

Management of MorphoSys



DR. SIMON MORONEY
Chief Executive Officer

DR. M...
Chief S...

Letter to the Shareholders

Dear Shareholders,

I am very pleased to present our 2016 Annual Report following another successful year for MorphoSys. The Company's key value generator is its product pipeline, which comprised a record high of 114 programs at year-end, 29 of which were in clinical development. We reported promising data from a number of those programs and we fully met our financial guidance for the year. We also took advantage of investor interest to strengthen our financial position.

Notably, 2016 was marked by positive phase 3 data and the subsequent regulatory filing of guselkumab, a potential new treatment for psoriasis, by our partner Janssen. The efficacy and safety data published by Janssen are compelling and, coupled with a convenient dosing scheme, guselkumab looks to us like an extremely promising new drug. If approved, it could be the first MorphoSys antibody to reach the market, possibly as early as the end of 2017.

The approval of guselkumab would be a landmark in the history of MorphoSys. Not only would it be the best possible validation for our proprietary antibody technology, it would also be an inflection point on our way to becoming a product-based company, in which our P&L statement will be increasingly based on revenues from product sales.

We continue to focus on executing our strategy of advancing our own portfolio of promising programs in therapeutic areas with high unmet medical need. The emphasis is on oncology and inflammation, and our aim is to commercialize our own products in selected markets in the future. With the continued support of existing and new shareholders, we were pleased to announce at the end of the year a successful capital increase, raising EUR 115 million, and thereby significantly boosting our ability to execute this strategy.

Our Proprietary Development segment comprises our main value drivers. During 2016, we further increased our efforts to broaden and advance our portfolio, and we were pleased with the progress achieved during the year:

- We began three phase 2 trials of our lead product MOR208, an Fc-enhanced antibody targeting CD19, in patients with B cell malignancies. We expect to transition one of these trials into a pivotal phase 3 study later this year, which would make MOR208 the first of our proprietary agents to enter the final stage of development.*
- MOR202, our anti-CD38 antibody for multiple myeloma, showed the potential we expect for an antibody in this exciting new target class. We reported very encouraging first efficacy in the highest dosing cohorts in combination with*



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immunomodulatory drugs and confirmed MOR202's best-in-class safety profile. We eagerly await more complete data from this program around mid-year 2017.

- In collaboration with Galapagos, we brought MOR106 into the clinic. MOR106 is directed against IL-17C, a target which has been largely overlooked, but which plays an important role in inflammatory skin disorders, and is quite distinct from other members of the IL-17 cytokine family. By pursuing atopic dermatitis we are addressing an area of major unmet need, which is currently untapped by biologic therapies.*
- MOR103/GSK3196165, which is out-licensed to GSK, continues to progress through the clinic in two indications. Results from a phase 2b trial in rheumatoid arthritis are anticipated during the second half of 2017.*
- At the close of 2016, five programs from our Proprietary Development segment were in the clinic. We have now expanded on this by bringing MOR107, the first product from our innovative lanthipeptide platform, into the clinic in February 2017.*

Led by guselkumab, our Partnered Discovery segment is nearing the point at which it becomes a royalty-based revenue generator for MorphoSys. Standing at 100 programs at the end of 2016, 24 of which were in clinical development, we are increasingly encouraged by the long-term value potential of this diverse portfolio.

Another significant event in this segment was Bayer's start of a phase 2 study with the HuCAL-based antibody drug conjugate anetumab ravtansine in mesothelioma, a rare cancer with high unmet medical need. Bayer has indicated that this trial, which is expected to read out in 2017, could support a registration of the compound. We are extremely proud of all of our long-standing collaborations, and we are looking forward to further progress from the many programs with MorphoSys antibodies in this segment.

In 2017, the year of our 25th anniversary, we are in a very exciting stage of our corporate development. Over the past years MorphoSys successfully progressed from a leading provider of antibody technology to a discovery and development company with an extremely promising clinical portfolio. Now we are advancing towards the next stage, namely becoming a commercial, product-based biopharmaceutical company. The increasing visibility on the potential of our partnered discovery pipeline as a growing revenue source,



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upcoming inflection points for our lead proprietary oncology programs entering decisive stages of clinical development, plus the financial strength to invest at the level required to maximize returns, mean that we are well positioned to build substantial value for all our stakeholders, including partners, investors and patients.

Of course, none of this would be possible without the dedication of our employees and therefore, on behalf of the MorphoSys management board and all our stakeholders, I would like to thank them for their continuing efforts and hard work. We are also very appreciative of our shareholders and thank you for your continued support. I look forward to a very successful 2017 for MorphoSys.

DR. SIMON MORONEY
CHIEF EXECUTIVE OFFICER

A handwritten signature of Dr. Simon Moroney in blue ink. The signature is fluid and cursive, written in a professional style.

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