

Financial Report for the
Quarterly Period Ended
June 30, 2005



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MorphoSys Group: Six Months' Financial Report 2005

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Dear Shareholders,

During the first six months of 2005, the Company continued its successful financial development and remained on track to achieve its yearly goals. Revenues increased by 73% compared with the previous year to reach € 15.4 million, while the Company's cash position amounted to € 49.4 million at the end of the second quarter. MorphoSys recorded a net profit of € 1.8 million for the first six months of the year.

Extensions of existing partnerships continued in the second quarter, following expansions of the cooperation with Boehringer Ingelheim and with Bristol-Myers Squibb during the first quarter of 2005. More specifically, the partnership with ImmunoGen of many years' standing, was extended in April 2005.

During the second quarter, MorphoSys also reported on its internal development program MOR102 for the treatment of psoriasis. As part of this antibody program, MorphoSys commissioned a pre-clinical animal study to compare the efficacy of MOR102 with the two other approved drugs presently on the market. Due to the high rate of spontaneous healing in the control group, it was not possible to draw any conclusions from the study. The results highlight the complexities of pre-clinical development in a disease indication such as psoriasis, and is not a highly atypical outcome for such a study. However, based on the positive results of the first study, MorphoSys remains committed to pursuing the development and commercialization of MOR102 as a therapy for chronic inflammation.

On behalf of the Management Board and all our staff, I would like to express our gratitude for your continued support.



Dave Lemus
Chief Financial Officer
MorphoSys AG

Group Management Report Q2 2005

Industry Overview

Investor sentiment suffered a downturn in June 2005 as oil prices soared to over US\$ 60 per barrel for the first time. The broader stock market indices showed a mixed picture during the first six months of 2005, as evidenced by the DAX, EuroStoxx and Nikkei indices, which increased by approx. 8%, 7% and 1%, respectively; the Dow Jones dropped by approx. 4%.

While the NASDAQ Biotechnology Index fell by more than 7%, the Prime Pharma & Health-care Index and Prime Biotechnology Index rose by approx. 11% and 8% respectively. Against this backdrop, MorphoSys fell by approx. 18% since the start of 2005, which was roughly in line with its international antibody company peers, whose average drop was approximately 23%. Events such as the failure of Tysabri presently serve to depress investor sentiment in the antibody space.

Financial Analysis

Revenues

Compared to the same period in the previous year, revenues increased by 73% to € 15.4 million in the first six months of 2005 (June 30, 2004: € 8.9 million). Reasons for the increase included revenues arising from new deals signed in Q2 2004 and success-based payments from existing collaborations including clinical and research milestones achieved in the first six months of 2005. The Biogenesis Group (Biogenesis), acquired in January 2005, contributed € 1.2 million revenues to consolidated turnover.

Revenues arising from the Therapeutic Antibody segment accounted for 88% of total revenues (€ 13.6 million) while the Research Antibody segment, comprising MorphoSys' Antibodies by Design unit and the Biogenesis Group companies in the U.S.A. and the U.K., generated 12% of the total (€ 1.8 million). The Antibody by Design unit contributed 33%, or € 0.6 million, of the total research antibody segment revenues, whilst 67% of segment revenues stemmed from the Biogenesis Group companies.

Geographically, 58% of MorphoSys' commercial revenues in the amount of € 8.9 million were generated with biotechnology and pharmaceutical companies located in Europe and 42% in the United States and Canada. This compares to 31% and 69%, respectively, in the same period of the prior year.

Cost of Goods Sold (COGS)

COGS only arises in the Research Antibodies segment. It is composed of cost of goods sold of the Antibodies by Design unit and Biogenesis as well as depreciation of the fair value adjustment of Biogenesis' stock, which was identified by the purchase price allocation (PPA) currently exercised from application of IFRS 3 "Business Combinations" under IFRS accounting.

For the first six months of 2005, COGS rose significantly to € 1.1 million compared to € 0.4 million in the same period in the prior year, leading to a gross profit of € 14.3 million (June 30, 2004: € 8.5 million). Reason for the increase was the inclusion of the Biogenesis Group into MorphoSys' Group accounts in the current year, which amounted to € 0.6 million including depreciation of fair value adjustments in the amount of € 0.1 million.

Other Operating Expenses

For the first six months of 2005, other operating expenses including stock-based compensation expense increased by 31% to € 12.2 million (June 30, 2004: € 9.3 million), while operating profit increased by € 2.7 million to an operating profit of € 2.0 million (June 30, 2004: operating loss of € 0.7 million). The increase in other operating expenses of € 2.9 million was mainly due to higher personnel-related and material costs in conjunction with new collaborations as well as increased intangibles expenses due to higher revenues, particularly in connection with a milestone payment achieved in the first quarter of 2005. The acquisition of the Biogenesis Group companies had the effect of increasing other operating expenses by € 0.8 million.

Research and Development Expenses

Costs for research and development increased by € 1.6 million to € 6.8 million (June 30, 2004: € 5.2 million). This increase resulted mainly from higher personnel-related costs and higher material expenses as a result of new cooperations signed during 2004, as well as increased license fees due to higher revenue and a milestone payment achieved in 2005. Reduced cost for external lab funding partly offset the above. Amortization of intangibles identified during the PPA amounted to € 0.2 million and were accounted for as other operating research and development cost.

Sales, General and Administrative Expenses

Sales, general and administrative expenses amounted to € 4.9 million compared with € 3.5 million in the same period of the previous year. This resulted mainly from higher personnel costs partly due to the contribution of Biogenesis, as well as increased business development advisory fees. Biogenesis' total contribution to sales, general and administrative expenses amounted to € 0.6 million for the first six months 2005.

Stock-Based Compensation

Stock-based compensation in the amount of € 0.6 million for the first six months of 2005 was recorded as a non-cash charge (June 30, 2004: € 0.6 million) and remained unchanged, resulting from application of IFRS 2 "Share-based Payments" under IFRS accounting.

Cost by Expenditure Type

For the first six months of 2005, personnel costs (excluding expenses arising from stock-based compensation) amounted to € 4.7 million (June 30, 2004: € 3.5 million) or 35% of total operating expenses, thus representing the largest cost block within operating expenses in the first six months of 2005.

Intangible costs, which include patent litigation costs and amortization of licenses and patents, amounted to € 2.6 million (June 30, 2004: € 1.5 million), or 20% of the total in the first six months of 2005. External consultancy costs amounted to € 1.6 million (June 30, 2004: € 1.4 million), or 12% of total operating expenses. Cost for infrastructure and COGS accounted for € 1.3 million and € 1.1 million for the Q2 2005 accounts, respectively.

Non-Operating Items

Non-operating expenses amounted to €0.2 million compared with €0.5 million at June 30, 2004. Foreign exchange losses in the amount of €0.4 million as well as interest expense in the amount of €0.1 million were partly offset by realized gains from investments sold during the six-month period. Additional income in the amount of €0.1 million stemming from the PPA by recognizing deferred tax income partly offset non-operating items.

Net Profit / Loss

Continuing the positive trend established in 2004, the Company presented an operating profit of €2.0 million, contrasted to prior year's loss of €0.7 million. A net income of €1.8 million resulted for the first half of 2005 compared to a net loss of €1.2 million in the first half of 2004. The inclusion of the Biogenesis Group net income impacted the net income by contributing a €0.2 million loss for the first six months, stemming from fair value adjustments identified through the PPA and amortized. The resulting profit per share for the entire MorphoSys Group for the six months ended June 30, 2005 amounted to €0.32 (six months ended June 30, 2004: net loss per share of €0.24).

Liquidity / Cash Flows

On June 30, 2005, the Company held €49.4 million in cash, cash equivalents and marketable securities compared to a €37.2 million balance at December 31, 2004. The increased cash position resulted mainly from a capital increase executed in March 2005 and from exercises of options and convertible bonds granted to management and employees. The cash inflow from operations contributed €1.5 million to the same.

In the first six months of 2005, the Company's current assets increased by €14.6 million to €55.0 million compared to €40.4 million at December 31, 2004 accordingly.

Assets

Total assets increased by €23.1 million to €78.9 million in the first six months of 2005, compared to €55.8 million at December 31, 2004, mainly as a result of the increased cash position and acquisition of the Biogenesis Group's assets, including land and buildings in the amount of €2.8 million, intangibles in the amount of €2.2 million and acquired goodwill in the amount of €4.2 million. The purchase price allocation resulting from application of IFRS 3 currently exercised is reflected in the Group accounts (see also Notes to Consolidated Financial Statements - section 5). Tax benefits of €0.3 million arising from share issuance costs charged to equity were recognized in Q2 2005 and shown as deferred tax assets.

Liabilities

In the first six months of 2005, current liabilities increased from €10.1 million at December 31, 2004 to €11.0 million compared with the prior year. The increase arose primarily from increased accounts and licenses payable, partly offset by decreased current deferred revenue amounts. Accounts payable increased in part due to acquired accounts payable relating to Biogenesis. Licenses payable mainly increased as a result of higher revenues achieved in the first six months of 2005.

During the first two quarters of 2005, total non-current liabilities increased by €2.1 million to €8.4 million, mainly due to deferred tax liabilities deriving from the PPA and acquired long-term bank loans in conjunction with the acquisition of Biogenesis.

Equity

At June 30, 2005, the total number of shares issued was 5,960,510, of which 5,930,448 were outstanding, compared to 5,438,852 and 5,408,790 at December 31, 2004, respectively.

The increase arose from the issuance of 490,133 shares in connection with a capital increase in March 2005. An additional increase of 31,525 shares resulted from the exercise and conversion of bonds and options issued to employees during the first six months of 2005.

Capital Expenditure

MorphoSys' investment in property, plant and equipment amounted to €0.3 million for the six-month period ended June 30, 2005, compared to €0.7 million for the same period of the prior year. Substantially, all investments were accomplished in Germany. Depreciation for the first six months of 2005 accounted for €0.4 million compared to €0.3 million in the same period of the prior year.

Human Resources

Number and Qualification of Employees

On June 30, 2005 the MorphoSys Group employed 173 people (December 31, 2004: 132). On average, the MorphoSys Group employed 168 people for the first six months of 2005 (December 31, 2004: 117).

Of the 173 employees, 133 worked in research and development and 40 in sales, general and administration.

Of total employees, 32 worked for the Biogenesis Group, of whom 18 were engaged in research and development, and 14 in sales, general and administration.

On June 30, 2005, MorphoSys employed 2 trainees as "technical information processors in the area of information technology" (December 31, 2004: 2).

Subsidiaries / Segments / Organizational Structure

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

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

On January 20, 2005, MorphoSys acquired two privately held companies; Biogenesis Ltd. (Poole, U.K.) and its sister company Biogenesis, Inc. (Brentwood, New Hampshire, U.S.A.). The final agreements specified the purchase of 100% ownership of Biogenesis Ltd. and Biogenesis, Inc. by MorphoSys for £ 5.3 million in cash, less net debt of £ 0.7 million. The two Biogenesis companies became wholly-owned subsidiaries of MorphoSys AG.

Research & Development / Partnered Research

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

1. Therapeutic Antibodies

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

Proprietary Product Development

MorphoSys provided in April 2005 an update on its MOR102 antibody program for chronic inflammatory diseases. As part of this program MorphoSys commissioned a pre-clinical study to compare the effectiveness of MOR102 with that of the approved biologics Amevive® and Raptiva® in an animal model of psoriasis. Although therapeutic effects were observed for all tested compounds in several psoriatic skin samples, the in depth-analysis showed that it is not possible to discriminate on a statistically valid basis between compound-mediated effects and spontaneous healing observed in the negative control group. Hence, this study did not enable conclusions to be drawn regarding the efficacy of MOR102 versus Amevive® or Raptiva®. The Company announced that it would continue to pursue the development and commercialization of MOR102 in chronic inflammation.

Partnered Product Development

During the second quarter of 2005, the Company extended the following collaboration:

ImmunoGen, Inc.

In June 2005, MorphoSys announced that the U.S. biotechnology company, ImmunoGen Inc., licensed access to the MorphoSys HuCAL GOLD® library for use in ImmunoGen's internal target research programs. ImmunoGen will pay MorphoSys subscription fees during the one-year term of the agreement.

In June 2001, ImmunoGen and MorphoSys entered into a collaboration to use MorphoSys's previous version of the HuCAL® library (Human Combinatorial Antibody Library) in ImmunoGen's internal research programs. The four-year term of this prior agreement ended in May 2005. Furthermore, the two companies also have a separate collaboration, established in September 2000, to develop a fully human antibody against an ImmunoGen-provided cell-surface target associated with various forms of cancer.

2. Research Antibodies

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

Antibodies by Design announced the start of a joint project with ProQinase, a division of KTB Tumorforschungs GmbH at the Tumor Biology Center, Freiburg, the NMI Natural and Medical Sciences Institute at the University of Tübingen, which could transform the analysis of all human protein kinases - the human "kinome". The project combines the established protein kinase platform of ProQinase with the know-how of Antibodies by Design in the field of cus-

tom-made antibody generation and the experience of NMI with siRNA and Biochip technologies. In the coming three years, the project will be supported by approximately €2.0 million within the scope of the BioChancePLUS Program of the German Federal Ministry of Research (BMBF).

Outlook

MorphoSys believes it is currently on track to achieve its goals for the current fiscal year. Financial guidance for 2005, which was announced at the beginning of the year, presently remains unchanged.

Consolidated Statements of Operations (IFRS) – unaudited

	NOTE	Three Months Ended 06/30/2005 EURO	Three Months Ended 06/30/2004 EURO	Six Months Ended 06/30/2005 EURO	Six Months Ended 06/30/2004 EURO
Revenues		7,935,600	4,612,069	15,368,338	8,940,673
Cost of Goods Sold	2	604,788	227,040	1,110,016	411,108
Gross Profit		7,330,812	4,385,029	14,258,322	8,529,565
Other Operating Expenses					
Research and Development		3,162,232	2,816,273	6,757,411	5,234,575
Sales, General and Administrative		2,463,430	2,064,082	4,873,609	3,455,584
Stock-Based Compensation		291,386	249,980	582,772	585,673
Total Other Operating Expenses		5,917,048	5,130,335	12,213,792	9,275,832
Profit / (Loss) from Operations		1,413,764	(745,306)	2,044,530	(746,267)
Interest Income		33,250	9,465	54,779	113,275
Interest Expense		71,210	83,597	141,252	164,597
Other Expenses, Net	3	118,052	330,218	242,375	407,370
Profit / (Loss) before Taxes		1,257,752	(1,149,656)	1,715,682	(1,204,959)
Income Tax Benefit	5	87,990	–	87,990	28
Net Profit / (Loss)		1,345,742	(1,149,656)	1,803,672	(1,204,931)
Basic Net Profit / (Loss) per Share		0.23	(0.23)	0.32	(0.24)
Diluted Net Profit / (Loss) per Share		0.22	(0.23)	0.31	(0.24)
Shares Used in Computing Basic Net Profit / (Loss) per Share		5,929,844	4,931,426	5,716,005	5,097,324
Shares Used in Computing Diluted Net Profit / (Loss) per Share		6,008,834	4,931,426	5,804,021	5,097,324

See accompanying notes

Consolidated Balance Sheets (IFRS)

	NOTE	06/30/2005 EURO (unaudited)	12/31/2004 EURO
Assets			
Current Assets			
Cash and Cash Equivalents		1,367,454	12,531,198
Available-for-Sale Financial Assets		48,064,215	24,698,532
Accounts Receivable		4,364,667	2,304,778
Other Receivables	3	18,966	392,035
Prepaid Expenses and Other Current Assets	5	1,145,361	430,608
Total Current Assets		54,308,461	40,357,151
Non-Current Assets			
Property, Plant and Equipment, Net	5	4,955,649	2,330,995
Patents, Net		2,579,876	2,790,091
License Fees, Net		9,064,111	9,671,131
Software, Net		176,985	288,115
Know How & Customer List, Net	5	2,193,457	–
Goodwill	5	4,199,728	–
Deferred Tax Asset		271,000	–
Other Assets		526,924	358,210
Total Non-Current Assets		23,967,730	15,438,542
Total Assets		78,928,393	55,795,693
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts Payable		4,741,671	3,838,144
Current Portion of License Payable		1,244,223	910,243
Provisions		617,607	600,607
Current Portion of Deferred Revenue		4,385,776	4,757,249
Total Current Liabilities		10,989,277	10,106,243
Non-Current Liabilities			
Licenses Payable, Net of Current Portion		939,442	880,015
Deferred Revenue, Net of Current Portion		5,085,378	5,100,646
Convertible Bonds Due to Related Parties		84,342	109,692
Deferred Tax Liability	5	1,505,262	220,611
Bank Loans, long-term		749,236	–
Total Non-Current Liabilities		8,363,660	6,310,964
Stockholders' Equity			
Common Stock, EUR 3.00 Par Value; Ordinary Shares Authorized (11,416,850 and 9,597,400) Ordinary Shares Issued (5,960,510 and 5,438,852) Ordinary Shares Outstanding (5,930,448 and 5,408,790) for 2005 and 2004, respectively	4		
Treasury Stock (30,062 and 30,062 shares for 2005 and 2004, respectively), at Cost		17,870,497	16,305,523
Additional Paid-in Capital	4	95,037,690	78,646,377
Accumulated Other Comprehensive Income		889,793	452,782
Accumulated Deficit		(54,222,524)	(56,026,196)
Total Stockholders' Equity		59,575,456	39,378,486
Total Liabilities and Stockholders' Equity		78,928,393	55,795,693

See accompanying notes

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

	Common Stock	
	Shares	EURO
Balance at January 1, 2004	4,901,332	14,703,996
Compensation Related to the Grant of Stock Options and Convertible Bonds	–	–
Conversion of Convertible Bonds Issued to Related Parties	17,500	52,500
Conversion of Convertible Bonds, Net of Issuance Cost of EUR 93,192	490,133	1,470,399
Other Comprehensive Income: Change in Unrealized Gain on Available-for-Sale Securities, Net of Deferred Tax Asset	–	–
Foreign Currency Gain from Consolidation	–	–
Net Loss for the Period	–	–
Comprehensive Loss	–	–
Balance at June 30, 2004	5,408,965	16,226,895
Balance at January 1, 2005	5,438,852	16,316,556
Compensation Related to the Grant of Stock Options and Convertible Bonds	–	–
Exercise of Options and Convertible Bonds Issued to Related Parties	31,525	94,575
Capital Increase, Net of Issuance Cost of EUR 483,332	490,133	1,470,399
Other Comprehensive Income: 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	–	–
Balance at June 30, 2005	5,960,510	17,881,530

See accompanying notes

Treasury Stock		Additional Paid-in Capital EURO	Translation Reserve EURO	Revaluation Reserve EURO	Accumulated Deficit EURO	Total Stockholders' Equity EURO
Shares	EURO					
59,762	(21,934)	68,632,990	244,930	50,826	(56,308,308)	27,302,500
-	-	585,673	-	-	-	585,673
-	-	152,075	-	-	-	204,575
-	-	7,391,139	-	-	-	8,861,538
-	-	-	138,197	-	-	138,197
-	-	-	-	791	-	791
-	-	-	-	-	(1,204,931)	(1,204,931)
-	-	-	-	-	-	(1,065,943)
59,762	(21,934)	76,761,877	383,127	51,617	(57,513,239)	35,888,343
30,062	(11,033)	78,646,377	403,229	49,553	(56,026,196)	39,378,486
-	-	582,772	-	-	-	582,772
-	-	362,550	-	-	-	457,125
-	-	15,445,991	-	-	-	16,916,390
-	-	-	44,325	-	-	44,325
-	-	-	-	392,686	-	392,686
-	-	-	-	-	1,803,672	1,803,672
-	-	-	-	-	-	2,240,683
30,062	(11,033)	95,037,690	447,554	442,239	(54,222,524)	59,575,456

Consolidated Statements of Cash Flows (IFRS) – unaudited

For the Periods ended June 30,	Note	2005 EURO	2004 EURO
Operating Activities			
Net Profit / (Loss)		1,803,672	(1,204,931)
Adjustments to Reconcile Net Profit / (Loss) to Net Cash Provided by / (Used in) Operating Activities:			
Depreciation		438,583	290,237
Amortization of Intangible Assets		1,126,376	997,874
Income Tax Benefit		(87,990)	–
Net Gain on Sales of Financial Assets		(326,810)	(109,748)
Unrealized Net Loss on Derivative Financial Instruments		87,882	119,254
Loss on Sale of Property and Equipment		9,375	–
Recognition of Deferred Revenue		(5,459,604)	(4,525,811)
Stock-Based Compensation		582,772	585,673
Changes in Operating Assets and Liabilities:			
Accounts Receivable		(1,633,953)	(1,094,082)
Prepaid Expenses and Other Assets		(629,337)	169,498
Accounts Payable and Provisions		658,132	(479,919)
Licenses Payable		393,408	113,304
Other Liabilities		(549,868)	234,377
Deferred Revenue		5,072,863	2,715,460
Net Cash Provided by / (Used in) Operating Activities		1,485,501	(2,188,814)

For the Periods ended June 30,	Note	2005 EURO	2004 EURO
Investing Activities:			
Purchases of Financial Assets		(32,130,003)	(13,236,692)
Proceeds from Sales of Financial Assets		9,389,817	9,055,420
Purchases of Property, Plant and Equipment		(295,128)	(681,963)
Proceeds from Disposals of Property, Plant and Equipment		56,423	19,408
Additions to Intangibles		(33,841)	(108,941)
Acquisition of Biogenesis, Net of Cash Acquired	5	(6,994,208)	–
Net Cash Used in Investing Activities		(30,006,940)	(4,952,768)
Financing Activities:			
Proceeds from the Issuance of Equity	4	17,399,722	9,159,305
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties	4	457,125	–
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		(25,350)	(22,900)
Purchases of Derivative Financial Instruments		(75,000)	(158,576)
Proceeds from the Disposal of Derivatives		360,187	479,929
Cost of Share Issuance		754,332	(93,192)
Net Cash Provided by Financing Activities		17,362,352	9,364,566
Effect of Exchange Rate Differences on Cash		(4,657)	791
(Decrease) / Increase in Cash and Cash Equivalents		(11,163,744)	2,223,775
Cash and Cash Equivalents at the Beginning of the Period		12,531,198	6,652,456
Cash and Cash Equivalents at the End of the Period		1,367,454	8,876,231

See accompanying notes

Notes to the Consolidated Financial Statements – unaudited

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

The consolidated financial statements for the period ended June 30, 2005, include MorphoSys AG, MorphoSys IP GmbH, MorphoSys USA, Inc., Biogenesis, Inc., and Biogenesis Ltd. (together referred to as the "Group").

1 Changes in Accounting Policies

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

Basis of Consolidation

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

The Company determined the accounting for business combinations in the second quarter 2005 only provisionally. The Company is currently performing a purchase price allocation. The outcome may result in an adjustment of the goodwill following IFRS 3.62, any adjustments to the provisional values will be recognized within twelve months of the acquisition date (IFRS 3.69). Please see note 5 for detailed information.

Cost of Goods Sold

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

Inventories

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

Property, Plant and Equipment

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

Segment Reporting

General and administrative expenses are allocated to the respective business segments by applying an allocation along the headcount. All expenses of the business development department are allocated to the Therapeutic Antibodies segment.

2 Segment Reporting

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

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

The Group consists of the following main business segments:

Therapeutic Antibodies

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

Research Antibodies

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

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

For the Periods ended June 30, in 000's €	Therapeutic Antibodies		Research Antibodies		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues	13,570	8,617	1,798	324	–	–	15,368	8,941
Cost of Goods Sold	–	–	1,110	411	–	–	1,110	411
Gross Profit	13,570	8,617	688	(87)	–	–	14,258	8,530
Segment Result	4,883	1,803	(1,388)	(1,144)	(1,450)	(1,405)	2,045	(746)
Interest Income	–	–	–	–	–	–	54	113
Interest Expense	–	–	–	–	–	–	(141)	(165)
Other Expense, net	–	–	–	–	–	–	(242)	(407)
Income Tax Benefit	–	–	–	–	–	–	88	–
Total Profit / (Loss)	–	–	–	–	–	–	1,804	(1,205)

in 000's €	Therapeutic Antibodies		Research Antibodies		Unallocated		Consolidated	
	Q2 2005	Q2 2004	Q2 2005	Q2 2004	Q2 2005	Q2 2004	Q2 2005	Q2 2004
Revenues	6,964	4,424	971	188	–	–	7,935	4,612
Cost of Goods Sold	–	–	605	227	–	–	605	227
Gross Profit	6,964	4,424	366	(39)	–	–	7,330	4,385
Segment Result	2,878	556	(751)	(621)	(713)	(680)	1,414	(745)
Interest Income	–	–	–	–	–	–	33	9
Interest Expense	–	–	–	–	–	–	(71)	(84)
Other Expense, net	–	–	–	–	–	–	(118)	(330)
Income Tax Benefit	–	–	–	–	–	–	88	–
Total Profit / (Loss)	–	–	–	–	–	–	1,346	(1,150)

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

in 000's €	Q 2 2005	Q2 2004
Germany	3,546	1,628
U.S.A. and Canada	6,364	6,115
UK	477	–
Switzerland	4,658	776
Other Europe	180	422
Other	143	–
Total	15,368	8,941

3 Other Receivables

In May 2005, the Company received cash in the amount of US\$ 1.25 million for the respective amount hedged by a forward contract due on July 11, 2005. Therefore, the Company entered into a foreign currency swap with the notional amount of US\$ 1.25 million. The fair market value at June 30, 2005 was € 18,966, recorded under other receivables and netted with other expense.

4 Changes in Stockholders' Equity

Common Stock

On June 30, 2005, the Common Stock of the Company was € 17,870,497 (December 31, 2004: € 16,305,523). An increase of € 1,470,399 arose as a result of a capital increase on March 15th, 2005. Through conversion of convertible bonds and exercises of options issued to management and employees, Common Stock increased by an additional € 94,575 in the first six months of 2005.

Authorized Capital

On May 11, 2005, the Annual Shareholder's Assembly 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).

Conditional Capital

On May 11, 2005, the Annual Shareholder's Assembly authorized the Company to create an additional 74,017 shares for Conditional Capital V to create a maximum amount of € 732,840 (244,280 shares). Also approved was a further increase in Conditional Capital IV of 150,269 shares, thereby creating a maximum amount of € 1,644,198 (548,066 shares). The additional creation of 817,258 shares to increase Conditional Capital III up to € 4,806,375 (1,602,125 shares) has been authorized by the Annual Shareholder's Assembly. An action of opposition against Conditional Capital III was filed.

Additional Paid-In Capital

On June 30, 2005, Additional Paid-in Capital amounted to € 95,037,690 (December 31, 2004: € 78,646,377). The increase of € 16,391,313 is due to stock-based compensation provisions in the amount of € 582,772 and € 15,445,991 as a result of the capital increase on March 15, 2005 including net direct share issuance cost of € 483,332. A further increase of € 362,550 arose from exercise and conversion of convertible bonds and stock options issued to related parties.

5 Preliminary Goodwill Allocation

On January 20, 2005, MorphoSys acquired Biogenesis Ltd. (Poole/UK) and Biogenesis, Inc. (Brentwood, New Hampshire, U.S.A.). The final agreements specified the purchase of 100% ownership of the two companies by MorphoSys AG for a total of £ 5,250,000, less net debt of approximately £ 0.7 million. The total cost for financial advisors, legal counsel and other advisors was € 654,454. The two Biogenesis companies became wholly owned subsidiaries of MorphoSys AG. In the six-month period ended June 30, 2005, the subsidiaries contributed a net loss of € 0.2 million to the consolidated net profit for the first half of 2005. In accordance with IFRS 3.62 and 3.69, the group has applied a preliminary goodwill allocation. The acquisition had the following effect on the Group's assets and liabilities:

Net Assets at January 19, 2005 in 000's €	Biogenesis Group		
	Recognized Values	Fair Value Adjustments	Fair Value Amount
Cash and Cash Equivalents	207	--	207
Property, Plant and Equipment	1,788	898	2,686
Inventories	123	328	451
Trade and Other Receivables	425	–	425
Intangibles	–	2,230	2,230
Interest-bearing Loans and Borrowings	(990)	–	(990)
Trade and Other Payables	(543)	–	(543)
Deferred Taxes	–	(1,266)	(1,266)
Net Identifiable Assets and Liabilities	1,010	2,190	3,200
Goodwill on Acquisition			4,002
Consideration Paid, Satisfied in Cash*			7,202
Cash (acquired)	–	–	207
Net Cash Outflow	–	–	6,995

* Advisors fees amounting to € 0.7 million included

As of June 30, 2005, foreign exchange effects of € 0.3 million were recognized for the assets acquired and accounted for as Other Comprehensive Income.

6 Directors' Dealings

The table below shows the shares, stock options and convertible bonds as well as the changes of ownership of the same, which were held by the Management Board and the Supervisory Board during the first six months of 2005:

Shares	01/01/2005	Additions	Forfeitures	Sales	06/30/2005
Management Board					
Dr. Simon E. Moroney* (held through a controlled entity)	113,461	–	–	–	113,461
Dave Lemus	–	–	–	–	–
Total	113,461	–	–	–	113,461
Supervisory Board					
Dr. Gerald Möller	2,500	–	–	–	2,500
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan	–	–	–	–	–
Prof. Dr. Jürgen Drews	–	–	–	–	–
Prof. Dr. Andreas Plückthun*	59,300	–	–	–	59,300
Dr. Geoffrey N. Vernon	–	–	–	–	–
Total	61,800	–	–	–	61,800

* 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

Stock Options					
	01/01/2005	Additions	Forfeitures	Sales	06/30/2005
Management Board					
Dr. Simon E. Moroney	47,000	–	–	–	47,000
Dave Lemus	21,000	–	–	–	21,000
Total	68,000	–	–	–	68,000
Supervisory Board					
Dr. Gerald Möller	2,500	–	–	–	2,500
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan	–	–	–	–	–
Prof. Dr. Jürgen Drews	3,930	–	–	–	3,930
Prof. Dr. Andreas Plückthun	1,500	–	–	–	1,500
Dr. Geoffrey N. Vernon	1,500	–	–	–	1,500
Total	9,430	–	–	–	9,430
Convertible Bond					
	01/01/2005	Additions	Forfeitures	Sales	06/30/2005
Management Board					
Dr. Simon E. Moroney	19,474	–	–	–	19,474
Dave Lemus	30,228	–	–	24,000	6,228
Total	49,702	–	–	24,000	25,702
Supervisory Board					
Dr. Gerald Möller	2,500	–	–	–	2,500
Dr. Daniel Camus	1,500	–	–	–	1,500
Dr. Metin Colpan	–	–	–	–	–
Prof. Dr. Jürgen Drews	–	–	–	–	–
Prof. Dr. Andreas Plückthun	1,500	–	–	–	1,500
Dr. Geoffrey N. Vernon	1,500	–	–	–	1,500
Total	7,000	–	–	–	7,000

7 Contingencies

In June 2001, a lawsuit was filed against the Company by Applied Molecular Evolution, Inc., ("AME") San Diego, California, U.S.A., at the United States District Court of Massachusetts in Boston/U.S.A., alleging that the Company infringes the Kauffman-Ballivet patent family. These patents cover the stochastic production of proteins and were granted in the late 1990s. In January 2003 MorphoSys confirmed that it had received a positive "Report and Recommendation" from the Magistrate Judge to the District Judge for the District Court in Boston, Massachusetts, U.S.A., in the legal action filed by Applied Molecular Evolution. The Magistrate Judge recommended that MorphoSys's motion for summary judgment of non-infringement be allowed and that AME's motion for partial summary judgment of infringement be denied. In September 2004, the District Judge issued a "Memorandum and Order" wherein he declined to adopt the recommendation and denied the summary judgment motions. Instead he ordered that a Markman hearing, which took place on April 1st, 2005, for claim construction should be held. Thereafter, based on the facts at issue, it will be determined whether the case can be decided by way of summary judgment or has to go to trial. As a result, no provisions for contingent liabilities have been made in the Company's financial statements.

Imprint

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