



# Supervisory Board Report

The most important topics in 2010 were the development and strengthening of MorphoSys's portfolio of drug candidates and the acquisition of Sloning BioTechnology GmbH. With the in-licensing of Xencor's CD19 antibody, the Company was able to double the number of proprietary clinical programs, and with MOR202 a third program will start clinical development in the first half of 2011. With the acquisition of the private company Sloning BioTechnology GmbH, MorphoSys added a very innovative technology for gene synthesis, a move which supports our ongoing technology advancements and will help to add additional partners to the existing roster of leading pharmaceutical and biotechnology companies. The partnered pipeline showed strong progress with eight new programs entering clinical development – a record for the Company. At the end of 2010, 17 antibody programs were in clinical testing.

## **CONTINUOUS DIALOG WITH THE MANAGEMENT BOARD**

During 2010, the Supervisory Board continued to perform with great care the monitoring and advisory functions for which it is responsible under the law and the Articles of Association. We regularly advised the Management Board on the management of the Company and continuously observed and supervised its conduct of business. The Supervisory Board was intensively involved from an early stage in all decisions of significance for the Company. Together with the Management Board, we determined the Company's strategic approach. In 2010, the majority of our discussions focused on the Company's proprietary therapeutic antibody drug development plans as well as on in-licensing and acquisition opportunities to accelerate the growth and increase the value of MorphoSys.

In the periods between meetings of the full Supervisory Board and the committees, as the Chairman of the Board, I personally maintained 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.

## **SUPERVISORY BOARD MEETINGS AND COMMITTEES**

Eight Supervisory Board meetings were held in the 2010 fiscal year. Between meetings, the Management Board kept us constantly informed about all projects and plans of particular importance to the Company. All events of importance to the Company were discussed in detail by the committees and the Supervisory Board plenum on the basis of reports by the Management Board. 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 of the Company and the Group as a whole.

When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented. The Managing Board regularly provided us with timely and comprehensive information on Company planning and business operations as well as on the strategic development and current state of the Company. Deviations from business plans were explained to us in detail.

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

and the development of its business, its financial situation, the personnel situation, development projects and fundamental issues of corporate planning and strategy. They were sufficiently comprehensive to explain the challenges and progress of MorphoSys. These reports were the basis for the analysis of the relevant topics at the Supervisory Board meetings and for passing the required resolutions.

The Supervisory Board dealt at length with the overall commercial situation of MorphoSys, the development of revenues, earnings, investments and employment in the Group and its three business segments. 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, ongoing technology development efforts and the progress of the AbD Serotec segment.

Three committees deliberated on various aspects of the Company's business in 2010: the Audit Committee, the Remuneration & Nomination Committee, and the Science & Technology Committee. The composition of these committees can be found in the Declaration about Corporate Management on MorphoSys's [website](#)\*. The Audit Committee met seven 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 formally once and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board. The committee members also liaised in the search for a successor to Mr. Dave Lemus as Chief Financial Officer and took part in interviews with candidates. The Science & Technology Committee met six times, focusing on the Company's technology and drug development plans, target selection and start of new development programs, interim results from ongoing studies, and the design of the planned and current clinical trials. Reports on the meetings of the Committees were presented at the plenary sessions of the Supervisory Board.

In 2010, one conflict of interest occurred. In my function as investment advisor at HBM Partners, one of the major investors in Sloning BioTechnology GmbH, I reported a conflict of interest regarding the planned acquisition of Sloning. I did not participate in any discussions regarding the planned acquisition, nor receive any reports or minutes during the due diligence and offer period.

No Supervisory Board member was absent from more than two meetings. With one exception, the committee meetings were fully attended.

## CORPORATE GOVERNANCE AND MANAGEMENT BOARD

### COMPENSATION

The Supervisory Board dealt with the ongoing development of corporate governance at MorphoSys, taking into account amendments made to the German Corporate Governance Code in May 2010. Detailed information on [Corporate Governance](#)\* and the [remuneration system](#)\* can be found on pages 28 – 36 of the Management Report.

On December 22, 2010, 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 four of the Code's recommendations.

### JENS HOLSTEIN TO SUCCEED DAVE LEMUS AS CHIEF

#### FINANCIAL OFFICER

In September 2010, the Company concluded mutual agreements with its Chief Financial Officer, Mr. Dave Lemus, regarding the ending of his more than 13 years of serving as MorphoSys's CFO, and the subsequent seamless transfer of his functions to a successor. On behalf of both the Supervisory Board and the Management Board, I would like to express my heartfelt thanks to Mr. Dave Lemus for his commitment to helping build MorphoSys over the past thirteen years. His contributions have been central in making the company as successful as it is today. We wish him all the very best for the future.

We are very pleased to welcome Mr. Jens Holstein as new Chief Financial Officer, who will be a key member of the Management Board of MorphoSys. Mr. Holstein has an outstanding track record and brings international business experience, which will be important for the Company as it continues its growth as one of Europe's leading biopharmaceutical companies.

### AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements and the management report of MorphoSys AG are in accordance with the 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 sec. 315a of the HGB for the period of January 1, 2010, to December 31, 2010, 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 21, 2010. The auditor issued an unqualified audit opinion.



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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 the MorphoSys AG according to the HGB and German auditing standards. 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 the 2010 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, especially the accounting treatment of the acquisition of Sloning BioTechnology GmbH including the related purchase price allocation, methods of foreign currency translation, determination and impairment test of goodwill, determination of current and deferred taxes, the accuracy of segment reporting as well as the reasonableness of the disclosures regarding future development of the Group in the Group Management Report.

The focus of this year’s audit of the financial statements and the management report of MorphoSys AG was the process of preparing the financial statements, the design, implementation and effectiveness of internal controls in the procurement process as well as the design, implementation and effectiveness of internal controls relating to Counsel Licensing & Intellectual Property, the completeness of trade accounts payable and accruals for outstanding invoices, the accurate recognition of the operating revenues, impairment of financial assets and the reasonableness of the disclosures regarding future development of the Company in the management report.

The audit reports and the financial statement documentation were sent to all Supervisory Board members with a sufficient amount of lead time for review. The audit report as well as the consolidated financial statements and the MorphoSys Group Management Report were intensively discussed at the Audit Committee meeting on February 22, 2011, and at the Supervisory Board meeting on the same day. The audit report as well as the financial statements and the management report of MorphoSys AG were the subject of detailed discussion at the Audit Committee meeting on March 10, 2011, 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. The Supervisory Board has also reviewed the proposal of the Management Board for the use of the 2010 earnings; the Supervisory Board is in accordance with this recommendation.

The Supervisory Board would like to thank the members of the Management Board and the employees of all MorphoSys companies for their great commitment and outstanding achievements over the past fiscal year.

Martinsried/Planegg, March 10, 2011

Dr. Gerald Möller  
Chairman of the Supervisory Board