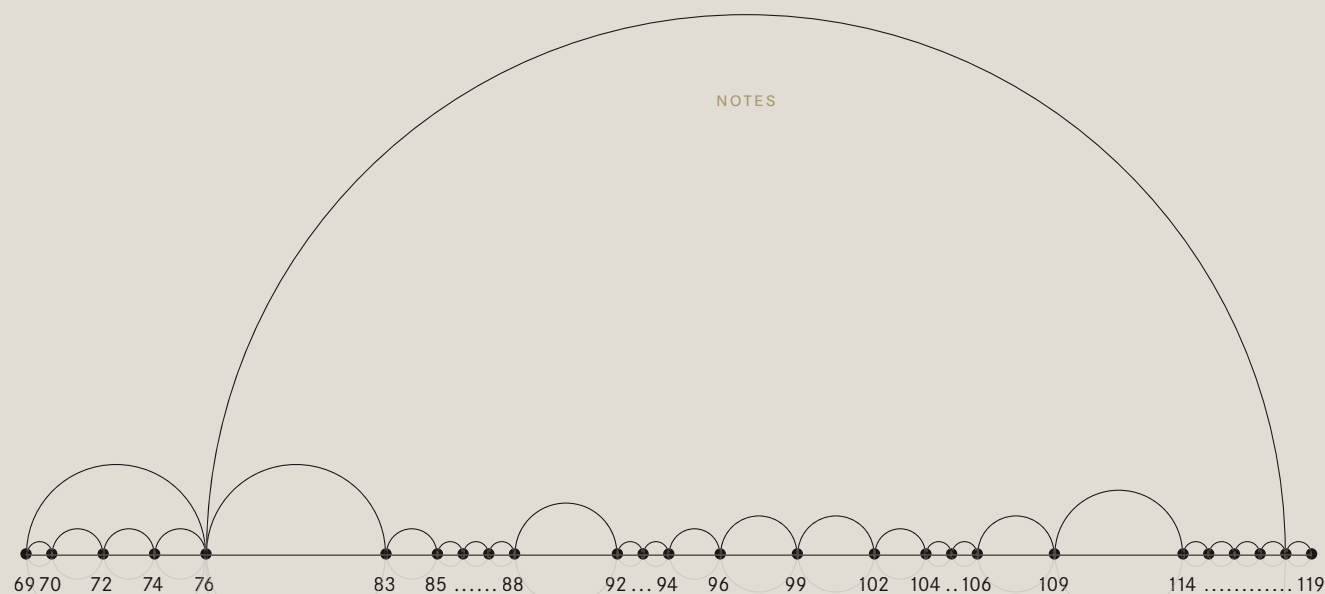


# Financial Statements



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# Consolidated Statements of Operations (IFRS)

in €	Note	12/31/2005	12/31/2004
Revenues	1q	33,486,843	21,978,796
Operating Expenses			
Cost of Goods Sold		2,514,172	943,817
Research and Development	2	13,607,643	11,447,478
Sales, General and Administrative		10,072,583	7,522,188
Stock-Based Compensation	14, 15	1,132,104	1,423,907
Total Operating Expenses		27,326,502	21,337,390
Profit from Operations		6,160,341	641,406
Interest Income		108,101	285,695
Interest Expense		277,228	338,469
Other Expenses, Net		879,259	306,520
Profit before Taxes		5,111,955	282,112
Income Tax	17	435,586	-
<b>Net Profit</b>		<b>4,676,369</b>	<b>282,112</b>
Basic Net Profit per Share	18	0.84	0.05
Diluted Net Profit per Share	18	0.83	0.05
Shares Used in Computing Basic Net Profit per Share	18	5,578,865	5,131,467
Shares Used in Computing Diluted Net Profit per Share	18	5,650,378	5,169,965

See accompanying notes

## Consolidated Balance Sheets (IFRS)

in €	Note	12/31/2005	12/31/2004
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	3	4,017,029	12,531,198
Available-for-Sale Financial Assets	4	49,542,541	24,698,532
Accounts Receivable	5	3,345,812	2,304,778
Other Receivables	6	25,133	392,035
Prepaid Expenses and Other Current Assets	7	1,544,174	430,608
<b>Total Current Assets</b>		<b>58,474,689</b>	<b>40,357,151</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment, Net	8	4,696,863	2,330,995
Patents, Net	9	2,361,005	2,790,091
License Fees, Net	9	8,457,091	9,671,131
Software, Net	9	131,506	288,115
Know-How and Customer List, Net	9	1,485,567	-
Goodwill	9	4,137,349	-
Other Assets	10	372,574	358,210
<b>Total Non-Current Assets</b>		<b>21,641,955</b>	<b>15,438,542</b>
<b>Total Assets</b>		<b>80,116,644</b>	<b>55,795,693</b>

See accompanying notes

in €	Note	12/31/2005	12/31/2004
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts Payable	11	4,321,591	3,838,144
Current Portion of License Payable	11	1,012,233	910,243
Provisions	12	978,719	600,607
Current Portion of Deferred Revenue	1q	4,735,208	4,757,249
<b>Total Current Liabilities</b>		<b>11,047,751</b>	<b>10,106,243</b>
<b>Non-Current Liabilities</b>			
License Payable, Net of Current Portion	11	-	880,015
Provisions, Net of Current Portion	12	62,763	-
Deferred Revenue, Net of Current Portion	1q	3,687,199	5,100,646
Convertible Bonds Due to Related Parties	14	50,214	109,692
Deferred Tax Liability	9, 17	1,260,946	220,611
<b>Total Non-Current Liabilities</b>		<b>5,061,122</b>	<b>6,310,964</b>
<b>Stockholders' Equity</b>			
Common Stock, € 3.00 Par Value;			
11,416,850 and 9,597,400 Ordinary Shares Authorized;			
6,025,863 and 5,438,852 Ordinary Shares Issued;			
5,996,701 and 5,408,790 Ordinary Shares Outstanding;			
for 2005 and 2004 respectively			
Treasury Stock (29,162 and 30,062 Shares			
for 2005 and 2004 respectively), at Cost			
		18,066,886	16,305,523
Additional Paid-In Capital		96,412,849	78,646,377
Accumulated Other Comprehensive Income		877,863	452,782
Accumulated Deficit		(51,349,827)	(56,026,196)
<b>Total Stockholders' Equity</b>		<b>64,007,771</b>	<b>39,378,486</b>
<b>Total Liabilities and Stockholders' Equity</b>		<b>80,116,644</b>	<b>55,795,693</b>

See accompanying notes

# Consolidated Statements of Changes in Stockholders' Equity (IFRS)

	Common Stock	
	Shares	€
<b>Balance as of January 1, 2004</b>	<b>4,901,332</b>	<b>14,703,996</b>
Compensation Related to the Grant of Stock Options and Conv. Bonds		
Equity Components of Convertible Bonds Granted to Employees		
Exercise of Options and Convertible Bonds Issued to Related Parties	47,387	142,161
Exercise of Options from Treasury Stock Issued to Related Parties		
Conversion of Convertible Bonds, Net of Issuance Cost of € 126,583	490,133	1,470,399
<b>Other Comprehensive Income:</b>		
Change in Unrealized Gain on Available-for-Sale Securities, Net of Deferred Tax Asset		
Foreign Currency Gain from Consolidation		
Net Profit for the Period		
Comprehensive Income		
<b>Balance as of December 31, 2004</b>	<b>5,438,852</b>	<b>16,316,556</b>
Compensation Related to the Grant of Stock Options and Conv. Bonds		
Equity Components of Convertible Bonds Granted to Employees		
Exercise of Options and Convertible Bonds Issued to Related Parties	96,878	290,634
Exercise of Options from Treasury Stock Issued to Related Parties		
Capital Increase, Net of Issuance Cost of € 483,253	490,133	1,470,399
<b>Other Comprehensive Income:</b>		
Change in Unrealized Gain on Available-for-Sale Securities, Net of Deferred Tax Asset		
Foreign Currency Gain from Consolidation		
Net Profit for the Period		
Comprehensive Income		
<b>Balance as of December 31, 2005</b>	<b>6,025,863</b>	<b>18,077,589</b>

See accompanying notes

	Treasury Stock		Additional Paid-In Capital €	Revaluation Reserve €	Translation Reserve €	Accumulated Deficit €	Total Stock- holders' Equity €
	Shares	€					
	59,762	(21,934)	68,632,990	244,930	50,826	(56,308,308)	27,302,500
			1,423,908				1,423,908
			7,405				7,405
			715,476				857,637
	(29,700)	10,901	508,850				519,751
			7,357,748				8,828,147
				158,299			158,299
					(1,273)		(1,273)
						282,112	282,112
							439,138
	30,062	(11,033)	78,646,377	403,229	49,553	(56,026,196)	39,378,486
			1,132,104				1,132,104
			-				-
			1,185,929				1,476,563
	(900)	330	2,370				2,700
			15,446,069				16,916,468
				181,450			181,450
					243,631		243,631
						4,676,369	4,676,369
							5,101,450
	29,162	(10,703)	96,412,849	584,679	293,184	(51,349,827)	64,007,771

# Consolidated Statements of Cash Flows (IFRS)

in €	Note	12/31/2005	12/31/2004
<b>Operating Activities</b>			
Net Profit		4,676,369	282,112
Adjustments to Reconcile Net Profit to Net Cash Provided by/(Used in) Operating Activities:			
Depreciation		928,002	656,805
Amortization of Intangible Assets		2,696,560	1,980,243
Income Tax Benefit		(344,817)	-
Net Gain on Sales of Financial Assets		(611,187)	(109,748)
Unrealized Net Loss/(Gain) on Derivative Financial Instruments		336,004	(233,459)
Loss/(Gain) on Sale of Property and Equipment		26,396	(562)
Loss on Sale of Intangible Assets		3,792	-
Recognition of Deferred Revenue		(11,669,191)	(11,515,191)
Stock-Based Compensation		1,132,104	1,423,907
Changes in Operating Assets and Liabilities:			
Accounts Receivable		(624,172)	(193,068)
Prepaid Expenses and Other Assets		(909,014)	202,488
Accounts Payable and Provisions		869,890	1,381,447
Licenses Payable		(1,006,679)	(538,162)
Other Liabilities		(1,520,771)	-
Deferred Revenue		10,233,703	11,014,632
<b>Cash Generated from Operations</b>		<b>4,216,989</b>	<b>4,351,444</b>
Interest Paid		228,654	325,011
<b>Net Cash Provided by Operating Activities</b>		<b>4,445,643</b>	<b>4,676,455</b>

See accompanying notes

in €	Note	12/31/2005	12/31/2004
<b>Investing Activities:</b>			
Purchases of Financial Assets		(43,317,784)	(16,638,219)
Proceeds from Sales of Financial Assets		19,611,985	9,055,420
Purchases of Property, Plant and Equipment		(625,553)	(1,505,102)
Proceeds from Disposals of Property, Plant and Equipment		75,914	20,267
Additions to Intangibles		(73,499)	(221,644)
Acquisition of Biogenesis, Net of Cash Acquired		(7,069,417)	-
<b>Net Cash Used in Investing Activities</b>	<b>19</b>	<b>(31,398,354)</b>	<b>(9,289,278)</b>
<b>Financing Activities:</b>			
Proceeds from the Issuance of Equity		17,399,722	8,954,730
Proceeds from the Exercise of Options and Convertible Bonds		1,479,263	1,377,388
Interest Expense Due to the Issuance of Convertible Bonds Granted to Related Parties		-	13,458
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(59,478)	(47,508)
Purchases of Derivative Financial Instruments	6	(75,000)	(186,647)
Proceeds from the Disposal of Derivatives	6	136,529	508,000
Net Cost of Share Issuance		(483,253)	(126,583)
<b>Net Cash Provided by Financing Activities</b>	<b>19</b>	<b>18,397,783</b>	<b>10,492,838</b>
Effect of Exchange Rate Differences on Cash (Decrease)/Increase in Cash and Cash Equivalents		40,759	(1,273)
		(8,514,169)	5,878,742
<b>Cash and Cash Equivalents at the Beginning of the Period</b>		<b>12,531,198</b>	<b>6,652,456</b>
<b>Cash and Cash Equivalents at the End of the Period</b>		<b>4,017,029</b>	<b>12,531,198</b>

See accompanying notes

# Notes to the Consolidated Financial Statements

## 1 Organization and Summary of Significant Accounting Policies

### Business and Organization

MorphoSys AG (“the Company, MorphoSys”) is a biotechnology company using combinatorial biology for 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 became 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.

### Consolidated Companies

The Company has four wholly owned subsidiaries (together referred to as the “MorphoSys Group”):

MorphoSys U.S.A., Inc., 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 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 on the premises of MorphoSys AG, and operations commenced on December 31, 2002.

Biogenesis Ltd. (Poole, U.K.) and its sister company Biogenesis, Inc. (Brentwood, New Hampshire, U.S.A.), were acquired by MorphoSys in January 2005. The final agreements specified the purchase of 100 % ownership of the two companies by MorphoSys AG for a total of £ 5,250,000, less net debt of approximately £ 0.7 million.

### General Information

The consolidated financial statements for the year ended December 31, 2005, will be authorized for issue in accordance with a resolution of the Management Board on February 10, 2006. The Management Board is represented by: Dr. Simon E. Moroney (Chief Executive Officer), Mr. Dave Lemus (Executive Vice President and Chief Financial Officer) and Dr. Marlies Sproll (Chief Scientific Officer since November 1, 2005).

The Supervisory Board is represented by Dr. Gerald Möller (Chairman, Remuneration & Nomination Committee), Prof. Dr. Jürgen Drews (Deputy Chairman, Remuneration & Nomination Committee), Dr. Daniel Camus (Audit Committee), Dr. Metin Colpan (Remuneration & Nomination Committee), Prof. Dr. Andreas Plückthun and Dr. Geoffrey N. Vernon (Audit Committee).

The registered offices of MorphoSys AG are located at Lena-Christ-Str. 48 in 82152 Martinsried/Planegg, Germany.

### **Significant Accounting Policies**

#### **a) Basis of Adoption**

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards (IFRS) requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### **IFRS 2 “Share-Based Payment”**

IFRS 2 “Share-Based Payment” requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The main impact of IFRS 2 on the Group refers to the expense associated with employees’ and directors’ share options and other share-based incentives by using an option-pricing model.

In accordance with IFRS 2.54, the Group has applied IFRS 2 to equity-settled awards granted on or after January 1, 1999. In accordance with IFRS 2.56, options granted prior to January 1, 1999, are therefore not expensed. All information is nonetheless disclosed in line with IFRS 2.44 and 2.45. Further details are given in the Notes to the Consolidated Financial Statements—sections 14 and 15.

#### **IFRS 3 “Business Combinations,” IAS 36 “Impairment of Assets” and IAS 38 “Intangible Assets”**

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. IFRS 3 requires that 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 2005 only provisionally. It 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).

The useful economic life of intangible assets is generally assessed at the level of individual assets as having either a finite or an indefinite life. The Company has not identified any assets with an indefinite life. Intangible assets with a finite life have been amortized over their useful life. Amortization periods and methods for intangible assets with finite useful economic lives are reviewed annually or earlier where an indicator of impairment exists. In 2005, the Company identified impairments for assets acquired. Please see the Notes to the Consolidated Financial Statements—section 9 for detailed information.

Receivables, liabilities, provisions, income and expenses and profits between consolidated companies are eliminated on consolidation.

**b) Statement of Compliance**

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

The consolidated financial statements of the Company for the year ended December 31, 2005, comprise the Company and its subsidiaries (together referred to as the “MorphoSys Group”).

**c) Basis of Presentation**

The financial statements are presented in euros unless otherwise stated. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investments available for sale and certain licenses (Cambridge Antibody Technology Ltd. (CAT) and XOMA Ireland Ltd.). All figures in this report are rounded either to the nearest euro or thousand of euros.

IAS 27 “Consolidated and Separate Financial Statements” shall be applied for annual periods beginning on or after January 1, 2005. The Company decided to adopt IAS 27 for all financial statements beginning January 1, 2003. The accounting policies have been applied consistently by Group entities following IAS 27.28.

**d) Basis of Consolidation**

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements following IAS 27.24. Unrealized losses are eliminated in the same way as unrealized gains. Please see the Notes to the Consolidated Financial Statements – section 1a IFRS 3 “Business Combinations” for further details.

**e) Foreign Currency Translation**

IAS 21 (“The Effects of Changes in Foreign Exchange Rates”) defines the accounting for transactions and balances in foreign currencies. Transactions in foreign currencies are translated at the foreign exchange rate as of the date of the transaction. Foreign exchange differences arising on these translations are recognized in the income statement. On the balance sheet date, assets and liabilities are translated at the closing rate, and income and expenses are translated at the average exchange rate for the period. Any foreign exchange differences deriving from these translations are recorded in the income statement. Any further foreign exchange differences on a Group level are recognized in other comprehensive income (equity).

**f) Interest**

MorphoSys uses interest rates to calculate fair values and discount certain liability. For stock-based compensation calculation, MorphoSys uses the interest rate of a German government bond with a duration of two years at grant date.

To discount certain obligations in connection with the settlement agreement with CAT, the Company uses a 13% interest rate to discount its liability.

**g) Derivative Financial Instruments**

The Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks. In accordance with IAS 39.9, all derivative financial instruments are held for trading and recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value, which is their quoted market price as of the balance sheet date. Since the derivatives were not tested for hedge accounting, any resulting gain or loss is recognized in the income statement. According to the Group’s foreign currency hedging policy, receivables which are definite and collectable within a twelve-month period will be hedged.

#### h) Cash and Cash Equivalents

The Company considers all cash at bank, in hand and short-term deposits with an original maturity of three months or less to be cash and cash equivalents. The Company invests its cash in deposits with two major German financial institutions, namely HypoVereinsbank and Deutsche Bank.

#### i) Financial Assets

All financial assets are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

The Company accounts for its investments in debt and equity securities in accordance with IAS 39. The management determines the proper classifications of financial assets at the time of purchase and re-evaluates such designations as of each balance sheet date. As of December 31, 2005, and as of December 31, 2004, the financial assets held by the Group have been classified as available for sale. These financial assets are recognized or derecognized by the Group on the date it commits to purchase or sell the financial assets. After initial recognition, available-for-sale financial assets are measured at fair value, with any resulting gain or loss reported directly in other comprehensive income within equity until the financial assets are sold, collected or otherwise disposed of, or until the financial assets are determined to be impaired, at which time the cumulative loss is reported in the income statement.

The Company considers a decline in the fair value of available-for-sale financial assets which is longer than six months in duration to be deemed other than temporary unless specific facts and circumstances indicate otherwise. If, in a subsequent period, the fair value increases, the impairment loss is reversed, with the amount of reversal included in other comprehensive income for equity securities and in the income statement for debt securities.

#### j) Accounts Receivable

Accounts receivable are stated at their cost less any allowance for doubtful accounts (see below) and impairment losses (see accounting policy n).

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 in a major customer's creditworthiness or actual defaults are higher than the historical experience, the management's estimates of the recoverability of amounts due to the Company could be adversely affected. Based on management assessment, allowances in the amount of € 41,461 as of December 31, 2005, and € 36,456 as of December 31, 2004, were recognized. The Company does not require collateral from customers for accounts receivable.

#### k) Inventory

Inventories are stated on a FIFO basis at the manufacturing/acquisition cost or net realizable value, whichever is the lower. Manufacturing cost of self-produced inventories comprises all costs which are directly attributable and an appropriate portion of the overhead costs.

**l) Property, Plant and Equipment**

Property, plant and equipment is stated at cost, less accumulated depreciation (see also the Notes to the Consolidated Financial Statements—section 8) and impairment losses (see accounting policy n). Replacements and improvements are capitalized while general repairs and maintenance are charged to expenses as incurred. Assets are depreciated over their expected useful lives using the straight-line method (three to five years). Leasehold improvements are depreciated over the estimated useful lives of the assets (ten to fifty years).

**m) Intangible Assets****ma) Research and Development**

Research costs are expensed as incurred. Development costs were expensed as incurred in accordance with IAS 38.5 and IAS 38.11–38.23.

**mb) Patent Costs**

Patents obtained by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy n). Capitalized costs principally relate to the costs of legal counsel. Patent costs are amortized on a straight-line basis over their estimated useful life (ten years) or the remaining patent term, whichever is the lower. Amortization commences when 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.

**mc) License Rights**

The Company acquired license rights by making up-front 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 (ten years). The amortization period and method is reviewed at each balance sheet date (IAS 38.104). 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.

**md) Software**

Software is stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy n). Amortization is charged to the income statement on a straight-line basis over the estimated useful life of three years. Software is amortized from the date it is available for use.

**me) Subsequent Expenditure**

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

**n) Impairment**

The management evaluates the carrying amount of the Group's assets for potential impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If any indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the recoverable amount is less than the carrying amount of an asset. Impairment losses are recognized in the income statement.

The recoverable amount of an asset is its fair value less costs to sell or its value in use, whichever is the greater. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a receivable is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. With respect to other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. As of December 31, 2005, impairments in the amount of €0.5 million were identified and recognized as R&D expenses (see also the Notes to the Consolidated Financial Statements—section 9).

**o) Trade and Other Payables**

Trade and other payables are stated at their repayment amounts. Payables with repayment dates exceeding one year are discounted to their net present values. Payables of uncertain timing or amount are shown as provisions.

**p) Convertible Bonds**

The Company issued convertible bonds to the Supervisory Board, Management Board and employees of the Group under application of IAS 32 and IAS 39. In accordance with IAS 32.28, the equity portion of the bond has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bond. The remaining value is recognized as stock-based compensation. The Company applies the provisions of IFRS 2 "Share-Based Payment" for all convertible bonds granted to the Supervisory Board, Management Board and employees of the Group.

**q) Revenue Recognition**

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

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 when 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 for which cash has been received 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.

In accordance with IAS 18.21, 18.25 and IAS 20.18, the total consideration in revenue arrangements with multiple deliverables will be allocated among the separately identifiable components based on their respective fair values under application of IAS 18.20, and the applicable revenue recognition criteria will be considered separately for each of the separate components.

Deferred revenue represents revenues received but not yet earned per the terms of the contracts. Grant revenue in 2005 amounted to € 0.4 million (2004: € 0.1 million).

#### r) Expenses

##### ra) 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.

##### rb) Stock-Based Compensation

The Company applies the provisions of IFRS 2 “Share-Based Payment” which obligates the Company to record the estimated fair value for stock options and other awards at the measurement date as a compensation expense over the period in which the employees render the services associated with the award.

##### rc) Operating Lease Payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

##### s) Interest Income

Interest income is recognized in the income statement as it occurs, taking into account the effective yield on the asset.

##### t) Interest Expense

Borrowing costs are expensed when incurred.

##### u) Income Taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable with respect to previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 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.

General and administrative expenses are allocated to the respective business segments by applying an allocation along the head count. Intangibles attributable to both segments are allocated along revenues.

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 international pharmaceutical and biotech companies, as well as on its own account.

### **Research Antibodies Segment**

The Research Antibodies segment 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.

### **Geographical Segments**

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

in 000's €	Therapeutic Antibodies		Research Antibodies		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Revenues</b>	<b>29,139</b>	<b>21,194</b>	<b>4,348</b>	<b>784</b>			<b>33,487</b>	<b>21,978</b>
Cost of Goods Sold			2,514	944			2,514	944
<b>Segment Result</b>	<b>12,121</b>	<b>6,094</b>	<b>(3,062)</b>	<b>(2,372)</b>	<b>(2,899)</b>	<b>(3,081)</b>	<b>6,160</b>	<b>641</b>
Interest Income							108	286
Interest Expense							277	338
Other Expenses, Net							879	307
<b>Total Profit Before Taxes</b>							<b>5,112</b>	<b>282</b>
Income Tax							436	-
<b>Total Profit</b>							<b>4,676</b>	<b>282</b>
Cash and Cash Equivalents			215		3,802	12,531	4,017	12,531
Accounts Receivables	2,742	2,065	604	240			3,346	2,305
Prepaid Expenses and Other Current Assets			542		1,002	431	1,544	431
Property, Plant and Equipment, Net	1,028	1,090	3,326	878	343	363	4,697	2,331
Software, Net	93	210	8	8	31	70	132	288
Know-How and Customer List			1,485				1,485	
Goodwill			4,137				4,137	
<b>Total Segment Assets</b>	<b>3,863</b>	<b>3,365</b>	<b>10,317</b>	<b>1,126</b>	<b>65,937</b>	<b>51,305</b>	<b>80,117</b>	<b>55,796</b>
Accounts Payable			332		3,990	3,838	4,322	3,838
Deferred Revenue	8,391	9,815	31	43			8,422	9,858
Deferred Tax Liability			940		321	221	1,261	221
<b>Total Segment Liabilities</b>	<b>8,391</b>	<b>9,815</b>	<b>1,303</b>	<b>43</b>	<b>6,415</b>	<b>6,560</b>	<b>16,109</b>	<b>16,418</b>
Capital Expenditure	505	728	124	777	70		699	1,505
Depreciation	537	461	391	145		51	928	657

The balance sheet items shown in the table above include segment allocation. The other items remain unallocated.

Segment result is defined as segment revenue less operating segment expenses.

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

in 000's €	2005	2004
Europe and Rest of the World	19,462	9,935
U.S.A. and Canada	14,025	12,043
<b>Total</b>	<b>33,487</b>	<b>21,978</b>

### 3 Cash and Cash Equivalents

in 000's €	2005	2004
Bank Balances and Cash in Hand	3,590	12,281
Term Deposits	427	250
<b>Cash and Cash Equivalents</b>	<b>4,017</b>	<b>12,531</b>

The following table shows the split of the Company's assets by geographical segments:

in 000's €	2005	2004
Germany	77,639	55,796
U.K.	1,957	-
U.S.A.	581	-
<b>Total Assets</b>	<b>80,117</b>	<b>55,796</b>

The following table shows the split of the Company's capital expenditure by geographical segments:

in 000's €	2005	2004
Germany	630	1,727
U.K.	53	-
U.S.A.	16	-
<b>Total</b>	<b>699</b>	<b>1,727</b>

## 4 Financial Assets

Financial assets consist of the following as of December 31, 2005 and 2004:

in 000's €	Maturity	Cost	Gross Unrealized Holding		Realized Holding Gains	Market Value
			Gains	Losses		
<b>12/31/2005</b>						
DB Money Market Funds	daily	48,637	905	-	-	49,542
Restricted Cash						-
						<b>49,542</b>
<b>12/31/2004</b>						
DB Money Market Funds	daily	24,320	624	-	-	24,944
Restricted Cash						246
						<b>24,698</b>

The gross unrealized holding gains of € 905,364 for the year ended December 31, 2005, and € 623,840 for the year ended December 31, 2004, were recorded as a separate component of stockholders' equity (revaluation reserve). In 2005 the Group recorded gains of € 611,187 in the income statement on the sale of financial assets, which had previously been recognized in equity (2004: € 109,748).

For further details on accounting for financial assets see the Notes to the Consolidated Financial Statements—section 1i).

## 5 Accounts Receivable

All accounts receivable are non-interest bearing and are generally due on a 30- to 45-day term. On December 31, 2005 and 2004, accounts receivable included unbilled amounts of € 145,648 and € 116,037 respectively.

## 6 Other Receivables

According to the Company's hedging policy, definite foreign currency receivables which are collectable within a twelve-month period are reviewed for hedging and shown as other receivables with their fair values. Starting 2003, MorphoSys entered into foreign currency options and forward contracts to hedge foreign exchange exposure related to U.S. dollar accounts receivable.

As of December 31, 2005, no options contracts were outstanding (2004: € 3,846,155 or US\$ 5,000,000). Therefore the fair market value as of December 31, 2005, was € 0 (2004: € 180,190). This was recorded in other receivables on the balance sheet, whereas it was classified as held for trading in 2004. Changes in fair value were recognized as other income and included in foreign exchange losses of € 1.2 million for the fiscal year 2005. As of December 31, 2005, the contract premium for derivatives entered into in February 2004 amounted to € 138,000 (2004: € 138,000).

## 7 Prepaid Expenses and Other Current Assets

Prepaid expenses mainly include prepaid sublicense fees of €0.1 million as of December 31, 2005 (2004: €0.1 million), and other prepayments in the amount of €0.9 million as of December 31, 2005 (2004: €0.3 million).

## 8 Property, Plant and Equipment, Net

in 000's €	Land and Buildings	Office and Laboratory Equipment	Furniture and Fixtures	Total
<b>Cost</b>				
01/01/2005	-	4,986	1,345	6,331
Additions	2,247	629	536	3,412
Disposals	-	281	-	280
12/31/2005	2,247	5,334	1,881	9,462
<b>Accumulated Depreciation</b>				
01/01/2005	-	3,274	726	4,000
Depreciation Charge for the Year	10	672	246	843
Disposals	-	163	-	163
12/31/2005	10	3,783	972	4,765
<b>Carrying Amount</b>				
01/01/2005	-	1,712	619	2,331
12/31/2005	2,237	1,551	909	4,697

Property, plant and equipment of the two Biogenesis subsidiaries are included in additions and disposals, as these items were added to the MorphoSys Group on January 20, 2005.

The depreciation charge is included in the following line items of the statement of operations:

in 000's €	2005	2004
Research and Development	568	493
Sales, General and Administrative	321	164
Cost of Goods Sold	39	-
	<b>928</b>	<b>657</b>

Currency translation effects for property, plant and equipment held in foreign currency were minor as of December 31, 2005, and therefore, these amounts were not shown separately. For more detailed information, see Appendix 1.

## 9 Intangible Assets, Net

in 000's €	Patents	License Fees	Software	Know-How and Customer Lists	Goodwill	Total
Cost						
01/01/2005	3,766	12,140	1,366	-	-	17,272
Additions	29	-	45	2,313	4,137	6,524
Disposals	-	-	19	-	-	19
12/31/2005	3,795	12,140	1,392	2,313	4,137	23,777
Accumulated Amortization						
01/01/2005	976	2,469	1,078	-	-	4,523
Amortization for the Year *	458	1,214	198	827	-	2,697
Disposals	-	-	16	-	-	16
12/31/2005	1,434	3,683	1,260	827	-	7,204
Carrying Amount						
01/01/2005	2,790	9,671	288	-	-	12,749
12/31/2005	2,361	8,457	132	1,486	4,137	16,573

\* Including impairment losses of € 0.5 million

Intangibles of the Biogenesis Group are included in additions and disposals of the current year, since these items were acquired by the MorphoSys Group on January 20, 2005. Currency translation effects for intangibles held in foreign currency were minor as of December 31, 2005, and therefore, these amounts were not shown separately.

As of December 31, 2005, foreign exchange effects of € 0.2 million were recognized for the assets acquired and accounted for as other comprehensive income.

The amortization charge is included in the following line items of the income statement:

in 000's €	2005	2004
Research and Development*	2,190	1,451
Sales, General and Administrative	507	529
	<b>2,697</b>	<b>1,980</b>

\*Including impairment losses of € 0.5 million

#### Preliminary Goodwill Allocation

On January 20, 2005, MorphoSys acquired Biogenesis Ltd. (Poole, U.K.) 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 £ 5,250,000, less net debt of approximately £ 0.7 million. The total cost for financial advisors, legal counsel and other advisors was € 0.7 million. The two Biogenesis companies became wholly owned subsidiaries of MorphoSys AG. In the year 2005, the subsidiaries contributed a net loss of € 0.8 million to the consolidated net profit. In accordance with IFRS 3.62

and 3.69, the group has applied a preliminary goodwill allocation since certain amounts can only be accounted for provisionally. All transactions are regularly reviewed with regard to triggering events for the impairment of acquired assets. The acquisition of Serotec was regarded a such triggering event. All assets recognized after the Biogenesis acquisition were analyzed accordingly and impairments of € 0.5 million were recorded and shown separately as follows:

## Net Assets as of January 20, 2005

Biogenesis Group

in 000's €	Recognized Values	Fair Value Adjustments	Impairment	Fair Value Amounts
Cash and Cash Equivalents	206	-	-	206
Property, Plant and Equipment	1,788	898	-	2,686
Inventories	123	328	-	451
Trade and Other Receivables	425	-	-	425
Intangibles	-	2,230	(501)	1,729
Interest-Bearing Loans and Borrowings	(990)	-	-	(990)
Trade and Other Payables	(543)	-	-	(543)
Deferred Taxes	-	(1,266)	175	(1,091)
Net Identifiable Assets and Liabilities	1,009	2,190	(326)	2,873
Goodwill on Acquisition				4,402
Consideration Paid, Satisfied in Cash*				7,275
Cash (acquired)				206
Net Cash Outflow				7,069

\* Advisors' fees amounting to € 0.7 million included

The Company has entered into the following license agreements covering certain patented technology which are capitalized (non-capitalized license agreements have not been disclosed in detail):

**SCA Ventures, Inc., U.S.A.**

In December 1999, the Company concluded a non-exclusive product-derived license agreement with SCA Ventures, Inc., U.S.A., in which the Company obtained a non-exclusive license from SCA Ventures in order to design, discover, develop, make, use, sell, offer for sale and import HuCAL-derived products under SCA Ventures' patent rights to single-chain antibodies. The Company may use SCA Ventures' licensed technologies for the research and discovery of novel therapeutic agents and

targets and may sublicense the technology to its commercial partners. The Company may terminate this agreement for any reason upon six months' prior written notice to SCA Ventures. The Company pays an up-front license fee, annual maintenance and transfer fees. As of December 31, 2005, the license had a remaining amortization period of four years.

**Biosite Diagnostics, Inc., U.S.A.**

In January 2000, the Company signed a collaboration agreement with Biosite Diagnostics, Inc., under which the Company receives a royalty-bearing, non-exclusive, worldwide license to patents owned by Biosite and XOMA Corporation covering certain technologies relating to the display and screening of multi-chain antibodies. The Company may use the licensed technologies for research and discovery of novel therapeutic agents and targets and may sublicense the technology to its commercial partners. Unless terminated earlier, the term of this agreement shall be until the expiration of the parties' respective obligations to pay royalties or the expiration of the last patent right licensed by one party to the other, whichever is the later. The Company pays an up-front technology access fee in addition to annual maintenance and transfer fees. As of December 31, 2005, the license had a remaining amortization period of four years.

**Genentech, Inc., U.S.A.**

In May 2000, the Company concluded a license agreement with Genentech, Inc., granting the Company rights under Genentech patents relating to monovalent phage display screening technology. The Company may use the licensed technologies for research and discovery of novel therapeutic agents and targets and may sublicense the technology to its commercial partners. The Company pays an up-front technology access fee in addition to annual maintenance and transfer fees. As of December 31, 2005, the license had a remaining amortization period of five years.

**XOMA Ireland Ltd.**

In February 2002, the Company concluded a cross-licensing agreement for antibody-related technologies with XOMA Ireland Ltd. Pursuant to the agreement, MorphoSys paid € 1.1 million to XOMA with a second payment of € 4.6 million due September 2002. At the Company's option, the second installment could be paid in cash or with new shares of the Company's common stock equivalent to € 5.5 million. The Company recorded € 2.5 million as a charge to research and development expenses in the year 2002. The remaining € 3.2 million represents the value of the license received and has been capitalized as an intangible asset and will be amortized over its expected useful life of ten years.

In October 2002, the Company exercised the option to pay the second installment with 363,466 new shares of its common stock, which was determined with reference to the market price of the Company's common stock at the time of the notice. The Company recorded a charge to interest expense of € 0.7 million at the time the shares were issued in May 2003 as a consequence of exercising this option. As of December 31, 2005, the license had a remaining amortization period of seven years.

**Cambridge Antibody Technology Ltd., Cambridge, U.K.**

In December 2002 and effective July 2003, the Company entered into a licensing and settlement agreement with CAT. The settlement agreement covers MorphoSys's past, present and future use, the commercialization of all versions of its HuCAL libraries, and all patents in the ongoing disputes between the two companies. This includes the litigation in the United States regarding CAT's Griffiths, McCafferty, Winter II and Winter/Lerner/Huse patents, as well as oppositions launched by MorphoSys at the European Patent Office against CAT's Winter II and McCafferty patents. As of December 31, 2005, the license had a remaining amortization period of eight years.

For further information, see Appendix 1.

## 10 Other Assets

The Company has classified certain items in other assets that are not available for use in its operations as restricted cash. As of December 31, 2005 and 2004, the Company had commitments of € 250,000 (unchanged) for guarantees issued and € 50,214 and € 59,778 respectively for convertible bonds issued to employees.

## 11 Accounts Payable

Accounts payable are non-interest bearing and are normally settled within 30 days. License payables are partly settled within 30 days. License payables which are expected to be settled after more than twelve months are discounted to their net present value applying with an interest rate of 13 %.

The residual maturity of liabilities is listed in the table below:

### Accounts Payable in Euros

in 000's €	2005	2004
Accounts Payable	344	336
Accrued Expenses	3,617	2,588
Other Liabilities	361	914
Of which Taxes	143	731
Of which Related to Social Security	154	157
<b>Total</b>	<b>4,322</b>	<b>3,838</b>

Accounts payable include accruals, which mainly contain accrued expenses for personnel payments of € 0.6 million (2004: € 1.0 million) as well as accruals for outstanding invoices, which include € 1.3 million mainly for license compensation (2004: € 0.9 million), € 0.2 million for Supervisory Board members' compensation (2004: € 0.1 million), € 0.1 million for audit fees and costs related thereto (2004: € 0.0 million) and € 0.5 million for legal services (2004: € 0.1 million).

At the Company's Annual Shareholders' Meeting in May 2005, the Company was authorized to appoint KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft as its auditor. In 2005, the auditing company and its partner companies within the international KPMG network were remunerated by MorphoSys AG in the amount of € 280,173 (thereof € 213,519 to KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft), including audit fees of € 121,363, fees for other confirmations and reviews of € 132,860, fees for tax consultancy of € 24,750 and fees for other services of € 1,200. Accrued expenses for audit fees in the amount of € 79,000 are included in these figures.

## 12 Provisions

As of December 31, 2005 and 2004, the Company recorded provisions of € 1,041,482 and € 600,607, respectively.

Provisions for taxes mainly comprise expenses for income tax, whereas other obligations mainly include provisions for legal disputes. Both items remain uncertain with respect to their amounts as of December 31, 2005.

Provisions changed during the year 2005 as follows:

in 000's €	01/01/2005	Additions	Utilized	Released	12/31/2005
Taxes	-	1,101	-	312	789
Obligations for Personnel and Social Expenses	601	17	355	263	-
Other Obligations	-	252	-	-	252
<b>Total</b>	<b>601</b>	<b>1,370</b>	<b>355</b>	<b>575</b>	<b>1,041</b>

## 13 Stockholders' Equity

### Common Stock

On December 31, 2005, the common stock of the Company was € 18,077,589. This represented an increase of € 1,761,033 compared to December 31, 2004, when the balance was € 16,316,556. Each share of common stock is entitled to one vote. An increase in the number of shares of € 1,470,399, or 490,133 shares, arose as a result of a capital increase executed on March 15, 2005.

Through the conversion and exercise of 96,878 convertible bonds and options issued to employees, common stock increased by an additional € 290,634 in 2005. The increase of € 1,612,560 during the year ended December 31, 2004, arose as a result of the conversion of bonds issued to Novartis on May 19, 2004. The bond was converted into 490,133 MorphoSys shares on June 15, 2004. Through the conversion and exercise of 47,387 convertible bonds and options issued to employees, common stock increased by an additional € 142,161 in 2004.

Treasury shares totaling € 10,703 (29,162 shares) on December 31, 2005, compared to € 11,033 (30,062 shares) on December 31, 2004, were subtracted from the Company's common stock.

### Authorized Capital

On May 11, 2005, the Annual Shareholders' Meeting authorized the Company to increase Authorized Capital I by 215,008 shares to create a maximum of 2,175,541 new shares of Authorized Capital I (December 31, 2004: 1,960,533 shares). Also approved was an increase to Authorized Capital II of 592,898 shares to create a maximum of 592,898 new shares of Authorized Capital II (December 31, 2004: 490,133 shares).

Unused Authorized Capital I equaled 2,175,541 and 1,960,533 shares at December 31, 2005 and 2004 respectively. Unused Authorized Capital II equaled 592,898 and 490,133 shares at December 31, 2005 and 2004 respectively.

### Conditional Capital

In 2005, 1,400 shares were raised from Conditional Capital I through the exercise of the same number of options by employees, increasing the subscribed capital by € 4,200. Furthermore, 34,125 shares were raised from Conditional Capital II through the exercise of the same number of options by employees, increasing the subscribed capital by € 102,375, and 59,478 shares were raised from Conditional Capital IV through the exercise of the same number of convertible bonds by employees, increasing the subscribed capital by € 178,434. Finally, 1,875 shares were raised from Conditional Capital V through the exercise of the same number of options by employees, increasing the subscribed capital by € 5,625.

On May 16, 2003, the Annual Shareholders' Meeting authorized the Company to create additional shares for Conditional Capital III, IV and V, up to a maximum of 1,275,000, 450,269 and 111,447 shares respectively.

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

On May 19, 2004, MorphoSys issued a convertible bond (callable common shares) to Novartis, which was split into seven partial debentures and 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.

On May 11, 2005, the Annual Shareholders' Meeting authorized the Company to create additional shares for Conditional Capital III, IV and V, up to a maximum of 1,602,125, 513,938 and 242,405 shares respectively.

### Dividends

Dividends may only be declared and paid from the accumulated retained earnings (after deduction of certain reserves) shown in the Company's annual German statutory accounts. Such amounts differ from the total of additional paid-in capital and accumulated deficit as shown in the accompanying consolidated financial statements as a result of the adjustments made to present the consolidated financial statements in accordance with IFRS. The Company's German statutory accounts showed taxable income in 2005; however, as of December 31, 2005 and 2004, they reflected no accumulated earnings available for distribution and the Company's ability to pay dividends will therefore depend upon its future earnings.

### Additional Paid-In Capital

On December 31, 2005, additional paid-in capital amounted to € 96,412,849 (December 31, 2004: € 78,646,377). The increase of € 17.7 million is due to stock-based compensation provisions of € 1,132,104, € 15,446,069 including costs in connection with the transaction of € 767,068 as a result of the capital increase on March 15, 2005, netted by a deferred tax asset of € 283,815. A further increase of € 1,188,299 arose from exercise and conversion of options and convertible bonds in the year 2005.

In 2004, the additional paid-in capital was increased by € 10.0 million resulting from stock-based compensation provisions of € 1,431,313, € 7,357,748 from Novartis's capital increase through the grant of callable common shares in May 2004 and € 1,224,326 through the exercise of options and convertible bonds in the year 2004.

## 14 Convertible Bonds

At the Company's Annual Shareholders' Meeting in July 2002, the Company was authorized to issue up to 300,000 non-interest-bearing convertible bonds with a par/nominal value of € 1.00

each to employees and members of the Management Board of the Company and its affiliates until June 30, 2006. The preemptive rights of the stockholders were excluded. On May 16, 2003, the Annual Shareholders' Meeting authorized the Company to grant an additional 150,269 shares. At the Company's Annual Shareholders' Meeting on May 11, 2005, the Company was authorized to grant an additional 150,269 convertible bonds until April 30, 2010.

On January 15, 2002, pursuant to a Management Board decision, the Company issued 91,500 convertible bonds to the Management Board and employees of the Company. The convertible bonds cannot be transferred or encumbered, other than through inheritance/death. In the event of inability to work, the Management Board can allow the transfer with good cause.

The conversion rights may only be exercised if the termination of the employment agreement with the owner of the convertible bonds has not been declared at the time of exercise and a mutual termination agreement has not been entered into. In the event of non-exercise of the conversion rights, beneficiaries are refunded the amount paid to acquire the convertible bonds (i. e. € 1.00 per bond/share).

The beneficiaries may only exercise the conversion rights after the expiration of a waiting period of one year after the grant date. Each convertible bond with a nominal value of € 1.00 can be exchanged for one share of ordinary no-par value common stock of the Company against payment of the exchange price. The convertible bonds cannot be exercised beyond December 31, 2004.

The exchange price for the convertible bonds issued on January 15, 2002, was € 57.56, representing the average closing price of a share in the Company in the final XETRA auction at the Frankfurt Stock Exchange during the last five trading days preceding the resolution of the Management Board to issue the convertible bonds.

The conversion rights can only be exercised if the stock exchange price on at least one day during the lifetime of the convertible bonds has amounted to € 63.31, or 110% of the average stock exchange price in the final XETRA auction at the

Frankfurt Stock Exchange during the five trading days prior to the resolution of the Management Board to issue the convertible bonds.

Shares which are issued by virtue of the conversion rights may participate in the profits of the Company for the first time in the business year for which no stockholders' resolution on the distribution of profits has been passed at the time of the issuance.

On December 31, 2004, all convertible bonds granted in 2002 expired. The nominal value of € 1.00 each was paid back to all those concerned.

In the year 2003, additional grants to employees were made under the 2002 Plan, with terms identical to the 2002 stock convertible bonds grants. 70,700, 8,500 and 14,000 convertible bonds were granted on April 1, 2003, May 17, 2003, and July 1, 2003, respectively to members of the Management and Supervisory Boards and employees of MorphoSys AG. The exercise prices for the convertible bonds were € 11.69, € 10.00 and € 10.88 respectively. In the year 2005, 59,478 bonds of the 2003 grant were converted into shares of ordinary no-par value common stock with the same amount by employees of the Company. Of these, 43,000 bonds were exercised by members of the Management and Supervisory Boards. Further details are given in the Notes to the Consolidated Financial Statements—section 22.

As of December 31, 2005, all convertible bonds granted in 2003 expired. The nominal value of € 1.00 each was paid back to all those concerned.

In the year 2004, an additional grant to board members and employees was made under the 2002 Plan, with terms identical to the 2002 stock convertible bonds grants. On December 9, 2004, 49,914 convertible bonds were granted to board members and employees of MorphoSys AG. The exercise price for the convertible bonds is € 38.40.

A summary of the activity under the Company's employee incentive convertible bonds plan for the years ended December 31, 2005 and 2004, is represented as follows:

	Convertible Bonds	Weighted-Average Price €
<b>Outstanding on 01/01/2004</b>	<b>151,800</b>	<b>30.68</b>
Granted	49,914	38.40
Exercised	(27,122)	11.69
Forfeited	(24,200)	35.66
Expired	(50,700)	57.56
<b>Outstanding on 12/31/2004</b>	<b>99,692</b>	<b>24.83</b>
<b>Outstanding on 01/01/2005</b>	<b>99,692</b>	<b>24.83</b>
Refunded	10,000	11.69
Exercised	(59,478)	11.30
Forfeited	(373)	38.40
Expired	(300)	11.69
<b>Outstanding on 12/31/2005</b>	<b>49,541</b>	<b>38.40</b>

Convertible bonds exercisable on December 31, 2005 and 2004, amounted to 49,541 and 49,778 shares respectively. The weighted-average exercise prices of exercisable convertible bonds were € 38.40 and € 11.22 on December 31, 2005 and 2004 respectively. Furthermore, the weighted-average fair value of bonds granted during 2004 is estimated to be € 16.52. In the year 2005 no convertible bonds were granted.

As a result of a court decision, 10,000 forfeited convertible bonds in 2004 were refunded to all those concerned in 2005.

The following table presents the weighted-average price and information about the contractual life for significant convertible groups outstanding on December 31, 2005:

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
€ 10.00 – € 38.40	49,541	1.00	€ 38.40	49,541	€ 38.40
	<b>49,541</b>			<b>49,541</b>	

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 and IAS 32.28. The equity portion of the bond has to be separated and presented as additional paid-in capital. The equity component is deducted from the fair value of the bond. The remaining value is recognized as stock-based compensation. The compensation expense recorded in 2005 and 2004 in connection with convertible bonds was € 757,965 and € 184,327 respectively. The fair value of the convertible bonds issued in 2004, the date of last issuance, was calculated using the Black-Scholes pricing model using the following assumptions: risk-free interest rate of 2.74%; dividend yield of 0%; 78% expected volatility, based on historic data, and an expected life of 2.0 years.

Valuation models require the input of highly subjective assumptions. Because changes in the subjective input assumptions can materially affect the fair value estimate, the management does not consider that the existing models necessarily provide a reliable single measure of the fair value of its employee stock options.

## 15 Stock Options

### 1998 Employee Stock Option Program

Effective June 15, 1998, the Company introduced an incentive stock option plan (“1998 Plan”) which provides for the grant of options to purchase shares of the Company’s common stock to key employees and members of the Company’s Management Board. The 1998 Plan authorized the grant of options to person-

nel for 96,075 shares of the Company’s common stock in the form of 45,450 registered warrants, each equal to one share of common stock, and 50,625 shares deliverable upon exercise of non-warrant option rights. The Company reserved 55,350 common shares plus 68,650 shares of treasury stock for stock options. All option rights granted under this 1998 Plan have a ten-year term. Each warrant entitles the holder to receive one share. Upon exercise of a warrant, the exercise price, which equals the fair value of the shares on the date of grant, is due and payable. Warrant holders can exercise up to the full amount of warrants six months after the date of grant. Warrant holders also have the right to sell them. The warrants or shares obtained upon exercise vest annually on a graded basis over three years.

The non-warrant option rights are granted by the Company to the employee by way of an option agreement. For all grants commencing after June 1998, a two-year holding period is required after the date of grant, after which the holder of non-warrant option rights can exercise up to the amount of vested option rights.

For the full year 2005, 2,300 options from the 1998 Plan were exercised.

### 1999 Employee Stock Option Program

Effective July 21, 1999, the Company amended the incentive stock option plan (“1999 Plan”) authorizing the additional grant of options to employees for up to 300,250 shares, arising from conditional capital, and deliverable upon exercise of non-warrant option rights. On October 31, 1999, a grant of 98,100 shares was made to Company employees, management and the Supervisory

Board. The options 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 of the option rights can exercise up to the amount of vested option rights, on condition that the value of the underlying stock has appreciated 10% per annum, cumulatively, in the year of exercise.

In the year 2001, additional grants to employee were made under the 1999 Plan, with terms identical to the 1999 stock options grants. 15,250 options were granted on July 1, 2001, to employees of MorphoSys AG.

In the year 2002, additional grants to employees were made under the 1999 Plan, with terms identical to the 1999 stock options grants. 5,500 options were granted on January 15, 2002, to employees of MorphoSys AG.

In the year 2003, additional grants to Management Board members were made under the 1999 Plan, with terms identical to the 1999 stock options grants. 36,000 options were granted on July 1, 2003, to Management Board members of MorphoSys AG.

For the full year 2005, 34,125 options from the 1999 Plan were exercised.

### 2002 Employee Stock Option Program

Effective June 6, 2002, the Company amended the incentive stock option plan ("2002 Plan") authorizing the additional 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 July 9, 2002, a grant of 7,500 shares was made to Company employees. The terms are very similar to those of the "1999 Employee Stock Option Program." On May 16, 2003, May 11, 2004 and May 11, 2005, the Annual Shareholders' Meeting authorized the Company to grant an additional 36,891, 58,816 and 74,017 shares respectively under the "2002 Employee Stock Option Program" with identical terms.

In the year 2003, grants to employees were made under the 2002 Plan, with terms identical to the 1999 and 2002 stock options grants. 2,500 options and 15,000 options were granted to employees of MorphoSys AG on January 15, 2003, and July 1, 2003, respectively.

On January 15, 2004, 35,000 options were granted to employees with terms identical to the 1999, 2002 and 2003 stock option grants.

In the year 2005, additional grants to Management Board members were made under the 2002 Plan, with terms identical to the 2002 stock options grants. 97,358 options were granted on July 1, 2005, to Management Board members of MorphoSys AG.

For the full year 2005, 1,875 options from the 2002 Plan were exercised.

A summary of the activity under the Company's employee incentive stock option plans for the years ended December 31, 2005 and 2004, is represented as follows:

	Convertible Bonds	Weighted- Average Price €
<b>Outstanding on 01/01/2004</b>	<b>271,745</b>	<b>26.40</b>
Granted	35,750	11.72
Exercised	(49,965)	21.11
Forfeited	(63,600)	21.30
<b>Outstanding on 12/31/2004</b>	<b>193,930</b>	<b>26.70</b>
<b>Outstanding on 01/01/2005</b>	<b>193,930</b>	<b>26.70</b>
Refunded	21,000	20.80
Granted	97,358	31.35
Exercised	(38,300)	21.41
Forfeited	(15,529)	29.38
Expired	(7,000)	217.60
<b>Outstanding on 12/31/2005</b>	<b>251,459</b>	<b>23.34</b>

Stock options exercisable on December 31, 2005 and 2004, amounted to 112,855 and 106,518 shares respectively. The weighted-average exercise prices of exercisable stock options were € 22.25 and € 36.51 on December 31, 2005 and 2004 respectively. Furthermore, the weighted-average fair value of options granted during 2005 and 2004 is estimated to be € 11.23 and € 6.99 respectively.

As a result of a court decision, 21,000 forfeited stock options in 2004 were refunded to all those concerned in 2005.

The following table presents the weighted-average price and information about the contractual life for significant option groups outstanding on December 31, 2005:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
€ 10.88 – € 41.32	248,459	3.34	€ 23.02	110,105	€ 21.59
€ 41.33 – € 59.51	3,000	0.68	€ 49.81	2,750	€ 48.93
	<b>251,459</b>			<b>112,855</b>	

The Company accounts for stock-based compensation in accordance with the provisions of IFRS 2 “Share-Based Payment.” Compensation expense recorded in 2005 and 2004 in connection with stock options was € 374,138 and € 1,239,580 respectively. The fair value of the options issued in 2005 was calculated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 2.16 %, dividend yield of 0 %, 50 % expected volatility, based on historic data, and an expected option life of 3.0 years. For option grants in 2004, the following assumptions were used: risk free interest rate of 3.1 %, dividend yield of 0 %, 78 % expected volatility and the same option life as in 2005.

Option valuation models require the input of highly subjective assumptions. Because changes in the subjective input assumptions can materially affect the fair value estimate, the management does not consider that the existing models necessarily provide a reliable single measure of the fair value of its employee stock options.

#### Stock Option Repricing

On September 1, 2001, the Company re-issued 94,100 options to employees, which were cancelled on July 5, 2001. The re-issued options have similar characteristics and vesting provisions to the original options granted. In accordance with IFRS 2 “Share-Based Payment,” the re-issued options were revalued at the date of re-issuance using the Black-Scholes option pricing model. An incremental fair market value of approximately € 5,950,000 was assigned to the re-issued options, which will be recognized over the vesting period of the re-issued options. During the years ended December 31, 2005 and 2004, the Company recognized approximately € 247,900 and € 535,741 respectively of stock-based compensation expense relating to these re-issued stock options.

#### Extension of 1999 Options

On October 31, 1999, 98,100 options were granted to employees, Supervisory Board members and Management Board members under the 1999 options plan. The options term originally anticipated was five years. On October 14, 2004, the Management and Supervisory Board decided to extend the exercise period of 54,900 options granted to employees and the Management Board until October 31, 2009. In accordance with IFRS 2 “Share-Based Payment,” the extended options were revalued on October 14, 2004, using the Black-Scholes option pricing model. Stock-based compensation in the amount of € 518,585 was recognized in full in the fourth quarter of 2004.

## 16 Personnel Expenses

in 000's €	2005	2004
Wages and Salaries	9,596	7,229
Social Security Contributions	1,383	1,077
Stock-Based Compensation Expense	1,132	1,424
Temporary Staff (External)	2	1
Other	(161)	757
<b>Total</b>	<b>11,952</b>	<b>10,488</b>

The average number of employees during the year ended December 31, 2005, was 170 (2004: 117).

## 17 Income Taxes

The Company and its German subsidiary MorphoSys IP GmbH are subject to corporate tax, solidarity surcharge and trade tax. Since 2001, a corporate tax rate of 25% plus 5.5% solidarity surcharge has applied. The corporate tax rate amounted to 26.5% in 2003 only due to the one-off effect of the Flood Victims Solidarity Act applicable for 2003. Considering the multiplier rate (“Hebesatz”) of 300% for municipal trade tax, the trade tax rate amounts to approximately 13.04% of the taxable income and is deductible in the calculation of the corporate tax income.

The income tax for the current fiscal year comprises as follows:

in 000's €	12/31/2005	12/31/2004
Current Tax Expense (Thereof Income Tax Expense Accounted Directly in Equity According to IAS 32.35: (in 000's € 284))	-	(816)-
Current Tax Expense for Previous Years	-	-
Deferred Tax Expense/Benefit Resulting from the Existence or the Reversal of Temporary Differences	(537)	(826)
Deferred Tax Benefit with Regard to the Recognition of DTA on Previously Unrecognized DTA with Regard to Future Reversal of Differences Between IFRS and Tax Balance Sheet	917	826
Total Income Tax	(436)	-
<b>Total Amount of Deferred Taxes Resulting from Entries Directly Recognized in Equity</b>	<b>(321)</b>	<b>(221)</b>

Deferred taxes are recognized only to the extent that it is more likely than not that the related tax benefits will be realized. Based on the income situation in the past and the business expectations for the foreseeable future, valuation allowances are reported if this criterion is not fulfilled.

Valuation allowances on deferred tax assets were reduced by € 0.9 million (2004: € 0.8 million). The current assessment with regard to the usability of deferred tax assets can change depending on the income situation of future years and may result in higher or lower valuation allowances.

The following table reconciles the statutory income tax expense to the actual income tax expense presented in the financial statements. For calculating the statutory income tax expense, in fiscal year 2005 the combined income tax rate of 36% (2004: 36%) was applied to income before taxes. The tax rate applied in the reconciliation statement includes corporate tax and solidarity surcharge and amounts to 26.38% plus the effective trade tax rate based on the multiplier rate ("Hebesatz") of 300% for municipal trade tax which amounts to 9.60% taking into account that the trade tax is deductible in the calculation of the corporate tax income.

## Reconciliation Statement

in 000's €	2005	2004
Profit Before Income Taxes	5,112	282
Expected Tax Rate	36%	36%
Expected Income Tax	(1,840)	(102)
<b>Tax Effects Resulting From:</b>		
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA with Regard to Future Reversal of Differences Between IFRS and Tax Balance Sheet	917	826
Non-Recognition of DTA on Current Year Tax Losses	-	(224)
Deferred Income Tax Arising from the Recognition of DTA on Previously Unrecognized DTA on Tax Loss Carry-Forwards	1,041	-
Stock-Based Compensation (SBC)	(408)	(513)
Expense of Cost/Capital Increase	-	46
Non-Tax-Deductible Items in Germany	(95)	(29)
Other Effects	(51)	(4)
<b>Actual Income Tax</b>	<b>(436)</b>	<b>-</b>

No deferred tax assets were reported for corporate tax loss carry-forwards in the amount of € 22.0 million and German trade tax loss carry-forwards in the amount of € 20.8 million. The loss carry-forwards may be carried forward indefinitely and in unlimited amounts. Since 2004, German tax law has restricted the offset of taxable income against existing tax loss carry-forwards to an amount of € 1.0 million plus 60% of taxable income above € 1.0 million. The benefit from a previously unrecognized tax loss reduced the current tax expense by € 1.0 million in 2005. Deferred tax assets on assets and

liabilities of the German entities were only reported to the extent of existing deferred tax liabilities on assets and liabilities of the German entities. A valuation allowance for deferred tax assets with regard to future reversal of differences between IFRS and tax balance sheet in the amount of € 3.6 million (2004: € 4.5 million) exists.

Significant components of the deferred tax assets and liabilities are as follows:

in 000's €	DTA 2005	DTA 2004	DTL 2005	DTL 2004
Intangible Assets	4,821	5,789	1,750	1,242
Valuation Allowance on Intangible Assets	(3,592)	(4,510)	-	-
Land	-	-	267	-
Buildings	-	-	71	-
Inventory	69	79	62	-
Advanced Payments	7	-	-	-
Receivables and Other Assets	-	870	36	121
Treasury Stock	4	-	-	-
Prepaid Expenses and Deferred Charges	4	-	-	-
Short-Term Securities Investments	-	4	325	225
Other Accruals	1	6	-	-
Trade Accounts Payable	-	-	47	-
Bonds thereof Convertible	-	-	18	-
Deferred Income	-	110	-	2
Other Liabilities	2	-	-	979
	<b>1,316</b>	<b>2,348</b>	<b>2,576</b>	<b>2,569</b>

## 18 Earnings per Share

The calculation of basic profit per share is based on the net profit for the year of € 4,676,369 (2004: € 282,112) and the weighted-average number of shares of common stock outstanding for the respective years (2005: 5,578,865; 2004: 5,131,467).

The weighted-average number of shares of common stock was calculated as follows:

	2005	2004
<b>Shares Issued at January 1</b>	<b>5,438,852</b>	<b>4,901,332</b>
Effect of Treasury Shares Held	(29,162)	(30,062)
Effect of Shares Issued in January	2,260	-
Effect of Shares Issued in February	8,158	-
Effect of Shares Issued in March	143,043	-
Effect of Shares Issued in April	112	2,367
Effect of Shares Issued in May	13	5,671
Effect of Shares Issued in June	21	247,717
Effect of Shares Issued in July	897	-
Effect of Shares Issued in August	1,542	250
Effect of Shares Issued in September	10,417	583
Effect of Shares Issued in October	758	164
Effect of Shares Issued in November	1,858	2,204
Effect of Shares Issued in December	96	1,241
<b>Weighted-Average Number of Shares of Common Stock</b>	<b>5,578,865</b>	<b>5,131,467</b>

The diluted profit per share is calculated taking into account the Company's potential common shares from outstanding stock options and convertible bonds.

The table below illustrates the reconciliation from basic to diluted earnings per share (in thousands of euros, except per share data):

in 000's €, except share data	2005	2004
<b>Numerator:</b>		
Net Profit	4,676	282
<b>Denominator:</b>		
Weighted-Average Shares Used for Basic EPS	5,578,865	5,131,467
Dilutive Shares Arising from Stock Options	71,513	12,401
Dilutive Shares Arising from Convertible Bonds	-	26,097
Total Denominator:	5,650,378	5,169,965
<b>Earnings per Share (in €):</b>		
Basic	0.84	0.05
Diluted	0.83	0.05

## 19 Financial Risk Management Objectives and Policies

In addition to the risks highlighted in the Management Report, the Company has identified the following:

### Currency Risks

The Group accounts are administered in euros. While the expenses of MorphoSys are predominantly paid in euros, a significant part of the revenues depends on the current exchange rate of U.S. dollars and euros. The Company examines the necessity of hedging foreign exchange transactions to minimize currency risk during the year and addresses this risk by employing derivative financial instruments.

### Interest Rate Risk

The exposure of the Group to changes in interest rates relates mainly to investments in available-for-sale debt securities. Changes in the general level of interest rates may lead to an increase or decrease in the fair value of these investments. With regard to the liabilities shown in the balance sheet, the Group is currently not subject to significant interest rate risks.

### Credit and Liquidity Risk

Financial instruments that potentially subject the Company to concentrations of credit and liquidity risk consist primarily of

cash, cash equivalents, marketable securities and accounts receivable. The Company's cash and cash equivalents are principally denominated in euros 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 counterparties to its financial instruments, and does not anticipate non-performance.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. However, the Company's revenues and accounts receivable are subject to credit risk as a result of customer concentrations. One customer individually accounted for approximately 44% of the Company's 2005 accounts receivable balance. In addition, three customers individually accounted for 31%, 19% and 14% of the Company's total revenues in the year 2005. On December 31, 2004, one customer accounted for 52% of the prior year's accounts receivable balance and three customers individually accounted for 28%, 26% and 17% of the Company's revenues in 2004. Based on the management's assessment, allowances of € 41,461 and € 36,456 in relation to the newly formed reagent business unit were necessary as of December 31, 2005 and 2004.

### Fair Value of Financial Instruments

The carrying value of financial instruments such as cash and cash equivalents, accounts receivable and accounts payable approximates 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). 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.

## 20 Operating Leases

The Company leases facilities and equipment on long-term operating leases. Total rent expense amounted to € 880,173 and € 898,292 for the years ended December 31, 2005 and 2004 respectively. In January 2004, MorphoSys amended the existing lease agreement for its facilities. The new lease agreement expires in September 2009. Future minimum payments under non-cancelable operating leases, insurances and other services are as follows:

in 000's €	2005	2004
Up to One Year	1,880	1,700
Between One and Five Years	2,954	3,668
More Than Five Years	-	-
<b>Total</b>	<b>4,834</b>	<b>5,368</b>

The Company's total expenses due to operating leases, insurances and other services in the years ended December 31, 2005 and 2004, totaled approximately € 1,185,515 and € 1,084,597 respectively.

## 21 Contingencies

In June 2001, a lawsuit was filed against the Company by Applied Molecular Evolution, Inc. ("AME"), San Diego, California, U.S.A., (a wholly owned subsidiary of Eli Lilly & Company) 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 1, 2005, for claim construction should be held. In September 2005, MorphoSys announced a cross-license agreement with Eli Lilly & Company ("Lilly") on the use of certain recombinant protein technologies. This agreement is part of a settlement to resolve the abovementioned patent litigation with AME. Under the agreement, MorphoSys receives a license under the Kauffman patent estate to generate and screen certain recombinant peptide and protein libraries and to commercialize any resulting products. The agreement also provides Lilly access to the MorphoSys HuCAL GOLD technology for Lilly's internal research and development programs. For any therapeutic antibodies Lilly develops under the agreement, it will pay MorphoSys exclusive licensing fees, success fees, milestone payments and royalties on end products. The settlement agreement covers MorphoSys's and its partners' past, present and future use and commercialization of all versions of its HuCAL libraries, as well as its TRIM technology. The agreement also gives Lilly access under agreed terms to Antibodies by Design, MorphoSys's business unit focusing on development of custom monoclonal antibodies for non-therapeutic purposes.

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

## 22 Related Parties

The Group has related party transactions with its management and with members of the Supervisory Board. In addition to the cash remuneration, the Group has issued stock options and convertible bonds to the Management Board and members of the Supervisory Board.

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 Supervisory Boards during the year 2005:

### Shares

	01/01/2005	Additions	Forfeitures	Expired	Sales	12/31/2005
<b>Management Board</b>						
Dr. Simon E. Moroney* (held through a controlled entity)	113,461	-	-	-	113,461	-
Dr. Simon E. Moroney	-	113,461	-	-	-	113,461
Mr. Dave Lemus	-	-	-	-	-	-
Dr. Marlies Sproll**	-	-	-	-	-	-
<b>Total</b>	<b>113,461</b>	<b>113,461</b>	<b>-</b>	<b>-</b>	<b>113,461</b>	<b>113,461</b>
<b>Supervisory Board</b>						
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. Geoffrey N. Vernon	-	-	-	-	-	-
<b>Total</b>	<b>61,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,800</b>

\* Shares were subject to share loan agreement as of March 31, 2005, in connection with a capital increase and were retransferred on April 13, 2005

\*\* Entered 11/01/2005

## Stock Options

	01/01/2005	Additions	Forfeitures	Expired	Sales	12/31/2005
<b>Management Board</b>						
Dr. Simon E. Moroney	47,000	36,000	-	-	-	83,000
Mr. Dave Lemus	21,000	27,000	-	-	-	48,000
Dr. Marlies Sproll**	10,000	-	-	-	7,500	2,500
<b>Total</b>	<b>78,000</b>	<b>63,000</b>	<b>-</b>	<b>-</b>	<b>7,500</b>	<b>133,500</b>
<b>Supervisory Board</b>						
Dr. Gerald Möller	2,500	-	-	2,500	-	-
Dr. Daniel Camus	-	-	-	-	-	-
Dr. Metin Colpan	-	-	-	-	-	-
Prof. Dr. Jürgen Drews	3,930	-	-	1,500	-	2,430
Prof. Dr. Andreas Plückthun	1,500	-	-	1,500	-	-
Dr. Geoffrey N. Vernon	1,500	-	-	1,500	-	-
<b>Total</b>	<b>9,430</b>	<b>-</b>	<b>-</b>	<b>7,000</b>	<b>-</b>	<b>2,430</b>

## Convertible Bonds

	01/01/2005	Additions	Forfeitures	Expired	Sales	12/31/2005
<b>Management Board</b>						
Dr. Simon E. Moroney	19,474	-	-	-	12,000	7,474
Mr. Dave Lemus	30,228	-	-	-	24,000	6,228
Dr. Marlies Sproll**	2,491	-	-	-	-	2,491
<b>Total</b>	<b>52,193</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,000</b>	<b>16,193</b>
<b>Supervisory Board</b>						
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. Geoffrey N. Vernon	1,500	-	-	-	1,500	-
<b>Total</b>	<b>7,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,000</b>	<b>-</b>

\*\* Entered 11/01/2005

Compensation for both the Management Board and the Supervisory Board consisted of fixed and variable components. Total compensation for the Supervisory Board excluding reimbursements of travel expenses in 2005 amounted to € 190,500 (2004: € 169,500). The tables below show the detailed compensation for the Management Board and Supervisory Board:

### Management Board

in €	Fixed Compensation		Variable Compensation		Other Compensatory Benefits		Total Compensation	
	2005	2004	2005	2004	2005	2004	2005	2004
Dr. Simon E. Moroney	257,453	227,052	136,231	63,630	66,789	59,051	460,473	349,733
Mr. Dave Lemus	184,174	170,824	102,495	74,993	106,779	101,072	393,448	346,889
Dr. Marlies Sproll*	27,500	-	-	-	6,543	-	34,043	-
Dr. Thomas von Rüden**	-	129,421	-	75,661	-	53,037	-	258,119
<b>Total</b>	<b>469,127</b>	<b>527,297</b>	<b>238,726</b>	<b>214,284</b>	<b>180,111</b>	<b>213,160</b>	<b>887,964</b>	<b>954,741</b>

\* Entered 11/01/2005

\*\* No longer with the company since 09/03/2004

### Supervisory Board

in €	Fixed Compensation		Variable Compensation		Total Compensation	
	2005	2004	2005	2004	2005	2004
Dr. Gerald Möller	25,000	25,000	26,000	20,500	51,000	45,500
Dr. Daniel Camus	13,500	13,500	16,000	13,500	29,500	27,000
Prof. Jürgen Drews	18,500	18,500	14,000	7,000	32,500	25,500
Prof. Dr. Andreas Plückthun	12,000	12,000	7,500	7,500	19,500	19,500
Dr. Geoffrey N. Vernon	15,000	15,000	17,000	15,500	32,000	30,500
Dr. Metin Colpan	13,500	8,587	12,500	5,000	26,000	13,587
Dr. Jörg Reinhardt*	-	4,913	-	3,000	-	7,913
<b>Total</b>	<b>97,500</b>	<b>97,500</b>	<b>93,000</b>	<b>72,000</b>	<b>190,500</b>	<b>169,500</b>

\* Retired 05/11/2004

## 23 Corporate Governance

The Company issued its statement according to Section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration was published and made accessible to stockholders accordingly on December 22, 2005.

## 24 Research and Development Agreements

The Company has a significant number of research and development agreements relating to its discovery and development strategy. The following is a brief description of these agreements, which have had, or may have, a significant financial impact (in alphabetical order).

### **Bayer Corporation, Berkeley, U.S.A.**

In December 1999, the Company announced a collaboration with Bayer AG (“Bayer”) encompassing a research collaboration and license agreement for the application of the Company’s proprietary technologies in a number of Bayer’s research and development programs. The collaboration was extended by another four years in July 2001. The agreement specified four areas in which the two companies apply the Company’s technologies. The Company’s HuCAL (Human Combinatorial Antibody Library) technology is being used to generate fully human therapeutic antibodies against up to ten targets provided by Bayer. In addition, Bayer has an option to develop antibodies generated using the HuCAL technology as *in vitro* diagnostics. Furthermore, HuCAL is being used to identify antibodies for use in monitoring the progress of clinical trials with selected drugs. The fourth and last area of application is the use of MorphoSys technologies to identify and validate new targets emerging from Bayer’s genomics program, which will be used by Bayer in screens for new drug candidates.

Under the terms of the agreement, Bayer made an up-front payment to the Company upon signing the agreement, and pays additional annual license fees and support for research and development funding at the Company. Furthermore, Bayer pays exclusivity fees for using the HuCAL technology on up to ten potential targets, as well as milestone fees on antibodies delivered by the Company that meet pre-agreed success criteria. Any antibody-based products developed in the collaboration trigger development-related milestone and royalty payments by Bayer to the Company. Over the course of the agreement, Bayer has thus far taken two exclusive licenses on antibodies from MorphoSys, and cross-licensed their HKB-11 cell line against the installation of HuCAL GOLD at selected Bayer sites.

In December 2005, the collaboration was extended by another five years, with a termination option after the first collaboration year. Under the terms of the extended agreement, MorphoSys grants Bayer access to its proprietary HuCAL GOLD antibody library for use in Bayer’s drug discovery programs at its research site in West Haven, Connecticut, U.S.A. Additionally, the two parties undertake to commence up to 25 new therapeutic antibody programs should the collaboration run its full course.

### **Boehringer Ingelheim GmbH, Germany**

In February 2003, MorphoSys and Boehringer Ingelheim GmbH (“Boehringer Ingelheim”) entered into a therapeutic antibody collaboration and cross-licensing agreements. Under the terms of the agreements, MorphoSys received an exclusive, worldwide license to patents owned or controlled by Boehringer Ingelheim to develop, make and sell therapeutic and diagnostic antibodies targeting the ICAM-1 molecule. Boehringer Ingelheim will receive exclusive commercial licenses to therapeutic antibodies against two undisclosed targets, which MorphoSys will generate utilizing its HuCAL GOLD antibody technology.

In November 2003, Boehringer Ingelheim exercised its first option for the development of a therapeutic antibody. As a result, MorphoSys will develop a therapeutic antibody for Boehringer Ingelheim against an undisclosed target molecule for the treatment of inflammatory diseases such as asthma and rheumatoid arthritis.

In August 2004, Boehringer Ingelheim exercised its second option for the development of a therapeutic antibody. Both parties initiated a new program for the development of a therapeutic antibody against an undisclosed target molecule involved in cardiovascular diseases. MorphoSys will generate this antibody using its proprietary HuCAL GOLD technology. Boehringer Ingelheim will be responsible for the preclinical and clinical development and subsequent marketing of any resultant products, on which MorphoSys could earn milestones and royalties.

In March 2005, Boehringer Ingelheim and MorphoSys signed an expansion of their existing cooperation involving both research and therapeutic applications. Boehringer Ingelheim has acquired an option to receive several exclusive licenses on new therapeutic antibody programs. Additionally, Boehringer Ingelheim will obtain access to MorphoSys's HuCAL GOLD library for research purposes at a number of the firm's research facilities. The first installation site is intended to be Boehringer Ingelheim's site in Vienna, Austria. MorphoSys will receive a technology access fee, annual license fees and optional R&D funding over the five-year collaboration term. For therapeutic antibodies emerging from the collaboration, Boehringer Ingelheim will pay milestone fees and royalties to MorphoSys.

#### **Bristol-Myers Squibb, U.S.A.**

In August 1998, the Company and Bristol-Myers Squibb Company ("Bristol-Myers Squibb," formerly DuPont Pharmaceuticals Company) entered into a cooperation agreement under which Bristol-Myers Squibb acquired a non-exclusive license to MorphoSys's HuCAL antibody library technology. Under the agreement, Bristol-Myers Squibb applied HuCAL technology in its pharmaceutical discovery programs for target characterization and validation. In July 2000, the parties extended this research license and agreed to collaborate in developing a system for fully automated high-throughput antibody generation, called AutoCAL. The amended agreement provided for Bristol-Myers Squibb's continued use of the HuCAL libraries and for the installation of AutoCAL at Bristol-Myers Squibb's facilities in Wilmington, Delaware, U.S.A. Milestones were achieved in 2000 and 2001 with the successful generation of research antibodies against target molecules provided by Bristol-Myers Squibb using AutoCAL.

In January 2005, MorphoSys announced a further expansion of the existing license agreement to grant Bristol-Myers Squibb access to the HuCAL GOLD library.

#### **Centocor, Inc., U.S.A.**

In December 2000, the Company signed a subscription and license agreement with Centocor, Inc. ("Centocor"). The intention of the collaboration is to facilitate the research, discovery and development of novel antibody therapeutics. Centocor will have access to the HuCAL technology at various sites; in addition, the Company will generate antibodies against Centocor targets. Under the agreement, the Company will receive committed technology license fees, exclusivity fees, research and development funding, and milestone payments. Centocor will be responsible for development and marketing of any potential drugs. Should Centocor market any drugs as a result of the collaboration, the Company will receive royalty payments. The original contract had a duration of five years and was to end in December 2005. In December 2004, both parties extended their agreement until the end of 2007. The extension agreement provides for increased levels of research and development funding by Centocor to MorphoSys, and an up-front payment by Centocor to MorphoSys for the extension.

**Eli Lilly & Company, U.S.A.**

MorphoSys and Eli Lilly & Company (“Lilly”) signed a cross-licensing agreement in September 2005 for the use of their recombinant protein technologies. The agreement is part of a settlement to resolve the patent litigation with Applied Molecular Evolution (AME). Under the agreement, MorphoSys receives a license under the Kauffman patent estate to generate and screen certain recombinant peptide and protein libraries and to commercialize any resulting products. The agreement also provides Lilly access to the MorphoSys HuCAL GOLD technology for Lilly’s internal research and development programs. For any therapeutic antibodies Lilly develops under the agreement, it will pay MorphoSys exclusive licensing fees, success fees, milestone payments and royalties on end products. The settlement agreement covers MorphoSys’s and its partners’ past, present and future use and commercialization of all versions of its HuCAL libraries, as well as its TRIM technology. The agreement also gives Lilly access under agreed terms to Antibodies by Design, MorphoSys’s business unit focusing on the development of custom monoclonal antibodies for non-therapeutic purposes.

**F. Hoffmann-La Roche, Switzerland**

In September 2000, MorphoSys entered into a collaboration and license agreement with F. Hoffmann-La Roche (“Roche”) for the development of human therapeutic antibodies against a Roche target. Under the terms of the agreement, the Company receives a license payment, development-related milestone payments, and royalties on marketed products. The Company will apply its (HuCAL) Fab technology to the generation and optimization of antibodies for the Roche target. Roche will be responsible for the clinical development, regulatory approval and worldwide marketing of any resulting

products. MorphoSys announced in January 2006 that Roche has filed all necessary applications to commence a European phase 1 clinical trial with a HuCAL-derived antibody to treat Alzheimer’s disease. The filing of applications to commence clinical trials triggers a clinical milestone payment from Roche to MorphoSys.

**GPC Biotech AG, Germany**

In April 1999, the Company signed a collaboration and license agreement with GPC Biotech AG (“GPC”), Munich. The objective of the collaboration is to utilize the Company’s technologies to generate human antibodies against GPC targets and to deliver such antibody products to GPC for confirmation of achievement of pre-defined success criteria. The Company received up-front research and development funding/exclusivity payments as well as the potential for milestone and royalty payments from GPC. In January 2005, GPC started a phase 1 clinical trial with a fully human cancer antibody (1D09C3) generated by MorphoSys, evaluating the antibody in patients with relapsed or refractory B-cell lymphomas, such as Hodgkin’s and non-Hodgkin’s lymphomas. The commencement of clinical trials triggers a clinical milestone payment from GPC Biotech to MorphoSys. The European Commission has granted orphan drug designation for the antibody for the treatment of chronic lymphocytic leukemia (CLL).

**ImmunoGen, U.S.A.**

In September 2000, the Company signed a collaboration and license agreement with ImmunoGen, U.S.A. (“ImmunoGen”). The parties will collaborate in the discovery and development of human monoclonal antibodies against certain specified targets. ImmunoGen will be responsible for developing one or more antibodies generated by the Company into a marketable product. Under the agreement, the Company will receive a license payment, as well as development-related milestone payments and royalties on marketed products.

The existing agreement between the two companies was expanded in June 2001. The new agreement provided for a research license from the Company to ImmunoGen for the Company’s HuCAL antibody library technology for the generation of research antibodies for use in ImmunoGen’s functional genomics programs, in order to help validate new targets. The expanded agreement has a duration of four years.

In June 2005, the existing license agreement for ImmunoGen’s internal target research programs was extended for another year.

**Merck & Co., Inc., U.S.A.**

In December 2005, MorphoSys signed a five-year license agreement with Merck & Co., Inc. (“Merck”). Under the terms of the agreement, MorphoSys grants Merck access to its proprietary technologies HuCAL GOLD and AutoCAL for use in Merck’s drug discovery programs. Furthermore, the agreement enables Merck to develop HuCAL-derived therapeutic antibodies in a range of indications. MorphoSys receives an up-front payment, annual user fees and R&D funding. MorphoSys is also eligible to receive license and milestone payments on projects in clinical development, and royalties on any end products emerging from the collaboration.

**Novartis AG, Switzerland**

In May 2004, MorphoSys AG and Novartis AG (“Novartis”) announced a collaboration to discover and develop antibody-based biopharmaceuticals as therapeutic agents, in order to address unmet medical need across a variety of diseases. MorphoSys brings validated and robust human antibody technologies (HuCAL GOLD) to Novartis’s 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 the new world headquarters in Cambridge, Massachusetts, U.S.A. The MorphoSys HuCAL GOLD technology will be an integral part of Novartis’s drug discovery and development efforts. During the three-year term of the agreement, which may be extended up to a total of five years, 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. Additionally, under the terms of this collaboration Novartis will be MorphoSys’s 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. Novartis made an approx. € 9 million investment in MorphoSys by purchasing non-interest-bearing convertible bonds of MorphoSys. In addition, MorphoSys will receive over US\$ 30 million in committed R&D funding and technology license fees over the first three years. MorphoSys also stands to receive technology license payments, research and developmental milestones, as well as royalties on marketed antibody products.

**Novoplant GmbH, Germany**

In July 2004, MorphoSys AG and Novoplant GmbH (“Novoplant”) announced the signing of a collaboration for the development of therapeutic antibodies in animal health applications. Under the three-year agreement Novoplant received a license for the development and commercialization of therapeutic antibodies as feed components for use in veterinary medicine. Novoplant will pay a technology access fee to MorphoSys in addition to annual licensing fees. Additionally, MorphoSys receives milestone fees and royalties for the subsequent development and marketing of any resulting products. In the context of the cooperation, Novoplant will use MorphoSys’s HuCAL GOLD technology to generate antibodies against viruses, parasites and pathogenic microorganisms. The addition of such MorphoSys antibodies to animal feed stock may offer protection against infectious diseases in the respective animal’s gastrointestinal tract. MorphoSys retains all rights in any human therapeutics or diagnostics emerging from the collaboration.

**Pfizer, Inc., U.S.A.**

In December 2003, the Company announced a collaboration and license agreement with Pfizer, Inc. (“Pfizer”). The intention of the collaboration is to facilitate the research, discovery and development of novel antibody therapeutics. The Company will apply its HuCAL GOLD technology to the generation and optimization of antibodies for multiple Pfizer targets. Under the agreement, the Company received a committed up-front fee, research support, and, depending on collaboration progress, will receive milestone payments and royalties. Pfizer is responsible for the clinical development, regulatory approval and worldwide marketing of any resulting products.

**Schering AG, Germany**

In December 2001, the Company and Schering AG (“Schering”) formed a strategic alliance for the development of antibody therapeutics and *in vivo* diagnostics. As part of the agreement, Schering and the Company will combine their resources over the three-year collaboration term to exclusively pursue a minimum of five therapeutic and several *in vivo* diagnostic projects. Furthermore, the two partners will jointly undertake research to identify additional potential therapeutic and diagnostic targets emerging from Schering’s genomics program.

Over the lifetime of the agreement, the Company will receive license fees, milestone payments and royalties on any end products emerging from the collaboration. Additionally, Schering purchased 357,880 shares at an average price of € 66.79 per share in February 2002 as part of their strategic commitment to the partnership.

In December 2004, both parties extended the collaboration agreement by at least two more years, until the end of 2006, with the option of a further extension period of one year beyond this time frame.

**Shionogi & Co., Ltd., Japan**

In September 2005, MorphoSys signed a three-year license agreement with Shionogi & Co., Ltd. (“Shionogi”) on the use of MorphoSys’s HuCAL technology. Under the terms of the agreement, MorphoSys grants Shionogi access to its HuCAL GOLD antibody library for use in Shionogi’s pharmaceutical drug discovery programs. In return, MorphoSys stands to receive an up-front payment and annual user fees during the life span of the agreement.

**XOMA Technology Ltd./XOMA Ireland Ltd.**

In February 2002, MorphoSys and XOMA Technology Ltd./XOMA Ireland Ltd. (“XOMA”) concluded mutual license agreements for their antibody technologies. Under the terms of these agreements, MorphoSys received a license for its own and its collaboration partners’ past and future use of XOMA antibody expression technology for the development of antibody products in connection with the phage display-based HuCAL antibody library (the “XOMA license”). In return, XOMA received a five-year license from MorphoSys to use the MorphoSys HuCAL GOLD antibody library, which XOMA will use for its own target molecule identification and for its research programs. Moreover, an option is included for the development of therapeutic antibodies. MorphoSys acquired the XOMA license by issuing 363,466 shares arising from a capital increase in 2003.

## 25 Events After the Balance Sheet Date

On January 12, 2006, MorphoSys announced the acquisition of the privately held Serotec Group. The acquisition of Serotec, a renowned and internationally active supplier of research antibodies, more than triples the Group’s existing Research Antibodies segment revenues and establishes MorphoSys as the leading supplier of research antibodies and antibody research technologies in Europe. The purchase price of approximately £ 20 million (approx. € 29.3 million) will be paid via approximately £ 14 million (approx. € 20.5 million) cash and through the issuance of 208,560 new MorphoSys shares from a capital increase against contribution in kind. Serotec provides MorphoSys with a strong distribution network including subsidiaries and sales offices in the U.S., the U.K., Germany, France and Scandinavia. It is intended that Serotec becomes a wholly owned subsidiary of MorphoSys AG and integrated within MorphoSys’s existing research antibody business represented to date by the Biogenesis and Antibodies by Design brands. All three research antibody business units will operate under the umbrella brand AbD—Antibodies Direct.

In January 2005, MorphoSys announced the acquisition of the U.K.- and U.S.-based Biogenesis Group. The acquisition of Biogenesis was a first strategic step to expand the Research Antibodies unit by adding a comprehensive catalog antibody and contract antibody manufacturing business.

Serotec, founded in 1982, markets a substantial product portfolio of more than 4,600 research antibodies and reagents for use in research areas such as immunology, neurology, cell biology and histology. Consolidated sales of the Serotec Group in 2005 amounted to approximately € 11 million. With this acquisition, MorphoSys adds sales offices in France and Scandinavia and bolsters its existing presence in Germany, the U.K. and the U.S.A. The goal of the enlarged Research Antibodies unit is to leverage its research and sales capabilities globally. MorphoSys sees potential for significant revenue and cost synergies.

MorphoSys’s present Management Board will retain their present positions in the enlarged MorphoSys Group. The Research Antibodies unit will be led by Dieter Lingelbach, Senior Vice President at MorphoSys AG, with former Serotec management remaining in place to support the integration process. The Serotec Group currently employs approximately 80 people, mostly in R&D and sales and marketing.

## Summary of Significant Differences Between German GAAP and IFRS

In accordance with § 315a HGB, the Company has an exemption from publishing its financial statements in accordance with the German Commercial Code, which represents generally accepted accounting principles in Germany (“German GAAP”). The accompanying financial statements are in conformity with the principles of consolidated financial statement of the European Union (principle 83/349/EEC). German GAAP varies in certain significant respects from IFRS. 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 IFRS.

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”), which differ in certain respects from German generally accepted accounting principles (“German GAAP”) as prescribed by the German Commercial Code (HGB). The following is a summary of the significant differences between applied IFRS and German GAAP that may affect the Company’s net income and equity for the periods presented.

**Intangible assets**—Under IFRS, certain expenses (i.e. internal costs associated with obtaining patents) are capitalized as intangible assets and amortized on a straight-line basis over their estimated useful lives. Under German GAAP, such costs are expensed as incurred. The capitalization of certain acquired license rights is accounted for according to an expert valuation under IFRS. Under German GAAP, the splits are based on the net present value or acquisition cost.

**Amortization life of acquired license rights**—Under IFRS, these rights are amortized over their estimated useful economic life of ten years. Under German GAAP, the amortization period of eight years follows the rates used for tax purposes.

**Revenue recognition**—Under IFRS, more stringent revenue recognition criteria exist which can result in differences in the periods in which revenue is recognized under German GAAP.

**Stock-based compensation**—The Company accounts for stock option and convertible bonds grants in accordance with IFRS 2 and recognizes compensation expense. Under German GAAP, compensation expense is not recognized.

**Private placement and initial public offering costs**—Under IFRS, certain costs in connection with a private placement or an initial public offering of equity are recorded as a reduction of additional paid-in capital. Under German GAAP, such costs are expensed as incurred.

**Unrealized holding gains and losses on derivative financial instruments**—Under IFRS, unrealized gains and losses on derivatives are recorded as other income/expense. Under German GAAP, increased market value is not recorded.

**Non-current liabilities**—IFRS requires that long-term liabilities with the present value of future payments using an interest rate commensurate with the risk involved. Under German GAAP, the long-term liabilities are recorded with their repayment amounts.

**Goodwill allocation**—IFRS requires that a purchase price allocation be performed to identify assets and liabilities acquired. Under German GAAP, these amounts are shown as financial assets.

### Roll-Forward of Fixed Assets (Appendix 1)

	Acquisition and Production Cost			
	01/01/2005 €	Additions €	Disposals €	12/31/2005 €
<b>I. Property and Equipment</b>				
Land and Buildings	-	2,247,115	-	2,247,115
Office and Laboratory Equipment	4,985,732	628,573	280,589	5,333,716
Furniture and Fixtures	1,345,543	536,188	-	1,881,731
	<b>6,331,275</b>	<b>3,411,876</b>	<b>280,589</b>	<b>9,462,562</b>
<b>II. Intangible Assets</b>				
Patents	3,765,756	28,805	-	3,794,561
License Rights	12,140,398	-	-	12,140,398
Software	1,366,441	44,694	19,500	1,391,635
Know- How and Customer List	-	2,312,685	-	2,312,685
Goodwill	-	4,137,349	-	4,137,349
	<b>17,272,595</b>	<b>6,523,533</b>	<b>19,500</b>	<b>23,776,628</b>

\* including impairment losses of € 0.5 million

### Chart of the Consolidated Entity as of December 31, 2005 (Appendix 2)

Name and Corporate Seat of the Company	Currency	Exchange Rate on December 31, 2005; One Unit of € in Foreign Currency
<b>Company Consolidated (Apart from Parent Company)</b>		
MorphoSys U.S.A., Inc., Charlotte, North Carolina, U.S.A.	US \$	1.18590
MorphoSys IP GmbH, Munich, Germany	€	-
Biogenesis Ltd., Poole, UK	£	0.68430
Biogenesis, Inc., Brentwood, New Hampshire, U.S.A.	US \$	1.18590

\* Before elimination of intercompany transactions

	Accumulated Depreciation			Net Book Values		
	01/01/2005 €	Depreciation* €	Disposals €	12/31/2005 €	12/31/2004 €	
	-	10,310	-	10,310	2,236,805	-
	3,273,553	671,769	162,583	3,782,739	1,550,977	1,712,179
	726,727	245,923	-	972,650	909,081	618,816
	<b>4,000,280</b>	<b>928,002</b>	<b>162,583</b>	<b>4,765,699</b>	<b>4,696,863</b>	<b>2,330,995</b>
	975,665	457,891	-	1,433,556	2,361,005	2,790,091
	2,469,267	1,214,040	-	3,683,307	8,457,091	9,671,131
	1,078,326	197,511	15,708	1,260,129	131,506	288,115
	-	827,118	-	827,118	1,485,567	-
	-	-	-	-	4,137,349	-
	<b>4,523,258</b>	<b>2,696,560</b>	<b>15,708</b>	<b>7,204,110</b>	<b>16,572,518</b>	<b>12,749,337</b>

	Share of Capital %	Equity in Foreign Currency	Total Assets in Foreign Currency*	Total Liabilities in Foreign Currency*	Total Revenue in Foreign Currency*	Profit/Loss in Foreign Currency*
	100	2,000	4,136	(1,345)	-	(18,569)
	100	25,000	16,818,787	18,816,912	6,989,479	-
	100	200	1,363,390	514,053	1,658,032	29,420
	100	100	698,996	467,416	1,007,166	(196,701)