

Corporate Governance

The term “corporate governance” can be understood as the legal and factual framework for responsible company management and supervision aimed at generating long-term added value. The essence of good corporate governance involves efficient cooperation between the Management and Supervisory Boards, respect for shareholders’ interests, as well as openness and transparency of corporate communication to the public.

MorphoSys welcomed the German Corporate Governance Code, first published in February 2002 by the independent Government Commission. Prior to the promulgation of this code, the Management and Supervisory Boards of MorphoSys had voluntarily approved the Company’s own corporate governance guidelines in September 2001. In doing so, MorphoSys became a pioneer in the German biotechnology sector in terms of corporate governance. In 2002, the Company’s guidelines were newly adapted to the recently issued German Corporate Governance Code. Looking ahead, MorphoSys will now adhere to the Code published by the Government Commission in lieu of a Company-specific code.

The declaration of conformity is available on the corporate website www.morphosys.com—Investors—Corporate Governance.

In December 2003, the Management and Supervisory Boards of MorphoSys submitted their declaration of conformity with the recommendations of the Government Commission German Corporate Governance Code in accordance with Article 161 of the German Stock Corporation Act. MorphoSys fully conforms with the supplemental code version of July 2003, save two exceptions. This declaration was published on December 22, 2003 on the Company’s website (see also declaration of conformity, page 131 of this report).

As an expression of its commitment to corporate governance, the Company introduced a **code of ethics** for its senior managers. The code is directed at all members of the Management Board and directors, as well as for all managers responsible for finance, controlling and accounting at the Company. Financial managers have an especially important and distinctive role to play within a company’s corporate governance, as it is they who must be authorized to prevent financial misconduct and to ensure that the accounts are fairly and accurately represented to the public.

Management Board and Supervisory Board

In the Management Board and Supervisory Board, MorphoSys has a divided management and supervisory structure in accordance with the German Stock Corporation Act.

Management Board

The Management Board of MorphoSys AG is comprised of three members and has a Chairman, who is the Chief Executive Officer. The Management Board is responsible for independently managing the enterprise and is obliged to act in the enterprise's best interests. Moreover, the Management Board is responsible for developing the Company's strategy, appointing persons to key posts within the Company, planning the Company budget, and supervising general Company management.

The Management Board and Supervisory Board cooperate closely to the benefit of the enterprise. An intensive, continual dialog between the two Boards is the basis for efficient corporate management. The Management Board informs the Supervisory Board regularly, without delay and comprehensively, of all issues important to the enterprise with regard to planning, business development, risk situation and risk management. The Company's strategy is developed in close consultation with the Supervisory Board. For more operational Management Board decisions, such as the annual budget plan or larger-scale investment plans, Management Board regulations specify which actions require approval by the Supervisory Board. In these regulations, the Management Board's information and reporting duties are also specified.

Supervisory Board

The Supervisory Board is comprised of six members, all of whom represent the Company's shareholders. The Supervisory Board supervises and advises the Management Board in the management of the enterprise. The Supervisory Board regularly discusses business development and planning as well as strategy and its implementation with the Management Board.

Members of the MorphoSys Supervisory Board should be no older than 75. No former members of the MorphoSys AG Management Board are members of the Supervisory Board. All members of the Supervisory Board have many years of experience in the pharmaceutical and biotechnology industry and have been duly elected at the General Meeting by the shareholders. All members have term durations until the ordinary Shareholders' meeting of 2004, except two members who have terms until the ordinary Shareholders' meeting of 2006.

The Supervisory Board of MorphoSys AG has formed two committees, the Remuneration/Nomination Committee and the Audit Committee. The **Remuneration/Nomination Committee** makes proposals on the appointment of Management Board members and other senior management, and also negotiates the conditions of employment and compensation for the Management Board. The **Audit Committee's** duties include assisting the full Supervisory Board in the approval of the annual financial statements and the consolidated financial statements. The Committee also commissions the auditor to carry out the audit, specifies the main focus of the audit, determines the audit fee, and checks the independent status of the auditor. The Audit Committee's other duties are codified in a Company Audit Committee Charter.

Compensation of the Management Board and Supervisory Board

Management Board Compensation

The compensation of a management board depends on the size and international activity of the enterprise and its economic and financial situation, as well as on the level of compensation in comparable companies, both in Germany and abroad. The appropriateness of the Management Board compensation at MorphoSys is subject to an annual review and is compared with the results of the Annual German Biotechnology Industry Remuneration Study (GRS Study).

The compensation of members of the Management Board has a performance-related element and is comprised of both fixed and variable components.

Company goals, such as the achievement of particular revenue levels or strategic targets, are specified by the Supervisory Board together with the Management Board at the beginning of the fiscal year, and are one basis for assessing achievement of the variable component of each member's compensation. Additionally, each year personal targets each year are also agreed between the individual members of the Management Board and the Supervisory Board. At the end of each fiscal year, the Supervisory Board evaluates and assesses the goals and specifies the bonus, or variable compensation component, for the members of the Management Board.

Additionally, members of the Management Board take part in a stock option and/or convertible bond program. Such programs are approved by the Annual Shareholders' Assembly, while the amount allocated to the Management Board is specified by the Supervisory Board. No restriction on the gain arising from stock options has been agreed for these programs.

For the 2003 fiscal year, the compensation of the Management Board amounted to a total of € 1,078,934. The compensation is disclosed for each individual member of the Management Board, subdivided into fixed, variable and other compensation.

in €	Fixed compensation	Variable compensation	Other compensation	Total compensation in 2003
Dr. Simon Moroney	212,100	94,500	60,261	366,861
Dave Lemus	166,650	57,750	140,145	364,545
Dr. Thomas von Rüden	192,136	80,530	74,862	347,528

Supervisory Board Compensation

In the 2003 fiscal year, the members of the Supervisory Board received a total of € 174,117, which was in accordance with the Annual Shareholders' Assembly proposal in June 2003. This amount is composed of fixed compensation, attendance fees and travel expense reimbursement. According to the resolution of the General Meeting, the Chairman of the Supervisory Board receives a fixed compensation of € 22,000 and the other members of the Supervisory Board each receive € 12,000. In addition, the Chairman of the Supervisory Board receives a sum of € 3,000 for each meeting he chairs and the other members of the Supervisory Board receive € 1,500 for each meeting they attend. Additionally, the Chairman of each Supervisory Board Committee receives a sum of € 3,000; other committee members receive a sum of € 1,500.

in €	2003
Dr. Gerald Möller (Chairman)	47,427
Prof. Jürgen Drews (Deputy Chairman)	25,963
Dr. Daniel Camus	22,624
Prof. Andreas Plückthun	25,770
Dr. Jörg Reinhardt	23,888
Geoffrey N. Vernon	28,445

No consulting contracts with the Supervisory Board are currently in place.

In the context of their performance-related compensation, the members of the Supervisory Board also take part in the convertible bond program of MorphoSys AG. On the basis of the General Meeting resolution in June 2003, members of the Supervisory Board became entitled to subscribe for convertible bonds. The Chairman of the Supervisory Board was entitled to receive 2,500 non-interest-bearing convertible bonds, the Deputy Chairman 2,000 bonds and the other members 1,500 bonds.

During the reporting year, no members of the Management Board or the Supervisory Board were granted Company loans.

Stock Option and Convertible Bond Plans

The present stock option plan was adopted by the Shareholders' assembly of MorphoSys AG on June 6, 2002. A general description of the various programs in place can be found in the Notes to the consolidated Financial Statements.

In the 2003 fiscal year, 36,000 stock options and 46,000 convertible bonds were issued to the Management Board. A total of 8,500 convertible bonds were issued to the Supervisory Board.

Stock options grants to the Management Board in fiscal year 2003:

Member of the Management Board	Number of options	Exercise price	Expiry date	Potential realizable value at expiry date at assumed annual rates of stock price appreciation for option terms*	
				5%	10%
Dr. Simon Moroney	22,000	€ 10.88	01/07/2008	€ 66,131	€ 146,132
Dave Lemus	-	-	-	-	-
Dr. Thomas von Rüden	14,000	€ 10.88	01/07/2008	€ 42,083	€ 92,993

*Based on the exercise price

Convertible bonds grants to the Management Board in fiscal year 2003:

Member of the Management Board	Number of options	Exercise price	Expiry date	Potential realizable value at expiry date at assumed annual rates of stock price appreciation for convertible bond terms*	
				5%	10%
Dr. Simon Moroney	12,000	€ 11.69	31/12/2005	€ 18,198	€ 37,744
Dave Lemus	24,000	€ 10.88-€ 11.69	31/12/2005	€ 34,925	€ 72,436
Dr. Thomas von Rüden	10,000	€ 11.69	31/12/2005	€ 15,165	€ 31,453

*Based on the exercise price

Risk Management

Responsible management of corporate risks is a key element of good corporate governance. MorphoSys has implemented a risk management system in order to identify risks at an early stage. The risk management system of MorphoSys is audited annually by the auditors. MorphoSys makes adaptations to the system each year as necessary in order to adjust the system to changing conditions. Further details can be found in the Risk Report on pages 79–81 of this report.

Fair and Open Disclosure

One of the most important aims of corporate communication at MorphoSys is to provide all shareholders and capital market participants with open and prompt information. MorphoSys reports to its shareholders on predefined dates four times in the course of the fiscal year. Quarterly reports are made available within 30 days, and annual financial statements within 60 days. The aim to provide the same information to all target groups at the same time is a high priority in this respect. MorphoSys uses its own Company website in order to provide current information promptly and directly to all shareholders and interested parties. In addition to the legally required ad hoc announcements, all major events within the Company are announced via press releases. All publications are also written and published in German and English. Moreover, the Company offers all interested parties the opportunity to be added to the Company's mailing list.