

## Dear Shareholders,

After a year in which MorphoSys enjoyed considerable success, I am delighted to be able to present you with our 2005 Annual Report. For MorphoSys, growth in the past year has meant, first and foremost, a fundamental strengthening of our two core business segments. The development of therapeutic antibodies and the marketing of antibodies as high-quality research tools have both advanced significantly, so that for the second year in succession, we achieved an increase in revenues of almost 50%. After the nominal profit of 2004, the net result in this year, boosted in particular by performance-based success payments from our partners in the core therapeutics business unit, amounted to around € 4.7 million. We enter 2006 stronger than ever before, while growth prospects continue to be very attractive.

In therapeutic collaborations with partners, we have considerably enhanced our market share. With three new partners in 2005, we achieved one of the best annual results in this business segment. Each of these three new partnerships has a special significance for MorphoSys over and above the purely financial aspects.

First, the agreement with Shionogi, one of Japan's top ten pharmaceutical groups, is a breakthrough in a new geographical market for our HuCAL technology: Asia. Japan, in particular, is a very attractive market for both of our business segments and is registering a very encouraging growth rate. MorphoSys laid the foundations for this success in 2004 by entering a strategic marketing relationship with Tokyo-based GeneFrontier Corporation. With GeneFrontier's help, we aim to further develop this market and secure a second Japanese pharmaceutical group as partner in 2006.

Second, our agreement with the pharmaceutical group Eli Lilly in September 2005 brought MorphoSys's last ongoing patent dispute to an end. We have again displayed our ability to resolve a complex issue and, in this case, turn it to our advantage in the form of a new cooperation. Our Company has therefore removed the final area of uncertainty and now enjoys unchallenged freedom to apply and commercialize both the HuCAL technology and products derived from it.



Dr. Simon E. Moroney  
Chief Executive Officer

Third, in December 2005, we entered an important agreement with the U.S. pharmaceutical group Merck & Co. Merck became the tenth company from the world pharmaceutical industry's top 20 to adopt our proprietary technology in its research and development programs.

The Company's own development programs remain an important, albeit a smaller, part of our overall activities in the field of therapeutic antibodies. It has always been our intention to find development partners for these projects, and we originally wanted to enter a first partnership in 2005. We have very clear ideas as to the form of such an alliance and the conditions under which the projects should be pursued. During 2005, we were not able to match our expectations with those of a potential licensee, and we therefore chose not to partner any of the projects. As a result, we have conducted a thorough review of our own therapeutic antibody development and are taking steps to strengthen this side of the business. More specifically, we intend to focus the majority of our efforts on one of the programs, MOR103—an antibody to treat various inflammatory conditions—in an effort to maximize our chances of success.

The research antibodies business segment gained more in importance for us in 2005 as its contribution to total revenue increased. There are several reasons why the market for research antibodies is very attractive for us, but there was one key argument behind our decision to intensify our investment in this area: MorphoSys is firmly convinced that the market is on the brink of a technological revolution, and will increasingly turn to modern, synthetic methods of antibody development like HuCAL. We are at the forefront of this trend.

The integration of the Biogenesis Group, which was completed during the year, resulted in the creation of a research antibody segment combining two elements: an extensive catalog business and broad customer base with our innovative technology that enables antibodies to be generated more quickly, better and according to precise specifications. MorphoSys intends to exploit this combination to extend the penetration of HuCAL antibodies into the research antibody market. Strong sales and marketing is the key to our ability to succeed in this endeavor, and MorphoSys will avail itself of opportunities to strengthen these areas further. A substantial step was taken with the acquisition of the Serotec Group in January 2006.

A real highlight in 2005 was the appointment of a new Chief Scientific Officer, Dr. Marlies Sproll. It is a decision that I welcome, both professionally and personally. A key aspect of Dr. Sproll's work will be to drive the development of the Company's own technology, so that MorphoSys remains a leader in antibody generation. Dr. Sproll will also focus on strengthening our own drug pipeline in 2006 and beyond.

At the end of 2005, the share price of MorphoSys AG was 8% higher than at the beginning of the year. MorphoSys has firmly established itself in the TecDAX, the important technology index of the Frankfurt Stock Exchange. In a move designed to make it easier for U.S. investors to trade in our shares, we launched an ADR Level I program at the beginning of 2006. Also contributing to an expansion of our institutional shareholder base was the successful completion of a private placement financing during the year, in which approximately 10% of our share capital was placed with predominantly European investors.

MorphoSys starts the year 2006 with confidence and has set itself ambitious goals. In our core business segment, Therapeutic Antibodies, we aim to increase our market share yet further by adding to the already extensive pipeline of partnered projects. We also intend to bring our own therapeutic program forwards. In the Research Antibodies segment, successful integration of the Serotec Group will be the focus of activities in 2006. Altogether, our efforts in the two business segments are focused on near- and long-term growth through intelligent exploitation of our proprietary antibody technologies.

The year 2005 was a very successful one for MorphoSys. I would therefore like to extend my sincere thanks to all employees of the new MorphoSys Group for their dedication and hard work over the past year. At the same time, I look forward to working with our new employees from the former Serotec and Biogenesis companies to continue the MorphoSys success story. Finally, I would particularly like to thank you, our shareholders, for your continued trust and interest in our firm. No doubt you will join me in wishing the Company well for a successful 2006.



Dr. Simon E. Moroney  
Chief Executive Officer