

Interim report 9 months 2007/08

Morphic Technologies AB (publ) • May 1–January 31 2007/08 (9 months)



- Net turnover for the period was SEK 240.3m (86.9m)
- The loss after tax was SEK –47.8m (–38.1m)
- Earnings per share were SEK –0.34 (–0.31)
- At the balance sheet date, January 31, 2008, cash and cash equivalents were SEK 198.7m (186.5m)
- The total order book was SEK 765m, of which Wind Power accounted for SEK 472m, Fuel Cell Components for SEK 196m, Ship Propulsion for SEK 65m and other segments for SEK 23m
- Cash flow from operations was SEK –10.2m (–20.7m), or SEK –0.07 per share (–0.18)

Significant events in the last quarter

- Volume order worth SEK 130m for fuel cell plates intended for consumer electronics
- Order for fuel cell-based energy system for biogas
- Acquisition of fuel cell maker Arcotronics Fuel Cells S.r.l and energy technology company AccaGen
- Private placements raise SEK 261.6m after issue cost

Significant events after the end of the period

- Test center for fuel cell components opened in Japan
- Morphic's B shares listed on the OMX Nordic Exchange Stockholm
- Performance-based employee stock options scheme adopted
- Jan Johansson appointed CFO
- Financial goals regarding turnover and profit/loss for the financial year 08/09 invalidated
- Strong growth in order and offer stock

This is Morphic

Morphic Technologies is an engineering group operating in the areas of fuels cells, wind power, energy systems and engineering 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. It conducts operations in Sweden, Japan, Greece, Italy and Switzerland, and employs around 170 people. Morphic Technologies' B shares have been listed on the OMX Nordic Exchange since March 4. The company has about 22,000 shareholders. The company's fiscal year covers the period May 1 through April 30.

The information in this report constitutes information that Morphic Technologies AB (publ) is legally obliged to publish under the Stock Exchange and Clearing Operations Act and/or the Financial Instruments Trading Act. The information was released to the market for publication on March 26, 2008 at about 8 a.m.

Financial performance in summary

Group SEK million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	81.7	40.0	240.3	85.9
Operating loss	–23.7	–19.6	–53.9	–38.6
Loss after tax	–21.1	–19.6	–47.8	–38.1
Cash flow from operations	–34.1	–8.1	–10.2	–20.7
Cash flow from operating activities*	–42.2	–33.2	–44.4	–55.9
Cash flow after investments	–209	–33.2	–249.7	–55.9
Investments in tangible assets**	13.3	19.8	40.1	22.8
Earnings per share, SEK	–0.14	–0.16	–0.34	–0.31
			Jan 31, 2008	Apr 30, 2007
Cash and cash equivalents at balance sheet date			198.7	186.5
Equity/assets ratio, %			70.1	73.2

* Cash flow after investments but excluding business acquisitions/divestments

** Refers to investments excluding acquisitions through business combinations and including any divestments (net value)

Segment report

SEK '000	May–Jan 2007/08		May–Jan 2006/07	
	Turnover	Profit/loss	Turnover	Profit/loss
Fuel Cell Components	932	–13,836	818	–8,535
Wind Power	127,886	–8,081	10,194	–1,564
Energy Technology	4,130	–10,212	–	–
Contract Production	30,447	–156	21,918	–12,942
Automation Technology	3,525	–5,521	–	–
Ship Propulsion	80,103	14,916	61,911	5,175
Other	90	–28,324	2,383	–18,395
Elimination of intercompany transactions	–6,826	–2,665	–11,339	–2,324
Group	240,287	–53,879	85,885	–38,585

Turnover refers to net turnover and profit/loss refers to operating profit/loss.

Turnover

The Group's net turnover during the period was SEK 204.3m, representing a year-on-year increase of 180 percent (85.9m). The improvement was mostly due to increased sales in the Wind Power segment, where the company is now delivering the orders received. The Ship Propulsion segment, where sales grew by around 30 percent year-on-year, also contributed to the increase in sales.

Earnings

Despite the sharp increase in turnover, the Group posts a loss. The after-tax loss for the period was SEK –47.8m (–38.1m).

The Fuel Cell Components segment reports a loss after tax of SEK –15.1m (–9.2m) due to increased marketing activity in Asia, the US and Europe. Upscaling of production capacity, customer adaptations of equipment and quality assurance work also had a negative impact on results.

The Wind Power segment posts a loss after tax of SEK –8.1m (–1.6m) due to start-up costs and low utilization rate in connection with the investment in the new production plant for wind turbine towers in Kristinehamn that was completed in December.

Activity increased significantly in the Energy Technology segment during the period, with the acquisition of three foreign businesses and recruitment of new managerial staff. Due to intensive technological development work, the segment posts an after-tax loss of SEK -12.0m (-), due to the intensive technological development work.

The Contract Production segment reports a loss after tax of SEK -0.9 (-13.4m), which represents a year-on-year improvement of SEK 12.5m. The segment reports an operating profit for the third quarter.

The Automation Technology segment reports a loss after tax of SEK -6.2m (-) as a result of the market launch and build-up of delivery capacity.

The Ship Propulsion segment reports a profit after tax of SEK 15.0m (4.6m) for the period, which represents a year-on-year improvement of SEK 10.4m.

The parent company reports a loss after tax of SEK -17.9m (-16.2m) as a result of expenses relating to intensified global marketing of the Group, patents, listing on the OMX Nordic Exchange and new recruitment.

Financial position

Shareholders' equity increased to SEK 665.7m (441.1m) as a result of two share offerings during the period. The equity/assets ratio was 70.1 percent (73.2%). Total assets in the Group were SEK 949.6m (602.5m), and cash and cash equivalents at the balance sheet date, January 31, 2008, were SEK 198.7m (186.5m).

Cash flow

Cash flow from operations during the period was SEK -10.2m (-20.7m), or SEK -0.07 per share (-0.18). The improvement is due largely to the Wind Power segment.

Investments and depreciation

During the period the Group's net investments in tangible fixed assets totaled SEK 40.1m (22.8m). The increased investments in tangible assets refer primarily to a production facility for the Wind Power segment and to investments in a pilot facility for energy systems. Depreciation of tangible fixed assets during the period was SEK 10.3m (7.1m). The Group's investments in intangible assets were SEK 7.7m (13.4m). All investments are reported exclusive of business investments. Amortization of intangible assets during the period was SEK 5.2m (2.1m).

Personnel

The Group's personnel costs during the period were SEK 65.4m (44.2m) and the total number of employees at the end of the period was 170 (112), representing a year-on-year increase of 52 percent.

Financial goals 2008/09

Currently, in Morphic's assessment, it is unlikely that the Company will achieve its financial goal of SEK 2 billion in sales and a positive operating profit/loss for the financial year 2008/09. Lower sales are primarily due to more prolonged wind power expansion than expected and on the long project times from order to deliver (see more under Outlook). The lower profit is

due to the prioritised development and expansion investments within the segment, energy technology and partially on low capacity utilisation thus far in the new tower factory for wind power plants. Other operations are being developed according to plan but cannot compensate for the delays we see within the wind market.

Due to the aforementioned circumstances, the Board has chosen not to submit any forecast for the financial year, 2008/09.

Outlook

The core operation remains within the energy and energy technology area; Fuel cell components, Wind power and Energy technology, and it is within these segments that future growth is assessed to be largest. The current order stock totals SEK 752 M and the offer stock totals more than SEK 6.5 billion.

Market growth within the Wind Power segment continues to be strong, but despite this, increasingly slower than the previous assessment. This is due to the drawn out authorisation process as well as that expansion focus has been moved from the sea-based to land-based areas. Of the large land/lake-based projects in Sweden, construction was initiated only on Morphic's Windpark, Vänern, in 2007. To meet the strong, increased demand, the Company has made investments and put its own tower factory into operation, which has increased production tenfold, and has worked actively with its sub-contractors to ensure an increase in capacity in the wind market.

During the last year, Morphic's subsidiary, Cell Impact, has entered into a cooperation agreement with a large number of customers within several different areas, including the automotive, telecom and consumer electronics industry. The breadth of the agreements and the geographic distribution of customers indicate an ability to develop plates for the most diverse application areas and markets.

In August 2007, the first volume order for the mass production of fuel cell plates for operations with consumer electronics for a customer in the US was received. The order is also a sign that the fuel cell market is moving from development to production on a larger scale. In November 2007, an additional order regarding the mass production of flow plates for fuel cells for the operation of consumer electronics was received. The client is one of the world's largest electronics manufacturers. To prepare itself for future growth, the Company has invested, and put into operation, a second production line and established a testing center in Japan.

In the market for energy technology systems, in just a short time, Morphic has acquired a unique combination of patented technologies. The demand for energy systems has increased dramatically and the potential market is quite large. In regard to the ability for local production and storage of renewable energy, the market is made up of two categories: the area with infrastructure for electricity generation and the area without infrastructure for electricity generation. Within the first application, Morphic's system can be used to generate electricity from energy from, for example, purification plants, recycling facilities and smaller industries. Within the other application, Morphic's system can replace diesel-driven electricity generators for the operation of, for example, telecom base stations and reserve power plants. To meet the demand, technological development and investment in these

Fuel Cell Components

SEK million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	0.7	–0.1	0.9	0.8
Operating loss	–5.6	–3.5	–13.8	–8.5

- At the balance sheet date the order book was worth SEK 196m
- Volume order from an Asian consumer electronics company
- Test center opened in Japan – booked up for the next six months by a leading car maker

Morphic has developed a technology to enable critical components for fuel cells to be manufactured significantly faster, less expensively and to higher standards of quality than was previously possible. Production takes place in the company's own plant in Karlskoga. Morphic's activities in the area of fuel cell are conducted by the wholly owned subsidiary Cell Impact AB.

Segment results

The segment posts a loss after tax of SEK –15.1m (–9.2m). Investments were made in increased marketing activities in Asia, the United States and Europe. Upscaling of production capacity, customer adaptations of equipment and quality assurance work also had a negative impact on results.

Volume order for flow plates

During the period Cell Impact received one further volume order for series production of flow plates. The new order is also for plates intended for consumer electronics and the client is one of the world's largest electronics manufacturers. After a supplemental order from the same customer, the total order value is SEK 130m. The first delivery to the customer is scheduled for the second quarter of 2008. The total order value of all volume orders placed until the end of the period was about SEK 190m.

Customer center in Japan

During the period Cell Impact opened a customer center in Yokohama, Japan. The opening coincided with the world's largest fuel cell exposition, FC Expo, in Tokyo in February 2008. The customer center offers customers in all Asian markets production and fine adjustment of flow plates for fuel cells. One of the world's five largest automobile manufacturers has booked the facility for the next six months.

The market for Fuel Cell Components

Fuel cells can best be described as energy converters enabling efficient conversion of hydrogen gas and other energy-bearers into electricity and heat. The 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"), the key component of a fuel cell. A fuel cell system may comprise hundreds of plates, whose task is to conduct the injected fuel in an efficient manner. The market for fuel cells can roughly be divided into three areas: portable electronics, stationary electrical power units, and the transport and automotive industries.

Morphic's market in the area of fuel cells consists partly of businesses operating in the automotive, standby power and consumer electronics industries and partly of dedicated fuel cell manufacturers.

Wind Power

SEK million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	25.9	10.2	127.9	10.2
Operating loss	–5.5	–0.9	–8.1	–1.6

- At the balance sheet date the order book was worth SEK 472m
- Possibility of leasing of wind turbines
- New production facility opened in Kristinehamn

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.

Segment results

The Wind Power segment posts a loss after tax of SEK –8.1m (–1.6m). The result for the period includes costs relating to the start-up of the new production facility for wind turbine towers. Moreover, the utilization rate for the facility was low during the start-up phase.

Possibility of leasing of wind turbines

During the period Morphic's subsidiary, DynaWind AB, and Länsförsäkringar's finance company, Wasa Kredit, concluded a partnership that paves the way for the funding of individual turbines as well as smaller wind parks worth up to SEK 80m. The goal is to facilitate the funding of investments in wind power for the customers.

New production facility opened in Kristinehamn

During the period a new production facility in Kristinehamn was taken into use. Production at the facility will be stepped up 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, the 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 will be built and erected. Svensk Vindkraft, the Swedish industry organization, estimates that some SEK 60 billion will be invested in wind power during the period 2007–2016. The investors include big energy companies, local wind power associations and private investors.

Energy Technology

SEK million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	3.1	–	4.1	–
Operating loss	–6.4	–	–10.2	–

- At the balance sheet date the order book was worth SEK 5m
- Order for fuel cell-based energy system for biogas
- Acquisition of Arcotronics Fuel Cells S.r.l. and AccaGen S.A.

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 AccaGen S.A., Helbio S.A. and Arcotronics Fuel Cells S.r.l.

Segment results

Activity increased in the segment during the period, with the acquisition of three foreign businesses and recruitment of new managerial staff. Due to intensive technological development work, the segment posts an after-tax loss of SEK –12.0m (–) due to the intensive technological development work.

Order for energy system based on fuel cells

In mid-December 2007 MBD received an order for an energy system. In the system, heat or electricity is extracted from biogas, which in turn is extracted directly from sewage. The system produces 20 kW of electrical energy and 20 kW of heat. The customer is Patras Municipal Corporation for Water and Waste Water Management. The facility is scheduled for completion in June 2008 and will then be evaluated during a three-month period. The customer has expressed an interest, after the end of the evaluation period, in further systems for significantly larger effects.

Acquisitions

Acquisition of Arcotronics Fuel Cells, S.r.l.

Arcotronics Fuel Cells (AFC) specializes in developing and manufacturing high-efficiency fuel cells for stationary energy systems and standby power units. The purchase price was SEK 55.9m. The acquisition will give Morphic access to a tried-and-tested fuel cell design, which will hasten the market introduction of its own energy systems. AFC's fuel cells will be included in Morphic's energy systems, in which surplus renewable energy is stored to allow electricity and heating to be produced at a later stage via fuel cells. AFC is based in Bologna, Italy and currently has 13 employees. Before the acquisition AFC was 80 percent owned by Kemet Corporation, a multinational group that is a leading components manufacturer in the electronics industry. A private placement aimed at AFC's CEO and founder, Angelo D'Anzi, and other parties was completed in connection with the acquisition. The name of the company has been changed to Exergy Fuel Cells S.r.l.

Acquisition of AccaGen S.A.

During the period Morphic also acquired the Swiss energy technology company AccaGen S.A. The consideration paid was SEK 99.0m, and the acquisition has assured Morphic's access to all critical components for the energy system that is currently under development.

AccaGen was established in 2003 and has since achieved a leading position in technology for storing of energy from renewable energy sources such as solar, wind and wave power and biogas. The company's core offer consists of a range of patented high-efficiency electrolyzers for separating water into hydrogen and oxygen. The hydrogen gas can then be used to fuel Morphic's fuel-cell-powered energy system. In recent years AccaGen has been focusing on developing the electrolyzer into a standardized product adapted for major industrial and energy-related customers. In connection with the acquisition a private placement aimed at AccaGen's founder and CEO, Roberto Dall'Ara, was conducted.

The market for energy technology

Morphic develops and sells energy systems enabling conversion, storage and use of renewable energy. The market consists of service companies, service facilities, industries, agriculture and private users. 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.

Contract Production

SEK million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	20.9	9.9	30.4	21.9
Operating profit/loss	2.6	–8.6	–0.2	–12.9

- At the balance sheet date the order book was worth SEK 6m
- New order for heavy contract production
- New order in hydroelectric power

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.

Segment results

The segment reports a loss after tax of SEK –0.9 (–13.4m), which represents a year-on-year improvement of SEK 12.5m. The segment posts an operating profit for the third quarter thanks to deliveries in the hydroelectric power projects.

New order for heavy contract production

Finshyttan Hydro Power has received an order for heavy mechanical processing from Siempelkamp, a major German group. The order marks the start of a long-term partnership with significant potential. The order is for processing of details for a process system in the mining industry. One of the components in the system is drums used in refining of minerals. The drums are manufactured by Siempelkamp, and Finshyttan will be processing the gables for the drums. Fully processed, a gable component can weigh up to 40 tonnes.

New order in hydroelectric power

After the end of the period Finshyttan Hydro Power AB has received an order from GE Energy for renovation of water turbines at the Gulsele power station. Delivery will take place in July 2008.

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 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. 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 million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	33.2	25.7	80.1	61.9
Operating profit	5.5	2.1	14.9	5.2

- At the balance sheet date the order book was worth SEK 65m
- Continued high capacity use

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.

Segment results

The Ship Propulsion segment reports a profit after tax of SEK 15.0m (4.6m) for the period, which represents a year-on-year improvement of SEK 10.4m. During the period the segment benefited from the strong performance of market.

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 into 2009.

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 within 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 million	Q3, Nov–Jan		9 months, May–Jan	
	2007/08	2006/07	2007/08	2006/07
Net turnover	0.9	—	3.5	—
Operating loss	–1.7	—	–5.5	—

- At the balance sheet date the order book was worth SEK 11m
- Acquisition of the automation company EIA AB
- Order for SensActive™

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

Segment results

The segment reports a loss after tax of SEK –6.2m (–) as a result of the market launch and build-up of delivery capacity.

Acquisition of the automation company EIA AB

During the period the company acquired all shares in Euro Industrial Automation AB (EIA AB), a company that specializes in materials handling systems for components for the engineering industry, primarily the vehicle industry.

EIA's products encompass everything from individual products (including conveyor belt solutions) to complete systems for materials conveying. The company, which has about 10 employees, also possesses many years of experience in complex specialist solutions for component conveyance.

The SEK 3m consideration was paid in cash. The vendor is EIA's founder and MD, Leif Johansson. EIA reported a positive trading result before depreciation and financial items in 2007 and is estimated only to have a marginal impact on Morphic Group turnover and profits for the current year. An analysis of the acquisition will be presented in the year-end financial statement.

Order for SensActive™

Morphic's subsidiary Dynamis AB has received an order from Bharat Forge Kilsta AB. The order is for the SensActive™ measuring system and a robot. SensActive™ is used for positioning of forging materials with weights of up to 200 kg and temperatures of over 1000°C. The measuring system controls a robot, which picks up forging materials from the outfeeder conveyor of the forging press and feeds them to another press where the forging beard is removed.

The market for automation technology

The market is currently growing rapidly. Annual investments in Sweden are estimated at SEK 750m. A major driving force is the rising cost of labor in low-cost countries. The cost of producing the robots has also fallen sharply thanks to technological advances. Operationally, the goal is to establish the SensActive™ system in the market and identify potential partners in systems integration. It focuses primarily on the Swedish market, but the system is also going to be launched on selected European markets.

Parent company

The parent company posts a loss of SEK –17.9m (–16.2m) for the period. Net turnover was SEK 0m (2.4m). During the period the parent company made investments in fixed assets totaling SEK 264.4m (41.7m), of which SEK 1.1m refers to patents and SEK 0.1m refers to tangible fixed assets. The remaining SEK 236.2m refers to investments in the subsidiaries. On the balance sheet date the parent company had liquid assets of SEK 134.6m (181.9m). The equity/assets ratio was 98.7 percent (99.0).

Intellectual property rights

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 items that are lying unsorted in a pallet and then controlling an industrial robot to pick up the items. The Swedish patent gives priority to patents on the method in other countries and regions.

Related-party transactions

Morphic has not had any transactions with related parties that have had an impact on the Group's results or financial position.

The Board of Directors

At his own request, Börje Vernet has stepped down from the Board of Morphic Technologies to focus on his work as CEO of GP Plastic in the Nordstjernan Group.

Annual General Meeting

Extraordinary general meeting, march 2008

The extraordinary general meeting of Morphic Technologies AB (publ) on Monday March 3, 2008, decided, in accordance with the proposal put forward by the Board, to introduce a new stock options scheme.

Under the options scheme, the company will issue a maximum of 4,500,000 options. The options can be issued in two series – employee options and "synthetic" options. The Board will decide on the distribution of the number of options between the two series.

Each employee stock option will entitle the holder, during the period March 1–May 31, 2013, to acquire one new B share at a price of 110 percent of the volume-weighted average price for

Morphic's B shares during the period January 4–17, 2008. The subscription price has been set as SEK 16. Each synthetic option confers entitlement to a cash sum equivalent to the difference between the exercise price (which is the same as for the employee stock options) and the volume-weighted average price of Morphic's B shares during the period May 15–31, 2013.

To guarantee the company's obligations in respect of issued stock options and its obligation to pay social-security contributions, it was decided that 6,000,000 warrants should be issued to a wholly-owned subsidiary. Each warrant entitles the holder to subscribe for one B share on terms equivalent to those applying to the employee stock options.

The right to exercise the options is subject to a performance condition linked to the Group's turnover and operating margin. There is a right to exercise options if Group turnover in the calendar year 2012 is at least SEK 3bn and the operating margin at least 10 percent. To ensure that the performance condition is fully met, which would allow all allocated options to be exercised, Group turnover in the calendar year 2012 must be at least SEK 10bn and the operating margin at least 15 percent.

The options will be allocated free of charge to senior executives and other key individuals in Group companies and associated companies in Sweden and abroad, taking account of factors such as the employee's salary level, experience and position in the company. It is proposed that the Group CEO be allocated 1,000,000 options.

If all 6,000,000 warrants are issued and exercised to subscribe for 6,000,000 shares under the options scheme, the newly issued shares would represent approximately 3.8 percent of the share capital.

Acquisitions

Acquisition analysis, Arcotronics Fuel Cells S.R.L

On November 29, 2007 Morphic acquired 100 percent of the Italian fuel cell company Arcotronics Fuel Cells S.r.l., which has now changed its name to Exergy 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.

Exergy Fuel Cells became a part of the Morphic Group on December 1, 2007 and will be integrated in the consolidated income statement and balance sheet as of that date. Exergy Fuel Cells is part of the Energy System segment.

In the consolidated income statement Exergy Fuel Cells' share of income is SEK 2.1. Its share of the total loss is SEK –1.5m.

The cash flow effect of the acquisition is SEK –58.5m, consisting of a cash payment of SEK 55.9m and acquisition costs of SEK 2.8m less the acquired cash assets of SEK 0.2m. See also Note 2 for further information.

The acquired company has not had administrative procedures that would make it possible to produce information showing how the acquisition would have affected the Group if the acquisition had taken place at the start of the fiscal year.

Acquisition analysis, Accagen S.A.

On December 18, 2007 Morphic acquired 100 percent of the Swiss company AccaGen S.A. AccaGen is a leading manufacturer of electrolyzers for separating water into hydrogen and oxygen.

AccaGen S.A. became a part of the Morphic Group on December 31, 2007 and will be integrated in the consolidated income statement and balance sheet as of that date. AccaGen is part of the Energy Systems segment.

In the consolidated income statement AccaGen's share of income is SEK 0.9. Its share of the total loss is SEK –0.1m.

The cash flow effect of the acquisition is SEK –105.1m, consisting of a cash payment of SEK 99.0m and acquisition costs of SEK 6.4m less the acquired cash assets of SEK 0.3m. See also Note 2 for further information.

The acquired company has not had administrative procedures that would make it possible to produce information showing how the acquisition would have affected the Group if the acquisition had taken place at the start of the fiscal year.

Acquisition analysis, EIA AB

An analysis of the acquisition will be presented in the year-end financial statement for 2007/08.

The Morphic share

After the end of the period Morphic's B shares were listed on the OMX Nordic Exchange Stockholm. Following the listing, trading in Morphic's B shares will be transferred from First North to the Mid-Cap segment of the Nordic Exchange. The first day of trading was March 4, 2008, and the size of a round lot has been fixed at 500 shares. No new shares were issued in connection with the listing.

During the quarter the share price fell by 37.90 percent. In the same period OMXSPI lost 19.52 percent. The highest price paid was SEK 23.80 and the lowest price paid SEK 11. At the end of the period Morphic had a market capitalization of SEK 2,230m. During the period 54.6m B shares were traded for a value of SEK 998m. This is equivalent to a turnover rate of 151 percent.

Private placements

Two private placements were completed during the period. The placements comprised 14,027,026 shares and raised SEK 261.6m in cash after issue costs.

On November 28, 2007 a private placement of 13,426,063 B shares priced at SEK 18.80 was implemented and brought to completion. The issue price used was an average of the volume-weighted price of Morphic'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 belonging to major institutional capital market operators and Arcotronics Fuel Cells' CEO and founder, Angelo D'Anzi.

In December 2007, in connection with the acquisition of AccaGen S.A., another private placement was carried out. The placement comprised 600,963 B shares, which were offered to the CEO of AccaGen. The issue price of SEK 20.53 represented an average of the volume-weighted price of Morphic's B shares on First North during the period December 4–17, 2007. The issue of shares raised SEK 12.3m for Morphic before issue costs.

The remaining part of the proceeds of the issue of shares (SEK 94m) and all or parts of the remaining part of the authorization, 13.1m shares, will be used to strengthen the balance sheet for guarantee commitments in connection with wind power deliveries and for strategic investments in wind power and the implementation of further strategic acquisitions.

The placements were conducted on the basis of authorizations from the Annual General Meeting on October 19, 2007.

Share capital

At the balance sheet date, January 31, 2008, Morphic's share capital is about SEK 6m, represented by SEK 150,772,022 shares, of which 5,984,000 are of Series A and 144,788,022 of Series B. The number of shareholders was about 22,000.

Incentive scheme

The extraordinary general meeting of Morphic Technologies AB (publ) on Monday March 3, 2008, decided, in accordance with the proposal put forward by the Board, to introduce a new performance-based employee stock options scheme. More information about the stock options scheme is found under "Extraordinary General Meeting, March 2008" above.

The Group also has an options scheme which runs until October 2009.

Nominating committee of Morpic Technologies AB for the 2008 AGM

In accordance with the decision taken at Morpic's Annual General Meeting on October 19, 2007, a Nominating Committee will be appointed prior to the 2008 AGM. The Nomination Committee will consist of representatives of the four shareholders holding the largest number of votes in the company.

At the last banking day in January 2008 the four shareholders holding the largest number of votes were Mariégården Investment AB, Kurt Dahlberg, Peter Enå and Kjell Östergren. These have appointed one representative each, as shown below, who will constitute Morpic's Nominating Committee.

The members of the Nominating Committee are:

Peter Enå, Chairman of the Board

Kåre Gilström, Chairman of Mariégården Investment AB

Kurt Dahlberg, Director

Lars-Henrik Bruzelius, Associate Professor of Business Administration at Lund University

The four owner representatives of the Nominating Committee together represent about 36 percent of the total number of votes in the company.

The Nominating Committee is tasked with preparing proposals on the following issues, which will be submitted for resolution by the 2008 AGM:

- (i) proposal for election of a chairman for the AGM,
- (ii) proposal for election of Board Directors,
- (iii) proposal for election of Board Chairman,
- (iv) proposal for Directors' fees,
- (v) proposal for election of auditors and auditors' fees,
- (vi) proposal for how the nomination process prior to the 2009 AGM should be conducted.

Shareholders who wish to submit proposals to Morpic's Nominating Committee may do so by e-mail to:

nomineringskommitten@morphic.se or by mail to:

Morphic Technologies AB,

Attn: Nomineringskommittén, Gammelbackavägen 6,

SE-691 51 Karlskoga, Sweden, by August 15, 2008.

Risks and uncertainties

An investment in Morpic is associated with risk. Developing new products in entirely or partly new markets is always associated with risks, both internal and external. The company's net turnover in the first nine months of 2007/08 was SEK 240.3m. Achieving the overall financial target will thus require significant sales growth. In the view of the Board, the internal challenges include building up the organizational structure, the ability to choose the right production and marketing strategy and the ability to manage growth. The most significant external risks include the risk of a general delay concerning the market introduction of fuel cells and a risk of subcontractors not having sufficient capacity and being unable to deliver. There are also risks related to the liquidity of trading in the Company's shares. On top of this, there are also risks associated with the funding of the business.

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

Consolidated Income Statement

SEK '000	Nov–Jan 2007/08	Nov–Jan 2006/07	May–Jan 2007/08	May–Jan 2006/07
Operating income				
Net turnover	81,742	40,008	240,287	85,885
Change in inventories	–3,263	7,322	11,251	12,553
Capitalized work for own account	1,684	642	3,376	2,327
Other operating income	2,619	571	4,952	978
Total income	82,782	48,543	259,866	101,743
Operating costs				
Purchases of goods and services	–48,203	–38,203	–176,124	–60,312
Other external costs	–24,462	–8,814	–56,902	–26,786
Personnel costs	–26,528	–18,103	–65,380	–44,227
Depreciation and amortization of tangible and intangible fixed assets	–7,239	–3,050	–15,339	–9,002
Total operating costs	–106,432	–68,170	–313,745	–140,327
Operating loss	–23,650	–19,627	–53,879	–38,584
Profit/loss from financial investments				
Financial income	3,074	690	7,555	1,103
Financial costs	–1,307	–663	–2,224	–780
Tax on profit for the year	–2		–2	
Deferred tax	926		607	144
Minority interest	–187		159	
Loss for the period	–21,146	–19,600	–47,784	–38,117
Earnings divided by weighted average number of shares before and after dilution (SEK)	–0.14	–0.16	–0.34	–0.31
Weighted average number of shares during period	151,275,473	123,744,107	141,500,446	123,017,443
Total number of shares at end of period	150,772,022	112,495,451	150,772,022	112,495,451

Parent Company Income Statement

SEK '000	May–Jan 2007/08	May–Jan 2006/07
Operating income		
Net turnover	90	2,383
Capitalized work for own account		603
Other operating income	12	113
Total income	102	3,099
Operating costs		
Purchases of goods and services		–602
Other external costs	–15,515	–9,673
Personnel costs	–11,308	–9,815
Depreciation and amortization of tangible and intangible fixed assets	–1,597	–1,404
Total operating costs	–28,420	–21,494
Operating loss	–28,318	–18,395
Profit/loss from financial investments		
Financial income	10,688	2,235
Financial costs	–288	–58
Loss for the period	–17,918	–16,218

Consolidated Balance Sheet

SEK '000	Jan 31, 2008	Apr 30, 2007
Assets		
Fixed assets		
Intangible fixed assets	320,855	73,017
Tangible fixed assets	143,348	101,446
Financial fixed assets	788	573
Total fixed assets	464,991	175,036
Current assets		
Inventory of finished goods	65,248	38,505
Current receivables	220,636	202,491
Cash and cash equivalents	198,715	186,463
Total current assets	484,599	427,459
Total assets	949,590	602,495
Equity and liabilities		
Shareholders' equity		
Share capital	6,031	5,470
Other capital contribution	842,614	583,170
Other reserves	9,659	–402
Accumulated loss	–194,895	–147,111
Minority interests	2,275	
Total shareholders' equity	665,684	441,127
Long-term liabilities	92,243	13,574
Current liabilities	191,663	147,794
Total equity and liabilities	949,590	602,495
Pledged assets	210,425	112,307
Contingent liabilities ¹⁾	28,789	20,166

1) In addition to contingent liabilities there are bank and insurance guarantees for SEK 190,221 (86,623).

Parent Company Balance Sheet

SEK '000	Jan 31, 2008	Apr 30, 2007
Assets		
Fixed assets		
Intangible fixed assets	8,391	8,779
Tangible fixed assets	352	1,150
Financial fixed assets	480,701	217,489
Total fixed assets	489,444	227,418
Current assets		
Current receivables	126,471	97,564
Cash and cash equivalents	134,590	181,891
Total current assets	261,061	279,455
Total assets	750,505	506,873
Equity and liabilities		
Shareholders' equity		
Share capital	6,031	5,470
Other restricted assets	291,892	291,892
Unrestricted reserves	442,656	204,255
Total shareholders' equity	740,579	501,617
Long-term liabilities		
Current liabilities	9,926	5,256
Total equity and liabilities	750,505	506,873
Pledged assets	104,442	84,147
Contingent liabilities ¹⁾	27,750	16,658

1) In addition to contingent liabilities there are insurance guarantees of SEK 83,581 (0).

Consolidated Cash Flow Statement

SEK '000	May–Jan 2007/08	May–Jan 2006/07
Operations		
Operating loss before financial items	–53,879	–38,585
Items not affecting liquidity	20,628	8,899
Net financial items	5,332	326
Income tax paid	195	–443
Cash flow from operations before changes in working capital	–27,724	–29,803
Increase/decrease in current assets	10,043	–23,665
Increase/decrease in current operating liabilities	7,520	32,726
Cash flow from operations	–10,161	–20,742
Investment activities		
Investments in intangible assets	–7,667	–13,343
Investments in tangible assets	–6,942	–23,504
Divested assets	2,991	1,650
Investments in subsidiary companies	–205,329	
Other financial investments	–22,618	
Cash flow from investing activities	–239,565	–35,197
Financing activities		
Issue of new shares	261,551	21,211
Loans received	7,500	1,254
Repayment of loans	–6,274	–1,294
Increase/decrease in current financial liabilities	–798	–2,197
Cash flow from financing activities	261,979	18,974
Cash flow for the period	12,252	–36,965
Cash and cash equivalents at beginning of period	186,463	88,550
Cash and cash equivalents at end of period	198,715	51,585

Consolidated Statement of Changes in Equity

SEK '000	May–Jan 2007/08	May–Jan 2006/07
Opening balance	441,127	216,772
New issue of shares	261,551	26,927
Tax effects of Group contributions	–1,435	
Translation reserve	5,652	
Other reserves	3,998	
Loss for the period	–47,784	–38,117
Minority interests	2,575	–634
Total shareholders' equity at end of period	665,684	204,948

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 MorphicTechnologies 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 – Preliminary analyses of the acquisitions of Arcotronics Fuel Cells and AccaGen

SEK '000	Arcotronics Fuel Cells S.I.r.	AccaGen S.A.
Cash consideration	55,923	99,040
Acquisition costs	2,810	6,413
Acquisition price	58,733	105,453
Acquired net assets	45,275	26,633
Goodwill	13,458	78,820

Acquired net assets, Arcotronics Fuel Cells S.r.l. and AccaGen S.A.

SEK '000	Arcotronic Fuel Cells S.I.r.		AccaGen S.A.	
	Fair value	Carrying amount	Fair value	Carrying amount
Fixed assets	58,069	16,368	48,905	11,005
Current assets	17,142	17,141	11,300	11,300
Cash balances	186	186	368	368
Deferred tax	–11,677		–10,612	
Long-term liabilities	–	–	–11,314	–11,314
Current liabilities	–18,445	–18,446	–12,014	–12,014
Acquired net assets	45,275	15,249	26,633	–655

The acquisition analyses may become subject to adjustment in accordance with IFRS 3.

Karlskoga, March 26, 2008
The Board of Directors

Review Report

This report has not been reviewed by the auditor.

Future financial information

- | | |
|---|--------------------|
| • Year-end financial statement for the fiscal year 2007/08: | June 25, 2008 |
| • Annual General Meeting 2007/08: | October 20, 2008 |
| • Three-month report 2008/09: | September 26, 2008 |

This document is a translation from the Swedish original. No guarantees are made that the translation is free from errors.