

## Corporate Governance Report

Corporate governance is most often viewed as both the internal structures and the cooperation between the Management Board and Supervisory Board which determine corporate direction and performance. Responsible corporate governance supports the Company's long-term value creation and strengthens the trust of shareholders, customers, business partners, employees, politics and the public in MorphoSys.

### GERMAN CORPORATE GOVERNANCE CODE



The aim of the German Corporate Governance Code is to make Germany's corporate governance\* rules transparent for both national and international investors, thus strengthening confidence in the management of German corporations. In 2006, the German Corporate Governance Code was amended by resolution of the Government Commission charged with its administration. The revised form affects the relevant provisions of the Management Compensation Disclosure Law (VorstOG) and the effects of the Law on Corporate Integrity and Modernization of the Right of Avoidance (UMAG). These changes mainly involved a more detailed individualized disclosure of management compensation and strengthened the rights of the chairman of the annual general meeting.

### CORPORATE GOVERNANCE ON MORPHOSYS'S WEBSITE



Important information regarding corporate governance can be found on MorphoSys's website: <http://www.morphosys.com>.

#### Declaration of Conformity (including past years)

[http://www.morphosys.com/en/news\\_investors/declaration\\_of\\_conformity-127.html](http://www.morphosys.com/en/news_investors/declaration_of_conformity-127.html)

#### Code of Ethics

[http://www.morphosys.com/en/news\\_investors/corporate\\_governance-119.html](http://www.morphosys.com/en/news_investors/corporate_governance-119.html)

#### Shareholdings and Insider Transactions of the Management and Supervisory Board

[http://www.morphosys.com/en/news\\_investors/directors-124.html](http://www.morphosys.com/en/news_investors/directors-124.html)

—	Market and Strategy
—	Magazine
—	The MorphoSys Share
—	Interview
•	Corporate Governance Report

### CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

Each year, the Management Board and the Supervisory Board of MorphoSys AG submit 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 (AktG). MorphoSys has adapted its internal standards and policies to the amended code as required. Since 2003, MorphoSys publishes an extensive Corporate Governance Report each year, including the disclosure of the compensation of the Management Board and the Supervisory Board in the Remuneration Report.

MorphoSys complies and will comply in the future with the recommendations of the German Corporate Governance Code as amended on June 12, 2006, with two exceptions only (see below). 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 of previous years, has been made permanently available to the public on the Company's website:

At the meeting on December 12, 2006, the Management Board and the Supervisory Board approved the following Declaration of Compliance 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 12, 2006 – with the following exceptions:

- The stock option program for the Management Board 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 Management Board has already been considered at the time of the grant.
- The present D&O insurance policy at MorphoSys AG includes a deductible for Management and Supervisory Board members (Code sec. 3.8, para. 2), 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 2005.

Martinsried/Planegg, December 12, 2006  
MorphoSys AG

Management Board and Supervisory Board

### CODE OF ETHICS



In 2003, MorphoSys introduced a code of ethics directed at the members of the Management Board and those persons responsible for finance, controlling and accounting at the Company. Senior Management and the Company's financial staff have an important and distinctive role within the Company's corporate governance in that these personnel are authorized and entrusted to ensure that accurate financial information is speedily provided to investors.

### DUAL MANAGEMENT AND SUPERVISORY STRUCTURE

As a German stock corporation, MorphoSys has a dual management and supervisory structure. The members of the Management Board are appointed by the Supervisory Board and are responsible for the management of the Company. The Management Board and the Supervisory Board cooperate closely to the benefit of the Company.



The Management Board\* of MorphoSys AG consists of three members and has a chairman. Terms of reference regulate the allocation of areas of responsibility and the cooperation within the Management Board.

- Dr. Simon E. Moroney, Chief Executive Officer, is responsible for the business segment AbD – Antibodies Direct, Business Development, Intellectual Property and Licensing as well as Human Resources.
- Mr. Dave Lemus, Chief Financial Officer, is responsible for Controlling and Accounting, Corporate Development, Treasury, Corporate Legal, Corporate Communications and Investor Relations as well as Technical Operations including IT.
- Dr. Marlies Sproll, Chief Scientific Officer, is responsible for Research and Development as well as Alliance Management.

The Management Board members have no additional mandates in supervisory boards of other publicly listed companies. Dr. Moroney acts as an advisor for Complex Biosystems GmbH, Heidelberg, Germany. Mr. Lemus was elected and serves presently as CEO and Treasurer of the Munich International School. Both positions were approved by the Supervisory Board.



The Supervisory Board\* advises the Management Board and oversees its management activities. Currently, the Supervisory Board consists of six professionally qualified members, representing the Company's shareholders.

The Supervisory Board has a comprehensive monitoring function. To fulfill this duty, three committees were established to prepare the decisions for the Supervisory Board. Suggestions of the committees are reported to the Supervisory Board plenum: decisions are generally made by the Supervisory Board as a whole.

- Market and Strategy
- Magazine
- The MorphoSys Share
- Interview
- Corporate Governance Report

**COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES**

	END OF TERM	MEMBERSHIP IN THE FOLLOWING COMMITTEES		
		AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE	SCIENCE AND TECHNOLOGY COMMITTEE
Dr. Gerald Möller, Chairman	2008		X (Chairman)	
Prof. Dr. Jürgen Drews, Deputy Chairman	2011		X	X
Dr. Daniel Camus	2008	X		
Dr. Metin Colpan	2008		X	X
Prof. Dr. Andreas Plückerthun	2011			X (Chairman)
Dr. Geoffrey N. Vernon	2008	X (Chairman)		

The Supervisory Board has issued terms of reference.

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Information about additional mandates held by members of the Supervisory Board in supervisory bodies of other companies is summarized on pages 146-147. Detailed information on the work of the Supervisory Board is contained under the chapter entitled “Supervisory Board Report” on pages 142-145.

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During the fiscal year 2006, no conflict of interest was reported, either for a member of the Management Board or for a member of the Supervisory Board.

**DIRECTORS' HOLDING**

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The ownership\* of MorphoSys AG shares or related financial instruments by Management Board 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 23 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 Board and the Supervisory Board.

#### DIRECTORS' DEALINGS

In 2006, MorphoSys reported the following sales of the Company's shares pursuant to section 15a of the German Securities Trading Act (WpHG). Each sale of shares listed below was preceded directly by the exercise of stock options/convertible bonds to purchase an identical number of shares.

MEMBER OF THE MANAGEMENT BOARD	FUNCTION	DATE OF TRANSACTION IN 2006	TYPE OF TRANSACTION	SHARE PRICE in €	NUMBER OF STOCKS/ DERIVATIVES
Dr. Simon E. Moroney	CEO	Sept. 25, 2006	Sale	46.18	7,474
Mr. Dave Lemus	CFO	Oct. 12, 2006	Sale	49.26	6,228
Dr. Marlies Sproll	CSO	Aug. 17, 2006	Sale	43.46	3,741

Sales of the above convertible bonds were in conjunction with the scheduled expiration of these bonds at year-end 2006.

#### ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting took place on May 17, 2006, in Munich. Approximately 30% of the entire voting stock was represented at the meeting, comparable with the attendance in 2005. MorphoSys assisted the shareholders in the use of proxies and arranged the appointment of a representative to exercise shareholders' voting rights in accordance with instructions. This representative was also available at any time during the Annual Shareholders' Meeting. For the first time, MorphoSys provided a webcast of the speech of the Management Board online.

#### TRANSPARENCY, REPORTING AND THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Providing transparency and timely information for the shareholders is a high priority for the Management Board and the Supervisory Board. In that vein, MorphoSys set itself the goal of exceeding the regulations of the German Corporate Governance Code and reports its year-end results within 60 days and the quarterly results within 30 days of the end of the respective periods.

MorphoSys strictly ensures that no shareholder receives preferential information – all communications, including with individual investors during one-on-ones or roadshows, provide the same level of information.

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The corporate website plays a central role as an extensive information platform. MorphoSys provides manuscripts of conference calls in German and in English shortly after the completion of the conference calls. Furthermore, MorphoSys informs its stakeholders about the current situation of the Company and about the earnings by the following means (in German and English):

- Press releases
- Quarterly reports
- Telephone conferences after important news releases and after the publication of quarterly results
- Yearly press conference
- IR conferences in and outside of Germany
- Shareholders' newsletter

The Annual Shareholders' Meeting appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as auditor for the 2006 fiscal year. KPMG issued a declaration of independence.