

- Net sales for the period were SEK 158.6m (45.9m)
- The company reports an operating loss after tax of SEK –26.3m (–18.5m)
- Earnings per share were SEK –0.19 (–0.17)
- On the balance sheet date, October 31, 2007, cash and cash equivalents were SEK 148.9m (Apr 30, 2007, 186.5m)
- Cash flow from operations increased to SEK 23.6m (–9.5m), or SEK 0.17 per share (–0.08)

Significant Events in the last Quarter

- The company received volume orders for flow plates for fuel cells used in consumer electronics worth SEK 60m over a two-year period
- Morphic acquired 55% of Helbio S.A., an energy technology company
- SensActive™ patented
- President and several key individuals recruited to Morphic's subsidiary for new energy systems

Significant Events after the End of the Period

- Volume orders for flow plates with an initial value of SEK 130m
- Acquisition of fuel cell maker Arcotronics Fuel Cells S.r.l
- Private placement raises SEK 252m before issue costs

This is Morphic

Morphic technologies is a growing Swedish engineering group operating in the areas of fuels cells, wind power, energy systems and production technology. The company's strong growth prospects are tied to a global desire to reduce our dependence on oil, high oil prices and major technological advances. In addition to the parent company, the Group comprises the subsidiary companies Aerodyn AB, Cell Impact AB, Dynamis AB, DynaWind AB, Finshyttan Hydro Power AB, and Morphic Business Development AB. The Group has operations in Karlskoga, Filipstad and Kristinehamn in Sweden and in Greece and Italy. It currently employs about 130 people. Since September 1, 2004, Morphic Technologies' B shares have been traded on First North, an alternative marketplace supervised by the Stockholm Stock Exchange, with Remium Securities as Certified Advisor. The company has about 22,000 shareholders. Morphic Technologies' fiscal year covers the period May 1 through April 30.

Morphic Technologies discloses the information provided here in pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication on December 17, 2007 at 08:00 a.m.

Financial Performance

Group SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	94.8	29.7	158.6	45.9
Operating loss after tax	–6.5	–8.2	–26.3	–18.5
Cash flow from operations	2.2	–5.1	23.6	–9.5
Cash flow after investments	–31.9	–26.8	–40.6	–32.6
Investments in tangible assets	25.2	9.5	37.8	12.4
Investments in intangible assets	47.2	4.3	48.4	11.5
Earnings per share, SEK	–0.05	–0.07	–0.19	–0.17
			Oct 31, 2007	Apr 30, 2007
Cash and cash equivalents on balance sheet date			148.9	186.5
Equity/assets ratio, %			64.5	73.2

Sales

During the period the Group generated net sales of SEK 158.6m (45.9m), representing a year-on-year increase of 245%. The improvement was mostly due to increased sales in the Wind Power segment, where the company is now starting to deliver the orders received. The Ship Propulsion segment, where sales grew by around 30% year-on-year, also contributed to the increase in sales.

Results

The company posts an operating loss for the period of SEK –26.3m, which is larger than the year before (–18.5m). The Ship Propulsion segment reports a year-on-year improvement in earnings of SEK 6.3m. The loss posted by the Fuel Cell Components segment is due to expanding marketing activities and preparations for volume production. The loss in the Wind Power segment is due to start-up costs for a new production facility. The loss in the parent company is due to costs incurred in preparing for the upcoming listing on the Nordic List as well as to new recruitment.

Financial Position

Shareholders' equity fell to SEK 415.7m (441.1m). The equity/assets ratio was 64.5 % (73.2 %). Total assets in the Group were SEK 644.6m (602.5m), and cash and cash equivalents on the

balance sheet date, October 31, 2007, were SEK 148.9m (186.5m).

Cash Flow

Cash flow from operations increased to SEK 23.6m (–9.5m) during the period, which is equivalent to SEK 0.17 per share (–0.08). The improvement is due largely to project liquidity in the Wind Power segment.

Investments and Depreciation

The Group made net investments of SEK 34.9m (23.9m) during the period. The increased investments in tangible assets refer primarily to a production facility for the Wind Power segment as well as to investments in a pilot facility for energy systems. The depreciation charge for the period was SEK 8.1m (6.0m). The Group made investments in intangible assets of SEK 3.8m (11.5m). All investments are reported exclusive of business investments.

Personnel

The Group's personnel costs during the period totaled SEK 38.9m (26.2m). The total number of employees at the end of the period was 130 (100), which is an increase of 30% on the same period in the previous fiscal year.

Significant Events after the Balance Sheet date

After the end of the period Morphic's subsidiary Cell Impact has received one further volume order for fuel cell plates for consumer electronics. The Asian client is one of the world's largest electronics companies. The total order value is about SEK 130m, including a subsequent supplemental order. After the end of the period Morphic has also concluded an agreement on the acquisition of the Italian fuel cell company Arcotronics Fuel Cells S.r.l. Arcotronics specializes in the development and manufacture of high-efficiency fuel cells for stationary energy systems and standby power units. The purchase price is EUR 6.5m. Through the acquisition Morphic gains access to a tried-and-tested fuel cell design, which will enable the company to reduce the time to market for its own energy systems. Fuel cells from Arcotronics Fuel Cells will be used in Morphic's energy systems, which store surplus renewable energy to allow electricity and heating to be produced in a later phase using fuel cells. On November 28, 2007 a private placement of 13,426,063 B shares priced at SEK 18.80 was implemented and concluded. The issue price used was the average of the volume-weighted price of Morphic's B shares on First North during the period November 15–28, 2007. The share issue raised SEK 252.4m before issue costs. After the private placement on November 28, 2007 Morphic's share capital is SEK 6.0m, distributed among 150,171,059 shares, of which 5,984,000 are Series A and 144,187,059 Series B. The new shareholders are a number of funds belonging to major institutional players in the capital market. The private placement was based on an authorization granted at the Annual General Meeting on October 19.

Fuel Cell Components

SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	0.2	0.9	0.3	0.9
Operating loss	–3.6	–3.1	–8.2	–5.0

- Commercial breakthrough order
- Partnership agreement on surface coating of flow plates

Morphic has developed a technology that enables critical fuel cell components to be manufactured significantly faster, less expensively and to a higher standard than was previously possible. The components are produced at the company's production facility in Karlskoga, Sweden. Morphe's activities in the area of fuel cell are conducted by the wholly owned subsidiary Cell Impact AB.

Customer Center in Japan

During the period Cell Impact announced that it intends to open a customer center in Japan where customers from all Asian markets will be offered production and fine adjustment of flow plates for their fuel cells. After the end of the period Cell Impact has established a production facility outside Tokyo and is preparing to install machinery around the New Year. The opening is scheduled to take place in conjunction with the world's largest fuel cell exposition, FC Expo, in Tokyo in February 2008.

Volume Order for Flow Plates

During the period Cell Impact received its first volume order for series production of flow plates. The plates are intended for use in powering consumer electronics, and the customer is a US company. The order marks a commercial breakthrough for Cell Impact. The estimated initial value of the contract is SEK 60m over a two-year period.

After the end of the period Cell Impact has received one further volume order. This order is also for fuel cell plates for consumer electronics. The Asian client is one of the world's largest electronics companies. The total order value is about SEK 190m, including a subsequent supplemental order.

Partnership Agreement in Surface Coating

Cell Impact has expanded its range in surface coatings for flow plates through a new partnership agreement with Impact Coatings AB. Development activities are conducted in partnership between Cell Impact, Impact Coatings, SP Technical Research Institute of Sweden and the University of Uppsala.

The Market for Fuel Cell Components

Fuel cells can best be described as energy converters which make it possible to efficiently convert hydrogen and other energy bearers into electricity and heat. In a fuel cell system electricity is produced when hydrogen is broken down in a controlled manner and reacts with oxygen. This technology has immense potential. Thanks to their superior energy efficiency, long useful lives and theoretically non-existent environmental impact, fuel cells constitute a real alternative to most currently available energy converters for the generation of electricity for local communities, industry and homes as well as for vehicles and portable electronics.

Morphic's activities in the segment comprise production of "flow plates" (also known as "bipolar plates") for fuel cells. A fuel cell system can consist of hundreds of plates, whose task is to conduct the input fuel (e.g. hydrogen) in an efficient way and enable a reaction with the oxygen. The production cost of the flow plates alone can today make up as much as 50 % of the total cost of a complete a fuel cell system. The market for fuel cells can roughly be divided into three areas: portable electronics, stationary electrical power units, and the transport and automotive industry.

Morphic's market in the area of fuel cells consists partly of pure fuel cell manufacturers and partly of businesses operating in the automotive, standby power and consumer electronics industries. In both cases Cell Impact acts as subcontractor and does not itself assemble the end product.

Wind Power

SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	68.7	—	102.0	—
Operating profit/loss	1.9	–0.6	–2.6	–0.6

■ Commissioning of a new production facility

■ Order for three 1MW wind turbines

The area comprises manufacture and sale of 1MW and 3MW wind turbines under an exclusive license in the Swedish market from Finnish WinWinD Oy. Operations are conducted through the wholly owned subsidiary DynaWind AB in Kristinehamn, Sweden.

Lake Vänern Wind Park

During the period work has been conducted on the foundations of the wind turbines in Lake Vänern. The first foundations are now in place and project above the water's surface. Morphic's subsidiary DynaWind is building a total of ten 3MW wind turbines at the Gässlingegrundens shallows in Lake Vänern. Delivery of the turbines will begin in 2008 and the entire park is scheduled for completion in 2009.

Order for Three Wind Turbines

The company has received three new orders for 1MW wind turbines. The total value of the order is SEK 35m. The customers come from different parts of the country and include two new and one existing customer. The WWD-1 turbine towers are 70m high with rotors 64m in diameter and have a rated capacity of 1MW. A single wind turbine of this size can provide electricity to about 500 houses.

New Production Facility

During the period DynaWind's new production facility in Kristinehamn was taken into use. The official opening took place on December 11, after the end of the period. The facility will step up production gradually. At full capacity it will be able to produce about 100 towers a year.

The Market for Wind Power

Morphic's business in the area of wind power comprises production of wind turbine towers, sale of complete wind power stations, and erection, service and maintenance. In addition to the actual towers, other components are sourced from external suppliers. In an initial phase Morphic will be focusing primarily on the Swedish market. The number of Swedish wind power projects has increased dramatically, and in the next 10 years somewhere between 1,800–3,000 wind turbines is expected to be built and erected. Svensk Vindkraft, the Swedish industry organization, estimates that some SEK 60bn will be invested in wind power during the period 2007–2016. The investors include big energy companies, local wind power associations and private investors. Morphic focuses primarily on the large-scale wind power segment, with an effect of 1MW or 3MW, and is aiming at a market share of 20% as the market expands.

Energy Technology

SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	—	—	1.0	—
Operating loss	—2.2	—	–3.8	—

■ Management group recruited

■ Acquisition of Helbio S.A. and Arcotronics Fuel Cells

The subsidiary company Morphic Business Development AB (MBD) develops complete energy systems based on fuel cells combined with various systems and technologies for renewable energy. Operations are conducted by MBD and its subsidiaries Helbio S.A. and Arcotronics Fuel Cells S.r.l.

Acquisition of Helbio S.A.

During the period Morphic concluded an agreement to acquire 55% of the shares of the Greek energy technology company Helbio S.A. The company is a leading player in systems for efficient and environmentally friendly production of hydrogen based on renewable fuels such as ethanol and biogas. An analysis of the acquisition is presented under Acquisitions below.

Acquisition of Arcotronics Fuel Cells

After the end of the period Morphic has also concluded an agreement on the acquisition of the Italian fuel cell company Arcotronics Fuel Cells S.r.l. The company specializes in the development and manufacture of high-efficiency fuel cells for stationary energy systems and standby power units. The purchase price is EUR 6.5m. Through the acquisition Morphic gains access to a tried-and-tested fuel cell design, which will enable the company to reduce the time to market for its own energy systems. Fuel cells from Arcotronics Fuel Cells will be included in Morphic's energy systems, which store surplus renewable energy to allow electricity and heating to be produced at a later stage using fuel cells.

Arcotronics Fuel Cells is headquartered in Bologna, Italy and currently has 13 employees. Prior to the acquisition, Arcotronics Fuel Cells was 80% owned by Kemet Corporation, a multinational group that is a leading components manufacturer in the electronics industry. The other shareholders included Angelo D'Anzi, the company's founder and current CEO, and a number of other private investors.

The final acquisition value has not yet been determined. An analysis of the acquisition will be presented in the Q3 report.

Management Group Recruited

During the period Mats Reimark was appointed new President of Morphic's subsidiary, MBD. At the same time Mikael Willgert was appointed new Head of Development while Per Fredriksson was

appointed Head of Marketing. The group will take up their posts in December-January and will be responsible for the market launch of Morphic's energy systems.

The Market for Energy Technology

The term "energy technology" normally refers to technology that is used in converting energy from one form to another and distributing it with the help of energy systems. The goal is to be able to offer a complete system which enables local production of electricity from renewable energy while securing the supply of electricity even in situations when there is no wind or sun. The target group for the system consists of telecom companies, treatment works, agricultural enterprises and small industries which either want to secure their access to good-value electricity or replace their existing diesel generators for all or parts of their electricity supply. The system is also a good solution for markets where there is no infrastructure for electricity production and/or distribution and where the cost of establishing traditional systems would be excessive.

In Sweden total energy use in 2005 for the housing and service sector, including street and road lighting, sewage treatment works, power stations and water purification plants, was 145 TWh, which is equivalent to 36% of Sweden's total energy use. The company assumes that at least 10% of users have a need for standby power.

Contract Production

SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	5.1	10.5	9.6	12.0
Operating loss	—0.2	—2.9	—2.8	—4.4

The Contract Production segment comprises manufacture of components using the company's proprietary high-speed technology, and heavy mechanical processing in areas such as hydroelectric power. Operations are conducted in the subsidiary companies Cell Impact AB and Finshyttan Hydro Power AB.

Order in Hydroelectric Power

During the period Morphic's subsidiary Finshyttan Hydro Power AB received a strategic order from GE Energy for the renovation and conversion of a hydroelectric turbine at the Letsi hydroelectric power plant. The order is for renovation and conversion of one of the three turbines at the Letsi plant on the Luleälven river.

The Market for Contract Production, High-speed Technology

The market for contract production of components using high-speed technology is currently in a start-up phase. The market consists primarily of manufacturing subcontractors in the engineering and automotive industries. The automotive industry manufactures 70 million new cars a year and is growing at a rate of about 4%. The total market in which the company's production technology can be applied is estimated to be at least 1% of a total

component cost of about SEK 50,000 per car. The total market for the segment in the car industry alone would thus be at least SEK 35bn.

The Market for Contract Production, Hydroelectric Power

In the area of hydroelectric power the market consists mainly of Swedish hydroelectric power plants. The customers include several of the big electricity companies as well as small local players. The majority of Sweden's 1,900 hydroelectric power stations are in need of major renovation and improvement. Demand for services in Morphic's segment is therefore expected to increase in the years to come. Total investments in hydroelectric power in the next 10 years are estimated at about SEK 2bn annually. Turbine maintenance alone is estimated to cost about SEK 600m.

Ship Propulsion

SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	21.1	20.1	46.9	36.2
Operating profit	6.2	3.8	9.1	3.1

The segment produces blades, hubs and other components for ship propulsion systems. The components are manufactured at the company's own, unique machine park in Karlskoga, Sweden. Operations are conducted by the subsidiary Aerodyn AB.

Continued Strong Order Book for Ship Propellers

The international shipbuilding industry is currently experiencing strong demand. During the period Morphic's subsidiary Aerodyn continued to operate at high capacity in the production of blades and hubs for manufacturers of ship propulsion systems. The order book is strong and capacity use is very high. The company's order book stretches far into 2008.

The Market for Ship Propulsion Systems

Morphic's operations in Ship Propulsion comprise manufacture of entire propellers and of propeller blades, hubs and axles for several different types of ship. The customers include practically all major producers of complete propeller systems with operations in Sweden: Rolls Royce, Wärtsilä, MAN and Berg Propulsion. The end customers are individual shipping companies in all regions of the world. Morphic operates in the high-quality propeller segment. The segment has an estimated total value of SEK 2bn on annual basis. The market for ship propellers is highly dependent on developments in the shipbuilding industry. The strong demand for new ships in the last few years, largely driven by tougher regulatory requirements and a surge in demand from China, has sharply increased demand also for propellers.

Automation Technology

SEK millions	Q2, Aug–Oct		6 months, May–Oct	
	2007/08	2006/07	2007/08	2006/07
Net sales	0.9	—	2.6	—
Operating loss	—1.8	—	—3.8	—

In Automation Technology Morphic conducts development and sales of systems for automating industrial processes. Operations are conducted by the subsidiary Dynamis AB.

Intensive Market of SensActive™

Dynamis introduced SensActive in 2006, and is now working intensively on marketing the system, primarily in Sweden and Europe. In the first quarter of the year Morphic received three separate orders for SensActive™ systems from Haldex. In October 2007 the company participated in Scanautomatic, a major automation expo, where it was able to establish several new contacts with potential customers and where the unique opportunities offered by SensActive attracted a lot of attention.

The Market for Automation Technology

The market is currently growing at a rapid pace. Annual investments in Sweden are estimated at SEK 750m. A major driving force is the rising cost of labor in China and other low-cost countries. The cost of producing robots has also fallen sharply thanks to technological advances. Operatively, the goal is to establish the SensActive™ system in the market and identify potential partners in systems integration. The main focus is on the Swedish market, but the system will also be launched in selected European markets. The goal is to achieve a market share of 30-35 % of all material handling systems sold in Sweden by 2012.

Parent Company

The parent company posted a loss of SEK —10.9m (9.0m) for the period. Sales were SEK 0m (1.8m). During the period the company made investments in fixed assets totaling SEK 72.1m (27.2m), including SEK 0.7m in patents. The remaining amount comprises investments in subsidiaries as shareholder contributions under the capital adequacy guarantee and an increase in loans to subsidiaries. On the balance sheet date the parent company had liquid assets of SEK 77.3m (181.9m). The equity/assets ratio was 97.9 % (97.6%).

Intellectual Property Rights

■ Key patent for SensActive™ granted

On the balance sheet date Morphic's patent portfolio included 15 inventions, all of which had been granted patents in Sweden and the majority also in other countries and regions. Morphic's intellectual property strategy is aimed at protecting the company's core technologies and the application of these. Morphic is continuously applying for legal protection of patents, designs and brands in different regions for the technologies, methods and processes developed by the company in those cases where this is believed to strengthen the company's protection against intrusion.

During the period Morphic Technologies obtained a Swedish patent for its SensActive™ material handling system. The patent covers the system's unique method for automatically locating parts that are lying unsorted in a pallet and then controlling an industrial robot to pick up the parts. The Swedish patent gives priority to patents on the method in other countries and regions.

Annual General Meeting

Annual General Meeting 2007

The Annual General Meeting was held in Gothenburg on October 19, 2007. The meeting approved the income statement and balance sheet of the parent company and Group and the allocation of profits proposed by the Board of Directors and management. It also decided to discharge the Directors and President from liability in accordance with the auditor's recommendation.

The shareholders resolved to authorize the Board to issue 13,600,000 new shares on each of two occasions. The meeting also approved the Board's proposals on principles of remuneration and other terms and conditions of employment for the company's management. In brief, the principles stipulate that the company shall seek to offer its senior executives remuneration that is in line with market conditions.

It was also decided that a nomination committee be appointed prior to the 2008 AGM consisting of representatives from the four shareholders holding the largest number of voting shares plus the Chairman of the Board. The committee will draw up proposals for the election of the AGM chairman, Directors and Board Chairman as well as proposals for Directors' fees, the auditor's compensation, and the nomination process ahead of the 2009 AGM.

Acquisitions

Acquisition Analysis, Helbio S.A.

On September 12, 2007 Morpic acquired 55% of the shares of the Greek energy technology company Helbio S.A. The company is a leading player in systems for efficient and environmentally friendly production of hydrogen based on renewable fuels such as ethanol and biogas.

Helbio became a part of the Morpic Group on September 12, 2007 and will be integrated in the Consolidated Income Statement and Balance Sheet as of that date. Helbio is part of the Energy Systems segment.

In the Consolidated Income Statement Helbio's share of income is SEK 0. Its share of the total loss is SEK -422,000.

The goodwill refers to the unique technological expertise possessed by the company's personnel and founders. The cash flow effect of the acquisition is SEK 40,645,000, consisting of a cash payment of SEK 40,108,000 and acquisition costs of SEK 3,111,000 less the acquired cash assets of SEK 2,574,000.

The company does not have sufficient data to describe how the acquisition would have affected the Group if it had taken place at the start of the fiscal year. For an analysis of the acquisition, see Note 3.

Acquisition Analysis, Arcotronics Fuel Cells S.R.L

An analysis of the acquisition will be presented in the Q3 report.

The Morpic Share

Since June 12, 2006, Morpic's B shares have been traded on First North, an alternative marketplace supervised by the Stockholm Stock Exchange. Previously, from September 2004, the company's B shares were traded on the Nya Marknaden marketplace. The company's Certified Advisor on First North is Remium AB. During the quarter the share price increased 4.6%. In the same period OMXSPI lost 4.9 %. The highest price paid was SEK 27.6 and the lowest price paid SEK 16.1. At the end of the period Morpic had a market capitalization of SEK 3,243m. During the period 41.7m B shares were traded for a value of SEK 960.6m. This is equivalent to a turnover rate of 118%.

Switch to Nordic List

The expected continued high pace of growth will require adequate access to capital markets. To increase interest in Morpic, improve the liquidity of the shares and thereby achieve a more efficient pricing of the shares, and to attract new categories of shareholders, the company is now preparing to take the next logical step in its development as a listed company by initiating the process of applying for a listing on the Nordic List.

Private Placement

On November 28, 2007 a private placement of 13,426,063 class B shares priced at SEK 18.80 was implemented and concluded. The issue price used was an average of the volume-weighted price of Morpic's B shares on First North during the period November 15–28, 2007. The issue of shares raised SEK 252.4m before issue costs. The new shareholders are a number of funds with global operations. In addition to the acquisition of Arcotronics Fuel Cells, the proceeds of the share issue will be used to make further investments relating to the acquisition in the areas of energy technology, and to pave the way for further acquisitions. Morpic is involved in advanced discussions with a number of operators in the area of energy technology, whose products would strengthen Morpic's offer and speed up the development of the company's energy systems. The private placement was based on an authorization from the Annual General Meeting on October 19.

Share Capital

On the balance sheet date, October 31, 2007, the number of outstanding shares was 136,744,996, of which 5,984,000 are A shares and 130,760,996 are B shares. The number of shareholders was about 22,000.

After the private placement on November 28, 2007 Morpic's share capital is SEK 6.0m, distributed among SEK 150,171,059, of which 5,984,000 are of Series A and 144,187,059 of Series B.

Incentive Scheme

On July 4, 2006 the Board decided, subject to approval by the AGM, to issue no more than 3,300,000 warrants, each entitling the holder to purchase one new B share at a price of SEK 16.

The issue of warrants is aimed at key individuals and the personnel of the Morpic Group. A total of 3,010,000 warrants have been issued. The warrants can be exercised during the period October 1, 2009 to October 31, 2009. The terms and conditions of exercise were adjusted after the rights issue in March 2007. Each warrant entitles the holder to purchase 1.06 new shares at a price of SEK 15.10.

If all outstanding warrants are exercised the share capital will increase by SEK 127,624, representing a dilution of 2.3%.

Risks and Uncertainties

An investment in Morphic is associated with risk. Morphic is an international group and is therefore exposed to various risks in its day-to-day operations. Operational risks are managed primarily at the level of the subsidiary companies. The shared Group functions – HR, Communication, IT, Purchasing, Accounting & Finance and Business Development – manage and coordinate risks in their respective areas. Responsibility for managing and coordinating financial and insurable risks rests largely with the Accounting & Finance function. Morphic's risks can broadly be divided into three main categories: operational, financial and external risks. All types of risk can affect the Group's financial performance and position if they are not managed in a structured way. The Group continuously evaluates and manages significant risks.

A detailed description of significant risks and uncertainties affecting the company is given in the Annual Report and on the company's website, www.morphic.se.

Prospects

The prospects for the Morphic Group are deemed to be very good by the Board and management. The assessment is based on a positive market development combined with a strong, well defined and in some respects unique offer. The main external factors include continued strong demand for energy and a greater awareness of climate change. The main internal factors are the scalability of the offer and the company's market-leading expertise in renewable energy and production technology.

General Group Objectives

Morphic's goal is to generate the strongest possible return for the shareholders in the form of value growth, dividends and spin-offs of independent businesses. The Board of Directors of Morphic Technologies AB has established that the company's goals for the 2008/09 fiscal year are to achieve a profit and generate sales in the order of SEK 2bn. The growth is expected to be generated primarily by the company's Fuel Cell Components, Wind Power and Energy Technology segments.

In preparing for the planned listing of Morphic's shares on the OMX Nordic List, the Board has adopted certain long-term financial targets to define the Board's view of the company's long-term potential. In a longer-term perspective, up to 2012, the company's objective is to achieve a turnover of around SEK 10bn. The aim is to achieve a return on equity over the course of a business cycle of at least 15%.

Potential and Financial Targets by Segment

The following market estimates and targets for the various segments are intended simply as examples of how the segments may develop and should not in any way be construed as forecasts. Many factors that are currently impossible to predict will affect actual outcomes, which may be materially different from the figures and examples presented in the following.

Fuel Cell Components

The financial target for the Fuel Cell Components segment is to achieve sales of around SEK 3.5bn by 2012. The target is based on the company's estimate that the total market for fuel cell flow plates in 2012 will be worth about SEK 14bn. The company estimates that half the market will be available for Morphic's production technology. Based on an operational target of a market share of 50%, this would imply a turnover of about SEK 3.5bn in 2012.

Wind Power

The financial target for the Wind Power segment is to achieve sales of around SEK 2.5bn by 2012. The target has been set in reference to the rapid expansion of the wind power market in Sweden. The Swedish industry organization, Svensk Vindkraft, estimates that some SEK 60bn will be invested in wind power during the period 2007–2016.

Energy Technology

The financial target for the Energy Technology segment is to achieve sales of around SEK 2.5bn by 2012. In the Energy Technology segment Morphic strives to establish its subsidiary Morphic Business Development as one of the leading providers of high-efficiency energy systems that enable local production of renewable electricity and hydrogen. One of the main areas of application concerns systems that replace diesel-powered generators used in telecom base stations and other installations. The operational target is to establish at least 1,000 systems in 2012. Another target is to achieve sales of about SEK 2.5bn the same year.

Automation Technology

The financial target for the Automation Technology segment is to achieve sales of around SEK 250m by 2012. The market is currently growing rapidly. In the Swedish market investments are estimated about SEK 750m per year. One of the main driving forces is the increasing cost of labor in China and other low-cost countries. The cost of producing the robots has also fallen sharply thanks to new technological advances. Operatively, the goal is to establish the SensActive™ system in the market and identify potential partners in systems integration. The main focus is on the Swedish market, but the system will also be launched in selected European markets. The target is to achieve a market share of 30% of all material handling systems sold in Sweden.

Contract Production

The financial target for the Contract Production segment is to achieve sales of around SEK 1.1bn by 2012. The target is based on the estimate that the total market for flow plates for heat exchangers in 2012 will be worth about SEK 4bn. The available market for the company's production technology is considered to be competitive in about half the overall market. Based on an operational target of a market share of 50%, this would imply a turnover of about SEK 1bn. As regards contract production of other components using the company's high-speed technology,

the possible applications are evaluated continuously and are currently being highlighted. It is hard to determine which markets will be of interest and therefore difficult to give a true and fair picture of the prospects. Morphic has therefore chosen not to define any financial targets for contract production of metallic components. The market available to the company in respect of upgrading of turbines for hydroelectric power stations is estimated to be worth about SEK 1bn in 2012. The segment is aiming at a market share of 10%, which translates into sales of about SEK 100m.

Ship Propulsion

The financial target for the Ship Propulsion segment is to achieve sales of around SEK 250m by 2012. The target is based on the estimate that the market for large propellers in 2012 will be worth around SEK 2bn, of which roughly half is believed to constitute a potential market for Aerodyn. The company's operational target is to achieve a market share of 25%, which translates into sales of about SEK 250m.

Strategy

To ensure that the company delivers in line with the defined targets, Morphic has adopted a strategy which is aimed at ensuring that the Group's activities are conducted as wholly or partly owned units based on an ongoing assessment of the factors that optimize the company's ability to raise capital, its competitiveness, synergies and industrial partnerships. The financial targets assume that Morphic will continue to enjoy good opportunities to fund its continued expansion through the issue of new shares and / or sales of parts of or entire business areas.

Consolidated Income Statement

SEK '000	Aug–Oct 2007/08	Aug–Oct 2006/07	May–Oct 2007/08	May–Oct 2006/07
OPERATING INCOME				
Net sales	94,836	29,703	158,553	45,953
Change in inventories	13,338	4,155	14,225	5,230
Capitalized work for own account	1,154	1,068	1,691	1,796
Other operating income	1,998	252	2,335	407
TOTAL INCOME	111,326	35,178	176,804	53,386
OPERATING COSTS				
Purchases of goods and services	–78,374	–16,741	–127,630	–23,017
Other external costs	–19,290	–9,166	–32,444	–17,250
Personnel costs	–19,380	–14,630	–38,853	–26,125
Depreciation and amortization of tangible and intangible fixed assets	–2,818	–3,004	–8,093	–5,952
TOTAL OPERATING COSTS	–119,862	–43,541	–207,020	–72,344
OPERATING LOSS	–8,536	–8,363	–30,216	–18,958
PROFIT/LOSS FROM FINANCIAL INVESTMENTS				
Financial income	2,385	259	4,641	684
Financial costs	–722	–137	–1,084	–387
Deferred tax	0	36	-	144
Minority share	346		346	-
LOSS FOR THE PERIOD	–6,527	–8,205	–26,313	–18,517
Earnings divided by weighted average number of shares before and after dilution (SEK)				
	–0.05	–0.07	–0.19	–0.17
Weighted average number of shares during period	136,744,996	112,495,451	136,744,996	111,406,959
Total number of shares at end of period	136,744,996	112,495,451	136,744,996	112,495,451

Parent Company Income Statement

SEK '000	May–Oct 2007/08	May–Oct 2006/07
OPERATING INCOME		
Net sales	-	1,870
Capitalized work for own account	-	339
Other operating income	8	86
TOTAL INCOME	8	2,295
OPERATING COSTS		
Purchases of goods and services	-	-523
Other external costs	-9,248	-5,954
Personnel costs	-6,438	-5,406
Depreciation and amortization of tangible and intangible fixed assets	-1,023	-909
TOTAL OPERATING COSTS	-16,709	-12,792
OPERATING LOSS	-16,701	-10,497
Profit/loss from financial investments		
Financial income	5,787	1,489
Financial costs	-17	-39
LOSS FOR THE PERIOD	-10,931	-9,047

Consolidated Balance Sheet

SEK'000	Oct 31, 2007	Apr 30, 2004
ASSETS		
FIXED ASSETS		
Intangible fixed assets	122,244	73,017
Tangible fixed assets	123,230	101,446
Financial fixed assets	1,137	573
TOTAL FIXED ASSETS	246,611	175,036
CURRENT ASSETS		
Inventories etc.	54,111	38,505
Current receivables	194,925	202,491
Cash and cash equivalents	148,935	186,463
TOTAL CURRENT ASSETS	397,971	427,459
TOTAL ASSETS	644,582	602,495
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	5,470	5,470
Other contributed capital, Note 4	582,916	583,170
Other reserves	34	-402
Accumulated loss	-174,754	-147,111
Minority interests	2,030	-
TOTAL SHAREHOLDERS' EQUITY	415,696	441,127
LONG-TERM LIABILITIES		
	49,058	13,574
CURRENT LIABILITIES		
	179,829	147,794
TOTAL EQUITY AND LIABILITIES	644,582	602,495
Pledged assets		
	104,442	112,307
Contingent liabilities		
	208,856	106,789

Balance Sheet, Parent Company

SEK'000	Oct 31, 2007	Apr 30, 2004
ASSETS		
FIXED ASSETS		
Intangible fixed assets	8,576	8,779
Tangible fixed assets	377	1,150
Financial fixed assets	288,849	217,489
TOTAL FIXED ASSETS	297,802	227,418
CURRENT ASSETS		
Inventory of finished goods	-	-
Current receivables	117,612	97,564
Cash and cash equivalents	77,336	181,891
TOTAL CURRENT ASSETS	194,948	279,455
TOTAL ASSETS	492,750	506,873
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	5,470	5,470
Other restricted assets	291,730	291,892
Unrestricted reserves	188,200	204,255
TOTAL SHAREHOLDERS' EQUITY	485,400	501,617
LONG-TERM LIABILITIES		
CURRENT LIABILITIES	7,350	5,256
TOTAL EQUITY AND LIABILITIES	492,750	506,873
Pledged assets	104,442	84,147
Contingent liabilities	98,954	16,658

Consolidated Cash Flow Statement

SEK '000	May–Oct 2007/08	May–Oct 2006/07
OPERATIONS		
Operating loss before financial items	–30,216	–18,958
Items not affecting liquidity	8,254	5,931
Net financial items	3,565	297
Income tax paid	–1,695	103
CASH FLOW FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL	–20,092	–12,627
Increase/decrease in current assets	15,542	–22,383
Increase/decrease in current operating liabilities	28,510	25,517
CASH FLOW FROM OPERATIONS	23,960	–9,493
CASH FLOW FROM INVESTING ACTIVITIES	–64,514	–23,047
FINANCING ACTIVITIES		
Issue of new shares	–162	19,708
Loans received	9,420	
Repayment of loans	–4,039	–1,794
Increase/decrease in current financial liabilities	–2,194	–1,776
CASH FLOW FROM FINANCING ACTIVITIES	3,025	16,138
CASH FLOW FOR THE YEAR	–37,529	–16,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	186,463	88,550
CASH AND CASH EQUIVALENTS AT END OF PERIOD	148,934	72,148

Consolidated Statement of Changes in Equity

SEK '000	May–Oct 2007/08	May–Oct 2006/07
OPENING BALANCE	441,127	216,772
Issue of new shares	–162	25,422
Tax effects of Group contributions, Note 4	–1,435	–
Translation reserve	–764	–
Other reserves	1,213	–
Loss for the period	–26,313	–18,517
Minority interests	2,030	–634
TOTAL SHAREHOLDERS' EQUITY AT END OF PERIOD	415,696	223,043

Note 1 – Accounting Principles

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting, which is in compliance with the requirements specified in Recommendation RR 31, Interim Reports, of the Swedish Financial Accounting Standards Council. As of May 1, 2005 Morphic Technologies has applied the International Financial Reporting Standards (IFRS), as adopted by the EU. In other respects, the accounting principles, definitions of key ratios and methods of calculation applied are the same as in the last annual report. The parent company's accounts have been prepared in accordance with Recommendation RR32:06, Accounting for Legal Entities.

Note 2 – Segment Reporting

SEK '000	May–Oct 2007/08		May–Oct 2006/07	
	Sales	Profit/loss	Sales	Profit/loss
Fuel Cell Components	269	–8,206	920	–5,019
Wind Power	101,992	–2,553	–	–643
Energy Technology	1,044	–3,769	–	–
Contract Production	9,574	–2,766	12,045	–4,363
Automation Technology	2,630	–3,842	–	–
Ship Propulsion	46,868	9,434	36,241	3,114
Other	–	–16,708	1,870	–10,497
Elimination of inter-company transactions	–3,824	–1,807	–5,123	–1,549
Group	158,553	–30,217	45,953	–18,957

Note 3 – Acquisition Analysis, Helbio

SEK '000	
Cash consideration	40,108
Acquisition costs	3,111
Acquisition price	43,219
Acquired net assets	22,719
Goodwill	20,500

ACQUIRED NET ASSETS	Fair Value	Carrying amount
Fixed assets	28,311	840
Current assets	891	891
Cash balances	2,574	2,574
Deferred tax	–7,692	–
Current liabilities	–1,365	–1,365
Acquired net assets	22,719	2,940

The Acquisition Analysis may be subject to changes in accordance to IFRS 3.

Note 4 – Correction

During the period Morphic has corrected an error that occurred as a result of an incorrect Group contribution from a subsidiary. The effect of the correction is that assets in the parent company are reduced by about SEK 5m and shareholders' equity in the Group is adjusted by SEK 1.4m.

The Board of Directors and Presidents assure that the interim report gives a true and fair picture of the parent company's and Group's business, financial position and results and describes all significant risks and uncertainties faced by the parent company and Group.

Anette Myrheim

Peter Enå
Board Chairman

Kurt Dahlberg

Jan Alvé

Lars Olof Nilsson

Kjell Östergren

Börje Vernet

Eva-Lotta Kraft

Jonas Eklind,
President & CEO

Review Report

I have reviewed the report of Morphe Technologies AB for the period May 1, 2007 to October 31, 2007. Responsibility for preparing and presenting this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act rests with the Board of Directors and President. My responsibility is to express a conclusion on this interim financial information based on my review.

I have conducted my review in accordance with the Standard on Review Engagements (SÖG) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is significantly more limited in scope than an audit conducted in accordance with the Standards on Auditing in Sweden (RS) and other generally accepted auditing standards. The procedures employed in a review do not enable me to obtain a level of assurance that would make me aware of all significant circumstances that would have been identified in an audit. The conclusion expressed in a review therefore does not provide the same level of assurance as a conclusion based on an audit.

Based on my review, nothing has come to my attention that would give me reason to believe that the interim financial information has not, in all material respects, been prepared, as regards the Group, in accordance with IAS 34 and the Annual Accounts Act and, as regards the parent company, in accordance with the Annual Accounts Act.

Örebro, December 14, 2007

Inger Carlsson
Authorized Public Accountant

Future Financial Information

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|---|----------------|
| • Interim Report 9 months (May–January) 2007/08: | March 26, 2008 |
| • Year-end financial statement for the fiscal year 2007/08: | June 25, 2008 |