

## Important Events during the Second Quarter

- Two fuel-cell agreements were signed with the Chinese automotive industry
- Strategic order received in high-speed cutting
- Product Launch of SensActive
- Delivery of three wind-power towers

## Important events after the Period End

- Order received for mobile phone fuel cell plates
- MSEK 12 local investment support granted by the Swedish Developing Agency (NUTEK)
- MSEK 30 investment in a new manufacturing plant for wind-power stations
- New CEO appointed

### Group in summary

Amounts in SEK thousands

	<b>Q2 06/07</b>	Q2 05/06	<b>Q1-Q2 06/07</b>	Q1-Q2 05/06
Turnover (TSEK)	<b>29,955</b>	405	<b>46,360</b>	822
Loss after taxes (TSEK)	<b>-8,205</b>	-6,472	<b>-18,517</b>	-10,371
Cashflow after investments (TSEK)	–	–	<b>-32,540</b>	-13,440
Earnings per share (SEK)	<b>-0.07</b>	-0.08	<b>-0.17</b>	-0.13
Investments in intangible assets (TSEK)	<b>4,300</b>	2,657	<b>11,506</b>	3,174

Q2 period and any references to "second quarter" refer to the second quarter of the fiscal year, 1 August – 31 October.

06/07 refers to current fiscal year, 1 May 2006 – 30 April 2007.

05/06 refers to preceding fiscal year, 1 May 2005 – 30 April 2006.

### This is Morphic

Morphic Technologies is a growing, industrial Group from Sweden, specializing in fuel cell, wind and hydroelectric power, as well as, production technology. The company's positive growth opportunities are associated with a global desire to decrease dependency on oil, stunt record-high oil prices and promote technological progress. Aside from the Parent Company, the Group comprises of five subsidiaries: Aerodyn AB, Cell Impact AB, Dynamis AB, DynaWind AB and Finshyttan Hydro Power AB.

Operations are located in Karlskoga, Filipstad and Gothenburg, employing approximately 100 people. Morphic Technologies Class B shares have been unofficially listed since 1 September 2000 and listed on the Stockholm Stock Exchange's trading site, First North (previously known as Nya Marknaden) since 1 September 2004 with Remium Securities as a sponsor. There are approximately 10,000 shareholders.

Morphic Technologies has a split fiscal year from May 1 until April 30.

### TRANSLATION DISCLAIMER

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## Period Financial Development

- Turnover: TSEK 46,360 (TSEK 822)
- Loss After Tax: TSEK 18,517 (TSEK 10,371)
- Cash and cash equivalents on balance sheet date: TSEK 72,148 (TSEK 88,550)
- Equity/Assets ratio: 78% (83.6%)

Group turnover for the first six months of the fiscal year totaled TSEK 46,360 (TSEK 822) with a reported loss of TSEK 18,517 (TSEK 10,371). On the balance sheet date, 31 October 2006, the Group's unappropriated cash and cash equivalents amounted to TSEK 72,148 (TSEK 88,550) with an equity/assets ratio of 78% (83.6%). During the period, the Group's intangible asset investments totaled TSEK 11,506 (3,174 TSEK).

## Fuel Cells

- Two Chinese automotive industry agreements
- Grant application submitted for extraction of landfill gas for the generation of (green) electricity
- Flow plate order received for mobile phones

Fuel cells could potentially replace the majority of today's energy systems, due to their virtually non-existent environmental impact and their superior energy efficiency. Morphic has developed technology enabling production of vital fuel cell components considerably less expensive, quicker and of better quality than before.

### Agreements with Chinese automotive industry

During the second quarter, two separate partner agreements were signed with the Chinese automotive industry. The purpose of both agreements is to customize the design of the client's own flow plates to prepare for potential mass production in Cell Impact's plants.

China is experiencing a drastic increase in automotive parks in line with the country's rapid economic development. Government authorities see a great need to decrease the use of fossil fuels, making the Chinese market significant for establishing fuel cell driven vehicles. Domestic companies have made considerable progress in developing fuel cell systems and many predict that China will be the first to use fuel cell driven cars on a large scale.

### Electricity generated from landfill gas with fuel cells

Following period end, the municipality of Filipstad has confirmed plans to utilize surplus gas from a waste facility (landfill) to produce electricity using fuel cells. Morphic will be the systems supplier for the project. The Municipality has applied for a so-called "Klimp-bidrag" (grant) from the Swedish Environmental Protection Agency in order to finance the project.

## Successful tests with high-temperature cells

Test results for high-temperature cells have been reported during the second quarter of the fiscal year. The tests show that all layers of the active part in a high temperature fuel cell (SOFC) can be joined with a single blow using Morphic's unique pressing technology. Normally, a static press is used for a prolonged period and at a high temperature, but Morphic's pressing technique saves considerable time as compared with previously used methods. More in-depth testing and evaluations will be conducted.

### Fuel Cells together with Wind Power

During the period, manufacturing of Morphic's own energy system, where wind power is combined with fuel cells, was initiated.

The start of operations has been postponed until the beginning of the next year due to delayed deliveries from suppliers. In the initial phase, a fuel cell and electrolyser for hydrogen will be used which will be replaced later with a methanol fuel cell and Morphic's own energy converter.

### Flow plate order for mobile phones

Following period end, Morphic's subsidiary, Cell Impact AB, received a flow plate order intended for mobile phone fuel cells. The client is a world leader in mobile phone manufacturing who will develop a test series of fuel cell powered phones. A positive evaluation of the test series will enable wide spread introduction for future mobile phone models.

## Wind Power

- Purchasing Process Underway in Vindpark Vänern
- Investments in increased production capacity

Wind power is in a rapid expansion stage in Sweden and is expected to account for the largest increase within renewable electricity production in forthcoming years. Morphic offers both singular wind turbines as well as comprehensive wind-power parks.

### Deliveries

During the second quarter 2006/07, three 1MW wind-power towers were delivered to the client(s). Two complete 1MW wind-power turbines will be delivered at the beginning of 2007.

### Increased production capacity

In order to meet growing demand, approximately MSEK30 will be invested in expanded production capacity with the new production facility in Kristinehamn as a part of this venture. The new facility is estimated to be operational in summer 2007 and will have a production capacity corresponding to 100 towers a year. This venture is an aspect of Morphic's investment in increased production capacity.

## **Vänern Windpark endorsed by the Swedish Environmental Court**

Morphic is a part of the Vänern Windpark consortium that is in the process of erecting ten wind power stations, all measuring 3 MW and located in Gässlingegrund in Vänern. Purchase plans were initiated after the Swedish Environmental Court's endorsement for the project in August 2006.

## **Launch of Small Wind-Power Stations Intended for Industrial Use**

A smaller, 20 KW wind power station has been developed to be used with a fuel cell within the framework of Morhic's development of complete energy systems. During the period, a decision was made to also launch the wind-power station as an independent product. Areas of usage include installations and facilities where access to mains-operated electricity is limited or non-existent. The launch and subsequent marketing and sale will be performed within the subsidiary, DynaWind AB, in 2007.

## **Hydroelectric Power**

### ■ Partial delivery completed

Hydroelectric power is the hub of the Swedish energy supply. Comprehensive modernization and efficiency-enhancing investments are expected within the area in the forthcoming years. Morhic has been one of the leading actors in hydroelectric power facility maintenance and service since the acquisition of Aerodyn.

### **Delivery of Kvarnaholm I**

The first of two turbines at the hydroelectric power station, Kvarnaholm, were modernized by Morhic's subsidiary, Finshyttan Hydro Power AB. Delivery and installation took place following period end.

The order, signed in Autumn 2005, includes the renovation of both turbines so as to increase efficiency and minimize the negative environmental impact by, among other things, replacing oil lubrication with water lubrication. The second turbine will undergo the same renovation between May and November next year. The market for modernizing and renovating hydroelectric power is highly seasonal as there is a preference for breaks to land during the summer months.

## **Production technology**

- Order received for cutting machinery
- Large number of propeller orders
- Launch of SensActive

The business area comprises sub-contracted manufacturing of ship propulsion components and other large-scale components. The area also involves developing and selling machines for cost-effective component production based on Morhic's high-speed technology.

## **Order for cutting machinery**

An order was placed for bar-cutting machinery. The order is strategically important and will serve as an important reference for the continued expansion in the area. Delivery is expected at the end of 2006.

## **Successful launch of SensActive**

At the Technical Fair in Stockholm, Morhic's subsidiary, Dynamis, launched its new system for fully automated component handling, SensActive in October. The system can be utilized for dimension control, inspection, and quality assurance of components or for so-called "bin picking" where industrial robots are able to identify, select and pick up unsorted components. The product generated significant interest, both domestically and internationally.

Following the period end, the first order for the new system was received. The customer, Lesjöfors Fjädrar AB, intends to use the system for taking non-contact, three-dimensional measurements of manufactured coil springs.

## **Ship Propulsion**

The international shipping industry continues to be strong and that is widely regarded to continue in 2007/2008. Morhic's subsidiary, Aerodyn, has experienced continued high demand from producers of ship propulsion systems for blades, hubs and shafts. The order intake is still considered strong and the capacity utilization high. Orders for delivery are reaching well into 2007/2008.

## **Parent Company**

Turnover for the period totaled TSEK 1,869 (TSEK 713), with a loss of TSEK 9,047 (TSEK 7,355). The Parent Company invested in property, plant and equipment in the amount of TSEK 27,189 (TSEK 7,453). At year-end, 31 October 2006, the Parent Company's unappropriated earnings amounted to TSEK 52,131 (TSEK 64,265) with an equity/assets ratio of 96.9% (97.7%).

## **Intellectual Property Rights**

### ■ Granted patents at balance-sheet date: 33

During the period, a patent was granted in China. On balance-sheet date, Morhic's patent portfolio comprises of 14 inventions, all of which have been granted patents in Sweden and the majority of which have been granted in other countries (and regions). Morhic's intellectual property rights strategy is mainly to protect the company's core technologies and their application. The company is applying for patents, design-protection and trademarks on an on-going basis wherever necessary in different regions for developed technology, methods, and processes.

## Disputes

When this interim report was prepared, neither Morphic Technologies, or any of its subsidiaries, were involved in any dispute, legal proceedings or arbitration.

## Organization and employees

There are a number of new recruits within the Group and at balance-sheet date, the number of employees totals approximately 100 people.

### New CEO Appointed

Jonas Eklind was appointed the new CEO of Morphic Technologies at the first Board meeting following election. Eklind, most recently President for Kitron AB and CEO for Kitron Sverige, will assume his new post in November. Eklind's predecessor, Peter Enå, has been appointed as Chairman of the Board. Jonas Eklind was born in 1963 and is a trained physicist from the University of Uppsala. Eklind also has degrees in marketing, business and management from MIT Boston, among other places. Eklind has extensive experience in heading growth, technology-oriented companies.

Eklind's most recent position was as CEO of Kitron Sverige. Kitron Sverige is a part of the Norwegian listed industrial Group Kitron with 1,250 employees and sales totaling MNOK 1,650. Previously, Eklind has, among other things, acted as President for TiFi AB and as global Marketing Director for Helax AB. Eklind also has extensive experience in large-scale industrialization from his previous work at Nolato AB.

## Annual General Meeting

Morphic Technologies AB (publ) held its AGM on 30 October in Gothenburg. At the meeting, decisions on the following were made

- to adopt the presented income statements and balance sheets into the annual report,
- to carry forward the Parent Company's accumulated deficit,
- to discharge the Board of Directors and CEO from liability for the 2005/06 fiscal year,
- to adopt the Board and auditor fees in accordance with the Board's proposal,
- to elect the following individuals to the new Board to Morphic Technologies AB (publ),
  - Jan Alvé
  - Kurt Dahlberg
  - Peter Enå
  - Anette Myrheim
  - Börje Vernet
  - Kjell Östergren

to change the object of the operations stipulated in Section 3 of the Articles of Association in accordance with the Board's proposal,

to authorize the Board, on one or more occasions prior to the next AGM, to decide on a new issue of up to 10,000,000 Class B shares. This authorization includes the right to deviate from shareholder's preferential rights in accordance with Chapter 13, Section 1, Second Paragraph of the Swedish Companies Act, and the right to decide on non-cash issues, right of offset or similar based on the conditions stipulated in Chapter 13, Section 5, Point 6 of the Companies Act.

to authorize the Board's decision regarding an issue of warrants directed to personnel in the Morphic Group.

## Trend in Morphic Shares

Morphic's Class B shares have been affiliated with the Stockholm Stock Exchange's trading site, First North, since 12 June 2006. The Class B shares were previously traded on Nya Marknaden since September 2004. Remium AB is the company's sponsor on First North. During the second quarter, 1 August to 31 October, the share price increased by 16.7% as compared to OMX share price index during the same period, which increased by 14.4%. The highest paid amount during that period was SEK 13.90 and the lowest was SEK 9.50. At period end, Morphic's market value was MSEK 1,234. During that period, 23,679,199 Class B shares turned over SEK 274,171,682. This corresponds to a turnover rate of 96.5%.

### Share Capital

On balance-sheet date at 31 October 2006, the number of outstanding shares amounted to 112,495,451 shares of which 8,400,000 were Class A shares and 105,095,451 were Class B shares.

### Incentive Program

On 4 July, pending the approval from the AGM, the Board decided to issue a maximum of 3,000,000 warrants, each entitling subscription of one Class B share at a price of SEK 14. The issue is directed to key individuals and personnel within the Morphic Group. A total of 2,970,000 warrants have been subscribed. The warrants can be exercised for subscription during the period 1 October 2009 to 31 October 2009. If all subscribed warrants are exercised for subscription for shares, it will result in increased share capital of SEK 118,800, corresponding to a dilution of approximately 2.6%.

## Future Prospects

Initial wind power and fuel cell sales indicate substantial growth within those areas in Morphic. The company's overall growth goals are, based on high profitability, to attain at least

MSEK 2,000 in sales for the financial year 2008/2009. The goal reflects the Group's unique market position and encouraging conditions for increased profits and operational profitability.

### Accounting Principles

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting, in accordance with those requirements set by the Swedish Financial Accounting Standard's recommendation RR 31, Interim Reports for Groups. As of 1 May 2005, Morphic Technologies applies international accounting standards, International Financial Reporting Standards (IFRS), previously IAS, as adopted by the European Commission. The transfer to IFRS, in accordance to the EU Regulation has been executed in accordance with IFRS 1.

During this period, Morphic has begun to adopt IAS 2 (subcontracting contract) for certain larger projects.

In all other respects, the same accounting principles, definitions of key ratios and calculation methods as in the most recent annual report are applied. The Parent Company report has been prepared in accordance with RR32.

## Consolidated Income Statement

Amounts in TSEK	Q2 06/07	Q2 05/06	Q1-Q2 06/07	Q1-Q2 05/06
OPERATING INCOME				
Net sales	29,703	343	45,953	696
Change in inventory	4,155	811	5,230	1,800
Work performed by the company for its own use and capitalized	1,068	129	1,796	158
Other operating income	252	62	407	126
<b>TOTAL REVENUE</b>	<b>35,178</b>	<b>1,345</b>	<b>53,386</b>	<b>2,780</b>
OPERATING COSTS				
Purchase of goods and services	-16,741	-690	-23,017	-1,457
Other external costs	-9,166	-3,240	-17,250	-5,286
Personnel costs	-14,630	-2,631	-26,125	-4,220
Depreciation/amortization and write-down of tangible and intangible assets	-3,004	-1,054	-5,952	-1,800
<b>TOTAL OPERATING COSTS</b>	<b>-43,541</b>	<b>-7,615</b>	<b>-72,344</b>	<b>-12,763</b>
<b>Operating loss</b>	<b>8,363</b>	<b>6,270</b>	<b>18,958</b>	<b>9,983</b>
RESULT FROM FINANCIAL INVESTMENTS				
Financial income	259	137	684	137
Financial costs	-137	-339	-387	-525
Deferred tax	36	–	144	–
<b>Net loss for the period</b>	<b>8,205</b>	<b>6,472</b>	<b>18,517</b>	<b>10,371</b>
Result per weighted number of shares before and after dilution	-0,07	-0,08	-0,17	-0,13
Weighted number of shares during the period	112,495,451	84,434,929	111,406,959	79,159,053
Total number of shares at period end	112,495,451	84,939,574	112,495,451	84,939,574

## Consolidated Balance Sheet

Amount in TSEK

October 31, 2006

April 30, 2006

### Assets

#### FIXED ASSETS

Intangible assets	78,233	65,851
Tangible assets	82,585	73,124
Financial assets	642	642
<b>TOTAL ASSETS</b>	<b>161,460</b>	<b>139,617</b>

#### CURRENT ASSETS

Inventories, finished goods	17,418	13,280
Current receivables	34,871	17,739
Cash and cash equivalents	72,148	88,550
<b>TOTAL CURRENT ASSETS</b>	<b>124,437</b>	<b>119,569</b>

<b>Total assets</b>	<b>285,897</b>	<b>259,186</b>
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### Equity and liabilities

#### EQUITY

Share capital	4,500	4,375
Other contributed capital	317,389	291,892
Accumulated deficit	-98,846	-80,129
Minority interests		634
<b>TOTAL EQUITY</b>	<b>223,043</b>	<b>216,772</b>

LONG-TERM LIABILITIES	11,096	12,890
CURRENT LIABILITIES	51,758	29,524

<b>Total equity and deficits</b>	<b>285,897</b>	<b>259,186</b>
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Pledged assets	37,364	37,364
Contingent liabilities	15,136	15,136



## Consolidated Cash Flow Statement

Amount in TSEK	Q1-Q2 06/07	Q1-Q2 05/06
Cashflow from operating activities	-9,493	-6,136
Cashflow from investing activities	-23,047	-7,304
Cashflow from financing activities	16 138	29,870
CASHFLOW FOR THE PERIOD	-16,402	16,430
Cash and cash equivalents at the beginning of the period	88,550	25,732
<b>Cash and cash equivalents at end of the period</b>	<b>72,148</b>	<b>42,162</b>

## Change in Equity at Group

Amount in TSEK	Q1-Q2 06/07	Q1-Q2 05/06
Amount at beginning of the period	216,772	30,052
New share issue	25,422	32,451
Non-cash issue	–	1,157
Loss for the period	18,517	10,371
Minority interests	-634	–
<b>Total equity at end of the period</b>	<b>223,043</b>	<b>53,289</b>

### NOTE 1 SEGMENT REPORTING

Segment	Omsättning Q2 06/07	Resultat Q2 06/07	Omsättning Q1-Q2 06/07	Resultat Q1-Q2 06/07
Fuel Cells	880	-3,062	920	-5,019
Ship Propulsion	20,125	3,791	36,241	3,114
Production Technology	4,789	-1,146	6,292	-2,566
Business Development	1,388	-4,729	1,870	-10,497
Wind Power	–	-643	–	-643
Hydroelectric Power	5,753	-1,797	5,753	-1,797
Group eliminations	-3,232	-777	-5,123	-1,550
The Group	29,703	-8,363	45,953	-18,958

Amounts in TSEK. Profit/loss refers to operating profit/loss before net financial items.

Karlskoga December 18, 2006  
Morphic Technologies AB (publ)  
Board of Directors

## Future reporting periods

- Nine-monthly report 06/07: 28 March 2007
- Year-end report 06/07: 28 June 2007

## Examination

This report is unaudited.