

Notes

1 General Information

BUSINESS ACTIVITIES AND THE COMPANY

MorphoSys AG (“the Company” or “MorphoSys”) is a leader in the development of highly efficient technologies for generating therapeutic antibodies. The Company’s proprietary portfolio of compounds and the pipeline of compounds co-developed with partners from the pharmaceutical and biotechnology industry is one of the broadest in the industry. The Group was founded as a German limited liability company in July 1992. In June 1998, MorphoSys became a German stock corporation. In March 1999, the Company completed its initial public offering on Germany’s “Neuer Markt”: the previous segment of the Deutsche Börse designated for high-growth companies. On January 15, 2003, MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange.

2 Summary of Significant Accounting Policies

2.1 BASIS OF AND CHANGES IN ACCOUNTING STANDARDS

2.1.1 BASIS OF APPLICATION

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

These consolidated financial statements for the financial year ended December 31, 2016 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 were prepared in euro - the MorphoSys Group’s functional currency. Statements are prepared on the basis of historical cost, except for derivative financial instruments and available-for-sale financial assets, which are recognized at their respective fair value. All figures in this report are rounded to the nearest euro, thousand euros or million euros.

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

2.1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The following new and revised standards and interpretations were applied for the first time in the financial year.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Impact on MorphoSys
IFRS 10/12 and IAS 28 (A)	Investment Entities – Applying the Consolidation Exception	01/01/2016	yes	none
IFRS 11 (A)	Accounting for Acquisitions of Interests in Joint Operations	01/01/2016	yes	none
IFRS 14	Regulatory Deferral Accounts	01/01/2016	no	none
IAS 1 (A)	Disclosure Initiative	01/01/2016	yes	yes
IAS 16 and IAS 38 (A)	Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016	yes	none
IAS 16 and IAS 41 (A)	Bearer Plants	01/01/2016	yes	none
IAS 19 (A)	Benefit Plans: Employee Contributions	02/01/2015	yes	none
IAS 27 (A)	Equity Method in Separate Financial Statements	01/01/2016	yes	none
	Annual Improvements to IFRSs 2010–2012 Cycle	02/01/2015	yes	none
	Annual Improvements to IFRSs 2012–2014 Cycle	01/01/2016	yes	none
(A) Amendments				

The following new and revised standards and interpretations, which were not yet mandatory for the financial year or were not yet adopted by the European Union, were not applied. Standards with the remark “yes” are likely to have an impact on the consolidated financial statements, and their impact is currently being assessed by the Group. Only material impacts will be described in more detail. Standards with the remark “none” are not likely to have a material impact on the consolidated financial statements.

Standard/Interpretation		Mandatory application for financial years starting on	Adopted by the European Union	Possible Impact on MorphoSys
IFRS 9	Financial Instruments	01/01/2018	yes	yes
IFRS 15	Revenue from Contracts with Customers	01/01/2018	yes	yes
IFRS 16	Leases	01/01/2019	no	yes
IFRS 2 (A)	Classification and Measurement of Share-based Payment Transactions	01/01/2018	no	yes
IFRS 4 (A)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01/01/2018	no	none
IFRS 15 (C)	Revenue from Contracts with Customers	01/01/2018	no	yes
IAS 7 (A)	Disclosure Initiative	01/01/2017	no	none
IAS 12 (A)	Recognition of Deferred Tax Assets for Unrealised Losses	01/01/2017	no	yes
IAS 40 (A)	Transfers of Investment Property	01/01/2018	no	none
IFRIC (I) 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	no	yes
	Annual Improvements to IFRSs 2014–2016 Cycle	01/01/2017/ 01/01/2018	no	none
(A) Amendments				
(C) Clarifications				
(I) Interpretation				

The new standard governing financial instruments, IFRS 9, may lead to changes in the classification and measurement of financial assets and financial liabilities, as well as to additional disclosures in the Notes. The provisions on impairments of financial assets and the accounting of hedging relationships may also result in changes from the currently applied provisions under IAS 39. The Group is currently assessing the possible impact of the application of IFRS 9 on the consolidated financial statements.

The new IFRS 15 standard on revenue recognition was reviewed for its potential impact on the revenue recognition of existing contracts and future contracts with partners and/or licensees. The review for the existing contractual arrangements revealed that no material quantitative effects on the consolidated financial statements compared to the regulations currently applied are to be expected. Qualitative adjustments of the required disclosures in the Notes under IFRS 15 are expected, however, not before the standard's first-time application as of January 1, 2018.

The Group also reviewed the new IFRS 16 standard governing leases for its potential impact on existing lease contracts. Currently, all leases are accounted for as operating leases pursuant to IAS 17. As of January 1, 2019, right-of-use assets under existing lease contracts will be capitalized and lease liabilities will be recognized. Rental costs currently recognized in the statement of income will be replaced by depreciation on the respective assets and interest expenses. From today's perspective, the implementation of IFRS 16 will have material quantitative effects on the consolidated balance sheet due to the rented premises at Semmelweisstraße 7, Planegg. The exact amount of assets and lease liabilities and the transitional provisions to be applied when switching from IAS 17 to IFRS 16 have not yet been determined.

2.2 CONSOLIDATION PRINCIPLES

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated when preparing consolidated financial statements pursuant to IFRS 10.B86. Unrealized losses are eliminated in the same manner as unrealized gains but are considered an indication of the transferred asset's possible impairment. Accounting policies have been applied consistently for all subsidiaries.

For all contracts and business transactions between group entities, the arm's length principle was applied.

2.2.1 CONSOLIDATED COMPANIES AND SCOPE OF CONSOLIDATION

MorphoSys AG as ultimate parent company of the Group is located in Planegg near Munich. MorphoSys AG has two wholly owned subsidiaries (collectively referred to as the "MorphoSys Group" or the "Group"): Sloning BioTechnology GmbH (Planegg) and Lanthio Pharma B.V. (Groningen, The Netherlands). Additionally, MorphoSys AG's investment in Lanthio Pharma B.V. indirectly gives it 100% ownership in LanthioPep B.V. (Groningen, The Netherlands).

The consolidated financial statements for the year ended December 31, 2016 were prepared and approved by the Management Board in its meeting on March 6, 2017 by means of a resolution. The Management Board members are Dr. Simon Moroney (Chief Executive Officer), Jens Holstein (Chief Financial Officer), Dr. Marlies Sproll (Chief Scientific Officer), and Dr. Malte Peters (Chief Development Officer). Dr. Arndt Schottelius has been Chief Development Officer until February 28, 2017. Dr. Malte Peters assumed the position on March 1, 2017.

The Supervisory Board is authorized to amend the financial statements after their approval by the Management Board. MorphoSys Group's registered head office is located in Planegg (district of Munich) and the registered business address is Semmelweisstraße 7, 82152 Planegg, Germany. The company is registered in the Commercial Register, Section B, of the District Court of Munich under the number HRB 121023.

2.2.2 CONSOLIDATION METHODS

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

Company	Established in/ Purchase of Shares	Included in Basis of Consolidation since
Sloning BioTechnology GmbH	October 2010	10/07/2010
Lanthio Pharma B.V.	May 2015	05/07/2015
LanthioPep B.V.	May 2015	05/07/2015

These subsidiaries are fully consolidated because they are either directly or indirectly wholly owned. MorphoSys controls these subsidiaries because it possesses full power over the investees. Additionally, MorphoSys is subject to risk exposure or has rights to variable returns from its involvement with the investees. MorphoSys also has unlimited capacity to exert power over the investees to influence their returns.

The Group does not have any entities consolidated as joint ventures by using the equity method as defined by IFRS 11 "Joint Arrangements" nor does it exercise a controlling influence as defined by IAS 28 "Investments in Associates and Joint Ventures". Interests in such entities would be measured at fair value or historic cost in accordance with IAS 39.

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

Receivables, liabilities, expenses and income among consolidated entities are eliminated in the consolidated financial statements.

2.2.3 BASIS OF FOREIGN CURRENCY TRANSLATION

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

2.3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

2.3.1 CREDIT RISK AND LIQUIDITY RISK

Financial instruments that could subject the Group to a concentration of credit and liquidity risk include primarily cash and cash equivalents, marketable securities (consisting of available-for-sale financial assets and bonds), financial assets of the loans and receivables category, derivative financial instruments and receivables. The Group's cash and cash equivalents are principally denominated in euros. Marketable securities and financial assets of the loans and receivables category represent investments in high-quality securities. Cash, cash equivalents, marketable securities and financial assets of the loans and receivables category are held at several renowned financial institutions in Germany. The Group continuously monitors its positions with financial institutions that are counterparts to its financial instruments and these institutions' credit ratings and does not expect any risk of non-performance.

One of the Group's policies requires all customers who wish to transact business on credit terms to undergo a credit assessment based on external ratings. Nevertheless, the Group's revenues and accounts receivable are still subject to credit risk from customer concentration. The Group's most significant single customer accounted for € 8.4 million of accounts receivables as of December 31, 2016 (December 31, 2015: € 8.3 million). This customer accounted for 66% of the Group's accounts receivable at the end of 2016. Three individual customers of the Group accounted for 85%, 5% and 5%, respectively, of the total revenues in 2016. On December 31, 2015, one customer had accounted for 73% of the Group's accounts receivable and three customers had individually accounted for 56%, 39%, and 2% of the Group's revenues in 2015. Based on the Management Board's assessment, no allowances were required in the financial years 2016 and 2015. The carrying amounts of financial assets represent the maximum credit risk.

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

in €	12/31/2016	12/31/2015
Europe and Asia	9,852,273	10,809,051
USA and Canada	2,744,382	633,008
Other	0	0
TOTAL	12,596,655	11,442,059

The following table shows the term structure of trade receivables as of the reporting date.

in €; A/R are due since	12/31/2016 0 – 30 days	12/31/2016 30 – 60 days	12/31/2016 60+ days	12/31/2016 Total
Accounts Receivable	12,596,655	0	0	12,596,655
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	12,596,655	0	0	12,596,655

in €; A/R are due since	12/31/2015 0 – 30 days	12/31/2015 30 – 60 days	12/31/2015 60+ days	12/31/2015 Total
Accounts Receivable	11,442,059	0	0	11,442,059
Write-off	0	0	0	0
Accounts Receivable, Net of Allowance for Impairment	11,442,059	0	0	11,442,059

As of December 31, 2016 and December 31, 2015, the Group was not exposed to a credit risk from derivative financial instruments. The maximum credit risk of financial guarantees (rent deposits) on the reporting date amounted to € 1.3 million (December 31, 2015: € 0.6 million).

The contractually agreed maturities and the corresponding cash outflows of accounts payable are within one year. Convertible bonds issued to related parties mature on March 31, 2020 (maximum cash outflow: € 0.2 million).

2.3.2 MARKET RISK

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

CURRENCY RISK

The consolidated financial statements are prepared in euros. Whereas MorphoSys's expenses are predominantly incurred in euros, a portion of the revenue is dependent on the prevailing exchange rate of the US dollar. Throughout the year, the Group monitors the need to hedge foreign exchange rates to minimize currency risk and addresses this risk by using derivative financial instruments.

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

as of December 31, 2016; in €	EUR	USD	Other	Total
Cash and Cash Equivalents	73,456,907	471,754	0	73,928,661
Available-for-sale Financial Assets	63,361,727	0	0	63,361,727
Bonds, Available-for-sale	6,532,060	0	0	6,532,060
Financial Assets classified as Loans and Receivables	136,108,749	0	0	136,108,749
Financial Assets classified as Loans and Receivables, Net of Current Portion	79,521,181	0	0	79,521,181
Accounts Receivable	12,215,814	380,841	0	12,596,655
Accounts Payable and Accrued Expenses	(31,794,114)	(428,502)	0	(32,222,616)
TOTAL	339,402,324	424,093	0	339,826,417

as of December 31, 2015; in €	EUR	USD	Other	Total
Cash and Cash Equivalents	90,206,933	720,740	0	90,927,673
Available-for-sale Financial Assets	64,292,830	0	0	64,292,830
Bonds, Available-for-sale	33,120,117	0	0	33,120,117
Financial Assets classified as Loans and Receivables	94,587,528	0	0	94,587,528
Financial Assets classified as Loans and Receivables, Net of Current Portion	15,510,989	0	0	15,510,989
Accounts Receivable	11,365,659	76,400	0	11,442,059
Accounts Payable and Accrued Expenses	(22,308,082)	(28,548)	(5,033)	(22,341,663)
TOTAL	286,775,974	768,592	(5,033)	287,539,533

Various foreign exchange rates and their impact on assets and liabilities were simulated in an in-depth sensitivity analysis to determine the effects on income. A 10% increase in the euro versus the US dollar as of December 31, 2016 would have reduced the Group's income by less than € 0.1 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by less than € 0.1 million.

A 10% increase in the euro versus the US dollar as of December 31, 2015 would have reduced the Group's income by € 0.1 million. A 10% decline in the euro versus the US dollar would have increased the Group's income by € 0.1 million.

If the foreign exchange rates for the US dollar versus the euro had remained at the prior year's average rate, the Group's revenues would have been less than € 0.1 million lower. In 2015, Group revenues would have been € 0.1 million lower.

INTEREST RATE RISK

The Group's risk exposure to changes in interest rates mainly relates to available-for-sale securities. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these securities. The Group's investment focus places the safety of an investment ahead of its return. Interest rate risk is limited because all securities can be liquidated within a maximum of two years.

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

2.3.3 FAIR VALUE HIERARCHY AND MEASUREMENT PROCEDURES

The IFRS 13 "Fair Value Measurement" guidelines must always be applied when measurement at fair value is required or permitted or disclosures regarding measurement at fair value are required based on another IAS/IFRS guideline. The fair value is the price that would be achieved for the sale of an asset in an arm's length transaction between independent market participants or the price to be paid for the transfer of a liability (disposal or exit price). Accordingly, the fair value of a liability reflects the default risk (i.e., own credit risk). Measurement at fair value requires that the sale of the asset or the transfer of the liability takes place on the principal market or, if no such principal market is available, on the most advantageous market. The principal market is the market a company has access to that has the highest volume and level of activity.

Fair value is measured by using the same assumptions and taking into account the same characteristics of the asset or liability as would an independent market participant. Fair value is a market-based, not an entity-specific measurement. The fair value of non-financial assets is based on the best use of the asset by a market participant. For financial instruments, the use of bid prices for assets and ask prices for liabilities is permitted but not required if those prices best reflect the fair value in the respective circumstances. For simplification, mean rates are also permitted. Thus, IFRS 13 not only applies to financial assets but all assets and liabilities.

MorphoSys 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, financial assets of the loans and receivables category and accounts receivable and accounts payable approximate their fair value because of their short-term maturities.

HIERARCHY LEVEL 1

The fair value of financial instruments traded in active markets is based on the quoted market prices on the reporting date. A market is considered active if quoted prices are available from an exchange, dealer, broker, industry group, pricing service or regulatory body that is easily and regularly accessible and prices reflect current and regularly occurring market transactions at arm's length conditions. For assets held by the Group, the appropriate quoted market price is the buyer's bid price. These instruments fall under Level 1 of the hierarchy (see also Item 5.2* of these Notes).

*CROSS-REFERENCE to page 123

HIERARCHY LEVEL 2 AND 3

The fair value of financial instruments not traded in active markets can be determined using valuation methods. In this case, fair value is estimated using the results of a valuation method that makes maximum use of market data and relies as little as possible on entity-specific inputs. If all 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.

Hierarchy level 2 contains the forward exchange contracts used for currency hedging. Future cash flows for these forward exchange contracts are determined based on forward exchange rate curves. The fair value of these instruments corresponds to their discounted cash flows.

There were no financial assets or liabilities allocated to hierarchy level 3.

There were no transfers from one fair value hierarchy level to another in 2016 or 2015.

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

December 31, 2016 (in 000' €)	Note	Hierarchy Level	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	1	73,929	0	0	73,929	73,929
Financial Assets classified as Loans and Receivables	5.2	1	136,109	0	0	136,109	136,109
Accounts Receivable	5.3	1	12,597	0	0	12,597	¹
Forward Exchange Contracts Used for Hedging	5.4	2	520	0	0	520	520
Other Receivables	5.4	1	137	0	0	137	137
Financial Assets classified as Loans and Receivables, Net of Current Portion	5.2	1	79,521	0	0	79,521	79,521
Available-for-sale Financial Assets	5.2	1	0	63,362	0	63,362	63,362
Bonds, Available-for-sale	5.2	1	0	6,532	0	6,532	6,532
TOTAL			302,813	69,894	0	372,707	360,110
Convertible Bonds - Liability Component	7.1	1	0	0	(218)	(218)	(218)
Accounts Payable and Accrued Expenses	6.1	1	0	0	(32,223)	(32,223)	¹
Forward Exchange Contracts Used for Hedging	5.4	2	0	0	0	0	0
TOTAL			0	0	(32,441)	(32,441)	(218)

¹ Declaration waived in line with IFRS 7.29 (a).

December 31, 2015 (in 000' €)	Note	Hierarchy Level	Loans and Receivables	Available-for-sale	Other Financial Liabilities	Total Carrying Amount	Fair value
Cash and Cash Equivalents	5.1	1	90,928	0	0	90,928	90,928
Financial Assets classified as Loans and Receivables	5.2	1	94,588	0	0	94,588	94,588
Accounts Receivable	5.3	1	11,442	0	0	11,442	¹
Forward Exchange Contracts Used for Hedging	5.3	2	750	0	0	750	750 ²
Other Receivables	5.4	1	574	0	0	574	574
Financial Assets classified as Loans and Receivables, Net of Current Portion	5.2	1	15,511	0	0	15,511	15,511
Available-for-sale Financial Assets	5.2	1	0	64,293	0	64,293	64,293
Bonds, Available-for-sale	5.2	1	0	33,120	0	33,120	33,120
TOTAL			213,793	97,413	0	311,206	299,764
Convertible Bonds - Liability Component	7.1	1	0	0	(225)	(225)	(225)
Accounts Payable and Accrued Expenses	6.1	1	0	0	(22,342)	(22,342)	¹
Forward Exchange Contracts Used for Hedging	5.4	2	0	0	(25)	(25)	(25)
TOTAL			0	0	(22,592)	(22,592)	(250)

¹ Declaration waived in line with IFRS 7.29 (a).

² As of December 31, 2015, nil had been disclosed; the carrying amount equaled the fair value.

2.4 IMPAIRMENTS

2.4.1 NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

Objective evidence that financial instruments (including equity securities) are impaired can include the default or delinquency of a debtor, indications that a debtor or issuer will enter insolvency, adverse changes in the payment status of borrowers or issuers in the Group as well as economic conditions that correlate with defaults or the disappearance of an active market for a marketable security. 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 the impairment of receivables on an individual level. All individually significant receivables are tested specifically for impairment.

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 initial effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g., repayment by a debtor) causes the amount of impairment to decrease, the impairment is reversed through profit and loss.

2.4.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In case of objective indications, impairment of available-for-sale financial assets is recognized by reclassifying the accumulated losses from the revaluation reserve in equity to profit and loss. The amount of the accumulated loss to be reclassified from equity to profit and loss is the difference between the acquisition cost less amortization and any principal repayment and the current fair value less any impairment previously recognized in profit or loss. If in a subsequent period the fair value of an impaired available-for-sale financial asset increases and this increase can be objectively linked to an event occurring after the impairment was recognized in profit or loss, then the impairment loss is reversed, and the amount of the reversal is recognized in profit or loss. Any subsequent increase in the fair value of an available-for-sale financial instrument is recognized in equity within 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 are not yet available for use, the recoverable amount is estimated at the same time each year, or if required. Impairment is recognized if the carrying amount of an asset or the cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value-in-use or its fair value less costs of disposal. In assessing value-in-use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash flows from ongoing use that are largely independent of the cash flows of other assets or CGUs. A ceiling test for the operating segment must be carried out for goodwill impairment testing. CGUs that have been allocated goodwill are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination may be allocated to groups of CGUs that are expected to benefit from the combination's synergies.

The Group's corporate assets do not generate separate cash flows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and are tested for impairment as part of the impairment testing of the CGU that was allocated the corporate asset.

Impairment losses are recognized in profit and loss. Goodwill impairment cannot be reversed. For all other assets, impairment recognized in prior periods is assessed on each reporting date for any indications that the losses decreased or no longer exist. Impairment is reversed when there has been a change in the estimates used to determine the recoverable amount. Impairment losses can only be reversed to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if an impairment had not been recognized.

2.5 ADDITIONAL INFORMATION

2.5.1 KEY ESTIMATES AND ASSUMPTIONS

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

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

GOODWILL

The Group performs a yearly test to determine whether goodwill is subject to impairment in accordance with the accounting policies discussed in Item 2.4.4*. The recoverable amounts from cash-generating units have been determined using value-in-use calculations and are subjected to a sensitivity analysis. These calculations require the use of estimates (see also Item 5.7.5* in the Notes).

*CROSS-REFERENCE to page 111 and page 127

INCOME TAXES

The Group is subject to income taxes in a number of tax jurisdictions. Due to the increasing complexity of tax laws and the corresponding uncertainty regarding the legal interpretation by the fiscal authority, tax calculations are generally subject to an elevated amount of uncertainty. To the extent necessary, possible tax risks were taken into account in the form of provisions.

Deferred tax assets on tax loss carryforwards are recognized based on the expected business performance of the relevant Group entity. For details on tax loss carryforwards and any recognized deferred tax assets, please refer to Item 4.4* in the Notes.

*CROSS-REFERENCE to page 120

2.5.2 CAPITAL MANAGEMENT

The Management Board's policy for capital management is to preserve a strong and sustainable capital base in order to maintain the confidence of investors, business partners, and the capital market and to support future business development. The Group's capital base was further enhanced by a capital increase amounting to € 115.4 million carried out in November 2016 (private placement with institutional investors). As of December 31, 2016, the equity ratio was 89.6% (December 31, 2015: 90.7%; see also the following overview). The Group does not currently have any financial debt.

Under the respective incentive plans resolved by the Annual General Meeting, the Management Board and employees may participate in the Group's performance through long-term performance-related remuneration consisting of convertible bonds. MorphoSys also established long-term incentive programs (LTI plan) in 2012, 2013, 2014, 2015 and 2016. These programs are based on the performance-related issue of shares, or "performance shares", which are granted when certain predefined success criteria have been achieved and the vesting period has expired (for more information, please refer to Item 7.2* in the Notes). There were no changes in the Group's approach to capital management during the year.

*CROSS-REFERENCE to page 131

in 000' €	12/31/2016	12/31/2015
Stockholders' Equity	415,460	362,736
In % of Total Capital	89.6%	90.7%
Debt	48,140	37,343
In % of Total Capital	10.4%	9.3%
TOTAL CAPITAL	463,600	400,079

2.6 USE OF INTEREST RATES FOR VALUATION

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

2.7 ACCOUNTING POLICIES APPLIED TO LINE ITEMS OF THE INCOME STATEMENT

2.7.1 REVENUES AND REVENUE RECOGNITION

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

LICENSE FEES AND MILESTONE PAYMENTS

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

SERVICE FEES

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

Discounts that are likely to be granted and whose amount can be reliably determined are recognized as a reduction in revenue at the time of revenue recognition. The timing of the transfer of risks and rewards varies depending on the terms of the sales contract. In accordance with IAS 18.21 and 18.25, revenue from multiple-component contracts is recognized by allocating the total consideration to the separately identifiable components based on their respective fair values and by applying IAS 18.20. The applicable revenue recognition criteria are assessed separately for each component.

Deferred revenue consist of customer payments that were not yet recognized as revenue because the related services specified in the contract were not yet rendered.

2.7.2 OPERATING EXPENSES

PERSONNEL EXPENSES RESULTING FROM STOCK OPTIONS

The Group applies the provisions under IFRS 2 "Share-based Payment", which require the Group to spread compensation expenses from the estimated fair values of share-based payments on the reporting date over the period in which the beneficiaries provide the services which triggered the granting of the share-based payments.

IFRS 2 "Share-based Payment" requires the consideration of the effects of share-based payments if the Group acquires goods or services in exchange for shares or stock options ("settlement in equity instruments") or other assets that represent the value of a specific number of shares or stock options ("cash settlement"). The key impact of IFRS 2 on the Group is the expense resulting from the use of an option pricing model in relation to share-based incentives for employees and the Management Board. Additional information can be found under Items 7.1*, 7.2* and 7.3* in the Notes.

*CROSS-REFERENCE to page 130-136

RESEARCH AND DEVELOPMENT

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

GENERAL AND ADMINISTRATIVE

This line item contains 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 from incentives is recognized as a reduction in lease expenses on a straight-line basis over the term of the lease.

All of the Group's lease agreements are classified exclusively as operating leases. The Group did not engage in any finance lease arrangements in which the Group, as lessee, capitalized the assets at the start of the lease at 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 their economic life.

2.7.3 OTHER INCOME**GOVERNMENT GRANTS**

Grants received from government agencies to fund 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, government agencies generally have the right to audit the use of the funds granted to the Group.

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

When the repayment of cost subsidies depends on the success of the development project, these cost subsidies are recognized as other liabilities until success has been achieved. If the condition for repayment is not met, then the grant is recognized under "other income".

No payments were granted in the 2016 financial year that are required to be classified as investment subsidies.

2.7.4 OTHER EXPENSES

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

2.7.5 FINANCE INCOME

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

2.7.6 FINANCE EXPENSES

Finance expenses are expensed in the income statement in the period they occur.

2.7.7 INCOME TAX EXPENSES/INCOME

Income taxes consist of current and deferred taxes and are recognized in the income statement unless they relate to items recognized directly in equity.

Current taxes are the taxes expected to be payable on the year's taxable income based on prevailing tax rates on the reporting date and any adjustments to taxes payable in previous years.

The calculation of deferred taxes is based on the balance sheet liability method that refers to the temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. The method of calculating deferred taxes depends on how the asset's carrying amount is expected to be realized and how the liabilities will be repaid. The calculation is based on the prevailing tax rates or those adopted on the reporting date.

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

Deferred tax assets are recognized only to the extent that it is likely that there will be future taxable income to offset. Deferred tax assets are reduced by the amount that the related tax benefit is no longer expected to be realized.

2.7.8 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 with the exception that the net profit or loss attributable to parent company shareholders and the weighted average number of ordinary shares outstanding are adjusted for any dilutive effects resulting from convertible bonds granted to the Management Board and employees.

2.8 ACCOUNTING POLICIES APPLIED TO THE ASSETS OF THE BALANCE SHEET**2.8.1 LIQUIDITY****CASH AND CASH EQUIVALENTS**

The Group regards all cash at banks and on hand and all short-term deposits with a maturity of three months or less as cash and cash equivalents. The Group invests most of its cash and cash equivalents at several major financial institutions: Commerzbank, UniCredit, Bayern LB, LBBW, BNP Paribas, Deutsche Bank, Sparkasse and Rabobank.

Cash and cash equivalents are recognized at nominal value. Marketable securities are recognized and measured at fair value. Any fluctuations in the fair value of marketable securities are directly recognized in equity. Permanent impairment is recognized in profit and loss.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Depending on how they are classified, existing financial instruments are either measured at amortized cost (category "loans and receivables") or 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 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 financial instrument's classification and reviews this classification at each reporting date. The classification depends on the purpose of acquiring the financial instrument. As of December 31, 2016 and December 31, 2015, 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 financial instrument's purchase or sale. Following their initial recognition, available-for-sale financial assets are measured at fair value, and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, otherwise disposed of or considered impaired, at which time the accumulated loss is reported in profit and loss.

Guarantees granted for rent deposits and obligations from convertible bonds issued to employees are recorded under other assets as restricted cash since they are not available for use in the Group's operations.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its foreign exchange rate risk and cash flows. In accordance with IAS 39.9, stand-alone derivative financial instruments are predominantly held for trading and are initially recognized at fair value. After 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, unless the derivatives are effective and designated as hedging instruments under a hedging relationship (hedge accounting). According to the Group's foreign currency hedging policy, the Group only hedges highly probable future cash flows and clearly identifiable receivables that can be collected within a 12-month period.

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

HEDGE ACCOUNTING

The Group has designated hedging instruments to hedge cash flows (cash flow hedges).

At the beginning of the hedge accounting, the hedging relationship between the underlying and the hedge transaction are documented, including the risk management objectives and corporate strategy underlying the hedging relationship. Additionally, when concluding the hedge and also during the term of the hedge, the Group regularly provides documentation if the hedging instrument designated for the hedging relationship is highly effective in terms of the hedged risk to compensate for any changes of the underlying transaction's cash flows.

For information on the fair value of derivatives used for hedging, please refer to Item 5.4* in the Notes.

*CROSS-REFERENCE to page 124

CASHFLOW HEDGES

The effective portion of the change in fair value of derivatives that are suitable for cash flow hedges and designated as such is recognized within other comprehensive income. The gain/loss attributable to the ineffective portion is immediately recognized in profit and loss with "other operating income/expenses".

Amounts recognized within other comprehensive income are reclassified to the consolidated statement of income in the period in which the underlying transaction is recognized in profit and loss. The gain/loss is recorded in the same line item of the consolidated statement of income as the underlying transaction.

The hedging relationship is no longer accounted for if the Group dissolves the hedging relationship, the hedging instrument expires, is sold, terminated or exercised or no longer is suitable for hedging purposes. The full gain/loss recognized in other comprehensive income and accrued within equity remains in equity when the hedge accounting ends and is only recognized in profit and loss once the expected transaction is also recognized in profit and loss. If the transaction is no longer expected to materialize, the full gain/loss recognized in equity is immediately reclassified into the consolidated statement of income.

2.8.2 ACCOUNTS RECEIVABLE, INCOME TAX RECEIVABLES AND OTHER RECEIVABLES

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

*CROSS-REFERENCE to page 111 and page 124

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.

2.8.3 INVENTORIES

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

2.8.4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses include expenses resulting from an outflow of liquid assets prior to the reporting date that are only recognized as expenses in the subsequent financial year. Such expenses usually involve maintenance contracts, sublicenses and prepayments for external laboratory services not yet performed. Other current assets primarily consist of receivables from tax authorities resulting from value-added taxes and restricted cash, such as rent deposits. 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* in the Notes) and any impairment (see Item 2.4.4* in the Notes). Historical cost includes expenditures directly related to the purchase at the time of the acquisition. Replacements purchases, building alterations and improvements are capitalized while repair and maintenance expenses are charged as expenses as they are incurred. Property, plant and equipment is depreciated on a straight-line basis over its useful life (see table below). Leasehold improvements are depreciated on a straight-line basis over the asset's estimated useful life.

*CROSS-REFERENCE to page 125 and page 111

Asset Class	Useful Life	Depreciation Rates
Computer Hardware	3 years	33%
Low-value Laboratory and Office Equipment below € 410	Immediately	100%
Permanent Improvements to Property/Buildings	10 years	10%
Office Equipment	8 years	13%
Laboratory Equipment	4 years	25%

Asset's residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

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

2.8.6 INTANGIBLE ASSETS

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

Development costs are capitalized as intangible assets when the capitalization criteria described in IAS 38 have been met, namely, clear specification of the product or procedure, technical feasibility, intention of completion, use, commercialization, coverage of development costs through future free cash flows, reliable determination of these free cash flows and availability of sufficient resources for completion of development and sale. Amortization is recorded in research and development expenses.

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

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

PATENTS

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

*CROSS-REFERENCE to page 111

LICENSE RIGHTS

The Group has acquired license rights from third parties by making upfront license payments, paying annual fees to maintain the license and paying fees for sublicenses. The Group amortizes upfront license payments on a straight-line basis over the estimated useful life of the acquired license (eight to ten years). The amortization period and method are reviewed at the end of each financial year under IAS 38.104. Annual fees to maintain a license are amortized over the term of each annual agreement. Sublicense fees are amortized on a straight-line basis over the term of the contract or the estimated useful life of the collaboration for contracts without a set duration.

IN-PROCESS R&D PROGRAMS

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

SOFTWARE

Software is recorded at acquisition cost less accumulated amortization (see below) and any impairment (see Item 2.4.4* in 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 111

GOODWILL

Goodwill is recognized for expected synergies from business combinations and the skills of the acquired workforce. Goodwill is tested annually for impairment as required by IAS 36 (see also Item 5.7.5* in the Notes).

*CROSS-REFERENCE to page 127

Intangible Asset Class	Useful Life	Amortisation Rates
Patents	10 years	10%
License Rights	8 (10) years	13% - 10%
In-process R&D Programs	Not yet amortized	-
Software	3 (5) years	33% - 20%
Goodwill	Impairment Only	-

2.8.7 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

The non-current portion of expenses that occurred 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.

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

2.9 ACCOUNTING POLICIES APPLIED TO EQUITY AND LIABILITY ITEMS OF THE BALANCE SHEET**2.9.1 ACCOUNTS PAYABLE, OTHER LIABILITIES AND OTHER PROVISIONS**

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

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

2.9.2 TAX PROVISIONS

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

2.9.3 CURRENT PORTION OF 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 a twelve-month period after the reporting date.

2.9.4 DEFERRED REVENUE

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

2.9.5 CONVERTIBLE BONDS DUE TO RELATED PARTIES

The Group issued convertible bonds to the Group's Management Board and employees. In accordance with IAS 32.28, the equity component of a convertible bond must be recorded separately under additional paid-in capital. The equity component is determined by deducting the separately determined amount of the liability component from the fair value of the convertible bond. The effect of the equity component is recognized in profit and loss in personnel expenses from share-based payments, whereas the effect on profit and loss from the liability component is recognized as interest expense. The Group applies the provisions of IFRS 2 "Share-based Payments" for all convertible bonds granted to the Management Board and the Group's employees.

2.9.6 DEFERRED TAXES

The recognition and measurement of deferred taxes are based on the provisions of IAS 12. Deferred tax assets and liabilities are calculated using the liability method, which is common practice internationally. Under this method, taxes expected to be paid or recovered in subsequent financial years are based on the applicable tax rate at the time of recognition.

Deferred tax assets and liabilities are recorded separately in the balance sheet. Deferred tax liabilities take into account the future tax effects of temporary differences between the value 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 OTHER LIABILITIES

Other liabilities for rent-free periods and their corresponding release over the minimum rent period are calculated based on the effective interest method. Other liabilities are discounted due to their long-term maturities.

2.9.8 STOCKHOLDERS' EQUITY**COMMON STOCK**

Ordinary shares are classified as stockholders' equity. Incremental costs directly attributable to the issue of ordinary shares and stock options are recognized as a deduction from stockholders' equity.

TREASURY STOCK

Repurchases of the Company's own shares at prices quoted on an exchange or at market value are recorded in this line item as a deduction from common stock.

When common stock that 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 any difference between the proceeds from the transaction and the initial acquisition costs is recognized in additional paid-in capital.

The allocation of treasury shares to beneficiaries (in this case: performance shares) under long-term incentive programs is reflected in this line item based on the set number of shares to be allocated after the expiration of the four-year vesting period (quantity structure) multiplied by the weighted-average purchase price of the treasury shares (value structure). The adjustment is carried out directly in equity by reducing the treasury stock line item, which is a deduction from common stock, while simultaneously reducing the amount of additional paid-in capital. Further information can be found in Item 7.2.1.* in the Notes.

***CROSS-REFERENCE** to page 132

ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital mainly consists of personnel expenses resulting from the grant of 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 and bonds that are measured directly in equity until they are sold as well as cash flow hedges.

ACCUMULATED INCOME/LOSS

The “accumulated income/loss” line item consists of the Group’s accumulated consolidated net profits/losses. A separate measurement of this item is not made.

3 Segment Reporting

MorphoSys Group applies IFRS 8 “Segment Reporting”. An operating segment is defined as a unit of an entity that engages in business activities from which it can earn revenues and incur expenses and whose operating results are regularly reviewed by the entity’s chief operating decision maker, the Management Board, and for which discrete financial information is available.

Segment information is provided for the Group’s operating segments based on the Group’s management and internal reporting structures. The segment results and segment assets include items that can be either directly attributed to the individual segment or allocated to the segments on a reasonable basis.

The Management Board evaluates a segment’s economic success using selected key figures so that all income and expenses are included. Operating earnings before interest and taxes, or EBIT, is the key benchmark for measuring and evaluating the operating results. Other key internal reporting figures include revenues, operating expenses, segment results and the liquidity position.

The Group consists of the following operating segments.

3.1 PROPRIETARY DEVELOPMENT

The segment comprises all activities related to the proprietary development of therapeutic antibodies and peptides. These activities currently comprise a total of 14 antibodies and peptides, including the proprietary clinical programs MOR208, MOR202, MOR209/ES414, which is jointly developed with the US company Aptevo Therapeutics (a spin-off from Emergent BioSolutions), and MOR106, which is developed in cooperation with Galapagos. The program MOR103, also included in this segment, was out-licensed to GSK. All activities are now conducted by GlaxoSmithKline (GSK). The program has been part of this segment since the beginning of its development and will therefore continue to be reported there. MorphoSys is also pursuing other programs that are either at an early stage of proprietary development or fall under co-development agreements. One of these programs is the preclinical program MOR107 (formerly LP2) resulting from the acquisition of Lanthio Pharma B.V. A further eight programs are in the discovery phase. Since January 1, 2016, the development of proprietary technologies has been allocated to the Proprietary Development segment. Until December 31, 2015, these activities and their related costs were contained in the Partnered Discovery segment.

3.2 PARTNERED DISCOVERY

MorphoSys possesses one of the leading technologies for generating therapeutics based on human antibodies. The Group markets this technology commercially through its partnerships with numerous pharmaceutical and biotechnology companies. The Partnered Discovery segment encompasses all operating activities relating to these commercial agreements.

3.3 CROSS-SEGMENT DISCLOSURE

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

For the Twelve-month Period Ended December 31 (in 000' €)	Proprietary Development		Partnered Discovery		Unallocated		Group	
	2016	2015	2016	2015	2016	2015	2016	2015
External Revenues	621	59,939	49,123	46,284	0	0	49,744	106,223
Other Operating Expenses	78,515	54,057	18,113	25,918	13,212	13,753	109,840	93,728
Other Income	327	4,849	0	5	382	644	709	5,498
Other Expenses	0	8	0	2	554	749	554	759
SEGMENT EBIT	(77,567)	10,723	31,010	20,369	(13,384)	(13,858)	(59,941)	17,234
Finance Income	0	0	0	0	1,385	3,827	1,385	3,827
Finance Expenses	0	0	0	0	1,308	436	1,308	436
PROFIT BEFORE TAXES	(77,567)	10,723	31,010	20,369	(13,307)	(10,467)	(59,864)	20,625
Income Tax Expenses	0	0	0	0	(519)	(5,725)	(519)	(5,725)
NET PROFIT/(LOSS)	(77,567)	10,723	31,010	20,369	(13,826)	(16,191)	(60,383)	14,901
Current Assets	13,157	6,789	18,415	17,840	276,484	275,487	308,056	300,116
Non-current Assets	59,292	69,353	10,165	11,269	86,087	19,341	155,544	99,963
TOTAL SEGMENT ASSETS	72,449	76,142	28,580	29,109	362,571	294,828	463,600	400,079
Current Liabilities	20,948	16,975	2,512	3,382	14,842	7,113	38,302	27,470
Non-current Liabilities	6,930	7,037	2,165	2,568	743	268	9,838	9,873
Stockholders' Equity	0	0	0	0	415,460	362,736	415,460	362,736
TOTAL SEGMENT LIABILITIES AND EQUITY	27,878	24,012	4,677	5,950	431,045	370,117	463,600	400,079
Capital Expenditure	1,358	7,487	1,181	995	374	284	2,913	8,766
Depreciation and Amortization	1,272	858	2,117	2,243	375	354	3,764	3,455

The segment result is defined as a segment's revenue less the segment's operating expenses. In the 2016 financial year, impairments totaling € 10.1 million were recognized in the Proprietary Development segment (2015: impairments of € 3.7 million in the Partnered Discovery segment).

The Group's key customers are allocated to the Partnered Discovery and Proprietary Development segments. As of December 31, 2016, the single most important customer represented accounts receivables of a carrying amount of € 8.4 million (December 31, 2015: € 8.3 million). Three of the Group's customers that were all allocated to the Partnered Discovery segment accounted for € 42.1 million, € 2.5 million and € 2.5 million, respectively, of the total revenues in 2016. In the 2015 financial year, three of the Group's customers accounted for € 59.3 million, € 41.5 million and € 1.9 million, respectively. The largest customer was allocated to the Proprietary Development segment and the other two customers to the Partnered Discovery segment.

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

in 000' €	2016	2015
Germany	1,621	2,183
Europe and Asia	43,046	41,800
USA and Canada	5,077	62,240
TOTAL	49,744	106,223

The decline in revenues is mainly due to a one-off effect in 2015 of approximately € 59 million resulting from the termination of the MOR202 co-development and co-promotion agreement with Celgene and the resulting release of deferred revenues.

A total of € 123.7 million (December 31, 2015: € 67.5 million) and € 32.6 million (December 31, 2015: € 32.1 million) of the Group's non-current assets, excluding deferred tax assets, are located in Germany and the Netherlands, respectively. The Group's total investments of € 2.8 million (December 31, 2015: € 8.7 million) were made in Germany, except for € 0.1 million (December 31, 2015: € 0.1 million), which were made in the Netherlands. In accordance with internal definitions, investments only include additions to property, plant and equipment as well as intangible assets which are not related to business combinations. MorphoSys defines investments as additions to non-current assets that are not related to acquisitions.

4 Notes to the Income Statement

4.1 REVENUES

In 2016, revenues consisted of license fees and milestone payments totaling € 28.4 million (2015: € 85.4 million). All revenues were generated by the Partnered Discovery segment (2015: € 59.2 million in the Proprietary Development segment and € 26.2 million in the Partnered Discovery segment).

Of the service fees totaling € 21.4 million (2015: € 20.8 million), € 0.6 million (2015: € 0.7 million) were attributable to the Proprietary Development segment and € 20.8 million (2015: € 20.1 million) to the Partnered Discovery segment.

4.2 OPERATING EXPENSES

4.2.1 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased compared to the prior year due to substantial investments in proprietary product development as well as the partial impairment of MOR209/ES414 (see also Item 5.7.3* of these notes) and consist of the items below.

*CROSS-REFERENCE to page 127

in 000' €	2016	2015
Personnel Expenses	26,493	25,557
Consumable Supplies	2,321	2,971
Other Operating Expenses	2,922	3,352
Amortization and Other Costs of Intangible Assets	13,689	7,177
External Services	44,409	34,411
Depreciation and Other Costs for Infrastructure	5,889	5,188
TOTAL	95,723	78,656

in million €	2016	2015	2014	2013	2012
R&D Expenses on behalf of Partners	17,2	22,1	19,5	17,5	16,0
Proprietary Development Expenses	77,1	54,1	33,6	27,5	18,1
Technology Development Expenses	1,4	2,5	2,9	4,2	3,6
R&D TOTAL	95,7	78,7	56,0	49,2	37,7

4.2.2 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the items below.

in 000' €	2016	2015
Personnel Expenses	9,521	10,354
Consumable Supplies	97	77
Other Operating Expenses	978	913
Amortization of Intangible Assets	111	109
External Services	2,484	2,643
Depreciation and Other Costs for Infrastructure	925	976
TOTAL	14,116	15,072

4.2.3 PERSONNEL EXPENSES

Personnel expenses include the items below.

in 000' €	2016	2015
Wages and Salaries	27,146	26,559
Social Security Contributions	4,570	4,271
Stock-based Compensation Expense	2,357	3,559
Temporary Staff (External)	1,061	610
Other	880	912
TOTAL	36,014	35,911

In 2016 and 2015, other personnel expenses consisted mainly of recruitment costs.

The average number of employees in the 2016 financial year was 354 (2015: 356). Of the 345 employees on December 31, 2016 (December 31, 2015: 365), 289 were active in research and development (December 31, 2015: 305) and 56 were engaged in general and administrative functions (December 31, 2015: 60 employees). As of December 31, 2016, there were 135 employees in the Proprietary Development segment and 156 employees in the Partnered Discovery segment; 54 employees were not allocated to a segment (December 31, 2015: 132 in the Proprietary Development segment, 176 employees in the Partnered Discovery segment and 57 employees were unallocated). Costs for defined-contribution plans amounted to € 0.5 million in 2016 (2015: € 0.5 million).

4.3 OTHER INCOME AND EXPENSES, FINANCE INCOME AND FINANCE EXPENSES

The line items "other income and expenses" and "finance income and finance expenses" include the following items.

in 000' €	2016	2015
Gain from Revaluation of Participations	0	4,495
Grant Income	327	359
Gain on Exchange	192	306
Appreciation of Accounts Receivable Previously Deemed Impaired	15	0
Miscellaneous Income	175	338
Other Income	709	5,498
Loss on Exchange	(400)	(460)
Impairment of Other Receivables	(7)	(214)
Miscellaneous Expenses	(147)	(85)
Other Expenses	(554)	(759)
Gain on Available-for-sale Financial Assets and Bonds	294	94
Interest Income	1,017	1,907
Gain on Derivatives	74	1,826
Finance Income	1,385	3,827
Interest Expenses	(20)	(20)
Loss on Derivatives	(44)	(287)
Bank Fees	(35)	(34)
Loss on Available-for-sale Financial Assets and Bonds	(1,209)	(95)
Finance Expenses	(1,308)	(436)
TOTAL	232	8,130

4.4 INCOME TAX EXPENSES/INCOME

MorphoSys AG and its German subsidiary Sloning BioTechnology GmbH are subject to corporate taxes, the solidarity surcharge and trade taxes. The Company's corporate tax rate of 15.0% and the solidarity surcharge of 5.5% remained unchanged. The effective trade tax rate of increased by 0.35% from 10.50% to 10.85%.

The Dutch entities Lanthio Pharma B.V. and LanthioPep B.V. are subject to an income tax rate of 25% on annual income exceeding € 200,000; annual income below € 200,000 is subject to a tax rate of 20%. Subject to certain conditions, a tax rate of 5% may be applicable under what is known as the "Innovation Box".

Income taxes for the past financial year consist of the items listed below.

in 000' €	2016	2015
Current Tax Income/(Expense) (Thereof Regarding Prior Years: k€ (60); 2015: k€ 3)	45	(4,182)
Deferred Tax Expenses	(564)	(1,543)
Total Income Tax Expense	(519)	(5,725)
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Equity	0	(1)
Total Amount of Current Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	(82)	38
Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Other Comprehensive Income	(112)	35
Total Amount of Tax-Effects Resulting from Entries Directly Recognized in Equity or Other Comprehensive Income	(194)	72

The following table reconciles the expected income tax expense with the actual income tax expense as presented in the consolidated financial statements. The combined income tax rate of 26.675% in the 2016 financial year (2015: 26.33%) was applied to profit before taxes to calculate the statutory income tax expense. This rate consisted of a corporate income tax of 15.0%, a solidarity surcharge of 5.5% on the corporate tax and an average trade tax of 10.85% applicable to the Group.

in 000' €	2016	2015
Profit Before Income Taxes	(59,864)	20,626
Expected Tax Rate	26.675%	26.330%
Expected Income Tax	15,969	(5,431)
Tax Effects Resulting from:		
Stock-based Compensation	5	(221)
Non-Tax-Deductible Items	(135)	(1,039)
Differences in Profit and Loss Neutral Adjustments	812	1,689
Non-Recognition of Deferred Tax Assets on Temporary Differences	(3,766)	0
Non-Recognition of Deferred Tax Assets on Current Year Tax Losses	(13,354)	(684)
Tax Rate Differences to Local Tax Rates	(46)	(28)
Effect of Tax Rate Changes	0	(4)
Prior Year Taxes	0	(3)
Other Effects	(4)	(4)
Actual Income Tax	(519)	(5,725)

As of December 31, 2016, neither deferred tax assets in the amount of € 12.8 million on tax loss carryforwards nor deferred tax assets on temporary differences in the amount of € 3.8 million were recognized by MorphoSys AG due to continued substantial investments in proprietary product development and related business development.

As of December 31, 2016, deferred tax assets in the amount of € 0.5 million were recognized on tax loss carryforwards due to the expected profit of Sloning BioTechnology GmbH on financial years 2017 through 2021 (December 31, 2015: € 1.2 million). The tax loss carryforwards may be carried forward indefinitely and in unlimited amounts. Since 2004, German tax law restricts the offsetting of taxable income against existing tax loss carryforwards up to an amount of € 1.0 million plus 60% of taxable income exceeding € 1.0 million.

As of December 31, 2016, deferred tax assets in the amount of € 2.5 million (December 31, 2015: € 2.1 million) on tax loss carryforwards were not recognized for Lanthio Group due to continued substantial investments in proprietary product development and related business development.

Deferred tax assets and liabilities are composed as follows.

in 000' €, as of December 31	Deferred Tax Asset 2016	Deferred Tax Asset 2015	Deferred Tax Liability 2016	Deferred Tax Liability 2015
Intangible Assets	0	0	8,068	8,685
Receivables and Other Assets	0	0	8	200
Prepaid Expenses and Deferred Charges	0	0	3	4
Short-term Securities Investments	19	90	131	54
Provisions	130	921	0	0
Other Liabilities	123	0	0	0
Tax Losses	516	1,222	0	0
TOTAL	788	2,233	8,210	8,943

Changes in Deferred Taxes in 2016

in 000' €, as of December 31	Recognized in Profit and Loss Income/(Expense)	Recognized in Other Comprehensive Income
Intangible Assets	617	0
Receivables and Other Assets	192	0
Prepaid Expenses and Deferred Charges	1	0
Short-term Securities Investments	0	(148)
Provisions	(791)	0
Other Liabilities	123	0
Tax Losses	(706)	0
TOTAL	(564)	(148)

As of December 31, 2016, temporary differences existed in connection with investments in subsidiaries (known as outside basis differences) of € 0.3 million for which no deferred tax liabilities were recognized.

4.5 EARNINGS PER SHARE

Basic earnings per share is computed by dividing the 2016 consolidated net loss of € 60,382,776 (2015: consolidated net profit of € 14,900,768) by the weighted-average number of ordinary shares outstanding during the respective year (2016: 26,443,415; 2015: 26,019,855).

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

	2016	2015
SHARES ISSUED ON JANUARY 1	26,537,682	26,456,834
Effect of Treasury Shares Held on January 1	(434,670)	(450,890)
Effect of Repurchase of Treasury Stock	(34,812)	(63,054)
Effect of Share Issuance	327,761	0
Effect of Transfer of Treasury Stock to Management Board and Senior Management Group	0	60,894
Effect of Transfer of Treasury Stock / Shares Issued in January	0	975
Effect of Transfer of Treasury Stock / Shares Issued in February	0	2,650
Effect of Transfer of Treasury Stock / Shares Issued in March	0	1,578
Effect of Transfer of Treasury Stock / Shares Issued in April	12,638	0
Effect of Transfer of Treasury Stock / Shares Issued in May	10,039	0
Effect of Transfer of Treasury Stock / Shares Issued in June	17,749	3,875
Effect of Transfer of Treasury Stock / Shares Issued in July	0	3,208
Effect of Transfer of Treasury Stock / Shares Issued in August	6,463	1,021
Effect of Transfer of Treasury Stock / Shares Issued in September	490	0
Effect of Transfer of Treasury Stock / Shares Issued in October	76	0
Effect of Transfer of Treasury Stock / Shares Issued in November	0	629
Effect of Transfer of Treasury Stock / Shares Issued in December	0	2,135
WEIGHTED-AVERAGE NUMBER OF SHARES OF COMMON STOCK	26,443,415	26,019,855

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

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

	2016	2015
Numerator		
Consolidated Net Profit/(Loss)	(60,382,776)	14,900,768
Denominator		
Weighted-average Shares Used for Basic EPS	26,443,415	26,019,855
Dilutive Shares Arising from Convertible Bonds	99,764	224,437
TOTAL DENOMINATOR	26,543,179	26,244,292
Earnings per Share (in €)		
Basic	(2.28)	0.57
Diluted	(2.27)	0.57

5 Notes to the Assets of the Balance Sheet

5.1 CASH AND CASH EQUIVALENTS

in 000' €	12/31/2016	12/31/2015
Bank Balances and Cash in Hand	73,929	90,928
Term Deposits	1,252	631
Restricted Cash	(1,252)	(631)
Cash and Cash Equivalents	73,929	90,928

The decrease in cash and cash equivalents resulted primarily from the use of cash for operating activities.

Restricted cash of € 1.3 million mainly consisted of rent deposits (2015: € 0.6 million).

5.2 FINANCIAL ASSETS AND BONDS, AVAILABLE-FOR-SALE AND FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

As of December 31, 2016 and December 31, 2015, available-for-sale financial assets consisted of the items below.

in 000' €	Maturity	Cost	Gross Unrealized		Market Value
			Gains	Losses	
DECEMBER 31, 2016					
Money Market Funds	daily	63,433	2	73	63,362
TOTAL					63,362
DECEMBER 31, 2015					
Money Market Funds	daily	64,089	204	0	64,293
TOTAL					64,293

In 2016, the Group recorded a net gain of € 0.3 million from the disposal of financial assets contained in the income statement. This gain was previously recognized in stockholders' equity (2015: net gain of less than € 0.1 million).

As of December 31, 2016 and December 31, 2015, bonds available-for-sale consisted of the items below.

in 000' €	Maturity	Cost	Gross Unrealized		Market Value
			Gains	Losses	
DECEMBER 31, 2016					
Bonds	daily	6,620	2	90	6,532
TOTAL					6,532
DECEMBER 31, 2015					
Bonds	daily	33,599	1	480	33,120
TOTAL					33,120

In 2016, the Group recorded a net loss of € 1.2 million from the disposal of financial assets contained in the income statement that were previously recognized in stockholders' equity (2015: net loss of less than € 0.1 million). The bonds were purchased at a price above their nominal value. The loss that resulted from the product-specific price development is more than offset by the bond's interest income and results in a positive overall result.

As of December 31, 2016, the Company held current financial assets of € 136.1 million (December 31, 2015: € 94.6 million) and non-current financial assets of € 79.5 million (December 31, 2015: € 15.5 million), which were allocated to the "loans and receivables" category in accordance with IAS 39 "Financial Instruments". These financial assets consisted mainly of term deposits with fixed or variable interest rates. The increase is a result of the investment in non-current financial assets using financial liquidity from the capital increase executed in November. The carrying amounts included interest receivables of € 0.1 million (December 31, 2015: € 1.2 million).

Interest income from financial assets under "loans and receivables" amounted to € 0.9 million (2015: € 1.9 million) and was recorded in the finance result. The risk associated with these financial instruments primarily resulted from bank credit risks. There was no indication of impairment in the financial year 2016.

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

*CROSS-REFERENCE to page 113

5.3 ACCOUNTS RECEIVABLE

All accounts receivable are non-interest bearing and generally have payment terms of between 30 and 45 days. As of December 31, 2016 and December 31, 2015, accounts receivable included unbilled receivables amounting to € 3.3 million and € 3.9 million, respectively.

Based on the Management Board's estimate, no net loss for allowances for doubtful receivables was recognized in profit and loss in 2016 and 2015.

5.4 OTHER RECEIVABLES

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

As of December 31, 2016, there were ten unsettled forward rate agreements with terms ranging from one to twelve months (December 31, 2015: 15 unsettled forward rate agreements). The resulting gross unrealized gain from these forward rate agreements of less than € 0.1 million as of December 31, 2016 was recorded in the finance result (December 31, 2015: gross unrealized gain of € 0.7 million and gross unrealized loss of less than € 0.1 million).

In January 2016, the Group entered into a forward rate agreement expiring in April 2017 to hedge future cash flows. As a cash flow hedge, this derivative is accounted for under hedge accounting. As of December 31, 2016, a gross unrealized gain of € 0.5 million was recognized for this hedging instrument in the revaluation reserve within other comprehensive income.

As of December 31, 2016, immaterial impairments were recognized for other receivables (December 31, 2015: € 0.2 million).

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

As of December 31, 2016 tax receivables amounted to € 3.3 million (December 31, 2015: € 2.7 million) and consisted of receivables due from tax authorities for the remaining surplus from prepayments for value-added taxes in the amount of € 2.8 million (December 31, 2015: € 1.5 million) and receivables from capital gain taxes withheld and income taxes for prior years in the amount of € 0.5 million (December 31, 2015: € 0.8 million).

Inventories amounting to € 0.3 million as of December 31, 2016 were stored at the Planegg location and consisted of raw materials and supplies. As in the previous year, no inventories were carried at fair value less selling costs as of the reporting date.

As of December 31, 2015, inventories amounting to € 0.4 million were stored at the Martinsried location and consisted of raw materials and supplies.

As of December 31, 2016, prepaid expenses and other current assets mainly consisted of combination compounds of € 7.3 million (December 31, 2015: € 0.3 million), prepaid fees for external laboratory services of € 2.4 million (December 31, 2015: € 0.6 million), prepaid fees for sub-licenses of € 0.3 million (December 31, 2015: € 0.3 million), restricted cash for rent deposits of € 0.4 million (December 31, 2015: € 0), and other prepayments amounting to € 0.8 million (December 31, 2015: € 0.5 million).

5.6 PROPERTY, PLANT AND EQUIPMENT

in 000' €	Office and Laboratory Equipment	Furniture and Fixtures	Total
Cost			
JANUARY 1, 2016	15,040	1,780	16,820
Additions	1,890	612	2,502
Disposals	(272)	(3)	(275)
DECEMBER 31, 2016	16,658	2,389	19,047
Accumulated Depreciation			
JANUARY 1, 2016	11,691	1,655	13,346
Depreciation Charge for the Year	1,700	86	1,786
Write-offs for the Year	0	0	0
Disposals	(271)	(3)	(274)
DECEMBER 31, 2016	13,120	1,738	14,858
Carrying Amount			
JANUARY 1, 2016	3,349	125	3,474
DECEMBER 31, 2016	3,538	651	4,189
Cost			
JANUARY 1, 2015	13,963	1,765	15,728
Additions	1,372	15	1,387
Additions from Business Combinations	126	0	126
Disposals	(421)	0	(421)
DECEMBER 31, 2015	15,040	1,780	16,820
Accumulated Depreciation			
JANUARY 1, 2015	10,560	1,610	12,170
Depreciation Charge for the Year	1,497	45	1,542
Write-offs for the Year	25	0	25
Disposals	(391)	0	(391)
DECEMBER 31, 2015	11,691	1,655	13,346
Carrying Amount			
JANUARY 1, 2015	3,403	155	3,558
DECEMBER 31, 2015	3,349	125	3,474

No impairment of property, plant and equipment was recognized in the 2016 financial year. In 2015, impairment of property, plant and equipment was immaterial.

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

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

in 000' €	2016	2015
Research and Development	1,518	1,295
Research and Development (Write-off)	0	25
General and Administrative	268	247
TOTAL	1,786	1,567

5.7 INTANGIBLE ASSETS

in 000' €	Patents	License Rights	In-process R&D Programs	Software	Goodwill	Total
Cost						
JANUARY 1, 2016	16,064	23,896	60,960	5,744	11,041	117,705
Additions	355	0	0	56	0	411
Disposals	0	0	0	0	0	0
DECEMBER 31, 2016	16,419	23,896	60,960	5,800	11,041	118,116
Accumulated Depreciation						
JANUARY 1, 2016	9,923	20,651	0	3,808	3,676	38,058
Depreciation Charge for the Year	1,173	98	0	707	0	1,978
Write-offs for the Year	0	0	10,141	0	0	10,141
DECEMBER 31, 2016	11,096	20,749	10,141	4,515	3,676	50,177
Carrying Amount						
JANUARY 1, 2016	6,141	3,245	60,960	1,936	7,365	79,647
DECEMBER 31, 2016	5,323	3,147	50,819	1,285	7,365	67,939
Cost						
JANUARY 1, 2015	15,743	21,896	28,254	5,180	7,352	78,425
Additions	321	2,000	4,495	563	0	7,379
Additions from Business Combinations	0	0	28,211	1	3,689	31,901
DECEMBER 31, 2015	16,064	23,896	60,960	5,744	11,041	117,705
Accumulated Depreciation						
JANUARY 1, 2015	8,755	20,553	0	3,138	0	32,446
Depreciation Charge for the Year	1,145	98	0	670	0	1,913
Write-offs for the Year	23	0	0	0	3,676	3,699
DECEMBER 31, 2015	9,923	20,651	0	3,808	3,676	38,058
Carrying Amount						
JANUARY 1, 2015	6,988	1,343	28,254	2,042	7,352	45,979
DECEMBER 31, 2015	6,141	3,245	60,960	1,936	7,365	79,647

No impairment of patents and licenses was recognized in the 2016 financial year. In 2015, impairment of patents and licenses was immaterial.

As of December 31, 2016, in-process research and development programs were subject to an impairment test as required by IAS 36. This test indicated the need for impairment. Further information on the impairment of in-process research and development programs can be found in Item 5.7.3.* in the Notes.

*[CROSS-REFERENCE](#) to page 127

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

in 000' €	2016	2015
Research and Development	1,872	1,806
Research and Development (Write-off)	10,141	3,699
General and Administrative	106	107
TOTAL	12,119	5,612

5.7.1 PATENTS

In the 2016 financial year, the carrying amount of patents declined by € 0.8 million from € 6.1 million to € 5.3 million. This was the result of additions amounting to € 0.4 million for patent applications, particularly for proprietary programs and technologies, which were offset by straight-line amortization of € 1.2 million.

5.7.2 LICENSES

In the 2016 financial year, the carrying amount of licenses declined by € 0.1 million from € 3.2 million to € 3.1 million.

5.7.3 IN-PROCESS R&D PROGRAMS

In the 2016 financial year, the carrying amount of in-process R&D programs declined by € 10.1 million to € 50.8 million. The reason for the partial impairment of MOR209/ES414 was the expectation of a lower inflow of benefits and of a delay in the occurrence of future cash flows.

5.7.4 SOFTWARE

In the 2016 financial year, additions to this line item totaled € 0.1 million. The carrying amount decreased by € 0.7 million from € 1.9 million in 2015 to € 1.3 million in 2016. Additions were offset by amortization of € 0.7 million.

5.7.5 GOODWILL

As of September 30, 2016, goodwill of € 3.7 million from the 2010 acquisition of Sloning BioTechnology GmbH was subject to an impairment test as required by IAS 36. The recoverable amount of the cash-generating unit Slonomics technology, which is part of the Partnered Discovery segment, was determined on the basis of value-in-use calculations. The calculation showed that the recoverable amount was higher than the carrying amount of the cash-generating unit. The cash flow forecasts took into account the payments expected under existing contracts as well as the future free cash flows from the contribution of the Slonomics technology to partnered programs and was offset by expected personnel and administrative expenses. Cash flow forecasts are based on a period of ten years because the Management Board believes that commercialization through licensing agreements, upfront payments, milestone payments, funded development services and royalties is only feasible by means of medium- to long-term contracts. For this reason, a planning horizon of ten years is considered appropriate for the value-in-use calculation. The cash flow forecasts are largely based on the assumption that the Slonomics technology is very beneficial for existing customers. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). Based on the updated ten-year cash flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2015: 1.2), WACC before taxes of 12.2% (2015: 12.7%) and a perpetual growth rate of 1% (2015: 1%). In connection with calculating the value-in-use, a detailed sensitivity analysis was performed with regard to the growth rate and the discount rate. The sensitivity analysis assessed changes in one assumption at a time while all other assumptions remained unchanged compared to the original calculation. The analysis did not reveal

any additional need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information.

As of September 30, 2016, goodwill of € 3.7 million from the Lanthio Group acquisition was tested for impairment. The recoverable amount of the cash-generating unit Lanthio Group, which is part of the Proprietary Development segment, was determined on the basis of value-in-use calculations. The value-in-use was higher than the carrying amount of the cash-generating unit. The cash flow forecasts included planned cash inflows from the potential sale of compounds based on lanthipeptides expected to achieve market approval. These cash inflows were offset by expected operating expenses for compound development and clinical trials as well as sales and administrative expenses. The duration and likelihood of individual stages of the study were taken into consideration. Cash flow forecasts are based on a period of 30 years because the Management Board believes that after the successful approval of compounds, the drugs that follow can generate free cash flows within that period of time. The values of the underlying assumptions were determined using both internal (past experience) and external sources of information (market information). On the basis of the updated cash flow forecast, the value-in-use was determined as follows: A beta factor of 1.2 (2015: 1.2) and WACC before taxes of 11.9% (2015: 13.6%). A detailed sensitivity analysis was performed with regard to the discount rate. This analysis did not reveal any need for impairment. The values ascribed to the assumptions correspond to the Management Board's forecasts for future development and are based on internal planning scenarios as well as external sources of information.

5.8 PREPAID EXPENSES AND OTHER ASSETS, NET OF CURRENT PORTION

This line item included the non-current portion of prepaid expenses and other assets. The increase in prepaid expenses mainly resulted from prepaid rent for the premises at Semmelweisstraße 7, Planegg. The Group classified certain line items under other assets as "restricted cash" that are not available for use in the Group's operations (see Items 2.8.1* and 5.1* in the Notes). As of December 31, 2016 and December 31, 2015, the Group held long-term restricted cash in the amount of € 0.9 million and € 0.6 million, respectively, for issued rent guarantees and of € 0.2 million each for convertible bonds granted to employees.

*CROSS-REFERENCE to page 113 and page 122

The table below shows the breakdown of this line item.

in 000' €	12/31/2016	12/31/2015
Prepaid Expenses, Net of Current Portion	2,783	67
Other Current Assets	1,111	882
TOTAL	3,894	949

6 Notes to Equity and Liabilities of the Balance Sheet

6.1 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts payable are listed in the table below.

in 000' €	12/31/2016	12/31/2015
Trade Accounts Payable	8,457	237
Licenses Payable	179	158
Accrued Expenses	22,838	20,275
Other Liabilities	749	1,672
TOTAL	32,223	22,342

Accrued expenses mainly included accrued personnel expenses for payments to employees and management amounting to € 2.8 million (December 31, 2015: € 3.1 million), provisions for outstanding invoices in the amount of € 2.6 million (December 31, 2015: € 2.7 million), external laboratory services in the amount of € 16.2 million (December 31, 2015: € 13.9 million), license payments in the amount of € 0.1 million (December 31, 2015: € 0.1 million), audit fees and other audit-related costs in the amount of € 0.1 million (December 31, 2015: € 0.1 million) and expenses for legal advice in the amount of € 1.0 million (December 31, 2015: € 0.4 million).

At the Company's Annual General Meeting in June 2016, the Supervisory Board was authorized to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH), Munich, as the auditor.

In the 2016 financial year, PwC GmbH received compensation from MorphoSys in the amount of € 251,582, which included audit fees of € 190,000, fees for other audit-related and valuation services of € 36,832 for the review of the half-year-report as well as fees for other services of € 24,750. PwC GmbH did not provide any tax advisory services in 2016.

6.2 TAX PROVISIONS AND OTHER PROVISIONS

As of December 31, 2016, the Group recorded tax provisions and other provisions of € 4.9 million (2015: € 3.2 million for the entire Group).

Tax provisions mainly consisted of income tax expenses and other provisions included provisions for onerous contracts and lease obligations for office premises, which will not be used anymore in the future, as well as for obligations resulting from an onerous contract with a contract manufacturing organization for drug substances and drug products for clinical trial use.

As of December 31, 2016, tax provisions and other provisions were uncertain in their amount and are expected to be utilized in 2017.

The table below shows the development of tax provisions and other provisions in the 2016 financial year.

in 000' €	01/01/2016	Additions	Utilized	Released	12/31/2016
Tax Provisions	1,698	114	0	160	1,652
Provisions	1,480	2,967	740	489	3,218
TOTAL	3,178	3,081	740	649	4,870

6.3 DEFERRED REVENUES

Deferred revenues are payments received from customers for which the services have not been rendered. The table below shows the development of this line item.

in 000' €	2016	2015
OPENING BALANCE	4,507	58,752
Prepayments Received in the Fiscal Year	17,441	18,133
Revenue Recognised through Release of Prepayments in line with Services Performed in the Fiscal Year	(19,043)	(72,378)
CLOSING BALANCE	2,905	4,507
thereof short-term	1,232	1,994
thereof long-term	1,673	2,513

6.4 OTHER LIABILITIES

Other liabilities exclusively consisted of the deferred amount of the rent-free period for the building located at Semmelweisstraße 7, Planegg, as agreed in the lease contract. This item is released over the contractually agreed minimum rent period.

The current portion amounting to € 0.1 million of this liability was included in the item accounts payable and accrued expenses.

6.5 STOCKHOLDERS' EQUITY

6.5.1 COMMON STOCK

As of December 31, 2016, the Company's common stock, including treasury stock, had increased by € 2,622,088 to € 29,159,770 from its level of € 26,537,682 as of December 31, 2015. Each no-par value share is entitled to one vote. The increase in common stock resulted entirely from the new shares created in the context of the capital increase in November 2016.

As of December 31, 2016, the Company held 396,010 shares of treasury stock amounting to € 14,648,212 which represents a decrease of € 1,179,734 compared to December 31, 2015 (434,670 shares, € 15,827,946). This decrease was the result of the transfer of 90,955 treasury stock to the Management Board and Senior Management under the 2012 long-term incentive plan (LTI plan) totaling € 3,361,697. The vesting period for this LTI program expired on April 1, 2016 and October 1, 2016 and provided beneficiaries a six-month option to receive a total of 90,955 shares. The decline in treasury stock was partly offset by MorphoSys's repurchase of 52,295 of its own shares on the stock exchange. The repurchase totaling € 2,179,963 was carried out at a weighted-average share price of € 41.69.

Brokerage fees for the repurchase totaled € 1,999. Shares of treasury stock can be used for the purposes named in the authorizations of the Annual General Meetings on May 19, 2011 and May 23, 2014, and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

6.5.2 AUTHORIZED CAPITAL

On November 15, 2016, a total of 2,622,088 shares were issued from Authorized Capital 2014-I in the context of a cash capital increase, which fully exhausted the previous Authorized Capital 2014-I. The cash capital increase was recorded in the commercial register on November 17, 2016. Compared to December 31, 2015, the number of authorized ordinary shares declined by 2,622,088 from 13,206,421 to 10,584,333.

6.5.3 CONDITIONAL CAPITAL

Compared to December 31, 2015, the number of ordinary shares of conditional capital decreased from 7,086,000 to 6,752,698. The Annual General Meeting on June 2, 2016 cancelled the Conditional Capital 2003-II amounting to € 36,000 and the Conditional Capital 2011-I amounting to € 6,600,000. At the same time, the Annual General Meeting created the Conditional Capital 2016-I amounting to € 5,307,536 and Conditional Capital 2016-III amounting to € 995,162.

6.5.4 TREASURY STOCK

In the years 2016 and 2015, the Group repurchased own shares. The composition and development of this line item is listed in the following table.

	Number of Shares	Value
As of 12/31/2010	79,896	9,774
Purchase in 2011	84,019	1,747,067
As of 12/31/2011	163,915	1,756,841
Purchase in 2012	91,500	1,837,552
As of 12/31/2012	255,415	3,594,393
Purchase in 2013	84,475	2,823,625
As of 12/31/2013	339,890	6,418,018
Purchase in 2014	111,000	7,833,944
As of 12/31/2014	450,890	14,251,962
Purchase in 2015	88,670	5,392,931
Transfer in 2015	(104,890)	(3,816,947)
As of 12/31/2015	434,670	15,827,946
Purchase in 2016	52,295	2,181,963
Transfer in 2016	(90,955)	(3,361,697)
As of 12/31/2016	396,010	14,648,212

In 2016, the weighted average price of the repurchased shares was € 41.69 per share (2015: € 60.79 per share). Treasury shares are recognized at acquisition cost.

6.5.5 ADDITIONAL PAID-IN CAPITAL

As of December 31, 2016, additional paid-in capital amounted to € 428,361,175 (December 31, 2015: € 319,394,322). The total increase of € 108,966,853 resulted mainly from the capital increase in November 2016 (€ 109,971,132, net of costs for raising equity totaling € 2,778,652). In addition, additional paid-in capital increased by € 2,357,418 from personnel expenses resulting from share-based payments. The reclassification of treasury shares of € 3,361,697 in the context of the allocation of shares under the 2012 performance-based share plan had a compensating effect.

In 2015, additional paid-in capital increased by € 1,018,602 and resulted from the exercise of convertible bonds granted (€ 1,276,590) and personnel expenses resulting from share-based payments (€ 3,558,959). The reclassification of treasury shares of € 3,816,947 in the context of the allocation of shares under the 2011 performance-based share plan had a compensating effect.

6.5.6 REVALUATION RESERVE

As of December 31, 2016, the revaluation reserve amounted to € 136,101 (December 31, 2015: € -202,158). The increase amounting to a total of € 338,259 arose from a change in the unrealized gains and losses on available-for-sale securities and bonds of € -21,154 and the change in unrealized gains of € 359,413 from cash flow hedges.

6.5.7 ACCUMULATED INCOME/DEFICIT

The consolidated net loss of € -60,382,776 was offset in accumulated deficit. The accumulated income from € 32,834,107 in 2015 inverted to an accumulated deficit of € -27,548,669 in 2016.

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

7.1 CONVERTIBLE BONDS – 2013 PROGRAM

On April 1, 2013, MorphoSys AG granted the Management Board and members of the Senior Management Group convertible bonds with a total nominal value of € 225,000 and divided into 449,999 bearer bonds with equal rights from “Conditional Capital 2008-III”. The beneficiaries have the right to convert the bonds into Company shares. Each convertible bond can be exchanged for one of the Company’s bearer shares equal to the proportional amount of common stock, which currently stands at € 1. Exercise of the convertible bonds is subject to several conditions, such as the achievement of performance targets, the expiration of vesting periods, the exercisability of the conversion rights, the existence of an employment or service contract that is not under notice and the commencement of the exercise period.

The conversion price amounted to € 31.88 and was derived from the Company’s share price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issue of the convertible bonds. The exercise of the conversion rights is admissible if, on at least one trading day during the lifetime of the convertible bonds, the share price of the Company has risen to more than 120% of the price in the XETRA closing auction of the Frankfurt Stock Exchange on the trading day preceding the issue of the convertible bonds.

The 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 is 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 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 under the above mentioned vesting scheme. Thus, upon rendition of the notice, all conversion rights still unvested by this time will expire without substitution. In the event of a contractual notice of termination of such employment or service contract with the beneficiary or a mutually agreed dissolution contract, the previous sentence applies and becomes effective as of the date of termination of the employment or service contract.

The following table shows the development of the convertible bond plans for Group employees in the 2016 and 2015 financial years.

	Convertible Bonds	Weighted- average Price (€)
OUTSTANDING ON JANUARY 1, 2015	530,847	29.58
Granted	0	0.00
Exercised	(80,848)	16.79
Forfeited	0	0.00
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2015	449,999	31.88
OUTSTANDING ON JANUARY 1, 2016	449,999	31.88
Granted	0	0.00
Exercised	0	0.00
Forfeited	(13,414)	31.88
Expired	0	0.00
OUTSTANDING ON DECEMBER 31, 2016	436,585	31.88

From the grant date until December 31, 2016, one beneficiary left MorphoSys and, therefore, 13,414 convertible bonds were forfeited. As of December 31, 2016, the number of vested convertible bonds totaled 327,439 shares (December 31, 2015: 225,000 shares).

The following overview includes the weighted-average exercise price as well as information on the contract duration of significant groups of convertible bonds as of December 31, 2016.

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted- average Exercise Price (€)	Number Exercisable	Weighted- average Exercise Price (€)
€ 25.00 – € 40.00	436,585	3.25	31.88	327,439	31.88
	436,585	3.25	31.88	327,439	31.88

The Group recognizes personnel expenses resulting from convertible bonds on a straight-line basis in accordance with IFRS 2 and IAS 32.28. The equity component of the convertible bonds is presented separately under additional paid-in capital. The corresponding amount is recognized as personnel expenses from convertible bonds. In 2016 and 2015, compensation expenses related to convertible bonds amounted to € 40,375 and € 839,906, respectively.

7.2 LONG-TERM INCENTIVE PROGRAMS

On March 31, 2016, the conditions of the long-term incentive plans (LTI plan) 2012, 2013, 2014 and 2015 for the Management Board and Senior Management Group were amended to include a six-month exercise period following the four-year vesting period, during which the Company can transfer the performance shares to the beneficiaries. Previously, under these plans, the performance shares were automatically allocated following the four-year vesting period. Beneficiaries can now choose the exercise date within the six-month exercise period. The plan modification had no impact on the fair value of the performance shares or on the period over which the personnel expenses are to be recognized.

7.2.1 2012 LONG-TERM INCENTIVE PROGRAM

On April 1, 2012, MorphoSys established a long-term incentive plan (LTI plan) for the Management Board and the Senior Management Group. The vesting period of this plan expired on April 1, 2016. According to IFRS 2, this program is considered a share-based payment program with settlement in equity instruments and is accounted for accordingly. The LTI plan is a performance-related share plan and is paid out in ordinary shares (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are approved annually by the Supervisory Board. The fulfillment of these criteria was set at 200% for two years, 54% for one year and 0% for one year. The Supervisory Board set the “company factor” at 0.88, meaning the number of performance shares to be allocated is scaled by a factor of 0.88. This factor resulted in an adjustment of previously recognized personnel expenses of € -0.2 million in the 2016 financial year. Previously, personnel expenses resulting from the 2012 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 88,663 performance shares of MorphoSys AG were transferred to the beneficiaries on October 4, 2016 after the expiration of the four-year vesting period. The Management Board received 57,967 performance shares (for further information, please see the tables titled “Shares” and “Performance Shares” in Item 7.3* “Related Parties”), the Senior Management Group received 27,813 performance shares and former members of the Senior Management Group, who have left the Company in the meantime, received 2,883 performance shares.

*CROSS-REFERENCE to page 136

On October 1, 2012, MorphoSys established another long-term incentive plan (LTI plan) for Senior Management Group members. The vesting period of this plan expired on October 1, 2016. The terms of this plan were identical to the April 1, 2012 plan. The fulfillment of the performance criteria was set at 200% for one year, 54.8% for one year and 0% for two years. The Supervisory Board set the “company factor” at 1.57, meaning the number of performance shares to be allocated is scaled by a factor of 1.57. This factor resulted in an adjustment of previously recognized personnel expenses of € 0.03 million in the 2016 financial year. Previously, personnel expenses resulting from the 2012 LTI program were recognized based on the assumption of a company factor of 1.0. Based on these terms and the company factor, a total of 2,292 performance shares of MorphoSys AG were transferred to the beneficiaries in October 2016 after the expiration of the four-year vesting period. The Senior Management Group received all of the 2,292 performance shares.

In 2016, personnel expenses from performance shares under the Group's 2012 LTI plan amounted to € -158,752 (2015: € 108,619).

7.2.2 2013 LONG-TERM INCENTIVE PROGRAM

On April 1, 2013, MorphoSys established a 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 (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2013 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are achieved by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is considered unreasonable in view of the Company's general development. The right to receive a certain allocation of performance shares under the LTI plan occurs only at the end of the four-year vesting period.

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 prematurely ceases to hold an office at the MorphoSys Group before expiration of the four-year performance period, the member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis. If a Management Board member prematurely ceases to hold an office at the MorphoSys Group for good reason as defined by Sec. 626 Para. 2 of the German Civil Code (BGB) 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 four-year vesting period, all performance shares will be considered fully vested. In each case above, the right to receive a certain allocation of performance shares under the LTI plan only occurs at the end of the four-year vesting period.

In April and May of 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 can be used for all purposes named in the authorizations of the Annual General Meetings on May 19, 2011 and on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

Of these shares, 61,601 were allocated to beneficiaries retroactively effective April 1, 2013. This included 36,729 performance shares for the Management Board (for further information, please see the table titled "Performance Shares" in Item 7.3* "Related Parties") and 24,872 performance shares for the Senior Management Group. The number of performance shares allocated is based on the full achievement of performance criteria and a company factor of 1. On the grant date (April 1, 2013), the fair value of the performance shares was € 29.08 per share. No dividends were included in the determination of the fair value of the performance shares since the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2016, two beneficiaries left MorphoSys and, therefore, 881 performance shares were forfeited. For the calculation of the personnel expenses resulting from share-based payments under the 2013 LTI plan, it was initially assumed that one beneficiary will leave the Company during the four-year period. In 2016, this assumption was updated.

*CROSS-REFERENCE to page 136

On October 1, 2013, MorphoSys established another long-term incentive plan (LTI plan) for Senior Management Group members. The terms of the plan were identical to the April 1, 2013 plan. A total of 548 performance shares was allocated, and the fair value on the grant date was € 52.24 per share.

In 2016, personnel expenses from performance shares under the Group's 2013 LTI plan amounted to € -23,571 (2015: € 299,024).

7.2.3 2014 LONG-TERM INCENTIVE PROGRAM

On April 1, 2014, MorphoSys established a 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 (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2014 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan, however, occurs only at the end of the four-year vesting period.

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

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

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

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

In March 2014, MorphoSys repurchased 111,000 of its own shares on the stock exchange at an average price of € 70.53 per share. The repurchased shares may be used for all purposes named in the authorizations of the Annual General Meetings on May 19, 2011 and May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 32,513 of these shares were allocated to beneficiaries on April 1, 2014 with 18,264 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.3* "Related parties") and 14,249 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of performance criteria and a company factor of 1. The fair value of the performance shares on the grant date (April 1, 2014) was € 62.17 per share. No dividends were included in the determination of the fair value of the repurchased shares performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2016, two beneficiaries left MorphoSys and, therefore, 889 performance shares were forfeited. For the calculation of the personnel expenses from share-based payments under the 2014 LTI plan, it was initially assumed that one beneficiary will leave the Company during the four-year period. In 2016, this assumption was updated.

*CROSS-REFERENCE to page 136

In 2016, personnel expenses resulting from performance shares under the Group's 2014 LTI plan amounted to € 178,518 (2015: € 647,941).

7.2.4 2015 LONG-TERM INCENTIVE PROGRAM

On April 1, 2015, MorphoSys established a 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 (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2015 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan 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 at the MorphoSys Group because of termination (or if the Management Board member terminates the employment contract), resignation, death, injury, disability, by reaching retirement age (receipt of a normal retirement pension, early-retirement pension or disability pension, as long as the requirements for the disability pension entitlement are met) or under other circumstances subject to the Supervisory Board's discretion, the Management Board member (or the member's heirs) is entitled to performance shares determined on a precise daily pro rata basis.

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

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

In April 2015, MorphoSys repurchased 88,670 of its own shares on the stock exchange at an average price of € 60.79 per share. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

A total of 40,425 of these shares were allocated to beneficiaries on April 1, 2015 with 21,948 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.3* "Related parties") and 18,477 performance shares to the Senior Management Group. The number of shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares as of the grant date (April 1, 2015) was € 61.40 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2016, one beneficiary left MorphoSys, and, therefore, 696 performance shares have been forfeited. For the calculation of the personnel expenses from share-based payments under the 2015 LTI plan, it was assumed that one beneficiary will leave the Company during the four-year period.

*CROSS-REFERENCE to page 136

In 2016, personnel expenses from performance shares under the Group's 2015 LTI plan amounted to € 837,153 (2015: € 1,104,730).

7.2.5 2016 LONG-TERM INCENTIVE PROGRAM

On April 1, 2016, MorphoSys established a 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 (performance shares) of MorphoSys AG if predefined key performance criteria are achieved. These criteria are evaluated annually by the Supervisory Board. The grant date was April 1, 2016 and the vesting/performance period is four years. If the predefined key performance criteria for the respective period are fully met, 25% of the performance shares become vested in each year of the four-year vesting period. The number of performance shares vested each year will be reduced or increased to the extent that the performance criteria of the respective year have been achieved between only 50% and 99.9% (<100%) or the achievement of the performance criteria has exceeded 100% (maximum 200%). If in one year the performance criteria are met by less than 50%, no performance shares will become vested in that year. In any case, the maximum pay-out at the end of the four-year period is limited by a factor determined by the Group, which generally amounts to 1. However, in justified cases, the Supervisory Board may set this factor freely between 0 and 2, for example, if the level of payment is regarded as unreasonable in view of the general development of the Company. The right to receive a certain allocation of performance shares under the LTI plan only occurs at the end of the four-year vesting period.

There is a six-month exercise period following the four-year vesting period, during which the Company can transfer the performance shares to the beneficiaries. Beneficiaries are free to choose the exercise date within this exercise period.

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

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

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

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

In March 2016, MorphoSys repurchased 52,295 of its own shares on the stock exchange at an average price of € 41.69 per share. The repurchased shares may be used for all purposes named in the authorization of the Annual General Meeting on May 23, 2014 and particularly for any existing or future employee participation schemes and/or to finance acquisitions. The shares may also be redeemed.

On April 1, 2016, a total of 68,143 of treasury shares were allocated to beneficiaries with 35,681 performance shares allocated to the Management Board (further details may be found in the table titled "Performance Shares" in Item 7.3* "Related parties") and 32,462 performance shares to the Senior Management Group. The number of performance shares allocated is based on the full achievement of the performance criteria and a company factor of 1. The fair value of the performance shares as of the grant date (April 1, 2016) was € 46.86 per share. No dividends were included in the determination of the fair value of the performance shares because the Group does not intend to distribute any dividends in the foreseeable future. From the grant date until December 31, 2016, one beneficiary left MorphoSys, and, therefore, 1,464 performance shares have been forfeited. The forfeiture of performance shares due to terminations by beneficiaries during the four-year period has been accounted for in the calculation of the personnel expenses from share-based payments under the 2016 LTI plan.

*CROSS-REFERENCE to page 136

In 2016, personnel expenses from performance shares under the Group's 2016 LTI plan amounted to € 1,483,694.

The fair value of the performance shares of the long-term incentive plans 2013 until 2016 has been determined with a Monte Carlo simulation. The expected volatility is based on the development of the share volatility of the last four years. Furthermore, the calculation of fair value equally considered the performance criteria of the absolute and relative performance of the MorphoSys share compared to the development of the NASDAQ Biotech Index and the TecDAX Index. The parameters of each program are listed in the table below.

	April 2013 Long-Term Incentive Program	October 2013 Long-Term Incentive Program	April 2014 Long-Term Incentive Program	April 2015 Long-Term Incentive Program	April 2016 Long-Term Incentive Program
Share Price on Grant Date in €	31.88	57.23	68.08	57.18	43.28
Strike Price in €	0.00	0.00	0.00	0.00	0.00
Expected Volatility of the MorphoSys share in %	28.91	30.14	30.87	33.09	34.64
Expected Volatility of the NASDAQ Biotech Index in %	19.20	19.38	20.28	20.70	23.39
Expected Volatility of the TecDAX Index in %	22.68	20.49	20.18	20.10	17.01
Performance Term of Program in Years	4.0	4.0	4.0	4.0	4.0
Dividend Yield in %	0.0	0.0	0.0	0.0	0.0
Risk-free Interest Rate in %	0.17	0.56	0.44	0.07	0.05

7.3 RELATED PARTIES

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

The Group engages in business relationships with members of the Management Board and Supervisory Board as related parties responsible for the planning, management and monitoring of the Group. In addition to cash compensation, the Group has granted the Management Board convertible bonds and performance shares. The tables below show the shares, convertible bonds and performance shares held by the members of the Management Board and Supervisory Board, as well as the changes in their ownership during the 2016 financial year.

SHARES

	01/01/2016	Additions	Sales	12/31/2016
MANAGEMENT BOARD				
Dr. Simon Moroney	495,238	18,976	0	514,214
Jens Holstein	4,000	12,997	9,997	7,000
Dr. Arndt Schottelius ¹	2,000	13,397	5,000	10,397
Dr. Marlies Sproll	50,752	12,997	6,237	57,512
TOTAL	551,990	58,367	21,234	589,123
SUPERVISORY BOARD				
Dr. Gerald Möller	11,000	0	0	11,000
Dr. Frank Morich	1,000	0	0	1,000
Dr. Marc Cluzel	500	0	0	500
Karin Eastham	2,000	0	0	2,000
Wendy Johnson	500	0	0	500
Klaus Kühn	0	0	0	0
TOTAL	15,000	0	0	15,000

¹ Dr. Arndt Schottelius left the Management Board of MorphoSys AG on February 28, 2017.

CONVERTIBLE BONDS

	01/01/2016	Additions	Forfeitures	Exercises	12/31/2016
MANAGEMENT BOARD					
Dr. Simon Moroney	88,386	0	0	0	88,386
Jens Holstein	90,537	0	0	0	90,537
Dr. Arndt Schottelius ¹	60,537	0	0	0	60,537
Dr. Marlies Sproll	60,537	0	0	0	60,537
TOTAL	299,997	0	0	0	299,997

PERFORMANCE SHARES

	01/01/2016	Additions	Forfeitures	Allocations	12/31/2016
MANAGEMENT BOARD					
Dr. Simon Moroney	44,164	12,032	0	18,976	37,220
Jens Holstein	30,248	7,883	0	12,997	25,134
Dr. Arndt Schottelius ¹	30,248	7,883	0	12,997	25,134
Dr. Marlies Sproll	30,248	7,883	0	12,997	25,134
TOTAL	134,908	35,681	0	57,967	112,622

¹ Dr. Arndt Schottelius left the Management Board of MorphoSys AG on February 28, 2017.

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

The total remuneration of the Management Board consists of several components, including fixed compensation, an annual cash bonus that is dependent upon the achievement of corporate and personal targets (short-term incentives - STI), variable compensation components with long-term incentives (LTI) and other remuneration components. Following the expiration of the relevant contract term, the service contracts of the Management Board members stipulate a non-competition clause for a period of six months. During this period, the Management Board member is entitled to compensation payments amounting to 100% of the pro rata fixed compensation.

In 2016, the total remuneration of the Supervisory Board, excluding reimbursement for travel costs, amounted to € 529,680 (2015: € 529,270).

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

MANAGEMENT BOARD REMUNERATION FOR THE YEARS 2016 AND 2015 (IAS 24):

	Dr. Simon Moroney Chief Executive Officer		Jens Holstein Chief Financial Officer	
	2015	2016	2015	2016
Fixed Compensation	445,736	463,457	302,384	314,405
Fringe Benefits	36,887	34,270	39,735	46,300
One -Year Variable Compensation	238,692	210,873	161,926	143,054
Total Short-Term Employee Benefits (IAS 24.17 (a))	721,315	708,600	504,045	503,759
Service Cost	138,280	142,096	90,800	92,875
Total Benefit Expenses – Post-Employment Benefits (IAS 24.17 (b))	138,280	142,096	90,800	92,875
Multi-Year Variable Compensation ¹ :				
2013 Convertible Bonds Program (Vesting Period 4 Years)	164,969	33,964	168,984	34,791
2011 Long-Term Incentive Program (Vesting Period 4 Years)	129,900	0	88,974	0
2012 Long-Term Incentive Program (Vesting Period 4 Years)	22,755	(42,350)	15,585	(29,007)
2013 Long-Term Incentive Program (Vesting Period 4 Years)	57,029	(10,303)	39,061	(7,075)
2014 Long-Term Incentive Program (Vesting Period 4 Years)	119,143	32,972	81,605	22,572
2015 Long-Term Incentive Program (Vesting Period 4 Years)	196,345	148,799	134,483	101,906
2016 Long-Term Incentive Program (Vesting Period 4 Years)	0	269,420	0	176,511
Total Stock-Based Compensation (IAS 24.17 (e))	690,141	432,502	528,692	299,698
Total Compensation	1,549,736	1,283,198	1,123,537	896,332

¹ The fair value was determined pursuant to the regulations of IFRS 2 "Share-based Payments". This table shows the pro-rata share of personnel expenses resulting from stock-based compensation for the respective financial year. Further details can be found in Sections 7.1* and 7.2*.

*CROSS-REFERENCE to page 130-131

SUPERVISORY BOARD REMUNERATION FOR THE YEARS 2016 AND 2015:

in €	Fixed Compensation		Attendance Fees ¹		Total Compensation	
	2016	2015	2016	2015	2016	2015
Dr. Gerald Möller	91,400	93,521	43,400	36,200	134,800	129,721
Dr. Frank Morich ²	57,240	37,324	26,800	14,200	84,040	51,524
Dr. Marc Cluzel	52,160	50,089	34,600	28,000	86,760	78,089
Karin Eastham	52,160	50,089	24,400	36,800	76,560	86,889
Wendy Johnson ²	46,160	30,099	33,800	26,400	79,960	56,499
Klaus Kühn ²	46,160	30,099	21,400	14,200	67,560	44,299
Dr. Walter Blättler ³	-	16,188	-	13,000	-	29,188
Dr. Daniel Camus ³	-	16,188	-	8,400	-	24,588
Dr. Geoffrey Vernon ³	-	20,073	-	8,400	-	28,473
TOTAL	345,280	343,670	184,400	185,600	529,680	529,270

¹ The attendance fee contains expense allowances for the attendance at Supervisory Board and Committee meetings.

² Dr. Frank Morich, Wendy Johnson and Klaus Kühn joined the Supervisory Board of MorphoSys AG on May 8, 2015.

³ Dr. Walter Blättler, Dr. Daniel Camus and Dr. Geoffrey Vernon left the Supervisory Board of MorphoSys AG on May 8, 2015.

In the years 2016 and 2015, there were no other long-term benefits in accordance with IAS 24.17 (c) or benefits upon termination of employment in accordance with IAS 24.17 (d) accruing to the Management Board or Supervisory Board.

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

Dr. Arndt Schottelius Chief Development Officer		Dr. Marlies Sproll Chief Scientific Officer		Total	
2015	2016	2015	2016	2015	2016
302,384	309,759	302,384	314,405	1,352,888	1,402,026
29,889	28,388	22,954	24,141	129,465	133,099
156,635	140,940	156,635	143,054	713,888	637,921
488,908	479,087	481,973	481,600	2,196,241	2,173,046
94,064	95,473	94,085	92,876	417,229	423,320
94,064	95,473	94,085	92,876	417,229	423,320
112,990	23,263	112,990	23,263	559,933	115,281
88,974	0	88,974	0	396,822	0
15,585	(29,007)	15,585	(29,007)	69,510	(129,371)
39,061	(7,075)	39,061	(7,075)	174,212	(31,528)
81,605	22,572	81,605	22,572	363,958	100,688
134,483	101,906	134,483	101,906	599,794	454,517
0	176,511	0	176,511	0	798,953
472,698	288,170	472,698	288,170	2,164,229	1,308,540
1,055,670	862,730	1,048,756	862,646	4,777,699	3,904,906

As of December 31, 2016, the Senior Management Group held 136,588 convertible bonds (December 31, 2015: 150,002 units) and 82,143 performance shares (December 31, 2015: 85,542), which were granted by the Company. In 2016, an additional long-term incentive program was allocated to the Management Board and Senior Management Group. As part of this program, the Senior Management Group was allocated 32,462 performance shares. In 2016, a total of 30,105 performance shares under the 2012 LTI plan were granted to the Senior Management Group, reducing the number of performance shares. No convertible bonds were exercised in 2016 (2015: 19,048). In 2016, a total of 2,554 performance shares forfeited because one beneficiary had left MorphoSys.

8 Additional Notes

8.1 OBLIGATIONS ARISING FROM OPERATING LEASES, RENTAL AND OTHER CONTRACTS

The Group leases facilities and equipment under long-term operating leases. In financial years 2016 and 2015, leasing expenses amounted to € 3.1 million and € 3.0 million. The 2015 amount includes the recognition of a provision for onerous contracts from rent obligations for office premises. Leasing expenses for 2016 and 2015 include expenses for company cars and machinery totaling € 0.2 million and € 0.2 million, respectively. The majority of these contracts can be renewed on a yearly or quarterly basis. Some of these agreements may be terminated prematurely.

In 2016 a rental agreement was signed for the premises at Semmelweisstraße 7, Planegg. The contract includes a minimum rental period of ten years.

The future minimum payments under non-terminable operating leases, insurance contracts and other services are shown in the following table.

in 000' €	Rent and Leasing 2017	Rent and Leasing 2016	Other 2017	Other 2016	Total 2017	Total 2016
Up to One Year	3,224	2,349	796	840	4,020	3,189
Between One and Five Years	11,245	13,438	1	5	11,246	13,443
More than Five Years	13,950	13,875	0	0	13,950	13,875
TOTAL	28,419	29,662	797	845	29,216	30,507

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

in million €	Total 2016
Up to One Year	50.8
Between One and Five Years	112.2
More than Five Years	0.0
TOTAL	163.0

8.2 CONTINGENT ASSETS/CONTINGENT LIABILITIES

Contingent liabilities are potential obligations from past events that exist only when the occurrence of one or more uncertain future events – beyond the Company's control – is confirmed. Current obligations can represent a contingent liability if it is not probable enough that an outflow of resources justifies the recognition of a provision. Moreover, it is not possible to make a sufficiently reliable estimate of the amount of the obligations.

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

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

Obligations may arise from enforcing the Company's patents against third parties. It is also conceivable that competitors may challenge the patents of the MorphoSys Group companies. MorphoSys may also come to the conclusion that MorphoSys's patents or patent families have been infringed upon by competitors, which may prompt MorphoSys to take legal action against competitors. At present, there are no specific indications that liabilities have occurred as described above.

8.3 CORPORATE GOVERNANCE

The Group has submitted the Declaration of Conformity with the recommendations of the Government Commission on the German Corporate Governance Code for the 2016 financial year under Sec. 161 of the German Stock Corporation Act (AktG). This declaration was published on the Group's website (www.morphosys.com) on December 2, 2016 and made permanently available to the public.

8.4 RESEARCH AND DEVELOPMENT AGREEMENTS

The Group has entered numerous research and development agreements as part of its proprietary research and development activities and its partnered research strategy.

8.4.1 PROPRIETARY DEVELOPMENT SEGMENT

In the Proprietary Development segment, partnerships are entered into as part of the Group's strategy to develop its own drugs in its core areas of oncology and inflammatory diseases. Our partners include (in alphabetical order): Aptevo Therapeutics, G7 Therapeutics, Galapagos, GlaxoSmithKline, Immatics Biotechnologies, Merck Serono, MD Anderson Cancer Center, Temple University and Xencor.

In August 2014, MorphoSys and Aptevo Therapeutics, a spin-off from Emergent BioSolutions, announced a co-development and co-promotion agreement for MOR209/ES414. This compound is a bi-specific anti-PSMA/anti-CD3 antibody targeting prostate cancer that was developed by Aptevo based on its proprietary ADAPTIR™ platform (modular protein technology). In early March 2015, MorphoSys and its development partner Aptevo Therapeutics announced the commencement of a phase 1 clinical study with MOR209/ES414 in up to 130 patients suffering from metastatic castration-resistant prostate cancer (mCRPC). The study's launch triggered a milestone payment to Aptevo of € 4.7 million. The existing cooperation agreement was updated in the past financial year. After a joint examination of the clinical results, the companies decided to adjust the dosing regimen and administration of MOR209/ES414. Clinical development will continue in 2016 with an adapted clinical development plan. A change in the contractual agreement brought down MorphoSys's share in the costs for the years 2016 through 2018 and lowers MorphoSys's potential milestone payments to Aptevo to a maximum of US\$ 74 million. There were no changes made to the remaining financial agreements or the division of commercial rights. A partial impairment of € 10.1 million was recognized on the in-process MOR209/ES414 R&D program in 2016 as a result of the program's lower expected value-in-use.

In August 2015, MorphoSys and Swiss-based G7 Therapeutics AG announced a new collaboration to develop novel antibody therapeutics targeting G protein-coupled receptors (GPCRs) and other potentially disease-related transmembrane proteins, such as ion channels. Under this agreement, G7 Therapeutics will give MorphoSys a choice of various receptors that can be linked to the emergence of a variety of diseases. MorphoSys will use its proprietary Ylanthia antibody library to identify and develop antibody compounds directed against these receptors. MorphoSys has the right to sublicense to partners access to these target molecules in conjunction with therapeutic antibody programs.

In November 2008, MorphoSys and Galapagos announced a long-term drug discovery and co-development cooperation aimed at exploring novel mechanisms for the treatment of inflammatory diseases and developing antibody therapies against these diseases. The agreement covers all activities ranging from the probing of target molecules to the completion of clinical trials for novel therapeutic antibodies. After demonstrating clinical efficacy in humans, the programs may be out-licensed to partners for further development, approval, and commercialization. Both companies contributed their core technologies and expertise to the alliance. Along with the use of its adenovirus-based platform for the exploration of new target molecules for the development of antibodies, Galapagos provided access to target molecules already identified that are associated with bone and joint diseases. MorphoSys provided access to its antibody technologies used for generating fully human antibodies directed against these target molecules. Under the terms of the agreement, Galapagos and MorphoSys will share the research and development costs. In July 2014, the collaboration advanced into the preclinical development of MOR106, an antibody from MorphoSys' next-generation library Ylanthia directed against a novel Galapagos target molecule. The antibody will be co-developed in the area of inflammatory diseases.

In June 2013, MorphoSys announced it had entered into a global agreement with GlaxoSmithKline (GSK) for the development and commercialization of MOR103. MOR103/GSK3196165 is MorphoSys's proprietary HuCAL antibody against the GM-CSF target molecule. Under the agreement, GSK assumes responsibility for the compound's entire development and commercialization. MorphoSys received an immediate upfront payment of € 22.5 million as part of this agreement. Depending on the achievement of certain developmental stages and 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 compound is currently being developed in a phase 2b study in patients with rheumatoid arthritis. In April 2016, GSK announced the initiation of a phase 2a clinical trial to investigate the safety and efficacy of MOR103/GSK3196165 in patients with inflammatory hand osteoarthritis. GSK also initiated a mechanistic phase 2a trial of MOR103/GSK3196165 in rheumatoid arthritis to further investigate the GM-SCF signaling pathway.

In August 2015, MorphoSys announced a strategic alliance in the field of immuno-oncology with the German company Immatics Biotechnologies GmbH. The alliance was formed to develop novel antibody-based therapies against a variety of cancer antigens that are recognized by T cells. The alliance agreement gives MorphoSys access to several of Immatics's proprietary tumor-associated peptides (TUMAPs). In return, Immatics receives the right to develop MorphoSys's Ylanthia antibodies against several TUMAPs. The companies will pay each other milestone payments and royalties on commercialized products based on the companies' development progress.

In June 2014, MorphoSys and Merck KGaA announced an agreement to identify and develop therapeutic antibodies against target molecules of the class of immune checkpoints. Under this agreement, both MorphoSys and Merck Serono, the biopharmaceutical division of Merck, will co-develop therapies intended to trigger the immune system to attack tumors. MorphoSys will use its proprietary Ylanthia antibody library and other technology platforms to generate antibodies directed against the selected target molecules. Merck Serono is contributing its expertise in the field of immuno-oncology and clinical development and will assume full project responsibility starting with phase 1 of clinical development.

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

In April 2014, MorphoSys agreed to a strategic partnership with the Moulder Center for Drug Discovery Research, a division of the School of Pharmacy at Temple University, USA, to discover new therapeutic antibodies. Under this cooperation, the Moulder Center receives access to MorphoSys's Ylanthia technology for validating new disease-related target molecules and generating therapeutic antibodies directed against these molecules. MorphoSys receives an exclusive option to further develop each antibody resulting from the cooperation. The department for new bio-therapeutic compound discovery at the Moulder Center deals with the compound's design and optimization of lead candidates in various disease areas, including cancer, Alzheimer's disease, cardiovascular, metabolic and viral diseases.

In June 2010, MorphoSys AG and the US-based biopharmaceutical company Xencor signed an exclusive global licensing and cooperation agreement under which MorphoSys receives exclusive global licensing rights to the XmAb5574/MOR208 antibody for the treatment of cancer and other indications. The companies jointly conducted a phase 1/2a trial in the US in patients with chronic lymphocytic leukemia. MorphoSys is solely responsible for further clinical development after the successful completion of the phase 1 clinical trial. Xencor received an upfront payment of US\$ 13 million (approx. € 10.5 million) from MorphoSys, which was capitalized under in-process R&D programs. Xencor is entitled to development, regulatory, and commercially-related milestone payments as well as tiered royalties on product sales.

In May 2015, MorphoSys acquired the Dutch company Lanthio Pharma B.V., which specializes in research and development of lanthipeptides. MorphoSys had initially acquired almost a 20% interest in the biopharmaceutical company in 2012 as part of its Innovation Capital initiative before acquiring the remaining shares in the past financial year. Lanthipeptides are a novel class of therapeutics demonstrating high target molecule selectivity and improved compound properties. This transaction adds MOR107 (formerly LP2) to MorphoSys's proprietary portfolio. MOR107 is a novel lanthipeptide in development for fibrotic diseases.

8.4.2 PARTNERED DISCOVERY SEGMENT

Commercial partnerships in the Partnered Discovery segment provide MorphoSys with various types of payments that are spread over the duration of the agreements or recognized in full as revenue when reaching a predefined target or milestone. These payments include upfront payments upon signature, annual license fees in exchange for access to MorphoSys's technologies and payments for funded research to be performed by MorphoSys on behalf of the partner. In addition, MorphoSys is entitled to development-related milestone payments and royalties on product sales for specific antibody programs.

Prior to the 2015 financial year, active collaborations with a number of partners had already ended because the agreements had expired. However, drug development programs initiated in the active phase are designed so that they can be continued by the partner and, therefore, still result in performance-based payments for the achievement of the defined milestones. For more detailed information on individual drug candidates within the various alliances - limited to information available to the public - please refer to the section "Research and Development" contained in this annual report and the overview of the Group's drug pipeline. Detailed information on the Group's individual research alliances is available on the Group's website.

Partnerships in the Partnered Discovery segment that ended before the beginning of 2015 but where drug development programs were still being pursued, include (in alphabetical order): Astellas, Bayer Healthcare Pharmaceuticals, Boehringer Ingelheim, ContraFect, Daiichi-Sankyo, F. Hoffmann-La Roche, GPC Biotech, Immunogen, Janssen Biotech, Merck & Co., OncoMed Pharmaceuticals, Pfizer, Fibron Ltd. (transfer of the contract from Prochon Biotech Ltd.) and Schering-Plough (a subsidiary of Merck & Co.).

Partnerships that were still active in 2015 include (in alphabetical order): GeneFrontier Corporation/Kaneka, Heptares, LEO Pharma and Novartis.

In November 2016, MorphoSys and LEO Pharma announced a strategic alliance for the discovery and development of therapeutic antibodies for the treatment of skin diseases. The objective of the alliance is to identify novel, antibody-based therapeutics for unmet medical needs that will be valuable additions to both companies' development pipelines. MorphoSys will apply its Ylanthia technology platform to generate fully human antibody candidates against the targets selected by LEO Pharma. MorphoSys will conduct all development activities up to the start of clinical testing. LEO Pharma will be responsible for clinical development and commercialization of resulting drugs in all indications outside of cancer. In skin cancer indications, MorphoSys will have options to co-develop and, in Europe, co-promote the respective antibody drugs. In addition, MorphoSys will have certain options to develop and commercialize therapeutic programs in other cancer indications arising from the collaboration. MorphoSys will receive R&D funding as well as success-based development, regulatory and commercial milestone payments, plus royalties on net sales of drugs commercialized by LEO Pharma.

The Group's most comprehensive alliance is with Novartis AG. Both companies 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 contract 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 € 650 million by the expiration of the contract underlying the collaboration. In addition to these payments, MorphoSys is also entitled to royalties on any future product sales. MorphoSys expects the partnership with Novartis to terminate at the end of November 2017 in accordance with the contract and does not believe that Novartis will exercise its option to extend the contract.

In November 2012, MorphoSys and Novartis entered into a cooperation agreement for the use of the new Ylanthia technology platform. This was an extension of the existing strategic cooperation.

8.5 SUBSEQUENT EVENTS

In early January 2017, MorphoSys announced that the Company's Supervisory Board has appointed Dr. Malte Peters as new Chief Development Officer. Dr. Peters will assume the position on March 1, 2017 and will succeed Dr. Arndt Schottelius, who is leaving the Company to pursue other opportunities. Dr. Schottelius has been Chief Development Officer until February 28, 2017. Dr. Peters joins MorphoSys from Sandoz, a subsidiary of Novartis, where he served as Global Head, Clinical Development Biopharmaceuticals. With effect from March 1, 2017, Dr. Peters is entitled for the period of one year to request the transfer of treasury shares held by the Company to himself up to a total amount of € 500,000.

In February 2017, MorphoSys announced that it has added a second patent with US Patent Number 9,200,061 to its lawsuit against Janssen Biotech, and Genmab, A/S. This patent claims methods of treating hematologic cancer associated with the undesired presence of CD38-positive cells by administering antibodies that bind to a specific region of the target molecule, CD38. In a hearing that took place on February 6, 2017 the District Court granted MorphoSys's request to add the 9,200,061 patent to the case.

Also in February 2017, MorphoSys announced that its fully owned subsidiary Lanthio Pharma B.V., Groningen, Netherlands, has initiated a phase 1 clinical study with MOR107. MOR107, a selective agonist of the angiotensin II receptor type 2, is a lanthipeptide based on Lanthio Pharma's proprietary technology platform and the first lanthipeptide in MorphoSys's clinical pipeline. The goal of the trial is to evaluate safety, tolerability, pharmacokinetics and pharmacodynamics in healthy male volunteers.

In March 2017, MorphoSys announced that its partner Roche plans to initiate a new pivotal phase 3 program with gantenerumab in patients with prodromal to mild Alzheimer's disease. Gantenerumab is a monoclonal antibody directed against beta amyloid based on MorphoSys's HuCAL antibody library. MorphoSys was informed that Roche intends to commence preparations for two studies and that Roche expects to start the trials later in 2017.

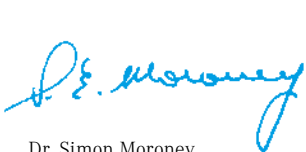
Also in March 2017, MorphoSys announced that its licensee Janssen has reported positive results from two phase 3 clinical studies examining guselkumab, a fully human antibody directed against IL-23 identified from MorphoSys's HuCAL antibody library, in patients with moderate to severe plaque psoriasis. Janssen has announced to present the data from its VOYAGE 2 and NAVIGATE studies at the American Academy of Dermatology (AAD) 2017 annual meeting in Orlando, Florida/USA, from March 3-7, 2017.

Apart from that, no events occurred after the reporting date of December 31, 2016 that require reporting.

8.6 RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the group management report provides a fair review of the development and performance of the business and the position of the Group together with a description of the principal opportunities and risks associated with the Group's expected development.

Planegg, March 6, 2017



Dr. Simon Moroney
Chief Executive Officer



Jens Holstein
Chief Financial Officer



Dr. Malte Peters
Chief Development Officer



Dr. Marlies Sproll
Chief Scientific Officer