

Supervisory Board Report

During the fiscal year 2008, the Supervisory Board focused intensively on the Company's proprietary therapeutic antibody drug development plans to accelerate the growth and value of MorphoSys.

Throughout 2008, 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 fundamental, strategic decisions impacting 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. When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented. Outside the Supervisory Board meetings, as the Chairman of the Supervisory Board, I personally continued to be in regular contact with the Management Board and especially with the Chief Executive Officer, Dr. Simon Moroney, and was kept informed about the current business situation and key business transactions. I also took the opportunity to talk directly to members of the senior management group. Thus, 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, which the Supervisory Board felt was particularly important during this time of global financial uncertainty for all industries.

Specifically, the Supervisory Board and management held a meeting with one of the Company's main financial institutions to understand fully the security of the Company's cash position.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

Following the successful establishment of the Company's substantially expanded alliance with Novartis in December 2007, the Supervisory Board focused chiefly on the Company's strategic plan to develop a robust proprietary therapeutic antibody drug pipeline, complementing its partnered therapeutic antibody and AbD Serotec units. In particular, the Supervisory Board approved a strategic plan for the next five years, with proprietary drug development according to this plan intended to contribute heavily to the overall value of the Company over that time. Before approving this plan, which was presented by the Management Board after having been intensively prepared by key Company personnel and external consultants, the Supervisory Board debated the investment requirements, bearing in mind the future free cash flow projections of the partnered therapeutic antibody and the AbD Serotec units, while taking into consideration drug development attrition rates and envisioned out-licensing objectives. We also continuously reviewed progress reports for the operating business units, and assessed merger and/or acquisition opportunities.



“I would like to welcome Dr. Schottelius to the Company and wish him well in this important position, as the Company commits itself to creating value by expanding its proprietary drug pipeline.” Dr. Gerald Möller, Chairman of the Supervisory Board

Seven Supervisory Board meetings were held in fiscal year 2008. 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. No Supervisory Board member was absent from more than one meeting.

The Management Board provided us with 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 contained detailed information on the state of the Company, the development of the business and its financial situation, the personnel situation, development projects and fundamental issues of corporate planning and strategy, and were sufficiently comprehensive to understand the challenges and progress of MorphoSys. These reports were the basis for the analysis of 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 meetings.

The Management Board reported regularly on the progress of the existing partnerships, proprietary antibody development and ongoing technology development efforts.

Two different committees existed in 2008: 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 three meetings of the Audit Committee and informed its members of the audit results. The Remuneration & Nomination Committee met once and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board as well as with the appointment of the Chief Development Officer. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

During 2008, no conflict of interest occurred.



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ANNUAL GENERAL MEETING

At the Annual General Meeting in May 2008, MorphoSys's shareholders approved a three-for-one stock split with a 94.5% majority. Two complaints were filed during the second quarter and, because the Company believed these claims had no merit, the Company filed counterclaims on that basis. Prior to the court reaching any conclusion on the merits, all claims were subsequently withdrawn and the share split was successfully implemented on December 23, 2008.

ELECTION OF NEW CHIEF DEVELOPMENT OFFICER

In December 2008, the Supervisory Board appointed Dr. Arndt Schottelius to the Management Board as Chief Development Officer, underscoring the Company's commitment to strengthening its proprietary antibody drug pipeline. Dr. Schottelius, who joined MorphoSys from Genentech, Inc., South San Francisco, is responsible for coordinating the Group's expanding therapeutic antibody development activities including preclinical and clinical drug development. During his career, he has established a successful track record of advancing therapeutics from late stage research into clinical development as well as directing late-stage clinical development studies for antibodies, mainly in inflammation. I would like to take the opportunity, on behalf of the Supervisory Board, to welcome Dr. Schottelius to the Company and wish him well in this newly created and extremely important position, as the Company commits itself to creating value by expanding its proprietary drug pipeline.

CORPORATE GOVERNANCE

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account any amendments made to the German Corporate Governance Code in June 2008. To ensure continued good governance policies, we retained external counsel to advise us on updates to the laws concerning corporate governance and the role of the Supervisory Board. In the meeting on December 10, 2008, the Management and Supervisory Boards issued a new Declaration of Conformity, which is 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 ongoing process, the Supervisory Board also questioned the effectiveness of its own work, through the use of a written evaluation form, the results of which were openly discussed among the Supervisory Board members.

For more detailed information regarding corporate governance issues, please refer to the [corporate governance*](#) and [remuneration sections*](#) 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 of January 1, 2008, to December 31, 2008, prepared by the Management Board, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich. The

audit contract had been awarded by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 14, 2008. The auditor issued an unqualified audit opinion.

The auditor has 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 an audit. The consolidated financial statements were audited according to German and international reporting 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 for the 2008 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, the determination of deferred taxes and impairment test for the goodwill and for the assets of Poole Real Estate, a subsidiary of MorphoSys AG.

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 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 audit reports and the financial statement documentations were sent to all Supervisory Board members with a sufficient amount of lead time for review. 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 24, 2009, and at the Supervisory Board Meeting on the same day. The audit report and the financial statements and the management report of MorphoSys AG were the subject of detailed discussion at the Audit Committee Meeting on March 11, 2009, and at the subsequent Supervisory Board Meeting on the same day. At the respective meetings, the auditor took part in the discussion of the financial statements. He reported on the main results of his 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 11, 2009



Dr. Gerald Möller
Chairman of the Supervisory Board