

# Supervisory Board Report

In this report, the Supervisory Board describes the performance of its functions and its work during the 2012 financial year. Its discussions focused on the financial situation of the Group, the progress made in development projects, investments in the proprietary portfolio, and the technologies of the Company and strategic perspectives for the Group.

## CONTINUOUS DIALOG WITH THE MANAGEMENT BOARD

During 2012, the Supervisory Board thoroughly performed the duties assigned to it by law, the 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 matters and activities of significant relevance to the Company. These 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. The Management Board provided sufficiently detailed answers to our questions about strategic topics impacting the Company, and did so on the basis of the documents presented. Deviations from business plans were explained to us in detail. In urgent cases, resolutions were passed outside of scheduled meetings by written procedure or by telephone.

In the periods between meetings of the full Supervisory Board and the committees, the Chairman of the Supervisory Board regularly exchanged information and thoughts with the Management Board, and especially with its Chairman, Dr. Simon Moroney, and was kept informed about the current business situation as well as key business transactions. The Chairman of the Supervisory Board also took the opportunity to talk directly to members of the Senior Management Group.

## MAIN TOPICS AND MEETINGS OF THE SUPERVISORY BOARD IN THE 2012 FINANCIAL YEAR

Ten meetings of the Supervisory Board took place in the 2012 financial year, four of which were conducted by telephone. A further meeting lasting one and a half days took place in September 2012 between the Management Board and the Supervisory Board, dealing exclusively with the future strategic direction of the Company. No Supervisory Board member was absent from more than two meetings.

From an early stage, the Supervisory Board was closely involved in all decisions of significance for the Company. Decisions were based on the Company's agreed strategy. The discussions held and decisions taken by the Supervisory Board were based on comprehensive documentation provided by the Management Board in advance of each meeting.

In the 2012 financial year, the Supervisory Board dealt in particular with the following topics requiring approval, and approved each of these after close examination and discussion within the Supervisory Board plenum:

- Agenda of the 2012 Annual General Meeting;
- Evaluation and update of the Management Board's Rules of Procedure and allocation of duties;
- Extension of the strategic cooperation with Novartis;
- The conclusion of a technology partnership with Lanthio Pharma for a new class of therapeutic peptides, as well as a MorphoSys shareholding in Lanthio Pharma's series A financing round;
- Sale of MorphoSys's Research and Diagnostics division, AbD Serotec, to Bio-Rad;
- Budget for the 2013 financial year

Additionally, we passed a resolution in the Supervisory Board plenum on the remuneration of Management Board members for the period from July 1, 2012, to June 30, 2013, on the basis of external benchmarking, and evaluated the achievement of performance-related targets agreed with the members. We also discussed and agreed the most important performance figures for the Management Board and Senior Management Group's long-term incentive program, as well as the Management Board's individual bonus goals for 2012. The appropriateness of the Management Board's compensation is regularly confirmed by an independent remuneration consultant.

Furthermore, we approved the Group Management Report and consolidated financial statements for the MorphoSys Group, prepared in accordance with IFRS and dated December 31, 2011, and also approved and adopted the Management Report and financial statements for MorphoSys AG, prepared in accordance with the German Commercial Code (HGB) and dated December 31, 2011. In addition, we also approved the Management Board's recommendation for the use of profits for 2011. In this context we also dealt with the 2011 annual report, in particular with the Corporate Governance Report contained therein.

The topics of our regular discussions at the Supervisory Board's plenary meetings were MorphoSys's revenue and profit development as well as financial reports, the progress made in the three business segments, the results and status of the clinical programs for the development of proprietary drugs and continued development strategy, as well as the development of new technologies. Additionally, we discussed the results of the efficiency audit conducted in 2012 on the Supervisory Board's work and evaluated opportunities for improvement. Finally, we regularly kept ourselves informed on risk management and the results of internal audits.

#### **CONFLICTS OF INTEREST IN THE SUPERVISORY BOARD**

In 2012, no conflict of interest occurred.

#### **ACTIVITIES AND MEETINGS OF SUPERVISORY BOARD COMMITTEES**

The Supervisory Board has established a total of three committees, the Audit Committee, the Remuneration & Nomination Committee, and the Science & Technology Committee, for the efficient performance of its functions. These committees prepare the topics that fall within their respective competencies

for the Supervisory Board plenum. At every Supervisory Board meeting, the committee chairpersons report to the Supervisory Board on the work of the committees, and the minutes of the committee meetings are also made available to all Supervisory Board members. The composition of these committees can be found in the "Declaration about Corporate Management" on the Company's website Media & Investors > Corporate Governance > Declaration about Corporate Management. All committee meetings were fully attended.

The Audit Committee met seven times in the 2012 financial year (including twice by telephone). This committee dealt 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. In addition, the Audit Committee made a recommendation to the Supervisory Board for the Supervisory Board's proposal to the Annual General Meeting concerning the election of the independent auditor. The Audit Committee also discussed the award of the audit contract for the 2012 financial year to the auditor. Furthermore, the committee deliberated on investment recommendations from the Management Board, dealt with the Company's risk management system and discussed the results of the risk management audits and the internal audits carried out in the 2012 financial year. Finally, the committee dealt with the sale of MorphoSys's Research and Diagnostics division, AbD Serotec.

For reasons of efficiency, there is a joint Remuneration & Nomination Committee, which covers both areas in its meetings. This committee met four times in the 2012 financial year (including once by telephone), and concerned itself in particular with the remuneration system and the level of remuneration for the Management Board, as well as with the individual bonus goals for the Management Board members. It also discussed the key performance indicators for the Management Board and Senior Management Group's long-term incentive program. The Committee also deliberated on the composition and remuneration of the Supervisory Board in preparation for the requisite new election/reelection of Supervisory Board members, as well as the adjustment of the reimbursement to the Supervisory Board in the 2012 Annual General Meeting. Based on these discussions, the future composition and remuneration of the Supervisory Board was also discussed in the Supervisory Board plenum.

The Science & Technology Committee met eight times in the 2012 financial year (including three times by telephone). This committee dealt primarily with the Company's technology and drug development plans, the selection of target molecules, the start of new development programs, results from ongoing studies (in particular the MOR103 trial) and the design as well as development plans for future and existing clinical trials. In addition, this committee dealt with the technology partnership with Lanthio Pharma for a new class of therapeutic peptides.

The Supervisory Board did not establish any other committees.

#### **CORPORATE GOVERNANCE AND MANAGEMENT BOARD/SUPERVISORY BOARD REMUNERATION**

The Supervisory Board dealt with the evolution of corporate governance at MorphoSys, taking into account amendments made to the German Corporate Governance Code in May 2012 by the Government Commission on the German Corporate Governance Code (hereinafter "Code"). The comprehensive Corporate Governance Report can be viewed on the Company's website under Media & Investors > Corporate Governance. A detailed Remuneration Report for the members of the Supervisory Board and Management Board is part of the approved Management Report and can be found in the annual report on pages 65 to 68.

Together with the Management Board, we discussed the Company's compliance with the Code's recommendations and agreed to a few deviations based on well-founded arguments. Based on these deliberations, the Management Board and Supervisory Board submitted the annual Declaration of Compliance on December 7, 2012. As stated in the Declaration of Compliance, and with few exceptions, MorphoSys complies with the Code's recommendations. The latest version of the Declaration of Compliance can be found in this annual report and is also permanently available to shareholders on MorphoSys's website via Media & Investors > Corporate Governance > Declaration of Compliance.

#### **CHANGES TO THE SUPERVISORY BOARD**

The Deputy Chairman of the Supervisory Board, Prof. Dr. Jürgen Drews, and Supervisory Board member Dr. Metin Colpan, stepped down from the Supervisory Board at the conclusion of the 2012 Annual General Meeting. In their place Mrs. Karin

Eastham and Dr. Marc Cluzel were newly elected to the Supervisory Board. In its constitutive meeting after the 2012 Annual General Meeting, the Supervisory Board re-elected Dr. Gerald Möller as Chairman of the Supervisory Board, and Dr. Geoffrey Vernon was elected as Deputy Chairman of the Supervisory Board.

#### **AUDIT OF THE ANNUAL FINANCIAL STATEMENTS**

In 2012, the Company commissioned PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Munich (hereinafter "PwC") as its auditor. The audit contract was awarded by the Supervisory Board in accordance with the resolution of the Annual General Meeting on May 31, 2012. In accordance with Section 7.2.1 of the German Corporate Governance Code, the Supervisory Board obtained a declaration of independence from the auditor.

The financial statements and Management Report of MorphoSys AG for the financial year from January 1 to December 31, 2012, prepared by the Management Board in accordance with the provisions of the German Commercial Code (HGB), were audited by PwC and issued with an unqualified audit opinion. The 2012 audit of the financial statements and the Management Report of MorphoSys AG focused on the recoverability of intangible assets, the completeness and valuation of other provisions, the accounting and disclosure of the long-term incentive share-based payment program as well as revenue recognition and the matching of expenses and income.

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 Section 315a HGB, the consolidated financial statements of MorphoSys Group and the Group Management Report for the financial year from January 1 to December 31, 2012 were prepared by the Management Board on the basis of the International Financial Reporting Standards (IFRS), as applicable in the European Union. PwC also audited the consolidated financial statements and the Group Management Report and issued an unqualified audit opinion.

The main emphasis for the 2012 audit of MorphoSys's consolidated financial statements and Group Management Report comprised the accuracy of the accounting treatment of 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 application of IFRS 5 to the sale of the AbD Serotec business segment, the accounting treatment of the strategic cooperation with Novartis, the audit of calculated current and deferred taxes, the accuracy of the Group's segment reporting, the completeness and accuracy of the information in the Group's notes, and the plausibility check on all prognostic information in the Group Management Report.

The audit reports and the annual 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 MorphoSys Group's consolidated financial statements and the Group Management Report were discussed in detail at the Audit Committee meeting on February 26, 2013, and at the Supervisory Board meeting held 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 21, 2013, and at the subsequent Supervisory Board meeting held on the same day. The auditor took part in all discussions of the financial statements and reported on the main results of their audit. The auditor also explained the scope, focal points and costs of the audit and was available to answer any questions from, and provide supplementary information to, the Supervisory Board.

The Audit Committee discussed the audit results in detail and recommended to the Supervisory Board that the financial statements prepared by the Management Board be approved and adopted. The Supervisory Board also took note of the audit results and examined the financial reports and Management Reports in accordance with legal provisions. After the final results of the review by the Supervisory Board were available, the Supervisory Board agreed to the results of the audit without exception, and approved and thus adopted the annual financial statements prepared by the Management Board. It also approved the consolidated financial statements prepared by the Management Board. The Supervisory Board also reviewed the proposal of the Management Board for the use of the 2012 profits and agreed with this recommendation.

#### THANKS FOR DEDICATED SERVICES

On behalf of the entire Supervisory Board, I would like to thank the members of the Management Board and the employees of MorphoSys for their hard work, great commitment and the motivating culture over the past financial year. Thanks to their effort, MorphoSys's portfolio has further matured and important milestones have been reached.

The Supervisory Board would also like to thank its long-serving Supervisory Board members, Prof. Dr. Jürgen Drews and Dr. Metin Colpan, for their dedication and constructive input.

Martinsried/Planegg, 12 March 2013



Dr. Gerald Möller  
Chairman of the Supervisory Board