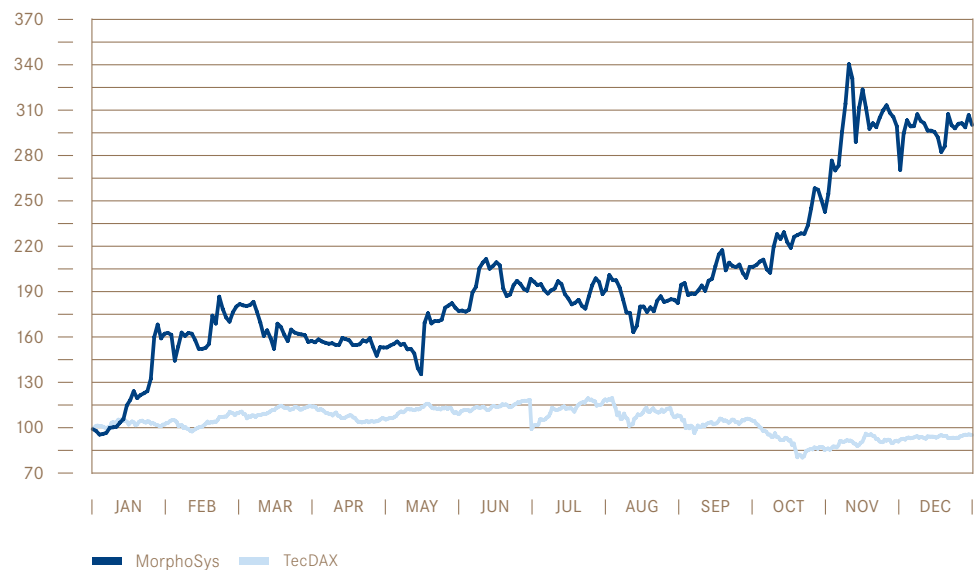


The MorphoSys Share

Behind the relatively positive picture relating to the capital markets in 2004 were quite different stories in individual sectors and countries. For example, in the U.S. technology stocks accounted for six of the 20 best performers in the S&P 500 index, but also the 10 of the 20 worst-performing stocks. In Europe, most of the major national stock indexes showed a positive development. The DAX increased by 7.3%, as did the CAC in France and the U.K. FTSE. In contrast, however, the German technology index TecDAX fell by 3.9%, impacted by the weak performance of heavily market cap-weighted stocks within the index.

The MorphoSys Share

Development of the MorphoSys share in 2004
(January 2, 2004 = 100)





Dave Lemus
Chief Financial Officer

Development of Share

On the back of operational success during the year, the MorphoSys share experienced a strong increase of 242% in 2004—a significant contrast to the 30% decline experienced in 2003. In comparison, the TecDAX decreased by 3.9%, and the NASDAQ Biotechnology index increased by 6.1%. MorphoSys outperformed its international antibody peer group, which increased by only 70%. Moreover, the MorphoSys share experienced a significant increase in trading volume in 2004. For the full year, 14 million MorphoSys shares were traded; an increase of 22% compared to the prior year.

On the basis of increased market capitalization and the rise in trading volume, MorphoSys was accepted into the TecDAX in September 2004. The TecDAX covers the 30 largest technology values of the Prime Standard segment of the Deutsche Börse. Within this index, MorphoSys was 24th in terms of market capitalization and 14th in terms of share volume turnover, measured at year-end. Inclusion into the index has benefited the Company in terms of attracting greater attention from the financial market and media, but also inclusion into index-tracking funds, which helped to stimulate demand.

Capital Measures in 2004

In May 2004, MorphoSys signed a strategic collaboration with Novartis AG in order to jointly develop therapeutic antibodies for various indications. As part of this partnership, Novartis acquired a non-interest-bearing convertible bond for € 9 million which was converted into 490,133 MorphoSys shares on June 15, 2004. At the end of 2004, Novartis possessed 9.0% of MorphoSys AG's capital stock.

Shareholder Structure

The MorphoSys share is a no-par bearer share traded on all German stock exchanges, and is also represented in XETRA trading.

On December 31, 2004, the number of ordinary shares issued was 5,438,852, stockholders' equity amounted to € 16,305,523.

The free float, which affects the weighting of the MorphoSys share in various indexes, was 73.6% at the end of 2004. The remaining 26.4% is distributed over three companies, namely Cambridge Antibody Technology (CAT), with 10.8%, Novartis AG with 9.0% and Schering AG with 6.6%. Members of the Management Board and the Supervisory Board hold approximately 3.2% of the free float.

Conversion to IFRS

In 2002, the EU Commission decided that with effect from 2005 all European companies listed on the stock exchange must compile their consolidated financial statements in accordance with the “International Financial Reporting Standards” (IFRS). MorphoSys converted its Group accounting to IFRS from U.S. GAAP standards in 2004. The quarterly accounts for 2004 were compiled in accordance with U.S. GAAP whilst the year-end consolidated financial statements were compiled according to IFRS, with reconciliation back to U.S. GAAP for comparative purposes. The IFRS consolidated financial statements and related footnotes, as well as the reconciliation back to U.S. GAAP can be found on pages 61 and following pages of this annual report.

Corporate Communications

One of the most important aims of corporate communications at MorphoSys is to provide all shareholders and capital markets with prompt and extensive information on the Company and its activities. This should enable all market participants to make an appropriate evaluation of the Company and its financial situation, and to assess the possible perspectives.

MorphoSys reports to its shareholders about the financial and earnings situation four times in the course of the fiscal year, which are predefined dates listed in the Company’s corporate calendar, which is published prior to the beginning of each financial year. Quarterly reports are published within 30 days, and annual financial statements within 60 days of each respective reporting period ending. The Company believes that compliance to its policy of fair disclosure, i.e. providing the same information to all target groups in the investment community at the same time, is a very high priority. MorphoSys uses its website to provide current information promptly and directly to all interested parties. In addition to the legally required ad hoc announcements, all material events within the Company are announced with press releases. All publications are also written and published in German and English. Moreover, the Company offers all interested parties the opportunity to be added to the Company’s mailing list.

In 2004, MorphoSys appeared at 14 national and international investor conferences. More than 10 roadshows took place in Europe and the U.S.A. and a number of individual discussions were held with investors and analysts. In 2004, the MorphoSys share was covered by more than fourteen analysts, as was the case the year before. At the end of 2004, six gave a positive assessment of the share (2003: five), five were neutral (2003: five), two negative (2003: four) and one rating was under review, mirroring both the operational successes and stock price performance for the year.



Dr. Claudia Gutjahr-Löser
Director
Corporate Communications



Mario Brkulj
PR Specialist

2004 General Meeting

The Annual Shareholders' Assembly was held in Munich on May 11, 2004. More than 200 shareholders attended the meeting, and voting attendance increased in comparison with the previous year by 57%—more than a quarter of all common stock voting rights were represented at the meeting. As in previous years, MorphoSys offered shareholders the option of authorizing a proxy commissioned by the Company—an arrangement accepted by increasing numbers of shareholders. All proposals tabled for approval by the Management Board were accepted by overwhelming majorities. Dr. Metin Colpan was elected as a new member of the Supervisory Board, following the decision by Dr. Jörg Reinhardt to stand down. All information on the 2004 General Meeting can be found on the Company's website (www.morphosys.com).

At the 2004 Annual Shareholders' Meeting, the Articles of Association were amended to publish certain corporate announcements in the electronic version of the Federal Gazette. Planned changes to these Articles of Association in 2005 include the authorization to broadcast the Annual Shareholders' Meeting online.



Bernhard Erning
Director Treasury and
Corporate Development

Legal Changes in 2004

On October 30, 2004, the Investor Protection Improvement Act (AnSVG) came into effect. The change in the law includes changes to the German Securities Trading Act (WpHG). The aim of the new law is to ensure the integrity of Germany's financial markets and to enhance investor confidence.

This bill improves investor protection relating to capital market information and protection against unacceptable market practices. The most important changes comprise the new regulations relating to insider information and trading, which serve to tighten the prohibition of insider trading. Other aspects of the law that have been intensified relate to ad hoc publicity regulations, market price manipulations of securities and directors dealings. In light of these new regulations, MorphoSys has adapted its internal guidelines accordingly. Additionally, all Company employees have been duly informed and agreed to the new insider guidelines. The Company's current insider guidelines are available on the Company's website under Investors—Corporate Governance.

Risk Management

Prompt identification and appropriate management of corporate risk is an important element of internal controls and good corporate governance. The auditors review the risk management system of MorphoSys annually. The risk management system in place at MorphoSys is continually reviewed and adapted to changing conditions throughout the year. All relevant risks were documented and the probability of their occurrence was assessed in the 2004 fiscal year. Further details can be found in the risk report on pages 56 - 58 of this report.