

Condensed Consolidated
Financial Statements
for the Six-Month Periods



June 30, 2004

Contents

MorphoSys Group: Six Months' Financial Report 2004

5	Letter to the Shareholders
6	Group Management Report
11	Condensed Consolidated Statements of Operations for the Six Months Ended June 30, 2004 and 2003 (unaudited)
12	Condensed Consolidated Balance Sheets as of June 30, 2004 (unaudited) and December 31, 2003
13	Condensed Consolidated Statements of Changes in Stockholders' Equity as of June 30, 2004 (unaudited) and December 31, 2003
14	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2004 and 2003 (unaudited)
16	Notes to the Condensed Consolidated Financial Statements (unaudited)

Dear Shareholders,

In May 2004, we concluded the largest cooperation in our history with Novartis AG. This deal comes on the heels of our deal with Pfizer in December 2003. Such partnerships are a clear sign that pharmaceutical companies have a great interest in therapeutic antibodies and are further proof of the superiority of the HuCAL GOLD® technology.

The focus of the Novartis cooperation is on the generation of therapeutic antibodies against a variety of diseases addressing unmet medical need. Our scientists will cooperate with Novartis' researchers in the U.S. and in Switzerland. In conjunction with Novartis' leading research and development capabilities, MorphoSys' technology is to be used for the rapid development of new therapeutic agents and research antibodies. In addition, the agreement includes a non-exclusive option, for the integration of MorphoSys' entire technology platform at Novartis. The exercise of such an option would trigger a double-digit million-dollar payment from Novartis to MorphoSys. Thereby, the MorphoSys HuCAL GOLD® technology will be an integral component of Novartis' drug research and development.

We can also report important progress in the intellectual property area. The U.S. Patent and Trademark Office issued a new patent for our screening technology CysDisplay™. CysDisplay™ is a key component of the HuCAL GOLD® antibody library, which gains additional protection through this new patent.

At this year's Annual Shareholders' Assembly held on May 11, all agenda items put forward by the Management Board and the Supervisory Board were passed with large majorities. We are pleased to welcome our new Supervisory Board member, Dr. Metin Colpan, co-founder and longstanding Chief Executive Officer and Managing Director of QIAGEN N.V. Dr. Colpan succeeds Dr. Jörg Reinhardt, to whom we would like to express our gratitude for his support in the past years.

In June 2004, MorphoSys was honored for adherence to strong Corporate Governance principles. In a survey conducted by the consultancy firm ergo Kommunikation, MorphoSys ranked first in the "Small and Mid Caps" category.

Thank you for your continued interest and confidence in our Company.



Dave Lemus
Chief Financial Officer
MorphoSys AG

Group Management Report Q2 2004

Industry Overview

In the first half of 2004, the biotechnology industry continued its positive development. Overall, 24 IPOs were recorded in the U.S.A. and in Europe over the first six months of 2004.

Mirroring this trend, the NASDAQ biotechnology index has risen by 4% in the same period, and the German Prime Pharma & Healthcare index by 15%. Buoyed by strong positive news flow, the MorphoSys share price increased by 70% in Q1 2004, and a further 23% in Q2. This represents a 110% increase since the beginning of this year.

Financial Analysis

Operating Revenues

Compared to the same period in the previous year, revenues increased by 22% to EUR 8.8 million in the first six months of 2004 (June 30, 2003: EUR 7.2 million). Reasons for the increase included the Novartis Pharma AG ("Novartis") and Pfizer collaborations and a milestone achievement in the first six months of 2004. Revenues arising from therapeutic antibody collaborations accounted for 85% of total revenues while target research collaborations generated 11%. The Antibody by Design unit generated 4% of total revenues.

Geographically, 77% of MorphoSys' commercial (non-grant) revenues in the amount of EUR 6.7 million were generated with biotechnology and pharmaceutical companies located in the United States and 23% in Europe. This compares to 80% and 20%, in the same period of the prior year.

Operating Expenses

For the first six months of 2004, total operating expenses including stock-based compensation expense decreased by 8% to EUR 9.9 million (June 30, 2003: EUR 10.8 million), while operating loss decreased by 69% to EUR 1.1 million (June 30, 2003: EUR 3.6 million). The reduction in operating expenses of EUR 0.9 million was mainly due to lower external consultancy costs, which included external lab funding costs, and lower costs for provisions for stock-based compensation.

Research and Development Expenses

Costs for research and development decreased by EUR 0.1 million to EUR 5.6 million (June 30, 2003: EUR 5.7 million). This decrease resulted mainly from lower spending for external lab funding, which was partly offset by higher amortization expense resulting from the CAT license acquired in 2003 and higher material expense as a result of increased revenues.

Sales, General and Administrative Expenses

Sales, general and administrative expenses amounted to EUR 3.7 million compared to EUR 4.1 million in the same period of the previous year. This resulted mainly from lower patent litigation and personnel costs as well as reduced legal and advisory fees primarily stemming from the capital increases executed in the prior year.

Stock-Based Compensation

Stock-based compensation in the amount of EUR 0.6 million for the first six months of 2004 was recorded as a non-cash charge (June 30, 2003: EUR 1.1 million), resulting from application of SFAS No. 123 "Accounting for Stock-Based Compensation" under U.S. GAAP accounting. The decrease in stock-based compensation was mainly due to declining expenses from options and convertible bonds granted in prior periods as well as lower numbers of options and convertible bonds granted in 2004.

Cost by Expenditure Type

For the first six months of 2004, personnel costs (excluding expenses arising from stock-based compensation) amounted to EUR 3.8 million (June 30, 2003: EUR 3.9 million) or 38% of total operating expenses, thus representing the largest cost block within operating expenses in the first six months of 2004.

Intangible costs, which include patent litigation costs and amortization of licenses and patents, amounted to EUR 1.6 million (June 30, 2003: EUR 1.3 million), or 16% of the total in the first six months of 2004. External consultancy costs amounted to EUR 1.4 million (June 30, 2003: EUR 2.4 million), or 14% of total operating expenses.

Non-Operating Items

Non-operating income amounted to EUR 0.3 million compared to a non-operating loss of EUR 1.3 million on June 30, 2003, a positive change of EUR 1.6 million. The improvement largely stems from MorphoSys' sale of marketable securities in the first six months of 2004, which resulted in a realized gain of EUR 0.7 million.

Net Loss

Continuing the positive trend of 2003, the Company reduced its net loss by 84% to EUR 0.8 million (June 30, 2003: EUR 4.9 million). Positive EBITDA (Earnings before Interest, Taxes, Depreciation, Amortization and Stock-Based Compensation) amounted to EUR 1.3 million compared to a loss of EUR 2.0 million in the same period of 2003. The resulting loss per share for the six months ended June 30, 2004 amounted to EUR 0.15 (six months ended June 30, 2003: EUR 1.22).

Liquidity / Cash Flows

On June 30, 2004, the Company held EUR 29.9 million in cash, cash equivalents and marketable securities compared to a EUR 23.2 million balance at December 31, 2003. The increased cash position results from the issuance of a convertible bond to Novartis for EUR 9.0 million in connection with the strategic antibody collaboration signed in May 2004.

In the first six months of 2004, the Company's current assets increased by EUR 7.6 million to EUR 33.8 million compared to EUR 26.2 million at December 31, 2003.

Assets

Total assets increased by EUR 10.0 million to EUR 55.8 million in the first six months of 2004, compared to EUR 45.8 million at December 31, 2003, mainly as a result of the increased cash position.

Liabilities

During the first six months of 2004, total non-current liabilities increased by EUR 1.6 million to EUR 9.5 million, principally due to an increase in other non-current liabilities. Total current liabilities increased by EUR 0.1 million and thus remained almost unchanged in the first half of 2004.

Equity

At June 30, 2004, the total number of shares issued was 5,408,965, of which 5,349,203 were outstanding, compared to 4,901,332 and 4,841,570 at December 31, 2003, respectively.

The increase arose from the conversion of a convertible bond issued to Novartis in connection with the collaboration agreement signed in May 2004. This mandatory convertible debenture was converted into 490,133 common MorphoSys shares on June 15, 2004.

An additional increase of 17,500 shares resulted from the conversion of bonds issued to employees.

Capital Expenditure

In the first six months of 2004, the Company invested relatively low amounts on intangible assets. Amortization of existing capitalized intangibles in the first half of 2004 was EUR 1.1 million compared to EUR 0.6 million in the same period of the previous year. The increase of EUR 0.5 million resulted in part from revaluation of the CAT license in 2003.

Investment in property and equipment amounted to EUR 0.8 million for the six-month period ended June 30, 2004, compared to EUR 0.2 million for the same period of the prior year. The increase resulted from investments in automation for the Antibodies by Design unit as well as maintenance of capitalized assets used in other areas of the Company's business. Depreciation for the first six months of 2004 accounted for EUR 0.4 million and remained unchanged compared to the same period last year.

Human Resources

Number and Qualification of Employees

On June 30, 2004 the MorphoSys Group employed 120 people (December 31, 2003: 95). On average, the MorphoSys Group employed 104 people for the first six months of 2004 (Q2 2003: 93). The increase was related to recently signed new collaborations.

Of the 120 employees, 95 worked in research and development and 25 in sales, general and administration. On June 30, 2004, 43 of MorphoSys' employees had a Ph.D. degree (December 31, 2003: 35).

On June 30, 2004, MorphoSys employed 3 apprenticeship positions (December 31, 2003: 2).

Dr. Metin Colpan, co-founder, Chief Executive Officer and Managing Director of QIAGEN N.V., was appointed to the Company's Supervisory Board at the Annual Shareholders' Assembly on May 11, 2004. Dr. Colpan replaces Dr. Jörg Reinhardt, Director of Development and member of the Executive Committee at Novartis Pharma. Dr. Gerald Möller, Dr. Daniel Camus and Dr. Geoffrey N. Vernon were re-appointed to the Supervisory Board of MorphoSys.

Research & Development / Partnered Research

Proprietary Product Development

No significant changes in the development of the Company's proprietary product pipeline have occurred since the publication of the annual report 2003.

MorphoSys is currently performing a comparison study with MOR102 and other already approved psoriasis drugs. Due to technical circumstances the execution and completion of the comparison study is delayed. We expect to publish the results in fall 2004.

Partnered Product Development

Novartis AG

In May 2004, MorphoSys announced the signing of a significant strategic collaboration with Novartis Pharma AG to discover and develop antibody-based biopharmaceuticals. MorphoSys brings validated and robust human antibody technologies (HuCAL GOLD[®]) to Novartis' new strategic research directions, building a collaboration that will identify and develop novel therapeutic agents rapidly and efficiently.

MorphoSys scientists will work directly with Novartis scientists across the global sites of the Novartis Institutes for BioMedical Research (NIBR), including their new world headquarters in Cambridge, Massachusetts, U.S.A. The MorphoSys HuCAL GOLD[®] technology will be an integral part of Novartis' drug discovery and development efforts, with the goal of identifying and developing multiple HuCAL GOLD[®]-derived therapeutic antibodies against many different targets. During the term of the agreement, Novartis will fund internal research at MorphoSys that will generate and optimize HuCAL GOLD[®] antibodies against targets identified by Novartis. In addition, Novartis will have access to the current MorphoSys HuCAL GOLD[®] library at two of its sites. This technology, in conjunction with Novartis' leading research and development capabilities, will potentially enable Novartis to shorten the time needed to generate novel therapeutic as well as research antibodies.

Additionally, under the terms of this collaboration Novartis will be MorphoSys' first partner to receive a non-exclusive option on internalization of the entire MorphoSys technology platform, which would trigger an additional payment by Novartis to MorphoSys.

Underscoring the strategic nature of the collaboration Novartis made a EUR 9.0 million investment in MorphoSys by purchasing non-interest-bearing convertible bonds of MorphoSys. The convertible bonds were converted into 490,133 common MorphoSys shares in June 2004. In addition, MorphoSys will receive over USD 30.0 million in committed R&D funding and technology license fees over the first three years of the collaboration. MorphoSys also stands to receive technology license payments, research and developmental milestones, as well as royalties on marketed antibody products.

Intellectual Property

In June 2004, the U.S. Patent and Trademark Office granted a new patent to MorphoSys on its proprietary CysDisplay™ screening technology. CysDisplay™ is an important component of MorphoSys's proprietary HuCAL GOLD® technology, and the new patent provides additional protection for the same. The new patent (US 6,753,136) entitled "Novel methods for displaying (poly)peptides/proteins on bacteriophage particles via disulfide bonds" describes a selection technology based on phage display for selecting high-affinity antibodies. Additional patent applications are pending in other jurisdictions around the world.

Outlook

In the first six months of 2004, MorphoSys had committed orders which would allow it to achieve its full year 2004 revenue estimates. Revenue guidance for 2004 will be increased on the occasion of the Company's Q2 financial results publication. Additional revenues beyond the Company's original revenue forecast are dependent on the achievement of events such as milestones and new cooperations.

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

	Three Months Ended June 30, 2004 EURO	Three Months Ended June 30, 2003 EURO	Six Months Ended June 30, 2004 EURO	Six Months Ended June 30, 2003 EURO
Revenues	4,536,336	3,499,336	8,783,423	7,243,382
Operating Expenses				
Research and Development	3,043,314	2,968,785	5,645,683	5,708,947
Sales, General and Administrative	2,161,656	1,823,560	3,652,032	4,071,981
Stock-Based Compensation	249,980	596,146	585,673	1,057,242
Total Operating Expenses	5,454,950	5,388,491	9,883,388	10,838,170
Loss from Operations	(918,614)	(1,889,155)	(1,099,965)	(3,594,788)
Interest Income	9,465	165,494	113,275	185,560
Interest Expense	80,303	812,672	158,009	911,532
Impairment of Marketable Securities	–	(753,768)	–	(753,768)
Other Income / (Expense), Net	(254,485)	192,316	366,906	189,251
Loss before Taxes	(1,243,937)	(3,097,785)	(777,793)	(4,885,277)
Foreign Income Tax Expense	–	(1)	–	(1)
Net Loss	(1,243,937)	(3,097,784)	(777,793)	(4,885,276)
Loss per Share				
Basic and Diluted	(0.25)	(0.75)	(0.15)	(1.22)
Shares Used in Computing Net Loss per Share				
Basic and Diluted	4,931,426	4,113,615	5,097,324	4,002,398

See accompanying notes

Condensed Consolidated Balance Sheets (U.S. GAAP)

	06/30/2004 EURO (unaudited)	12/31/2003 EURO
Assets		
Current Assets		
Cash and Cash Equivalents	8,876,231	6,652,456
Marketable Securities	21,056,292	16,508,575
Accounts Receivable	3,205,792	2,111,710
Prepaid Expenses and Other Current Assets	699,924	948,575
Total Current Assets	33,838,239	26,221,316
Non-Current Assets		
Property and Equipment, Net	2,206,879	1,907,895
Patents, Net	5,712,381	6,103,675
License Fees, Net	10,278,151	10,898,904
Other Assets	3,810,738	627,130
Total Non-Current Assets	22,008,149	19,537,604
Total Assets	55,846,388	45,758,920
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts Payable	173,379	258,732
Current Portion of License Payable	792,799	677,060
Current Portion of Deferred Revenue	4,524,001	4,272,249
Accrued Employees Benefits	773,121	949,122
Other Accrued Expenses and Liabilities	1,540,251	1,524,439
Total Current Liabilities	7,803,551	7,681,602
Non-Current Liabilities		
License Payable, Net of Current Portion	1,648,925	1,651,360
Deferred Revenue, Net of Current Portion	4,024,103	6,086,205
Other Non-Current Liabilities	3,656,973	-
Convertible Bonds Due to Related Parties	134,300	157,200
Total Non-Current Liabilities	9,464,301	7,894,765
Stockholders' Equity		
Common Stock, EUR 3.00 Par Value; Ordinary Shares Authorized (9,567,400 and 8,626,344 for 2004 and 2003, respectively); Ordinary Shares Issued (5,408,965 and 4,901,332 for 2004 and 2003, respectively); Ordinary Shares Outstanding (5,349,203 and 4,841,570 for 2004 and 2003, respectively);	16,226,895	14,703,996
Treasury Stock (59,762 shares for 2004 and 2003, respectively), at cost	(21,934)	(21,934)
Additional Paid-in Capital	76,752,694	68,623,807
Accumulated Other Comprehensive Income	434,745	912,755
Accumulated Deficit	(54,813,864)	(54,036,071)
Total Stockholders' Equity	38,578,536	30,182,553
Total Liabilities and Stockholders' Equity	55,846,388	45,758,920

See accompanying notes

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

	Common Stock		Treasury Stock		Additional Paid-in Capital EURO	Accumulated		Total Shareholders' Equity EURO
	Shares	EURO	Shares	EURO		Other Com- prehensive Gain/(Loss) EURO	Accumulated Deficit EURO	
Balance at January 1, 2003	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	–	–	–	–	2,175,430	–	–	2,175,430
Capital Increase against Contribution in Kind (XOMA), 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 (CAT), Net of Issuance Cost of EUR 150,000	588,160	1,764,480	–	–	4,143,569	–	–	5,908,049
Other Comprehensive Loss: Change in Unrealized Gain on Available-for-Sale Securities	–	–	–	–	–	1,418,156	–	1,418,156
Foreign Currency Gain from Consolidation	–	–	–	–	–	12,190	–	12,190
Net Loss	–	–	–	–	–	–	(4,148,032)	(4,148,032)
Comprehensive Loss	–	–	–	–	–	–	–	(2,717,686)
Balance at December 31, 2003	4,901,332	14,703,996	59,762	(21,934)	68,623,807	912,755	(54,036,071)	30,182,553
Conversion of Convertible Bonds Issued to Related Parties	17,500	52,500	–	–	152,075	–	–	204,575
Compensation Related to the Grant of Stock Options and Convertible Bonds (unaudited)	–	–	–	–	585,673	–	–	585,673
Conversion of Convertible Bonds, Net of Issuance Cost of EUR 93,192	490,133	1,470,399	–	–	7,391,139	–	–	8,861,538
Other Comprehensive Loss: Change in Unrealized Gain on Available-for-Sale Securities (unaudited)	–	–	–	–	–	(478,802)	–	(478,802)
Foreign Currency Gain from Consolidation (unaudited)	–	–	–	–	–	792	–	792
Net Loss (unaudited)	–	–	–	–	–	–	(777,793)	(777,793)
Comprehensive Loss (unaudited)	–	–	–	–	–	–	–	(1,255,803)
Balance at June 30, 2004 (unaudited)	5,408,965	16,226,895	59,762	(21,934)	76,752,694	434,745	(54,813,864)	38,578,536

See accompanying notes

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

For the Periods ended June 30,	2004 EURO	2003 EURO
Operating Activities		
Net Loss	(777,793)	(4,885,276)
Adjustments to Reconcile Net Income / (Loss) to Net Cash Used in Operating Activities		
Depreciation	440,815	440,591
Amortization of Intangible Assets	1,049,913	617,010
Net Gain on Sale of Marketable Securities	(726,747)	(196,831)
Impairment of Marketable Securities	–	753,768
Unrealized Net Loss on Derivative Financial Instruments	119,253	–
Gain on Sale of Property and Equipment	–	235
Recognition of Deferred Revenue	(4,525,810)	(3,478,447)
Stock-Based Compensation	585,673	1,057,243
Changes in Operating Assets and Liabilities		
Accounts Receivable	(1,094,082)	5,976,569
Prepaid Expenses and Other Assets	162,910	583,009
Accounts Payable	(85,353)	(965,442)
Licenses Payable	113,304	(579,066)
Deferred Revenue	2,715,460	1,045,233
Accrued Employee Benefits	(176,001)	(423,727)
Other Accrued Expenses and Liabilities	15,812	(280,208)
Net Cash Used in Operating Activities	(2,182,646)	(335,339)

See accompanying notes

For the Periods ended June 30,	2004 EURO	2003 EURO
Investing Activities		
Purchases of Marketable Securities	(13,236,692)	(8,592,506)
Proceeds from Sale of Marketable Securities	9,055,420	8,722,413
Purchases of Property and Equipment	(759,207)	(154,489)
Proceeds from Disposal of Property and Equipment	19,408	20,000
Additions to Patents	(37,866)	(21,937)
Net Cash Used in Investing Activities	(4,958,937)	(26,519)
Financing Activities		
Proceeds from the Issuance of Convertible Bonds	8,954,730	–
Conversion of Convertible Bonds Granted to Related Parties	204,575	–
Repayments from Conversion and Forfeitures of Convertible Bonds Issued to Related Parties	(22,900)	(8,600)
Proceeds from the Issuance of Convertible Bonds to Related Parties	–	70,700
Purchases of Derivative Financial Instruments	(158,576)	–
Proceeds from Disposal/Exercise of Derivative Financial Instruments	479,929	–
Costs of Share Issuance	(93,192)	(23,314)
Net Cash Provided by Financing Activities	9,364,566	38,786
Effect of Exchange Rate Differences on Cash	792	(15,149)
Increase / (Decrease) in Cash and Cash Equivalents	2,223,775	(338,221)
Cash and Cash Equivalents at the Beginning of the Period	6,652,456	842,082
Cash and Cash Equivalents at the End of the Period	8,876,231	503,861
Supplemental Disclosures of Cash Flow Information:		
Change in Unrealized Gains on Marketable Securities	(478,802)	189,832
Reduction of Restricted Cash	118,000	–
Non-Cash Settlement of License Payable (XOMA)	–	4,224,608
Non-Cash Fair Value of Embedded Derivatives	3,656,973	–

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 was 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 and commenced operations on December 31, 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 in Martinsried/Planegg, Germany.

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

Basis of Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of the 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.

Consolidation

The accompanying financial statements consolidate the financial positions, 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 marketable 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 re-evaluates such designations as of each balance sheet date. At June 30, 2004 and December 31, 2003, 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 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. The Company considers a decline in the market value of a marketable security, which is longer than six months in duration, to be deemed other than temporary unless specific facts and circumstances indicate otherwise. For further information, please see note 2.

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 a liability. Changes in fair value are recorded in other income. According to the Company's foreign currency hedging policy, only receivables which are definite and collectable within a twelve-month period will be hedged. Embedded derivative instruments are separated from the host contract and accounted for separately as a derivative instrument using SFAS No. 133. For further information, please see note 4.

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 terms, whichever is shorter.

Revenue Recognition

The Company's revenues include technology access fees, fees earned from research and development collaboration agreements predominately with companies based in the United States and fees earned from the sale of HuCAL[®] antibodies in non-therapeutic applications.

Revenues 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 the services are provided in. Milestone revenues are recognized upon achievement of certain criteria. Revenues from sales of non-therapeutic applications are recognized upon shipment.

Investment grants from governmental agencies for the support of specific research and development projects are recorded as revenues 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.

For revenue arrangements with multiple deliverables the Company tests for separate units of accounting based on the criteria stated in Emerging Issues Task Force EITF 00-21. If certain criteria are met, the consideration will be allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria will be considered separately for each of the separate units.

Deferred revenue represents revenues received but not yet earned per the terms of the contracts. At December 31, 2003 and June 30, 2004, cash was received for all deferred revenue recorded.

Segment Reporting

The Company operates primarily in one business segment related to the development of antibody therapeutics within the biotechnology 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 "Disclosures 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. All amounts in the statement of operations have been translated using the average exchange rate for the year. The gains and losses resulting from the year-on-year changes in exchange rates have been reported in accumulated other comprehensive income. For further details, please see note 5.

Net Earnings/Loss per Share

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

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 their fair value.

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 (10 years). 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 of America in October 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 (10 years). 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 Risks

Financial instruments that potentially subject the Company to concentration of credit risks 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 concentration. At June 30, 2004, three customers individually accounted for approximately 40%, 20% and 7% of the Company's accounts receivable balance. In addition, three customers individually accounted for 32%, 20% and 12% of the Company's total revenues for the first six months of 2004. On June 30, 2003, three customers individually had accounted for 49%, 32% and 11% of the Company's revenues. On December 31, 2003, one customer individually accounted for approximately 88% of the accounts receivable balance.

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 to the Company could be adversely affected. Based on the management's assessment, allowances of EUR 17,340 and EUR 0 in relation to the newly formed reagent business unit were necessary on June 30, 2004 and December 31, 2003, respectively. The Company does not require collateral from customers for accounts receivable. On June 30, 2004 and December 31, 2003, accounts receivable included unbilled amounts of approximately EUR 1,911,490 and EUR 119,360, 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 2). The fair value of license payables is determined by the effective interest method. Convertible bonds are recorded at their accreted values, which approximate the cash outlay that is due upon the note settlements.

Reclassifications

Certain amounts in prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

Effects of New Accounting Standards and Regulations

For the effects of new accounting standards we refer to our published consolidated financial statements as of December 31, 2003.

2 Marketable Securities

Marketable securities consist of the following as of June 30, 2004 and December 31, 2003:

in 000's EUR	Maturity	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
December 31, 2003					
HVB Euro Bond	June 7, 2011	3,268	456	0	3,724
HVB Debentures	Dec. 6, 2009	2,562	161	0	2,723
DB Money Market Funds	daily	10,181	245	0	10,426
		16,011	862	0	16,873
Restricted Cash					364
					16,509
June 30, 2004					
DB Money Market Funds	daily	20,919	383	0	21,302
		20,919	383	0	21,302
Restricted Cash					246
					21,056

Net unrealized holding gains of EUR 383,128 for the first six months of 2004 and EUR 861,929 for the year ended December 31, 2003 were recorded as a separate component of stockholders' equity.

In prior years, the Company invested for an aggregate amount of EUR 3.8 million in a silent partnership of HypoVereinsbank Luxembourg and EUR 2.8 million in securities of the HypoVereinsbank 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. 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, unless specific facts and circumstances indicate otherwise. 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 for January 2003 to June 2003 of EUR 753,768 had been recognized in June 2003.

In January and February 2004, MorphoSys sold both investments - the silent partnership of HypoVereinsbank Luxembourg as well as held securities of the HypoVereinsbank AG. Realized gains amounted to EUR 646,100.

For further details of restricted cash items see note 3.

3 Restricted Assets

The Company has classified as restricted cash certain cash, cash equivalents and marketable securities in other assets that are not available for use in its operations. At June 30, 2004 the Company had commitments of EUR 245,500 for guarantees issued compared to EUR 364,000 at year-end 2003. The reduction resulted from guarantees returned in connection with discontinued operations of MorphoSys U.S.A., Inc.

EUR 134,300 and EUR 157,200, respectively, were committed for convertible bonds issued to employees, the Management Board and the Supervisory Board at June 30, 2004 and December 31, 2003. The decrease is a result of bonds exercised in the nominal amount of EUR 17,500 and bonds forfeited in the nominal amount of EUR 5,400 during the first six months of 2004.

4 Derivative Financial Instruments

In May 2003, MorphoSys entered into foreign currency option contracts to hedge foreign exchange exposure related to U.S. Dollar accounts receivable. During the first six months of 2004, the remaining contracts were sold or exercised for EUR 479,929.

In February 2004, the Company entered into foreign currency option contracts in the notional amount of EUR 3.8 million or USD 5.0 million. At June 30, 2004, these option contracts remained unsold and were presented as other current assets. For the first six months of 2004, amortization of the option premiums amounted to EUR 103,535.

The Company accounts for embedded derivative instruments using SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". MorphoSys has identified embedded derivative instruments in one of their agreements. The embedded derivative is separated from the hybrid contract and shown as an other non-current asset valued at estimated fair value. On June 30, 2004 the fair value was EUR 3.7 million.

In May 2004, the Company entered into foreign U.S. Dollar forward contracts in the notional amount of USD 3.8 million maturing from July 2004 to July 2005. At June 30, 2004, these forward contracts are accounted for in other current assets at EUR 5,856. The change in fair value was included in non-operating losses on foreign exchange of EUR 356,613 (June 30, 2003: EUR 25,149).

5 Accumulated Other Comprehensive Income / (Loss)

Accumulated other comprehensive income consists of unrealized gains on marketable securities and translation adjustments from consolidation. For June 30, 2004 and December 31, 2003, the components of accumulated other comprehensive income were as follows:

in 000's EUR	06/30/2004	12/31/2003
Net Unrealized Gain on Available-for-Sale Securities	383	862
Foreign Currency Translation Adjustment	52	51
Accumulated Other Comprehensive Income	435	913

6 Intangible Assets

The following sets forth the intangible asset classes as of June 30, 2004 and December 31, 2003:

in 000's EUR	06/30/2004	12/31/2003
Amortized Intangibles		
Patents	8,596	8,569
Accumulated Amortization Patents	(3,000)	(2,571)
Unamortized Intangible Assets		
Patents	116	106
Net Patents	5,712	6,104
Amortized License Rights		
License Rights	12,140	12,140
Accumulated Amortization Licenses	(1,862)	(1,241)
Net License Rights	10,278	10,899

The changes in the carrying amount of unamortized patents for the period ended June 30, 2004 is as follows:

in 000's EUR	
Unamortized Intangibles	
Balance on December 31, 2003	106
Additions for the First Six Months 2004	10
Balance on June 30, 2004	116

Amortization is expected to commence on unamortized patents once the related patents are granted. Amortization expense on intangible assets totaled EUR 1,049,913 for the six-month period ended June 30, 2004 (June 30, 2003: EUR 617,010). Patents are amortized over 10 years starting from the date of the first patent grant. Licenses are amortized over 10 years from the date of the acquisition. The increase of amortization expense is mainly due to the acquisition of the CAT license in July 2003.

7 Property and Equipment

Property and equipment consist of the following at June 30, 2004 and December 31, 2003:

in 000's EUR	06/30/2004	12/31/2003
Office and Laboratory Equipment	4,247	3,605
Furniture and Fixtures	1,280	1,267
Purchased Software	1,263	1,186
Total	6,790	6,058
Less Accumulated Depreciation	(4,583)	(4,150)
Property and Equipment, Net	2,207	1,908

8 Contingent Liabilities

In June 2001, a lawsuit was filed against the Company by Applied Molecular Evolution, Inc., ("AME") 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 1990s. 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 be 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.

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.

9 Stockholders' Equity

Common Stock

On June 30, 2004, the Common Stock of the Company was EUR 16,226,895. An increase of EUR 1,470,399 arose as a result of the conversion of bonds issued to Novartis on May 19, 2004 in connection with a strategic antibody alliance signed earlier this year. The bond was converted into 490,133 MorphoSys shares on June 15, 2004. Through conversion of 17,500 convertible bonds issued to employees, common stock increased by an additional EUR 52,500 in the first six months of 2004.

In the year 2003, common stock increased by EUR 2,854,878. The increase arose as a result of the issuance of 363,466 shares to XOMA for a capital increase against contribution in kind, which was registered in the commercial register on May 6, 2003. The issuance of 588,160 shares to CAT for a capital increase against contribution in kind was registered in the commercial register on August 26, 2003.

Authorized Capital

On May 11, 2004, the Annual Shareholders' Assembly authorized the Company to increase Authorized Capital I by 823,424 shares to create a maximum of 1,960,533 new shares of Authorized Capital I (December 31, 2003: 1,137,109 shares). Also approved was an increase to Authorized Capital II of 58,816 shares to create a maximum of 490,133 new shares of Authorized Capital II (December 31, 2003: 431,317 shares).

Conditional Capital

In the first six months of 2004, 17,500 shares were raised from Conditional Capital IV through exercise of the same number of convertible bonds by employees, increasing the subscribed capital by EUR 52,500.

On May 11, 2004, the Annual Shareholders' Assembly authorized the Company to create an additional 58,816 shares for Conditional Capital V to create a maximum amount of EUR 510,789 (170,263 shares).

On May 19, 2004, MorphoSys issued a convertible bond split into seven partial debentures to Novartis, convertible into a total of 490,133 shares. On June 15, 2004, Novartis converted all debentures into 490,133 common shares from the Company's Conditional Capital III.

Additional Paid-In Capital

On June 30, 2004, Additional Paid-in Capital amounted to EUR 76,752,694 (December 31, 2003: EUR 68,623,807). The increase of EUR 8,128,887 is due to stock-based compensation provisions in the amount of EUR 585,673, EUR 7,391,139 as a result of the Novartis share issuance including direct cost of EUR 93,192 and EUR 152,075 from conversion of convertible debenture issued to employees.

Treasury Stock

Treasury Shares totaling EUR 21,934 (59,762 shares) at June 30, 2004 remained unchanged compared to December 31, 2003.

10 Stock Options and Convertible Bonds

Effective June 6, 2002, the Company amended the Incentive Stock Option Plan ("2002 Plan") authorizing the grant of options to employees for up to 74,556 shares, arising from Conditional Capital, and deliverable upon exercise of non-warrant option rights. On January 15, 2004, a grant of 35,000 shares under the 2002 Plan was made to Company employees. The option rights are non-transferable and have a maximum life of five years. Additionally, a two-year holding period is required after the date of grant, after which the holder can exercise up to the amount of vested option rights, under the condition that the value of the underlying stock has appreciated 10% per annum, cumulatively, in the year of exercise.

At the Company's Annual Shareholders' Assemblies in July 2002 and May 2003, the Company was authorized until June 30, 2006 to issue up to 450,269 non-interest-bearing convertible bonds with a par/nominal value of EUR 1.00 each to employees, members of the Management Board and the Supervisory Board of the Company and its affiliates (2002 Plan). The pre-emptive rights of the stockholders were excluded.

On April 1, 2003, pursuant to a Management Board decision, the Company issued 70,700 convertible bonds to the Management Board and employees of the Company under the 2002 Plan. The beneficiaries may exercise the conversion rights only after the expiration of a waiting period of one year after the grant date. Each convertible bond with a nominal value of EUR 1.00 allows the exchange into one share of ordinary no-par value common stock of the Company against payment of the exchange price. The convertible bonds can be exercised until December 31, 2005 under the condition that the stock exchange price on at least one day during the lifetime of the convertible bonds has amounted to 110% of the exchange price. From April to June 2004, 17,500 conversion rights granted April 1, 2003 were exercised and converted into common stock.

In the first six months of 2004, no convertible bonds were granted.

11 Directors' Dealings

The table below shows the shares, stock options and convertible bonds as well as the changes of ownership of the same, which were held by the Management Board and the Supervisory Board during the first six months of 2004:

Shares	01/01/2004	Additions	Sales	06/30/2004
Management Board				
Dr. Simon E. Moroney (held through a controlled entity)	113,461	–	–	113,461
Dave Lemus	–	–	–	–
Dr. Thomas von Rüden	–	–	–	–
Total	113,461	–	–	113,461
Supervisory Board				
Dr. Gerald Möller	–	2,500	–	2,500
Prof. Dr. Jürgen Drews	–	–	–	–
Dr. Daniel Camus	–	–	–	–
Dr. Metin Colpan ¹⁾	–	–	–	–
Prof. Dr. Andreas Plückthun	59,300	–	–	59,300
Dr. Jörg Reinhardt ²⁾	–	–	–	–
Dr. Geoffrey N. Vernon	–	–	–	–
Total	59,300	2,500	–	61,800

1) Member of the Supervisory Board of MorphoSys from May 11, 2004

2) Member of the Supervisory Board of MorphoSys until May 11, 2004

Stock Options

	01/01/2004	Additions	Sales	06/30/2004
Management Board				
Dr. Simon E. Moroney	47,000	-	-	47,000
Dave Lemus	21,000	-	-	21,000
Dr. Thomas von Rüden	64,700	-	-	64,700
Total	132,700	-	-	132,700
Supervisory Board				
Dr. Gerald Möller	6,100	-	-	6,100
Prof. Dr. Jürgen Drews	5,930	-	-	5,930
Dr. Daniel Camus	-	-	-	-
Dr. Metin Colpan ¹⁾	-	-	-	-
Prof. Dr. Andreas Plückthun	3,500	-	-	3,500
Dr. Jörg Reinhardt ²⁾	3,500	-	-	3,500
Dr. Geoffrey N. Vernon	3,500	-	-	3,500
Total	22,530	-	-	22,530

Convertible Bonds

	01/01/2004	Additions	Sales	06/30/2004
Management Board				
Dr. Simon E. Moroney	24,000	-	-	24,000
Dave Lemus	34,000	-	-	34,000
Dr. Thomas von Rüden	20,000	-	-	20,000
Total	78,000	-	-	78,000
Supervisory Board				
Dr. Gerald Möller	2,500	-	-	2,500
Prof. Dr. Jürgen Drews	-	-	-	-
Dr. Daniel Camus	1,500	-	-	1,500
Dr. Metin Colpan ¹⁾	-	-	-	-
Prof. Dr. Andreas Plückthun	1,500	-	-	1,500
Dr. Jörg Reinhardt ²⁾	1,500	-	-	1,500
Dr. Geoffrey N. Vernon	1,500	-	-	1,500
Total	8,500	-	-	8,500

1) Member of the Supervisory Board of MorphoSys from May 11, 2004

2) Member of the Supervisory Board of MorphoSys until May 11, 2004

Imprint

Contact

Corporate Communications

Dave Lemus
Chief Financial Officer
Tel.: +49 89 899 27-439
Fax: +49 89 899 27-5439

Dr. Claudia Gutjahr-Löser
Director Corporate Communications
Tel.: +49 89 899 27-122
Fax: +49 89 899 27-5122

Mario Brkulj
PR Specialist
Tel.: +49 89 899-454
Fax: +49 89 899 27-5454

MorphoSys AG
Lena-Christ-Str. 48
82152 Martinsried / Planegg
Germany

E-mail: investors@morphosys.com
Internet: www.morphosys.com