

*Dear Shareholders,*

After a very successful 2006, I am delighted to be able to present to you the 2006 Annual Report. Our focus this year has been on rigorous execution of our strategy of building the Company's two core businesses, namely therapeutic and research antibodies, and we can look back on excellent progress in both areas. In our Therapeutic Antibodies segment, our goal was to substantially increase our market share in 2006. At the end of the year, we can show that we repeated the very successful 2005 performance, adding three new commercial partnerships and three expansions of existing alliances to our roster. In terms of our proprietary drugs, we have developed our two proprietary product candidates MOR103 and MOR202 as planned. As for our research antibody business, the integration of the Serotec Group, acquired in January 2006, was successfully completed.

The successful execution of our dual strategy was clearly reflected in our financial results for the full year. With total sales for the MorphoSys Group of € 53 million, we have achieved growth over 2005 of 58%. At the same time, despite increased investment in our proprietary projects and in the further development of our core technology, profits reached € 6 million, exceeding the result for 2005. From current business, we generated a capital inflow of € 16.3 million, and this, bolstered by a successfully executed capital increase in March, gave us cash reserves of around € 66 million at year-end.

"Expanding into New Markets" - this was our motto for last year's Annual Report. We pursued this goal by developing new geographic markets, and by developing new fields of application for our technology. Today, MorphoSys is a biotechnology company with a global presence and sites and representatives in the most important markets for life sciences. A majority of the largest global pharmaceutical groups, together with leading research institutes in the USA, Europe and Asia, use our technology and its products.

We have long been active in Europe and the United States. In Asia, a market which holds interesting growth opportunities for both of our business segments, we have made considerable recent progress. In 2006, we entered an agreement with the third-largest drug developer in the Far East, Daiichi Sankyo, the scope of which substantially exceeds our 2005 cooperation with Shionogi. We regard this as a real breakthrough in the development of this market and can now state with not a little pride: MorphoSys has arrived in Japan.

Two additional new partnerships, one with the pharmaceutical group Schering-Plough and another with the biotechnology start-up OncoMed Pharmaceuticals, as well as three extensions of existing contracts, illustrate that we have continued to develop our core partnered therapeutic antibody business very strongly. We foresee an ongoing demand for MorphoSys's technology in the future, as the market for antibody drugs and technologies remains very active. Today, antibodies comprise the largest class of biotherapeutic agents.



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Dr. Simon E. Moroney  
Chief Executive Officer

Large pharmaceutical companies are making increasingly aggressive moves into this sector. In the 2006 fiscal year, many pharmaceutical groups drew attention to biotherapeutics in their annual reports and in addressing their investors, and confirmed their desire to make further inroads into the segment, especially the development of antibody-based therapies.

Further proof of the sustained interest of pharmaceutical groups in antibodies is evident in the acquisitions of companies which either possessed antibody drug candidates or antibody technologies. The acquisition of Abgenix by Amgen, Cambridge Antibody Technology (CAT) by AstraZeneca, Rinat by Pfizer and NeuTec by Novartis are just some of the examples from the last 18 months. This wave of acquisitions included two of our direct competitors, Abgenix and CAT. We thus find ourselves in an ideal position - in a market where demand continues to grow and in which competition has become less.

A second facet of our therapeutic antibody business comprises our proprietary drug candidates. In spring 2006, we introduced significant steps to improve the way we run this segment, and presented MOR103, a drug we are developing for rheumatoid arthritis, as a new lead compound. The objective of our reorganization is to progress faster and with greater focus than has hitherto been the case, concentrating on the development of MOR103 up to the clinical confirmation of its efficacy in patients. We are on track to have completed all the preparations for the start of a phase 1 study of MOR103 in the second half of 2007.

Developing proprietary products based on our proprietary technology offers us the most attractive means of value creation, and I can think of no scenario in which MorphoSys would leave this potential unexploited.

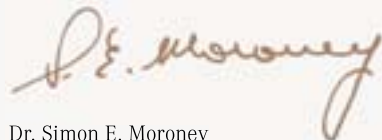
Applying our proprietary technologies to the generation of new drugs is complemented by our second business segment, AbD Serotec, in which we market the products of our technology for non-therapeutic purposes. In the last year, we have strengthened this segment substantially with the purchase and integration of the British-American Serotec Group. Today, AbD Serotec is one of the leading providers of research antibodies to researchers worldwide and is one of the 20 best-known brands.

After the successful integration of the unit, we are beginning to extract the expected synergies, both within the research segment itself and via the collaboration with our therapeutic business. These synergies became apparent through a contract with an internationally renowned research institute, the US-based Burnham Institute for Medical Research. I am confident that discoveries made by researchers using our HuCAL technology at the Burnham and other academic institutions, will lead to attractive product opportunities for MorphoSys in the future.

Our share price has benefited from our successes in 2006 and had increased by 32% on the last day of trading of the year. We thus exceeded the development of the technological index TecDAX on the Frankfurt Stock Exchange, which increased by 25%.

MorphoSys starts 2007 with confidence and with high expectations. We aim to increase the number of partnered therapeutic projects based on our technology still further. These projects bring revenue in the near term, but also represent substantial future value for MorphoSys. An important step in support of our proprietary product development will be the submission of the application to begin clinical studies for the MOR103 project. In the Research Antibodies segment, we will build on the successful integration of the Serotec Group and will continue to seek opportunities for growth via additional strategic transactions. For the MorphoSys Group as a whole, we are striving for annual sales of € 60–65 million and an operating profit of € 7–10 million.

Overall, 2006 was a year marked with many successes. As a result of our achievements, MorphoSys is well positioned to meet the challenges and opportunities to come. For this, I would like to offer my special thanks to all the employees within the MorphoSys Group for their commitment and their contributions to the success of the Company. Finally, I would particularly like to thank you, our shareholders, for your continued interest and trust in our Company. No doubt you will join me in wishing the Company well for a successful 2007.



Dr. Simon E. Moroney  
Chief Executive Officer