it increasingly difficult for businesses to establish a proprietary research pipeline due to the absence of tax incentives for research and development and a distinct lack of venture capital. In addition, innovative vendors, also those outside of Germany, are being placed under pressure by the growing generics market.

DEVELOPMENT OF THE ANTIBODY SECTOR

Antibody compounds in cancer immunotherapy monopolized the headlines in the 2014 financial year. The international ASCO Meeting in June was also dominated by these compounds. Roche, Merck & Co., Bristol-Myers Squibb and various other companies presented promising clinical results of studies in areas such as melanoma, bladder cancer and lung cancer. In 2014, anti-PD1 antibodies represented an important class of drugs approaching market readiness. In July, the compound nivolumab, developed by the pharmaceutical company Bristol-Myers Squibb, received approval in Japan for the treatment of unresectable melanoma. The compound pembrolizumab, developed by Merck, Inc. in the USA, is a new antibody for the treatment of patients with malignant melanoma. This compound received approval in the United States under the trade name Keytruda®.

With antibodies against the target molecule PCSK9, a class of antibodies took a step into the last phase of clinical development in 2014. This opens up a whole new disease area for the treatment of high blood pressure and high cholesterol and demonstrates once more the diversity of these compounds' potential applications.

In addition, the following antibodies were granted approval in 2014:

- The angiogenesis inhibitor ramucirumab (trade name: Cyramza®), a first monoclonal antibody for the treatment of patients with advanced gastric cancer, was approved in the United States.
- The compound siltuximab (trade name: Sylvant®) was approved for the treatment of patients with Castleman's disease.
- The antibody vedolizumab (trade name: Entyvio®), used to treat moderate to severe ulcerative colitis or Crohn's disease, received approval.

CURRENCY DEVELOPMENTS

In 2014, the euro weakened again as a result of the debt crises. Falling energy prices put even more downward pressure on inflation in Europe. This is increasing the worries of monetary authorities about deflation or a spiral of falling prices and a shrinking economy. Therefore, the European Central Bank decided to purchase government bonds in large scale to avert the threat of deflation in the euro area. The currency suffered as a result and, at around US$ 1.23 in 2014, the euro was at its lowest level since 2010.

Since the Company's business is carried out mainly in euros and US dollars, changes in these two currencies may have an effect on MorphoSys's costs and revenues in the future. The ongoing weakening of the euro against the US$ has a direct impact on the operational result, as costs for clinical studies occur at an increasing extent in the US.

Analysis of Net Assets, Financial Position and Results of Operations

As of 31 December 2014, the scope of consolidation of the MorphoSys Group had changed. Next to MorphoSys AG, the consolidated financial statements of 31 December 2014 include Sloning BioTechnology GmbH and Poole Real Estate Ltd. (formerly Biogenesis UK Ltd.). Further information on the Group's organizational structure can be found on page 11.

Revenues

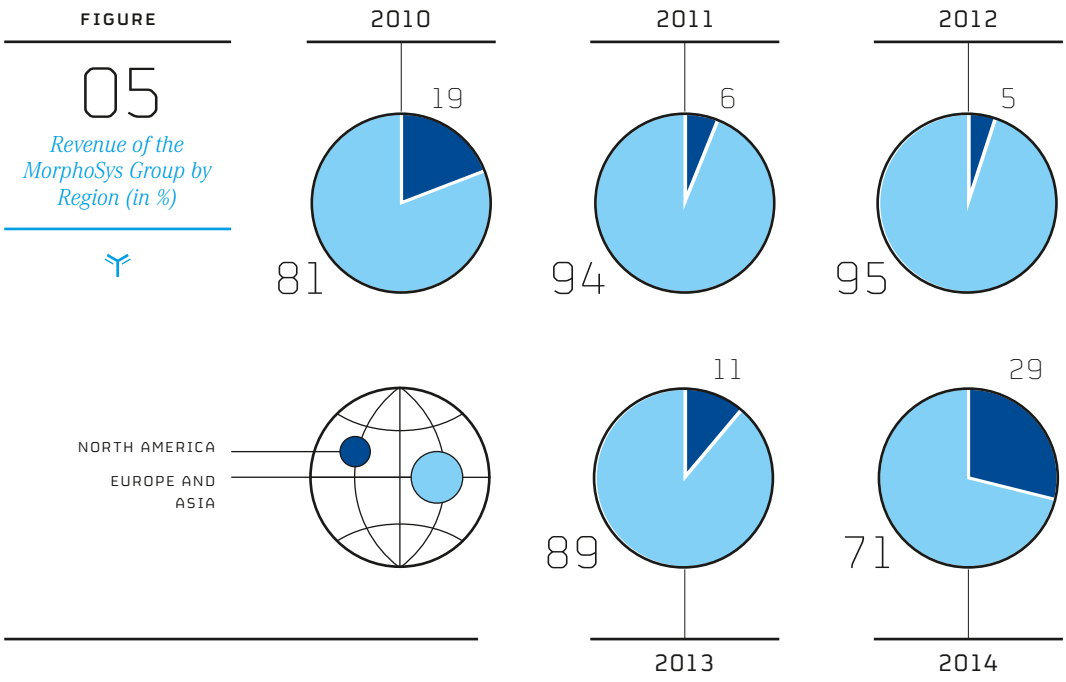
Compared to the previous year, Group revenues declined by 18 % to € 64.0 million (2013: € 78.0 million). This decline resulted primarily from non-recurring effects in relation to the out-licensing of MOR103 to GlaxoSmithKline and from license fees from the sale of the AbD Serotec business unit to Bio-Rad in 2013.

On a geographical basis, MorphoSys achieved 29 %, or € 18.6 million, of its commercial revenues with biotechnology and pharmaceutical companies and with non-profit organizations headquartered in North America and 71 % or € 45.4 million with customers primarily located in Europe and Asia. In the comparable period of the previous year, these shares were 11 % and 89 %, respectively.

SEE FIGURE 05, REVENUE OF THE MORPHOSYS GROUP BY REGION

FIGURE 05

Revenue of the MorphoSys Group by Region (in %)



PROPRIETARY DEVELOPMENT AND PARTNERED DISCOVERY SEGMENTS

In 2014, the Proprietary Development segment achieved revenues of € 15.0 million (2013: € 26.9 million). These revenues were mainly from co-development activities with Celgene. The decline in comparison to the previous year was affected significantly by an upfront payment recognized in 2013. This payment resulted from out-licensing the MOR103 antibody program to GlaxoSmithKline.

Revenues from the Partnered Discovery segment included € 43.6 million in funded research and license fees (2013: € 48.0 million) and € 5.4 million in success-based payments (2013: € 3.0 million). Success-based payments amounted to 8% (2013: 4%) of the total revenues of the Partnered Discovery and Proprietary Development segments. The decline in license fees was driven by a non-recurring effect in the first half of 2013 resulting from the sale of the AbD Serotec business unit to Bio-Rad. As part of this sale, Bio-Rad was granted a non-exclusive license for the use of the HuCAL technology in the market for research reagents* and diagnostics.

SEE FIGURE 06, REVENUES PROPRIETARY DEVELOPMENT AND PARTNERED DISCOVERY

Approximately 92% of Group revenues were attributable to our partners Novartis, Celgene and Centocor (2013: 88% with Novartis, GlaxoSmithKline and Bio-Rad).

Assuming the average foreign exchange rates of 2013, revenues of the Proprietary Development and Partnered Discovery segments would have remained unchanged.

*SEE GLOSSARY PAGE 128

FIGURE

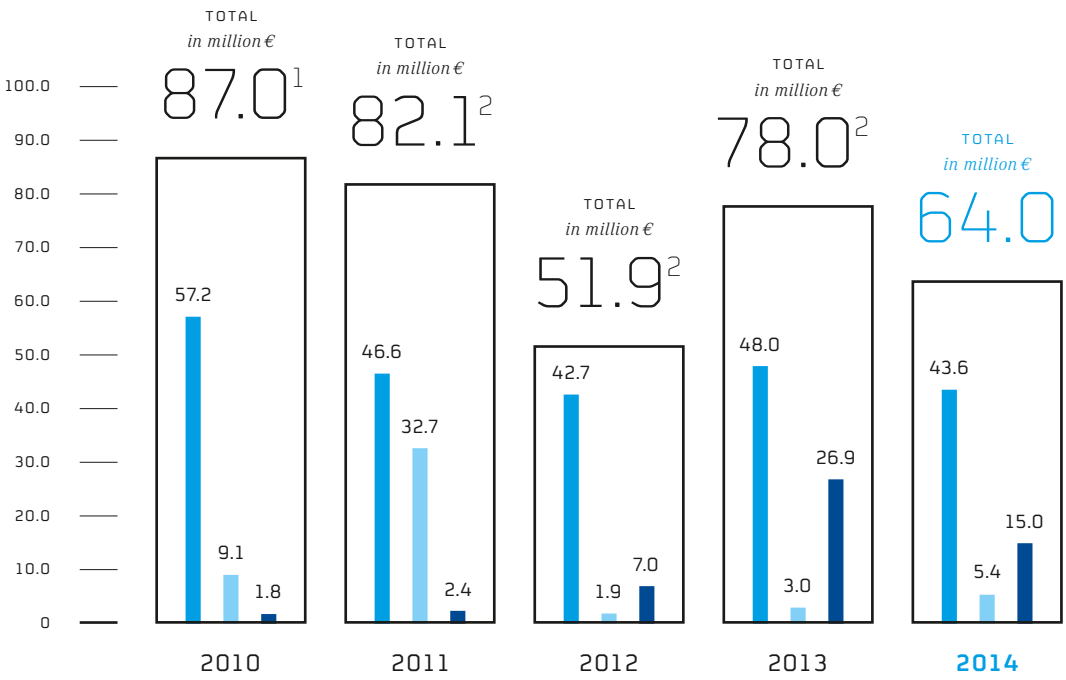
06

Revenues Proprietary Development and Partnered Discovery

[1] thereof AbD Serotec: 2010: 20.1

[2] Group revenues from continuing operations

- **PARTNERED DISCOVERY SEGMENT:** FUNDED RESEARCH AND LICENSING FEES
- **PARTNERED DISCOVERY SEGMENT:** SUCCESS-BASED PAYMENTS
- **PROPRIETARY DEVELOPMENT SEGMENT**



Operating Expenses

In 2014, operating expenses increased 3 % to € 70.1 million (2013: € 67.9 million). These expenses consisted of research and development expenses of € 56.0 million (2013: € 49.2 million) and general and administrative expenses of € 14.1 million (2013: € 18.8 million).

Operating expenses increased in the Proprietary Development segment (2014: € 33.5 million; 2013: € 27.5 million) and declined in the Partnered Discovery segment (2014: € 23.0 million; 2013: € 25.5 million).

Personnel expenses resulting from share-based payments are included in general and administrative expenses, as well as in research and development expenses. In 2014, these amounted to € 4.0 million (2013: € 5.1 million) and represent a non-cash expenditure. The decline is primarily due to a change of the calculation methodology for the LTI programs for the years 2011 and 2012 following its implementation in 2013.

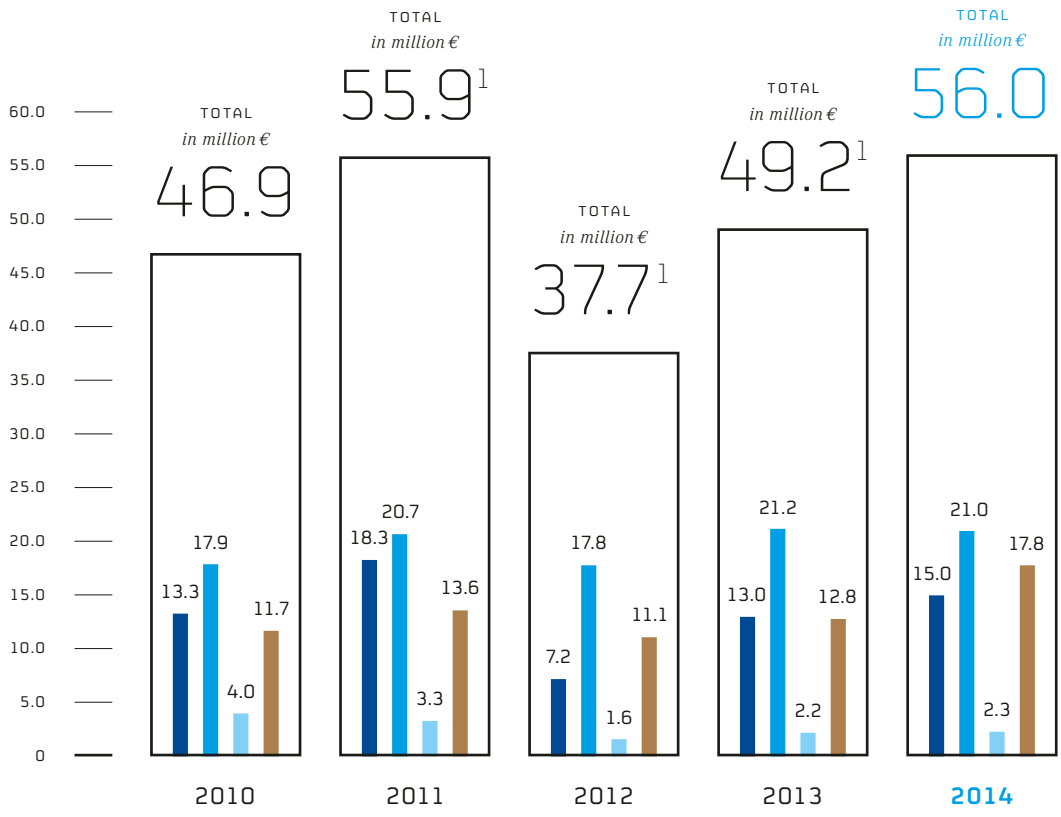
RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased by € 6.8 million in 2014 to a total of € 56.0 million (2013: € 49.2 million). These expenses were composed of personnel expenses (2014: € 21.0 million; 2013: € 21.2 million), costs for external laboratory services (2014: € 14.9 million; 2013: € 13.0 million), amortization and other costs of intangible assets (2014: € 8.1 million; 2013: € 5.1 million), expenses for technical infrastructure (2014: € 4.1 million; 2013: € 4.2 million), expenses for third-party services (2014: € 2.7 million; 2013: € 1.1 million), expenses for consumables (2014: € 2.3 million; 2013: € 2.2 million) and other expenses (2014: € 2.9 million; 2013: € 2.3 million). Amortization and other costs of intangible assets in 2014 included impairment on patents, licenses and laboratory equipment amounting to € 4.1 million (2013: € 1.2 million).

FIGURE

07

Selected R&D Expenses



[1] Due to the sale of substantially all of the AbD Serotec operating segment with of closing date of 10 January 2013, the figures for the years 2011 to 2013 refer only to continuing operations.

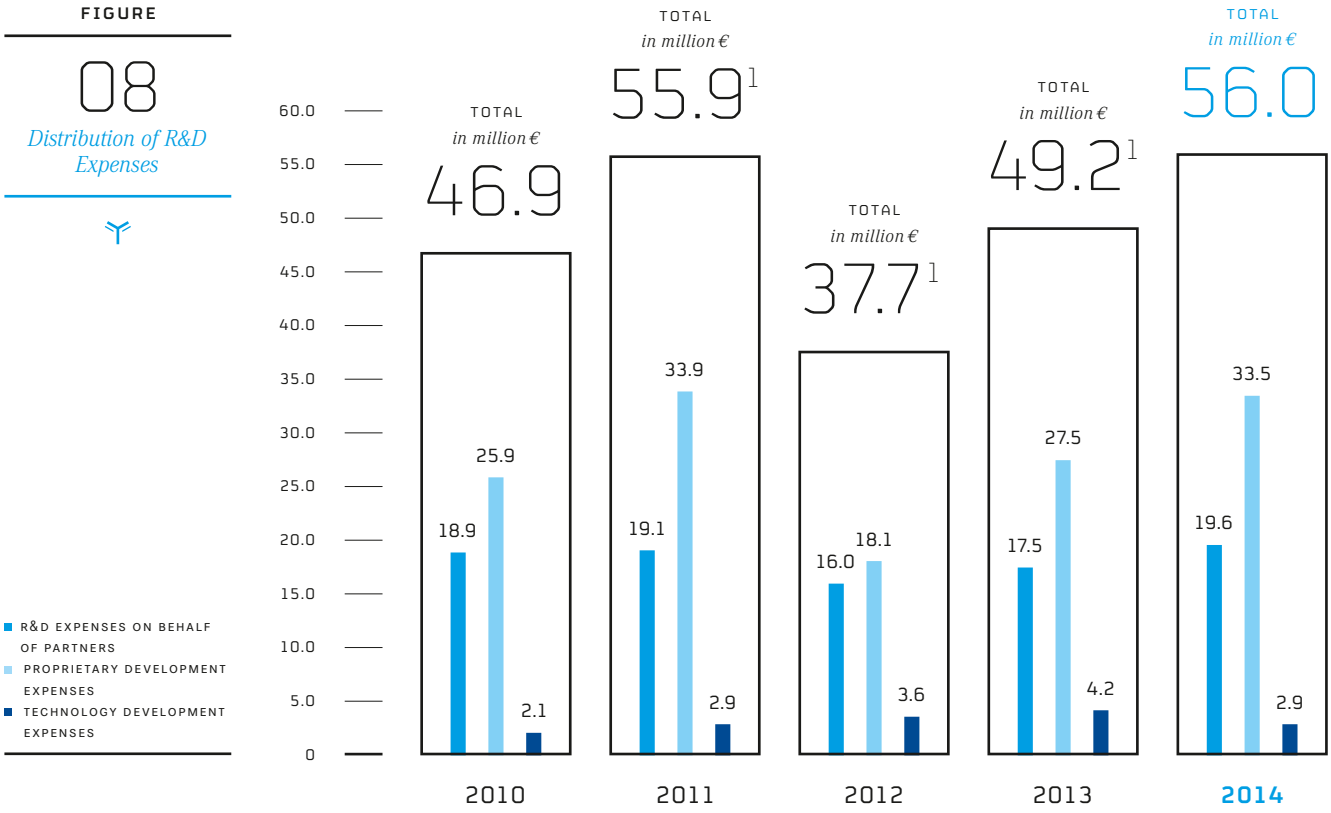
[2] Other includes expenses for intangible assets, technical infrastructure, and external services

- EXTERNAL LABORATORY FUNDING
- PERSONNEL
- CONSUMABLES
- OTHER[2]

FIGURE

08

Distribution of R&D Expenses



In 2014, the Company incurred expenses for proprietary product development of € 33.5 million (2013: € 27.5 million) and expenses for technology development of € 2.9 million (2013: € 4.2 million).

SEE FIGURE 08, DISTRIBUTION OF R&D EXPENSES

GENERAL AND ADMINISTRATIVE EXPENSES

At € 14.1 million (2013: € 18.8 million), general and administrative expenses were below the level of the prior year. This item mainly comprised personnel expenses (2014: € 9.6 million; 2013: € 11.3 million), expenses for third-party services (2014: € 2.7 million; 2013: € 4.1 million), expenses for technical infrastructure (2014: € 0.8 million; 2013: € 1.3 million) and other expenses (2014: € 0.8 million; 2013: € 1.2 million).

Other Income and Expenses

Other income amounted to € 0.8 million (2013: € 0.8 million) and mainly comprised currency gains and the recovery of receivables impaired in previous years as a result of incoming payments. Other expenses of € 0.6 million (2013: € 0.9 million) mainly consisted of currency losses.

EBIT

Earnings before interest and taxes (EBIT) amounted to € – 5.9 million compared to an EBIT of € 9.9 million in the previous year. The EBIT from the Proprietary Development segment amounted to € – 18.4 million (2013: € – 0.5 million) while the Partnered Discovery segment achieved an EBIT of € 25.9 million (2013: € 25.4 million).

Finance Income and Expenses

Finance income totaled € 1.8 million (2013: € 0.9 million) and mostly included interest income and gains from the sale of securities. Finance expenses of € 0.2 million (2013: € 0.1 million) were mainly the result of bank fees.

Taxes

For the year 2014, the Group reported an income tax benefit of € 1.3 million (2013: income tax expense of € 3.3 million) which consists of a current tax expense of € 0.3 million and deferred tax income of € 1.6 million.

Results from Continuing Operations

In 2014, continuing operations reported a net result of € – 3.0 million (2013: € 7.4 million). The resulting basic net result per share for the year 2014 amounted to € – 0.12 (2013: € 0.30).

Results from Discontinued Operations

In 2014, the Group did not have any discontinued operations in accordance with IFRS 5 and therefore a profit/loss from discontinued operations was not reported (2013: € 6.0 million from the sale of substantially all of the AbD Serotec business unit to Bio-Rad).

Consolidated Net Profit/Loss for the Period

In 2014, a net result of € – 3.0 million was generated (2013: € 13.3 million). The resulting 2014 basic net result per share amounted to € – 0.12 (2013: € 0.54).

TABLE 05

Multiple-Year Overview – Income Statement

in million €	2014	2013[1]	2012[1]	2011[1]	2010
Revenues	64.0	78.0	51.9	82.1	87.0
Cost of Goods Sold	0	0	0	0	7.3
Gross Profit	64.0	78.0	51.9	82.1	79.7
Research and Development Expenses	56.0	49.2	37.7	55.9	46.9
General and Administrative Expenses	14.1	18.8	12.1	14.9	23.2
Other Income/Expenses[2]	0.2	(0.1)	0.3	(1.5)	0.2
EBIT[2,3]	(5.9)	9.9	2.5	9.8	9.8
Finance Income/Expenses[2]	1.6	0.8	0.6	1.4	3.4
Income Tax Income/Expenses	1.3	(3.3)	(0.7)	(3.0)	(4.0)
Profit/(Loss) for the Year from Continuing Operations	(3.0)	7.4	2.4	8.2	9.2
Profit/(Loss) for the Year from Discontinued Operations[1]	0	6.0	(0.4)	0.01	0
Consolidated Net Profits/(Loss)	(3.0)	13.3	1.9	8.2	9.2

[1] Due to the sale of substantially all of the AbD Serotec business agreed in December 2012, line items in the income statement related to this transaction are recorded in a single line titled "Results from discontinued operations" from the year 2011 onwards. Other line items contain the results of the continuing operations.
[2] To improve comparability with the peer group, MorphoSys changed the structure of its income statement in 2012 and now reports EBIT instead of the results from normal business activities.
[3] 2010: Result from operating activities

Financial Position

PRINCIPLES OF FINANCIAL MANAGEMENT

At MorphoSys, the primary objective of financial management is to have sufficient liquidity reserves available for industry-specific fluctuations and for the continued growth of the Company at all times. The main source of this liquidity is the operational business activities of the various parts of the Company and the resulting cash inflows. Scenario projections and cash flow projections are used to determine our liquidity requirements.

CASH FLOWS*

The net cash outflow from operating activities totaled € 14.2 million in 2014 (2013: cash inflow of € 89.1 million).

*SEE GLOSSARY PAGE 128

In 2014, the Company invested in various financial assets such as available-for-sale securities and bonds, short-term commercial paper and fixed-term deposits. These investments resulted in a cash outflow of € 21.5 million (2013: cash outflow of € 193.9 million).

In 2014, financing activities led to a cash outflow of € 3.9 million (2013: cash inflow of € 130.6 million).

INVESTMENTS

In 2014, MorphoSys made investments in property, plant and equipment totaling € 2.9 million (2013: € 1.0 million). Depreciation of property, plant and equipment amounted to € 1.4 million in 2014 compared with € 1.5 million in 2013.

The Company invested € 17.6 million in intangible assets in 2014 (2013: € 4.5 million). Amortization of intangible assets amounted to € 2.7 million in 2014 and was below the level of the prior year (2013: € 3.3 million). In 2014, impairments of € 4.1 million (2013: € 1.1 million) were recognized on patents, licenses and laboratory equipment.

LIQUIDITY

As of 31 December 2014, the Company held liquid funds, marketable securities and other financial assets of € 352.8 million compared to € 390.7 million on 31 December 2013.

This amount comprises cash and cash equivalents of € 32.2 million (31 December 2013: € 71.9 million), marketable securities and bonds amounting to € 113.5 million (31 December 2013: € 199.5 million) as well as other financial assets totaling € 157.0 million (31 December 2013: € 119.3 million), which were reported in the category "loans and receivables" under "other receivables." Further investments totaling € 50.0 million categorized as "loans and receivables" were reported on 31 December 2014 as "other receivables" under non-current assets (31 December 2013: € 0 million).

The € 37.9 million decline in liquidity, marketable securities and other financial assets was mainly due to the use of cash and cash equivalents for the operating activities in 2014 and for a payment to Emergent.

TABLE 06

Multiple-Year Overview – Financial Situation

in million €	2014	2013	2012	2011	2010
Net Cash Provided by/Used in Operating Activities[1]	(14.2)	89.1	1.8	27.1	1.9
Net Cash Provided by/Used in Investing Activities	(21.5)	(193.9)	(12.1)	(18.1)	(2.0)
Net Cash Provided by/Used in Financing Activities[1]	(3.9)	130.6	1.6	1.3	2.3
Cash and Cash Equivalents (as of 31. December)[2]	32.2	71.9	40.7	54.6	44.1
Available-for-sale Financial Assets	106.0	188.4	79.7	79.8	64.3
Bonds, Available-for-sale	7.5	11.1	0	0	0
Financial Assets Categorized as "Loans and Receivables" Current Portion	157.0	119.3	10.0	0	0
Financial Assets Categorized as "Loans and Receivables" Net of Current Portion	50.0	0	0	0	0

[1] In 2011, purchases of derivative financial instruments and proceeds from the sale of derivative financial instruments were reclassified from financing activities to operating activities in the statement of cash flows. In order to provide comparative information for the previous year, the figures for 2010 have been adjusted accordingly

[2] In 2012, € 5.3 million in cash and cash equivalents was recorded under assets of disposal group classified as held for sale.

Net Assets

ASSETS

As of 31 December 2014, total assets amounted to € 426.5 million or € 21.2 million below the value on 31 December 2013 (€ 447.7 million). The decline in current assets of € 84.2 million was mainly due to the use of cash and cash equivalents for operating activities in 2014 and due to an investment in non-current financial assets of € 50.0 million.

The majority of cash was invested in various securities. As of 31 December 2014, an amount of € 106.0 million (31 December 2013: € 188.4 million) was invested in various money market funds which were reported in the line item "securities, available for sale." The line item "bonds, available for sale" contained bonds in the amount of € 7.5 million (31 December 2013: € 11.1 million).

Other receivables increased from € 119.5 million as of 31 December 2013 to € 157.1 million. This line item mainly included different types of investments that were classified as "loans and receivables." The partial amount of € 4.7 million of the purchase price for the divested business AbD Serotec was retained in an escrow account as of 31 December 2013 and released in the third quarter of 2014.

In comparison to 31 December 2013, non-current assets increased by € 63.0 million, mainly due to a long-term investment of liquid funds in the amount of € 50.0 million and due to a € 15.4 million rise in intangible assets under development resulting from the payment to Emergent. This increase was partially offset by an impairment of € 4.1 million on patents, licenses and laboratory equipment.

LIABILITIES

The decrease in current liabilities from € 35.4 million on 31 December 2013 to € 32.7 million on 31 December 2014 resulted primarily from a decrease in the item "tax liabilities" of € 1.9 million and a decline in "deferred revenue" of € 1.2 million. These declines were partially compensated by the increase in "trade payables and accrued expenses" of € 0.6 million.

Non-current liabilities (31 December 2014: € 45.0 million; 31 December 2013: € 60.1 million) declined by € 15.1 million in comparison to 31 December 2013 mainly due to the decrease in deferred revenue.

STOCKHOLDERS' EQUITY

As of 31 December 2014, Group equity totaled € 348.8 million compared to € 352.1 million on 31 December 2013.

The number of shares issued totaled 26,456,834 as of 31 December 2014 of which 26,005,944 shares were outstanding (31 December 2013: 26,220,882 and 25,880,992 shares, respectively).

Compared to 31 December 2013, the number of authorized ordinary shares increased from 2,335,822 to 4,957,910. This resulted from the creation of the new Authorized Capital 2014-I at the Annual General Meeting of 23 May 2014. The number of ordinary shares of conditional capital decreased from 8,057,470 to 7,166,848 as the Conditional Capital 1999-I in the amount of € 70,329 and the Conditional Capital 2008/II in the amount of € 212,077 were canceled. Conditional Capital 2003-II was reduced by € 372,264 from € 725,064 to € 352,800. A further reduction of Conditional Capital 2003-II of € 235,952 to a total of € 116,848 resulted from the exercise of 235,952 conversion rights in 2014. The reduction of Conditional Capital through the exercise of 235,952 conversion rights was registered for entry in the commercial register in January 2015.

As of 31 December 2014, the value of treasury stock increased by € 7,833,944 to € 14,251,962 compared to its level on 31 December 2013 as a result of MorphoSys's repurchase of 111,000 of its own shares on the stock exchange. As of 31 December 2014, MorphoSys held 450,890 of its own shares (31 December 2013: 339,890).

Financing

As of 31 December 2014, the Company's equity ratio amounted to 82 % compared to 79 % on 31 December 2013. Currently, the Group is not financed by debt.

Off-Balance Sheet Financing

MorphoSys does not use any off-balance sheet financing instruments such as the sale of receivables, asset-backed securities, sale-and-leaseback transactions, or contingent liabilities in combination with non-consolidated special-purpose entities.

Credit Rating

Currently, MorphoSys is not being assessed for its creditworthiness by any agency.

TABLE 07

Multiple-Year Overview – Balance Sheet Structure[1]

in million €	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009
Assets						
Currtent Assets	322.4	406.6	142.9	153.9	132.5	155.6
Non-current Assets	104.1	41.1	40.6	73.7	77.3	50.5
Assets of Disposal Group Classified as Held for Sale	0	0	40.9	0.8	0	0
Total	426.5	447.7	224.3	228.4	209.8	206.1
Equity and Liabilities						
Current Liabilities	32.7	35.4	11.9	23.8	21.4	24.3
Non-current Liabilities	45.0	60.1	6.6	7.5	2.5	7.9
Liabilities of Disposal Group Classified as Held for Sale	0	0	3.7	0	0	0
Stockholders' Equity	348.8	352.1	202.0	197.1	185.9	173.9
Total	426.5	447.7	224.3	228.4	209.8	206.1

[1] Differences due to rounding

Comparison of Actual Business Results to Forecasts

In the 2014 reporting year, MorphoSys demonstrated very solid financial performance. The revenue and earnings targets published at the beginning of the financial year were raised by the Company in October. This upward revision was the result of lower than expected development costs as well as milestone payments from partners that had a direct impact on our results.

A detailed comparison of our forecasts with the actual results can be found in table 8.

TABLE

08

Comparison of Actual Business Results to Forecasts

	2014 Targets	2014 Results
Financial Targets	Group revenues at the upper end of the range of € 58 million to € 63 million (initial guidance was € 58 million to € 63 million; guidance raised to the upper end of the range on 22 October 2014)	Group revenues of € 64.0 million
	Investment in proprietary products and technologies in an amount of € 36 million to € 41 million	Investment in proprietary products and technologies in an amount of € 36.5 million
	EBIT of € – 5 million to € – 8 million (initial guidance was € – 11 million to € – 16 million; adjusted on 22 October 2014)	EBIT of € – 5.9 million
Proprietary R&D	MOR103 (out-licensed to GSK) • Presentation of phase 1b trial data in multiple sclerosis (MS)	MOR103 • Presentation of clinical data from phase 1b trial in MS at the ACTRIMS-ECTRIMS meeting in September • Transfer of complete responsibility for further development to GlaxoSmithKline upon the trial's completion
	MOR202 • Data from the phase 1/2a trial in multiple myeloma • Plan further trials with partner Celgene	MOR202 • Data from the phase 1/2a trial in multiple myeloma expected in 2015 • Decision to expand clinical development plan in multiple myeloma with partner Celgene: pomalidomide as new combination partner
	MOR208 • Conclusion and preliminary data from phase 2 trial B-ALL* in the second half of 2014 • Continuation of phase 2 trial in NHL, preliminary data before the year end	MOR208 • Presentation of final data from the phase 1/2a trial in CLL/SLL at the ASH annual conference • Presentation of clinical phase 2 data for NHL monotherapy at the ASH annual conference
Partner Pipeline	Progress of partnered development programs	• Net increase of nine partnered programs • Initiation of a phase 1 trial of a HuCAL antibody against inflammatory diseases by partner Novartis • Initiation of a phase 1 trial of a HuCAL antibody in the area of diabetic eye disease by partner Novartis • Initiation of a phase 1 trial of a HuCAL antibody in the area of oncology by partner Novartis • Initiation of phase 3 trials of the HuCAL antibody guselkumab (CNTO1959) in moderate to severe psoriasis by partner Janssen Biotech

*SEE GLOSSARY PAGE 128

The Management Board's General Assessment of Business Performance

The Management Board can look back on a successful 2014 financial year for the MorphoSys Group. As intended, MorphoSys expanded its pipeline further and ongoing programs advanced successfully. A number of promising results were announced by the more advanced trials. MorphoSys strengthened its proprietary portfolio through the in-licensing of the promising drug candidate MOR209/ES414 from Emergent BioSolutions and also through the acquisition of the lanthipeptide technology for drug development from Lanthio Pharma. Several collaborations this year verified that the Ylanthia technology of MorphoSys has the potential to win clearly differentiated antibodies against selected target molecules, including a major alliance with Merck Serono in the area of immuno-oncology.

In the Partnered Discovery business segment, the projects initiated by our partners are developing well. However, shortly before the year's end MorphoSys's partner Roche announced it had stopped one of three ongoing phase 3 trials with the Alzheimer's compound gantenerumab. As a result, potential market approval of gantenerumab may be delayed by several years. This event highlights the advantages of our business model and of a broad pipeline of development candidates.

In the 2014 financial year, revenues of the MorphoSys Group reached € 64.0 million. The Company had an EBIT of € – 5.9 million and incurred a loss as a result of the intensified development of its proprietary research pipeline, as already announced. The equity ratio of 82 % and liquidity of € 352.8 million testify to the Company's solid financial position.

In the reporting year, the Partnered Discovery segment again made the largest contribution to our business success. The Proprietary Development segment also generated revenue from the partnerships concluded with GlaxoSmithKline and Celgene in 2013. Due to the successful development of both business segments, MorphoSys has continued to invest significantly in its proprietary product and technology development.

These investments were directly reflected in the product pipeline. MorphoSys's partnered and proprietary pipeline made strong progress. Janssen brought the HuCAL antibody guselkumab into phase 3, whereby MorphoSys already has three programs in pivotal trials.

Accounting Judgments

In the 2014 consolidated financial statements, no accounting policies were applied nor related options exercised that differed from those in prior years and that, if applied or exercised differently, would have had a material effect on net assets, financial position, or balance sheet structure. Information on the effects of the Management Board's use of estimates, assumptions and judgments can be found in the Notes to the Consolidated Financial Statements.

Outlook and Forecast

MorphoSys has always enjoyed a solid reputation for its leading-edge technology, but it is the Company's extensive pipeline that is now becoming the center of attention. By maximizing the number of development programs, MorphoSys raises its future potential and limits the risk associated with the development of new drugs.

Overall Statement on Expected Development

The strategic focus of MorphoSys lies in the development of a broad and sustainable pipeline of innovative drug candidates, both on a proprietary basis and with partners. The foundation of these drug candidates is MorphoSys's established and proven technologies, and the Company continues to invest in their development. In the therapeutic area, the commercialization of these technologies provides cash flows secured by contracts from long-term partnerships with large pharmaceutical companies. MorphoSys also profits from the successful development of drug candidates through milestone payments and royalties from product sales as soon as the drugs reach the market.

The Group's stable cash flow and strong liquidity make it possible to further invest in the proprietary development of drugs and technologies. In the year 2015, the Management Board expects the following developments:

- Further investment in proprietary product candidates resulting from the start of additional clinical trials.
- Continued expansion of proprietary development activities through in-licensing and possibly company acquisitions, co-development, or new proprietary development.
- Investments in technology development to maintain the Company's leading position in the field of antibody and related technologies. The Company expects to sign new strategic agreements based on its proprietary technology, with a focus on gaining access to innovative target molecules and compounds.
- Expansion of the therapeutic antibody pipeline as part of the partnership with Novartis.

Strategic Outlook

MorphoSys's business model is based on its proprietary technologies, including the HuCAL antibody library, the Slonomics platform, the Ylanthia antibody library, as well as the Company's ability to develop innovative drug candidates. The management at MorphoSys intends to expand the Company's portfolio of proprietary drug candidates and will drive investment in this area accordingly. MorphoSys will also continue to concentrate on the use and expansion of its technologies in fast-growing and innovation-driven areas of the healthcare sector.

In the Proprietary Development segment, MorphoSys develops proprietary therapeutic antibodies in the area of inflammatory disease and oncology. MorphoSys will consider entering into alliances for the further development of its proprietary candidates on a case-by-case basis. Under certain conditions, individual projects could remain in proprietary development for an extended period of time and possibly to the point of commercialization.

The Partnered Discovery segment generates cash flows secured by contracts based on long-term collaborations. The development of therapeutic antibodies within partnerships will remain a central pillar of MorphoSys's strategy. The therapeutic pipeline should continue to grow and mature in the years to come and lead to additional milestone payments. The broad pipeline promises an impressive number of market-ready, therapeutic antibodies in the coming years and, consequently, financial participation in the form of royalty payments from product sales.

In the foreseeable future, MorphoSys will invest the majority of its financial resources in its own R&D activities so that it may expand its portfolio of proprietary compound candidates and strengthen its technology platform.

Expected Economic Development

According to forecasts by the World Bank, the global economy has not fully recovered from the effects of the financial crisis. In the new world economic outlook, the American organization predicts global growth of about 3%. The loose monetary policies of central banks and the recovery in labor markets contributed significantly to a recovery in the USA and in the UK. The euro area and Japan are experiencing a hesitant recovery. China is also seeing a slowdown in the tempo of growth. In 2015, falling commodity prices, low interest rates and weaker world trade should become more visible in global growth. Support is coming from the impact of the sharp decline in oil prices.

The German economy is expected to strengthen again later this year and the average annual growth in 2015 is expected to reach approximately 1%. Consumer spending continues to be one of the main reasons for the continued growth. However, the introduction of nationwide minimum wage and pension packages could weaken the labor market and therefore consumption in the future. The weakening of the euro could, however, lead to an increase in German exports.

The US economy regained its former growth momentum and is predicted to see steady growth. Japan, while still lagging the US, China and India, is still the fourth largest economy in the world and will probably see better annual performance in 2015. Another stimulus program of nearly € 25 billion was launched to accelerate economic growth.

At the end of 2014, the euro crisis regained importance. Concerns surrounding the stability of the euro area surfaced again after the definite failure of the presidential elections in Greece and the subsequent victory by the left-wing populist party SYRIZA in the new elections in January 2015. Should Greece terminate the savings agreements with the EU and the International Monetary Fund (IMF), speculation would grow about Greece exiting the euro. In addition, the risk premiums for southern European government bonds would increase, which could be critical for Italy, in particular.

To prevent a further weakening of the euro exchange rate and counteract the threat of deflation, the European Central Bank resolved a comprehensive program for the purchase of European government bonds. Bonds with a volume of € 60 billion are to be purchased monthly, and the total volume of the measure adopted amounts to € 1.1 trillion. The aim of the program is to avoid deflation, lower the interest rate level of bonds in crisis countries, ease the pressure on government budgets and stabilize the euro in the long-term.

Expected Development of the Life Sciences Sector

After three very successful years for the biotechnology sector, 2015 is expected to be another year of continued positive development. Historically low interest rates and a recovering global economy should result in a continued flow of money into the sector. Scientific progress and a better understanding of biological relationships, such as those in the field of immuno-oncology, led to both innovation and new drug approvals. In 2014, four out of ten newly approved drugs were for rare diseases and another 40% were based on novel mechanisms of action and were new compounds. This trend will continue. According to a newly released report “The Global Outlook for Medicines Through 2018” from IMS Health, global spending on pharmaceuticals will increase by 30% to US$ 1.3 trillion by the year 2018.

New drug approvals and innovations, as well as clearer guidelines for approval and a strong demand for novel drugs, will continue to lead to growth in the pharmaceutical and biotechnology industries. The number of approvals could stay at a high level or even increase. Although the average revenue potential of newly approved drugs continues to rise, pricing and reimbursement policies will remain the center of attention.

Expected Business Development

The contractually guaranteed proceeds until at least the end of 2017 from the Novartis agreement, the financial impact of the Celgene contract and our strong liquidity position, will allow MorphoSys to continue concentrating on expanding its partnered pipeline and increasing the value of its proprietary portfolio.

Over the next few years, the Company expects to start ten new partnered programs per year on average for its Partnered Discovery segment. However, due to the usual attrition rates in drug development, the net growth of the overall pipeline will be somewhat lower. Additional partnerships with pharmaceutical and biotechnology companies based on the Ylanthia technology are expected to occur. MorphoSys is striving to gain a larger share in the development activities of these collaborations. These partnerships, including those with academic institutes, are also expected to provide access to new target molecules and therapeutic programs.

The approval of a therapeutic antibody based on proprietary technology is not expected before 2016/2017. As one of the first partners, Novartis has announced publicly that it may possibly submit the therapeutic antibody bimagrumab (BYM338) for approval in 2016. Approval for guselkumab (CNTO1959), an antibody compound being developed by Janssen, may be applied for in 2016/2017.

Expected Personnel Development

The Group's workforce in the two segments Proprietary Development and Partnered Discovery is expected to grow by approximately 10 % during the 2015 financial year. Additional staff will be needed for the initiation of additional clinical trials for the Company's proprietary development programs MOR208, MOR202 and MOR209, the expansion of early proprietary development activities and the development of existing and new technologies such as the lanthipeptide technology.

Future Research and Development

The Company's R&D budget for proprietary drug development will rise significantly in 2015 in comparison to previous years. The majority of these investments will flow to the clinical development of the most advanced drug candidates MOR208, MOR202 and MOR209. Further investments are planned in the areas of target validation and antibody development as well as in the area of technology development.

The steps planned for the Company's proprietary portfolio in 2015 are expected to include:

- Continuation of a phase 2 trials of MOR208 in NHL and B-ALL
- Initiation of further combination trials for MOR208 in NHL
- Continuation of a phase 1/2a trial of MOR202 with additional cohorts with weekly dosing as well as a combination of MOR202 with pomalidomide and lenalidomide
- Initiation of the phase 1 trial for MOR209/ES414 in mCRPC as part of the cooperation with Emergent
- Continuation of the co-development program for MOR106 with Galapagos
- In-licensing of one or more target molecules or compounds for strengthening the proprietary development portfolio
- Further development of the lanthipeptide technology
- Initiation and continuation of new development programs in the area of antibody discovery and preclinical development

Expected Development of the Financial Position and Liquidity

MorphoSys has a solid financial base and predictable revenues, mainly due to its collaboration with Novartis and its development partnership with Celgene. In addition, MorphoSys receives performance-based milestone payments upon the successful development of product candidates. Based on this, the Management Board expects Group revenues for the 2015 financial year in the amount of € 58 million to € 63 million.

Based on management's current planning, R&D expenses for proprietary programs and the development of technology are expected to increase to a range of € 48 million to € 58 million in 2015. MorphoSys plans to initiate more clinical trials in addition to continuing the trials currently underway for MOR208 and MOR202.

The Company expects an EBIT of approximately € – 20 million to € – 30 million in 2015. This 2015 forecast does not include any additional development costs for newly in-licensed programs.

In the years ahead, there will be an increasing impact on net assets and the financial position from one-time events, such as the inlicensing and out-licensing of proprietary products, major milestone payments and royalties related to HuCAL antibodies that reach the market. Just as such events can cause us to significantly exceed our financial targets; failures in drug development can also have a negative impact on the MorphoSys Group. In the near future, the Company's revenue growth will depend on its entry into new partnerships and/or on out-licensing proprietary programs. Starting in 2016/2017, royalties on marketed products could begin to contribute to revenue growth.

At the end of the 2014 fiscal year, the liquidity position of MorphoSys amounted to € 352.8 million (31 December 2013: € 390.7 million). The decrease in the liquidity position was due to investment in the Company's proprietary research and development. In connection with the estimated negative financial result for 2015, the liquidity position is expected to further decrease. MorphoSys sees the advantage of having a strong liquidity position that can be used to accelerate future growth through strategic measures, such as the in-licensing of compounds and investments in promising companies. The funds can also be used to increase investment in the Company's proprietary portfolio of therapeutic antibodies.

DIVIDENDS

The financial statements of MorphoSys AG under German accounting principles report an accumulated profit which can be used for distribution. With the estimated losses for 2015, the Company will no longer report an accumulated profit. MorphoSys will continue to invest in the development of proprietary drugs as well as in further in-licensing and acquisition projects in order to continue to create shareholder value and open up new growth opportunities. Therefore, the Company does not anticipate paying a dividend in the foreseeable future.

This outlook is based on the assumptions of the Management Board and takes into account all factors which were known at the time of preparing this Annual Report and those which could influence our Company in the year 2015 and in the years thereafter. Future results may differ materially from expectations, which are described in the section "Outlook and Forecast." The most important risks are discussed in the risk report.

Shares and the Capital Market

MorphoSys shares performed in line with the development of our pipeline and were extremely positive during the 2014 financial year. The shares rose to a multi-year high of € 86 and above in mid-December 2014. The market capitalization* of MorphoSys AG reached € 2 billion in September 2014. In December 2014, with the termination of one of three trials with the Alzheimer's disease candidate gantenerumab by MorphoSys's partner Roche, the share price declined until the year's end by almost 12% from its highest level, but still gained 37% for the full year. Thus, MorphoSys shares outperformed the benchmark indices: During the same period, the TecDAX* rose 18% and the NASDAQ Biotech Index* increased 34%.

Stock Market Development

The year 2014 was a turbulent year for the stock market, particularly in Europe. Economic fears dominated the eurozone and political uncertainties weighed heavily on the export-led German economy. The US stock markets, however, delivered an impressive performance during the reporting year due to strong economic data. In the US alone, there were nearly US$ 9.3 billion in proceeds from 106 IPOs executed by companies in the life science* industry (2013: US$ 7 billion, 52 IPOs). In 2014, as in previous years, the US market was a focus of MorphoSys's investor relations activities due to strong interest in investing in biotechnology companies.

*SEE GLOSSARY PAGE 128

Liquidity and Index Membership

The average daily trading volume of MorphoSys's shares across all trading platforms in the regulated market has nearly doubled in 2014 compared to the previous year, rising to € 11.9 million (2013: € 6.9 million). This development is associated with a higher interest in the stock and due to the increase in share price during the year. On the TecDAX, the index for the 30 largest technology stocks on the Frankfurt Stock Exchange, the trading volume of the average shares traded also grew more than 40%. MorphoSys was able to further consolidate its position in the TecDAX in 2014. By the end of the year, MorphoSys ranked 9th in terms of trading volume (year-end 2013: ranked 11th) and ranked number 8 measured in terms of market capitalization (year-end 2013: ranked 7th).

In addition, the daily trading average on the alternative trading platforms ("dark pools") amounted to approximately 61,900 MorphoSys AG shares valued at € 4.4 million in 2014 (2013: approx. 35,000 shares valued at € 1.6 million).

Common Stock

The Company's common stock increased to 26,456,834 shares or € 26,456,834.00 in 2014. This increase resulted from the exercise of 235,952 convertible bonds.

Until the year 2010, MorphoSys issued stock options and non-interest-bearing convertible bonds under its employee incentive program. In 2011, this plan was converted into a performance share plan. The Company repurchases shares annually for this plan. A detailed description of this program can be found in the Corporate Governance Report of this Annual Report. In April 2014, 32,513 performance shares were issued to the Management Board and the Senior Management Group under the long-term incentive plan (LTI plan). For more information on this topic, please refer to the Notes (see section 7.3.4). During the reporting year, no additional stock options were issued to the Management Board, members of the Senior Management Group or the workforce.

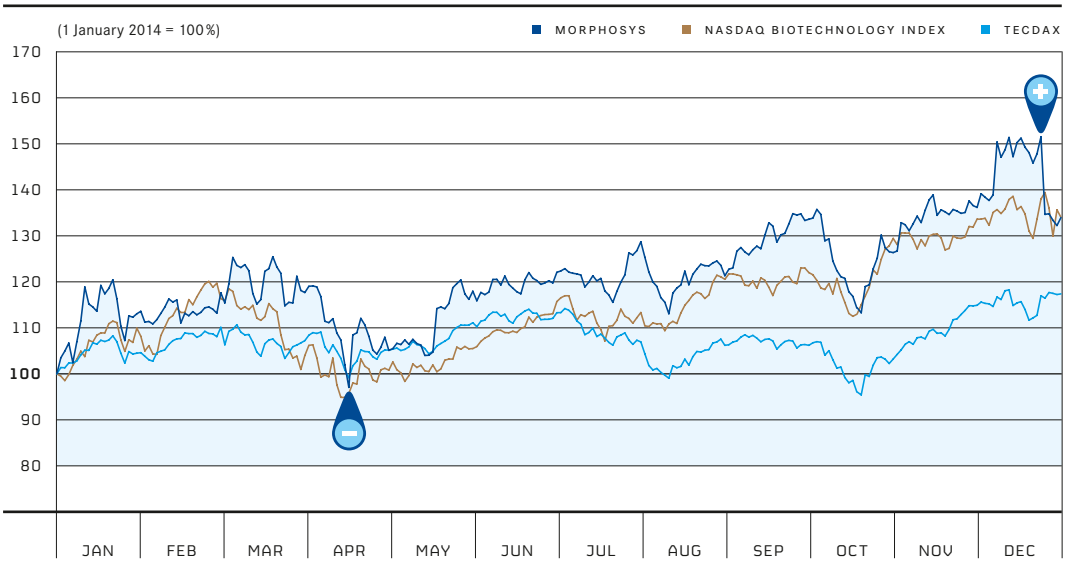
FIGURE

09

Performance of the MorphoSys Share in 2014

12/18/2014
HIGHEST LEVEL +51.7 %

04/15/2014
LOWEST LEVEL -3.0 %



FIGURE

10

Comparison of the MorphoSys Share Price Development with Benchmark Indices between 2010 and 2014

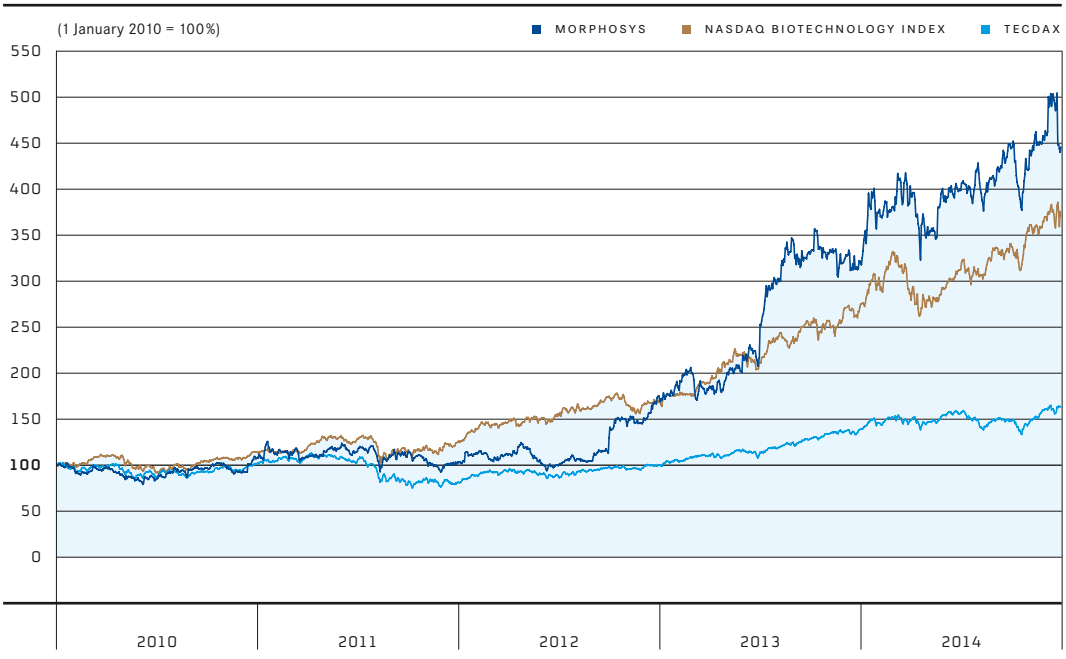


TABLE 09

Key Data for the MorphoSys Share (31 December)

	2014	2013	2012	2011	2010
Total Stockholders' Equity (in million €)	348.8	352.1	202.0	197.1	185.9
Number of Shares Issued (number)	26,456,834	26,220,882	23,358,228	23,112,167	22,890,252
Market Capitalization (in million €)	2,027	1,464	685	405	424
Closing Price in € (Xetra)	76.63	55.85	29.30	17.53	18.53
Average Daily Trading Volume (in million €)[1]	11.9	6.9	1.9	1.8	1.1
Average Daily Trading Volume (in % of Share Capital)[1]	0.65	0.59	0.38	0.38	0.26

[1] Figures from 2010 to 2011 only include trading on Xetra and German regional exchanges.

International Investor Base

During the reporting year, various voting right notifications were issued in accordance with Sections 21, 25 and 26 of the German Securities Trading Act (WpHG). These notifications were published on the MorphoSys website under the heading Media & Investors – Stock Information – Shareholder Structure.

According to the definition given by the Deutsche Börse, at the end of the reporting year 92.7 % of the shares of MorphoSys AG were in free float. Novartis Pharma AG (Basel, Switzerland) held about 5.6 % and Celgene Netherlands II BV (Amsterdam, The Netherlands) about 3 % of the shares. The share of international institutional investors stayed at approx. 70 %. According to the latest voting rights announcement, our largest additional single shareholders were Massachusetts Mutual Life Insurance (Oppenheimer Funds, Springfield, MA, USA) holding 4.98 %, Perceptive Life Sciences Master Fund (New York, NY, USA) holding 4.89 %, Baillie Gifford Overseas Limited (Edinburgh, UK) holding 3.1 % and Invesco Advisers Inc. (Atlanta, GA, USA) holding 3 %.

An overview of the current shareholder structure is also accessible on the Company's website (Media & Investors – Stock Information – Shareholder Structure).

Annual General Meeting

On 23 May 2014, the Management and Supervisory Boards of MorphoSys AG welcomed shareholders to the Company's 16th Annual General Meeting in Munich. The shareholders and proxies attending represented nearly 48 % of the common stock of MorphoSys AG (2013: 41.6 % of the common stock represented). All nine agenda items submitted for resolution were adopted by a clear majority. This year, the Annual General Meeting is scheduled for 8 May 2015 and will take place again in Munich.

Investor Relations Activities

In the course of the 2014 financial year, MorphoSys further increased its communication with the capital markets. The Company presented at 26 international investor conferences and at a number of road shows and individual meetings in Europe and the US. The greatest interest was seen in the USA, where a large number of specialized healthcare investors have their headquarters. At the publication of the annual, half-yearly and quarterly results, the Management Board also held telephone conferences where they reported on past and future business developments and answered questions from analysts and investors.

Of particular interest at the investor meetings, aside from the general progress of the drug pipeline, was the development of the proprietary portfolios, which included ten active programs at the end of the reporting year.

At the end of the year, as in the prior year, there were a total of 11 analysts monitoring and evaluating the development of the MorphoSys share.

MorphoSys took first place for the TecDAX in the competition "Investors' Darling 2014 – Capital Market Strategist of the Year" in which Manager Magazine and the Handelshochschule Leipzig evaluated the capital market communications of all index-listed stock companies. Next to the quality of classical financial reporting and the IR website, the evaluation also included investor presentations and capital market performance.

More detailed information on the MorphoSys share, the financial ratios, the Company's strategic direction and the recent developments in the Group may be found on the Company's website ("Media & Investors").

TABLE 10

Analyst Recommendations (31 December 2014)

Buy/Overweight	Hold	Sell	n/a
6	4	0	1

Buy/Overweight; Hold; Sell; n/a = not available (no rating)

Sustainable Business Development

In addition to the financial performance indicators, which are presented in the chapter "Analysis of Net Assets, Financial Position and Results of Operations," MorphoSys uses carefully selected non-financial performance indicators to promote sustainable business development. The Company sees sustainability as an environmental and social responsibility towards present and future generations. As a research-based biotechnology company, adherence to the highest environmental, social and ethical standards goes hand in hand with long-term economic success. This chapter outlines the measures that have been taken during the reporting year to meet these standards. Information on the management structure and the corporate governance practices of MorphoSys can be found in the Corporate Governance Report.

Sustainable Corporate Management

A hallmark of MorphoSys's corporate management is sustainable and responsible behavior in order to add important value to society. This is true at all levels of management from both a short- and long-term perspective. This goal is inherent to the Company's core activity of developing ever more effective and safer drugs. In daily operations, high value is placed on working in harmony with strict ecological and social principles. Therefore, MorphoSys follows a business model aimed at sustainable growth that protects the interests of its shareholders, creates long-term value and evaluates processes in terms of their effect on the environment, society, patients and employees. Internally, this business model is reflected in our forward-looking human resources policy, which takes the needs of the employees seriously.

MorphoSys bases its long-term and sustainable business success on targeted and innovative research and development. Biotechnologically produced drugs command an increasing share of the healthcare of a growing and aging population. Comprehensive healthcare is one of the main challenges of the future and MorphoSys can make a valuable contribution through its drug candidates. In management's opinion, MorphoSys's present business model does not contain any components which are contrary to the sustainable investment interests of the shareholders.

A comprehensive risk management system ensures that factors which could threaten sustainable corporate performance are identified at an early stage and that appropriate countermeasures are taken, if necessary. MorphoSys only assumes a risk if there is ample opportunity to increase the enterprise value. At the same time, tremendous effort is being made to systematically identify new opportunities and to leverage our business success (more information on risks and opportunities can be found on page 47).

The entire Management Board, chaired by the Chief Executive Officer, monitors compliance with the sustainability strategy Group-wide. The Credo as part of the Code of Conduct regulates the implementation of the strategy by employees in daily operations. It is valid for all employees of the Group and is available in German and English. Routine employee training on the Code of Conduct in general and on specific sections of the Code ensures that the guidelines are understood and implemented. The Code of Conduct Committee consists of four members (the Chairperson and three other members) who are at the disposal of and may be contacted by all employees. A Compliance Officer coordinates the Compliance Management System. Detailed information on this topic can be found on page 71 of the Corporate Governance Report. Each employee can receive advice on all matters relating to legal compliance and corporate responsibility and report suspected cases or violations. This may be done on an anonymous basis, if preferred. Breaches of compliance are earnestly pursued and appropriate countermeasures are taken. However, no such violation has been reported to date, and the Company believes serious offenses that could materially affect the Group's net assets, financial position and results of operations are unlikely in the future.

Detailed information on the SD KPIs used by MorphoSys can be found in the section "Strategy and Group Management" (p 02). The following report on the implementation of the corporate strategy of MorphoSys and its sustainable business development also follows the recommendations of the German Sustainability Code. These recommendations were originally presented by the Council for Sustainable Development in October 2011 with an updated version in October 2014.

Non-Financial Performance Indicators

ETHICAL STANDARDS AND COMMUNICATION WITH STAKEHOLDERS

The highest scientific and ethical principles when conducting human clinical trials or animal testing are anchored in MorphoSys's Code of Conduct. Above all, the Company follows the "Declaration of Helsinki" of the World Medical Association (WMA). Strict compliance with nationally and internationally applied regulations is mandatory for all MorphoSys employees as well as for sub-contractors.

Since European legislation requires the use of animal testing to determine the toxicity*, pharmacokinetics* and pharmacodynamics* of a compound candidate, the biotechnology industry cannot forgo such testing. MorphoSys does not have research laboratories of its own that are suitable for animal trials. Therefore, the Company passes these trials on to contract research organizations (CROs*). In the course of its product development activities, MorphoSys contracts out animal trials according to the principles of good animal welfare and the respectful treatment of animals as set out in national and European regulations. MorphoSys has launched a quality assurance and control system with written standard operating procedures (SOPs). This system is maintained and continually improved to ensure that only those contract research organizations that follow the local, national and international regulations are contracted for animal studies. Trials are only carried out after the approval of the relevant ethics committee concerned and under the constant supervision of a veterinarian.

Institutes cooperating with MorphoSys must comply with the legal requirements for research involving animals and, under certain circumstances, also possess the quality assurance verification of Good Laboratory Practice (GLP*). This is how MorphoSys ensures that it is fulfilling its moral obligation for the respectful treatment of animals. In addition, as part of auditing, the trial sites, contract research institutes, the training and competency of the relevant staff, as well as animal welfare are all verified on location and conducted prior to the final award of the contract.

The Declaration of Helsinki mentioned above also defines the ethical principles followed by MorphoSys in dealing with healthy volunteers and patients during clinical trials. These trials are also carried out in compliance with Good Clinical Practice (GCP*). The trials are carried out in compliance with the relevant provisions on privacy and confidentiality. Respect for the rights, safety and welfare of all participants involved in clinical trials has the highest priority at MorphoSys. Clinical trials are initiated only after approval by the independent ethics committee concerned and/or the institutional review panel. Before participating in a clinical trial, each participant must voluntarily submit an informed consent.

*SEE GLOSSARY PAGE 128

The goal of MorphoSys's business activities is to improve the health of patients through its scientific work. However, the Company can only reach this objective if its activities also find social acceptance. This requires a continuous and open dialog with stakeholders in order for MorphoSys to understand the potential concerns regarding biotechnological approaches and so that it may explain its activities and their benefits. Consequently, MorphoSys is active in a variety of ways which range from participation in public information events to active support for the Communication and Public Relations task force of BIO Deutschland e.V.

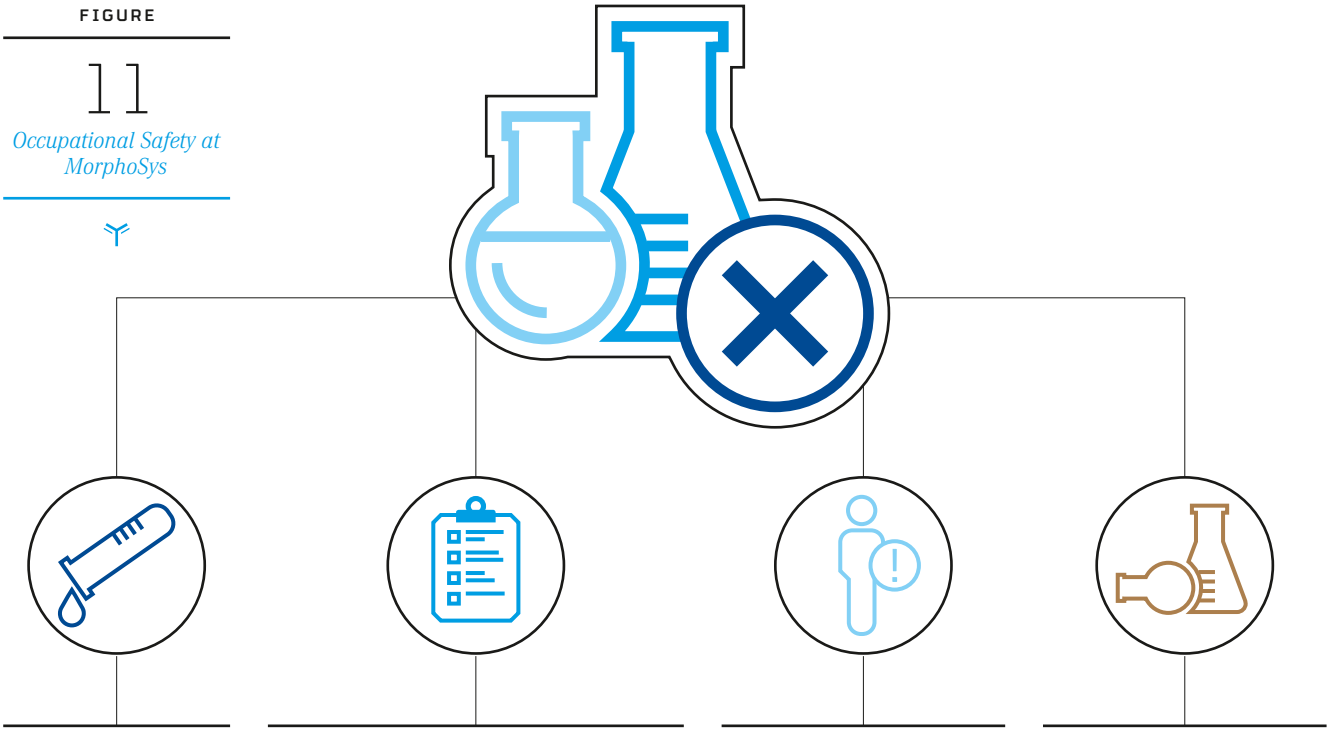
PROCUREMENT

The Department of Central Purchasing and Logistics is responsible for the purchase of external goods, services, consulting and logistics services for MorphoSys. Last year the department installed a considerable number of new systems and processes to increase the long-term efficiency of its procurement management and to establish cost-effective purchasing solutions. In 2014, several preferred partnerships with suppliers were strategically strengthened through the introduction of special framework agreements. All suppliers selected by MorphoSys undertake to comply with all anti-corruption standards, human rights practices, internationally recognized labor standards and data protection laws. In the reporting year, the activities of the Department of Central Purchasing and Logistics secured savings of approximately 7 % of the expenditures incurred in 2014.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

In an industry subject to stringent regulatory requirements, environmental protection and occupational safety are the key tasks of Group management. The department of environmental protection and occupational safety monitors the compliance with all relevant requirements Group-wide. Beyond the Company's strict compliance with all legal requirements, MorphoSys has also initiated a number of Group-wide efforts for sustainable environmental management and the effective protection of its employees.

FIGURE
11
Occupational Safety at MorphoSys



LOWEST POSSIBLE AMOUNTS OF HAZARDOUS SUBSTANCES USED

INTRODUCTION OF HAZARDOUS MATERIALS FOR R&D PURPOSES:

- A dedicated biosafety team as defined by the "Gentechnik Sicherheitsverordung" (German Genetic Engineering Safety Directive) and other safety professionals perform an internal audit to assess the risk involved
- Specific safety and evacuation training for the employees working with the substances
- Assurance that all safety measures are implemented before actual work commences

ONLY SPECIALLY TRAINED EMPLOYEES ARE ALLOWED TO WORK WITH TOXIC SUBSTANCES

PATHOGENIC ORGANISMS ARE PROCESSED IN LABORATORIES WITH PARTICULAR SAFETY STANDARDS

ONLY CERTIFIED COMPANIES ARE AUTHORIZED BY MORPHOSYS TO DISPOSE OF CHEMICAL WASTE

A central task is the conservation of resources. In 2014, MorphoSys participated once again in the survey of the Carbon Disclosure Project (CDP) for monitoring internal resource consumption. For the sixth consecutive year, the Company took part in the study of this independent non-profit organization whose aim is to reduce greenhouse gases and ensure the sustainable use of water supplies. Once again, the study results showed that it was not necessary for the Company to take any action. Nevertheless, MorphoSys uses the annual study results to routinely observe its consumption in an organized manner. This makes it easier for the Company to promptly correct any excessive consumption. Any resource conservation measures implemented in the past were also actively pursued in the reporting year. These measures included energy and cost saving screenings, energy-efficient laboratory equipment and measures for the economical use of paper and printer toner.

In 2014, MorphoSys again supported the joint initiative "Bike to Work" sponsored by a German health insurance company and the German Bicycle Club (ADFC). Because of this commitment, MorphoSys has been certified as a "bicycle-friendly operation" for the fifth consecutive time. In addition to this initiative, employees were offered an extensive range of preventative healthcare and health-promoting activities such as autogenic training, Pilates, back muscle training, ball sports, participation in marathons, etc. In seminars and lectures accompanied by psychologists, the staff was made familiar with the topic of mental stress and other types of stress. In an exploratory survey carried out at the end of 2014, all employees were asked to evaluate their current level of psychological distress in the workplace. This analysis intended to serve as a leading indicator in order to initiate the necessary corrective measures on a timely basis.

With two reportable accidents, the number of occupational accidents in the reporting year equaled the previous year's level. This rate is well below the average rate in Germany (14.5 accidents per 1,000 full-time employees as reported in the latest survey in 2013).

MorphoSys tries to minimize the amount of pollutants used in laboratory work. Only a specially trained group of people are permitted to deal with toxins. Work involving contagious pathogens can only be carried only in secure laboratories. For the disposal of chemical waste, MorphoSys commissions only those companies certified to dispose of chemical waste. MorphoSys also refrains from labeling antibodies with radioactive substances.

QUALITY ASSURANCE

It is the special responsibility of a biopharmaceutical company to adhere to the highest standards of quality and safety. MorphoSys follows detailed procedures and strict rules to avoid any security risks in drug development that may pose a serious threat to the patient and, thus, to the economic situation of the Company. This is how the Company guarantees the quality of the compound being tested, keeps the risks to participants of clinical trials as low as possible and ensures that the data can be collected reliably and correctly processed.

In order to control and regulate these processes, MorphoSys created an integrated quality management system for its proprietary development department that follows the principles of Good Manufacturing Practice (GMP), Good Clinical Practice (GCP) and Good Laboratory Practices (GLP). An independent quality assurance department ensures that all development activities comply with national and international laws, rules and regulations. The Quality Assurance Manager reports to the CEO and coordinates all activities directly with him. This helps us to achieve the high-quality standards that guarantee product quality, data integrity and ensures the safety of the subjects.

The Quality Assurance department created a verification procedure using a risk-based approach. Based on this procedure, an audit is carried out on a selection of contract research institutes, suppliers and research sites included in the clinical trials, as well as on MorphoSys's own departments.

For its proprietary development activities, MorphoSys has a manufacturing license for the approval of tested compounds. The Company has also been issued a certificate by the German authorities of the Government of Upper Bavaria confirming its compliance with the standards and guidelines of Good Manufacturing Practice (GMP).

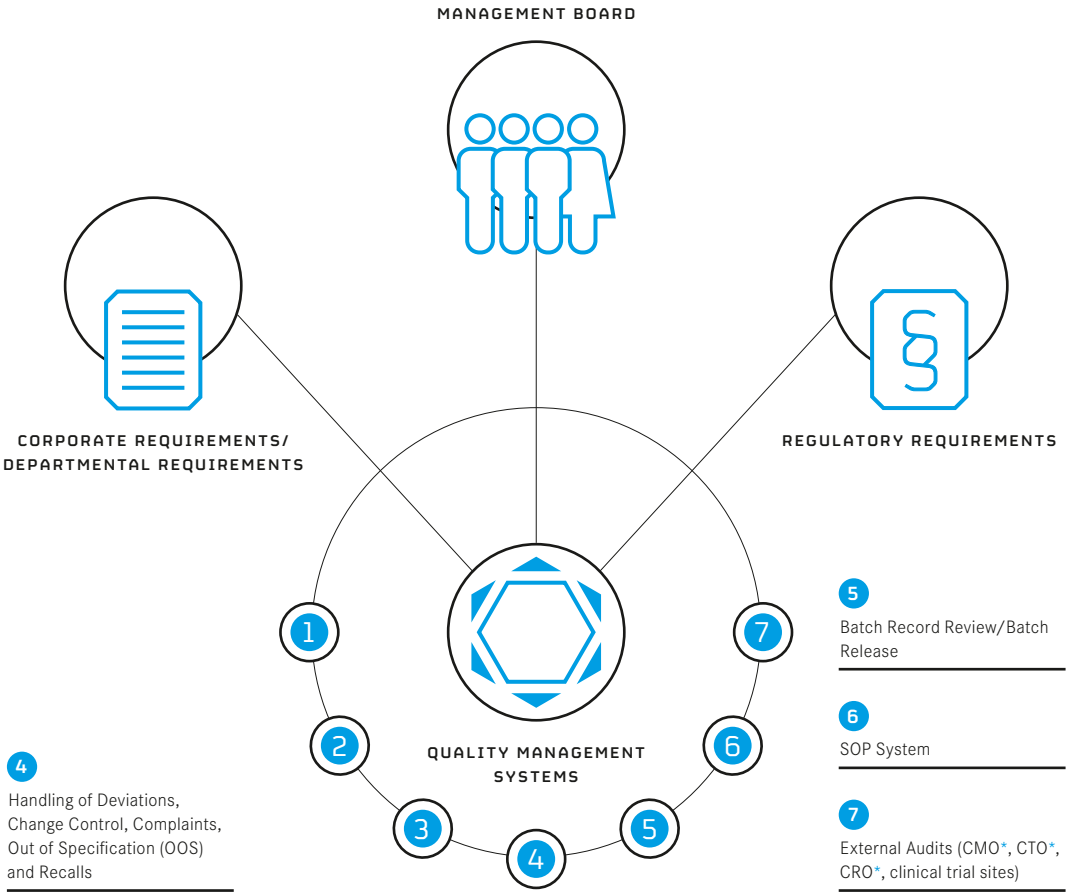
INTELLECTUAL PROPERTY

The proprietary technology and the ensuing drug candidates are MorphoSys's most valuable asset. Therefore, it is critical to the Company's success that these assets are protected by the corresponding patents and other appropriate measures so that they may be efficiently and exclusively utilized.

MorphoSys's key technologies – HuCAL, Ylanthia and Slonomics – form the Company's basis for success. Each single technology is protected by a number of patent families, which, in turn, are complemented by various independent technology patents. Most of these have now been issued in all major markets, including in the Asian markets, such as China. The spectrum of technology patents was enhanced sustainably in October 2014, with the acquisition of the lanthipeptide technology from Lanthio Pharma.

Our portfolio of development programs was also strengthened this financial year by the licensing agreement with Emergent BioSolutions for the co-development and co-promotion of the drug candidate MOR209/ES414. Like other proprietary development programs, this program is protected by a variety of patents and applications that address various aspects of the molecules and their use. The development candidates MOR103 (out-licensed to GSK) and MOR202 (in partnership with Celgene) are each protected by more than half a dozen different patent applications covering different aspects of the compounds and thus provide effective protection. The relevant patents and associated protection certificates are expected to expire by the year 2031. The MOR208 program is also protected by various patents lasting until their scheduled maturity. Excluding any potential patent office or regulatory extensions, this would mean the patent in the United States would run until the year 2029 and, in the case of the European patent, until 2027. Excluding any possible patent office or regulatory extensions, patent protection for MOR209/ES414 is scheduled to run until at least 2032, assuming pending applications are granted.

FIGURE
12
Quality Management System at MorphoSys



1 Training and Qualification

2 Self Inspection/ Internal Audits

3 Documentation System

4 Handling of Deviations, Change Control, Complaints, Out of Specification (OOS) and Recalls

5 Batch Record Review/Batch Release

6 SOP System

7 External Audits (CMO*, CTO*, CRO*, clinical trial sites)

*SEE GLOSSARY PAGE 128

The programs that are developed in conjunction with or for partner companies are also protected by comprehensive patent protection. There is close cooperation between the patent department of MorphoSys and the corresponding partners. All drug development programs have a term that greatly exceeds the term of the underlying technologies.

Currently, MorphoSys's patent lawyers are maintaining more than 40 different patent families, in addition to the numerous patent families pursued by the Company together with its partners. The patent portfolio is regularly analyzed and adapted to the Company's corporate strategy.

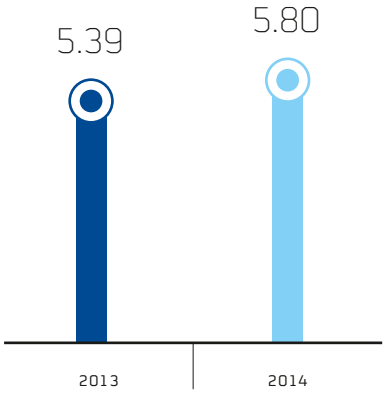
PERSONNEL

MorphoSys relies on a future-oriented personnel policy in order to bind professionally and personally suitable employees from different disciplines to the Company. In an industry such as biotechnology, in which success relies heavily on the creativity and commitment of the workforce, employee retention and satisfaction are crucial factors for success. At the end of the financial year, the staff at MorphoSys comprised employees from 22 different nationalities (2013: 18), who have belonged to the Company for 5.8 years on average (2013: 5.4 years).

FIGURE

13

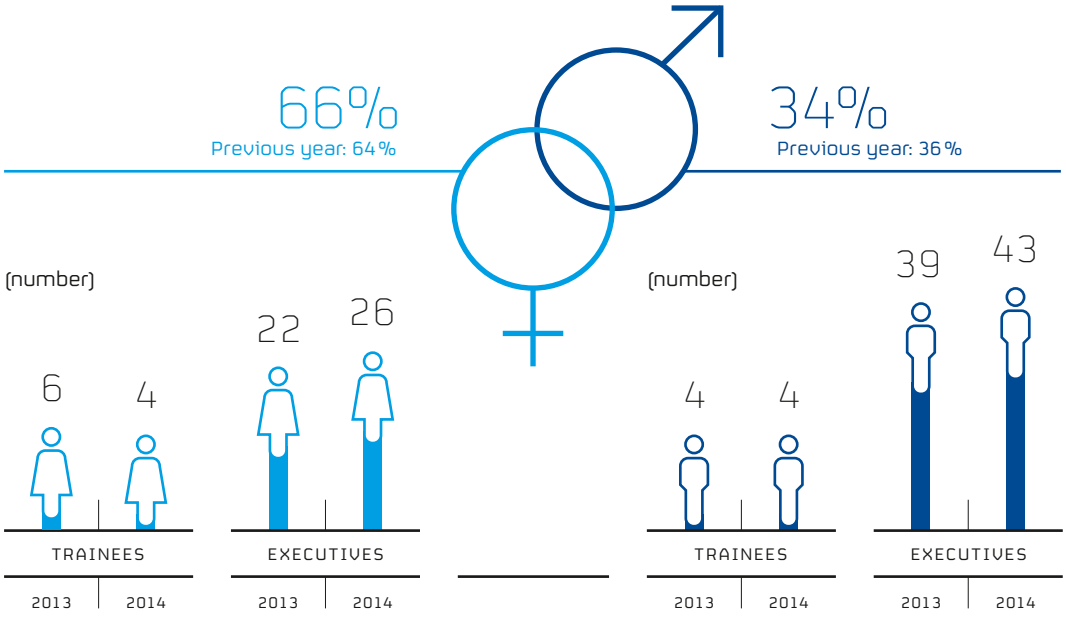
Seniority (average duration in years)



FIGURE

14

Employees by Gender in 2014



Opportunities for extensive training, internal and external training programs, special training and development programs and visiting conferences are available to employees of the various departments. In addition to technical training, MorphoSys also promotes the personal development of its employees. In some cases, this can include individualized coaching.

Executives assuming management responsibility at MorphoSys for the first time are required to take part in management seminars explicitly designed for MorphoSys. This training is offered in a group of several thematically related courses. The goal is to provide participants with not only theoretical management knowledge, but also special knowledge that the Company expects its executives to know.

In 2014, as in the previous year, a two-day workshop took place for all MorphoSys managers. Under the motto "Entrepreneurship," there were discussions on the Company's strategy and its implementation, process optimization, goal-oriented problem-solving and creativity management. By the end of this workshop, managers had jointly prepared the basis for a Company-wide mission statement detailing the corporate goals, core values and drivers for the day-to-day work activities.

MorphoSys also actively promotes a career path for specialists and experts. This type of career promotion succeeds in maintaining flat hierarchies – even without staff responsibility. The goal is to give equal footing to traditional management career paths and professional careers, as well as to title and compensation structures.

MorphoSys offers in-house vocational training in order to open up the prospects for a promising career, especially for young people. Equal consideration is even given to students without a diploma for occupations requiring training. As of 31 December 2014, MorphoSys had two trainees in its IT department and six trainees learning to become biology laboratory assistants (31 December 2013: three IT trainees; six trainees learning to become biology laboratory assistants; and one trainee training as a personnel services clerk).

As explained on page 17, the remuneration structure was adjusted for all employees in 2014. The annual bonus is now linked exclusively to the achievement of corporate goals. The individual performance of each employee is monitored by agreed personal targets and continues to be a key element of individual development. Employees showing extraordinary performance or outstanding ideas are now rewarded promptly with an on-the-spot bonus payment in the form of cash, vouchers, or gift certificates for leisure activities.

Transparent communication within the workforce is a permanent component of MorphoSys's corporate culture, as stated in the principles (Credo) of the Company. Every two weeks, general meetings are held, in which the Management Board shares the latest Company developments with all employees. Employees present selected projects followed by an open question and answer session. Questions and feedback from the workforce can be taken directly in the meeting or submitted in advance in writing – anonymously if desired. In addition, the Company's intranet with its integrated document management system provides all employees current relevant information in an organized manner.

In two-day introductory courses, new employees are made familiar with the Group and can become fully aware of the Company's business processes by taking advantage of the information and individual presentations provided by all departments.

Free exercise and relaxation options, such as Pilates lessons or courses on autogenic training, promote health and socializing among employees beyond the departmental boundaries.

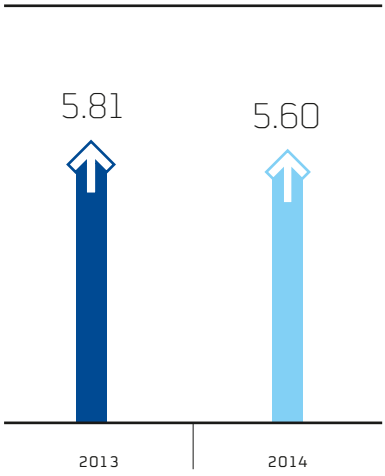
Appropriate policies for reconciling professional development with personal life are a strategic success factor for future-oriented companies. For several years, MorphoSys has therefore been offering employees a variety of options, such as flexible working hours and individual part-time packages. Modern IT equipment also allows employees to work seamlessly while traveling on business or from their home office. MorphoSys makes it easier for employees with family to re-enter into the work life through special offers and helps them combine work and family life. MorphoSys is a co-founder of the "BioKids" kindergarten in Martinsried. There are also special arrangements through a German service provider offering additional services for working family members.

MorphoSys makes every effort to protect employees from workplace hazards and maintain their health through preventive measures. The extremely low number of occupational accidents demonstrates the success of our strict supervision of all occupational health and safety measures. During the year under review, as in the prior year, there were two reportable accidents at work. MorphoSys tries to keep the number of accidents at this low level and the safety and well-being of all employees at the highest level possible. The Company does this through policies and training provided by the Department of Health & Safety and by offering routine medical examinations. The fall in attrition rate in the reporting year to 5.6 % (2013: 5.8 %) is another indication of employees' strong identification with the Company.

FIGURE

15

Labor Turnover Rate (in %)



Risk and Opportunity Report

MorphoSys belongs to an industry characterized by constant change and progress. The challenges and opportunities in the healthcare industry are influenced by a wide variety of factors. Global demographic changes, medical advances and the desire for an ever increasing quality of life, all provide solid growth prospects for the pharmaceutical and biotechnology industries. Growing regulatory requirements in the field of drug development and the cost pressure on health systems in particular must also be taken into account.

MorphoSys strives to systematically identify new opportunities and utilize them for business success and generate a long-term increase in enterprise value. However, entrepreneurial success is not possible without conscious risk taking. Through its worldwide operations, MorphoSys is subject to a number of risks that may affect its business. MorphoSys's risk management system identifies these risks, evaluates them and takes the appropriate measures to avoid these risks and achieve its corporate objectives. Regular strategy review ensures that the opportunities and risks are well balanced. MorphoSys only assumes a risk if it also offers the Company an opportunity to increase its value.

Risk Management System

The risk management system is a central component of MorphoSys's corporate governance and serves to ensure the principles of good corporate governance and the fulfillment of regulatory requirements.

MorphoSys has a comprehensive system in place to identify, assess, communicate and handle risks safely in all parts of the Company. Its risk management system identifies risks early, allowing the appropriate action to be taken to limit operating losses and avoid any risks that could jeopardize the Company's existence. All measures used to minimize risk are assigned to individual risk officers, most of whom belong to the Senior Management Group of MorphoSys.

As part of a systematic risk assessment process, all important risks concerning the Company's different business segments and the Company as a whole are assessed. These risk assessments are held twice a year. Risks are assessed by comparing their quantifiable financial impact on the MorphoSys Group and their probability of occurrence with or without the initiation of a risk minimization process. This methodology is applied for an evaluation period of twelve months and over a medium-term period of three years in order to include obligations taken on for the Company's proprietary development with longer maturities. In addition, the expanded strategic risk assessment is based on a long-term period of more than three years. An overview of MorphoSys's current risk assessment can be found in tables 11 and 12.

Risk managers enter their risks into a Group-wide IT platform, which makes monitoring, analyzing and documenting risk much easier. The risk management system distinguishes between risk owners and risk managers. A risk owner is usually the relevant department head (typically a member of the Senior Management Group). Department employees can also be risk mangers if the risks that fall under their area of responsibility are recognized by the risk management system. Risk owners and risk managers are asked to update and reevaluate their risks at half-yearly intervals. The process for this is coordinated and managed by the Corporate Finance & Corporate Development department. This department also oversees the assessment process, summarizes the main contents and presents them to the Management Board and the Supervisory Board on a regular basis. The entire evaluation procedure is based on standardized evaluation methods. The system was improved in the reporting year by adding a "heat map." The heat map represents graphically the effectiveness of the controls implemented for the five major risks (one-year and three-year view). Thus, the effects of the monitoring activities for the various risks can be graphically visualized. Risk management and the monitoring of operations are carried out by the individual managers. The changes in the risk profile brought about by these measures are recorded at regular intervals. A periodic audit by external consultants ensures that the risk management system is being developed steadily and that possible changes in Company's risk areas are promptly corrected. The risks and opportunities management

system consists of a bottom-up method to identify short- and medium-term risks, as well as a top-down approach in the area of strategic risks and opportunities. The top-down approach systematically identifies global strategic risks and opportunities to get a complete picture of the opportunities and risks. Examples of these risks include environmental and industry risks, personal risks and risks that may result from the public perception of the Company. Twice a year, at the same regular intervals used for recognizing other risks, a workshop on the top-down approach takes place with selected members of the Senior Management Group. This workshop addresses various areas of the Company and recognizes and discusses strategic risks and opportunities, also those occurring over a period of three years and more. The evaluation process is exclusively qualitative. A presentation of these risks is listed in table 12.

Principles of Risk and Opportunity Management

MorphoSys always encounters both risks and opportunities. This may cause a tangible impact on net assets and financial position or have a direct influence on intangible assets, such as the Company's image within the industry, or on the Company's trademark.

MorphoSys defines risk as internal or external events having an immediate impact on the Company. This includes an assessment of the potential financial impact on the Company's targets. Opportunities are in direct relation to risk and seizing opportunities positively impacts the Company's targets, whereas the occurrence of risks has a negative influence.

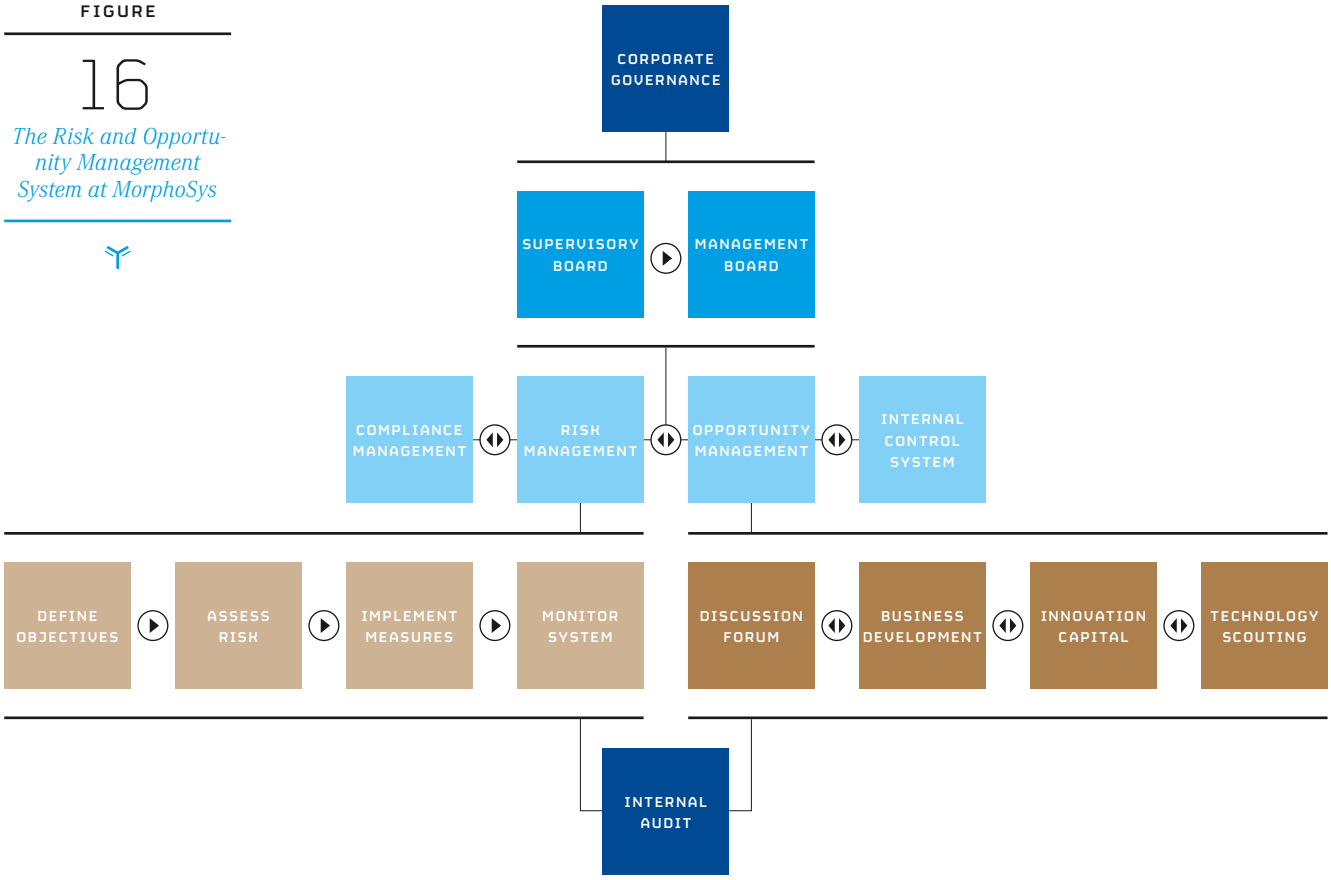
Responsibilities under the Risk and Opportunity Management System

The Management Board of MorphoSys AG is responsible for the risk and opportunity management system. The Board ensures that all opportunities and risks are presented, evaluated and monitored in a comprehensive manner. The Department of Corporate Finance & Corporate Development coordinates the implementation of these measures and routinely reports to the Management Board. The Supervisory Board has appointed the Audit Committee to monitor the effectiveness of the Group's risk management system. The Audit Committee routinely reports its findings to the entire Supervisory Board, which is also informed by the Management Board twice a year.

Accounting-Related Internal Control System

MorphoSys uses strict internal controls, Group-wide reporting guidelines and other measures such as employee training and ongoing professional training with the goal of maintaining accurate bookkeeping and accounting and ensuring the reliability of the financial reporting in the consolidated financial statements and the Group Management Report. The essential components of Group accounting are prevention, monitoring and detection measures intended to ensure the security and control in accounting and operational functions. More details on the internal control system for financial reporting can be found in the Corporate Governance Report.

FIGURE
16
The Risk and Opportunity Management System at MorphoSys



Risks

RISK CATEGORIES

MorphoSys categorizes its key risks in the following six categories:

- Financial risks (for example, risks resulting from insolvencies and payment defaults; license fees, research funding and milestones that are lower-than-anticipated; and risks associated with any form of financing and financial instruments, such as cash investments, bank failures, currencies, interest rates, taxes and debt collection).
- Operational risks (risks such as those in the areas of procurement/production, customers, personnel, risks customary for the biotechnology industry such as risks related to preclinical or clinical trial results).
- Strategic risks (for example, mergers and acquisitions (M&A), investments, R&D, corporate image, superior products and technologies of competitors, portfolio development).
- External risks (risks beyond the Company's control, such as economic, political and legal risks, as well as risks associated with companies in the biotechnology and pharmaceutical industry, such as intellectual property protection and risks in the regulatory environment when seeking the approval of new drugs).
- Organizational risks (for example, those concerning IT, facilities management, succession planning, business interruption and process delays as a result of the exaggerated complexity and an excessive number of projects).
- Compliance risks (for example, breach of US FDA and European EMA regulations, quality management policies, accounting standards, corporate governance, as well as violations of the German Stock Corporation Act).

FINANCIAL RISKS

Financial risk management at MorphoSys aims to limit financial risks and reconcile these risks with the requirements of its business.

Financial risks may arise within the context of licensing agreements, for example when projects (products or technologies) are delayed or do not materialize, or are out-licensed to a different degree than planned. A corresponding risk also arises when revenues do not reach the level projected or when costs are higher than planned due to higher resource requirements. Detailed project preparation, for example through an intensive exchange with internal and external partners and consultants, ensures optimal positioning early in the process and thus represents an important measure for minimizing risk. Financial risks associated with the Company's proprietary programs could be considerably reduced by the successful introduction of MOR103 and MOR202 into partnerships in the 2013 financial year. The financial risks relating to MOR208, a completely proprietary program, remain entirely with MorphoSys. With the programs introduced into partnerships, MorphoSys retains some risk with respect to the clinical development. The early termination of concluded development partnerships may force MorphoSys to bear future development costs on its own. Such a termination could have a major impact on the income statement and the financial planning.

Due to the continued difficult European economic situation, bank insolvencies still pose a financial risk. Therefore, MorphoSys continues to invest only in funds and products deemed safe – to the extent this is possible and can be estimated – from banks that have maintained their high rating and/or are secured by a strong partner. We have simulated various scenarios and have formed appropriate contingency plans. In addition, the appropriate returns of financial assets represent a risk, especially since key interest rates have reached an extremely low level.

OPERATIONAL RISKS

Operational risks include risks relating to the exploration and development of proprietary drug candidates and those found in the Corporate Purchasing and Logistics department. Operational risks also include personnel risks, such as the risk of being able to recruit suitable employees or the loss of highly qualified and experienced staff.

The failure of a clinical trial before out-licensing to partners – which does not necessarily imply the failure of an entire program – can result if the trial data did not produce the expected results, showed unexpected adverse side effects, or the compilation of the data was incorrect. The design of clinical trials and the draft of development plans are always completed with the utmost care. This has given the trials in clinical testing the best opportunity to show clinically relevant data and convince regulatory agencies and potential partners. In addition to the existing internal know-how, external experts are also involved. Special steering committees and panels are formed to monitor the progress of clinical programs.

Antibody production is a significant cost factor in the area of drug development. A crucial role is played by the obligation to comply with the requirements of the international drug regulatory agencies at every step of production in order to guarantee the highest quality of the compounds and ensure patient safety. The production process for biopharmaceuticals is usually performed in cell culture systems of several thousand liters of culture volume and entails a variety of process steps that need to be carried out under strict supervision and officially controlled conditions up to the completion of the individual investigational medicinal products for use in patients. Therefore, lead times of up to one to two years – depending on the phase of the project – must be scheduled for the supply of antibody material. This supply planning, coupled with early strategic financial investments, are major factors in drug development due to the high complexity and associated risks involved in the production process and in clinical trial planning since they can both have a considerable effect on the speed and cost of development.

The Procurement & Logistics department cooperates closely with suppliers to avoid delivery delays, delivery bottlenecks and avert any additional costs. This relationship is supported by a periodic vendor evaluation that identifies potential problems and finds solutions that are communicated both internally and externally to the managers responsible.

Personnel risks occur in the area of recruitment and from the loss of "key performers." Such risks become apparent when recruiting employees, particularly in light of how difficult it is to find candidates with the appropriate qualifications. The Company's Human Resources department takes every opportunity to respond to these risks – including collaborations with external organizations – and improve the recruitment process. We begin our search for suitable employees as early as possible. In addition, the attractiveness of MorphoSys as an employer is presented to the public through ad-

vertising and trade shows portraying the Company as having an open and creative corporate culture. Next to recruitment, employee retention is also a key element of human resource management in order to minimize the loss of key performers from the resignation of experienced and highly qualified employees. The continual comparison of industry-standard salary schemes ensures employees are paid fairly and competitively. Furthermore, suitable salary components and employee interviews ensure a performance-based incentive system and support the long-term goal of binding the employee to the Company. Company parties, team building activities, sports and social events, contribute to a good working atmosphere.

STRATEGIC RISKS

Strategic risks occur in the proprietary portfolios of therapeutic molecules. After successfully introducing two existing proprietary programs into partnerships, making additions to the portfolio becomes the focus. Here, risks may arise if there is a lack of attractive targets and compounds or innovative technologies. These risks are also related to missed or failed M&A transactions that would have provided access to strategically important assets. One way MorphoSys responds to these types of risks, is to form multidisciplinary teams to take care of additions to the proprietary portfolios and identify which of the suitable therapeutic molecules can be in-licensed. A New Discovery team searches for suitable targets for developing novel therapeutic molecules using proprietary or external technological platforms. In order to obtain long-term options for new technologies or therapeutic molecules, a program called “Innovation Capital” has been established, which invests venture capital in innovative start-up companies.

Development programs brought into partnerships can also fail or see the partnerships end on short notice or prematurely. This could force MorphoSys to search for new development partners or to bear substantial costs of further development fully on its own. There may be a delay or even a termination in the development of individual candidates. Not only could this lead to additional costs for MorphoSys, but it could also lead to a long-term loss of revenue due to delayed market entry.

Another strategic risk is that therapeutic antibodies will no longer be competitive in the distant future due to the existence of better molecules or more favorable therapeutic approaches or because proprietary drug candidates take too long to reach market readiness. This risk can also be classified as industry risk. MorphoSys attempts to minimize these risks using its own discovery activities and detailed time schedules for its proprietary development programs. Here again, through the creation of Innovation Capital, MorphoSys has a suitable tool to identify new trends at an early stage, invest in innovation and thereby participate in development. A scouting team also searches worldwide for new and innovative technologies and analyzes MorphoSys’s competitors regularly.

There is also a strategic risk of a possible non-renewal of the cooperation agreement with Novartis. The current agreement is valid through 2017 and Novartis has an option to extend the agreement by an additional two years. Should Novartis not exercise this option, MorphoSys would lose annual revenues of approximately € 40 million as of the 2018 financial year.

EXTERNAL RISKS

External risks for MorphoSys are found, among others, in the context of its intellectual property. Patent protection of proprietary technologies is particularly important for MorphoSys. To reduce the risks in this area, MorphoSys is always on the lookout for published patents and patent applications. The Company analyzes and monitors its findings and develops circumvention strategies for external patents, which may one day be relevant, before they are issued. By following this strategy, MorphoSys has achieved growing success over the years and has secured ample room to maneuver in terms of its proprietary technology platforms and products for many years to come.

Another area where external risks can occur is in our work with service providers in both preclinical and clinical development, including the processing of clinical data. Here, insufficient or poor performance can lead to development delays, financial loss, or even endanger the programs in their entirety.

As a global biotechnology company with numerous partnerships and its own research and development department for the development of drug candidates, the MorphoSys Group is exposed to a variety of legal risks. These include risks relating to patent law, potential liability claims from existing partnerships, competition and antitrust law, as well as tax law and environmental protection. Future lawsuits are conceivable but are currently unpredictable. Therefore, we cannot rule out a significant impact on our business and results from expenses incurred as a result of legal or regulatory judgments, or from agreed settlements that are not, or not fully, covered or that can only be partially covered by insurance.

ORGANIZATIONAL RISKS

Organizational risks occur in the areas of Partnered Discovery, Technical Operations and IT, among others. The Partnered Discovery area may suffer from a loss of quality or delays may occur within the organization due to a higher number of programs or their increasing complexity. To reduce complexity and, in turn, lower risk, we have introduced uniform processes that are monitored for compliance by regular audits.

Risks found in the Technical Operations area relate to procedures that could cause lasting damage, business interruptions, or accidents involving hazardous or polluting substances. To avoid these types of disruptions, we take measures such as the routine inspection and maintenance of equipment and facilities and providing training and tutorials for the employees concerned. These risks can be reduced even further with the use of suitable electronic monitoring systems. Financial risks affecting this area are generally covered by insurance. Further information on MorphoSys's operating environment may be found in the chapter titled "Sustainable Business Development."

Business activities can be exposed to risks resulting from disruptions in the IT infrastructure or IT security. These risks are managed using backup copies created several times per day and through the use of highly reliable firewall and antivirus scanning systems to ensure the safety and stability of the data. MorphoSys also minimizes the risks associated with the availability, reliability and efficiency of its IT systems through continuous testing (for example, simulations of gradual hacker attacks) and updates to the software and hardware systems. The IT strategy is also reviewed and adjusted on an annual basis.

COMPLIANCE RISKS

Compliance risks can arise when quality standards are not met or business processes are not handled properly from a legal standpoint. MorphoSys is committed to meeting the highest quality standards in its business operations, as set out in the Sustainability Report, to counter these risks. The system is also routinely reviewed by external experts and subjected to periodic inspections by an internal, independent quality assurance department to limit risk.

Specific risks could arise, for example, when the internal quality management system does not meet the legal requirements, or when there is a failure to implement the internal systems for detecting quality defects. In the event that the internal controls are not able to detect violations of the Good Manufacturing Practice (GMP), Good Clinical Practice (GCP), or Good Laboratory Practice (GLP), this would also constitute a compliance risk.

Insufficient or delayed financial communication could result in fines or legal actions. Annual General Meetings executed incorrectly could lead to legal disputes with shareholders. This would lead to significant costs from either attempting to avert a challenge of the Annual General Meeting or, if this is not possible, to repeat the Annual General Meeting. Capital measures up for resolution (for example, a capital increase) could possibly also be at risk. The preparation and execution of the Annual General Meeting, as well as all relevant documentation and processes, are closely monitored and reviewed by the internal departments responsible and by external lawyers and auditors to minimize this risk.

THE MANAGEMENT BOARD'S EVALUATION OF THE OVERALL RISK SITUATION AT THE MORPHOSYS GROUP

The Management Board of the MorphoSys Group considers the overall risk to be appropriate and trusts the effectiveness of the risk management system with regard to the changes in the environment and the needs of the current business. It is the Management Board's view that the continued existence of the MorphoSys Group is not jeopardized. This assessment applies to each individual Group company as well as to the MorphoSys Group as a whole. This assessment is based on a variety of factors which are summarized below:

- the MorphoSys Group has an exceptionally high equity ratio and has successfully confirmed its corporate objectives in the past few years;
- the Management Board of the Group is confident that MorphoSys is well positioned to cope with any adverse events which may occur;
- the Group has an extremely large and broad portfolio of preclinical and clinical programs in partnerships with a number of large pharmaceutical companies and a strong technological base for further expanding its proprietary portfolio.

Risks, however, cannot be excluded, controlled or influenced in their entirety.

Opportunities

Leading antibody technologies, excellent know-how and a broad portfolio of validated clinical programs have made MorphoSys one of the world's leading biotechnology companies in the field of therapeutic antibodies. Because this therapeutic class of molecules now belongs to one of the most successful and best-selling drugs in cancer therapy, there are a significant number of pharmaceutical and biotechnology companies active in the field of antibodies who could become future customers and partners for MorphoSys's products and technologies. For this reason and due to MorphoSys's long-standing expertise in the field of technology and product development, the Company has identified a number of growth opportunities for the years to come.

MorphoSys's antibody technologies for the development and optimization of therapeutic antibody candidates offer crucial advantages that can lead to higher success rates and shorter development times in the drug development process. The transfer and application of MorphoSys's core competencies, also outside of the antibody segment, present the Group with new opportunities since many classes of compounds are similar in their molecular structure. The "Innovation Capital" initiative is able to seize opportunities that were previously unavailable by having MorphoSys act as a strategic investor in young, innovative companies allowing it to use synergies effectively.

OPPORTUNITY MANAGEMENT SYSTEM

The opportunity management system is an important part of the corporate management at MorphoSys. It serves to identify opportunities at an early stage and to generate added value for the Company.

Opportunity management relies on four pillars:

- a routine discussion forum comprised of the Management Board and selected members of the Senior Management Group;
- the Company's business development activities;
- a technology scouting team; and
- the "Innovation Capital" initiative.

At committee meetigs, selected opportunities are discussed and, where applicable, actions are agreed upon for seizing these opportunities. The meetings and their results are recorded in detail and further actions are monitored and reviewed. The Group's Business Development team takes part in numerous conferences where it identifies various opportunities that can contribute to the Company's growth. These are presented in the committee meetings and assessed through evaluation processes. The technology scouting team specifically searches out innovative technologies that can generate synergies with the technological infrastructure of MorphoSys, suitable for identifying new therapeutic molecules. These results are also discussed and evaluated by internal committees existing across all departments. The "Innovation Capital" initiative described above also allows MorphoSys to participate in early innovations and utilize these for the benefit of the Company in the future. An established opportunity evaluation process ensures a qualitative and reproducible evaluation of opportunities.

GENERAL STATEMENT ON OPPORTUNITIES

Increased life expectancy in industrialized countries and the changing income situation and lifestyle in emerging countries are expected to drive demand for additional and innovative treatment options and advanced technologies. Scientific and medical progress has led to a better understanding of the biological processes of diseases, which, in turn, paves the way for new therapeutic approaches. Innovative therapies, such as fully human antibodies, have reached market maturity in recent years and have led to the development of commercially successful medical products. In addition, therapeutic compounds based on proteins – also known as biological compounds or "biologics" – are threatened less by competition from generics than chemically produced molecules because the production of biological compounds is far more complex. Therefore, the demand for antibodies and the interest in this category of drugs has risen sharply over the past two to three years as demonstrated by the various acquisitions and significant licensing agreements in this field.

MARKET OPPORTUNITIES

MorphoSys believes that its antibody platforms, HuCAL, Ylanthia and Slonomics, and the recently in-licensed lanthipeptide technology can all be used to develop products that address considerable, unmet medical needs.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

It is expected that the pharmaceutical industry will increase its in-licensing of new drugs in order to refill its pipelines and replace previous key products and revenue drivers which have lost patent protection. With its most advanced compounds, MOR103, MOR202 and MOR208, MorphoSys is in a good position to capitalize on the needs of pharmaceutical companies. This is highlighted by the partnerships for MOR103 and MOR202 and the partnership for MOR209/ES414 that was completed successfully in 2014.

The guaranteed cash flows from the Partnered Discovery segment in the years to come place MorphoSys in a position to continuously strengthen its proprietary portfolio. MorphoSys will expand its proprietary portfolio by adding clinical trials with its most important drug candidates by investigating new disease areas, for example. MorphoSys intends to complement its portfolio with other programs and could use existing and future opportunities for co-development projects or partnerships. The Company is also looking for more opportunities to in-license interesting drug candidates.

With the drug candidates MOR208 and MOR202, MorphoSys may have the chance for the first time to market a drug itself.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By working with a number of partners in drug development, MorphoSys has been able to better spread the risk that is inextricably linked with the development of individual drugs. With over 80 individual therapeutic antibodies currently in development programs with partners, the chance that MorphoSys will participate financially in the marketing of drugs is becoming more likely. In 2014, there were already three antibodies in clinical phase 3. If the clinical trial results are positive, it is possible that an approval may even be awarded in the near future. Our partner Novartis has already announced that an filing for the approval of its bimagrumab antibody could be made in 2016.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and new technologies in order to maintain its technological leadership. With Ylanthia, MorphoSys has established a new technology platform which, unlike its predecessor HuCAL, is again available for broader licensing to different partners. The commercialization of the Ylanthia antibody library was started in 2012.

Technological advances of this kind could put the Company in a position to expand its list of partners and increase both the speed and the success rate of partnered and proprietary drug development programs. New technology modules that enable the production of antibodies against novel classes of target molecules could also open up new disease areas in which antibody-based treatments are still under-represented.

Technology development is driven by a team of scientists focused on the further development of the Company's technologies. But instead of only relying on internal technology development, MorphoSys also uses external sources of development for strengthening its technology. The cooperation and participation in Lanthio Pharma, a Dutch company dealing with the development of lanthipeptide, is a good example of such activities.

ACQUISITION OPPORTUNITIES

In the past, MorphoSys has proven its ability to make acquisitions of compounds and technologies to accelerate its growth. Potential acquisition candidates are systematically presented, discussed and evaluated within the scope of the routine meetings with the Management Board and members of the Senior Management Group already described. Subsequent to these meetings, promising candidates are examined for strategic synergies and evaluated by an internal specialist committee. Protocols are completed on all candidates and assessments and are then systematically archived for observation and follow-up. A proprietary database helps to administer this information and keep it available.

MorphoSys plans to drive its acquisition strategy forward in the new year so that it can complement its existing portfolio and technology platform and secure access to patents and licenses for the development of novel proprietary technologies and products.

FINANCIAL OPPORTUNITIES

Exchange rate and interest rate developments can have a positive or negative effect on the Group's financial results. Interest rates and financial market developments are continuously monitored to promptly identify and seize any available opportunities.

TABLE 11

Presentation of the Key Short- and Medium-Term Risks at MorphoSys

	1-Year Assessment		3-Year Assessment	
FINANCIAL RISK				
Risk of missing revenue targets	•	Low	•••	High
Risks due to bank insolvencies	••	Moderate	••	Moderate
OPERATIONAL RISK				
Risks related to the development of proprietary antibodies	••	Moderate	••	Moderate
Risks related to Human Resources	•	Low	•	Low
STRATEGIC RISK				
The risk of not being able to in-license novel therapeutic molecules	••	Moderate	•••	High
Early termination of drug development partnerships	••	Moderate	•••	High
Patent-related risks (with regard to the patent situation of the technology platform)	••	Moderate	••	Moderate
EXTERNAL RISK				
Risks related to external service providers in the clinical area	•••	High	•	Low
Patent-related risks (with regard to new national/international regulations)	••	Moderate	••	Moderate
ORGANIZATIONAL RISK				
Risks arising from the growing amount and complexity of programs	••	Moderate	••	Moderate
Risks in the technical operations area	•	Low	•	Low
COMPLIANCE RISK				
Quality risks due to legal requirements	••	Moderate	••	Moderate
Legal risks	•	Low	•	Low

LEGEND

•	**LOW RISK**	low probability of occurrence, low impact
••	**MODERATE RISK**	moderate probability of occurrence, moderate impact
•••	**HIGH RISK**	moderate probability of occurrence, moderate to strong impact
••••	**CATASTROPHIC RISK**	high probability of occurrence, severe impact

TABLE 12

Summary of the Most Important Long-Term Risks at MorphoSys

Segments	Risk	Order[1]
Proprietary Development	Lack of competitiveness of the MorphoSys pipeline	1
Partnered Discovery	Termination of partnered programs	2
Proprietary Development	Insufficient expansion of the MorphoSys pipeline	3
Partnered Discovery	Lack of new strategic alliances	4

[1] Declining importance of risk from 1 to 4, whereby 1 represents the most important risk.

Statement on Corporate Governance and Corporate Governance Report

The Statement on Corporate Governance and the Corporate Governance Report are published on the Company's website under Media & Investors – Corporate Governance.

Statement on Corporate Governance Pursuant to Sec. 289a (HGB) for the 2014 Financial Year

In the Declaration on Corporate Governance pursuant to Sec. 289a HGB, the Management Board and the Supervisory Board report on corporate governance. In addition to the annual Declaration of Conformity in accordance with Sec. 161 of the Stock Corporation Act (AktG) it also includes relevant information on corporate governance practices and other aspects of corporate governance, particularly a description of the working practices of the Management Board and Supervisory Board.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE (THE "CODE") OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF MORPHOSYS AG

The Management Board and the Supervisory Board of MorphoSys AG declare the following pursuant to Sec. 161 of the German Stock Corporation Act:

1. Since the last Declaration of Conformity on 6 December 2013, MorphoSys AG has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" – with the exceptions described below under item no. 3 – in the Code version dated 13 May 2013 and 24 June 2014.
2. MorphoSys AG will continue to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" in the Code version dated 24 June 2014 – with the exceptions described below under item no. 3.
3. Exceptions:
   - Remuneration of Management Board members does not provide for a cap, neither overall nor for individual compensation components (see item 4.2.3 Para. 2 sentence 6 of the Code). In view of the Supervisory Board's existing limitation possibilities concerning the variable compensation components for the Management Board and its annual allocation, the Supervisory Board does not believe that an additional cap is required.
   - The Supervisory Board has refrained from full application of the recommendations in item 5.4.1 Para. 2 and Para. 3 sentence 1 of the Code. Pursuant to item 5.4.1 Para. 2, the Supervisory Board shall specify concrete objectives regarding the Board's composition, which shall stipulate, in particular, an appropriate level of female representation. According to item 5.4.1 Para. 3 sentence 1, proposals by the Supervisory Board to the competent election bodies shall take these objectives into account. The Supervisory Board has established concrete objectives regarding its composition and has thereby also decided to strive for an adequate representation of women on the Supervisory Board. However, a concrete quota of female members on the Supervisory Board has not been provided since qualifications and not gender should be the decisive criteria in the individual cases for appointment to the Supervisory Board.

Martinsried/Planegg, 5 December 2014

MorphoSys AG

On behalf of the Management Board:	On behalf of the Supervisory Board:
Dr. Simon Moroney Chief Executive Officer	Dr. Gerald Möller Chairman of the Supervisory Board

RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES

MorphoSys ensures compliance with the rules of conduct and laws through the use of a Group-wide Code of Conduct, a compliance handbook and supplementary internal guidelines.

MorphoSys's "Code of Conduct" sets out the fundamental principles and key policies and practices for business behavior. The Code serves as a valuable tool for employees and managers, particularly in business, legal, or ethical situations of conflict. The Code of Conduct also supports transparent and consistent management principles and strengthens the trust of the financial markets, business partners, employees and the public in the Company. Compliance with the Code of Conduct is carefully monitored. The Group-wide implementation of the Code is guided by the Code of Conduct Committee. The Code of Conduct is also regularly reviewed and amended if necessary. The Code of Conduct can be downloaded from the Company's website under Media & Investors – Corporate Governance.

The compliance handbook describes the compliance management system implemented by MorphoSys. This system ensures compliance with all legal requirements and also implements high ethical standards that are mandatory for both the Management Board and all employees. The overall responsibility for the compliance management system lies with the Management Board who regularly reports to the Supervisory Board and the Audit Committee. In carrying out its compliance responsibility, the Management Board has transferred the respective tasks to various positions at MorphoSys.

The Compliance Officer monitors the interfaces of the individual pillars of compliance within MorphoSys and, if necessary, adapts the Company's existing compliance organization in consultation with the Management Board. The Compliance Officer also regularly reports to the CEO on all of the relevant developments in the Company's compliance organization.

The Compliance Officer is assisted in his duties by a Compliance Committee that meets regularly to discuss compliance issues. The Compliance Committee serves as an interface between the different departments of MorphoSys dealing with compliance issues and facilitates the identification and discussion of all relevant issues concerning the individual compliance pillars. On this basis, the Compliance Officer routinely verifies the observance of the compliance management system as well as the compliance status of MorphoSys.

Further information on the compliance management system at MorphoSys can be found on page 71 in the Corporate Governance Report.

COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

THE MANAGEMENT BOARD

The Management Board of MorphoSys AG consists of the Chief Executive Officer and three other members. In the schedule of responsibilities, the various areas of responsibility are defined as follows:

- Dr. Simon Moroney, Chief Executive Officer, responsible for Strategy and Planning; Compliance and Quality Assurance; Internal Audit; Human Resources; Business Development & Portfolio Management; Legal and the coordination of individual areas of the Management Board as well as representation of the Management Board to the Supervisory Board.
- Jens Holstein, Chief Financial Officer, responsible for Accounting and Taxes; Controlling; Corporate Finance & Corporate Development; Risk Management; IT & Technical Operations; Procurement and Logistics; Corporate Communications & Investor Relations.
- Dr. Arndt Schottelius, Chief Development Officer, responsible for Preclinical Development; Clinical Research; Clinical Operations; Drug Safety & Pharmacovigilance; Regulatory Affairs; Project Management.
- Dr. Marlies Sproll, Chief Scientific Officer, responsible for Development Partnerships & Technology Development; Target Molecule & Antibody Research; Protein Chemistry; Alliance Management; Intellectual Property.

SUPERVISORY BOARD

As of 31 December 2014, the Supervisory Board of MorphoSys AG consisted of six members, who oversee and advise the Management Board. The present Supervisory Board consists of professionally qualified members representing the shareholders of MorphoSys AG. Dr. Gerald Möller, acting Chairman of the Supervisory Board, coordinates the Board's activities, chairs the Supervisory Board meetings and represents the concerns of the Supervisory Board externally. As defined by the German Corporate Governance Code, all members of the Supervisory Board are independent and have many years of experience in the biotechnology and pharmaceutical industries. They are duly elected by the shareholders in the course of the Annual General Meeting. The Chairman of the Supervisory Board is not a former member of the Management Board of MorphoSys AG. With the conclusion of the Annual General Meeting 2015 ends the term of office of of all six members of the Supervisory Board. Regular elections are therefore planned for the Annual General Meeting 2015. The precise composition of the Supervisory Board and its committees is contained in the following table.

TABLE

13

Composition of the Supervisory Board

	Position	Initial Appointment	End of Period[1]	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2015		Chairman	
Dr. Geoffrey Vernon (Independent Financial Expert)	Deputy Chairman	1999	2015	Member		
Dr. Walter Blättler	Member	2007	2015			Chairman
Dr. Daniel Camus (Independent Financial Expert)	Member	2002	2015	Member		
Dr. Marc Cluzel	Member	2012	2015		Member	Member
Karin Eastham (Independent Financial Expert)	Member	2012	2015	Member	Member	

Independent Financial Expert · Chairman · Member

[1] Period ends with termination of Annual General Meeting 2015.

WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

To ensure good corporate governance, open and comprehensive information provided on a routine basis is a guiding principle of the cooperation of the Management Board and Supervisory Board of MorphoSys AG. The dual management system required by the German Stock Corporation Act clearly differentiates between the management and the supervision of a Company. The responsibilities of both Boards are clearly defined by the legislator and by the Boards' bylaws and Articles of Association. MorphoSys AG's Management and Supervisory Boards work closely together and take actions and decisions for the benefit of the Company. Their stated objective is to sustainably increase the Company's value.

Each Management Board member has their own area of responsibility, which is defined in the schedule of responsibilities. Each member regularly reports to their Management Board colleagues on their respective area of responsibility. The collaboration of Management Board members is governed by the bylaws. Both the schedule of responsibilities and the bylaws were enacted by the Supervisory Board. Meetings of the Management Board typically take place once a week and are chaired by the Chief Executive Officer. At the meetings, resolutions related to actions and transactions are passed that require the approval of the entire Management Board under the rules of procedure. In order to pass resolutions, at least half of the members of the Management Board must participate in the vote. Resolutions of the Management Board are passed by a simple majority. In the event of a tied vote, the vote of the Chief Executive Officer decides. In the case of significant events, each member of the Management Board or the Supervisory Board may convene an extraordinary meeting of the Management Board as a whole. Resolutions of the Management Board may also be passed outside of its meetings by voting verbally, by telephone, or in writing (including email). A protocol is made of each meeting of the full Management Board. This protocol is then submitted for approval at the subsequent meeting of the full Management Board and signed by the Chief Executive Officer.

In addition to the regular Management Board meetings, Management Board strategy workshops are held. In this workshops, the Management Board prioritizes the strategic objectives across the Group and outlines the future strategy.

The Management Board informs the Supervisory Board with respect to planning, business development and the Group's position, including risk management and compliance issues, in a timely and comprehensive manner in writing, as well as at the Supervisory Board meetings. An extraordinary meeting of the Supervisory Board shall be convened if necessary in the case of a material event. The Supervisory Board is involved by the Management Board in the strategy and planning, as well as in all decisions of fundamental importance to the Company. In addition to the regular Supervisory Board meetings, a further strategy meeting between the Management Board and the Supervisory Board is held

once annually in which the focus of discussion is the strategic orientation of MorphoSys. According to the Management Board's rules of procedure, important business transactions are subject to the consent of the Supervisory Board. Detailed information on the collaboration between the Management Board and the Supervisory Board and on important topics discussed in the 2014 financial year can be found in the "Report of the Supervisory Board."

The Supervisory Board shall hold at least two meetings per calendar half-year and at least six per calendar year. In addition to the provisions of the Articles of Association, the Supervisory Board has added rules of procedure with regard to its duties: The Supervisory Board Chairman coordinates the work of the Supervisory Board, chairs its meetings and represents the affairs of the Board externally. The Supervisory Board usually makes its decisions in meetings. However, decisions can also be made by telephone, video conference, or outside of the meetings.

The Supervisory Board constitutes a quorum when at least two-thirds of its members (including either the Chairman or the Deputy Chairman of the Supervisory Board) participate in the vote. Generally, resolutions of the Supervisory Board are adopted by a simple majority of the votes cast unless the law prescribes a different majority. In the event of a tied vote, the vote of the Supervisory Board Chairman decides.

Supervisory Board meetings are recorded in writing. Resolutions which are taken outside of the meetings are also recorded. A copy of the minutes and the resolutions adopted outside of meetings is provided to all members of the Supervisory Board. In accordance with the recommendation in item no. 5.6 of the Code, the Supervisory Board evaluates the efficiency of its work on a regular basis.

COMPOSITION AND WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD COMMITTEES

The Management Board has not established any committees.

The Supervisory Board has three committees: the Audit Committee, the Remuneration and Nomination Committee and the Science and Technology Committee. The three committees formed by the Supervisory Board are occupied by professionally qualified members.

AUDIT COMMITTEE

The central task of the Audit Committee is to assist the Supervisory Board in fulfilling its supervisory duties with respect to the accuracy of the annual and consolidated financial statements, the activities of the external auditors, the internal control functions, risk management, compliance and internal audit. The Audit Committee also submits a recommendation to the Supervisory Board for the election of the independent auditor which takes place at the Annual General Meeting. The members of the Audit Committee are Dr. Daniel Camus (Chairman), Dr. Geoffrey Vernon and Ms. Karin Eastham. All three members are independent financial experts.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for the preparation and annual review of the Management Board's compensation system before its final approval. The committee also monitors, when necessary, the search for suitable candidates for appointment as Management Board members or as Supervisory Board members and submits proposals to the Supervisory Board in this regard. The Committee also prepares contracts with Management Board members. The members of the Remuneration and Nomination Committee are Dr. Gerald Möller (Chairman), Dr. Marc Cluzel and Ms. Karin Eastham.

SCIENCE AND TECHNOLOGY COMMITTEE

The Science and Technology Committee advises the Supervisory Board on matters concerning proprietary drug and technology development and also prepares the relevant Supervisory Board resolutions. The members of the Science and Technology Committee are Dr. Walter Blättler (Chairman) and Dr. Marc Cluzel.

The biographies of the Supervisory Board members can be found on the MorphoSys website under Company – Management – Supervisory Board.

TABLE

14

Participation of Supervisory Board Members

SUPERVISORY BOARD MEETINGS

Name	01/17 2014	02/27 2014	by phone 03/24 2014	05/22 2014	07/25 2014	Strategy Meeting 09/05-06 2014	11/04 2014	12/10 2014	by phone 12/17 2014
Dr. Gerald Möller	✆	✓	✆	✓	✓	✓	✓	–	✆
Dr. Geoffrey Vernon	✆	✓	✆	✓	✓	✓	✓	✆	✆
Dr. Walter Blättler	✆	✓	✆	✓	✓	✓	✓	✓	✆
Dr. Daniel Camus	✆	✓	✆	✓	✓	✓	✓	✓	–
Dr. Marc Cluzel	✆	✓	✆	✓	✓	✓	✓	✓	✆
Karin Eastham	✆	✓	✆	✓	✓	✓	✓	✆	✆

MEETINGS OF THE AUDIT COMMITTEE

Name	02/27/2014	by phone 03/24/2014	by phone 04/25/2014	07/25/2014	11/04/2014	12/10/2014
Dr. Daniel Camus	✓	✆	✆	✓	✓	✓
Karin Eastham	✓	✆	✆	✓	✓	✆
Dr. Geoffrey Vernon	✓	✆	✆	✓	✓	–

MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE

Name	02/27/2014	05/22/2014	07/24/2014	11/04/2014	12/10/2014	by phone 12/18/2014
Dr. Gerald Möller	✓	✓	✓	✓	–	✆
Dr. Marc Cluzel	✓	✓	✓	✓	✓	✆
Karin Eastham	✓	✓	✓	✓	✆	✆

MEETINGS OF THE SCIENCE AND TECHNOLOGY COMMITTEE

Name	02/27/2014	05/22/2014	by phone 06/26/2014	07/25/2014	11/04/2014	12/10/2014
Dr. Walter Blättler	✓	✓	✆	✓	✓	✓
Dr. Marc Cluzel	✓	✓	✆	✓	✓	✓

✓ ATTENDED IN PERSON
✆ PARTICIPATED BY PHONE

Corporate Governance Report

MorphoSys makes responsible, sustainable and value-oriented corporate governance its highest priority. Good corporate governance is a central component of corporate management at MorphoSys. It forms the framework for the management and supervision of the Group, which includes its organization, commercial principles and measures for guidance and control.

With the creation of the German Corporate Governance Code (the "Code"), a standard was established for the transparent monitoring and control of companies, which is particularly oriented towards the interests of shareholders. Many of the principles contained in the Corporate Governance Code have been practiced at MorphoSys for a long period of time. Individual issues relating to corporate governance at MorphoSys AG are detailed in the Declaration on Corporate Governance pursuant to Sec. 289a HGB. This declaration also includes the annual Declaration of Conformity, relevant information on corporate governance practices and a description of the working practices of the Management and Supervisory Boards. Additional information can be found in this Corporate Governance Report.

COMMUNICATION WITH THE CAPITAL MARKETS

One of the most important principles of corporate communication at MorphoSys is to inform institutional investors, private shareholders, financial analysts, employees and all other stakeholders simultaneously and comprehensively on the situation of the Company. This is accomplished through regular, transparent and timely communication. All essential information provided to financial analysts and similar addressees are also promptly made available to shareholders in both the German and English languages. The Company is strictly committed to the principle of fair information practices.

A central component of investor relations at MorphoSys is routine meetings with analysts and investors in the context of roadshows and individual meetings. Conference calls accompany the publication of the quarterly results and give analysts and investors an opportunity to ask questions on the Company's development. Company presentations prepared for on-site events are accessible to all interested parties on the Company website. Video and audio recordings of key events can always be found on the Company website. Transcripts of the conference calls are also made promptly available.

MorphoSys uses its corporate website www.morphosys.com as a central platform for providing current information on the Company and its progress. Here financial reports, presentations for analyst and investor conferences, as well as the Company's press releases and ad hoc statements can be retrieved. The dates of the main recurring publications and events (annual reports, interim reports, Annual General Meetings, press and analyst conferences) are published in our financial calendar well in advance.

The MorphoSys website was technically and structurally redesigned at the end of 2014 and will be re-introduced with a new design in the first quarter of 2015.

ESTABLISHMENT OF SPECIFIC TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of MorphoSys AG has a total of six members. In view of the Company's international orientation and to ensure a fair share of diversity, the Supervisory Board maintains a ratio of at least two non-German Supervisory Board members or at least two members having extensive international experience. This ratio is currently being met.

We also strive to have at least four independent members represented on our Supervisory Board. This ratio is also currently being met. Material conflicts of interest and those which are not merely temporary, in particular conflicts arising from tasks for major competitors, should be avoided. Currently, no such conflict of interest exists.

Furthermore, it is intended that an adequate proportion of women shall be represented on the Supervisory Board. The Supervisory Board is aware that such an adequate proportion of women may not be reached immediately. Nevertheless, the Supervisory Board intends to include qualified women when assessing potential candidates for vacant positions on the Supervisory Board. A prerequisite for proposing the election of female candidates shall be their qualification and concrete suitability for the Company. At the Supervisory Board election that took place at the 2012 Annual General Meeting, Ms. Karin Eastham was elected as a new Supervisory Board member.

The provision regarding the age limit of 75 years that is contained in the rules of procedure of the Supervisory Board is currently respected. However, the Supervisory Board may approve exceptions in individual cases.

The Supervisory Board plans to consider the targets mentioned above for future nominations.

REMUNERATION REPORT

The Remuneration Report presents the principles, structure and amount of compensation paid to the Management Board and the Supervisory Board. It reflects the legal provisions and gives consideration to the recommendations of the Code.

MANAGEMENT BOARD REMUNERATION

The remuneration system for the Management Board is intended to provide an incentive for performance-oriented and sustainable corporate management. Therefore, the aggregate compensation of the Management Board members consists of different components, such as fixed components, an annual cash bonus based on the achievement of individual and corporate targets (short-term incentive – STI), as well as a variable compensation component with a long-term incentive (long-term incentive – LTI) and of other compensation components. The variable remuneration component with long-term incentive consists of a performance share plan. The Management Board members also receive fringe benefits in the form of non-cash benefits. These benefits essentially consist of a company car and insurance premiums. As a component of remuneration, the fringe benefits of each Management Board member are taxable. All total remuneration packages are reviewed annually by the Remuneration and Nomination Committee for their scope and appropriateness and compared to the results of an annual management board compensation analysis. The amount of compensation paid to Management Board members highly depends on their individual areas of responsibility, their personal achievement of goals, business performance, as well as on the Company's success and the economic prospects in relation to the competition. All decisions concerning adjustments to the total remuneration package are taken by the entire Supervisory Board. The salaries of the Management Board as well as the contributions to a pension plan in the form of a provident fund were last adjusted in July 2014.

OVERVIEW

In the 2014 financial year, € 5,065,240 (2013: € 5,326,352) in benefits were granted to the Management Board in accordance with the provisions of the Corporate Governance Code.

Of this total remuneration for the year 2014, € 2,769,205 was cash compensation and € 2,296,035, or 45%, resulted from personnel expenses for share-based compensation (performance share plan, stock option plan and convertible bond plan) (remuneration with long-term incentive – LTI).

The total amount of benefits paid to the Management Board in the 2014 financial year amounted to € 6,984,419 (2013: € 16,837,592). In addition to cash remuneration of € 2,893,199 (2013: € 2,473,883) paid during the financial year, this also includes the value from the exercise of convertible bonds and stock options (share-based compensation) of € 4,091,220 (2013: € 14,363,709) relevant under German tax law.

Members of the Management Board exercised convertible bonds in the course of 2014. All transactions in MorphoSys shares executed by Management Board members were reported as required by law and published in the Corporate Governance Report and on the Company's website. In accordance with the requirements of Section 4.2.5, Para. 3 of the Code, the following represents detailed information on an individualized basis required by the Code regarding the remuneration of individual Management Board members.

Please note, the following tables in the Corporate Governance Report deviate from the information on Management Board remuneration provided in the Notes of this Annual Report (item 7.4). This is due to the varying presentation requirements under the Corporate Governance Code and those in accordance with IFRS.

FIXED REMUNERATION AND FRINGE BENEFITS

The non-performance related remuneration of the Management Board is composed of fixed remuneration and additional benefits, which mainly include the use of company cars and also include subsidies for health, welfare and disability insurance.

PENSION EXPENSES

Furthermore, the Company provides payments to Management Board members of up to 10% of each Management Board member's fixed annual salary plus taxes to be paid. These payments are to be used by the Management Board members for their individual retirement plans. In addition, all Management Board members participate in a pension plan in the form of a provident fund, which was introduced in cooperation with Allianz Pensions-Management e.V. The pension obligations of this provident fund are met by Allianz Pensions-Management e.V.

PERFORMANCE-BASED COMPENSATION (SHORT-TERM INCENTIVE – STI)

As performance-based remuneration, each member of the Management Board receives an annual cash bonus amounting to up to 70 % of the gross base salary upon the 100 % achievement of objectives. These bonus payments are dependent upon the achievement of corporate and personal objectives which are determined by the Supervisory Board at the beginning of each financial year. Corporate targets comprise 80 % of performance-based remuneration and are based on business development measured by revenue and operating results. The progress of the partnered pipeline and the Company's proprietary portfolio, as well as technology targets, is also taken into consideration. Personal targets comprise 20 % of performance-based remuneration and include the fulfillment of operational targets for which the respective Management Board member is responsible. At the start of the year, the Supervisory Board assesses the degree to which the corporate and personal objectives were achieved in the prior year and determines the corresponding bonus. The bonus is subject to a ceiling of 125 % of the target amount (corresponding to 87.5 % of gross basic salary). If targets are not achieved, the performance-based remuneration may be completely omitted. The bonus for the 2014 financial year will be paid in February 2015.

LONG-TERM INCENTIVE COMPENSATION (LTI)

In 2011, MorphoSys introduced a new, long-term incentive plan (Performance Share Plan) for the Management Board and members of the Senior Management Group. The LTI program is based on the allocation of shares which are linked to the achievement of certain pre-defined performance targets over a four-year period.

Each year the Supervisory Board decides on the number of shares to be allocated to the Management Board. On 1 April 2014, the Management Board was granted 18,264 shares; whereby each Management Board member received an entitlement to a certain number of shares. For more details, please refer to section 7.3.4 of the Notes to the Consolidated Financial Statement and the comments on share buybacks in the Corporate Governance Report.

With the allotment of shares for a given year, the Supervisory Board sets the long-term performance targets. For the 2014 LTI program, the target was defined as the share price performance of the MorphoSys share compared to a benchmark index, which consists of equal parts of the NASDAQ Biotech Index and the TecDAX index. Shares are annually awarded on the basis of a daily comparison of the MorphoSys share with the benchmark. For the price performance in a given year, there is a hurdle of 50 % and a maximum limit of 200 %. For example, in comparing the performance of the MorphoSys share with that of the index, performance of less than 50 % in the relevant year means that no shares would be allocated. Performance of more than 200 %, however, would result in no additional shares being allocated.

The final number of performance shares allocated to the beneficiaries of the LTI program is determined after the completion of the program, specifically after a period of four years. This calculation incorporates the number of shares initially allocated, after adjusting the Company's share price performance versus the benchmark index and at the discretion of the Supervisory Board with regards to a "company factor." The company factor is a number between 0 and 2 and is determined by the Supervisory Board depending on the Company's situation. The predefined default value of the company factor is 1.

MISCELLANEOUS

Management Board members were not granted any loans or similar benefits in the reporting year nor have members of the Management Board received any benefits from third parties that were either promised or granted based on their position as a Management Board member.

TERMINATION OF MANAGEMENT BOARD EMPLOYMENT CONTRACTS/ CHANGE OF CONTROL

If a Management Board member's service contract terminates as a result of death, their 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 in control, each Management Board member is entitled to exercise their extraordinary right to terminate their employment contract, including entitlement to any outstanding amounts of fixed salary for the remainder of the agreed contract period. Moreover, in such a case, all stock options, convertible bonds and performance shares granted will become vested immediately and are exercisable after the expiration of the statutory vesting period or blackout periods. A change in control occurs particularly when: (i) MorphoSys transfers assets or a substantial part of its assets to unaffiliated third parties, (ii) MorphoSys merges with a non-affiliated company, or (iii) a shareholder or third party holds 30 % or more of the voting rights in MorphoSys.

TABLE

15

Compensation of the Management Board in 2014 and 2013 (Disclosure in Accordance with the German Corporate Governance Code)

BENEFITS GRANTED TO THE MANAGEMENT BOARD

	Dr. Simon Moroney Chief Executive Officer				Jens Holstein Chief Financial Officer			
in €	2013	2014	2014 (Minimum)	2014 (Maximum)	2013	2014	2014 (Minimum)	2014 (Maximum)
Fixed Compensation	412,049	426,502	426,502	426,502	279,531	289,335	289,335	289,335
Fringe Benefits	67,132	29,444	29,444	29,444	28,138	33,722	33,722	33,722
Total Fixed Compensation	479,181	455,946	455,946	455,946	307,669	323,057	323,057	323,057
One -Year Variable Compensation[1]	360,543	324,696	0	373,189	244,590	220,271	0	253,168
Multi-Year Variable Compensation:								
2009 Stock Option Plan[2] (Vesting Period 4 Years)	5,704	0	0	0	0	0	0	0
2010 Convertible Bonds Program[2] (Vesting Period 4 Years)	32,051	6,010	6,010	6,010	0	0	0	0
2013 Convertible Bonds Program[2] (Vesting Period 4 Years)	363,903	310,530	310,530	310,530	372,759	318,087	318,087	318,087
2013 Long-Term Incentive Program[3] (Vesting Period 4 Years)	383,250	0	0	0	262,500	0	0	0
2014 Long-Term Incentive Program[3] (Vesting Period 4 Years)	0	402,413	0	1,609,652	0	275,625	0	1,102,500
Total Variable Compensation	1,145,451	1,043,649	316,540	2,299,381	879,849	813,983	318,087	1,673,755
Service Cost	112,221	125,730	125,730	125,730	78,177	86,866	86,866	86,866
Total Compensation	1,736,853	1,625,325	898,216	2,881,057	1,265,695	1,223,906	728,010	2,083,678

[1] The one-year compensation granted for the 2014 financial year represents the bonus accrual for 2014 that will be paid in February 2015. The bonus granted for the 2013 financial year was paid in February 2014.

[2] Stock-based compensation plans not issued on an annual basis. The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payment." For plans that are not issued annually, the pro rata share of personnel expenses resulting from stock options and convertible bonds is presented for each financial year.

[3] Stock-based compensation plans issued annually. The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payment." For plans issued annually, the personnel expenses resulting from performance shares are presented for the entire term at the time of issue.

	Dr. Arndt Schottelius Chief Development Officer				Dr. Marlies Sproll Chief Scientific Officer				Total			
	2013	2014	2014 (Minimum)	2014 (Maximum)	2013	2014	2014 (Minimum)	2014 (Maximum)	2013	2014	2014 (Minimum)	2014 (Maximum)
	279,531	289,335	289,335	289,335	279,531	289,335	289,335	289,335	1,250,642	1,294,507	1,294,507	1,294,507
	29,143	32,508	32,508	32,508	21,579	22,828	22,828	22,828	145,992	118,502	118,502	118,502
	308,674	321,843	321,843	321,843	301,110	312,163	312,163	312,163	1,396,634	1,413,009	1,413,009	1,413,009
	244,590	215,208	0	253,168	244,590	210,144	0	253,168	1,094,313	970,319	0	1,132,693
	6,337	0	0	0	2,577	0	0	0	14,618	0	0	0
	17,988	3,373	3,373	3,373	17,988	3,373	3,373	3,373	68,027	12,756	12,756	12,756
	249,243	212,687	212,687	212,687	249,243	212,687	212,687	212,687	1,235,148	1,053,991	1,053,991	1,053,991
	262,500	0	0	0	262,500	0	0	0	1,170,750	0	0	0
	0	275,625	0	1,102,500	0	275,625	0	1,102,500	0	1,229,288	0	4,917,152
	780,658	706,893	216,060	1,571,728	776,898	701,829	216,060	1,571,728	3,582,856	3,266,354	1,066,747	7,116,592
	78,294	86,653	86,653	86,653	78,170	86,628	86,628	86,628	346,862	385,877	385,877	385,877
	1,167,626	1,115,389	624,556	1,980,224	1,156,178	1,100,620	614,851	1,970,519	5,326,352	5,065,240	2,865,633	8,915,478

PAYMENTS DURING THE FINANCIAL YEAR

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
in €	2013	2014	2013	2014
Fixed Compensation	412,049	426,502	279,531	289,335
Fringe Benefits	67,132	29,444	28,138	33,722
Total Fixed Compensation	479,181	455,946	307,669	323,057
One -Year Variable Compensation[1]	226,689	360,543	176,890	244,590
Multi-Year Variable Compensation:				
2008 Stock Option Plan[2] (Vesting Period 4 Years)	3,992,587	0	0	0
2009 Stock Option Plan[2] (Vesting Period 4 Years)	3,356,537	0	0	0
2010 Convertible Bonds Program[2] (Vesting Period 4 Years)	0	2,386,110	0	0
Other[3]	0	0	0	0
Total Variable Compensation	7,575,813	2,746,653	176,890	244,590
Service Cost	112,221	125,730	78,177	86,866
Total Compensation	8,167,215	3,328,329	562,736	654,513

[1] The one-year variable compensation presented here represents the bonus paid in the respective financial year for the previous financial year.
[2] The date and value of the payments is the date and value applicable under German tax law. Therefore, this table shows the non-cash benefits arising in the respective financial year from the difference between the exercise or conversion price and the stock market price at the time of exercising the convertible bonds and stock options.
[3] No compensation recovery claims against the Management Board existed in 2014 or 2013.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is governed by the Company's Articles of Association and a corresponding resolution on Supervisory Board remuneration of the Annual General Meeting. In 2014 financial year, the members of the Supervisory Board received fixed remuneration and attendance fees for their participation in Supervisory Board and Committee meetings. According to the resolution of the Annual General Meeting of 23 May 2014, each Supervisory Board member receives an annual flat compensation (€ 85,400 for the Chairman, € 51,240 for the Vice Chairman and € 34,160 for all other members) for their membership in the Supervisory Board. The Chairman receives € 4,000 for each Supervisory Board meeting he chairs and the remaining members receive € 2,000 each time they attend a Supervisory Board meeting. For Committee work, the Committee Chairman receives € 12,000 and the remaining committee members each receive € 6,000. In addition, Committee members receive € 1,200 for each Committee meeting they participate in. Compensation is paid quarterly on a pro-rated basis.

Supervisory Board members are also reimbursed for travel costs and for value-added taxes (VAT) due on their remuneration.

In the 2014 financial year, Supervisory Board members received total compensation of € 514,480 (2013: € 458,280), excluding the reimbursement of travel expenses. This amount consists of the fixed remuneration and attendance fees.

No loans were granted to Supervisory Board members by the Company.

The following table shows the remuneration of the Supervisory Board in detail:

	Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
	2013	2014	2013	2014	2013	2014
	279,531	289,335	279,531	289,335	1,250,642	1,294,507
	29,143	32,508	21,579	22,828	145,992	118,502
	308,674	321,843	301,110	312,163	1,396,634	1,413,009
	164,155	244,590	162,653	244,590	730,387	1,094,313
	0	0	2,410,143	0	6,402,730	0
	3,273,300	0	1,331,142	0	7,960,979	0
	0	1,705,110	0	0	0	4,091,220
	0	0	0	0	0	0
	3,437,455	1,949,700	3,903,938	244,590	15,094,096	5,185,533
	78,294	86,653	78,170	86,628	346,862	385,877
	3,824,423	2,358,196	4,283,218	643,381	16,837,592	6,984,419

TABLE 16

Compensation of the Supervisory Board in 2014 and 2013

in €	Fixed Compensation		Attendance Fees		Total Compensation	
	2014	2013	2014	2013	2014	2013
Dr. Gerald Möller	97,400	94,400	38,000	32,000	135,400	126,400
Dr. Walter Blättler	46,160	43,160	25,200	17,000	71,360	60,160
Dr. Daniel Camus	46,160	43,160	23,200	19,500	69,360	62,660
Dr. Marc Cluzel	46,160	46,160	32,400	23,500	78,560	69,660
Karin Eastham	46,160	40,160	32,400	22,500	78,560	62,660
Dr. Geoffrey Vernon	57,240	57,240	24,000	19,500	81,240	76,740
TOTAL	**339,280**	**324,280**	**175,200**	**134,000**	**514,480**	**458,280**

DIRECTORS' HOLDINGS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The members of the Management Board and the Supervisory Board hold more than 1 % of the shares issued by the Company. All shares, performance shares and convertible bonds held by each member of the Management Board and the Supervisory Board are listed below.

TABLE

17

Directors' Holdings

SHARES

	01/01/2014	Additions	Forfeitures	Sales	12/31/2014
MANAGEMENT BOARD					
Dr. Simon Moroney	452,885	40,000	0	40,000	452,885
Jens Holstein	6,500	0	0	4,500	2,000
Dr. Arndt Schottelius	2,000	33,000	0	33,000	2,000
Dr. Marlies Sproll	27,370	1,250	0	0	28,620
TOTAL	**488,755**	**74,250**	**0**	**77,500**	**485,505**
SUPERVISORY BOARD					
Dr. Gerald Möller	9,000	0	0	0	9,000
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Marc Cluzel	0	500	0	0	500
Karin Eastham	1,000	0	0	0	1,000
Dr. Geoffrey Vernon	0	0	0	0	0
TOTAL	**12,019**	**500**	**0**	**0**	**12,519**

CONVERTIBLE BONDS

	01/01/2014	Additions	Forfeitures	Exercises	12/31/2014
MANAGEMENT BOARD					
Dr. Simon Moroney	147,186	0	0	40,000	107,186
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius	93,537	0	0	33,000	60,537
Dr. Marlies Sproll	93,537	0	0	0	93,537
TOTAL	**424,797**	**0**	**0**	**73,000**	**351,797**

PERFORMANCE SHARES

	01/01/2014	Additions	Forfeitures	Allocations	12/31/2014
MANAGEMENT BOARD					
Dr. Simon Moroney	48,676	5,979	0	0	54,655
Jens Holstein	33,339	4,095	0	0	37,434
Dr. Arndt Schottelius	33,339	4,095	0	0	37,434
Dr. Marlies Sproll	33,339	4,095	0	0	37,434
TOTAL	**148,693**	**18,264**	**0**	**0**	**166,957**

DIRECTORS' DEALINGS

Members of the Management Board and Supervisory Board of MorphoSys AG, as well as closely related persons to such members, are obligated to disclose trading in MorphoSys shares in accordance with Sec. 15a of the German Securities Trading Act (WpHG).

During the reporting year, MorphoSys received the following notifications pursuant to Sec. 15a WpHG which are listed in the following table.

TABLE 18
Directors' Dealings in 2014

Party Subject to the Notification Requirement	Function	Date of Transaction in 2014	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price	Transaction Volume
Dr. Marlies Sproll	CSO	12/03/2014	Purchase of MorphoSys AG shares	1,250	79.52396 €	99,404.95 €
Dr. Simon Moroney	CEO	11/20/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	5,000	76.8745 €	384,372.50 €
Dr. Simon Moroney	CEO	11/19/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	5,000	77.7346 €	388,673.00 €
Dr. Simon Moroney	CEO	11/18/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	10,000	77.2813 €	772,813.00 €
Dr. Simon Moroney	CEO	11/17/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	20,000	76.4454 €	1,528,908.00 €
Dr. Arndt Schottelius	CDO	06/13/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	11,000	68.1948 €	750,142.80 €
Dr. Arndt Schottelius	CDO	06/12/2014	Sale; convertible bonds were converted into MorphoSys AG shares and subsequently sold	22,000	69.7598 €	1,534,715.60 €
Jens Holstein	CFO	03/26/2014	Sale of MorphoSys AG shares	4,500	65.52 €	294,826.30 €
Dr. Marc Cluzel (via C&F Consulting)	Member of the Supervisory Board	03/13/2014	Purchase of MorphoSys AG shares	500	67.60 €	38,802.00 €

PREVENTING CONFLICTS OF INTEREST

Members of the Management Board and the Supervisory Board are obliged to refrain from actions that could lead to conflicts of interest with their functions performed at MorphoSys AG. Such transactions or secondary employment of the Management Board must be disclosed immediately to the Supervisory Board and are subject to its approval. The Supervisory Board, in turn, must inform the Annual General Meeting of any conflicts of interest and their treatment. In the 2014 financial year, no conflicts of interest occurred.

STOCK REPURCHASES

By resolution of the Annual General Meeting of 19 May 2011, which was replaced by the resolution of the Annual General Meeting of 23 May 2014, in accordance with Sec. 71 Para. 1 no. 8 AktG, MorphoSys is authorized to repurchase its own shares in an amount up to 10% of the existing common stock. This authorization may be exercised in whole or in part, once or on several occasions, by the Company or a third party on behalf of the Company, for the purposes specified in the authorizing resolution. It is at the discretion of the Management Board as to whether the repurchase is carried out on the stock exchange, by a public offer or a public call to tender.

In March 2014, MorphoSys repurchased a total of 111,000 of its own shares on the basis of the authorization from 2011. The Company plans to use these treasury shares for a long-term incentive plan for the Management Board and the Senior Management Group. However, this authorization also permits the shares to be used for other lawful purposes.

INFORMATION AND COMMUNICATION

During the 2014 financial year, the optimization of business processes based on the ERP and Corporate Performance Management systems (CPM) was continued successfully within the planned project budget and time frame.

Based on modern IT security technology, new IT services were established for working securely off-site within the IT security infrastructure. As part of this expansion, new services were brought into operation to provide a more secure exchange of data with external business partners.

The new IT security infrastructure was successfully reviewed by means of an external security audit under the existing organizational controls in order to ensure the protection of information at MorphoSys.

Since April of this reporting year, R&D data from antibody selection, characterization and production has been collected, stored, analyzed and processed in a database called YBase, which was developed specifically for MorphoSys's workflows and technologies.

This software solution is based on the software of GeneData Biologics, which was developed in close collaboration with the provider and is used industry-wide. It enables MorphoSys to completely record the massive rise in the selection of antibody candidates from new technologies such as Ylanthia and Slonomics, and to identify the most promising drug candidates quickly and reliably.

INFORMATION ON INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH REGARD TO THE ACCOUNTING PROCESS PURSUANT TO SEC. 289 PARA. 5 AND SEC. 315 PARA. 2 NO. 5 HGB

In the 2014 financial year, MorphoSys completed a routine update of the documentation for its existing internal control and risk management systems in order to maintain adequate internal control over financial reporting. This ensures the availability of all controls so that the financial figures can be reported as precisely and as accurately as possible. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) defines the corresponding COSO framework ("Internal Control – Integrated Framework"). This is the basis most commonly used for internal control over financial reporting and is also the framework used by MorphoSys.

In view of system constraints, there is no absolute assurance that internal controls can prevent or completely uncover a misrepresentation in the context of financial reporting at all times. Internal controls can only give reasonable assurance that the financial reporting is reliable and verify that the preparation of the financial statements is in accordance with the IFRS standards for external purposes adopted by the European Union.

To ensure the accuracy of the reported financial indicators and the underlying execution of all accounting processes, MorphoSys has implemented a strict four-eye principle. The effectiveness and efficiency of these processes are also routinely reviewed and monitored by external service providers. The consolidated financial statements go through a large number of preparation, audit and control processes in order that they are promptly reported to the market and to shareholders. This is done using a plan, agreed on by the management, for which the necessary resources are made available both internally as well as externally.

Furthermore, numerous rules and guidelines ensure the strict separation of planning, posting and executing financial transactions. Compliance with and implementation of these guidelines is regularly reviewed. This functional separation is ensured with all IT systems through the appropriate assignment of rights.

Predictions of future events are not part of the internal control and risk management systems. However, MorphoSys does use a risk management system that guarantees the early detection and assessment of business-specific risks. Through the appropriate countermeasures, the risks identified can be eliminated or at least minimized to an acceptable level. Special attention is given to those risks that could potentially jeopardize the Company's existence.

The Management Board ensures the permanent and responsible dealing with risks and keeps the Supervisory Board informed of existing risks and their development. Detailed information on the opportunities and risks at MorphoSys can be found in the "Risks and Opportunities Report" (page 47).

ACCOUNTING AND EXTERNAL AUDIT

MorphoSys AG prepares its financial statements in accordance with the provisions of the German Commercial Code (HGB) and the Stock Corporation Act (AktG). The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union.

For the election of the Company auditor, the Audit Committee of the Supervisory Board submits a nomination proposal to the Supervisory Board. At the 2014 Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2014 financial year. As evidence of its independence, the auditor submitted a Declaration of Independence to the Supervisory Board. Lead auditors of these consolidated financial statements were Mr. Dietmar Eglauer and Mr. Bodo Kleinschrod. Information on further consulting, audit and valuation services provided by PricewaterhouseCoopers AG to MorphoSys AG during the 2014 financial year can be found in the Notes (item 6.1).

COMPLIANCE MANAGEMENT SYSTEM

The basic mechanisms of the compliance management system at MorphoSys are presented in the relevant information on corporate governance practices on page 57. In addition to this information, the responsibilities within the compliance organization are shown in figure 17.

INTERNAL AUDIT

The Internal Audit department plays a key role within the compliance management system. The task of the Internal Audit department is to assist the MorphoSys Group with a systematic and consistent approach for evaluating and improving the effectiveness of risk management and to support the management and monitoring functions in meeting the set targets. In 2014, the accounting and consulting firm KPMG was appointed for the Internal Audit department as a co-sourcing partner for the performance of the audit.

The internal audit is based on a risk-oriented internal audit plan, which is largely based on the results of the most recent risk surveys. Audit requirements and recommendations of the Management Board and the Audit Committee of the Supervisory Board also filter into this audit plan.

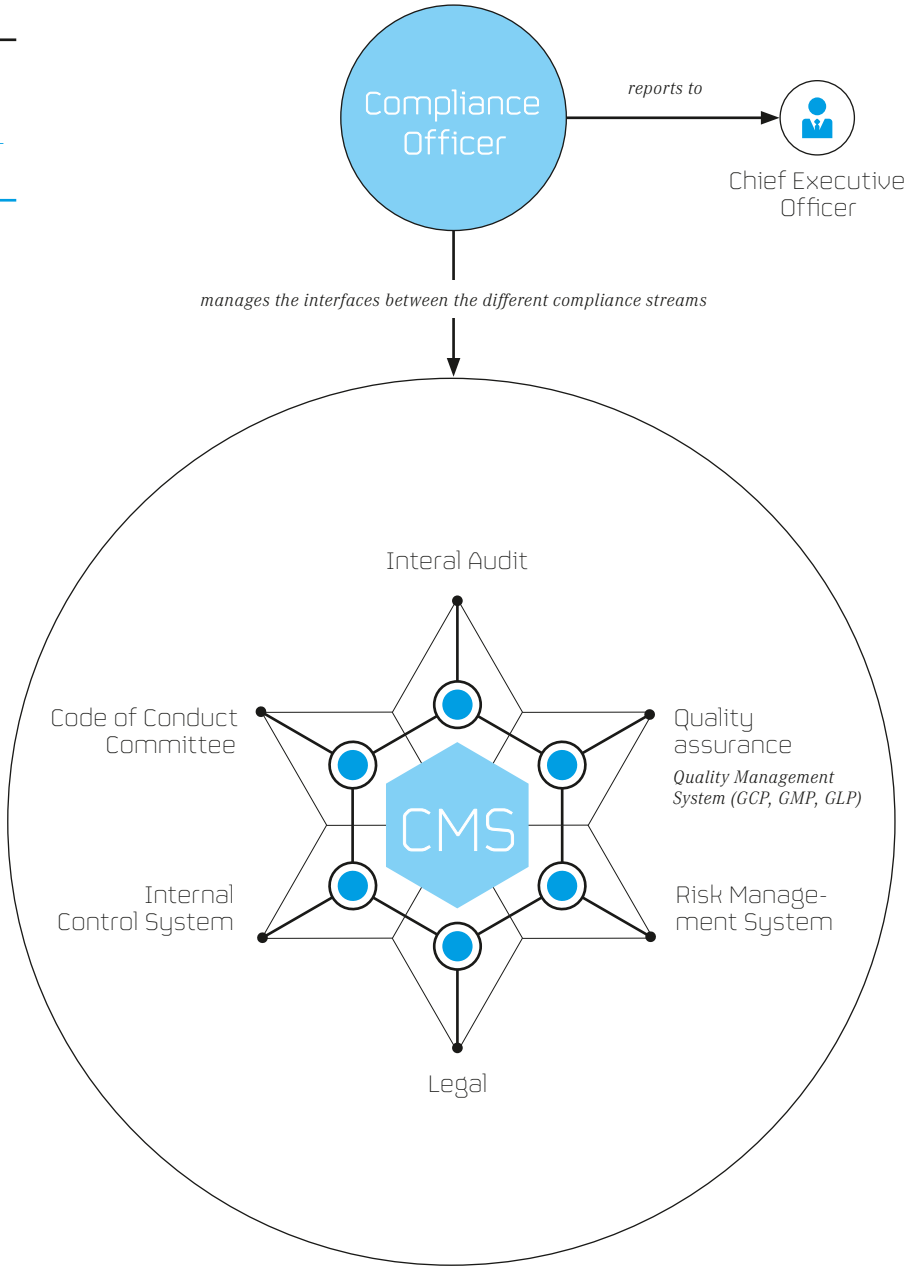
The Internal Audit department reports to the Management Board at regular intervals. The Head of Internal Audit and the Chief Executive Officer report to the Audit Committee of the Supervisory Board twice annually, or immediately, if necessary.

In the course of 2014, five audits were successfully conducted. A few areas requiring action were identified and the appropriate corrections were initiated and performed. In the case of complaints, appropriate countermeasures were initiated during the reporting year. The 2015 audit plan of the Internal Audit department prescribes a number of audits similar to the number in 2014.

FIGURE

17

Compliance Management System (CMS)



Disclosures Pursuant to Sec. 289 Para. 4, Sec. 315 Para. 4 HGB and Explanatory Report of the Management Board Pursuant to Sec. 176 Para. 1 Sentence 1 AktG

COMPOSITION OF COMMON STOCK

As of 31 December 2014, the Company's statutory common stock amounted to € 26,456,834.00 and was divided into 26,456,834 no-par-value bearer shares. This concerns bearer shares with voting rights, except for the 450,890 treasury shares held by the Company, whereby each share carries one vote at the Annual General Meeting.

RESTRICTIONS AFFECTING VOTING RIGHTS OR THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions which might affect voting rights or the transfer of shares. This also relates to restrictions which might arise from agreements between shareholders.

Furthermore, restrictions on voting rights could also arise from the provisions of the German Stock Corporation Act (AktG), such as those according to Sec. 136 AktG, or for treasury shares pursuant to Sec. 71b AktG.

SHAREHOLDINGS IN THE COMMON STOCK EXCEEDING 10 % OF THE VOTING RIGHTS

We have not been notified of or are aware of any direct or indirect interests in the common stock of the Company which exceed 10 % of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL

Shares with special rights conferring powers of control do not exist.

CONTROL OVER VOTING RIGHTS WITH REGARD TO EMPLOYEE OWNERSHIP IN THE CAPITAL

Employees who hold shares in the Company exercise their voting rights directly in accordance with the statutory provisions and the Articles of Association like other shareholders.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The determination of the number of Management Board members, their appointment and dismissal and the nomination of the Chief Executive Officer, are carried out by the Supervisory Board in accordance with Sec. 6 of the Articles of Association and Sec. 84 AktG. The Management Board of the Company currently consists of the Chief Executive Officer and three other members. Management Board members may be appointed for a maximum period of five years. A reappointment or extension of the term of office is permitted up to a maximum of five years in each case. The Supervisory Board may revoke the appointment of a Management Board member or the nomination of a Chief Executive Officer for good cause within the meaning of Sec. 84 Para. 3 AktG. If a required member of the Management Board is absent, one will be appointed by the court in cases of urgency pursuant to Sec. 85 AktG.

In principle, the Articles of Association may only be amended by a resolution of the Annual General Meeting in accordance with Sec. 179 Para. 1 sentence 1 AktG. Pursuant to Sec. 179 Para. 2 sentence 2 AktG in conjunction with Sec. 20 of the Articles of Association, the Annual General Meeting of MorphoSys resolves amendments to the Articles of Association generally through a simple majority of the votes cast and a simple majority of the common stock represented. To the extent that the law stipulates a mandatory greater majority of votes or capital, this shall be applied. However, amendments to the Articles of Association that only affect their wording can be resolved by the Supervisory Board in accordance with Sec. 179 Para. 1 sentence 2 AktG in conjunction with Sec. 12 Para. 3 of the Articles of Association.

POWER OF THE MANAGEMENT BOARD TO ISSUE SHARES

The Management Board's power to issue shares is provided for in Sec. 5 Para. 5 to Para. 6e of the Company's Articles of the Association as of 31 December 2014 and the statutory provisions:

1. Authorized Capital
   a. According to Sec. 5 Para. 5 of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's common stock on one or more occasions by up to € 2,335,822.00 for cash contributions or contributions in kind by issuing up to 2,335,822 new, no-par-value bearer shares until and including 30 April 2018 (Authorized Capital 2013-I).

      If there is a capital increase, the shareholders are principally entitled to subscription rights. The shares may also be subscribed for by one or several credit institutions with the obligation to offer the shares to shareholders for subscription. However, the Management Board is authorized to exclude the subscription rights of shareholders with the consent of the Supervisory Board:
      aa) in the case of a capital increase for cash contribution, to the extent that this is necessary for avoiding fractional shares; or
      bb) in the case of a capital increase against contribution in kind, to the extent that the capital increase is used for the acquisition of companies, interests in companies, patents or other intellectual property rights or license rights; or of assets which constitute a business in its entirety; or

cc) in the case of a capital increase for cash contribution, to the extent that the new shares are placed on a domestic and/or foreign stock exchange in the context of a listing.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the capital increase and its implementation.

b. According to Sec. 5 Para. 6 of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's common stock on one or more occasions by up to € 2,622,088.00 for cash contribution by issuing up to 2,622,088 new no-par-value bearer shares until and including 30 April 2019 (Authorized Capital 2014-I).

Shareholders are principally entitled to subscription rights. The shares may also be subscribed for by one or several credit institutions with the obligation to offer the shares to shareholders for subscription. However, the Management Board is authorized to exclude the subscription rights of shareholders with the consent of the Supervisory Board:

aa) to the extent that this is necessary for avoiding fractional shares; or

bb) if the issue price of the new shares is not significantly below the market price of already listed shares of the same class at the time of the final determination of the issue price and the total number of shares issued against contribution in cash, excluding subscription rights during the term of this authorization does not exceed 10% of the common stock, neither at the date this authorization takes effect nor at the time it is exercised, in accordance with or in the respective application of Sec. 186 Para. 3 sentence 4 AktG.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the capital increase and its implementation.

2. Conditional Capital

a. The previous Conditional Capital 1999-I according to Sec. 5 Para. 6a of the Articles of Association was canceled by a resolution of the Annual General Meeting on 23 May 2014.

b. According to Sec. 5 Para. 6b of the Articles of Association, the Company's common stock is conditionally increased by up to € 6,600,000.00, divided into a maximum of 6,600,000 no-par-value bearer shares (Conditional Capital 2011-I). The conditional capital increase will only be executed to the extent that the holders of warrants or conversion rights resulting from convertible bonds or bonds with warrants, which were conferred by the Company until 30 April 2016 under the authorization of the Annual General Meeting of 19 May 2011, make use of their subscription rights or that the holders of convertible bonds, issued by the Company or one of its direct or indirect domestic or foreign wholly owned subsidiaries until 30 April 2016, and who are subject to a conversion obligation, meet their obligation to convert. The new shares participate in the Company's profits from the beginning of the financial year in which they were created through the exercise of conversion rights or the fulfillment of conversion obligations.

c. According to Sec. 5 Para. 6c of the Articles of Association, the Company's common stock is conditionally increased by up to € 352,800.00 through the issue of up to 352,800 new no-par-value bearer shares of the Company (Conditional Capital 2003-II). The conditional capital increase will only be executed to the extent that holders of convertible bonds issued exercise their conversion rights for conversion into ordinary shares of the Company. The new shares are first entitled to dividends for the financial year, for which there has been no resolution of the Annual General Meeting on the appropriation of accumulated income at the time of issuance. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the conditional capital increase and its implementation.

d. The previous Conditional Capital 2008-II according to Sec. 5 Para. 6d of the Articles of Association was canceled by a resolution of the Annual General Meeting on 23 May 2014.

e. According to Sec. 5 Para. 6e of the Articles of Association, the Company's common stock is conditionally increased by up to € 450,000.00 through the issue of up to 450,000 new no-par-value bearer shares of the Company (Conditional Capital 2008-III). The conditional capital increase will only be executed to the extent that holders of convertible bonds issued exercise their conversion rights for conversion into ordinary shares of the Company. The new shares participate in the Company's profits from the beginning of the financial year, for which there has been no resolution on the appropriation of accumulated income at the time of issuance. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the conditional capital increase and its implementation.

POWER OF MANAGEMENT BOARD TO REPURCHASE SHARES

The Management Board's power to repurchase the Company's own shares is provided for in Sec. 71 AktG and by the authorization by the Annual General Meeting of 23 May 2014:

Until and including 30 April 2019, the Company is authorized to repurchase its own shares totaling up to 10% of the common stock existing at the time of the resolution (or possibly a lower amount of common stock at the time of exercising this authorization) for any purpose permitted under the statutory limits. The repurchase takes place at the Management Board's discretion either on the stock exchange, through a public offer, or by a public invitation to submit a bid. The authorization may not be used for the purpose of trading in own shares. The intended use of treasury shares acquired under this authorization may be found under agenda item 9 of the Annual General Meeting of 23 May 2014. In particular, the shares may be used as follows:

a. The shares may be redeemed without the redemption or its execution requiring a further resolution of the Annual General Meeting.
b. The shares may be sold in ways other than via the stock exchange or by an offer to shareholders if the shares are sold for cash payment at a price that is not significantly below the market price of the Company's shares of the same class at the time of the sale.
c. The shares may be sold for contribution in kind, particularly in conjunction with the acquisition of companies, parts of companies, interests in companies, or mergers of companies.
d. The shares may be used to fulfill subscription or conversion rights resulting from the exercise of options and/or conversion rights or conversion obligations into shares of the Company.
e. The shares may be offered or transferred to employees of the Company and employees of affiliated companies as well as to members of the management of the Company and the management of affiliated companies; and/or used for the fulfillment of commitments concerning the purchase or the obligation to purchase Company shares that were or will be granted to employees of the Company and employees of affiliated companies as well as members of the Company's management and managers of affiliated companies. In particular, the shares may also be used for the fulfillment of obligations or rights to purchase Company shares which will be agreed with employees or members of senior management of the Company and its affiliates in the context of employee participation programs.

If shares are used for the purposes mentioned above, the subscription rights of shareholders are excluded, with the exception of redemption of shares.

MATERIAL AGREEMENTS MADE BY THE COMPANY THAT FALL UNDER THE CONDITION OF A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID

In 2012, MorphoSys and Novartis Pharma AG expanded their original collaboration agreement. Under this agreement, in specific cases of a change of control, Novartis Pharma AG is entitled, but not obliged, to take various measures, which include the partial or complete termination of the collaboration agreement.

Under Sec. 29 and 30 of the German Securities Acquisition and Takeover Act (WpÜG), a change of control applies, in particular, when 30% or more of the voting rights in the Company are acquired.

In June 2013, MorphoSys signed a global agreement with Celgene Corporation for the co-development of the cancer program MOR202 and its co-promotion in Europe. Under this agreement, Celgene has the right to terminate MorphoSys's promotion rights for MOR202 in the event of a business combination involving MorphoSys and a third entity. Such a business combination is defined as the acquisition of at least 50% of the voting rights of MorphoSys, a merger between MorphoSys and another entity, or the transfer of all material assets of MorphoSys to a third party. In the event of such a business combination with a third party who is pursuing a development program competing with MOR202, but which does not constitute a breach of non-competition clauses, the research and development activities that are required under the agreement with Celgene shall be carried out separately from the research and development activities of the competing development program.

COMPENSATION AGREEMENTS CONCLUDED BY THE COMPANY WITH MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES IN THE EVENT OF A TAKEOVER BID

Following a change of control, each member of the Management Board may terminate their employment contract and demand the fixed salary still outstanding until the end of the contract period. Moreover, in such a case, all stock options, convertible bonds and performance shares granted will become vested immediately and are exercisable after the expiration of the statutory waiting times or blackout periods.

Following a change of control, each member of the Senior Management Group may also terminate their employment contract and demand a severance payment equal to one annual gross fixed salary. Moreover, in such a case, any stock options, convertible bonds and performance shares granted will also become vested immediately and are exercisable after the expiration of the statutory waiting times or blackout periods.

The following cases constitute a change of control: (i) MorphoSys transfers the Company's assets, in whole or in substantial part, to an unaffiliated entity, (ii) MorphoSys merges with a non-affiliated entity, or (iii) a shareholder or third party directly or indirectly holds 30 % or more of the voting rights in MorphoSys.

Subsequent Events

Subsequent to the end of the 2014 financial year, there have not been any significant changes in the industry environment. Other events having a material impact on the net assets, financial position and results of operations have also not occurred since the end of the financial year.

Financial Statements

Consolidated Statement of Income (IFRS)

in €	Note	2014	2013
Continuing Operations			
Revenues	2.7.1, 4.1	63,977,978	77,960,057
Operating Expenses			
Research and Development	2.7.2, 4.2.1	55,962,693	49,151,721
General and Administrative	2.7.2, 4.2.2	14,146,042	18,769,991
Total Operating Expenses		70,108,735	67,921,712
Other Income	2.7.3, 4.3	782,273	797,252
Other Expenses	2.7.4, 4.3	550,084	911,050
Earnings before Interest and Taxes (EBIT)		(5,898,568)	9,924,547
Finance Income	2.7.5, 4.3	1,809,751	867,511
Finance Expenses	2.7.6, 4.3	219,879	111,161
Income Tax (Expenses)/Income	2.7.7, 4.4	1,296,067	(3,310,077)
Result for the Year from Continuing Operations		(3,012,629)	7,370,820
Result for the Year from Discontinued Operations		0	5,951,110
Consolidated Net (Loss)/Profit		(3,012,629)	13,321,930
Basic Net (Loss)/Profit per Share	2.7.8, 4.5	(0.12)	0.54
thereof from Continuing Operations	2.7.8, 4.5	(0.12)	0.30
thereof from Discontinued Operations	2.7.8, 4.5	0.00	0.24
Diluted Net (Loss)/Profit per Share	2.7.8, 4.5	(0.12)	0.54
thereof from Continuing Operations	2.7.8, 4.5	(0.12)	0.30
thereof from Discontinued Operations	2.7.8, 4.5	0.00	0.24
Shares Used in Computing Basic Net Result per Share	2.7.8, 4.5	25,903,995	24,504,031
Shares Used in Computing Diluted Net Result per Share	2.7.8, 4.5	26,190,314	24,763,094

Consolidated Statement of Comprehensive Income (IFRS)*

in €	2014	2013
Consolidated Net (Loss)/Profit	(3,012,629)	13,321,930
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds	(347,517)	(357,632)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	318,957	482,018
Change of Current Tax Effects presented in Other Comprehensive Income on Available-for-sale Financial Assets and Bonds	244,151	259,878
Deferred Taxes	(141,657)	(176,706)
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Deferred Tax	(245,023)	(274,460)
Effects from Equity-related Recognition of Deferred Taxes	0	28,098
Foreign Currency Gain from Consolidation	101,290	1,302,421
Comprehensive Income	(143,733)	1,056,059
Total Comprehensive Income	(3,156,362)	14,377,989
thereof from Continuing Operations	(3,156,362)	13,001,310
thereof from Discontinued Operations	0	1,376,679

* In financial years 2014 and 2013, the statement of comprehensive income only comprised components, which will be reclassified in terms of IAS 1.82A(b) to profit or in subsequent periods when specific conditions are met.

Consolidated Balance Sheet (IFRS)

in €	Note	12/31/2014	12/31/2013
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.8.1, 5.1	32,238,161	71,873,696
Available-for-sale Financial Assets	2.8.1, 5.2	106,039,373	188,360,354
Bonds, Available-for-sale	2.8.1, 5.2	7,488,259	11,102,087
Accounts Receivable	2.8.2, 5.3	14,990,532	10,270,322
Tax Receivables	2.8.2, 5.5	1,120,563	77,743
Other Receivables	2.8.2, 5.4	157,093,262	119,458,330
Inventories, Net	2.8.3, 5.5	556,171	731,009
Prepaid Expenses and Other Current Assets	2.8.4, 5.5	2,869,067	4,693,943
Total Current Assets		322,395,388	406,567,484
Non-current Assets			
Property, Plant and Equipment, Net	2.8.5, 5.6	3,557,729	2,168,189
Patents, Net	2.8.6, 5.7.1	6,987,910	7,834,711
Licenses, Net	2.8.6, 5.7.2	1,343,188	5,396,516
In-Licensed Research Programs	2.8.6, 5.7.3	28,254,201	12,807,800
Software, Net	2.8.6, 5.7.4	2,042,206	1,758,026
Goodwill	2.8.6, 5.7.5	7,352,467	7,352,467
Other Receivables, Net of Current Portion	2.8.2, 5.4	50,030,000	0
Shares Available-for-sale, Net of Current Portion	2.8.7, 5.8	1,726,633	1,726,633
Deferred Tax Asset	2.8.7, 4.4	1,737,387	313,372
Prepaid Expenses and Other Assets, Net of Current Portion	2.8.8, 5.9	1,050,864	1,731,548
Total Non-current Assets		104,082,585	41,089,262
TOTAL ASSETS		**426,477,973**	**447,656,746**

in €	Note	12/31/2014	12/31/2013
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	2.9.1, 6.1	17,830,792	17,190,021
Tax Liabilities	2.9.2, 6.2	777,281	2,690,282
Provisions	2.9.1, 6.2	19,541	260,000
Current Portion of Deferred Revenue	2.9.3, 6.3	14,075,166	15,266,877
Total Current Liabilities		32,702,780	35,407,180
Non-current Liabilities			
Provisions, Net of Current Portion	2.9.4, 6.2	43,344	636,941
Deferred Revenue, Net of Current Portion	2.9.4, 6.3	44,677,035	59,168,599
Convertible Bonds due to Related Parties	2.9.5	251,679	298,606
Total Non-current Liabilities		44,972,058	60,104,146
Total Liabilities		77,674,838	95,511,326
Stockholders' Equity			
Common Stock	2.9.7, 6.4.1	26,456,834	26,220,882
Ordinary Shares Issued (26,456,834 and 26,220,882 for 2014 and 2013, respectively)			
Ordinary Shares Outstanding (26,005,944 and 25,880,992 for 2014 and 2013, respectively)			
Treasury Stock (450,890 and 339,890 shares for 2014 and 2013, respectively), at Cost	2.9.7, 6.4.4	(14,251,962)	(6,418,018)
Additional Paid-in Capital	2.9.7, 6.4.5	318,375,720	310,963,651
Revaluation Reserve	2.9.7, 6.4.6	(4,642)	240,381
Translation Reserve	2.9.7, 6.4.7	293,846	192,556
Accumulated Income	2.9.7, 6.4.8	17,933,339	20,945,968
Total Stockholders' Equity		348,803,135	352,145,420
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		**426,477,973**	**447,656,746**

Consolidated Statement Changes in Stockholder's Equity (IFRS)

	Common Stock	
	Shares	€
BALANCE AS OF 1 JANUARY 2013	**23,358,228**	**23,358,228**
Compensation Related to the Grant of Stock Options, Convertible Bonds and Performance Shares	0	0
Exercise of Options and Convertible Bonds Issued to Related Parties, Net of Issuance Costs of € 11,419 (Net of Tax Effects)	551,438	551,438
Repurchase of Treasury Stock	0	0
Capital Increase, Net of Issuance Cost of € 1,698,232 (Net of Tax Effects)	2,311,216	2,311,216
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	0	0
Effects from Equity-related Recognition of Deferred Taxes	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Consolidated Net Profit	0	0
Total Comprehensive Income	0	0
BALANCE AS OF 31 DECEMBER 2013	**26,220,882**	**26,220,882**
BALANCE AS OF 1 JANUARY 2014	**26,220,882**	**26,220,882**
Compensation Related to the Grant of Stock Options, Convertible Bonds and Performance Shares	0	0
Exercise of Convertible Bonds Issued to Related Parties	235,952	235,952
Repurchase of Treasury Stock	0	0
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets and Bonds, Net of Tax Effects	0	0
Foreign Currency Gains and Losses from Consolidation	0	0
Consolidated Net Loss	0	0
Total Comprehensive Income	0	0
BALANCE AS OF 31 DECEMBER 2014	**26,456,834**	**26,456,834**

	Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Income	Total Stock-holders' Equity
	Shares	€	€	€	€	€	€
	255,415	**(3,594,393)**	**175,245,266**	**486,743**	**(1,109,865)**	**7,624,038**	**202,010,017**
	0	0	4,742,092	0	0	0	4,742,092
	0	0	6,606,570	0	0	0	7,158,008
	84,475	(2,823,625)	0	0	0	0	(2,823,625)
	0	0	124,369,723	0	0	0	126,680,939
	0	0	0	(274,460)	0	0	(274,460)
	0	0	0	28,098	0	0	28,098
	0	0	0	0	1,302,421	0	1,302,421
	0	0	0	0	0	13,321,930	13,321,930
	0	0	0	(246,362)	1,302,421	13,321,930	14,377,989
	339,890	**(6,418,018)**	**310,963,651**	**240,381**	**192,556**	**20,945,968**	**352,145,420**
	339,890	**(6,418,018)**	**310,963,651**	**240,381**	**192,556**	**20,945,968**	**352,145,420**
	0	0	3,686,387	0	0	0	3,686,387
	0	0	3,725,682	0	0	0	3,961,634
	111,000	(7,833,944)	0	0	0	0	(7,833,944)
	0	0	0	(245,023)	0	0	(245,023)
	0	0	0	0	101,290	0	101,290
	0	0	0	0	0	(3,012,629)	(3,012,629)
	0	0	0	(245,023)	101,290	(3,012,629)	(3,156,362)
	450,890	**(14,251,962)**	**318,375,720**	**(4,642)**	**293,846**	**17,933,339**	**348,803,135**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2014	2013
OPERATING ACTIVITIES:			
Consolidated Net (Loss)/Profit		(3,012,629)	13,321,930
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Impairment of Assets	5.6, 5.7	4,117,590	1,624,255
Depreciation and Amortization of Tangible and Intangible Assets	5.6, 5.7	4,134,479	4,834,447
Net Gain on Sales of Financial Assets	5.2	(727,979)	(520,730)
Purchase of Derivative Financial Instruments	5.4	(15,820)	(22,800)
Proceeds from the Disposal of Derivative Financial Instruments		9,503	0
Unrealized Net Gain/(Loss) on Derivative Financial Instruments	5.4	(38,189)	22,800
(Gain)/Loss on Sale of Property, Plant and Equipment/Intangible Assets		(7,269)	6,791
Loss from Liquidation of Subsidiaries		76,489	0
Net Gain on Sale of Assets Classified as Available-for-sale		0	(8,000,712)
Recognition of Deferred Revenue	6.3	(33,546,601)	(23,989,809)
Stock-based Compensation	4.2.3, 7	3,959,340	5,145,455
Income Tax Expenses/(Income)	4.4	(1,296,067)	3,699,337
Changes in Operating Assets and Liabilities:			
Accounts Receivable	5.3	(4,720,210)	(1,500,912)
Prepaid Expenses, Other Assets and Tax Receivables	5.4, 5.5	907,573	(3,157,708)
Accounts Payable and Accrued Expenses and Provisions	6.1, 6.2	218,748	6,524,350
Other Liabilities	6.1	156,412	526,350
Deferred Revenue	6.3	17,863,327	91,860,930
Interest Paid		(117,371)	(24,591)
Interest Received		762,680	167,797
Income Taxes Paid		(2,942,362)	(1,379,563)
Net Cash Provided/(Used) by Operating Activities		(14,218,356)	89,137,617
thereof from Continuing Operations		(14,218,356)	91,005,448
thereof from Discontinued Operations		0	(1,867,831)

in €	Note	2014	2013
INVESTING ACTIVITIES:			
Purchase of Financial Assets	5.2	(149,061,725)	(192,261,784)
Proceeds from Sales of Financial Assets	5.2	231,934,641	83,823,406
Purchase of Bonds, Available-for-sale	5.2	(7,571,909)	(11,138,742)
Proceeds from Sales of Bonds, Available-for-sale		11,156,203	0
Purchase of Assets Classified as Loans and Receivables	2.8.2, 5.4	(241,635,544)	(173,185,607)
Proceeds from Sale of Assets Classified as Loans and Receivables	2.8.2, 5.4	149,466,472	68,729,122
Purchase of Shares Classified as Available-for-sale	2.8.7, 5.8	0	(845,000)
Purchase of Property, Plant and Equipment	5.6	(2,899,662)	(1,049,566)
Proceeds from Disposals of Property, Plant and Equipment		5,000	5,950
Purchase of Intangible Assets	5.7	(17,579,001)	(4,513,991)
Proceeds from Disposal of Assets Classified as Available-for-sale		0	36,579,511
Proceeds from Closing of an Escrow Account		4,686,883	0
Net Cash Used by Investing Activities		(21,498,642)	(193,856,701)
thereof from Continuing Operations		(21,498,642)	(230,437,417)
thereof from Discontinued Operations		0	36,580,716
FINANCING ACTIVITIES:			
Repurchase of Treasury Stock	6.4.4	(7,833,944)	(2,823,625)
Proceeds of Share Issuance		0	128,379,156
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		3,914,707	7,169,564
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties	7.1.2	0	225,000
Cost of Share Issuance	6.4.5	0	(2,323,688)
Net Cash Provided/(Used) by Financing Activities		(3,919,237)	130,626,407
thereof from Continuing Operations		(3,919,237)	130,626,407
thereof from Discontinued Operations		0	0
Effect of Exchange Rate Differences on Cash		700	(4,467)
(Decrease)/Increase in Cash and Cash Equivalents		(39,635,535)	25,902,856
Cash and Cash Equivalents at the Beginning of the Period		71,873,696	45,970,840
Cash and Cash Equivalents at the End of the Period		32,238,161	71,873,696

Notes

1 General Information

BUSINESS ACTIVITIES AND THE COMPANY

MorphoSys AG ("the Company" or "MorphoSys") is a leader in the development of highly efficient technologies for the generation of therapeutic antibodies. The Company's proprietary portfolio of compounds and the pipeline of compounds jointly developed with partners from the pharmaceutical and biotechnology industry is among one of the broadest in the industry. The Group was founded in July 1992 as a German limited liability company. 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 designated for high-growth companies. On 15 January 2003, MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange.

2 Summary of Significant Accounting Policies

2.1 BASIS OF AND CHANGES IN ACCOUNTING STANDARDS

2.1.1 BASIS OF APPLICATION

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB), London. The statements take into account the recommendations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), as applicable in the European Union (EU). They also give consideration to the supplementary German commercial law provisions, applicable in accordance with Sec. 315a Para. 1 of the German Commercial Code (HGB).

These consolidated financial statements as of 31 December 2014 comprise MorphoSys AG and its subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group").

In preparing the consolidated financial statements in accordance with IFRS, the Management Board is required to make certain estimates and assumptions which have an effect on the amounts recognized in the consolidated financial statements and the accompanying notes. The actual results may differ from these estimates. The estimates and the underlying assumptions are subject to continuous review. Any changes in estimates are recognized in the period in which the changes are made and in all relevant future periods.

The consolidated financial statements have been prepared in euro – the MorphoSys Group's functional currency. The statements are prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are recognized at their respective fair value. All figures in this report are rounded to the nearest euro, thousand euros, or million euros.

To provide improved transparency, the presentation of reserves in the balance sheet is divided into "Revaluation Reserve" and "Translation Reserve".

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.

In the past financial year, the following new and revised standards and interpretations were applied for the first time.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Impact on MorphoSys
IFRS 10	Consolidated Financial Statements	01/01/2014	yes	none
IFRS 11	Joint Arrangements	01/01/2014	yes	none
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	yes	yes
IFRS 10/12 and IAS 27 (A)	Amendment to standard – Investment Entities	01/01/2014	yes	none
IFRS 10/11/12 (A)	Amendment to standard – Transitional Provisions	01/01/2014	yes	yes
IAS 27 (R)	Separate Financial Statements	01/01/2014	yes	none
IAS 28 (R)	Investments in Associates and Joint Ventures	01/01/2014	yes	none
IAS 32 (A)	Financial Instruments: Presentation – Offsetting of Financial Assets and Financial Liabilities	01/01/2014	yes	none
IAS 36 (A)	Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	01/01/2014	yes	none
IAS 39 (A)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	01/01/2014	yes	none
(A) Amended				
(R) Revised				

The impact of the new and revised standards and interpretations is explained below.

- IFRS 12 “Disclosure of Interests in Other Entities“: please see item 2.2.2 of the Notes* for a description of the relevant impact.
- Amendments to the transitional provisions of IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”: The amendments clarify that the date of the first-time adoption of IFRS 10 is the first day of the financial year of the first-time adoption. Therefore, for the MorphoSys Group, this date is 1 January 2014. Provisions under IFRS 12 regarding disclosures in the notes have also been amended. These were observed by the MorphoSys Group.

*CROSS-REFERENCE TO PAGE 91

The following new and revised standards and interpretations that were not yet mandatory for the financial year or were not yet adopted by the European Union, have not been applied in advance. Standards with the remark “yes” are likely to have an impact on the consolidated financial statements. Their impact is currently being assessed by the Group. Standards with the remark “none” are not likely to have a material impact on the consolidated financial statements.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Possible impact on MorphoSys
IFRS 9	Financial Instruments	01/01/2018	no	yes
IFRS 14	Regulatory Deferral Accounts	01/01/2016	no	none
IFRS 15	Revenue from Contracts with Customers	01/01/2017	no	yes
IFRS 10 and IAS 28 (A)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01/01/2016	no	none
IFRS 11 (A)	Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	no	none
IAS 16 and IAS 38 (A)	Clarification of Acceptable Methods of Depreciation and Amortization	01/01/2016	no	none
IAS 16 and IAS 41 (A)	Bearer Plants	01/01/2016	no	none
IAS 19 (A)	Employee Contributions to Defined Benefit Plans	01/07/2014	no	none
IAS 27 (A)	Application of the Equity Method in Separate Financial Statements	01/01/2016	no	none
IFRIC 21	Levies	17/06/2014	yes	none
	Improvements to International Financial Reporting Standards, 2010 - 2012 cycle	01/07/2014	no	none
	Improvements to International Financial Reporting Standards, 2011 - 2013 cycle	01/07/2014	no	none
	Improvements to International Financial Reporting Standards, 2012 - 2014 cycle	01/01/2016	no	none
(A) Amended	Erweitert			

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, but are considered an indication of a possible impairment of the transferred asset. Accounting policies have been applied consistently for all subsidiaries.

2.2.1 CONSOLIDATED COMPANIES AND SCOPE OF CONSOLIDATION

MorphoSys AG has two wholly-owned subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group"): Sloning BioTechnology GmbH and Poole Real Estate Ltd. (formerly Biogenesis UK Ltd.).

Upon entry into the commercial register on 13 August 2014 and based on the merger agreement dated 27 June 2014, MorphoSys IP GmbH, as the transferring legal entity, was merged into MorphoSys AG, as the acquiring legal entity, with the effective date of 1 January 2014.

MorphoSys USA, Inc., Charlotte, North Carolina, USA, was liquidated in financial year 2014. The remaining assets were distributed to MorphoSys AG as the sole shareholder.

On 31 December 2014, Poole Real Estate Ltd., Oxford, UK, was in the process of liquidation. The liquidation was resolved by the shareholders and entered into the commercial register of the United Kingdom (Companies House) on 20 March 2014.

The consolidated financial statements for the year ended 31 December 2014 were prepared and approved by the Management Board in its meeting on 17 February 2015 by a resolution of the Management Board. The Management Board is composed of Dr. Simon Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer), and Dr. Arndt Schottelius (Chief Development Officer). The Supervisory Board is allowed to amend the financial statements after their approval by the Management Board. The registered offices of the MorphoSys Group's headquarters are located at Lena-Christ-Straße 48, 82152 Martinsried, Germany.

SCOPE OF CONSOLIDATION AS OF 31 DECEMBER 2014

Name and Corporate Seat of the Company	Local Currency	Exchange Rate on Dec 31, 2014 one Unit of Euro in Local Currency	
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)			
Poole Real Estate Ltd., Oxford, UK	£	0.78266	
Sloning BioTechnology GmbH, Martinsried, Germany	€	–	

2.2.2 CONSOLIDATION METHODS

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

Company	Established in/ Purchase of Shares	Included in Basis of Consolidation since
Poole Real Estate Ltd.	January 2005	01/11/2005
Sloning BioTechnology GmbH	October 2010	10/07/2010

These subsidiaries are fully consolidated because they are wholly owned. MorphoSys controls these subsidiaries because it possesses full power over the investees. Additionally, MorphoSys has a risk exposure or rights to variable returns from its involvement with the investees. MorphoSys also has unlimited capacity to exert power over the investee to affect the amount of the returns from the investees.

There are no entities consolidated as joint ventures by using the equity method as defined by IFRS 11 "Joint Arrangements". There are also no entities upon which the Group exercises a controlling influence as defined by IAS 28 "Investments in Associates and Joint Ventures". Interests in such entities would be measured at fair value or at historic cost in accordance with the regulations of IAS 39.

Assets and liabilities of domestic and international entities which are fully consolidated are recognized using Group-wide uniform accounting and valuation methods. The consolidation methods applied have not changed compared to the previous year.

In the consolidated financial statements, receivables and liabilities, as well as expenses and income among consolidated entities, are eliminated.

2.2.3 BASIS OF FOREIGN CURRENCY TRANSLATION

IAS 21 "The Effects of Changes in Foreign Exchange Rates" governs accounting for transactions and balances denominated in foreign currencies. Transactions denominated in foreign currencies are translated at the exchange rates prevailing on the date of the transaction. Any resulting translation differences are recognized in profit and loss. On the reporting date, assets and liabilities are translated at the closing rate and income and expenses are translated at the average exchange rate for the financial year. Any foreign exchange rate differences derived from these translations are recognized in the consolidated statement of income. Any further foreign exchange rate differences at the Group level are recognized in the "Translation Reserve" (stockholders' equity).

2.3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

2.3.1 CREDIT RISK AND LIQUIDITY RISK

Financial instruments that could potentially subject the Group to a concentration of credit and liquidity risk, consist primarily of cash, cash equivalents, marketable securities, derivative financial instruments, and receivables. The Group's cash and cash equivalents are principally denominated in euros. Marketable securities are placed in high-quality securities. Cash, cash equivalents, and marketable securities are held at several renowned financial institutions in Germany. The Group continuously monitors its positions with, and the credit rating of, the financial institutions which are counterparts to its financial instruments and does not expect any risk of non-performance.

One of the Group's policies requires that all customers who wish to transact business on credit terms are subject to a creditworthiness assessment based on external ratings. Even so, the Group's revenues and accounts receivable are still subject to credit risk as a result of customer concentration. The Group's most significant single customer accounted for € 9.3 million of trade receivables as of 31 December 2014 (31 December 2013: € 8.2 million). This customer accounted for 62 % of the Group's accounts receivable at the end of 2014. Three individual customers of the Group accounted for 68 %, 21 %, and 3 % of the total revenues from continuing operations in 2014. On 31 December 2013, one customer had accounted for 80 % of the Group's accounts receivable and three customers individually had accounted for 53 %, 27 %, and 8 % of the Group's revenues in 2013. Based on the Management Board's assessment, no allowances were required in financial year 2014. As of 31 December 2013 and based on the Management Board's assessment, allowances in the amount of € 238,900 were required in the Partnered Discovery segment. The carrying amounts of financial assets represent the maximum credit risk.

Share of Capital %	Share Capital in Local Currency	Total Assets in Local Currency	Total Liabilities in Local Currency	Total Revenue in Local Currency	Profit/Loss in Local Currency
100	200	17,215	5,000	0	(4,484)
100	951,660	18,288,050	14,865,102	3,041,936	2,865,381

The credit risk of trade receivables by geographic region as of the reporting date was composed as follows.

in €	12/31/2014	12/31/2013
Europe and Asia	10,264,935	8,538,478
USA and Canada	4,725,597	1,731,844
Other	0	0
TOTAL	**14,990,532**	**10,270,322**

The term structure of trade receivables as of the reporting date was composed as follows.

in €; A/R are due in	12/31/2014 0 (30) days	12/31/2014 30 (60) days	12/31/2014 60 + days	12/31/2014 Total
Accounts Receivable	14,666,085	324,447	0	14,990,532
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	14,666,085	324,447	0	14,990,532

in €; A/R are due in	12/31/2013 0 (30) days	12/31/2013 30 (60) days	12/31/2013 60 + days	12/31/2013 Total
Accounts Receivable	10,344,683	8,681	155,858	10,509,222
Write-off	(238,900)	0	0	(238,900)
Accounts Receivable, Net of Allowance for Impairment	10,105,783	8,681	155,858	10,270,322

As of 31 December 2014 and 31 December 2013, the Group was not exposed to a credit risk from derivative financial instruments. The maximum credit risk of financial guarantees (rent deposits) as of the reporting date amounted to € 0.6 million (31 December 2013: € 1.3 million).

The contractually agreed maturities and the corresponding cash outflows of accounts payable are within one year. The convertible bonds due to related parties have a term until 31 December 2015 and 31 March 2020 (maximum cash outflow: € 0.3 million).

2.3.2 MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's results of operations or the value of the financial instruments held. The Group is exposed to currency and interest rate risks.

CURRENCY RISK

The consolidated financial statements are prepared in euros. While the expenses of MorphoSys are predominantly incurred in euros, a part of the revenues is dependent upon the current exchange rates of the US dollar. The Group examines the necessity of hedging foreign exchange rates to minimize currency risk during the year and addresses this risk by using derivative financial instruments.

The Group's exposure to foreign currency risk based on carrying amounts was composed as follows.

as of 31 December 2014; in €	EUR	USD	GBP	Total
Cash and Cash Equivalents	32,130,970	107,191	0	32,238,161
Available-for-sale Financial Assets	106,039,373	0	0	106,039,373
Bonds, Available-for-sale	7,488,259	0	0	7,488,259
Accounts Receivable	14,887,707	102,825	0	14,990,532
Accounts Payable and Accrued Expenses	(17,898,438)	67,646	0	(17,830,792)
TOTAL	**142,647,871**	**277,662**	**0**	**142,925,533**

as of 31 December 2013; in €	EUR	USD	GBP	Total
Cash and Cash Equivalents	70,885,679	24,643	963,374	71,873,696
Available-for-sale Financial Assets	188,360,354	0	0	188,360,354
Available-for-sale Assets	11,102,087	0	0	11,102,087
Accounts Receivable	10,270,322	0	0	10,270,322
Accounts Payable and Accrued Expenses	(17,260,346)	60,316	10,009	(17,190,021)
TOTAL	**263,358,096**	**84,959**	**973,383**	**264,416,438**

Different foreign exchange rates and their impact on assets and liabilities were simulated in a detailed sensitivity analysis in order to determine the resulting effects on income. A 10% increase of the euro against the US dollar as of 31 December 2014 would have slightly decreased the Group's income (assuming stable interest rates). A 10% decline of the euro against the US dollar would have slightly increased the Group's income. Foreign currency issues in the British pound did not exist as of 31 December 2014.

A 10% increase of the euro against the US dollar as of 31 December 2013 would have slightly increased the Group's profit from continuing operations (assuming stable interest rates). A 10% decline of the euro against the US dollar would have slightly decreased the Group's profit from continuing operations. A 10% increase of the euro against the British pound as of 31 December 2013 would have reduced the Group's profit from continuing operations by € 0.1 million (assuming stable interest rates). A 10% decline of the euro against the British pound would have increased the Group's profit from continuing operations by € 0.1 million.

If the foreign exchange rates for the US dollar against the euro remained unchanged at the average rate of 2013, the Group's revenues from continuing operations would have been € 0.1 million higher (2013: Group revenues from continuing operations would have been € 0.1 million higher).

INTEREST RATE RISK

The Group's risk exposure to changes in interest rates mainly concerns available-for-sale securities/investments. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these securities/investments. The Group's investment focus places the safety of an investment ahead of its return. The interest rate risk is mitigated due to the fact that all securities/investments can be liquidated within a maximum of two years. The Group is currently not subject to significant interest rate risks from liabilities recorded in the balance sheet.

2.3.3 FAIR VALUE HIERARCHY AND MEASUREMENT PROCEDURES

The IFRS 13 "Fair Value Measurement" guidelines must always be applied when, based on another IAS/IFRS guideline, measurement at fair value is required or permitted or disclosures regarding measurement at fair value are required. The fair value is the price that would be achieved on the valuation date upon 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 such a principal market is not available, on the most advantageous market. The principal market is the market with the highest volume and the highest level of activity to which the company has access.

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 and not an entity-specific measurement. For non-financial assets, fair value is determined based on the highest and best use of the asset as determined 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 most suitably reflect fair value in the respective circumstances. For simplification purposes, the use of mean rates is also permitted. Thus, IFRS 13 not only applies to financial assets, but also to all assets and liabilities.

MorphoSys uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities to which the Company has access.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, marketable securities, accounts receivable, and accounts payable approximate their fair value due to their short-term maturities.

HIERARCHY LEVEL 1

The fair value of financial instruments, which are traded in active markets, is based upon quoted market prices as of the reporting date. A market is considered an active market if quoted prices are available from an exchange, dealer, broker, industry group, pricing service, or a regulatory body that is easily and regularly accessible and these 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 are included in Level 1 (see also item 5.2 of these Notes*).

*CROSS-REFERENCE TO PAGE 108

HIERARCHY LEVEL 2

The fair value of financial instruments, which are not traded in active markets, can be determined using measurement procedures. In this case, fair value is estimated on the basis of 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 inputs required for measuring fair value are observable, the instrument is allocated to Level 2. If important inputs are not based on observable market data, the instrument is allocated to Level 3.

None of the financial assets and liabilities were allocated to hierarchy levels 2 or 3.

The fair value of licenses payable is determined by the effective interest method. Convertible bonds are recorded at ascribed values, which approximate the amount becoming due upon settlement.

There were no transfers from one fair value hierarchy level to another in 2014 and 2013.

The fair values of financial assets and liabilities and the carrying amounts presented in the consolidated balance sheet were composed as follows.

31 December 2014 (in 000's €)	Note	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	32,238	0	0	32,238	32,238
Accounts Receivable	5.3	14,991	0	0	14,991	*
Other Receivables	5.4	157,093	0	0	157,093	157,093
Other Receivables, Net of Current Portion	5.4	50,030	0	0	50,030	50,030
Shares Available-for-sale, Net of Current Portion	5.8	0	1,727	0	1,727	*
Available-for-sale Financial Assets	5.2	0	106,039	0	106,039	106,039
Bonds, Available-for-sale	5.2	0	7,488	0	7,488	7,488
TOTAL		**254,352**	**115,254**	**0**	**369,606**	**352,889**
Convertible Bonds - Liability Component	7.1	0	0	(252)	(252)	(252)
Accounts Payable and Accrued Expenses	6.1	0	0	(17,831)	(17,831)	(17,831)
TOTAL		**0**	**0**	**(18,083)**	**(18,083)**	**(18,083)**

* Declaration waived in line with IFRS 7.29 (a)

31 December 2013 (in 000's €)	Note	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	71,874	0	0	71,874	71,874
Accounts Receivable	5.3	10,270	0	0	10,270	*
Other Receivables	5.4	119,458	0	0	119,458	119,458
Shares Available-for-sale, Net of Current Portion	5.8	0	1,727	0	1,727	*
Available-for-sale Financial Assets	5.2	0	188,360	0	188,360	188,360
Bonds, Available-for-sale	5.2	0	11,102	0	11,102	11,102
TOTAL		**201,602**	**201,189**	**0**	**402,791**	**390,794**
Convertible Bonds - Liability Component	7.1	0	0	(299)	(299)	(299)
Accounts Payable and Accrued Expenses	6.1	0	0	(17,190)	(17,190)	(17,190)
TOTAL		**0**	**0**	**(17,489)**	**(17,489)**	**(17,489)**

* Declaration waived in line with IFRS 7.29 (a)

2.4 IMPAIRMENTS

2.4.1 NON-DERIVATIVE FINANCIAL INSTRUMENTS

A financial instrument not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence to show that it is impaired. A financial instrument is impaired if objective evidence indicates that an event has occurred after the initial recognition of the asset that could result in a loss, and if that event could have negative effects on the estimated future cash flows of that asset which can be assessed reliably.

Objective evidence that financial instruments (including equity securities) are impaired can include the default or delinquency of a debtor, indications that a debtor or issuer will enter insolvency, adverse changes in the payment status of borrowers or issuers in the Group, and economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, a significant or prolonged decline in an equity security's fair value below its acquisition cost is objective evidence of impairment.

2.4.2 RECEIVABLES

The Group considers evidence of impairment of receivables both at an individual and collective level. All individually significant receivables are tested specifically for impairment. All individually significant receivables found not to be specifically impaired are then collectively tested for any impairment that occurred but was not yet identified. Individually non-significant receivables are collectively tested for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of default probabilities of the timing of impairment reversals and of the amount of loss incurred. These are then adjusted for management's assessment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than those suggested by the historical trends.

For a financial instrument measured at amortized cost less impairment, impairment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. Cash flows are discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment to decrease, the impairment is reversed through profit and loss.

2.4.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Impairment of available-for-sale financial assets is recognized by reclassifying the accumulated losses from the revaluation reserve in equity to profit and loss. The accumulated loss that is to be reclassified from equity to profit and loss is the difference between the acquisition cost less amortization and any principal repayment, and the current fair value less any impairment recognized previously in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale financial asset increases and the increase can be related objectively to an event occurring after the impairment was recognized in profit or loss, then the impairment loss is reversed with the amount of the reversal recognized in profit or loss. However, any subsequent increase in the fair value of an available-for-sale financial instrument is recognized under equity in other comprehensive income.

2.4.4 NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, inventories and deferred tax assets are reviewed at each reporting date for any indication of impairment. The asset's recoverable amount is estimated if such indication exists. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at the same time each year. 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 and 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 with regard to 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 continuing use that are largely independent of the cash flows of other assets or CGUs. For the purposes of goodwill impairment testing, a ceiling test for the operating segment must be carried out. CGUs to which goodwill has been allocated 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 is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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, to which the corporate asset was allocated.

Impairment losses are recognized in profit and loss. Goodwill impairment is not reversible. For all other assets, impairment recognized in prior periods is assessed at 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 loss can only be reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment had been recognized.

2.5 ADDITIONAL INFORMATION

2.5.1 KEY ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors that include expectations of future events that are believed to be realistic under the current circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting-related estimates will, by definition, seldomly correspond to the actual results. The estimates and assumptions that bear a significant risk of causing material adjustments to the carrying amounts of assets and liabilities in the next financial year are addressed below.

GOODWILL

On an annual basis, the Group tests whether goodwill is subject to impairment in accordance with the accounting policies discussed in item 2.4.4*. The recoverable amounts of cash generating units have been determined on the basis of value-in-use calculations. These calculations require the use of estimates (see also item 5.7.5 of the Notes*).

*CROSS-REFERENCE TO PAGE 95 AND PAGE 112

A sensitivity analysis was performed for the technology development activities within the Partnered Discovery segment, which form the cash-generating unit and also comprise the goodwill from the acquisition of Sloning BioTechnology GmbH. A 30% increase in the weighted average cost of capital (WACC) or a 30% decrease in future cash flows would not result in impairment of the cash-generating unit.

INCOME TAXES

The Group is subject to income taxes in numerous tax jurisdictions. Key assumptions are required in determining the Group's provision for income taxes. There are many transactions and calculations which are uncertain with respect to the calculation of the ultimate tax burden.

As of 31 December 2014, deferred tax assets on tax loss carryforwards in the amount of € 1.8 million were recognized as a result of positive business expectations at Sloning BioTechnology GmbH for financial years 2015 to 2019. In previous years, no deferred tax assets were reported for corporate tax loss carryforwards in the amount of € 2.4 million and trade tax loss carryforwards in the amount of € 2.3 million as the usability of these tax loss carry forwards was deemed uncertain with regard to German tax legislation (Sec. 8 Para. 4, of the German Corporation Tax Act (KStG former version) and Sec. 8c KStG). In the event that a portion of the total tax loss carryforwards had not been utilizable due to a tax audit, the Group would be required to pay higher income taxes for future periods at an earlier point in time since the tax loss carryforwards would be consumed sooner than expected. The definitive nature of the tax loss carryforwards in question was confirmed in the context of a tax audit completed by the time the consolidated financial statements had been prepared. Therefore, deferred tax assets were recognized in the full amount of existing tax loss carryforwards.

As of 31 December 2014, deferred tax assets on tax loss carryforwards in the amount of € 1.2 million were recognized as a result of positive business expectations at MorphoSys AG for financial years 2015 to 2019.

2.5.2 CAPITAL MANAGEMENT

With regard to capital management, the Management Board's policy is to preserve a strong and sustainable capital base in order to maintain the confidence of investors, business partners, and the market and to support future business development. As of 31 December 2014, the equity ratio amounted to 81.8% (31 December 2013: 78.6%; see also the following overview). Presently, the Group is not carrying financial debt.

Pursuant to the respective incentive plans resolved by the Annual General Meeting, the Management Board and employees may participate in the Group's performance through long-term performance-related remuneration components consisting of convertible bonds. MorphoSys also established long-term incentive programs (LTI plan) in the years 2011, 2012, 2013, and 2014. These programs are based on the performance-related issuance of shares, so called "performance shares", which are granted when certain predefined success criteria have been achieved (for more information, please refer to item 7.3 of the Notes*). There were no changes in the Group's approach to capital management in the course of the year.

*CROSS-REFERENCE TO PAGE 116

in 000' €	12/31/2014	12/31/2013
Stockholders' Equity	348,803	352,145
In % of Total Capital	81.8%	78.6%
Debt	77,675	95,511
In % of Total Capital	18.2%	21.4%
TOTAL CAPITAL	**426,478**	**447,657**

2.6 USE OF INTEREST RATES FOR VALUATION

The Group uses interest rates to measure fair values. When calculating stock-based compensation, MorphoSys uses the interest rates of German government bonds with maturities of five or seven years on the date they were granted to determine the fair value of convertible bonds.

2.7 ACCOUNTING POLICIES APPLIED TO LINE ITEMS OF THE INCOME STATEMENT

2.7.1 REVENUES AND REVENUE RECOGNITION

The Group's revenues include license fees and milestone payments, service fees and revenues from the sale of goods. Pursuant to IAS 18.9, revenues are measured at the fair value of the consideration received or receivable. In accordance with IAS 18.20b, revenues are only recognized to the extent that it is sufficiently probable that the Company will receive the economic benefits associated with the transaction.

LICENSE FEES AND MILESTONE PAYMENTS

Revenues related to non-refundable fees for providing access to technologies, fees for the use of technologies, and license fees are recognized on a straight line basis over the period of the agreement unless a more appropriate method of revenue recognition is available. The period of the agreement usually corresponds to the contractually agreed term of the research project, or in the case of contracts without an agreed project term, it correlates to the expected term of the collaboration. If all IAS 18.14 criteria are met, revenue is recognized immediately and in full. Revenues from milestone payments are recognized upon achievement of certain contractual criteria.

SERVICE FEES

Service fees in the context of research and development collaborations are recognized in the period in which the services are provided.

If it is probable that discounts will be granted and that their amount can be reliably determined, then the discount is recognized as a reduction in revenue at the time of the revenue recognition. The timing of the transfer of risks and rewards varies depending upon the individual terms of the sales contract. In accordance with IAS 18.21 and 18.25, revenue from multiple-element transactions is recognized by allocating the total consideration among the separately identifiable components based on their respective fair values and by applying IAS 18.20. The applicable revenue recognition criteria are assessed separately for each component.

Deferred revenues consist of payments received from customers which may not yet be recognized as revenue since the related services specified in the contract have not yet been rendered.

2.7.2 OPERATING EXPENSES

PERSONNEL EXPENSES RESULTING FROM STOCK OPTIONS

The Group applies the provisions of IFRS 2 "Share-based Payment". IFRS 2 requires the Group to recognize share-based payments at their fair value on the valuation date as a compensation expense for the period that the beneficiary renders the services related to the granting of the share-based payments.

RESEARCH AND DEVELOPMENT

Research costs are expensed in the period in which they occurred. Generally, development costs are expensed as incurred in accordance with IAS 38.5 and IAS 38.11 to 38.23. Development costs are recognized as an intangible asset when the criteria of IAS 38.21 (probability of expected future economic benefits, reliability of cost measurement) are met, and if the Group can provide evidence pursuant to IAS 38.57.

GENERAL AND ADMINISTRATIVE

This line item includes personnel expenses, consumables, operating costs, amortization of intangible assets, expenses for external services, infrastructure costs, and depreciation.

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. According to SIC-15, all incentive agreements in the context of operating leases are recognized as an integral part of the net consideration agreed for the use of the leased asset. The total amount of income resulting from incentives is recognized as a reduction in lease expenses on a straight-line basis over the term of the rental.

All lease agreements in the Group are to be classified exclusively as operating leases. The Group did not engage in any finance lease arrangements in which the Group, as lessee, capitalized the assets at the start of the lease with the lower of fair value or the net present value of the minimum-lease payments and then depreciated the assets on a straight-line basis over its economic life.

2.7.3 OTHER INCOME

GOVERNMENT GRANTS

Grants received from governmental agencies for the support of specific research and development projects are recognized in the income statement in the separate line item "other income" to the extent that the related expenses have already occurred. Under the terms of the grants, governmental agencies generally have the right to audit the use of the funds granted to the Group.

Basically, government grants are cost subsidies for which recognition through profit and loss is limited to the corresponding costs. In financial year 2014, there were no payments granted that were required to be classified as investment subsidies.

2.7.4 OTHER EXPENSES

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

2.7.5 FINANCE INCOME

Interest income is recognized in the income statement as it occurs and takes into account the effective rate of interest for the asset.

2.7.6 FINANCE EXPENSES

Borrowing costs are expensed in the period they occur and are included in finance expenses in the income statement.

2.7.7 INCOME TAX EXPENSES/INCOME

Income taxes comprise current and deferred taxes. Income taxes are recognized in the income statement unless the income taxes relate to items recognized directly in equity or other comprehensive income.

Current taxes are the expected taxes payable on the taxable income for the year, using the prevailing tax rates or those adopted on the reporting date, as well as any adjustments to taxes payable with respect to previous years.

The calculation of deferred taxes is based on the balance sheet liability method and results in temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred taxes are calculated depending on the realization method expected for the carrying amount of assets and the repayment of liabilities. The calculation is also based on the prevailing tax rates or those adopted on the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to income taxes imposed by the same tax authority on the same taxable entity, or on different tax entities that intend to settle current tax assets and liabilities on a net basis, or when their tax assets and liabilities are to be realized simultaneously.

Deferred tax assets are only recognized to the extent that it is likely that future taxable income will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.7.8 EARNINGS/LOSS PER SHARE

The Group reports basic and diluted earnings per share. Basic earnings per share is computed by dividing the net profit or loss attributable to parent company shareholders by the weighted average number of ordinary shares outstanding during the reporting period. Diluted earnings per share is calculated in the same manner however, 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 convertible bonds or stock options granted to the Management Board and employees.

2.8 ACCOUNTING POLICIES APPLIED TO THE ASSETS OF THE BALANCE SHEET

2.8.1 CASH AND CASH EQUIVALENTS

LIQUID ASSETS

The Group considers all cash at banks and on hand, as well as short-term deposits with an original maturity of three months or less, to be cash or cash equivalents. The Group invests most of its cash and cash equivalents in deposits at several major financial institutions: Commerzbank, HypoVereinsbank, Bayern LB, Sparkasse, LBBW, Svenska Handelsbanken, BNP Paribas, and Deutsche Bank.

The Group recognizes cash and cash equivalents at nominal value. Securities are recognized and measured at fair value. Any fluctuations in the fair value of securities primarily composed of money market funds are directly recognized in equity. Permanent impairment, however, is recognized in profit and loss.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Depending upon their classification, existing financial instruments are either measured at amortized cost (category “loans and receivables”) or at fair value (category “available-for-sale financial assets”). The amortized cost of current receivables and current liabilities generally corresponds to either the nominal amount or the repayment amount.

All non-derivative financial instruments are initially recognized at fair value, which is defined as the fair value of the consideration provided net of transaction costs.

The Group applies IAS 39 for financial instruments in the form of debt and equity instruments. At the time of purchase, the Management Board determines the classification of the financial instrument and reviews the classification at each reporting date. The classification depends on the purpose for which the financial instruments were acquired. On 31 December 2014 and on 31 December 2013, some financial instruments held by the Group were classified as “available-for-sale”. These financial instruments are recognized or derecognized as of the date on which the Group commits to the purchase or sale of the financial instruments. Following their initial recognition, available-for-sale financial assets are measured at fair value and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, or otherwise disposed of, or considered impaired, at which time the accumulated loss is reported in profit and loss.

Guarantees granted for rent deposits, which have been collateralized with available-for-sale securities and obligations from convertible bonds issued to employees are recorded under other assets as restricted cash, since they are not available for use in the Group’s operations.

In November 2012, MorphoSys acquired an interest in Lanthio Pharma B.V., a privately held company headquartered in Groningen, the Netherlands. A contribution was also made to this company in September 2013. On 31 December 2014, the Group’s share in Lanthio Pharma B.V.’s share capital continued to amount to 19.98 %. No significant influence exists as defined by IAS 28. The investment is measured at amortized cost since it constitutes an equity instrument for which no quoted price is observable in an active market and whose fair value cannot reliably be assessed. The financial instrument is reported in the category “available-for-sale”.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risk. In accordance with IAS 39.9, all derivative financial instruments are held exclusively for trading and are initially recognized at fair value. Subsequent to their initial recognition, derivative financial instruments are measured at fair value, which is defined as their quoted market price on the reporting date. Any resulting gain or loss from derivatives is recognized in profit and loss because the Group currently does not apply hedge accounting. According to the Group’s foreign currency hedging policy, the Group only hedges highly probable future cash flows and clearly identifiable receivables that can be collected within a twentyfour-month period.

The use of derivative financial instruments is subject to a Group policy representing a guideline set out in writing for dealing with derivative financial instruments and approved by the Management Board. Any changes in the fair value of derivative financial instruments are documented.

2.8.2 ACCOUNTS RECEIVABLE, INCOME TAX RECEIVABLES, AND OTHER RECEIVABLES

Accounts receivable are measured at amortized cost less any impairment, for example, allowances for doubtful accounts (see items 2.4.2 and 5.3 of the Notes*).

*CROSS-REFERENCE TO PAGE 95 AND PAGE 109

Income tax receivables mainly include receivables due from tax authorities in the context of capital gain taxes withheld.

Other non-derivative financial instruments are measured at amortized cost using the effective interest method less any impairment. In 2014, investments were carried out in various financial assets which were allocated to the category "loans and receivables" pursuant to IAS 39 "Financial Instruments".

2.8.3 INVENTORIES

Inventories are measured at the lower value of production or acquisition costs and net realizable value pursuant to the FIFO method. The acquisition costs comprise all costs of purchase and all costs incurred in bringing the inventories into operating condition, while taking into account reductions in the purchase price, such as bonuses and discounts. Net realizable value is the estimated selling price less the estimated expenses necessary for completion and sale. Inventories may be classified as raw materials and supplies.

2.8.4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses include expenses that resulted in an outflow of cash prior to the reporting date, but which will only be recognized as expenses in the subsequent financial year. Such expenses mainly relate to maintenance contracts, sublicenses, and prepayments for external laboratory services not yet performed. Other current assets primarily comprise receivables from the tax authorities as a result of value-added taxes. This item is recognized at nominal value.

2.8.5 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is recorded at historical cost less accumulated depreciation (see also item 5.6 of the Notes*) and any impairment (see item 2.4.4 of the Notes*). Historical cost includes expenditure directly related to the purchase at the time of the acquisition. Replacements, building alterations, and improvements are capitalized, while repair and maintenance expenses are charged to expenses as they are incurred. Property, plant, and equipment is depreciated over its useful life on a straight-line basis (see table below). Leasehold improvements are depreciated over the estimated useful lives of the assets on a straight-line basis.

*CROSS-REFERENCE TO PAGE 110 AND PAGE 95

Asset Class	Useful Life	Depreciation Rates
Computer Hardware	3 years	33%
Low-value Laboratory and Office Equipment below € 150	Immediately	100%
Low-value Laboratory and Office Equipment between € 150 and € 1,000	5 years	20%
Permanent Improvements to Property/Buildings	10 years	10%
Office Equipment	8 years	13%
Laboratory Equipment	4 years	25%

An asset's residual value and useful life are reviewed at the end of each reporting period, and adjusted if appropriate.

Borrowing costs that can be directly attributed to the acquisition, construction, or production of a qualifying asset, are not included in the acquisition or production cost since the Group finances the entire operating business through the use of equity.

2.8.6 INTANGIBLE ASSETS

Purchased intangible assets are capitalized at acquisition cost and intangible assets are exclusively amortized over their useful lives on a straight-line basis. Internally generated intangible assets are recognized to the extent that the recognition criteria set out in IAS 38 are met.

Development costs are capitalized as intangible assets provided that 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, availability of sufficient resources for completion of development and sale. Amortization is recorded in research and development expenses.

Expenses to be classified as research expenses are allocated to research and development expenses as defined by IAS 38.

Subsequent expenditures for capitalized intangible assets are only capitalized when they substantially increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred.

PATENTS

Patents obtained by the Group are recorded at acquisition cost, less accumulated amortization (see below), and any impairment (see item 2.4.4 of the Notes*). Patent costs are amortized on a straight-line basis over the lower of the estimated useful life of the patent (ten years) and the remaining patent term. Amortization commences when the patent is issued. Technology identified in the purchase price allocation in the acquisition of Sloning BioTechnology GmbH is recorded at fair value at the time of acquisition, less accumulated amortization (useful life of ten years).

*CROSS-REFERENCE TO PAGE 95 AND PAGE 95

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 sub-licenses. 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 the amortization method are reviewed at the end of each financial year pursuant to IAS 38.104. Annual fees to maintain the license are amortized over the term of each annual agreement. Sub-license fees are amortized on a straight-line basis over the term of the contract or the estimated useful life of the collaboration for those contracts without a stipulated term.

IN-LICENSED REASEARCH PROGRAMS

This line item contains capitalized upfront payments from the in-licensing of two compounds for the Proprietary Development segment as well as a milestone payment for one of these compounds which was paid at a later time. The assets are recorded at acquisition cost and are not yet available for use and therefore not subject to amortization. The assets were tested for impairment on the reporting date as required by IAS 36.

SOFTWARE

Software is recorded at acquisition cost less accumulated amortization (see below) and any impairment (see item 2.4.4 of the Notes*). Amortization is recognized in profit and loss on a straight-line basis over the estimated useful life of three to five years. Software is amortized from the date the software is operational.

*CROSS-REFERENCE TO PAGE 95

GOODWILL

The goodwill recognized is attributable to expected synergies and to the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also item 5.7.5 of the Notes*).

*CROSS-REFERENCE TO PAGE 112

Intangible Asset Class	Useful Life	Amortisation Rates
Patents	10 years	10%
License Rights	8 (10) years	13% (10)%
Inlicensed Research Programs	Not yet amortized	–
Software	3 (5) years	33% (20)%
Know How and Customer List	6 (10) years	17% (10)%
Goodwill	Impairment	–

2.8.7 SHARES AVAILABLE-FOR-SALE

The interest in Dutch Lanthio Pharma B.V. is recognized at amortized cost. The financial instrument is recorded in the category “available-for-sale”.

2.8.8 PREPAID EXPENSES AND OTHER NON-CURRENT ASSETS

The non-current portion of expenses occurring prior to the reporting date but to be recognized in subsequent financial years is also recorded under prepaid expenses. This line item contains maintenance contracts and sub-licenses.

This line item also includes other non-current assets which are recognized at fair value. Other non-current assets comprise mainly restricted cash, such as rent deposits.

2.9 ACCOUNTING POLICIES APPLIED TO EQUITY AND LIABILITY ITEMS OF THE BALANCE SHEET

2.9.1 ACCOUNTS PAYABLE, OTHER LIABILITIES, AND PROVISIONS

Trade payables and other liabilities are recognized at amortized cost. Liabilities with a term above one year are discounted to their net present value. Liabilities of uncertain timing or amount are recorded as provisions.

IAS 37 requires the recognition of provisions for obligations to third parties arising from past events. Furthermore, provisions are only recognized for legal or factual obligations to third parties if the occurrence of the event is more likely than not. Provisions are recognized at the amount required to settle the respective obligation and discounted to the reporting date if the interest effect is material. The amount required to meet the obligation also includes expected price and cost increases. The interest portion of the added provisions is recorded in the finance result. The measurement of provisions is based on past experience and considers the circumstances in existence on the reporting date.

2.9.2 TAX LIABILITIES

Tax liabilities are recognized and measured at their nominal value. Tax liabilities contain obligations from current taxes, excluding deferred taxes. Accruals for trade taxes, corporate taxes, and similar taxes on income are determined based on the taxable income of the consolidated companies less any prepayments made.

2.9.3 CURRENT PORTION OF DEFERRED REVENUE

Upfront payments from customers for services to be rendered by the Group are recognized as deferred revenue in accordance with IAS 18.13 and measured at the lower of fair value or nominal value. The corresponding rendering of services and revenue recognition occurs within the twelve month period following the reporting date.

2.9.4 DEFERRED REVENUE AND PROVISIONS, NET OF CURRENT PORTION

This line item includes the non-current portion of deferred upfront payments from customers in accordance with IAS 18.13 which are measured at the lower of fair value or nominal value. Due to its low level of materiality, this line item is not discounted to its present value in the financial year despite its long-term maturity.

2.9.5 CONVERTIBLE BONDS DUE TO RELATED PARTIES

The Group issued convertible bonds to the Management Board and to employees of the Group. 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. Any impact arising from the equity component is recognized in profit and loss in personnel expenses resulting from share-based payments, whereas any impact on profit and loss arising from the liability component is recognized as interest expense. The Group applies the provisions of IFRS 2 “Share-based Payments” for all convertible bonds granted to the Management Board and the Group’s employees.

2.9.6 DEFERRED TAX LIABILITIES

The recognition and measurement of deferred taxes are based on the provisions of IAS 12. Deferred tax assets and liabilities are calculated using the liability method, which is common practice internationally. Under this method, the 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. Deferred tax liabilities take into account the future tax effects of temporary differences between the valuation of assets and liabilities in the balance sheet and tax loss carryforwards.

Deferred tax assets are offset against deferred tax liabilities if the taxes are levied by the same taxation authority and have matching terms. Pursuant to IAS 12, deferred tax assets and liabilities may not be discounted.

2.9.7 STOCKHOLDERS' EQUITY

COMMON STOCK

Ordinary shares are classified as stockholders' equity. Incremental costs directly attributable to the issuance of ordinary shares and stock options are recognized as a deduction from equity, net of any tax effects. When common stock that was recorded as stockholders' equity is repurchased, the amount of consideration paid, including directly attributable costs, is recognized as a deduction from stockholders' equity net of taxes and is classified as treasury shares. When treasury shares are subsequently sold or reissued, the proceeds are recognized as an increase in stockholders' equity, and the profit or loss resulting from the transaction is offset against accumulated income.

TREASURY STOCK

Repurchases of own shares at the price quoted on an exchange or at market value are recorded in this line item.

ADDITIONAL PAID-IN CAPITAL

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

REVALUATION RESERVE

The revaluation reserve mainly consists of unrealized gains and losses on available-for-sale securities that are measured directly in equity until they are sold.

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences which are not recognized in profit and loss.

ACCUMULATED INCOME

The "accumulated income" line item comprises the Group's accumulated consolidated net profits/losses. A separate measurement of this item is not conducted.

3 Segment Reporting

MorphoSys Group applies IFRS 8 "Segment Reporting". An operating segment is defined as a component of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

Segment information is presented with respect to the Group's operating segments. The operating segments are 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 can be allocated to the segments on a reasonable basis. Intercompany pricing is determined on an arm's length basis.

The Management Board determines the economic success of the segments based on key figures chosen so that all income and expenses are included. The operating earnings before interest and taxes, or EBIT, is the key benchmark for measuring and evaluating the operating results. The EBIT margin reflects the ratio of EBIT to revenues.

The Group consists of the following operating segments.

3.1 PROPRIETARY DEVELOPMENT

This segment comprises all of the activities relating to the proprietary development of therapeutic antibodies. Presently, the activities of this segment comprise the clinical development of the proprietary program MOR208, the co-development of MOR202 with Celgene, and the completion of the clinical development of the MOR103 program under the cooperation with GSK. MorphoSys is also pursuing further programs at an early stage in proprietary development or as co-development.

3.2 PARTNERED DISCOVERY

MorphoSys possesses one of the leading technologies for the generation of therapeutics based on human antibodies. The Group markets this technology commercially via partnerships with numerous pharmaceutical and biotechnology companies. This segment encompasses all operational activities relating to these commercial agreements, as well as the majority of the technological development.

3.3 ABD SEROTEC

Upon sale of substantially all of the AbD Serotec business on 10 January 2013 to Bio-Rad, the quantitative and qualitative criteria of IFRS 8.12 f. were no longer fulfilled so that this segment was no longer a reportable segment under IFRS 8.11. Therefore, the results generated by the AbD Serotec segment until 10 January 2013, which were immaterial, were reclassified to "Unallocated".

3.4 CROSS-SEGMENT DISCLOSURES

With cross-segment disclosures, segment revenues are based on the customers' geographical locations. The information on segment assets is based on the respective location of the assets.

For the Twelve-month Period Ended 31 December (in 000's €)	Proprietary Development		Partnered Discovery	
	2014	2013	2014	2013
External Revenues	15,041	26,909	48,937	51,044
Intersegment Revenues	0	0	0	0
REVENUES, TOTAL	**15,041**	**26,909**	**48,937**	**51,044**
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	33,535	27,500	23,041	25,537
Inter-segment Costs	0	0	0	0
TOTAL OPERATING EXPENSES	**33,535**	**27,500**	**23,041**	**25,537**
Other Income	105	129	22	80
Other Expenses	0	0	0	227
SEGMENT EBIT	**(18,389)**	**(462)**	**25,918**	**25,360**
Finance Income	0	0	0	0
Finance Expenses	0	0	0	0
Other Income from Sale of Assets and Liabilities of Disposal Group Classified as Held for Sale	0	0	0	0
PROFIT BEFORE TAXES	**(18,389)**	**(462)**	**25,918**	**25,360**
Income Tax (Expenses)/Income	0	0	0	0
Income Tax Expenses in connection with the Sale of Assets and Liabilities of the Disposal Group Classified as Held for Sale	0	0	0	0
NET PROFIT/(LOSS)	**(18,389)**	**(462)**	**25,918**	**25,360**
Current Assets	6,200	2,783	25,887	24,036
Non-current Assets	30,079	15,601	17,347	19,807
TOTAL SEGMENT ASSETS	**36,279**	**18,384**	**43,234**	**43,843**
Current Liabilities	25,343	23,436	2,558	3,681
Non-current Liabilities	40,414	53,885	4,263	5,283
Stockholders' Equity	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**65,757**	**77,321**	**6,821**	**8,964**
Capital Expenditure	17,335	3,150	2,512	1,883
Depreciation and Amortization	1,149	1,010	2,621	3,291

The segment result is defined as segment revenues less the segment's operating expenses. In financial year 2014, impairments totaling € 4.1 million were recognized. Of this amount, € 2.1 million was attributable to the Proprietary Development segment and € 2.0 million to the Partnered Discovery segment (2013: impairment of € 1.0 million in the Proprietary Development segment and of € 0.6 million in the Partnered Discovery segment).

The Group's key customers are assigned to the Partnered Discovery segment as well as the Proprietary Development segment. As of 31 December 2014, the most important single customer accounted for a carrying amount of € 9.3 million of total accounts receivable (31 December 2013: € 8.2 million). Three individual customers of the Group who are predominantly assigned to the Partnered Discovery segment, contributed € 43.2 million, € 13.5 million, and € 2.0 million to total revenues in 2014. In 2013, three customers mainly assigned to the Partnered Discovery segment accounted for € 41.6 million, € 21.3 million, and € 6.0 million of the Group's total revenues.

In 2014, "unallocated" other operating expenses primarily included personnel expenses (2014: € 8.7 million; 2013: € 9.2 million), costs for external services (2014: € 2.5 million; 2013: € 3.0 million), and costs for infrastructure (2014: € 0.8 million; 2013: € 1.2 million). Current assets categorized as "unallocated" mainly composed of cash and cash equivalents, securities and bonds available-for-sale, as well as other receivables (31 December 2014: € 287.3 million; 31 December 2013: € 377.5 million). Non-current assets categorized as "unallocated" mainly comprised long-term investments of financial assets of € 50.0 million (31 December 2013: € 0.0 million). Current liabilities categorized as "unallocated" included mainly accounts payable and accrued expenses (31 December 2014: € 4.0 million; 31 December 2013: € 5.4 million) as well as provisions (31 December 2014: € 0.8 million; 31 December 2013: € 2.9 million).

Unallocated		Elimination		Group		thereof from Discontinued Operations		thereof from Continuing Operations	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
0	610	0	0	63,978	78,563	0	603	63,978	77,960
0	0	0	0	0	0	0	0	0	0
0	**610**	**0**	**0**	**63,978**	**78,563**	**0**	**603**	**63,978**	**77,960**
0	158	0	0	0	158	0	158	0	0
13,533	16,992	0	0	70,109	70,029	0	2,107	70,109	67,922
0	0	0	0	0	0	0	0	0	0
13,533	**17,150**	**0**	**0**	**70,109**	**70,187**	**0**	**2,265**	**70,109**	**67,922**
655	600	0	0	782	809	0	12	782	797
550	686	0	0	550	913	0	2	550	911
(13,428)	**(16,626)**	**0**	**0**	**(5,899)**	**8,272**	**0**	**(1,652)**	**(5,899)**	**9,924**
1,810	867	0	0	1,810	867	0	0	1,810	867
220	115	0	0	220	115	0	5	220	110
0	8,001	0	0	0	8,001	0	8,001	0	0
(11,838)	**(7,873)**	**0**	**0**	**(4,309)**	**17,025**	**0**	**6,344**	**(4,309)**	**10,681**
1,296	(3,345)	0	0	1,296	(3,345)	0	(35)	1,296	(3,310)
0	(358)	0	0	0	(358)	0	(358)	0	0
(10,542)	**(11,576)**	**0**	**0**	**(3,013)**	**13,322**	**0**	**5,951**	**(3,013)**	**7,371**
290,308	379,749	0	0	322,395	406,568	0	0	322,395	406,568
56,657	5,681	0	0	104,083	41,089	0	0	104,083	41,089
346,965	**385,430**	**0**	**0**	**426,478**	**447,657**	**0**	**0**	**426,478**	**447,657**
4,802	8,290	0	0	32,703	35,407	0	0	32,703	35,407
295	936	0	0	44,972	60,104	0	0	44,972	60,104
348,803	352,146	0	0	348,803	352,146	0	0	348,803	352,146
353,900	**361,372**	**0**	**0**	**426,478**	**447,657**	**0**	**0**	**426,478**	**447,657**
631	530	0	0	20,478	5,563	0	6	20,478	5,557
364	534	0	0	4,134	4,835	0	22	4,134	4,813

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

in 000' €	2014	2013
Germany	733	4
Europe and Asia	44,628	69,140
USA and Canada	18,617	8,816
Total from Continuing Operations	63,978	77,960
Total from Discontinued Operations	0	603
TOTAL	**63,978**	**78,563**

All non-current Group assets in the amount of € 102.3 million (31 December 2013: € 40.8 million), excluding deferred tax assets, are located in Germany. The Group's investments in the amount of € 20.5 million (31 December 2013: € 5.6 million) were all made in Germany.

4 Notes to the Income Statement

4.1 REVENUES

In 2014, revenues from continuing operations included license fees and milestone payments totaling € 43.5 million (2013: € 57.8 million). The Proprietary Development segment contributed revenues of € 14.4 million (2013: € 26.4 million), and the Partnered Discovery segment contributed revenues of € 29.1 million (2013: € 31.4 million).

Of the service fees totaling € 20.5 million (2013: € 20.2 million), an amount of € 0.6 million (2013: € 0.5 million) was attributable to the Proprietary Development segment and an amount of € 19.9 million (2013: € 19.6 million) was attributable to the Partnered Discovery segment.

4.2 OPERATING EXPENSES

4.2.1 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses include the following items.

in 000' €	2014	2013
Personnel Expenses	21,048	21,218
Consumable Supplies	2,327	2,157
Other Operating Expenses	2,863	2,312
Amortization and Other Costs of Intangible Assets	8,050	5,070
External Services	17,549	14,137
Depreciation and Other Costs for Infrastructure	4,126	4,258
Total from Continuing Operations	55,963	49,152
Total from Discontinued Operations	0	6
TOTAL	**55,963**	**49,158**

in million €	2014	2013	2012	2011	2010
R&D Expenses on behalf of Partners	19.5	17.5	16.0	19.1	18.9
Proprietary Development Expenses	33.6	27.5	18.1	33.9	25.9
Technology Development Expenses	2.9	4.2	3.6	2.9	2.1
R&D TOTAL	**56.0**	**49.2**	**37.7**	**55.9**	**46.9**

4.2.2 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the following items.

in 000' €	2014	2013
Personnel Expenses	9,612	11,282
Consumable Supplies	77	29
Other Operating Expenses	835	1,219
Amortization of Intangible Assets	129	972
External Services	2,685	4,072
Depreciation and Other Costs for Infrastructure	808	1,196
Total from Continuing Operations	14,146	18,770
Total from Discontinued Operations	0	2,101
TOTAL	**14,146**	**20,871**

4.2.3 PERSONNEL EXPENSES

Personnel expenses include the following items.

in 000' €	2014	2013
Wages and Salaries	22,353	23,327
Social Security Contributions	3,689	3,288
Stock-based Compensation Expense	3,959	5,145
Temporary Staff (External)	200	647
Other	459	93
Total from Continuing Operations	30,660	32,500
Total from Discontinued Operations	0	523
TOTAL	**30,660**	**33,023**

In 2014 and 2013, other personnel expenses mainly included recruitment costs.

The average number of employees in the financial year 2014 was 315 (2013: 290). Of the 329 employees engaged on 31 December 2014 (31 December 2013: 299), 274 employees were active in research and development (31 December 2013: 253) and 55 employees were engaged in general and administrative functions (31 December 2013: 46 employees). On 31 December 2014, there were 105 employees in the Proprietary Development segment and 169 employees in the Partnered Discovery segment; 55 employees were not allocated to any specific segment (31 December 2013: 60 in the Proprietary Development segment, 193 employees in the Partnered Discovery segment, and 46 employees were not allocated). Costs for the defined-contribution plans amounted to € 0.4 million in 2014 (2013: € 0.3 million).

4.3 OTHER INCOME AND EXPENSES, FINANCE INCOME AND FINANCE EXPENSES

The item "other income and expenses, finance income and finance expenses" includes the following items.

in 000' €	2014	2013
Grant Income	127	209
Gain on Exchange	422	130
Appreciation of Accounts Receivable Previously Deemed Impaired	202	0
Miscellaneous Income	31	458
Other Income	**782**	**797**
Loss on Exchange	(449)	(359)
Impairment of Accounts Receivable	0	(239)
Repayment of Grant Income	0	(101)
Miscellaneous Expenses	(101)	(212)
Other Expenses	**(550)**	**(911)**
Gain on Marketable Securities	761	521
Interest Income	1,004	347
Unrealized Loss on Derivatives	45	0
Finance Income	**1,810**	**868**
Interest Expenses	(118)	(22)
Loss on Derivatives	(6)	(33)
Bank Fees	(63)	(56)
Loss on Marketable Securities	(33)	0
Finance Expenses	**(220)**	**(111)**
Total from Continuing Operations	**1,822**	**643**
Total from Discontinued Operations	0	5
TOTAL	**1,822**	**648**

4.4 INCOME TAX EXPENSES/INCOME

MorphoSys AG and its German subsidiary Sloning BioTechnology GmbH are subject to corporate taxes, the solidarity surcharge, and trade taxes. The Company's corporate tax rate of 15.0%, the solidarity surcharge of 5.5%, and the effective trade tax rate of 10.5% have all remained unchanged.

Income taxes for the past financial year are comprised as follows.

in 000' €	2014	2013
Current Tax Expense (Thereof Regarding Prior Years: Tax Income of k€ 6; 2013: Tax Expense of k€ 60)	(283)	(3,753)
Deferred Tax Income	1,579	443
Total Income Tax Income/(Expense)	1,296	(3,310)
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Equity	0	611
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	(15)	(260)
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	17	159
Total Amount of Tax-Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income	2	510

The table below 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 26.33% in financial year 2014 (2013: 26.33%) was applied to profit before taxes to calculate the statutory income tax expense. This rate comprised corporate income tax of 15.0%, a solidarity surcharge of 5.5% on the corporate tax, and an average trade tax of 10.5% applicable to the Group.

in 000' €	2014	2013
Profit Before Income Taxes	(4,309)	10,681
Expected Tax Rate	26.33%	26.33%
Expected Income Tax	1,134	(2,812)
Tax Effects Resulting from:		
Deferred Tax Asset on Tax Loss Carryforwards	629	200
Stock-based Compensation	(424)	(533)
Non-tax-deductible Items	(179)	(160)
Permanent Differences due to Tax Exemptions	107	1
Prior Year Taxes	(6)	(40)
Other Effects	35	34
Actual Income Tax	1,296	(3,310)

As of 31 December 2014, deferred tax assets on tax loss carryforwards in the amount of € 1.8 million were recognized as a result of positive business expectations at Sloning BioTechnology GmbH for financial years 2015 to 2019. No deferred tax assets were reported in previous years for a portion of the corporate tax loss carryforwards in the amount of € 2.4 million and trade tax loss carryforwards in the amount of € 2.3 million as the usability of these tax loss carryforwards was deemed uncertain with regard to German tax regulation (Sec. 8 Para. 4 of the German Corporation Tax Act (KStG-former version) and Sec. 8c of the German Corporation Tax Act (KStG)) (see also item 2.9.6 of the Notes*). The definitive nature of the tax loss carryforwards in question was confirmed in the context of a tax audit completed by the time the consolidated financial statements had been prepared. Therefore, deferred tax assets were recognized in the full amount of existing tax loss carryforwards. The tax loss carryforwards may be carried forward indefinitely and in unlimited amounts. As of 2004, German tax law restricts the offsetting of taxable income against existing tax loss carryforwards up to an amount of € 1.0 million plus 60% of taxable income exceeding € 1.0 million.

*CROSS-REFERENCE TO PAGE 101

As of 31 December 2014, deferred tax assets on tax loss carryforwards in the amount of € 1.2 million were recognized as a result of positive business expectations at MorphoSys AG for financial years 2015 to 2019.

Deferred tax assets and liabilities are composed as follows.

in 000's €, as of December 31	DTA 2014	DTA 2013	DTL 2014	DTL 2013
Intangible Assets	0	0	1,829	2,049
Non-recognition of DTA on Intangible Assets	0	0	0	0
Property, Plant and Equipment	0	0	0	0
Land	0	0	0	0
Building	0	0	0	0
Other Equipment, Furnitures, Fixtures	0	43	0	0
Shares in Affiliated Companies	0	0	0	0
Inventories	0	0	0	0
Advanced Payments	0	0	0	0
Receivables and Other Assets	0	0	0	0
Treasury Stock	0	0	0	0
Prepaid Expenses and Deferred Charges	0	0	7	0
Short-term Securities Investments	54	260	37	100
Other Accrual/Provisions	533	428	0	0
Trade Accounts Payable	0	0	0	0
Convertible Bonds	0	0	0	0
Other Liabilities	0	0	0	0
Tax Losses	3,023	1,731	0	0
	3,610	**2,462**	**1,873**	**2,149**

As of 31 December 2014, deferred tax assets of € 3.6 million were offset against deferred tax liabilities of € 1.9 million (2013: deferred tax assets of € 2.5 million with deferred tax liabilities of € 2.1 million). The corresponding deferred tax assets and deferred tax liabilities concerned the same taxable entity and were imposed by the same tax authority.

As of 31 December 2014, there were temporary differences in connection with investments in subsidiaries (so-called outside basis differences) in the amount of € 0.3 million for which no deferred tax liabilities were recognized.

4.5 EARNINGS (LOSS)/CONSOLIDATED NET PROFIT PER SHARE

Basic earnings (loss) per share is computed by dividing the consolidated net loss of financial year 2014 in the amount of € 3,012,629 (2013: consolidated net profit of € 13,321,930) by the weighted average number of ordinary shares outstanding during the respective years (2014: 25,903,995; 2013: 24,504,031).

The weighted average number of ordinary shares is calculated as follows.

	2014	2013
SHARES ISSUED ON JANUARY, 1	**26,220,882**	**23,358,228**
Effect of Treasury Shares Held	(339,890)	(255,415)
Effect of Repurchase of Treasury Stock	(88,492)	(56,458)
Effect of Share Issuance	0	1,242,621
Effect of Shares Issued in January	0	0
Effect of Shares Issued in February	0	0
Effect of Shares Issued in March	0	0
Effect of Shares Issued in April	58,746	0
Effect of Shares Issued in May	2,198	0
Effect of Shares Issued in June	37,063	21,567
Effect of Shares Issued in July	0	170,075
Effect of Shares Issued in August	2,122	9,502
Effect of Shares Issued in September	4,030	1,492
Effect of Shares Issued in October	1,781	1,884
Effect of Shares Issued in November	4,936	9,662
Effect of Shares Issued in December	619	873
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**25,903,995**	**24,504,031**

Diluted earnings (loss) per share is calculated by taking into account the potential increase in the Group's ordinary shares as the result of granted stock options and convertible bonds.

The following table shows the reconciliation of basic earnings per share to diluted earnings per share (in €, except for disclosure per share).

	2014	2013
Numerator		
Profit for the Year from Continuing Operations	(3,012,629)	7,370,820
Profit/(Loss) for the Year from Discontinued Operations	0	5,951,110
Consolidated Net (Loss)/Profit	(3,012,629)	13,321,930
Denominator		
Weighted-average Shares Used for Basic EPS	25,903,995	24,504,031
Dilutive Shares Arising from Convertible Bonds	286,319	259,063
TOTAL DENOMINATOR	**26,190,314**	**24,763,094**
Earnings per Share (in €)		
Basic	(0.12)	0.54
thereof from Continuing Operations	(0.12)	0.30
thereof from Discontinued Operations	0.00	0.24
Diluted	(0.12)	0.54
thereof from Continuing Operations	(0.12)	0.30
thereof from Discontinued Operations	0.00	0.24

5 Notes to the Assets of the Balance Sheet

5.1 CASH AND CASH EQUIVALENTS

in 000' €	12/31/2014	12/31/2013
Bank Balances and Cash in Hand	32,238	71,874
Term Deposits	573	964
Restricted Cash	(573)	(964)
Cash and Cash Equivalents	32,238	71,874

The decline in cash and cash equivalents resulted mainly from the use of cash and cash equivalents for operating activities and for the transaction with Emergent.

Restricted cash in the amount of € 0.6 million mainly consisted of rent deposits (2013: € 1.0 million).

5.2 FINANCIAL ASSETS/SECURITIES

As of 31 December 2014 and 2013, available-for-sale financial assets are comprised as follows.

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
31 DECEMBER 2014					
Money Market Funds	daily	105,961	142	64	106,039
Restricted Cash					0
TOTAL					**106,039**
31 DECEMBER 2013					
Money Market Funds	daily	188,305	378	0	188,683
Restricted Cash					(323)
TOTAL					**188,360**

The Group's gross unrealized gain from available-for-sale money market funds in the amount of € 141,640 and the gross unrealized loss of € 64,291 as of 31 December 2014 and the gross unrealized gain of € 377,872 as of 31 December 2013 were recorded as a separate item within equity (revaluation reserve). In 2014, the Group recorded a net gain in the amount of € 710,518 from the disposal of financial assets in the income statement. This gain was previously recognized in stockholders' equity (2013: € 520,730). Restricted cash in the amount of € 0.3 million as of 31 December 2013 consisted of rent deposits.

As of 31 December 2014 and 2013, bonds available-for-sale comprised as follows.

			Gross Unrealized		
in 000' €	Maturity	Cost	Gains	Losses	Market Value
31 DECEMBER 2014					
Bonds	daily	7,572	0	84	7,488
TOTAL					**7,488**
31 DECEMBER 2013					
Bonds	daily	11,139	5	42	11,102
TOTAL					**11,102**

The Group's gross unrealized loss from available-for-sale bonds in the amount of € 83,650 as of 31 December 2014 as well as the gross unrealized loss of € 41,750 and the gross unrealized gain of € 5,095 as of 31 December 2013 were recognized as a separate item of equity (revaluation reserve). In 2014, the Group recorded a net gain in the amount of € 17,460 from the disposal of financial assets in the income statement that were previously recognized in stockholders' equity. In 2013, the Group did not report any gains or losses in the income statement from these financial assets since no assets were sold.

Further information on the accounting of financial assets is provided in item 2.8.1 of the Notes*.

*CROSS-REFERENCE TO PAGE 98

5.3 ACCOUNTS RECEIVABLE

All accounts receivable are non-interest bearing and generally have payment terms of between 30 and 45 days. As of 31 December 2014 and 2013, accounts receivable included unbilled receivables amounting to € 3,649,124 and € 1,597,498, respectively.

Based on the Management Board's estimate, no net loss for allowances for doubtful receivables was recognized in profit and loss in 2014 (2013: net loss of € 238,900). In 2013, this loss was attributed to the Partnered Discovery segment.

5.4 OTHER RECEIVABLES

As of 31 December 2014, the Company held current financial assets amounting to € 157.1 million (31 December 2013: € 119.3 million) and non-current financial assets in the amount of € 50.0 million (31 December 2013: € 0 million), which were assigned to the category "loans and receivables" in accordance with IAS 39 "Financial Instruments". These assets consisted mainly of time deposits with fixed or variable interest rates.

Interest income of € 914,140 (2013: € 273,207) was recognized in the finance result. The risks associated with these financial instruments mainly result from credit risks of banks. There was no indication for impairment in financial year 2014.

A portion of the € 4.7 million purchase price for the divested AbD Serotec business held in an escrow account was released during the third quarter of 2014.

Under the Group's hedging policy, highly probable cash flows and definite foreign-currency receivables, collectable within a twenty-four-month period, are tested as to whether they should be hedged. As of 2003, MorphoSys began using foreign currency options and forwards in order to hedge its foreign exchange risk against US dollar receivables. These derivatives are recorded at their fair values as "other receivables".

As of 31 December 2014, there were 24 unsettled forward rate agreements with terms ranging from one to 24 months. The resulting unrealized gain of € 44,506 as of 31 December 2014 was recorded in the finance result. As of 31 December 2013, no unsettled forward rate agreements or option contracts were outstanding. At the beginning of the year, the Group entered into four option contracts that reached maturity during financial year 2014. A realized loss of € 0.01 million (2013: loss of € 0.02 million) was recorded in finance expenses.

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

As of 31 December 2014, prepaid expenses mainly consisted of prepaid fees for external laboratory services of € 0.5 million (31 December 2013: € 2.7 million), prepaid fees for sublicenses of € 0.2 million (31 December 2013: € 0.1 million), and other prepayments amounting to € 0.5 million (31 December 2013: € 0.4 million).

As of 31 December 2014, tax receivables amounted to € 2.8 million (31 December 2013: € 1.5 million) consisting of receivables due from tax authorities for value-added taxes payable in the amount of € 1.7 million (31 December 2013: € 1.4 million) and receivables in the context of capital gain taxes withheld and taxes for prior years in the amount of € 1.1 million (31 December 2013: € 0.1 million).

Inventories amounting to € 0.6 million as of 31 December 2014 were stored at the Martinsried location and consisted of raw materials and supplies. As of the reporting date, there were no inventories carried at fair value less selling costs.

Inventories amounting to € 0.7 million as of 31 December 2013 were stored at the Martinsried location. As of 31 December 2013, inventories consisted of raw materials and supplies of € 0.5 million and work in progress of € 0.2 million.

5.6 PROPERTY, PLANT, AND EQUIPMENT

in 000' €	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost			
1 JANUARY 2014	**12,161**	**1,867**	**14,028**
Additions	2,864	35	2,899
Disposals	(1,062)	(137)	(1,199)
31 DECEMBER 2014	**13,963**	**1,765**	**15,728**
Accumulated Depreciation			
1 JANUARY 2014	**10,173**	**1,687**	**11,860**
Depreciation Charge for the Year	1,386	60	1,446
Write-offs for the Year	57	0	57
Disposals	(1,056)	(137)	(1,193)
31 DECEMBER 2014	**10,560**	**1,610**	**12,170**
Carrying Amount			
1 JANUARY 2014	**1,988**	**180**	**2,168**
31 DECEMBER 2014	**3,403**	**155**	**3,558**
Cost			
1 JANUARY 2013	**12,436**	**1,892**	**14,328**
Additions	1,004	39	1,043
Disposals	(1,279)	(64)	(1,343)
31 DECEMBER 2013	**12,161**	**1,867**	**14,028**
Accumulated Depreciation			
1 JANUARY 2013	**9,485**	**1,651**	**11,136**
Depreciation Charge for the Year	1,435	84	1,519
Write-offs for the Year	522	16	538
Disposals	(1,269)	(64)	(1,333)
31 DECEMBER 2013	**10,173**	**1,687**	**11,860**
Carrying Amount			
1 JANUARY 2013	**2,951**	**241**	**3,192**
31 DECEMBER 2013	**1,988**	**180**	**2,168**

In financial year 2014, impairment of property, plant, and equipment amounted to € 0.1 million (2013: € 0.5 million) and mainly related to laboratory equipment in the Partnered Discovery segment. The impairment was caused by the fact that there was no longer an economic benefit expected from these assets.

No borrowing costs were capitalized during the reporting period. There were neither restrictions on retention of title nor property, plant and equipment pledged as security for liabilities. There were no material contractual commitments for the purchase of property, plant, and equipment as of the reporting date.

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

in 000' €	2014	2013
Research and Development	1,208	1,155
Research and Development (Write-off)	57	538
General and Administrative	238	364
Total from Continuing Operations	1,503	2,057
Profit/(Loss) for the Year from Discontinued Operations	0	13
TOTAL	**1,503**	**2,070**

5.7 INTANGIBLE ASSETS

in 000' €	Patents	License Rights	In-Licensed Research Programs	Software	Goodwill	Total
Cost						
1 JANUARY 2014	**15,470**	**25,001**	**12,808**	**4,376**	**7,352**	**65,007**
Additions	273	815	15,446	1,045	0	17,579
Disposals	0	(3,920)	0	(241)	0	(4,161)
31 DECEMBER 2014	**15,743**	**21,896**	**28,254**	**5,180**	**7,352**	**78,425**
Accumulated Depreciation						
1 JANUARY 2014	**7,635**	**19,604**	**0**	**2,619**	**0**	**29,858**
Depreciation Charge for the Year	1,120	824	0	744	0	2,688
Write-offs for the Year	0	4,045	0	16	0	4,061
Disposals	0	(3,920)	0	(241)	0	(4,161)
31 DECEMBER 2014	**8,755**	**20,553**	**0**	**3,138**	**0**	**32,446**
Carrying Amount						
1 JANUARY 2014	**7,835**	**5,397**	**12,808**	**1,757**	**7,352**	**35,149**
31 DECEMBER 2014	**6,988**	**1,343**	**28,254**	**2,042**	**7,352**	**45,979**
Cost						
1 JANUARY 2013	**14,902**	**24,410**	**10,513**	**3,350**	**7,352**	**60,527**
Additions	568	591	2,295	1,061	0	4,515
Disposals	0	0	0	(35)	0	(35)
31 DECEMBER 2013	**15,470**	**25,001**	**12,808**	**4,376**	**7,352**	**65,007**
Accumulated Depreciation						
1 JANUARY 2013	**6,236**	**17,281**	**0**	**1,999**	**0**	**25,516**
Depreciation Charge for the Year	1,075	1,576	0	640	0	3,291
Write-offs for the Year	324	747	0	15	0	1,086
Disposals	0	0	0	(35)	0	(35)
31 DECEMBER 2013	**7,635**	**19,604**	**0**	**2,619**	**0**	**29,858**
Carrying Amount						
1 JANUARY 2013	**8,666**	**7,129**	**10,513**	**1,351**	**7,352**	**35,011**
31 DECEMBER 2013	**7,835**	**5,397**	**12,808**	**1,757**	**7,352**	**35,149**

In financial year 2014, impairments on patents and licenses totaled € 4.1 million (2013: € 1.1 million). Of this amount, € 2.1 million was recognized in the Proprietary Development segment (2013: € 1.1 million) and € 2.0 million in the Partnered Discovery segment (2013: € 0). These impairments were incurred because these assets were no longer expected to generate an economic benefit.

As of 31 December 2014, in-licensed research programs were subject to an impairment test as required by IAS 36. This test did not reveal any impairment.

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

in 000' €	2014	2013
Research and Development	2,562	3,068
Research and Development (Write-off)	4,058	760
General and Administrative	126	223
General and Administrative (Write-Off)	3	326
Total from Continuing Operations	6,749	4,377
Profit/(Loss) for the Year from Discontinued Operations	0	12
TOTAL	**6,749**	**4,389**

5.7.1 PATENTS

In financial year 2014, the carrying amount of patents declined by € 0.8 million from € 7.8 million to € 7.0 million. This was the result of additions amounting to € 0.3 million for patent applications, particularly for proprietary programs and technologies, which were offset by straight-line amortization of € 1.1 million.

5.7.2 LICENSES

The carrying amount of licenses declined by € 4.1 million from € 5.4 million to € 1.3 million in 2014. Additions during the financial year concerned one-time payments totaling € 0.8 million for access to target molecules as well as technologies. Amortization and impairment amounted to € 0.8 million and € 4.1 million, respectively.

5.7.3 IN-LICENSED RESEARCH PROGRAMS

The carrying amount of in-licensed research programs increased from € 12.8 million to € 28.3 million in 2014. This increase was primarily the result of the in-licensing of a research program from Emergent in the form of an upfront payment of US$ 20 million. The in-licensed compounds, which were reported at acquisition cost, are currently not available for use and were therefore not yet amortized.

5.7.4 SOFTWARE

In financial year 2014, additions to this line item totaled € 1.0 million. The carrying amount increased by € 0.2 million from € 1.8 million in 2013 to € 2.0 million in 2014. Additions were offset by amortization in the amount of € 0.8 million and minor software disposals.

5.7.5 GOODWILL

On 30 September 2014, goodwill in the amount of € 7.4 million from the acquisition of Sloning BioTechnology GmbH in the year 2010 was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit of the team for technology development within the Partnered Discovery segment has been determined on the basis of value in use calculations; the value-in-use was higher than the carrying amount of the cash generating unit. A detailed sensitivity analysis was also performed. The cash flow forecasts are based on a period of ten years since the Management Board believes that commercialisation by means of licensing agreements, upfront payments, milestone payments, funded research, and royalties will fully pay off in the medium to longer term. For this reason, a planning horizon of ten years is considered appropriate for the value-in-use calculation. Cash flow forecasts are mainly based on the central assumption that the currently developed technology will prove to be very beneficial for new and existing customers and will lead to a number of new agreements. The values of the underlying key assumptions were determined using both internal (past experience) and external sources of information (market information). On the basis of the updated cash flow forecast for the next ten years, the value in use was determined as follows: A beta factor of 1.2 (2013: 1.3), WACC of 11.5 % (2013: 15.2 %), as well as a perpetual growth rate of 1 %. The fair value assumptions correlate to the Management Board's forecasts in term of future development and are based on internal planning scenarios as well as external sources of information.

5.8 SHARES, AVAILABLE-FOR-SALE

Shares available-for-sale comprise the 19.98 % share in Dutch Lanthio Pharma B.V. The investment increased in financial year 2013 due to a contribution in the amount of € 0.8 million to a total of € 1.7 million and remained unchanged in 2014.

5.9 PREPAID EXPENSES AND OTHER ASSETS

This line item included the non-current portion of prepaid expenses and other assets. The Group has classified certain line items in other assets as "restricted cash" which are not available for use in the Group's operations (see items 2.8.1, 5.1, and 5.2 of the Notes*). As of 31 December 2014 and 2013, the Group's restricted cash amounted to € 0.6 million and € 1.3 million, respectively. This included issued rent guarantees as well as convertible bonds granted to employees in the amount of € 251,679 and € 298,606, respectively.

*CROSS-REFERENCE TO PAGE 98 AND PAGE 107–108

This line item is composed as follows.

in 000' €	12/31/2014	12/31/2013
Prepaid Expenses, Net of Current Portion	183	51
Other Current Assets	868	1,681
TOTAL	**1,051**	**1,732**

6 Notes to Equity and Liabilities of the Balance Sheet

6.1 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts payable are listed in the following table.

in 000' €	12/31/2014	12/31/2013
Trade Accounts Payable	569	1,078
Licenses Payable	89	120
Accrued Expenses	16,101	15,076
Other Liabilities	1,072	916
TOTAL	**17,831**	**17,190**

Accrued expenses mainly included accrued personnel expenses for payments to employees and the management amounting to € 3.1 million (31 December 2013: € 5.6 million), provisions for outstanding invoices in the amount of € 2.0 million (31 December 2013: € 1.8 million), external laboratory services in the amount of € 10.5 million (31 December 2013: € 6.8 mil-

lion), license payments in the amount of € 0.4 million (31 December 2013: € 0.5 million), audit fees and other audit-related costs in the amount of € 0.1 million (31 December 2013: € 0.1 million), and insignificant amounts for legal advice (31 December 2013: € 0.3 million).

At the Company's Annual General Meeting in May 2014, the Supervisory Board was given authorization to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC AG), Munich, as the auditor.

In financial year 2014, PwC AG received compensation from MorphoSys in the amount of € 265,483, including audit fees in the amount of € 175,900, fees for other audit-related and valuation services of € 52,300, fees for tax services in the amount of € 5,855 as well as fees for other services in the amount of € 31,428.

6.2 PROVISIONS AND TAX LIABILITIES

As of 31 December 2014, the Group recorded provisions and tax liabilities in the amount of € 0.8 million (2013: € 3.6 million for the entire Group).

Tax liabilities mainly comprised income tax expenses. As of 31 December 2014, provisions and tax liabilities were uncertain in terms of their amount and are expected to be utilized in 2015.

The provisions and tax liabilities developed as follows in financial year 2014.

in 000' €	01/01/2014	Additions	Utilized	Released	12/31/2014
Taxes	2,690	375	2,259	29	777
Other Obligations	897	379	999	214	63
TOTAL	**3,587**	**754**	**3,258**	**243**	**840**

6.3 DEFERRED REVENUES

Deferred revenues relate to payments received from customers for which the services have not been rendered. This line item developed as follows.

in 000' €	2014	2013
OPENING BALANCE	**74,435**	**6,543**
Prepayments Received in the Fiscal Year	17,863	91,860
Revenue Recognised through Release of Prepayments in line with Services Performed in the Fiscal Year	(33,546)	(23,968)
CLOSING BALANCE	**58,752**	**74,435**
thereof short-term	14,075	15,267
thereof long-term	44,677	59,168

6.4 STOCKHOLDERS' EQUITY

6.4.1 COMMON STOCK

On 31 December 2014 the Company had common stock amounting to € 26,456,834, including treasury stock, which represents an increase of € 235,952 in comparison to the level of € 26,220,882 on 31 December 2013. Each no-par value share is entitled to one vote. Common stock increased by € 235,952 or 235,952 shares as a result of the exercise of 235,952 convertible bonds granted to the Management Board and the Senior Management Group. The weighted average exercise price per exercised convertible bonds amounted to € 16.79.

As of 31 December 2014, the Company held 450,890 shares in treasury stock in the amount of € 14,251,962, which corresponds to an increase of € 7,833,944 compared to 31 December 2013 (339,890 shares, € 6,418,018). This increase was the result of the repurchase of 111,000 own stocks on the stock exchange. The treasury stock may be used for all purposes named in the authorization of the Annual General Meetings on 19 May 2011 as well as on 23 May 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed.

6.4.2 AUTHORIZED CAPITAL

Compared to 31 December 2013, the number of authorized ordinary shares increased from 2,335,822 to 4,957,910. This resulted from the creation of the new Authorized Capital 2014-I at the Annual General Meeting on 23 May 2014. With the Supervisory Board's consent, the Management Board is authorized to increase the Company's common stock on one or more occasions by up to € 2,622,088 by issuing up to 2,622,088 new, no-par value bearer shares up to and including the date of 30 April 2019.

6.4.3 CONDITIONAL CAPITAL

The number of ordinary shares of conditional capital decreased to 7,166,848 compared to 8,057,470 on 31 December 2013. At the Annual General Meeting on 23 May 2014, the Conditional Capital 1999-I in the amount of € 70,329 and the Conditional Capital 2008/II in the amount of € 212,077 were cancelled. Conditional Capital 2003-II was reduced by € 372,264 from € 725,064 to € 352,800. A further reduction of Conditional Capital 2003-II of € 235,952 to a total of € 116,848 resulted from the exercise of 235,952 conversion rights in 2014. The reduction of Conditional Capital through the exercise of 235,952 conversion rights was registered for entry in the commercial register in January 2015.

6.4.4 TREASURY STOCK

In the years 2013 and 2014, the Group repurchased own shares. Composition and development of this line item can be found 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

The average stock price at the time of the repurchases carried out in 2014 amounted to € 70.53 per share (2013: € 33.43 per share). Treasury stocks are recognized at acquisition cost.

6.4.5 ADDITIONAL PAID-IN CAPITAL

On 31 December 2013, additional paid-in capital amounted to € 318,375,720 (31 December 2013: € 310,963,651). The total increase of € 7,412,069 resulted from the exercise of convertible bonds granted totaling € 3,725,682. Furthermore, additional paid-in capital increased by € 3,686,387 from personnel expenses resulting from share-based payments.

In 2013, additional paid-in capital increased by € 135,718,385. The capital increase in September 2013 and the agreement with Celgene resulted in a total increase of € 124,369,723. In addition, the exercise of stock options and personnel expenses resulting from share-based payments resulted in an increase of € 6,606,570 and € 4,742,092, respectively.

IFRS 2 "Share-based Payment" requires the consideration of the effects of share-based payments if the Group acquires goods or services in exchange for stocks or stock options ("settlement in equity instruments") or other assets that represent the value of a specific number of stocks or stock options ("cash settlement"). The key impact of IFRS 2 on the Group arises from the expense of using an option pricing model in connection with share-based incentives for employees and the Management Board. Further information may be found under items 7.1, 7.2 and 7.3 of the Notes*.

*CROSS-REFERENCE TO PAGE 115–116

6.4.6 REVALUATION RESERVE

On 31 December 2014, the revaluation reserve amounted to € -4.642 (31 December 2013: € 240,381). The reduction amounting to a total of € 245,023 arose from a change in the unrealized gain on available-for-sale securities and bonds of € 347,517, which was partly offset by the effects from the equity-related recognition of deferred taxes in the amount of € 102,494.

6.4.7 TRANSLATION RESERVE

The translation reserve increased by € 101,290 from € 192,556 on 31 December 2013 to € 293,846 on 31 December 2014. This item included exchange rate differences arising from the revaluation of Group company financial statements of prepared in foreign currencies as well as differences between the exchange rates used in the balance sheet and the income statement.

6.4.8 ACCUMULATED INCOME

The consolidated net loss amounting to € 3,012,629 is reported in accumulated income. Thus, accumulated income declined from € 20,945,968 in 2013 to € 17,933,339 in 2014.

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

7.1 CONVERTIBLE BONDS

7.1.1 2010 PROGRAM

On 1 April 2010, 352,800 convertible bonds were granted to members of the Management Board and members of the Senior Management Group. The exercise price of the convertible bonds was € 16.79 and equaled the Company's share price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds. Each convertible bond having a par value of € 0.33 entitles the conversion into one no-par value bearer share of the Group against payment of the exercise price. The beneficiaries may only exercise their conversion rights following a vesting period of four years beginning after the grant date. Exercise of the conversion rights is only possible if, on one trading day during the lifetime of the convertible bond, the share price reached at least 110% of the exercise price as of the grant date. After 31 December 2015, these convertible bonds can no longer be exercised. If the conversion rights are not exercised, the beneficiaries receive a reimbursement of the amount paid to acquire the conversion rights (€ 0.33 per convertible bond/share). Convertible bonds are recorded at their accreted value, which closely approximates to the principal amount on their due date.

In financial year 2014, a total of 235,952 convertible bonds were exercised at a weighted-average share price of € 69.69.

7.1.2 2013 PROGRAM

On 1 April 2013, MorphoSys AG granted the Management Board and members of the Senior Management Group convertible bonds with a total nominal value of € 225,000 and divided into 449,999 bearer bonds with equal rights from "Conditional Capital 2008-III". The beneficiaries have the right to convert the bonds received into shares of the Company. Each convertible bond may be exchanged for one of the Company's bearer shares equal to the proportional amount of common stock, which currently stands at € 1. The 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 which 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 issuance of the convertible bonds. The exercise of the conversion rights is admissible if, on at least one trading day during the lifetime of the convertible bonds, the share price of the Company has amounted to more than 120% of the price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issuance of the convertible bonds.

The exercise of the conversion rights is only admissible after the expiration of a four-year vesting period from the grant date. In the event of a change of control, the vesting period will be shortened to two years from the grant date. For every year without a notice of termination of the employment relationship with the Company or an affiliated company, 25% of the conversion rights will become vested. In the event of a change of control, all unvested conversion rights become vested.

If an employment or service contract of a beneficiary is terminated without notice, no further conversion rights can be vested in line with the above mentioned vesting scheme. Thus, upon rendition of the notice, all conversion rights still unvested by this time will expire without substitution. In the event of a contractual notice of termination of such employment or service contract with the beneficiary, or a mutually agreed dissolution contract, the previous sentence applies and becomes effective as of the date of termination of the employment or service contract.

The following table shows the development of the convertible bond plans for employees of the Group in financial years 2014 and 2013.

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON 1 JANUARY 2013	**320,550**	**16.79**
Granted	449,999	31.88
Exercised	0	0.00
Forfeited	(3,750)	16.79
Expired	0	0.00
OUTSTANDING ON 31 DECEMBER 2013	**766,799**	**25.65**
OUTSTANDING ON 1 JANUARY 2014	**766,799**	**25.65**
Granted	0	0.00
Exercised	(235,952)	16.79
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON 31 DECEMBER 2014	**530,847**	**29.58**

On 31 December 2014, the number of vested convertible bonds totaled 193,348 shares (31 December 2013: zero 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 31 December 2014.

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-average Exercise Price (€)	Number Exercisable	Weighted-average Exercise Price (€)
€ 10.00 – € 25.00	80,848	1.00	16.79	80,848	16.79
€ 25.01 – € 40.00	449,999	5.25	31.88	112,500	31.88
	530,847	**4.60**	**29.58**	**193,348**	**29.58**

The Group recognizes personnel expenses resulting from convertible bonds in accordance with IFRS 2 and IAS 32.28. The equity component of the convertible bonds is presented separately in additional paid-in capital. The corresponding amount is recognized as personnel expenses from convertible bonds. In 2014 and 2013, compensation expenses related to convertible bonds amounted to € 1,609,086 and € 1,997,414, respectively.

7.2 STOCK APPRECIATION RIGHTS

On 1 October 2010, employees of MorphoSys AG were granted 15,000 stock appreciation rights at the same conditions as the convertible bonds granted on 1 April 2010. Compensation expenses amounted to € 272.953 in 2014 (2013: € 449.420). In financial year 2014, all stock appreciation rights were exercised at an average share price of € 74.44.

7.3 LONG-TERM INCENTIVE PROGRAMS

The total decline in recognized personnel expenses from share-based payments resulted from the modification carried out in financial year 2013 for the 2011 and 2012 LTI programs. For the 2011 LTI program, vesting periods were modified so that the beneficiaries' claims would become vested at a rate of one quarter per year. However, in the case of the 2012 LTI program, claims become vested on a pro-rata basis. With this modification, changes in the interpretation and development of labor law were taken into account. As a result of the adaptation, personnel expenses are accounted for comparatively earlier within the four-year period, resulting in a decrease of personnel expenses in 2014 compared to the previous year.

7.3.1 2011 LONG-TERM INCENTIVE PROGRAM

On 1 June 2011, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS, 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 of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are assessed and approved annually by the Supervisory Board. These key performance criteria presently consist of revenues, EBIT, and the number of projects in the R&D portfolio.

The grant date was 1 June 2011 and the vesting period is four years. A total of 25% of the performance shares will become vested in each year of the four-year vesting period, provided that the performance criteria set for the respective period were met by 100%. The annual number of vested shares shall be reduced to the extent that the performance criteria of the relevant year were fulfilled only between 50% and 99%, and increased to the extent that the performance criteria were achieved by more than 100% (maximum 110%). In consideration of these conditions, the ordinary shares of MorphoSys AG will be delivered to the beneficiaries after the four-year vesting period. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group which generally amounts to "1". The Supervisory Board may deviate from this factor, for example, if the level of payments is considered to be inappropriate given the general development of the Group.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office at MorphoSys Group prematurely before expiration of the four year performance period, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis. If a member of the Management Board ceases to hold an office within MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) prematurely before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the course of the four-year vesting period, all performance shares are considered fully vested. In every above named case, the allocation of the performance shares only occurs at the end of the four-year vesting period.

In June 2011, MorphoSys repurchased 84,019 of its own shares on the stock exchange at an average price of € 20.79 per share for the 2011 LTI plan. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meetings on 19 May 2011 as well as on 23 May 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. However, they may also be redeemed. These 84,019 shares were granted to the beneficiaries retroactively on 1 June 2011. This included 53,997 shares for the Management Board (for further information please see the table titled "Performance Shares" in item 7.4* "Directors' Dealings") and 30,022 shares for the Senior Management Group. The fair value of the performance shares was € 21.34 per share on the grant date (1 June 2011). No dividends were considered in the determination of the fair value of the repurchased shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2014, three beneficiaries have left MorphoSys and, therefore, 5,216 performance shares were forfeited.

*CROSS-REFERENCE TO PAGE 119

In 2014, personnel expenses resulting from stock options under the Group's 2011 LTI plan amounted to € 172,311 (2013: € 778,124).

7.3.2 2012 LONG-TERM INCENTIVE PROGRAM

On 1 April 2012, MorphoSys established a second long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are approved annually by the Supervisory Board.

The grant date was 1 April 2012 and the vesting period is four years. One fourth of the performance shares will become vested in each year of the four-year vesting period, provided that the performance criteria set for the respective period were met in full. The annual number of vested shares shall be reduced to the extent that the performance criteria of the relevant year have been fulfilled only between 50% and 99%, and increased to the extent that the performance criteria were met by more than 100% (maximum 200%). If in one year the specified performance criteria are achieved by less than 50%, no shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group which generally amounts to "1". However, in justified cases, the Supervisory Board may set this factor freely between "0" and "2", for example, if the level of payment seems unreasonable with regard to the general development of the Company. The right to receive a certain allocation of shares under the LTI plan, however, only occurs at the end of the four-year vesting period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office within MorphoSys Group prematurely before expiration of the four year performance period, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis. If a member of the Management Board ceases to hold an office within MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) prematurely before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the course of the four-year vesting period, all performance shares are considered fully vested. In every above named case, the right to receive a certain allocation of shares under the LTI plan only occurs at the end of the four-year vesting period.

In April 2012, MorphoSys repurchased 91,500 of its own shares on the stock exchange at an average price of € 20.08 per share for the 2012 LTI plan. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meetings on 19 May 2011 as well as on 23 May 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. However, they may also be redeemed. These 91,500 shares were granted to the beneficiaries retroactively on 1 April 2012. These included 57,967 shares for the Management Board (for further information please see the table titled "Performance Shares" in item 7.4* "Directors' Dealings") and 33,533 shares for the Senior Management Group. The fair value of the performance shares was € 19.24 per share on the grant date (1 April 2012). No dividends were considered in the determination of the fair value of the repurchased shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2014, two beneficiaries have left MorphoSys and thus 4,051 performance shares were forfeited.

*CROSS-REFERENCE TO PAGE 119

On 1 October 2012, MorphoSys established a further long-term incentive plan (LTI plan) for members of the Senior Management Group. The terms of the plan were identical to the program of 1 April 2012. A total of 2,292 shares were granted. The fair value was € 24.00 per share on the grant date.

In 2014, personnel expenses resulting from stock options under the Group's 2012 LTI plan amounted to € 293,904 (2013: € 974,997).

7.3.3 2013 LONG-TERM INCENTIVE PROGRAM

On 1 April 2013, MorphoSys established a further long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was 1 April 2013 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are met by 100%, 25% of the performance shares become vested in each year of the four-year vesting period. The number of shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have only been achieved between 50% and 99.9% (<100%) or that the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are achieved by less than 50%, "0" shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group which generally amounts to "1". However, in justified cases, the Supervisory Board may set this factor freely between "0" and "2", for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of shares under the LTI plan, however, only occurs at the end of the four-year vesting period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office within MorphoSys Group prematurely before expiration of the four year performance period, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis. If a member of the Management Board ceases to hold an office within MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) prematurely before expiration of the four-year performance period, the beneficiary will not be entitled to an allocation of performance shares. If a change of control occurs during the course of the four-year vesting period, all performance shares are considered fully vested. In every above named case, the right to receive a certain allocation of shares under the LTI plan only occurs at the end of the four-year vesting period.

In April and May 2013, MorphoSys repurchased 84,475 of its own shares on the stock exchange at an average price of € 33.43 per share. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meetings on 19 May 2011 as well as on 23 May 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. However, they may also be redeemed. Of these shares, 61,600 were granted to the beneficiaries retroactively effective 1 April 2013. This included 36,729 shares for the Management Board (for further information, please see the table titled "Performance Shares" in item 7.4* "Directors' Dealings") and 24,871 shares for the Senior Management Group. On the grant date (1 April 2013), the fair value of the performance shares was € 31.88 per share. No dividends were considered in the determination of the fair value of the repurchased shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2014, no beneficiary has left MorphoSys and no performance shares have been forfeited. For the calculation of the personnel expenses resulting from share-based payments under the 2013 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

*CROSS-REFERENCE TO PAGE 95 AND PAGE 119

On 1 October 2013, MorphoSys established a further long-term incentive plan (LTI plan) for members of the Senior Management Group. The terms of the plan were identical to the program of 1 April 2013. A total of 549 shares were granted and the fair value on the grant date was € 57.39 per share.

In 2014, personnel expenses resulting from stock options under the Group's 2013 LTI plan amounted to € 594,309 (2013: € 917,319).

7.3.4 2014 LONG-TERM INCENTIVE PROGRAM

On 1 April 2014, MorphoSys established a fourth long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and will be paid out in ordinary shares of MorphoSys AG if predefined key performance criteria have been achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was 1 April 2014 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are met by 100%, 25% of the performance shares become vested in each year of the four-year vesting period. The number of shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have only been achieved between 50% and 99.9% (<100%) or that the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, "0" shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group which generally amounts to "1". However, in justified cases, the Supervisory Board may set this factor freely between "0" and "2", for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of shares under the LTI plan, however, only occurs at the end of the four-year vesting period.

If the number of repurchased shares is not sufficient for servicing the LTI plan, MorphoSys reserves the right to pay a certain amount of the LTI plan in cash in the amount of the performance shares at the end of the vesting period, provided the cash amount does not exceed 200% of the fair value of the performance shares on the grant date.

If a member of the Management Board ceases to hold an office within the MorphoSys Group through termination (or if the member of the Management Board terminates the employment contract), resignation, death, injury, disability, or by reaching the retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met), or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or his/her heirs) is entitled to performance shares determined on a precise daily pro-rata basis.

If a member of the Management Board ceases to hold an office within MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) and/or as defined by Sec. 84 Para. 3 of the German Stock Corporation Act (AktG), the beneficiary will not be entitled to an allocation of performance shares.

If a change of control occurs during the course of the four-year vesting period, all performance shares will become fully vested. In this case, the right to receive a certain allocation of shares under the LTI plan only occurs at the end of the four-year vesting period.

In March 2014, MorphoSys repurchased 111,000 of its own shares on the stock exchange at an average price of € 70.53 per share. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meetings on 19 May 2011 as well as on 23 May 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. However, they may also be redeemed. A total of 32,513 of these shares were granted to beneficiaries on 1 April 2014: 18,264 were granted to the Management Board (further details may be found in the table titled "Performance Shares" in item 7.4* "Directors' Dealings") and 14,249 shares were granted to the Senior Management Group. The fair value of the performance shares as of the grant date (1 April 2014) was € 67.30 per share. This was equivalent to the share price on the Frankfurt Stock Exchange (Xetra) on the trading day preceding the grant date. No dividends were considered in the determination of the fair value of the repurchased shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until 31 December 2014, no beneficiary has left MorphoSys and no performance shares have been forfeited. For the calculation of the personnel expenses resulting from share-based payments under the 2014 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

*CROSS-REFERENCE TO PAGE 95 AND PAGE 119

In 2014, personnel expenses resulting from stock options under the Group's 2014 LTI plan amounted to € 1,016,776.

7.4 RELATED PARTIES

Related parties that can be influenced by the Group or that can have a significant influence on the Group, can be divided into subsidiaries, members of management in key positions, and other related entities.

The Group engages in business relationships with members of the Management Board and the Supervisory Board as related parties who are 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, 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 financial year 2014.

SHARES

	01/01/2014	Additions	Forfeitures	Sales	12/31/2014
MANAGEMENT BOARD					
Dr. Simon Moroney	452,885	40,000	0	40,000	452,885
Jens Holstein	6,500	0	0	4,500	2,000
Dr. Arndt Schottelius	2,000	33,000	0	33,000	2,000
Dr. Marlies Sproll	27,370	1,250	0	0	28,620
TOTAL	**488,755**	**74,250**	**0**	**77,500**	**485,505**
SUPERVISORY BOARD					
Dr. Gerald Möller	9,000	0	0	0	9,000
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Marc Cluzel	0	500	0	0	500
Karin Eastham	1,000	0	0	0	1,000
Dr. Geoffrey Vernon	0	0	0	0	0
TOTAL	**12,019**	**500**	**0**	**0**	**12,519**

CONVERTIBLE BONDS

	01/01/2014	Additions	Forfeitures	Exercises	12/31/2014
MANAGEMENT BOARD					
Dr. Simon Moroney	147,186	0	0	40,000	107,186
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius	93,537	0	0	33,000	60,537
Dr. Marlies Sproll	93,537	0	0	0	93,537
TOTAL	**424,797**	**0**	**0**	**73,000**	**351,797**

PERFORMANCE SHARES

	01/01/2014	Additions	Forfeitures	Allocations	12/31/2014
MANAGEMENT BOARD					
Dr. Simon Moroney	48,676	5,979	0	0	54,655
Jens Holstein	33,339	4,095	0	0	37,434
Dr. Arndt Schottelius	33,339	4,095	0	0	37,434
Dr. Marlies Sproll	33,339	4,095	0	0	37,434
TOTAL	**148,693**	**18,264**	**0**	**0**	**166,957**

MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2014 AND 2013 (IAS 24):

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
	2013	2014	2013	2014
Fixed Compensation	412,049	426,502	279,531	289,335
Fringe Benefits	67,132	29,444	28,138	33,722
One-Year Variable Compensation	360,543	324,696	244,590	220,271
Total Short-Term Employee Benefits (IAS 24.17 (a))	839,724	780,642	552,259	543,328
Service Cost	112,221	125,730	78,177	86,866
Total Benefit Expenses - Post-Employment Benefits (IAS 24.17 (b))	112,221	125,730	78,177	86,866
Multi-Year Variable Compensation*:				
2009 Stock Option Plan (Vesting Period 4 Years)	5,704	0	0	0
2010 Convertible Bonds Program (Vesting Period 4 Years)	32,051	6,010	0	0
2013 Convertible Bonds Program (Vesting Period 4 Years)	363,903	310,530	372,759	318,087
2011 Long-Term Incentive Program (Vesting Period 4 Years)	173,250	40,060	118,666	27,439
2012 Long-Term Incentive Program (Vesting Period 4 Years)	201,177	62,218	137,793	42,615
2013 Long-Term Incentive Program (Vesting Period 4 Years)	177,749	113,270	121,746	77,583
2014 Long-Term Incentive Program (Vesting Period 4 Years)	0	186,964	0	128,057
Total Stock-Based Compensation (IAS 24.17 (e))	953,834	719,052	750,964	593,781
Total Compensation	1,905,779	1,625,424	1,381,400	1,223,975

* The fair value was determined pursuant to the regulations of IFRS 2 “Share-based Payments”. This table shows the pro rata share of personnel expenses resulting from stock based compensation for the respective financial year. Further details can be found in Sections 7.1 and 7.3.

The Supervisory Board of MorphoSys AG does not hold any convertible bonds and performance shares.

The remuneration of the Management Board consists of fixed and variable components as well as other remuneration components. Following the expiration of the relevant contract term, the service contracts of the Management Board members stipulate a non-competition clause for a period of six months. During this period, the Management Board member is entitled to compensation payments amounting to 100% of the pro rata fixed compensation.

In 2014, the total remuneration of the Supervisory Board, excluding reimbursement for travel costs, amounted to € 514,480 (2013: € 458,280).

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

	Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
	2013	2014	2013	2014	2013	2014
	279,531	289,335	279,531	289,335	1,250,642	1,294,507
	29,143	32,508	21,579	22,828	145,992	118,502
	244,590	215,208	244,590	210,144	1,094,313	970,319
	553,264	537,051	545,700	522,307	2,490,947	2,383,328
	78,294	86,653	78,170	86,628	346,862	385,877
	78,294	86,653	78,170	86,628	346,862	385,877
	6,337	0	2,577	0	14,618	0
	17,988	3,373	17,988	3,373	68,027	12,756
	249,243	212,687	249,243	212,687	1,235,148	1,053,991
	118,666	27,439	118,666	27,439	529,248	122,377
	137,793	42,615	137,793	42,615	614,556	190,063
	121,746	77,583	121,746	77,583	542,987	346,019
	0	128,057	0	128,057	0	571,135
	651,773	491,754	648,013	491,754	3,004,584	2,296,341
	1,283,331	1,115,458	1,271,883	1,100,689	5,842,393	5,065,546

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2014 AND 2013:

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	2014	2013	2014	2013	2014	2013
Dr. Gerald Möller	97,400	94,400	38,000	32,000	135,400	126,400
Dr. Walter Blättler	46,160	43,160	25,200	17,000	71,360	60,160
Dr. Daniel Camus	46,160	43,160	23,200	19,500	69,360	62,660
Dr. Marc Cluzel	46,160	46,160	32,400	23,500	78,560	69,660
Karin Eastham	46,160	40,160	32,400	22,500	78,560	62,660
Dr. Geoffrey Vernon	57,240	57,240	24,000	19,500	81,240	76,740
TOTAL	**339,280**	**324,280**	**175,200**	**134,000**	**514,480**	**458,280**

In the years 2014 and 2013, there were no other long-term benefits in accordance with IAS 24.17 (c) or benefits upon termination of employment in accordance with IAS 24.17 (d) accruing to the Management Board or Supervisory Board.

There are presently no other agreements with current or former members of the Supervisory Board.

On 31 December 2014, the Senior Management Group held 169,050 convertible bonds (31 December 2013: 300,002 units), no stock appreciation rights (SARs) (31 December 2013: 15,000), and 91,807 performance shares (31 December 2013: 77,558), which were granted by the Company. In 2014, an additional long-term incentive program was granted to the Management Board and Senior Management Group. As part of this program, the Management Board and Senior Management Group were granted 18,264 and 14,249 performance shares, respectively. No stock options were exercised in 2014 (2013: 150,026 stock options). During the same period, 130,952 convertible bonds (2013: no convertible bonds) and 15,000 stock appreciation rights exercised (2013: no stock appreciation rights) were exercised. In 2014, there were no performance shares or convertible bonds forfeited because no beneficiaries had left MorphoSys.

8 Additional Notes

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

The Group leases facilities and equipment under long-term operating leases. In financial years 2014 and 2013, leasing expenses amounted to € 1,939,537 and € 1,795,316. Key leasing agreements mainly concerned leased buildings. The majority of these contracts can be renewed on a yearly or quarterly basis. Some of these agreements may be terminated prematurely.

Future minimum payments under non-terminable operating leases, insurance contracts, as well as other services are composed as follows.

in 000' €	Rent and Leasing 2014	Rent and Leasing 2013	Other 2014	Other 2013	Total 2014	Total 2013
Up to One Year	2,415	2,536	1,057	830	3,472	3,366
Between One and Five Years	3,142	2,690	5	27	3,147	2,717
More than Five Years	0	0	0	0	0	0
TOTAL	**5,557**	**5,226**	**1,062**	**857**	**6,619**	**6,083**

In financial years 2014 and 2013, total expenses for operating leases and insurance contracts as well as other services amounted to a total of € 3,556,243 and € 3,366,291, respectively.

In addition, the following future payments may become due from currently active, terminable contracts for outsourced studies. However, these amounts may be substantially lower due to the respective contractual clauses in the event of an early termination of the study.

in 000' €	Total 2014
Up to One Year	14,865
Between One and Five Years	53,056
More than Five Years	0
TOTAL	**67,921**

8.2 CONTINGENT ASSETS/CONTINGENT LIABILITIES

Contingent liabilities are potential obligations based on past events whose existence is confirmed only when one or more uncertain future events occur which are beyond the control of the Company. Current obligations may represent a contingent liability if there is not sufficient probability for an outflow of resources to justify the recognition of a provision. Moreover, it is not possible to make a sufficiently reliable estimate of the amount of the obligations.

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

If certain milestones are achieved in the Proprietary Development segment, such as the application for an investigational new drug (IND) with regard to specific target molecules, this may trigger milestone payments to licensors. However, no further details can be published since the timing and the achievement of such milestones are uncertain.

If a partner achieves certain milestones in the Partnered Discovery segment, such as the application for an investigational new drug (IND) with regard to specific target molecules, or the transfer of a technology, this may trigger milestone payments to MorphoSys. However, no further details can be published since the timing and the achievement of such milestones are uncertain.

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 financial year 2014 pursuant to Sec. 161 of the German Stock Corporation Act (AktG). This declaration was published on 5 December 2014 on the Group's website (www.morphosys.com) 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.

8.4.1 PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development segment, partnerships are directed towards the objectives of the Group's proprietary drug development programs in its core areas of oncology and inflammatory diseases. These partnerships include (in alphabetical order): Celgene, Emergent Biosolutions, Galapagos, GlaxoSmithKline, Merck Serono, Temple University, and Xencor.

In June 2013, MorphoSys and Celgene Corporation announced a global agreement on the joint development of the MOR202 cancer program and its co-promotion in Europe. MOR202 is a fully human monoclonal antibody aimed at the CD38 target molecule for the treatment of multiple myeloma and other blood cancers. In 2013, the compound was in a phase 1/2a clinical trial in patients with relapsed/refractory multiple myeloma. MorphoSys and Celgene are co-promoting the further development of MOR202 for the treatment of multiple myeloma and other indications and share the development costs in a ratio of 1/3 to 2/3. This agreement provided for an upfront payment to MorphoSys in the amount of € 70.8 million, and Celgene acquired additional shares in MorphoSys amounting to € 46.2 million. As part of this cooperation, MorphoSys may receive additional development-related and regulatory and revenue-related milestones as well as tiered, double-digit royalties on net sales outside of the co-promotion activities carried out in select European markets. MorphoSys will receive 50 % of the revenues from the co-promotion activities carried out in select European markets.

In August 2014, MorphoSys and Emergent BioSolutions Inc. announced an agreement to jointly develop and commercialize the compound MOR209/ES414. This compound is a bi-specific anti-PSMA/anti-CD3 antibody targeting prostate cancer, which was developed by Emergent based on its proprietary ADAPTIRTM platform (modular protein technology). Under this agreement, MorphoSys received the promotion rights worldwide, with the exception of the USA and Canada where Emergent will retain promotion rights. Emergent received an upfront payment of US$ 20 million and is eligible to receive potential milestone payments of up to US$ 163 million. The milestone payments are linked to specific events, including the development of MOR209/ES414 in several indications as well as the approval in various markets. MorphoSys and Emergent will co-develop MOR209/ES414, with MorphoSys assuming 64 % of the development costs and Emergent assuming 36 % of the costs. Emergent will manufacture and supply clinical material from its manufacturing facilities in Baltimore, Maryland/USA. Emergent will receive low single-digit royalties on product sales in MorphoSys's sales regions and MorphoSys will receive tiered royalties ranging from the mid single-digits up to 20 % on product sales in Emergent's sales regions.

In November 2008, MorphoSys and Galapagos announced the beginning of a long-term joint drug discovery and development cooperation. The goal of the cooperation is to explore novel mechanisms for the treatment of inflammatory diseases and to develop 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. Subsequent to the demonstration of clinical efficacy in humans, the programs will be out-licensed to partners for further development, approval, and commercialization. Both companies provided their core technologies and expertise within the scope of the alliance. Along with the use of its adenovirus-based platform for the exploration of new target molecules for the development of antibodies, Galapagos provided access to already identified target molecules that are associated with bone and joint diseases. MorphoSys provided access to its antibody technologies used for generating fully human antibodies directed against these target molecules. Under the terms of agreements, both Galapagos and MorphoSys bear the costs of research and development. In July 2014, the collaboration advanced into the preclinical development of MOR106, an antibody from MorphoSys' next-generation antibody library Ylanthia directed against a novel Galapagos target molecule. The antibody will be co-developed in the area of inflammatory diseases.

In June 2013, MorphoSys announced that it had entered into a global agreement with GlaxoSmithKline (GSK) to develop and commercialize MOR103. MOR103 is a proprietary HuCAL antibody from MorphoSys against the GM-CSF target molecule. Under the terms of the agreement, GSK assumes responsibility for the entire development and commercialization of MOR103. Under the agreement, MorphoSys received an immediate upfront payment of € 22.5 million. Depending on the achievement of certain developmental stages, as well as regulatory, commercial, and revenue-related milestones, MorphoSys is eligible to receive additional payments from GSK in the amount of up to € 423 million, as well as tiered double-digit royalties on net sales.

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 the agreement, both MorphoSys and Merck Serono, the biopharmaceutical division of Merck, aim to co-develop forms of therapies that are intended to prompt the immune system to attack tumors. MorphoSys will use its proprietary Ylanthia antibody library and other technology platforms to generate antibodies directed against the selected target molecules. Merck Serono is contributing its broad portfolio and expertise in the field of immuno-oncology and clinical development and will assume full project responsibility starting with phase 1 of clinical development.

In April 2014, MorphoSys agreed to a strategic partnership focused on the discovery of new therapeutic antibodies with the Moulder Center for Drug Discovery Research, a division of the School of Pharmacy at Temple University, USA. As part of the cooperation, the Moulder Center receives access to the Ylanthia technology from MorphoSys to validate new disease-related target molecules and to generate therapeutic antibodies directed against these molecules. MorphoSys receives an exclusive option to further develop each antibody resulting from the co-operation. The Moulder Center's department for new biotherapeutic drug discovery is involved with the design of compounds and the optimization of lead candidates in various disease areas including cancer, Alzheimer's disease, cardiovascular, metabolic and viral diseases.

In June 2010, MorphoSys AG and the US-based biopharmaceutical company, Xencor, signed an exclusive global licensing and cooperation agreement. Under this agreement, MorphoSys receives exclusive global licensing rights to the XmAb5574/MOR208 antibody for the treatment of cancer and other indications. The companies will jointly conduct a phase 1/2a trial in the US in patients with chronic lymphocytic leukemia. MorphoSys will be solely responsible for the further clinical development after the successful completion of the phase 1 clinical trial. Xencor received an upfront payment of US$ 13 million (about € 10.5 million) from MorphoSys, which was capitalized under in-licensed research programs. Xencor is entitled to development, regulatory, and commercially-related milestone payments as well as tiered royalties on product sales.

In November 2012, as the first activity under the Innovation Capital Initiative, MorphoSys announced a partnership with the privately-held biopharmaceutical company, Lanthio Pharma. The Dutch company specializes in the research and development of lanthipeptides. Lanthipeptides are an innovative class of therapeutic substances demonstrating high target molecule selectivity and improved compound properties. The LanthioPep technology of Lanthio Pharma is used to identify peptides that address the disease's specific point of attack and stabilize the peptides in the optimal conformation for binding them to this receptor. As part of their collaboration, MorphoSys and Lanthio Pharma jointly used their technologies to create high quality and diverse lanthipeptide libraries. In 2014, MorphoSys exercised its preferential rights to the exclusive in-licensing of the LanthioPep technology for compound discovery.

8.4.2 PARTNERED DISCOVERY SEGMENT

In its commercial partnerships in the Partnered Discovery segment, MorphoSys receives various types of payment which are spread over the term of the agreements or recognized in full as revenue when reaching a predefined target or milestone. These payments include upfront payments upon signature, annual license fees in exchange for access to MorphoSys's technologies, and payments for funded research to be performed by MorphoSys on behalf of the partner. In addition, MorphoSys is entitled to development-related milestone payments and royalties on product sales for specific antibody compound programs.

Prior to financial year 2014, active collaborations with a number of partners had already ended because the original term of the agreements had expired. However, drug development programs initiated in this active phase are designed so that they may continue at the partner's operations and thus result in performance-based payments for the achievement of the milestones defined. For more detailed information on individual drug candidates within the various alliances and limited to the information available to the public, please refer to the section of this annual report entitled the "Research and Development" and to the overview of the Group's drug pipeline. More detailed information on the Group's individual research alliances is available on the Group's website.

Partnerships in the Partnered Discovery segment which were dissolved before the beginning of 2014, but under which drug development programs were still being pursued, include (in alphabetical order): Astellas, Bayer HealthCare Pharmaceuticals, Boehringer Ingelheim, Daiichi-Sankyo, F. Hoffmann-La Roche, GPC Biotech, Immunogen, Janssen Biotech, Merck & Co., OncoMed Pharmaceuticals, Pfizer, Fibron Ltd. (transfer of the Prochon Biotech Ltd. agreement), and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships that were still active in 2014 include (in alphabetical order): ContraFect, GeneFrontier Corporation/Kaneka, Heptares, and Novartis. Of these partnerships, the collaboration with ContraFect was terminated in 2014.

Since October 2013, MorphoSys has been involved in arbitration proceedings with ContraFect Corp. in relation to the contract concluded between the two companies in 2011. The proceedings, initiated by MorphoSys, have since led to an agreement and the termination of the license agreement as per 15 August 2014. As part of the agreement, under which both parties' outstanding receivables and claims have been settled, ContraFect made a payment to MorphoSys in the amount of € 1 million. This payment was made in the third quarter of 2014.

In February 2013, MorphoSys concluded an alliance with British Heptares Therapeutics Ltd. This cooperation should pave the way for novel therapeutic antibodies against membrane-constant G protein coupled-receptors (GPCRs). GPCRs are crucial for a variety of biological processes and diseases. The agreement involves both of the Group's segments. Under the terms of the agreement, Heptares will develop stabilized receptors (StaRs) as antigens for a set of GPCR target molecules proposed by MorphoSys. MorphoSys will subsequently apply its Ylanthia antibody library to develop therapeutic antibody compounds against these target molecules. Two such projects are currently in the early development phase. MorphoSys has the right to sublicense third parties the access to these target molecules in conjunction with therapeutic antibody programs. Heptares will receive upfront and research funding payments and will participate in MorphoSys's future revenues from related license agreements. Additionally, Heptares has the option to develop a therapeutic antibody against a proprietary GPCR target molecule based on MorphoSys's Ylanthia library. In this context, MorphoSys may receive license fees, milestone payments, and royalties.

Currently, the Group's most extensive alliance is with Novartis AG. Both parties started working together in 2004, which has led to the creation of several ongoing therapeutic antibody programs against a number of diseases. In December 2007, MorphoSys and Novartis significantly expanded their previous relationship and forged one of the most comprehensive strategic alliances in the discovery and development of biopharmaceuticals. The contractually guaranteed annual payments for technology access, internalization charges and R&D services amount to more than € 400 million over the contractual term of ten years. The total amount of guaranteed payments and probability-weighted performance-based milestones, contingent upon the successful clinical development and regulatory approval of several products, could exceed the threshold of € 650 million at the full contractual term of the successful collaboration. In addition to these payments, MorphoSys is also entitled to royalties and/or profit sharing on any future product sales.

In November 2012, MorphoSys and Novartis entered into a cooperation agreement on the use of the new Ylanthia technology platform. This extension of the existing strategic cooperation represents the start of the commercialization of Ylanthia and should produce improved antibody candidates that can be developed faster than previously possible.

8.5 SUBSEQUENT EVENTS

Subsequent to the end of financial year 2014, there have not been any significant changes in the industry environment. Other events having a material impact on the net assets, financial position, and results of operations have also not occurred since the end of the financial year.

8.6 RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge and in accordance with the applicable reporting principles, that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and results of operations of the Group, and that the Group Management Report includes a fair review of the development of the business including the results and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Martinsried, 17 February 2015

Dr. Simon Moroney
Chief Executive Officer

Jens Holstein
Chief Financial Officer

Dr. Arndt Schottelius
Chief Development Officer

Dr. Marlies Sproll
Chief Scientific Officer

Auditor's Report

We have audited the consolidated financial statements prepared by MorphoSys AG, Martinsried, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the group management report for the business year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and supplementary provisions of the articles of incorporation are the responsibility of the Parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 18 February 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer
Wirtschaftsprüfer
(German Public Auditor)

Bodo Kleinschrod
Wirtschaftsprüfer
(German Public Auditor)

Glossary

A

ADCC – Antibody-dependent cell-mediated cytotoxicity; a mechanism of cell-mediated immunity whereby an effector cell of the immune system actively destroys a target cell that has been bound by specific antibodies

ADCP – Antibody-dependent cellular phagocytosis

ALL – Acute lymphoblastic leukemia; a form of cancer of the white blood cells characterized by excess lymphoblasts

Antibody – Proteins of the immune system that recognize antigens, thereby triggering an immune response

Antibody library – A collection of genes that encode corresponding human antibodies

Antigen – Foreign substance stimulating antibody production; binding partner of antibody

Autoimmune disease – Disease caused by an immune response by the body against one of its own tissues, cells or molecules

B

B-ALL – acute lymphoblastic B-cell leukemia, blood cancer affecting white blood cells, subform of **ALL**

Biosimilars – Term used to describe officially approved new versions of innovator biopharmaceutical products, following patent expiration

Bispecific – Antibody consisting of parts from two different antibodies

C

CAR-T technology – New therapeutic approach in which immune cells are reprogrammed

Cash flow – Key performance indicator in the cash flow statement used to assess the financial and earning capacity

CD3 – surface antigen on T cells

CD19 – Therapeutic target for the treatment of B-cell lymphomas and leukemias

CD20 – Therapeutic target for the treatment of B-cell lymphomas and leukemias

CD38 – Therapeutic target for the treatment of multiple myeloma and certain leukemias

Clinical trial – Clinical trials allow safety and efficacy data to be collected for new drugs or devices; depending on the type of product and the stage of its development, investigators enroll healthy volunteers and/or patients into small pilot studies initially, followed by larger-scale studies in patients

CLL – Chronic lymphocytic leukemia; most common type of cancer of the blood and bone marrow, affecting the B-cells

CMO – Contract manufacturing organization

CRO – Contract research organization

CTO – Contract testing organization

D

Discounted cash flow model – Method of valuing assets, especially for due diligence

DLBCL – diffuse large B-cell lymphoma, a subform of **NHL**

E

EMA – European Medicines Agency

F

Fab format – The antigen binding fragment of the antibody

Fc-engineered – Modification within the Fc part of an antibody to improve effector function

Fc part – Constant part of an antibody known as the Fc (fragment, crystallizable) region

FDA – Food and Drug Administration; US federal agency for the supervision of food and drugs

FL – follicular lymphoma, a subform of **NHL**

G

GCP – Good clinical practice; an international ethical and scientific quality standard for designing, conducting, recording and reporting trials that involve the participation of human subjects

GLP – Good laboratory practice; a formal framework for the implementation of safety tests on chemical products

GM-CSF – Granulocyte-macrophage colony-stimulating factor; underlying target molecule of MOR103 program

GMP – Good management practice; term for the control and management of manufacturing and quality control testing of pharmaceutical products and medical devices

H

HuCAL – Human Combinatorial Antibody Library; proprietary antibody library enabling rapid generation of specific human antibodies for all applications

Human – Of human origin

I

IFRS – International Financial Reporting Standards; future EU-wide standards produced by the IASB

Immuno-oncology – new class of compounds that stimulate the immune system to attack tumors

Inclusion body myositis – Inflammatory myopathy

Inflammatory diseases – Inflammatory tissue modification, often caused by autoimmune reactions

Innovation capital – Investments in start-ups with technologies and product candidates being close to MorphoSys's areas of interest

IST – Investigator-sponsored trial; clinical study in which the entire responsibility (sponsor function) is carried by the clinical center and not by a pharmaceutical company

L

Lanthipeptides – Novel class of therapeutics with high target selectivity and improved drug-like properties

Life sciences – All branches of science that study all organisms, especially living ones

M

Market capitalization – Value of a company's outstanding shares, as measured by shares times current price

MCRPC – metastatic castration-resistant prostate cancer

Monoclonal antibody – Homogeneous antibody originating from a single clone, produced by a hybridoma cell

Multiple myeloma – Type of cancer that develops in a subset of white blood cells called plasma cells formed in the bone marrow

Multiple sclerosis – Disease of the central nervous system characterized by the destruction of nerve fibers

N

NASDAQ Biotech Index – stock market index made up of biotechnological or pharmaceutical companies listed at the US stock exchange NASDAQ

NHL – Non-Hodgkin lymphomas; diverse group of blood cancers that include any kind of lymphoma except Hodgkin's lymphomas

P

Pharmacodynamics – Study of the effects of drugs on the body

Pharmacokinetics – Determination of the fate of substances administered externally to a living organism

Preclinic – Preclinical stage of drug development; tests in animal models as well as in laboratory essays

Protein – Polymer consisting of amino acids, e. g. antibodies and enzymes

Psoriasis – A chronic, non-contagious autoimmune disease which affects the skin and joints

R

Research reagents – Substances used in research applications

Rheumatoid arthritis – Inflammatory disease of the joints; abbreviation: RA

Royalties – Percentage share of ownership of the revenue generated by drug products

S

Scaffolds – Proteins with antibody-like capabilities

sIBM – sporadic **inclusion body myositis**, inflammatory myopathy

SLL – small-cell lymphocytic lymphoma, a subform of **CLL**

Slonomics – DNA engineering and protein library generation platform acquired by MorphoSys in 2010

Small molecules – Low molecular compounds

T

Target – Target molecule for therapeutic intervention, e.g. on the surface of diseased cells

Target product profile (TPP) – Summary of specifications on a planned therapeutic product

Target molecule selectivity – Criteria to describe to what degree an antibody binds to other structures besides its target molecule

TecDAX – Index of the 30 largest technology companies listed on the Frankfurt Stock Exchange

Toxicity – Poisonousness

Y

Ylanthia – The novel next-generation antibody platform of MorphoSys

List of Figures and Tables

FIGURES

TABLES

FINANCIAL CALENDAR

2015

26 February 2015
PUBLICATION OF 2014
YEAR-END RESULTS

5 May 2015
PUBLICATION OF 2015
THREE MONTHS' REPORT

8 May 2015
2015 ANNUAL GENERAL
MEETING IN MUNICH

27 July 2015
PUBLICATION OF 2015
SIX MONTHS' REPORT

4 November 2015
PUBLICATION OF 2015
NINE MONTHS' REPORT

MorphoSys AG
Lena-Christ-Str. 48
82152 Martinsried/Planegg
Germany
Phone: +49-89-89927-0
Fax: +49-89-89927-222
www.morphosys.com