

Financial Report for the  
Quarterly Period Ended  
September 30, 2006



# Contents

## MorphoSys Group: Nine-Month Financial Report 2006

<b>3</b>	Letter to the Shareholders
<b>4</b>	Group Management Report
<b>11</b>	Consolidated Statements of Operations (IFRS) for the Nine Months Ended September 30, 2006 and 2005 (unaudited)
<b>12</b>	Consolidated Balance Sheets (IFRS) as of September 30, 2006 (unaudited) and December 31, 2005
<b>14</b>	Consolidated Statements of Changes in Stockholders' Equity (IFRS) as of September 30, 2006 and September 30, 2005 (unaudited)
<b>16</b>	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005 (unaudited)
<b>18</b>	Notes to the Consolidated Financial Statements (unaudited)

## Dear Shareholders,

During the third quarter of 2006, MorphoSys was able to provide evidence that its proprietary program MOR103 is on track towards achieving the next development stage – the filing of an investigational new drug application (IND) in the second half of 2007. More specifically, the Company signed license and manufacturing agreements with Dutch biotechnology company Crucell N.V. and its manufacturing partner DSM Biologics. This license agreement allows MorphoSys to use an established fully human cell line in the production of clinical grade material for the development of MOR103. Production will be conducted at DSM Biologics' FDA-approved facilities in Groningen, the Netherlands.

Beyond this, and as part of the wider process to fully integrate the acquired Serotec Group of companies, the Company has opened new U.S. offices in the technology cluster Research Triangle Region near Raleigh, North Carolina. The new facility will provide additional space for extra staff and increased stock levels for an expanded product range – both of which are prerequisites for establishing this office as the main hub of our U.S. activities for the AbD segment.

Additionally, in the U.S.A., MorphoSys was able to secure a contract in a biodefense-related project by the USAMRIID, a part of the U.S. Army's Biological Defense Program. The USAMRIID has ordered HuCAL<sup>®</sup>-derived research antibodies against five bacterial-derived toxins. These antibodies may support the development of countermeasures against such biological toxins or act as therapeutic agents themselves.

On behalf of my colleagues from the Management Board, I would like to thank you for your continued interest and support.



Dave Lemus  
Chief Financial Officer  
MorphoSys AG

# Group Management Report Q3 2006

## Industry Overview

During the third quarter of 2006, M&A activities within the pharma and biotechnology sector gained further momentum. Particularly in Europe, consolidation of midcap pharma continued with the proposed acquisition of Schwarz Pharma by UCB and the takeover of Serono by Merck KGaA.

Within the antibody sector, Lucentis from Genentech was approved by the FDA, thus becoming the 19th antibody drug on the market. In contrast, the approval for Avastin and Herceptin for an additional indication for the treatment of breast cancer was delayed by regulatory authorities.

The MorphoSys share was up by 11.8% during the third quarter of 2006, and thereby outperformed the TecDAX which was up by 1.7%. Since the beginning of the year, the MorphoSys share price increased by 14.5%, and the TecDAX by 10.4%. The German Prime Biotechnology Index increased during the third quarter by 10.9%, the NASDAQ Biotechnology Index by 1.6%.

## Financial Analysis

### Revenues

Compared to the same period in the previous year, revenues increased by 64% to € 39.0 million in the first nine months of 2006 (September 30, 2005: € 23.8 million). Reasons for the increase included success-based payments from existing collaborations in the first nine months of 2006, which encompassed both clinical and research milestones as well as the inclusion of Serotec Group revenues, contributing 23% of total revenues.

Revenues arising from the Therapeutic Antibodies segment accounted for 67% or € 26.0 million of total revenues while the AbD segment generated 33% (€ 13.0 million) of the total. Total Company organic revenue growth amounted to 26% compared to the same period in 2005.

Geographically, 37%, or € 14.4 million, of MorphoSys's commercial revenues were generated with biotechnology and pharmaceutical companies located in North America and 63% or € 24.6 million with companies located in Europe and Asia. This compares to 40% and 60%, respectively, in the same period of the prior year.

### *Therapeutic Antibodies Segment*

Revenues arising from the Therapeutic Antibodies segment comprise € 19.7 million funded research and paid license fees as well as € 6.3 million success-based payments, representing 24% (September 30, 2005: 21%) of total therapeutic revenues. Approximately 67% of therapeutic antibodies revenues and 44% of total revenues arose from the Company's three largest alliances with Novartis, Centocor and Roche (September 30, 2005: 63% of total revenues arising from the alliances with Novartis, Centocor and Schering).

*Antibodies Direct – AbD Segment*

The Serotec Group, newly acquired in January 2006, contributed € 9.1 million or 70% to total AbD segment revenues. The remaining revenues for the entire segment amounted to € 3.9 million and derived from the Biogenesis and Antibodies by Design brands. Total segment organic revenue growth (i.e. Biogenesis and Antibodies by Design) remained strong in the third quarter and amounted to 26% in the AbD segment compared to the same period in 2005.

As of September 30, 2006, orders in the amount of € 1.9 million were classified as backorders in the segment.

**Operating Expenses**

For the first nine months of 2006, total operating expenses increased by 56% to € 31.2 million (September 30, 2005: € 20.0 million), while operating profit increased by 105% or € 4.0 million to € 7.8 million (September 30, 2005: € 3.8 million). The increase in operating expenses of € 11.2 million was mainly due to cost of goods sold increasing by € 3.6 million and resulted mainly from the inclusion of the Serotec Group in consolidated accounts 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 € 8.5 million.

Stock-based compensation expenses are embedded in COGS, S, G&A and R&D expense amounts. Stock-based compensation for the first nine months of 2006 amounted to € 1.0 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) is carried out currently for the Serotec acquisition. The resulting preliminary values were retroactively recognized to the purchase date, and amortization as well as depreciation of assets identified was included in total operating expenses during the quarter. Total PPA effects on operating profit including the Serotec acquisition amounted to € 1.2 million compared to € 0.4 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 three quarters. COGS rose significantly to € 5.5 million in Q3 2006, compared to € 1.9 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 € 3.4 million in Q3 2006. Higher revenues stemming from existing AbD business also influenced COGS. Finally, COGS was affected by depreciation stemming from inventories under the PPA exercises in the amount of € 0.5 million in the first nine months of the year.

*Research and Development Expenses*

Costs for research and development increased by € 1.5 million to € 11.7 million (September 30, 2005: € 10.2 million) through expenses for product and technology development amounting to € 1.4 million. Amortization of intangibles identified during the PPAs amounted to € 0.6 million and was accounted for as research and development expenses.

*Sales, General and Administrative Expenses*

Sales, general and administrative expenses amounted to € 14.0 million compared to € 7.9 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 in the amount of € 5.1 million as well as increased personnel expenses at MorphoSys AG.

**Cost by Expenditure Type**

For the first nine months of 2006, personnel costs (excluding expenses arising from stock-based compensation) amounted to € 12.4 million (September 30, 2005: € 7.9 million) or 40% of total operating expenses, thus representing the largest cost block within operating expenses in the first nine months of 2006.

Infrastructure costs, representing the second-largest block by cost type, included rent costs as well as depreciation of property and equipment and amounted to € 3.9 million (September 30, 2005: € 2.1 million), or 13% of the total in the first nine months of 2006.

Intangible costs included patent litigation costs as well as amortization of intangibles and amounted to € 3.8 million (September 30, 2005: € 3.9 million) or 12% of total expenses.

**Non-operating Items**

Non-operating expenses amounted to € 0.5 million (September 30, 2005: € 0.1 million) mainly due to increased foreign currency exchange effects and bank fees. This effect was partly offset by gains on securities sold in the first quarter in connection with financing the acquisition of Serotec Ltd. Profit before taxes amounted to € 7.4 million (September 30, 2005: profit of € 3.7 million).

**Taxes**

Tax accruals in the amount of € 1.5 million were recognized in the first three quarters of 2006. These were partly offset by the amortization of deferred tax liabilities recognized as a result of the Serotec purchase price allocation, resulting in income tax expenses of € 1.2 million (September 30, 2005: income of € 0.1 million).

**Operating Profit / Net Income**

Group operating profit jumped to € 7.8 million in the first nine months of 2006, a nearly doubling over the same period of the prior year (2005: € 3.8 million). Earnings before interest and taxes (EBIT) amounted to € 7.4 million, compared to an EBIT of € 3.8 million in the same period of the previous year.

Net income after taxes of € 6.1 million was achieved for the first three quarters of 2006, compared to a net profit of € 3.9 million in the same period of 2005. The resulting net profit per share for the nine months ended September 30, 2006, amounted to € 0.95 (nine months ended September 30, 2005: net profit per share of € 0.68).

**Liquidity / Cash Flows**

Cash flow from operations amounted to a very strong € 15.7 million in the first nine months of 2006 (2005: € 1.8 million). The Company's total cash flow was also influenced by the Company's successful private placement offering in March 2006, resulting in a total cash inflow from financing activities of € 18.7 million (2005: € 17.7 million). Cash flow used in investing activities was primarily impacted by the acquisition of Serotec in January 2006, and amounted to a total of € 35.6 million (2005: € 29.5 million).

**Assets**

Total assets increased by € 47.0 million to € 127.1 million as of September 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 € 22.4 million, and due to the capital increase as well as cash from operations.

On September 30, 2006, the Company held € 66.3 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 nine months of 2006, current liabilities increased from € 11.0 million as of December 31, 2005, to € 18.9 million. This change primarily arose from increased accounts payable and current deferred revenue. Deferred revenue partly rose due to payments deriving from new contracts signed in 2005 and in the first nine months of 2006. The acquisition of Serotec affected current liabilities by € 2.7 million.

During the first nine months of 2006, an increase of total non-current liabilities by € 4.4 million to € 9.4 million was mainly impacted by non-current deferred revenue, resulting from new contracts signed in 2005 and in the first three quarters of 2006. Additionally, deferred tax liabilities increased by € 1.7 million due to the purchase price allocation established in connection with the Serotec deal.

#### **Equity**

Total Stockholders' Equity amounted to € 98.7 million on September 30, 2006, compared to € 64.0 million on December 31, 2005.

As of September 30, 2006, the total number of shares issued amounted to 6,689,327, of which 6,660,165 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 70,566 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 € 1.1 million for the nine-month period ended September 30, 2006, and increased by € 0.7 million compared to the same period of the prior year. Depreciation of property, plant and equipment for the first nine months of 2006 accounted for € 1.4 million, compared to € 0.6 million in the first three quarters of 2005. This was mainly due to depreciation of € 0.6 million recognized in connection with depreciation of stock resulting from the previous purchase price allocations. During the first nine months, the Company invested € 0.3 million in intangible assets. Amortization of intangibles amounted to € 2.0 million and increased by € 0.3 million in comparison to the first nine months of 2005. This was mainly due to the amortization of intangible assets acquired in the Serotec deal.

## Human Resources

### Number and Qualification of Employees

On September 30, 2006, the MorphoSys Group employed 279 people (December 31, 2005: 172). On average, the MorphoSys Group employed 259 people for the first nine months of 2006 (Q3 2005: 169).

Of the 279 employees, 98 people were employed by the Serotec Group on September 30, 2006, and on average, 84 were employed.

Of the 279 employees, 154 worked in research and development and 125 in sales, general and administration. On September 30, 2006, 55 of MorphoSys's employees had a Ph.D. degree (December 31, 2005: 46).

Of the 279 employees, 153 worked for the Therapeutic Antibodies segment and 126 for the AbD segment.

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

Geographically, on September 30, 2006, the Company employed 178 persons in Germany, 83 in the rest of Europe and 18 in North America.

## 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.

In August 2006, the U.S. subsidiary of MorphoSys AG has opened new U.S. offices in the technology cluster Research Triangle Region near Raleigh, North Carolina. The new 5,500 square foot facility will provide additional space for new staff, increased stock levels for the expanded product range, and the expansion of sales for the custom monoclonal antibodies.

## Business Development

### AbD Segment

In September 2006, MorphoSys's business segment AbD Serotec won a contract as sole source on a biodefense-related project by the USAMRIID, an organization of the U.S. Army Medical Research and Materiel Command and lead medical research laboratory for the U.S. Biological Defense Program. The USAMRIID has ordered fully human recombinant research antibodies against five bacterial-derived toxins. AbD Serotec will generate these antibodies using the HuCAL GOLD® antibody library developed by MorphoSys.

Biological toxins derived from living organisms, such as bacteria and other microorganisms or plants are biological agents with potential implications in bioterrorism. HuCAL-derived antibodies may support the development of countermeasures against such biological toxins or may act as therapeutic agents themselves.

## Research & Development / Alliance Management

### Therapeutic Antibodies Segment

In August 2006, MorphoSys signed a second PER.C6® license agreement with Dutch biotechnology company Crucell N.V. and its technology partner DSM Biologics. This license agreement allows MorphoSys to use the PER.C6® cell line in the production of clinical grade material for the development of its proprietary therapeutic antibody program MOR103. MOR103 is a fully human HuCAL antibody, developed in the area of inflammatory diseases, such as rheumatoid arthritis. Further, MorphoSys has signed a biopharmaceutical manufacturing agreement with DSM Biologics to produce the clinical grade material in its FDA-approved facilities in Groningen, the Netherlands.

## Outlook

The Company's most recent guidance was given in July 2006 and since this time, no changes to Company estimates have been made.

In July, MorphoSys increased its financial guidance for the full year 2006. Revenues for 2006 were estimated at up to € 52 million and operating expenses between € 46 - 49 million, resulting in an EBIT of up to € 6 million.

This page intentionally left blank

## Consolidated Statements of Operations (IFRS) – unaudited

NOTE	Three Months Ended 09/30/2006 €	Three Months Ended 09/30/2005 €	Nine Months Ended 09/30/2006 €	Nine Months Ended 09/30/2005 €
	<b>12,506,075</b>	<b>8,464,324</b>	<b>39,029,423</b>	<b>23,832,662</b>
<b>Revenues</b>				
<b>Operating Expenses</b>				
Cost of Goods Sold 2	1,477,432	776,682	5,468,970	1,901,169
Research and Development	3,830,999	3,222,448	11,714,563	10,197,075
Sales, General and Administrative	4,922,831	2,669,549	14,011,651	7,894,243
<b>Total Operating Expenses</b>	<b>10,231,262</b>	<b>6,668,679</b>	<b>31,195,184</b>	<b>19,992,487</b>
<b>Profit from Operations</b>	<b>2,274,813</b>	<b>1,795,645</b>	<b>7,834,239</b>	<b>3,840,175</b>
Interest Income	6,706	32,065	42,761	86,844
Interest Expense	39,455	71,704	115,598	212,956
Other Income / (Expenses), Net	(320,337)	250,629	(410,091)	8,254
<b>Profit before Taxes</b>	<b>1,921,727</b>	<b>2,006,635</b>	<b>7,351,311</b>	<b>3,722,317</b>
Income Tax Benefit / (Expense)	(315,277)	41,152	(1,201,887)	129,142
<b>Net Profit</b>	<b>1,606,450</b>	<b>2,047,787</b>	<b>6,149,424</b>	<b>3,851,459</b>
<b>Earnings per Share:</b>				
Basic Net Profit per Share	0.24	0.34	0.95	0.68
Diluted Net Profit per Share	0.24	0.34	0.93	0.67
Shares Used in Computing Basic Net Profit per Share	6,641,128	5,938,942	6,502,307	5,630,741
Shares Used in Computing Diluted Net Profit per Share	6,725,419	6,030,915	6,588,373	5,723,586

See accompanying notes to the Consolidated Financial Statements

## Consolidated Balance Sheets (IFRS)

	NOTE	09/30/2006 €	12/31/2005 €
		(unaudited)	
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents		2,621,022	4,017,029
Available-for-sale Financial Assets		63,710,201	49,542,541
Accounts Receivable		5,430,615	3,345,812
Other Receivables		79,495	25,133
Inventories, Net		4,146,507	485,713
Prepaid Expenses and Other Current Assets		1,807,700	1,058,461
<b>Total Current Assets</b>		<b>77,795,540</b>	<b>58,474,689</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment, Net		5,740,015	4,696,863
Patents, Net		2,035,481	2,361,005
Licenses, Net		8,048,071	8,457,091
Software, Net		280,714	131,506
Know How & Customer List, Net		5,057,263	1,485,567
Goodwill	6	26,559,982	4,137,349
Deferred Tax Asset		3,284	-
Other Assets		1,576,985	372,574
<b>Total Non-Current Assets</b>		<b>49,301,795</b>	<b>21,641,955</b>
<b>Total Assets</b>		<b>127,097,335</b>	<b>80,116,644</b>

See accompanying notes to the Consolidated Financial Statements

NOTE	09/30/2006 €	12/31/2005 €
	(unaudited)	
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts Payable	7,765,058	4,321,591
Current Portion of Licenses Payable	1,150,018	1,012,233
Provisions	1,930,047	978,719
Current Portion of Deferred Revenue	8,072,370	4,735,208
<b>Total Current Liabilities</b>	<b>18,917,493</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	6,348,670	3,687,199
Convertible Bonds Due to Related Parties	60,621	50,214
Deferred Tax Liability	2,971,710	1,260,946
<b>Total Non-Current Liabilities</b>	<b>9,443,764</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 (6,689,327 and 6,025,863)		
Ordinary Shares Outstanding (6,660,165 and 5,996,701)		
for 2006 and 2005, respectively		
Treasury Stock (29,162 and 29,162 shares		
for 2006 and 2005, respectively), at Cost	20,057,278	18,066,886
Additional Paid-in Capital 3	122,780,715	96,412,849
Accumulated Other Comprehensive Income	1,098,488	877,863
Accumulated Deficit	(45,200,403)	(51,349,827)
<b>Total Stockholders' Equity</b>	<b>98,736,078</b>	<b>64,007,771</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>127,097,335</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	68,628	205,884
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 Tax	–	–
Foreign Currency Gain from Consolidation	–	–
Net Profit for the Period	–	–
<b>Comprehensive Income</b>	<b>–</b>	<b>–</b>
<b>Balance as of September 30, 2005</b>	<b>5,997,613</b>	<b>17,992,839</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	70,566	211,698
Capital Increase against Contribution in Kind, Net of Issuance Cost of € 35,013	208,560	625,680
Capital Increase, Net of Issuance Cost of € 470,031	384,338	1,153,014
<b>Other Comprehensive Income:</b>		
Change in Unrealized Gain on Available-for-Sale Securities, Net of Tax	–	–
Foreign Currency Loss from Consolidation	–	–
Net Profit for the Period	–	–
<b>Comprehensive Income</b>	<b>–</b>	<b>–</b>
<b>Balance as of September 30, 2006</b>	<b>6,689,327</b>	<b>20,067,981</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
-	-	872,197	-	-	-	872,197
-	-	871,932	-	-	-	1,077,816
-	-	15,446,069	-	-	-	16,916,468
-	-	-	91,827	-	-	91,827
-	-	-	-	264,426	-	264,426
-	-	-	-	-	3,851,459	3,851,459
-	-	-	-	-	-	4,207,712
30,062	(11,033)	95,836,575	495,056	313,979	(52,174,737)	62,452,679
29,162	(10,703)	96,412,849	584,679	293,184	(51,349,827)	64,007,771
-	-	988,529	-	-	-	988,529
-	-	1,904,794	-	-	-	2,116,492
-	-	7,994,547	-	-	-	8,620,227
-	-	15,479,996	-	-	-	16,633,010
-	-	-	347,019	-	-	347,019
-	-	-	-	(126,394)	-	(126,394)
-	-	-	-	-	6,149,424	6,149,424
-	-	-	-	-	-	6,370,049
29,162	(10,703)	122,780,715	931,698	166,790	(45,200,403)	98,736,078

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

For the Period ended September 30,	Note	2006 €	2005 €
<b>Operating Activities</b>			
Net Profit		6,149,424	3,851,459
<b>Adjustments to Reconcile Net Profit to Net Cash Provided by Operating Activities:</b>			
Depreciation		1,436,912	620,720
Amortization of Intangible Assets		2,003,846	1,669,482
Income Tax Benefit		(399,584)	(126,684)
Net Gain on Sales of Financial Assets		(579,070)	(487,955)
Unrealized Net Loss on Derivative Financial Instruments		23,032	330,506
(Gain) / Loss on Sale of Property and Equipment / Intangible Assets		(1,116)	33,000
Recognition of Deferred Revenue		(11,511,737)	(9,003,491)
Stock-based Compensation		980,609	872,197
<b>Changes in Operating Assets and Liabilities:</b>			
Accounts Receivable		(575,498)	(2,276,754)
Inventories, Prepaid Expenses and Other Assets		(1,288,127)	(467,854)
Accounts Payable and Provisions		2,205,237	295,075
Licenses Payable		137,785	708,200
Other Liabilities		(407,130)	(1,408,908)
Deferred Revenue		17,510,371	7,202,457
<b>Cash Generated from Operations</b>		<b>15,684,954</b>	<b>1,811,450</b>
Interest Paid		(14,525)	–
<b>Net Cash Provided by Operating Activities</b>		<b>15,670,429</b>	<b>1,811,450</b>

See accompanying notes to the Consolidated Financial Statements

For the Period ended September 30,	Note	2006 €	2005 €
<b>Investing Activities:</b>			
Purchases of Financial Assets		(33,846,867)	(38,728,094)
Proceeds from Sales of Financial Assets		20,776,366	16,690,275
Purchases of Property, Plant and Equipment		(1,101,307)	(438,406)
Proceeds from Disposals of Property, Plant and Equipment		8,668	62,962
Additions to Intangibles		(312,997)	(70,146)
Acquisition, Net of Cash Acquired	6	(21,172,502)	(7,057,664)
<b>Net Cash Used in Investing Activities</b>		<b>(35,648,639)</b>	<b>(29,541,073)</b>
<b>Financing Activities:</b>			
Proceeds from the Issuance of Equity		17,103,041	17,399,721
Proceeds from the Exercise of Options and Convertible Bonds Granted to Related Parties		2,116,491	1,077,816
Net of Proceeds and Payments from the Issuance of Convertible Bonds Granted to Related Parties		10,407	(36,078)
Purchases of Derivative Financial Instruments		(93,650)	(75,000)
Proceeds from the Disposal of Derivatives		19,237	136,529
Net Cost of Share Issuance		(505,044)	(767,068)
<b>Net Cash Provided by Financing Activities</b>		<b>18,650,482</b>	<b>17,735,920</b>
Effect of Exchange Rate Differences on Cash		(68,279)	23,852
Decrease in Cash and Cash Equivalents		(1,396,007)	(9,969,851)
<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>2,621,022</b>	<b>2,561,347</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 September 30, 2006, include MorphoSys AG, MorphoSys IP GmbH, MorphoSys U.S.A., Inc, MorphoSys, Inc., MorphoSys UK Ltd. and the 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 nine months of 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 acquired 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 three quarters of 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. Intangible assets 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 Nine-Month Period ended September 30, (in 000's €)	Therapeutic Antibodies		AbD		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenues</b>	26,055	20,716	12,974	3,116	–	–	39,029	23,832
Cost of Goods Sold	–	–	5,469	1,901	–	–	5,469	1,901
<b>Segment Result</b>	13,997	9,581	(1,214)	(1,844)	(4,949)	(3,897)	7,834	3,840
Interest Income	–	–	–	–	–	–	43	87
Interest Expense	–	–	–	–	–	–	116	213
Other Income / (Expenses), Net	–	–	–	–	–	–	(410)	8
<b>Profit before Taxes</b>	–	–	–	–	–	–	7,351	3,722
Income Tax Benefit / (Expense)	–	–	–	–	–	–	(1,202)	129
<b>Net Profit</b>	–	–	–	–	–	–	6,149	3,851

For the Three-Month Period ended September 30, (in 000's €)	Therapeutic Antibodies		AbD		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenues</b>	8,509	7,146	3,997	1,318	–	–	12,506	8,464
Cost of Goods Sold	–	–	1,477	777	–	–	1,477	777
<b>Segment Result</b>	4,569	3,620	(580)	(443)	(1,714)	(1,381)	2,275	1,796
Interest Income	–	–	–	–	–	–	7	32
Interest Expense	–	–	–	–	–	–	40	72
Other Income / (Expenses), Net	–	–	–	–	–	–	(320)	251
<b>Profit before Taxes</b>	–	–	–	–	–	–	1,922	2,007
Income Tax Benefit / (Expense)	–	–	–	–	–	–	(315)	41
<b>Net Profit</b>	–	–	–	–	–	–	1,606	2,048

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

<b>For the Nine-Month Period ended September 30, (in 000's €)</b>	<b>2006</b>	<b>2005</b>
Europe and Asia	24,405	13,928
U.S.A. and Canada	14,384	9,591
Other	240	313
<b>Total</b>	<b>39,029</b>	<b>23,832</b>

### 3 Changes in Stockholders' Equity

#### Common Stock

On September 30, 2006, the Common Stock of the Company was € 20,067,981 (December 31, 2005: € 18,077,589). An increase of € 625,680 arose from a capital increase against contribution in kind through the acquisition of the 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 € 211,698 in the first nine months of 2006.

#### Additional Paid-in Capital

On September 30, 2006, Additional Paid-in Capital amounted to € 122,780,715 (December 31, 2005: € 96,412,849). The total increase of € 26,367,866 is due to stock-based compensation provisions in the amount of € 988,529, € 7,994,547 arose from a capital increase against contribution in kind stemming from the Serotec acquisition and € 15,479,996 stem from a capital increase on March 29, 2006. A further increase of € 1,904,794 arose from conversions and exercises of convertible bonds and stock options issued to related parties.

### 4 Changes in Stock Options

In the first three quarters of 2006, two stock option grants were 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 to employees of MorphoSys AG. On July 1, 2006, 7,500 options were granted to employees of MorphoSys AG.

### 5 Changes in Convertible Bonds

In the first three 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 to employees of MorphoSys AG.

## 6 Purchase Price Allocation

In connection with the Serotec acquisition, MorphoSys established a purchase price allocation required by IFRS 3 "Business Combinations" under IFRS accounting. The Company assigned PricewaterhouseCoopers for identification and valuation of assets acquired. MorphoSys determined the accounting for business combinations only provisionally (IFRS 3.62). IFRS 3.69 permits the adjustment of fair value amounts identified within twelve months post-acquisition without effecting Group 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>–</b>	<b>–</b>	<b>30,158</b>
Thereof Satisfied in Equity	–	–	8,655
Cash (acquired)	–	–	330
<b>Net Cash Outflow</b>	<b>–</b>	<b>–</b>	<b>21,173</b>

\* Advisors fees amounting to € 1.1 million included

As of September 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 nine months of 2006:

Shares	01/01/2006	Additions	Forfeitures	Sales	09/30/2006
<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

<b>Stock Options</b>					
	<b>01/01/2006</b>	<b>Additions</b>	<b>Forfeitures</b>	<b>Sales</b>	<b>09/30/2006</b>
<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	–	1,250	26,250
<b>Total</b>	<b>133,500</b>	<b>25,000</b>	<b>–</b>	<b>1,250</b>	<b>157,250</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>					
	<b>01/01/2006</b>	<b>Additions</b>	<b>Forfeitures</b>	<b>Sales</b>	<b>09/30/2006</b>
<b>Management Board</b>					
Dr. Simon E. Moroney	7,474	5,699	–	7,474	5,699
Dave Lemus	6,228	4,749	–	–	10,977
Dr. Marlies Sproll	2,491	3,800	–	2,491	3,800
<b>Total</b>	<b>16,193</b>	<b>14,248</b>	<b>–</b>	<b>9,965</b>	<b>20,476</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>

## 8 Transactions with Related Parties

In July 2006, the Company entered into consulting agreements with the member of the Supervisory Board Prof. Dr. Andreas Plückthun and a further scientist of the University of Zurich, Switzerland. According to the agreements, the consultants shall provide consulting services in the antibody and scaffold fields.

# Imprint

## Contact

### **Corporate Communications**

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

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

Mario Brkulj  
Manager Public Relations  
Tel.: +49 89 899-454  
Fax: +49 89 899 27-5454

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

E-mail: [investors@morphosys.com](mailto:investors@morphosys.com)  
Internet: [www.morphosys.com](http://www.morphosys.com)