

Dear shareholders,

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I have great pleasure in presenting this, our annual report for 2004, following a very successful year for MorphoSys. During the year, MorphoSys continued the highly positive performance already evident in 2003 and returned to the dynamics of a technology-oriented growth company. An increase in revenue of 44%, a positive net result for the first time in the Company's history and an increase in our cash position to €37 million all provide an impressive demonstration of our success. We ended the year secure in the knowledge that MorphoSys is in a better operational and financial condition than ever before in the Company's 13-year history. In 2005, we intend to build on this upward trend, and expect to post a significant profit for the entire year. MorphoSys is opening a totally new chapter in its growth.

Key drivers in the Company's excellent development were newly concluded alliances together with very good progress in our existing partnerships. In May 2004, we gained a new international partner from the major league of the world's largest pharmaceutical groups, in the shape of Novartis AG. Together with our partners Pfizer, Roche, Centocor/Johnson & Johnson and Bristol-Myers Squibb, the new agreements mean that five of the top 10 pharma companies are now working with MorphoSys's antibody technology. The collaboration with Novartis is the largest and most extensive we have entered to date. Novartis is committed to exploiting the potential of therapeutic antibodies as key weapons in the medical armamentarium, and is intensifying its activities in this area. The statement from Dr. Mark Fishman, President of the

Novartis Institutes of BioMedical Research, that Novartis chose MorphoSys “because of the highly differentiated HuCAL® technology” is praise indeed, and also further validation of our central strategy—establishing our technology as the method of choice for companies developing new antibody therapeutics.

At the end of the year, there was another significant development for the company when GPC Biotech received regulatory approval from the Swiss authorities to commence clinical trials with 1D09C3, a HuCAL® antibody for the treatment of lymphoma. When the trial commenced on January 31, 2005, this became the first antibody based on our HuCAL® technology to be administered to human patients. This development presages further advances in our pipeline: based on information received from our other partners, we believe that human trials with three more HuCAL® antibodies may commence in the next 12 months, thus potentially extending our clinical pipeline to four projects.



Dr. Simon E. Moroney
Chief Executive Officer

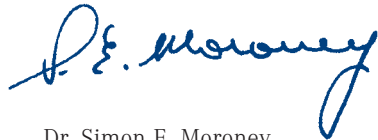
In early 2005, we successfully concluded the acquisition of two privately held companies, U.K.-based Biogenesis Ltd. and its U.S. sister Biogenesis, Inc. The acquisitions have a clear purpose: to help build our existing Antibodies by Design unit, which markets HuCAL® technology in areas outside our core human therapeutics business. Since its foundation in 2003, Antibodies by Design has significantly raised awareness of our innovative technology in the research market and forms a beachhead for further growth. Going forward, we are convinced that HuCAL® will change the way research antibodies are produced and can replace many, if not all other, technologies in this market segment. The acquisition of the Biogenesis Group will help us turn this conviction into reality. Together with Biogenesis, we are now one of the top five European research antibody suppliers.

It is important to mention that the acquisition of Biogenesis will not distract MorphoSys from our primary focus on therapeutic antibodies, which will remain the key driver of our business in the years ahead. The two parts of our business—therapeutic antibodies and research antibodies—will run alongside each other and we will report on each unit separately.

I am sure that you, our shareholders, will share my satisfaction in the development of our stock price during 2004. On the back of our agreement with Pfizer in December 2003, our share price doubled in value in the first few months of the year. A major milestone for the Company was reached in September 2004, with our inclusion in the TecDAX index, which tracks the performance of the 30 largest technology companies of the Prime Standard listed at the Frankfurt Stock Exchange.

To close, I would like to reflect on the targets that we set ourselves at the beginning of 2004. As well as entering at least one long-term contract with a new partner, we pinpointed the advancement of ongoing therapeutic antibody programs plus the commencement of at least five new programs as priorities. Another objective was to continue to build our new business unit Antibodies by Design in a targeted manner following its successful launch in 2003. In the research field, we aimed to present positive pre-clinical data from our internal cancer project MOR202. In economic terms, these operational targets were to be accompanied by a 20% annual increase in revenues. I am happy to report that not only did we meet all of these targets, but we also significantly exceeded some of them.

These outstanding achievements would not have been possible without the dedication and expertise of our staff. I would like to thank all of our employees and my senior management colleagues, who enabled this success through their commitment and hard work during the past year. I also extend special thanks to you, our shareholders, for your loyalty and continued confidence in MorphoSys. Together with you, I look forward to what we expect to be an equally, if not more, successful year in 2005.



Dr. Simon E. Moroney
Chief Executive Officer