

Year-End Report 2007/2008

Morphic Technologies AB (publ) • May 1–April 30, 2007/2008



- Net turnover for the period was SEK 356.7m (143.7m)
- The company reports an operating loss of SEK –106.9m (–67.9m)
- The loss after tax was SEK –96.6m (–67.0m)
- Earnings per share were SEK –0.66 (–0.52)
- At the balance sheet date, April 30, 2008, cash and cash equivalents were SEK 146.1m (186.5m)
- Cash flow from operations was SEK –39.8m (–55.0m), or SEK –0.27 per share (–0.40)
- At the balance sheet date the company's order book was worth SEK 696m

Significant events in the fourth quarter

- Morphic's B shares listed on the OMX Nordic Exchange Stockholm
- Test center for fuel cell components opened in Japan
- Jan Johansson, former CFO of Nobia, appointed CFO of Morphic Group
- Performance-based employee stock options scheme adopted

Significant events after the end of the period

- Order worth SEK 360m for ten 3 MW wind turbines from Skellefteå Kraft. After the order the total order book is worth approx. SEK 1.0bn
- Private placement raises SEK 132m for the Group before issue costs
- Acquisition of 80 percent of Norwegian wind turbine maker ScanWind AS
- Statement of intent with Vattenfall on a partnership in wind power
- Partnership agreement with German wind turbine maker Kenersys GmbH
- Eric Göthlin appointed new President of Morphic's wind power business
- Notice of extraordinary general meeting on July 10 to authorize rights issue
- The Board intends to propose that the Annual General Meeting change the company's fiscal year to the calendar year and shorten the current fiscal year

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 and high oil prices. 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. After the acquisition of ScanWind AS the Group has approximately 225 employees. Morphic Technologies' B shares have been listed on the OMX Nordic Exchange since March 4. The number of shareholders is about 22,000. Morphic Technologies' fiscal year runs from May 1 to 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 June 25, 2008 at about 8 a.m.

Financial performance in summary

Group SEK million	Q4, Feb–Apr		12 months, May–Apr	
	2007/08	2006/07	2007/08	2006/07
Net turnover	116.4	57.1	356.7	143.7
Operating loss	–52.9	–29.4	–106.9	–67.9
Loss after tax	–49.1	–28.8	–96.6	–67.0
Cash flow from operating activities*	–50.2	–132.4	–94.6	–188.4
Cash flow after investments	–50.2	–132.4	–299.9	–188.4
Investments in tangible assets**	14.3	13.1	54.4	35.9
Earnings per share, SEK	–0.32	–0.20	–0.66	–0.52
			Apr 30, 2008	Apr 30, 2007
Cash and cash equivalents at balance sheet date			146.1	186.5
Equity/assets ratio, %			65.5	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 million	May–Apr 2007/08		May–Apr 2006/07	
	Net turnover	Operating loss	Net turnover	Operating loss
Fuel Cell Components	1.4	–19.5	1.1	–13.1
Wind Power	199.0	–22.0	32.7	–4.4
Energy Technology	7.1	–26.1	—	—
Contract Production	35.7	–1.0	18.2	–26.5
Automation Technology	10.8	–9.1	—	—
Ship Propulsion	111.4	19.9	93.1	14.7
Other	0.2	–46.7	23.9	–32.9
Elimination of intercompany transactions	–8.9	–2.4	–25.3	–5.7
Group	356.7	–106.9	143.7	–67.9

Turnover

The Group's net turnover was SEK 356.7m, a year-on-year increase of 148 percent (143.7m). 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 also contributed, increasing turnover by SEK 18.3m, an increase of 20 percent compared with the previous year.

Earnings

The Group posts an operating loss for the fourth quarter of SEK –52.9m (–29.4m). The loss is primarily due to costs relating development work in the acquired businesses and a build-up of resources in the Swedish company in the Energy Technology segment. In the Wind Power segment costs have been higher due to the start-up of a tower factory and costs incurred as a result of delays in deliveries. Capacity use in the tower factory is still low. Production methods have been developed for the production of larger towers. Increased central costs for recruitment and business development in the parent company had a negative impact on earnings.

The Group reports a loss after tax for the fourth quarter of SEK –49.1m (–28.8m).

For the full year 2007/0208 the Group posts an operating loss of SEK –106.9m, which is larger than the year before (SEK –67.9m).

The Fuel Cell Components segment reports an operating loss of SEK –19.5m (–13.1m). Investments have been made in increased marketing activities in Asia, the United States and Europe. Production processes have been industrialized in respect of tool design, materials optimization and quality assurance, and customer-adapted production equipment has been tested. Production capacity in the segment has also been increased.

The Wind Power segment reports an operating loss of SEK –22.0m (–4.4). The result for the year includes costs relating to the start-up of the new production facility for wind turbine towers. The facility was taken into use in December 2007, slightly behind schedule, which resulted in added costs during the start-up phase. The facility has now been run in and production methods have been developed. Due to the delayed start-up, acceleration costs for the first projects have been charged to operating earnings.

Activity increased in the Energy Technology segment during the period, with the acquisition of three foreign businesses and recruitment of new managerial staff. The segment posts an operating loss of SEK –26.1m (–) as a result of the intensive development opportunities opened up by these three international acquisitions.

The Contract Production segment reports an operating loss of SEK –1.0m (–26.5m). The nature of the activities conducted at Finshyttan has changed following the start of tower production at DynaWind's new factory. The segment's performance reflects a focus on heavy mechanical processing in the form of contract production.

The Ship Propulsion segment posts an operating profit of SEK 19.9m (14.7), a year-on-year increase of SEK 5.2m. The segment has benefited from positive market developments in the marine sector.

The Automation Technology segment reports an operating loss of SEK –9.1m (–) as a result of the market launch of the SensActive system and build-up of delivery capacity. Following the acquisition of EIA AB, activities have been coordinated from a market and delivery perspective.

The parent company reports an operating loss of SEK –46.7m (–26.4m) as a result of costs relating to intensified global marketing of the Group, business development, patents, listing on the OMX Nordic Exchange and new recruitment.

For the full year 2007/2008 the Group reports a loss after tax of SEK –96.6m, which is a larger loss than the year before (SEK –67.0m).

Financial position

Shareholders' equity increased during the year to SEK 608.1m (441.1m) as a result of two share offerings. The equity/assets ratio was 65.5 percent (73.2). Total assets in the Group were SEK 930.5m (602.5m), and cash and cash equivalents at the balance sheet date, April 4, 2008, were SEK 146.1m (186.5m).

Cash flow

Cash flow for operations improved by SEK 15.2m compared with the previous year, SEK –39.8m (–55.0m), which is equivalent to SEK –0.27 per share (–0.40). The improvement is due largely to the Wind Power segment.

Investments and depreciation

The Group's net investments in tangible fixed assets were SEK 54.4m (35.9m). 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 was SEK 15.6m (8.7m). The Group made investments in intangible assets of SEK 12.8m (14.8m). All investments are reported exclusive of business investments. Amortization of intangible assets during the year was SEK 13.6m (2.8m).

Acquisitions

During the year the company acquisition three companies in the Energy Technology segment and one company in Automation Technology. Analyses of the acquisitions are presented in Note 2.

Personnel

Personnel costs were SEK 97.1m (61.7m). The total number of employees at the end of the fiscal year was 190 (112), representing a year-on-year increase of 69.6 percent.

Financial targets

Morphic's goal is to generate the strongest possible return for its shareholders in the form of value growth and dividends. The growth is expected to be generated primarily by the company's Fuel Cell Components, Wind Power and Energy Technology segments. In a longer-term perspective, the Group's target is to achieve an annual turnover of around SEK 10bn by 2012.

Financial targets for 2008/09

During the quarter Morphic abandoned its financial target for the fiscal year 2008/09.

Outlook

The next fiscal year will be a year of intensive effort in the Group's core business areas in the area of energy technology: fuel cell components, wind power and energy systems. These segments are deemed to offer the best future growth prospects.

With the completion of the company's recent expansion in wind power, Morphic has secured a complete portfolio of turbines to suit different customer requirements. The company has also significantly expanded its market area. In addition to licenses from WinWind and Kenersys, Morphic now owns ScanWind and its proprietary turbine construction, which offers great potential for a competitive offer for offshore and coastal wind power installations. Significant synergies can be achieved in the continued production and sale of turbines within the segment. Morphic's own installations and history in heavy industry can now be fully leveraged, and great emphasis will be placed on continuing the work of securing components for future volume deliveries. The company does not rule out further investments if it is deemed that other key components, in addition to towers, will be crucial in assuring delivery capability.

As announced previously, the company will be calling an EGM to request authorization from the shareholders for a rights issue this fall. The capital raised will be used partly to repay the company's bank loan for the acquisition of ScanWind and partly to fund further aggressive wind power deals.

The fuel cell industry and Morphic's business in this area have continued to develop in accordance with the company's expecta-

tions. The company is in a strong competitive situation in production of flow plates and is expanding in line with the launch of the first volume products by the leading market players. Intensive development work in partnership with key customers puts the company in a strong position, and initial tests provide an indication of future developments. The first deliveries of the volume orders received by Morphic will be made in June, after which deliveries will gradually be stepped up. The two existing production facilities allow the company to immediately deliver fast expanding volumes and to rapidly scale up production if required.

In the company's third main area of expansion – energy systems based on renewable energy and proprietary fuel cell technology – Morphic is continuing its intensive development of new systems, which are aimed primarily at replacing the current diesel generators. Morphic's systems offer significant environmental benefits and are expected to offer lower running fossil-based systems. The company has chosen to continue to prioritize investments in this area. Thanks to its recent acquisitions in the area, Morphic has gained a leading position and now has knowledge and products in crucial areas of technology required for efficient production of complete energy systems.

The company has achieved the structure it needs to secure a leading role in environmental technology. The company considers that Morphic's prospects of achieving its long-term growth target – a turnover of SEK 10bn in 2012 and positive earnings – are on track.

Fuel Cell Components

SEK million	Q4, Feb–Apr 2007/08		12 months, May–Apr 2007/08	
		2006/07		2006/07
Net turnover	0.4	0.2	1.4	1.1
Operating loss	–5.8	–4.6	–19.5	–13.1

- At the balance sheet date the order book was worth SEK 195.8m
- Test center for fuel cell components opened in Japan

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

Segment results

The segment reports an operating loss of SEK –19.5m (–13.1m). Investments have been made in increased marketing activities in Asia, the United States and Europe. Production processes have been industrialized in respect of tool design, materials optimization and quality assurance, and customer-adapted production equipment has been tested. Production capacity in the segment has also been increased.

Test center for fuel cell components opened in Japan

In February 2008 a test center for the production of fuel components was opened outside Tokyo in Japan. That facility offers customers in all Asian markets the option of test series production and fine adjustment of flow plates for their fuel cells, prior to ramping up for serial production. One of the world's five largest automobile manufacturers has already booked the facility for the first six months, and several other car makers and consumer electronics manufacturers have also booked time.

The market for fuel cell components

Fuel cells can best be described as energy converters which enable efficient conversion of hydrogen and other energy carriers 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 con-

verters 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 can consist of 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. In the automotive industry, for example, the world's first series-produced fuel cell-powered car has now been rolled out from an established vehicle manufacturer's specialized production plant. The manufacturer has stated that it intends to build a few dozen units of the car this year, which will be leased to customers in Japan and the United States. Next year production will be increased to a few hundred cars. Other established vehicle manufacturers have announced that their fuel cell cars will be launched directly to the consumer market in 2010–2012. The rollout is proceeding entirely in line with the company's expectations for growth rates in the segment. In the area of consumer electronics a global Asian company has announced plans to offer fuel cell-powered mp3 players in 2008. The key advantage of fuel cells in this product area is the significantly longer run time.

Wind Power

SEK million	Q4, Feb–Apr 2007/08 2006/07		12 months, May–Apr 2007/08 2006/07	
Net turnover	71.1	22.6	199.0	32.7
Operating loss	–13.9	–2.8	–22.0	–4.4

- At the balance sheet date the order book was worth SEK 402.3m
- First 3 MW wind turbines delivered
- After the end of the fiscal year Morphic has acquired 80 percent of Norwegian wind power company ScanWind AS, signed a statement of intent with Vattenfall on a partnership in wind power, concluded a partnership agreement with German wind energy company Kenersys and received an order for ten 3 MW wind turbines from Skellefteå Kraft
- Eric Göthlin appointed new CEO for Morphic's wind power business

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 reports an operating loss of SEK –22.0m (–4.4). The result for the year includes costs relating to the start-up of the new production facility for wind turbine towers. The facility was taken into use in December 2007, slightly behind schedule, which resulted in added costs during the start-up phase. The facility has now been run in and production methods have been developed. Due to the delayed start-up, acceleration costs for the first projects have been charged to operating earnings.

First 3 MW wind turbines delivered

In late April Morphic delivered its first 3 MW wind turbine in Sweden, to Lysekils Energi Vind AB. The initial turbine, named “Elving”, was followed by a second 3 MW turbine, “Elvira”, at the end of May. The two turbines will generate about 16m kWh per year.

Events after the end of the fiscal year

On June 9 Morphic announced that it had received an order for ten 3 MW wind turbines for the Uljabuouda wind park in the municipality of Arjeplog in the north of Sweden. The buyer is Skellefteå Kraft, Sweden's fourth largest producer of electrical power, and the order is worth SEK 360m.

On the same day Morphic announced that it had acquired 80 percent of ScanWind AS, a Norwegian wind turbine maker. ScanWind manufactures and markets wind turbines with capacities

of 3.5 MW or more that are specially designed for the IEC 1 and IEC 2 wind classes, locations exposed to extreme wind conditions and tough climates, such as coastal areas and offshore locations. The price was NOK 189m and the seller is Nord Trøndelag Elektrisitetsverk AS (NTE). Morphic also has an option to acquire the remaining shares in the company. ScanWind's head office is located in Trondheim, Norway. The company has 35 employees and generated a turnover of NOK 253.6m in 2007. Earnings before financial expenses were NOK –60.4m. A preliminary analysis of the acquisition will be presented in Morphic's three-month report.

In connection with the acquisition of ScanWind it was announced that Morphic and Vattenfall had signed a statement of intent on a partnership for development of ScanWind's wind turbine for offshore locations. If the development works is successful, Vattenfall intends to conclude a framework agreement with Morphic for volume deliveries as of 2010. Morphic intends to gradually expand its production capacity for its deliveries to Vattenfall and other customers.

On June 16 Morphic also announced that it had signed a partnership agreement with Kenersys, a global wind turbine manufacturer. The agreement gives Morphic exclusive rights to sell Kenersys' 2.0 MW and 2.5 MW products to customers in the Nordic and Baltic markets, except in respect of Kenersys' existing customers, as well as a non-exclusive right in Poland.

In June Morphic announced that Eric Göthlin had been appointed new President of the company's wind power business.

The market for wind power

Morphic's business in the area of wind power during the year comprised production of wind turbine towers, the sale of complete wind power stations, and erection, service and maintenance. After the end of the year Morphic has significantly expanded its offer. In addition to the previous license from the turbine maker WinWind Oy, Morphic has signed an agreement with the German turbine manufacturer Kenersys AG. Morphic now also owns 80 percent of the Norwegian turbine manufacturer ScanWind AS. ScanWind's turbine construction has the potential to become a competitive solution for offshore and coastal wind power installations in the global market. Kenersys' and WinWind's turbines are adapted for onshore installations. Morphic can now offer wind turbines for different markets and wind classes, both onshore and offshore. The product range comprises 1.0 MW, 2.0 MW, 2.5 MW, 3.0 MW and 3.5 MW tur-

bines. All turbines supplement each other and will enable the company to increase its delivery capacity. In an initial phase Morphic will be focusing primarily on the Nordic market. For example, the number of Swedish projects in land-based wind power increased during the year. The market for wind power in locations exposed to extreme wind conditions and tough climates, such as coastal areas and offshore locations, is expected to grow rapidly. In one forecast BTM Consulting predicts that European offshore installations will increase by 5,800 MW from 2008–2011. In Sweden the Energy Authority has proposed that about 10 TWh of wind-generated electricity should come from offshore wind parks and 20 TWh from onshore wind parks by 2020. This is equivalent to 3,000–6,000 wind turbine installations, depending on the effect. The investors include big energy companies, local wind power associations and private investors.

Energy Technology

SEK million	Q4, Feb–Apr 2007/08		12 months, May–Apr 2007/08	
	2007/08	2006/07	2007/08	2006/07
Net turnover	3.1	—	7.1	—
Operating loss	–16.0	—	–26.1	—

- At the balance sheet date the order book was worth SEK 18.2m
- Test of tomorrow's wind turbine on Öland, Sweden
- Strategic order in energy technology

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 Exergy 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. The segment posts an operating loss of SEK –26.1m (–) as a result of the intensive development opportunities opened up by these three international acquisitions.

Test of tomorrow's wind turbine on Öland, Sweden

As part of the continued development of Morphic's fuel cell-based energy systems, the company will be testing a proprietary 20 kW wind turbine in fall 2008 in the toughest possible conditions on the island of Öland off the coast of Sweden. The wind turbine will also be tested in various applications, for instance as part of local energy supply solutions for telecom base stations, in agriculture and for electrification of villages in developing countries. The test environment venture on Öland became possible through a positive dialogue with the municipality of Mörbylånga, the research leaders at Station Linné and the owner of Parboäng farm.

Strategic order in energy technology

In April 2008 AccaGen, the Swiss energy technology company recently acquired by Morphic, received an order for a 250 kW electrolyzer from India's largest iron ore producer, National Mineral Development Company of India, NMDC. The order is worth €350,000 and delivery will take place in August 2008.

Business acquisitions during the fiscal year

Acquisition of Helbio S.A.

Morphic has acquired 55 percent of the shares of the Greek energy technology company Helbio S.A. Since it was established in 2001, Helbio has attained a leading position in the development of technology for cost-efficient production of hydrogen. The company's system can be used in conjunction with industrial use of hydrogen, and also as a preliminary stage for fuel cells for producing electricity and heat. The core component of Helbio's patented technology is its "reformers", which make it possible to convert liquid and gaseous fuels such as alcohols and hydrocarbons into hydrogen. The strength of this technology lies in its high level of efficiency, low production costs and, perhaps most importantly, the opportunities it provides to produce hydrogen locally. The purchase price was SEK 40.1m. The other owners are Professor Xenophon E. Verykios (42%), employees of Helbio (2%) and the University of Patras (1%).

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 gives Morphic access to a tried-and-tested fuel cell design, which will accelerate 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 using 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 of Morphic shares 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 year Morphic also acquired the Swiss energy technology company AccaGen S.A. for SEK 99.0m. The acquisition has assured Morphic's access to all critical components for the energy system that is currently being developed. 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 of Morphic shares aimed at AccaGen's founder and CEO, Roberto Dall'Ara, was carried out.

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	Q4, Feb–Apr 2007/08		12 months, May–Apr 2007/08	
	2007/08	2006/07	2007/08	2006/07
Nettoomsättning	5.2	6.6	35.7	18.2
Rörelseresultat	–0.9	–16.8	–1.0	–26.5

- At the balance sheet date the order book was worth SEK 6.2m
- Several important orders in hydroelectric power and contract production

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

Segment results

The segment reports an operating loss of SEK –1.0m (–26.5m). The nature of the activities conducted at Finshyttan has changed following the start of tower production at DynaWind's new factory. During the year the company put tremendous effort into developing the business, and the performance reflects a focus on machine processing in the form of contract production. Compared with previous years, when the company produced turbine towers using less efficient methods, results have improved significantly.

Several important orders

In spring Finshyttan received several important orders in hydroelectric power and contract production. The orders are worth about SEK 7m in total. In hydroelectric power the orders refer to renovation of turbine details for the Stensele power station on the Umeälven river and renovation of the external turbine cover for the Hojum power station on the Göta Älv river, both in Sweden. Both orders were placed by GE Hydro Inepar and the power stations are owned by Vattenfall. In contract production Finshyttan HydroPower AB has long had a partnership with Outotec of Finland. The collaboration has now been expanded through a partnership between Finshyttan with Siempelkamp of Germany,

which supplies the castings for Outotec's mining equipment. During the year Finshyttan has been involved as a subcontractor in two mining projects, St Vincent and Shalkyia. Finshyttan has received three orders for mining equipment directly from Outotec. The company also recently received an order from Scana for details for the offshore industry.

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	Q4, Feb–Apr 2007/08 2006/07		12 months, May–Apr 2007/08 2006/07	
Net turnover	31.3	31.5	111.4	93.1
Operating loss	5.2	9.0	19.9	14.7

- At the balance sheet date the order book was worth SEK 58m

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 posts an operating profit of SEK 19.9m (14.7), a year-on-year increase of SEK 5.2m. The segment has benefited from positive market trends in the marine sector, where the company through internal streamlining efforts and flexible customer service succeeded in improving its operating profit for the year.

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. Morhic 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 million	Q4, Feb–Apr 2007/08		12 months, May–Apr 2007/08	
		2006/07		2006/07
Net turnover	7.3	—	10.8	—
Operating loss	–3.6	—	–9.1	—

- At the balance sheet date the order book was worth SEK 15.2m
- International launch starting in Germany

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

Segment results

The Automation Technology segment reports an operating loss of SEK –9.1m (–) as a result of the market launch of the SensActive system and build-up of delivery capacity. The results were affected by increased costs incurred through a market launch at the end of the fiscal year. Following the acquisition of EIA AB, activities have been coordinated from a market and delivery perspective.

International launch

In the past year Dynamis has built up a solid platform through major, returning customers in automation technology and materials handling. Dynamis' SensActive system, which offers a set of unique solutions for bin picking, examination and pattern layout, has attracted great interest. SensActive is currently used as a reference system by a number of customers, including Haldex and Bharat Forge, which have recently placed two major orders with Dynamis.

Dynamis is now focusing on an international launch starting in Germany. The German market for automation equipment was worth €8.4bn in 2007. In June Dynamis took part in the Automatic trade fair in Munich, Germany.

Acquisitions of EIA AB

In January Morphic acquired all shares in Euro Industrial Automation AB (EIA AB), a company that specializes in materials handling systems for components used in engineering, primarily the vehicle industry. The purchase price was SEK 3m and the seller was EIA's founder and CEO, Leif Johansson. EIA reported positive earnings before depreciation and financial items in 2007 and is expected to have only a marginal impact on Group turnover and earnings for the current year.

An analysis of the acquisition is presented in Note 2.

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 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 in selected European markets.

Parent company

Net turnover in the parent company was SEK 0.2m (4.7m) and earnings after tax were SEK –29.6m (–20.3m). During the year the parent company made investments in fixed assets totaling SEK 313.4m (158.7m), of which SEK 1.6m refers to patents and SEK 0.6m refers to tangible fixed assets. The remaining amount refers to investments in the subsidiaries. At the balance sheet date cash and cash equivalents in the parent company were SEK 92.0m (64.3m). The equity/assets ratio was 96.7 percent (99).

Intellectual property rights

At the balance sheet date Morphic's patent portfolio included 21 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 expected to strengthen the company's protection against intrusion.

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.

General meetings

Notice of extraordinary general meeting on July 10, 2008

Shareholders of Morphic Technologies AB (publ) are hereby invited to attend an extraordinary general meeting of the company on Thursday July 10, 2008 to be held in the Stallet Conference Hall, Bofors Hotell, 691 80 Karlskoga, Sweden. The record date for determining entitlement to participate in the EGM is July 4, 2008. Those wishing to participate must give notice by mail or by e-mail to stamma@morphic.se. Morphic has concluded an agreement for the acquisition of 80 percent of the shares of ScanWind AS. For the purpose, inter alia, of funding the acquisition of ScanWind AS and to enable continued aggressive wind power deals, the Board of Directors proposes that the EGM authorize the Board to decide, during the period up to the next Annual General Meeting, on an issue of new shares with pre-emption rights for existing shareholders ("rights issue"). For further information, see www.morphic.se/stamma.

Extraordinary general meeting, March 2008

The extraordinary general meeting of Morphic Technologies AB (publ) on Monday March 3, 2008, decided, as proposed by the Board, to introduce a new stock options scheme. Under the new 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 subscription price has been fixed at SEK 16.0. The right to exercise the options is subject to a performance condition linked to the Group's turnover and operating margin. 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. The Group CEO was allocated 1,000,000 options. 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. If all 6,000,000 subscription options are issued and exercised to subscribe for 6,000,000 shares under the options scheme, the newly issued shares will be equivalent to approx 3.8 percent of share capital.

Annual General Meeting on October 20, 2008

Nominating Committee of Morphic Technologies AB

In accordance with the decision taken at Morphic'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 Morphic's Nominating Committee.

The members of the Nominating Committee are:

Peter Enå, Chairman of the Board

Kåre Gilstring, 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 Morphic's Nominating Committee may do so by e-mail to:

nomineringskommitten@morphic.se

or by mail to the following address:

Morphic Technologies AB

Att: Nomineringskommittén

Gammelbackavägen 6

SE-691 51 Karlskoga

Sweden

no later than August 15, 2008.

The Board proposes that the Annual General Meeting change the company's fiscal year to the calendar year and shorten the current fiscal year.

Annual report

The company's annual report is expected to be published at the end of August 2008 and will then be available on the company's website, www.morphic.se, or by request from the company.

Proposal for dividend

The Board of Directors proposes that no dividend be paid for the 2007/2008 fiscal year.

The Morphic share

Morphic's B shares were listed on the OMX Nordic Exchange Stockholm in the fourth quarter. Following the listing, trading in Morphic's B shares was 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 Morphic's share price fell by 45.96 percent. In the same period OMXSPI lost 11.10 percent. The highest price paid was SEK 20.70 and the lowest price paid SEK 9.40. At the end of the period Morphic had a market capitalization of SEK 1,549m. During the period 66.83m B shares were traded for a value of SEK 911.19m. This is equivalent to a turnover rate of 169 percent.

During the year Morphic's share price fell by 62.46 percent. In the same period OMXSPI lost 21.10 percent. The highest price paid during the year was SEK 29.90 and the lowest price paid SEK 9.40. During the year 184.66m B shares were traded for a value of SEK 3,652.93m. This is equivalent to a turnover rate of 137.6 percent.

Share issues during the fiscal year

Based on the authorization of the AGM of October 19, 2007, two private placements of Morphic shares were completed during the 2007/2008 fiscal year with the aim of enabling further ventures in wind power and energy technology. The placements raised SEK 264.7m in cash for Morphic before issue costs.

On November 28, 2007 Morphic carried out a private placement of 13,426,063 B shares, which were offered to a number of major international players. The placement raised SEK 252.4m before issue costs and was aimed at enabling future acquisitions and investments in connection with new expansion opportunities for the Group.

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 of shares raised SEK 12.3m for Morphic before issue costs.

After the two private placements, 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.

Share issues after the end of the fiscal year

Based on the authorization from the 2007 AGM, a private placement of 13.1m B shares aimed at new Swedish institutional owners was carried out on May 19, 2008. The placement raised SEK 132m before issue costs and increased the number of shares by 13,100,000 from 150,772,022 to 163,872,022, which is equivalent to a dilution of 7.99 percent.

Share capital

At the balance sheet date, April 30, 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. After the private placement in May 2008 the total number of shares is 163,872,022.

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.

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 Morphic Group. A total of 3,010,000 warrants have been issued. The warrants can be exercised to subscribe for shares 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 subscribed warrants are exercised for subscription to shares, the share capital will increase by SEK 127,624, representing a dilution of 2.3 percent.

Acquisitions

Acquisition analysis, Helbio S.A

On September 12, 2007 Morphic acquired 55 percent 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 Morphic 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 2.7m. Its share of the total loss is SEK -1.3m. 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 40.6m consisting of a cash payment of SEK 40.1m and acquisition costs of SEK 3.1m less the acquired cash assets of SEK 2.6m. 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 2.

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 5.2m. Its share of the total loss is SEK –4.0m. 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

AccaGen S.A. became a part of the Morphic Group on December 31, 2007 and has been 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 5.9m. Its share of the total loss is SEK –1.0m. 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

EIA became a part of the Morphic Group on January 7, 2008 and has been integrated in the consolidated income statement and balance sheet as of that date. EIA is part of the Automation Technology segment. In the consolidated income statement EIA's share of income is SEK 3.1m. Its share of the total loss is SEK –1.6m. The cash flow effect of the acquisition is SEK –3.2m, consisting of a cash payment of SEK 3m and acquisition expenses 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.

Risks and uncertainties

An investment in Morphic is associated with risk. Developing new products in entirely or partly new markets is always associated with risks, both internal and external. The Group generated a net turnover of 356.2m in 2007/2008. Achieving the overall financial target for 2012 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 Morphic'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 Group is given in the Annual Report, listing prospectus and on the company's website, www.morphic.se.

Consolidated Income Statement

SEK '000	Feb–Apr 2007/08	Feb–Apr 2006/07	May–Apr 2007/08	May–Apr 2006/07
Operating income				
Net turnover	116,382	57,099	356,651	143,738
Change in inventories	3,996	5,285	15,135	15,971
Capitalized work for own account	1,386	620	4,770	3,288
Other operating income	4,109	4,572	9,083	5,551
Total income	125,873	67,576	385,639	168,548
Operating costs				
Purchases of goods and services	–91,968	–54,594	–267,861	–113,582
Other external costs	–41,497	–14,801	–98,236	–42,173
Personnel costs	–31,321	–17,488	–97,060	–61,714
Depreciation and amortization of tangible and intangible fixed assets	–13,940	–10,053	–29,380	–19,029
Total operating costs	–178,726	–96,936	–492,537	–236,498
Operating loss	–52,853	–29,360	–106,898	–67,950
Profit/loss from financial investments				
Financial income	3,027	1,048	10,412	2,138
Financial costs	–1,665	–143	–3,701	–923
Tax on profit for the year	–13	–359	–13	–215
Deferred tax	1,518		2,480	0
Minority interest	890		1,073	32
Loss for the period	–49,096	–28,814	–96,647	–66,982
Earnings divided by weighted average number of shares before and after dilution (SEK)	–0.32	–0.20	–0.66	–0.52
Weighted average number of shares during period	153,472,066	141,028,521	146,357,539	128,409,160
Total number of shares at end of period	150,772,022	136,744,966	150,772,022	136,744,996

Parent Company Income Statement

SEK '000	May–Apr 2007/08	May–Apr 2006/07
Operating income		
Net turnover	221	4,727
Change in inventory value		–3,685
Capitalized work for own account		603
Other operating income	43	146
Total income	264	1,791
Operating costs		
Purchases of goods and services	–274	–707
Other external costs	–26,507	–12,809
Personnel costs	–18,010	–12,762
Depreciation and amortization of tangible and intangible fixed assets	–2,187	–1,984
Total operating costs	–46,978	–28,262
Operating loss	–46,714	–26,471
Profit/loss from financial investments		
Financial income	17,518	3,949
Financial costs	–439	–63
Tax on profit for the year		2,275
Loss for the period	–29,635	–20,310

Consolidated Balance Sheet

SEK '000	Apr 30, 2008	Apr 30, 2007
Assets		
Fixed assets		
Intangible fixed assets	339,080	73,017
Tangible fixed assets	148,683	101,446
Financial fixed assets	8,837	573
Total fixed assets	496,600	175,036
Current assets		
Inventory of finished goods	51,497	38,505
Current receivables	236,266	202,491
Cash and cash equivalents	146,101	186,463
Total current assets	433,864	427,459
Total assets	930,464	602,495
Equity and liabilities		
Shareholders' equity		
Share capital	6,031	5,470
Other capital contribution	843,509	583,170
Other reserves	2,889	–402
Accumulated loss	–244,303	–147,111
Minority interests	885	
Total shareholders' equity	609,011	441,127
Long-term liabilities	105,871	13,574
Current liabilities	215,582	147,794
Total equity and liabilities	930,464	602,495
Pledged assets	234,730	112,307
Contingent liabilities ¹⁾	25,131	20,166

1) In addition to contingent liabilities, the Group has bank and insurance guarantees of SEK 204,524,000 (86,623,000).

Parent Company Balance Sheet

SEK '000	Apr 30, 2008	Apr 30, 2007
Assets		
Fixed assets		
Intangible fixed assets	8,317	8,779
Tangible fixed assets	832	1,150
Financial fixed assets	539,738	217,489
Total fixed assets	548,887	227,418
Current assets		
Current receivables	112,792	97,564
Cash and cash equivalents	92,033	181,891
Total currents assets	204,825	279,455
Total assets	753,712	506,873
Equity and liabilities		
Shareholders' equity		
Share capital	6,031	5,470
Other restricted assets	291,892	291,892
Unrestricted reserves	430,863	204,255
Total shareholders' equity	728,786	501,617
Long-term liabilities		
Current liabilities		
	24,926	5,256
Total equity and liabilities	753,712	506,873
Pledged assets	108,223	84,147
Contingent liabilities ¹⁾	24,170	16,658

1) In addition to contingent liabilities, the Group has bank and insurance guarantees of SEK 200,458,000 (0).

Consolidated Cash Flow Statement

SEK '000	May–Apr 2007/08	May–Apr 2006/07
Operations		
Operating loss before financial items	–107,218	–67,950
Items not affecting liquidity	29,405	19,732
Net financial items	6,711	1,215
Income tax paid	–1,166	–703
Cash flow from operations before changes in working capital	–72,268	–47,706
Increase/decrease in current assets	1,085	–125,542
Increase/decrease in current operating liabilities	31,387	118,207
Cash flow from operations	–39,796	–55,041
Investment activities		
Investments in intangible assets	–12,870	–14,875
Investments in tangible assets	–18,281	–35,882
Divested assets	2,991	1,554
Investments in subsidiary companies	–205,355	
Other financial investments	–26,610	–84,141
Cash flow from investing activities	–260,125	–133,344
Financing activities		
Issue of new shares	261,927	286,626
Loans received	10,971	2,739
Repayment of loans	–13,349	–2,456
Increase/decrease in current financial liabilities	10	–611
Cash flow from financing activities	259,559	286,298
Cash flow for the period	–40,362	97,913
Cash and cash equivalents at beginning of period	186,463	88,550
Cash and cash equivalents at end of period	146,101	186,463

Consolidated Statement of Changes in Equity

SEK '000	May–Apr 2007/08	May–Apr 2006/07
Opening balance	441,127	216,772
New issue of shares	261,927	292,373
Tax effects of Group contributions	–1,435	
Translation reserve	2,920	
Other reserves	234	–402
Loss for the period	–96,647	–66,950
Minority interests	885	–666
Total shareholders' equity at end of period	609,011	441,127

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 – Analysis of the acquisitions of Arcotronics Fuel Cells and AccaGen

SEK '000	Arcotronics Fuel Cells S.I.r.	AccaGen S.A.	Helbio	EIA
Cash consideration	55,923	99,040	40,108	3,000
Acquisition costs	2,810	6,413	3,132	160
Acquisition price	58,733	105,453	43,240	3,160
Acquired net assets	47,261	69,900	38,874	509
Goodwill	11,472	35,553	4,366	2,651

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	69,965	8,948	101,459	11,005
Current assets	15,389	15,389	11,300	11,300
Cash balances	186	186	368	368
Deferred tax			–19,900	
Long-term liabilities	–	–	–11,313	–11,313
Current liabilities	–18,754	–18,754	–12,014	–12,014
Acquired net assets	47,261	5,769	69,900	–654

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

Acquired net assets, Helbio and EIA

SEK '000	Helbio		EIA	
	Fair value	Carrying amount	Fair value	Carrying amount
Fixed assets	48,737	834	144	144
Current assets	892	892	2,646	2,646
Cash balances	2,589	2,589		
Deferred tax			–49	–49
Long-term liabilities		–	–859	–859
Current liabilities	–1,367	–1,367	–1,373	–1,373
Acquired net assets	38,874	2,948	509	509

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

Karlskoga, June 25, 2008

The Board of Directors

Review Report

This report has not been reviewed by the auditor.

Future financial information

- | | |
|-----------------------------------|--------------------|
| • Three-month report 2008/09: | September 26, 2008 |
| • Annual General Meeting 2007/08: | October 20, 2008 |

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