

Financial Report for the  
Quarterly Period Ended  
June 30, 2006



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## MorphoSys Group: Six Months' Financial Report 2006

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## Dear Shareholders,

During the second quarter of 2006, the Company demonstrated progress in several areas of its activities.

On the therapeutic side of our business, the most important event was the extension of our agreement with Novartis, our largest cooperation. Under the terms of the expanded agreement, the collaboration was extended until 2011, and Novartis increased the number of new therapeutic antibody projects worked on by the two companies, in addition to higher levels of funded research and annual license fees.

Beyond this, in May 2006, we announced the signature of a cooperation with Schering-Plough Corporation for the use of MorphoSys's HuCAL GOLD® technology for research which included options on developing therapeutic antibodies for up to ten disease-related targets. In June, MorphoSys signed a license agreement with US-based biopharmaceutical company OncoMed Pharmaceuticals, Inc., on the use of MorphoSys's HuCAL® technology in the research and development of potential therapeutic antibodies targeting cancer stem cells.

During the second quarter, consolidation was the main theme in the AbD segment. In this vein, Oxford has become the new site of our UK headquarters, which now includes the operations of the previously acquired companies, Biogenesis and Serotec. In the USA, the former Serotec site in Raleigh (North Carolina) will be our new US headquarters, however a sales office in New England will be retained.

In corporate related matters, the Company's Annual Shareholders' Meeting took place in Munich in May and confirmed the reappointment of Prof. Drews and Prof. Plückthun to the Supervisory Board. Moreover, all other management proposals were passed with large majorities.

On the basis of the above-mentioned events and other events which have occurred since the beginning of the year, the Company is pleased to be able to increase its financial guidance for the full year 2006, resulting in an increased EBIT of up to € 6 million for the full year.

Thank you for your continuing interest and support of MorphoSys.



Dave Lemus  
Chief Financial Officer  
MorphoSys AG

# Group Management Report Q2 2006

## Industry Overview

Since mid-2005, M&A activities between pharma and antibody companies have been on the rise. In particular, antibody- and protein-based technologies and companies have been particularly sought after. After the acquisition of Abgenix by Amgen in December 2005, AstraZeneca announced a takeover bid for antibody technology platform, Cambridge Antibody Technology (CAT) in May 2006. Also in the quarter, Merck announced the acquisition of two antibody technology companies, Abmaxis and GlycoFi. Shortly after the end of the second quarter, Novartis made an offer for NeuTec Pharma, a biotechnology company developing antibodies for infectious diseases.

Despite this very positive news in the antibody sector, the MorphoSys share price decreased by 11% during the quarter, although still showing a cumulative increase of 2% since the beginning of the year. In the second quarter, the TecDAX fell by 10% and the NASDAQ Biotech Index by 12%. The German Prime Biotechnology Index decreased by 12%.

## Financial Analysis

### Revenues

Compared to the same period in the previous year, revenues increased by 72% to € 26.5 million in the first six months of 2006 (June 30, 2005: € 15.4 million). Reasons for the increase included success-based payments from existing collaborations in the first half of 2006, which encompassed both clinical as well as research milestones, and the inclusion of Serotec Group revenues, contributing 23% of total revenues.

Revenues arising from the Therapeutic Antibodies segment accounted for 66% or € 17.5 million of total revenues while the AbD segment generated 34% (€ 9.0 million) of the total. Total Company organic revenue growth amounted to 33% compared to the same period in 2005.

Geographically, 36% or € 9.5 million of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies located in North America and 64% or € 17.0 million with companies located in Europe and Asia. This compares to 42% and 58%, respectively, in the same period of the prior year.

### *Therapeutic Antibodies Segment*

Revenues arising from the Therapeutic Antibodies segment comprise € 12.5 million funded research and paid license fees as well as € 5.0 million success-based payments, representing 29% (June 30, 2005: 17%) of total therapeutic revenues. Success-based payments amounted to € 3.9 million in the first quarter of 2006, and € 1.1 million in the second quarter.

69% of therapeutic antibodies revenues and 45% of total revenues arose from the Company's three largest alliances, with Novartis, Centocor and Roche (June 30, 2005: 61% of total revenues).

*Antibodies Direct – AbD Segment*

The Serotec Group, newly acquired in January 2006, contributed € 6.0 million or 67% to total AbD segment revenues. The remaining revenues for the entire segment amounted to € 3.0 million, and derived from the Biogenesis and Antibodies by Design brands. Total Company organic revenue growth (ie. Biogenesis and Antibodies by Design) remained strong in the second quarter, and amounted to 67% in the AbD segment compared to the same period in 2005.

As of June 30, 2006, orders in the amount of € 2.9 million were classified as backorders in the segment.

**Operating Expenses**

For the first six months of 2006, total operating expenses increased by 58% to € 21.0 million (June 30, 2005: € 13.3 million), while operating profit increased by € 3.6 million to € 5.6 million (June 30, 2005: € 2.0 million). The increase in operating expenses of € 7.7 million was mainly due to higher personnel-related costs and external services in conjunction with newly acquired companies as well as increased personnel expenses at MorphoSys AG. The acquisition of Serotec Ltd. including its affiliates had the effect of increasing operating expenses by € 5.6 million.

Stock-based compensation expenses are embedded in COGS, S,G&A and R&D expense amounts. Stock-based compensation for the first six months of 2006 amounted to € 0.6 million and changed little over the previous year, remaining as a non-cash charge.

Applying IFRS 3 "Business Combinations" under IFRS accounting, a purchase price allocation (PPA) was carried out for the Serotec acquisition in the second quarter. The resulting preliminary values were retroactively recognized to the purchase date, and amortization as well as depreciation of assets identified were included in total operating expenses during the quarter. Total PPA effects including the Serotec acquisition on operating profit amounted to € 0.8 million compared to € 0.3 million in the same period of the last year.

*Cost of Goods Sold*

Cost of goods sold (COGS) is composed of the AbD segment's cost of goods sold during the first two quarters. COGS rose significantly to € 4.0 million in Q2 2006, compared to € 1.1 million in the same period of the prior year. The main reason for the increase was the inclusion of Serotec Group companies' COGS, amounting to € 2.4 million in Q2 2006. Higher revenues stemming from existing AbD business also influenced COGS. Finally, COGS was affected by depreciation stemming from inventories under the PPA exercises by in the amount of € 0.4 million in the first half of the year.

*Research and Development Expenses*

Costs for research and development increased by € 0.9 million to € 7.9 million (June 30, 2005: € 7.0 million) through expenses for product and technology development amounting to € 0.9 million. Amortization of intangibles identified during the PPAs amounted to € 0.4 million and were accounted for as research and development expenses.

*Sales, General and Administrative Expenses*

Sales, general and administrative expenses amounted to € 9.1 million compared to € 5.2 million in the same period of the previous year. This resulted mainly from higher personnel and other operating expenses partly stemming from the contribution and integration of the Serotec Group of € 3.2 million as well as increased personnel expenses at MorphoSys AG.

**Cost by Expenditure Type**

For the first six months of 2006, personnel costs (excluding expenses arising from stock-based compensation) amounted to € 8.2 million (June 30, 2005: € 5.2 million) or 39% of total operating expenses, thus representing the largest cost block within operating expenses in the first half of 2006.

Intangible costs, representing the second-largest block by cost type, included patent litigation costs as well as amortization of intangibles and amounted to € 2.8 million (June 30, 2005: € 2.6 million), or 13% of the total in the first six months of 2006.

**Non-operating Items**

Non-operating expenses increased by € 0.8 million to € 1.0 million mainly due to the recognition of tax accruals in order to reflect the revised financial expectations for the year 2006. This effect was partly offset by gains on securities sold in the first quarter in connection with financing the acquisition of Serotec Ltd. and by the amortization of deferred tax liabilities recognized as a result of the Serotec purchase price allocation. Profit before taxes amounted to € 5.4 million (June 30, 2005: profit of € 1.7 million).

**Net Profit**

A net profit of € 4.5 million was achieved for the first half of 2006, compared to a net profit of € 1.8 million in the same period of 2005. The resulting profit per share for the six months ended June 30, 2006 amounted to € 0.71 (six months ended June 30, 2005: net profit per share of € 0.32).

**Liquidity / Cash Flows**

Cash flow from operations amounted to € 14.6 million in the first six months of 2006.

In the first half of the year, cash flow was primarily influenced by the Company's successful private placement offering in March 2006 (€ 17.1 million), the acquisition of Serotec in January (€ 21.2 million), and positive cash flow from operations as stated above.

**Assets**

Total assets increased by € 43.3 million to € 123.4 million as of June 30, 2006, compared to € 80.1 million as of December 31, 2005, mainly as a result of the acquisition of the Serotec Group's assets, including acquired goodwill, which impacted total assets by € 22.0 million and due to the capital increase as well as cash from operations.

On June 30, 2006, the Company held € 64.9 million in cash, cash equivalents and available-for-sale financial assets, compared to a year-end 2005 balance of € 53.6 million.

**Liabilities**

In the first six months of 2006, current liabilities increased from € 11.0 million as of December 31, 2005 to € 18.0 million. This change primarily arose from increased accounts payable and current deferred revenue. Deferred revenues partly rose due to payments deriving from new contracts signed in 2005 and in the first half of 2006. The acquisition of Serotec affected current liabilities by € 2.3 million.

During the first six months of 2006, an increase of total non-current liabilities by € 4.8 million to € 9.9 million mainly resulted from non-current deferred revenues.

**Equity**

As of June 30, 2006, the total number of shares issued amounted to 6,654,179, of which 6,625,017 were outstanding, compared to 6,025,863 and 5,996,701 as of December 31, 2005, respectively.

The increase arose from the issuance of 208,560 new shares in connection with a capital increase as consideration for the Serotec acquisition. An additional increase of 35,418 shares resulted from the conversion of bonds issued to employees as well as exercised options. The issuance of 384,338 shares stemming from the capital increase against cash successfully placed in March 2006 further affected the number of shares.

**Capital Expenditure**

MorphoSys's investment in property, plant and equipment amounted to € 0.3 million for the six-month period ended June 30, 2006 and remained unchanged to the same period of the prior year. Depreciation of property, plant and equipment for the first six months of 2006 accounted for € 0.9 million, compared to € 0.4 million in the first half of 2005. This was mainly due to depreciation recognized with the purchase price allocation in connection with the Serotec acquisition. During the first six months, the Company invested € 0.2 million in intangible assets. Amortization of intangibles amounted to € 1.3 million and increased by € 0.2 million in comparison to the first half of 2005. This was mainly due to amortization recognized with the purchase price allocation in connection with the Serotec acquisition.

## Human Resources

**Number and Qualification of Employees**

On June 30, 2006 the MorphoSys Group employed 252 people (December 31, 2005: 172). On average, the MorphoSys Group employed 254 people for the first six months of 2006 (Q2 2005: 168).

Of the 252 employees, 83 people were employed by the Serotec Group on June 30, and on average, 80 were employed.

Of the 252 employees, 144 worked in research and development and 108 in sales, general and administration. On June 30, 2006, 53 of MorphoSys' employees had a Ph.D. degree (December 31, 2005: 46).

Of the 252 employees, 141 worked for the Therapeutic Antibodies segment and 111 for the AbD segment.

On June 30, 2006, MorphoSys employed 1 apprenticeship position (December 31, 2005: 1).

Geographically, on June 30, 2006, the Company employed 165 persons in Germany, 69 in the rest of Europe and 18 in North America.

On the occasion of the Annual Shareholders' Meeting, which took place on May 17, 2006, in Munich, MorphoSys's shareholders confirmed the reappointment of Prof. Dr. Jürgen Drews and Prof. Dr. Andreas Plückthun to the Supervisory Board.

## Corporate Acquisitions / Divestitures

### Acquisition of the Serotec Group

In January 2006, the AbD segment was further strengthened through the acquisition of Serotec Ltd. Serotec provides MorphoSys with a strong distribution network including subsidiaries and sales offices in the U.S. and U.K. as well as Germany, France and Scandinavia. Serotec (Serotec Ltd., Serotec, Inc., Serotec GmbH and Oxford Biotechnology Ltd.) has become a wholly owned subsidiary of MorphoSys AG and is being integrated within MorphoSys's existing AbD segment.

The purchase price of approximately £ 20 million (approx. € 29.3 million) has been 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.

## Business Development

The following new partnerships were established in the second quarter of 2006 (in alphabetical order):

### Therapeutic Antibodies Segment

#### *Oncomed Pharmaceuticals, Inc. (USA)*

In June 2006, MorphoSys and US-based biopharmaceutical company OncoMed Pharmaceuticals, Inc., announced the signing of a license agreement on the use of MorphoSys's HuCAL technology in the research and development of human therapeutic antibodies for the treatment of various cancers, including breast, lung, colon and prostate by targeting cancer stem cells. Under the terms of the agreement, MorphoSys grants OncoMed access to its proprietary antibody library HuCAL GOLD for use by OncoMed in its drug discovery programs. The two-year contract includes an option for OncoMed to develop HuCAL-derived therapeutic antibodies. The agreement includes an up-front payment and annual user fees.

#### *Schering-Plough*

MorphoSys announced the signing of an initial two-year license agreement with Schering-Plough Corporation for the use of MorphoSys's HuCAL GOLD technology in the research and development of human therapeutic antibodies in May 2006. Under the terms of the agreement, MorphoSys grants access to its proprietary antibody library to Schering-Plough for use in its drug discovery programs at one research site. Furthermore, the contract provides Schering-Plough with the option to develop HuCAL-derived therapeutic antibodies against up to ten disease-related targets. According to the agreement, MorphoSys will receive an upfront payment, annual user fees and optional R&D funding.

During the initial two-year term of the agreement, MorphoSys's HuCAL GOLD antibody library will be installed at Schering-Plough's research site in Palo Alto, California, the location of Schering-Plough Biopharma, an affiliate of Schering-Plough Research Institute.

## Research & Development / Alliance Management

The following represents the progress made in various existing collaborations throughout the first half of 2006:

### **Therapeutic Antibodies Segment**

#### *ImmunoGen Inc.*

The research collaboration with ImmunoGen Inc., which was originally signed in September 2000, was successfully concluded at the end of May 2006.

The agreement between the two companies was expanded by four years in June 2001 to include a research license from MorphoSys to ImmunoGen for MorphoSys's HuCAL antibody library technology. This technology is used to generate research antibodies for use in ImmunoGen's functional genomics programs in order to help validate new targets. In June 2005, the agreement was extended again, and ImmunoGen licensed access to the MorphoSys HuCAL GOLD library for use in its internal target research programs.

#### *Novartis*

In June 2006, MorphoSys announced the expansion of its existing therapeutic antibody collaboration with Novartis. The original collaboration agreement provided for a three-year term with an option for Novartis to extend. The collaboration is now committed until May 2011. Within the framework of the extended agreement, Novartis commits to an increase in the number of new therapeutic antibody projects annually – resulting in increased levels of Novartis's funding for research and development at MorphoSys. In addition, Novartis will have the option to receive access to the MorphoSys HuCAL GOLD library at an additional research site and will have access to a certain HuCAL affinity optimization technology at the HuCAL library installation sites at Novartis for optimization of non-therapeutic antibodies. Furthermore, the agreement also provides for increased annual license fees, with commercial license fees, research and developmental milestones, and royalties on marketed antibody products remaining unchanged.

In May 2004, the two companies forged a strategic antibody alliance to jointly develop new antibody-based therapeutics against a range of illnesses. In August 2005, MorphoSys successfully concluded the first therapeutic antibody program with Novartis. Subsequently, work for several other antibody projects at MorphoSys was concluded successfully, resulting in multiple milestone payments for MorphoSys.

### **AbD Segment**

In May 2006, the AbD segment announced results of a research & development program with renowned Japanese Kazusa DNA Research Institute, Kisarazu. The two parties have jointly developed and characterized a series of recombinant research antibodies from MorphoSys's HuCAL GOLD antibody library. The antibodies are directed against proteins sourced from Kazusa's cloning and expression project, which aims at identifying and characterizing previously unidentified genes and their corresponding proteins. Both parties share distribution rights and have made these antibodies available via the sales catalogs of the Kazusa Institute and MorphoSys Group. Data resulting from the collaboration, which was published in the peer-review journal "Proteomics", demonstrated that recombinant antibodies offer clear benefits over polyclonal antibodies, such as faster generation, less use of antigen, much higher specificity, no loss in sensitivity, and finally increasing the range of applications by engineering the recombinant antibodies.

## Outlook

On the basis of stronger than anticipated operating results in the first half of 2006, MorphoSys's management has increased the financial guidance for the full year 2006, originally given in February 2006. More specifically, management now expects revenue guidance to amount to up to € 52 million (original guidance: € 50 million), and operating expenses for the full year are expected to be lower than the original guidance of € 49 million, by up to € 3 million.

## Consolidated Statements of Operations (IFRS) – unaudited

NOTE	Three Months Ended 06/30/2006 €	Three Months Ended 06/30/2005 €	Six Months Ended 06/30/2006 €	Six Months Ended 06/30/2005 €
<b>Revenues</b>	<b>11,681,492</b>	<b>7,935,600</b>	<b>26,523,348</b>	<b>15,368,338</b>
<b>Operating Expenses</b>				
Cost of Goods Sold 2	1,892,614	612,023	3,991,538	1,124,487
Research and Development	4,052,172	3,270,840	7,883,564	6,974,626
Sales, General and Administrative	4,851,878	2,638,973	9,088,820	5,224,695
<b>Total Operating Expenses</b>	<b>10,796,664</b>	<b>6,521,836</b>	<b>20,963,922</b>	<b>13,323,808</b>
<b>Profit from Operations</b>	<b>884,828</b>	<b>1,413,764</b>	<b>5,559,426</b>	<b>2,044,530</b>
Interest Income	18,953	33,250	36,055	54,779
Interest Expense	43,417	71,210	76,143	141,252
Other Expenses, Net	329,941	118,052	89,754	242,375
<b>Profit before Taxes</b>	<b>530,423</b>	<b>1,257,752</b>	<b>5,429,584</b>	<b>1,715,682</b>
Income Tax Benefit / (Expense)	(886,610)	87,990	(886,610)	87,990
<b>Net Profit / (Loss)</b>	<b>(356,187)</b>	<b>1,345,742</b>	<b>4,542,974</b>	<b>1,803,672</b>
<b>Earnings / (Loss) per Share:</b>				
Basic Net Profit / (Loss) per Share	(0.05)	0.23	0.71	0.32
Diluted Net Profit per Share	–	0.22	0.70	0.31
Shares Used in Computing Basic Net Profit / (Loss) per Share	6,624,548	5,929,844	6,434,788	5,716,005
Shares Used in Computing Diluted Net Profit per Share	–	6,008,834	6,528,446	5,804,021

See accompanying notes to the Consolidated Financial Statements

## Consolidated Balance Sheets (IFRS)

	NOTE	06/30/2006 €	12/31/2005 €
		(unaudited)	
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents		1,563,687	4,017,029
Available-for-Sale Financial Assets		63,319,110	49,542,541
Accounts Receivable		4,247,626	3,345,812
Other Receivables		192,979	25,133
Inventories, Net		4,469,678	485,713
Prepaid Expenses and Other Current Assets		1,483,023	1,058,461
<b>Total Current Assets</b>		<b>75,276,103</b>	<b>58,474,689</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment, Net		5,251,167	4,696,863
Patents, Net		2,147,817	2,361,005
Licenses, Net		8,291,855	8,457,091
Software, Net		233,580	131,506
Know How & Customer List, Net		5,203,464	1,485,567
Goodwill	6	26,522,460	4,137,349
Deferred Tax Asset		102,444	-
Other Assets		385,506	372,574
<b>Total Non-Current Assets</b>		<b>48,138,293</b>	<b>21,641,955</b>
<b>Total Assets</b>		<b>123,414,396</b>	<b>80,116,644</b>

See accompanying notes to the Consolidated Financial Statements

	NOTE	06/30/2006 € (unaudited)	12/31/2005 €
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts Payable		7,061,444	4,321,591
Current Portion of Licenses Payable		1,062,624	1,012,233
Current Portion of Provisions		1,658,135	978,719
Current Portion of Deferred Revenue		8,215,003	4,735,208
<b>Total Current Liabilities</b>		<b>17,997,206</b>	<b>11,047,751</b>
<b>Non-Current Liabilities</b>			
Provisions, Net of Current Portion		62,763	62,763
Deferred Revenue, Net of Current Portion		6,796,883	3,687,199
Convertible Bonds Due to Related Parties		78,369	50,214
Deferred Tax Liability		2,936,311	1,260,946
<b>Total Non-Current Liabilities</b>		<b>9,874,326</b>	<b>5,061,122</b>
<b>Stockholders' Equity</b>			
Common Stock, € 3,00 Par Value;	3		
Ordinary Shares Authorized (12,729,785 and 11,416,850)			
Ordinary Shares Issued (6,654,179 and 6,025,863)			
Ordinary Shares Outstanding (6,625,017 and 5,996,701)			
for 2006 and 2005, respectively			
Treasury Stock (29,162 and 29,162 shares			
for 2006 and 2005, respectively), at Cost		19,951,834	18,066,886
Additional Paid-in Capital	3	121,425,845	96,412,849
Accumulated Other Comprehensive Income		972,038	877,863
Accumulated Deficit		(46,806,853)	(51,349,827)
<b>Total Stockholders' Equity</b>		<b>95,542,864</b>	<b>64,007,771</b>
<b>Total Liabilities and Stockholders' Equity</b>		<b>123,414,396</b>	<b>80,116,644</b>

See accompanying notes to the Consolidated Financial Statements

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

	Common Stock	
	Shares	€
<b>Balance as of January 1, 2005</b>	<b>5,438,852</b>	<b>16,316,556</b>
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 € 483,332	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 Loss from Consolidation	–	–
Net Profit for the Period	–	–
<b>Comprehensive Income</b>	<b>–</b>	<b>–</b>
<b>Balance as of June 30, 2005</b>	<b>5,960,510</b>	<b>17,881,530</b>
<b>Balance as of January 1, 2006</b>	<b>6,025,863</b>	<b>18,077,589</b>
Compensation Related to the Grant of Stock Options and Convertible Bonds	–	–
Exercise of Options and Convertible Bonds Issued to Related Parties	35,418	106,254
Capital Increase against Contribution in Kind, Net of Issuance Cost of € 27,060	208,560	625,680
Capital Increase, Net of Issuance Cost of € 470,595	384,338	1,153,014
<b>Other Comprehensive Income:</b>		
Change in Unrealized Gain on Available-for-Sale Securities, Net of Deferred Tax Asset	–	–
Foreign Currency Loss from Consolidation	–	–
Net Profit for the Period	–	–
<b>Comprehensive Income</b>	<b>–</b>	<b>–</b>
<b>Balance as of June 30, 2006</b>	<b>6,654,179</b>	<b>19,962,537</b>

See accompanying notes to the Consolidated Financial Statements

Treasury Stock		Additonal Paid-in Capital €	Revaluation Reserve €	Translation Reserve €	Accumulated Deficit €	Total Stockholders' Equity €
Shares	€					€
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
29,162	(10,703)	96,412,849	584,679	293,184	(51,349,827)	64,007,771
-	-	656,463	-	-	-	656,463
-	-	874,601	-	-	-	980,855
-	-	8,002,500	-	-	-	8,628,180
-	-	15,479,432	-	-	-	16,632,446
-	-	-	94,346	-	-	94,346
-	-	-	-	(171)	-	(171)
-	-	-	-	-	4,542,974	4,542,974
-	-	-	-	-	-	4,637,149
29,162	(10,703)	121,425,845	679,025	293,013	(46,806,853)	95,542,864

## Consolidated Statements of Cash Flows (IFRS) – unaudited

For the Period ended June 30,	Note	2006 €	2005 €
<b>Operating Activities</b>			
Net Profit		4,542,974	1,803,672
<b>Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:</b>			
Depreciation		933,748	438,583
Amortization of Intangible Assets		1,320,748	1,126,376
Income Tax Benefit		(263,377)	(87,990)
Net Gain on Sales of Financial Assets		(485,029)	(326,810)
Unrealized Net (Gain) / Loss on Derivative Financial Instruments		(10,781)	87,882
(Gain) / Loss on Sale of Property and Equipment		(1,423)	9,375
Recognition of Deferred Revenue		(7,599,876)	(5,459,604)
Stock-based Compensation		648,542	582,772
<b>Changes in Operating Assets and Liabilities:</b>			
Accounts Receivable		592,314	(1,633,953)
Inventories, Prepaid Expenses and Other Assets		(152,609)	(629,337)
Accounts Payable and Provisions		2,077,838	658,132
Licenses Payable		50,391	393,408
Other Liabilities		(1,202,351)	(549,868)
Deferred Revenue		14,189,355	5,072,863
<b>Cash Generated from Operations</b>		<b>14,640,464</b>	<b>1,485,501</b>
Interest Paid		(9,611)	–
<b>Net Cash Provided by Operating Activities</b>		<b>14,630,853</b>	<b>1,485,501</b>

See accompanying notes to the Consolidated Financial Statements

For the Period ended June 30,	Note	2006 €	2005 €
<b>Investing Activities:</b>			
Purchases of Financial Assets		(31,458,784)	(32,130,003)
Proceeds from Sales of Financial Assets		18,304,909	9,389,817
Purchases of Property, Plant and Equipment		(354,019)	(295,128)
Proceeds from Disposals of Property, Plant and Equipment		8,666	56,423
Additions to Intangibles		(155,068)	(33,841)
Acquisition, Net of Cash Acquired	6	(21,172,502)	(6,994,208)
<b>Net Cash Used in Investing Activities</b>		<b>(34,826,798)</b>	<b>(30,006,940)</b>
<b>Financing Activities:</b>			
Proceeds from the Issuance of Equity		17,103,041	17,399,722
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		980,855	457,125
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		28,155	(25,350)
Purchases of Derivative Financial Instruments		(93,650)	(75,000)
Proceeds from the Disposal of Derivatives		–	360,187
Net Cost of Share Issuance		(497,655)	(754,332)
<b>Net Cash Provided by Financing Activities</b>		<b>17,520,746</b>	<b>17,362,352</b>
Effect of Exchange Rate Differences on Cash		221,857	(4,657)
Decrease in Cash and Cash Equivalents		2,453,342	11,163,744
<b>Cash and Cash Equivalents at the Beginning of the Period</b>		<b>4,017,029</b>	<b>12,531,198</b>
<b>Cash and Cash Equivalents at the End of the Period</b>		<b>1,563,687</b>	<b>1,367,454</b>

See accompanying notes to the Consolidated Financial Statements

# Notes to the Consolidated Financial Statements – unaudited

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

The consolidated financial statements for the period ended June 30, 2006, include MorphoSys AG, MorphoSys IP GmbH, MorphoSys U.S.A. Inc, MorphoSys US Inc., MorphoSys UK Ltd. and Serotec Group (together referred to as the “Group”).

## 1 Changes in Accounting Policies

The accounting policies applied for the financial statements as of December 31, 2005 have been used throughout the first six months 2006, except for the following changes:

### **Basis of Consolidation**

All business combinations are accounted for using the purchase method according to IFRS 3 “Business Combinations”, whereby identifiable assets and liabilities assumed 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 acquired in the first two quarters 2006 only provisionally. The Company is currently performing a purchase price allocation (PPA). 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 6 for detailed information.

### **Segment Reporting**

General and administrative expenses remain unallocated to the respective business segments and are presented accordingly. Intangibles attributable to both segments are allocated along revenues.

## 2 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group’s business and geographical segments. The primary format, business segments, is based on the Group’s management and internal reporting structure. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group consists of the following main business segments:

**Therapeutic Antibodies**

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

**AbD – Antibodies Direct**

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

**Geographical Segments**

In presenting information on the basis of geographical segments, segment revenues are based on the geographical location of the customers.

For the Six Months Period ended June 30, (in 000's €)	Therapeutic Antibodies		AbD		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenues</b>	17,546	13,570	8,977	1,798	–	–	26,523	15,368
Cost of Goods Sold	–	–	3,991	1,124	–	–	3,991	1,124
<b>Segment Result</b>	9,427	5,961	(634)	(1,401)	(3,234)	(2,515)	5,559	2,045
Interest Income	–	–	–	–	–	–	36	54
Interest Expense	–	–	–	–	–	–	76	141
Other Expenses, Net	–	–	–	–	–	–	89	242
Income Tax Benefit / (Expense)	–	–	–	–	–	–	(887)	88
<b>Total Profit / (Loss)</b>	–	–	–	–	–	–	4,543	1,804

For the Three Months Period ended June 30, (in 000's €)	Therapeutic Antibodies		AbD		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenues</b>	7,585	6,964	4,096	971	–	–	11,681	7,935
Cost of Goods Sold	–	–	1,892	612	–	–	1,892	612
<b>Segment Result</b>	3,673	3,388	(1,033)	(749)	(1,755)	(1,225)	885	1,414
Interest Income	–	–	–	–	–	–	19	33
Interest Expense	–	–	–	–	–	–	43	71
Other Expenses, Net	–	–	–	–	–	–	330	118
Income Tax Benefit / (Expense)	–	–	–	–	–	–	(887)	88
<b>Total Profit / (Loss)</b>	–	–	–	–	–	–	(356)	1,346

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

<b>For the Six Months Period ended June 30, in 000's €</b>	<b>2006</b>	<b>2005</b>
Europe and Asia	16,908	8,861
U.S.A. and Canada	9,505	6,364
Other	110	143
<b>Total</b>	<b>26,523</b>	<b>15,368</b>

### 3 Changes in Stockholders' Equity

#### Common Stock

On June 30, 2006, the Common Stock of the Company was € 19,962,537 (December 31, 2005: € 18,077,589). An increase of € 625,680 arose from a capital increase against contribution in kind through the acquisition of Serotec Group executed on January 11, 2006, and an increase of € 1,153,014 arose as a result of a capital increase executed on March 29, 2006. Through conversion of convertible bonds and exercises of options issued to management and employees, Common Stock increased by an additional € 106,254 in the first six months of 2006.

#### Additional Paid-in Capital

On June 30, 2006, Additional Paid-in Capital amounted to € 121,425,845 (December 31, 2005: € 96,412,849). The total increase of € 25,012,996 is due to stock-based compensation provisions in the amount of € 656,463, € 8,002,500 arose from a capital increase against contribution in kind stemming from the Serotec acquisition and € 15,479,432 stem from a capital increase on March 29, 2006. A further increase of € 874,601 arose from exercise and conversion of convertible bonds and stock options issued to related parties.

### 4 Changes in Stock Options

In the first two quarters of 2006, a stock option grant was executed under the 2002 Stock Option Plan with terms identical to the 2002 stock option grants. On January 15, 2006, 25,000 options were granted to Management Board members and 15,000 options were granted to employees of MorphoSys AG.

### 5 Changes in Convertible Bonds

In the first two quarters of 2006, convertible bonds were granted under the 2002 Plan with terms identical to the 2002 stock convertible bonds grants. On January 15, 2006, 14,248 convertible bonds were granted to Management Board members and 24,170 convertible bonds were granted to employees of MorphoSys AG.

## 6 Preliminary Goodwill Allocation

In connection with the Serotec acquisition, MorphoSys established a purchase price allocation (PPA) required by IFRS 3 "Business Combinations" under IFRS accounting. The Company assigned PricewaterhouseCoopers for identification and valuation of assets acquired. IFRS permits the adjustment of fair value amounts identified within twelve months post-acquisition without affecting Group's profits.

Additional tangible assets in land and buildings as well as in inventories were identified and valued accordingly.

Intangible assets identified consisted of customer lists, know how as well as customer relationships and distributors.

The PPA had the following effect on Group accounts:

### Serotec Group – Net Assets as of January 11, 2006

in 000's €	Recognized Value	Fair Value Adjustment	Fair Value
Cash and Cash Equivalents	330	–	330
Trade and Other Receivables	1,517	–	1,517
Inventories	3,315	1,152	4,467
Property, Plant and Equipment, Net	362	–	362
Land & Buildings, Net	284	183	467
License Fees, Net	412	–	412
Software, Net	79	–	79
Customer Lists	–	2,451	2,451
Other Intangible Assets	–	1,754	1,754
Other Assets	342	–	342
Trade and Other Payables	(2,613)	–	(2,613)
Deferred Taxes	–	(1,874)	(1,874)
<b>Net Identifiable Assets and Liabilities</b>	<b>4,028</b>	<b>3,666</b>	<b>7,694</b>
Goodwill on Acquisition	–	–	22,464
<b>Consideration Paid*</b>	–	–	<b>30,158</b>
Thereof Satisfied in Equity	–	–	8,655
Cash (acquired)	–	–	330
<b>Net Cash Outflow</b>	–	–	<b>21,173</b>

\* Advisors fees amounting to € 1.1 million included

As of June 30, 2006, foreign exchange effects of € 0.1 million were recognized for the goodwill accounted for.

## 7 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 2006:

Shares	01/01/2006	Additions	Forfeitures	Sales	06/30/2006
<b>Management Board</b>					
Dr. Simon E. Moroney	113,461	–	–	–	113,461
Dave Lemus	–	–	–	–	–
Dr. Marlies Sproll*	35	–	–	–	35
<b>Total</b>	<b>113,496</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>113,496</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	2,500	–	–	–	2,500
Prof. Dr. Jürgen Drews	–	–	–	–	–
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan	–	–	–	–	–
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>61,800</b>

\* Bought by Dr. Sproll prior to election to the Management Board

**Stock Options**

	01/01/2006	Additions	Forfeitures	Sales	06/30/2006
<b>Management Board</b>					
Dr. Simon E. Moroney	83,000	–	–	–	83,000
Dave Lemus	48,000	–	–	–	48,000
Dr. Marlies Sproll	2,500	25,000	–	–	27,500
<b>Total</b>	<b>133,500</b>	<b>25,000</b>	<b>–</b>	<b>–</b>	<b>158,500</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	–	–	–	–	–
Prof. Dr. Jürgen Drews	2,430	–	–	–	2,430
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan	–	–	–	–	–
Prof. Dr. Andreas Plückthun	–	–	–	–	–
Dr. Geoffrey N. Vernon	–	–	–	–	–
<b>Total</b>	<b>2,430</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,430</b>
<b>Convertible Bonds</b>					
	01/01/2006	Additions	Forfeitures	Sales	06/30/2006
<b>Management Board</b>					
Dr. Simon E. Moroney	7,474	5,699	–	–	13,173
Dave Lemus	6,228	4,749	–	–	10,977
Dr. Marlies Sproll	2,491	3,800	–	–	6,291
<b>Total</b>	<b>16,193</b>	<b>14,248</b>	<b>–</b>	<b>–</b>	<b>30,441</b>
<b>Supervisory Board</b>					
Dr. Gerald Möller	–	–	–	–	–
Prof. Dr. Jürgen Drews	–	–	–	–	–
Dr. Daniel Camus	–	–	–	–	–
Dr. Metin Colpan	–	–	–	–	–
Prof. Dr. Andreas Plückthun	–	–	–	–	–
Dr. Geoffrey N. Vernon	–	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

# Imprint

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