

Supervisory Board Report

In fiscal year 2003, the MorphoSys AG Supervisory Board carried out all its tasks and monitoring functions assigned to it by law and statute. In this capacity, the Supervisory Board advised and supervised the Management Board throughout the year. As part of its duties, the Management Board regularly informed the members of the Supervisory Board in both written and oral reports about the financial status and corporate developments of the Company, important Company transactions, and the strategic planning of the Company.

Supervisory Board Meetings and Committees

A total of seven Supervisory Board meetings were held during the year. In addition to these meetings, the Supervisory Board was promptly informed by the Management Board of all significant corporate events. Moreover the Chairman of the Supervisory and Management Boards maintained regular contact during the year, either by telephone or in personal discussions.

All events presented to the Supervisory Board were discussed in depth with the Management Board. In 2003, the main focus was on:

- Strategic planning, including the multiyear business plan
- The Company's own product development projects
- The annual budget for 2004
- Mergers and acquisitions

During the fiscal year 2003, two different committees were in existence: the Audit Committee and the Remuneration/Nomination Committee. The composition of the committees can be found on page 134. The Audit Committee met a total of four times during the year, and the Remuneration/Nomination Committee met once in 2003.

At the ordinary General Meeting on May 16, 2003, Prof. Jürgen Drews and Prof. Andreas Plückthun were reelected as members of the Supervisory Board. Both have many years of experience in the pharmaceutical and biotechnology industry as well as in the field of antibody technology. We are very pleased to have the continued support of both members and the benefit of their experience.

Corporate Governance and Declaration of Conformity

In the 2003 fiscal year, the Supervisory Board concerned itself with the implementation of the German Corporate Governance Code. Both the Management Board and the Supervisory Board consider themselves bound by the principles of good corporate governance. In accordance with item 3.10 of the German Corporate Governance Code, the Management Board also reports on Corporate Governance for the Supervisory Board on pages 48–53 of this Annual Report.

In December 2003, the Management Board and the Supervisory Board issued an updated declaration of conformity in accordance with Article 161 of the German Stock Corporation Act (AktG), which was promptly made available to shareholders on the Company's website. Save two exceptions, MorphoSys AG complies with all recommendations of the Government Commission German of the Corporate Governance Code valid at year-end.

Audit of the Annual Financial Statements

The auditor chosen at the 2003 ordinary General Meeting and appointed by the Audit Committee, Ernst & Young Deutsche Allgemeine Treuhand AG, Munich, audited the MorphoSys Group's annual financial statements and notes thereto, the Company's management report, the annual financial statements and notes to the annual financial statements of MorphoSys AG according to HGB (German accounting standards), and the Company's systems for internal control. The consolidated financial statements were audited according to German and U.S. standards. The auditors confirmed that the annual financial statements are an accurate and fair reflection of the financial situation, the results of business activity and the Group's cash flow for the fiscal year in accordance with U.S. GAAP. The auditors awarded an unqualified audit opinion. The consolidated financial statements according to U.S. GAAP were supplemented by a Group management report and further notes in accordance with Article 292a of the German Commercial Code (HGB). The submitted U.S. GAAP consolidated financial statements exempted the Company from the obligation to produce consolidated statements according to German law. This exemption was confirmed by the auditors.

The Management Board submitted the financial statements described above promptly and prior to the relevant Supervisory Board meeting. The annual financial statements were discussed in depth at the Supervisory Board meeting on February 20, 2004. The Company's auditors attended the Supervisory Board meeting, reported on the audit and fielded all questions from the Supervisory Board. Following the Supervisory Board's review of the annual financial statements and the recommendation of the Audit Committee, the Supervisory Board accepted the auditor's report and conclusions in accordance with Article 172 of the German Stock Corporation Act (AktG). After its final review, the Supervisory Board approved the financial statements without objection or amendments.

On behalf of my colleagues on the Supervisory Board, I would like to thank you, the Management Board and all employees, for your tireless commitment to the Company during the 2003 fiscal year.

Martinsried/Planegg, February 2004



Dr. Gerald Möller
Chairman of the Supervisory Board