

Supervisory Board Report

In this report the Supervisory Board gives an account of its activities in the 2006 fiscal year and describes the themes of its ongoing dialogue with the Management Board of MorphoSys AG.

During 2006 the Supervisory Board performed the functions for which it is responsible according to statutory provisions and the Articles of Association. The Supervisory Board monitored the conduct of the Company's business and regularly advised the Management Board. We performed these functions on the basis of detailed written and oral reports received from the Management Board, which contained up-to-date and comprehensive information regarding all relevant topics. As Chairman of the Supervisory Board, I maintained personally a regular exchange of information and ideas with the Chief Executive Officer, Dr. Simon E. Moroney. In this way, the Supervisory Board was kept continuously informed about the Company's business strategy, corporate planning (including financial, investment and human resources planning), the earnings performance as well as the state of the business and the situation in the Company and the Group as a whole.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

The Supervisory Board focused chiefly on the Company's strategic multi-year business plan, progress reports for the two operating business units, the annual budget for 2007, 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 its sub-committees after detailed examination and discussion.

Eight regular Supervisory Board meetings were held in fiscal year 2006. The development of revenues, earnings and employment in the Group and both segments, the financial situation and all major investment projects were the subject of regular deliberations at the meetings. The Management Board reported regularly on the progress of the proprietary antibody development and the ongoing technology development efforts. In several meetings we discussed future growth strategies as well as merger and acquisition possibilities. On the basis of detailed documents, provided by external legal and financial consultants and by the internal due diligence team, the Supervisory Board approved the acquisition of the Serotec Group in January 2006. Thereafter, the Management Board kept us informed on the integration status and the further development of the Research Antibodies segment. Further key topics of the meetings were the



Fiscal year 2006 was the most successful year in the history of MorphoSys.

It was marked by a series of important events and decisions, namely the start of clinical trials of a second HuCAL antibody, the execution of several multi-year therapeutic antibody partnerships, and the acquisition of the Serotec Group, which was completed within the first weeks of 2006.

Dr. Gerald Möller
Chairman of the Supervisory Board

PIPE transaction in March 2006, the approval of the financial statements, the appointment of the auditor, the budget for 2007, and the business development issues such as approval for terms and conditions of new collaborations. All term sheet for transactions that were material to the Company were reviewed and approved by the Supervisory Board. At its meetings in October and December 2006, the Supervisory Board considered in detail the operational, financial and balance sheet planning for the years 2008 through 2011.

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.

Between meetings, the Supervisory Board was informed in detail by means of written reports about all projects and plans of particular importance to the Company. Where necessary, resolutions were passed by written vote.

* (P.41)

Presently, three different committees exist: the Audit Committee, the Remuneration & Nomination Committee, and the Science & Technology Committee. The composition of these committees* can be found in the Corporate Governance chapter 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 auditor attended three meetings of the Audit Committee and informed its members of the audit results. The Remuneration & Nomination Committee met one time and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board. The Science & Technology Committee did not meet during the year, but established itself at the end of 2006. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

P.77

With regard to the declarations pursuant to § 315 para. 4 of the German Commercial Code (HGB) we refer to page 77 seq. of the Group Management Report. No additional explanations by the Supervisory Board are necessary or required in this context.

REELECTION OF SUPERVISORY BOARD MEMBERS

At the Ordinary Annual Shareholders' Meeting on May 17, 2006, Prof. Dr. Jürgen Drews and Prof. Dr. Andreas Plückthun were re-elected 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

* P.39

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account the amendments made to the German Corporate Governance Code in June 2006. In December 2006, the Management and Supervisory Boards issued a new Declaration of Conformity*, which is also included in the Corporate Governance chapter of this annual report and is also permanently available to shareholders on MorphoSys's website. As stated in the Declaration of Conformity approved by the Supervisory Board, MorphoSys complies with all but two of the Code's recommendations.

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

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements and the management report of MorphoSys AG in accordance with HGB (German GAAP) and the consolidated financial statements and the Group management report of the MorphoSys Group (MorphoSys AG including its affiliates) on the basis of IFRS in accordance with Art. 315a HGB for the period January 1, 2006, to December 31, 2006, prepared by the Management Board, were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich. The audit contract had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual Shareholders' Meeting on May 17, 2006. The auditor issued an unqualified audit opinion.

The auditors have audited the MorphoSys Group's consolidated financial statements and the annual financial statements of MorphoSys AG as well as the management reports for the Group and MorphoSys AG according to 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 auditor 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 focus of this year's audit of the financial statements and the management report of MorphoSys AG was the structure, implementation and effectiveness of internal controls in the procurement process as well as the structure, implementation and effectiveness of internal controls relating to Counsel Licensing & Intellectual Property and the completeness of accounts payable trade and accruals for outstanding invoices as well as the accurate recognition of the operating revenues. The focus for the 2006 audit of the consolidated financial statements and the Group management report of the MorphoSys Group was the process of preparing the consolidated financial statements, the accuracy of the annual financial statements included in the consolidated financial statements, the capital consolidation, particularly the purchase price allocation for the acquired companies and the determination of deferred taxes.

The audit reports and the financial statement documentations were sent to all Supervisory Board members in good time. The audit report and the financial statements of the consolidated financial statements and the Group management report of the MorphoSys Group were discussed intensively during the Audit Committee Meeting on February 20, 2007, and at the meeting of the Supervisory Board Meeting on February 22, 2007. The audit report and the financial statements and the management report of the MorphoSys AG were the subject of intense discussion at the Audit Committee Meeting on March 9, 2007, and at the meeting of the Supervisory Board Meeting on March 9, 2007. At the respective meetings, the auditor took part in the discussion of the financial statements. He reported on the main results of its audits and was available to the Supervisory Board to answer questions and provide supplementary information. After our final review, the Supervisory Board approved the financial statements without objection or amendment and thus adopted them.

On behalf of my colleagues on the Supervisory Board, I would like to thank the Management Board and the employees of all Group subsidiaries for their dedication and hard work in 2006.

Martinsried/Planegg, March 9, 2007



Dr. Gerald Möller
Chairman of the Supervisory Board