

- The Morphic Group reports a net turnover for the first six months of the financial year of SEK 217.3m (158.6), which is an increase of 37 percent.
- The Group posts an operating loss of SEK –129m (–30.2) for the first six months.
- The loss after net financial items was SEK –124.6m (–26.7) and the loss after tax SEK –118.5m (–26.3) for the first six months.
- Earnings per share for the six-month period were SEK –0.72 (–0.19).
- At the end of the period the Group had orders worth SEK 925.4m, of which SEK 667.1m refers to Morphic Wind.
- Consolidated cash and cash equivalents were SEK 367.5m (146.1) at the closing date and cash flow from operating activities for the six-month period was SEK –97.0m (24.0).
- Net sales for the second quarter were SEK 151.1m (94.8), an increase of 59 percent.
- The operating loss for the second quarter was SEK –92.1m (–8.6).

This is Morphic

Morphic Technologies is a Swedish engineering group operating in the areas of fuels cells and wind power. The Group has about 230 employees and conducts operations in six countries – Sweden, Norway, Japan, Greece, Italy and Switzerland. Morphic Technologies' B shares have been listed on the OMX Nordic Exchange since March 4, 2008, and the number of shareholders is about 28,800.

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Events in Summary

The Board of Directors has decided to divide the Group into two free-standing core businesses for fuel cells and wind power with the aim of simplifying and streamlining the Group's operations. As part of the restructuring, Martin Valfridsson, previously head of the Flow Plates segment (Cell Impact AB), has been appointed new President and CEO of Morphic Technologies. As a result of the change, the operations of the previous four business areas will be transferred to two business areas, Morphic Fuel Cells and Morphic Wind. The mechanical engineering firm Finshyttan Hydro Power will become part of Morphic Wind and will focus on producing components for the wind business. To successfully implement a rapid expansion of the wind business, Morphic is engaged in dialog with potential industrial and financial partners. A dividend payment and separate stock exchange listing for Morphic Wind or a divestment may be required as new owners and partners are brought in. At present, it is difficult for the company to specify a timetable for the above process.

The Morphic Systems business area has been comprehensively restructured, resulting in the closure of the Stockholm operation and the removal of the business area as such. As of November 1, 2008 the remaining operations in the Swedish part of the business have been incorporated in the parent company. In the new organization the foreign subsidiaries of the former Morphic Systems have been placed under Morphic Fuel Cells. The closure of Morphic Systems in Stockholm cut costs by around SEK 35m in 2009 relating to about ten employees and hired consultants as well as planned investments and other costs relating to the development of Morphic's energy system of about SEK 65m.

A process relating to a potential divestment of the ship propulsion segment (Aerodyn AB) was initiated during the period. A process of evaluating the business model or a potential divestment of the Morphic subsidiary Dynamis AB in the automation technology segment has also been initiated.

In October Morphic completed a rights issue, raising SEK 363m after issue costs. The rights issue was conducted to fund the acquisition of ScanWind AS of Norway and to raise additional working capital to fund the continued development of the wind power and other core businesses.

In Morphic Fuel Cells, Cell Impact received several prototype orders for fuel cell plates. The buyers include a large Asian engineering group and a leading automotive manufacturer. In the wind power business much effort has been put into making preparations for the raising of the first towers in the Lake Vänern Wind Park. A lot of the work has centered on the classification of the maritime operation involved in transporting the components to the Gässlingegrundet shallows in the lake. The raising operation is scheduled to begin in week 15 of 2009.

CEO's comment

A dominant theme of the past quarter was the decision to restructure the Group and form two free-standing core businesses for fuel cells and wind power. This will enable us to bring together our resources and concentrate on those businesses that constitute our core areas: fuel cells and wind power.

Both areas continued to develop favorably during the period. In fuel cells one of the world's five largest auto makers expanded an initial order for three test and verification platforms to nine platforms. The purpose of the platforms is to optimize the effect of a flow plate formed using Morphic's patented production technology. The platforms will be used to test and optimize nine types of flow plates, which, if the tests are successful, will be used in the fuel cell systems of different end products. We are of course very pleased that the customer, after careful studies, has chosen to continue evaluating our technology. After achieving strong results at our pilot installation in Greece, where biogas from waste water is converted into electricity and heat, a decision has been taken to introduce the technology on a wider front in Europe.

In wind power we continued to work on structuring and consolidating our product range. We now have the Nordic region's widest range of turbines for different wind conditions and climates. During the period great effort was put into technical preparations for the raising of the first turbines at the Lake Vänern Wind Park. All technical documentation for the raising of the upper sections of the turbines has been submitted to DNV, the classification association, and if all goes according to plan final approval for the marine operation is expected to be received before the end of the year. However, to minimize standstill costs for preparedness to initiate the lifting operation during the fall, we have decided to postpone the lifting to week 15 of 2009. We have set aside SEK 9m, which we believe represents a conservative scenario, to cover any negative effects for the project resulting from the delay. The final outcome in respect of extra costs incurred by the delay depends largely on the results of negotiations with suppliers, which are expected to have been completed when the project is brought to a close in the latter part of 2009.

As announced previously, Morphic intends to sell the subsidiary company Aerodyn, and a divestment process has been initiated. We are also evaluating Dynamis AB's business model or the possibility of selling this company.

Net turnover for the quarter increased significantly compared with the first quarter of the financial year 2008. The increase was largely attributable to Morphic Wind and recognition of revenue under the percentage of completion method for deliveries and final preparations for the first stage of raising turbines towers in the Lake Vänern Wind Park in week 15 of 2009. ScanWind's completion of the Hundhammerfjellet project also contributed. The reduction in orders is more or less on a par with net turnover, and we are of course not satisfied with the relatively low order intake during the quarter. Intensive efforts are currently under way in both Morphic Fuel Cells and Morphic Wind to bring in new orders through persistent efforts to follow up business proposals in each business area. An improved order book is also necessary to achieve the critical mass in the Group that is required to improve earnings and achieve profitability.

I am very proud to announce that Morphic achieved fourth place in Deloitte Technology Fast 500 EMEA, a ranking of the 500 fastest growing technology companies in Europe, the Middle East and Africa. In October Morphic was ranked number one in a survey of Sweden's fastest growing technology companies.

As we have reported previously, we are working continuously to cut costs in order to create the most cost-efficient organization possible and adapt it to the degree of market maturity and demand for our products. The goal is to create financial stability and sustainability as far as possible and improve the Group's market position in a balanced manner in 2009. This, in my view, must be a guiding principle for a company like Morphic, which is still in an initial commercialization phase and which is aiming to achieve a more predictable growth outlook and a clear path to profitability.

Martin Valfridsson, President and CEO

Financial Performance in Summary

| Group SEKm | Q2, Aug–Oct | | 6 months, May–Oct | |
|---|-------------|---------|-------------------|--------------|
| | 2008 | 2007/08 | 2008 | 2007/08 |
| Net turnover | 151.1 | 94.8 | 217.3 | 158.6 |
| Operating loss | –92.1 | –8.6 | –129.0 | –30.2 |
| Loss after financial items | –89.5 | –6.9 | –124.6 | –26.7 |
| Earnings after tax | –84.7 | –6.5 | –118.5 | –26.3 |
| Cash flow from operating activities | –32.4 | 2.2 | –97.0 | 24.0 |
| Earnings per share, SEK | –0.50 | –0.05 | –0.72 | –0.19 |
| | | | | |
| | | | Oct 31, 2008 | Apr 30, 2008 |
| Cash and cash equivalents at balance sheet date | | | 367.5 | 146.1 |
| Equity/assets ratio (%) | | | 67.5 | 66.0 |

Turnover and Orders

The Group's net turnover for the first six months was SEK 217.3m, which was an increase of 37.0 percent compared with the same period the year before (158.6).

In the second quarter the Group registered its highest quarterly net turnover to date, SEK 151.1m (94.8). The increase was largely due to increased activities in the wind power business, which refers primarily to preparatory work and deliveries of components for the raising of towers in the Lake Vänern Wind Park in spring 2009 and the completion of the Hundhammerfjellet project by the Morpheic subsidiary ScanWind AS. Another reason behind the year-on-year increase in turnover refers to Morpheic's fuel cells business and sales in the Group's foreign subsidiaries. Out of these, only Helbio S.A. was included as a subsidiary during a part of the same period in 2007/08. The Swedish subsidiary EIA AB was consolidated in the Group only upon acquisition in January 2008. At the balance sheet date the order book was worth SEK 925.4m.

Result

The Group reports an operating loss for the period of SEK –129.0m (–30.2).

The operating loss for the second quarter was SEK –92.1m (–8.6). A significant portion of the increased loss refers to provisions for one-off items, which include a SEK 12m charge relating to the restructuring of Morpheic Systems, a SEK 11.7m writedown of capitalized development costs in Morpheic Systems, SEK 5.7m in termination salary and severance pay to the former CEO, as well as SEK 9.1m in provisions for additional costs in Morpheic Wind owing to the delay in delivering the Lake Vänern Wind Park project. The ongoing organizational build-up in Morpheic Wind during the period, which is aimed at creating capacity for handling larger volumes and projects, is another reason behind the increased loss. Moreover, the profitability or size of projects-in-progress has not been sufficient to cover Morpheic Wind's cost base in the short term. As announced previously, the increased costs in Morpheic Wind include costs relating to the start-up of the tower factory in Kristinehamn and the consolidation of ScanWind AS in the Group during the period. As the Group has continued to expand in terms of size and operations, central costs for marketing, business development and governance in the parent company have increased, which has had an adverse impact on earnings.

The Group reports a loss after tax for the second quarter of SEK –84.7m (–6.5m).

Segment Reporting

| SEKm | May–Oct 2008 | | May–Oct 2007/08 | |
|---|--------------|-----------------------|-----------------|-----------------------|
| | Net turnover | Operating profit/loss | Net turnover | Operating profit/loss |
| Flow Plates | 1.5 | –8.5 | 0.3 | –8.2 |
| Fuel Cells | 3.9 | –8.0 | — | — |
| Electrolyzers | 5.1 | –8.5 | — | — |
| Fuel Converters | 8.2 | 0.3 | — | –0.7 |
| Wind Power | 134.6 | –46.0 | 102.0 | –2.6 |
| Components (Finshyttan) | 9.0 | –0.1 | 9.6 | –2.8 |
| Ship Propulsion | 50.9 | 12.2 | 46.9 | 9.4 |
| Automation | 12.8 | –6.3 | 2.6 | –3.8 |
| Total segments | 226.0 | –64.9 | 161.4 | –8.7 |
| Central costs* | — | –35.2 | — | –16.7 |
| Morphic Systems AB** | 1.5 | –35.1 | 1.0 | –3.0 |
| Elimination of intercompany transactions*** | –10.2 | 6.2 | –3.8 | –1.8 |
| Group | 217.3 | –129.0 | 158.6 | –30.2 |

* Central costs have not been allocated for the period.

** As of November 1, 2008 the remaining part of Systems AB will be accounted for under a separate segment, Business Development, which, especially in the initial phase, will refer to sales and marketing of a 20kW wind turbine for the telecom industry as well as activities aimed at coordinating and marketing Morphic Fuel Cells. The operating loss of Morphic Systems AB for the period May to October 2008 includes provisions for restructuring costs of SEK 12m and a writedown of SEK 11.7m on previously capitalized development costs.

*** Elimination of intercompany transactions relating to net turnover increased due to an increase in internal invoicing. The positive elimination of the operating loss is due to the revaluation of futures contracts in the Group.

Morphic Fuel Cells

| SEKm | Q2, Aug–Oct | | 6 months, May–Oct | |
|----------------|-------------|---------|-------------------|---------|
| | 2008 | 2007/08 | 2008 | 2007/08 |
| Net turnover | 12.2 | 0.2 | 18.7 | 0.3 |
| Operating loss | –12.6 | –4.3 | –24.7 | –8.9 |

- The order book for the business area was worth SEK 208.1m.
- Several new prototype orders for fuel cell plates.
- Supplementary orders from leading global auto maker.
- Morphe chosen to supply fuel cells for infrastructure project in London.
- Successful tests of energy system for converting biogas into electricity and heat.
- A new, dedicated fuel cell company producing flow plates for consumer electronics and the auto industry and a system manufacturer for hydrogen-based electricity production.

The common denominator for the business area is the marketing and manufacture of components and systems for the production of electricity and heat from hydrogen and methanol. Morphe has developed a production technology that makes it possible to manufacture flow plates for fuel cells used in consumer electronics and automobiles significantly faster, at lower cost and to a higher quality than has previously been possible. In one application area, electricity production from hydrogen and methanol, Morphe has strengthened its position as a systems developer by acquiring three foreign subsidiaries: Exergy Fuel Cells, an Italian fuel cell producer, Helbio, a Greek manufacturer of fuel cell conversion systems, and AccaGen, a Swiss manufacturer of electrolyzers. To assist Morphe's market establishment in the business area, Morphe Fuel Cells' activities will be coordinated through the parent company and Cell Impact AB as of November 1, 2008. At the same time, the foreign subsidiaries will become production and sales companies with a greater degree of independence and a clearer focus on establishing a strong market presence in their respective areas.

Earnings

The business area reports an operating loss of SEK –12.6m (–4.3) for the second quarter. The increase in the loss is primarily due to the inclusion of the foreign subsidiaries in the segment for the first time. Cell Impact AB is working with the company's customers to ensure that it has preparedness and the necessary capacity when call-off orders under existing volume contracts take off. While continuing its marketing activities in Asia, the United States and Europe, the segment has also focused on streamlining costs. In addition to marketing activities, the foreign subsidiaries, in particular, have also been working actively to obtain EU grants for their pilot projects, such as the recently installed biogas facility in Patras, to which both Exergy Fuel Cells and Helbio have sold components.

Several New Prototype Orders for Fuel Cell Plates

During the period Morphe received three new prototype orders for fuel cell plates from a variety of customers. In September Morphe's test center in Tokyo received an order for three further test and verification platforms from one of the world's five largest automotive manufacturers. The order is the result of successfully completed tests.

In October Morphe received a prototype order for flow plates from a new customer. The customer is a major Asian engineering group, and the flow plates will be integrated

in a fuel cell stack. Here, too, initial tests with the customer were made at Morphe's customer and technology center in Japan.

In November Morphe received an initial test order from a European subcontractor to the automotive and aircraft industries, which also develops fuel cells for various applications. The development project is divided into stages, and the initial order refers to modifications to an existing prototype. The key considerations clinching the deal for Morphe was the potential offered by Morphe's production method and its ability to cut costs. The modified product will be delivered at the end of 2008. Pending a satisfactory and positive result of the evaluation, the prototype will then be fully adapted to Morphe's production method.

Supplementary Order from Leading Global Auto Maker

A previously announced order for three test platforms for fuel cell plates has now been expanded to nine test platforms. The purpose of the test platforms is to optimize the effect of a flow plate formed using Morphe's patented production technology. The platforms will be used to test and optimize nine types of flow plates, which, if the tests are successful, will be used in the fuel cell systems of different end products.

Morphic Chosen as Supplier of Fuel Cells for Infrastructure Project in London

The Morphe subsidiary Exergy Fuel Cells has been chosen as one of two companies that will be delivering fuel cells to an ongoing infrastructure project in London. The project is aimed at equipping temporary power installations in street environments with fuel cells, thus helping to cut pollution and noise levels. An initial system, which will be used to power a station that measures traffic-related air pollution outside London City Hill, was demonstrated for the first time in late October 2008. The fuel cell-equipped station runs on hydrogen, which is provided from a local depot next to the Eurostar terminal at King's Cross station in Camden. So far two fuel cell generators have been produced. The first is a 5 kW PEM fuel cell from the US maker Plug Power. The second, which will be delivered in 2010, is equipped with two 1 kW fuel cells provided by Exergy Fuel Cells, a Morphe subsidiary.

Successful Tests of Energy System for Converting Biogas into Electricity and Heat

In December 2007 Helbio S.A., a Morphe Technologies subsidiary, received an order for an energy system for converting biogas from sewage into electricity and heat. Following a four-month trial period, all tests show that the system has lived up to its promise, and Morphe has therefore decided to launch this comb of energy systems in a range of output categories on a wider front in Europe. The system, which generates 20 kW of electrical energy and 20 kW of heat, extracts heat and energy from biogas, which in turn is extracted directly from waste water. The first part of the system is a purification filter for the biogas that filters out sulfur, malodorous substances and other impurities. The biogas is then converted into hydrogen using Helbio's unique reformer before being fed to a fuel cell manufactured by Morphe's Italian subsidiary, Exergy Fuel Cells, in Bologna.

Morphic Fuel Cells – A Dedicated Business Area

Fuel cells are moving closer to a broad market introduction in both consumer electronics and the automotive industry. Morphe has developed and owns a production technology that drastically cuts the cost of producing flow plates and thereby also the total cost of the fuel cells. The technology is produced by the Morphe subsidiary Cell Impact. Significant cost reductions and high performance are crucial to ensuring widespread use of fuel cells in the civilian market. In one application area, electricity production, Morphe has strengthened its position as a systems developer by acquiring three foreign subsidiaries: the Italian fuel cell producer Exergy Fuel Cells, the Greek reformer producer Helbio and the Swiss electrolyzer producer AccaGen.

With the aim of coordinating and streamlining Morphe's operations in fuel cells, continued efforts to establish a strong market presence will now be conducted through the parent company and Cell Impact AB and in the existing foreign subsidiaries of the former business area Morphe Systems. As a result, Morphe Systems will cease to exist. The subsidiaries will become independent production and sales companies with a clearer focus on establishing a strong market presence in their respective areas.

The Market for Fuel Cell Components

The business area's main activity is the 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. Morphe'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 about ten units of the car in 2008, which will be leased to customers in Japan and the United States. Next year production will be increased to a few hundred cars. Another vehicle manufacturer has announced that its 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.

Today, AccaGen's electrolyzers are marketed primarily to the industrial and energy-related segment. Areas of application include standby units for electrical generators at steelworks, cooling systems for nuclear power plants and refining processes in oil refineries. One application area for Helbio's reformers that offers tremendous potential is the conversion of biogas into electricity from residues and waste from incineration plants, refuse stations, industries and agriculture.

Another potential future market, primarily for electrolyzers and reformers, is hydrogen stations, where the market potential depends on the transition to hydrogen-powered vehicles.

Morphic Wind

| SEKm | Q2, Aug–Oct | | 6 months, May–Oct | |
|-----------------------|-------------|---------|-------------------|---------|
| | 2008 | 2007/08 | 2008 | 2007/08 |
| Net turnover | 112.1 | 73.7 | 143.6 | 111.6 |
| Operating profit/loss | –32.9 | 1.7 | –46.1 | –5.4 |

- The order book for the business area was worth SEK 667.1m.
- Turbines ready to be erected at Lake Vänern Wind Park.
- New order in hydroelectric power.
- Decision to place the wind power business in a separate company, Morphic Wind AB.

The area comprises production and sale of 1–3.5 MW wind turbines. The offer comprises individual turbines as well as complete wind parks in the IEC 1–3 wind classes. With a view to developing and streamlining Morphic's wind power offering, component production for wind and hydroelectric power will also be included in the business area as of November 1, 2008. Operations are conducted in a separate sub-group of Morphic through the holding company Well Power Sweden AB and the subsidiaries DynaWind AB, ScanWind AS and Finshyttan Hydropower AB.

Earnings

Morphic Wind reports an operating loss of SEK –32.9m (1.7) for the second quarter. The ongoing build-up of the Morphic Wind organization during the period, which is aimed at creating capacity for handling larger volumes and projects, is another reason behind the increased loss. Moreover, the profitability or size of projects-in-progress has not been sufficient to cover Morphic Wind's cost base in the short term. As announced previously, the increased costs in Morphic Wind include costs relating to the start-up of the tower factory in Kristinehamn and to the consolidation of ScanWind AS in the Group during the period. The result also includes a provision of SEK 9.1m to cover extra costs incurred by the delay in the Lake Vänern Wind Park project.

Turbines Ready to Be Erected at Lake Vänern Wind Park

During the period much effort was put into preparations for raising the first towers in the Lake Vänern Wind Park. A lot of the work has centered on the classification of the maritime operation, WestWind, involved in transporting the components to the Gässlingegrundet shallows in the lake. According to the timetable, five turbines were to become operational in 2008. Due to unstable weather, and to minimize standstill costs for preparedness to initiate the lifting operation during the fall, a decision has been taken to postpone the lifting to week 15 of 2009. This means that commissioning will now be five to seven months late, and any penalty incurred as a result that is not due to weather conditions will be calculated once the turbines have been handed over in summer 2009. The size and allocation of any penalty is a matter of negotiation.

New Order in Hydroelectric Power

Morphic's subsidiary Finshyttan Hydro Power AB has received a strategic order from Andritz Hydro Inepar Sweden AB for renovation and conversion of a hydroelectric turbine at the Letsi hydroelectric power plant. The order refers to unit 2 and is for renovation of wing servo-motors, turbine axles and turbine details. The project will run from mid-October 2008 to the mid-January 2009.

The Market for Wind Power

Following its recent expansion in wind power, Morphic now has a portfolio of turbines for varying customer requirements, wind conditions and climates. The potential market has also been greatly expanded. Significant synergies can be achieved in the continued production and sale of turbines. Morphic's own production plants can now be fully exploited, and particular emphasis will be placed on securing components for coming volume deliveries.

In an initial phase Morphic will be focusing primarily on the Nordic market, where the number of Swedish projects in onshore wind power has increased recently. 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 to 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.

Morphic Wind – A Dedicated Wind Power Business

By taking advantage of and developing local conditions and resources in the heavy mechanical processing industry in Sweden and Norway, Morphic has built up an industrial platform for the production and sale of market-leading wind turbines. Morphic's exclusive licensing agreements with WinWinD of Finland and Kenersys of Germany put it in strong position to establish a strong presence in onshore wind power, primarily in the Nordic and Baltic markets but also in other specific European regions. Morphic's acquisition of ScanWind of Norway has also created unique opportunities, and ScanWind's products have the potential to become market leaders in establishing wind power in off-shore locations and other areas with good wind conditions, in a global market.

To realize its expansion plans, Morphic needs to establish new and strong partnerships. Morphic is currently engaged in discussions with major potential partners, and the Board believes opportunities to expand nationally and globally are good. However, the Board believes the wind power business needs to be separated from the Group's other operations to open up for new owners and partners in this specific area. Morphic's holding company, Well Power Sweden AB, will therefore take over ownership of licensing agreements, and other rights and resources in DynaWind, ScanWind and Finshyttan with the aim of creating a dedicated wind power business. A dividend payment and separate stock exchange listing for Morphic Wind may be required as new owners and partners are tied to the company. At present, it is difficult for the company to specify a timetable for the above process.

Other Operations

| SEKm | Q2, Aug–Oct | | 6 months, May–Oct | |
|------------------|-------------|---------|-------------------|---------|
| | 2008 | 2007/08 | 2008 | 2007/08 |
| Net turnover | 33.9 | 22.0 | 63.7 | 49.5 |
| Operating profit | 1.0 | 4.8 | 5.9 | 5.6 |

- The order book for the segments was worth SEK 50.2m.
- Morphic's automation solutions to be launched in Switzerland.
- Order for test program in new segment.

The area consists of two separate businesses: Ship Propulsion and Automation Technology. Operations are conducted through Aerodyn AB and Dynamis AB.

Earnings

The segment reports an operating profit of SEK 1.0m (4.8) for the second quarter. The profit has improved thanks to the strong market for ship propulsion, which, despite the general economic downturn, is not displaying any signs of a significant slowdown, largely due to strong demand driven by stricter regulatory requirements, and maintenance and replacements of hulls and propellers.

Morphic's Automation Solutions to be Launched in Switzerland

In October the Morphic subsidiary Dynamis AB has signed a partnership agreement with Bachmann Engineering AG, a Swiss systems integration specialist, on sales of Dynamis' products in the Swiss market. Under the agreement, Bachmann Engineering AB will market, sell and install Dynamis' SensActive products for end customers, primarily businesses in the automotive and wood industries. SensActive® is the registered trademark for the patented materials handling solutions developed by Dynamis AB.

The Market for Ship Propulsion

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 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 surging demand from China, has sharply increased demand also for propellers.

The Market for Automation Technology

The market is growing rapidly. The International Federation of Robotics (IFR) estimates annual investments in the Swedish market at about 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.

Comments on the Group's Financial Position and the Six-Month Period

Shareholders' equity increased to SEK 1,049.3m (625.2) during the period as a result of the recently completed right issue. The equity/assets ratio was 67.5 percent (66.0). Consolidated total assets increased to SEK 1,553.6m (946.7), and cash and cash equivalents at the balance sheet date, October 31, 2008, were SEK 367.5m (146.1). Interest-bearing liabilities were SEK 156.1m, of which SEK 93.0m refers to a short-term loan for the financing of the acquisition of ScanWind AS. The short-term loan of SEK 93.0m was repaid in November 2008.

The value of Morphic's foreign subsidiaries will be tested for impairment at year-end.

Cash Flow

Cash flow from operations declined by SEK 121.0m compared with the previous year, SEK –97.0m (24.0), which is equivalent to SEK –0.58 per share (0.17). As in the previous quarter, the decrease is largely due to changes in project liquidity in Morphic Wind. Other reasons relate to the foreign subsidiaries, of which only one was consolidated last year, and to Morphic Systems AB.

As described previously, the completion dates and milestones of projects have a big impact on Morphic Wind's revenues, earnings and cash flow. The completion of a project normally results in a significant inflow of capital, both in the form of direct payments from customers and the release of assets used as collateral for bank guarantees.

Investments, Depreciation and Amortization

During the period the Group's net investments in tangible fixed assets totaled SEK 13.1m (29.9). Depreciation of tangible fixed assets was SEK 14.4m (6.3). The Group made investments in intangible assets of SEK 24.8m (3.8). All investments are recognized exclusive of business investments. Amortization of intangible assets during the period was SEK 17.0m (1.8).

Personnel

The Group's personnel costs during the period were SEK 81.4m (38.9m) and the overall number of employees at the end of the period was 227 (130), an increase of 74.6 percent in comparison with the same period during the previous financial year.

Financial Goals

Following the organizational changes now being implemented and due to the effects of the global financial crisis, Morphic is currently reviewing its financial goals.

Outlook

The 2009 financial year will see a more focused and balanced drive to ensure continued growth in the Group's core business areas, Morphic Fuel Cells and Morphic Wind. Continued growth is expected to gradually create economies of scale and will be achieved in combination with a

prioritization of profitable deals and strict cost control. As announced previously, the Board is continuously evaluating the issue of optimizing the Group structure, which may involve joint ownership with industrial partners in some parts of our business, the spin-off of operations to shareholders and similar structures.

Parent Company

The parent company posts a loss after tax of SEK –87.8m (–10.9). The increase in the loss is mainly due to a writedown of SEK 69.5 in the parent company's share in the subsidiary company Morphic Systems AB. During the period the parent company made investments in fixed assets totaling SEK 310.8m (72.1), of which SEK 0.8m refers to patents and SEK 0.7m refers to tangible fixed assets. The remaining SEK 309.3m refers to net investments in the subsidiaries. At the balance sheet date cash and cash equivalents in the parent company were SEK 304.1m (92.0). The equity/assets ratio was 90.3 percent (96.7).

New CEO and CFO Recruited

As part of the ongoing structural changes in the company, Martin Valfridsson, who has been CEO of the Morphic subsidiary Cell Impact AB since 2006, has been appointed new President and CEO of Morphic Technologies AB. Martin Valfridsson holds an M.Sc. in Economics and Business as well as an M.Sc. in Engineering and has experience from executive positions in ABB, Ericsson and Clover Electronics in Japan. As announced previously, Håkan Wallin has been recruited as new CFO. Håkan Wallin's last appointment before joining Morphic was as CEO of Libertas Capital Nordic AB, a global investment bank with head office in London specializing in corporate finance for the energy, technology, medicine and commodities sectors. Prior to that, Håkan was a partner at the investment bank ABG Sundal Collier, Corporate Finance, with responsibility for the life science sector.

Intellectual Property Rights

On the balance sheet date Morphic's patent portfolio included 24 inventions, all of which had been granted patents in Sweden and the majority also in other countries and regions. There are also nine inventions for which patents have been granted to foreign Group companies. 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

2008 Annual General Meeting

The Annual General Meeting held on October 20, 2008 approved the parent company and consolidated income statements and balance sheets and the appropriation of retained earnings proposed by the Board of Directors. In accordance with the auditor's recommendation, the Directors and Chief Executive Officer were released from liability. It was also decided to change the company's financial year to the calendar year.

The shareholders voted to re-elect the Directors Kurt Dahlberg, Peter Enå, Anette Myrheim, Kjell Östergren to the Board and to elect Peter Ekenger as a new Director. Peter Enå was re-elected Chairman of the Board. Fees of SEK 200,000 will be payable to each of the non-executive Directors.

The meeting approved the Board's proposal on principles for compensation and other terms of employment for management.

The AGM authorized the Board to decide, on one or more occasions before the next AGM, to issue new shares for a cash or non-cash consideration or by offset or subject to other terms and conditions, and thereby to derogate from existing shareholders' pre-emption rights. If new shares are issued for cash without pre-emption rights, the issue price must be set at market rates. The purpose of the authorization is to enable acquisitions in the company's core business areas for a cash or non-cash consideration or by payment in the form of new shares or a combination of these, and to provide funding and customary collateral under delivery agreements. The number of shares issued under the authorization may not exceed 10 percent of the company's share capital after the recently concluded rights issue.

The Nominating Committee for the 2009 AGM

In accordance with the decision taken at Morphic's Annual General Meeting on October 20, 2008, a Nominating Committee will be appointed prior to the 2009 AGM. The Nominating Committee will consist of representatives of the four shareholders holding the largest number of votes in the company as well as the Chairman of the Board, who shall act as convener. At the last banking day in October 2008 the four shareholders holding the largest number of votes were Mariégården Investment AB, Kurt Dahlberg, Nordea Fonder and Peter Enå. These have appointed one representative each, as shown below, who will constitute Morphic's Nominating Committee.

The members of the Nominating Committee

Kåre Gilstring, representing Mariégården Investment AB
Kurt Dahlberg, for own account
Thomas Ehlin, representing Nordea Fonder
Peter Enå, Chairman and for own account

The four owner representatives of the Nominating Committee together represent about 31.5 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 2009 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 2010 AGM should be conducted.

Shareholders who wish to submit proposals to Morphic's Nominating Committee may do so by e-mail to: valberedningen@morphic.com or by mail to the following address:

Morphic Technologies AB,
Attn: Valberedningen, Gammelbackavägen 6,
691 51 Karlskoga, no later than March 20, 2009.

2009 Annual General Meeting

The Annual General Meeting for the financial year 2008 is scheduled for May 27, 2009 and will be held in Stockholm.

Shortened Financial Year

The AGM adopted the changes to the articles of association proposed by the Board, which means that the company's financial year will be changed to the calendar year. The current financial year will therefore be shortened to comprise the period May 1–December 31, 2008. Other amendments include raising the limits for the company's share capital and allowing general meetings to be held in Karlskoga and Stockholm.

The Morphic Share

Morphic's B shares were listed on the OMX Nordic Exchange Stockholm on March 4, 2008. Following the listing, trading in Morphic's B shares was transferred from First North to the mid-cap segment of the Nordic Exchange.

During the six-month period Morphic's share price fell by 69.1 percent. In the same period OMXSPI lost 36.7 percent. The highest price paid during the period was SEK 13.8 (SEK 8.94 after adjusting for the issue of new shares) and the lowest price paid SEK 2.0. At the end of the period Morphic had a market capitalization of SEK 724.3m. During the period 193.9m B shares were traded for a value of SEK 1,066.6m. This is equivalent to a turnover rate of 148 percent.

Issue of New Shares

Based on the authorization from the 2007 AGM, a private placement of 13.1 million 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.

During the period September 30 to October 13, 2008 Morphic completed a rights issue based on the authorization from the extraordinary general meeting on July 10, 2008. Under the terms of the issue, holders of series A shares were entitled to subscribe for A shares and holders of series B shares were entitled to subscribe for B shares. The rights issue was aimed at funding the acquisition of ScanWind AS. Under a resolution adopted by the Board on September 19, 2008, shareholders had the right to subscribe for new shares at a subscription price of SEK 2.40 per share. The rights issue raised SEK 393m before issue costs and increased the number of shares by 163,872,022, from 163,872,022 to 327,744,044.

Share Capital

At the balance sheet date, October 31, 2008, Morphic's share capital is about SEK 12.5m, represented by SEK 312,895,379 shares, of which 5,984,000 are of series A and 306,911,379 of series B. At the balance sheet date 14,848,665 shares were in the process of being registered. The number of shareholders was about 28,800.

Incentive Schemes

There are two outstanding equity-based incentive schemes in Morphic: A market-based warrants scheme (2006/09) expiring on October 31, 2009 and an employee stock option scheme (2008/12) expiring on May 31, 2013. After the rights issue in 2008 each outstanding warrant in the market-based scheme entitles the holder to subscribe for 1.37 B shares in Morphic at a subscription price of SEK 11.70. Holders of employee stock options will in future be entitled to subscribe for 1.29 B shares in Morphic at a subscription price of SEK 12.40. If all warrants/options in the two incentive schemes are exercised to subscribe for new shares the new shares would represent about 3.5 percent of Morphic's share capital at October 31, 2008.

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. In the view of the Board, the internal challenges include building up the organizational structure, the ability to choose the right production and marketing strategies and the ability to manage growth. The most significant external risks include the risk of a general delay in 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 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

| SEKm | Aug–Oct 2008 | Aug–Oct 2007/08 | May–Oct 2008 | May–Oct 2007/08 |
|--|-----------------|--------------------|-----------------|--------------------|
| Operating income | | | | |
| Net turnover | 151.1 | 94.8 | 217.3 | 158.6 |
| Change in inventories | –13.3 | 13.3 | –5.7 | 14.2 |
| Capitalized production costs | 5.7 | 1.2 | 7.4 | 1.7 |
| Other operating income | 11.0 | 2.0 | 13.7 | 2.3 |
| Total income | 154.5 | 111.3 | 232.7 | 176.8 |
| Operating costs | | | | |
| Purchase of goods and services | –113.9 | –78.4 | –164.3 | –127.6 |
| Other external costs | –50.7 | –19.3 | –71.7 | –32.4 |
| Personnel costs | –49.4 | –19.4 | –81.4 | –38.9 |
| Depreciation and amortization of tangible and intangible fixed assets | –32.6 | –2.8 | –44.3 | –8.1 |
| Total operating costs | –246.6 | –119.9 | –361.7 | –207.0 |
| Operating profit/loss | –92.1 | –8.6 | –129.0 | –30.2 |
| Profit/loss from financial investments | | | | |
| Financial income | 9.0 | 2.4 | 12.5 | 4.6 |
| Financial expenses | –6.4 | –0.7 | –8.1 | –1.1 |
| Loss after financial items | –89.5 | –6.9 | –124.6 | –26.7 |
| Deferred tax | 2.2 | — | 3.5 | — |
| Minority interest | 2.6 | 0.4 | 2.6 | 0.4 |
| Loss for the period | –84.7 | –6.5 | –118.5 | –26.3 |
| Earnings divided by weighted average no. of shares before and after dilution (SEK) | –0.50 | –0.05 | –0.72 | –0.19 |
| Weighted no. of shares during period | 175,173,771 | 141,028,521 | 168,069,651 | 139,688,862 |
| Total no. of shares at end of period | 312,895,379 | 136,744,996 | 312,895,379 | 136,744,996 |

Parent Company Income Statement

| SEKm | Aug–Oct 2008 | Aug–Oct 2007/08 | May–Oct 2008 | May–Oct 2007/08 |
|--|-----------------|--------------------|-----------------|--------------------|
| Operating income | | | | |
| Net turnover | — | — | 0.1 | — |
| Change in inventories | | — | — | — |
| Capitalized production costs | 1.5 | — | 1.5 | — |
| Other operating income | — | | — | — |
| Total income | 1.5 | — | 1.6 | — |
| Operating costs | | | | |
| Purchase of goods and services | –1.6 | — | –1.8 | — |
| Other external costs | –9.4 | –5.9 | –15.5 | –9.2 |
| Personnel costs | –10.7 | –3.6 | –17.1 | –6.5 |
| Depreciation and amortization of tangible and intangible fixed assets | –2.0 | –0.4 | –2.4 | –1.0 |
| Total operating costs | –23.7 | –9.9 | –36.8 | –16.7 |
| Operating profit/loss | –22.2 | –9.9 | –35.2 | –16.7 |
| Profit/loss from financial investments | | | | |
| Financial income | 11.2 | 3.0 | 18.9 | 5.8 |
| Financial expenses | –71.1 | — | –71.5 | — |
| Loss after financial items | –82.1 | –6.9 | –87.8 | –10.9 |
| Tax on profit for the year | — | — | — | — |
| Loss for the period | –82.1 | –6.9 | –87.8 | –10.9 |

Consolidated Balance Sheet

| SEKm | Oct 31, 2008 | Apr 30, 2008 |
|---|----------------|--------------|
| Assets | | |
| Fixed assets | | |
| Intangible fixed assets | 597.5 | 355.3 |
| Tangible fixed assets | 200.2 | 148.7 |
| Financial fixed assets | 1.0 | 8.8 |
| Total fixed assets | 798.7 | 512.8 |
| Current assets | | |
| Inventory of finished goods | 73.1 | 51.5 |
| Current receivables | 314.3 | 236.3 |
| Cash and cash equivalents | 367.5 | 146.1 |
| Total current assets | 754.9 | 433.9 |
| Total assets | 1,553.6 | 946.7 |
| Equity and liabilities | | |
| Shareholders' equity | | |
| Share capital | 12.5 | 6.0 |
| Rights issue in process of registration | 35.6 | |
| Other contributed capital | 1,295.2 | 844.5 |
| Other reserves | 21.6 | 3.2 |
| Accumulated deficit | -367.1 | -244.6 |
| Minority interest | 51.5 | 16.1 |
| Total shareholders' equity | 1,049.3 | 625.2 |
| Long-term liabilities | 138.4 | 105.9 |
| Current liabilities | 365.9 | 215.6 |
| Total liabilities and equity | 1,553.6 | 946.7 |
| Pledged assets | 330.6 | 234.7 |
| Contingent liabilities ¹ | 24.1 | 25.1 |

¹ In addition to contingent liabilities, the Group has bank and insurance guarantees of SEK 199.2 (204.5).

Parent Company Balance Sheet

| SEKm | Oct 31, 2008 | Apr 30, 2008 |
|---|----------------|--------------|
| Assets | | |
| Fixed assets | | |
| Intangible fixed assets | 8.1 | 8.3 |
| Tangible fixed assets | 1.5 | 0.8 |
| Financial fixed assets | 843.3 | 559.9 |
| Total fixed assets | 852.9 | 569.0 |
| Current assets | | |
| Current receivables | 119.7 | 112.9 |
| Cash and cash equivalents | 304.1 | 92.0 |
| Total current assets | 423.8 | 204.9 |
| Total assets | 1,276.7 | 773.9 |
| Equity and liabilities | | |
| Shareholders' equity | | |
| Share capital | 12.5 | 6.0 |
| Rights issue in process of registration | 35.6 | |
| Other restricted assets | 291.9 | 291.9 |
| Unrestricted reserves | 812.7 | 451.0 |
| Total shareholders' equity | 1,152.7 | 748.9 |
| Long-term liabilities | — | |
| Current liabilities | 124.0 | 25.0 |
| Total liabilities and equity | 1,276.7 | 773.9 |
| Pledged assets | 191.2 | 108.2 |
| Contingent liabilities ¹ | 39.8 | 24.2 |

¹ In addition to contingent liabilities, there are insurance guarantees of SEK 195.2m (200.5).

Consolidated Cash Flow Statement

| SEKm | May–Oct 2008 | May–Oct 2007/08 |
|--|-----------------|--------------------|
| Operating activities | | |
| Operating loss before financial items | –129.0 | –30.2 |
| Items not affecting liquidity | 60.4 | 8.3 |
| Net financial items | 4.4 | 3.5 |
| Income tax paid | –0.2 | –1.7 |
| Cash flow from operations before changes in working capital | –64.4 | –20.1 |
| Increase/decrease in current assets | –62.4 | 15.5 |
| Increase/decrease in current operating liabilities | 29.8 | 28.6 |
| Cash flow from operating activities | –97.0 | 24.0 |
| Investing activities | | |
| Investments in intangible assets | –24.8 | –3.6 |
| Investments in tangible assets | –13.1 | –3.5 |
| Divested assets | | 2.9 |
| Investments in subsidiaries | –228.2 | –38.5 |
| Other financial investments | 4.9 | –21.8 |
| Cash flow from investing activities | –261.2 | –64.5 |
| Financing activities | | |
| Issue of new shares | 489.6 | –0.2 |
| Loans received | 94.4 | 9.4 |
| Repayment of loans | –4.4 | –4.0 |
| Increase/decrease of current financial liabilities | | –2.2 |
| Cash flow from financial activities | 579.6 | 3.0 |
| Cash flow for the period | 221.4 | –37.5 |
| Cash and cash equivalents at beginning of period | 146.1 | 186.4 |
| Cash and cash equivalents at end of period | 367.5 | 148.9 |

Consolidated Statement of Changes in Equity

| SEKm | May–Oct 2008 | May–Oct 2007/08 |
|--|-----------------|--------------------|
| Opening balance | 625.2 | 441.1 |
| Issue of new shares | 489.5 | –0.2 |
| Tax effects of Group contributions | | –1.4 |
| Translation reserve | 15.2 | –0.8 |
| Other reserves | 2.5 | 1.2 |
| Loss for the period | –118.5 | –26.3 |
| Minority interest | 35.4 | 2.1 |
| Total shareholders' equity at end of period | 1,049.3 | 415.7 |

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. IFRS 8 relating to segment reporting and the definition of operating segments has been applied for the first time in the interim report for the period May to October 2008. Central costs have not been allocated to segments for the period. In other respects, the accounting principles, definitions of key ratios and methods of calculation applied are the same as in the last annual report. The parent company's accounts have been prepared in accordance with Recommendation RR32:06, Accounting for Legal Entities.

NOTE 2 SEGMENT REPORTING BY PREVIOUS BUSINESS AREA STRUCTURE

| SEKm | May–Oct 2008 | | May–Oct 2007/08 | |
|---|--------------|-----------------------|-----------------|-----------------------|
| | Net turnover | Operating profit/loss | Net turnover | Operating profit/loss |
| Morphic Impact | 1.5 | –8.5 | 0.3 | –8.2 |
| Morphic Wind | 134.6 | –46.0 | 102.0 | –2.6 |
| Morphic Systems | 18.5 | –51.3 | 1.0 | –3.8 |
| Other Operations* | 72.7 | 5.8 | 59.1 | 2.9 |
| Central costs | 0.2 | –35.2 | — | –16.7 |
| Elimination of inter-company transactions | –10.2 | 6.2 | –3.8 | –1.8 |
| Group | 217.3 | –129.0 | 158.6 | –30.2 |

*Other Operations include the Group's activities in contract production, automation technology and ship propulsion.

The above note is intended to make it easier to understand Morphic's new business area structure and shows consolidated net turnover and operating profit/loss as if the old segment structure had continued to apply until October 31, 2008.

Review Report

This report has not been reviewed by the auditor.

Karlskoga, December 18, 2008

Board of Directors of Morphic Technologies AB

Future Financial Information

- Year-End Financial Statement 2008 February 26, 2009
- Annual Report for 2008 April 30, 2009
- Annual General Meeting 2008 May 27, 2009
- Three-month Report 2009 May 27, 2009
- Six-month Report 2009 August 27, 2009
- Nine-month Report 2009 November 25, 2009
- Year-End Financial Statement 2009 February 25, 2010

Following a resolution at the AGM on October 20, 2008, the 2008 financial year has been shortened to comprise the period May 1 to December 31, 2008.