CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

2013

morphosys

Engineering the Medicines of Tomorrow

THE CONTENTS

In the year 2013, MorphoSys concluded two landmark agreements within the Proprietary Development business segment. The alliances with Celgene and GlaxoSmithKline improve the Company's prospects of forging ahead with the development of MOR202 and MOR103 as well as expanding and advancing additional clinical development candidates.

Operations and Business Environment

Organizational Structure

ORGANIZATION OF THE MORPHOSYS GROUP

The MorphoSys Group, consisting of MorphoSys AG and its subsidiaries, develops and commercializes high-quality antibodies* for therapeutic applications. Leading proprietary technologies form the basis of the business segments' operating activities. The Partnered Discovery segment operates therapeutic development programs for drug candidates in cooperation with renowned biotechnology and pharmaceutical companies. In this segment, MorphoSys works together with its partners on solutions for the most urgent health issues. Proprietary, innovative therapeutic antibodies are currently being developed in the second segment Proprietary Development. At a certain point in their clinical development, these antibodies could be out-licensed to partners or co-developed in future cooperations.

SEE FIGURE 1, ORGANIZATIONAL STRUCTURE OF THE MORPHOSYS GROUP PAGE 10

At the end of 2012, MorphoSys announced the sale of substantially all of the AbD Serotec operating segment[1] to Bio-Rad Laboratories, Inc. (Bio-Rad). The closing of the transaction was dependent upon the fulfillment of certain conditions which were complied with on 10 January 2013 (closing date). Substantially all of the AbD Serotec segment was sold as of this date. Thus, in the first ten days of the reporting year, the complete AbD Serotec operating segment was still part of the MorphoSys Group. This third operating segment, which had specialized in the production and sale of diagnostic antibodies and research applications*, was sold upon the completion of this transaction. All of the following information in this report refers exclusively to the continuing operations of the Partnered Discovery and Proprietary Development segments.

The completion of the transaction with Bio-Rad included the transfer of the four locations in Puchheim, Germany, Düsseldorf, Germany, Kidlington, Great Britain, and Raleigh, USA, to Bio-Rad. Thus, for the remainder of the 2013 financial year, MorphoSys only operated MorphoSys AG's parent company location in Martinsried near Munich, Germany. The Partnered Discovery and Proprietary

[1] Bio-Rad acquired the AbD Serotec segment excluding the Poole Real Estate Ltd. subsidiary, and without the Slonomics technology.

Development segments are located at this site, as are the central Group functions of accounting, controlling, personnel, legal, patents, corporate communications and investor relations.

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 with the Management Board as the leading body and its four members appointed and monitored by the Supervisory Board. More detailed information concerning the Group's management and control as well as corporate governance in general may be found in the Corporate Governance Report. The Senior Management Group supports the management of MorphoSys AG and consists of 19 managers from various departments.

The completion of the transaction with Bio-Rad on 10 January 2013 greatly simplified the Group's structure in comparison to the previous year. Along with the AbD Serotec operating segment, three subsidiaries – MorphoSys UK Ltd., MorphoSys US, Inc., and MorphoSys AbD GmbH – left the Group. As a result, four subsidiaries, in addition to the parent company MorphoSys AG, remained part of the MorphoSys Group (MorphoSys USA, Inc., Poole Real Estate Ltd., MorphoSys IP GmbH, Sloning Biotechnology GmbH). The remaining two operating segments are concentrating exclusively on therapeutic antibody research and development. The antibody business for the diagnostic range was discontinued with the sale of substantially all of the AbD Serotec research and diagnostic segment.

BUSINESS ACTIVITIES

DRUG DEVELOPMENT

MorphoSys develops drugs together with its partners in the pharmaceutical and biotechnology industries and through its proprietary development activities. In the 2013 financial year, the Company was able to start three new partnerships in these areas with Celgene, GlaxoSmithKline and Heptares. The revenues from these partnerships provide MorphoSys with substantial cash flow which is invested in the Company's own research and development. MorphoSys commands one of the broadest pipelines in the industry and currently has a total of 81 individual therapeutic antibody candidates and 43 clinical trials, of which the most advanced trials are in phase 3.

SEE FIGURE 3, CLINICAL STUDIES WITH MORPHOSYS ANTIBODIES PAGE 11

TECHNOLOGIES

MorphoSys has developed a number of technologies that offer direct access to fully human antibodies for the treatment of diseases. MorphoSys's most widely-known technologies include HuCAL*, which is a collection of billions of fully human antibodies. Ylanthia*, the next generation of antibody technologies 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 shape a new standard in the pharmaceutical industry's development of therapeutic antibodies in this decade and beyond. Slonomics* supplies MorphoSys with a patented, fully-automated technology for gene synthesis and modification for the generation of highly diverse gene libraries in a controlled process.

INNOVATION CAPITAL*

MorphoSys invests in promising start-ups and their technologies and products when they coincide with the interests of MorphoSys. MorphoSys combines cooperative elements with a classic approach to investing and acting as an industry partner. Currently, the portfolio consists of one investment: privately-owned Lanthio Pharma. Lanthio Pharma specializes in the research and development of lantipeptides*. Lantipeptides are an innovative class of therapeutic substances demonstrating a high level of target molecule selectivity* and improved compound properties.

The market for therapeutic antibodies continues to be one of the fastest growing markets in human medicine and also one of the most competitive. In 2013, the fully human* monoclonal antibody*, adalimumab (Humira®), led the list of top-selling drugs worldwide for the second consecutive time. In total, more than 15 of the 40 approved antibody-based drugs achieved annual revenues of more than US$ 1 billion and reached blockbuster status as a result.

SEE FIGURE 4, TOTAL MARKET FOR ANTIBODIES PAGE 11

According to the pharmaceutical database Citeline, there are currently close to 420 monoclonal antibody candidates in clinical development. This makes antibodies the largest category of biologically generated drug candidates. Traditionally, the most important fields of application of antibodies – oncology and autoimmune, inflammatory and infectious diseases – are increasingly augmented by new indications such as Alzheimer's disease, osteoporosis, muscular atrophy, or elevated cholesterol levels. In addition, emerging technologies such as antibody drug conjugates (ADCs*), bispecific* and trifunctional* antibodies, antibodies with modified Fc parts*, as well as other antibody formats, will shape the diversity of the antibody market.

*SEE GLOSSARY PAGE 138

TOP 5 MONOCLONAL ANTIBODY DRUGS

Generic Name	Brand®	Company	Indications (FDA*/EMA* approved)	Revenues Estimate for 2013 in US$ billion
Adalimumab	Humira	Abbott	Rheumatoid arthritis*, juvenile idiopathic arthritis, psoriatic arthritis, Bekhterev's disease (also referred to as ankylosing spondylitis), Crohn's disease, plaque psoriasis*	10.34
Rituximab	Mabthera/Rituxan	Roche, Biogen Idec/Genentech	Non-Hodgkin's lymphoma, chronic lymphocytic leukemia, rheumatoid arthritis, Wegener's granulomatosis and microscopic polyangiitis	7.35
Infliximab	Remicade	J&J, Merck, Mitsubishi Tanabe	Crohn's disease, pediatric Crohn's disease, ulcerative colitis, pediatric ulcerative colitis, rheumatoid arthritis, Bekhterev's disease (also referred to as ankylosing spondylitis), psoriatic arthritis, plaque psoriasis	6.53
Trastuzumab	Herceptin	Roche	Adjuvant breast cancer, metastatic breast cancer, metastatic gastric cancer	6.45
Bevacizumab	Avastin	Roche	Metastatic colorectal cancer, non-small cell lung cancer, glioblastoma, metastatic renal cell carcinoma	6.31

Source: Datamonitor

In commercializing its antibody technologies, MorphoSys is competing with various providers which can be divided into two categories:
- antibody and antibody fragment technologies,
- technologies based on antibody-like structures (scaffolds*).

Market data which thoroughly describes the promotion of technologies within the field of antibody development is not available. MorphoSys had 18 antibody candidates in the clinical pipeline at the end of 2013 that are based on the HuCAL technology giving it the lead in the field of antibody technologies.

MorphoSys competes with a number of companies in the field of therapeutic antibody development and in the out-licensing of clinical development candidates. In the 2013 financial year, MorphoSys was able to conclude lucrative licensing agreements for two of its proprietary development candidates, MOR103 and MOR202. The direct payments received by the Company in the 2013 financial year from these agreements amounted to more than € 130 million. Both agreements provide further performance-related milestones totaling more than € 1 billion, as well as tiered, double-digit royalties* and, in the case of MOR202, a 50 % share in the profits generated in Europe.

PARTNERED DISCOVERY

The Partnered Discovery segment uses MorphoSys's 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 rewarded in the form of research financing, milestone payments, and potential royalties from the product sales of successful programs.

The Company's largest alliance to date is the strategic alliance with Novartis – a pharmaceutical partner with a steady growing pipeline of biotechnologically developed drugs – which was closed in 2007. This collaboration was extended in November 2012 by an additional cooperation agreement. As part of the agreement, both companies will use MorphoSys's next generation antibody platform, Ylanthia, to create therapeutic antibodies. In the future, MorphoSys plans to leverage the technology to gain access to new innovative target molecules for possible in-licensing and co-development.

Drug development carried out with partners allows MorphoSys to be also involved in indications where it would normally not pursue a program itself due to Company's lack of proprietary expertise in that area. In the following, examples will be provided by discussing a number of areas.

DISEASES OF THE CENTRAL NERVOUS SYSTEM–ALZHEIMER'S DISEASE

With the antibody compound gantenerumab, developed by its partner Roche, MorphoSys has a promising treatment for Alzheimer's disease in its pipeline. The HuCAL-based antibody is recognized as one of the most advanced compounds today. Currently, there are no other drugs available which can fundamentally slow the progression of Alzheimer's disease. In the 2013 reporting year, Roche finished the recruitment of patients for its ongoing pivotal phase 2/3 trial in up to 770 patients who are in the early stages of this disease. Data release is expected for 2016. Additionally, the Roche compound is being tested in an independent clinical trial by the "Dominantly Inherited Alzheimer Network" (DIAN), which is testing up to 210 patients for the competing antibody compound solanezumab. Early 2014, Roche announced that a second phase 3 study in up to 1,000 patients with mild Alzheimer's disease will be initiated.

MUSCULOSKELETAL DISORDERS – SPORADIC INCLUSION BODY MYOSITIS

With the antibody compound bimagrumab, developed by its partner Novartis, MorphoSys has a promising treatment in its pipeline for sporadic inclusion body myositis* and other diseases of muscle weakness. During the 2013 reporting year, Novartis announced the achievement of a regulatory milestone as it received breakthrough-therapy designation from the US Food and Drug Administration (FDA). Meanwhile, pivotal phase 2/3 trials have already started. In addition, the antibody received "orphan drug designation" for the indication of sporadic inclusion body myositis in Europe and the USA.

PROPRIETARY DEVELOPMENT

An important goal of the Company is to generate additional value by developing innovative proprietary antibody products. MorphoSys's scientists concentrate on indications such as inflammatory and auto-immune disorders*, as well as on cancer and infectious diseases. The signing of the contracts in the 2013 financial year is evidence of this strategy's potential.

SEE FIGURE 5, SALES POTENTIAL OF PROPRIETARY PROGRAMS PAGE 11

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 and steadily. Specifically, BCC Research expects that the size of the biotherapeutic segment of oncology will reach the level of US$ 50 billion in 2014. With MOR202 and MOR208, MorphoSys has brought two proprietary cancer programs into clinical trials* in the last two years and partnered with Celgene for the further development of MOR202 in the 2013 financial year.

MorphoSys's antibody MOR208 is directed against the CD19* target molecule*, which is of particular interest with regard to many B-cell tumors. According to the market research firm Decision Resources, the therapeutic market for B-cell malignancies has a size of approximately US$ 4 to 5 billion. Current biological therapies for the treatment of B-cell malignancies, including the blockbuster Rituxan® (rituximab) and the antibody Gazyva® (obinutuzumab), approved in 2013, are directed against the CD20* target molecule. Since the CD19 target molecule is expressed by a larger number of B-cell subtypes in comparison to CD20, the CD19 antibodies are considered an alternative approach. In addition, 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 improved antibody-dependent cellular phagocytosis (ADCP*).

MOR208 successfully completed a clinical phase 1/2a trial in chronic lymphocytic leukemia (CLL*) in 2012. The first clinical data was presented in December 2012 at the annual meeting of the American Society of Hematology. In 2013, further data from this trial was presented that confirmed the positive impression given by the first set of data. MorphoSys initiated further clinical phase 2 trials for MOR208 in non-Hodgkin's lymphoma (NHL*) and in acute lymphoblastic leukemia (ALL*). In addition, MorphoSys announced the start of a so-called investigator-sponsored trial (IST*), a phase 2 trial for the treatment of chronic lymphocytic leukemia in which MOR208 is being tested in combination with the compound lenalidomide. It is a clinical trial initiated by doctors of a US research center, in which the entire responsibility (sponsor function) is carried by the clinical center and not by a pharmaceutical company, MorphoSys in this case.

The most advanced therapeutic approach targeting CD19 is a bispecific antibody which is currently in phase 2 testing for the treatment of ALL. Other clinical programs directed against the same target molecule use different approaches to enhance the antibody's efficacy, e.g. using an antibody drug conjugate or changing the glycosylation pattern of the antibody molecule. As one of the few independent providers, MorphoSys has a clinically tested CD19 antibody that is still available to commercial partners for licensing on the market.

Another recent approach is the so-called CAR-T technologies*. In this immunotherapy, immune cells (T cells) are obtained from the patient's blood. Subsequently, the T cells are modified outside the body, so that they are better able to identify and target the tumor cells of the patient. When these T cells are then re-introduced to the patient's blood by infusion, they bind to the targeted cancer cells and destroy them.

*SEE GLOSSARY PAGE 138

MARKET DATA ON SELECTED PARTNERED PROGRAMS IN CLINICAL PHASES 2 AND 3

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Program Name	MorphoSys-Partner	Indication	Market Potential
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 • Expected CAGR* of 10.7% with a total market volume of approximately US$ 9.8 billion in 2021
Bimagrumab/BYM338	Novartis	Inclusion Body Myositis, Cachexia	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 thus far 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
Guselkumab/ CNTO1959	Janssen/J&J	Psoriasis*, Rheumatoid Arthritis	Psoriasis: • Lifelong disease with high morbidity; has a negative influence on the quality of life • Expected revenue growth from US$ 3.9 billion in 2010 to over US$ 7.4 billion in 2020[1]) Rheumatoid Arthritis: • Inflammatory autoimmune disease which leads to restricted mobility • In the year 2010, there were nearly 4.6 million people[1]) with rheumatoid arthritis • Expected annual growth rate of 4.3%[1]) and a potential market of US$ 18 billion in the year 2020
BHQ880	Novartis	Multiple Myeloma	• Malignant tumor of the bone marrow (also called: plasmacytoma) • A potential market of close to US$ 10 billion is expected in 2015 • Incidence: 102,000 patients worldwide, prevalence: 210,000 patients worldwide
LFG316	Novartis	Age-related Macular Degeneration (AMD), Uveitis	AMD: • Main cause of severe, irreversible visual impairment in the industrial nations • 7.5 million AMD patients[1] • In 2011, wet AMD accounted for 32% of the global market for ophthalmology (total market of approx. US$ 10 billion); by 2018 it is expected to reach a share of 37% Uveitis (inflammation of the iris): • Inflammation of the uvea, which can be caused by autoimmune diseases (also through rheumatoid arthritis) • Affects approx. 1 out of 4,500 people and appears more often in people between 20 and 60 years of age; affects men and women equally
OMP-59R5	OncoMed/GSK	Pancreatic Cancer	• High mortality rate (relative five-year survival rate is 5%) • Limited therapeutic treatment possibilities • Incidence: Approx. 280,000 worldwide (2008) • Expected market potential in 2022: US$ 1.3 million
CNTO3157	Janssen/J&J	Asthma	• Worldwide, the daily lives of 300 million people are severely affected by asthma • 2011: there are 62.9 million diagnosed cases of asthma[1], estimate for 2021: 64.8 million • Market potential in 2012: US$ 15 million; 2021: US$ 17 million (CAGR: 1.5%)
CNTO6785	Janssen/J&J	Rheumatoid Arthritis	• Inflammatory autoimmune disease that leads to restricted mobility • In the year 2010, there were nearly 4.6 million people[1]) with rheumatoid arthritis • Expected annual growth rate of 4.3%[1]) and a potential market of US$ 18 billion in the year 2020

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

*SEE GLOSSARY PAGE 138

In the area of B-cell disorders, various approaches are developed using so-called small molecules*.

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 the 2013 financial year. Here, MorphoSys was able to use the pharmaceutical industry's growing interest in CD38 as a target molecule for the treatment of MM and thus had a better negotiating position as one of the few independent providers of a CD38 antibody.

Measured in terms of the frequency of occurrence, MM is a relatively small area of oncology. Nevertheless, the MM market has shown impressive revenue figures in recent years and represents a potential market of up to US$ 9 billion. Significant achievements in clinical practice and the introduction of effective and high-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 forms of therapy for improving the chances of survival and reducing side effects. Despite significantly higher survival rates, the disease is seldom curable, and the majority of patients experience a relapse. Therefore, alternative treatments, such as those that target the CD38 surface antigen, are particularly in high demand. Next to MOR202, there are two other clinical development programs targeting CD38 in the industry.

INFLAMMATORY AND AUTOIMMUNE DISEASES

Chronic inflammatory and autoimmune diseases affecting millions of patients worldwide, pose considerable social and economic burdens. The IMS Institute for Healthcare Informatics is forecasting a world market for the treatment of autoimmune diseases of US$ 33 to US$ 36 billion in the year 2016.

MorphoSys's antibody program, MOR103, is targeted against the GM-CSF* (granulocyte macrophage colony-stimulating factor) target molecule, a central factor in the emergence of inflammatory disease, such as rheumatoid arthritis and multiple sclerosis* (MS). In 2013, MorphoSys brought this project into a lucrative partnership with GlaxoSmithKline (GSK). MorphoSys will complete the ongoing phase 1b trial in MS in the first half of 2014. GSK will take over further development of MOR103.

The RA market offers significant commercial opportunities; biotechnologically-produced drugs already account for more than 80 % of total revenues. The overall market is growing steadily and Datamonitor expects the market to reach US$ 18 billion by the year 2020.

On the MS market, biotechnologically-produced drugs today already represent a majority of the disease-modified treatment methods – both in terms of revenues and according to the number of approved therapies. Differences in relation to the development and severity of multiple sclerosis lead to the disease being largely segmented into several subtypes, including the relapsing-remitting form of MS as well as primary and secondary progressive forms. This segmentation opens up a variety of access routes to markets for new therapeutic compounds. Currently, the best-selling MS drugs have combined annual revenue 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 also target the GM-CSF molecule or its receptor.

New mechanisms of action for treating inflammatory diseases such as rheumatoid arthritis, osteoporosis, and osteoarthritis are being examined in cooperation with the Belgian Galapagos NV. The aim is to develop new antibody therapies against these diseases. As part of the alliance, both partners will contribute their core technologies and expertise. Under the terms of the agreement, Galapagos and MorphoSys equally share the research and development costs as well as all future revenues.

INFLUENCING FACTORS

Proper medical care for the public is the stated objective of many states and the need continues to grow for new forms of therapy in the face of demographic change. However, cost cutting could slow down the development of the industry. As part of their austerity measures, governments in Europe, in the United States, and in Asia have stepped up their controls in health care and the reimbursement of drugs is examined very carefully.

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. Nevertheless, the technical barriers to copying bioengineered drugs remain high. However, many drug manufacturers, particularly those from Europe and Asia, are now penetrating this market and increasing the competitive pressure on established biotechnology companies. According to a study by the IMS Institute for Healthcare Informatics, the global market for biogenerics* will grow from US$ 693 million in 2011 to a range of US$ 4 billion to US$ 6 billion by the year 2016.

*SEE GLOSSARY PAGE 138

IMPORTANT ADVANCES MADE BY MORPHOSYS IN 2013

The following events had a decisive influence on the Company's business development in 2013:

In January 2013, MorphoSys completed the sale of AbD Serotec to Bio-Rad for a total consideration of close to € 53 million. The total amount includes the purchase price, compensation of € 5.3 million for the cash reserves of the AbD Serotec companies, and a license payment for the use of MorphoSys's HuCAL technology in the market for research reagents and diagnostics. Transaction costs of € 1.8 million were incurred in the reporting year in connection with the sale of the AbD Serotec segment. As part of the divestment, a disposal profit after deduction of transactional costs of € 6.2 million was realized in 2013. Through this transaction, MorphoSys sharpened its focus on the therapeutic core business.

In February 2013, MorphoSys and Heptares agreed to cooperate in the development of therapeutic antibodies against G-protein-coupled receptors (GPCRs). This cooperation will provide access to new target molecules for therapeutic antibodies based on the Ylanthia library.

The phase 1/2a trial of the CD19 antibody MOR208 was finalized for the treatment of chronic lymphocytic leukemia (CLL). The final trial results showed an acceptable safety profile with an overall response rate of approximately 30%. In the spring of 2013, MorphoSys began two phase 2 trials with the CD19 antibody MOR208 in the area of non-Hodgkin's lymphoma (NHL) and in acute lymphoblastic B-cell leukemia (B-ALL).

In June 2013, MorphoSys signed a global licensing agreement with GlaxoSmithKline for the compound MOR103. This contract provides for secured and performance-related payments of up to € 445 million as well as tiered double-digit royalties on net sales. The program had completed a clinical phase 1b/2a trial in patients with mild-to-severe rheumatoid arthritis in the 2012 financial year. MorphoSys is committed to completing the ongoing phase 1b safety trial in multiple sclerosis with increasing dosages. Thereafter, GlaxoSmithKline will solely be responsible for the drug's further development.

Also in June 2013, MorphoSys signed a global development alliance with Celgene for the MOR202 compound. This agreement gives MorphoSys the opportunity to participate in the future value of the MOR202 program via co-development and promotion in Europe. On 10 August 2013, the development cooperation with Celgene for MOR202 came into effect after receiving antitrust clearance. With the signing of the contract, Celgene acquired 797,150 new MorphoSys shares at a price of € 57.90 per share. By the end of 2013, Celgene held approximately 3% of MorphoSys's registered share capital.

Additionally, in September 2013 a capital increase from authorized capital was carried out bringing gross proceeds of approximately € 84 million. Nearly 1.5 million new shares were issued to international institutional investors at a price of € 55.76 per share, which was the closing price of the day prior to the announcement. The proceeds shall be used to fund the clinical development of MOR208 and MOR202. It is also planned to use the funds to advance the development of other proprietary programs and to make potential acquisitions of businesses, technologies, or products that would meaningfully complement the business model and expand the portfolio.

In October 2013, MorphoSys's partner, Novartis, began a phase 2/3 clinical trial with the HuCAL-based antibody compound bimagrumab (BYM338) in the area of sporadic inclusion body myositis. As a result, there are two partner programs in the final stage of clinical development that are based on MorphoSys's core technology.

Detailed information on MorphoSys's business development during the reporting year can be found in the sections titled "Research and Development" and "Business Development".

PROPRIETARY CLINICAL PRODUCT CANDIDATES

	MOR103	MOR202	MOR208
Compound	HuCAL antibody directed against the cytokine GM-CSF (granulocyte-macrophage colony-stimulating factor), a target molecule for a broad spectrum of anti-inflammatory therapies	HuCAL antibody directed against CD38, a target molecule for the treatment of multiple myeloma and certain types of leukemia	Humanized, Fc-optimized anti-CD19 antibody for the treatment of malignant diseases of B cells, in-licensed in 2010
Characteristics	• Aimed at both monocytes and macrophages • Extremely high binding affinity • Rapid onset of therapeutic effect	• Binds to a unique epitope • Causes death of the cancer cells through cytotoxic effects • Preclinical* trials show synergistic effects with bortezomib and lenalidomide • Administered by two-hour infusion	• Fc optimization triggers a significantly increased immune response using antibody-dependent cellular cytotoxicity (ADCC) • Favorable schedule of administration • Uncomplicated production
Financing	Worldwide licensing agreement with GSK • GSK is responsible for all further development and commercialization of MOR103 in all indications • Up-front payment to MorphoSys in the amount of € 22.5 million in 2013 • Eligible to receive additional milestone payments from GSK amounting to 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 worldwide, cost-sharing 2/3 Celgene, 1/3 MorphoSys • Up-front payment in the amount of € 70.8 million, plus equity investment of € 46.2 million • Milestone-related payments of up to € 511 million • Marketing in Europe results in 50:50 division of earnings, outside of this market, MorphoSys receives tiered double-digit royalties on net sales	Completely under MorphoSys's control • Funding currently entirely through MorphoSys
Current Status	• Successfully completed phase 1b/2a in RA patients • Phase 1b trial in multiple sclerosis is ongoing, data expected for H1/2014	• Ongoing phase 1/2a trial in patients with multiple myeloma, data expected in H2/2014 • Further studies, including combination studies, being planned	Start of 3 new phase 2 clinical trials in 2013: • ALL trials in 30 patients, data expected in H2/2014 • NHL trial with four subtypes • Combination study of lenalidomide in CLL, performed independently of MorphoSys (IST)

*SEE GLOSSARY PAGE 138

COMPANY OVERVIEW

ORGANIZATIONAL STRUCTURE OF THE MORPHOSYS GROUP

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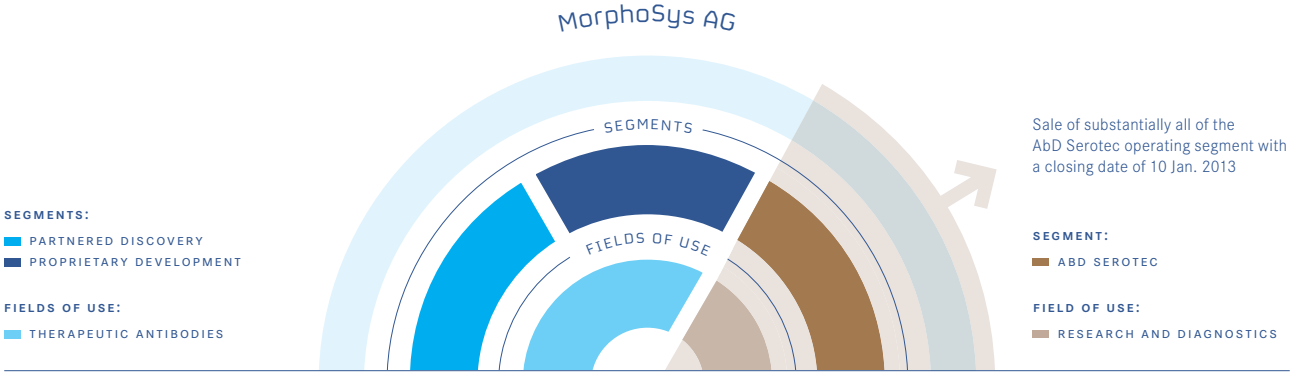

REVENUES OF THE MORPHOSYS GROUP BY SEGMENT (in million €)

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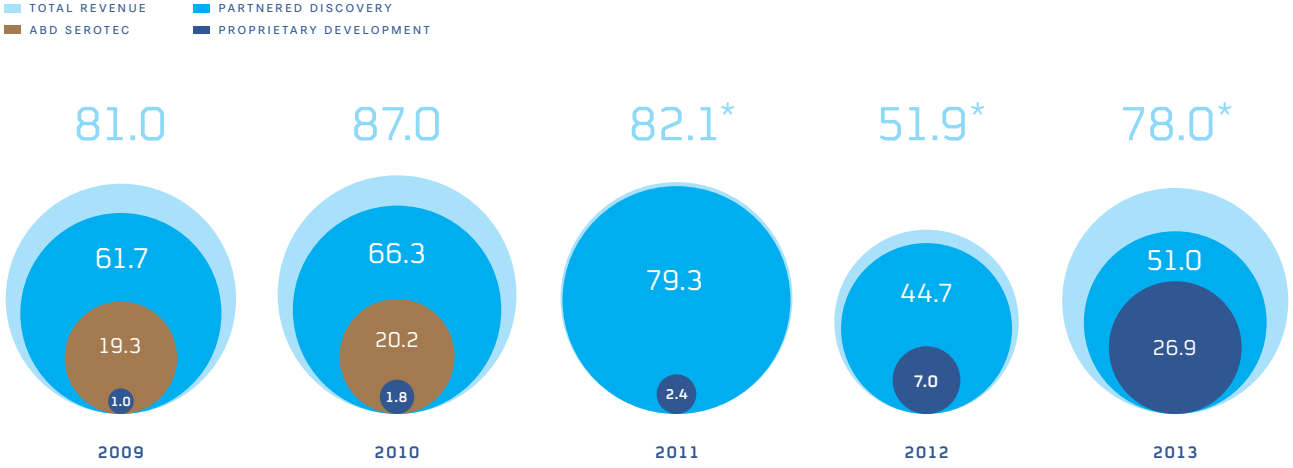

* Group revenues from continuing operations

CLINICAL STUDIES WITH MORPHOSYS ANTIBODIES (31 December)

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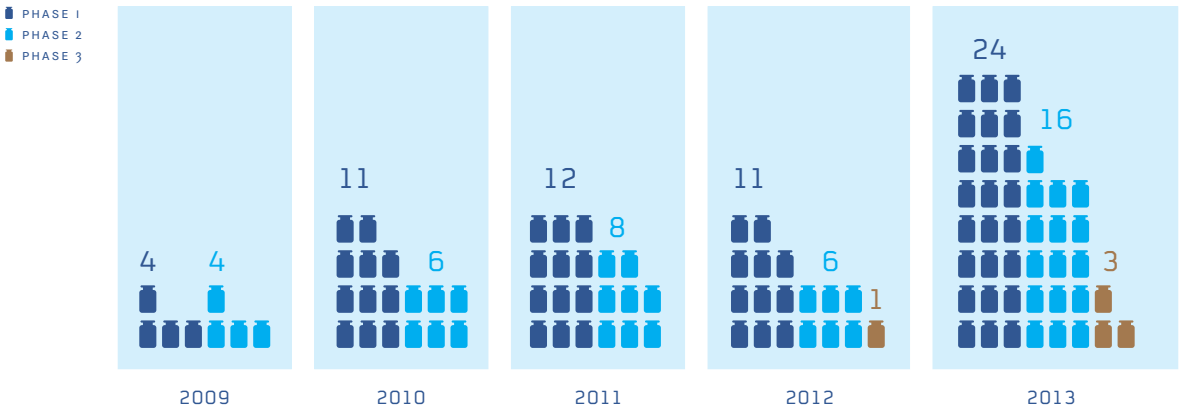

TOTAL MARKET FOR ANTIBODIES

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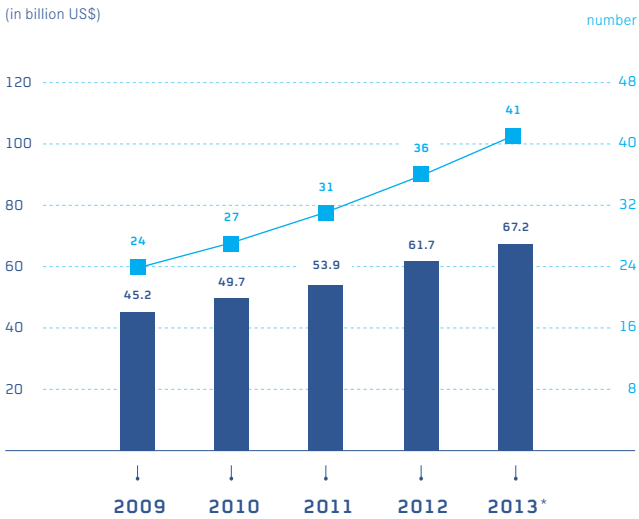
GLOBAL SALES OF MONOCLONAL ANTIBODIES

APPROVED THERAPEUTIC ANTIBODIES ON THE MARKET



Source: Datamonitor
* Estimate

SALES POTENTIAL OF PROPRIETARY PROGRAMS*

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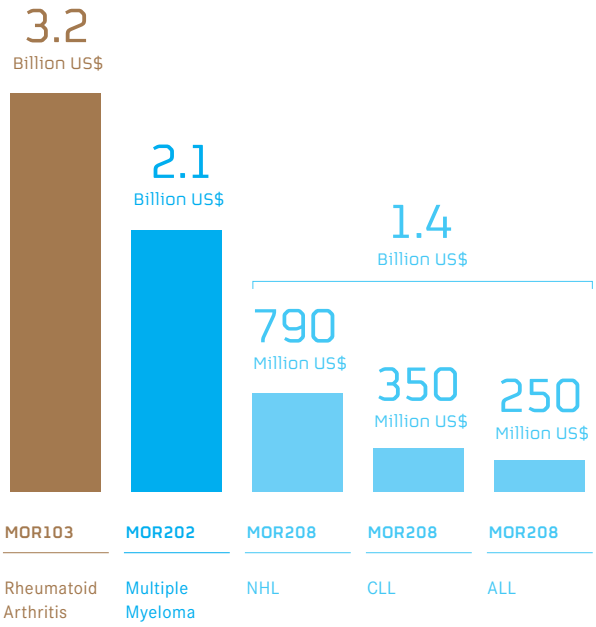


Source: Defined Health
* Information is based on an external study commissioned by MorphoSys, using publicly available information; the numbers given do not represent company guidance.

Strategy and Performance Management

STRATEGY

Based on its high-performance technologies, MorphoSys develops innovative drug candidates, whereby its focus is on antibody-based compounds. Revenues are generated in partnerships with pharmaceutical and biotechnology companies to create a stable financial base and to develop proprietary drug candidates. This business model promotes the steady expansion of the product pipeline and provides long-term value growth to the Company's shareholders.

The Partnered Discovery segment develops optimized therapeutic antibodies for partners in the pharmaceutical industry. With 75 individual antibodies in partnered programs at the end of the 2013 financial year, MorphoSys has one of the broadest antibody pipelines in the industry. The contractually agreed payments that result include licenses for technologies and funded research services as well as performance-based milestone payments and royalties on product sales. Cash flows that are generated in this manner can be reinvested in the Proprietary Development segment. The development of proprietary antibody programs is based on the same technology platform. The compounds in this segment, however, are initially developed in-house. Only in the course of the clinical phase are these compounds either out-licensed to a pharmaceutical or biotech company for further development and commercialization, or brought into a cooperation with a partner (co-development). Under certain conditions, individual projects can also be developed in-house for an extended period of time; possibly even up to the point where they are marketable.

MorphoSys's corporate strategy is largely dependent on the Company's innovative technologies. The antibody platforms serve both as a generator of collaborations with pharmaceutical and biotechnology companies, as well as the basis for successful proprietary developments. The growth drivers are mainly HuCAL – the most successful antibody library in the pharmaceutical industry to date – and the follow-up platform Ylanthia, which is currently the largest known antibody library in Fab format.

With regard to future business development, MorphoSys monitors the international biotechnology industry very closely to ensure sustainable growth via attractive acquisitions and in-licensing. Cash reserves available at the end of 2013 are allocated for investments in proprietary research and development, as well as for strategic transactions that may strengthen MorphoSys's technology base and its therapeutic pipeline. The stated objective is to further increase the enterprise value while maintaining financial discipline and stringent cost control through significant investments in the Company's proprietary development activities.

PERFORMANCE MANAGEMENT

MorphoSys uses both financial and non-financial indicators to achieve sustainable business growth and enhance value for its shareholders. These indicators help monitor the success of strategic decisions in daily operations and to take appropriate countermeasures in a timely manner when necessary.

FINANCIAL PERFORMANCE INDICATORS

The financial indicators used to evaluate the Company's operating performance are mainly key ratios such as revenue and profit from operations. Performance is measured on a monthly basis and budget planning for the current financial year is reviewed and updated quarterly for all segments. Additionally, a medium-term budget is prepared annually that covers the subsequent three years. Detailed cost analyses are carried out on an ongoing basis. This is the basis used by the Company to monitor its adherence to financial targets and conduct comparisons to previous periods. Selling, general, and administrative expenses (S, G&A) as well as research and development (R&D) expenses are monitored particularly closely.

MorphoSys's business performance is influenced by factors such as milestone and license payments, research and development expenses, operating cash flows, liquidity, and working capital. These indicators are also evaluated and compared on a regular basis, whereby the main focus is on cash management, the impact of currency effects, and the attractive investment opportunities that present themselves. The net present values of investments are determined using discounted cash flow models*.

*SEE GLOSSARY PAGE 138

NON-FINANCIAL PERFORMANCE INDICATORS

In order to illustrate the full scope of the Company's value chain, non-financial performance indicators and financial-related considerations are treated as equal components; for example the progress of the product pipeline, the management of partnerships, or employee-related key ratios (staff turnover rate, length of service, workforce absence rates, etc.).

SEE FIGURES 8–12, EMPLOYEE FIGURES AT A GLANCE PAGES 24 TO 25

The following presentation of non-financial performance indicators is enhanced and elaborated by the explanations found in the Sustainability Report (pp. 38 to 43) with the appropriate references made to the related sections.

DEVELOPMENT OF FINANCIAL PERFORMANCE INDICATORS

4

in million €	2013	2012	2011	2010	2009
MORPHOSYS GROUP					
Revenues from continuing operations[1]	78.0	51.9	82.1	87.0	81.0
EBIT (Earnings before interest and taxes) from continuing operations[2]	9.9	2.4	9.8	9.8	11.4
PARTNERED DISCOVERY					
Segment revenues	51.0	44.7	79.3	66.3	61.7
Segment result	25.4	23.0	55.7	42.7	39.6
PROPRIETARY DEVELOPMENT					
Segment revenues	26.9	7.0	2.4	1.8	1.0
Segment result	(0.5)	(11.0)	(32.2)	(24.5)	(18.3)
ABD SEROTEC					
Segment revenues	0.6	18.0	19.3	20.2	19.3
Segment result	0.1	0.3	0.9	1.2	1.0

[1] Revenues of discontinued operations 2013: € 0.6 million (2012: € 17.7 million; 2011: € 18.7 million); 2009 through 2010: total Group revenues
[2] 2009 through 2010: profit from operations

MorphoSys's ambition is to develop world-class antibody technologies and maintain its leading position in the market for therapeutics by virtue of its broad product pipeline. To achieve this goal, the Company's strategy is directed at the steady development of its product pipeline, both in terms of the number of therapeutic antibodies as well as in terms of their quality and maturity. Since successful products are based on world-class technologies, the progress of the technological development is also a key performance indicator. For more information on R&D at the MorphoSys Group, please refer to the section titled "Research and Development" (pp. 17 to 19).

In addition to the quality of the research and development work, the professional management of the partnerships also stands at the center of our success. Next to new contracts, this includes the strategic development of existing alliances. For more information on our partnered projects, please refer to the section titled "Research and Development with Partners" (p. 18).

Non-financial performance indicators that are also crucial for sustainable corporate success:

Well-trained and dedicated employees are the prerequisites for long-term success in an R&D driven industry such as biotechnology. The Company can only secure and expand its competitive edge by employing a performance-oriented and forward-looking human resources strategy. Therefore, human resources management plays a key strategic role. The aim is to create enthusiasm for MorphoSys among promising talents and bind key performers to the Company in addition to continuously and systematically training the employees. A sign of the personnel management's success in recent years is MorphoSys's highly-qualified and experienced workforce. Information on personnel management at MorphoSys, may be found under the section titled "Human Resources" (pp. 23 to 25) and in our Sustainability Report (pp. 42 to 43).

Responsible behavior is a hallmark of MorphoSys's corporate governance. It is crucial to always observe strict ecological and social principles. For this reason, all processes and products are tested in terms of their impact on environmental protection and occupational safety. Equally essential to a progressive business strategy is rigorous quality assurance. This ensures that both our own high quality standards are met as well as those of our partners and customers. Particular attention is paid to the quality requirements in clinical trials. Having the highest quality and safety standards ensures that MorphoSys always meets these requirements in a flawless manner – a critical success factor for sustainable business success. Further details may be found in the Sustainability Report (p. 38 to 43).

SUSTAINABLE DEVELOPMENT OF KEY PERFORMANCE INDICATORS (SD-KPIS) AT MORPHOSYS (31 DECEMBER)

5

	2013	2012	2011	2010	2009
PERFORMANCE IN PROPRIETARY RESEARCH & DEVELOPMENT[1] (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	3	2	2	5	3
Programs in Preclinic	0	0	0	1	1
Programs in Phase I	1	1	2	1	0
Programs in Phase II	2	2	1	1	1
TOTAL	**6**	**5**	**5**	**8**	**5**
PERFORMANCE IN PARTNERED PROGRAMS[1] (NUMBER OF INDIVIDUAL ANTIBODIES)					
Programs in Discovery	37	34	30	32	32
Programs in Preclinic	22	20	24	20	27
Programs in Phase I	6	8	9	10	4
Programs in Phase II	8	6	6	4	2
Programs in Phase III	2	1	0	0	0
TOTAL	**75**	**69**	**69**	**66**	**65**
R&D EXPENSES ACCORDING TO SEGMENT (IN MILLION €)					
Partnered Discovery	17.5	16.0	19.1	18.9	19.2
Proprietary Development	27.5	18.1	33.9	25.9	19.1
Technology Development	4.2	3.6	2.9	2.1	0.7
TOTAL	**49.2**	**37.7**	**55.9**	**46.9**	**39**

[1] The method of counting proprietary and partnered programs has been adapted compared to the 2012 Annual Report: Individual antibodies are counted, regardless of the number of indications for which they are developed.

Professional procurement and supply management ensures a consistent level of high quality of goods, consultancy, and other services at the best price/performance ratio for the Company. Established bidding contests and rating processes facilitate the evaluation of products and services. Suitable guidelines ensure that best-practice solutions are taken into account in procurement processes group-wide. For more information on purchasing and procurement management, please refer to our Sustainability Report (p. 40).

LEADING INDICATORS

MorphoSys monitors leading indicators relating to 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 the therapeutic segments. For macroeconomic leading indicators, MorphoSys relies on general market data from external financial studies, which is reviewed for industry transactions, changes in the legal environment, and the availability of research funds.

For each active collaboration, a joint steering committee meets regularly to update and monitor the programs' progress and the emergence of any potential milestone payments. As part of the alliance management, this continual review allows early intervention in cases of potential failures, and provides information on expected milestone payments at a very early stage. In the case of inactive collaborations, a report is provided by the partner which helps MorphoSys track the status of the ongoing therapeutic programs.

In the area of business development, market analyses serve as early indicators and help 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 and partnerships.

Prior to the development of a therapeutic product, a Target Product Profile (TPP)* is created. This procedure provides an early indication of the properties a product must attain in order to be successfully placed on the market. Key questions are also clarified within this process, such as the level of efficacy to be achieved, whether an improvement in the safety profile is at the heart of development, and if the focus should be on a modified administration of the drug candidate. A detailed description of the possible positioning in the market and the relevant patient groups is also part of the TPP. Permanent monitoring of the criteria and their fulfillment ensures that, in the course of product development, the most important factors are always considered and that changes can be responded to in a timely manner.

Developments in the Business Environment

The effects of the debt crisis began to ease gradually in the eurozone. To avoid stifling the economic recovery from the start, the European Central Bank (ECB) maintained its low interest rate strategy. The key interest rate remained at a record low of 0.25 %. Nevertheless, the economy in the euro area has only seen a slow recovery since the recession ended in the spring of 2013. The unemployment rate continued to rise and was recently near 12 %. The Organisation for Economic Co-operation and Development (OECD) estimates that in 2013, gross domestic product (GDP*) in the eurozone contracted again by around 0.4 %. One negative economic factor came from Cyprus, where the extensively discussed austerity plan envisaged making even small savers liable. The fear of other EU states adopting similar measures led to increased uncertainty and put pressure on the stock markets. In April, Portugal's Constitutional Court also declared key parts of the austerity budget as unconstitutional. The German economy, however, was able to again record a slight year-on-year rise in GDP growth of about 0.5 %. This growth was due to robust private consumption in Germany. Additionally, positive signals came from strong German export data. In October, the sale of goods abroad worth € 99.1 billion even set a new record.

*SEE GLOSSARY PAGE 138

In 2013, the US experienced restrained economic growth and, according to OECD estimates, GDP grew 1.7 %. Federal budget consolidation and a sluggish business and consumer climate stagnated growth and the budget crisis intensified even further over the course of the 2013 financial year. The temporary compromise found among Democrats and Republicans in late 2012 did not result in a final agreement and the automatic budget cuts, the so-called fiscal cliff, occurred in March 2013. The situation escalated during the year and resulted in a day-long shutdown of the public administration (government shutdown) in early October, which brought public life to a standstill. However, towards year's end, the parties could at least temporarily avoid the next looming budget crisis by agreeing to a minimum compromise.

News from Asia elicited expectations of a further ease in monetary policy. However, a sharp rise in interest rates on the Chinese interbanking market sparked temporary worries among market participants that the recovering economy may be seeing renewed weakness and thus impact the momentum of the global economy in the months to come. Some observers saw this as a sign of trouble in the Chinese financial sector. Consequently, the stability of some of the banks was critically questioned. The OECD expects Japan to report GDP growth of 1.8 % in 2013 and expects strong GDP growth in China of 7.7 %.

The development of the global economy does not usually have an immediate effect on the business development of MorphoSys. During the period under review, had the US budget crisis and the forced leave of absence of the US Federal Administration escalated further, it may have had a limited impact on MorphoSys's business development. Such events could cause delays in the work of the US Food and Drug Administration (FDA) as well as delays at the research centers of the National Institutes of Health (NIH), which would also ultimately affect the processes of drug development projects. However, there was no evidence that the above caused a noticeable change in MorphoSys's business performance in 2013.

CURRENCY DEVELOPMENTS

Despite weak economic data from the eurozone, the common currency demonstrated excellent performance in 2013. The euro experienced strong growth – particularly in the second half of the year – and not only against the US dollar. At only € 0.72 per dollar in October 2013, the US currency traded at its lowest level in over two years. At year's end, trading activity on international financial markets was marked by solidifying hopes of leading central banks continuing to provide ample liquidity.

The interest rate decision by the ECB and positive economic data from the United Kingdom in 2013 were responsible for ensuring that the British pound could gain some ground against the euro.

Changes in these three currencies affect the costs and revenues of MorphoSys although to a lesser extent than in previous years following the disposal of AbD Serotec. In 2013, MorphoSys predominantly accounts in euro. A detailed description of the currency impact in the course of 2013 may be found in the financial analysis on page 26.

DEVELOPMENTS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY INDUSTRY

According to estimates by the US market research institute, IMS Institute for Healthcare Informatics, the pharmaceutical sector achieved revenues of approximately US$ 830 billion worldwide last year and is expected to grow to over US$ 1 trillion in 2017. More than two-thirds of this amount are derived from the pharmaceutical industry in the eight largest markets: the US, Germany, France, Italy, the UK, Spain, Japan, and China. The US market remained the largest single pharmaceutical market in 2013.

The emerging countries are considered to be the decisive growth drivers. Although per capita expenditure on drugs is still relatively low, incomes are growing and health insurance systems were or are expected to be implemented. The so-called pharmerging markets, which include China, India, Brazil, and Turkey, are expected to comprise about two thirds of total revenue growth by 2017 and represent approximately 35% of the global pharmaceutical market. According to IMS, the Chinese market alone is expected to double to a range of US$ 160 – 190 billion by the year 2017.

The pharmaceutical industry continues to see significant challenges due to the expiry of patent protection for blockbuster products and from the competition presented by generics – compound copies of the original drugs. The term “patent cliff” describes the closely spaced patent expiration dates for pharmaceutical blockbusters in the years 2009 to 2015 and their impact on the pharmaceutical industry. Whereas in the past, competition from generics mainly concerned chemically-produced drugs, generic versions of biopharmaceuticals – so-called biosimilars – are also finding their way into the future markets. Due to the complexity of biopharmaceuticals, including antibodies, their barriers to market entry continue to be substantially higher than those for generic versions of chemically-produced drugs, due in large part to regulatory approval requirements. This is reflected in the pricing of biosimilars, which have significantly lower price discounts.

According to the National Venture Capital Association and PricewaterhouseCoopers, venture capital investments – the key source of capital for privately owned companies and start-ups – grew 8% in the US life sciences sector* and amounted to US$ 4.5 billion. Europe was not able to join this trend according to Dow Jones VentureSource.

*SEE GLOSSARY PAGE 138

DEVELOPMENTS IN THE ANTIBODY INDUSTRY

In the USA, the compound Kadcyla® (trastuzumab emtansine) was approved in the first quarter of 2013 as a new antibody drug conjugate for the treatment of HER2-positive metastatic breast cancer. In the fourth quarter of 2013, the FDA approved Gazyva® (obinutuzumab), which is an antibody developed for the treatment of patients with previously untreated chronic lymphocytic leukemia (CLL). Both drugs are marketed by the Roche pharmaceutical company.

The compound Inflectra®, a generic drug of the compound Remicade® (infliximab), became the first biogenerically-produced monoclonal antibody to receive regulatory approval in Europe. Inflectra was approved for the treatment of inflammatory diseases such as rheumatoid arthritis and psoriasis.

In terms of research results, therapeutic antibodies were amongst the approaches highlighted at ASCO 2013, the most important conference in the field of cancer research. The antibodies nivolumab and lambrolizumab, both directed against the target molecule PD-1, which regulates the immune system’s ability to fight cancer, attracted particular attention due to positive clinical data.

In terms of licensing agreements, the contracts concluded by MorphoSys with GlaxoSmithKline and Celgene counted among the most extensive collaborations across the entire industry in the 2013 business year. Furthermore, the pharmaceutical companies Bayer, Pfizer, and Astellas also signed large collaboration agreements, geared more toward immunoconjugates, with the biotech companies Seattle Genetics, Cytomyx, and Ambryx. In the first quarter of 2013, the biotechnology company Biogen Idec had announced it was purchasing all of the rights to the multiple sclerosis antibody Tysabri from its development partner Elan Corp. Biogen payed Elan US$ 3.25 billion for these rights.

In terms of acquisitions, the purchase of Onyx Pharmaceuticals Inc. for approximately US$ 10 billion by biotechnology giant Amgen, was the most relevant transaction in the industry during the reporting year. Onyx specializes in the development of anticancer drugs and is involved in the treatment of multiple myeloma with

the compound Kyprolis® (carfilzomib). Through its subsidiary Medimmune, the British pharmaceutical company AstraZeneca acquired the biotech company Spirogen for an initial US$ 200 million and further performance-related payments of up to US$ 240 million. Spirogen specializes in cancer antibodies.

REGULATORY ENVIRONMENT

The healthcare sector is highly regulated in terms of pricing, reimbursement, and regulatory approval. In 2013, pressure from health care systems and reimbursers on the pharmaceutical industry remained high to sumbit drugs for regulatory approval that show evidence of providing significant additional benefits. From a positive point of view, these challenges the pharmaceutical companies are facing can be considered beneficial in terms of the willingness to innovate and take on more risk.

In the 2013 financial year, the US supervisory and regulatory authority (FDA) granted approval for 27 new drugs, which was far less than in the previous year. In 2013, the FDA introduced a new and greatly accelerated approval process, the so-called breakthrough-therapy designation. This status allows compounds with significant medical potential a quicker pathway to regulatory approval and allows closer cooperation with the authorities, which holds out the prospect for faster approval. By the end of 2013, the FDA had awarded this status to 37 preparations. Among them were five therapeutic antibodies, one of which was based on antibody technology from MorphoSys.

In August 2013, the FDA granted breakthrough-therapy designation to the HuCAL antibody developed by Novartis, bimagrumab (formerly: BYM338). This may result in MorphoSys receiving royalties from product sales earlier than expected.

Research and Development

MorphoSys is a specialist in innovative products and technologies in the field of drug development. Therefore, its long-term economic success is largely based on the successful work carried out in research and development. MorphoSys's technology platforms are continually being improved and expanded with additional modules. Additionally, MorphoSys conducts research primarily in the areas of cancer and inflammatory diseases for proprietary drug candidates, whose properties must be studied in very elaborate, and in some cases, multi-year clinical trials.

As a research-driven company, MorphoSys is committed to conserving resources and ensuring a sustainable business through optimized processes in laboratory operation. More information on this subject may be found in the Sustainability Report starting on page 38.

MorphoSys continuously invests in the improvement of laboratory equipment to maintain its long-term competitiveness. The largest investments in 2013 may be found in the following table:

CAPITAL EXPENDITURE ON TANGIBLE ASSETS IN 2013
(SELECTION OF MAJOR INVESTMENTS)

6

in 000's €	2013
Enterprise Resource Planning (ERP) Software[1]	359
Corporate Performance Management (CPM) Software[1]	230
Flow cytometer (lab equipment)	160
Autosampler (lab equipment)	136
Micro plate reader (lab equipment)	91
Light scattering detector (lab equipment)	80

[1] Software solutions for improving corporate management and consolidation:
ERP: Detailed control of business processes,
CPM: Financial consolidation, budgeting, controlling

PARTNERED DISCOVERY

In the course of the 2013 financial year, the number of distinct therapeutic antibodies[1] based on MorphoSys technology, being developed by partners, rose to 75 (31 December 2012: 69 individual antibodies). Of those, currently 16 antibodies are in clinical development, 22 in pre-clinical development, and 37 are in the discovery phase.

In view of the progress of the projects, a new phase 1 investigational drug, three projects that were progressing from phase 1 to phase 2 clinical development, and another program in a pivotal phase 2/3 trial, the year 2013 marks one of the most successful business years in the Company's history. In May 2013, MorphoSys announced the start of a clinical trial with a new antibody compound as part of the cooperation with Novartis. The relevant fully human HuCAL antibody is being developed for therapeutic use in the field of ophthalmology. MorphoSys's partner, Janssen, began with two new phase 2 clinical trials for HuCAL antibodies in the third quarter of 2013. A trial with the HuCAL antibody CNTO3157 was started with asthma patients, and a second trial began with the HuCAL antibody CNTO6785 in patients with active rheumatoid arthritis.

In the fourth quarter of 2013, Novartis began phase 2/3 clinical trials with the HuCAL-based antibody compound bimagrumab (BYM338) against sporadic inclusion body myositis. In August 2013, Novartis received the FDA's so-called breakthrough therapy designation for this indication for bimagrumab. Using this status, the FDA internally prioritizes the most innovative and promising compounds. In addition, a Novartis project in phase 2 took a step forward; VAY736 is a HuCAL antibody against a skin disease caused by an autoimmune reaction.

In addition to the sheer number of programs, the partners also expanded the clinical trial programs of existing active compounds. About 20 new clinical trials were initiated in the 2013 financial year.

On 23 May 2013, Johnson & Johnson (J&J) organized a Pharmaceuticals Business Review. During the event, the first promising data was presented on guselkumab (CNTO1959), a HuCAL antibody specific to IL-23. The antibody was developed in collaboration with Janssen Biotechnology and is in phase 2 clinical trials for psoriasis and rheumatoid arthritis. The trials will be completed in 2014.

On 30 January 2014, Roche announced the initiation of an additional phase 3 trial for gantenerumab. The clinical trial is expected to start with patient recruitment in the second quarter of 2014, and will treat approximately 1,000 patients with a mild expression of Alzheimer's disease with gantenerumab (compared to placebo) over a period of 100 weeks. This trial will run until March 2019.

PROPRIETARY DEVELOPMENT

In the 2013 financial year, MorphoSys pursued three proprietary antibody compounds in clinical trials:

- The MOR103 antibody in the areas of rheumatoid arthritis (RA) and multiple sclerosis (MS), directed against the GM-CSF target molecule;
- the HuCAL antibody MOR202 in the field of multiple myeloma (MM), directed against the target molecule CD38;
- MOR208, an Fc-engineered, humanized antibody in the field of malignant B-cell diseases and directed against the CD19 target molecule.

MOR103 and MOR202 are already part of larger partnerships, while MOR208 is still developed entirely in-house. In the 2013 financial year, the ongoing clinical trials continued as planned for the preparations of MOR103 for the treatment of MS and MOR202 in the area of multiple myeloma. MorphoSys continues to be responsible for these trials as part of the partnerships with GlaxoSmithKline and Celgene.

Final data for MOR208 was announced after completion of the clinical phase 1/2a trial in patients with relapsed or refractory chronic lymphocytic leukemia (CLL/SLL). First data on the safety and objective response, according to the original eight-week treatment plan, was presented at the annual meeting of the American Society of Hematology in December 2012. Due to the first signs of efficacy in this difficult to treat patient group, the study protocol was expanded to treat patients, who benefited from treatment, in the highest dosage group for a longer duration. Eight patients qualified for longer treatment and were given up to four additional cycles of treatment with MOR208, including an extended follow-up on the response to the treatment. The final study results, including the extended treatment arm, showed an overall response rate of 29.6% (according to the criteria of the IWCLL* 2008) based on the total number of treated participants in the study (n = 27) – a doubling of the previously published response rate of 14.8%. A detailed analysis of the trial results will be published in a scientific publication.

*SEE GLOSSARY PAGE 138

[1] The method of counting proprietary and partnered programs has been adapted compared to the 2012 Annual Report: Individual antibodies are counted, regardless of the number of indications for which they are developed.

The patient dosage of MOR208 began in two new phase 2 clinical trials, in order to verify the compound's potential for indications of non-Hodgkin's lymphoma (NHL) and acute lymphoblastic leukemia (ALL). In addition, a so-called investigator-sponsored trial (IST) was started. This is a phase 2 clinical trial for the treatment of chronic lymphocytic leukemia, in which MOR208 is being tested in combination with the compound lenalidomide. ISTs are clinical trials, initiated by physicians of a research institute, in which the total responsibility (sponsor function) rests with the clinical center and not with a pharmaceutical company, MorphoSys in this case.

With regard to projects at the preclinical development stage, MorphoSys decided to discontinue an early research program in the area of infectious diseases. The program launched in September 2010 in conjunction with the British biopharmaceutical company, Absynth Biologics, examined various antibodies to combat Staphylococcus aureus type pathogens.

Currently, MorphoSys is pursuing various programs which are in the early discovery phase. Included in these programs is the co-development program with Galapagos NV, as well as two programs which are in part being carried out in cooperation with external research institutions.

Business Development

During the past financial year, MorphoSys significantly strengthened its pipeline in its two business segments Partnered Discovery and Proprietary Development. The contracts with GlaxoSmithKline and Celgene strengthened the Proprietary Development segment. The partnered pipeline matured further and now includes numerous projects in advanced stages of clinical development.

PARTNERED DISCOVERY

In 2013, MorphoSys's partnered pipeline has matured significantly. Four of the five clinical advances achieved with partners in the 2013 financial year, were directly recognized in revenues as a result of linked milestone payments. The progress of the projects bimagrumab/BYM338 and NOV-7 (both of Novartis: start of a phase 2/3 trial for BYM338 and the start of a phase 1 trial for NOV-7) as well as CNTO 3157 and CNTO 6785 (both of Janssen, both start of phase 2 trials) triggered clinical milestone payments. The sum of the performance-based payments achieved during the fiscal year 2013 amounted to € 3.0 million and exceeded the previous year's level. The phase 2 start of the VAY736 project was not linked to milestone payments.

In February 2013, MorphoSys and British Heptares Therapeutics Ltd, a leader in the field of compound discovery against G-protein-coupled receptors (GPCRs), agreed to a collaboration for the development of novel therapeutic antibodies against membrane-bound GPCR proteins. GPCRs are crucial for a variety of biological processes and diseases. Under the terms of the agreement, Heptares will develop stabilized receptors as antigens for a set of GPCR target molecules selected by MorphoSys. MorphoSys will then apply its Ylanthia antibody library to develop therapeutic compound candidates against these target molecules. MorphoSys has the right to sublicense partners' access to these target molecules in combination with therapeutic antibody programs. Heptares will receive upfront payments and further research funding payments and participate in MorphoSys's future revenues from related license agreements. Heptares also chose to develop a therapeutic antibody against a GPCR target molecule based on MorphoSys's Ylanthia library. In this context, MorphoSys is eligible to receive license fees, milestone payments, and royalties.

PROPRIETARY DEVELOPMENT

MorphoSys significantly strengthened its proprietary development portfolio during the 2013 financial year and won two partnerships for the further development of its clinical portfolio.

On 3 June 2013, MorphoSys announced a global agreement with GlaxoSmithKline (GSK) for the development and commercialization of MOR103. MOR103 is a proprietary HuCAL antibody directed against the GM-CSF target molecule which completed a clinical phase 1b/2a trial in patients with mild to moderate rheumatoid arthritis. Under the terms of the agreement, GSK assumes responsibility for the entire development and commercialization of MOR103. Also 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.

The alliance with the US biotechnology company Celgene Corporation for the MOR202 program announced in the second quarter of 2013 became effective on 10 August 2013 following the approval of the US antitrust agencies under the Hart-Scott-Rodino Act. MorphoSys received an upfront payment of € 70.8 million. Celgene also acquired 797,150 new MorphoSys shares at € 57.90 per share. This represents a premium of 5.0% to the closing share price on 9 August 2013. Compared to the share price prior to the cooperation announcement on 26 June 2013, this is a premium of approximately 53%. Currently, Celgene holds about 3% of MorphoSys's registered share capital.

MorphoSys and Celgene will jointly drive the further development of MOR202 for the treatment of multiple myeloma and other indications and share development costs in a ratio of 1/3 (MorphoSys) to 2/3 (Celgene). MorphoSys may receive additional development-related as well as regulatory and sales-related milestones as part of the cooperation. The Company has a 50:50 co-promote in Europe and gets tiered, double-digit royalties on net sales outside of Europe. The total volume of the contract could reach up to € 628 million if all development-dependent, regulatory, and revenue-related milestones be achieved.

The phase 1/2a trial in CLL for the MOR208 program was completed in the 2013 financial year. MorphoSys's partner Xencor was sponsor of this program. MorphoSys is now solely responsible for this program's further development and commercialization. The phase 2 trials in acute lymphoblastic B-cell leukemia (B-ALL) and non-Hodgkin's lymphoma (NHL) began in the second quarter of 2013 with patient recruitment, with MorphoSys as sponsor. The beginning of recruitment for the B-ALL indication triggered a milestone payment to Xencor.

The MorphoSys Share

The extremely successful 2013 financial year for MorphoSys was also reflected in the development of the share price. In early October 2013, the share penetrated the 60 euro level, reaching a twelve-year high. The shares received a particular boost from the announcement of two collaborations for proprietary drug candidates: The signing of a global licensing agreement with GlaxoSmithKline for MOR103 in early June, and especially the strategic alliance with Celgene for MOR202, which was announced at the end of June, resulted in significant increases in the share price. By year end 2013, MorphoSys shares closed with a gain of 87 %. During the same period, the TecDAX rose 38 % and the NASDAQ Biotech Index rose 60 %.

STOCK MARKET DEVELOPMENT

Historically low interest rates boosted stock markets worldwide in 2013. Particularly in the US, the sentiment on the capital markets with regard to biotechnology companies was still very positive. During the year, 46 initial public offerings of biotech companies on the NASDAQ alone raised funds of approximately US$ 3.5 billion. This value has only been exceeded in the year 2000 when there was a total of 63 IPOs for almost US$ 6 billion. In addition to the US markets, the European stock market environment also benefited from well-filled development pipelines and various successful approvals in the industry. However, since the greatest interest in investing in biotechnology companies still resides in the US, MorphoSys significantly expanded its investor relations activities in the US market in 2013.

LIQUIDITY AND INDEX MEMBERSHIP

In 2013, the average daily trading volume of the MorphoSys share on all trading platforms more than tripled compared to the previous year, increasing 354 % to € 6.9 million. This development can be attributed to an increase in both the share price and the number of shares traded. In the TecDAX, the index of the 30 largest technology stocks on the Frankfurt Stock Exchange, the trading volume of the shares traded on average also increased by over 40 %. MorphoSys was able to continue to consolidate its position in the TecDAX* and improve its position at the end of 2013: Measured by market capitalization* MorphoSys took 7th place (year-end 2012: 12th place); based on trading volume, it held 11th place (year-end 2012: 14th place).

*SEE GLOSSARY PAGE 138

COMMON STOCK

The Company's share capital increased in 2013 to 26,220,882 shares, € 26,220,882.00 respectively. The reason for this increase was the exercise of 551,438 stock options and convertible bonds as well as two capital increases from authorized capital:

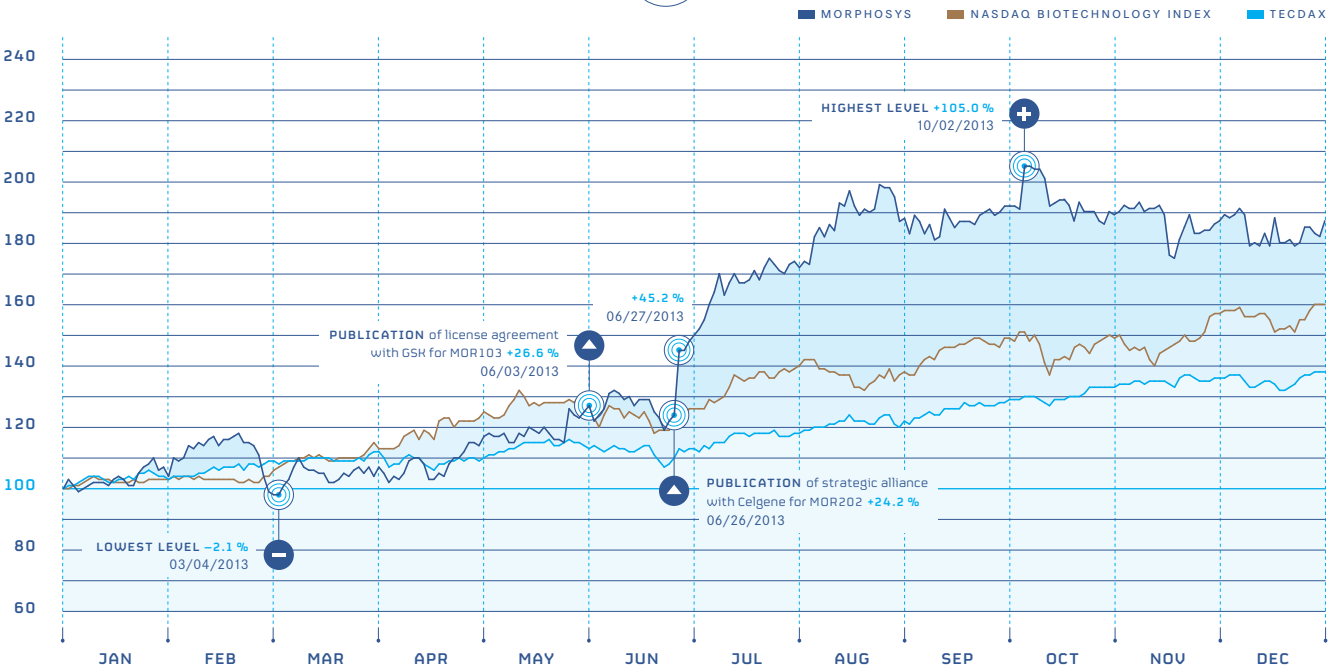
As part of the alliance for MOR202, Celgene acquired 797,150 new shares at a price of € 57.90 per share, which corresponded to a premium of 5.0 % to the closing share price on 9 August 2013.

In September 2013, MorphoSys issued 1,514,066 new shares from authorized capital to international institutional investors at a price of € 55.76 per share. This share price corresponded to the closing price of the previous trading day, 18 September 2013.

PERFORMANCE OF THE MORPHOSYS SHARE IN 2013

(1 JANUARY 2013 = 100 %)

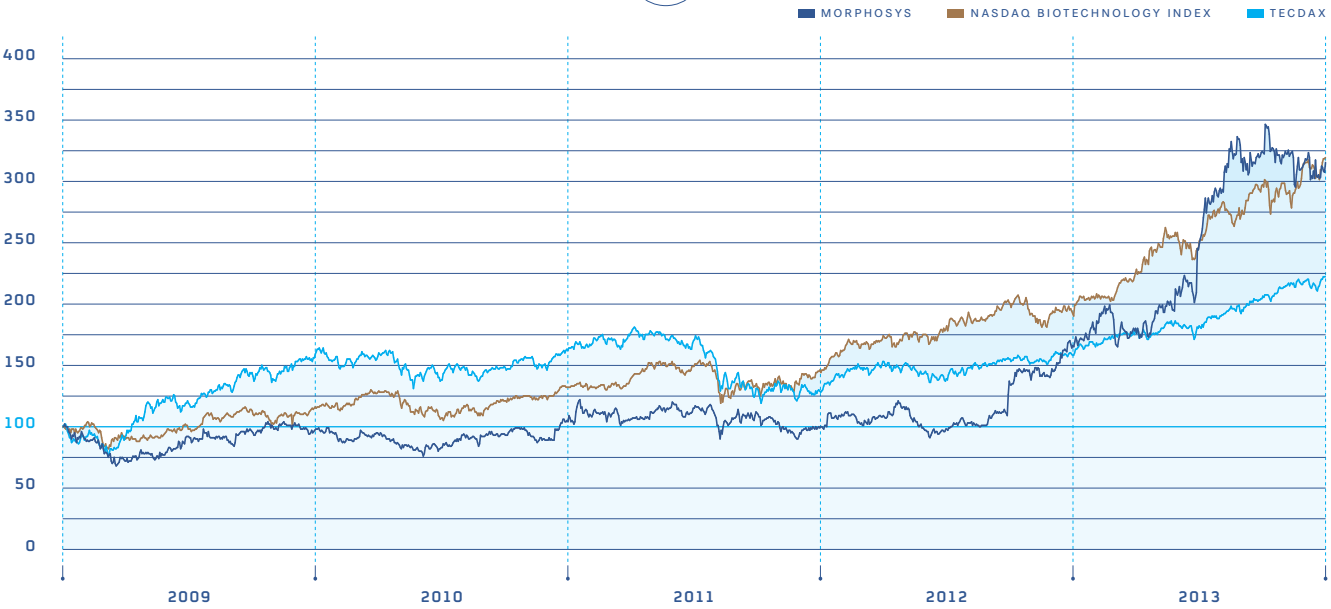
6



COMPARISON OF THE MORPHOSYS SHARE PRICE DEVELOPMENT WITH BENCHMARK INDICES BETWEEN 2009 AND 2013

(1 JANUARY 2009 = 100 %)

7



KEY DATA FOR THE MORPHOSYS SHARE
(AS OF 31 DECEMBER OF EACH YEAR)

7

	2013	2012	2011	2010	2009
Total Stockholders' Equity (in million €)	352.1	202.0	197.1	185.9	173.9
Number of Shares Issued (number)	26,220,882	23,358,228	23,112,167	22,890,252	22,660,557
Market Capitalization (in million €)	1,464	685	405	424	386
Closing Price in € (Xetra)	55.85	29.30	17.53	18.53	17.04
Average Daily Trading Volume (in million €)[1]	6.9	1.9	1.8	1.1	1.3
Average Daily Trading Volume (in % of Share Capital)[1]	0.59	0.38	0.38	0.26	0.34

[1] Figures from 2009 to 2011 only include trading on Xetra and German regional exchanges.

MorphoSys issued stock options and non-interest bearing convertible bonds under its employee participation program until 2010. In 2011, this was changed to a performance share plan. The company repurchases shares for this share plan. A detailed description of this program can be found in the Corporate Governance Report included in this Annual Report (pp. 66 to 74). In April 2013, 449,999 convertible bonds and 61,600 performance shares were granted to the Management Board and the Senior Management Group under the third long-term incentive program (LTI plan). Detailed information on this issue may be found in the Notes (see section 7). No further stock options were issued to the Management Board, members of the Senior Management Group, or the workforce during the reporting year.

GROWING AMOUNT OF INTERNATIONAL INVESTORS

During the year, various voting right notifications were issued according to Sections 21, 25, or 26 of the German Securities Trading Act (WpHG). These were published on the MorphoSys website under the heading Media & Investors > Stock Information > Shareholder Structure.

According to the definition given by the Deutsche Börse, 92.7 % of the shares of MorphoSys AG were in free float at the end of the reporting year. The share of international investors has continued to increase. According to the latest voting rights announcement, Massachusetts Mutual Life Insurance (Oppenheimer Funds) is currently our largest single investor with a stake of about 7 %. During the reporting year, Celgene Corporation acquired a shareholding of approximately 3 % as part of the alliance for MOR202 (status as of 31 December 2013). MorphoSys was also able to increase the amount of international institutional investors through the issue of 1,514,066 new shares from authorized capital in September 2013.

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

ANNUAL GENERAL MEETING

On 4 June 2013, the Management and Supervisory Boards of MorphoSys AG welcomed shareholders to the Company's 15th Annual General Meeting in Munich. The shareholders and proxies attending represented nearly 42 % of the common stock of MorphoSys AG. All six agenda items submitted for resolution were adopted by a clear majority. This year, the Annual General Meeting is scheduled for 23 May 2014 and will take place once again in Munich.

INVESTOR RELATIONS ACTIVITIES

In the 2013 financial year, MorphoSys further intensified its communication with the capital markets. The company presented at 26 international investor conferences and at a number of roadshows and individual meetings in Europe and the US. The greatest interest was registered in the US, where a large number of specialized healthcare investors have their headquarters. At the publication of annual, half-yearly, and quarterly results, telephone conferences were also held in which the Management Board reported on past and future business developments and answered questions from analysts and investors.

ANALYST RECOMMENDATIONS (AS OF 31 DECEMBER 2013)

8

Buy/Overweight	Hold	Sell	n/a
8	2	0	1

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

The main topics at the investor meetings, aside from the progress of the drug pipeline, were the recent partnerships for the proprietary programs and their development possibilities.

At the end of the year, eleven analysts observed and evaluated MorphoSys's share development (2012: ten analysts).

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

Human Resources

GROUP HEADCOUNT DEVELOPMENT

MorphoSys's corporate success is based on its highly-trained staff and their creativity and motivation. As of 31 December 2013, there were 299 people employed at MorphoSys (31 December 2012[1]: 421 employees), of which 118 hold a PhD degree (31 December 2012[1]: 142). During 2013, the MorphoSys Group employed 290 people on average (2012[1]: 422).

SEE FIGURE 8, HEADCOUNT OF THE MORPHOSYS GROUP PAGE 24

A competitive and attractive remuneration system is a crucial factor when competing for the best employees. In order to compete successfully as an employer, MorphoSys conducts an annual comparison of its remuneration versus remuneration paid in the biotechnology industry and other comparable sectors. If necessary, the salary structure is adapted accordingly. In order to meet the requirements of a state-of-the-art compensation system in the future, MorphoSys decided to make an adjustment to its existing remuneration system during the reporting year. This adjustment defers part of the variable remuneration in favor of fixed remuneration which is valid for all employees except for the members of the Managing Board. The annual bonus is then linked exclusively to the achievement of corporate goals. Additionally, a newly introduced spot bonus promptly rewards (on the spot) the outstanding achievements of employees. The new compensation system took effect on 1 January 2014.

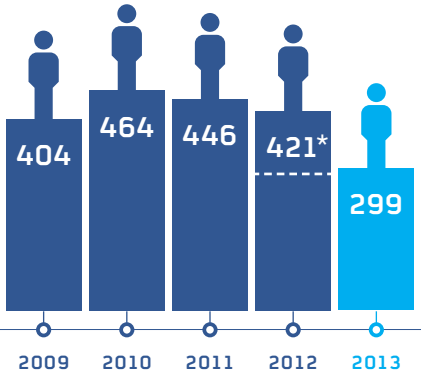
In the Sustainability Report on page 38, you will find a detailed overview of the development of the workforce and MorphoSys's activities with regard to long-term successful work in human resources.

[1] Including employees of the AbD Serotec research and diagnostic segment. The sale of AbD Serotec was completed on 10 January 2013.

EMPLOYEE FIGURES AT A GLANCE

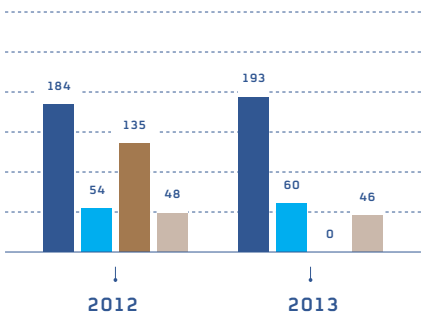
HEADCOUNT OF THE MORPHOSYS GROUP (31 December)*

8

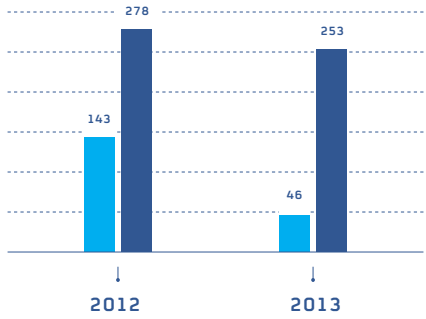


* 2009 to 2012 includes employees of research and diagnostic segment AbD Serotec, which was sold as of 10 Jan. 2013 (closing date); 2012: 135 AbD Serotec employees

EMPLOYEES BY SEGMENT**



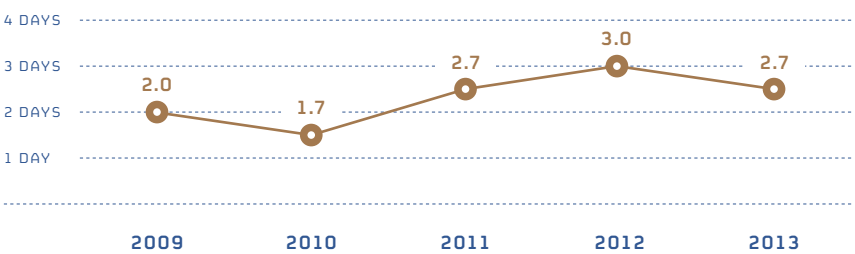
EMPLOYEES BY FUNCTION**



** 2012 includes employees of research and diagnostic segment AbD Serotec, which was sold as of 10 Jan. 2013 (closing date)

EMPLOYEE ABSENCE RATES

9



Numbers refer only to sites located in Germany only.

OCCUPATIONAL ACCIDENTS

In the reporting year the number of occupational accidents declined from 3 (2012) to

2 OCCUPATIONAL ACCIDENTS

EMPLOYEES BY GENDER

10

36% Previous year:* 40%

64% Previous year:* 60%

FEMALE (number)

Trainees 6 Previous year:* 5

Executives 22 Previous year:* 22

MALE (number)

Trainees 4 Previous year:* 5

Executives 39 Previous year:* 47

* Including AbD Serotec

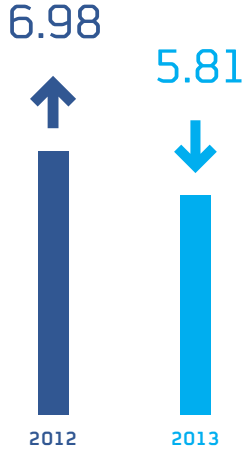
TRAINING OF EMPLOYEES ON CODE OF CONDUCT

100%
of all employees

have been trained on the Code of Conduct in 2012; additional training sessions in 2013 for all new employees.

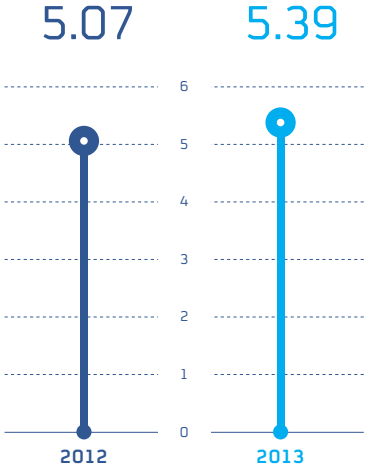
LABOR TURNOVER RATE (in %)

11



SENIORITY
(average duration in years)

12



Analysis of Net Assets, Financial Position, and Results of Operations

At the end of 2012, MorphoSys announced the sale of substantially all of the AbD Serotec business to Bio-Rad Laboratories, Inc. (Bio-Rad). As of 31 December 2012, substantially all of the AbD Serotec operating segment represented a discontinued operation within the meaning of IFRS 5. The Partnered Discovery and Proprietary Development operating segments, along with the continuing operations of the AbD Serotec segment, were classified as continuing operations as of the balance sheet date of 31 December 2012. The closing of the transaction was dependent upon the fulfillment of certain conditions that were met on 10 January 2013 (closing date). Hence, substantially all of the AbD Serotec segment was sold as of this date. Therefore, the financial implications of the discontinued operations of AbD Serotec, owned by the MorphoSys Group until 10 January 2013, are explained below.

As of 31 December 2013, the companies MorphoSys UK Ltd., Oxford, Great Britain, MorphoSys US, Inc., Raleigh, USA, and MorphoSys AbD GmbH, Düsseldorf, were no longer included in the MorphoSys Group's scope of consolidation.

Revenues

Compared to the previous year, Group revenues from continuing operations rose 50% to € 78.0 million (2012: € 51.9 million). This increase was primarily attributed to the out-licensing of the MOR103 antibody program to GlaxoSmithKline, as well as to license income in connection with the sale of the AbD Serotec segment to Bio-Rad. As part of this sale, a non-exclusive license for the use of the HuCAL technology in the market for research reagents and diagnostics was also transferred to Bio-Rad. The increase also resulted from the global agreement with Celgene Corporation in the co-development of the MOR202 cancer program and its joint commercialization (co-promotion) in Europe.

From a geographical viewpoint, MorphoSys achieved 11% or € 8.8 million of its commercial revenues with biotechnology and pharmaceutical companies and non-profit organizations headquartered in North America, and 89% or € 69.2 million with customers primarily located in Europe and Asia. In the comparable period of the previous year, these shares were 5% and 95%, respectively.

SEE FIGURE 13, REVENUE OF THE MORPHOSYS GROUP BY REGION PAGE 36

PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT SEGMENTS

Revenues from the Partnered Discovery segment included € 48.0 million in funded research and li-censing fees (2012: € 42.7 million) and € 3.0 million (2012: € 1.9 million) in success-based payments. Success-based payments amounted to 4% (2012: 4%) of the total revenues of the Partnered Discovery and Proprietary Development segments. Funded research and licensing fees grew overall due to the transfer of a non-exclusive license for the use of the HuCAL technology in the market for research reagents and diagnostics in the context of the sale of substantially all of the AbD Serotec segment to Bio-Rad.

SEE FIGURE 14, REVENUES PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT PAGE 36

In 2013, the Proprietary Development segment achieved revenues of € 26.9 million (2012: € 7.0 million). In comparison to last year, this increase was mainly affected by the recognition of an upfront payment as part of the out-licensing of the MOR103 antibody program to GlaxoSmithKline, and by the pro-rated recognition of an upfront payment under the contract for the co-development of the MOR202 antibody program with Celgene. Revenues from funded research in this segment declined to € 0.5 million (2012: € 7.0 million), as the co-development activities with Novartis were terminated.

Approximately 88% of Group revenues were attributable to our customers Novartis, GlaxoSmithKline, and Bio-Rad (2012: 97% with Novartis, Pfizer, and Roche).

Assuming the average foreign exchange rates of 2012, revenues of the Partnered Discovery and Proprietary Development segments would have amounted to € 78.1 million.

Operating Expenses

In 2013, operating expenses increased 36 % to € 67.9 million (2012: € 49.8 million). The € 18.1 million increase is attributable to a rise in research and development expenses of 31 %, or € 11.5 million, to € 49.2 million, and the increase in selling, general, and administrative expenses of 55 %, or € 6.7 million, to a total of € 18.8 million.

Operating expenses rose not only in the Partnered Discovery segment (2013: € 25.5 million; 2012: € 21.8 million) but also in the Proprietary Development segment (2013: € 27.5 million; 2012: € 18.1 million).

Personnel expenses resulting from share-based payments are included in selling, general, and administrative expenses, as well as in research and development expenses. These amounted to € 5.1 million (2012: € 1.3 million) and represent a non-cash expenditure. The rise is primarily due to an adjustment of the LTI programs for the years 2011 and 2012, and to the new LTI and convertible bond programs which were both granted in Q2 2013.

RESEARCH AND DEVELOPMENT EXPENSES

In 2013, research and development expenses rose by € 11.5 million to € 49.2 million (2012: € 37.7 million). Higher costs for external laboratory services (2013: € 13.0 million; 2012: € 7.2 million) and higher personnel expenses (2013: € 21.2 million; 2012: € 17.9 million) were the main reasons. Research and development expenses also included impairment of licenses in the amount of € 0.7 million and impairment of property, plant, and equipment in the amount of € 0.5 million.

SEE FIGURE 16, SELECTED R&D EXPENSES PAGE 37

In 2013, the Company incurred expenses for proprietary product development of € 27.5 million (2012: € 18.1 million) and expenses for technology development of € 4.2 million (2012: € 3.6 million) (see the following Table 9).

SEE FIGURE 15, DISTRIBUTION OF R&D EXPENSES PAGE 37

DISTRIBUTION OF R&D EXPENSES

9

in million €	2013	2012	2011	2010	2009
R&D Expenses on behalf of Partners	17.5	16.0	19.1	18.9	19.2
Proprietary Development Expenses	27.5	18.1	33.9	25.9	19.1
Technology Development Expenses	4.2	3.6	2.9	2.1	0.7
R&D TOTAL	**49.2**	**37.7**	**55.9**	**46.9**	**39.0**

SELLING, GENERAL, AND ADMINSTRATIVE EXPENSES

In comparison to the same period in the prior year, sales, general, and administrative expenses rose 55%, or € 6.7 million, and amounted to € 18.8 million (2012: € 12.1 million), mainly as a result of higher personnel expenses (2013: € 11.3 million; 2012: € 7.4 million), and expenses for third-party services (2013: € 4.1 million; 2012: € 2.2 million). Selling, general, and administrative expenses also comprised an impairment of patents amounting to € 0.3 million.

Other Income and Expenses

Other income amounted to € 0.8 million (2012: € 0.4 million) and mainly consisted of service income from the support of Bio-Rad in the integration of the AbD Serotec business, as well as government grants. Other expenses of € 0.9 million (2012: € 0.1 million) were primarily composed of currency losses, impairments of receivables and research grants which have to be repaid.

EBIT

Earnings before interest and taxes (EBIT) from continuing operations amounted to € 9.9 million compared to an EBIT of € 2.5 million in the previous year. By segment, EBIT from continuing operations of the Partnered Discovery and Proprietary Development segments amounted to € 25.4 million (2012: € 23.0 million) and € -0.5 million (2012: € -11.0 million), respectively.

Finance Income and Expenses

Finance income amounted to € 0.9 million (2012: € 0.7 million) and largely included realized gains from securities that were sold during the reporting period, as well as interest income. Finance expenses of € 0.1 million (2012: € 0.1 million) mainly resulted from bank fees, losses from currency hedging transactions, and interest expenses.

Taxes

In 2013, continuing operations reported an income tax expense of € 3.3 million (2012: € 0.7 million) which is composed of current tax expenses of € 3.7 million and deferred tax income of € 0.4 million.

Profit for the Year from Continuing Operations

In 2013, continuing operations achieved a net profit for the period of € 7.4 million (2012: € 2.4 million). The resulting basic net profit per share in 2013 amounted to € 0.30 (2012: € 0.10).

Results from Discontinued Operations

The sale of substantially all of the AbD Serotec business to Bio-Rad was completed on 10 January 2013. Upon deconsolidation, a disposal gain of € 8.0 million was achieved. After deduction of transaction costs, the disposal gain amounted to € 6.2 million.

Net profit for the period from discontinued operations amounted to € 6.0 million (2012: € -0.4 million).

The result from discontinued operations is comprised as follows.

In the first ten days of 2013, discontinued operations generated revenues of € 0.6 million (2012: € 17.7 million).

Operating expenses totaled € 2.3 million (2012: € 18.1 million), including cost of goods sold in the amount of € 0.2 million (2012: € 6.2 million). Selling, general, and administrative expenses of € 2.1 million (2012: € 10.0 million) included transaction costs of € 1.8 million (2012: € 0.5 million) related to the sale of the AbD Serotec business.

RESULT OF DISCONTINUED OPERATIONS

10

in 000's €	2013[1]	2012
Revenues	603	17,690
Cost of Goods Sold	158	6,238
Research and Development	6	1,845
Selling, General and Administrative	2,101	10,010
Total Operating Expenses	2,265	18,093
Other Income/(Expenses)	10	(153)
Earnings before Interest and Taxes (EBIT)	(1,652)	(556)
Finance Income/(Expenses)	(5)	(85)
Other Income from Sale of Assets and Liabilities of Disposal Group Classified as Held for Sale	8,001	0
Profit before Taxes	6,344	(641)
Income Tax (Expenses)/Income from Discontinued Operations	(35)	217
Income Tax Expenses in connection with the Sale of Assets and Liabilities of the Disposal Group Classified as Held for Sale	(358)	0
Profit/(Loss) for the Year from Discontinued Operations	5,951	(424)

[1] Comprises the period from 1 January to 10 January 2013

The significant decrease in revenues and operating expenses in comparison to the previous year was caused by the MorphoSys Group's disposal of substantially all of the AbD Serotec segment on 10 January 2013.

The discontinued operations of the AbD Serotec segment generated EBIT of € -1.7 million in 2013 (2012: € -0.6 million).

Profit before taxes amounted to € 6.3 million (2012: € -0.6 million). In 2013, income tax expenses amounted to € 0.4 million (2102: income of € 0.2 million). This amount included income tax expenses of € 0.4 million related to the disposal gain from the discontinued operations.

Consolidated Net Profit/Loss for the Period

In 2013, continuing operations achieved a net profit for the period of € 13.3 million (2012: € 1.9 million). The resulting basic net profit per share in 2013 amounted to € 0.54 (2012: € 0.08).

Financial Position

PRINCIPLES OF FINANCIAL MANAGEMENT

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

Multiple-Year Overview – Income Statement

in million €	2013[1]	2012[1]	2011[1]	2010	2009
Revenues	78.0	51.9	82.1	87.0	81.0
Cost of Goods Sold	0	0	0	7.3	6.7
Gross Profit	78.0	51.9	82.1	79.7	74.3
Research and Development Expenses	49.2	37.7	55.9	46.9	39.0
Selling, General and Administrative Expenses	18.8	12.1	14.9	23.2	23.9
Other Income/Expenses[2]	(0.1)	0.3	(1.5)	0.2	0.1
EBIT[2,3]	9.9	2.5	9.8	9.8	11.4
Finance Income/Expenses[2]	0.8	0.6	1.4	3.4	1.6
Income Tax Expenses	(3.3)	(0.7)	(3.0)	(4.0)	(4.1)
Profit for the Year from Continuing Operations	7.4	2.4	8.2	9.2	9.0
Profit/(Loss) for the Year from Discontinued Operations[1]	6.0	(0.4)	0.01	0	0
Consolidated Net Profits	13.3	1.9	8.2	9.2	9.0

[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. See also section 4.5 of the Notes.
[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] 2009 – 2010: Result from operating activities

Multiple-Year Overview – Financial Situation

in million €	2013	2012	2011	2010	2009
Net Cash Provided by/Used in Operating Activities[1]	89.1	1.8	27.1	1.9	(1.0)
Net Cash Provided by/Used in Investing Activities	(193.9)	(12.1)	(18.1)	(2.0)	0.6
Net Cash Provided by Financing Activities[1]	130.6	1.6	1.3	2.3	1.4
Cash and Cash Equivalents (as of 31 December)[2]	71.9	40.7	54.6	44.1	41.3
Available-for-sale Financial Assets	188.4	79.7	79.8	64.3	93.9
Bonds, Available-for-sale	11.1	0	0	0	0
Financial Assets Categorized as „Loans and Receivables"	119.3	10.0	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.

CASH FLOWS

The net cash inflow from operating activities totaled € 89.1 million in 2013 (2012: cash inflow of € 1.8 million). Of this amount, a net cash outflow of € 1.9 million in 2013 was attributable to discontinued operations (2012: cash inflow of € 1.0 million), while continuing operations achieved a cash inflow from operating activities of € 91.1 million (2012: cash inflow of € 0.7 million).

In 2013, 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 € 193.9 million (2012: cash outflow of € 12.1 million) which included a cash inflow of € 36.6 million from discontinued operations (2012: cash outflow of € 0.3 million) and a cash outflow of € 230.5 million from continuing operations (2012: cash outflow of € 11.8 million).

In 2013, cash flow from financing activities amounted to a cash inflow of € 130.6 million (2012: cash inflow of € 1.6 million) which was entirely attributable to continuing operations.

INVESTMENTS

In 2013, MorphoSys carried out investments in property, plant, and equipment of € 1.0 million (2012: € 1.0 million) for continuing operations. Depreciation of property, plant, and equipment amounted to € 1.5 million in 2013 compared with € 2.3 million in 2012. In the fourth quarter of 2013, impairment of € 0.5 million was carried out on laboratory equipment.

In 2013, the Company invested € 4.5 million in intangible assets for continuing operations (2012: € 1.3 million). Amortization of intangible assets amounted to € 3.3 million in 2013 and was thus below the level of the prior year (2012: € 4.0 million). In the third quarter of 2013, impairment of patents and licenses amounting to € 1.1 million was recognized.

LIQUIDITY

On 31 December 2013, the Company held liquid funds and marketable securities, as well as other financial assets, in the amount of € 390.7 million, compared to € 135.7 million on 31 December 2012.

This amount included cash and cash equivalents of € 71.9 million (31 December 2012: € 40.7 million), marketable securities and bonds amounting to € 199.5 million (31 December 2012: € 79.7 million), as well as other financial assets of € 119.3 million (31 December 2012: € 10.0 million) which were reported in other receivables under the category “loans and receivables”. As of 31 December 2012: additional liquid funds of € 5.3 million were presented in assets of a disposal group classified as held for sale.

The rise in liquidity compared to the previous year primarily resulted from the contract with Celgene (one-off upfront payment of € 70,8 million and the purchase of MorphoSys shares in the amount of € 46,2 million), from the capital increase carried out in September (€ 84,4 million), from the proceeds from the purchase price of the divested AbD Serotec business (€ 53,2 million, including the amount accrued on an escrow account), as well as from the contract with GlaxoSmithKline (one-off upfront payment of € 22,5 million).

Net Assets

ASSETS

As of 31 December 2013, total assets amounted to € 447.7 million, or € 223.4 million higher than on 31 December 2012 (€ 224.3 million). The € 263.7 million increase in current assets mainly resulted from the cash proceeds in connection with the Celgene contract, the capital increase carried out in September, the proceeds from the purchase price of the divested AbD Serotec business, as well as the contract with GlaxoSmithKline.

The majority of the cash proceeds was invested in various securities. As of 31 December 2013, a sum of € 188.4 million (31 December 2012: € 79.7 million) was invested in various money market funds which were recorded under the line item “securities, available for sale”. The line item “bonds, available for sale” contained bonds amounting to a total of € 11.1 million (31 December 2012: € 0 million).

Other receivables grew from € 10.3 million as of 31 December 2012 to € 119.5 million. This line item is primarily composed of various investments, which were allocated to the category "loans and receivables" (€ 114.6 million), as well as a partial amount of € 4.7 million of the purchase price for the divested AbD Serotec business held in an escrow account.

Compared to 31 December 2012, non-current assets slightly increased by € 0.5 million. The increase in the line item "inlicensed research programs" resulting from the capitalization of milestone payments in the amount of € 2.3 million and the € 0.8 million contribution to Lanthio Pharma B.V. were partially offset by a decrease in licenses and patents of € 1.7 million and € 0.8 million, respectively, due to amortization and impairment.

LIABILITIES

The increase in current liabilities from € 11.9 million as of 31 December 2012 to € 35.4 million on 31 December 2013 essentially resulted from a higher current portion of deferred revenues (€ +14.7 million) as a result of the deferred upfront payment from Celgene. Accounts payable and accrued expenses rose by € 6.5 million in comparison to 31 December 2012, mainly driven by higher accrued expenses for external laboratory services. Additionally, tax liabilities increased by € 2.1 million due to the earnings situation.

Non-current liabilities changed significantly compared to the reporting date of 31 December 2012 and increased by € 53.5 million, primarily due to deferred revenues in connection with the upfront payment from Celgene.

STOCKHOLDERS' EQUITY

As of 31 December 2013, Group equity totaled € 352.1 million compared to € 202.0 million on 31 December 2012.

As of 31 December 2013, the number of shares issued totaled 26,220,882, of which 25,880,992 shares were outstanding (31 December 2012: 23,358,228 and 23,102,813 shares, respectively). In connection with the capital increase in September 2013 and the purchase of MorphoSys shares by Celgene, a total of 2,311,216 new shares were issued.

Compared to 31 December 2012, the number of authorized ordinary shares fell from 43,142,455 to 36,614,174 since the Authorized Capital 2008-I from the 2008 Annual General Meeting expired on 30 April 2013 and had not been used.

As part of a cash capital increase in connection with the Celgene Transaction, 797,150 shares were issued on 27 August 2013 from "Authorized Capital 2012-II". As part of another cash capital increase, 1,514,066 additional shares were issued on 23 September 2013 from "Authorized Capital 2012-II". Accordingly, "Authorized Capital 2012-II" was fully utilized.

In the course of the second quarter of 2013, the Company repurchased 84,475 own shares on the stock exchange and increased its holding in treasure shares accordingly. The shares are used to serve the Company's long-term incentive plan for members of the management.

Financing

As of 31 December 2013, the Company's equity ratio amounted to 79 % compared to 90 % on 31 December 2012. Despite the capital measures mentioned, the lower equity ratio in comparison to the previous year resulted from the significant increase in current and non-current deferred revenues since upfront payments received in the Celgene transaction are deferred over several periods (see notes, p. 101 – Equity Ratio).

Presently, the Group is not carrying financial liabilities.

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.

Multiple-Year Overview – Balance Sheet Structure

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in million €	12/31/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Assets						
Currtent Assets	406.6	142.9	153.9	132.5	155.6	150.1
Non-current Assets	41.1	40.6	73.7	77.3	50.5	53.2
Assets of Disposal Group Classified as Held for Sale	0	40.9	0.8	0	0	0
Total	447.7	224.3	228.4	209.8	206.1	203.3
Equity and Liabilities						
Current Liabilities	35.4	11.9	23.8	21.4	24.3	27.4
Non-current Liabilities	60.1	6.6	7.5	2.5	7.9	13.9
Liabilities of Disposal Group Classified as Held for Sale	0	3.7	0	0	0	0
Stockholders' Equity	352.1	202.0	197.1	185.9	173.9	162.0
Total	447.7	224.3	228.4	209.8	206.1	203.3

Comparison of Actual Business Results to Forecasts

In the 2013 reporting year, MorphoSys demonstrated very solid financial performance. The revenue and earnings targets published at the beginning of 2013 was raised repeatedly by the Company, on the occasion of the licensing contract for MOR103 with GlaxoSmithKline, the cooperation agreement with Celgene, and lower-than-expected costs for the development of MOR202 in 2013.

A detailed comparison of our forecast targets with the actual results may be found in table 14.

The Management Board's General Assessment of Business Performance

Once again the Management Board can look back on a very successful business development of the MorphoSys Group in the 2013 financial year. The targets set at the beginning of 2013 have been met to a great extent and, in some cases, have even been exceeded. As intended, a strong financial partner was won with GlaxoSmithKline for the further development of the MOR103 compound. In terms of MOR202, MorphoSys was able to enter into a financially and strategically attractive alliance with Celgene, in the absence of any available clinical data, by using the favorable market situation and increased interest in MOR202's approach to therapy.

COMPARISON OF PROJECTED AND ACTUAL BUSINESS PERFORMANCE

	2013 Targets	2013 Results
Financial Targets	Group revenues at the upper end of the range of € 74 million to € 78 million (initial guidance was € 48 million to € 52 million; guidance raised to € 68 million to € 72 million after licensing agreement with GSK in June and again in August to € 74 million to € 78 million after the transaction with Celgene; final adjustment was made at the end of October)	Group revenues of € 78.0 million
	Investment in proprietary R&D of € 32 million to € 37 million	Investment in proprietary R&D of € 31.7 million
	EBIT of € 7 million to € 10 million (initial guidance was € (18) million to € (22) million; guidance raised to € (2) million to € 2 million after licensing agreement with GSK in June and again in August to € 2 million to € 6 million after the transaction with Celgene; final adjustment was made at the end of October)	EBIT of € 9.9 million
Proprietary R&D	MOR103 • Selection of a partner for the continuation of clinical development • Continuation of recently initiated phase 1b trials in MS as a second indication	MOR103 • Signing of a global licensing agreement with GlaxoSmithKline for inflammatory diseases • Continuation of the phase 1b trial. Data is expected in the first half of 2014
	MOR202 Continuation of the phase 1/2a trial in multiple myeloma	MOR202 Signing of a strategic alliance with Celgene for the continued development and co-promotion of the CD38 cancer program
	MOR208 Initiation of two phase 2 trials in NHL and ALL	MOR208 • Initiation of a phase 2 trial in patients with relapsed/refractory B-cell leukemia (B-ALL) • Initiation of a phase 2 trial in patients with relapsed/refractory non-Hodgkin's lymphoma (NHL) • Initiation of a phase 2 trial with MOR208 in combination with the medication lenalidomide (Revlimid®) in patients with CLL. The investigator-sponsored trial is being conducted by the Ohio State University (OSU) • Announcement of promising data following successful completion of expanded phase 1/2a trials in CLL/SLL financed by Xencor
Partner Pipeline	Continuation of partnered development programs	• Net increase of six partnered programs • Pipeline continued to mature and addsed one further phase 1 program, three phase 2 programs, and one phase 3 program
	Up to five clinical milestones	Four clinical milestones were achieved in 2013: • Initiation of a phase 1 trial of a HuCAL antibody by our partner, Novartis, for the indication of ophthalmology • Janssen Biotech begins phase 2 clinical trial in asthma patients with the HuCAL antibody CNTO 3157 • Initiation of a phase 1 trial with the HuCAL antibody CNTO 6785 in patients with active rheumatoid arthritis by our partner, Janssen • Phase 2/3 milestones by Novartis with the start of a clinical trial of bimagrumab (BYM338) in the disease area of sporadic inclusion body myositis

In the 2013 financial year, revenues from continuing operations of the MorphoSys Group amounted to € 78.0 million or 50 % above the adjusted comparable value of the previous year. With an EBIT of € 9.9 million, the Company remained profitable once again. An equity ratio of 79 %, liquidity of € 390.7 million, and the absence of financial debt, underscore the very solid financial situation of the Company.

The Partnered Discovery segment made the largest contribution to the operation's success again in this reporting year. For the first time, the Proprietary Development segment generated notable revenues due to the conclusion of contracts with GlaxoSmithKline and Celgene. As a result of the positive business performance of both segments, MorphoSys was able to continue to invest significantly in proprietary products and technology development. Despite the continued high level of investment, the Company was still able to report solid operating profits.

Investments in research and development are reflected in our ever-maturing product pipeline. MorphoSys's proprietary compounds are showing excellent progress, including further clinical efficacy data on MOR208 and the advancements made by this drug candidate in three phase 2 trials. In 2013, with bimagrumab, the second HuCAL program progressed to a phase 3 trial.

The sale of the AbD Serotec segment to Bio-Rad was executed swiftly and smoothly and the closing of the transaction was announced shortly after the start of 2013.

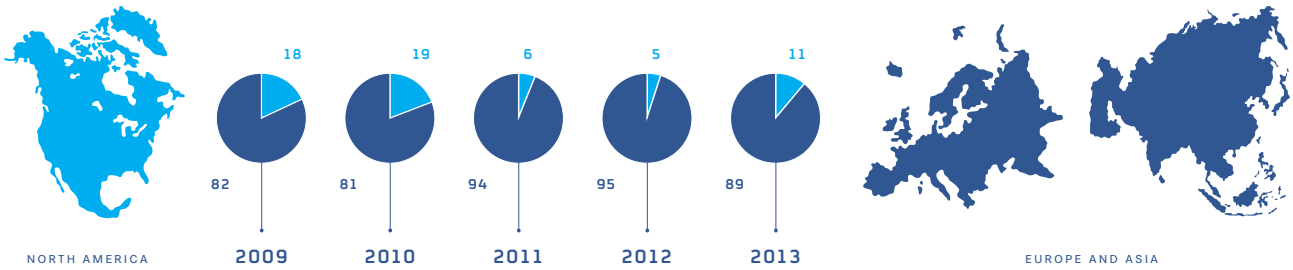
Accounting Judgments

In the 2013 consolidated financial statements, no accounting policies were applied or 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, the financial position, or on the 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.

KEY FINANCIAL RATIOS AT A GLANCE

REVENUE OF THE MORPHOSYS GROUP BY REGION (in %)

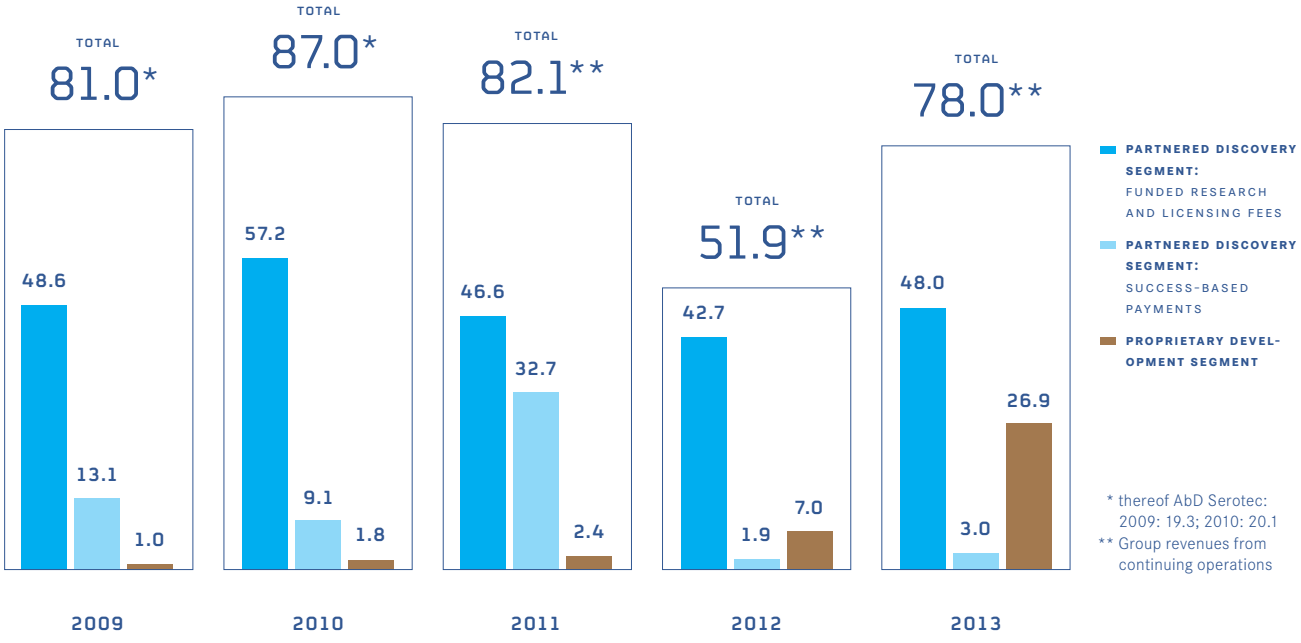
13



REVENUES PARTNERED DISCOVERY AND PROPRIETARY DEVELOPMENT

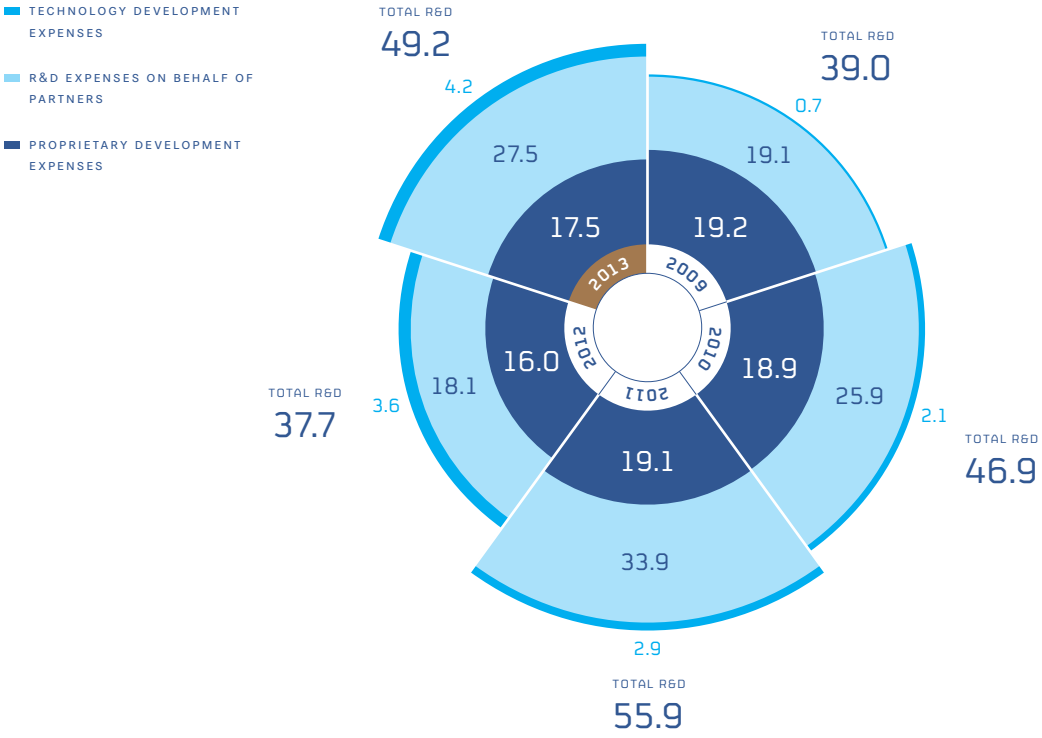
(in million €)

14



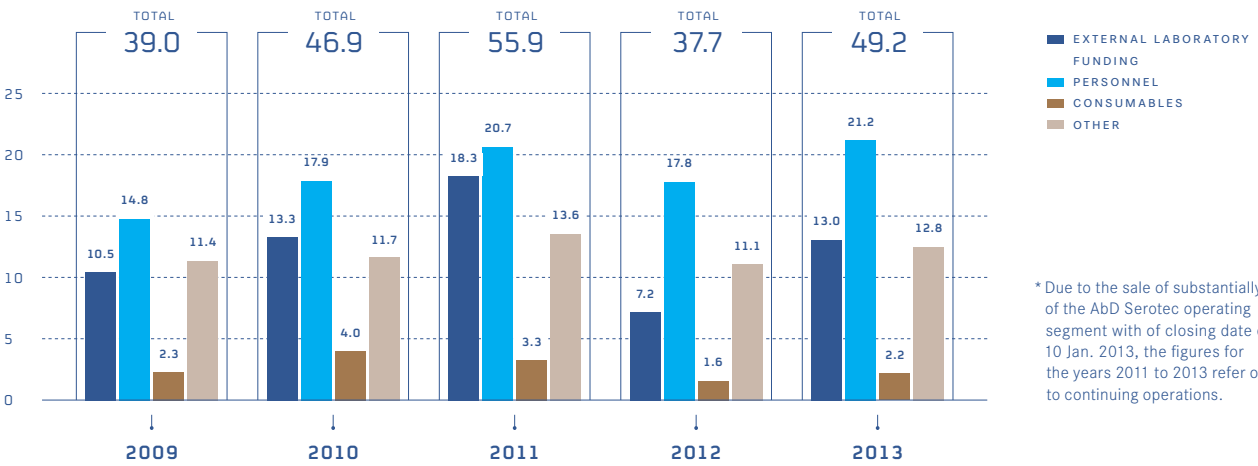
DISTRIBUTION OF R&D EXPENSES (in million €)

15



SELECTED R&D EXPENSES (in million €)*

16



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

Sustainability Report

For MorphoSys, sustainability means ecological and social responsibility for the benefit of today's and future generations. As a research-driven Company in the field of biotechnology, compliance with the highest ecological, social, and ethical standards goes hand in hand with long-term economical success. The Sustainability Report details the measures taken during the reporting year in order to meet these standards. Information of the management structure and corporate governance practices of MorphoSys can be found in the Corporate Governance Report.

Sustainable Corporate Management at MorphoSys

A hallmark of MorphoSys's corporate management is sustainable and responsible behavior to generate essential added value to the society. This is true at all levels of management for both the short and long-term. This endeavor has already been reflected in the core activity of the Company to develop even more effective and safer drugs. In daily operations, a high value is always placed on working in harmony with strict ecological and social principles. Therefore, MorphoSys pursues a business model aimed at sustainable growth, which protects the interests of its shareholders, creates long-term value, and evaluates processes with regard to their effects on the environment, society, patients, and employees. A forward-looking human resources policy, which takes the needs of the employees seriously, reflects this business model internally.

MorphoSys bases its long-term and sustainable business success on targeted and innovative research and development. Biotechnologically-produced drugs have an increasing share in the health care of a growing and aging population. Comprehensive health care is one of the main challenges of the future. 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 appropriate countermeasures are taken, if necessary. MorphoSys only assumes a risk if simultaneously an opportunity is offered to increase the company's value. At the same time, tremendous effort is being made to systematically identify new opportunities and to leverage our business success (for more information on risks and opportunities please refer to page 46).

The entire Management Board, chaired by the Chief Executive Officer, monitors Group-wide compliance with the sustainability strategy. 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 both the German and English languages. Routine employee training on the Code of Conduct in general, and on specific sections, ensure that the guidelines are understood and implemented. The Code of Conduct Committee consists of four members (Chairperson and three other members), and is at the disposal of and may be contacted by all employees. In addition, a Compliance Officer coordinates the Compliance Management System of MorphoSys since the end of 2013. If preferred, each employee can receive advice on an anonymous basis on all matters relating to legal compliance and corporate responsibility, and report suspected cases or violations. Breaches of compliance are consistently pursued and the 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.

When reporting on sustainability, MorphoSys uses the so-called Sustainable Development Key Performance Indicators (SD-KPIs), which are also recommended by the SD-KPI standard. These include performance in proprietary R&D (SD-KPI 1) and performance in partnered programs as benchmarks for the commercialization rate (SD-KPI 2) (see "Strategy and Performance Management"). In the last five years, no products have been recalled and there were no fines or settlements imposed that were caused by disputes (SD-KPI 3). The following report on the implementation of MorphoSys's corporate strategy and sustainable corporate development is based on the recommendations of the German Sustainability Code, which was proposed by the German Council for Sustainable Development in October 2011.

Sustainable Performance at MorphoSys

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. The Company adheres, in particular, to the Declaration of Helsinki of the World Medical Association (WMA). Strict compliance with national and internationally applied regulations is mandatory for all MorphoSys employees as well as for subcontractors.

Since European legislation requires the use of animal testing in order to determine the toxicity*, pharmacokinetics*, and pharmacodynamics* of a compound candidate, the biotechnology industry cannot currently forgo such testing. MorphoSys does not have its own suitable research laboratories for these types of trials, therefore the Company passes these animal studies 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 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. Principally, trials are carried out only after the approval of the relevant ethics committee concerned and only under the constant supervision of a veterinarian.

*SEE GLOSSARY PAGE 138

Institutes cooperating with MorphoSys, must comply with the legal requirements for research involving animals, and also possess the quality assurance verification of Good Laboratory Practice (GLP) and/or an accreditation of the AAALAC (Association for Assessment and Accreditation of Laboratory Animal Care). This is how MorphoSys ensures it fulfills 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 relevant staff, as well as animal welfare are verified on location and conducted before 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 with patients during clinical trials. These trials are also 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 have hightest 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 submit an informed consent on a voluntary basis.

The aim of the business activities of MorphoSys is to improve the health of patients through its scientific work. However, the company can only achieve this objective if its activities also find social acceptance. This requires a continuous and open dialogue 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, for example by participating in public information events, and by actively supporting the Communication and Public Relations task force of BIO Deutschland e.V.

PROCUREMENT

The Central Purchasing & Logistics department was created in 2012 to support the business and is responsible for Group procurement and ensuring the uninterrupted supply of external goods, services, consulting, and logistics services. The department manages relationships with suppliers to ensure a consistent high quality of goods and services that meet the required standards. The department is constantly striving to improve the efficiency and effectiveness of procurement processes. In the course of the reporting year, partnerships with suppliers have been strengthened by the introduction of special framework agreements. All suppliers selected by MorphoSys are committed to the observance of human rights and internationally recognized labor standards. The activities of the central purchasing department secured savings in the reporting year of approximately 9% of the corresponding expenditures in 2013.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

In a strictly regulated industry such as the biotechnology industry, the environmental protection and occupational safety department plays a material role in the Company. The department centrally monitors compliance with all relevant provisions within the MorphoSys Group. Beyond the Company's strict compliance with all legal requirements, MorphoSys undertakes a variety of efforts throughout the Group for sustainable environmental management and the reliable protection of its employees.

SEE FIGURE 17, OCCUPATIONAL SAFETY AT MORPHOSYS PAGE 44

The conservation of resources is a key task. Thus, as the renovation of office space was initiated in 2013, special attention was paid to the use of sustainable materials. The textile floor coverings, for example, were purchased from a European manufacturer who was one of the first to receive an independent Environmental Product Declaration (EPD). Local workshops were commissioned for the necessary renovations. In addition, MorphoSys led various measures for energy savings and waste reduction. These measures not only had a positive impact on the environment, but also reduced costs in the reporting year. In 2013, as in prior years, MorphoSys participated in the survey conducted by the Carbon Disclosure Project (CDP) for monitoring internal resource consumption. For the fifth consecutive year, the Company took part in the study of this independent non-profit organization which aims to reduce greenhouse gases and promote sustainable water usage. As in previous years, the study's results showed that there was no need for action on the part of the Company. Nevertheless, MorphoSys uses the annual results for the routine and structured monitoring of its consumption, and thus would be in a position to promptly take action in the case of any excessive consumption. Successful resource-saving measures established in the past were pursued consistently; for example, energy and cost-saving monitor screens, energy-efficient laboratory equipment, and measures for the economical use of paper and printer toner.

In 2013, MorphoSys 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 third consecutive time. In addition to this initiative, there were extensive offers for all employees on preventative health care and the promotion of health. These included offers such as autogenic training, Pilates, ball sports, participation in running events, etc. In September 2013, MorphoSys organized a Health Day under the slogan: "It's about your health!", and encouraged the Group's workforce to participate voluntarily. Approximately 60% of employees participated in the lectures and campaigns. The employees were also made aware of the subjects of pressure and stress in psychologically accompanied seminars.

With only two reportable accidents in the reporting year, the number of accidents fell below the level of the previous year (three reportable accidents). Thus, the rate at MorphoSys of approximately three accidents per 1,000 employees is well below the average rate in Germany (about 26 accidents per 1,000 employees according to the latest survey in 2011).

MorphoSys attempts to minimize the amount of contaminants used in laboratory work. Only a specially trained group of people are permitted to deal with toxins, and work with infectious pathogens may only be carried out in secured laboratories. MorphoSys only commissions companies certified for the disposal of chemical waste. MorphoSys avoids using radioactive substances for labeling antibodies.

QUALITY ASSURANCE

The adherence to the highest safety and quality standards is a special responsibility of biopharmaceutical companies. MorphoSys pursues detailed procedures and strict rules in order to avoid security risks in drug development that may pose a serious threat to patients and the economic situation of the company. In this manner, the Company guarantees the quality of the investigational medicinal products, keeps the risks to subjects 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 established an integrated quality management system for its Proprietary Development department, which complies with the principles of Good Manufacturing Practice (GMP*), as well as those of Good Clinical Practice (GCP*) and Good Laboratory Practice (GLP*). An independent quality assurance department ensures that all development activities comply with national and international laws, rules, and guidelines. The head of quality assurance reports and coordinates all activities directly with the Management Board. In this manner, MorphoSys achieves high quality standards, ensures product quality and data integrity, and guarantees the safety of the test subjects.

SEE FIGURE 18, QUALITY MANAGEMENT SYSTEM AT MORPHOSYS PAGE 45

*SEE GLOSSARY PAGE 138

The quality assurance department creates a verification plan using a risk-based approach. On the basis of this plan, an audit is conducted on the selection of the contract research institutes, suppliers, and research sites participating in the clinical trials.

For its Proprietary Development activities, MorphoSys possesses a manufacturing license for the release of investigational medicinal products and was awarded a certificate for compliance with the standards and guidelines of Good Manufacturing Practice (GMP) by the government of Upper Bavaria which is the responsible German authority.

INTELLECTUAL PROPERTY

Proprietary technologies and the resulting products are MorphoSys's most valuable capital. Therefore, it is critical to the success of the Company to secure a strong patent position for its technology portfolio and its MOR103, MOR202, and MOR208 development programs. In the case of partnered programs, the partner companies file patent applications for individual drugs in cooperation with MorphoSys's patent department. Such drug development programs possess additional patent protection, the duration of which far exceeds that of the underlying technologies, such as HuCAL or Ylanthia.

In 2013, the Company systematically expanded and focused its patent portfolio. In terms of technology, decisive steps were taken to efficiently protect the new Ylanthia antibody platform. The first patents have already been granted. Additionally, MorphoSys possesses a variety of other technology patents, which serve as the basis for the Company's growth and aid the drug development programs. Patent protection for the Ylanthia platform will run at least until the year 2031.

SEE FIGURE 19, PATENT LIFETIME FOR KEY PLATFORM TECHNOLOGIES PAGE 45

The Company's proprietary development programs are closely monitored under patent law. For example, the most advanced programs, MOR103 and MOR202, which have been brought into partnerships, are each protected by more than a half dozen different patent applications that cover the most varied aspects of these compounds and thus provide effective protection. The various patents and associated protection certificates are not expected to expire until 2031. The program MOR208 is also protected by various patents. In the fourth quarter, MorphoSys for example announced the receipt of a new US patent and a European patent to protect the cancer compound MOR208. The new patents granted include the protein and gene sequences of the antibody, as well as the pharmaceutical preparations comprising these. They have a scheduled expiry date of 2029 for the US patent, and 2027 in the case of the European patent excluding any possible patent office or regulatory extensions.

Presently, MorphoSys patent attorneys attend to approximately 40 different patent families globally, in addition to the numerous patent families pursued by the Company together with its partners. The patent portfolio is routinely analyzed and adapted to the corporate strategy of the Company.

PERSONNEL

The Company relies on a forward-looking human resources policy in order to promote Company loyalty among its professionally and personally suitable employees in various disciplines. In an industry such as biotechnology, in which success is highly dependent upon the creativity and commitment of the workforce, employee retention and satisfaction are key factors of success. At the end of the reporting year, MorphoSys's workforce comprised employees of 18 different nationalities (2012: 16), who have been with the Company for 5.4 years on average (2012: 5.1 years).

SEE FIGURES 8–12, EMPLOYEE FIGURES AT A GLANCE PAGES 24 TO 25

A comprehensive range of further training, internal and external training programs, and special training and development programs are available for the employees of the different departments. Along with professional development, MorphoSys enhances the personal development of its employees and in some individual cases, supports them through individualized coaching. The quarterly management workshops, initiated in 2012, also continued with great success in 2013. These workshops offer all executives concrete support in addressing management tasks. Uniform regulations serve as guidance within the context of sustainable human resources management. In July 2013, managers at all levels met for a workshop which had four main topics:

- promoting an understanding of the actions of the different areas of the Group;
- creating awareness of leadership issues;
- emphasizing the importance of responsible interdisciplinary cooperation;
- advising on ways to optimize the current compensation system.

The resulting proposals served the Management Board as an aid in decision making during the conversion of the remuneration system as of 1 January 2014.

MorphoSys offers the opportunity for in-house vocational training in order to provide young people with promising future career prospects. weAs of 31 December 2013, MorphoSys employed three trainees in the IT department, six biology laboratory technician apprentices, and one human resources services trainee (31 December 2012: three IT apprentices and six biology laboratory technician trainees, one human resources service trainee).

Transparent communication within the workforce is a fundamental component of MorphoSys's corporate culture, as described in the ethical principles (The Credo) of the Company. Every two weeks, "General Meetings" are held, in which the Management Board describes all of the Company's recent developments to the employees. Employees also present selected projects and open-ended questions are answered. Questions or feedback from the workforce can be made either directly in the meeting or in advance and submitted in written form. If preferred, this may also be done anonymously. In addition, the Company intranet and its integrated document management system provide updated and relevant information in a structured manner for all employees.

New employees take part in a two-day introductory course to familiarize themselves with the Group. Hereby, employees can obtain extensive information on business processes on the basis of individual lectures held by all departments. Sports and relaxation options, such as Pilates lessons and courses in autogenic training, are free of charge and encourage health and the social exchange of employees across all departments.

Effective concepts for reconciling professional development with personal life planning is a strategic success factor for future-oriented companies. Therefore, for many years, MorphoSys has offered its employees various options in this regard, such as flexible working hours and special part-time options. Modern IT equipment also facilitates trouble-free working during business trips or on home office days. MorphoSys offers assistance to employees with families through special options for reentering their professional life and supports them in the coordination of work and family. MorphoSys is cofounder and sponsor of BioKids daycare in Martinsried, and there are special agreements with a German service provider offering additional services for employed family members.

MorphoSys is making every effort to protect employees from workplace hazards and to maintain their health through preventive measures. The extremely low number of accidents in the workplace proves the success of our strict monitoring of all occupational health and safety measures. In the reporting year, MorphoSys was able to reduce that number once again: only two occupational accidents (2012: three occupational accidents) occurred. Using policies and training courses from the Department of Health & Occupational Safety, and also by offering regular medical examinations, MorphoSys tries to keep the number of accidents at this low level, and the safety and wellbeing of all employees at the highest level possible. The low level of absenteeism of MorphoSys's workforce underscores the success of the Company's efforts: During the year, absenteeism fell to 2.7 % (2012: 3.0 %). The employee turnover rate also declined in 2013 to 5.8 % (2012: 7.0 %). This is a further sign of the high level of employee identification with the Company.

SUSTAINABILITY AT MORPHOSYS

OCCUPATIONAL SAFETY AT MORPHOSYS

17

ONLY SPECIALLY TRAINED EMPLOYEES ARE ALLOWED TO WORK WITH TOXIC SUBSTANCES

PATHOGENIC ORGANISMS ARE PROCESSED IN LABORATORIES WITH PARTICULAR SAFETY STANDARDS

INTRODUCTION OF HAZARDOUS MATERIALS FOR R&D PURPOSES:

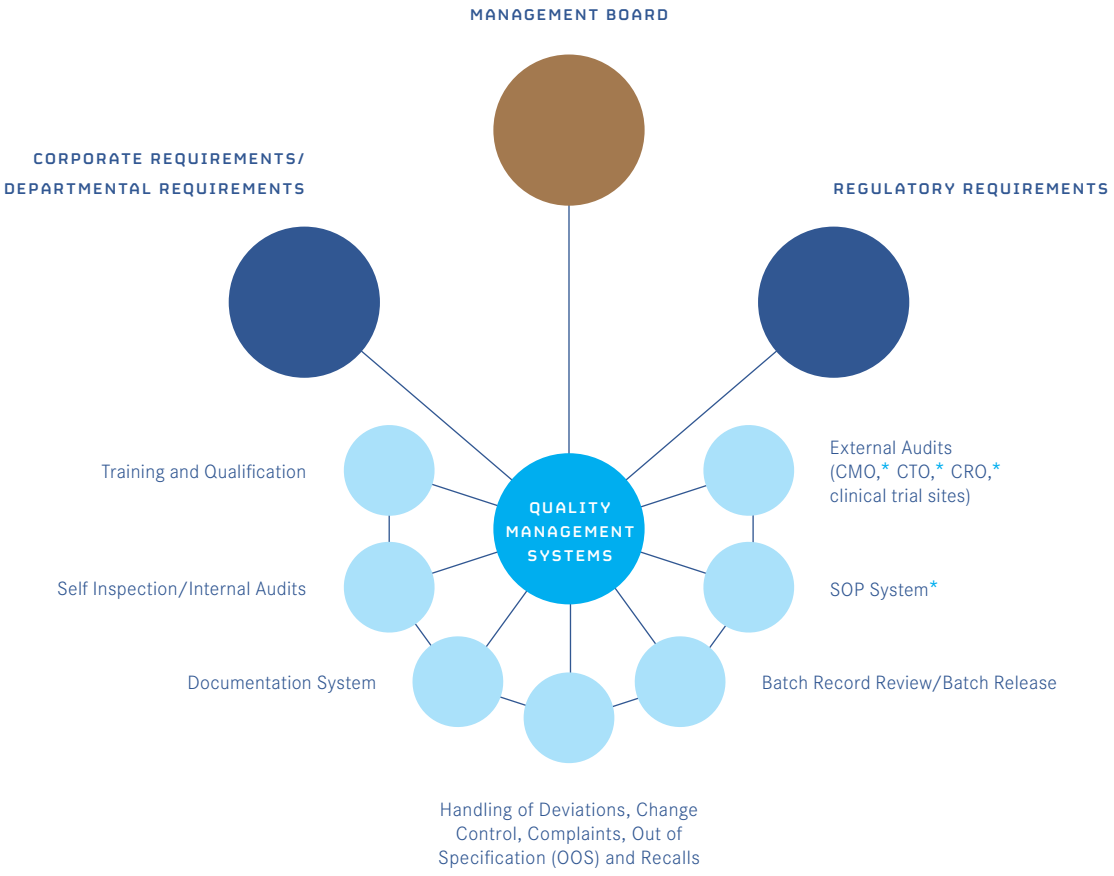
- A dedicated biosafety team as defined by the "Gentechnik Sicherheitsverordung" (German Genetic Engineering Safety Directive) and other safety professionals perform an internal audit to assess the risk involved
- Specific safety and evacuation training for the employees working with the substances
-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

LOWEST POSSIBLE AMOUNTS OF HAZARDOUS SUBSTANCES USED

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

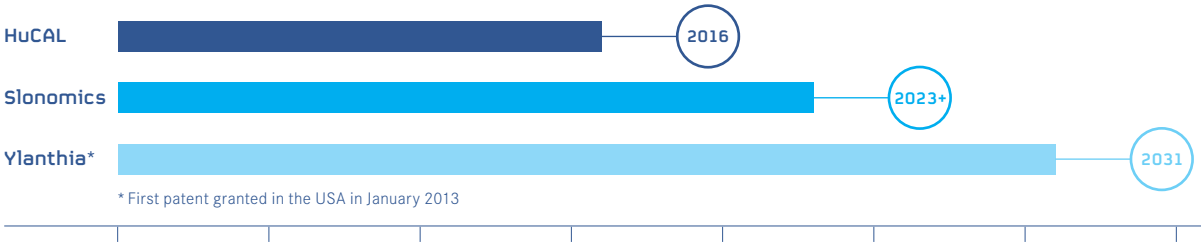
QUALITY MANAGEMENT SYSTEM AT MORPHOSYS

18



PATENT LIFETIME FOR KEY PLATFORM TECHNOLOGIES

19



* First patent granted in the USA in January 2013

Risk and Opportunity Report

MorphoSys is part of an industry that is characterized by constant change and progress. The challenges and opportunities in the healthcare industry are influenced by very different factors. Global demographic changes, medical advances, and the desire for an increasing quality of life provide solid growth prospects for the pharmaceutical and biotechnology industries. However, increases in regulatory requirements in the areas of drug development and, in particular, the cost pressures on health systems must also be considered.

MorphoSys is making major efforts to systematically identify new opportunities and use them for its business success to increase the Company's long-term value. However, entrepreneurial success is not possible without consciously taking risks. Through its worldwide operations, MorphoSys is subject to a number of risks that can affect the course of business. The Company's risk management system identifies these risks, evaluates them, and takes the appropriate measures to prevent risks and to achieve the corporate goals. A regular review of the strategy ensures that opportunities and risks are well balanced. MorphoSys only assumes a risk if, simultaneously, an opportunity is offered to increase the company's value.

Risk Management System

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

MorphoSys has established a comprehensive system to identify, assess, communicate, and cope with risks in all areas of the Company. MorphoSys's risk management identifies risks at an early stage, allowing the appropriate action to limit operating losses and avoid risks that could jeopardize the Company's existence. All measures to mitigate a risk are assigned to individual risk managers who chiefly belong to the Senior Management Group of MorphoSys.

As part of a systematic risk assessment process, all significant risks are evaluated with regard to MorphoSys's various business units and with respect to the Company as a whole. Such risk assessments are carried out biannually. Risks are assessed by comparing their quantifiable impact on the MorphoSys Group with their probability of occurrence both with and without employing a damage mitigation process. This methodology is applied for an evaluation period of twelve months and a medium term of three years in order to include obligations under proprietary development having longer maturities. In addition, the expanded strategic risk assessment is based on a long-term period of more than three years. The strategic risk assessment process is described in the section titled "Expansion of the Risk and Opportunity Management System". An overview of the current risk assessment conducted by MorphoSys is presented in diagram 21.

In addition, in the past financial year the IT-based risks and opportunity management system introduced in the prior year was fully operational. This allowed risk officers to enter their risks on the Group-wide IT platform, which made monitoring, analysis, and documentation much easier. This risk management system differentiates between risk owners and risk managers. The risk owner is typically the responsible head of department. The respective employees of the department may be risk managers if the risks captured by the risk management system fall within their area of responsibility. The risk owners and risk managers are asked to update their risks and the corresponding ratings in six month intervals. The accompanying process is coordinated and managed by the Corporate Finance & Corporate Development department, which also oversees the assessment process, summarizes the essential contents, and routinely reports it to the Management and Supervisory Boards. The entire assessment process is based on standardized forms and charts used for evaluation. Risk management and the monitoring of operations are carried out by the respective managers. Changes in the risk profile resulting from the measures are recorded in a regular cycle. A routine audit by external consultants ensures that the risk management system is continually evolving, so that it always complies with any changes.

Expansion of the Risk and Opportunity Management System

In the 2013 financial year, the existing risk and opportunity management system was enhanced in the field of strategic risks and opportunities by introducing a top-down approach. In addition to risk identification using the bottom-up method, which should iden-

tify short and medium-term risks, global strategic risks and opportunities will now be systematically identified in order to complete the picture of opportunities and risks. Examples of this were environmental and industry risks, personnel risks, and risks that may result from the public perception of the Company. For this occasion, a workshop has been introduced that involves select members of the Senior Management Group and in which strategic risks and opportunities across the various corporate divisions are recognized and discussed, even for a period of more than three years. The assessment is carried out qualitatively. Therefore these risks are not included in the Figures on page 54. The workshop takes place twice a year at the same time as other risk gathering activities.

Principles of Risk and Opportunity Management

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

MorphoSys defines risk as internal or external events having an immediate impact on the Company. Hereby, the potential financial impact on the Company's targets is assessed. Opportunities are in direct relation to risk. Seizing opportunities has a positive influence on the Company's targets and the occurrence of risks has a negative influence.

Responsibilities in the Risk and Opportunity Management System

The Management Board of MorphoSys AG is responsible for the risk and opportunity management system. The Management 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 the 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 the results to the entire Supervisory Board, which is informed additionally by the Management Board twice a year.

SEE FIGURE 20, THE RISK AND OPPORTUNITY MANAGEMENT SYSTEM AT MORPHOSYS PAGE 53

Accounting-Related Internal Control System

MorphoSys uses extensive internal controls, Group-wide reporting guidelines, and other measures, including employee training and continuing education, with the aim of ensuring accurate bookkeeping and accounting as well as reliable financial reporting in the consolidated financial statements and the Group Management Report. This integral component of the Group's accounting comprises preventive, surveillance, and detection measures, which are intended to ensure the safety and control in accounting and in the operational functions. For more information on the internal control system in relation to financial reporting, please refer to the Corporate Governance Report.

Risks

RISK CATEGORIES

MorphoSys assigns the most important risks to the following six categories:

SEE FIGURE 21, DESCRIPTION OF MAJOR RISKS AT MORPHOSYS PAGE 54

- Financial risks (for example, those resulting from bankruptcies and payment defaults, lower-than-anticipated and planned license fees, research funding and milestone payments as well as 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 (for example, procurement/production, distribution/logistics, customers, personnel and, with respect to the biotechnology industry, risks from the results of pre-clinical or clinical trials).
- Strategic risks (for example, M&A*, interests in entities, R&D, corporate image, superior competing products, 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 the protection of intellectual property and the regulatory environment when seeking the approval of new drugs).
- Organizational risks (such as IT risk, facilities management, succession planning, business interruption, process delays as a result of 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, and breach of the German Stock Corporation Act).

*SEE GLOSSARY PAGE 138

FINANCIAL RISKS

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

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 extent than planned. A corresponding risk also arises when revenue does not reach the level forecast or when costs are higher than budgeted 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 were lowered considerably, in the course of the reporting year, through the successful introduction of MOR103 and MOR202 into partnerships. However, financial risks relating to the MOR208 program are retained by MorphoSys. In some cases, MorphoSys retains risks that relate to the clinical development of programs introduced into partnerships.

Due to the continually difficult European economic situation, the potential for bank insolvencies continues to present a financial risk. Therefore, as far as possible, MorphoSys continues to invest only in funds and products from banks, that are considered safe and have a consistently high rating, and/or are backed by a strong partner. Furthermore, the Company simulated different scenarios and then decided upon the appropriate contingency plans.

Due to the sale of the AbD Serotec segment the foreign exchange risk could be reduced slightly.

OPERATIONAL RISKS

Operational risks include risks related to the exploration and development of proprietary drug candidates, as well as those risks affiliated with the central Procurement and Logistics department. Personnel risks, such as the recruitment of suitable employees, or the loss of highly qualified and experienced employees, are also included in this category.

The failure of clinical trials – whereby the failure of a trial does not necessarily mean the failure of an entire program – prior to out-licensing to partners may arise if the trial data does not show the expected results or demonstrates unexpected adverse side effects. The design of clinical trials and development plans are always undertaken with the utmost care. This gives trials in the course of clinical testing the greatest chance to present clinically relevant data, and thus to convince regulatory agencies and potential partners. Next to the existing internal knowledge, external specialists are also involved. Special committees have been formed for monitoring the progress of clinical programs.

In terms of procurement and logistics, close cooperation with suppliers is maintained in order to avoid delivery delays, bottlenecks, and the resulting increase in costs. This is supported by a routine supplier assessment that identifies potential problems and determines solutions. These are then communicated both internally and externally to the respective managers responsible.

Personnel risks occur in the area of recruitment and in the event of the loss of so-called top performers. When recruiting, this is particularly evident in terms of the difficulty in finding candidates with appropriate qualifications. The loss of top performers occurs when experienced and highly-qualified employees resign. To counter such risks, the Company's human resources department seizes every opportunity – including collaborations with external organizations – to optimize the recruitment process. MorphoSys begins to search for suitable employees as early as possible. In addition, the Company's attractiveness as an employer with an open and innovative corporate culture is portrayed publicly through advertisements and at trade shows. Along with recruitment, staff retention represents one of the key elements of human resources management. Through continuous comparisons with industry-standard compensation systems, MorphoSys ensures that its employees are paid fairly and competitively. Moreover, appropriate salary components and employee interviews cater to a performance-based incentive system and support the long-term aim of binding the employee to the Company. Corporate celebrations, team building activities, as well as sports and social events, also contribute to a positive work environment.

STRATEGIC RISKS

In the reporting year, MorphoSys took an expanded approach to compiling strategic risks for the first time. A detailed explanation may be found in the section titled "Expansion of the Risk and Opportunity Management System" (page 46).

Strategic risks arise in the area of therapeutic molecules within the proprietary portfolio. The enhancement of the portfolio has become the key focus, once again, after MorphoSys was able to successfully bring two of the three existing proprietary programs into partnerships in the reporting year. In this context, risks can arise when there is a lack of access to attractive target molecules and compounds or to innovative technologies. These risks also apply to missed or failed M&A transactions that could create access to strategically important assets. To counter such risks, a multidisciplinary team was established whose task is to expand the Company's portfolio and identify suitable therapeutic molecules that can be in-licensed. A New Discovery team was also created. This team searches for suitable target molecules in order to develop new therapeutic molecules for proprietary or external technological platforms. In order to obtain long-term options to new technologies or therapeutic molecules, MorphoSys has additionally established the Innovation Capital program which invests venture capital in innovative start-up companies.

Another strategic risk is that in the distant future, therapeutic antibodies will no longer be competitive because of the existence of potentially better molecules or more favorable therapeutic approaches. This risk can also be classified as an industry risk. Again, through Innovation Capital, MorphoSys has created a suitable tool for identifying new trends at an early stage, so it can invest in these innovations, and thereby participate in their development. The Company's own scouting team is searching worldwide for new and innovative technologies and also analyzes MorphoSys's competitors at regular intervals.

EXTERNAL RISKS

For MorphoSys, external risks arise predominantly in relation to its intellectual property. Patent protection of MorphoSys's proprietary technologies is especially important. To mitigate the risks in this area, MorphoSys is continuously on the lookout for published patents and patent applications, the Company analyzes and monitors appropriate findings, and develops circumvention strategies for patents, that may potentially become relevant before they are issued.

By following this strategy, MorphoSys has achieved increasing success over the years and has been able to secure sufficient leeway over the long term for its proprietary technology platforms.

Another area in which external risks may occur, is the collaboration with service providers in pre-clinical and clinical development. A minor or bad performance in this area could lead to delays in the development process and thus to financial losses.

As a global biotechnology company with numerous partnerships and a proprietary research and development department for the development of drug candidates, the MorphoSys Group is exposed to numerous legal risks, particularly in the areas of patent law, liability claims arising from existing collaborations, competition and antitrust law, tax assessments and environmental matters. Future proceedings are conceivable but cannot be predicted at the moment. It is therefore possible that legal or regulatory judgments or future settlements could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect our revenues and earnings.

ORGANIZATIONAL RISKS

Organizational risks occur in the areas of Partnered Discovery, Technical Operations, and IT. In the Partnered Discovery area, loss of quality or delays may occur within the organization due to an increase in the number of programs or the complexity of programs. To reduce the complexity and thus the risks, uniform processes were introduced and their compliance is checked by regular audits.

Risks in Technical Operations affect operations and may lead to sustained damages and business interruptions, as well as accidents involving hazardous substances or pollutants. To avoid such disruptions, appropriate measures are taken, such as the routine inspection and maintenance of equipment and facilities, as well as training and tutorials for the employees concerned. Suitable electronic monitoring systems decrease such risks even further. Financial risks affecting this area are generally covered by insurance. Further information on MorphoSys's operating environment may be found in the Sustainability Report.

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

COMPLIANCE RISKS

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

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 internal systems for detecting quality defects. If internal controls are not able to detect guideline violations of the Good Manufacturing Practice (GMP), Good Clinical Practice (GCP), or Good Laboratory Practice (GLP), this would also constitute a compliance risk.

Annual General Meetings performed incorrectly could lead to legal disputes with shareholders. The consequences of this would cause significant costs by attempting to either avert a challenge of the Annual General Meeting or, if this is not possible, to repeat the Annual General Meeting. In addition, capital measures up for resolution (for example, a capital increase) could possibly be at risk.

To minimize this risk, the preparation and execution of the Annual General Meeting as well as all relevant documents and processes are closely monitored and examined both by the internal departments responsible, and by external lawyers and auditors.

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

The Management Board of the MorphoSys Group considers the risk to be appropriate overall 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, as it has in the past;
- 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 a broad portfolio of preclinical and clinical programs in partnerships with a number of large pharmaceutical companies, as well as a strong technological base for the further expansion of the proprietary portfolio.

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 is now one of the most successful and best-selling drugs in cancer therapy, a significant number of pharmaceutical and biotechnology companies are active in the field of antibodies who could become future customers and partners for MorphoSys's products and technologies. Due to this fact, and because of its long-standing expertise in the field of technology and product development, MorphoSys has identified a number of growth opportunities for the years to come.

For the development and optimization of therapeutic antibody candidates, MorphoSys's antibody technologies offer crucial advantages that can lead to higher success rates and shorter development times in the drug development process. The transfer and the application of MorphoSys's core areas of expertise, also outside of the antibody segment, present the Group with new opportunities because many classes of compounds are similar in their molecular structure. The Innovation Capital initiative can seize opportunities which were previously unavailable, whereby MorphoSys can act as a strategic investor in young, innovative companies and thus effectively use synergies.

OPPORTUNITY MANAGEMENT SYSTEM

The opportunity management system is an important part of corporate governance 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 of the Management Board and selected members of the Senior Management Group;
- the business development activities of the Company;
- a Technology Scouting team; and
- the Innovation Capital initiative.

During the discussion forums, 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 examined and monitored. The Group's Business Development team has participated in numerous conferences and identified various opportunities that can contribute to the Company's growth. These are presented in the discussion forum and assessed through evaluation processes. The Technology Scouting team seeks to identify innovative technologies that can generate synergies with the technological infrastructure of MorphoSys and that are suitable for the identification of new therapeutic molecules. These results are also discussed and evaluated by internal committees existing across all departments. The Innovation Capital initiative, which has already been described, 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 assessment 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 have led to a better understanding of the biological processes of disease, which in turn leads to 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 have risen sharply over the past 36 months as demonstrated by the various acquisitions and significant licensing agreements in this field.

*SEE GLOSSARY PAGE 138

MARKET OPPORTUNITIES

MorphoSys believes that its HuCAL, Ylanthia, and Slonomics antibody platforms can be used to develop products that address considerable, unmet medical needs.

THERAPEUTIC ANTIBODIES – PARTNERED DISCOVERY

By cooperating with numerous partner companies in drug development, MorphoSys has been able to more widely diversify the risk that is inextricably linked to the development of individual drugs. With more than 70 unique therapeutic antibodies currently in development programs with partners, the chances are ever higher for MorphoSys to participate financially in the marketing of drugs. In 2013, already two antibodies are in clinical phase 3. In the case of positive clinical trial results, regulatory approval could be conceivable in the near future. Partner Novartis has announced that an application for the regulatory approval of the bimagrumab antibody may be submitted in 2016.

MorphoSys will continue to expand its partnered antibody pipeline. In addition, MorphoSys may enter into further partnerships on a fee-for-service basis.

THERAPEUTIC ANTIBODIES – PROPRIETARY DEVELOPMENT

The pharmaceutical industry is likely to further intensify its in-licensing of new compounds in order to refuel its pipelines and replace previous key products and revenue generators that have lost their patent protection. With its most advanced compounds MOR103, MOR202, and MOR208, MorphoSys is in a good position to capitalize on the needs of the pharmaceutical groups. The alliances for MOR103 and MOR202, which have been started successfully in 2013, underline this position.

The proceeds secured over the coming years from the Partnered Discovery segment place MorphoSys in a position to continually strengthen its proprietary portfolio. MorphoSys is expanding its proprietary portfolio through additional clinical trials with its key drug candidates, with which, for example, new areas of disease can be investigated. MorphoSys plans to add programs to its portfolio and may take advantage of existing and future co-development opportunities to do this. Furthermore, the Company is seeking opportunities to in-license interesting drug candidates.

The co-operation with Celgene for MOR202 could, for the first time, open the chance for MorphoSys to bring a drug to market.

TECHNOLOGY DEVELOPMENT

MorphoSys continues to invest in its existing and new technologies in order to maintain its top position as a technological leader. Through Ylanthia, MorphoSys has established a new technology platform, which, unlike its predecessor HuCAL, is available for broader licensing to different partners. In 2012, MorphoSys began with the commercialization of the Ylanthia antibody library.

Technological advances of this kind put the Company in a position to expand its list of partners and not only increase the speed, but also the success rate of partnered and proprietary drug development programs. New technology modules could also open up new areas of disease, where antibody-based treatments are still underrepresented, by allowing the production of antibodies for new classes of target molecules.

The development of technologies is driven by a team of scientists who concentrate on the further development of MorphoSys technologies. In addition to in-house technology development, MorphoSys also relies on external sources to strengthen its technological capacities. The cooperation and equity investment in Lanthio Pharma, a Dutch company dealing with the development of lantipeptides, is a good example of such activities.

ACQUISITION OPPORTUNITIES

In the past, MorphoSys has proven its ability to make acquisitions and use these to accelerate its growth. Potential acquisition candidates are systematically presented, discussed, and evaluated within the scope of the routine meetings of 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 in administering this information and keeping it available.

MorphoSys plans to continue to drive its strategy forward in the new year to expand its market share, complement its existing portfolio and technology platform, and to secure access to patents and licenses for the development of new proprietary technologies and products.

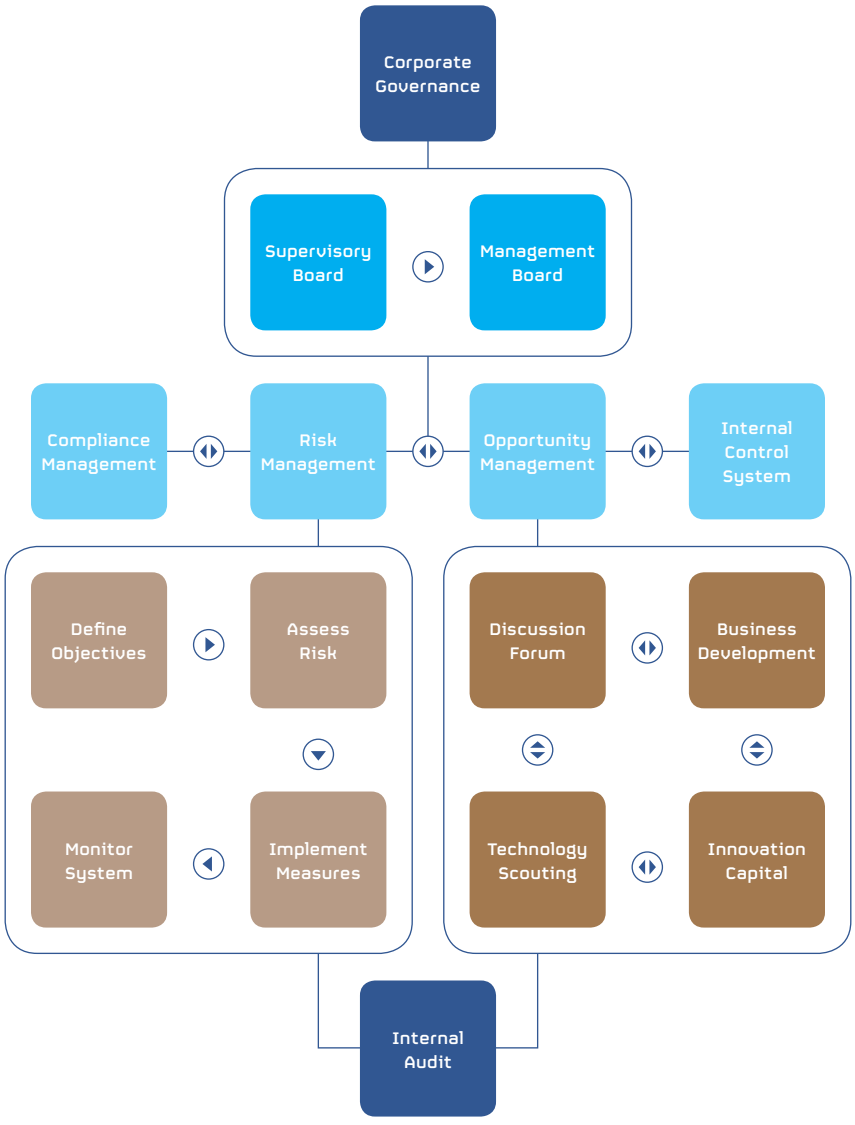
FINANCIAL OPPORTUNITIES

Favorable exchange rate and interest rate developments can have a positive effect on the Group's financial results. The developments in the interest rate and financial markets are continuously monitored in order to immediately identify and utilize any opportunities.

RISK AND OPPORTUNITY MANAGEMENT AT A GLANCE

THE RISK AND OPPORTUNITY MANAGEMENT SYSTEM AT MORPHOSYS

20



DESCRIPTION OF MAJOR RISKS AT MORPHOSYS

(Quantification in points, definition of color code on page 55: “scoring system in points”)

21

FINANCIAL RISKS

Risks resulting from not reaching revenues as expected, derived from existing business with partners in proprietary programs

Risks resulting from bank insolvencies

OPERATIONAL RISKS

Risks inherent to proprietary antibody discovery and development as well as development with partners

Risks resulting from purchasing and logistics-related issues

STRATEGIC RISKS

Risks resulting from a lack of possibilites to inlicense therapeutic molecules

Risks resulting from missed opportunities for acquisitions

EXTERNAL RISKS

Risks resulting from IP-related issues

Risks resulting from external service providers

ORGANIZATIONAL RISKS

Risks resulting from increased amount and complexity of programs

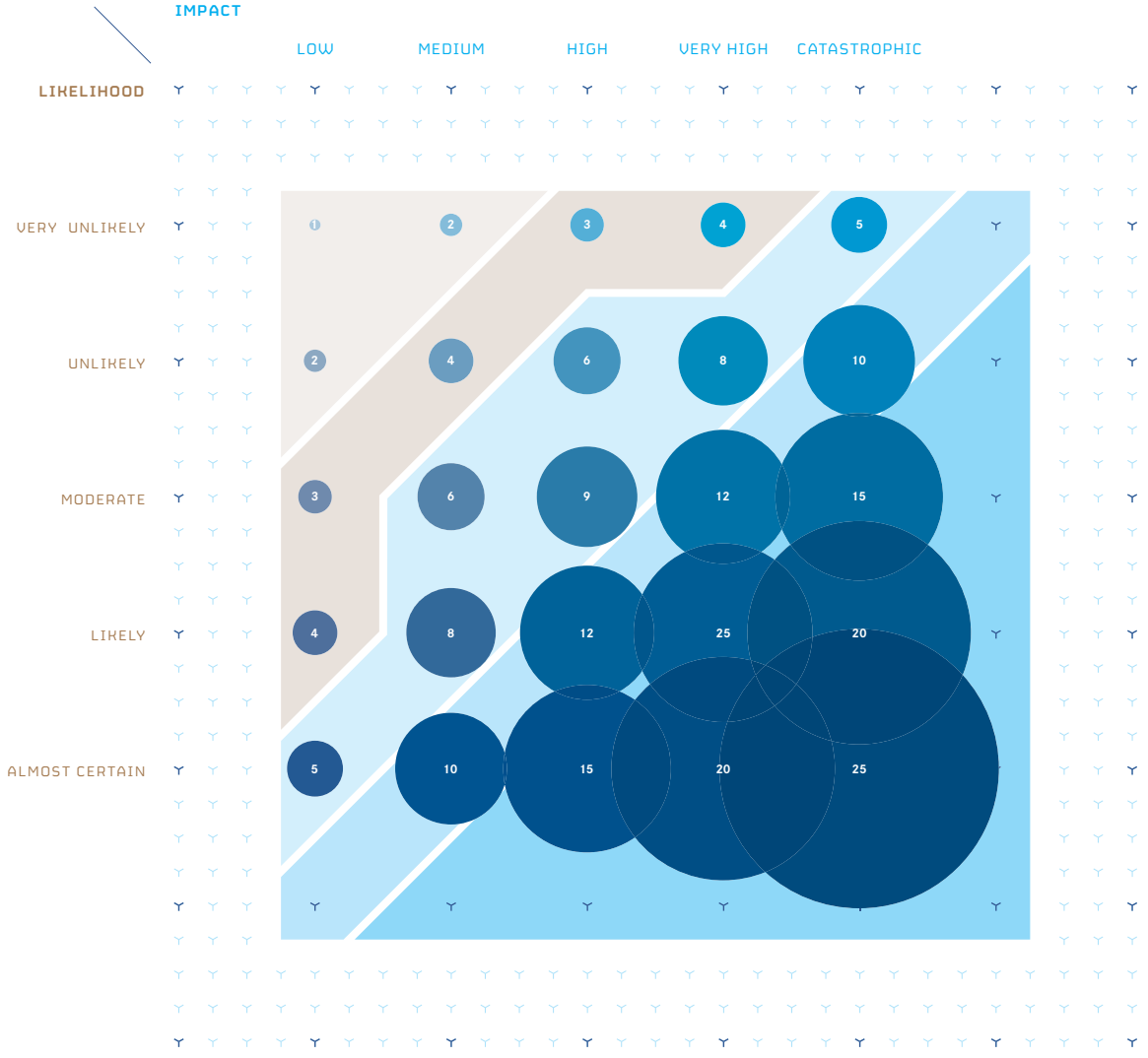
Risks resulting from technical operations issues

COMPLIANCE RISKS

Risks resulting from quality-related issues due to legal requirements

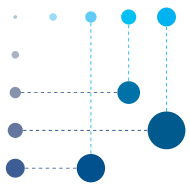
Risks resulting from legal issues

SCORING SYSTEM IN POINTS

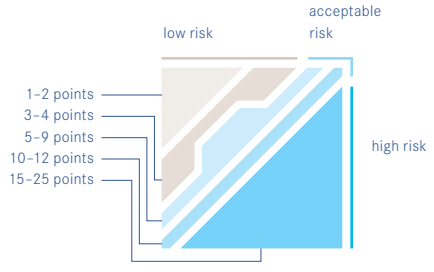


CALCULATION OF POINTS

Impact x Likelihood = Points



SCORING



Risks valued at 1 to 4 points represent a **low risk** (low probability, minor effects).

Risks valued at 5 to 12 points represent **acceptable risks** (medium probability, moderately severe effects).

For risks valued at 15 to 25 points, **risk minimization measures** must be implemented (high probability, severe effects).

Subsequent Events

On 22 January 2014 an updated statutory share capital was entered in the Commercial Register (Handelsregister B München). The new share capital at 22 January 2014 amounts to € 26,220,882.00, divided into 26,220,882 no-par value bearer shares.

No further significant changes took place after the conclusion of the 2013 financial year. Other events with a significant effect on the net assets, financial position and results of operations also did not occur after the conclusion of the financial year.

Outlook and Forecast

The MorphoSys Group develops new antibody drugs and technologies. Through the sale of the research antibody segment, AbD Serotec, in early 2013, MorphoSys has strengthened its focus on the development of therapeutic compounds. The out-licensing of MOR103 and the alliance for MOR202 in 2013 affirm the potential for the appreciation in value this strategic direction can bring.

The management of MorphoSys intends to further expand its portfolio of proprietary drug candidates and will invest in this area accordingly. In addition, MorphoSys will continue to focus on the use and expansion of its technologies in fast-growing areas of the healthcare sector driven by innovation.

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. This foundation is formed by 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. Additionally, MorphoSys profits from the successful development of drug candidates, not only through milestone payments, but also through royalties from product sales as sonn as the drugs reach the market.

The Group's stable cash flows* and strong liquidity make it possible to expand business activities through investment in the proprietary development of drugs and technologies. In the year 2014, the Management Board expects the following developments:

- MorphoSys will expand its proprietary portfolio through in-licensing, company acquisitions and/or development collaborations, as well as through new developments;
- MorphoSys will continue to invest in technology development in order to maintain its top position in the field of antibodies and related technologies. The Company expects to sign new strategic agreements on the basis of the Slonomics and Ylanthia proprietary technologies, in order to, for example, obtain access to innovative target molecules and compounds;
- the demand for antibodies for use in new methods of treatment continues to remain high and allows the Company to continue to expand its pipeline of therapeutic antibodies within its partnerships;
- the pharmaceutical industry continues to use the in-licensing of compounds to gain access to promising product candidates. Successful out-licensing of proprietary drug candidates could result in lucrative cash flows.

*SEE GLOSSARY PAGE 138

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 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 further 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 Proprietary Development segment, MorphoSys is developing therapeutic antibodies in the area of inflammatory disease and oncology on a proprietary basis. 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 also be developed in-house for an extended period of time, possibly even up to the point where they are marketable. At the end of 2013, the MOR103, MOR202, and MOR208 clinical programs were the main assets in MorphoSys's proprietary development portfolio. Agreements were announced in the 2013 financial year for MOR202 and MOR103. Currently, the Company is not seeking a partner for MOR208 but prefers to continue with the further clinical development on a proprietary basis.

In the foreseeable future, MorphoSys will invest the majority of its financial resources in its own research and development in order to expand its portfolio of proprietary compound candidates and strengthen its technology platform.

Expected Economic Development

The global economy is expected to experience subdued growth in the year 2014. The crisis countries in the eurozone, such as Spain, which have already undergone far-reaching reforms, should see the benefits of their efforts. Other countries, however, threaten to fall further behind, causing the euro area as a whole to see only a slow recovery from the severe recession. According to the estimates of financial analysts, the ECB may possibly ease monetary policy even further.

Under a new federal government in Germany, with the large coalition comprising the CSU/CDU and SPD, the labor market reforms of the Agenda 2010 are likely to be scaled back, which could have a negative impact on the country's long-term economic growth. Nonetheless, the German economy will stand out as the top growth gainer of the eurozone since the low ECB interest rate of currently 0.25 % is likely to fan the domestic economy. According to estimates, companies will increase their investments again and exports will benefit from the somewhat stronger demand from other eurozone countries. For 2014, analysts expect growth of 1.7 %.

The US was able to strengthen its economic equilibrium in the past year. The real estate bubble lost its steam, continuous improvement in the labor market is set to strengthen private consumption, and the government budget deficit could be vastly reduced despite precarious discussions. This should lead to economic growth of about 2.8 % in 2014, according to estimates by financial experts of Commerzbank.

Asia is also expected to have strong growth in 2014. Despite a planned increase in sales tax, Japan is expected to have stable growth and a continued loose monetary policy of the central bank. The Chinese economy is expected to grow 7.5 % in 2014 – similar to the rate in 2013. Owing to a far-reaching reform program approved at the end of the year, experts expect China's growth to prove to be very stable.

Fairly rapid growth for the world economy as a whole is expected in 2014. However, the OECD has lowered their forecasts in response to the braking effect of emerging economies, which provided additional tensions in the markets as well as capital outflows. The OECD now expects global GDP growth of 3.6 %.

Expected Development of the Life Sciences Sector

Historically, the pharmaceutical and healthcare industries have been relatively immune to economic downturns. An aging population in the developed nations and rising living standards in the former developing countries call for new and innovative treatments. However, the government budgets' need for drastic cost-cutting measures have led to upheavals in the international health system. These have a direct impact on reimbursement policies and, accordingly, on pharmaceutical companies. The patent expiry of high-revenues drugs continues to pose a problem for the pharmaceutical industry, whereby the lion's share of patent expirations has probably been overcome. However, pharmaceutical companies still suffer from a lack of innovation and a lack of new products.

The outlook for the biotechnology industry is still very favorable. Pharmaceutical companies are still willing to invest large sums in the development of innovative and promising product candidates by in-licensing of such programs from biotechnology companies.

The impact of the enacted Patient Protection and Affordable Care Act on the US healthcare industry is not yet quantifiable. As of 1 January 2014, every American must obtain health insurance. According to media reports, approximately three million new health insurance contracts were concluded in the first weeks following the healthcare reform. A study by IMS Health predicts that this broad access to health services in combination with lower patent expirations in 2014 will lead to higher spending on US healthcare.

Expected Business Development

With the contractually guaranteed proceeds from the Novartis agreement until at least the end of 2017, the financial impact of the contract with Celgene, and new commercial opportunities through proprietary technology platforms such as Slonomics and Ylanthia, MorphoSys will continue to focus on expanding its partnered pipeline and increasing the value of its proprietary portfolio.

In the Partnered Discovery segment, for the next few years, the Company expects to be able to start close to ten new partner programs annually on average. However, due to the 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. These partnerships are intended to provide the additional benefit of access to new target molecules and therapeutic programs.

In June 2013, MOR103 was out-licensed to GlaxoSmithKline (GSK). The phase 1b trial in patients with multiple sclerosis, which has already started, will be completed by MorphoSys and the results will be presented in the first half of 2014. Thereafter, GSK will assume further development of the compound.

In June 2013, a strategic alliance was concluded with Celgene for MOR202. Currently, a joint development plan for the compound is being completed. MorphoSys and Celgene share the global development costs at a ratio of one third to two thirds. Upon successful development of MOR202, MorphoSys has secured the option to commercialize the drug together with Celgene in Europe.

For the time being, MorphoSys will continue to develop MOR208 in-house. Decisions on a possible partnering or out-licensing of the compound will be based on the clinical results as well as on the developments in the market for this class of blood cancer drugs.

The approval of a therapeutic antibody on the basis of proprietary technology is not expected before 2016/2017. As one of the first partners, Novartis has announced publicly that the therapeutic antibody bimagrumab (BYM338) could be submitted for approval in 2016. Guselkumab (CNTO1959), an antibody compound being developed by Janssen, may also enter the market in 2016/2017.

Expected Personnel Development

The Group's workforce in the two segments Partnered Discovery and Proprietary Development should remain at approximately the same level as in the the 2013 financial year. The need for additional personnel could arise through entering into new development collaborations or from the in-licensing of new technologies or development candidates.

Future Research and Development

The Company's R&D budget for proprietary drug development will rise significantly in 2014 compared to the previous year. The majority of these investments will flow to the clinical development of the most advanced drug candidates. 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 2014 steps are expected to include:

- completion of the phase 1b safety study in multiple sclerosis for MOR103 as the second indication;
- completion of the ongoing phase 1/2a trial for MOR202 in multiple myeloma;
- initiation of new trials within the partnership with Celgene for MOR202;
- continuation of two phase 2 clinical trials for MOR208 in NHL and B -ALL;
- continuation of the joint development programs with Galapagos;
- in-licensing of one or more target molecules or compounds for strengthening the proprietary development portfolio;
- cooperation with Lanthio Pharma for creating high-quality and highly diverse lantipeptide libraries;
- initiation of *de novo* discovery programs.

Expected Development of the Financial Position and Liquidity

MorphoSys has a solid financial base and predictable revenues, mainly due to its collaboration with Novartis. In the 2013 financial year, two compound candidates were brought into partnerships leading to revenues, and licensing fees were recognized in relation to the sale of the AbD Serotec business. After this operationally very positive year, the Management Board expects Group revenues of € 58 million to € 63 million in 2014.

The Partnered Discovery segment is a highly profitable business unit. Until the end of 2017, the Company will receive contractually secured cash flows, particularly from the agreement with Novartis.

The Proprietary Development segment is expected to incur a loss in 2014 following the successful, revenue-generating contracts for two proprietary programs. This will occur as a result of intensive investment in the development of the proprietary drug candidate

MOR208, as well as from pro-rated investments in MOR202's development in collaboration with Celgene. Furthermore, MorphoSys is planning to use its financial resources to strengthen the proprietary portfolio, through the identification and development of further product candidates and also through potential in-licensing and acquisition of interesting product candidates.

Based on the management's current forecasts, the R&D expenses for proprietary programs and technology development are expected to be in the range of € 36 million to € 41 million. MorphoSys intends to conclude the MOR103 trial in multiple sclerosis (MS), as well as continue the MOR202 trial with Celgene in multiple myeloma. The Company will also continue the phase 2 clinical trials of MOR208 in acute B-cell lymphocytic leukemia (B-ALL) and non-Hodgkin's lymphoma (NHL). In addition, the Company plans to in-license one or more drug candidates in the years that follow. The financial guidance for 2014 does not include additional development expenses for any newly in-licensed program.

The Company expects an EBIT in the range of approximately € – 11 million to € – 16 million in 2014.

In the coming years, non-recurring events will have an increasing impact on the net assets and financial position, as was clearly seen in the year 2013. Such non-recurring events may include the out-licensing of proprietary products and larger milestone payments and royalties related to the achievement of market maturity of partnered HuCAL antibodies. Such events could again lead to substantially surpassing our financial targets. Similarly, failures in drug development can have negative consequences for the MorphoSys Group. In the near future, revenue growth will depend on the Company's ability to enter into new partnerships, and/or out-license proprietary programs. Medium term, royalties on marketed products could contribute to revenue growth.

At the end of the 2013 financial year, the liquidity position of MorphoSys amounted to € 390.7 million (31 December 2012: € 135.7 million). The significant strengthening of the liquidity position is a result of the sale of MorphoSys's business unit AbD Serotec, the license agreements with GSK and Celgene, and a successful capital increase in September 2013. MorphoSys sees its strong liquidity position as an advantage that can be used for strategic measures such as the in-licensing of compounds and participation in promising companies to accelerate its future growth. Furthermore, the liquid funds could be used for more investment in the Company's proprietary portfolio of therapeutic antibodies.

DIVIDENDS

In its financial statements according to German accounting principles, MorphoSys AG reports an accumulated profit, which could be used for distribution. Nevertheless, in line with the current practice in the biotechnology industry, MorphoSys does not anticipate paying a dividend in the foreseeable future. To continue to create shareholder value and provide new growth opportunities for the Company, our profits are reinvested to a large extent in operating activities – primarily in the development of proprietary drugs. As in 2013, the Company intends to repurchase treasury shares on the market. The treasury shares can be used for the long-term incentive programs for the Management Board and the Senior Management Group and for all other legally permitted purposes.

This outlook is based on the assumptions of the Management Board and takes into account all factors that were known at the date when this annual report was prepared and that could affect our business in 2014 and the years that follow. 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.

Significant

rise

of R&D budget

for proprietary drug development in 2014

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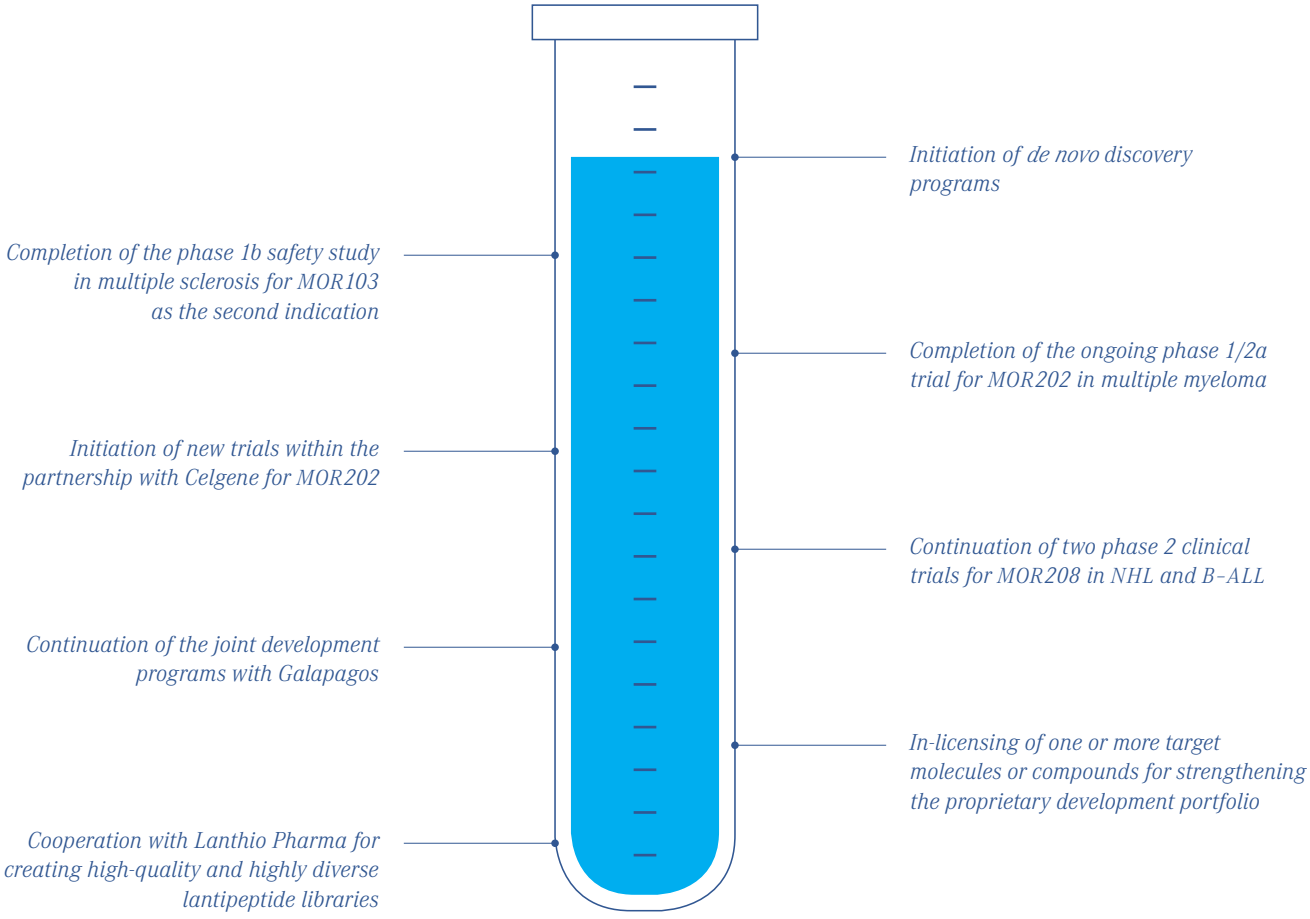

Statement on Corporate Governance and Corporate Governance Report

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

Statement on Corporate Governance Pursuant to Sec. 289a of the German Commercial Code (HGB) for the 2013 Financial Year

In the Declaration on Corporate Governance pursuant to Sec. 289a of the German Commercial Code (HGB), the Management Board and Supervisory Board report on corporate governance. In addition to the annual Declaration of Conformity in accordance with Sec. 161 of the German 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 OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF MORPHOSYS AG REGARDING THE GERMAN CORPORATE GOVERNANCE CODE (THE "CODE")

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

1. Since the last Declaration of Conformity on 7 December 2012, 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. 4. – in the Code version dated 15 May 2012.

2. On 13 May 2013, the "Government Commission on the German Corporate Governance Code" submitted a new version of the Code. MorphoSys AG has also complied with the recommendations of this new version of the Code – with the exceptions described below under item no. 4.

3. MorphoSys AG will continue to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" in the Code version dated 13 May 2013 – with the exceptions described below under item no. 4.

4. 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 existing limitation possibilities of the Supervisory Board concerning the variable components of the Management Board and of 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 of 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 its composition, which in particular shall stipulate an appropriate degree 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 determined concrete objectives regarding its composition and thereby has also decided to strive for an adequate representation of women on the Supervisory Board. A concrete quota for female members of the Supervisory Board has not been provided. However, the qualification and not the gender should be the decisive criteria in the individual cases for appointment to the Supervisory Board.

Martinsried/Planegg, 6 December 2013

MorphoSys AG

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

RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES

MorphoSys ensures compliance with the laws and rules of conduct, especially through the use of a Group-wide Code of Conduct, as well as through supplementary internal guidelines. MorphoSys's "Code of Conduct" sets out the fundamental principles and key policies and practices for behavior in business. The Code serves as a valuable tool for employees and management staff particularly in business, legal, and ethical situations of conflict.

In addition, the Code of Conduct strengthens transparency and consistent management principles as well as the strengthening the trust in the Company of the financial markets, business partners, employees, and the public. Compliance with the Code of Conduct is carefully monitored. The Group-wide implementation of the Code is accompanied by the Code of Conduct Committee. The Code of Conduct can be downloaded from the internet at Media & Investors > Corporate Governance.

COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

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, is 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; and representation of the Management Board to the Supervisory Board.
- Jens Holstein, Chief Financial Officer, is 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, is responsible for Preclinical Development; Clinical Research; Clinical Operations; Drug Safety & Pharmacovigilance; Regulatory Affairs; and Project Management.
- Dr. Marlies Sproll, Chief Scientific Officer, is responsible for Development Partnerships & Technology Development; Target Molecule & Antibody Research; Protein Chemistry; Alliance Management; and Intellectual Property.

SUPERVISORY BOARD

As of 31 December 2013, 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 as Chairman of the Supervisory Board, coordinates the Board's work, chairs the Supervisory Board meetings, and represents the concerns of the Supervisory Board externally. All members of the Supervisory Board are independent in the meaning of the Code and possess 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. The precise composition of the Supervisory Board and its committees is contained in the following table.

COMPOSITION OF THE SUPERVISORY BOARD

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	Position	Initial Appointment	End of Period[1]	Audit Committee	Remuneration and Nomination Committee	Science and Technology Committee
Dr. Gerald Möller	Chairman	1999	2015		●	
Dr. Geoffrey Vernon ▦	Deputy Chairman	1999	2015	●		
Dr. Walter Blättler	Member	2007	2014			●
Dr. Daniel Camus ▦	Member	2002	2015	●		
Dr. Marc Cluzel	Member	2012	2015		●	●
Karin Eastham ▦	Member	2012	2015	●	●[2]	

▦ Independent Financial Expert ● Chairman ●● Member

[1] Period ends with termination of Annual General Meeting [2] Since 30 July 2013.

WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

To ensure good corporate governance, open and complete information on a routine basis is a guiding principle for the cooperation of the Management Board and Supervisory Board of MorphoSys AG. The dual management system required by the German Stock Corporation Act, explicitly 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 the Articles of Association. MorphoSys AG's Management and Supervisory Boards work closely together and act and make decisions for the benefit of the Company. Their stated objective is the sustainable increase in the Company's value.

Each Management Board member has their own area of responsibility, which is defined in the schedule of responsibilities. Each member reports regularly on their respective area of responsibility to their Management Board colleagues. 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. The 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, under the rules of procedure, require the approval of the entire Management Board. 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 written record 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, a Management Board strategy workshop is held annually. In this workshop, the Management Board prioritizes the strategic objectives across the Group and develops the future strategy.

The Management Board informs the Supervisory Board with respect to planning, business development, and the position of the Group, 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 case of a material event. The Management Board involves the Supervisory Board in the strategy and planning, as well as in all decisions of fundamental importance for the Company. In addition to the regular Supervisory Board meetings, a further strategy meeting between the Management Board and the Supervisory Board is held annually, in which the strategic orientation of MorphoSys is discussed in particular. The Management Board's rules of procedure set out that important business transactions are subject to the agreement of the Supervisory Board. Further information on the collaboration between the Management Board and the Supervisory Board and on important topics discussed in the 2013 financial year may 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 shall be 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 will decide.

Supervisory Board meetings are recorded. 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'S AND SUPERVISORY BOARD'S 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.

PARTICIPATION OF SUPERVISORY BOARD MEMBERS

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SUPERVISORY BOARD MEETINGS

✓ ATTENDED IN PERSON ✆ PARTICIPATED BY PHONE

Name	01/16 2013 (by phone)	02/26 2013	03/21 2013 (by phone)	06/03 2013	07/30 2013	08/10 2013 (by phone)	09/18-19 2013 (by phone)	10/14-15 2013 (Offsite Meeting)	11/05 2013	12/18 2013
Dr. Gerald Möller	✆	✓	✆	✓	✓	✆	✆	✓	✓	✓
Dr. Geoffrey Vernon	✆	✓	✆	✓	✆	✆	✆	✓	✓	✆
Dr. Walter Blättler	–	✓	✆	✓	✓	✆	✆	✓	✓	✓
Dr. Daniel Camus	✆	✓	✆	✓	✆	✆	✆	✓	✓	✓
Dr. Marc Cluzel	✆	✓	✆	✓	✓	✆	✆	✓	✓	✓
Karin Eastham	✆	✓	✆	✓	✓	✆	✆	✓	✓	✓

MEETINGS OF THE AUDIT COMMITTEE

Name	02/26/2013	03/21/2013 (by phone)	05/02/2013 (by phone)	07/30/2013	11/05/2013	12/18/2013
Dr. Daniel Camus	✓	✆	✆	✆	✓	✓
Karin Eastham	✓	✆	✆	✓	✓	✓
Dr. Geoffrey Vernon	✓	✆	✆	✆	✓	✆

MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE

Name	02/26/2013	06/03/2013	07/30/2013	11/05/2013	12/18/2013
Dr. Gerald Möller	✓	✓	✓	✓	✓
Dr. Marc Cluzel	✓	✓	✓	✓	✓
Karin Eastham (Member since July)			✓	✓	✓

MEETING OF THE SCIENCE AND TECHNOLOGY COMMITTEE

Name	02/26/2013	06/03/2013	07/30/2013	11/05/2013	12/18/2013
Dr. Walter Blättler	✓	✓	✓	✓	✓
Dr. Marc Cluzel	✓	✓	✓	✓	✓

AUDIT COMMITTEE

The central task of the Audit Committee is to assist the Supervisory Board in carrying out its supervisory duties with respect to the accuracy of the annual financial statements and the consolidated financial statements, the activities of the external auditors, the internal control functions, particularly risk management, compliance, and internal audit. In addition, the Audit Committee prepares the award of the audit mandate to the auditor. Members of the Audit Committee are Dr. Daniel Camus (Chairman), Ms. Karin Eastham, and Dr. Geoffrey Vernon. 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. In addition, the Committee 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 drugs and technology development and also prepares the relevant Supervisory Board resolutions. The members of the Science and Technology Committee are Dr. Walter A. Blättler (Chairman), and Dr. Marc Cluzel.

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

Corporate Governance Report

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

With the creation of the German Corporate Governance Code (the "Code"), a standard was established for transparent monitoring and control of enterprises, and which is particularly oriented towards the interests of shareholders. Many of the principles contained in the Code on Corporate Governance 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 of the German Commercial Code (HGB). This also includes the annual Declaration of Conformity, relevant information on corporate governance practices, and a description of the working practices of the Management Board and Supervisory Board. Additional information may be found in this Corporate Governance Report.

COMMUNICATION WITH THE CAPITAL MARKETS

One of the most important foundations of MorphoSys's corporate communication is to inform institutional investors, private shareholders, financial analysts, employees, and all other stakeholders simultaneously and comprehensively regarding the situation of the Company. This is accomplished through routine, transparent, and timely communication. All essential information is published on the internet. The company is strictly committed to the principle of fair disclosure.

A central component of Investor Relations at MorphoSys is regular meetings with analysts and investors in the course of roadshows and individual meetings. Conference calls accompany the publication of the quarterly results and allow analysts and investors to directly address their questions on the development of the Company. The 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 promptly made available.

MorphoSys uses its corporate website as a central platform for providing current information on the Company and its progress. The MorphoSys financial calendar contains the publication dates of periodic financial reports and the date of the next Annual General Meeting well in advance.

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 particular international experience. This ratio is currently being met.

The Company also strives to have at least four independent members represented on our Supervisory Board. This ratio is also currently being met. Substantial and not merely temporary conflicts of interest should be avoided; particularly with tasks at important competitors. This is currently the case.

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 with immediate effect. Nevertheless, the Supervisory Board intends that the assessment of potential candidates for positions on the Supervisory Board to become vacant will include qualified women. A prerequisite for the proposal of election of female candidates shall be their qualification and concrete suitability for the Company. With regard to the last election to the Supervisory Board that took place at the Annual General Meeting 2012, Ms. Karin Eastham was elected as 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 an exception therefrom in individual cases.

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

DIRECTOR'S HOLDING OF MANAGEMENT AND SUPERVISORY BOARD

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

RELATED PARTIES

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SHARES

	01/01/2013	Additions	Forfeitures	Sales	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	419,885	191,445	0	158,445	452,885
Jens Holstein	6,500	0	0	0	6,500
Dr. Arndt Schottelius	2,000	90,000	0	90,000	2,000
Dr. Marlies Sproll	7,105	102,867	0	82,602	27,370
TOTAL	**435,490**	**384,312**	**0**	**331,047**	**488,755**
SUPERVISORY BOARD					
Dr. Gerald Möller	7,500	1,500	0	0	9,000
Dr. Geoffrey Vernon	0	0	0	0	0
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Marc Cluzel	0	0	0	0	0
Karin Eastham	0	1,000	0	0	1,000
TOTAL	**9,519**	**2,500**	**0**	**0**	**12,019**

STOCK OPTIONS

	01/01/2013	Additions	Forfeitures	Exercises	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	191,445	0	0	191,445	0
Jens Holstein	0	0	0	0	0
Dr. Arndt Schottelius	90,000	0	0	90,000	0
Dr. Marlies Sproll	102,867	0	0	102,867	0
TOTAL	**384,312**	**0**	**0**	**384,312**	**0**

CONVERTIBLE BONDS

	01/01/2013	Additions	Forfeitures	Exercises	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	58,800	88,386	0	0	147,186
Jens Holstein	0	90,537	0	0	90,537
Dr. Arndt Schottelius	33,000	60,537	0	0	93,537
Dr. Marlies Sproll	33,000	60,537	0	0	93,537
TOTAL	**124,800**	**299,997**	**0**	**0**	**424,797**

PERFORMANCE SHARES

	01/01/2013	Additions	Forfeitures	Exercises	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	36,652	12,024	0	0	48,676
Jens Holstein	25,104	8,235	0	0	33,339
Dr. Arndt Schottelius	25,104	8,235	0	0	33,339
Dr. Marlies Sproll	25,104	8,235	0	0	33,339
TOTAL	**111,964**	**36,729**	**0**	**0**	**148,693**

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 in accordance with the German Securities Trading Act (WpHG).

During the year, MorphoSys received the following notifications pursuant to Sec. 15a of the German Securities Trading Act (WpHG), which are listed in the following table.

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 2013 financial year, no conflicts of interest occurred.

DIRECTORS' DEALINGS IN 2013

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Party Subject to the Notification Requirement	Function	Date of Transaction in 2013	Type of Transaction	Number of Stocks/ Derivatives	Average Share Price	Transaction Volume
Dr. Simon Moroney	CEO	11/21/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	18,840	54.39 €	1,024,707.60 €
Dr. Simon Moroney	CEO	11/20/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	860	55.00 €	47,300.00 €
Dr. Simon Moroney	CEO	11/19/2013	Purchase; stock options were converted into MorphoSys AG shares; Dr. Moroney is holding the shares received	33,000	12.81 €	422,730.00 €
Dr. Simon Moroney	CEO	11/19/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	28,300	55.85 €	1,580,555.00 €
Karin Eastham	Member of the Supervisory Board	09/20/2013	Purchase	1,000	76.68 US-$	76,680.00 US-$
Dr. Simon Moroney	CEO	07/16/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	110,445	49.00 €	5,411,805.00 €
Dr. Arndt Schottelius	CDO	07/16/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	90,000	49.00 €	4,410,000.00 €
Dr. Marlies Sproll	CSO	07/16/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	46,002	49.00 €	2,254,098.00 €
Dr. Marlies Sproll	CSO	07/16/2013	Sale; stock options were converted into MorphoSys AG shares and subsequently sold	36,600	49.00 €	1,793,400.00 €
Dr. Marlies Sproll	CSO	07/16/2013	Purchase; stock options were converted into MorphoSys AG shares; Dr. Sproll is holding the shares received	20,265	13.03 €	264,052.95 €
Dr. Gerald Möller	Chairman of the Supervisory Board	07/10/2013	Purchase	1,500	50.65 €	75,975.00 €

SHAREHOLDER APPROVAL OF EQUITY-BASED COMPENSATION PLANS; STOCK REPURCHASES

By resolution of the Annual General Meeting of 19 May 2011, and in accordance with § 71 Para 1 no. 8 AktG, MorphoSys is authorized to repurchase its own shares in an amount of 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 the period of April - May 2013, MorphoSys has repurchased 84,475 of its own shares on the basis of this authorization. The Company plans to use these treasury shares for the Management Board's and Senior Management Group's long-term incentive plans. However, this authorization also allows the shares to be used for all other lawful purposes.

INFORMATION AND COMMUNICATION

During the 2013 financial year, the updating and expansion of the ERP software (ERP = Enterprise Resource Planning) implemented was carried out successfully within the planned project budget and time frame. In addition, the Corporate Performance Management System (CPM), introduced in 2012, was extended with new features for supporting key business processes. The CPM system's consolidation features were successfully audited by external auditors. By introducing a unified communication system, it was possible to reduce current IT costs and raise internal collaboration to the latest state-of-the-art level. Based on advanced IT security technologies, MorphoSys expanded its technical controls to ensure the protection of its information. Organizational controls for ensuring the protection of information at MorphoSys are defined in the relevant guidelines.

COMPLIANCE SYSTEM

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE ACCOUNTING PROCESS

In the 2013 reporting year, MorphoSys routinely updated its documentation of the existing internal control and risk management system to maintain adequate internal control over its financial reporting. MorphoSys has described the main features of its accounting-related internal control and risk management system in accordance with § 289 Para. 5 and § 315 Para. 2 no. 5 HGB, and pursuant to § 107 Para. 3 AktG. This ensures the presence of all inspections in order to report financial data as accurately and as precisely as possible. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) defines the relevant COSO framework ("Internal Control – Integrated Framework"). This is the basis most commonly used for internal controlling of financial reporting and is also used by MorphoSys.

In view of system-inherent limitations, there is no absolute guarantee that the internal controls will be able to prevent or fully uncover misrepresentations in the context of financial reporting at all times. The internal controls can only give reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements consistent with the IFRS* standards adopted by the European Union for external purposes.

*SEE GLOSSARY PAGE 138

To ensure the correctness of the key financial figures reported and the underlying execution of all accounting processes, MorphoSys has implemented a strict four-eye principle. In addition, the effectiveness and efficiency of these processes are controlled and reviewed regularly by external service providers. The consolidated financial statements undergo a high number of preparation, audit, and control processes in order that they can be reported promptly to the market and shareholders. This is carried out according to a plan agreed upon by the management which also provides for the corresponding internal and external resources.

Furthermore, a set of rules and guidelines ensure the strict separation of planning, posting, and execution of financial transactions. The adherence to and implementation of these policies is reviewed regularly. For all IT systems used, this separation of functions is ensured by the appropriate allocation of rights.

Predictions of future events are not part of the internal control and risk management system. However, MorphoSys does employ a risk management system that ensures the early identification and assessment of business-specific risks. Appropriate countermeasures are used to eliminate, or at least reduce the risks identified to an acceptable level. Special attention is given to those risks that could jeopardize the Company's existence.

The Management Board ensures the permanent and responsible dealing of risks and keeps the Supervisory Board informed of all existing risks and their development. Detailed information on MorphoSys's opportunities and risks may be found in the "Risks and Opportunities Report" (page 48).

INTERNAL AUDIT

The task of Internal Audit is to assist the MorphoSys Group with a systematic and consistent approach to evaluating and improving the effectiveness of risk management, and to support the management and monitoring functions in their fulfillment of the set goals. The accounting and consulting firm, KPMG, was appointed in 2013 for the internal audit and was appointed as 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 studies. 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 2013, six audits were successfully conducted. Some areas requiring action were identified and appropriate corrections were initiated and performed. In the case of complaints, appropriate countermeasures were initiated during the reporting year. The 2014 audit plan of the Internal Audit department prescribes a number of tests similar to the number in 2013.

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. At the 2013 Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the 2013 financial year. As evidence of its independence, the auditor submitted a Declaration of Independence to the Supervisory Board.

REMUNERATION REPORT

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

REMUNERATION OF THE MANAGEMENT BOARD

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 Management Board members is comprised 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 basically of a performance share plan and, specifically in 2013, a convertible bond plan. The Management Board members also receive fringe benefits in the form of non-cash benefits. These benefits essentially consist of a company car, telephone, 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 the areas of responsibility of the respective Management Board member, his or her personal achievement of goals, business performance, as well as success and the economic prospects of the Company in relation to the competition. All decisions concerning any adjustments to the total remuneration packages are taken by the entire Supervisory Board. The salaries were last adjusted in July 2013.

OVERVIEW

In the 2013 financial year, the total remuneration of the Management Board amounted to € 5,842,393 (2012: € 3,157,068).

Of this total remuneration, € 2,837,809 was cash remuneration, and € 3,004,584, or 51 %, resulted from stock-based compensation for 2013 (performance share plan, stock option plan and convertible bond plan) (remuneration with long-term incentive – LTI).

The following shows a detailed and individualized table of the Management Board's compensation.

COMPENSATION OF THE MANAGEMENT BOARD IN 2013

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)[1]			Total Compensation[2]
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted	No. of Convertible Bonds Granted	Personal Expenses Regarding Stock-Based Compensation 2013	in €
Dr. Simon Moroney	412,049	179,353[3]	360,543	12,024	88,386	953,834	1,905,779
Jens Holstein	279,531	106,315[4]	244,590	8,235	90,537	750,964	1,381,400
Dr. Arndt Schottelius	279,531	107,437[5]	244,590	8,235	60,537	651,773	1,283,331
Dr. Marlies Sproll	279,531	99,749[6]	244,590	8,235	60,537	648,013	1,271,883
TOTAL	**1,250,642**	**492,854**	**1,094,313**	**36,729**	**299,997**	**3,004,584**	**5,842,393**

[1] The remuneration with a long-term incentive effect is dependent upon the achievement of the company objectives. This remuneration is presented in accordance with IAS 24.17e in an amount which corresponds to the past financial year.
[2] The total remuneration shown for 2013 includes the respective bonus accruals for 2013 which will be paid out in February 2014.
[3] Includes € 112,221 in contributions to individual pension plans and allowances for insurances
[4] Includes € 78,177 in contributions to individual pension plans and allowances for insurances
[5] Includes € 78,294 in contributions to individual pension plans and allowances for insurances
[6] Includes € 78,170 in contributions to individual pension plans and allowances for insurances

COMPENSATION OF THE MANAGEMENT BOARD IN 2012

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)[1]			Total Compensation[2]
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted		Personal Expenses Regarding Stock-Based Compensation 2012	in €
Dr. Simon Moroney	401,980	139,555[3]	226,689	18,976		274,075	1,042,299
Jens Holstein	271,867	129,836[4]	176,890	12,997		113,175	691,768
Dr. Arndt Schottelius	272,700	103,841[5]	164,155	12,997		185,199	725,895
Dr. Marlies Sproll	272,700	96,609[6]	162,653	12,997		165,144	697,106
TOTAL	**1,219,247**	**469,841**	**730,387**	**57,967**		**737,593**	**3,157,068**

[1] The remuneration with a long-term incentive effect is dependent upon the achievement of the company objectives. This remuneration is presented in accordance with IAS 24.17e in an amount which corresponds to the past financial year.
[2] The total remuneration shown for 2012 includes the respective bonus accruals for 2012 which were paid out in February 2013.
[3] Includes € 109,882 in contributions to individual pension plans and allowances for insurances
[4] Includes € 72,999 in contributions to individual pension plans and allowances for insurances
[5] Includes € 76,898 in contributions to individual pension plans and allowances for insurances
[6] Includes € 76,789 in contributions to individual pension plans and allowances for insurances

Members of the Management Board have exercised convertible bonds and stock options in the course of 2013. All transactions in connection with trading in MorphoSys shares were reported as required by law and published in the Corporate Governance Report and on the Company's website.

FIXED COMPENSATION

The non-performance related remuneration of the Management Board is composed of fixed remuneration and additional other benefits which mainly include the use of company cars, and also subsidies for health, welfare, and disability insurance. In the 2013 financial year, Management Board member Jens Holstein was reimbursed € 1,961 for relocation costs for his move to Munich. 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. These payments are included in other compensation. 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 Management Board member 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 two-thirds of performance-based remuneration and are based on the business development in terms of revenue, operating results, progress of the partnered pipeline, and on the Company's proprietary portfolio. Personal targets comprise one-third 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 as to what degree the corporate and personal objectives were achieved in the prior year, and determines the corresponding bonus accordingly. 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 2013 financial year will be paid in February 2014.

LONG-TERM INCENTIVE COMPENSATION (LTI)

MorphoSys has already introduced a new, long-term incentive plan (Performance Share Plan) for the Management Board and members of the Senior Management Group in 2011. 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.

The Supervisory Board decides annually on the number of performance shares to be allocated to the Management Board, which in turn determines the allocation of shares to the members of the Senior Management Group. On 1 April 2013, 36,729 performance shares were awarded to the Management Board and 24,872 performance shares were granted to members of the Senior Management Group. On 1 October 2013, an additional 549 shares were allocated to the members of the Senior Management Group; hereby each member received an entitlement to a certain number of shares. For more details, please refer to item 7.4.3 of the Notes to the consolidated financial statement and the explanations on share repurchases found in the Corporate Governance Report.

The Supervisory Board has also set long-term performance targets through the allotment of shares in specific years. For the 2013 LTI program, the target was defined as the share price performance of the MorphoSys share, compared to a benchmark index that was comprised equally of the NASDAQ Biotech Index and the TecDAX index. Performance shares are awarded annually on the basis of a daily comparison of the MorphoSys share with the benchmark index. For the price performance of a specific year, there is a hurdle of 50 % and an upper limit of 200 %. This means that shares may not be exercised when MorphoSys's share performance is less than 50 % of the performance of the benchmark index. In contrast, when the share's performance exceeds that of the index by more than 200 %, no additional shares are issued.

The final number of performance shares allocated to the beneficiaries of the LTI program is determined after 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 the discretion of the Supervisory Board with regards to a so-called "company factor". The company factor is a number between zero and two and is determined by the Supervisory Board depending on the Company's situation. The predefined default value of the company factor is one.

In addition to the performance share program as a regular variable remuneration component with long-term incentive effects, the Management Board also participated in a convertible bond plan of the Company on 1 April 2013. The circumstances of this additional remuneration under the Company's convertible bond plan the MorphoSys's positive operating development.

MISCELLANEOUS

In the reporting year, no credits, loans or similar benefits were granted to members of the Management Board. In the year under review, the Management Board members received no benefits from third parties that were either promised or granted in view of their position as members of the Management Board.

TERMINATION OF MANAGEMENT BOARD EMPLOYMENT CONTRACTS/CHANGE OF CONTROL

If a Management Board member's service contract terminates as a result of the death, his/her spouse or his/her life partner are entitled to the fixed monthly salary for the month of death and the following twelve months thereafter. In the event of a change in control, each Management Board member is entitled to exercise the extraordinary termination of his/her employment contract, including an entitlement to outstanding 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.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is governed by the Company's Articles of Association or by a corresponding resolution on Supervisory Board remuneration of the Annual General Meeting. The members of the Supervisory Board received a fixed remuneration in the 2013 financial year and attendance fees for their participation in Supervisory Board and Committee meetings. According to the resolution of the Annual General Meeting of 31 May 2012, 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 € 3,000 for each Supervisory Board meeting he chairs, and the remaining members receive € 1,500 each time they attend a Supervisory Board meeting. For Committee work, the Committee Chairman receives € 9,000 and the remaining committee members each receive € 6,000. In addition, Committee members receive € 1,000 for each Committee meeting they participate in. The compensation is paid quarterly on a pro-rated basis.

Supervisory Board members are also reimbursed for travel costs and the value-added taxes (VAT) due on their remuneration. Overall compensation takes into account the responsibilities and scope of the tasks of the Supervisory Board members.

In the 2013 financial year, Supervisory Board members received a total of € 458,280 (2012: € 478,197), excluding the reimbursement of travel expenses. This amount is comprised of the fixed remuneration and attendance fees.

No loans were granted to Supervisory Board members.
The following table shows the remuneration of the Supervisory Board in detail:

COMPENSATION OF THE SUPERVISORY BOARD

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	Fixed Compensation		Attendance Fees		Total Compensation	
In €	2013	2012	2013	2012	2013	2012
Dr. Gerald Möller	94,400	94,400	32,000	37,000	126,400	131,400
Dr. Geoffrey Vernon	57,240	51,549	19,500	22,000	76,740	73,549
Dr. Walter Blättler	43,160	43,160	17,000	21,500	60,160	64,660
Dr. Daniel Camus	43,160	41,939	19,500	23,500	62,660	65,439
Dr. Marc Cluzel	46,160	27,116	23,500	19,000	69,660	46,116
Karin Eastham	40,160	23,591	22,500	15,000	62,660	38,591
Prof. Dr. Jürgen Drews[1]	0	26,264	0	9,500	0	35,764
Dr. Metin Colpan[1]	0	16,678	0	6,000	0	22,678
GESAMT	**324,280**	**324,697**	**134,000**	**153,500**	**458,280**	**478,197**

[1] retired from the Supervisory Board of MorphoSys AG on 31 May 2012

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

COMPOSITION OF COMMON STOCK

As of 31 December 2013, the statutory common stock amounted to € 25,669,444.00 and was divided into 25,669,444 no-par value bearer shares. With the exception of 339,890 treasury shares held by the Company, this concerns bearer shares with voting rights, 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 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 according to § 136 AktG or for treasury shares pursuant to § 71b AktG.

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

MorphoSys has not been notified of or is 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 REGARDS TO EMPLOYEE OWNERSHIP IN THE CAPITAL

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

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AS WELL AS 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 § 6 of the Articles of Association and § 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 to Chief Executive Officer, for good cause within the meaning of § 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 § 85 AktG.

In principle, the Articles of Association may only be amended by a resolution of the Annual General Meeting in accordance with § 179 Para. 1 Sentence 1 AktG. Pursuant to § 179 Para. 2 Sentence 2 AktG in conjunction with § 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 capital represented. To the extent that the law stipulates a mandatory greater majority of votes or capital, this shall be applied. Amendments to the Articles of Association which solely concern their wording, may be resolved by the Supervisory Board pursuant to § 179 Para. 1 Sentence 2 AktG in conjunction with § 12 Para. 3 of the Articles of Association.

POWERS OF THE MANAGEMENT BOARD TO ISSUE SHARES

The Management Board's power to issue shares arises from § 5 Para. 5 to Para. 6e of the Articles of the Association of the Company as of 31 December 2013 and the statutory provisions:

1. Authorized Capital

   According to § 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 contribution/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 generally 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 preemptive 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 constitutes 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.

The previous Authorized Capital 2012- II in accordance with § 5 Para. 6 of the Articles of Association was utilized in its entirety as part of the capital increase carried out in September 2013 and thus cancelled.

2. Conditional Capital
   a. According to § 5 Para. 6a of the Articles of Association, the Company's common stock is conditionally increased by € 70,329.00, divided into up to 70,329 no par-value bearer shares (Conditional Capital 1999 -I). The conditional capital increase of € 3,255.00 (Conditional Capital II a) will only be executed to the extent that the holders of option rights, which were conferred by MorphoSys until 20 July 2004 under the authorization of the Annual General Meeting of 21 July 1999, make use of their right of exercise. Regarding an amount of € 5,229.00 (Conditional Capital II bb), the conditional capital increase will only be affected to the extent that holders of option rights, which were conferred by MorphoSys from 21 July 2004 until 30 April 2009 under the authorization of the Annual General Meeting of 11 May 2004, make use of their right of exercise. The conditional capital increase for an amount of € 61,845.00 (Conditional Capital II b) will only be executed to the extent that the holders of option rights, which were conferred by MorphoSys until 4 June 2006 under the authorization of the Annual General Meeting of 5 July 2001, make use of their right to exercise. The new shares, to the extent that they are created through exercise by the beginning of the Annual General Meeting, participate in the Company's profits from the beginning of the previous financial year, or otherwise from the beginning of the financial year in which they are created through the exercise of subscription rights.
   b. According to § 5 Para. 6b of the Articles of Association, the Company's common stock is conditionally increased to a maximum of € 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 MorphoSys until 30 April 2016 under the authorization of the Annual General Meeting of 19 May 2011, exercise 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 arise through the exercise of conversion rights or the fulfillment of conversion obligations.
   c. According to § 5 Para. 6c of the Articles of Association, the Company's common stock is conditionally increased to a maximum of € 725,064.00, divided into 725,064 new no par-value bearer shares (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 in the financial year, for which there was 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 capital increase and its implementation.
   d. According to § 5 Para. 6d of the Articles of Association, the Company's common stock is conditionally increased by € 763,515.00, divided into up to 763,515 no par-value bearer shares (Conditional Capital 2008-II). The conditional capital increase will only be executed to the extent that holders of option rights, which were conferred by the Company until 30 April 2013 under the authorization of the Annual General Meeting, make use of their right of exercise. The new shares participate in the Company's profits from the beginning of the financial year in which they arise through the exercise of conversion rights or the fulfillment of conversion obligations.
   e. According to § 5 Para. 6e of the Articles of Association, the Company's common stock is conditionally increased by up to € 450,000.00, divided into up to 450,000 new no par-value bearer shares (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 was 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 capital increase and its implementation.

POWER OF THE MANAGEMENT BOARD TO REPURCHASE SHARES

The Management Board's power to repurchase own shares arise from §§ 71 AktG and the authorization by the Annual General Meeting of 19 May 2011:

Until 30 April 2016, the Management Board is authorized to repurchase its own shares totaling up to 10 % of the common stock existing at the time of the resolution (or possibly the lower amount of common stock at the time of use of the authorization) for any purpose permitted under the statutory limits. The repurchase takes place, at the discretion of the Management Board, either on the stock exchange or through a public offer or 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 7 of the Annual General Meeting of 19 May 2011. In particular, the shares may be used as follows:

a. The shares may be redeemed without the redemption or its implementation requiring a further resolution of the Annual General Meeting.
b. The shares may be sold in ways other than via the stock exchange or via an offer to shareholders if the shares are sold for cash payment at a price that is not significantly below the market price of Company 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 for the fulfillment of conversion rights of convertible bonds issued by the Company or its affiliated companies.
e. The shares may be sold to employees of the Company and employees of affiliated companies as well as to members of the Company's management and/or for the fulfillment of commitments concerning the purchase or the obligation to purchase Company shares which were granted to employees of the Company and employees of affiliated companies as well as members of the Company's management.

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

The Supervisory Board may specify that measures taken by the Management Board on the basis of this authorization may only be implemented with Supervisory Board's consent.

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.

A change of control includes, in particular, the acquisition of 30 % or more of the voting rights in the Company within the meaning of §§ 29 and 30 of the German Securities Acquisition and Takeover Act (WpÜG).

In June 2013, MorphoSys entered into an agreement with Celgene to jointly develop the anti-cancer antibody MOR202 globally and to co-promote MOR202 in Europe. Pursuant to this agreement, Celgene may terminate the co-promotion rights of MorphoSys in the event of a business combination of MorphoSys with a third party. Such business combination is defined to be an acquisition of 50 % or more of the voting shares of MorphoSys, a merger of the third party with MorphoSys or a transfer of substantially all of the assets of MorphoSys to the third party. Furthermore, in the event of such a business combination with a third party that has a competing pharmaceutical program to MOR202 but is not a violation of the non-compete clause, the research and development activities required under the agreement with Celgene shall be conducted separately from any research and development activities of the competing pharmaceutical program.

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

Following a change of control, each member of the Management Board may terminate his/her 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 his/her 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.

A change of control includes in particular the following cases: (i) MorphoSys transfers the Company's assets, in whole or in substantial part, to 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.

CORPORATE GOVERNANCE AT MORPHOSYS

RISK-BASED INTERNAL AUDIT PLAN

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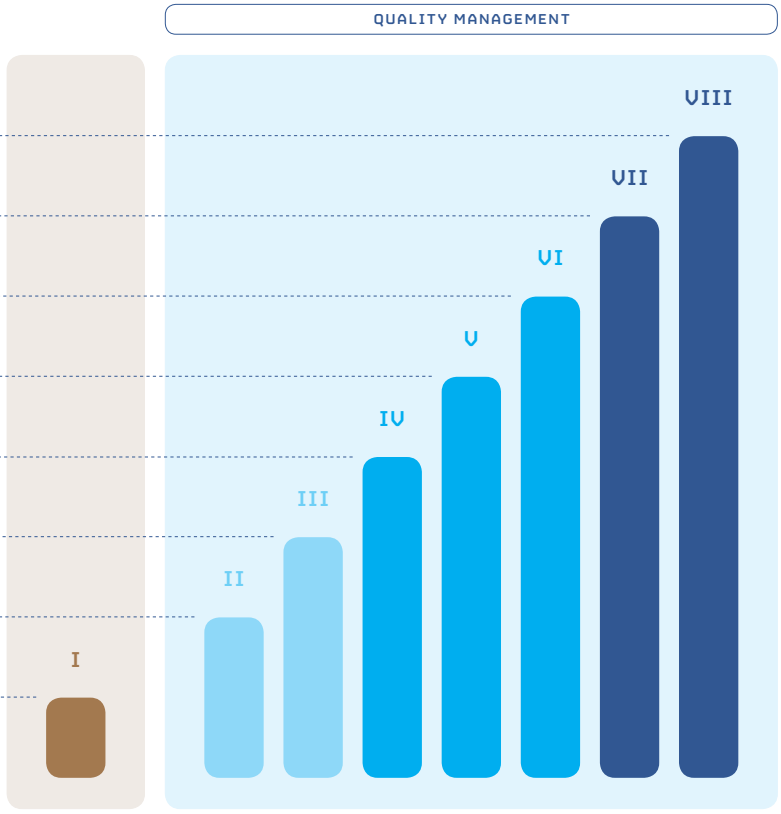
VIII	Follow-up
VII	Documentation and communication of results
VI	Defining and carrying out the necessary audit steps
V	Evaluation of the Internal Control System
IV	Risk analysis and evaluation of audit objective
III	Definition of audit objective (process analysis)
II	Risk analysis within audit area
I	Risk analysis and planning of the annual audit plan



THE MORPHOSYS COMPLIANCE SYSTEM

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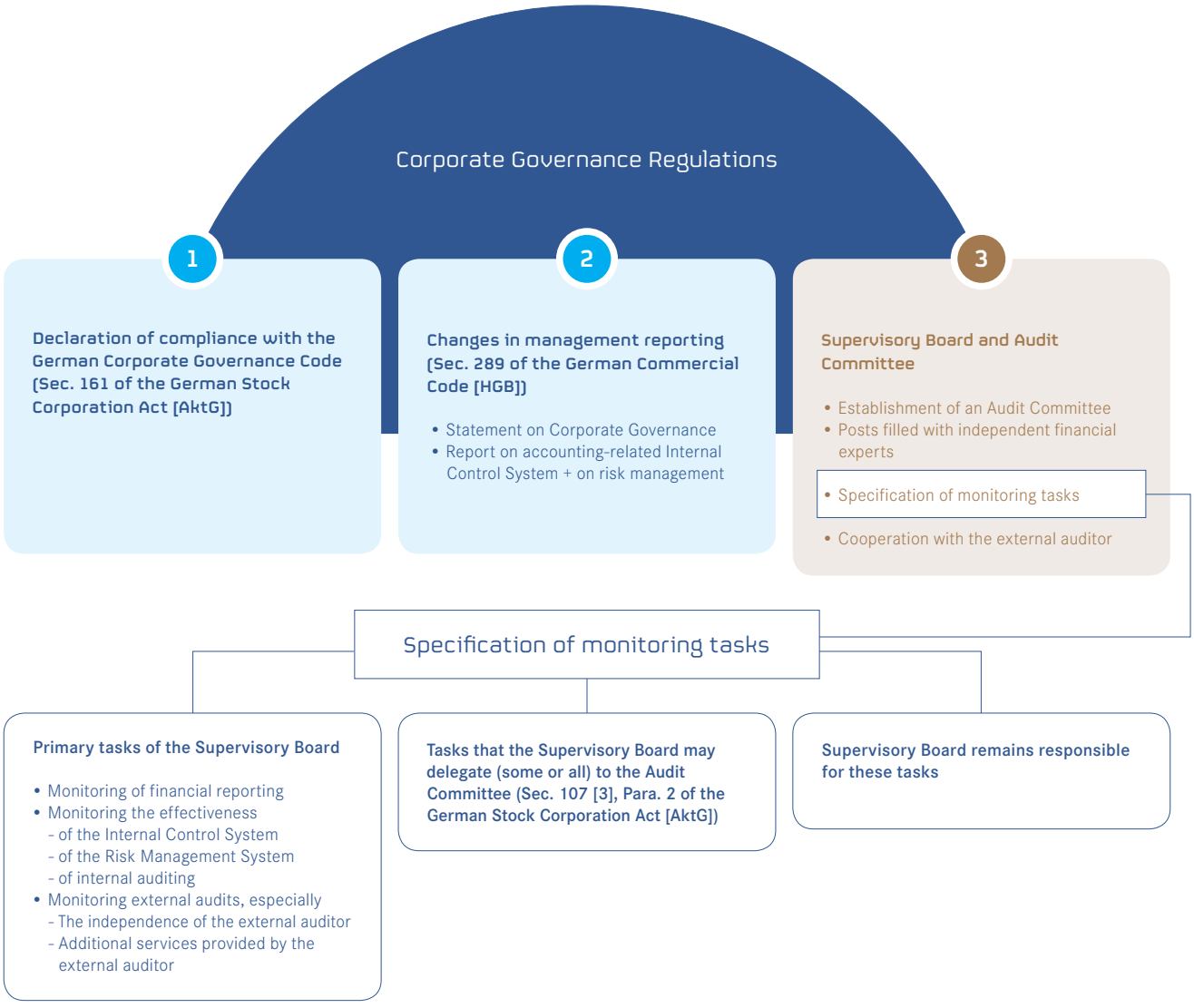

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FINANCIAL STATEMENTS

Consolidated Statement of Income (IFRS)

in €	Note	2013	2012
Continuing Operations			
Revenues	2.7.1, 4.1	77,960,057	51,916,986
Operating Expenses			
Research and Development	2.7.2, 4.2.2	49,151,721	37,673,345
Selling, general and Administrative	2.7.2, 4.2.3	18,769,991	12,081,649
Total Operating Expenses		67,921,712	49,754,994
Other Income	2.7.3, 4.3	797,252	415,477
Other Expenses	2.7.4, 4.3	911,050	85,454
Earnings before Interest and Taxes (EBIT)		9,924,547	2,492,015
Finance Income	2.7.5, 4.3	867,511	658,991
Finance Expenses	2.7.6, 4.3	111,161	98,931
Income Tax Expenses	2.7.7, 4.4	(3,310,077)	(685,812)
Profit for the Year from Continuing Operations		7,370,820	2,366,263
(Loss)/Profit for the Year from Discontinued Operations	4.5	5,951,110	(424,118)
Consolidated Net Profit		13,321,930	1,942,145
Basic Net Profit per Share	2.7.9, 4.6	0.54	0.08
thereof from Continuing Operations	2.7.9, 4.6	0.30	0.10
thereof from Discontinued Operations	2.7.9, 4.6	0.24	(0.02)
Diluted Net Profit per Share	2.7.9, 4.6	0.54	0.08
thereof from Continuing Operations	2.7.9, 4.6	0.30	0.10
thereof from Discontinued Operations	2.7.9, 4.6	0.24	(0.02)
Shares Used in Computing Basic Net Profit per Share	2.7.9, 4.6	24,504,031	23,004,894
Shares Used in Computing Diluted Net Profit per Share	2.7.9, 4.6	24,763,094	23,260,360

Consolidated Statement of Comprehensive Income (IFRS)[1]

in €	2013	2012
Consolidated Net Profit	13,321,930	1,942,145
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds	(357,632)	(178,483)
(Thereof Reclassifications of Unrealized Gains and Losses to Profit and Loss)	482,018	420,546
Change of Current Tax Effect on Fiscal Balancing Item on Available-for-sale Financial Assets and Bonds	259,878	0
Deferred Taxes	(176,706)	46,995
Change in Unrealized Gains and Losses on Available-for-sale Financial Assets and Bonds, Net of Deferred Tax	(274,460)	(131,488)
Effects from Equity-related Recognition of Deferred Taxes	28,098	6,005
Foreign Currency Gain from Consolidation	1,302,421	182,460
Comprehensive Income	14,377,989	1,999,122
thereof from Continuing Operations	13,001,310	2,234,775
thereof from Discontinued Operations	1,376,679	(235,653)

[1] In financial years 2013 and 2012, the statement of comprehensive income only comprised components, which will be reclassified in terms of IAS 1.82A(b) to profit or loss in subsequent periods when specific conditions are met.

Consolidated Balance Sheet (IFRS)

in €	Note	12/31/2013	12/31/2012
ASSETS			
Current Assets			
Cash and Cash Equivalents	2.8.1, 5.1	71,873,696	40,689,865
Available-for-sale Financial Assets	2.8.1, 5.2	188,360,354	79,722,222
Bonds, Available-for-sale	2.8.1, 5.2	11,102,087	0
Accounts Receivable	2.8.2, 5.3	10,270,322	8,924,197
Tax Receivables	2.8.2, 5.5	77,743	109,789
Other Receivables	2.8.2, 5.4	119,458,330	10,297,901
Inventories, Net	2.8.3, 5.5	731,009	757,386
Prepaid Expenses and Other Current Assets	2.8.4, 5.5	4,693,943	2,357,163
Total Current Assets		406,567,484	142,858,523
Non-current Assets			
Property, Plant and Equipment, Net	2.8.5, 5.6	2,168,189	3,191,837
Patents, Net	2.8.6, 5.7.1	7,834,711	8,666,367
Licenses, Net	2.8.6, 5.7.2	5,396,516	7,128,425
Inlicensed Research Program	2.8.6, 5.7.3	12,807,800	10,513,100
Software, Net	2.8.6, 5.7.4	1,758,026	1,351,932
Goodwill	2.8.6, 5.7.5	7,352,467	7,352,467
Shares available for Sale, net of Current Portion	2.8.7, 5.8	1,726,633	881,633
Deferred Tax Asset	2.8.7, 4.4	313,372	0
Prepaid Expenses and Other Assets, Net of Current Portion	2.8.8, 5.9	1,731,548	1,489,063
Total Non-current Assets		41,089,262	40,574,825
Assets of Disposal Group Classified as Held for Sale	2.8.9	0	40,855,433
TOTAL ASSETS		**447,656,746**	**224,288,780**

in €	Note	12/31/2013	12/31/2012
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	2.9.1, 6.1	17,190,021	10,660,090
Tax Liabilities	2.9.2, 6.2	2,690,282	629,686
Provisions	2.9.1, 6.2	260,000	0
Current Portion of Deferred Revenue	2.9.3, 6.3	15,266,877	628,167
Total Current Liabilities		35,407,180	11,917,943
Non-current Liabilities			
Provisions, Net of Current Portion	2.9.4, 6.2	636,941	187,521
Deferred Revenue, Net of Current Portion	2.9.4, 6.3	59,168,599	5,915,102
Convertible Bonds due to Related Parties	2.9.5	298,606	73,607
Deferred Tax Liabilities	2.9.6	0	452,074
Total Non-current Liabilities		60,104,146	6,628,304
Liabilities of Disposal Group Classified as Held for Sale	2.9.7, 6.4	0	3,732,516
Total Liabilities		95,511,326	22,278,763
Stockholders' Equity			
Common Stock	2.9.8, 6.5.1	26,220,882	23,358,228
Ordinary Shares Authorized (36,614,174 and 43,142,455 for 2013 and 2012, respectively)	2.9.8, 6.5.2		
Ordinary Shares Issued (26,220,882 and 23,358,228 for 2013 and 2012, respectively)			
Ordinary Shares Outstanding (25,880,992 and 23,102,813 for 2013 and 2012, respectively)			
Treasury Stock (339,890 and 255,415 shares for 2013 and 2012, respectively), at Cost	2.9.8, 6.5.4	(6,418,018)	(3,594,393)
Additional Paid-in Capital	2.9.8, 6.5.5	310,963,651	175,245,266
Revaluation Reserve	2.9.8, 6.5.6	240,381	486,743
Translation Reserve	2.9.8, 6.5.7	192,556	(1,109,865)
Accumulated Income	2.9.8, 6.5.8	20,945,968	7,624,038
Total Stockholders' Equity		352,145,420	202,010,017
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		**447,656,746**	**224,288,780**

Consolidated Statement of Changes in Stockholders' Equity (IFRS)

	Common Stock	
	Shares	€
BALANCE AS OF 1 JANUARY 2012	**23,112,167**	**23,112,167**
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 € 15,000 (Net of Tax Effects)	246,061	246,061
Repurchase of Treasury Stock	0	0
Reserves:		
Change in Unrealized Gain on Available-for-sale Financial Assets and Bonds, Net of Deferred Tax	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
Comprehensive Income	0	0
BALANCE AS OF 31 DECEMBER 2012	**23,358,228**	**23,358,228**
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 Deferred Tax	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
Comprehensive Income	0	0
BALANCE AS OF 31 DECEMBER 2013	**26,220,882**	**26,220,882**

	Treasury Stock		Additional Paid-in Capital	Revaluation Reserve	Translation Reserve	Accumulated Income	Total Stockholders' Equity
	Shares	€	€	€	€	€	€
	163,915	**(1,756,841)**	**170,778,474**	**612,226**	**(1,292,325)**	**5,681,893**	**197,135,594**
	0	0	1,268,792	0	0	0	1,268,792
	0	0	3,198,000	0	0	0	3,444,061
	91,500	(1,837,552)	0	0	0	0	(1,837,552)
	0	0	0	(131,488)	0	0	(131,488)
	0	0	0	6,005	0	0	6,005
	0	0	0	0	182,460	0	182,460
	0	0	0	0	0	1,942,145	1,942,145
	0	**0**	**0**	(125,483)	182,460	1,942,145	1,999,122
	255,415	**(3,594,393)**	**175,245,266**	**486,743**	**(1,109,865)**	**7,624,038**	**202,010,017**
	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**

Consolidated Statement of Cash Flows (IFRS)

in €	Note	2013	2012
OPERATING ACTIVITIES:			
Consolidated Net Profit		13,321,930	1,942,145
Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:			
Impairment of Assets	5.6, 5.7	1,624,255	180,237
Depreciation and Amortization of Tangible and Intangible Assets	5.6, 5.7	4,834,447	6,310,535
Net Gain on Sales of Financial Assets	5.2	(520,730)	(480,912)
Purchases of Derivative Financial Instruments	5.4	(22,800)	(40,870)
Unrealized Net Loss on Derivative Financial Instruments	5.4	22,800	40,870
Loss on Sale of Property, Plant and Equipment/Intangible Assets		6,791	4,319
Net Gain on Sale of Assets Classified as Available for Sale	4.5	(8,000,712)	(5,547)
Recognition of Deferred Revenue	6.3	(23,989,809)	(20,088,086)
Stock-based Compensation	4.2.4, 7	5,145,455	1,348,167
Income Tax Expenses	4.4	3,699,337	467,199
Changes in Operating Assets and Liabilities:			
Accounts Receivable	5.3	(1,500,912)	1,575,045
Prepaid Expenses, Other Assets and Tax Receivables	5.4, 5.5	(3,157,708)	(495,812)
Accounts Payable and Accrued Expenses and Provisions	6.1, 6.2	6,524,350	(8,461,445)
Other Liabilities	6.1	526,350	101,112
Deferred Revenue	6.3	91,860,930	19,680,503
Interest Paid		(24,591)	(744)
Interest Received		167,797	179,588
Income Taxes Paid		(1,379,563)	(466,290)
Net Cash Provided by Operating Activities		89,137,617	1,790,014
thereof from Continuing Operations		91,005,448	740,608
thereof from Discontinued Operations		(1,867,831)	1,049,406
INVESTING ACTIVITIES:			
Purchases of Financial Assets	2.8.9, 5.2	(192,261,784)	(30,768,599)
Proceeds from Sales of Financial Assets	2.8.9, 5.2	83,823,406	31,053,715
Purchase of Bonds, Available-for-sale	2.8.9, 5.2	(11,138,742)	0
Purchase of Assets Classified as Loans and Receivables	2.8.2, 5.4	(173,185,607)	(10,000,000)
Proceeds from Sale of Assets Classified as Loans and Receivables	2.8.2, 5.4	68,729,122	0
Purchase of Shares Classified as Available for Sale	2.8.7, 5.8	(845,000)	(881,633)
Purchases of Property, Plant and Equipment	5.6	(1,049,566)	(1,016,539)
Proceeds from Disposals of Property, Plant and Equipment		5,950	0
Purchases of Intangible Assets	5.7	(4,513,991)	(1,294,661)
Proceeds from Disposal of Assets Classified as Available for Sale	4.5	36,579,511	816,591
Net Cash Used in Investing Activities		(193,856,701)	(12,091,126)
thereof from Continuing Operations		(230,437,417)	(11,824,020)
thereof from Discontinued Operations		36,580,716	(267,106)

in €	Note	2013	2012
FINANCING ACTIVITIES:			
Repurchase of Treasury Stock	6.5.4	(2,823,625)	(1,837,552)
Proceeds of Share Issuance	6.4	128,379,156	0
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties	7.1	7,169,564	3,444,061
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties	7.2.2	225,000	0
Cost of Share Issuance	6.5.5	(2,323,688)	0
Net Cash Provided by Financing Activities		130,626,407	1,606,509
thereof from Continuing Operations		130,626,407	1,606,509
thereof from Discontinued Operations		0	0
Effect of Exchange Rate Differences on Cash		(4,467)	69,344
Increase/(Decrease) in Cash and Cash Equivalents		25,902,856	(8,625,259)
Cash and Cash Equivalents at the Beginning of the Period		45,970,840	54,596,099
thereof included in Cash and Cash Equivalents		40,689,865	54,596,099
thereof included in Assets of Disposal Group Classified as Held for Sale		5,280,975	0
Cash and Cash Equivalents at the End of the Period		71,873,696	45,970,840
thereof included in Cash and Cash Equivalents		71,873,696	40,689,865
thereof included in Assets of Disposal Group Classified as Held for Sale		0	5,280,975

Notes to the Consolidated Statement of Cash Flows

The Group's cash and cash equivalents increased from € 40.7 million by € 31.2 million to € 71.9 million compared to prior year. This is due to different effects in operating, investing, and financing activities which are explained below.

The operating cashflow includes cash inflow and cash outflow from operating activities and represents the company's ability to generate cash from its operations during the financial year. The increase in cash inflows from operating activities is affected mainly by changes in the balance sheet item "Deferred Revenue". The increase in this line item is driven by the upfront payment received from Celgene, which is deferred over several periods.

The cash flow from investing activities indicates growth or stagnation of a company. The negative cash flow shows that investments exceed divestments which can generally be interpreted as company growth. The negative cash flow from investing activities is mainly influenced by the increase in money market funds and the increase of investments classified as loans and receivables. Proceeds arise primarily from the sale of financial assets, from the sale of investments classified as loans and receivables and from the disposal of assets classified as available for sale.

The cash flow from financing activities provides information regarding the external financing of a company. The cash inflow from financing activities in the amount of € 131 million is mainly impacted by proceeds from the issuance of equity.

Notes

1 General Information

BUSINESS AND COMPANY OVERVIEW

MorphoSys AG ("the Company" or "MorphoSys") is one of the leading antibody companies focused on research and development of fully human antibodies. MorphoSys's proprietary state-of-the-art technologies, and its over 16 years of focused antibody research and optimization expertise are successfully applied to the development of therapeutics for its commercial partners and proprietary use. 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) issued by the International Accounting Standards Board (IASB), London, taking into account the recommendations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Commission. The commercial law provisions of Sec. 315a para 1 of the German Commercial Law (HGB) have also been applied.

These consolidated financial statements as of 31 December 2013 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 the following assets and liabilities recognized at their respective fair value: derivative financial instruments and available-for-sale financial assets. 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 DISCLOSURE

PUBLISHED NEW AND AMENDED STANDARDS AND INTERPRETATIONS WHICH WERE NOT YET MANDATORY IN FINANCIAL YEAR 2012 AND WHICH WERE APPLIED FOR THE FINANCIAL YEAR STARTING ON 1 JANUARY 2013

- IFRS 7 "Financial Instruments: Disclosures": IFRS 7 governs disclosure requirement regarding financial instruments. The amendment concerns the offsetting of financial assets and financial liabilities and applies to all recognized financial instruments which are offset pursuant to IAS 32.42. According to the new disclosure requirements of IFRS 7, both the gross amount prior to offsetting and the net amount after offsetting pursuant to IAS 32.42 are to be disclosed. In addition, to ensure the improved traceability of offsetting activities, financial instruments must also be disclosed when their settlement is subject to actionable global offsetting agreements or similar liabilities.
- IFRS 13 "Fair Value Measurement": The objective of the endorsement adopted by the EU is to increase consistency when determining fair value and to reduce complexity by providing a uniform initial definition of fair value for all IFRS requirements and by creating a single source for the measurement and disclosure requirements of fair value. The amendment addresses the question of how fair value measurement should be performed. The individual IFRS requirements applicable for the respective issue or balance sheet item provide regulations as to which items are to be measured.
- IAS 1 "Presentation of Financial Statements": The main impact of the IAS 1 amendment is the requirement for entities to categorize the items presented in other comprehensive income, dependent upon the possibility of whether they can be reclassified to profit and loss at a later point in time (reclassification adjustments). The amendment does not address which items are included in other comprehensive income. The presentation of OCI components to be reclassified to profit and loss in subsequent periods shall be separated from the components which are not to be reclassified. The same applies to income taxes incurred in cases of pre-tax presentation. Thus, income taxes are also to be presented separately as classifiable and non-classifiable items. The option to present OCI items before or after taxes remains unchanged. The amendment to IAS 1 must be applied to financial years beginning on or after 1 July 2012.

- IAS 12 "Income Taxes": With few exceptions, an entity is required to recognize deferred tax liabilities/deferred tax assets to the extent that the recovery of the carrying amount of the asset or the liability would result in higher/lower tax payments in the future. The amendment offers a practical solution to the question whether the carrying amount is recovered by way of usage or disposal. It is a rebuttable presumption that the recovery of the carrying amount usually occurs by way of disposal.
- IAS 19 "Employee Benefits": The most important amendment to IAS 19 is the direct recognition of unexpected future fluctuations in pension obligations as well as in any plan assets, so-called "actuarial gains and losses", in other comprehensive income (OCI). The previous option of immediate recognition in profit and loss, in other comprehensive income (OCI), or the deferred recognition according to the so-called corridor method has been abolished.
- Improvements to International Financial Reporting Standards (May 2012): The amendments were published on 28 March 2013 and must be applied to financial years beginning on or after 1 January 2013.

PUBLISHED NEW AND AMENDED STANDARDS AND INTERPRETATIONS WHICH ARE NOT EXPECTED TO HAVE AN IMPACT ON THE GROUP

- Amendment to IFRS 1 "First-Time Adoption"– Government Grants: The amendment was published in the Official Journal on 5 March 2013 and must be applied to financial years beginning on or after 1 January 2013. The Group has evaluated the impacts of IFRS 1. The adoption of the provisions has no effect on the Group.
- IFRS 1 "First-Time Adoption": The objective of IFRS 1 is to introduce a new exemption clause for the scope of IFRS 1: Entities which have been subject to severe hyperinflation are allowed to recognize their assets and liabilities at fair value in the IFRS opening balance sheet rather than at acquisition or production cost. Additionally, the amendment removed the previous reference to the fixed date of application (1 January 2004) and replaced it by the general wording "date of transition to IFRS". The Group has evaluated the impacts of IFRS 1. The adoption of the provisions has no effect on the Group.
- Amendment to IFRS 7 "Financial Instruments: Disclosures", with regard to additional disclosure requirements concerning the offsetting of financial assets and financial liabilities, have no effect on the Group.
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine": The amendment must be applied to financial years beginning on or after 1 January 2013. The interpretation deals with the recognition and measurement of stripping costs incurred during the production phase of a surface mine.

PUBLISHED NEW AND AMENDED STANDARDS AND INTERPRETATIONS WHICH ARE PUBLISHED BUT NOT YET MANDATORILY APPLICABLE IN THE FINANCIAL YEAR BEGINNING ON 1 JANUARY 2013 AND WHICH ARE NOT BEING APPLIED IN ADVANCE

- IFRS 10 "Consolidated Financial Statements": This standard replaces the consolidation guideline of IAS 27 and SIC-12 by introducing a single consolidation model for all entities on the basis of control, regardless of the type of investment recipient (i.e., regardless whether the entity is controlled by the voting rights of the investors or through other contractual agreements as is customary in the case of special purpose entities). The standard replaces the provisions of IAS 27 " Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". Therefore, IAS 27 only deals with the provisions for separate financial statements and is referred to as "Separate Financial Statements". IFRS 10 focuses on the introduction of a uniform consolidation model for all entities that is based on the control of a subsidiary. Newly introduced is the concept of having a uniform definition of the term "control" to determine whether or not an entity must be consolidated in the future. This definiton includes provisions as to how a reporting company (investor) can control another company (investment) and how consolidation is to be performed. The Group is still assessing the full impact of IFRS 10 and intends to adopt IFRS 10 no later than the reporting period beginning on or after 1 January 2014.
- IFRS 11 "Joint Arrangements": IFRS 11 introduces new accounting provisions for joint arrangements and replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The new standard stipulates new requirements for the identification, classification, and accounting of jointly controlled operations. The option to apply the proportionate consolidation method for jointly controlled entities has been cancelled. In addition, IFRS 11 abolished the concept of jointly controlled assets. The concepts of joint operations and joint ventures remained. The classification is now based on an economic approach which focuses on the type of rights and obligations arising from the agreement. The Group is still assessing the full impact of IFRS 11 and intends to adopt IFRS 11 no later than the reporting period beginning on or after 1 January 2014.
- IFRS 12 "Disclosure of Interest in Other Entities": IFRS 12 combines the revised disclosure requirement for all forms of interests in other entities, including joint arrangements, associated companies, special purpose entities, and other non-consolidated interests. IFRS 12 requires improved disclosures for consolidated and non-consolidated entities in which the company holds an interest. IFRS 12 requires more extensive as well as more informative disclosures in the notes than IAS 27. For example, information regarding the type, size, and importance of the existing relationships to other entities must be disclosed, including those regarding consolidated and non-consolidated structured companies (special purpose entities). The Group is still assessing the full impact of IFRS 12 and intends to adopt IFRS 12 no later than the reporting period beginning on or after 1 January 2014.
- Amendments to IFRS 10 "Consolidated Financial Statements", to IFRS 12 "Disclosure of Interest in Other Entities", and IAS 27 "Separate Financial Statements" – Investment Entities: The amendments were published on 21 November 2013 and must be applied to financial years beginning on or after 1 January 2014.
- Amendments to the transitional provisions of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interest in Other Entities": The amendments were published on 5 April 2013 and are expected to be applied to financial years beginning on or after 1 January 2014.
- IAS 27 "Separate Financial Statements": IAS 27 (revised 2011) includes the remaining provisions applying to the separate financial statements following the inclusion in the new IFRS 10 "Consolidated Financial Statements" of former IAS 27 provisions regarding consolidation. Additionally, changes to IFRS 12 also have an impact on IAS 27. The Group is still assessing the full impact of IAS 27 and intends to adopt IAS 27 no later than the reporting period beginning on or after 1 January 2014.

- IAS 28 "Investments in Associates": IAS 28 (revised 2011) includes provisions regarding interests in joint venture and associated companies that are consolidated using the equity method pursuant to IFRS 11. In the future, joint ventures are always accounted using the equity method pursuant to IAS 28 as the proportionate consolidation of jointly operated entities was abandoned in IFRS 11. For the first time, additional amendments to IAS 28 provide that in the case of a planned partial sale of associated companies or joint ventures, the interest held for sale must be accounted for pursuant to IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" when the classification requirements of IFRS 5 are met. The Group is still assessing the full impact of IAS 28 and intends to adopt IAS 28 no later than the reporting period beginning on or after 1 January 2014.
- IAS 32 "Financial Instruments – Presentation": IAS 32 governs the presentation and disclosure of all types of financial instruments. In order to facilitate a comparison with US standards, additional disclosure requirements come into effect that are included in IFRS 7. The established model for offsetting remains in place. The modification concerns both of the offsetting requirements of IAS 32.42:
  - The right to offset a financial asset or a financial liability should not depend on future events and must be preserved even in the case of default, insolvency, or bankruptcy of the business partner.
  - If transactions involving financial instruments are settled via settlement systems (e.g. clearing houses), the offsetting of financial assets and financial liabilities requires that the transaction takes place without the emergence of credit and liquidity risk and within a settlement process or cycle.

  The amendments of IAS 32 are to be applied retrospectively by adjusting the comparative figures for financial years beginning on or after 1 January 2014. The Group is still assessing the full impact of IAS 32 and intends to adopt IAS 32 no later than the reporting period beginning on or after 1 January 2014.

PUBLISHED NEW AND AMENDED STANDARDS WHICH HAVE NOT YET BEEN ADOPTED BY THE EUROPEAN UNION ("ENDORSEMENT")

- IFRS 9 "Financial Instruments", amendments to IFRS 9 "Financial Instruments" and to IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures: The amendments are expected to be applied to financial years beginning on or after 1 January 2015. The Group is still assessing the full impact of IFRS 9 and its amendments.
- IFRS 9 "Financial Instruments: Classification and Measurement": Financial Assets (November 2009) and "Financial Instruments: Classification and Measurement": Financial Liabilities (October 2010): The amendments to IFRS 9 include new provisions on hedge accounting in the form of a new general model for the accounting of hedging relationships. The amendment was included in IFRS 9 as Section 6 and replaces the corresponding provisions on hedge accounting in IAS 39. However, in applying the new hedge-accounting provisions, IFRS 9 provides the option to continue applying the special regulations for portfolio fair value hedges of interest rate risk found in IAS 39. The newly introduced IASB model provides entities with more flexibility in presenting their risk management activities. The amendments to IFRS 9 also provide the opportunity of prior adoption of the recognition of fair value changes outside of profit and loss resulting from credit risk related fair value changes of liabilities which are measured at fair value, without applying all the requirements of IFRS 9. The IASB has also removed the previous 1 January 2015 mandatory effective date of IFRS 9 for first-time applications. A new mandatory effective date will only be determined once the standard is completed. EU endorsement will also be sought upon completion.
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets": In the development of IFRS 13 "Measurement at Fair Value", the IASB decided to modify IFRS 36 to make it mandatory to disclose information on impaired assets. It became clear, however, that the amendments to IAS 36 resulted in the obligation to provide such information for all cash-generating units when they contain a material proportion of goodwill and regardless of whether or not they are impaired. The amendments also contain more specified disclosures when an asset is impaired and the recoverable amount was determined on the basis of its fair value less costs to sell. For example, information should be provided on the accounting policies applied and with regard to the level of the fair value hierarchy pursuant to IFRS 13, upon which the measurement of the fair value was based. The amendments must be applied to financial years beginning on or after 1 January 2014. Early adoption is permitted as long as IFRS 13 has already been adopted. The Group is still assessing the full impact of IAS 36 and intends to adopt IAS 36 no later than the reporting period beginning on or after 1 January 2014.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement": On 27 June 2013, the IASB adopted "Novation of Derivatives and Continuation of Hedge Accounting" whereby derivatives continue to be designated as a hedging instrument in an existing hedging relationship despite novation. Novation is defined as circumstances in which the initial derivative counterparties agree that a central counterparty (CCP) may stand as a substitute for the respective counterparties. A fundamental prerequisite for novation is that the involvement of a central counterparty or central contracting party has occurred as a result of legal or regulatory requirements. The amendments must be applied for the first time in financial years beginning on or after 1 January 2014. Early adoption is permitted. The Group is still assessing the full impact of IAS 39 and intends to adopt IAS 39 no later than the reporting period beginning on or after 1 January 2014.
- IFRIC 21 "Levies": This interpretation provides guidance on how and when to recognize levies pursuant to IAS 37 "Provisions, contingent liabilities and contingent assets", that are imposed by a government and are not within the scope of another IFRS. In German law, the so-called "bank levy" is an example of such a levy. According to the current interpretation, an obligation must be recognized in the financial statements once the obligating event has occurred that triggers the payment obligation of the levy in accordance with the relevant legislation. The interpretation must be applied to financial years beginning on or after 1 January 2014. The Group is still assessing the full impact of IFRIC 21 and intends to adopt IFRIC 21 no later than the reporting period beginning on or after 1 January 2014.

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 IAS 27.20. Unrealized losses are eliminated in the same manner as unrealized gains; however, they 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 four wholly-owned subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group").

MorphoSys USA Inc., Charlotte, North Carolina, USA, was incorporated in the USA on 16 February 2000. The subsidiary's business purpose was to support MorphoSys AG in the sale and licensing of its products. In November 2002, MorphoSys USA Inc. ceased its operating activities.

MorphoSys IP GmbH, Martinsried, Germany, was registered on 6 November 2002 in the commercial register in Munich and commenced its operating business on 31 December 2002. The company's purpose is the purchase, maintenance, and administration of certain intangible assets belonging to MorphoSys Group. The company is located on the premises of MorphoSys AG.

In January 2005, MorphoSys acquired Biogenesis Ltd., Poole, UK, and Biogenesis, Inc., New Hampshire, USA. Biogenesis Ltd. was initially renamed MorphoSys UK Ltd. and in 2007 was again renamed Poole Real Estate Ltd. Biogenesis, Inc. was renamed MorphoSys US, Inc. and merged into Serotec, Inc. Subsequently, the absorbing entity resumed the name MorphoSys US, Inc. and has its registered office in Raleigh, North Carolina, USA.

In January 2006, MorphoSys AG acquired Serotec Ltd., Oxford, UK, with its subsidiaries Serotec, Inc., Raleigh,North Carolina, USA, Serotec GmbH, Düsseldorf, Germany, and Oxford Biotechnology Ltd., Oxford (together referred to as the "Serotec Group"). Hence, Serotec Ltd. became a wholly-owned subsidiary of MorphoSys AG. The Serotec Group has been integrated into MorphoSys's existing AbD segment. Oxford Biotechnology Ltd. was dissolved in financial year 2009.

In January 2007, Serotec Ltd. and Serotec, Inc. were renamed MorphoSys UK Ltd. and MorphoSys US, Inc. In March 2007, Serotec GmbH was renamed MorphoSys AbD GmbH.

In October 2010, MorphoSys acquired all of the shares in Sloning BioTechnology GmbH, a private company located in Puchheim near Munich, Germany.

On 16 December 2012, MorphoSys AG and a subsidiary of Bio-Rad Laboratories, Inc., Hercules, California, USA (Bio-Rad Inc.), agreed upon the acquisition of all shares of MorphoSys UK Ltd., Oxford, UK (MorphoSys UK). This agreement also comprised all shares of both MorphoSys UK's subsidiaries, MorphoSys AbD GmbH, Düsseldorf, Germany and MorphoSys US, Inc., Raleigh, USA. Additionally, on 16 December 2012, MorphoSys AG and a further subsidiary of Bio-Rad agreed upon the acquisition of individual assets (trademarks) of the AbD Serotec segment of MorphoSys AG and the purchase of a non-exclusive license for the use of the HuCAL technology in the market for research reagents and diagnostics. Furthermore, it was agreed to transfer all remaining assets and liabilities of the AbD Serotec segment of MorphoSys AG to MorphoSys AbD GmbH. MorphoSys AG's interest in Poole Real Estate Ltd., Poole, UK, was not sold. The closing of the transaction was contingent upon certain conditions which were met on 10 January 2013 (closing date). Hence, substantially all of the AbD Serotec segment was sold as of this date. Therefore, substantially all of MorphoSys AG's AbD Serotec operating segment represented a discontinued operation within the meaning of IFRS 5. As of the reporting date, the Partnered Discovery and Proprietary Development operating segments, along with the non-discontinued operations of the AbD Serotec segment, were classified as continuing operations.

LEGAL STRUCTURE OF THE MORPHOSYS GROUP

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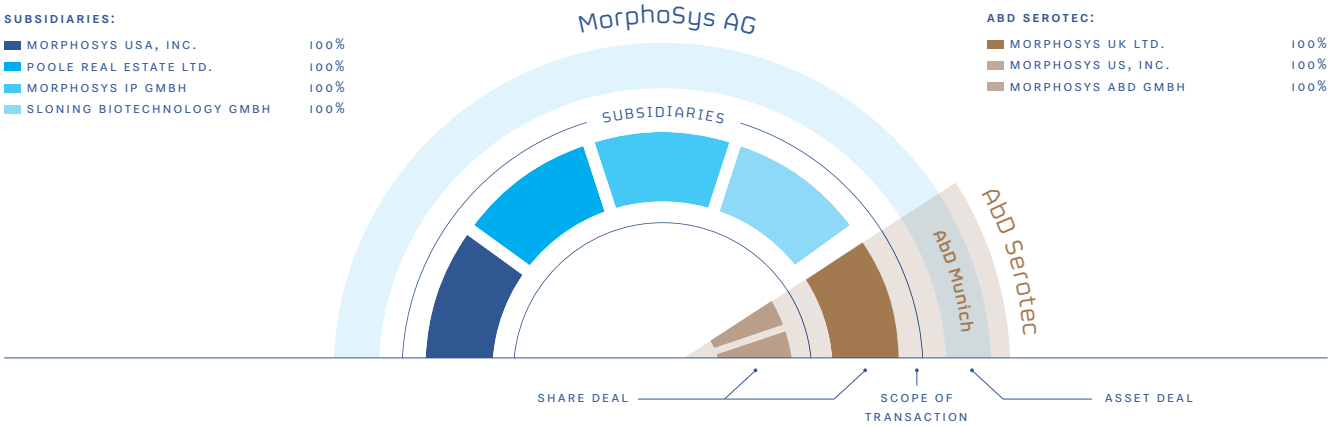

As of 31 December 2013, the entities MorphoSys UK Ltd., Oxford, UK, MorphoSys US, Inc., Raleigh, USA, and MorphoSys AbD GmbH, Düsseldorf, are no longer included in the MorphoSys Group's scope of consolidation.

MorphoSys IP GmbH has made use of the option of exemption of Sec. 264 para 3 of the German Commercial Code (HGB). For this reason, no separate financial statements were published in the Bundesanzeiger (German Federal Gazette) for MorphoSys IP GmbH for the year 2013.

The consolidated financial statements for the year ended 31 December 2013, were prepared by the Management Board by a resolution of the Management Board on 20 February 2014. 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 approved by the Management Board. The registered offices of the MorphoSys Group's headquarters are located at Lena-Christ-Straße 48, 82152 Martinsried, Germany.

2.2.2 CONSOLIDATION METHODS

The following Group's 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
MorphoSys USA, Inc.	February 2000	01/01/2000
Poole Real Estate Ltd.	January 2005	01/01/2005
MorphoSys IP GmbH	November 2002	01/01/2002
Sloning BioTechnology GmbH	October 2010	01/01/2010

As these subsidiaries are wholly owned, they are fully consolidated. There are no entities which are consolidated proportionately or by using the equity method. There are also no entities upon which the Group exercises a controlling influence in the meaning of IAS 27 "Separate and Consolidated Financial Statements" – Influence on the Financial and Operating Policy Decisions. 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.

Consolidation is carried out using the purchase method as per the time of the acquisition. Assets and liabilities of subsidiaries are recognized at fair value.

In the consolidated financial statements, receivables and liabilities, as well as expenses and income among consolidated entities, are eliminated. Intercompany deliveries and services are based on transfer prices that are compared to third party conditions. Any resulting intercompany profits are eliminated to the extent that inventories include assets from intercompany deliveries.

2.2.3 BUSINESS COMBINATIONS/ACQUISITIONS AND DISCONTINUED OPERATIONS

The Group applies IFRS 3 (revised) "Business Combinations" (effective from 1 July 2009). The revised standard continues to stipulate the application of the purchase method for business combinations, with some significant changes. For example, all payments in connection with the purchase of a business are to be recorded at fair value on the acquisition date, while contingent payments are classified as debt and are subsequently revalued through profit and loss. All acquisition-related costs are expensed.

In January of the past financial year, the sale of substantially all of the AbD Serotec segment was completed. Accordingly, as of 31 December 2013, the entities MorphoSys UK Ltd., Oxford, UK, MorphoSys US, Inc., Raleigh, USA, and MorphoSys AbD GmbH, Düsseldorf, Germany, are no longer included in the MorphoSys Group's scope of consolidation.

SCOPE OF CONSOLIDATION AS OF 31 DECEMBER 2013

Name and Corporate Seat of the Company	Local Currency	Exchange Rate on Dec 31, 2012 one Unit of Euro in Local Currency	
COMPANY CONSOLIDATED (APART FROM PARENT COMPANY)			
MorphoSys USA, Inc., Charlotte, North Carolina, USA	US $	1.37760	
MorphoSys IP GmbH, Munich, Germany	€	–	
Poole Real Estate Ltd., Poole, UK	£	0.84481	
Sloning BioTechnology GmbH, Puchheim, Germany	€	–	

After initial purchase of shares in Dutch Lanthio Pharma B.V. in 2012, the Group made an additional contribution in financial year 2013 and continues to hold an interest of 19.98 % in this company. At the time the share in the company was acquired, the initial recognition was carried out at acquisition costs including transaction costs. Short-term value changes in the share are recognized directly in other comprehensive income. In contrast, permanent impairment is recognized in profit and loss. The shares in unquoted subsidiaries and stock corporations are classified as "Available for Sale Financial Assets" and carried at acquisition cost since their fair value cannot be determined due to the absence of a market.

2.2.4 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 rate prevailing on the date of the transaction. 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 goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts arising from the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate. Any foreign exchange rate differences deriving from these translations are recognized in profit and loss. 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 may potentially subject the Group to concentrations of credit and liquidity risk consist primarily of cash, cash equivalents, marketable securities, derivative financial instruments, and accounts receivable. 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 maintained with 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 a risk of non-performance.

One of the Group's policies requires that all customers who wish to trade on credit terms are subject to a creditworthiness assessment, which is based on external ratings. Nevertheless, the Group's revenues and accounts receivables are subject to a credit risk as a result of customer concentration. The Group's most significant single customer accounted for € 8.2 million of trade receivables as of 31 December 2013 (31 December 2012: € 8.3 million). This customer accounted for approximately 80 % of the Group's accounts receivable from continuing operations at the end of 2013. Three individual customers of the Group accounted for 53 %, 27 %, and 8 % of the total revenues from continuing operations in 2013. On 31 December 2012, one customer had accounted for 92 % of the Group's accounts receivables and three customers individually had accounted for 91 %, 3 %, and 3 % of the Group's revenues in 2012. Based on the Management Board's assessment, allowances in an amount of € 238,900 were required in financial year 2013 which related to the Partnered Discovery segment. As of 31 December 2012 and based on the Management Board's assessment, allowances in the amount of € 79,196 were required in the discontinued AbD Serotec segment. The carrying amounts of financial assets represent the maximum credit risk.

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

in €	12/31/2013	12/31/2012
Europe and Asia	8,538,478	8,683,001
USA and Canada	1,731,844	241,197
Total from Continuing Operations	10,270,322	8,924,198
Total from Discontinued Operations	0	1,703,450
TOTAL	**10,270,322**	**10,627,647**

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	2,000	10,286	0	0	(1,139)
100	25,000	3,305,140	3,280,357	3,343,800	(2,409)
100	200	801,699	5,000	0	(12,108)
100	951,660	13,880,384	3,307,435	3,180,726	1,958,510

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

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	8,760,788	45,771	1,702,663	10,509,222
Allowance for Impairment	(238,900)	0	0	(238,900)
Total from Continuing Operations	8,521,888	45,771	1,702,663	10,270,322
Total from Discontinued Operations	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	8,521,888	45,771	1,702,663	10,270,322

in €; A/R are due in	12/31/2012 0 (30) days	12/31/2012 30 (60) days	12/31/2012 60 + days	12/31/2012 Total
Accounts Receivable	5,141,303	2,147,236	1,635,658	8,924,197
Allowance for Impairment	0	0	0	0
Total from Continuing Operations	5,141,303	2,147,236	1,635,658	8,924,197
Total from Discontinued Operations	1,438,486	183,536	81,428	1,703,450
Accounts Receivable, Net of Allowance for Impairment	6,579,789	2,330,772	1,717,086	10,627,647

As of 31 December 2013, the Group's accounts receivable included overdue receivables in the amount of € 0.2 million, for which an allowance for impairment was required based on the Management Board's assessment. Additionally, accounts receivable comprised an insignificant amount, for which impairment was not deemed necessary as the receivables were not overdue by more than 60 days.

As of 31 December 2013 and 31 December 2012, the Group was not exposed to a credit risk from derivative financial instruments. The maximum credit risk of financial guarantees (rent deposits) at the reporting date amounted to € 1.3 million (31 December 2012: € 1.3 million).

The contractually agreed maturities and the corresponding cash flows of financial liabilities are within one year and five years, respectively. The convertible bonds due to related parties have a term until 31 December 2015 and 31 March 2020 (maximum credit risk: € 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 also exposed to currency and interest rate risks.

2.3.3 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 and the pound sterling. 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 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
Bonds, Available-for-sale	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	**297,878,788**	**(35,673)**	**953,365**	**298,796,480**

as of 31 December 2012; in €	EUR	USD	GBP	Total
Cash and Cash Equivalents	38,460,777	1,233,596	995,492	40,689,865
Available-for-sale Assets	79,722,222	0	0	79,722,222
Accounts Receivable	8,697,667	226,530	0	8,924,197
Accounts Payable and Accrued Expenses	10,594,593	57,576	7,921	10,660,090
TOTAL	**137,475,259**	**1,517,702**	**1,003,413**	**139,996,374**

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 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.

A 10% increase of the euro against the US dollar as of 31 December 2012 would have reduced the Group's profit from continuing operations by € 0.1 million (assuming stable interest rates). A 10% reduction in the euro against the US dollar would have increased the Group's profit from continuing operations by € 0.2 million. A 10% increase of the euro against the British pound as of 31 December 2012 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 and the British pound against the euro had remained unchanged at the average rate of 2012, the Group's revenues from continuing operations would have been higher by € 0.1 million (2012: Group revenues would have been € 0.4 million lower).

2.3.4 INTEREST RATE RISK

The Group's risk exposure to changes in interest rates relates mainly to 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 security 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 and the vast majority even within three months. The Group is currently not subject to significant interest rate risks from liabilities recorded in the balance sheet.

2.3.5 FAIR VALUE HIERARCHY AND MEASUREMENT PROCEDURES

IFRS 13 "Fair Value Measurement" guidelines must always be applied when another IAS/IFRS requires, respectively permits, measurement at fair value, or when disclosures regarding measurement at fair value are required. The fair value is the amount to be achieved on the valuation date upon the sale of an asset in an arm's length transaction between independent market participants or the amount 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). Measuring 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, 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 115

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 2013 and 2012.

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

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
		201,602	**201,189**	**0**	**402,791**	**390,794**
Convertible Bonds – Liabilitiy Component	7.2	0	0	(299)	(299)	(299)
Accounts Payable and Accrued Expenses	6.1	0	0	(17,190)	(17,190)	(17,190)
		0	**0**	**(17,489)**	**(17,489)**	**(17,489)**

* Declaration waived in line with IFRS 7.29 (a)

31 December 2012 (in 000's €)	Note	Loans and Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	40,690	0	0	40,690	40,690
Accounts Receivable	5.3	8,924	0	0	8,924	8,924
Other Receivables	5.4	10,298	0	0	10,298	10,298
Shares available for Sale, net of Current Portion	5.8	0	882	0	882	882
Available-for-sale Financial Assets	5.2	0	79,722	0	79,722	79,722
Assets of Disposal Group Classified as Held for Sale	5.10	0	40,855	0	40,855	40,855
		59,912	**121,459**	**0**	**181,371**	**181,371**
Convertible Bonds – Liability Component	7.2	0	0	(74)	(74)	(74)
Accounts Payable and Accrued Expenses	6.1	0	0	(10,660)	(10,660)	(10,660)
Liabilities of Disposal Group Classified as Held for Sale	6.4	0	(3,733)	0	(3,733)	(3,733)
		0	**(3,733)**	**(10,734)**	**(14,467)**	**(14,467)**

2.4 IMPAIRMENT

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 resulted in a loss and that the event could have negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial instruments (including equity securities) are impaired can include 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 adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by 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 FINANCIAL ASSETS AVAILABLE FOR SALE

Impairment of financial assets available for sale is recognized by reclassifying the accumulated losses from the revaluation reserve in equity to profit and loss. The accumulated loss that is 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 financial asset available for sale 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 recovery in the fair value of an available for sale financial instrument is recognized in 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 after-tax cash flows are discounted to their present value using an after-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 can be 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 which 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, seldom correspond to the actual results. The estimates and assumptions bearing 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 5.7.6 of the notes*).

*CROSS-REFERENCE TO PAGE 100 AND PAGE 120

For the AbD Serotec segment no further goodwill impairment testing was necessary at the end of financial year 2013 since this segment was sold in January 2013. Therefore, the corresponding goodwill was no longer part of MorphoSys Group due to deconsolidation.

A sensitivity analysis was performed for the technology development activities within the Partnered Discovery segment, which represent the cash-generating unit also comprising 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. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations which are accompanied by uncertainty with respect to the calculation of taxes actually occurring.

As of 31 December 2013, 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 2014 to 2018. No deferred tax assets were reported for corporate tax loss carryforwards in the amount of € 2.4 million of the and trade tax loss carryforwards in the amount of € 2.3 million since the application of these tax loss carryforwards is 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)). If a portion of the total tax loss carryforwards may not be utilized as a result of 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.

2.5.2 CAPITAL MANAGEMENT

Concerning capital management, the Management Board's policy is to preserve a strong and sustainable capital base in order to maintain investor, business partner, and market confidence and to support future business development. The capital base was strengthened further in August 2013 through a capital increase having a volume of more than € 46 million as part of the Celgene transaction. A further capital increase (private placement) was carried out in September 2013 with a volume of approximately € 84 million which also strengthened the capital base. On 31 December 2013, the equity ratio amounted to 78.6% (31 December 2012: 90.1%; see table below). Despite the capital measures mentioned, the lower equity ratio in comparison to the previous year resulted from a marked increase in current and non-current deferred revenues since the upfront payments received from Celgene are deferred over several periods. 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 and stock options. In addition, MorphoSys has established a long-term incentive program (LTI plan) in the years 2011, 2012, and 2013. 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 7.4 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 127

in 000's €	12/31/2013	12/31/2012
Stockholders' Equity	352,145	202,010
In % of Total Capital	78.6%	90.1%
Debt	95,511	22,279
In % of Total Capital	21.4%	9.9%
TOTAL CAPITAL	**447,657**	**224,289**

2.6 USE OF INTEREST IN THE VALUATION

The Group uses interest rates to measure fair values. When calculating stock-based compensation, MorphoSys uses the interest rates of German government bonds having a term of five or seven years at grant date for the fair value of convertible bonds, whereas for stock options, the Company uses the interest rates of German government bonds having a term of three years at grant date.

2.7 ACCOUNTING POLICIES APPLIED ON THE 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 revenue 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 term of the project, 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 in the context of research and development collaborations are recognized in the period in which the services are provided.

SALE OF GOODS

Revenue from the sale of goods in the AbD Serotec segment is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when there is persuasive evidence that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably. This evidence is usually in the form of a signed sales contract.

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

COST OF GOODS SOLD

Cost of goods sold comprises the cost of goods to be manufactured and the acquisition cost of purchased goods which have been sold and were only incurred in the discontinued operations of the AbD Serotec segment.

PERSONNEL EXPENSES RESULTING FROM STOCK OPTIONS

The Group applies the provisions of IFRS 2 "Share-based Payment". IFRS 2 requires the Group to recognize stock options and other share-based payment at fair value as of the valuation date as a compensation expense over the period in which the beneficiary renders the services associated with the award.

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.

SELLING, 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 2013, 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 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 RESULTS FROM DISCONTINUED OPERATIONS

The result from discontinued operations relates to the substantial part of the AbD Serotec segment. Financial statements reflecting the business performance from the beginning of the year until 10 January 2013 were prepared for these discontinued operations.

2.7.9 EARNINGS 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 and stock options granted to the Management Board and employees.

2.8 ACCOUNTING POLICIES APPLIED TO 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 , LBBW, 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, which are 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 in the categories of "loans and receivables" or "available for sale financial assets", 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 2013 and on 31 December 2012, 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 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, as they are not available for use in the Group's operations. This also applies to the portion of the sales price from the sale of AbD Serotec business unit, that is currently deferred on an escrow account.

In November 2012, MorphoSys acquired an interest in Lanthio Pharma B.V., a privately held company headquartered in Groningen, the Netherlands. Furthermore, a contribution was made to Lanthio Pharma B.V. in September 2013. On 31 December 2013, the Group's share in Lanthio Pharma B.V.'s share capital amounted to 19.98 % and remained unchanged. This share is measured at amortized cost and 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 does presently 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 which can be collected within a twelve-month period.

The use of derivative financial instruments is subject to a Group policy approved by the Management Board representing a guideline set out in writing for dealing with derivative financial instruments. 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 5.3 and 2.4.2 of the notes*).

*CROSS-REFERENCE TO PAGE 116 AND PAGE 100

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 2013, investments were carried out in various financial assets which were allocated to the category "loans and receivables" pursuant to IAS 39 "Financial Instruments".

Significant non-interest bearing or low interest-bearing non-current loans are recognized at their present value.

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.

The production costs of self-produced inventories comprise all costs that are directly attributable and an appropriate portion of overheads. Production costs comprise production-related full cost (direct costs) plus an appropriate share of necessary material and manufacturing overheads as well as production-induced depreciation and administration overheads which can be allocated to the production process. Inventories may be classified as raw materials and supplies, work in progress, and finished goods.

2.8.4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses include expenses that result in an outflow of cash prior to the reporting date, but which are only 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 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 main-

tenance 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 117 AND PAGE 100

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 within the meaning of 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 100

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.

INLICENSED RESEARCH PROGRAMS

This line item contains a capitalized upfront payment from the in-licensing of a compound for the Proprietary Development segment as well as a milestone payment for this compound which was paid at a later time. The asset is recorded at acquisition cost and is not yet available for use and therefore not subject to amortization. The asset was 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 100

KNOW-HOW AND CUSTOMER LISTS

MorphoSys has carried out purchase price allocations as required by IFRS 3 "Business Combinations". The identified intangible assets consist of technologies (useful life of ten years), customer lists (useful life of six to ten years), know-how (useful life of eight to ten years), customer relationships (useful life of ten years), and distributor networks (useful life of ten years). These assets are recorded at fair value at the time of acquisition, less accumulated amortization.

GOODWILL

The goodwill recognized is attributable to expected synergies to be achieved and to the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also item 5.7.6 of the notes*).

*CROSS-REFERENCE TO PAGE 120

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

2.8.7 SHARES AVAILABLE FOR SALE

The interest in 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 sublicenses.

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

2.8.9 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Disposal groups are classified as "held for sale" when it is expected that the carrying amount of the disposal group will be recovered through a sales transaction and a sale is regarded as highly probable. The disposal group is measured at the lower of its carrying amount and the fair value less costs of disposal.

2.9 ACCOUNTING POLICIES APPLIED TO THE 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 exceeding 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. Provisions furthermore are 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 settle the obligation also includes expected price and cost increases. The interest portion of the addition to provisions is recorded in the finance result. The measurement of provisions is based on past experience and considers the circumstances in existence at the reporting date.

2.9.2 TAX LIABILITIES

Tax liabilities are recognized and measured at their nominal value. Accrued income taxes contain obligations from current taxes, excluding deferred taxes. Accruals for trade tax, corporate tax, and similar taxes on income are determined based on the taxable income of the companies included, 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 and non-current provisions for personnel expenses resulting from stock-based compensation (stock appreciation rights). All items 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 amount determined for the liability component separately 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 payment, 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 Payment" 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 LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

These liabilities are related to the sale of the AbD Serotec business segment. The agreement was signed on 16 December 2012 and the closing of the transaction was on 10 January 2013. Although the sale of the business segment is no longer subject to the 2013 financial statements, the item is provided for information purposes. Liabilities are recognized at the lower of fair value and redemption amount.

2.9.8 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 which 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

The repurchase of own shares at the price quoted on an exchange or at market value is recorded in this line item.

ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital primarily includes personnel expenses resulting from the granting 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, which 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 accumulated consolidated net profits/losses. A separate measurement of this item is not conducted.

(3) Segment Reporting

MorphoSys Group applies IFRS 8 "Segment Reporting" (in effect as of 1 January 2009). 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 according to a Group policy.

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

For the Twelve-month Period Ended 31 December (in 000's €)	Partnered Discovery		Proprietary Development	
	2013	2012	2013	2012
External Revenues	51,044	44,667	26,909	6,988
Intersegment Revenues	0	0	0	0
REVENUES, TOTAL	**51,044**	**44,667**	**26,909**	**6,988**
Cost of Goods Sold	0	0	0	0
Other Operating Expenses	25,537	21,738	27,500	18,127
Inter-segment Costs	0	43	0	0
TOTAL OPERATING EXPENSES	**25,537**	**21,781**	**27,500**	**18,127**
Other Income	80	131	129	187
Other Expenses	227	0	0	0
SEGMENT EBIT	**25,360**	**23,017**	**(462)**	**(10,952)**
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	**25,360**	**23,017**	**(462)**	**(10,952)**
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)	**25,360**	**23,017**	**(462)**	**(10,952)**
Current Assets	24,036	20,707	2,783	704
Non-current Assets	19,807	21,621	15,601	14,519
TOTAL SEGMENT ASSETS[1]	**43,843**	**42,328**	**18,384**	**15,223**
Current Liabilities	3,681	3,554	23,436	3,779
Non-current Liabilities	5,283	5,915	53,885	0
Stockholders' Equity	0	0	0	0
TOTAL SEGMENT LIABILITIES AND EQUITY	**8,964**	**9,469**	**77,321**	**3,779**
Capital Expenditure	1,883	794	3,150	614
Depreciation and Amortization	3,291	3,534	1,010	1,106

[1] The difference of € 40.9 million between the total assets of the reportable segments in 2012 and the total assets in the balance sheet originated from the assets held for sale of discontinued operations (see also item 5.10 of the notes).

The Group consists of the following operating segments.

3.1 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.

3.2 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, as well as the completing clinical development of the program MOR103 within the cooperation with GSK. In addition, MorphoSys is pursuing further programs in earlier stages in proprietary development or as co-development.

3.3 ABD SEROTEC

Until the sale of substantially all of the AbD Serotec business on 10 January 2013 to Bio-Rad came into effect, the AbD Serotec segment utilized the HuCAL technology for the tailored generation of research antibodies and generated revenues with catalogue antibodies and the production of antibodies in industrial quantities. With the disposal of substantially all of the segment, the quantitative and qualitative criteria of IFRS 8.12 f. are no longer fulfilled so that this segment is no longer a reportable segment under IFRS 8.11. The results generated by the AbD Serotec segment until 10 January 2013 were reclassified to “Unallocated”. The previous year’s figures were adjusted accordingly for comparative purposes.

3.4 CROSS-SEGMENT DISCLOSURES

In case of cross-segment disclosures, segment revenues are based on the customers’ geographical locations. The information on segment assets is based on the relevant location of the assets.

Unallocated		Elimination		Group		thereof from Discontinued Operations		thereof from Continuing Operations	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
610	17,952	0	0	78,563	69,607	603	17,690	77,960	51,917
0	43	0	(43)	0	0	0	0	0	0
610	**17,995**	**0**	**(43)**	**78,563**	**69,607**	**603**	**17,690**	**77,960**	**51,917**
158	6,238	0	0	158	6,238	158	6,238	0	0
16,992	21,745	0	0	70,029	61,610	2,107	11,855	67,922	49,755
0	0	0	(43)	0	0	0	0	0	0
17,150	**27,983**	**0**	**(43)**	**70,187**	**67,848**	**2,265**	**18,093**	**67,922**	**49,755**
600	102	0	0	809	420	12	4	797	416
686	242	0	0	913	242	2	157	911	85
(16,626)	**(10,128)**	**0**	**0**	**8,272**	**1,937**	**(1,652)**	**(556)**	**9,924**	**2,493**
867	670	0	0	867	670	0	11	867	659
115	196	0	0	115	196	5	97	110	99
8,001	0	0	0	8,001	0	8,001	0	0	0
(7,873)	**(9,654)**	**0**	**0**	**17,025**	**2,411**	**6,344**	**(642)**	**10,681**	**3,053**
(3,345)	(469)	0	0	(3,345)	(469)	(35)	217	(3,310)	(686)
(358)	0	0	0	(358)	0	(358)	0	0	0
(11,576)	**(10,123)**	**0**	**0**	**13,322**	**1,942**	**5,951**	**(425)**	**7,371**	**2,366**
379,749	132,302	0	0	406,568	153,713	0	10,855	406,568	142,858
5,681	34,435	0	0	41,089	70,575	0	30,001	41,089	40,574
385,430	**166,737**	**0**	**0**	**447,657**	**224,288**	**0**	**40,856**	**447,657**	**183,433**
8,290	7,910	0	0	35,407	15,243	0	3,325	35,407	11,918
936	1,120	0	0	60,104	7,035	0	407	60,104	6,628
352,146	202,010	0	0	352,146	202,010	0	0	352,146	202,010
361,372	**211,040**	**0**	**0**	**447,657**	**224,288**	**0**	**3,732**	**447,657**	**220,556**
530	899	0	0	5,563	2,307	6	542	5,557	1,765
534	1,670	0	0	4,835	6,310	22	1,060	4,813	5,250

The segment result is defined as segment revenues less the segment's operating expenses. The Partnered Discovery segment provided a compensatory payment in 2012 in the amount of € 0.04 million to the AbD Serotec segment as compensation for therapeutic revenues from contracts that were originally initiated by the AbD Serotec segment. This payment was based on a revenue sharing agreement concluded between the two segments in 2007. In the period ending on 10 January 2013, there was no such compensatory payment. In financial year 2013, impairments totaling € 1.6 million were recognized. Of this amount, € 1.0 million was attributable to the Proprietary Development segment and € 0.6 million to the Partnered Discovery segment (2012: impairment of € 0.2 million in the Proprietary Development segment).

The Group's key customers are assigned to the Partnered Discovery segment as well as the Proprietary Development segment. As of 31 December 2013, the most important single customer accounted for a carrying amount of € 8.2 million of total accounts receivables (31 December 2012: € 8.3 million). Three individual customers of the Group who are predominantly assigned to the Proprietary Development segment, contributed € 41.6 million, € 21.3 million, and € 6.0 million to total revenues in 2013. In 2012, three customers mainly assigned to the Partnered Discovery segment accounted for € 47.3 million, € 1.7 million, and € 1.5 million of the Group's total revenues.

In 2013, "unallocated" other operating expenses primarily included personnel expenses (2013: € 9.2 million; 2012: € 6.1 million), costs for external services (2013: € 3.0 million; 2012: € 2.2 million), and costs for infrastructure (2013: € 1.2 million; 2012: € 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 2013: € 377.5 million; 2012: € 107.9 million). Current liabilities categorized as "unallocated" included mainly accounts payable and accrued expenses (31 December 2013: € 5.4 million; 31 December 2012: € 4.3 million) as well as provisions (31 December 2013: € 2.9 million; 31 December 2012: € 0.2 million).

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

in 000's €	2013	2012
Germany	4	0
Europe and Asia	69,140	49,203
USA and Canada	8,816	2,714
Other	0	0
Total from Continuing Operations	77,960	51,917
Total from Discontinued Operations	603	17,690
TOTAL	**78,563**	**69,607**

There were no revenues from Asia in 2013 (2012: 1 %).

The following overview shows the regional distribution of the Group's non-current assets, excluding deferred tax assets.

in 000's €	12/31/2013	12/31/2012
Germany	40,776	40,574
UK	0	0
USA	0	0
Total from Continuing Operations	40,776	40,574
Total from Discontinued Operations	0	29,884
TOTAL	**40,776**	**70,458**

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

in 000's €	2013	2012
Germany	5,554	1,765
UK	0	0
USA	0	0
Total from Continuing Operations	5,554	1,765
Total from Discontinued Operations	6	542
TOTAL	**5,560**	**2,307**

(4) Notes to the Income Statement

4.1 REVENUES

2013, revenues from continuing operations included license fees and milestone payments totaling € 57.8 million (2012: € 25.0 million). The Partnered Discovery segment contributed revenues of € 31.4 million (2012: € 24.8 million), and the Proprietary Development segment contributed revenues of € 26.4 million (2012: € 0.0 million). In 2012, an amount of € 0.3 million was attributable to the continuing operations of the AbD Serotec segment.

Of the service fees totaling € 20.2 million (2012: € 26.9 million), an amount of € 19.6 million (2012: € 19.9 million) was attributable to the Partnered Discovery segment, whereas an amount of € 0.5 million (2012: € 7.0 million) was attributable to the Proprietary Development segment. The 2012 revenues of the Proprietary Development segment had included a one-off payment from Novartis.

Revenues of the discontinued operations of the AbD Serotec segment amounted to € 0.6 million until 10 January 2013 (2012: € 17.7 million).

4.2 OPERATING EXPENSES

4.2.1 COST OF GOODS SOLD

Cost of goods sold comprises the production costs of the manufactured goods and the acquisition costs of purchased and sold goods. No costs have been reported in the financial year since all of the cost of goods sold had resulted from the discontinued operation of the AbD Serotec segment (see items 2.7.2 and 4.5 of the notes*).

*CROSS-REFERENCE TO PAGE 101 AND PAGE 112

4.2.2 RESEARCH AND DEVELOPMENT

Research and development expenses include the following items.

in 000's €	2013	2012
Personnel Expenses	21,218	17,800
Consumable Supplies	2,157	1,550
Other Operating Expenses	2,312	1,440
Amortization and Other Costs of Intangible Assets	5,070	5,091
External Services	14,137	7,887
Depreciation and Other Costs for Infrastructure	4,258	3,905
Total from Continuing Operations	49,152	37,673
Total from Discontinued Operations	6	1,845
TOTAL	**49,158**	**39,518**

in million €	2013	2012	2011	2010	2009
R&D Expenses on behalf of Partners	17.5	16.0	19.1	18.9	19.2
Proprietary Development Expenses	27.5	18.1	33.9	25.9	19.1
Technology Development Expenses	4.2	3.6	2.9	2.1	0.7
R&D TOTAL	**49.2**	**37.7**	**55.9**	**46.9**	**39.0**

4.2.3 SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses include the following items.

in 000's €	2013	2012
Personnel Expenses	11,282	7,410
Consumable Supplies	29	70
Other Operating Expenses	1,219	846
Amortization and Other Costs of Intangible Assets	972	416
External Services	4,072	2,153
Depreciation and Other Costs for Infrastructure	1,196	1,187
Total from Continuing Operations	18,770	12,082
Total from Discontinued Operations	2,101	10,010
TOTAL	20,871	22,092

4.2.4 PERSONNEL EXPENSES

Personnel expenses include the following items:

in 000's €	2013	2012
Wages and Salaries	23,327	20,159
Social Security Contributions	3,288	3,226
Stock-based Compensation Expense	5,145	1,291
Temporary Staff (External)	647	424
Other	93	284
Total from Continuing Operations	32,500	25,384
Total from Discontinued Operations	523	7,902
TOTAL	33,023	33,286

In 2013 and 2012, other personnel expenses mainly included recruitment costs.

The average number of employees during the financial year 2013 was 290 (2012: 422). Of the 299 employees engaged on 31 December 2013, 253 employees were active in research and development (31 December 2012: 278) and 46 employees were engaged in selling, general, and administrative functions (31 December 2012: 143 employees). On 31 December 2013, there were 193 employees in the Partnered Discovery segment and 60 employees in the Proprietary Development segment; 46 employees were not allocated to any specific segment (31 December 2012: 184 employees in the Partnered Discovery segment, 54 in the Proprietary Development segment, 135 in the AbD Serotec segment; and 48 employees were not allocated). Costs for the defined-contribution plans amounted to € 0.3 million in 2013 (2012: € 0.3 million).

As a result of the agreement with Bio-Rad for the acquisition of the discontinued operations, the number of Group employees decreased by 135 employees in 2013.

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's €	2013	2012
Grant Income	209	277
Gain on Exchange	130	94
Miscellaneous Income	458	45
Other Income	797	416
Loss on Exchange	(359)	(66)
Impairment of Accounts Receivable	(239)	0
Repayment of Grant Income	(101)	0
Miscellaneous Expenses	(212)	(19)
Other Expenses	(911)	(85)
Gain on Marketable Securities	521	481
Interest Income	347	178
Finance Income	868	659
Interest Expenses	(22)	(8)
Loss on Derivatives	(33)	(41)
Bank Fees	(56)	(50)
Finance Expenses	(111)	(99)
Total from Continuing Operations	643	891
Total from Discontinued Operations	5	(239)
TOTAL	648	652

4.4 INCOME TAX EXPENSES/INCOME

MorphoSys AG and its German subsidiaries MorphoSys IP GmbH and Sloning BioTechnology GmbH, are subject to corporate taxes, solidarity surcharge, and trade taxes. The Company's corporate tax rate of 15%, solidarity surcharge of 5.5%, and effective trade tax rate of 10.5% have all remained unchanged.

The income tax of the continuing operations for the past financial year is comprised as follows.

in 000's €	2013	2012
Current Tax Expense (Thereof Regarding Prior Years: k€ 60; 2012: Tax Income of k€ 12)	(3,753)	(1,064)
Deferred Tax Income	443	378
Total Income Tax	(3,310)	(686)
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Equity	611	0
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	(260)	0
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	159	(212)
Total Amount of Tax-Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income	510	(212)

In 2013, a tax effect in the amount of € 0.6 million was directly recorded in equity for costs in connection with the capital increases in an amount of € 2.3 million which were, pursuant to IFRS, deducted from equity.

Deferred tax liabilities in the amount of € 0.1 million (2012: € 0.2 million) were recorded in other comprehensive income. This amount is substantially connected with the revaluation of available for sale financial instruments. Furthermore, current taxes in the amount of € 0.3 million and deferred tax assets in the amount of € 0.3 million were recorded in other comprehensive income. These items relate to a tax adjustment item for accumulating income from available for sale financial instruments.

The following table reconciles the expected income tax expense to the actual income tax expense as presented in the consolidated financial statements. The combined income tax rate of 26.33% in financial year 2013 (2012: 26.33%) was applied to profit before taxes to calculate the statutory income tax expense. This tax rate includes, in addition to 15.00% corporate income tax, the solidarity surcharge of 5.50% on the corporate tax, and the average trade tax of 10.50% applicable to the MorphoSys Group.

in 000's €[1]	2013	2012
Profit Before Income Taxes	10,681	3,051
Expected Tax Rate	26.33%	26.33%
Expected Income Tax	(2,812)	(803)
Tax Effects Resulting from:		
Deferred Tax Asset on Tax Loss Carry-forwards	200	317
Stock-based Compensation	(533)	(110)
Non-tax-deductible Items	(160)	(125)
Permanent differences due to tax-exempts	1	0
Tax Rate Differences	0	(19)
Release of DTL Arising from Temporary Differences	0	49
Prior Year Taxes	(40)	12
Other Effects	34	(7)
Actual Income Tax	(3,310)	(686)

[1] Reconciliation of the income tax rate for continuing operations

MorphoSys AG was subject to tax audits for financial years 2004 to 2007. Tax loss carryforwards have been confirmed in their recognized amount.

As of 31 December 2013, 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 2014 to 2018. No deferred tax assets were reported 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 is 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 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 to an amount of € 1.0 million plus 60% of taxable income exceeding € 1.0 million.

*CROSS-REFERENCE TO PAGE 105

Deferred tax assets and liabilities for the continuing operations are composed as follows.

in 000's €, as of December 31	DTA 2013	DTA 2012	DTL 2013	DTL 2012
Intangible Assets	0	0	2,049	2,373
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	43	93	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	0	3
Short-term Securities Investments	260	0	100	184
Other Accrual/Provisions	428	0	0	0
Trade Accounts Payable	0	0	0	0
Bonds, thereof Convertible	0	0	0	0
Other Liabilities	0	0	0	0
Tax Losses	1,731	2,015	0	0
	2,462	**2,108**	**2,149**	**2,560**

As of 31 December 2013, deferred tax liabilities of € 2.1 million were offset against deferred tax assets. In 2012, deferred tax assets of € 2.1 million were offset against deferred tax liabilities. 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 2013, there were no temporary differences in connection with investments in subsidiaries (so-called outside basis differences), which could have resulted in deferred tax liabilities.

4.5 PROFIT/LOSS FROM DISCONTINUED OPERATIONS

As of 31 December 2013, there are no reportable matters with regard to IFRS 5.

On 16 December 2012, MorphoSys AG and Bio-Rad agreed upon the acquisition of substantially all of the research and diagnostic antibodies segment of AbD Serotec. In accordance with IFRS 5, the AbD Serotec segment's result from operating activities was recorded in the results from discontinued operations. The previous year's figures of the income statement and segment report have been adjusted accordingly. The closing of this transaction took place on 10 January 2013.

The profit/loss from discontinued operations relates to the AbD Serotec business and is composed as follows.

in 000's €	2013	2012
Revenues	603	17,690
Cost of Goods Sold	158	6,238
Research and Development	6	1,845
Selling, general and Administrative	2,101	10,010
Total Operating Expenses	2,265	18,093
Other Income/(Expenses)	10	(153)
Earnings before Interest and Taxes (EBIT)	(1,652)	(556)
Finance Income/(Expenses)	(5)	(85)
Other Income from Sale of Assets and Liabilities of Disposal Group Classified as Held for Sale	8,001	0
Profit/(Loss) before Taxes	6,344	(641)
Income Tax (Expenses)/Income from Discontinued Operations	(35)	217
Income Tax Expenses in connection with the Sale of Assets and Liabilities of the Disposal Group Classified as Held for Sale	(358)	0
Profit/(Loss) for the Year from Discontinued Operations	5,951	(424)

The disposal profit less transaction costs is composed as follows.

in 000's €	2013
Cash and Cash Equivalents	5,560
Inventories, Net	2,763
Other Current Assets	2,920
Goodwill	26,788
Property, Plant and Equipment, Net	1,519
Intangible Assets, Net	1,528
Other Non-current Assets	168
Accounts Payable and Accrued Expenses	(2,490)
Other Current Liabilities	(933)
Deferred Tax Liabilities	(427)
Foreign Currency Effects Previously Recognized in Equity	1,427
Net Assets	38,823
Purchase Price in Cash (without License Payment)	42,141
Open Receivable (Escrow Account)	4,682
Transaction Costs	(1,816)
Purchase Price, Net of Transaction Costs	45,007
Purchase Price in Cash	42,141
Transferred Cash and Cash Equivalents	(5,560)
Net Cash-Inflow	36,581
Disposal Profit	8,001
Disposal Profit after Deduction of Transaction Costs	6,184

4.6 EARNINGS/CONSOLIDATED NET PROFIT PER SHARE

Basic earnings per share is computed by dividing the consolidated net profit of financial year 2013 in the amount of € 13,321,930 (2012: € 1,942,145) by the weighted average number of ordinary shares outstanding during the year (2013: 24,504,031; 2012: 23,004,894).

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

	2013	2012
SHARES ISSUED ON JANUARY, 1	**23,358,228**	**23,112,167**
Effect of Treasury Shares Held	(255,415)	(163,915)
Effect of Repurchase of Treasury Stock	(56,458)	(64,813)
Effect of Share Issuance	1,242,621	0
Effect of Shares Issued in January	0	15,731
Effect of Shares Issued in February	0	19,313
Effect of Shares Issued in March	0	3,579
Effect of Shares Issued in April	0	45,087
Effect of Shares Issued in May	0	0
Effect of Shares Issued in June	21,567	16,860
Effect of Shares Issued in July	170,075	447
Effect of Shares Issued in August	9,502	336
Effect of Shares Issued in September	1,492	14,495
Effect of Shares Issued in October	1,884	3,341
Effect of Shares Issued in November	9,662	620
Effect of Shares Issued in December	873	1,645
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	**24,504,031**	**23,004,894**

Diluted earnings 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 and diluted earnings per share (in €, except for disclosure per share).

	2013	2012
Numerator		
Profit for the Year from Continuing Operations	7,370,820	2,366,263
(Loss)/Profit for the Year from Discontinued Operations	5,951,110	(424,118)
Consolidated Net Profit	13,321,930	1,942,145
Denominator		
Weighted-average Shares Used for Basic EPS	24,504,031	23,004,894
Dilutive Shares Arising from Stock Options	0	204,132
Dilutive Shares Arising from Convertible Bonds	259,063	51,334
TOTAL DENOMINATOR	**24,763,094**	**23,260,360**
Earnings per Share (in €)		
Basic	0.54	0.08
thereof from Continuing Operations	0.30	0.10
thereof from Discontinued Operations	0.24	(0.02)
Diluted	0.54	0.08
thereof from Continuing Operations	0.30	0.10
thereof from Discontinued Operations	0.24	(0.02)

5 Notes to the Assets of the Balance Sheet

5.1. CASH AND CASH EQUIVALENTS

in 000's €	12/31/2013	12/31/2012
Bank Balances and Cash in Hand	71,874	40,690
Term Deposits	964	984
Restricted Cash	(964)	(984)
Total from Continuing Operations	71,874	40,690
Total from Discontinued Operations	0	5,281
Cash and Cash Equivalents	71,874	45,971

The increase in cash and cash equivalents resulted mainly from the transactions with GlaxoSmithKline and Celgene and the capital increase in September 2013 as well as from the sale of substantially all of the AbD Serotec segment.

Restricted cash in the amount of € 1.0 million consists of rent deposits (2012: € 1.0 million).

5.2 FINANCIAL ASSETS/SECURITIES

As of 31 December 2013 and 2012, available for sale financial assets are comprised as follows.

in 000's €	Maturity	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
31 DECEMBER 2013					
Money Market Funds	daily	188,305	378	0	188,683
Restricted Cash					(323)
TOTAL					**188,360**
31 DECEMBER 2012					
DB Money Cash	daily	79,345	699	0	80,044
Restricted Cash					(322)
TOTAL					**79,722**

The Group's gross unrealized holding gains in the amount of € 377,872 as of 31 December 2013 and € 698,848 as of 31 December 2012, respectively, were recorded as a separate item within stockholders' equity (revaluation reserve). In 2013, the Group recorded a gain in the amount of € 520,730 from the disposal of financial assets in the income statement, which was previously recognized in stockholders' equity (2012: € 480,912). Restricted cash in the amount of € 0.3 million consisted of rent deposits (2012: € 0.3 million).

As of 31 December 2013 and 2012, bonds available for sale were comprised as follows.

in 000's €	Maturity	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
31 DECEMBER 2013					
Bonds	daily	11,139	5	42	11,102
TOTAL					**11,102**
31 DECEMBER 2012					
Bonds	daily	0	0	0	0
TOTAL					**0**

The Group's gross unrealized holding losses of € 41,750 as of 31 December 2013 with regard to bonds available for sale and the unrealized holding gross profit of € 5,095 were recorded as a separate item within stockholders' equity (revaluation reserve). 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 102

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 2013 and 2012, accounts receivable included unbilled receivables amounting to € 1,597,498 and € 1,592,679, respectively. In some cases, the Group agreed with its customers on the collateral for the discontinued operations of the AbD Serotec segment in order to avoid outstanding receivables. As of 10 January 2013, this amount was insignificant.

Based on the Management Board's estimate, a net loss of € 238,900 for allowances for doubtful receivables was recognized in profit and loss in 2013 (2012: net loss of € 60,119). In 2013, this loss was attributed to the Partnered Discovery segment and in 2012 to discontinued operations.

5.4 OTHER RECEIVABLES

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

As of 31 December 2013, the Company held financial assets amounting to € 119.3 million (31 December 2012: € 10.0 million) which were allocated to the category "loans and receivables" in accordance with IAS 39 "Financial Instruments". These include various investments (€ 114.6 million) and an amount of € 4.7 million of the purchase price for the divested AbD Serotec business held in an escrow account. Interest income of € 273,207 (2012: € 82,534) is recognized in the finance result. The risks associated with these financial instruments mainly result from credit risks of banks. There was no indication of impairment in financial year 2013.

As of 31 December 2013 and 2012, no unsettled option contracts were outstanding. Therefore, there were no unrealized gains or losses recognized in profit and loss in both 2013 and 2012. At the beginning of the year, the Group entered into two option contracts reaching maturity during financial year 2013. A realized loss of € 0.02 million (2012: loss of € 0.04 million) was recorded in finance expenses.

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

As of 31 December 2013, prepaid expenses consisted of prepaid fees for sublicenses amounting to € 0.1 million (31 December 2012: € 0.1 million) and other prepayments amounting to € 3.2 million (31 December 2012: € 1.3 million).

As of 31 December 2013, tax receivables amounted to € 0.7 million (31 December 2012: € 0.1 million) and comprised mainly receivables in connection with capital gains taxes withheld. Discontinued operations recorded tax receivables in the amount of € 0.3 million for the 2012 financial year.

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 € 0.6 million and work in progress of € 0.2 million. As in the previous year, there were no inventories carried at fair value less selling costs at the reporting date.

Inventories amounting to € 0.8 million as of 31 December 2012 were stored at the Martinsried location. As of 31 December 2012, inventories consisted of raw materials and supplies of € 0.6 million and work in progress of € 0.2 million.

5.6 PROPERTY, PLANT, AND EQUIPMENT

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost				
1 JANUARY 2013	**0**	**12,436**	**1,892**	**14,328**
Additions	0	1,004	39	1,043
Disposals	0	(1,279)	(64)	(1,343)
31 DECEMBER 2013	**0**	**12,161**	**1,867**	**14,028**
Accumulated Depreciation				
1 JANUARY 2013	**0**	**9,485**	**1,651**	**11,136**
Depreciation Charge for the Year	0	1,435	84	1,519
Write-offs for the Year	0	522	16	538
Disposals	0	(1,269)	(64)	(1,333)
31 DECEMBER 2013	**0**	**10,173**	**1,687**	**11,860**
Carrying Amount				
1 JANUARY 2013	**0**	**2,951**	**241**	**3,192**
31 DECEMBER 2013	**0**	**1,988**	**180**	**2,168**
Cost				
1 JANUARY 2012	**1,191**	**15,071**	**2,650**	**18,912**
Additions	15	980	21	1,016
Disposals	0	(420)	(51)	(471)
Foreign Exchange Variance	25	18	5	48
Reclassification to Assets of Disposal Group Classified as Held for Sale	(1,231)	(3,213)	(733)	(5,177)
31 DECEMBER 2012	**0**	**12,436**	**1,892**	**14,328**
Accumulated Depreciation				
1 JANUARY 2012	**452**	**10,273**	**2,081**	**12,806**
Depreciation Charge for the Year	83	2,027	139	2,249
Write-offs for the Year	0	178	0	178
Disposals	0	(418)	(51)	(469)
Foreign Exchange Variance	10	14	7	31
Reclassification to Assets of Disposal Group Classified as Held for Sale	(545)	(2,589)	(525)	(3,659)
31 DECEMBER 2012	**0**	**9,485**	**1,651**	**11,136**
Carrying Amount				
1 JANUARY 2012	**739**	**4,798**	**569**	**6,106**
31 DECEMBER 2012	**0**	**2,951**	**241**	**3,192**

In financial year 2013, impairment of property, plant, and equipment amounted to € 0.5 million (2012: € 0.2 million) and 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. In financial year 2013, impairment in the amount of € 0.2 million was recognized, mainly for laboratory equipment which could no longer be utilized as a result of the finalization of clinical trials for the proprietary HuCAL antibody program MOR 103.

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. The Group capitalized expenditures for assets under construction in an insignificant amount. 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's €	2013	2012
Research and Development	1,155	1,344
Research and Development (Write-off)	538	178
Selling, general and Administrative	364	385
Total from Continuing Operations	2,057	1,907
Profit/(Loss) for the Year from Discontinued Operations	13	530
TOTAL	**2,070**	**2,437**

5.7 INTANGIBLE ASSETS

in 000's €	Patents	License Rights	Inlicensed Research Program	Software	Know How and Customer List	Goodwill	Total
Cost							
1 JANUARY 2013	**14,902**	**24,410**	**10,513**	**3,350**	**0**	**7,352**	**60,528**
Additions	568	591	2,295	1,061	0	0	4,515
Disposals	0	0	0	(35)	0	0	(35)
31 DECEMBER 2013	**15,470**	**25,001**	**12,808**	**4,376**	**0**	**7,352**	**65,008**
Accumulated Depreciation							
1 JANUARY 2013	**6,236**	**17,281**	**0**	**1,999**	**0**	**0**	**25,516**
Depreciation Charge for the Year	1,075	1,576	0	640	0	0	3,291
Write-offs for the Year	324	747	0	15	0	0	1,086
Disposals	0	0	0	(35)	0	0	(35)
31 DECEMBER 2013	**7,635**	**19,604**	**0**	**2,619**	**0**	**0**	**29,858**
Carrying Amount							
1 JANUARY 2013	**8,666**	**7,129**	**10,513**	**1,351**	**0**	**7,352**	**35,012**
31 DECEMBER 2013	**7,835**	**5,397**	**12,808**	**1,757**	**0**	**7,352**	**35,150**
Cost							
1 JANUARY 2012	**14,659**	**25,207**	**10,513**	**2,884**	**5,525**	**34,107**	**92,895**
Additions	245	91	0	956	0	0	1,292
Disposals	(2)	(3)	0	(17)	0	0	(22)
Foreign Exchange Variance	0	19	0	5	49	34	107
Reclassification to Assets of Disposal Group Classified as Held for Sale	0	(904)	0	(478)	(5,574)	(26,788)	(33,744)
31 DECEMBER 2012	**14,902**	**24,410**	**10,513**	**3,350**	**0**	**7,353**	**60,528**
Accumulated Depreciation							
1 JANUARY 2012	**5,200**	**15,655**	**0**	**1,828**	**4,184**	**0**	**26,867**
Depreciation Charge for the Year	1,036	2,146	0	486	382	0	4,050
Disposals	0	(1)	0	(16)	0	0	(17)
Foreign Exchange Variance	0	9	0	5	30	0	44
Reclassification to Assets of Disposal Group Classified as Held for Sale	0	(528)	0	(304)	(4,596)	0	(5,428)
31 DECEMBER 2012	**6,236**	**17,281**	**0**	**1,999**	**0**	**0**	**25,516**
Carrying Amount							
1 JANUARY 2012	**9,459**	**9,552**	**10,513**	**1,056**	**1,341**	**34,107**	**66,028**
31 DECEMBER 2012	**8,666**	**7,129**	**10,513**	**1,351**	**0**	**7,353**	**35,012**

As of 31 December 2013, inlicensed 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's €	2013	2012
Research and Development	3,068	3,262
Research and Development (Write-off)	760	0
Selling, general and Administrative	223	141
Selling, general and Administrative (Write-Off)	326	0
Cost of Goods Sold	0	115
Total from Continuing Operations	4,377	3,518
Profit/(Loss) for the Year from Discontinued Operations	12	530
TOTAL	**4,389**	**4,048**

5.7.1 PATENTS

In financial year 2013, the carrying amount of patents declined by € 0.9 million from € 8.7 million to € 7.8million. This was the result of additions amounting to € 0.6 million for patent applications, particularly for proprietary programs such as MOR208, which were offset by straight-line amortization of € 1.1 million, as well as by impairment of € 0.3 million.

5.7.2 LICENSES

The carrying amount of licenses declined by € 1.7 million from € 7.1 million to € 5.4 million in 2013. Additions during the financial year concerned one-time payments for the access to target molecules which amounted to € 0.6 million. Amortization and impairment amounted to € 1.6 million and € 0.7 million, respectively.

In the prior year, licenses with a carrying amount of € 0.4 million were allocated to assets of a disposal group classified as held for sale.

5.7.3 INLICENSED RESEARCH PROGRAMS

The carrying amount of inlicensed research programs amounted to € 12.8 million and increased in comparison to the prior year as a result of capitalized milestone payments (2012: € 10.5 million). The in-licensed compound, which was reported at the acquisition cost, is currently not available for use and therefore was not yet amortized.

5.7.4 SOFTWARE

In financial year 2013, additions to this line item totaled € 1.1 million. The carrying amount increased by € 0.4 million from € 1.4 million in 2012 to € 1.8 million in 2013. Additions were offset by amortization in the amount of € 0.6 million and minor software disposals.

Software with a carrying amount of € 0.2 million was allocated to assets of disposal group classified as held for sale in the prior year.

5.7.5 KNOW-HOW AND CUSTOMER LISTS

Since the end of financial year 2012, no items were reported in the line item know-how and customer lists.

In the previous year, this line item's residual carrying amount of € 1.0 million was allocated to assets of disposal group classified as held for sale in the prior year.

5.7.6 GOODWILL

On 30 September 2013, goodwill in the amount of € 7.4 million from the acquisition of Sloning Bio Technology GmbH in the year 2010 was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit, the team for technology development within the Partnered Discovery segment, has been determined on the basis of value in use calculations, whereby the value in use turned out to be higher than the carrying amount of the cash-generating unit. In addition, a detailed sensitivity analysis was performed (see item 2.4.4 of the notes*). The cash flow forecasts are based on a period of ten years, as the Management Board believes that the commercialization by means of licensing agreements, comprising 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 1.3, a tax rate of 26.33%, WACC of 9.8% (2012: 8.26%), 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.

*CROSS-REFERENCE TO PAGE 100

At the end of financial year 2013, an impairment test with respect to goodwill was not necessary with regard to the AbD Serotec segment since the AbD Serotec business was sold in January 2013. The associated goodwill was no longer part of MorphoSys Group as a result of the deconsolidation in January 2013. The agreed purchase price had not led to any impairment on 31 December 2012.

5.8 SHARES AVAILABLE FOR SALE

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

5.9 PREPAID EXPENSES AND OTHER ASSETS

This line item includes 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 2013 and 2012, the Group's restricted cash amounted to € 1.3 million and € 1.3 million, respectively, for guarantees granted and in the amount of € 298,606 and € 73,607, respectively, for convertible bonds granted to employees. This line item is composed as follows.

*CROSS-REFERENCE TO PAGE 102, PAGE 114 AND PAGE 115

in 000's €	12/31/2013	12/31/2012
Prepaid Expenses, Net of Current Portion	51	47
Other Current Assets	1,681	1,442
TOTAL	1,732	1,489

5.10 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As of 31 December 2013, there are no reportable matters with regard to IFRS 5.

On 16 December 2012, MorphoSys AG and Bio-Rad agreed upon the acquisition of substantially all of the research and diagnostic antibodies segment of AbD Serotec. In accordance with IFRS 5, the assets of the discontinued AbD Serotec business were recorded as assets held for sale from discontinued operations as of the reporting date 31 December 2012. The closing of this transaction took place on 10 January 2013.

The following assets were recorded in the balance sheet as "assets of disposal group classified as held for sale" as of 31 December 2012.

in 000's €	12/31/2012
Cash and Cash Equivalents	5,281
Accounts Receivable	1,703
Inventories, Net	2,769
Other Current Assets	1,101
Total Current Assets	10,855
Property, Plant and Equipment, Net	1,519
Licenses, Net	376
Software, Net	174
Know-how and Customer Lists, Net	978
Goodwill	26,788
Other Non-current Assets	166
Total Non-current Assets	30,001
Assets of Disposal Group Classified as Held for Sale	40,855

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's €	12/31/2013	12/31/2012
Trade Accounts Payable	1,078	738
Licenses Payable	120	170
Accrued Expenses	15,076	9,232
Other Liabilities	916	520
Total from Continuing Operations	17,190	10,660
Total from Discontinued Operations	0	2,424
TOTAL	17,190	13,084

Accrued expenses of the continuing operations mainly include accrued personnel expenses for payments to employees and the management amounting to € 5.6 million (31 December 2012: € 3.7 million), provisions for outstanding invoices in the amount of € 1.8 million (31 December 2012: € 1.2 million), external laboratory services in the amount of € 6.8 million (31 December 2012: € 2.9 million), license payments in the amount of € 0.5 million (31 December 2012: € 1.1 million), audit fees and other audit-related costs in the amount of € 0.1 million (31 December 2012: € 0.1 million), and € 0.3 million for legal advice (31 December 2012: € 0.4 million).

At the Company's Annual General Meeting in June 2013, the Supervisory Board was given authorization to appoint PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC AG), Munich, as the auditor.

In the financial year 2013, PwC AG received compensation from MorphoSys in the amount of € 372,277, including audit fees in the amount of € 319,123, fees for other audit-related and valuation services of € 26,591, fees for tax services in the amount of € 10,400 as well as fees for other services in the amount of € 16,154.

6.2 PROVISIONS AND TAX LIABILITIES

As of 31 December 2013, the Group recorded provisions and tax liabilities of € 3.6 million for continuing operations (2012: € 0.8 million for the entire Group).

Tax provisions mainly comprise income tax expenses. As of 31 December 2013, provisions and tax liabilities were uncertain in terms of their amount and are expected to be utilized in 2014.

Accrued expenses mainly comprise personal expenses regarding share-based payments for stock appreciation rights which are settled in cash.

The provisions and tax liabilities for the continuing operations developed as follows in financial year 2013.

in 000's €	01/01/2013	Additions	Utilized	Released	12/31/2013
Taxes	630	2,595	505	30	2,690
Other Obligations	187	719	0	9	897
TOTAL	**817**	**3,314**	**505**	**39**	**3,587**

6.3 DEFERRED REVENUES

Deferred revenues relate to payments received from customers for which the services have not been rendered. For continuing operations, this line item developed as follows.

in 000's €	12/31/2013	12/31/2012
OPENING BALANCE	**6,543**	**6,767**
Prepayments Received in 2013	91,860	18,742
Revenue Recognised through Release of Prepayments in line with Services Performed in 2013	(23,968)	(18,966)
CLOSING BALANCE	**74,435**	**6,543**
thereof short-term	15,267	628
thereof long-term	59,168	5,915

6.4 LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As of 31 December 2013, there are no reportable matters with regard to IFRS 5.

On 16 December 2012, MorphoSys AG and Bio-Rad agreed upon the acquisition of substantially all of the research and diagnostic antibodies segment of AbD Serotec. In accordance with IFRS 5, the liabilities of the discontinued AbD Serotec business were recorded as liabilities held for sale from discontinued operations as of the reporting date 31 December 2012. The closing of this transaction took place on 10 January 2013.

The following liabilities were recorded in the balance sheet as "liabilities of disposal group classified as held for sale" as of 31 December 2012.

in 000's €	12/31/2012
Accounts Payable and Accrued Expenses	2,424
Current Portion of Deferred Revenue	435
Other Current Liabilities	466
Total Current Liabilities	3,325
Deferred Tax Liabilities	407
Total Non-current Liabilities	407
Liabilities of Disposal Group Classified as Held for Sale	3,733

6.5 STOCKHOLDERS' EQUITY

6.5.1 COMMON STOCK

On 31 December 2013 the Company had common stock amounting to € 26,220,882, including treasury stock, which represents an increase of € 2,862,654 in comparison to the level of € 23,358,228 on 31 December 2012. Each no-par value share is entitled to one vote. Common stock increased by € 2,311,216 or 2,311,216 shares as a result of the newly created shares from the capital increase (1,514,066 shares) carried out in September 2013 and the purchase of MorphoSys shares by Celgene (797,150 shares). In addition, common stock increased by € 551,438 in 2013 through the exercise of 551,438 stock options granted to the Management Board and the Senior Management Group. The weighted average exercise price per exercised stock option amounted to € 13.00.

As of 31 December 2013, the Company held 339,890 shares in treasury stock in the amount of € 6,418,018, which corresponds to an increase of € 2,823,625 compared to 31 December 2012 (255,415 shares, € 3,594,393). This increase was the result of the repurchase of 84,475 own stocks on the stock exchange. The treasury stock may be used for all purposes named in the authorization of the Annual General Meeting of 19 May 2011, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also, however, be redeemed.

6.5.2 AUTHORIZED CAPITAL

The "Authorized Capital 2008-I", which was not yet utilized, expired on 30 April 2013. On 31 December 2012, this capital could have been served to create up to 8,864,103 new shares.

At the 2013 Annual General Meeting, a new "Authorized Capital 2013-I" was resolved, which will serve to issue up to 2,335,822 new shares. This authorization has not yet been utilized.

As part of a cash capital increase in connection with the Celgene Transaction, 797,150 shares were issued on 27 August 2013 from "Authorized Capital 2012-II". As part of another cash capital increase, 1,514,066 additional shares were issued on 23 September 2013 from "Authorized Capital 2012-II". Accordingly, "Authorized Capital 2012-II" was fully utilized.

6.5.3 CONDITIONAL CAPITAL

In 2013, a total of 551,438 shares were created from "Conditional Capital V" (2008-II) through employees' exercise of the same number of options. Thus, common stock increased by a corresponding € 551,438.

In 2012, a total of 16,704 shares were created from "Conditional Capital II bb" (1999-I) through employees' exercise of the same number of options. Thus, common stock increased by a corresponding € 16.704. In addition, 229,357 shares were created from "Conditional Capital V" (2008-II) through employees' exercise of the same number of options. Thus, common stock increased by a corresponding € 229,357.

6.5.4 TREASURY STOCK

In the years 2012 and 2013, 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

The average stock price at the time of the repurchases carried out in 2013, amounted to € 33.42 per share (2012: € 20.08 per share). Treasury stocks are recognized at acquisition cost.

6.5.5 ADDITIONAL PAID-IN CAPITAL

On 31 December 2013, additional paid-in capital amounted to € 310,963,651 (31 December 2012: € 175,245,266). The total increase of € 135,718,385 was primarily the result of the capital increase in September 2013 as well as in the context of the agreement with Celgene (€ 124,369,723 net of issuance costs and the respective taxes in the total amount of € 1,698,232). A further increase of € 6,606,570 (net of issuance costs and the respective taxes in the total amount of € 11,419) resulted from the exercise of stock options granted. Furthermore, additional paid-in capital increased by € 4,742,092 from personnel expenses resulting from share-based payment.

In 2012, additional paid-in capital increased by € 4,466,792 due to personnel expenses resulting from stock options in the amount of € 1,268,792, as well as the exercise of options in the amount of € 3,198,000.

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 stock options and other share-based incentives for employees and the Management Board. In compliance with IFRS 2.54, the Group has applied IFRS 2 to share-based payments settled in equity instruments for those granted on or after 1 January 1999. Therefore, in accordance with IFRS 2.56, stock options granted before January 1, 1999 are not recognized as an expense, but still furnish the information required by IFRS 2.44 and 2.45. Further information may be found under items 7.1, 7.2, 7.3 and 7.4 of the notes*.

*CROSS-REFERENCE TO PAGE 124 - 127

6.5.6 REVALUATION RESERVE

On 31 December 2013, the revaluation reserve amounted to € 240,381(31 December 2012: € 486,743). The reduction amounting to a total of € 246,362 arose from a change in the unrealized gains on available for sale securities and bonds of € 274,460, net of deferred taxes of € 83,172, and the disposal of the equity-related recognition of deferred taxes in the amountof € 28,098 related to the discontinued operations of AbD Serotec.

6.5.7 TRANSLATION RESERVE

The translation reserve increased by € 1,302,421 to € +192,556 on 31 December 2013 in comparison to minus € 1,109,865 on 31 December 2012. This item includes exchange rate differences arising from the revaluation of assets and liabilities denominated in foreign currencies as per 31 December 2013, as well as differences between the exchange rates used in the balance sheet and the income statement. These differences resulted primarily from the entities of the discontinued operations of AbD Serotec which were led in foreign currencies. The change compared to the previous year is mainly a result of the disposal of currency translation differences in connection with the sale of substantially all of the AbD Serotec business on 10 January 2013.

6.5.8 ACCUMULATED INCOME

The consolidated net profit amounting to € 13,321,930 is reported in accumulated income. Thus, accumulated income rose from € 7,624,038 in 2012 to € 20,945,968 in 2013.

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

7.1 STOCK OPTIONS

The general conditions of the stock option plans that existed during the reporting period are shown in the following table; all options must be settled by the physical delivery of shares.

Grant Date/Employees Entitled	Granted Stock Options	Vesting Period	Vesting Conditions (Share Price in Comparison to Strike Price)	Contractual Life of Options
25 January 2008 to Management Board and employees	283,335	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
25 January 2008 to employees	29,070	2 years 50%, 3 years 75%, 4 years 100%	Cumulative increase of more than 10% per annum	5 years
October 1, 2008 to employees	92,664	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years
1 April 2010 to Management Board and employees	422,200	2 years 50%, 3 years 75%, 4 years 100%	Increase of 20% on at least one trading day during the lifetime	5 years

In 2013 and 2012, 551,438 and 246,061 options were exercised, respectively.

The following table shows the development of the stock option plans for employees of the Group in 2013 and 2012.

	Shares	Weighted-average Price (€)
OUTSTANDING ON 1 JANUARY 2012	**797,502**	**13.31**
Granted	0	0.00
Exercised	(246,061)	14.00
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON 31 DECEMBER 2012	**551,441**	**13.00**
OUTSTANDING ON 1 JANUARY 2013	**551,441**	**13.00**
Granted	0	0.00
Exercised	(551,438)	13.00
Forfeited	0	0.00
Expired	(3)	12.80
OUTSTANDING ON 31 DECEMBER 2013	**0**	**0**

On 31 December 2013 and 2012, there were zero and 451,391 exercisable stock options, respectively.

The Group recognizes personnel expenses resulting from stock options in accordance with IFRS 2 "Share-based Payment". In the years 2013 and 2012, compensation expense related to stock options amounted to € 28,181 and € 168,044, respectively.

7.2 CONVERTIBLE BONDS

7.2.1 2010 PROGRAM

On 1 April 2010, 352,800 convertible bonds were granted to members of the Management Board and 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.

7.2.2 2013 PROGRAM

On 1 April 2013, MorphoSys AG granted convertible bonds with equal rights in a total nominal value of € 225,000 and divided into 449,999 bearer bonds from "Conditional Capital 2008-III" to the Management Board and members of the Senior Management Group. The beneficiaries have the right to convert the bonds granted to them 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 achieving performance targets, the expiration of a vesting period, 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 is 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 2013 and 2012.

	Convertible Bonds	Weighted-average Price (€)
OUTSTANDING ON 1 JANUARY 2012	**328,050**	**16.79**
Granted	0	0.00
Exercised	0	0.00
Forfeited	(7,500)	16.79
Expired	0	0.00
OUTSTANDING ON 31 DECEMBER 2012	**320,550**	**16.79**
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**

Exercisable convertible bonds on 31 December 2013 and 2012 amounted to zero shares, respectively.

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 2013.

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	316,800	2.00	16.79	0	0.00
€ 25.01 – € 40.00	449,999	6.25	31.88	0	0.00
	766,799	**4.50**	**25.65**	**0**	**0.00**

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 separately presented in additional paid-in capital. The corresponding amount is recognized as personnel expenses from convertible bonds. In 2013 and 2012, compensation expenses related to convertible bonds amounted to € 1,997,414 and € 331,079, respectively.

7.3 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. Convertible bonds are settled via the physical transfer of shares, whereas stock appreciation rights are settled in cash. The closing price of the stock appreciation rights was € 55.85 on 31 December 2013. Compensation expenses amounted to € 449,420 in 2013, while the related non-current provision amounted to € 593,597 on 31 December 2013. After 30 June 2016, the stock appreciation rights may no longer be exercised.

7.4 LONG-TERM INCENTIVE PROGRAMS

The total increase in recognized personnel expenses from share-based payments compared to the prior year mainly resulted from a modification of the LTI programs 2011 and 2012. For the LTI program 2011, vesting periods were modified such that the beneficiaries' claims become vested by one quarter on a yearly basis. However, in the case of the LTI program 2012, 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 an increase of personnel expenses compared to the previous year.

7.4.1 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, the 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. 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 have been fulfilled only between 50% and 99%, and increased to the extent that the performance criteria were met 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 depart from this factor, for example, if the level of payments was 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 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 within the meaning of 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 LTI plan 2011. These 84,019 shares were granted to the beneficiaries retroactively on 1 June 2011. These included 53,997 shares for the Management Board (for further information please see item 7.5*) 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). In determining the fair value of the shares repurchased, no dividends were considered as the Group does not intend to distribute any dividends in the foreseeable future. Since the grant date until 31 December 2013, three beneficiaries have left MorphoSys and thus 5,326 performance shares forfeited.

*CROSS-REFERENCE TO PAGE 129

In 2013, personnel expenses resulting from stock options under the Group's 2011 LTI plan amounted to € 778,124 (2012: € 436,232).

7.4.2 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 is regarded as 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 within the meaning of 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 alloca-

tion 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. 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 7.5 "Related Parties") 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). In determining the fair value of the shares repurchased, no dividends were considered as the Group does not intend to distribute any dividends in the foreseeable future. Since the grant date until 31 December 2013, two beneficiaries have left MorphoSys and thus 4,289 performance shares forfeited.

*CROSS-REFERENCE TO PAGE 142

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. 2,292 shares were granted. The fair value was € 24.00 per share on the grant date.

In 2013, personnel expenses resulting from stock options under the Group's 2012 LTI plan amounted to € 974,997 (2012: € 333,438).

7.4.3 2013 LONG-TERM INCENTIVE PROGRAM

On 01 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 within the meaning of 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 Meeting of 19 May 2011, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares 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 7.5 "Related Parties") and 24,871 shares for the Senior Management Group. The fair value of the performance shares was € 31.88 per share on the grant date (1 April 2013). In determining the fair value of the shares repurchased no dividends were considered as the Group does not intend to distribute any dividends in the foreseeable future. Since the grant date until 31 December 2013, no beneficiary has left MorphoSys and no performance shares have 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 142

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 2013, personnel expenses resulting from stock options under the Group's 2013 LTI plan amounted to € 917,319.

7.5 RELATED PARTIES

The Group engages in commercial relationships with the members of the Management Board and the members of the Supervisory Board as related parties. In addition to cash compensation, the Group has granted the Management Board stock options, convertible bonds, and performance shares. The tables below show the shares, stock options, convertible bonds and performance shares held by the members of the Management Board and Supervisory Board, as well as the changes in their ownership during financial year 2013.

SHARES

	01/01/2013	Additions	Forfeitures	Sales	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	419,885	191,445	0	158,445	452,885
Jens Holstein	6,500	0	0	0	6,500
Dr. Arndt Schottelius	2,000	90,000	0	90,000	2,000
Dr. Marlies Sproll	7,105	102,867	0	82,602	27,370
TOTAL	**435,490**	**384,312**	**0**	**331,047**	**488,755**
SUPERVISORY BOARD					
Dr. Gerald Möller	7,500	1,500	0	0	9,000
Dr. Geoffrey Vernon	0	0	0	0	0
Dr. Walter Blättler	2,019	0	0	0	2,019
Dr. Daniel Camus	0	0	0	0	0
Dr. Marc Cluzel	0	0	0	0	0
Karin Eastham	0	1,000	0	0	1,000
TOTAL	**9,519**	**2,500**	**0**	**0**	**12,019**

STOCK OPTIONS

	01/01/2013	Additions	Forfeitures	Exercises	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	191,445	0	0	191,445	0
Jens Holstein	0	0	0	0	0
Dr. Arndt Schottelius	90,000	0	0	90,000	0
Dr. Marlies Sproll	102,867	0	0	102,867	0
TOTAL	**384,312**	**0**	**0**	**384,312**	**0**

CONVERTIBLE BONDS

	01/01/2013	Additions	Forfeitures	Exercises	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	58,800	88,386	0	0	147,186
Jens Holstein	0	90,537	0	0	90,537
Dr. Arndt Schottelius	33,000	60,537	0	0	93,537
Dr. Marlies Sproll	33,000	60,537	0	0	93,537
TOTAL	**124,800**	**299,997**	**0**	**0**	**424,797**

PERFORMANCE SHARES

	01/01/2013	Additions	Forfeitures	Exercises	12/31/2013
MANAGEMENT BOARD					
Dr. Simon Moroney	36,652	12,024	0	0	48,676
Jens Holstein	25,104	8,235	0	0	33,339
Dr. Arndt Schottelius	25,104	8,235	0	0	33,339
Dr. Marlies Sproll	25,104	8,235	0	0	33,339
TOTAL	**111,964**	**36,729**	**0**	**0**	**148,693**

The Supervisory Board of MorphoSys AG does not hold any stock options, convertible bonds, or performance shares.

The remuneration of the Management Board consists of fixed and variable components, as well as other remuneration. For a six-months period after the expiration of the contract term, the Management Board Member is restrained by a non-competition clause. For this period, the Management Board Member is entitled to a waiting allowance equaling 100 % of the pro rata contractual fixed compensation. In 2013, the total remuneration of the Supervisory Board, excluding reimbursement for travel costs, amounted to € 458,280 (2012: € 478,197).

The tables below show the remuneration of the Management Board and Supervisory Board in detail.

MANAGEMENT BOARD REMUNERATION FOR THE YEAR 2013:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)[1]			Total Compensation[2]
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted	No. of Convertible Bonds Granted	Personal Expenses Regarding Stock-Based Compensation 2013	in €
Dr. Simon Moroney	412,049	179,353[3]	360,543	12,024	88,386	953,834	1,905,779
Jens Holstein	279,531	106,315[4]	244,590	8,235	90,537	750,964	1,381,400
Dr. Arndt Schottelius	279,531	107,437[5]	244,590	8,235	60,537	651,773	1,283,331
Dr. Marlies Sproll	279,531	99,749[6]	244,590	8,235	60,537	648,013	1,271,883
TOTAL	**1,250,642**	**492,854**	**1,094,313**	**36,729**	**299,997**	**3,004,584**	**5,842,393**

[1] The remuneration with a long-term incentive effect is dependent upon the achievement of the company objectives. This remuneration is presented in accordance with IAS 24.17e in an amount which corresponds to the past financial year.
[2] The total remuneration shown for 2013 includes the respective bonus accruals for 2013 which will be paid out in February 2014.
[3] Includes 112,221 € in contributions to individual pension plans and allowances for insurances
[4] Includes 78,177 € in contributions to individual pension plans and allowances for insurances
[5] Includes 78,294 € in contributions to individual pension plans and allowances for insurances
[6] Includes 78,170 € in contributions to individual pension plans and allowances for insurances

MANAGEMENT BOARD REMUNERATION FOR THE YEAR 2012:

	Fixed Compensation		Short-term Incentive Compensation	Long-term Incentive Compensation (Target Attainment Depends on Company Goals)[1]			Total Compensation[2]
	Base Salary in €	Other Compensatory Benefits in €	Variable Compensation in €	No. of Performance Shares Granted		Personal Expenses Regarding Stock-Based Compensation 2012	in €
Dr. Simon Moroney	401,980	139,555[3]	226,689	18,976		274,075	1,042,299
Jens Holstein	271,867	129,836[4]	176,890	12,997		113,175	691,768
Dr. Arndt Schottelius	272,700	103,841[5]	164,155	12,997		185,199	725,895
Dr. Marlies Sproll	272,700	96,609[6]	162,653	12,997		165,144	697,106
TOTAL	**1,219,247**	**469,841**	**730,387**	**57,967**		**737,593**	**3,157,068**

[1] The remuneration with a long-term incentive effect is dependent upon the achievement of the company objectives. This remuneration is presented in accordance with IAS 24.17e in an amount which corresponds to the past financial year.
[2] The total remuneration shown for 2012 includes the respective bonus accruals for 2012 which were paid out in February 2013.
[3] Includes 109.882 € in contributions to individual pension plans and allowances for insurances
[4] Includes 72.999 € in contributions to individual pension plans and allowances for insurances
[5] Includes 76.898 € in contributions to individual pension plans and allowances for insurances
[6] Includes 76.789 € in contributions to individual pension plans and allowances for insurances

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2013 AND 2012:

	Fixed Compensation		Attendance Fees		Total Compensation	
in €	2013	2012	2013	2012	2013	2012
Dr. Gerald Möller	94,400	94,400	32,000	37,000	126,400	131,400
Dr. Walter Blättler	43,160	43,160	17,000	21,500	60,160	64,660
Dr. Daniel Camus	43,160	41,939	19,500	23,500	62,660	65,439
Dr. Marc Cluzel	46,160	27,116	23,500	19,000	69,660	46,116
Karin Eastham	40,160	23,591	22,500	15,000	62,660	38,591
Dr. Geoffrey Vernon	57,240	51,549	19,500	22,000	76,740	73,549
Prof. Dr. Jürgen Drews[1]	0	26,264	0	9,500	0	35,764
Dr. Metin Colpan[1]	0	16,678	0	6,000	0	22,678
TOTAL	**324,280**	**324,697**	**134,000**	**153,500**	**458,280**	**478,197**

[1] Departed the Supervisory Board of MorphoSys AG on 31 May 2012

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

On 31 December 2013, the Senior Management Group held no stock options (31 December 2012: 150,026 units), 300,002 convertible bonds (31 December 2012: 180,000 units), 15,000 stock appreciation rights (SARs) (31 December 2012: 15,000) and 77,558 performance shares (31 December 2012: 63,184), which were granted by the Company. In 2013, an additional long-term incentive program as well as an additional convertible bond program were issued to the Senior Management Group. As part of these programs, the Senior Management Group was granted 25,420 performance shares and 150,002 convertible bonds. 150,026 of the stock options were exercised in 2013. During the same period, no convertible bonds or stock appreciation rights exercised. In 2013, 11,045 performance shares and 3,750 convertible bonds forfeited because beneficiaries left MorphoSys. These individuals continue to hold 26,250 convertible bonds.

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 2013 and 2012, leasing expenses amounted to € 1,795,316 and € 1,713,477. 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 for continuing operations are composed as follows.

in 000's €	Rent and Leasing 2013	Rent and Leasing 2012	Other 2013	Other 2012	Total 2013	Total 2012
Up to One Year	2,536	1,562	830	1,245	3,366	2,807
Between One and Five Years	2,690	2,114	27	24	2,717	2,138
More than Five Years	0	0		0	0	0
TOTAL	**5,226**	**3,676**	**857**	**1,269**	**6,083**	**4,945**

In financial years 2013 and 2012, total expenses for operating leases, insurance contracts, as well as other services amounted to a total of € 3,366,291 and € 3,311,122, respectively.

Furthermore, 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 the early termination of the study.

in 000's €	Total 2013
Up to One Year	18,612
Between One and Five Years	17,950
More than Five Years	0
TOTAL	**36,562**

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 of 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 2013 pursuant to Sec. 161 of the German Stock Corporation Act (AktG). This declaration was published on 6 December 2013 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 partnered research strategy and its proprietary research and development activities.

8.4.1 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 2013, active collaborations with a number of partners were already concluded since as 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 completed before the beginning of 2013, but under which drug development programs were still being pursued, included (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 2013 included (in alphabetical order): ContraFect, GeneFrontier Corporation/Kaneka, and Novartis. Of these partnerships, none of the active collaborations were terminated in 2013.

MorphoSys currently is in an arbitral procedure with ContraFect Corp. regarding the contract concluded in 2011. The procedure, which was initiated by MorphoSys, is in a very early stage and the Company currently does not assume that any major risks/impacts arise for the Group's net assets, financial position and results of operations.

An alliance with British Heptares Therapeutics Ltd. is a newly concluded cooperation which took place in February 2013. 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. Under the terms of the agreement, Heptares will generate 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. 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. Heptares also decided to develop a therapeutic antibody against a proprietary GPCR target molecule based on MorphoSys's Ylanthia library. In this context, MorphoSys can receive license fees, milestone payments, and royalties.

The Group's currently 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 still produce improved antibody candidates that can be developed faster than previously possible.

8.4.2 PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development segment, the partnerships are geared towards the objectives of the Group's proprietary drug development programs in its core areas of oncology, inflammatory diseases, and infectious diseases. These partnerships include (in alphabetical order): Celgene, Galapagos, GlaxoSmithKline, and Xencor. The cooperation with Absynth Biologics was completed in financial year 2013. This cooperation was started in September 2010 and had been designed to target molecules in the field of infectious diseases.

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. The compound was in a phase 1/2a clinical trial in 2013 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 a 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 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 HuCAL 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 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 2010, MorphoSys AG and the US-based biopharmaceutical company, Xencor, signed a exclusive global licensing and cooperation agreement. As a result of this agreement, MorphoSys receives exclusive global licensing rights to the antibody XmAb5574/MOR208 for the treatment of cancer and other indications. Under the agreement, the companies will jointly conduct a phase 1/2a trial in the US in patients with chronic lymphocytic leukemia (CLL). MorphoSys is now 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 (€ 10.5 million) from MorphoSys, which was capitalized to the in-licensed research programs. Xencor is entitled to development, regulatory and commercially-related milestone payments as well as tiered royalties on product sales.

In financial year 2013, Xencor presented the clinical data of the completed phase 1/2a study. In 2013, MorphoSys continued the clinical phase 2 studies.

As the first activity within the context of the Innovation Capital Initiative, in November 2012, MorphoSys announced a partnership with the privately held biopharmaceutical company, Lanthio Pharma, a Dutch company that specializes in the research and development of lantipeptides. Lantipeptides are an innovative class of therapeutic substances demonstrating high target molecule selectivity and improved active substance properties. The LanthioPep technology of Lanthio Pharma is used to identify peptides that act on the disease's specific point of attack and stabilizes it in the optimal conformation for binding it to this receptor. As part of their collaboration, MorphoSys and Lanthio Pharma will use their technologies to work together to create high quality and diverse lantipeptide libraries. MorphoSys will receive preferential rights to the exclusive in-licensing of the LanthioPep technology for compound discovery.

8.5 SUBSEQUENT EVENTS

On 22 January 2014, an updated statutory nominal capital was registered at commercial register B, Munich. The updated nominal capital on 22 January 2014 amounts to € 26,220,882, divided into 26,220,882 no-par value bearer shares.

Subsequent to the end of financial year 2013, there have not been any significant changes in the industry environment. Other events of 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, 20 February 2014

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, 2013 to December 31, 2013. 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, 20 February 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefano Mulas
Wirtschaftsprüfer
(German Public Auditor)

Dietmar Eglauer
Wirtschaftsprüfer
(German Public Auditor)

Glossary

(A)

ADC – Antibody drug conjugate; combination of a therapeutic antibody with a second molecule

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)

Biosimilars – Term used to describe officially approved new versions of innovator biopharmaceutical products, following patent expir

Bispecific – Antibody consisting of parts from two different antibodies

(C)

CAGR – Compound annual growth rate

CAR-T technology – New therapeutic approach, where immune cells are reprogrammed

Cashflow – Key performance indicator in the cash flow statement used to assess the financial and earning capacity

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 analysis – Method of valuing assets, especially for due diligence

(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

(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

GDP – Gross domestic product; monetary value of all finished goods and services produced within a country's borders in one year

GLP – Good laboratory practice; a formal framework for the implementation of safety tests on chemical products

GM-CSF – Granulozyte-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 (explanation of GOLD/ Platinum)

Human – Of human origin

I

IFRS – International Financial Reporting Standards; future EU-wide standards produced by the IASB

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

IWCLL – International Workshop on Chronic Lymphocytic Leukemia; selection of criteria for diagnosing chronic lymphocytic leukemia and analyzing clinical study results

L

Lantipeptides – 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

M&A – Mergers & Acquisitions

Monoclonal antibody – Homogeneous antibody originating from a single clone, produced by 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

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 – A substance 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

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 surface of diseased cell

Target product profile (TPP) – Summary of specifications on a planned therapeutic product

Target selectivity – Criteria to describe, to what degree an antibody is binding to other structures besides its target molecule

TecDAX – Index of the 30 largest technology companies listed on the Frankfurt Stock Exchange

Toxicity – Poisonousness

Trifunctional antibodies – Modified antibody binding three target structures

Y

Ylanthia – Novel next-generation antibody platform of MorphoSys

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FINANCIAL CALENDAR

28 February 2014

PUBLICATION OF 2013 YEAR-END RESULTS

29 April 2014

PUBLICATION OF 2014 THREE MONTHS' REPORT

23 May 2014

2014 ANNUAL GENERAL MEETING IN MUNICH

28 July 2014

PUBLICATION OF 2014 SIX MONTHS' REPORT

7 November 2014

PUBLICATION OF 2014 NINE MONTHS' REPORT

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