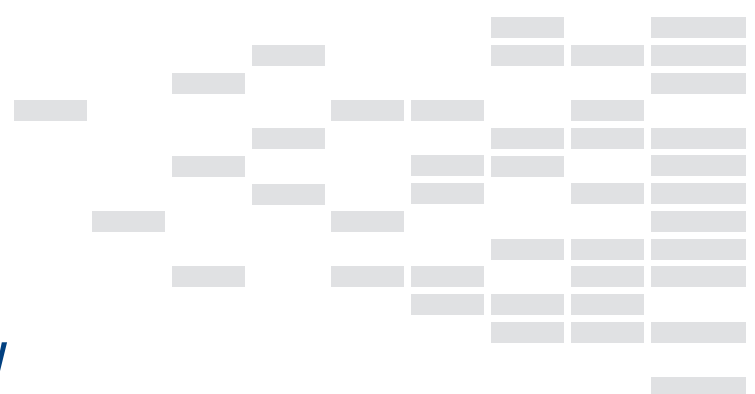




Engineering
the Medicines
of Tomorrow



Contents

MorphoSys Group: Condensed Consolidated Nine Months' Financial Report 2003

| | |
|-----------|--|
| 3 | Letter to the Shareholders |
| 4 | Group Management Report |
| 10 | Condensed Consolidated Balance Sheets As of September 30, 2003 (unaudited) and December 31, 2002 |
| 11 | Condensed Consolidated Statement of Operations For the nine months ended September 30, 2003 and 2002 (unaudited) |
| 12 | Condensed Consolidated Statement of Changes in Stockholders' Equity as of September 30, 2003 (unaudited) and December 31, 2002 |
| 13 | Condensed Consolidated Statement of Cash Flows For the nine months ended September 30, 2003 and 2002 (unaudited) |
| 14 | Notes to the Consolidated Financial Statements (unaudited) |

Dear Shareholders,

MorphoSys was able to report significant progress in the third quarter.

At the "Human Antibodies & Hybridomas" conference in Osaka, Japan, Dr. Thomas von Rüden presented promising initial *in vivo* data for our two antibody candidates MOR101 and MOR102. The target molecule for both programs, ICAM-1 (intercellular adhesion molecule-1) is involved in many inflammatory processes of the body and as such, is the focus of MOR101 and MOR102. ICAM-1 was exclusively licensed from Boehringer Ingelheim in February of this year. In animal models recently conducted by MorphoSys for our MOR102 program, treatment with the human HuCAL® antibody MOR102 reduced psoriatic epidermal thickness by 40% in mice carrying transplants of human psoriatic skin; an excellent initial result. In our second antibody program MOR101, MorphoSys is developing a human HuCAL® antibody fragment for the treatment of deep dermal burn. In an animal model, MorphoSys was able to demonstrate that an antibody fragment whose makeup is similar to the HuCAL® derived MOR101 molecule, had significant and equivalent efficacy to BIRR-1 (enlimomab), a mouse antibody developed by Boehringer Ingelheim several years ago. Looking ahead these results allow us to remain confident that a partner will be found to further develop the antibodies into the clinic.

In addition to successes in our own proprietary programs, MorphoSys was also able to report progress in its partnered antibody programs. In the context of the cooperation with Schering, antibodies generated with the MorphoSys HuCAL® GOLD antibody library were developed against a Schering cancer target which demonstrated promising efficacy in several tests, including animal models. Schering will further test the antibodies in order to determine whether they will be able to advance an antibody towards the clinic. On top of this success, another milestone from the cooperation with Centocor was reported - more specifically, the third milestone with Centocor. In reaching the milestone, MorphoSys successfully produced several antibodies against a Centocor target molecule involved in inflammatory diseases. The antibodies were systematically optimized to fulfill eight different success criteria, thereby proving again the enormous power and flexibility of the HuCAL® technology platform.

Also during the third quarter, the capital increase due to CAT (Cambridge Antibody Technology) under the two companies' settlement agreement from December 2002, was registered. Issuance of the 588,160 shares under the agreement gives MorphoSys unquestioned freedom to further develop and commercialize its HuCAL®-based technologies. On a related point, MorphoSys is also pleased to report that XOMA, recipient of the second MorphoSys capital issuance in 2003, successfully cleared their stake of 363,466 shares in MorphoSys, thereby eliminating the potential share overhang associated with this position during the year.

We look optimistically into the future and would like to thank you for your continued interest and confidence.



Dave Lemus
Chief Financial Officer
MorphoSys AG

Group Management Report Q3 2003

Industry Overview

The cyclical recovery has notably accelerated in North America and Asia since the spring, while economic development in the Eurozone remained somewhat more restrained throughout the third quarter. Conditions however appear favorable for a global cyclical recovery towards the end of the year. Positive news flow from the biotechnology sector also continued during the third quarter. The market has seen several IPO filings in the US, heralding a possible widening of the IPO window for biotechnology companies in the USA.

Expectations of a potential overall and sectoral recovery have been accompanied by a revival in the equity markets. The Nasdaq Biotechnology Index and the Deutsche Börse Pharma & Healthcare Index rose in the third quarter 2003 by 8% and 0.5%: since the beginning of 2003 these indexes have advanced by 41% and 15%, respectively.

Financial Analysis

Operating Revenues

Compared to the same period of the previous year, cumulative revenues for the first nine months of 2003 decreased by 13% to EUR 10.9 million (2002: EUR 12.4 million), i.e., in line with expectations. The vast majority of revenues recorded in 2003 relate to annual licensing fees received from partners. No milestone revenues were recorded in the first nine months of 2003. Geographically, 80% of MorphoSys' commercial (non-grant) revenues in the amount of EUR 8.7 million were generated with biotechnology and pharmaceutical companies located in the United States and 20% generated in Europe.

Operating Expenses

For the first nine months of 2003, total operating expenses including stock-based compensation expense decreased to EUR 16.3 million (2002: EUR 30.0 million), a reduction of EUR 13.7 million, or 46%. The reduction in expense resulted mainly from the Company's restructuring plan implemented in Q4 2002, as well as patent, licensing and settlement agreements entered into in 2002.

Research and Development Expenses

Costs for research and development decreased by EUR 3.7 million to EUR 8.5 million (2002: EUR 12.2 million). The decrease in research and development expenses resulted predominantly from higher licensing costs relating to the XOMA agreement in 2002, as well as lower personnel costs and external research costs associated with the Company's restructuring.

Sales, General and Administrative Expenses

Sales, general and administrative expenses amounted to EUR 6.2 million compared to EUR 14.3 million in the same period of the previous year. The decrease in general and administrative expenses was mainly due to the decrease in patent litigation costs, which arose in part as a result of the settlement with Cambridge Antibody Technology (CAT) in December 2002.

Stock-Based Compensation

Stock-based compensation in the amount of EUR 1.6 million for the first nine months of 2003 was recorded as a non-cash charge (2002: EUR 3.4 million), which results from application of SFAS No. 123 "Accounting for Stock Based Compensation" under U.S. GAAP accounting. The decrease in stock-based compensation is mainly due to declining expenses from options and convertible bonds granted in prior periods. Stock-based compensation for new grants was also lowered through the reduced stock price of MorphoSys shares underlying the programs at the time of grant.

Cost by Expenditure Type

For the first nine months of 2003, the Company's personnel costs in the amount of EUR 5.7 million (excluding stock-based compensation) accounted for approximately 35% (2002: 24%) of total operating costs, representing the largest single cost-type for the Company. Costs for external services, intangibles and infrastructure were the next largest blocks of costs in 2003 and represented 23% (2002: 17%), 12% (2002: 34%) and 11% (2002: 7%), respectively, of total operating costs for the first nine months of 2003.

Non-Operating Items

Non-operating income decreased by EUR 2.4 million to EUR 1.3 million of expense (2002: EUR 1.1 million income). An increase in interest expense of EUR 1.0 million resulted in large part from the election to raise shares associated with the XOMA agreement (EUR 0.8 million), and is a non-cash charge relating to the accounting of such conversion under U.S. GAAP accounting. Additionally, EUR 0.2 million interest expense was recorded during the period and arose in connection with the net present value of liabilities associated with the CAT settlement. Both amounts were in line with communicated expectations at the beginning of the year.

The Company also recorded an impairment charge related to unrealized losses on available-for-sale securities in the amount of EUR 0.8 million. The decline in value was judged by MorphoSys to be other than temporary. In accordance with SEC (Securities and Exchange Commission) rules, MorphoSys decided to consider all reductions in market value of its short term investment securities (available-for-sale securities), which are longer than six months in duration, to be deemed permanent reductions in value. Since the date of the write-off, the securities have appreciated in value by EUR 0.3 million as of the end of the third quarter.

Net Loss

The Company posted a net loss of EUR 6.7 million for the first nine months of 2003, compared to EUR 16.5 million in the same period of the previous year. The resulting loss per share for the first nine months of 2003 amounted to EUR 1.60 (2002: EUR 4.23).

Liquidity / Cash Flows

During the first nine months, the Company's current assets decreased by EUR 7.1 million to EUR 22.5 million compared to EUR 29.5 million at December 31, 2002. On September 30, 2003, the Company had EUR 17.8 million in cash and cash equivalents and marketable securities, compared to a EUR 19.1 million balance at December 31, 2002 - a decrease of EUR 1.3 million. Cash used in operating activities for the first nine months of 2003 amounted to EUR 1.4 million compared to EUR 7.8 million in the first nine months of 2002.

Assets

Total assets decreased by EUR 2.1 million to EUR 40.3 million at the end of September 2003, compared to EUR 42.4 million at December 31, 2002. The main reason for the decrease resulted from an accounts receivable decrease for the first nine months of 2003 of EUR 4.9 million, resulting from payments received in the first quarter of 2003.

Liabilities

During the first nine months of 2003, total current liabilities decreased by EUR 8.6 million mainly due to the decrease in licenses payable of EUR 4.9 million, a decrease in deferred revenues of EUR 2.3 million and a decrease in accounts payable of EUR 0.9 million. The decrease in licenses payable resulted from the payment of certain obligations under the settlement agreement with CAT and the payment of the XOMA license agreement with equity.

Equity

At September 30, 2003, the total number of shares issued was 4,901,332 of which 4,841,570 were outstanding.

As part of the MorphoSys-XOMA licensing agreement signed in 2002, the MorphoSys Supervisory Board elected in October 2002 to issue 363,466 shares to XOMA as partial consideration for the XOMA license received. The capital increase was registered and issued to XOMA in the first half of year 2003.

In December 2002, MorphoSys signed a settlement with CAT to resolve long-standing patent litigation issues. As part of the agreement, MorphoSys issued to CAT 588,160 MorphoSys shares as partial consideration for the CAT license. The license agreement and the contract for the capital increase against contribution in kind were signed in July 2003 and the capital increase was registered in August 2003.

The respective share issuances exclude stockholders' preemptive rights as allowed under the Company's articles of association.

Capital Expenditure

During the first nine months of 2003 and 2002, total investment in intangibles amounted to EUR 6.1 million and EUR 3.5 million, respectively. The increase in 2003 was due to licenses from CAT which were capitalized upon share issuance in 2003. Amortization of capitalized intangibles for the first nine months of 2003 amounted to EUR 1.1 million compared to EUR 0.9 million for the previous year.

Investment in Property and Equipment amounted to EUR 0.5 million in the first nine months of 2003 compared to EUR 0.9 million in the same period of the previous year. Depreciation for the first nine months of 2003 of EUR 0.6 million compared to EUR 0.7 million in the same period of the previous year.

Human Resources

Number of Employees

On September 30, 2003, the MorphoSys Group employed 94 employees (compared to 110 employees on December 31, 2002). Of these employees, 70 worked in research and development and 24 in sales, general and administrative positions. Thirty-three employees held a Ph.D. degree at the end of the first nine months 2003, down from 45 at the end of 2002.

The Company employed an average of 93 people for the first nine months of 2003 (2002: 116).

Research & Development / Partnered Research

MorphoSys has a broad product pipeline of therapeutic antibody programs ongoing within the scope of its partnered research programs, in addition to programs arising from its own therapeutic antibody development projects.

Proprietary Product Development

On October 9, 2003, MorphoSys presented the first promising animal data from preclinical studies for its anti-inflammatory antibody programs MOR101 and MOR102 at the Human Antibodies & Hybridomas Conference in Osaka, Japan. The antibody programs MOR101 and MOR102 target ICAM-1, a cell adhesion molecule involved in several inflammatory diseases including psoriasis, rheumatoid arthritis and dermal burn. MOR101 and MOR102 are currently in preclinical development for deep dermal burn (second degree burn) and psoriasis, respectively.

In clinical trials conducted several years ago, Boehringer Ingelheim found first preliminary evidence for the usefulness of a mouse antibody BIRR-1 (enlimomab) against ICAM-1 in deep dermal burn and rheumatoid arthritis. MorphoSys has to-date completed the *in vitro* profiling for MOR101 and MOR102, and both antibodies, which were generated from MorphoSys' HuCAL® GOLD antibody library, demonstrated potency equivalent to the Boehringer Ingelheim murine antibody.

MOR102, a HuCAL® IgG4 antibody, initially will be developed for the treatment of psoriasis, a chronic inflammatory disorder. In an *in vivo* human psoriatic skin xenotransplant model conducted in collaboration with Prof. Boehncke, Department of Dermatology at the University of Frankfurt, proof of principle was demonstrated for the antibody. The data showed that treatment with MOR102 reduced psoriatic epidermal thickness by 40% in mice carrying transplants of human psoriatic skin. In its antibody program MOR101, MorphoSys is developing a human HuCAL® Fab fragment for the treatment of deep dermal burn. In an initial animal model conducted in collaboration with Prof. Dr. Pallua and Dr. Fuchs, Clinic for Plastic Surgery at the University of Aachen, a chimeric Fab fragment derived from the murine BIRR-1 proved to be as potent as the immunoglobulin BIRR-1 antibody. As a result of these positive data, MorphoSys now plans to further develop its proprietary programs MOR101 and MOR102.

The fully human HuCAL[®] antibodies against ICAM-1 are expected to have excellent efficacy profiles in these inflammatory disorders while having none of the immunogenic side effects associated with the mouse antibody. Moreover, the antibodies are expected to suppress inflammation directly at the site of inflammation, as opposed to being systemically immune suppressive. As such, systemic immune suppressive side effects could be minimized.

Partnered Product Development

Schering AG

During the third quarter of 2003, MorphoSys announced that promising animal model data with selected HuCAL[®] antibodies had been achieved against a cancer target in the collaboration with Schering AG, Germany. In the framework of the two companies' collaboration, one antibody developed by MorphoSys against an oncological target from Schering showed promising results in in vitro assays for efficacy. Moreover, in tumor localization studies with mice, the antibodies showed tumor specific accumulation. The antibody was generated from the MorphoSys HuCAL[®] GOLD antibody library and subsequently optimized by MorphoSys. The HuCAL[®] antibodies delivered to Schering fulfill predefined success criteria, and will be further tested by Schering.

MorphoSys and Schering signed a major strategic collaboration in December 2001, and within the scope of this collaboration, the companies are focusing on the development of human antibodies as therapeutics and as *in vivo* diagnostics, mainly in the area of oncology. As part of the collaboration, the HuCAL[®] GOLD technology from MorphoSys was installed at Schering AG in Berlin, Germany and at Berlex Biosciences, Richmond, CA, U.S.A.

Centocor Inc.

In July 2003, MorphoSys announced the achievement of the third milestone in its therapeutic antibody collaboration with Centocor Inc., U.S.A. The milestone is based on the delivery of antibodies against an undisclosed Centocor target involved in inflammatory diseases. In achieving the current milestone, MorphoSys delivered several precisely engineered antibodies against the target molecule from Centocor, fulfilling eight different pre-agreed success criteria.

In December 2000, MorphoSys and Centocor, a subsidiary of Johnson & Johnson, entered a collaboration for the development of fully human antibodies in a wide range of therapeutic indications. The collaboration includes an option for Centocor on the development of antibodies against up to 30 different target molecules. In March 2002 Centocor ordered AutoCAL[™], the MorphoSys-developed system for automated screening of antibodies. In achieving the current milestone, MorphoSys applied its proprietary HuCAL[®] GOLD technology to generate several antibodies against the Centocor target.

Risk Report

With regard to material risks to the future development of MorphoSys, no significant changes have occurred compared to the financial year ending December 31, 2002. The detailed risk report can be found in the 2002 annual report.

Outlook

MorphoSys' commercial focus is on the strengthening of its collaborations with partners, and the development of proprietary therapeutic antibodies. To this end, the Company continues to pursue efforts to extend its existing partnerships and enter into new collaborations.

Additionally, MorphoSys continues to develop proprietary antibody compounds. Recently, the Company announced first promising results from animal studies for its most advanced compounds, MOR101 and MOR102, and hopes to outlicense these preclinical development programs by mid-2004.

Presently MorphoSys expects to achieve its goals for 2003.

Condensed Consolidated Balance Sheets (U.S. GAAP)

| | 09/30/2003 EURO unaudited | 12/31/2002 EURO |
|--|---------------------------------|--------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | 427,562 | 842,082 |
| Marketable Securities | 17,347,889 | 18,274,338 |
| Accounts Receivable | 3,869,102 | 8,732,790 |
| Prepaid Expenses and Other Current Assets | 819,645 | 1,684,729 |
| Total Current Assets | 22,464,198 | 29,533,939 |
| Property and Equipment, Net | 1,929,610 | 2,097,796 |
| Patents, Net | 6,292,091 | 6,898,990 |
| Prepaid License Fees, Net | 8,973,428 | 3,352,604 |
| Other Assets | 610,664 | 509,984 |
| Total Assets | 40,269,991 | 42,393,313 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts Payable | 1,415,849 | 2,273,539 |
| Licenses Payable | 642,279 | 5,569,291 |
| Deferred Revenue | 5,751,578 | 8,086,355 |
| Accrued Employees Benefits | 1,400,297 | 1,468,907 |
| Other Accrued Expenses and Liabilities | 1,589,403 | 2,029,608 |
| Total Current Liabilities | 10,799,406 | 19,427,700 |
| Non-Current Liabilities | | |
| Other Non-Current Liabilities | 2,515,506 | 2,275,347 |
| Convertible Bonds Due to Related Parties | 157,900 | 74,800 |
| Total Non-Current Liabilities | 2,673,406 | 2,350,147 |
| Stockholders' Equity | | |
| Common Stock, EUR 3.00 Par Value; Ordinary Shares Authorized (8,626,344 and 7,345,582 for 2003 and 2002, respectively); Ordinary Shares Issued (4,901,332 and 3,949,706 for 2003 and 2002, respectively); Ordinary Shares Outstanding (4,841,570 and 3,889,944 for 2003 and 2002, respectively); | 14,703,996 | 11,849,118 |
| Treasury Stock (59,762 and 59,762 shares for 2003 and 2002, respectively), at cost | (21,934) | (21,934) |
| Additional Paid-in Capital | 68,047,876 | 59,193,912 |
| Accumulated Other Comprehensive Income/(Loss) | 605,421 | (517,591) |
| Accumulated Deficit | (56,538,180) | (49,888,039) |
| Total Stockholders' Equity | 26,797,179 | 20,615,466 |
| Total Liabilities and Stockholders' Equity | 40,269,991 | 42,393,313 |

See accompanying notes

Condensed Consolidated Statement of Operations (U.S. GAAP) - unaudited

| | Three Months Ended Sept. 30, 2003 EURO | Three Months Ended Sept. 30, 2002 EURO | Nine Months Ended Sept. 30, 2003 EURO | Nine Months Ended Sept. 30, 2002 EURO |
|---|---|---|--|--|
| Revenues | 3,641,356 | 3,732,059 | 10,884,738 | 12,440,115 |
| Operating Expenses | | | | |
| Research and Development | 2,774,010 | 3,422,506 | 8,482,957 | 12,180,281 |
| Sales, General and Administrative | 2,092,519 | 5,647,625 | 6,164,499 | 14,348,357 |
| Stock Based Compensation | 542,257 | 1,153,086 | 1,599,499 | 3,430,604 |
| Total Operating Expenses | 5,408,786 | 10,223,217 | 16,246,955 | 29,959,242 |
| Loss from Operations | (1,767,430) | (6,491,158) | (5,362,217) | (17,519,127) |
| Interest Income | 12,860 | 31,327 | 198,420 | 415,583 |
| Interest Expense | (47,495) | – | (959,026) | (687) |
| Impairment of Marketable Securities | – | – | (753,768) | – |
| Other Income (Expense), Net | 37,201 | (281,223) | 226,451 | 664,672 |
| Loss before Taxes | (1,764,864) | (6,741,054) | (6,650,140) | (16,439,559) |
| Foreign Income Tax (Expense) Income | – | 758 | (1) | (17,717) |
| Net Loss | (1,764,864) | (6,740,296) | (6,650,141) | (16,457,276) |
| Basic and Diluted Net Loss per Share | (0.39) | (1.73) | (1.60) | (4.23) |
| Shares Used in Computing Basic and Diluted Net Loss per Share | 4,547,490 | 3,889,862 | 4,162,728 | 3,889,559 |

See accompanying notes

Condensed Consolidated Statement of Changes in Stockholders' Equity (U.S. GAAP) - unaudited

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital EURO | Accumulated Other Com- prehensive Gain (Loss) EURO | | Accumulated Deficit EURO | Total Stockholders' Equity EURO |
|---|--------------------------------|-------------------|-------------------|-----------------|--|--|---------------------|--------------------------------|--|
| | Shares | EURO | Shares | EURO | | EURO | EURO | | EURO |
| | Balance at Jan. 1, 2002 | 3,591,331 | 10,773,275 | 59,762 | | (21,934) | 32,452,966 | | 37,047 |
| Exercise of Stock Options | 495 | 1,485 | — | — | 7,177 | — | — | 8,662 | |
| Compensation Related to the Grant of Stock Options and Convertible Bonds | — | — | — | — | 3,940,412 | — | — | 3,940,412 | |
| Capital Increase for Euro Conversion | — | 718 | — | — | (718) | — | — | — | |
| Capital Increase against Cash, Net of Issuance Cost of EUR 25,249 | 357,880 | 1,073,640 | — | — | 22,794,075 | — | — | 23,867,715 | |
| Other Comprehensive Loss: Change in Unrealized Losses on Available for Sales Securities | — | — | — | — | — | (557,178) | — | (557,178) | |
| Foreign Currency Gain from Consolidation | — | — | — | — | — | 2,540 | — | 2,540 | |
| Net Loss | — | — | — | — | — | — | (24,377,294) | (24,377,294) | |
| Comprehensive Loss | — | — | — | — | — | — | — | (24,931,932) | |
| Balance at Dec. 31, 2002 | 3,949,706 | 11,849,118 | 59,762 | (21,934) | 59,193,912 | (517,591) | (49,888,039) | 20,615,466 | |
| Compensation Related to the Grant of Stock Options and Convertible Bonds (unaudited) | — | — | — | — | 1,599,499 | — | — | 1,599,499 | |
| Capital Increase against Contribution in Kind (unaudited), Net of Issuance Cost of EUR 23,314 | 363,466 | 1,090,398 | — | — | 3,110,896 | — | — | 4,201,294 | |
| Capital Increase against Contribution in Kind (unaudited), Net of Issuance Cost of EUR 150,000 | 588,160 | 1,764,480 | — | — | 4,143,569 | — | — | 5,908,049 | |
| Other Comprehensive Gain/(Loss): Change in Unrealized Gain on Available for Sales Securities (unaudited) | — | — | — | — | — | 1,110,127 | — | 1,110,127 | |
| Foreign Currency Gain from Consolidation (unaudited) | — | — | — | — | — | 12,885 | — | 12,885 | |
| Net Loss (unaudited) | — | — | — | — | — | — | (6,650,141) | (6,650,141) | |
| Comprehensive Loss (unaudited) | — | — | — | — | — | — | — | (5,527,129) | |
| Balance at September 30, 2003 (unaudited) | 4,901,332 | 14,703,996 | 59,762 | (21,934) | 68,047,876 | 605,421 | (56,538,180) | 26,797,179 | |

See accompanying notes

Condensed Consolidated Statement of Cash Flows (U.S. GAAP) - unaudited

| For the Period ended September 30, | 2003 EURO | 2002 EURO |
|---|--------------------|---------------------|
| Operating Activities | | |
| Net Loss | (6,650,141) | (16,457,276) |
| Adjustments to Reconcile Net Loss to Net Cash Used for Operating Activities: | | |
| Depreciation | 647,396 | 664,779 |
| Amortization of Intangible Assets | 1,077,342 | 929,442 |
| Net Gain on Sales of Marketable Securities | (266,928) | (181,657) |
| Impairment of Marketable Securities | 753,768 | – |
| Gain on Sale of Property and Equipment | (2,650) | (21,603) |
| Recognition of Deferred Revenue | (5,713,677) | (4,761,899) |
| Stock-Based Compensation | 1,599,499 | 3,430,604 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 4,863,688 | (1,191,306) |
| Prepaid Expenses and Other Assets | 764,404 | (230,015) |
| Accounts Payable | (857,690) | 954,786 |
| Licenses Payable | (702,404) | 3,399,330 |
| Deferred Revenue | 3,378,900 | 4,125,037 |
| Accrued Employee Benefits | (68,610) | 326,527 |
| Other Accrued Expenses and Liabilities | (440,205) | 1,221,042 |
| Other Non Current Liabilities | 240,159 | – |
| Net Cash Used in Operating Activities | (1,377,149) | (7,792,209) |
| Investing Activities: | | |
| Purchases of Marketable Securities | (10,625,589) | (39,552,408) |
| Proceeds from Sales of Marketable Securities | 12,175,326 | 24,061,592 |
| Purchases of Property and Equipment | (499,447) | (857,823) |
| Proceeds from Disposals of Property and Equipment | 22,887 | 21,698 |
| Additions to Intangibles | (33,219) | (3,523,768) |
| Net Cash Provided by/(Used) in Investing Activities | 1,039,958 | (19,850,709) |
| Financing Activities: | | |
| Proceeds from the Issuance of Common Stock, Net | – | 23,876,377 |
| Proceeds from the Issuance of Convertible Bonds to Related Parties | 83,100 | 90,500 |
| Cost of Share Issuance | (173,314) | – |
| Net Cash Provided by Financing Activities | (90,214) | 23,966,877 |
| Effect of Exchange Rate Differences on Cash | 12,885 | (8,048) |
| Decrease in Cash and Cash Equivalents | (414,520) | (3,684,089) |
| Cash and Cash Equivalents at the Beginning of the Period | 842,082 | 4,025,334 |
| Cash and Cash Equivalents at the End of the Period | 427,562 | 341,245 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Received During the Year for Foreign Income Taxes | – | 38,105 |
| Unrealized Gain on Marketable Securities | 553,901 | (556,226) |
| Capital Increase against Contribution in Kind | 4,224,608 | – |
| License Settled in Equity | 6,058,048 | 3,160,385 |

See accompanying notes

Notes to the Condensed Consolidated Financial Statements - unaudited

1 Organization and Summary of Significant Accounting Policies

Business and Organization

MorphoSys AG ("the Company") is a biotechnology company using combinatorial biology in drug discovery with the principal objective of developing and commercially exploiting new enabling technologies across a broad scientific spectrum. The Company was founded in July 1992 as a German limited liability company. In June 1998, MorphoSys AG was transformed into a German stock corporation. In March 1999, the Company went public on Germany's Neuer Markt, the stock exchange designated for high-growth enterprises. On January 15, 2003 MorphoSys AG was admitted to the Prime Standard segment of the Frankfurt Stock Exchange.

Substantially all operations are located in Germany. The Company has two wholly owned subsidiaries:

- MorphoSys U.S.A., Inc., which was incorporated in the United States on February 16, 2000. The subsidiary's purpose is to assist the Company in the sale and licensing of MorphoSys AG products. MorphoSys U.S.A., Inc. substantially ceased its operations in November 2002.
- MorphoSys IP GmbH, which was incorporated in Munich, Germany, on November 6, 2002. The subsidiary's purpose is to purchase, maintain and administer certain intangible assets of the MorphoSys Group. The Company's operations are physically located at the premises of MorphoSys AG, and the operations of MorphoSys IP GmbH commenced on December 31, 2002.

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying condensed consolidated financial statements and notes.

Basis of Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). In accordance with German law, the Company is required to publish its financial statements in accordance with the German Commercial Code, which represents generally accepted accounting principles in Germany ("German GAAP"). German GAAP varies in certain significant respects from U.S. GAAP. Accordingly, the Company has recorded certain adjustments, principally relating to revenue recognition and the recording of certain costs, in order to present the accompanying financial statements in accordance with U.S. GAAP.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting standards generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company invests its cash in deposits with two major German financial institutions, mainly in money market funds.

Consolidation

The accompanying financial statements consolidate the financial position, results of operations, and cash flows of MorphoSys AG and its subsidiaries. All intercompany transactions and balances have been eliminated.

Marketable Securities

The Company accounts for its securities using Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Management determines the proper classifications of securities at the time of purchase and reevaluates such designations as of each balance sheet date. At September 30, 2003 and at December 31, 2002, such securities that are classified as available-for-sale are carried at market value with unrealized gains and losses reported in accumulated other comprehensive income, which is a separate component of stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the statements of operations when the investment is sold or matures. On a regular basis, the Company tests for impairment. If the fair value is less than the cost basis for more than six months, the amount is written down to its estimated fair value.

Derivative Financial Instruments

The Company accounts for its derivative instruments using SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and its corresponding amendments under SFAS No. 138. SFAS No. 133 requires the Company to measure every derivative instrument at fair value and record them as either an asset or liability. Changes in fair value are recorded in earnings.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Major replacements and improvements are capitalized while general repairs and maintenance are charged to expense as incurred. Assets are depreciated over three to ten years using the straight-line method. Leasehold improvements are amortized over the estimated useful lives of the assets or the related lease term, whichever is shorter.

Revenue Recognition

The Company's revenues include technology access fees; fees earned from research and development collaboration agreements mainly with companies based in the United States.

Revenue related to non-refundable technology access fees, subscription fees and license fees are deferred and recognized on a straight-line basis over the relevant periods of the agreement, generally the research term or the estimated useful life of the collaboration for those contracts without a stipulated term unless a more accurate means of recognizing revenue is available. Research and development collaboration service fees are recognized in the period that the services are provided. Milestone revenues are recognized upon achievement of certain criteria.

Investment grants from governmental agencies for the support of specific research and development projects are recorded as revenue to the extent the related expenses have been incurred: Under the terms of the investment grants, the governmental agencies generally have the right to audit the use of the payments received by the Company.

Segment Reporting

The Company operates primarily in one business segment related to the development of antibody therapeutics within the Biotech-Industries. Accordingly, the Company does not disclose significant additional segment information under the definition of segment reporting, defined by the standards of SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information".

Research and Development

Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company applies the provisions of SFAS No.123 "Accounting for Stock-Based Compensation", which requires the Company to record the estimated fair value of stock options and other awards at the grant date as compensation expense over the period in which the employees render the services associated with the award.

Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into euro in accordance with SFAS No. 52, "Foreign Currency Translation". All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. The statement of operations amounts has been translated using the average exchange rate for the year. The gains and losses resulting from the changes in exchange rates from year-to-year have been reported in accumulated other comprehensive income.

Net Loss Per Share

Basic and diluted loss per share is calculated in accordance with SFAS No. 128, "Earnings per Share". Basic loss per share is based upon the number of weighted-average shares of common stock outstanding for the respective years.

The Company's outstanding stock options and convertible bonds were excluded from the above calculations of dilutive net loss per share, as the effect of their inclusion would have been antidilutive.

Impairment of Long-Lived and Identifiable Intangible Assets

The Company evaluates the carrying value of long-lived assets and identifiable intangible assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability is determined by comparing projected undiscounted cash flows associated with such assets to the related carrying value. An impairment loss is recognized when the estimated undiscounted future cash flows are less than the carrying amount of the asset. An impairment loss would be measured as the amount by which the carrying value of the assets exceeds the fair value of the asset.

Patent Costs

The Company capitalizes costs related to obtaining patents and protecting granted patents from infringement. Capitalized costs principally relate to the costs of legal counsel. Patent costs are amortized on a straight-line basis over the lesser of their estimated economic life or

remaining patent term. Amortization commences at the time the patent is issued. The Company's patents covering its proprietary HuCAL® technology were granted in Australia in October 2000, in the United States in 2001 and in Europe in June 2002. Further patent applications are pending in Canada and Japan.

Accounting for Acquired License Rights

The Company acquired license rights by making upfront licensing payments, annual maintenance fees and sublicensing payments to third parties. The Company amortizes up-front licensing payments on a straight-line basis over the estimated useful life of the acquired license. Annual maintenance fees are amortized over the term of each annual agreement. Sublicensing payments are amortized on a straight-line basis over the life of the contract or the estimated useful life of the collaboration for those contracts without a stipulated term.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, marketable securities and accounts receivable. The Company's cash and cash equivalents are principally denominated in euro and U.S. dollars. Marketable securities are placed in high-quality securities. Cash, cash equivalents and marketable securities are maintained principally with two high-quality financial institutions in Germany. The Company continually monitors its positions with, and the credit quality of, the financial institutions, which are counter parties to its financial instruments, and does not anticipate non-performance. The Company's revenues and accounts receivable are subject to credit risk as a result of customer concentrations. Three customers individually accounted for approximately 49% and 35% and 5% of the Company's September 30, 2003 accounts receivable balance. In addition, three customers individually accounted for 43%, 26% and 16% of the Company's total revenues in the nine month period ended September 30, 2003.

Accounts Receivable

For accounts receivable, the allowance for doubtful accounts is based on the management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Company could be adversely affected. Based on management assessment, no allowance was necessary on September 30, 2003 and December 31, 2002. On September 30, 2003 and on December 31, 2002, accounts receivable included unbilled amounts of approximately EUR 3,656,635 and EUR 265,000 respectively.

Fair Value of Financial Instruments

The carrying value of financial instruments such as cash and cash equivalents, accounts receivable and accounts payable approximate their fair value based upon the short-term maturities of these instruments. The fair value of marketable securities is based upon quoted market prices (see note 4). Convertible Bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

Effects of New Accounting Standards and Regulations

For the effects of new accounting standards we refer to our published accounts as of December 31, 2002.

2 Restructuring

In November 2002, MorphoSys announced restructuring measures. These measures included the discontinuation of clinical drug development and the refocusing of the Company's commercial strategy. It is expected that these measures will help buttress the Company's financial position by significantly reducing its cost base. As a consequence of the restructuring the Company took actions to reduce its headcount by 24% from 120 to 91 employees, thereof 26 in Germany and 3 in the U.S.A. In August 2003 the remaining liability related to the early termination of leased office space in the U.S. was settled.

3 Accounting Estimate Changes

For the effects of accounting estimate change we refer to our published interim statements as of June 30, 2003.

4 Marketable Securities

Marketable securities consist of the following as of September 30, 2003 and December 31, 2002 (in thousands EUR):

| in 000's EUR | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Market Value |
|---------------------------|---------------|---|--|-----------------|
| December 31, 2002 | | | | |
| HVB Euro Bond | 3,794 | 0 | (526) | 3,268 |
| HVB Debentures | 2,789 | 0 | (269) | 2,520 |
| DB Money Market Funds | 12,611 | 239 | 0 | 12,850 |
| | 19,194 | 239 | (795) | 18,638 |
| Restricted Cash | | | | 364 |
| | | | | 18,274 |
| September 30, 2003 | | | | |
| HVB Euro Bond | 3,268 | 247 | 0 | 3,515 |
| HVB Debentures | 2,562 | 59 | 0 | 2,621 |
| DB Money Market Funds | 11,328 | 248 | 0 | 11,576 |
| | 17,158 | 554 | 0 | 17,712 |
| Restricted Cash | | | | 364 |
| | | | | 17,348 |

The net unrealized holding gains of EUR 553,901 for the first nine months 2003 was recorded as a separate component of stockholders' equity. The unrealized losses in 2002 were due to a decline in the market value of marketable securities placed with HypoVereinsbank, as a result of a downgrading of the bank.

Proceeds from sales of securities available-for-sale were EUR 12,175,326 and EUR 24,061,592 for the nine months 2003 and 2002, respectively. Net Gains on the sales of securities available-for-sale for the first nine months 2003 amounted to EUR 266,928 and for the same period in 2002, EUR 181,657.

The Company invested for an aggregate amount of EUR 3,800,000 in a silent partnership of HypoVereinsbank Luxembourg and EUR 2,800,000 in securities of the HypoVereinbank AG. Under SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", both investments are designated as available-for-sale and are reported at fair value on the Company's balance sheet. Unrealized holding gains and losses are generally excluded from earnings and reported as component of Accumulated Other Comprehensive Income. However, if a decline in the fair value of available-for-sale securities is judged to be other than temporary, the cost basis for the security is written down to fair value as new cost basis. The written down amount is included in earnings as an impairment charge.

Under the Company's accounting policy, marketable securities are presumed to be impaired, if their fair value is less than their cost basis for more than six months. If the Company deems these investments further impaired at the end of any other period, an additional impairment may occur. During 2002/2003 MorphoSys' HypoVereinsbank investments had traded below their original cost basis for more than six months and therefore the Company deemed that an impairment of these investments had occurred. Accordingly impairment charges of EUR 753,768 in the period ended September 30, 2003 were recognized.

5 Derivative Financial Instruments

In May 2003, MorphoSys entered into foreign currency forward contracts to hedge foreign exchange exposure related to U.S. dollar accounts receivable. At September 30, 2003 forward contracts in the notional amount of EUR 5,190,583 or US\$ 5,812,500 were outstanding and maturing between January 2004 and February 2004. The fair market value at September 30, 2003 was EUR 186,486 included as other current assets on the balance sheet.

Foreign currency forward contracts outstanding at September 30, 2003 were as follows in thousands:

| in 000's EUR | 09/30/2003 | 09/30/2002 |
|--|------------|------------|
| Currency Hedging of Anticipated Sales | | |
| U.S. dollar | 5,250 | 0 |
| Fair Value of Asset in EUR | 236 | 0 |

For the period ending at September 30, 2003, MorphoSys recognized gains of EUR 10,444 resulting from 2003 hedging contracts.

6 Restricted Assets

The Company has classified as restricted cash certain cash and cash equivalents and marketable securities that are not available for use in its operations. At September 30, 2003, the Company had commitments of EUR 364,000 for guarantees issued and EUR 157,900 for convertible bonds issued to employees.

7 Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of unrealized gains or losses on marketable securities and translation adjustments from consolidation. For the three and nine months period ended September 30, 2003 and 2002, the components of accumulated other comprehensive income (loss) were as follows (in thousands EUR):

| in 000's EUR | Three Months | Three Months | Nine Months | Nine Months |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | Ended Sept. 30, 2003 | Ended Sept. 30, 2002 | Ended Sept. 30, 2003 | Ended Sept. 30, 2002 |
| Net Unrealized Gain (Loss) on Available-for Sale Securities | 364 | (195) | 554 | (128) |
| Foreign Currency Translation Adjustment | 28 | 1 | 51 | 28 |
| Accumulated Other Comprehensive Income (Loss) | 392 | (194) | 605 | (100) |

8 Intangible Assets

The following sets forth the intangible asset classes as of September 30, 2003 and December 31, 2002 (in thousands EUR):

| in 000's EUR | 09/30/2003 | 12/31/2002 |
|--------------------------------------|---------------|---------------|
| Amortized Intangibles | | |
| Patents | 8,556 | 8,531 |
| License Rights | 9,868 | 3,810 |
| Accumulated Amortization Patents | (2,357) | (1,717) |
| Accumulated Amortization Licenses | (895) | (457) |
| Unamortized Intangible Assets | | |
| Patents | 93 | 85 |
| Net Intangible Assets | 15,265 | 10,252 |

The changes in the carrying amount of un-amortized patents for the nine months ended September 30, 2003 is as follows (in thousands EUR):

| in 000's EUR | |
|--|-----------|
| Unamortized Intangible Assets | |
| Balance on December 31, 2002 | 85 |
| Additions for the first nine months 2003 | 8 |
| Balance on September 30, 2003 | 93 |

Amortization expense on intangible assets totaled EUR 1,077,342 for the first nine months period ended September 30, 2003 (September 30, 2002: EUR 929,442).

9 Property and Equipment

Property and equipment consist of the following at September 30, 2003 and December 31, 2002 (in thousands EUR):

| in 000's EUR | 09/30/2003 | 12/31/2002 |
|-----------------------------------|--------------|--------------|
| Office and laboratory equipment | 3,488 | 3,145 |
| Furniture and fixtures | 1,267 | 1,260 |
| Purchased software | 1,122 | 1,044 |
| Total | 5,877 | 5,449 |
| Less accumulated depreciation | (3,948) | (3,351) |
| Net property and equipment | 1,929 | 2,098 |

10 Contingent Liabilities

In July 2001, a lawsuit was filed against the Company by Applied Molecular Evolution, Inc., San Diego, U.S.A. at the United States District Court of Massachusetts in Boston/U.S.A., alleging that the Company infringes the Kauffman-Ballivet patent family. These patents cover the stochastic production of proteins and were granted in the late 1990's. A trial date has not yet been set, although in January 2003, MorphoSys confirmed that it had received a positive "Report and Recommendation" from the Magistrate Judge to the District Judge for the District Court in Boston, Massachusetts, U.S.A., in the legal action filed by Applied Molecular Evolution. The Magistrate Judge recommended that MorphoSys' motion for summary judgment of non-infringement is allowed and that AME's motion for partial summary judgment of infringement be denied. As a result no provisions for contingent liabilities have been made in the Company's financial statements.

In December 2002, the Company and Cambridge Antibody Technology (CAT) entered into a settlement agreement pursuant to which they agreed to settle all patent disputes between the two companies. Pursuant to the settlement agreement, the Company agreed to make annual payments of EUR 1 million over the next five years as well as issue 588,160 new shares of common stock and make certain ongoing royalty and milestone payments, and in return will receive a license under certain CAT patents with respect to the previous and future development of HuCAL[®] libraries. The Company has the option to buy out its cash obligations to CAT for a predefined fixed amount at any time during the duration of the agreement. The Company has recorded an accrual for the settlement with CAT in the year 2002. The Company has engaged with a company to complete a valuation, whose basis will provide the necessary information to finalize the accounting. As such, the accounting effects could change significantly from the current estimates recorded. The Company recorded a net present value discount of approximately EUR 1.2 million on the annual payments to record the liability at its estimated current fair value of EUR 3.8 million. The discount on the cash payments will be amortized to interest expense over the period of the payments.

Management is not aware of any other matters that could give rise to any material liability to the Company that would have a material adverse effect on the Company's financial condition or results of operations.

11 Stockholders' Equity

Common Stock

On September 30, 2003, the common stock of the Company was EUR 14,703,996. This is an increase of EUR 2,854,878 compared to December 31, 2002 balance as a result of the issuance of 363,466 shares to XOMA for a capital increase against contribution in kind, which was registered on May 6, 2003 in the commercial register.

In addition the Company issued 588,160 shares to CAT for a capital increase against contribution in kind which was registered on August 26, 2003 in the commercial register.

Authorized Capital

In August 2003, 588,160 shares of Authorized Capital I were issued to CAT for a capital increase against contribution in kind.

On May 16, 2003, shareholder assembly authorized the Company to create a maximum of 431,317 new shares of Authorized Capital II and a maximum of 1,137,109 new shares of Authorized Capital I.

On May 6, 2003, 363,466 shares of Authorized capital I were issued to XOMA for a capital increase against contribution in kind.

Conditional Capital

No stock options or convertible bonds were exercised in the first nine months of 2003.

On May 16, 2003, the shareholder assembly authorized the Company to create additional shares for Conditional Capital III, IV and V in the maximum amount of 1,275,000, 450,269 and 111,447 shares, respectively.

Additional Paid-In Capital

On September 30, 2003, Additional Paid-in Capital amounted to EUR 68,047,876 (December 31, 2002: EUR 59,193,912). The increase of EUR 8.9 Million is due to stock based compensation provisions in the amount of EUR 1,599,499, EUR 3,110,896 as a result of the XOMA transaction, and EUR 4,143,569 as a result of the CAT transaction.

Treasury Stock

Shares totaling EUR 21,934 (59,762 shares) remained unchanged compared to December 31, 2002.

12 Convertible Bonds and Stock Options

On July 1, 2003, 15,000 stock options were issued to Company employees. 36,000 stock options and 14,000 convertible bonds were issued to the management board.

The Company was authorized by a shareholder assembly motion, subject to the Supervisory Board's and the Management Board's approval, until June 30, 2006 to issue up to 300,000 non-interest bearing convertible bonds with a par/nominal value of EUR 1.00 each (total nominal value EUR 300,000) to employees and members of the Board of Management of the Company and its affiliates. The pre-emptive rights of the shareholders' were excluded.

With the approval of the Company's shareholder assembly motions in May 2003, the members of the Supervisory Board subscribed 8,500 convertible bonds.

On April 1, 2003, 70,700 convertible bonds were issued to Company employees and the management board.

13 Directors Dealings

The table below shows the shares, stock options and convertible bonds, and changes of ownership of the same, which were held by the Management and the Supervisory Board during the first nine months of 2003:

| Shares | 01/01/2003 | Additions | Sales | 09/30/2003 |
|--|----------------|---------------|----------|----------------|
| Management Board | | | | |
| Dr. Simon Moroney (held through a controlled entity) | 113,461 | – | – | 113,461 |
| Dave Lemus | – | – | – | – |
| Dr. Thomas von Rüden | – | – | – | – |
| Total | 113,461 | – | – | 113,461 |
| Management Board | | | | |
| Dr. Gerald Möller | – | – | – | – |
| Dr. Daniel Camus | – | – | – | – |
| Prof. Dr. Jürgen Drews | – | – | – | – |
| Prof. Dr. Andreas Plückthun | 59,300 | – | – | 59,300 |
| Dr. Jörg Reinhardt | – | – | – | – |
| Dr. Geoffrey N. Vernon | – | – | – | – |
| Total | 59,300 | – | – | 59,300 |
| Stock Options | | | | |
| Management Board | | | | |
| Dr. Simon Moroney | 25,000 | 22,000 | – | 47,000 |
| Dave Lemus | 21,000 | – | – | 21,000 |
| Dr. Thomas von Rüden | 50,700 | 14,000 | – | 64,700 |
| Total | 96,700 | 36,000 | – | 132,700 |
| Supervisory Board | | | | |
| Dr. Gerald Möller | 6,100 | – | – | 6,100 |
| Dr. Daniel Camus | – | – | – | – |
| Prof. Dr. Jürgen Drews | 5,930 | – | – | 5,930 |
| Prof. Dr. Andreas Plückthun | 3,500 | – | – | 3,500 |
| Dr. Jörg Reinhardt | 3,500 | – | – | 3,500 |
| Dr. Geoffrey N. Vernon | 3,500 | – | – | 3,500 |
| Total | 22,530 | – | – | 22,530 |
| Convertible Bonds | | | | |
| Management Board | | | | |
| Dr. Simon Moroney | 12,000 | 12,000 | – | 24,000 |
| Dave Lemus | 10,000 | 24,000 | – | 34,000 |
| Dr. Thomas von Rüden | 10,000 | 10,000 | – | 20,000 |
| Total | 32,000 | 46,000 | – | 78,000 |
| Supervisory Board | | | | |
| Dr. Gerald Möller | – | 2,500 | – | 2,500 |
| Dr. Daniel Camus | – | 1,500 | – | 1,500 |
| Prof. Dr. Jürgen Drews | – | – | – | – |
| Prof. Dr. Andreas Plückthun | – | 1,500 | – | 1,500 |
| Dr. Jörg Reinhardt | – | 1,500 | – | 1,500 |
| Dr. Geoffrey N. Vernon | – | 1,500 | – | 1,500 |
| Total | – | 8,500 | – | 8,500 |

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