

Remuneration Report

Management Board Remuneration

The remuneration of members of the Management Board is performance-related and comprises one fixed and one variable component. In addition, the Management Board members receive a further remuneration component with the long-term incentive of stock options and convertible bonds. The appropriateness of the Management Board's remuneration is subject to an annual review and is compared to the results of the Annual German Biotechnology Industry Remuneration Study (GRS Study) and other more global benchmark sources.

For 2005, remuneration of the Management Board amounted to a total of € 887,964⁴ (2004: € 954,741⁵). For a list of remuneration relating to individual Management Board members, divided into fixed, variable and other remuneration components, see the Notes to the Consolidated Financial Statements on page 108.

During 2005, members of the Management Board exercised convertible bonds and subsequently sold the new shares. Details are given in the schedule provided under Directors' Dealings on page 124.

Company goals, such as the achievement of financial or strategic targets, are specified by the Supervisory Board together with the Management Board at the beginning of each fiscal year. Achieving these goals forms in part a basis for assessing the achievement of the variable component of each Management Board member's remuneration. Furthermore, each Management Board member's personal targets are set at the beginning of each year. At the end of each year, the Supervisory Board evaluates the level of attainment of these goals, which then comprises the remaining variable remuneration component of compensation. More specifically, half of the variable bonus compensation depends on the extent to which the Company and personal goals have been reached.

The other remuneration components consist of payments for retirement provisions, company cars, allowance for social insurances, and others.

⁴ Dr. Marlies Sproll from November 1, 2005

⁵ Dr. Thomas von Rügen until September 3, 2004

The Supervisory Board also decides every year on the number of stock options or number of convertible bonds to be allocated to the Management Board members. The following overview shows the number of stock options issued in 2005 to members of the Management Board (see also 2002 Employee Stock Option Program) and their potential current value:

Member of Management Board	Number of Stock Options	Strike Price	Grant Date	Life Span	Fair Value of One Stock Option	Fair Value at the Time of the Grant
Dr. Simon E. Moroney	36,000	€ 31.35	July 1, 2005	5 years	€ 11.07	€ 398,520
Mr. Dave Lemus	27,000	€ 31.35	July 1, 2005	5 years	€ 11.07	€ 298,890

For a more detailed description of the various stock options and convertible bonds programs currently in operation, see sections 14 and 15 of the Notes to the Consolidated Financial Statements.

Supervisory Board Remuneration

In the 2005 fiscal year, the members of the Supervisory Board received a total of € 190,500, excluding reimbursements of travel expenses (2004: € 169,500), which was in accordance with the Annual Shareholders' Meeting resolution of May 11, 2005. This amount consists of fixed remuneration and attendance fees.

For a list of remuneration relating to individual Supervisory Board members, see section 22 of the Notes to the Consolidated Financial Statements.

The German Corporate Governance Code proposes that remuneration of the Supervisory Board should also include components based on the long-term success of the company. In previous years, the members of the Supervisory Board of MorphoSys AG participated in a convertible bonds program approved by shareholders at the Annual Shareholders' Meeting. After a legal verdict in 2004 in Germany raised doubts about the legality of stock option and convertible bond programs for Supervisory Board members, the Annual Shareholders' Meeting of MorphoSys AG decided on May 11, 2005, in favor of a revenue-related compensation program in the form of phantom stock. In addition to the cash compensation, which was confirmed as unchanged at the 2005 Annual Shareholders' Meeting, the Supervisory Board members will receive stock appreciation rights, subject to a performance hurdle.

A stock appreciation right is a claim on the Company to a cash payment of the difference between the stock exchange price at the end of the holding period and the exercise price. The holding period for stock appreciation rights is three years, beginning with the issue date on January 1, 2006, and ending on December 31, 2008. An amount will only be paid if the Company's consolidated revenues for the year show an average annual growth rate of at least 20%. In total, payments by the Company under this plan to all Supervisory Board members must not exceed an amount of € 80,000 ("cap").

The Chairman of the Supervisory Board will receive 2,500 stock appreciation rights, the Deputy Chairman 2,000 stock appreciation rights, and the members of the Supervisory Board each 1,500 stock appreciation rights.

In the past fiscal year, no consultancy contracts were concluded with members of the Supervisory Board plenum. MorphoSys pays a yearly fee of SFr. 135,000 for its sponsored research agreement to the University of Zurich. A contract relating to the scientific collaboration between MorphoSys AG and the University of Zurich, represented by Prof. Andreas Plückthun, was approved by the Supervisory Board plenum.

No members of the Management Board or Supervisory Board were granted Company loans.