

Financial Report for the
Quarterly Period Ended
March 31, 2005



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MorphoSys Group: Three Months' Financial Report 2005

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Dear Shareholders,

We are pleased to inform you that MorphoSys continued its positive company performance in the first quarter of 2005.

In January, we announced the acquisition of the U.K.- and U.S.-based Biogenesis Group. With more than 20 years of experience in antibody development and manufacturing, the two Biogenesis companies provide MorphoSys with new opportunities to further develop products, services and markets which are synergistic to MorphoSys's present business activities in this area. Combined with the Antibodies by Design unit, we believe the acquisition will firmly establish MorphoSys as one of the top five European suppliers of research antibodies going forward.

On the therapeutic side of the business, an important milestone in the Company's development was achieved. More specifically, the first antibody from MorphoSys's HuCAL[®] antibody library began clinical development in humans. In January 2005, a Swiss cancer patient was treated with the antibody 1D09C3, generated within the scope of MorphoSys' collaboration with GPC-Biotech AG. We hope this positive development will be mirrored by further progress in MorphoSys's drug pipeline with other Company partners in the pharmaceutical and biotech sector.

Continuing on the therapeutic antibody partnered activities, positive progress was also made within the scope of existing partnerships. For example, the existing license agreement with Bristol-Myers Squibb was updated and extended in January 2005, in order that HuCAL GOLD[®] technology plays a more prominent role in Bristol-Myers Squibb's research and development efforts. Additionally, in March 2005, Boehringer Ingelheim expanded its existing therapeutic antibody collaboration with MorphoSys by increasing the number of existing therapeutic programs jointly worked on, in addition to securing access to MorphoSys's HuCAL GOLD[®] library for research purposes.

Finally, the first quarter proved successful from a finance perspective. Through a private placement, MorphoSys placed 490,133 shares with institutional investors predominately in Europe, raising gross proceeds of approximately € 17.4 million. Proceeds from the issue are expected to be used for future business expansion opportunities, particularly on the research antibody side of the Company's activities.

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



Dave Lemus
Chief Financial Officer
MorphoSys AG

Group Management Report Q1 2005

Industry Overview

On a global level, stock markets have lost momentum in recent weeks leading to a worldwide crisis of confidence with investors. Both geopolitical and economic issues such as interest rates, oil price development, and unemployment figures have become heavy burdens for the capital markets.

Furthermore, the biotechnology and pharmaceutical sector suffered from endogenous issues. The suspension of Tysabri by Biogen Idec and Elan contributed to a 3% average drop in companies focusing on the development of antibodies during the first quarter. Moreover, using MorphoSys directly comparable antibody peer group as a benchmark, the average drop exceeded 30%. As such, MorphoSys was unable to escape the general bearish pull of the market, and decreased by 13% during the first three months of 2005. Biotech general indices showed a more mixed picture, with the German Prime Pharma and Healthcare index increasing by 2% and the NASDAQ Biotechnology index decreasing by 14%.

During the first quarter, the financing window in the biotech sector remained open. Global biotechnology companies raised USD 5 billion in the first quarter, of which USD 1.2 billion in secondary offerings, while the IPO group raised USD 585 million. Two IPOs occurred in Europe in addition to several IPOs at the AIM in London/U.K.

Financial Analysis

Revenues

Compared to the same period in the previous year, revenues increased by 72% to € 7.4 million in the first three months of 2005 (March 31, 2004: € 4.3 million). Reasons for the increase included revenues arising from new deals signed in Q2 2004, a clinical milestone achieved in Q1 2005, and inclusion of the Biogenesis Group revenues in consolidated turnover. Revenues arising from the therapeutic antibody segment accounted for 89% of total revenues while the research antibody segment, comprising MorphoSys' Antibodies by Design unit and the newly acquired Biogenesis Group companies in the U.S.A. and the U.K., generated 11% of the total. The Antibody by Design unit contributed 39% of the total research antibody segment revenues, whilst 61%, or € 0.5 million, of segment revenues stemmed from the Biogenesis Group companies. Geographically, 40% of MorphoSys' commercial revenues in the amount of € 2.9 million were generated with biotechnology and pharmaceutical companies located in the United States and Canada and 60% in Europe. This compares to 70% and 30%, respectively, in the same period of the prior year.

Cost of Goods Sold

Cost of goods sold (COGS) is composed of the research antibodies segment's cost of goods sold during the first quarter, for both the Antibodies by Design unit, as well as for the Biogenesis Group companies. COGS rose significantly to € 0.5 million in Q1 2005, compared to € 0.2 million in the same period in the prior year. Reason for the increase was inclusion of the Biogenesis Group companies COGS into Group accounts in the current year, which amounted to € 0.2 million.

Operating Expenses

For the first three months of 2005, total operating expenses including stock-based compensation expense increased by 54% to € 6.3 million (March 31, 2004: € 4.1 million), while operating profit increased by € 0.6 million to an operating profit of € 0.6 million (March 31, 2004: operating profit of € 0.0 million). The increase in operating expenses of € 2.2 million was mainly due to higher personal-related and material costs in conjunction with new collaborations as well as increased intangibles expenses in connection with a milestone payment accrued in the first three months of 2005. The acquisition of the Biogenesis Group companies had the effect of increasing operating expenses by € 0.4 million.

Research and Development Expenses

Costs for research and development increased by € 1.2 million to € 3.6 million (March 31, 2004: € 2.4 million). This increase resulted mainly from higher personal-related costs and higher material expenses as a result of new cooperations signed during 2004, as well as increased license fees due to a milestone payment achieved in 2005.

Sales, General and Administrative Expenses

Sales, general and administrative expenses amounted to € 2.4 million compared to € 1.4 million in the same period of the previous year. This resulted mainly from higher personnel costs partly stemming from the contribution of the Biogenesis Group, as well as increased advisory fees.

Stock-Based Compensation

Stock-based compensation in the amount of € 0.3 million for the first three months of 2005 was recorded as a non-cash charge (March 31, 2004: € 0.3 million) and remained unchanged, resulting from application of IFRS 2 "Share-based Payments" under IFRS accounting.

Cost by Expenditure Type

For the first three months of 2005, personnel costs (excluding expenses arising from stock-based compensation) amounted to € 2.5 million (March 31, 2004: € 1.3 million) or 40% of total operating expenses, thus representing the largest cost block within operating expenses in the first three months of 2005.

Intangible costs, which include patent litigation costs and amortization of licenses and patents, amounted to € 1.4 million (March 31, 2004: € 0.8 million), or 22% of the total in the first three months of 2005. External consultancy costs amounted to € 0.8 million (March 31, 2004: € 0.6 million), or 13% of total operating expenses.

Non-Operating Items

Non-operating expenses amounted to € 0.2 million compared to € 0.1 million on March 31, 2004, mainly caused by higher foreign exchange losses.

Net Profit / Loss

Continuing the positive trend established in 2004, the Company presented an operating profit of € 0.6 million, contrasted to the prior year of € 0.0 million. A net income of € 0.5 million resulted for the first quarter in 2005 compared to a net loss of € 0.1 million in Q1 2004. Inclusion of the Biogenesis Group net loss impacted the net income by contributing a € 0.1 million loss for the first quarter. The resulting profit per share for the entire MorphoSys Group for the three months ended March 31, 2005 amounted to € 0.08 (March 31, 2004: net loss per share of € 0.01)

Liquidity / Cash Flows

On March 31, 2005, the Company held €51.1 million in cash, cash equivalents and available-for-sale financial assets compared to a €37.2 million balance at December 31, 2004. The increased cash position resulted mainly from a capital increase executed in March 2005 as well as exercises of options and convertible bonds granted to management and employees.

In the first three months of 2005, the Company's current assets increased by €13.9 million to €54.3 million compared to €40.4 million at December 31, 2004 accordingly.

Assets

Total assets increased by €21.4 million to €77.2 million in the first three months of 2005, compared to €55.8 million at December 31, 2004, mainly as a result of the increased cash position and acquisition of the Biogenesis Group's assets, including acquired goodwill. A full purchase price allocation to assets acquired is planned before year-end 2005.

Liabilities

In the first three months of 2005, current liabilities increased from €10.1 million to €12.1 million compared to the prior year. The increase arose primarily from increased accounts payable and deferred payables amounts. Accounts payables increased in part due to licensing payments due, and acquired accounts payable relating to Biogenesis. Deferred revenues increased due to contracts signed in the second half of 2004.

During the first three months of 2005, total non-current liabilities increased by €1.6 million to €7.9 million, mainly due to an increase in deferred revenues and acquired long-term bank loans, in conjunction with the acquisition of the Biogenesis Group companies.

Equity

At March 31, 2005, the total number of shares issued was 5,959,185, of which 5,929,123 were outstanding, compared to 5,438,852 and 5,408,790 at December 31, 2004, respectively.

The increase arose from the issuance of 490,133 shares in connection with a capital increase in March 2005. An additional increase of 30,200 shares resulted from the conversion of bonds issued to employees.

Capital Expenditure

MorphoSys's investment in plant, property and equipment amounted to €0.1 million for the three-month period ended March 31, 2005, compared to €0.5 million for the same period of the prior year. Substantially, all investments were accomplished in Germany. Depreciation for the first three months of 2005 accounted for €0.2 million and remained unchanged to Q1 2004.

Human Resources

Number and Qualification of Employees

On March 31, 2005 the MorphoSys Group employed 167 people (December 31, 2004: 132). On average, the MorphoSys Group employed 166 people for the first three months of 2005 (Q1 2004: 117).

Of the 167 employees, 128 worked in research and development and 39 in sales, general and administration. On March 31, 2005, 45 of MorphoSys' employees had a Ph.D. degree (December 31, 2004: 45).

Of total employees, 30 worked in the Biogenesis Group, of whom 17 were engaged in research and development, and 13 in sales, general and administration.

On March 31, 2005, MorphoSys employed 2 trainees as "technical information processors in the area of information technology" (December 31, 2004: 2).

Subsidiaries/Segments/Organizational Structure

MorphoSys's global headquarters is located in Martinsried, Munich, Germany. The Company's R&D center and all administrative departments are presently located at its headquarters. The Company possesses four wholly owned subsidiaries, MorphoSys U.S.A., Inc., MorphoSys IP GmbH, and the Biogenesis Group of companies, which were acquired in January 2005:

Biogenesis U.K. Ltd. and Biogenesis U.S.A., Inc.

On January 20, 2005, MorphoSys acquired two privately held companies, Biogenesis Ltd. (Poole, U.K.) and its sister company Biogenesis, Inc. (Brentwood, New Hampshire, U.S.A.). The final agreements specified the purchase of 100% ownership of Biogenesis Ltd. and Biogenesis, Inc. by MorphoSys for GBP 5.25 million in cash, less net debt of approximately GBP 700,000. The two Biogenesis companies became wholly-owned subsidiaries of MorphoSys AG.

Research & Development / Partnered Research

MorphoSys uses its antibody technology both for the development of antibody therapeutics as well as the generation of reagents for research purposes and diagnostics agents. MorphoSys is currently active in two business segments:

1. Therapeutic Antibodies

MorphoSys has established a broad product pipeline of therapeutic antibody programs within the scope of commercial agreements with partners, in addition to own proprietary programs. During the first quarter of 2005, MorphoSys made progress in the following areas:

Proprietary Product Development

MorphoSys is currently developing four proprietary therapeutic antibodies MOR101, MOR102, MOR103, and MOR202 as candidates for out-licensing to potential partners prior to their entry into clinical development.

MOR102

MorphoSys performed a comparison study with MOR102 and two already approved psoriasis drugs, namely Amevive® and Raptiva®. The study was completed at the end of Q1 2005, however, the study results are currently under evaluation and review.

Partnered Product Development

During the first quarter of 2005, the Company made significant progress or expanded the following collaborations:

Boehringer Ingelheim

In March 2005, MorphoSys announced the expansion of the existing cooperation with Boehringer Ingelheim involving both research and therapeutic applications. Under the new contract, Boehringer Ingelheim has acquired an option to receive several exclusive licenses on new therapeutic antibody programs. The two companies presently have two therapeutic antibody programs in joint collaboration. Additionally, Boehringer Ingelheim will obtain access to MorphoSys's HuCAL GOLD® library for research purposes at a number of the firm's research facilities.

Since February 2003, Boehringer Ingelheim and MorphoSys have been working jointly on the development of therapeutic antibodies using MorphoSys's HuCAL GOLD® technology.

Bristol-Myers Squibb

In January 2005, MorphoSys announced a further expansion of its existing license agreement with Bristol-Myers Squibb. Under the amended agreement, MorphoSys granted Bristol-Myers Squibb access to its HuCAL GOLD® library for use in Bristol-Myers Squibb's pharmaceutical discovery programs for target characterization and validation, as well as for therapeutic and diagnostic antibody product development.

Prior to the most recent expansion of the existing license agreement, Bristol-Myers Squibb had a non-exclusive license to use prior versions of MorphoSys' HuCAL® library and the AutoCAL™ system, which is MorphoSys' established system for fully automated high-throughput antibody generation, installed at one of Bristol-Myers Squibb's facilities in the U.S. Bristol-Myers Squibb currently applies MorphoSys' proprietary antibody technology in its pharmaceutical discovery programs for target characterization and validation. In addition, Bristol-Myers Squibb received an option to further develop promising antibody candidates arising from these programs as therapeutics and diagnostics.

GPC Biotech AG

MorphoSys announced that GPC Biotech AG has commenced a Phase 1 clinical trial with a fully human cancer antibody generated using MorphoSys's HuCAL® technology at the end of January 2005. The testing in human patients with the HuCAL®-generated antibody represents a significant milestone for MorphoSys, in that it is the first MorphoSys-generated antibody to be administered to humans. The commencement of clinical trials triggered a clinical milestone payment from GPC Biotech to MorphoSys.

In December 2004, GPC Biotech received clearance from Swiss authorities to initiate human clinical testing with the HuCAL®-derived anticancer monoclonal antibody 1D09C3. In total, the clinical trials will involve three different sites in Europe and first commence at the Oncology Institute of Southern Switzerland (IOSI), a world-renowned oncology center that has been involved in numerous previous Phase 1 studies.

2. Research Antibodies

The Research Antibodies unit focuses on the generation of HuCAL® antibodies for non-therapeutic applications. The range of products and services offered target industrial and academic institutions requiring custom-generated antibodies for use in research and diagnostic applications.

Acquisition of the Biogenesis Group

In January 2005, MorphoSys announced the acquisition of two privately held companies, Biogenesis Ltd. (Poole, U.K.) and its sister company Biogenesis Inc. (Brentwood, New Hampshire, U.S.A.). With more than 20 years of experience in antibody development and manufacturing, and a comprehensive antibody catalogue, the combined Biogenesis Group represents one of the larger European suppliers of antibodies to the life sciences research community. The final agreements, signed on January 20, 2005, specify the purchase of 100% ownership of Biogenesis Ltd. and Biogenesis, Inc. by MorphoSys for GBP 5.25 million in cash, less net debt of approximately GBP 700,000. The two Biogenesis companies became wholly owned subsidiaries of MorphoSys AG.

The acquisition of Biogenesis was an important strategic step for MorphoSys, one of the leading sources of next generation antibody therapeutics, in establishing its innovative HuCAL[®] technology in new antibody market segments. It follows the establishment of the Antibodies by Design unit in late 2003 to serve the research and diagnostics markets with custom monoclonal antibodies. The Biogenesis Group has a strong catalog and industrial antibody production business, providing clients in the research and diagnostics field with many different antibody services.

Intellectual Property

In June 2001, a lawsuit was filed against the Company by Applied Molecular Evolution, Inc., ("AME") San Diego, California, 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. 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's motion for summary judgment of non-infringement be allowed and that AME's motion for partial summary judgment of infringement be denied. In September 2004, the District Judge issued a "Memorandum and Order" wherein he declined to adopt the recommendation and denied the summary judgment motions. Instead, he ordered a Markman hearing for claim construction, which was held on April 1, 2005. Thereafter, based on the facts at issue, it will be determined whether the case can be decided by way of summary judgment or has to go to trial.

Outlook

As communicated during the year-end press conference in February 2005, the Company expects to achieve double-digit growth in sales compared to the previous year. Not only the therapeutic antibody segment, but also the research antibody segment should contribute to this increase. Expenses are anticipated to increase in line with revenues. On the basis of these estimates, MorphoSys expects to achieve a net profit by the end of the year. No changes to MorphoSys's financial guidance for 2005, provided at the beginning of the year, were made on the occasion of the Company's Q1 press release.

Consolidated Statement of Operations (IFRS) – unaudited

	NOTE	03/31/2005 EURO	03/31/2004 EURO
Revenues		7,432,738	4,328,604
Cost of Goods Sold	2	505,228	184,068
Gross Profit		6,927,510	4,144,536
Operating Expenses			
Research and Development		3,595,179	2,418,301
Sales, General and Administrative		2,410,179	1,391,503
Stock-Based Compensation		291,386	335,693
Total Operating Expenses		6,296,744	4,145,497
Profit / (Loss) from Operations		630,766	(961)
Interest Income		21,529	103,810
Interest Expense		70,042	81,000
Other Income / (Expense), Net		(104,538)	(77,152)
Profit / (Loss) before Taxes		477,715	(55,303)
Income Tax (Expense) / Income		(19,785)	28
Net Profit / (Loss)		457,930	(55,275)
Earnings / (Loss) per Share:			
Basic Net Profit / (Loss) per Share		0.08	(0.01)
Diluted Net Profit / (Loss) per Share		0.08	(0.01)
Shares Used in Computing Basic Net Profit / (Loss) per Share		5,502,304	4,841,570
Shares Used in Computing Diluted Net Profit / (Loss) per Share		5,555,060	4,841,570

See accompanying notes

Consolidated Balance Sheets (IFRS)

	NOTE	03/31/2005 EURO	12/31/2004 EURO
		(unaudited)	
Assets			
Current Assets			
Cash and Cash Equivalents		3,276,938	12,531,198
Available-for-Sale Financial Assets		47,810,424	24,698,532
Accounts Receivable		2,197,393	2,304,778
Other Receivable		44,551	392,035
Prepaid Expenses and Other Current Assets		979,155	430,608
Total Current Assets		54,308,461	40,357,151
Non-Current Assets			
Property, Plant and Equipment, Net		4,963,863	2,330,995
Patents, Net		2,680,250	2,790,091
License Fees, Net		9,367,621	9,671,131
Software, Net		216,755	288,115
Goodwill	4	5,174,977	–
Other Assets		532,691	358,210
Total Non-Current Assets		22,936,157	15,438,542
Total Assets		77,244,618	55,795,693
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts Payable		4,828,098	3,838,144
Current Portion of License Payable		1,229,779	910,243
Provisions		600,607	600,607
Current Portion of Deferred Revenue		5,477,064	4,757,249
Total Current Liabilities		12,135,548	10,106,243
Non-Current Liabilities			
License Payable, Net of Current Portion		909,080	880,015
Deferred Revenue, Net of Current Portion		5,842,898	5,100,646
Convertible Bonds Due to Related Parties		84,992	109,692
Deferred Tax Liability		254,939	220,611
Bank Loans, long-term		778,804	–
Total Non-Current Liabilities		7,870,713	6,310,964
Stockholders' Equity			
Common Stock, EUR 3.00 Par Value; Ordinary Shares Authorized (9,567,400 and 9,597,400) Ordinary Shares Issued (5,959,185 and 5,438,852) Ordinary Shares Outstanding (5,929,123 and 5,408,790) for 2005 and 2004, respectively	3		
Treasury Stock (30,062 and 30,062 shares for 2005 and 2004, respectively), at Cost		17,866,522	16,305,523
Additional Paid-in Capital	3	94,542,566	78,646,377
Accumulated Other Comprehensive Income		397,535	452,782
Accumulated Deficit		(55,568,266)	(56,026,196)
Total Stockholders' Equity		57,238,357	39,378,486
Total Liabilities and Stockholders' Equity		77,244,618	55,795,693

See accompanying notes.

Consolidated Statement of Changes in Stockholders' Equity (IFRS) – unaudited

	Common Stock	
	Shares	EURO
Balance at January 1, 2004	4,901,332	14,703,996
Compensation Related to the Grant of Stock Options and Convertible Bonds	–	–
Other Comprehensive Income: Change in Unrealized Gain on Available-for-Sale Securities, Net of Deferred Tax Asset	–	–
Foreign Currency Gain from Consolidation	–	–
Net Loss for the Period	–	–
Comprehensive Income	–	–
Balance at March 31, 2004	4,901,332	14,703,996
Balance at January 1, 2005	5,438,852	16,316,556
Compensation Related to the Grant of Stock Options and Convertible Bonds	–	–
Exercise of Options and Convertible Bonds Issued to Related Parties	30,200	90,600
Capital Increase, Net of Issuance Cost of EUR 671,633	490,133	1,470,399
Other Comprehensive Income: Change in Unrealized Gain on Available-for-Sale Securities, Net of Deferred Tax Asset	–	–
Foreign Currency Loss from Consolidation	–	–
Net Profit for the Period	–	–
Comprehensive Income	–	–
Balance at March 31, 2005	5,959,185	17,877,555

See accompanying notes.

Treasury Stock		Additional Paid-in Capital EURO	Translation Reserve EURO	Revaluation Reserve EURO	Accumulated Deficit EURO	Total Stockholders' Equity EURO
Shares	EURO					
59,762	(21,934)	68,632,990	244,930	50,826	(56,308,308)	27,302,500
-	-	335,693	-	-	-	335,693
-	-	-	107,085	-	-	107,085
-	-	-	-	630	-	630
-	-	-	-	-	(55,275)	(55,275)
-	-	-	-	-	-	52,440
59,762	(21,934)	68,968,683	352,015	51,456	(56,363,583)	27,690,633
30,062	(11,033)	78,646,377	403,229	49,553	(56,026,196)	39,378,486
-	-	291,386	-	-	-	291,386
-	-	347,114	-	-	-	437,714
-	-	15,257,689	-	-	-	16,728,088
-	-	-	(41,004)	-	-	(41,004)
-	-	-	-	(14,243)	-	(14,243)
-	-	-	-	-	457,930	457,930
-	-	-	-	-	-	402,683
30,062	(11,033)	94,542,566	362,225	35,310	(55,568,266)	57,238,357

Consolidated Statement of Cash Flows (IFRS) – unaudited

For the Period ended March 31,	Note	2005 EURO	2004 EURO
Operating Activities			
Net Profit / (Loss)		457,930	(55,275)
Adjustments to Reconcile Net Profit / (Loss) to Net Cash Used for Operating Activities:			
Depreciation		209,212	218,594
Amortization of Intangible Assets		491,563	430,323
Net Gain on Sales of Financial Assets		(175,091)	(35,419)
Unrealized Net Loss on Derivative Financial Instruments		62,297	72,700
Loss on Sale of Property and Equipment		8,778	–
Recognition of Deferred Revenue		(1,973,625)	(2,162,740)
Stock-Based Compensation		291,386	335,693
Changes in Operating Assets and Liabilities:			
Accounts Receivable		510,811	831,727
Prepaid Expenses and Other Assets		(823,897)	(195,391)
Accounts Payable and Provisions		298,289	(731,544)
Licenses Payable		348,602	94,023
Deferred Revenue		3,435,692	1,657,616
Cash Generated from Operations		3,141,947	460,307
Interest Paid		–	–
Net Cash Provided by Operating Activities		3,141,947	460,307

For the Period ended March 31,	Note	2005 EURO	2004 EURO
Investing Activities:			
Purchases of Financial Assets		(29,732,302)	(13,236,692)
Proceeds from Sales of Financial Assets		6,999,997	6,605,161
Purchases of Property, Plant and Equipment		(137,467)	(453,778)
Proceeds from Disposals of Property, Plant and Equipment		63,534	3,986
Additions to Intangibles		(6,854)	(14,794)
Acquisition of Biogenesis, Net of Cash Acquired	4	(6,995,161)	–
Net Cash Used in Investing Activities		(29,808,253)	(7,096,117)
Financing Activities:			
Proceeds from the Issuance of Equity		17,399,721	–
Proceeds from the Issuance of Convertible Bonds		–	(5,400)
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		437,714	–
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(24,700)	–
Purchases of Derivative Financial Instruments		(75,000)	(138,000)
Proceeds from the Disposal of Derivatives		360,187	479,929
Cost of Share Issuance		(671,633)	–
Net Cash Provided by Financing Activities		17,426,289	336,529
Effect of Exchange Rate Differences on Cash		(14,243)	630
Decrease in Cash and Cash Equivalents		(9,254,260)	(6,298,651)
Cash and Cash Equivalents at the Beginning of the Period		12,531,198	6,652,456
Cash and Cash Equivalents at the End of the Period		3,276,938	353,805

See accompanying notes.

Notes to the Consolidated Financial Statements – unaudited

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board, (IASB), London in consideration of the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements for the period ended March 31, 2005, include MorphoSys AG, MorphoSys IP GmbH, MorphoSys U.S.A., Inc, Biogenesis, Inc., and Biogenesis Ltd. (together referred to as the "Group").

1 Changes in Accounting Policies

The accounting policies applied for the financial statements as of December 31, 2004 have been used throughout the first three months 2005, except following changes:

Basis of Consolidation

The equity of the subsidiaries is consolidated according to IFRS 3 "Business Combinations". All business combinations are accounted for using the purchase method, whereby identifiable assets and liabilities acquired are measured initially at their fair value. Any excess of the purchase price over the amounts allocated is recognized as goodwill. The goodwill is subject to a regular review for possible impairment.

The Company determined the accounting for business combinations in the first quarter 2005 only provisionally. The Company is currently performing a purchase price allocation. The outcome may result in an adjustment of the goodwill following IFRS 3.62, any adjustments to the provisional values will be recognized within twelve months of the acquisition date (IFRS 3.69). Please see note 4 for detailed information.

Cost of Goods Sold

Cost of goods sold comprises the cost of manufactured products and the acquisition cost of purchased goods which have been sold.

Inventories

Inventories are stated at the lower of manufacturing or acquisition cost and net realizable value on the FIFO basis. Manufacturing cost of self-constructed inventories comprises all costs which are directly attributable and an appropriate proportion of overhead.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Replacements and improvements are capitalized while general repairs and maintenance are charged to expense as incurred. Assets are depreciated with their expected useful lives which have been estimated to be three to thirty years using the straight-line and reducing balance method. Leasehold improvements are depreciated over the estimated useful lives of the assets.

2 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services and that is subject to risks and returns that are different from those of other segments.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group consists of the following main business segments:

Therapeutic Antibodies

MorphoSys possesses one of the leading technologies in the generation of human antibody therapeutics and bespoke antibody research projects. The Company makes use of its technology in collaborations with internationally renowned pharmaceutical and biotech companies.

Research Antibodies

The reagent business leverages MorphoSys's core technological capabilities in the design and manufacture of antibodies for research purposes. It commercializes HuCAL® technology focusing on the custom generation of research antibodies for partners on an individual basis.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers.

in 000's €	Therapeutic Antibodies		Research Antibodies		Unallocated		Consolidated	
	Q1 2005	Q1 2004	Q1 2005	Q1 2004	Q1 2005	Q1 2004	Q1 2005	Q1 2004
Revenues	6,606	4,193	827	136	–	–	7,433	4,329
Cost of Goods Sold	–	–	505	184	–	–	505	184
Gross Profit / (Loss)	6,606	4,193	322	(48)	–	–	6,928	4,145
Segment Result	3,139	1,857	(481)	(408)	(2,027)	(1,450)	631	(1)
Interest Income	–	–	–	–	–	–	22	104
Interest Expense	–	–	–	–	–	–	(70)	(81)
Other Income, net	–	–	–	–	–	–	(105)	(77)
Income Tax Expense	–	–	–	–	–	–	(20)	–
Total Profit / (Loss)	–	–	–	–	–	–	458	(55)

The following table shows the split of the Company's consolidated sales by geographical markets:

in 000's €	Q 1 2005	Q1 2004
Germany	1,836	1,070
U.S.A. and Canada	2,934	3,036
U.K.	168	–
Switzerland	2,323	–
Other Europe	108	223
Other	64	–
Total	7,433	4,329

3 Changes in Stockholders' Equity

Common Stock

On March 31, 2005, the Common Stock of the Company was € 17,866,522 (December 31, 2004: € 16,305,523). An increase of € 1,470,399 arose as a result of a capital increase at March 15th, 2005. Through conversion of convertible bonds and exercises of options issued to management and employees, Common Stock increased by an additional € 90,600 in the first three months of 2005.

Additional Paid-In Capital

On March 31, 2005, Additional Paid-in Capital amounted to € 94,542,566 (December 31, 2004: € 78,646,377). The increase of € 15,896,189 is due to stock-based compensation provisions in the amount of € 291,386 and € 15,257,689 as a result of the capital increase on March 15th, 2005 including direct cost of € 671,633 as well as € 347,114 from the exercise and the conversion of convertible bonds and stock options.

4 Preliminary Goodwill Allocation

On January 19, 2005, MorphoSys AG acquired Biogenesis Ltd. (Poole/UK), and Biogenesis Inc. (Brentwood, New Hampshire, U.S.A.). The final agreements specified the purchase of 100% ownership of the two companies by MorphoSys AG for a total of GBP 5,250,000, less net debt of approximately GBP 700,000. The total cost for financial advisors, legal counsel and other advisors was € 654,454. The two Biogenesis companies became wholly owned subsidiaries of MorphoSys AG. In the three month-period ended March 31, 2005, the subsidiaries contributed a net loss of € 0.1 million to the consolidated net profit for the first quarter of 2005. In accordance with IFRS 3.62 and 3.69, the group applied a preliminary goodwill allocation, which is provisional pending a formal purchase price allocation to be done before year end 2005.

The acquisition had the following preliminary effect on the Group's assets and liabilities.

Net Assets at January 19, 2005

	Biogenesis Group		
	Recognized Values	Fair Value Amount	Carrying Amount
Property, Plant and Equipment	1,788	992	2,780
Inventories	123	–	123
Trade and Other Receivables	425	–	425
Cash and Cash Equivalents	206	–	206
Interest-bearing Loans and Borrowings	(990)	–	(990)
Trade and Other Payables	(515)	–	(515)
Net Identifiable Assets and Liabilities	1,037	992	2,029
Goodwill on Acquisition			5,173
Consideration Paid, Satisfied in Cash*			7,202
Cash (acquired)			207
Net Cash Outflow			6,995

* Advisors fees amounting to €0.7 million included

As of March 31, 2005, foreign exchange effects of €2,228 were recognized for the goodwill accounted for.

5 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 three months of 2005:

Shares	01/01/2005	Additions	Forfeitures	Sales	03/31/2005
Management Board					
Dr. Simon E. Moroney*** (held through a controlled entity)	113,461	–	–	–	113,461
Dave Lemus	–	–	–	–	–
Total	113,461	–	–	–	113,461
Supervisory Board					
Dr. Gerald Möller	2,500	–	–	–	2,500
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan**	–	–	–	–	–
Prof. Dr. Jürgen Drews	–	–	–	–	–
Prof. Dr. Andreas Plückthun***	59,300	–	–	–	59,300
Dr. Jörg Reinhardt*	–	–	–	–	–
Dr. Geoffrey N. Vernon	–	–	–	–	–
Total	61,800	–	–	–	61,800

* retired: 05/11/2004

** entered: 05/11/2004

*** Shares were subject to share loan agreement as of March 14, 2005 in connection with a capital increase and were retransferred on April 13, 2005

Stock Options

	01/01/2005	Additions	Forfeitures	Sales	03/31/2005
Management Board					
Dr. Simon E. Moroney	47,000	–	–	–	47,000
Dave Lemus	21,000	–	–	–	21,000
Total	68,000	–	–	–	68,000
Supervisory Board					
Dr. Gerald Möller	2,500	–	–	–	2,500
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan**	–	–	–	–	–
Prof. Dr. Jürgen Drews	3,930	–	–	–	3,930
Prof. Dr. Andreas Plückthun	1,500	–	–	–	1,500
Dr. Jörg Reinhardt*	1,750	–	1,750	–	–
Dr. Geoffrey N. Vernon	1,500	–	–	–	1,500
Total	11,180	–	1,750	–	9,430

Convertible Bonds

	01/01/2005	Additions	Forfeitures	Sales	03/31/2005
Management Board					
Dr. Simon E. Moroney	19,474	–	–	–	19,474
Dave Lemus	30,228	–	–	24,000	6,228
Total	49,702	–	–	24,000	25,702
Supervisory Board					
Dr. Gerald Möller	2,500	–	–	–	2,500
Dr. Daniel Camus	1,500	–	–	–	1,500
Dr. Metin Colpan**	–	–	–	–	–
Prof. Dr. Jürgen Drews	–	–	–	–	–
Prof. Dr. Andreas Plückthun	1,500	–	–	–	1,500
Dr. Jörg Reinhardt*	–	–	–	–	–
Dr. Geoffrey N. Vernon	1,500	–	–	–	1,500
Total	7,000	–	–	–	7,000

* retired: 05/11/2004

** entered: 05/11/2004

6 Events after the Balance Sheet Date

In June 2001, a lawsuit was filed against the Company by Applied Molecular Evolution, Inc., ("AME") San Diego, California, 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. 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's motion for summary judgment of non-infringement be allowed and that AME's motion for partial summary judgment of infringement be denied. In September 2004, the District Judge issued a "Memorandum and Order" wherein he declined to adopt the recommendation and denied the summary judgment motions. Instead he ordered that a Markman hearing, which took place on April 1st, 2005, for claim construction should be held. Thereafter, based on the facts at issue, it will be determined whether the case can be decided by way of summary judgment or has to go to trial. As a result, no provisions for contingent liabilities have been made in the Company's financial statements.

Imprint

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