

Supervisory Board Report

MorphoSys has set itself the goal of further expanding its position in the field of human antibodies. The planning and execution of the expanded growth strategy are the main challenges, and in 2005 were the focus of cooperation between the Management Board and the Supervisory Board.



Dr. Gerald Möller
Chairman of the
Supervisory Board

During the 2005 fiscal year, the Management Board of MorphoSys AG informed its Supervisory Board promptly and comprehensively of current developments and the Company's situation. The Management Board also presented periodic written reports to the Supervisory Board concerning the key developments that took place and kept the Supervisory Board permanently informed about the Company's economic development via telephone conferences and e-mails. As Chairman of the Supervisory Board, I was also in direct informal and formal contact with the Chairman of the Management Board, Dr. Moroney, and was actively and timely kept up to date on major issues and important upcoming management decisions.

Supervisory Board Meetings and Committees

The Supervisory Board focused chiefly on the Company's strategic business plan, progress reports for the two operating business units, the annual budget for 2006, corporate governance topics, and mergers and acquisitions opportunities. To the extent that corporate law or the existing Management Board Rules of Procedure require approval for certain actions to be taken by the Management Board, such approvals were given by the Supervisory Board itself or sub-committees.

During the nine Supervisory Board meetings in 2005, we dealt with all key issues relating to the Company's strategy and planning, as well as business development and the financial situation. At the forefront of our discussions were strategic growth initiatives such as the acquisition of the Biogenesis Group and the preparation of the acquisition of the Serotec Group, future M&A strategies and antibody development plans. Further key topics of the meetings were the PIPE transaction in March 2005, the search for a new CSO, the approval of the financial statements, business development issues such as approval for terms and conditions of new collaborations, the appointment of new auditors, the budget for 2006 and the business plan for the years 2006–2010. The activities of the two operational segments of MorphoSys AG, the Therapeutic Antibodies segment and the Research Antibodies segment, were also presented and discussed in detail.

For all Supervisory Board meetings, all members of the Supervisory Board received extensive written reports well in advance of each meeting, which were prepared by the Management Board with the input of the respective departments. These reports were sufficiently comprehensive to analyze the relevant topics of the agenda of the Supervisory Board meetings and to pass the required resolutions; therefore no further controls by the Supervisory Board were necessary. Presently, three different committees exist: the Audit Committee and the Remuneration & Nomination Committee. In December 2005, a Science & Technology Committee was established. The composition of these committees can be found on pages 132–133 of this annual report. The Audit Committee met eight times, dealing mainly with accounting issues, the quarterly financial statements and the annual financial statements. The auditors attended two meetings of the Audit Committee and informed the members of the audit results. The Remuneration & Nomination Committee met four times and concerned itself with topics relating to the remuneration system, the level of compensation for the Management Board, and the new appointment of Dr. Marlies Sproll as Chief Scientific Officer and Member of the Management Board. The Chairmen of the Committees reported to the Supervisory Board plenum on the events and work of the committees.

Changes in the Management Board

On November 1, 2005, Dr. Marlies Sproll was appointed as the new Chief Scientific Officer. Dr. Sproll leads MorphoSys's research and development and alliance management departments. She brings to the job more than 15 years of experience in antibody research and discovery, target validation, and pre-clinical and clinical development of biologicals. Before joining MorphoSys, Dr. Sproll worked for Boehringer Ingelheim in Vienna, Austria, and for Merck KGaA in Darmstadt, Germany. Dr. Sproll has been with MorphoSys since 2000, and was previously Senior Vice President R&D.

Corporate Governance

As stated in the latest declaration of conformity, which was approved by the Management Board and the Supervisory Board on December 21, 2005, the Management Board and the Supervisory Board comply with all except two of the Code's recommendations: the present D&O insurance policy includes 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. Additionally, the stock option program for the Management Board does not provide a cap for unforeseen developments as the appropriateness of these remuneration components was taken into consideration in determining the size of the respective option rights grant. The complete text of the declaration of conformity is provided on page 121 of this report and is also permanently available to shareholders on MorphoSys's website.

On May 11, 2005, the evaluation of the efficiency of the Supervisory Board was conducted. All members of the Supervisory Board took part in the review. Areas for improvement were identified using a detailed questionnaire. The findings were positive with few exceptions and were discussed during the meeting on July 21, 2005. It was noted that the work of the Supervisory Board of MorphoSys AG is already very efficient. The few areas for improvement were discussed and changes implemented.

For more detailed information regarding corporate governance issues, please refer to the corporate governance and remuneration report on pages 120–128 of this annual report.

Audit of the Annual Financial Statements

The Company's independent statutory auditors, chosen at the 2005 Annual Shareholders' Meeting, are KPMG Deutsche Treuhand-Gesellschaft AG. The auditors have audited the MorphoSys Group's consolidated financial statements and annual financial statements as well as the management reports for the Group and MorphoSys AG according to German accounting standards (HGB). Additionally, the Company's system for internal control/risk management was also subjected to audit. The consolidated financial statements were audited according to German and international standards (IFRS). The auditors confirmed that the consolidated annual financial statements are an accurate and fair reflection of the financial situation, the result of business activity, and the Group's cash flow, in accordance with the accounting principles as defined by IFRS. The audit opinion was unqualified for the fiscal year ending 2005. The consolidated financial statements according to IFRS were supplemented by a Group management report and further notes in accordance with article 292a of the German Commercial Code (HGB). The submitted IFRS consolidated financial statements exempted the Company from the obligation to produce consolidated statements according to German law, which was confirmed by the auditors.

The Management Board submitted the financial statements described above prior to the relevant Supervisory Board meeting. The Audit Committee thoroughly examined these documents, and the Supervisory Board also reviewed them. The report by the Audit Committee on the annual financial statements was fully approved by the Supervisory Board. The annual financial statements were discussed in depth at the Supervisory Board meeting on February 20, 2006. The Company's auditors attended the meeting, reported on the audit and answered 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 auditors' report. After its final review, the Supervisory Board approved the financial statements without objection or amendment and thus adopted them in accordance with article 172 of the German Stock Corporation Act (AktG).

On behalf of my colleagues on the Supervisory Board, I wish to thank the Management Board and all the staff, including those in the newly acquired subsidiaries, for their hard work and commitment in the 2005 fiscal year, which has just come to an end.

Martinsried/Planegg, February 2006



Dr. Gerald Möller
Chairman of the Supervisory Board