

Corporate Governance Report

Corporate governance is the basis of all decision and control processes at MorphoSys, and has therefore traditionally played an important role within the Company. The term “corporate governance” stands for the responsible management and control of companies geared toward creating long-term added value. Efficient collaboration between Management Board and Supervisory Board, respect for shareholders’ interests, openness and transparency are the major aspects of corporate governance and at the same time the foundation of company management at MorphoSys.

German Corporate Governance Code

The German Corporate Governance Code (DCGK) includes major legal regulations on the management and monitoring of German listed companies (company management) and defines internationally and nationally recognized standards for good, responsible management. The Code is intended to strengthen the confidence of international and national investors, customers, employees and the public in the management and monitoring of publicly listed German companies.

Conformity with the DCGK

In 2005, the Government Commission made several changes to the DCGK. MorphoSys has since adapted its internal standards to the new regulations where required. To ensure that all the requirements of the Corporate Governance Code are fulfilled at all times, a member of the Management Board monitors compliance with the Code during the course of each year and identifies any deviations from the recommendations. In the event of a deviation, the declaration of conformity is adjusted accordingly. There was no need for an adjustment during fiscal year 2005.

No conflicts of interest occurred with the Management Board or Supervisory Board.

MorphoSys AG complies with and will also comply in future with the recommendations of the German Corporate Governance Code as amended on June 2, 2005, with two exceptions only.

Moreover, MorphoSys fully complies with all suggestions (discretionary provisions) of the German Corporate Governance Code on a voluntary basis.

Declaration of Conformity

The following declaration of conformity, together with those from previous years, has been made permanently available to the public on the Company's website.

At the meeting on December 21, 2005, the Management Board and the Supervisory Board approved the following declaration of conformity with regard to the German Corporate Governance Code in the 2005 fiscal year and pursuant to sec. 161 of the German Stock Corporation Act (AktG):

MorphoSys AG complies and will comply with all recommendations of the German Corporate Governance Code—in the version of June 2, 2005—with the following exceptions:

- The stock option program for the Board of Management does not provide a cap for unforeseen developments within the meaning of Code sec. 4.2.3, since the reasonableness of the amount of stock options for the Board of Management has already been considered at the time of the grant.
- Although it does not correspond to international practice to provide a deductible within the meaning of Code sec. 3.8, para. 2, the present D & O insurance policy includes such a deductible for Management and Supervisory Board members, the magnitude of which, however, may be at a level which does not comply with the requirements of the German Corporate Governance Code.

With these two exceptions, MorphoSys AG has also complied with the recommendations of the German Corporate Governance Code in the time period since its Declaration of Compliance of December 2004.

Martinsried/Planegg, December 21, 2005
MorphoSys AG

For the Management Board:

Dr. Simon E. Moroney	Mr. Dave Lemus	Dr. Marlies Sproll
Chief Executive Officer	Chief Financial Officer	Chief Scientific Officer

For the Supervisory Board:

Dr. Gerald Möller
Chairman

Management Board

The Management Board of MorphoSys AG presently comprises three members and has a Chairman. On November 1, 2005, Dr. Marlies Sproll was appointed as Chief Scientific Officer. Dr. Sproll is responsible for the research and development departments and for the management of existing partnerships. She has over 15 years' experience in antibody research and development, the validation of target molecules and in the pre-clinical and clinical development of biotechnological drugs. Previous to her appointment to the Management Board, Dr. Sproll was Senior Vice President R&D at MorphoSys.

Terms of reference regulate the allocation of areas of responsibility and the cooperation within the Management Board.

As in previous years, the remuneration of the Management Board will be published individually. Please refer to the Remuneration Report on pages 126–127 and the Notes to the Consolidated Financial Statements on page 108.

Supervisory Board

The Supervisory Board of MorphoSys AG comprises six members, who together represent the Company's shareholders. It is not codetermined according to the German Codetermination Act. The Chairman of the Supervisory Board Dr. Gerald Möller coordinates the work of the Supervisory Board, chairs its meetings and represents the Board's concerns externally. All members of the Supervisory Board are independent and have many years of experience in the biotechnology and pharmaceutical industry. They are duly elected by the shareholders at the Annual Shareholders' Meeting. The Chairman of the Supervisory Board is a former Chairman of the Management Board of MorphoSys AG.

All three committees of the Supervisory Board consist of professionally qualified members. The Audit Committee comprises two members, Dr. Geoffrey N. Vernon (Chairman), Executive Chairman, Ziggus Holdings Ltd., and Dr. Daniel Camus, Chief Financial Officer at Electricité de France. As Chairman of the Supervisory Board, Dr. Gerald Möller is also Chairman of the Remuneration & Nomination Committee. Further members of the Remuneration & Nomination Committee are Prof. Dr. Jürgen Drews and Dr. Metin Colpan. The Science & Technology Committee comprises three members with Prof. Dr. Andreas Plückthun as Chairman, Prof. Dr. Jürgen Drews and Dr. Metin Colpan.

The Supervisory Board has issued terms of reference.

Efficiency Assessment of the Supervisory Board

The Supervisory Board of MorphoSys AG assesses its efficiency at least once a year. In 2005, this was performed at the meeting in May 2005. All members of the Supervisory Board took part in the exercise. The efficiency assessment was performed using a detailed questionnaire.

The Supervisory Board came to the unanimous decision that the cooperation is very efficient and trustworthy. The number and composition of committees and the cooperation between the individual members of the Supervisory Board and the Management Board received top marks. Individual proposals for improvement were discussed by the entire Supervisory Board and will be implemented.

The Supervisory Board intends to assess its efficiency on an annual basis.

As in previous years, the remuneration of the Supervisory Board will be published individually. Please refer to the Remuneration Report on page 127 and the Notes to the Consolidated Financial Statements on page 108.

Directors' Holdings

The ownership of shares in the Company or related financial instruments by the Management and Supervisory Board members exceeds 1 % of the shares issued by the Company. For the disclosure of Company stocks held or financial instruments relating to them, please refer to section 22 of the Notes to the Consolidated Financial Statements. This list separately shows all the stocks, stock options and convertible bonds held by each member of the Management and Supervisory Boards.

Directors' Dealings

The purchase or sale of Company stocks or derivatives on Company stocks by Management Board or Supervisory Board members is reported immediately in accordance with the requirements of the German Securities Trading Act (WpHG) and the DCGK. In the 2005 fiscal year, the following transactions were executed and reported to MorphoSys AG (in alphabetical order):

Member of Management/ Supervisory Board	Function	Date of Transaction in 2005	Type of Transaction	Share Price	Number of Stocks/ Derivatives
Dr. Daniel Camus	Member of the Supervisory Board	Nov. 2	Sale ¹	€ 37.77	1,500
Mr. Dave Lemus	Chief Financial Officer	Feb. 15–17	Sale ¹	€ 42.12–42.80	24,000
Mr. Dave Lemus	Chief Financial Officer	Jul. 1	Issue of stock options ²	-	27,000
Mrs. Suzel Lemus	Spouse of Chief Financial Officer	Feb. 14	Sale	€ 44.01	3,400
Dr. Gerald Möller	Chairman of the Supervisory Board	Nov. 2	Sale ¹	€ 37.55	2,500
Dr. Simon E. Moroney	Chief Executive Officer	Apr. 13	Securities loan ³	-	72,953
Dr. Simon E. Moroney	Chief Executive Officer	Jul. 1	Issue of stock options ²	-	36,000
Dr. Simon E. Moroney	Chief Executive Officer	Nov. 2	Sale ¹	€ 36.00	12,000
Simon E. Moroney Vermögensverwaltung GmbH	Entity controlled by Dr. Simon E. Moroney	Dec. 15	Sale	€ 39.57	113,461
Dr. Simon E. Moroney	Chief Executive Officer	Dec. 15	Purchase	€ 39.57	113,461
Prof. Dr. Andreas Plückthun	Member of the Supervisory Board	Apr. 13	Securities loan ³	-	59,300
Prof. Dr. Andreas Plückthun	Member of the Supervisory Board	Nov. 2	Sale ¹	€ 37.20	1,500
Dr. Geoffrey N. Vernon	Member of the Supervisory Board	Nov. 2	Sale ¹	€ 37.14	1,500

¹ Convertible bonds were converted into MorphoSys shares and subsequently sold (for a detailed description of convertible bond program, please see section 14 of the Notes to the Consolidated Financial Statements)

² On July 1, 2005, 63,000 stock options were issued to the Management Board of MorphoSys AG under the 2002 Employee Stock Option Program

³ In March 2005, WestLB AG entered into share loan agreements with Dr. Simon E. Moroney, Chief Executive Officer of MorphoSys AG, and Prof. Dr. Andreas Plückthun, member of the Supervisory Board of MorphoSys AG. The shares were retransferred on April 13, 2005

Shareholders and Annual Shareholders' Meeting

The Annual Shareholders' Meeting is the decision-making body of our shareholders. It enables the Company's owners to participate in basic decisions affecting MorphoSys. The Annual Shareholders' Meeting usually takes place within the first five months of every fiscal year. The next meeting is scheduled for May 17, 2006, and will take place in Munich. Each share carries one vote.

More than 200 shareholders attended the MorphoSys AG Annual Shareholders' Meeting on May 11, 2005, in Munich. Around 30% of the entire voting stock was represented at the meeting, an increase of 3% over 2004. As in previous years, MorphoSys offered its shareholders the right to transfer proxies to a representative of the Company, which shareholders made use of in increasing numbers. In 2006, there will also be a broadcast of the Annual Shareholders' Meeting on the internet.

The Chairman of the Supervisory Board outlined the salient points of the compensation system and any changes thereto to the audience.

All the resolutions proposed by the Management Board and Supervisory Board were accepted with a large majority. For more information on the 2005 Annual Shareholders' Meeting, and on the Annual Shareholders' Meeting due to take place in 2006, visit the Company's website at www.morphosys.com.

The legal challenge in June 2005 against the resolution of the 2005 Annual Shareholders' Meeting concerning the increase of Conditional Capital III was withdrawn by the shareholders concerned at an oral hearing at Munich District Court I.

Transparency, Reporting and the Audit of the Annual Financial Statements

MorphoSys has adhered to all the regulations of the DCGK on transparency. All relevant information is made available immediately to shareholders and the capital market and is published on the Company's website in German and English. At the end of every fiscal year, MorphoSys publishes a financial calendar for the following reporting year. Quarterly and annual financial statements are published within the short deadlines stipulated by the DCGK. MorphoSys publishes the quarterly reports within 30 days and the annual financial statements within 60 days.

The Annual Shareholders' Meeting appointed KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft as auditors for the 2005 fiscal year. KPMG issued a declaration of independence.

Control and Risk Management

A key component of good corporate governance is the responsible management of business risks. As part of corporate governance, systematic risk management ensures that risks are identified at an early stage and their effects minimized. The existing procedure is constantly being developed and adapted to changing conditions within the enterprise. The risk management system of MorphoSys AG is audited annually by the auditors.