

## Corporate Governance and Remuneration Report

**MorphoSys considers good corporate governance to be a foundation for strengthening investor confidence in the Company. There were no changes to the German Corporate Governance Code in 2004. However, there are a large number of legislative initiatives being discussed, which could have an impact on corporate governance in and outside of Germany. Moreover, as a result of the internationalization of capital markets, internal control and capital market transparency requirements have increased.**

Traditionally, corporate governance has enjoyed a very high priority at MorphoSys. MorphoSys closely orients its own internal policies to the German Corporate Governance Code. During the course of each year, one of the Management Board members is responsible for monitoring compliance with the code and identifying any deviations from the recommendations. In the event of deviation, the declaration of conformity is adjusted accordingly.



June 2004:  
MorphoSys awarded for Corporate Governance excellence

### Corporate Governance Award

During the year 2004, in a comparative study into corporate governance practice in German companies listed on the stock exchange, MorphoSys AG achieved first place among all small and mid-cap companies. Moreover, MorphoSys was the only small and mid-cap from the Prime All Share index to be awarded the rating “exemplary.” MorphoSys achieved fifth place in the overall assessment. The study covered all companies from the DAX, MDAX, TecDAX and SDAX as well as a further 80 German companies not included in any recognized stock exchange index of the Deutsche Börse. In making its choice, the Cologne-based company ergo Unternehmenskommunikation assessed a variety of factors, including the declarations of conformity, company annual reports and websites of more than 229 companies.

## Declaration of Conformity

In December 2004, the Management and Supervisory Boards of MorphoSys AG 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 complies with the supplemental version of the German Corporate Governance Code of May 2003, with the exception of two points relating to binding recommendations.

The declaration of conformity was resolved by the Management Board and Supervisory Board and published on the Company's website in December 2004 (see also declaration of conformity, page 125 of this report).

In addition to the binding recommendations of the Code, MorphoSys will implement all non-binding suggestions of the German Corporate Governance Code in 2005 with one exception. More specifically, the MorphoSys AG Annual Shareholders' Meeting will not be broadcast online (2.3.4), as the legal basis for such a broadcast must be resolved at the next Annual Shareholders' Meeting in 2005.

## Management and Control Structures

MorphoSys is subject to the German Stock Corporation Act. With the Management Board and Supervisory Board as company organs, MorphoSys has a dual management and supervisory board structure.

### Management Board

The Management Board of MorphoSys AG is composed of two members and has a Chairman. Since the departure of Dr. Thomas von Rüden in September 2004, the position on the Management Board for research and development has been vacant. In the interim, the duties entailed in this position have been distributed between the two other members of the Management Board.

### Supervisory Board

The Supervisory Board is comprised of six members, all of whom represent the Company's shareholders. All Supervisory Board members have many years of experience in the biotechnology and pharmaceutical industry and are duly elected by the shareholders at the Company's Annual Shareholders' Meeting. Dr. Gerald Möller, Dr. Daniel Camus and Dr. Geoffrey N. Vernon were re-elected during the 2004 Annual Shareholders' Meeting. Dr. Metin Colpan was elected to the Supervisory Board to replace outgoing member Dr. Jörg Reinhardt. All members have terms of office until the end of the 2008 Annual Shareholders' Meeting, save Prof. Jürgen Drews and Prof. Andreas Plückthun, whose terms end after the 2006 Annual Shareholders' Meeting.

The Supervisory Board of MorphoSys AG presently has two subcommittees, the **Remuneration/Nomination Committee** and the **Audit Committee**. The Remuneration/Nomination Committee makes proposals on the appointment of Management Board members and negotiates Management Board contracts and also approves bonus payments, salary adjustments, etc. The Chairman of this Committee is Dr. Gerald Möller, Chairman of the Supervisory Board. Other members include Dr. Metin Colpan and Prof. Jürgen Drews. The Remuneration/Nomination Committee met twice in 2004. The Audit Committee comprises two members, Dr. Geoffrey N. Vernon as Chairman and Dr. Daniel Camus. The Audit Committee's duties are codified in a Company Audit Committee Charter. The Audit Committee met eight times in the past fiscal year.

During 2004, the Supervisory Board also monitored the efficiency of its work using a systematic and documented methodology.

## Remuneration Report

### Management Board Remuneration

The remuneration of the Management Board is performance-based and comprises a fixed and a variable component. The appropriateness of the Management Board's remuneration is subject to an annual review and is compared to the results of the Annual German Biotechnology Industry Remuneration Study (GRS Study) and other, more international benchmarking sources.

Company goals, such as the achievement of financial or strategic targets, are specified by the Supervisory Board together with the Management Board at the beginning of each fiscal year. Achieving these goals forms in part a basis for assessing achievement of the variable component of each member's remuneration. Furthermore, each Management Board member's personal targets are set at the beginning of each year. At the end of each year, the Supervisory Board evaluates the level of attainment of these goals, which then comprises the remaining variable remuneration component of compensation. More specifically, half of the variable bonus compensation depends on the extent to which the Company goals have been reached; the other half depends on the extent to which personal goals have been reached.

Additionally, members of the Management Board participate in a stock option and/or convertible bonds program. The Annual Shareholders' Meeting approves such programs, while the Supervisory Board specifies the amount allocated to the Management Board.

The remuneration is disclosed for each individual member of the Management Board divided into fixed, variable and other compensation. For the 2004 fiscal year, the remuneration of the Management Board amounted to a total of € 954,741 (2003: € 1,078,934). For individual disclosure of the compensation of the Management Board please see page 107.

### Supervisory Board Remuneration

In the 2004 fiscal year, the members of the Supervisory Board received a total of € 169,500 excluding reimbursements of travel expenses (2003: € 152,500), which was in accordance with the Annual Shareholders' Meeting resolution of May 11, 2004. This amount is composed of fixed remuneration and attendance fees. For individual disclosure of the compensation of the Supervisory Board please see page 107.

The German Corporate Governance Code proposes that remuneration for the Supervisory Board should include components based on the long-term success of the Company. In previous years, the members of the Supervisory Board of MorphoSys AG participated in a convertible bonds program approved by shareholders at the Company's Annual Shareholders' Meeting. A verdict from the Federal Supreme Court in 2004 raised legal doubts on the appropriateness of such options and convertible bonds programs for Supervisory Board members in Germany. For this reason, the Company shall replace the convertible bonds program with a new success- and revenue-related compensation program in the form of a phantom stock program at the next Annual Shareholders' Meeting.

In the past fiscal year, no consultancy contracts were concluded with members of the Supervisory Board. Furthermore, no members of the Management Board or Supervisory Board were granted company loans.

### Stock Options and Convertible Bonds Plans

The present stock options and convertible bonds plans were adopted by the MorphoSys AG Annual Shareholders' Meeting on June 6, 2002. A general description of the various programs in place can be found in the notes to the consolidated financial statements (page 92 and following pages). The table below represents the potential value attached with the granting of options and convertible bonds to the Management Board in 2004:

Member of Management Board	Number of Convertible Bonds	Conversion Price	Expiry Date	Potential Value of the Convertible Bond Given a 5% Increase in the Share Price*	Potential Value of the Convertible Bond Given a 10% Increase in the Share Price*
Dr. Simon E. Moroney	7,474	€ 38.40	12/31/2006	€ 26,946	€ 57,557
Dave Lemus	6,228	€ 38.40	12/31/2006	€ 22,453	€ 47,962

\* Based on the MorphoSys share price on December 31, 2004