

Year End Financial Statement 1 May–31 December 2008

(shortened financial year, eight months)

morphic™

- The Morphic Group's net turnover for the financial year was SEK 310.2m (215.2), an increase of 44.1 percent.
- The operating loss was SEK –189.6m (–45.1).
- For the eight-month financial year the Group reports a loss after financial items of SEK –311.9m (–40.6) and an after-tax loss of SEK –301.8m (–40.3).
- Earnings per share were SEK –1.49 (–0.28).
- Earnings were hit by large impairment charges on subsidiary company assets, which were written down by SEK 135.6m.
- Consolidated cash and cash equivalents were SEK 226.2m (248.6), of which SEK 101.2m (102.5) refers to frozen assets. Cash flow from operating activities for the financial year was SEK –251.6m (12.3).
- Net turnover for the last two months of the financial year were SEK 92.9m (56.6), an increase of 64.1 percent.
- The operating loss for the last two months was SEK –60.6m (–14.9).
- Revised long-term financial targets.

This is Morphic

Morphic Technologies is a Swedish engineering group operating in the areas of fuels cells and wind power. The Group has about 245 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.

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 26 February 2009 at about 8 a.m.

This document is an English translation. In the event of any discrepancies between the original Interim Report in Swedish and this translation, the former shall have precedence.

Events in Summary

■ New Prototype Order for Fuel Cell Plates

In November 2008 Morphic received an initial test order from a European supplier to the automotive and aircraft industries in a major fuel cell project. The customer also develops fuel cells for a range of different applications. The modified prototype was delivered in late 2008 and is currently being evaluated by the customer. Pending a satisfactory and positive result of the evaluation, the prototype will then be fully adapted to Morphic's production method.

■ Successful Tests of Delivered Energy System

In December 2007 Helbio S.A., a Morphic 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 Morphic has therefore decided to launch this type of energy systems in a range of output categories on a wide front in Europe.

■ Continued Restructuring of the Group

Work on restructuring the Group's operations continued during the period. The changes have led to a greater focus on the Group's core businesses, fuel cells and wind power, as well as increased marketing activities and a drive to cut costs throughout the Group. Per Sand, previously Head of Sales, was appointed new CEO of Cell Impact.

■ Impairment Charges

As part of the restructuring of the business areas, the Group's assets have been tested for impairment. Due to the restructuring of the Group's business model and the weak economic climate, the company has identified impairment losses of SEK 135.6m, primarily in AccaGen, Exergy and Helbio, which had a negative impact on operating results.

■ Revised Financial Targets

Morphic has previously published financial targets for consolidated turnover and other key figures in 2012. However, the global financial crisis has had such far-reaching and lasting consequences for Morphic, in respect of factors both within and beyond the control of Morphic, that the Board of Directors does not consider it possible to define a long-term financial target at present. Nevertheless, the Board believes the underlying fundamentals are still as strong as ever, especially in energy and environmental technology, and will favor Morphic going forward. By continuing to focus on creating profitability while keeping control over costs even in the current market environment, the Board therefore believes that Morphic will be able to continue to grow, despite the current adverse impact of external factors.

Events after the End of the Financial Year

■ Order for Hydrogen Production System

In January 2009 the Morphic subsidiary AccaGen received an order for a hydrogen production system from the toolmaker JV Bahco Bisov. The system will be used in a new factory in Minsk and the order is worth approximately €200,000.

■ Project Grant to Exergy Fuel Cells S.r.l.

Exergy Fuel Cells S.r.l., a subsidiary of Morphic Technologies AB, has together with ICI Caldaie S.p.A. and several other Italian businesses and research institutions received a project grant, of which Exergy's share is worth approximately €1,960,000 (SEK 20m).

■ Patent on Method for CO₂ Capture and Liquid Fuel Production

Morphic has been granted a patent on a method and system for absorbing atmospheric carbon dioxide using wind turbines, and then combining the CO₂ with water and excess electricity to produce liquid biofuels. The technology has been verified in a laboratory environment, and the company is now looking for partnerships with a view to evaluating a potential commercialization of the concept.

■ Letter of Intent for Delivery of Fuel Cells for Motorhomes and House Trailers

Exergy Fuel Cells has initiated a partnership with Narbonne Accessoires in Narbonne, France, under which Exergy will have exclusive rights to distribute its fuel cells for motorhomes and house trailers in Narbonne Accessoires' distribution networks in France and Spain.

■ Morphic's Small-scale Wind Turbine in Live Tests

In the middle of February 2009 tests were initiated on the second generation of SWT20, the small-scale wind turbine developed by Morphic. The turbine is designed to power telecom base stations, small farms and other applications in areas with no infrastructure for electricity.

■ Changes to the Finance Function

As part of the ongoing restructuring of the Morphic Group, the finance function has been reorganized. In connection with this Morphic Technologies' former CFO, Håkan Wallin, has decided to move on to new challenges. Helena Nilsson has been appointed new CFO of Morphic Technologies.

CEO's Comment

A dominant theme during the period in review was our work on restructuring the Group's operations. This will enable us to bring together our resources and concentrate on those businesses that constitute our core areas: fuel cells and wind power. 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.

The restructuring efforts are intended to create the best possible operating environment for our core business and to optimize the operations and thereby cut costs. Work on identifying further cost-saving opportunities will be a key priority also in 2009.

However, cost-cutting will go hand-in-hand with continued aggressive marketing activities. As the former CEO of the fuel cell business, I know how much interest there is in fuel cells and in our technology in this field. The next ten years will see enormous changes in the way electricity is generated and consumed. Batteries will become more efficient but we will also be seeing entirely new technologies, of which fuel cell technology is one.

In the short-term the market situation has become more difficult, however. The weakening world economy and the global financial crisis create major challenges also in our market segment. This is reflected in longer decision-making processes and delayed investments, and it is against this background that the Board has decided to drop the long-term financial targets defined previously.

Net turnover for the period increased compared with the same period in 2007. The improvement was mostly attributable to Morphic Wind and recognition of revenue from ongoing projects in DynaWind, including the first stage of the raising of the turbines in the Lake Vänern Wind Park in week 15 of 2009. The order book shrank during the period, and the reduction is roughly equivalent to net turnover in Morphic Wind during the period. After the end of the period Morphic Fuel Cells has received orders from several customers that are strategically important for the Group. Despite this, we are not satisfied with the growth of the order book, and are currently intensifying our marketing activities for the Group's products. During the period several key individuals were recruited to Morphic Fuel Cells' marketing organization.

Following the restructuring measures put in place during the fall, which resulted in the creation of clearly defined business areas, and because of the prevailing market situation, there were indications of impairment of the Group's assets in subsidiaries. After testing for impairment of the Group's assets, the Group has identified impairment losses of SEK 135.6m.

It is clear to me that 2009 will be an intensive year for Morphic. We will have a strong focus on the ongoing process of finding industrial partners for our wind business, on selling Aerodyn and Dynamis, and on launching our products in the market without jeopardizing our liquidity. In a challenging market a strong product offering that creates shareholder value as well as environmental benefits can open up new opportunities.

Karlskoga, February 2009

Martin Valfridsson, President and CEO

Financial Performance in Summary

Group Belopp i MSEK	Nov–Dec		8 months, May–Dec	
	2008	2007	2008	2007
Net turnover	92.9	56.6	310.2	215.2
Operating loss	–60.6	–14.9	–189.6	–45.1
Loss after financial items	–187.3	–13.9	–311.9	–40.6
Loss after tax	–183.3	–13.6	–301.8	–40.3
Cash flow from operating activities	–154.6	–11.7	–251.6	12.3
Earnings per share, SEK	–0.57	–0.09	–1.49	–0.28
			Dec 31, 2008	Apr 30, 2008
Cash and cash equivalents at balance sheet date			125.0	146.1
Equity/assets ratio (%)			70.9	66.0

Turnover and Orders

The Group's net turnover for the first eight months was SEK 310.2m, an increase of 44.1 percent compared with the same period the year before (215.2).

The Group's revenues for November to December increased significantly, and net turnover was SEK 92.9m (56.6). The increase was largely due to expanded activities in the wind power business, primarily preparatory work and deliveries of components for the raising of towers in the Lake Vänern Wind Park in spring 2009.

Revenues in Morpheic Fuel Cells were markedly higher than in 2007, partly because AccaGen and Exergy had not been fully consolidated in the previous period. During the two-month period (Nov–Dec) in 2008 these companies delivered several projects, contributing to consolidated turnover.

At the balance sheet date the Group's order book was worth SEK 859.5m.

Earnings

The Group reports an operating loss for the financial year of SEK –189.6m (–45.1). The operating loss for the last two months was SEK –60.6m (–14.9).

The operating loss for the last two months of the year include inventory impairment charges of approximately SEK 7m and additional expected costs, notably in the form of penalties for late delivery of wind turbines of about SEK 10m.

A large portion of the operating loss for the financial year is attributable to restructuring measures and one-off costs relating to the restructuring of Morpheic Systems. The annual result also includes one-off charges of SEK 5.7m relating to termination salary and severance pay for the former CEO of Morpheic Technologies and other non-recurring expenses. The restructuring of Morpheic Systems also gave rise to an impairment loss of SEK 11.7m on capitalized development costs.

Due to delays and adverse weather conditions in the fall the Group was forced to postpone the installation of the first part of the Lake Vänern Wind Park. The first five turbines are now scheduled to be raised in spring 2009. A provision of SEK 9.1m for expected additional expenses for the project has therefore been made. During the financial year DynaWind AB continued its expansion with a view to creating capacity for handling larger volumes and bigger projects. Staff and production capacity were increased, which had an adverse impact on consolidated earnings for the year.

During most of the year ScanWind was included in consolidated earnings, which also had a negative impact on earnings compared with the same period the year before.

Moreover, central Group costs increased during the year due to the continued growth of the Group.

The consolidated loss after tax for the last two months of the year was SEK –183.3m (–13.6).

Segment Report

SEKm	May–Dec 2008		May–Dec 2007	
	Net turnover	Operating profit/loss	Net turnover	Operating profit/loss
Flow Plates	0.3	–13,5	0.9	–11.7
Fuel Cells	5,4	–17.1	1.7	–1.5
Electrolyzers	8.1	–16.8	—	—
Fuel Processing	9.7	–1.4	1.2	–0.8
Wind Power	194.8	–65.3	115.2	–6.3
Components	14.4	0.2	26.8	–0.3
Ship Propulsion	69.7	11.2	71.5	10.8
Automation	15.6	–9.6	3.0	–5.0
Small Wind Turbines	—	–2.4	—	—
Total segments	318.0	–114.7	220.3	–14.8
Central costs*	0.4	–46.2	0	–24.7
Morphic Systems AB**	1.5	–35.1	1.0	–5.1
Elimination of intercompany transactions	–9.7	6.4	–6.1	–0.5
Group	310.2	–189.6	215.2	–45.1

* 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, Small Wind Turbines, which, especially in the initial phase, will refer to sales and marketing of a 20kW wind turbine for the telecom industry and other sectors. The operating loss of Morphe Systems AB for the period May to December 2008 includes provisions for remaining restructuring costs of SEK 4.8m and an impairment loss of SEK 11.7m on previously capitalized development costs.

Morphic Fuel Cells

SEKm	Nov-Dec		8 months, May-Dec	
	2008	2007	2008	2007
Net turnover	4.7	3.5	23.5	3.8
Operating loss	-26.4	-4.3	-51.2	-14.0

- The order book for the business area was worth SEK 205.6m
- New prototype order for fuel cell plates
- Successful tests of delivered fuel cell energy system
- New CEO for Cell Impact AB
- Deliveries of volume orders representing about SEK 190m of the business area's order book have been delayed slightly due to the economic downturn

Morphic is one of the leading players in development and sales of technology and products that will enable a commercialization of fuel cells.

Morphic's fuel cell offering comprises complete fuel cells as well as critical components and technology for hydrogen production. The business is divided into five segments: manufacture and sale of flow plates, sale of complete fuel cell systems, development and sale of electrolyzers, development and sale of systems for fuel conversion, and development and marketing of small-scale wind turbines. Morphic also offers contract production of other metallic components.

Earnings

The business area reports an operating loss of SEK -26.4m (-4.3) for the last two months of the year. The increased loss is mostly due to the fact that AccaGen was included in this segment for the first time during this period.

Cell Impact continued its efforts to optimize production equipment while working with customers to ensure the capacity required to meet an expected increase in deliveries on volume orders. During the period the company made part-deliveries on existing orders. However, requests for deliveries were received later than expected. The business area is also conducting intensive marketing activities in Asia, the United States and Europe. These factors all added to the negative result for the business area.

During the period both Exergy and Helbio completed and made deliveries of equipment under existing orders. Despite this, they had a negative impact on earnings in the business area, because of costs incurred in the commercialization phase.

Events during the Period

New Prototype Order for Fuel Cell Plates

In November Morphe Fuel Cells received its first test order from a European customer as part of a major fuel cell project. The customer is a supplier to the automotive and aircraft industries, and also develops fuel cells for a range of applications. The development project is divided into stages, and the initial order refers to modifications to an existing prototype. The modified product was delivered at the end of 2008.

Methane from Sewage Works Turned 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 combination of energy systems on a wider front in Europe, offering a range of different output categories.

Per Sand Appointed New CEO of Cell Impact AB

In December Per Sand was appointed new CEO of the Morphe subsidiary Cell Impact AB. Per Sand previously held the posts of Head of Sales and succeeded Martin Valfridsson, who has been appointed President and CEO of Morphe Technologies AB.

Deliveries Delayed due to Economic Downturn

As reported previously, Morphe Fuel Cells has initiated deliveries of volume orders for flow plates. Due to the situation in the economy and the market, the customer has expressed a desire to postpone the remaining deliveries, and discussions on the timing of these are currently underway. It should be emphasized, however, that the customer has not requested to cancel the order.

Events after the End of the Period*Order for Fuel Cell System*

In January 2009 the Morphic subsidiary Helbio S.A. received an initial small order from the University of Milan for a fuel cell system that runs on bioethanol, the GH2-5000 energy system. A group of Italian investors have commissioned the university to evaluate the unique energy system. Upon completion of the evaluation, discussions on volume deliveries and/or a licensing partnership will be initiated.

Order for Hydrogen Production System

The Morphic subsidiary AccaGen has received an order for a hydrogen production system from the toolmaker JV Bahco Bisov. The system will be used in a new factory in Minsk and the order is worth €200,000. The buyer is JV Bahco Bisov, a part of SNA Europe, which belongs to the global Snap-on group.

Market

Fuel cells as energy converters have great potential in a wide range of fields. The market can roughly be divided into three areas: portable electronics, stationary electrical generators, and the transport and automotive industry.

In the short term the financial crisis and the rapid slow-down in the global economy at the end of 2008 will have an adverse impact on the market for fuel cells. Several major players in the automotive industry have announced general cutbacks in research and development, which could have an impact on investments in new technology. In a slightly longer perspective, however, new technology will be required to build the new type of energy-efficient products that the market and consumers are demanding.

Key Events during the Financial Year 2008

- Deliveries initiated on existing volume orders
- New laboratory at Karlskoga plant
- Energy system delivered to Patras, Greece
- Several new prototype orders for fuel cell plates
- Supplementary order from leading global auto maker
- Morphic chosen as supplier of fuel cells for infrastructure project in London
- Successful tests of energy system for converting biogas into electricity and heat
- Live tests of Morphic's small-scale wind turbine

Morphic Wind

SEKm	Nov–Dec		May–Dec	
	2008	2007	2008	2007
Net turnover	65.5	30.5	209.2	142.0
Operating loss	–18.1	–1.3	–65.1	–6.6

■ Continued restructuring of the business area

The area comprises production and sale of 1–4 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 –18.1m (–1.3) for the last two months of the year.

The loss is largely due to expenses relating to delays in wind power projects. Investments and upgrading of production equipment aimed at enabling the company to handle larger volumes and other types of towers are made continually, incurring costs that will have a short-term negative impact on earnings.

The volume of wind projects during the period did not cover Morphic Wind's cost base, which also had a negative impact on earnings.

ScanWind

In comparing results with the same period the year before, a key explanatory factor is that ScanWind's earnings were included in the consolidated financial statements only from August 2008 and that no new orders yet have been received.

Events during the Period

Continued Restructuring of the Segment

The wind power segment has continued to work on structuring and consolidating the product range. The goal of finding new industrial and financial partners remains.

Market

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 2008–2011. 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. These investments are expected to come from energy companies as well as local wind power associations and private investors.

Key Events during the Financial Year 2008

- Order for ten 3 MW wind turbines
- Acquisition of 81.55 percent of ScanWind AS of Norway
- Statement of intent with Vattenfall AB
- Partnership agreement with Kenersys AG
- Decision to place the wind power business in a separate company, Morphic Wind AB
- Turbines ready to be erected at the Lake Vänern Wind Park in week 15 of 2009

Other Operations

SEKm	Nov–Dec		May–Dec	
	2008	2007	2008	2007
Net turnover	23.9	25.1	87.2	75.5
Operating loss	–13.3	–8.3	–79.7	–24.0

- The order book for the business area was worth SEK 40.7m

The business area comprises the following operations: Ship Propulsion (Aerodyn AB), Automation Technology (Dynamis AB), the parent company, and the operations of Morphic Morphic Systems AB prior to the restructuring in fall 2008.

Earnings

The business area reports an operating loss of SEK –13.3m (–8.3) for the last two months. Earnings were positively impacted by the strong market in ship propulsion, which is not showing signs of a significant slowdown, despite the weakening economy. Central Group costs had a negative impact on earnings.

A process relating to a potential divestment of the ship propulsion segment (Aerodyn AB) was underway 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.

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

Shareholders' equity increased to SEK 858.9m (625.2) during the financial year as a result of the recently completed rights issue. The equity/assets ratio was 70.9 percent (66.0). Consolidated total assets increased to SEK 1,211.7m (946.7).

Cash Flow

Cash flow from operations declined by SEK 263.9m compared with the previous year, to SEK –251.6m (12.3), which is equivalent to SEK –1.23 per share (0.08). 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, which had only been partly consolidated in the previous period.

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.

Cash and cash equivalents were SEK 226.2m (248.6) at the balance sheet date, December 31, 2008, of which SEK 101.2m (102.5) refers to frozen assets. Interest-bearing liabilities were SEK 66.2m. The short-term loan of SEK 93.0m was repaid in November 2008.

Investments, Depreciation and Amortization

During the financial year the Group's net investments in tangible fixed assets totaled SEK 16.1m (32.1). Depreciation of tangible fixed assets was SEK 19.0m (8.6). The Group made investments in intangible assets of SEK 31.9m (6.7). All investments are recognized exclusive of business investments. Amortization of intangible assets during the period was SEK 24.6m (4.3).

Impairment losses

The company has made individual impairment tests for all subsidiaries. These resulted in a total impairment loss of SEK 135.6m, primarily in the foreign subsidiaries Exergy, Helbio and AccaGen.

Personnel

The Group's personnel costs during the financial year were SEK 114.8m (56.1) and the overall number of employees at the end of the period was 246 (170), an increase of 44.7 percent on the same period the previous financial year.

Revised Financial Targets

Morphic has previously published financial targets for consolidated turnover and other key figures in 2012. However, the global financial crisis has had such far-reaching and lasting consequences for Morphic, in respect of factors both within and beyond the control of Morphic, that the Board of Directors does not consider it possible to define a

long-term financial target at present. Nevertheless, the Board believes the underlying fundamentals are still as strong as ever, especially in energy and environmental technology, and will favor Morphic going forward. By continuing to focus on creating profitability while keeping control over costs even in the current market environment, the Board therefore believes that Morphic will be able to continue to grow, despite the current adverse impact of external factors.

Outlook

The financial year 2009 will see a focused and balanced drive to ensure continued growth coupled with an emphasis on maintaining adequate liquidity in the Group. Continued growth is expected to gradually create economies of scale in volume production and thus improve profitability. 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 reports a loss after tax of SEK –338.7m (–16.4). The increased loss is mainly due to write-downs of SEK 318.7m on the parent company's assets and interests in subsidiaries. During the period the parent company made investments in fixed assets totaling SEK 428.8m (261.6), of which SEK 1.1m refers to patents and SEK 0.9m refers to tangible fixed assets. The remaining SEK 426.8m refers to investments in the subsidiaries. At the balance sheet date cash and cash equivalents in the parent company were SEK 83.4m (92.0). The equity/assets ratio was 98.2 percent (96.8).

Intellectual Property Rights

On the balance sheet date Morphic's patent portfolio included 25 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 rights issue in October 2008.

The Nominating Committee for the 2009 AGM

In accordance with the decision taken at Morphe'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 Mariegårdens Investment AB, Kurt Dahlberg, Nordea Fonder and Peter Enå. These have appointed one representative each, as shown below, who will constitute Morphe's Nominating Committee.

The Members of the Nominating Committee:

- Kåre Gilström, representing Mariegårdens 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 Morphe'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

Annual Report for 2008

To save costs and minimize the impact on the environment, the company has decided not to issue a printed version of its annual report for 2008. The annual report will only be published on the company's website, on April 30, 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 Karlskoga.

Proposal for dividend

The Board of Directors proposes that no dividend be paid for the shortened financial year 2008.

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 has therefore been 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 Morphe Share

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

During the eight-month period Morphe's share price fell by 81.81 percent. In the same period OMXSPI lost 35.82 percent. The highest price paid during the period was SEK 13.80 (SEK 9.53 after adjusting for the issue of new shares) and the lowest price paid SEK 1. At the end of the period Morphe had a market capitalization of SEK 426m. During the period 276.6m B shares were traded for a value of SEK 1,197.2m. This is equivalent to a turnover rate of 181 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 Morphic's share capital was about SEK 13.1m, represented by SEK 327,744,044 shares, of which 11,968,000 are of series A and 315,776,044 of series B. 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 schemes are exercised to subscribe for new shares the new shares would represent about 3.5 percent of Morphic's share capital at 31 October 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. One of the most significant external risks is the downturn in the economy, which could delay the market launch of the company's products. Capacity shortages and a shortage of delivery capacity among suppliers constitute another risk factor. There are also risks related to the liquidity of trading in Morphic's shares. In addition, there are also risks linked to the funding of the operations and the customers' ability to fund their own projects.

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	Nov–Dec 2008	Nov–Dec 2007	May–Dec 2008	May–Dec 2007
Operating income				
Net turnover	92.9	56.6	310.2	215.2
Change in inventories	–17.7	–3.9	–23.4	10.6
Capitalized production costs	–0.2	0.8	7.3	2.5
Other operating income	20.4	1.7	34.0	4.0
Total income	95.5	55.2	328.2	232.3
Operating costs				
Purchase of goods and services	–90.2	–31.7	–254.4	–159.7
Other external costs	–18.5	–16.4	–90.1	–48.9
Personnel costs	–33.3	–17.4	–114.8	–56.2
Depreciation and amortization of tangible and intangible fixed assets	–14.1	–4.5	–58.5	–12.6
Total operating costs	–156.0	–70.0	–517.8	–277.3
Operating loss	–60.6	–14.9	–189.6	–45.1
Profit/loss from financial investments				
Financial income	15.5	1.7	23.8	6.2
Financial expenses	–135.9	–0.8	–146.1	–1.7
Loss after financial items	–187.3	–13.9	–311.9	–40.6
Tax on profit for the year	–0.4	—	–0.4	—
Deferred tax	2.0	0.7	5.5	0.3
Minority interest	2.4	–0.4	5.0	—
Loss for the period	–183.3	–13.6	–301.8	–40.3
Earnings divided by weighted average no. of shares before and after dilution (SEK)	–0.57	–0.09	–1.49	–0.28
Weighted no. of shares during period	323,085,378	152,283,206	205,318,398	143,905,011
Total no. of shares at end of period	327,744,044	150,772,022	327,511,917	150,772,022

Parent Company Income Statement

SEKm	Nov-Dec 2008	Nov-Dec 2007	May-Dec 2008	May-Dec 2007
Operating income				
Net turnover	0.3	—	0.4	—
Change in inventories	—	—	—	—
Capitalized production costs	—	—	1.5	—
Other operating income	—	—	—	—
Total income	0.3	—	1.9	—
Operating costs				
Purchase of goods and services	—	—	-1.8	—
Other external costs	-4.7	-4.0	-20.2	-13.3
Personnel costs	-6.4	-3.6	-23.4	-10.0
Depreciation and amortization of tangible and intangible fixed assets	-0.2	-0.4	-2.7	-1.4
Total operating costs	-11.3	-8.0	-48.1	-24.7
Operating loss	-11.0	-8.0	-46.2	-24.7
Profit/loss from financial investments				
Financial income	9.4	2.5	28.2	8.3
Financial expenses	-249.3	—	-320.8	—
Loss after financial items	-250.9	-5.5	-338.7	-16.4
Tax on profit for the year	—	—	—	—
Loss for the period	-250.9	-5.5	-338.7	-16.4

Consolidated Balance Sheet

SEKm	Dec 31, 2008	Apr 30, 2008
Assets		
Fixed assets		
Intangible fixed assets	434.3	355.3
Tangible fixed assets	201.8	148.7
Financial fixed assets	0.5	8.8
Total fixed assets	636.7	512.8
Current assets		
Inventory of finished goods	32.3	51.5
Current receivables	417.7	236.3
Cash and cash equivalents	125.0	146.1
Total current assets	575.0	433.9
Total assets	1,211.7	946.7
Equity and liabilities		
Shareholders' equity		
Share capital	13.1	6.0
Other contributed capital	1,328.7	844.5
Other reserves	11.6	3.2
Accumulated deficit	-546.4	-244.6
Minority interest	51.9	16.1
Total shareholders' equity	858.9	625.2
Long-term liabilities	127.0	105.9
Current liabilities	225.8	215.6
Total liabilities and equity	1,211.7	946.7
Pledged assets	235.4	234.7
Contingent liabilities ¹	26.9	25.1

¹ In addition to contingent liabilities the Group has bank and insurance guarantees of SEK 189,434,000 (86,623,000).

Parent Company Balance Sheet

SEKm	Dec 31, 2008	Apr 30, 2008
Assets		
Fixed assets		
Intangible fixed assets	8.3	8.3
Tangible fixed assets	1.7	0.8
Financial fixed assets	738.3	559.9
Total fixed assets	748.3	569.0
Current assets		
Current receivables	88.7	112.9
Cash and cash equivalents	83.4	92.0
Total current assets	172.1	204.9
Total assets	920.4	773.9
Equity and liabilities		
Shareholders' equity		
Share capital	13.1	6.0
Other restricted assets	291.9	291.9
Unrestricted reserves	598.6	451.0
Total shareholders' equity	903.6	748.9
Long-term liabilities		
	—	—
Current liabilities	16.8	25.0
Total liabilities and equity	920.4	773.9
Pledged assets	75.5	108.2
Contingent liabilities ¹	42.4	24.2

¹ In addition to contingent liabilities, the parent company has insurance guarantees of SEK 165,764,000 (200,458).

Consolidated Cash Flow Statement

SEKm	May-Dec 2008	May-Dec 2007
Operating activities		
Operating profit/loss before financial items	-189.6	-43.3
Items not affecting liquidity	67.3	18.4
Net financial items	5.1	4.6
Income tax paid	3.1	
Cash flow from operations before changes in working capital	-114.1	-20.3
Increase/decrease in current assets	-123.6	-6.8
Increase/decrease in current operating liabilities	-13.9	39.4
Cash flow from operating activities	-251.6	12.3
Investing activities		
Investments in intangible assets	-31.9	-6.7
Investments in tangible assets	-13.3	-5.4
Divested assets		3.0
Investments in subsidiaries	-231.9	-205.3
Other financial investments	19.0	-26.4
Cash flow from investing activities	-258.1	240.8
Financing activities		
Issue of new shares	491.2	264.7
Loans received	5.5	10.4
Repayment of loans	-8.1	-5.6
Increase/decrease of current financial liabilities		
Cash flow from financial activities	488.6	269.5
Cash flow for the period	-21.1	41.0
Cash and cash equivalents at beginning of period	146.1	186.4
Cash and cash equivalents at end of period	125.0	227.4

Consolidated Statement of Changes in Equity

SEKm	May-Dec 2008	May-Dec 2007
Opening balance	625.2	441.1
Issue of new shares	491.2	262.5
Tax effects of Group contributions	—	-1.4
Translation reserve	6.2	0.7
Other reserves	2.2	5.4
Loss for the period	-301.8	-38.3
Minority interest	35.9	2.5
Total shareholders' equity at end of period	858.9	672.5

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

SEK m	May–Dec 2008		May–Dec 2007	
	Net turnover	Operating profit/loss	Net turnover	Operating profit/loss
Morphic Impact	0.3	–13.5	0.9	–11.7
Morphic Wind	194.8	–64.7	115.2	–6.3
Morphic Systems	24.7	–72.8	3.9	–7.4
Other Operations*	99.7	1.8	101.3	5.5
Central costs	0.4	–46.2	0	–24.7
Elimination of inter-company transactions	–9.7	5.8	–6.1	–0.5
Group	310.2	189.6	215.2	–45.1

* 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 December 31, 2008.

Review Report

This report has not been reviewed by the company's auditor.

Karlskoga, February 25, 2009

The Board of Directors

Future Financial Information

- 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.