

Supervisory Board Report

During the fiscal year 2007, the Supervisory Board focused intensively on the Company's development and prospects as well as on a number of specific issues such as the strategic partnership with Novartis.

During 2007 the Supervisory Board monitored the conduct of MorphoSys's business and acted in an advisory capacity according to statutory provisions and the Articles of Association. The Supervisory Board was directly involved in all decisions of fundamental significance for the Company.

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. Where the actual course of business deviated from plans and targets, this was explained to us in detail and examined by us on the basis of the documents presented. Outside the Supervisory Board meetings, as the Chairman of the Supervisory Board, I was personally in regular contact with the Management Board and especially with the Chief Executive Officer, Dr. Simon E. Moroney and was kept informed about the current business situation and key business transactions. In this way, the Supervisory Board was kept continuously informed about the Company's intended 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 development and the process of the search for a strategic partner, as successfully concluded in December 2007, which allows the Company to focus even more on

value generation through increased spending for product development, while maintaining its favourable risk/reward profile. Additionally, we discussed the updated multi-year business plan, progress reports for the two operating business units, the annual budget for 2008, 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, e.g. for the capital increase in May 2007 and the strategic collaboration with Novartis in December 2007, such approvals were given by the Supervisory Board itself or its sub-committees after detailed examination and discussion.

Eleven regular Supervisory Board meetings were held in fiscal year 2007. Between meetings, the Executive Board kept us constantly informed about all projects and plans of particular importance to the Company. Where necessary, we passed resolutions by written vote.

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.

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 ordinary meetings.



“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 work, which has contributed to another successful fiscal year for MorphoSys.”

Dr. Gerald Möller, Chairman of the Supervisory Board

The Management Board reported regularly on the progress of the proprietary antibody development and the ongoing technology development efforts, as well as progress made in the process for a strategic partnership. In several meetings we discussed possible deal structures, future corporate strategies as well as merger and acquisition possibilities. Further key topics of the meetings were the capital increase in May 2007, the approval of the financial statements, the appointment of the auditor, the budget for 2008, and the business development issues such as approval for terms and conditions of new collaborations and the in-licensing of the patent portfolio from Dyax. All term sheets for transactions that were material to the Company were reviewed and approved by the Supervisory Board. At its meetings in May to December 2007, the Supervisory Board considered and evaluated in detail the different potential partners for the competitive process that led to the new collaboration with Novartis.

Presently, two different committees exist: the Audit Committee and the Remuneration & Nomination Committee. The composition of these committees can be found in the Corporate Governance chapter of this Annual Report. The Audit Committee met six times, dealing mainly with accounting issues, the quarterly financial statements and the annual financial statements. The auditor attended two meetings of the Audit Committee and informed its members of the audit results. The Remuneration & Nomination Committee met five times and concerned itself with topics relating to the remuneration system and the level of compensation for the Manage-

ment Board. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

ANNUAL SHAREHOLDERS' ASSEMBLY

At the Annual Shareholders' Meeting in May 2007, MorphoSys's shareholders approved a three-for-one stock split with a 99.8% approval rate. Although it represented the clear wish of shareholders as evidenced by the proposal's approval rate, a judge in the Munich commercial register did not register the resolution because of an intermediate issuance of new shares shortly before the Annual Shareholders' Meeting 2007. MorphoSys's notary submitted an appeal to the judge's decision. The respective appellate court, however, followed the opinion that the share split and the various capital increases as resolved in the Ordinary Shareholders' Meeting 2007 could only be registered and therefore become only legally valid if the adjustment of the new share figures (based on the interim capital raising measure) were approved again by the shareholders.

The appellate court did not follow our legal counsel's reasoning, and, consequently, the respective resolutions of the Annual Shareholders' Meeting haven't been registered into the commercial register. As the existing share capitals, prior to such proposed increases, remain in place, the Management decided not to call an extraordinary Shareholders' Assembly for timing and cost reasons, and will therefore register only the non-affected topics of the agenda.

ELECTION OF NEW SUPERVISORY BOARD MEMBERS

During the Annual Shareholders' Meeting 2007, the MorphoSys's shareholders appointed Dr. Walter A. Blättler, formerly Executive Vice President, Science and Technology of ImmunoGen, Inc., to the MorphoSys Supervisory Board. Dr. Blättler replaces Prof. Dr. Andreas Plückthun, Professor of Biochemistry, University of Zurich. Prof. Andreas Plückthun, co-founder and long-standing member of the Supervisory Board of MorphoSys has previously resigned from his office effective at the end of the Annual Shareholders' Meeting in 2007. I would like to take the opportunity, on behalf of the Supervisory Board, to thank Prof. Plückthun for his support and valuable contributions to the successful development of the Company.

CORPORATE GOVERNANCE

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 2007. In the meeting on December 12, 2007, 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.

As a part of an on-going process, the Supervisory Board also questioned the effectiveness of its own work.

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, 2007, to December 31, 2007, 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 16, 2007. 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 2007 audit of the consolidated financial statements and the Group management report of the MorphoSys Group was the process of preparing the consolidated financial statement, the accuracy of the annual financial statements included in the consolidated financial statements, capital consolidation 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 21, 2008 and at the meeting of the Supervisory Board Meeting on February 21, 2008. 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 12, 2008, and at the subsequent meeting of the Supervisory Board Meeting on March 12, 2008. 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 work, which has contributed to another successful fiscal year for MorphoSys.

Martinsried/Planegg, March 12, 2008



Dr. Gerald Möller
Chairman of the Supervisory Board