

Supervisory Board Report

In this report the Supervisory Board describes the performance of its functions and its work during the fiscal year 2011. Its discussions focused on the financial situation of the Group, the progress in the pipeline, investments in its proprietary portfolio and technologies and the strategic perspectives for the Group.

CONTINUOUS DIALOG WITH THE MANAGEMENT BOARD

During 2011, the Supervisory Board performed its duties assigned to it by law, the Company's Articles of Association and its internal Rules of Procedure. We regularly advised the Management Board on the management of the Company and continuously observed and supervised its conduct of business. The Management Board fulfilled its duty to inform and furnished us with regular written and verbal reports containing up-to-date and comprehensive information on all incidents and activities of relevance to the Company, which were prepared by the Management Board with the input of the respective departments. In our committees and in full Supervisory Board meetings we always had the opportunity to critically discuss the reports and resolution proposals of the Management Board and to contribute suggestions. When we had questions about strategic topics impacting the Company, the Management Board provided sufficiently detailed answers on the basis of the documents presented. Deviations from business plans were explained to us in detail. In justified cases resolutions were passed outside meetings by written procedure.

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.

MAIN TOPICS AT THE MEETINGS OF THE SUPERVISORY BOARD IN 2011

The Supervisory Board was intensively involved from an early stage in all decisions of significance for the Company. Decisions were based on the Company's agreed strategy. In 2011, the majority of our

discussions focused on the Company's proprietary drug development plans as well as opportunities to accelerate the growth and increase the value of MorphoSys.

The topics of our regular discussion at the Supervisory Board's plenary meetings were revenue and profit development of MorphoSys, as well as the progress and challenges in the three business segments. The discussions were based on comprehensive documentation provided by the Management Board in advance of each meeting.

We also decided on the compensation of Management Board members for the fiscal year 2011 on the basis of external bench-marking and their achievement of performance-related targets. The appropriateness of the Management Board's compensation was confirmed by an independent remuneration consultant.

On January 30, 2011, the Supervisory Board reviewed and approved an updated financial plan for the business segment AbD Serotec, and discussed the revised revenue recognition of the agreement with Pfizer, which was signed in December 2010.

At our meeting on February 22, 2011, we primarily discussed the Group Management Report and the Financial Statements according to IFRS for the MorphoSys Group as of December 31, 2010. We also discussed and agreed on the key performance indicators for the newly introduced long-term incentive program for the Management Board and the Senior Management Group. We also approved the recommendation for the upcoming Annual Shareholders' Meeting to re-elect Prof. Jürgen Drews for another year as member of the Supervisory Board.

At our meeting on March 10, 2011, we approved the Management Report and the Financial Statements for MorphoSys AG according to German GAAP (HGB) as of December 31, 2010 as well as the agenda for the Annual Shareholders' Meeting on May 19, 2011. We also approved Dave Lemus's resignation from the Management Board as of March 10, 2011, prior to the expiration of his appointment.

At our meeting on May 18, 2011, an external consultant joined the board meeting to discuss the upcoming examination of the efficiency of the Supervisory Board. In addition, we received a presentation on Ylanthia, MorphoSys's latest technology platform.

At our meeting on July 27, 2011, an improved risk management system was presented. We also discussed AbD Serotec's strategy for the commercialization of the Slonomics technology in the industrial biotechnology sector. In addition, the results of the board efficiency examination were discussed. Finally, we updated the responsibilities within the Management Board and the Rules of Procedure.

At our meeting on October 19, 2011, we discussed and approved the budget for the fiscal year 2012. The Management Board also presented an update on the Company's drug discovery activities and strategy.

At our meeting on December 8, 2011, we discussed the possible commercialization strategies of MorphoSys's latest antibody platform Ylanthia. In addition, the results of the latest risk management assessment were presented and we updated the Audit Committee charter. Finally, the Internal Audit results were presented.

In 2011, no conflict of interest occurred.

SUPERVISORY BOARD MEETINGS AND COMMITTEES

In 2011, seven Supervisory Board meetings were held. No Supervisory Board member was absent from more than two meetings. With one exception, the committee meetings were fully attended.

Three committees deliberated on various aspects of the Company's business in 2011: 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 ten times, dealing mainly with accounting issues, the quarterly financial statements and the annual financial statements. The auditor attended four meetings of the Audit Committee and informed its members of the audit results. In addition, the Audit Committee made a recommendation to the Supervisory Board for the Supervisory Board's proposal to the Annual Shareholders' Meeting concerning the election of the independent auditors. The Audit Committee gave in-depth consideration to the appointment of the independent auditors for fiscal 2011 and the transition to the new auditors, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich.

The **Remuneration & Nomination Committee** met formally twice and concerned itself with topics relating to the remuneration system and the level of compensation for the Management Board. The Committee also deliberated on the composition of the Supervisory Board, in particular its diversity, focusing on its internatinality, the range of experience of its members and the representation of women. Based on these discussions, its future composition was also discussed in the Supervisory Board.

The **Science & Technology Committee** met five times, focusing on the Company's technology and drug development plans, target selection and the 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.

The Supervisory Board did not establish any other committees.

CORPORATE GOVERNANCE AND MANAGEMENT BOARD COMPENSATION

The Supervisory Board dealt with corporate governance at MorphoSys, taking into account amendments made to the German Corporate Governance Code in May 2010. Information on [corporate governance at the Company](#) including a detailed report on the level and structure of the compensation paid to the members of the Supervisory and Management Boards is provided on pages 81 - 87 of this Annual Report.

We discussed with the Management Board the Company's compliance with the Code's recommendations and agreed, based on well-founded arguments, to some minor deviations. Based on these deliberations, the boards approved an interim update of the Declaration of Compliance as of March 10, 2011, and the annual Declaration of Compliance as of December 8, 2011. As stated in the Declaration of Compliance, MorphoSys complies with all but four of the Code's rec-



ommendations. The latest version of the [Declaration of Compliance](#) can be found in this report on page 82 and is also permanently available to shareholders on MorphoSys's [website](#).

NEW CHIEF FINANCIAL OFFICER

We were very pleased to welcome Mr. Jens Holstein, who started on May 1, 2011 as the Group's new Chief Financial Officer. He 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

In 2011, the Company commenced work with a new audit firm. The audit contract was awarded to PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich by the Audit Committee of the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 19, 2011.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich, audited the parent-company financial statements for the fiscal year January 1, 2011 to December 31, 2011 prepared by the Management Board in accordance with HGB (German GAAP) rules, and the Management Report of MorphoSys AG. The auditors issued an unqualified audit opinion.

The focus of the 2011 audit of the financial statements and the Management Report of MorphoSys AG was the recoverability of intangible and financial assets, completeness and valuation of other provisions, accounting and disclosure of the long-term incentive share based payment program and revenue recognition including correct cut-off presentation.

The auditors also confirmed that the Management Board has installed an appropriate reporting and monitoring system which is suitable in its design and handling to identify at an early stage developments which could place the continued existence of the Company at risk.

In accordance with § 315 a HGB, the consolidated financial statements of MorphoSys Group for the fiscal year from January 1, 2011 to December 31, 2011 and the Management Report on the Group were prepared on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The consolidated financial statements and the Management Report on the Group were also given an unqualified audit opinion.

The main emphasis of the 2011 audit of the consolidated financial statements and the Management Report of the MorphoSys Group were the audit of the accuracy of the accounting for the new long-term incentive program, the audit of the impairment test on goodwill and intangible assets without an underlying definite useful life according to IAS 36, the audit of calculated current and deferred taxes, the audit of the accuracy regarding group's segment reporting, the audit of completeness and accuracy in Group's notes disclosures and the plausibility check on all prognostic information in the Group's Management Report. On completing its work, the auditor issued an unqualified audit opinion.

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 24, 2012, 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 15, 2012, and at the subsequent Supervisory Board meeting on the same day. 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 also reviewed the proposal of the Management Board for the use of the 2011 earnings and resolved in accordance with their recommendation.

On behalf of the entire Supervisory Board I would like to thank the members of the Management Board and the employees of all MorphoSys companies for their hard work and great commitment over the past fiscal year.

Martinsried, March 15, 2012

Dr. Gerald Möller
Chairman of the Supervisory Board



CROSS-REFERENCE
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ADDITIONAL INFORMATION
WWW.MORPHOSYS.COM