

Report of the Supervisory Board

COOPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

During the 2014 financial year, the Supervisory Board performed thoroughly the duties assigned to it by law, the Articles of Association, and its own Rules of Procedure. With a few exceptions, the Supervisory Board also took into account the recommendations of the German Corporate Governance Code (hereinafter referred to as the "Code"). We regularly advised and continually observed the Management Board in its management of the Company and dealt extensively with the operational and strategic development of the Group. The Management Board fulfilled its duty to inform and furnish us with periodic written and verbal reports containing timely and detailed information on all business transactions and events of significant relevance to the Company. The Management Board prepared these reports in collaboration with the respective departments. In our committee meetings and plenary sessions, we had the opportunity to fully discuss the reports and the proposed resolutions of the Management Board. The Management Board answered our questions on strategic topics affecting the Company with a great level of detail. In this context, the Management Board submitted the relevant documents in a timely manner. Any deviations from the business plan were thoroughly explained to us. Thus, we were directly involved at an early stage in all decisions of relevance to the Company.

A corresponding resolution was passed if the approval of the Supervisory Board for individual actions was required by law, the Articles of Association, or by the Rules of Procedure. The Supervisory Board members routinely prepared resolutions for actions of the Management Board requiring Supervisory Board approval based on documentation provided in advance by the Management Board. If appropriate, the Supervisory Board was supported by the relevant committees and, together with the Management Board, discussed any proposition up for decision. All matters requiring approval were submitted for review to the Supervisory Board on a timely basis.

In the time intervals between meetings of the Supervisory Board plenum and the committees, the Chairman of the Supervisory Board regularly exchanged information and ideas with the Management Board, and in particular with its Chief Executive Officer, Dr. Simon Moroney. The Supervisory Board Chairman was also kept informed of the current business situation and of any significant business transactions. In consultation with the Management

Board, discussions also took place between the Chairman of the Supervisory Board and members of the Senior Management Group. Furthermore, the other Supervisory Board members also had regular contact with the Management Board.

PRIMARY TOPICS OF THE SUPERVISORY BOARD MEETINGS IN THE 2014 FINANCIAL YEAR

A total of eight Supervisory Board meetings were held in the 2014 financial year, three of which were conducted by telephone. With the exception of two meetings, all Supervisory Board members were present at all meetings. In urgent cases occurring outside of the meetings, the Supervisory Board passed resolutions by written procedure.

In addition to the above, in September 2014 a meeting of one and a half days took place between the Management Board and the Supervisory Board that was primarily concerned with the following topics:

- the Company's strategic focus;
- the further development of the Company's product portfolio and its impact on the net asset and results of operations.

During the 2014 financial year, the Supervisory Board was particularly focused on the following topics and after a detailed examination and discussion passed resolutions on these topics:

- evaluation of the Company's achievement of the objectives for the 2013 financial year and determination of the Company's objectives for the 2015 financial year;
- the agenda and recommended resolutions for the 2014 Annual General Meeting;
- conclusion of the therapeutic antibody partnership with Temple University;
- conclusion of the strategic alliance with Merck Serono in immuno-oncology;
- merger of the non-operating subsidiary MorphoSys IP GmbH with MorphoSys AG;
- conclusion of the license agreement with Emergent BioSolutions Inc. for the co-development and co-promotion of the drug candidate ES414/MOR209 against prostate cancer;
- exercise of the option to purchase the lanthipeptide technology from Lanthio Pharma B.V. as part of the cooperation already existing between the two companies;
- the budget for the 2015 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, 2014 to June 30, 2015 based on external benchmarking. We also evaluated the achievement of the agreed-upon, individual bonus targets of the members of the Management Board for 2013 and set their respective individual bonus targets for 2015. We had the appropriateness of the Management Board's compensation confirmed by an independent remuneration consultant. We also discussed and adopted the key performance indicators for the long-term incentive plans for both the Management Board and the Senior Management Group.

Furthermore, we approved the financial statements for the 2013 financial year and the Management Board's proposal for the appropriation of profits. We also dealt with the Corporate Governance Report as well as the Statement on Corporate Governance.

The focus of our regular discussions in the Supervisory Board's plenary meetings were the revenue and profit development of MorphoSys, the financial reports, the progress of the two business segments Partnered Discovery and Proprietary Development, the results and progress of the clinical programs for the development of proprietary drugs, and the future development strategy as well as the development of new technologies. In addition, we discussed the results of the efficiency review carried out in 2014 in terms of the Supervisory Board's work and evaluated possibilities for improvement. Finally, we have kept ourselves regularly informed of the subjects of risk management, the internal control system, and of the results of the internal audit.

CONFLICTS OF INTEREST IN THE SUPERVISORY BOARD

In the 2014 financial year, no conflicts of interest within the Supervisory Board occurred.

ACTIVITIES AND MEETINGS OF SUPERVISORY BOARD COMMITTEES

In order to perform its duties efficiently, the Supervisory Board has established three committees that prepare subjects falling within their respective areas of competence for the Supervisory Board plenum: the Audit Committee, the Remuneration and Nomination Committee, and the Science and Technology Committee. In each Supervisory Board meeting, the committee chairs report to the Supervisory Board on the work of the committees and the minutes of the committee meetings are made available to all Supervisory Board members. The composition of these committees may be found in the "Statement on Corporate Governance," which is available on the Company's website under the heading "Media & Investors > Corporate Governance > Statement on Corporate Governance," and in the Annual Report on pages 70 to 74. All committee meetings were fully attended.

The **Audit Committee** met on six occasions in the 2014 financial year (including twice by telephone). This Committee dealt mainly with accounting issues, the quarterly reports, and the financial statements and consolidated financial statements. The Committee discussed these topics with the Management Board and recommended their approval to the Supervisory Board. The auditor attended three Audit Committee meetings and informed its members of the audit results. The Audit Committee also made a recommendation to the Supervisory Board for its proposal at the Annual General Meeting for the election of the independent auditor. Furthermore, the Committee deliberated on the risk management system and the results of the internal audit carried out in the 2014 financial year. In addition, the Committee regularly advised on the Company's cash investment policy and the investment recommendations of the Management Board. The Committee also received a report on the potential savings identified and realized in the Procurement and Logistics department. Additionally, the Committee was informed of the introduction of new software and improvements in IT security.

For efficiency reasons, there is a common **Remuneration and Nomination Committee**, which meets in its respective function. This Committee met on six occasions in the 2014 financial year (including once by telephone) and, in its function as Remuneration Committee, mainly dealt with the Management Board's remuneration system and the level of the Management Board's compensation. In this context, the Committee also commissioned an independent remuneration expert with the task of preparing a Management Board remuneration report to verify the appropriateness of the Management Board's remuneration. Based on this report, the Committee prepared a recommendation as to the future structure of the Management Board's compensation and submitted this to the Supervisory Board for approval. The Committee also dealt with the ratio of compensation between the Management Board and the Senior Management Group as well as the staff overall and had this ratio reviewed by the commissioned remuneration expert. This expert confirmed the appropriateness of the "vertical" compensation ratios. The Committee also dealt with the individual bonus targets of the Management Board members and the Company's targets and offered suitable recommendations to the Supervisory Board for approval. In addition, the Committee discussed the key performance indicators of the long-term incentive plans for the Management Board and the Senior Management Group. In its function as Nomination Committee, the Committee also dealt with the preparations for the required election of all Supervisory Board members in the context of the 2015 Annual General Meeting. In coordination with the Supervisory Board, the Committee prepared the required profiles for the Supervisory Board candidates up for election, conducted the corresponding interviews with the Supervisory Board candidates, and submitted its recommen-

dation to the Supervisory Board for its proposals to the Annual General Meeting for the election of Supervisory Board members. In this context, the Committee commissioned a consulting firm for professional support in the Committee's search for suitable new Supervisory Board candidates.

The **Science and Technology Committee** met on six occasions during the 2014 financial year (including once by telephone). This Committee mainly addressed the further progress and expansion of the Company's portfolio, the development of new technologies, and the Company's drug development plans including the required budget resources. The start of new development programs, the results of ongoing clinical studies for the development of proprietary drug candidates, development plans of current and planned clinical studies, as well as the development strategy were the focus of the discussions. The Committee also addressed the production of clinical trial materials for the Company's proprietary drug candidates, the competitive and patent situations of the Company's proprietary product candidates, and discussed the Management Board's recommendations on strengthening the portfolio.

CORPORATE GOVERNANCE

The Supervisory Board dealt with the further development of corporate governance at MorphoSys while taking into account the amendments made in the Code in June 2014 by the Government Commission German Corporate Governance Code. The detailed Corporate Government Report, including the Corporate Governance Statement according to Sec. 289a HGB (German Commercial Code), may be found on the Company's website under the heading "Media & Investors > Corporate Governance > Corporate Governance Report" and can also be found in the Annual Report on pages 70 - 90.

In addition, we discussed the compliance with the Code's recommendations by the Company with the Management Board and, in justified cases, approved a few exceptions to the Code's recommendations. Based on this consultation, the Management Board and the Supervisory Board submitted the annual Declaration of Conformity on 5 December 2014. The current version of the annual Declaration of Conformity can be found in this Annual Report and is permanently available to MorphoSys's shareholders on the Company's website under the heading "Media & Investors > Corporate Governance > Declaration of Conformity."

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no changes in the composition of the Management Board or in the Supervisory Board in the reporting period.

AUDIT OF THE FINANCIAL STATEMENTS

In 2014, 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 23 May 2014. In accordance with Item 7.2.1 of the Code, the Supervisory Board obtained a declaration of independence from the auditor in advance.

The financial statements and the consolidated financial statements of MorphoSys AG, as well as the Management Report and Group Management Report for the 2014 financial year, were properly audited by PwC and issued with an unqualified Auditor's Report. The key audit topics for the consolidated and separate financial statements for the 2014 financial year were in particular the presentation and valuation of cash investments, the evaluation of the carrying amounts of goodwill and intangible assets with indefinite useful lives, the completeness, accuracy and valuation of accruals for outstanding invoices, the calculation of current and deferred taxes, the revenue recognition, and the completeness and accuracy of the Notes.

In addition, the auditor confirmed that the Management Board has established an appropriate reporting and monitoring system that is suitable in its design and administration for the early detection of developments that could threaten the Company's existence.

The audit reports and documents relating to the financial statements and consolidated financial statements were provided on a timely basis to all Supervisory Board members for review. The audit report, the consolidated financial statements, and the MorphoSys Group's Management Report were discussed in detail at the Audit Committee meeting on 25 February 2015 and at the Supervisory Board meeting on the same day. The audit report, the financial statements, and the Management Report of MorphoSys AG were discussed in detail at the Audit Committee meeting on 18 March 2015 and at the subsequent meeting of the Supervisory Board on the same day. The auditor attended all meetings concerning the financial statements and reported on the key results of his audit. He also explained the scope and focus of the audit and was available to both the Audit Committee and the Supervisory Board to answer questions and provide further information.

The Audit Committee discussed the audit results in detail and recommended to the Supervisory Board that it approve the financial statements prepared by the Management Board. The Supervisory Board also took note of the audit results and, in turn, reviewed the financial statements and management reports in accordance with the statutory provisions. Following its own examination, the Supervisory Board also determined that it sees no cause for objection. The financial statements and consolidated financial statements prepared by the Management Board and reviewed by the auditor, as well as the Management Report and Group Management Report, were subsequently approved by the Supervisory Board. Thus, the financial statements were adopted. In addition, the Supervisory Board reviewed the Management Board's proposal for the appropriation of profits and agreed to this proposal.

RECOGNITION FOR DEDICATED SERVICE

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 achievements, their dedicated service and the inspiring atmosphere experienced this past financial year. Through their efforts, MorphoSys's portfolio has continued to mature and grow and important milestones have been achieved.

Martinsried/Planegg, 18 March 2015



Dr. Gerald Möller
Chairman of the Supervisory Board