

- Net turnover for the period was SEK 66.3m (63.7)
- The company reports an operating loss of SEK –36.9m (–21.7)
- The loss after financial items was SEK –35.0m (–19.8)
- The loss after tax was SEK –33.7m (–19.8)
- Earnings per share were SEK –0.21 (–0.14)
- The total order book was worth SEK 1,021.6m at the end of the period, of which Morphic Wind (previously Wind Power) accounted for SEK 737.6m
- Cash and cash equivalents at the end of the period were SEK 173.4m (146.1)
- Cash flow from operating activities was SEK –64.6m (21.2)

Events in Summary

During the period Morphic received an order for ten 3 MW wind turbines from Skellefteå Kraft AB worth SEK 360m. The acquisition of 80 percent of the Norwegian wind turbine maker ScanWind AS was also completed during the period. In connection with the acquisition, Morphic signed a statement of intent with Vattenfall on a partnership for development of ScanWind's 3.5 MW turbine for offshore locations. During the period Morphic signed a partnership agreement with the German wind turbine maker Kenersys. Under the long-term agreement, Morphic acquires the right to sell and market Kenersys' wind turbines in Sweden, Norway, Denmark, Finland, Iceland, Estonia, Latvia, Lithuania and a non-exclusive right in Poland, with the exception of certain of Kenersys' existing customers. On May 19 Morphic carried out a private placement of 13.1 million series B shares aimed at Swedish institutional investors. The placement raised SEK 132m before issue costs. At an extraordinary general meeting on July 10 the company's shareholder's authorized the Board to decide on a rights issue during the period up to the next Annual General Meeting on October 20. After the end of the period Morphic Impact has received a new test order from a leading automotive manufacturer. In Other Operations Morphic received a test order for production of chassis for consumer electronics.

This is Morphic

Morphic Technologies is a Swedish engineering group operating in the areas of fuels cells, wind power, fuel cell energy systems and engineering technology. 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 25,400.

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 17 September 2008 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.

CEO's comment

A prominent feature of the first quarter was the broadening of the product range in Morphic Wind. The steps we have taken in wind power have given us a portfolio with different multi-megawatt turbines for all wind classes. We are also developing an offshore turbine in the 4 MW class. These events give us big opportunities. We have also continued the intensive development of our fuel cell energy system for the telecom industry, and this fall we will be testing our own 20 kW wind turbine on the island of Öland off the coast of Sweden. Morphic Impact, our business area for fuel cell components, has developed according to plan. As reported previously, we have now initiated delivery on received volume orders. We have also received strategically important test orders for production of components and entire test platforms for the consumer industry as well as the automotive industry. To date, Morphic Impact has concluded 169 partnership agreements.

As announced previously, we are 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.

Sales have remained more or less unchanged compared with the same period the previous financial year and are primarily dependent on the time of completion and delivery of our ongoing wind projects in accordance with project plans and agreements. As we continue to build our organization, increase our order book and deliver the orders received, I believe our revenues will gradually increase from one quarter to the next. Our current focus is on building the Group's organization to successfully complete the first stage of our commercialization phase. Our aim is to achieve this through balanced growth while ensuring an organization with optimal cost efficiency that is adapted to the market's demand for our products. Our total order book now exceeds one billion Swedish kronor, which shows that our focus and strategy have borne fruit.

Financial Performance in Summary

Group SEKm	3 months, May–Jul	
	2008/09	2007/08
Net turnover	66.3	63.7
Operating loss	-36.9	-21.7
Loss after financial items	-35.0	-19.8
Earnings after tax	-33.7	-19.8
Cash flow from operating activities	-64.6	21.2
Earnings per share, SEK	-0.21	-0.14
	Jul 31, 2008	Apr 30, 2008
Cash and cash equivalents at balance sheet date	173.4	146.1
Equity/assets ratio (%)	64.7	66.0

Turnover and Orders

Consolidated net turnover for the period was SEK 66.3m, representing a year-on-year increase of 4.1 percent (63.7). The largely flat turnover is primarily due to the timing of completion and delivery of ongoing wind projects according to project plans and agreements. At the balance sheet date the company's order book was worth SEK 1,021.6m.

Result

The Group posts an operating loss for the period of SEK -36.9m (-21.7). The weaker result is primarily due to costs relating to development work in the acquired businesses

and a build-up of resources in Morphic Systems' Swedish business. Costs have also been higher in Morphic Wind due to the start-up of a tower factory, the development of new welding methods and costs incurred as a result of delays in deliveries. Moreover, capacity use is still low, resulting in lower cost coverage. The increase in central costs is primarily attributable to Group marketing activities, business development and recruitment in the parent company, which in turn had a negative impact on earnings.

The Group reports a loss after tax for the first quarter of SEK -33.9m (-19.8).

Segment Reporting

SEKm	May–Jul 2008/09		May–Jul 2007/08	
	Net turnover	Operating profit/loss	Net turnover	Operating profit/loss
Morphic Impact	1.5	-4.0	0.1	-4.6
Morphic Wind	26.7	-12.9	33.3	-4.5
Morphic Systems	4.5	-12.2	1.0	-1.6
Other operations*	34.7	4.6	32.0	-1.7
Central costs	—	-13.1	—	-6.9
Elimination of intercompany transactions	-1.1	0.7	-2.7	-2.4
Group	66.3	-36.9	63.7	-21.7

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

Morphic Impact

SEKm	Q1, May–Jul	
	2008/09	2007/08
Net turnover	1.5	0.1
Operating loss	–4.0	–4.6

- Segment order book worth SEK 194.6m
- Delivery initiated on received volume orders
- New laboratory at Karlskoga plant

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

Result

The segment reports an operating loss of SEK –4.0m (–4.6). Investments in increased marketing activities in Asia, the United States and Europe continued during the period, notably through the recruitment of a new Head of Sales for the North American market. The period saw a continued industrialization of production processes, with a particular focus on quality assurance of customer documentation. Final assembly of a large impact unit was completed during the period.

Delivery Initiated on Received Volume Orders

During the period Morphic initiated delivery of received volume orders for production of flow plates for the consumer electronics industry, after a period of adapting its production processes. Adaptation refers to dedicated automation equipment and production tools for the current product, which is a part of every industrialization phase.

Test Order for Three Production Platforms for Automotive Industry

After the end of the period Morphic Impact has received an order for three further test and verification platforms from one of the world's five largest automotive manufacturers. The first two platforms, produced in the spring, have now successfully passed the critical quality tests specified in the project plan. As a result, the customer has signed a new order for a further three platforms. The platforms will be manufactured and delivered in fall and will then be evaluated by the customer in the first quarter of 2009.

New Laboratory at Karlskoga Plant

This fall Morphic Impact's new laboratory at the company's production plant in Karlskoga will be in full operation. The laboratory is already being used for quality control of stamped plates for internal development activities. The extension of the plant has reduced the time for development, production control and testing.

The Market for Fuel Cell Components

Morphic's activities in the segment comprise production of flow plates (also known as "bipolar plates"), the key component of a fuel cell. A fuel cell system can consist of hundreds of plates, whose task is to conduct the injected fuel in an efficient manner. Morphic's market in the area of fuel cells consists partly of businesses operating in the automotive, standby power and consumer electronics industries and partly of dedicated fuel cell manufacturers. In the automotive industry, for example, the world's first series-produced fuel cell-powered car has now been rolled out from an established vehicle manufacturer's specialized production plant. The manufacturer has stated that it intends to build 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 established 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.

Morphic Wind

SEKm	Q1, May–Jul	
	2008/09	2007/08
Net turnover	26.7	33.3
Operating loss	-12.9	-4.5

- Segment order book worth SEK 737.6m
- Order for ten 3 MW wind turbines
- Acquisition of 80 percent of ScanWind AS of Norway, resulting in a more complete product portfolio
- Statement of intent with Vattenfall AB
- Partnership agreement with Kenersys AG
- Eric Göthlin appointed new CEO of Morphe Wind

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. Operations are conducted through the subsidiary companies DynaWind AB and ScanWind AS.

Result

Morphic Wind reports an operating loss of SEK -12.9m (-4.5). The quarterly result includes costs relating to delays in component deliveries and the resulting delays in deliveries to customers and to the development of new welding methods. To strengthen the organization's ability to handle larger delivery volumes, costs for training and recruitment of staff in installation, marketing and project control have been recognized. Capacity-raising investments in installation equipment have been made. Costs relating to the preparing and negotiation of partnership agreements have also been charged to expense during the period.

Order for Ten 3 MW Wind Turbines

Morphic has received an order for ten 3 MW wind turbines for the Uljabuouda wind park in the municipality of Arjeplog in the north of Sweden. The buyer is Skellefteå Kraft, Sweden's fourth largest producer of electrical power, and the order is worth SEK 360m. Uljabuouda is the first major installation to be built in an Arctic climate. The risk of ice formation will require a high level of operating reliability and technology.

The park is scheduled for completion in 2010 and is expected to have an annual production of 80 GWh, enough to provide for the needs of about 4,000 electricity-heated houses. Skellefteå Kraft is planning to invest in further wind installations in mountainous areas, of which the 100 turbine Blaiken wind park is the largest. Work on obtaining the necessary permits is underway and construction could start in 2011-12.

Acquisition of 80 Percent of ScanWind of Norway

Morphic has acquired 80 percent of the Norwegian wind turbine maker ScanWind AS. ScanWind manufactures and markets wind turbines with capacities of 3.5 MW that are specially designed for the IEC 1 and IEC 2 wind classes, locations exposed to extreme wind conditions and tough climates, such as coastal areas. The price was NOK 189m and the seller is Nord Trøndelag Elektrisitetsverk AS

(NTE). Morphe also has an option to acquire the remaining shares in the company. ScanWind's head office is located in Trondheim, Norway. The company has 35 employees and generated a turnover of NOK 253.6m in 2007. Earnings before financial expenses were NOK -60.4m.

The acquisition of ScanWind has ensured a more complete product portfolio for most onshore (IEC2) and coastal (IEC1) locations, with a potential for offshore locations (IEC1).

Statement of Intent Vattenfall Vind AB

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

Partnership Agreement with Kenersys AG

Morphic has signed a partnership agreement with the German wind turbine maker Kenersys. Under the long-term agreement, Morphe acquires the right to sell and market Kenersys' wind turbines in Sweden, Norway, Denmark, Finland, Iceland, Estonia, Latvia, Lithuania and Poland, with the exception of certain of Kenersys' existing customers. The turbines will be manufactured at Kenersys' production plant in northern Germany and then transported to Sweden. All related services, including production of the towers used for Kenersys' turbines, are delivered from Morphe's plant in Sweden. In the longer term Morphe may start delivery of towers to Kenersys also for turbines outside the Nordic and Baltic markets. Morphe will be responsible for the operation and maintenance of Kenersys' turbines in the above-mentioned regions. The scope and terms of the agreement with Kenersys are very similar to the agreement that Morphe has concluded with WinWinD.

Erik Göthlin Appointed New CEO of Morphic Wind

In June it was announced that Erik Göthlin had been appointed new CEO of DynaWind AB as well as head of the Morphic Wind business area, which includes responsibility for the ScanWind subsidiary. Erik's most recent appointment before joining Morphic was as head of international operations at Chromalox Inc., a US maker of electrical heating equipment for industrial applications.

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 2008–2011. 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 Systems

SEKm	Q1, May–Jul	
	2008/09	2007/08
Net turnover	4.5	1.0
Operating loss	-12.2	-1.6

- Segment order book worth SEK 18.3m
- Energy system delivered to Patras, Greece

The segment developments and sells complete energy systems based on fuel cells in combination with various systems and technologies for renewable energy. Operations are conducted by the subsidiary company Morphic System and its subsidiaries AccaGen S.A., Helbio S.A. and Exergy Fuel Cells s.r.l.

Result

The segment reports an operating loss of SEK -12.2m (-1.6). The negative result is due to intensive product development, recruitment and the development enabled through the acquisition of three international energy technology companies in late 2007. The result includes costs relating to the sharp increase in the segment's development resources as well as higher costs relating to amortization of surplus values.

Energy System Delivered to Patras, Greece

Morphic Systems' Greek order for an energy system for converting biogas from waste water into electricity and heat was completed in June. The system, which produces 20 kW of electrical energy and 20 kW of heat, is currently being evaluated by the buyer, Patras Municipal Corporation for Water Supply and Waste Water Management. In addition to Helbio's patented reformers, the system includes a biogas purification filter, a 20 kW fuel cell, and a voltage converter for adapting the fuel cell's output voltage to the electrical grid. Upon completion of the evaluation period, the customer has expressed interest in a further system for significantly larger effects, since the current pilot system only uses a small part of the extracted biogas.

The Market for Energy Systems

Morphic develops fuel cell energy systems enabling conversion, storage and use of renewable energy. The market consists of service companies, service facilities, industries, agriculture and private users. The market for energy systems is deemed to have a very good long-term growth potential. The market for systems for local production of electricity can be divided into two categories – areas with infrastructure for electricity generation and areas without infrastructure for electricity generation. In the first category Morphic's system can be used for generating electricity from energy derived from treatment works, recycling plants and small-scale industries.

In the second category, which constitutes the Group's main focus, Morphic's system can replace diesel generators, cutting customers' electricity costs. Although the initial investment for Morphic's energy system is higher than for a diesel generator, the system becomes competitive relatively quickly, since no fuel needs to be added. For example, a single operator may be installing 9,000 telecom base stations in India in 2009. Out of these, it is estimated that about half will be installed in areas without electricity, where only diesel generators can be used. Morphic's energy system can also be used to supply electricity in inaccessible locations to which diesel cannot be transported.

One potential market, primarily for electrolyzers and reformers, is hydrogen stations – a market potential that depends on the transition to hydrogen-powered vehicles.

Other Operations

SEKm	Q1, May–Jul	
	2008/09	2007/08
Net turnover	34.7	32.0
Operating loss	4.6	-1.7

- Segment order book worth SEK 71.0m
- New orders in heavy mechanical processing

The segment comprises three different businesses – Contract Production (component processing through adiabatic softening and heavy mechanical processing in hydroelectric power and other areas), Ship Propulsion and Automation Technology. Operations are conducted through the subsidiary companies Cell Impact AB, Finshyttan Hydro Power AB, Aerodyn AB and Dynamis AB.

Result

The segment reports an operating profit of SEK 4.6m (-1.7). The result was positively affected by a buoyant ship propulsion market and focused efforts in heavy mechanical processing. The market introduction in automation technology will increase turnover initially but will not help to improve profits. Operatively, the goal is to establish the system in the market and identify potential partners in systems integration.

New Orders in Heavy Mechanical Processing

The Morphic subsidiary Finshyttan has received several orders from GE Hydro Inepar AB for renovation of turbine details at the Stensele, Gulsele and Hojum power stations. Work on Gulsele began in May while work on Stensele and Hojum 15 began in late summer. Finshyttan has also received several orders in the mining industry through Outotec of Finland and its partner Siempelkamp. Berg Propulsion, a company based in Öckerö, Sweden, has recently increased its order book for ship propeller systems, which has resulted in more orders for Finshyttan in the propulsion segment. Scana Björneborg remains a major customer for Finshyttan, with ongoing agreements on processing in the power generation area.

Test Order for Production of Chassis for Consumer Electronics

After the end of the period Morphic Impact has received a small strategic test order for production of magnesium chassis for a consumer electronics product. The customer is a major Asian consumer electronics manufacturer and the order is the result of successful initial tests at Morphic's Technology and Customer Center in Shin-Yokohama outside Tokyo in Japan. High-speed forming of light metals such as magnesium is very suitable processing method and competes with casting and other traditional methods in terms of both cost and quality.

The Market for Contract Production

– Component Processing

Morphic's operations in contract production of components using high-speed technology are currently in a start-up phase. The market consists primarily of manufacturing sub-contractors in the engineering and automotive industries.

The Market for Contract Production

– Heavy Mechanical Processing

The market for heavy mechanical processing comprises hydroelectric power, mining, propulsion, wind power and generation – sectors in which Finshyttan continued to strengthen its operations during the quarter. Heavy industry in Germany is currently strong, and Finshyttan has, with the help of the Swedish Trade Council, initiated a project aimed at attracting more German customers. Finshyttan still sees no signs of waning demand in the market for heavy mechanical processing.

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 a surge in 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. The main emphasis is on the Swedish market but the system will also be launched in selected European markets.

Financial Position – Group

Shareholders' equity increased during the period to SEK 760.6m (625.2) as a result of a share offering. The equity/assets ratio was 64.7 percent (66.0). Consolidated total assets increased to SEK 1,175.4m (946.7). Cash and cash equivalents at the balance sheet date, July 31, 2008, were SEK 173.4m (146.1). Interest-bearing liabilities were SEK 155.8m, of which SEK 93.0m refers to a short-term loan for the financing of the acquisition of ScanWind AS.

To refinance acquisition credits and development work that has already been decided, one further rights issue will be carried out. The basis for such issues is the Board's authorization from the extraordinary general meeting on July 10, 2008. As reported in June 2008, the Board of Directors believes the rights issue will need to comprise new shares worth approximately SEK 400m in order cover the Group's liquidity and refinancing requirements for the next twelve-month period

Cash Flow

Cash flow from operations declined by SEK 85.8m compared with the previous year, SEK –64.6m (21.2), which is equivalent to SEK –0.39 per share (0.15). The deterioration is largely due to changes in project liquidity in Morphic Wind.

Investments and Depreciation

The Group's net investments in tangible fixed assets during the period totaled SEK 1.4m (10.4m). Depreciation of tangible fixed assets was SEK 5.3m (4.3). The Group's investments in intangible assets were SEK 8.3m (1.2). All investments are recognized exclusive of business investments. Amortization of intangible assets during the period was SEK 6.6m (1.0).

Acquisition of ScanWind AS

On July 17, 2008 Morphic acquired 80 percent of the Norwegian wind power company ScanWind AS. ScanWind manufactures and markets wind turbines with capacities from 3.5 MW that are specially designed for locations exposed to extreme wind conditions and tough climates, such as coastal areas. The company became a part of the Morphic Group on July 31, 2008 and has been integrated in the consolidated income statement and balance sheet as of that date. ScanWind is part of Morphic Wind. Consolidated income for the period does not include and income or expenses from ScanWind. The cash flow effect of the acquisition is SEK –223.9m, consisting of a cash payment of SEK 222.5m and acquisition costs of SEK 3.8m less the acquired cash assets of SEK 2.4m. If the acquisition had taken place at the beginning of the financial year consolidated net turnover would have increased by SEK 4.8m and the consolidated operating result would have been reduced by SEK 10.0m. See also Note 2 for a preliminary analysis of the acquisition.

Personnel

The Group's personnel costs during the period were SEK 31.9m (19.5) and the total number of employees at the end of the period was 232 (112), representing a year-on-year increase of 107.1 percent.

Financial Targets

Morphic's goal is to generate the strongest possible return for its shareholders in the form of value growth and divi-

dends. The Group's overarching goal is to achieve profitability. In a longer-term perspective, the Group's target is to achieve an annual turnover of around SEK 10bn by 2012.

Outlook

The 2008/09 financial year will see a more focused and balanced drive to ensure continued growth in the Group's core business areas, Morphic Systems, Morphic Wind and Morphic Impact. 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 –5.7m (–4.1). During the period the parent company made investments in fixed assets totaling SEK 294.7 (18.9), of which SEK 0.2m refers to patents and SEK 0.1m refers to tangible fixed assets. The remaining SEK 294.4m refers to investments in the subsidiaries. At the balance sheet date cash and cash equivalents in the parent company were SEK 107.3m (92.0). The equity/assets ratio was 89.5 percent (96.8).

HR Director and CFO Recruited

Helena Woxlin has been employed as Director of Human Resources at Group level with effect from September 1, 2008. She will report to the President and CEO Jonas Eklind and will form part of Morphic's Group management. After the end of the period Håkan Wallin has been recruited as new Chief Financial Officer for the Group.

Intellectual Property Rights

On the balance sheet date Morphic's patent portfolio included 21 inventions, all of which had been granted patents in Sweden and the majority also in other countries and regions. 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.

Brand Strategy

Morphic has developed a new brand strategy. The first step will be the launch of a new graphic identity for Morphic this fall. At the same time some business areas will also be renamed. With Morphic as master brand, the names of our main business areas will be changed as follows: DynaWind will become Morphic Wind. Morphic Business Development has become Morphic Systems. Cell Impact will become Morphic Impact (Cell Impact will remain as a product brand).

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

Annual General Meeting 2008

The Annual General Meeting will be held on October 30 at 1 p.m. in the Göteborg Convention Centre (Hotel Gothia Towers), Mässans gata 24, Gothenburg, Sweden. In accordance with the company's articles of association, the notice of AGM is published in daily newspapers in Sweden and at www.morphic.se. It provides information on how to give notice of attendance.

Proposed Change of Financial Year

The Board intends to propose that the Annual General Meeting change the company's financial year to the calendar year.

Provided that the AGM approves the proposal, the current financial year will be shortened to comprise the period May–December 2008, with the following reporting dates:

- Interim report for the period May–July 2008: September 17
- Interim report for the period May–October 2008: December 19

Further reporting dates will be announced after the AGM.

Proposal for New Board of Directors

Prior to the Annual General Meeting on October 20 Morphic's Nominating Committee has decided to propose Peter Ekenger as a new member of the company's Board of Directors. The Nominating Committee further proposes that Peter Enå (Board Chairman), Kurt Dahlberg, Kjell Östergren and Anette Myrheim be re-elected to the Board. Eva Lotta Kraft and Lars-Olof Nilsson have declined re-election and have decided to step down from the Board with effect from August 26. In connection with the AGM Jan Alvéen will transfer to a consulting role in order to assist Morphic during the continued industrial build-up in the Group. The Nominating Committee's other proposals relating to Directors' fees and the election of an auditor are expected to be published in connection with the notice of AGM.

Extraordinary General Meeting July 10, 2008

At an extraordinary general meeting held on July 10, 2008 the shareholders resolved, as proposed by the Board, to authorize the Board of Directors to decide, during the period up to the next Annual General Meeting, on the issue of new shares with pre-emption rights for existing shareholders ("rights issue"), whereby holders of shares of series A will be entitled to subscribe for new A shares and holders of shares of series B will be entitled to subscribe for new B shares. The shareholders also decided, as proposed by the Board, to authorize the Board to decide, on one or several occasions prior to the next AGM, on the issue of new B shares without pre-emption rights for existing shareholders to be used in lieu of cash payment. The authorization may only be used for payment of underwriting fees in connection with the issue of new shares.

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 period Morphic's share price fell by 12.1 percent. In the same period OMXSPI lost 13.1 percent. The highest price paid during the period was SEK 13.80 and the lowest price paid SEK 7.20. At the end of the period Morphic had a market capitalization of SEK 1,437m. During the period 56.84 million B shares were traded for a value of SEK 615.6m. This is equivalent to a turnover rate of 144 percent.

Private Placement

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.

Share Capital

At the balance sheet date, July 31, 2008, Morphic's share capital is about SEK 6.6m, represented by 163,872,022 shares, of which 5,984,000 are of series A and 157,888,022 of series B. The number of shareholders was about 25,000.

Incentive Schemes

There are two outstanding equity-based incentive schemes in Morphic: a market-based warrants scheme expiring on October 31, 2009 and an employee stock option scheme expiring on May 31, 2013. If all warrants/options in the two schemes are exercised to subscribe for new shares the new shares would represent about 5.3 percent of Morphic's share capital at 31 July 2008.

During the period stock options has been allocated to employees and associated costs to this program has been charged to the consolidated Income Statement. The total cost for the program is estimated at 17.9 MSEK (based on the value on the allocation day). Social costs are included and based on the value of the option on the allocation day. These costs will vary based on the share price during the length of the program.

Risks and Uncertainties

An investment in Morphic is associated with risk. Developing new products in entirely or partly new markets is always associated with risks, both internal and external. The Group generated a net turnover of 356.6m in 2007/08. Achieving the overall financial target for 2012 will thus require significant sales growth. In the view of the Board, the internal challenges include building up the organizational structure, the ability to choose the right production and marketing 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	May–Jul 2008/09	May–Jul 2007/08
Operating income		
Net turnover	66.3	63.7
Change in inventories	7.6	0.9
Capitalized production costs	1.6	0.5
Other operating income	2.6	0.4
Total income	78.1	65.5
Operating costs		
Purchase of goods and services	-50.4	-49.3
Other external costs	-21.0	-13.1
Personnel costs	-31.9	-19.5
Depreciation and amortization of tangible and intangible fixed assets	-11.7	-5.3
Total operating costs	-115.0	-87.2
Operating loss	-36.9	-21.7
Profit/loss from financial investments		
Financial income	3.6	2.1
Financial expenses	-1.7	-0.2
Loss after financial items	-35.0	-19.8
Tax on profit for the year	—	—
Deferred tax	1.3	—
Minority interest	—	—
Loss for the period	-33.7	-19.8
Earnings divided by weighted average no. of shares before and after dilution (SEK)	-0.21	-0.14
Weighted no. of shares during period	161,272,033	139,688,862
Total no. of shares at end of period	163,872,022	136,744,966

Parent Company Income Statement

SEKm	May–Jul 2008/09	May–Jul 2007/08
Operating income		
Net turnover	0.1	–
Change in inventories	–	–
Capitalized production costs	–	–
Other operating income	–	–
Total income	0.1	–
Operating costs		
Purchase of goods and services	–0.1	–
Other external costs	–6.2	–3.3
Personnel costs	–6.3	–2.9
Depreciation and amortization of tangible and intangible fixed assets	–0.5	–0.7
Total operating costs	–13.1	–6.9
Operating loss	–13.0	–6.9
Profit/loss from financial investments		
Financial income	7.6	2.8
Financial expenses	–0.3	–
Loss after financial items	–5.7	–4.1
Tax on profit for the year	–	–
Loss for the period	–5.7	–4.1

Consolidated Balance Sheet

SEKm	Jul 31, 2008	Apr 30, 2008
Assets		
Fixed assets		
Intangible assets	580.4	355.3
Tangible fixed assets	197.5	148.7
Financial fixed assets	1.0	8.8
Total fixed assets	778.9	512.8
Current assets		
Inventories	79.6	51.5
Current receivables	143.5	236.3
Cash and cash equivalents	173.4	146.1
Total current assets	396.5	433.9
Total assets	1,175.4	946.7
Equity and liabilities		
Shareholders' equity		
Share capital	6.6	6.0
Other contributed capital	974.1	844.5
Other reserves	3.6	3.2
Accumulated deficit	-278.3	-244.6
Minority interest	54.6	16.1
Total shareholders' equity	760.6	625.2
Long-term liabilities	138.5	105.9
Current liabilities	276.3	215.6
Total equity and liabilities	1,175.4	946.7
Pledged assets	222.0	234.7
Contingent liabilities ¹	34.8	25.1

¹ In addition to contingent liabilities, the Group has bank and insurance guarantees of SEK 203.9m (204.5).

Parent Company Balance Sheet

SEKm	Jul 31, 2008	Apr 30, 2008
Assets		
Fixed assets		
Intangible assets	8.0	8.3
Tangible fixed assets	0.8	0.8
Financial fixed assets	848.4	559.9
Total fixed assets	857.2	569.0
Current assets		
Current receivables	11.4	112.9
Cash and cash equivalents	107.3	92.0
Total current assets	118.7	204.9
Total assets	975.9	773.9
Equity and liabilities		
Shareholders' equity		
Share capital	6.6	6.0
Other restricted assets	293.8	291.9
Unrestricted reserves	572.9	451.0
Total shareholders' equity	873.3	748.9
Long-term liabilities	0.5	—
Current liabilities	102.1	25.0
Total equity and liabilities	975.9	773.9
Pledged assets	93.0	108.2
Contingent liabilities ¹	33.9	24.2

¹ In addition to contingent liabilities, the parent company has insurance guarantees of SEK 200.5m (200.5).

Consolidated Cash Flow Statement

SEKm	May-Jul 2008/09	May-Jul 2007/08
Operating activities		
Operating loss before financial items	-36.9	-21.7
Items not affecting liquidity	16.7	5.5
Net financial items	3.5	1.9
Income tax paid	0.2	0.1
Cash flow from operations before changes in working capital	-16.5	-14.2
Increase/decrease in current assets	2.8	64.7
Increase/decrease in current operating liabilities	-50.9	-29.3
Cash flow from operating activities	-64.6	21.2
Investing activities		
Investments in intangible assets	-8.3	-1.2
Investments in tangible assets	-1.4	-10.4
Divested assets	—	3.1
Investments in subsidiaries	-223.9	—
Other financial investments	109.6	-21.4
Cash flow from investing activities	-124.0	-29.9
Financing activities		
Issue of new shares	128.1	—
Loans received	93.0	9.3
Repayment of loans	-5.5	-3.8
Increase/decrease of current financial liabilities	0.3	1.4
Cash flow from financing activities	215.9	6.9
Cash flow for the period	27.3	-1.8
Cash and cash equivalents at beginning of period	146.1	186.4
Cash and cash equivalents at end of period	173.4	184.6

Consolidated Statement of Changes in Equity

SEKm	May-Jul 2008/09	May-Jul 2007/08
Opening balance	625.2	441.1
Issue of new shares	128.1	-0.2
Vested employee stock options	2.0	—
Translation reserve	0.4	—
Other reserves	—	0.8
Loss for the period	-33.7	-19.8
Minority interest	38.6	—
Total shareholders' equity at end of period	760.6	421.9

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. During the period the Group changed its segment breakdown to adapt it to the Group's business areas. The Group's segments are Morphic Wind, Morphic Impact, Morphic System and Other Operations. Comparison figures from the previous period have also been restated to the new segments.

In other respects, the accounting principles, definitions of key ratios and methods of calculation applied are the same as in the last annual report. The parent company's accounts have been prepared in accordance with Recommendation RR32:06, Accounting for Legal Entities.

NOTE 2 PRELIMINARY ACQUISITION ANALYSIS – SCANWIND

SEKm

Cash consideration	222.5
Acquisition costs	3.8
Acquisition price	226.3
Group's share of acquired net assets (80%)	153.8
Goodwill	72.5

Acquired net assets

	Fair value	Carrying amount
Intangible assets	147.1	19.2
Tangible assets	53.5	53.5
Current assets	42.7	42.7
Cash balances	2.4	2.4
Deferred tax	-35.8	—
Current liabilities	-17.7	-17.7
Acquired net assets	192.2	100.1

Karlskoga, September 16, 2008

Board of Directors of Morphic Technologies AB

Review Report

I have reviewed this report for the period 1 May 2008 to 31 July 2008 for Morphic Technologies AB. The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. My responsibility is to express a conclusion on this interim report based on my review.

I conducted my review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden, RS, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Based on my review, nothing has come to my attention that causes me to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Örebro, September 16, 2008

Inger Carlsson
Authorised Public Accountant

Future Financial Information

- Annual General Meeting 2007/08: Oktober 20, 2008
- Six-month report 2008/09: December 19, 2008

New dates for the release of financial information will be announced after the AGM's decision on shortening the financial year on October 20.
