

Annual Report 2006/07



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Shareholder Information

Morphic press releases and reports are distributed through Cision (www.cision.se). Annual reports, financial reports, and press releases can be ordered from the Company by writing to Morphic Technologies AB, Gammelbackavägen 6, SE-691 51 Karlskoga, Sweden, or via phone +46 (0)586 673 90 or e-mail info@morphic.se.

Annual General Meeting

The Annual General Meeting (AGM) will be held on October 19 at 1:00 p.m. at the Gothenburg Convention Centre in Gothenburg, Sweden. Notice of the AGM will be published in the daily press as specified in the Articles of Incorporation and on www.morphic.se. The website also has further information on the Notice of AGM.

Persons whose shareholdings are nominee-registered with a bank or other funds manager should request temporary share registration from the nominee a couple of banking days before record day on October 13, 2007.

Reporting Dates

- Interim Report for the period May–July 2007: September 27
- Interim Report for the period May–October 2007: December 17
- Interim Report for the period May 2007–Jan 2008: March 26
- Financial information for fiscal 2007/08: June 25
- Annual Report for fiscal 2007/08: August 2008

The reports are available on www.morphic.se from the date of publication. The Annual Report is also sent directly to shareholders that have requested financial information.

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The names "Morphic" and "Morphic Group" refer to Morphic Technologies AB (publ) and its wholly-owned subsidiaries. The name "Morphic Technologies" refers to the Parent Company.

2006/07 in Brief

- Revenue SEK 143.7 million (38.6)
- Loss after tax SEK –66.9 million (–24.6)
- Cash flow after investments SEK –188.4 million (–50.1)
- Earnings per share SEK –0.59 (–0.27)
- The Group's cash and cash equivalents on balance sheet date was SEK 186.5 million (88.6) with an equity ratio of 73.2% (83.6%)

Multiple Contracts in the Fuel Cell Area

Morphic subsidiary Cell Impact entered agreements in 2006/07 with customers in a number of different fields, including the automotive, telecom, and consumer electronics industries. The contracts are all for production of test series of flow plates for fuel cells. Similar contracts have also been signed with two of the world's largest automotive manufacturers along with five companies involved in the Chinese automotive industry. A number of contracts were also signed in the consumer electronics field.

As a consequence of these contracts production of flow plates is now underway and the first plates have been delivered for evaluation. *Read more on page 10.*

Strong Development in Wind Power Business

Demand for wind turbines was strong during the year. A total of 11 turbines were sold to customers in Sweden in 2006/07 representing an order value of approximately SEK 340 million.

The single biggest order comprises ten turbines, five of which were ordered after the end of the fiscal year, for the Vindpark Väner project. The turbines each have a rated output of 3 MW and the total order is worth approximately SEK 460 million, with delivery in 2008 and 2009.

To meet the heavy demand for wind turbines, it was decided in winter 2006 to build a new factory for producing wind turbine towers in the Gustavsvik industrial area in Kristinehamn. The investment involves a substantial increase in capacity from the current level of some 10 towers per year to some 100 towers per year. *Read more on page 18.*

Modernization of Sweden's Largest Hydroelectric Power Station

Morphic's subsidiary Finshyttan Hydro Power AB received an order during the year for the renovation and modernization of generating unit 5 in Harsprånget on Lule älv, Sweden's biggest hydroelectric power station. The assignment is to be completed in 2007 and includes blade wheel renovation and exchange of bearings and seals. *Read more on page 30.*

Launch of SensActive™

The SensActive material handling system was launched in October 2006. The system uses robots to pick and handle unsorted objects directly from pallets (bin picking), with key benefits including greater efficiency and better working environment.

Positive Trend in Propulsion

Morphic's business in the propulsion field benefited during the year from continued strong activity in the shipbuilding market.

Stronger Organization

The current organization, consisting of a parent company and six sales-oriented subsidiaries, was established in 2006/07. The organization was further strengthened by the recruitment of a new CEO, CFO, and a Communications and IR Manager.

Strong Ownership Base

To facilitate ongoing strong expansion, particularly in the fuel cell and wind power areas, three directed issues and a preferential issue were made in 2006/07. Subscribers to the directed issues included Alecta, Östersjöstiftelsen, and Swedbank Robur Fonder. In combination with the preferential issue, which was oversubscribed by a factor of four, Morphic received funding of some SEK 297 million before issue expenses.

Significant Events After the end of the Fiscal Year

Acquisition of Energy Technology Company Helbio S.A.

Morphic acquired 55 percent of the shares in Greek energy technology company Helbio S.A. in August. The company is a leading player in systems for efficient and ecofriendly production of hydrogen from renewable fuels.

Volume Orders for Flow Plates for Fuel Cells

Also in August, the first volume order was received for mass production of fuel cell plates for the operation of consumer electronics. The order represents a commercial breakthrough for Cell Impact with the contract valued at SEK 60 million over a two year period.

Why RENEWABLE ENERGY is a Future Market

Energy issues are indisputably one of the key issues of our time: how will we be able to meet the demand for energy in a world with growing populations, increasingly higher living standards and ever-increasing transport needs? And how can we do it in an environmentally sustainable manner?

Development in the field of renewable energy has accelerated rapidly in recent years. In 2003, renewable energy (including wind power, biofuel, and solar energy) made up some two percent of total global electricity production. This proportion is expected to increase dramatically in coming years, with the International Energy Agency (IEA) estimating it will have increased to around 10 percent by 2030. A quarter of the increased energy requirement is expected to be met by energy from renewable energy sources.

Achieving this change will require enormous investments in technology, infrastructure, and production equipment. Hong Kong and Shanghai Banking Corporation (HSBC) forecasts annual growth in the segment of as much as 9 percent in the years up to 2030.

The Morphic Group today has leading competency in the development of energy systems that meet the needs and requirements of tomorrow. In the following 84 pages we aim to provide as thorough a view as possible of our business and our understanding of the market. If you have any questions, we warmly welcome you to contact us.

Major Factors Driving the Strong Growth in Renewable Energy

1 A Doubling in Global Demand for Electricity by 2030

The world is facing an enormous challenge. During the next 50 years, the global population is expected to increase by 50 percent from its current 6 billion to 9 billion. And along with generally rising living standards come significant increases in energy requirements, particularly for electricity.

3 Alternative Forms of Energy Increasingly Competitive

As a result of technical development, greater competition, and production improvements, the cost of electricity from renewable energy sources has fallen significantly. Rising prices for oil and other fossil fuels should also be taken into account. Between 1999 and 2006, the price of a barrel of crude oil increased by over 300 percent, a price trend that has made alternative forms of energy more competitive even without grants and subsidies.

5 Limited Availability of oil

The debate on how long oil will last has intensified in recent years. There are numerous indications that we are approaching the point at which global oil production reaches its maximum – Peak Oil. Today we consume four to six times more oil than we discover. As much as 80 percent of the oil produced today comes from oil fields discovered in the early seventies. Even if oil remains an important source of energy in the future, complementary and alternative fuels are needed if modern society is to continue growing in a sustainable manner on a global basis.

2 Greater Awareness of Climate Change

The correlation between carbon dioxide emissions and climate change is becoming increasingly apparent. Lower emissions have become an important objective for governments in most countries. Within the EU, the objective is for renewable energy to represent 12 percent of energy production by 2010 and to increase to 20 percent by 2020. National energy objectives, greater investments in R&D and deregulation of energy markets are among the priorities.

4 Energy Supply Increasingly Important Security Issue





Energy supply has gradually become an increasingly important national security issue. A number of the world's leading economies, such as the US, the EU, and China, consume more energy than they can produce. Greater investments in renewable energy forms is thus seen by many countries as a way of securing local access to energy and reducing their dependency on other countries.

Morphic Technologies in Brief

The Morphic group offers world-leading energy systems for the conversion and utilization of renewable energy. The Company brings together unique competence in system development, fuel cell and other technologies for renewable energy with leading production technology.

The Group's head office is in Karlskoga, Sweden. Operations are run in Karlskoga, Filipstad, Kristinehamn, and Gothenburg. The Group has some 120 employees in total.

Morphic's Class B share is listed on the First North trading site on the Stockholm Stock Exchange. A process was commenced in 2007 to float the shares on the Nordic List on the Stockholm Stock Exchange. The company had approximately 22,000 shareholders in August 2007.

BUSINESS AREA	BUSINESS	SEGMENT AND OPERATIVE SUBSIDIARIES	
 <p>Fuel Cells</p>	Morphic has developed mechanical technology and processes that enable key components for fuel cells to be produced significantly faster, less expensively, and with higher quality than previously possible. Production takes place at Morphic's plants in Karlskoga, Sweden.	<ul style="list-style-type: none"> Fuel cell components 	<ul style="list-style-type: none"> Cell Impact's fuel cell operations
 <p>Wind Power</p>	Morphic's wind power business comprises production and sale of 1 and 3 MW wind turbines.	<ul style="list-style-type: none"> Wind power 	<ul style="list-style-type: none"> DynaWind's entire operation
 <p>Production Technology</p>	Production Technology comprises development and sales of systems and machines for automation of industrial processes. The area is also responsible for Morphic's operations in hydro-electric power and subcontracted production of ship propellers and other large components.	<ul style="list-style-type: none"> Propellers Production on subcontract 	<ul style="list-style-type: none"> Aerodyn's entire operations Cell Impact's subcontracted production of components not related to fuel cells Finshyttan's subcontracted production business Finshyttan's hydro power operations Dynamis' entire operation
 <p>Energy Systems</p>	Morphic is running an intensive development process related to ecofriendly energy systems that enable local production of electricity and hydrogen. The system represents a completely new way to convert, store, and use renewable energy.	<ul style="list-style-type: none"> Energy technology 	<ul style="list-style-type: none"> Morphic Business Development's energy system for electricity production, energy storage, etc. Helbio's reformers, fuel processors, etc. Morphic Business Development's small-scale wind turbines

Vision

Morphic's vision is to become a world leader in energy systems and production technology that drives development towards an environmentally sustainable society.

Overall Objective

Morphic's objective is to create the highest possible return for shareholders in the form of value growth in the Company, profit distribution, and spin-offs of independent businesses.

Business Concept

Morphic's business concept is to develop and market energy systems for the production of electricity and hydrogen along with low-resource production technology for efficient component manufacture.

Financial Objective

The growth objective is to achieve profitable revenue of not less than SEK 2 billion in 2008/09.

Strategy

Morphic's wind power, fuel cells, production technology, and energy systems business areas shall:

- be market leaders in their respective fields,
- maintain a clear focus on ecofriendly solutions, high development standards, and quality,
- be operated as independent and financially sound units,
- develop through organic growth and complementary acquisitions,
- be run as wholly or partly owned units based on what best optimizes capital acquisition, competitiveness, synergies, and industrial collaboration.

SIGNIFICANT EVENTS IN 2006/07

- Five cooperation agreements with companies in the Chinese automotive industry
 - Test orders from two world-leading automotive manufacturers
 - Four test orders in portable electronics
 - Sales organization established
 - Intensified marketing activities in Asia, Europe, and USA
 - Customer center being established in Japan
 - First volume order for flow plates for fuel cells
- (after end of the fiscal year)*

- Strong interest and high demand for Morphic's wind turbines
- Total orders for 12 wind turbines (of which, five after the end of the fiscal year) of 3 MW and 3 turbines of 1 MW
- Morphic supplying wind turbines to the Vindpark Vänern project
- Exclusive license for production and sale of WinWinD wind turbines
- Investment in expanded production capacity and a new production plant

- High order intake for ship propellers
 - Launch and strategic order for SensActive
 - Test order for component production
 - Morphic responsible for renovation and modernization of generating unit 5 in the Harsprånget hydroelectric power station on Lule älv
 - Order from GE Energy for renovation and modernization of a hydroelectric turbine in the Letsi hydroelectric power station
- (after the end of the fiscal year)*

- Installation and commissioning of an initial demonstration plant in Karlskoga
 - 55 percent of energy technology company Helbio S.A. acquired to secure access to competence and key technologies
- (after the end of the fiscal year)*

GOALS AND STRATEGIES

In the next years, Morphic will establish itself as a strategic partner and a leading global subcontractor of flow plates for fuel cells and plates for heat exchangers. The total market for flow plates for fuel cells and plates for heat exchangers is estimated to be worth approximately SEK 18 billion by 2012, of which Morphic's objective is to have a market share of approximately 50 percent. This requires investments in a further 8–10 production plants.

In wind power, the objective is to maintain the current market share of approximately 20 percent as the market grows. Growth will be achieved through sales of high-quality wind turbines with relatively short delivery times. Quality, delivery reliability, and earnings potential are the key parameters.

The objective in production technology is to strengthen the position in all segments. In propulsion, the objective is to raise profitability through greater factory utilization along with an investment in the service business. The objective in hydroelectric power is to solidify Morphic's position as the leading Swedish operator in the renovation and improvement of hydroelectric power stations in Scandinavia. In subcontracted production the objective is to increase the share of assignments, and in automation technology the objective is to achieve a leading position in 3D picking systems within three years.

The objective is to establish Morphic as a leading supplier of high-efficiency energy systems that enable local production of electricity based on renewable energy. The strategy is to demonstrate the strength and full potential of the system in a number of reference installations.

Six Subsidiaries with Complementary Segments

In addition to the Parent Company, the Morphic Group consists of six subsidiaries: Cell Impact AB, DynaWind AB, Finshyttan Hydro Power AB, Aerodyn AB, Dynamis AB, and Morphic Business Development AB.

Cell Impact AB

FUEL CELL COMPONENTS
PRODUCTION ON SUBCONTRACT

- Revenue SEK 1.3 million
- Net loss for the year SEK –14.0 million
- President Martin Valfridsson

Cell Impact has developed technology that makes it possible to manufacture flow plates for fuel cells and heat exchangers in a rational and cost-effective manner. The business is founded on patented technology that enables components to be produced cheaper, faster, and with higher quality than previously possible.

Cell Impact focuses predominantly on plates for fuel cells for the automotive industry, portable electronics, and stationary power packs. Its customers include leading companies in the automotive industry and consumer electronics.

Production takes place in the Cell Impact production plant, the only one of its kind in the world, which for the first time enables flow plates to be mass produced in stainless steel and other materials using high-speed technology.

The business is operated from Karlskoga and has some 12 employees.

DynaWind AB

WIND POWER

- Revenue SEK 33.0 million
- Net loss for the year SEK –4.5 million
- President Anders Sjögren

DynaWind is responsible for the Group's operations in the wind power field. The company offers individual wind turbines and complete wind parks.

The advantage of DynaWind's wind turbines is their high efficiency and availability combined with minimal service requirements. Customers include energy companies, small factories and private individuals. One of the major current projects is Vindpark Vänern, to which DynaWind is delivering ten 3 MW wind turbines.

The wind power operation is largely run through a collaboration with Finnish company WinWinD. The cooperation agreement gives DynaWind exclusive rights to WinWinD's unique turbine technology in the Swedish market and non-exclusive rights in the Norwegian market.

Production to date has taken place in the premises of fellow subsidiary Finshyttan Hydro Power in Filipstad. Due to strong interest and high demand, the company is constructing its own production plant in the Gustavsvik industrial area in Kristinehamn. The investment will increase production capacity to approximately 100 towers per year. DynaWind has a total of 26 employees.

Finshyttan Hydro Power AB

PRODUCTION ON SUBCONTRACT

- Revenue SEK 18.2 million
- Net loss for the year SEK –26.9 million
- President Håkan Örtqvist

Finshyttan Hydro Power AB is one of Sweden's leading players in the renovation and modernization of hydroelectric power turbines for hydroelectric power stations. The company's unique machinery also means it can provide subcontracted production of heavy mechanical machining.

Operations in the hydroelectric power field include:

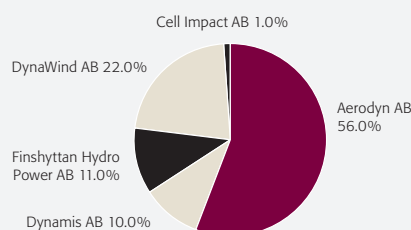
- Renovation and modernization of entire hydroelectric turbines.
- Upgrading and technical improvements to improve performance.
- Service and ongoing maintenance.

Exchange and maintenance of bearings, lubrication systems and control systems. 20 stations have been renovated, modernized and upgraded since 2001. Customers are mainly electricity companies, including major operators such as Vattenfall, Fortum and E.ON as well as smaller local operators.

The business is run from the company's premises in Filipstad and employs some 28 people.

Hydroelectric turbines have been manufactured and renovated in Finshyttan since the early 1900s. In 2005 a merger took place between John Fallgren AB, which ran the Finshyttan operation at the time, and Aerodyn AB in Karlskoga. Aerodyn was acquired later that year by Morphic Technologies. In May 2006 a decision was made to split Aerodyn's business area into three separate companies, with the hydroelectric operation being transferred to Finshyttan Hydro Power AB.

REVENUE 2006/07, (%)
BEFORE ELIMINATIONS OF GROUP TRANSACTIONS



Aerodyn AB

PROPELLARS

- Revenue SEK 97.7 million
- Net profit for the year SEK 11.4 million
- President Lars Andersson

Aerodyn AB is one of Sweden's leading manufacturers of high-quality ship propellers. The business manufactures whole propellers along with blades, hubs and axles for propellers for a range of different ship types including tanker and freight vessels and ferries.

Customers include virtually all major suppliers of complete propeller systems: Rolls Royce, Wärtsilä, MAN and Berg Propulsion. The end customers for propeller components are individual shipping companies around the world.

The business, which is ISO certified, operates in Karlskoga and has approximately 33 employees.

Dynamis AB

AUTOMATION SYSTEMS

- Revenue SEK 18.0 million
- Net loss for the year SEK –5.1 million
- President Anders Reyier

Dynamis AB is responsible for the Group's operations in the automation field. The company develops, manufactures and markets technology and equipment for material handling and quality control primarily in the engineering industry.

Dynamis' method for picking unsorted components from pallets by robot, known as Bin Picking, is one of the unique and popular applications of the proprietary, patented SensActive system. Other applications are palleting and pattern setting as well as measurement analysis for quality assurance.

In addition to standard products the company offers complete plant installations and customized solutions.

Customers consist of companies in the Swedish and international engineering industry.

Dynamis operates from Karlskoga and has some 13 employees. The business is certified in accordance with ISO 9001:2000 and ISO 14001:2004.

Morphic Business Development AB

ENERGY TECHNOLOGY

- Revenue SEK 0
- Net loss for the year SEK –1.9 million
- President Jonas Eklind (interim)

MBD was formed in 2007 for the purpose of developing and marketing complete energy systems for renewable energy. The system includes proprietary subsystems and components (including wind turbines and flow plates) as well as products from other subsidiaries and external companies.

The energy system can be used in a wide range of different areas. One example is electricity production for housing and telecom base stations run on wind and solar energy; another is hydrogen production from biogas. Development of several of the advanced subsystems included in the energy system is well underway and mass production is to start soon.

MBD is based in Karlskoga and has some six employees, but will later operate in a number of locations.

A Breakthrough Year

The past year and start of the new has been an eventful time for Morphic. We received our first volume order for fuel cells, established ourselves as a leading player in the wind power market, and cemented our position in low-resource production technology. Meanwhile, we continued developing our energy system and built up a completely new organization.

Climate and energy issues were one of the year's most discussed subjects. Around the globe people are debating how we're going to meet the energy needs of a world where populations are growing, living standards are becoming increasingly higher, and transport requirements are steadily increasing. The Energy Information Administration (EIA) estimates that the world's total energy need will increase by 60 percent between 2006 and 2030. It is unrealistic to expect that oil and other fossil fuels should cover this increase for a number of reasons. Price is one, environmental consequences another, and availability a third.

As a direct result of the energy and climate debate, there has been a strong increase in global interest in low-resource energy and environmental technology. Wind power in particular is on the verge of a major breakthrough, with global capacity growing by as much as 25 percent during the year. The fuel cell field is also developing rapidly – there has been a huge increase in investment and during the next years we will see fuel cells in a range of different applications.

Strong Progress in Fuel Cells

There is no doubt the pace has accelerated in the fuel cell field. During the year we received a great deal of interest in our technology for the cost-effective production of fuel cell flow plates. In 2006/07, Morphic subsidiary Cell Impact signed contracts with numerous customers in the automotive, telecom, consumer electronics and other industries. The diversity of the contracts and their geographic spread highlights our ability to develop plates for a broad range of applications and markets.

In August 2007, after the end of the fiscal year, we received our first volume order for mass production of fuel cell plates for consumer electronics from a US customer. The order is a commercial breakthrough for Cell Impact and the contract as a whole is valued at approximately SEK 60 million over a two year period.

Customer Center in Japan

From a geographical perspective we're currently seeing the greatest activity in Asia. In terms of investments and projects the region is about to overtake both the US and Europe, something that is clearly indicated by the many contracts we signed during

the year with operators in the Chinese automotive industry. The contracts are all for the development, production and evaluation of flow plates for fuel cells to be used in vehicle propulsion.

To make the most of the development potential in Asia a local presence is vital. So, as part of our establishment in the Asian market, we decided during the year to invest in a customer center outside Tokyo where customers from all Asian markets can produce test series before going into mass production. The test center is a way of demonstrating locally how our technology can be used to produce flow plates that are less expensive, have higher quality and are better for the application than plates made using conventional methods.

Wind Power

Development in the wind power area also remained extremely strong in 2006/07. We have the market's strongest concept for 3 MW wind turbines. A total of 11 wind turbines were sold during the year with a total order value of approximately SEK 340 million. The single largest order is for the construction of an entire wind park in Lake Vänern. These ten turbines will be able to produce a total of approximately 90 GWh annually, which is around 10 percent of the total wind power-based electricity in Sweden.

Acquisition of Helbio

After the end of the fiscal year, we acquired 55 percent of the Greek energy technology company Helbio S.A which since its start in 2001 has become a leader in the development of technology for cost-effective hydrogen production. The company's solutions for transforming the energy in methanol, ethanol, biogas and fossil gas to hydrogen is totally unique. The system can be used in conjunction with hydrogen-based industrial applications or prior to fuel cell applications for electricity and heating production.

The acquisition of Helbio helps strengthen our position in fuel cells and energy systems based on renewable fuel. It also provides us with competence that will be highly valuable in the development of our energy converters, which enable energy from wind power and other sources to be stored.



Our technology enables complete energy systems to reach the market significantly faster.

Organization in Place

Alongside our development, production and sales processes, we have also strengthened our internal organization. The Morphic Group now consists of six independent, commercial subsidiaries that are active in four different business areas. During the year we recruited several new senior managers and essentially established a new management team. The internal process has been time-consuming but gives us a strong base on which to build.

Stronger Ownership Base

It is highly satisfying to report that interest in Morphic and our share continued to be extremely strong in 2006/07. At the time of writing, in early September 2007, the Company has around 22,000 shareholders. We have steadily expanded our ownership base during the year, that is I believe, good indication of the great confidence shown in our business.

The new issue made during the winter was oversubscribed four times over. In conjunction with the directed issues, it provided the Company with almost SEK 300 million prior to issue expenses, capital which is now being used for value-creating investments and global expansion.

It is also rewarding to see the increase in institutional ownership during the year. This provides a stability and long-term perspective that will benefit Morphic's development.

An Exciting Year Ahead of us

Last year was my first as President and CEO of Morphic. The technical competence and strong entrepreneurial spirit that pervades our business has further boosted my confidence in the company and what we can achieve. The energy market is in a state of change – which form it will take in the future remains to be seen. I am convinced however that renewable energy will have an increasingly significant role to play. An objective shared by one and all here is to establish Morphic as one of the leading players in energy technology. It's a tough goal that will bring many future challenges, but given the base we now stand on I am convinced that we will succeed.

Karlskoga, September 2007

Jonas Eklind
President and CEO

Fuel Cells

New technologies – their introduction and application – have a critical role to play in the process of reducing global impact on the environment. The fuel cell field is developing extremely rapidly, and Morphic is a leader among the companies developing technology to accelerate the commercialization of fuel cells.

Fuel cells can best be described as energy transformers which enable hydrogen and other energy carriers to be efficiently transformed to electricity and heating. Electricity is produced in a fuel cell system when hydrogen dissolves and reacts with oxygen in a controlled manner, a reaction in which the only by-products are heat and water.

The technology has enormous potential. The long life and essentially non-existent environmental impact of fuel cells make them a serious alternative to most of the energy converters currently used in electricity production for community, industrial and residential purposes, as well as for vehicles and portable electronics.

Morphic and Fuel Cells

Morphic's fuel cell business is run in subsidiary Cell Impact AB. Cell Impact AB's primary focus is on the cost-effective production of flow plates, one of the key components in a fuel cell system.

Technology That Reduces Costs

A fuel cell is essentially an electrolyte with an electrode on each side. Flow plates are located outside these electrodes and when fuel such as hydrogen or methanol is added it reacts with oxygen between the plates. A complete system may consist of hundreds of cells. The flow plates represent much of the cost, and their ability to effectively lead hydrogen is the key to how well the total system generates electricity.

The plates have a pattern of channels or tracks on the surface to lead the gas, a pattern that is unique to each fuel cell manufacturer. Until now, plate patterns have mostly been produced using milling, etching or injection moulding. However these methods are time-consuming and expensive, and they also limit design possibilities and the materials that can be used.

Morphic has developed a technology that enables flow plates to be produced at a significantly lower cost, much faster and with higher quality than previously possible. The flow plate pattern is created by subjecting plates to a heavy impact which creates an extremely high, dynamic pressure for a fraction of a second. The technology has numerous advantages: production time per plate is reduced dramatically and much finer details can be achieved in the pattern of the plate which improves flow efficiency. The material used in the plates can be selected on the basis of requirements for conductivity, corrosion resistance and price instead of on the limitations of the production process.

Competitive at Small Volumes

Much of the strength of Morphic's offer is that customers are able to produce prototypes before going into large-scale production. The Karlskoga plant enables production to be switched rapidly from initial test orders to ongoing pilot series and ultimately full mass production. As with other manufacturing technologies, Morphic's method has an initial tooling cost that makes production profitable above a certain volume. The method is, however, competitive at relatively small volumes.

THE THREE MOST COMMON TYPES OF FUEL CELL

Proton Exchange Membrane Fuel Cells (PEMFC).

Used primarily in the automotive industry, but also for stationary power packs and mobile units.

Solid Oxide Fuel Cells (SOFC). Work in high temperatures and used primarily in large stationary applications.

Direct Methanol Fuel Cells (DMFC). Small cells that are run on liquid methanol and work in low temperatures. The major application area is portable units.



Further Contracts With Chinese Automotive Industry

Economic growth in China has been extremely strong in recent years, something which is particularly evident in car sales statistics. Within a couple of years car sales are expected to reach 10 million per year, and in a decade as many cars will probably be sold in China as in USA or Europe. And that's before considering all the commercial vehicles: trucks, buses, digging machines, etc.

Using petrol or other fossil fuels to run these vehicles is hardly sustainable from an environmental perspective and due to the obvious, and significant, need for ecofriendly fuel, fuel cells are a technology that has attracted a lot of investment. The Chinese government is currently financing a number of long-term projects in the area and will continue backing research until the technology has achieved a broad commercial base. All the major Chinese automotive manufacturers are currently running trials to evaluate the opportunities to develop production platforms for fuel cell-powered vehicles.

For Morpich subsidiary Cell Impact this represents a significant business opportunity. A number of strategic cooperation agreements were signed with companies in the Chinese automotive industry in 2006/07 for the development, production, and evaluation of fuel-cell flow plates for use in vehicle propulsion.

Read more about the contracts on page 12.



Numerous Important Contracts

The fiscal 2006/07 has been a highly positive year for Morphic's commercial and technical development in the fuel cell area.

Several Cooperation Agreements with Chinese Automotive Industry

In the second half of 2006, five strategically significant cooperation agreements were signed with companies directly or indirectly associated with the Chinese automotive industry. The contracts are all for the development, production and evaluation of flow plates for fuel cells for vehicle propulsion. The operational process described in the agreements explains the process from introductory specification through production and evaluation of prototypes to a volume offer.

Contract with two of the World's Top Ten Automotive Manufacturers

In 2006/07 Cell Impact received test orders for flow plates for fuel cell stacks from two of the world's ten biggest automotive manufacturers. The manufacturers will evaluate Cell Impact's offer in a series of fuel cell stacks designed for vehicle propulsion.

Contract with Leading Mobile Phone Manufacturer

In December 2006, a contract was signed with a leading mobile phone manufacturer for production and evaluation of a large quantity of flow plates for fuel cells for a mobile phone application. The fuel cells will fully or partially replace the battery in the phone, extending the phone's operating time significantly without the need for electricity to recharge.

Flow Plates for Fuel Cells for GPS Systems

Cell Impact AB signed a contract in January 2007 with a leading manufacturer of GPS systems for the production and evaluation of flow plates for fuel cells. The fuel cells will replace the battery and extend operating time significantly.

In addition, test series have also been produced for a number of other applications including vehicles, generators and portable computers. The purpose of the tests is to customize customer flow plates prior to scaling up production in Morphic's production plant.

A number of additional contracts have been signed after the end of the fiscal year with companies in fields such as consumer electronics and backup power generators. An initial volume order was also received in August for flow plates to be used in fuel cells for consumer electronics. The order, which is a commercial breakthrough for Cell Impact, is valued at approximately SEK 60 million over a two year period.

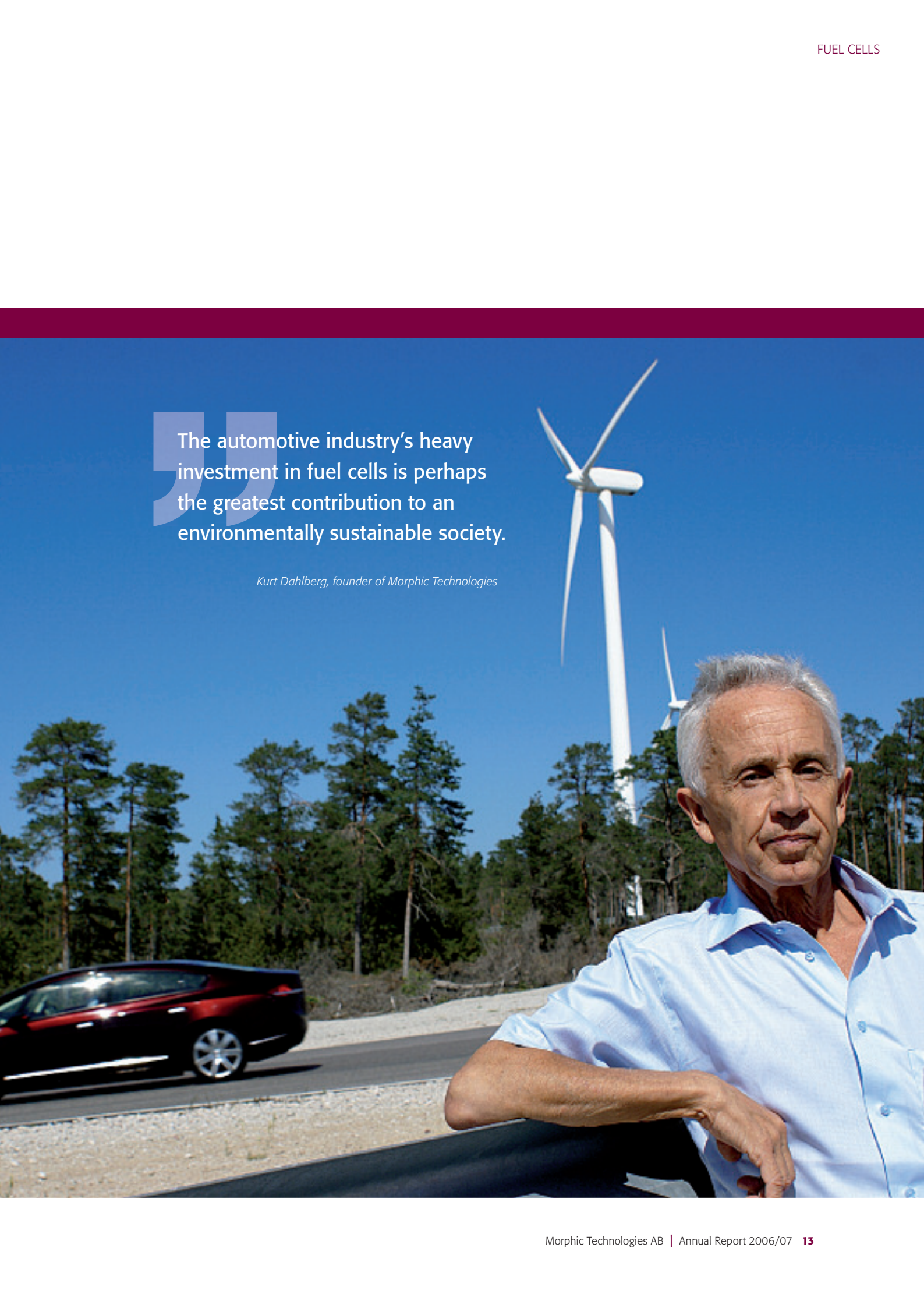
Own Production Plant

Flow plate production takes place at Morphic's production plant in Karlskoga. The plant enables flow plates to be mass produced in a range of materials at competitive prices.

The plant's positive reception resulted in the decision being made in 2007 to build an additional plant. This will be similar to the first plant, but dimensioned and adapted specifically to the needs of the automotive industry. It will, for example, be able to manufacture large flow plates as well as plates in thinner material with advanced flow patterns. The new plant is expected to be operational in autumn 2007.



Production of flow plates for fuel cells commenced in winter 2006 in Morphic's production plant in Karlskoga. An additional plant will be commissioned early in fiscal 2007/08.



The automotive industry's heavy investment in fuel cells is perhaps the greatest contribution to an environmentally sustainable society.

Kurt Dahlberg, founder of Morphic Technologies

Establishment in Asia

The reason for deciding to invest in another production plant is based on the rapid development taking place in the automotive industry as well as the rapidly growing demand from Asia.

Development in countries such as China, Korea and India is now extremely fast and the volumes they require are as much as ten times greater than those from previously leading fuel cell countries like USA and Canada. Development is also moving rapidly in Japan where the primary driving force is record-high electricity prices. In 2005 Japan's electricity prices were the highest in the OECD.

To take advantage of the opportunities in Asia, Cell Impact started building up a sales organization in the region during the year, and opened an office in Shanghai in spring 2007. Also as part of this process, Morpheic subsidiary Cell Impact is establishing a customer center for production of fuel cell components outside Tokyo in autumn 2007. The facility will provide customers in the Asian region the chance to produce and align flow plates for their fuel cells.

Marketing organizations are also planned for North America and Europe.

Growing Market

The market for fuel cells is growing rapidly. The high efficiency and environmental advantages of fuel cells combined with their contribution to reducing oil dependency have made them an attractive market area. In recent years research has started to produce tangible solutions and products for the civilian

market. Currently, the most rapid development is in portable electronics and the automotive industry.

It is difficult to specify market size in numerical terms. It is clear however that technical improvements in combination with a growing need for sustainable technologies have led to nations and private organizations increasing their investments in hydrogen and fuel cells. A study performed by the International Energy Agency (IEA) estimated global investment in 2004 to be some USD 4–5 billion per year. Much would indicate that there has been a major increase in investment since then, not least due to the major programs in countries such as China, Korea and India.

EU support of hydrogen and fuel cell projects in recent years has also increased significantly. For example, the first joint framework program for investments in the area (FP2, 1988–1992) was for SEK 76 million, which can be compared with the SEK 2,850 million put into the program that ended in 2006. One of the more comprehensive projects is HyWays, which aims to develop a European action plan for large-scale utilization of hydrogen as an energy carrier.

In the Nordic countries, activity in the hydrogen area has gradually increased in recent years. Iceland, for example, has a vision of becoming the world's first hydrogen economy and both Norway and Denmark have developed national hydrogen strategies. In Sweden the fuel cell sector is still limited, but is growing. In 2007 for example, "Hydrogen Sweden" was formed with the intention of promoting hydrogen as an energy carrier in Sweden.

Hydrogen gas tank station in Yokohama, Japan. The station is run within the framework of "The Japan Hydrogen & Fuel Cell Demonstration Project" and aims to increase knowledge about using hydrogen as an energy carrier in vehicles.

For more information, visit www.jhfc.jp/e/



Three Market Areas

Fuel cells have great potential in many areas. The market can be broadly divided into three sectors: Portable electronics, Stationary generators, Transport and automotive industry.

Portable Electronics

An area where development moves extremely fast is portable electronics. Before fuel cells make a serious breakthrough in the transport and automotive industries they are expected to replace the traditional batteries currently used in products such as computers and mobile phones.

Korean company Samsung has for example announced that it will launch a fuel cell-powered laptop in 2007. Japanese Toshiba expects to offer fuel cell-powered MP3 players in 2008. Camera manufacturer Canon has developed small fuel cells to replace batteries in cameras and portable printers.

The main advantage of fuel cells is primarily their significantly longer operating time. For example, Samsung expects their computers will have operating times of 160 hours (compared to two or three for a standard battery) before the fuel cells need charging. In contrast to today's batteries, discharged fuel cell-powered units can be quickly charged: the fuel in the fuel cell can be quickly refilled when empty so computers and MP3 players don't need to spend hours recharging.

Stationary Electrical Generators

The most advanced fuel cells are currently in stationary electrical plants used in residential and industry applications. Among their advantages are their high efficiency and reliability. In 2005, Japanese companies including Ebara Ballard, Fuji Electric, Kyocera and Matsushita Electric Works commenced a limited commercialization of 1 kW CHP units (combined heat and power) for residential purposes. The sector also includes generators for backup power for banks, hospitals and base stations for mobile telephony, etc.

15 FLOW PLATES IN EVERY LAPTOP

Portable PCs are one of the most exciting application areas for fuel cells. Development in the area is extremely fast and several of the biggest manufacturers expect to be able to offer fuel-cell powered computers in the next few years.

The potential market for Morphic is extremely large. It is estimated that around 260 million computers will be sold in 2007. Portable computers make up 40 percent of these sales, thus representing some 100 million units. Each fuel-cell powered laptop needs 15 flow plates, which means that if one percent of all laptops were to be run on fuel cells, some 15 million flow plates would be required. Should the segment instead represent 10 percent of the laptop market, 150 million plates would be needed. The cost per flow plate is currently difficult to estimate but the market is undoubtedly highly attractive.

Transport and Automotive Industry

In terms of size, value and environmental impact, the greatest potential for fuel cells is in the transport and automotive sectors. This large segment includes cars and motorbikes/mopeds as well as buses, trucks, trains, boats and commercial vehicles.

For many years development in the area was driven by technical progress but in recent years demand from end users has greatly increased. A sign of this is the breakthrough for hybrid and green cars. Today's green cars, powered by fuels such as ethanol and gas, probably represent a transition phase before the switch to fuel cell technology. All the major automotive manufacturers are running major development projects, in-house as well as in various collaboration projects. Forerunners include Honda, GM and Daimler Chrysler, with Honda aiming to offer fuel cell cars in 2008 and GM in 2010. Prototypes are already on the road along with pre-series from various manufacturers around the world.

Until fuel cells are able to replace the combustion engine however, they can be used to power other electrical requirements in the vehicle.

Honda's fuel cell-based FCX Concept Car was presented at the automotive exhibition in Geneva this year as well as at Gotland Ring. In contrast to earlier prototypes, this latest model had full functionality and was fully equipped – even including Honda's next generation fuel cell package, the FC Stack.



Competitors

Morphic's competition in the fuel cell area consists primarily of other manufacturing methods. Flow plates have traditionally been produced using milling, etching and pressing. Compared to these traditional methods, Morphic's method is economic and offers greater flexibility in the selection of materials and design. There are a number of operators in the area, primarily traditional component manufacturing industrial companies. The company has not identified any similar operator in the fuel cell industry with a pure focus on production of high-quality flow plates similar to Cell Impact's offer.

Patents and Licenses

Morphic's fuel cell business is protected by a number of patents. Amongst the most important is a strategic process patent for the molding of flow plates using high-speed technology. In conjunction with two other mechanical patents it forms the basis of the manufacturing technology and thus is protected globally. An additional six patents have been applied for in the area, of which at least one is to be approved this year.

Objectives

In the next years, Morphic will establish itself as a strategic partner and a leading global supplier of flow plates for fuel cells and plates for heat exchangers.

The objective for fuel cell flow plates is to speed up the establishment of fuel cell systems, regardless of volume and material, by offering high-performance flow plates at extremely competitive prices. The objective for flow plate production for flat heat exchangers is to offer a cost-effective product with significantly higher efficiency than current production methods provide. A cooperation agreement was signed in February 2007 with a world leader in the field to evaluate the opportunities of using the new production technology for the production of heat exchangers.

The total market for flow plates for fuel cells and plates for heat exchangers is estimated to be worth approximately SEK 18 billion by 2012. Morphic's objective is to have a market share of approximately 50 percent. This requires investments in a further 8–10 production plants, each of which would take some 6–8 months to construct at a cost of approximately SEK 15–20 million.

HYDROGEN PRODUCTION

The most energy-efficient fuel in a fuel cell system is hydrogen. Hydrogen has traditionally been used as a raw material for producing ammonia and in the conversion of crude oil to products such as petrol and diesel.

One of its major advantages is that it can be produced from many different energy raw materials. The many different ways of producing hydrogen means that production can be adapted to suit local conditions.

Hydrogen does not occur freely in nature but must be produced from other fuels (fossil or non-fossil) or through electrolysis of water. Until now hydrogen used in industry has essentially been produced from fossil

fuels such as natural gas and petroleum or gained as a by-product from other processes. As technology improves however, it is expected that hydrogen produced from renewable fuels (such as biogas and ethanol) or through the electrolysis of water will become increasingly common. Electrolysis is a production method where water is split into hydrogen and oxygen using electricity. The benefit lies in the limited or non-existent environmental impact. When the electricity needed is generated by renewable energy such as wind and hydro power, greenhouse gas emissions are completely eliminated.



One Thousand Plates in Every car

Flow plates for fuel cells for automotive applications is one of the segments with greatest potential for Morphic. In 2005, a total of 65 million new vehicles were sold – with a growing share being eco-cars. In Sweden, eco-cars make up approximately 15 percent of all new cars sold.

Between 500 and 1,000 A4-sized flow plates are needed to run a car with fuel cells. If one percent of all cars sold in 2012 were to be powered using fuel cells it would represent an annual market of approximately 1.3 billion flow plates.

Using conventional methods, these plates would currently cost USD 10 each to produce. The automotive industry has announced it is aiming for a cost of USD 4–6 per plate when the technology is mature. Using Morphic technology, however, it is already possible to produce plates for significantly less than this, around USD 1 per plate. This would make the total value of the market for flow plates for the automotive segment worth some SEK 13 billion. Note that this is a calculation example rather than a forecast.

Wind Power

2006 was another strong year for wind power. Total global capacity increased by as much as 25 percent. Among the primary driving forces are a widespread desire to reduce dependency on fossil fuels along with rising energy and electricity prices. For Morphic, the trend has been a strong growth factor. A total of 11 wind turbines were sold in 2006/07 worth approximately SEK 340 million.

Morphic's business in the wind power area comprises production and sale of 1 and 3 MW wind turbines.

The business is run in the subsidiaries DynaWind AB and Morphic Business Development AB. An exclusive license agreement with Finnish company WinWinD enables Morphic to offer everything from complete wind parks to individual wind turbines. WinWinD provides the technical solution while DynaWind handles sales, production and service. Since the partnership commenced in spring 2006, 11 wind turbines have been sold to customers in Sweden with a total order value of SEK 340 million.

Market's Highest Utilization Ratio

WinWinD's wind turbines have the market's highest utilization ratio and reliability. These benefits are the result of a modern patented design which means the generator has a low variable rotation. The WinWinD design also replaces the traditional gear box with a shock-resistant bearing and planetary gear box, which is less sensitive to imbalances in power transition. Compared to traditional turbines the Morphic turbines have less wear, longer life and better profitability.

A Good Year for Morphic

Morphic received a great deal of interest in its wind turbines during the year. The single largest order was received from one of the most exciting wind power projects currently running in Sweden: Vindpark Vänern. The order is the largest in the Company's history to date and comprises a complete wind park of 10 turbines with a rated output of 3 MW each. The initial order for five turbines was received during the fiscal year and the other five units were ordered after the end of the fiscal year. The total value of the order is SEK 463 million. The turbines will be installed on Gässlingegrund in Lake Vänern, south-west of the Skoghall paper mill on the Hammarö peninsula. Their combined electricity production will be sufficient to meet the needs of around 20,000 family homes. Construction of the wind park commenced in spring 2007.

New Tower Factory Under Construction

Wind turbine components have been produced at the DynaWind plant in Filipstad. Due to the high level of market interest and the strong demand for turbines, it was decided in winter 2006 to build a new factory in the Gustavsvik industrial area in Kristinehamn. The investment involves a substantial increase in capacity, from the current level of around 10 towers per year to around 100 towers per year. The plant will be commissioned in autumn 2007 and initially employ around thirty people.

Sweden and Wind Power

The major advantages of wind power are that it is totally renewable, creates no greenhouse gases, and has a limited impact on nature. In addition, it has also become increasingly cost-effective. Although Sweden has some of the best conditions for wind power in the world, there has been little development to date. Sweden is well behind countries such as Germany, Spain and Denmark. In Denmark, which has significantly less total wind resources than Sweden, wind power makes up as much as 25 percent of total electricity production while in Sweden it still represents less than 1 percent.

SEVERAL TARGET GROUPS FOR MORPHIC WIND TURBINES

Energy companies that want to offer their customers electricity produced in an ecofriendly manner.

Private individuals that buy shares in existing or future wind parks.

Private investors that see wind turbines as pure investment objects.

Landowners that want to utilize their land for a productive purpose that generates income.

Factories, mills and other operators with high energy consumption that want to guarantee the price of and access to electricity by investing in their own wind turbines. This also includes property companies and farms.



Alva af Hulta – a Profitable Investment for the Lundfeldt Brothers

Building your own wind turbine is straightforward as well as profitable. This has now been proven by the brothers Ingemar and Nils-Göran Lundfeldt outside Askersund. Their WinWinD 1 MW wind turbine from DynaWind now produces at least 2 million kWh per year.

When the Lundfeldt brothers decided to build a wind turbine on their farm some distance from Askersund the process moved quickly from idea to action. They turned in their application to the Askersund municipality in late 2005 and nine months later started laying the foundation at Hultahöjden, some 230 meters above sea level. In February 2007 the tower was raised and the propellers arrived on 40-meter trucks. Today the turbine is producing electricity at full speed, taking advantage of the strong southwesterly winds from Lake Vänern that average 6.2 meters per second.

The total investment amounted to SEK 11 million. The brothers have managed the entire project themselves, including the building of a new road to the top of the hill where the wind turbine is now located. The road was needed so the huge tower and other components such as wings and turbine housing could be transported to the construction site.

In total the wind turbine now generates SEK 0.60–0.70 per produced kilowatt hour. The electricity is sold to Kraft och Kultur in Stockholm, from where it goes to the Vattenfall grid. The economic lifetime of the wind turbine is approximately 25 years, making it a profitable business.

A change is taking place however. In spring 2006 the Swedish parliament decided to increase investments in renewable energy across the board, but in wind power in particular. The objective is to increase renewable electricity production in Sweden, large-scale and small-scale, both onshore and offshore, by 17 TWh by 2016. Wind power is expected to represent the major portion. National planning objectives from 2002 state that wind power should by 2015 have production capacity of 10 TWh, equivalent to 7 percent of total annual electricity production. This means that 15 times more electricity will be produced from wind power than in the early 2000s. As can be seen in the summary on page 27, the 20 largest current projects alone cover the increase required to achieve the national objective.

Many Projects now Being Realized

The rapid development can also be seen in the steadily increasing number of projects planned in recent years. Projects have previously been held up by a very lengthy approval process, but are now starting to be realized. As wind turbines become increasingly taller and wind mapping more sophisticated, the number of good land-based wind positions further inland have also increased. As development and expansion continues in the future, offshore wind turbines will also grow in significance. One of the offshore installations currently planned is Lillgrund, located south-east of the Öresund bridge with a planned annual production of 330 GWh. This is equivalent to around a third of Sweden's total electricity production from wind power in 2006, and sufficient to supply 60,000 family homes with electricity.

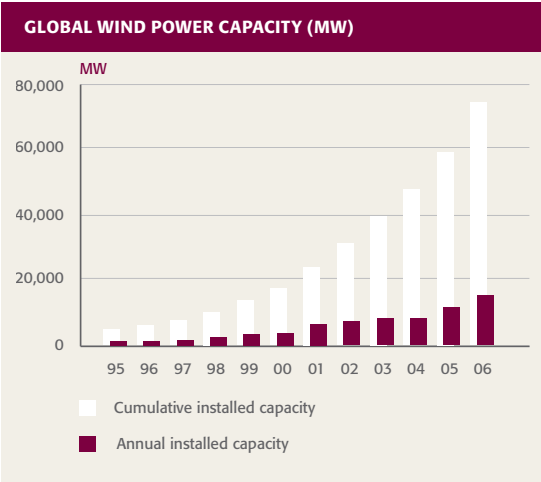
Development in Sweden in 2006

At the end of the year total Swedish wind power capacity amounted to less than 600 MW, of which new wind power capacity represented approximately 90 MW. New installation is expected to more than double in 2007, with an even greater trend for the subsequent period. Total investments for the period 2007–2016 are expected to reach some SEK 50 billion according to industry organization Vindkraftens Investerare och Projektörer.

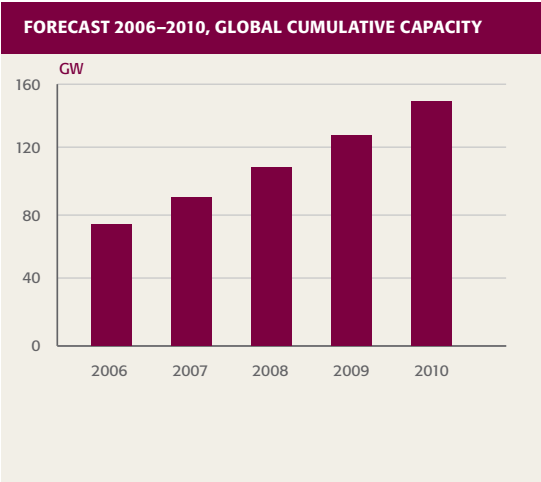
The investments are backed by energy companies as well as local wind power associations and individual farmers. The single largest operator in the area is state-owned Vattenfall, which in May 2006 announced a SEK 40 billion investment program for the next 10 years. A number of the major operators in the energy and electricity market have also announced they plan to increase their investments in the area.

Political Motivation

Even from a political perspective there is a great deal of motivation. In spring 2006 it was decided to extend the system of electricity certificates until 2030, which is expected to benefit development. Special wind power coordinators will also support interaction between wind power producers, authorities and other parties at a national, regional and local level. The focus is on creating a base for a large-scale expansion of wind power so that established national energy objectives can be achieved. The coordinators will also help drive ongoing processes and promote wind power in various contexts. Wind power coordinators are intended as a way for the government to assist project operators as needed.



Source: The European Wind Energy Association



Source: The European Wind Energy Association

Exclusive Licensing Agreement With WinWinD Oy

Operations in the wind power area are largely run through a partnership with WinWinD, a Finnish company which has delivered wind turbines to Finland, Sweden, Portugal and other countries since 2001. WinWinD focuses primarily on development and design. As it has limited production capacity, production is mostly done through licensing of the technology to partners. In conjunction with local partners, WinWinD has successfully commenced turbine installations in southern Europe and Asia. The first wind turbines, with an effect of 1 MW, were delivered in 2001 to energy company Oulun Energia. Development has continued and 1 and 3 MW turbines are now being mass produced.

Morphic subsidiary Aerodyn has previously acted as sales agent and subcontractor for WinWinD in the Swedish market. A licensing agreement signed in spring 2006 gives Morphic exclusive rights in the Swedish market and non-exclusive rights in the Norwegian market. The agreement involves overall responsibility for marketing, manufacturing, sales and service of WinWinD's latest wind turbines.

For more information, visit www.winwind.fi



VINDPARK VÄNERN IN BRIEF

Vindpark Vänern (www.vindparkvanern.se) is a consortium made up of Karlstads Energi AB, Karlstads Bostads AB, Gåsungarna AB, Hammarö Energi AB, AB Hammarö-bostäder, Kyrkvinden Ekonomisk förening and Vindkraft Gässlingen Ekonomisk förening. The consortium believes there are appropriate conditions for a further 70 wind turbines in different locations in Lake Vänern.

Wind Park in Lake Vänern

Some ten years ago the idea was born to build wind turbines on Lake Vänern. Now the first foundations are being laid. They have been put into place on Gässlingegrundet this summer, and then the towers and rotor blades will be installed.

The order was awarded to Morphic Technologies subsidiary DynaWind by the consortium behind the investment, Vindpark Vänern. The order comprises ten of Morphic's largest wind turbines. The turbines are being constructed in conjunction with PEAB.

The ten wind turbines will be able to produce around 90 GWh annually, sufficient to supply

20,000 family homes with electricity. This represents around 8 percent of the current total electricity production from wind turbines in Sweden.

Gässlingegrundet, situated 7 kilometers south of the Skoghall mill and 4.5 kilometers from the mainland on Hammarö, is one of the 49 areas listed by the Swedish Energy Authority in 2004 as suitable places to build wind parks in Sweden.

Foundation for Success

Cement foundations, each weighing several hundred tons, will provide a stable base for the wind turbines are almost ready. The lake freezes over in

A photograph of a man with glasses and a light blue shirt standing on a concrete structure over a body of water. The structure appears to be part of a wind turbine foundation or a pier. The water is dark blue and calm. The man is smiling and looking towards the camera. The background shows the horizon and the sky.

Vindpark Vänern is one of the most exciting wind power projects in Sweden right now.

*Anders Sjögren, President DynaWind AB
and chairman of ViS, vindkrafts-
leverantörerna i Sverige*

the winter and a lot is required to withstand the pressure of large masses of moving ice. The foundations will stand in various depths, and with varying heights of between 7 and 13 meters they will each protrude three meters above the water surface. They consist of a series of massive cement rings that are stacked on top of each other and assembled underwater one by one. The rings vary in diameter from six to 11 meters. The first ring in each foundation is cemented to the underwater rock. The rock is first washed clean and blasted more or less flat and the cement ring placed

perfectly horizontal before being cemented into place. The one-meter high cement rings are then stacked on top of one another.

The foundation will be transported out to Gässlingegrundet on a pontoon measuring 12 by 50 meters. Work started in July and by next spring seven of the ten foundations are expected to be in place. It will then be time to install the 90 meter high towers, built in DynaWind's new tower factory in Kristinehamn. Next in line is the rotor unit. All up, the wind turbines with their foundation will weigh some 600 tons each.

More information about the project is available on www.vindparkvanern.se

Competitors

On an international level, the wind power market is dominated by three major, established operators: Vestas from Denmark, GE Energy from the US, and Enercon from Germany. There are also a number of national developers and manufacturers of wind turbines. Major energy companies, mostly involved in fossil fuels, have also gained a foothold in the wind power business in recent years. These companies include BP Alternative Energy and Shell Renewables.

Far from all, however, have their own production of bulky components such as towers and blades. Given that the size and weight of wind turbines also makes them relatively difficult and expensive to transport, production is often outsourced to local partners. The only major player other than Morphic with production in Sweden is Enercon, which operates in Malmö through its subsidiary EWP Windtower Production.

Objectives

The objective for the next three years is to expand the business. Morphic’s ambition is to maintain its current 20 percent market share in Sweden as the market grows for sales of 1–3 MW wind turbines. Growth is to occur through further investments in delivery capacity of various critical components such as blades and hubs.

Market Growing Strongly

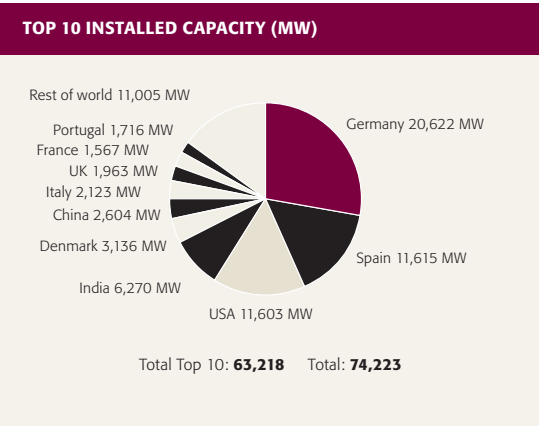
Growth in the global wind power market has been extremely strong over the past ten years, with average growth of 30 percent per year. Peak growth was in 2005 when the market grew by as much as 40 percent.

Among the foremost driving factors behind the expansion are a widespread desire to reduce dependency on fossil fuels along with rising energy and electricity prices. For electricity intensive industries, agriculture and other operations, electricity prices have now reached a level that makes it profitable for them to produce their own electricity. At the same time, technical development has meant that wind turbines have become significantly more efficient.

High Demand

The market remained strong in 2006 with a total increase in global capacity of some 25 percent, equivalent to approximately 15 GW in new capacity. In total, the installed global capacity at the end of the year was approximately 75 GW.

Demand for wind turbines continued to exceed supply during the year. The lack of production capacity is a problem and to meet the high level of demand, a broad expansion of production plants is now taking place in Europe as well as North America and Asia. The relatively long lead times however mean that the imbalance between supply and demand is expected to continue for another few years.



Source: GWEC – Global wind report 2006

FASTEST GROWTH IN NORTH AMERICA AND ASIA			
	Total accumulated installed capacity 2006 (GW)	Total installed capacity 2010 (GW, forecast)	Forecast change (%)
Europe	48	82	+81
North America	9.8	31.6	+222
Asia	10.7	29	+195
Rest of world	5.5	6.9	+25
Total	74	149.5	+102
Investments are also expected to increase heavily in USA in coming years, where the objective is to reduce oil dependency from the Middle East by 75 per cent by 2025. This is to be achieved through a transition to cleaner energy sources: solar and wind power, emission-free coal power stations and nuclear power.			

Source: The European Wind Energy Association and Swedish Energy Authority

In line with the expansion of wind power, the value of the market has also increased. Industry organization Global Wind Energy Council (GWEC) estimated in early 2007 the value of the global wind power market to be USD 23 billion, an increase of 65 percent over the previous year.

Europe Continues in the Lead

Wind power expansion varies considerably from country to country, in absolute terms as well as its share of the country's total electricity production. Europe continues in the forefront of development but the fastest growing markets are North America and Asia, where widespread expansion in India and China are the major driving forces. In China total capacity increased by 70 percent last year, taking it into sixth place in terms of wind power.

With 48 GW capacity, Europe stood for two-thirds of total installed global wind power capacity at the end of 2006. Wind power also provides most of Europe's electricity production based on renewable energy (hydro power excluded).

In terms of individual countries, Germany, Spain and Denmark continue to represent the majority of total capacity. This dominance has however declined somewhat due to expansion in countries such as France, Portugal and Great Britain.

Joint EU Objective

Since 2001 there has been a joint EU objective that 12 percent of the total energy in the EU should be based on renewable energy by 2010. By 2020 the proportion is to have increased to 20 percent.

Extremely broad ongoing investments are needed to achieve these goals with much of the focus expected to be on the expansion of wind power, particularly in places with favorable wind conditions.

Rapid Growth in North America

Investments are also expected to increase heavily in USA in the coming years. The objective is to reduce oil dependency from the Middle East by 75 per cent by 2025. This is to be achieved through a transition to cleaner energy sources: solar and wind power, emission-free coal power stations and nuclear power.

STATUS OF WIND POWER IN SWEDEN

	2006	2005
Installed effect	583 MW	493 MW
Effect increase during the year	18%	9%
Total reported wind power production	1,000 GWh	936 GWh
Production increase during the year	N/A	2%
Number of registered wind turbines	N/A	760
Number of new wind turbines	N/A	37

Source: *Energivärlden* magazine, issue 5, 2005, and the Swedish Energy Authority

HOW DO ELECTRICITY CERTIFICATES WORK?

Electricity certificates are a grant system that aims to increase production of renewable electricity. Producers of electricity from solar energy, wind, water or biofuel receive an electricity certificate from the government for every megawatt-hour produced. Producers then sell the certificates to electricity users. The number of electricity certificates that must be bought depends on the amount of electricity consumed. Electricity suppliers are responsible for managing their customers' quota requirements. More information about electricity certificates is available on the Swedish Energy Authority's website, www.stem.se.



Driving Forces Behind the Expansion of Wind Power in Sweden

- Investments in wind power have become increasingly profitable. Technical development has made wind turbines far more efficient.
- Changed permit regulations and simplified permit processes.
- A wind power committee at a central political level is working to reinforce the driving forces and reduce the barriers to wind power expansion.
- Four regional wind power coordinators have been appointed to help support the interaction between wind power producers, authorities and other parties at a national, regional and local level.
- The previous government granted subsidies of SEK 327 million for four pilot turbines for offshore wind power. The go-ahead for a second phase for onshore wind power was recently granted with a further SEK 350 million in funding.
- A Nordic wind power committee has been established with an initial focus on planning and grid connections.
- Extension of electricity certificates until 2030 provides a long-term perspective and the stability needed to encourage investors and project engineers to invest.

Examples of Major Planned Swedish Wind Power Projects

Project	Project engineer	Onshore/ offshore	Annual production (GWh)	Effect (MW)	No. of turbines
Finngunden	WPD Scandinavia AB	Offshore	3,900	1,050	210
Markbygden	Svevind	Onshore	3,000–10,000	3,000	400–1,000
Stora Middelgrund	Universal Wind Offshore AB	Offshore	3,000	800	110
Södra Midsjöbanken	E.ON	Offshore	3,000	900	180–230
Klocktärnan	WPD Scandinavia AB	Offshore	2,450	660	132
Kriegers flak	Vattenfall	Offshore	2,100	640	128
Taggen	Vattenfall	Offshore	1,000	300	83
Storgrund	WPD Scandinavia AB	Offshore	860	265	53
Laholm	Arise Windpower	Onshore	800	300	100–150
Hanöbukten	Triventus	Offshore	700	150	50–70
Blaiken	Skellefteå Kraft	Onshore	600	300	80–120
Lillgrund	Vattenfall	Offshore	330	110	48
Tönsen/Storberget	Vindkompaniet	Onshore	300	110	30
Utögrunden II	E.ON	Offshore	280	90	24
Skottarevet	Triventus	Offshore	270–640	90	30
Glötesvälen	Vindkompaniet	Onshore	270	90	30
Gabrielsberget	Svevind	Onshore	300	120	40
Havsnäs	RES Skandinavien	Onshore	250–375	150	48
Sjjska	Vindkompaniet	Onshore	230	90	30
Vindpark Vänern	Vindpark Vänern	Lake	90	30	10
Summa			24,000–31,000	> 9,000	1,800–2,500

*The summary represents a selection of current official projects and is not intended to be a complete survey of major projects.
Source: Energy authorities and official information from the companies/project engineers in September 2007.*

Production on Subcontract

The Production on Subcontract segment performs heavy machining and manufacturing of ship propellers and other large components. It also manages operations in the hydro power area, subcontracting of components based on high-speed technology and sales of automation systems.

Operations in the Production Technology business area are run through four Morphic subsidiaries: Aerodyn AB (ship propellers and other large components), Dynamis AB (automation equipment), Cell Impact (component subcontracting) and Finshyttan Hydropower AB (renovation of turbines for hydro power stations).

Innovative Automation Solutions

Morphic subsidiary Dynamis AB has developed an advanced scanner for quality monitoring of machined components. The system, which also includes automated material handling equipment, makes quality assurance and handling of components easier and more efficient. Morphic uses the system for control and handling of the production of flow plates for fuel cells, but it is also offered to external customers.

The system has generated a lot of interest since its introduction in autumn 2006. An initial order for the system was received in November from Lesjöfors Fjädrar AB. In spring 2007 an order was received from Haldex Brake Products who will use the system as part of a complete material handling system in its production process.

Future Goals

In automation technology, the objective is to achieve a leadership position in 3D picking systems within three years. This is to be achieved by offering customers, primarily in the engineering and automotive industries, a concept based on innovation and customer value.

Leading in Ship Propellers

Morphic Technologies subsidiary Aerodyn AB is one of Sweden's leading manufacturers of high-quality ship propellers. The business comprises the manufacturing of whole propellers along with blades, hubs and axles for propellers for a range of different ship types: tanker and freight vessels and ferries.

Customers include virtually all major suppliers of complete propeller systems: Rolls Royce, Wärtsilä, MAN and Berg Propulsion, which together have an estimated 60–80 percent share of the global market for high-quality propeller systems. The end customers for propeller systems are individual shipping companies throughout the world.

Growing Market

The market for ship propellers is largely controlled by trends in the shipbuilding market. The increase in demand for new ships in recent years, largely driven by stricter regulatory requirements and a strong increase in demand from China, has heavily increased demand for propellers. Morphic operates in the high-quality propeller segment where its competitors are primarily five European companies. Morphic's main competitive advantages include a high level of technical competence, consistent focus on quality and a brand that is well-known amongst customers.

Future Goals

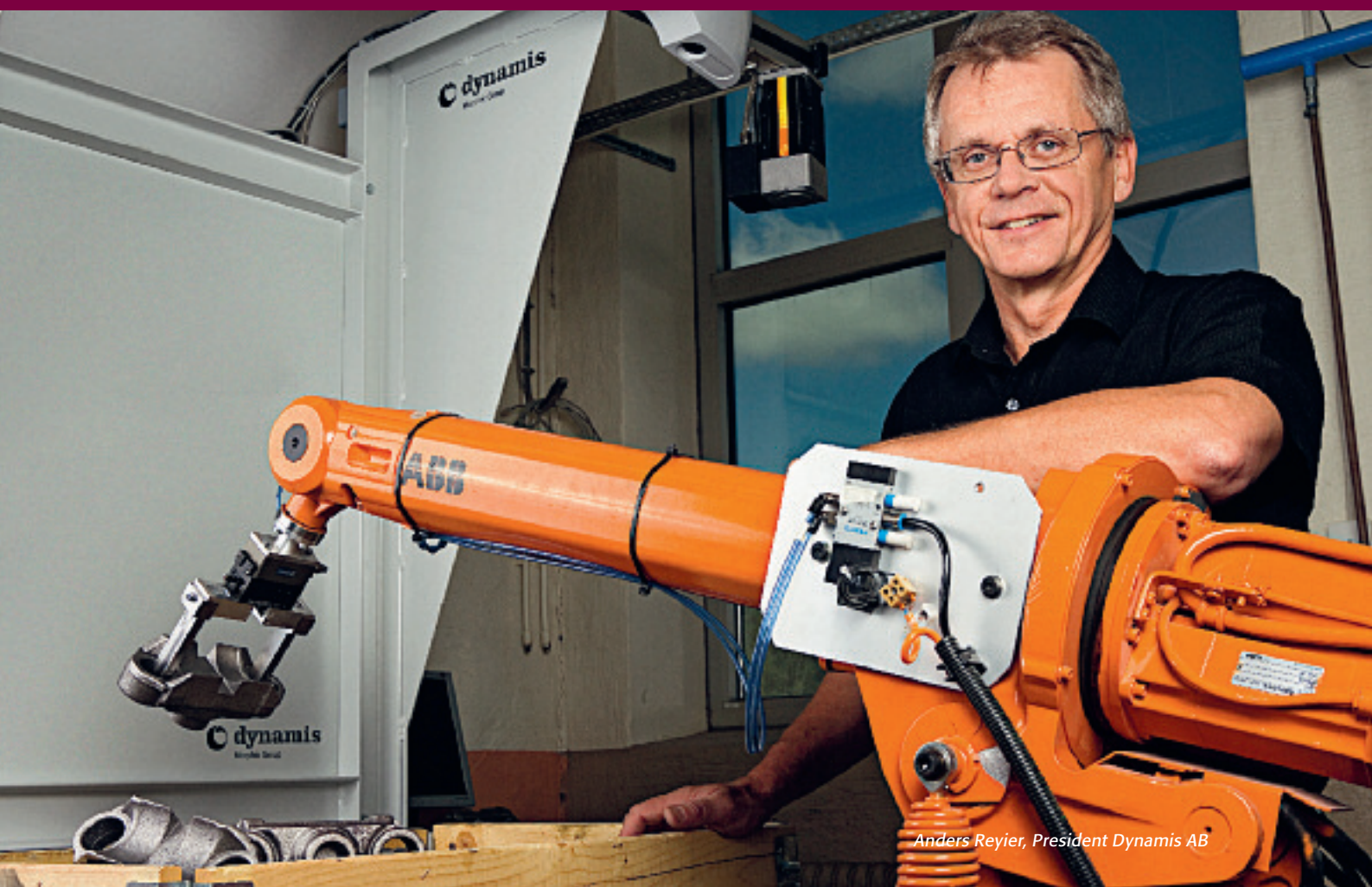
Activity in the shipping market is at a record level and Morphic sees good opportunities for an ongoing positive development of its business. In propulsion, the short-term goal is to improve profitability. This will be done by better factory utilization, review of the current chain of supply and an investment in the service business.

Subcontracting of Components

Morphic's business in the fuel cell area is based on its high speed technology, which involves the base material being subjected to an extremely high, dynamic pressure for a fraction of a second. The impact makes the material soft and malleable. The technology replaces conventional machining methods such as milling, sawing and pressing. Its key benefits include significantly lower costs, faster production rate, and reduced environmental impact.

Morphic uses the method in the production of flow plates for fuel cells, although this is only one of many products that can be produced using the method. Cell Impact has for some time also introduced and demonstrated its machine technology for customers interested in advanced component manufacturing.

It was decided during the year to fully include subcontracting of components into Cell Impact's offer. An initial order was received in spring 2007 from an international operator in the telecommunications industry. The components to be produced are part of a prototype for a future product and assuming a positive evaluation will go into mass production in 2008.



Anders Reyier, President Dynamis AB

Haldex Chooses SensActive™

Haldex Brake Products AB is one of the first customers to choose Morphe Technologies' material handling system SensActive. The system is to be used for handling brake parts and will be delivered in autumn 2007.

SensActive was launched at the Scandinavian Technical Fair in Stockholm in October 2006. The system uses robots to pick and handle objects directly from pallets (bin picking). The use of three-dimensional measuring technology means that objects can be handled with precision, even when unsorted in packages or lying on top of each another. Traditionally, objects have been picked manually from pallets or moved by truck to a conveyor belt for sorting and fixing before being picked by robots for production.

The only technology of its type in the world, the system is expected to set new standards in the engineering industry for material handling/processing. Among the foremost advantages are increased productivity and the ability to carry out ergonomically demanding steps using robots.

Haldex Brake Products is part of the Swedish industrial group Haldex which provides proprietary technical solutions to the global automotive industry.

An international release of SensActive is planned for spring 2008.

Objectives

The objective for subcontracted production is to increase the number of assignments. The strategy for succeeding consists largely of increased marketing in prioritized markets and increased cooperation with one or more major players in the area.

Morphic and Hydro Power

Morphic subsidiary Finshyttan Hydro Power is one of Sweden's leading operators in the maintenance and service of hydroelectric power stations. The focus is on small and medium-size hydroelectricity stations of 5–100 MW. The business has three parts:

- Renovation and modernization of entire turbines. Includes measures such as switching to lubrication-free bearings, new hydraulics and corrosion protection.
- Upgrading. Technical improvements to power stations to improve their performance by such measures as changing to new blade wheels including hydraulic systems with higher pressure.
- Service and ongoing maintenance. Exchange and maintenance of bearings, lubrication systems and control systems, etc.

Customers include a number of the major electricity companies such as Vattenfall, Fortum and E.ON, as well as smaller local operators. Morphic's hydroelectricity operations are certified by Sellihca, which means the company is approved as a supplier to most power stations in Scandinavia.

The business is run in Morphic's premises in Filipstad. Since 2001, 20 stations have been renovated, modernized and upgraded. Production capacity has been limited in recent years as production of wind turbine towers has taken much of the available resources, both organizationally and in terms of premises. The decision to invest in new production facilities in Kristinehamn for the production of towers for wind turbines will make more capacity available.

Growing Market

A number of Swedish hydroelectric power stations will soon be in need of thorough modernization and renovation. Demand for these type of services is therefore expected to increase in coming years. Investments in hydroelectric power are expected to reach some SEK 2 billion annually over the next ten years. Annual turbine maintenance alone is estimated to represent some SEK 600 million.

The age of the stations along with the opportunity to increase renewable electricity production by increasing their efficiency are the two main driving factors.

Many Small and Medium-sized Hydroelectric Power Stations

Today there are some 1,900 hydroelectric power stations in Sweden. Almost 200 of these are large (with an effect of 10 MW or more) and 1,200 smaller (with an effect less than 1.5 MW). The largest is Harsprånget in Lule älv with an effect of 940 MW which produces close to 2 TWh electricity per year.

Modernization of Harsprånget – Sweden's Largest Hydroelectric Power Station

In late July 2006, Morphic Technologies subsidiary Finshyttan Hydro Power AB started the renovation and modernization of generating unit 5 in the Harsprånget hydroelectric power plant on Lule älv. The order involves changing bearings, seals, wheel renovation and new rim unit control. Most of the work is performed on site, including exchanging the hydraulic control unit which controls the rim unit and welding repairs to the blade wheel. All components are to be returned to the power station and installed by mid-October when, after a final inspection, the generating unit will return to operation.

There are currently around 200 hydroelectric power stations in Sweden with an effect of 10 MW or more. The largest is Harsprånget on Lule älv in Jokkmokk municipality, with an effect of 940 MW. The station produces approximately 2 TWh electricity annually, which is equivalent to some 1.5 percent of Sweden's total electricity production.

The construction of Harsprånget started in the early 1920s but was stopped during the depression after WWI. It was recommenced in 1945 and the first generating unit commissioned in 1951. Today the plant is owned by Vattenfall AB and consists of five generating units, the largest of which is generating unit 5 with a blade wheel diameter of 6.6 meters and effect of 469 MW.

Power stations in Norrland represent some 80 percent of hydroelectric power production. As much as 70 per cent of electricity comes from Sweden's four largest rivers: Lule älv, Indalsälven, Ångermanälven and Ume älv.

Large Potential in Existing Stations

From a purely technical perspective, it should be possible and economically feasible to increase hydro-based electricity production by some 30 percent (24 TWh). However, this will not happen for environmental reasons. Sweden's four national rivers (Torneälven, Kalixälven, Piteälven and Vindelälven) are, for example, totally protected from further exploitation.

With limited new construction opportunities, much of the development potential in hydroelectric power is in the renovation and optimization of existing hydroelectric power stations. This is mostly done by increasing the efficiency of large-scale hydroelectric power stations. Luleå University of Technology and Uppsala University have investigated the "Development potential of hydroelectric power in existing plants" on behalf of the Swedish Energy Authority. The study looked at stations bigger than 10 MW and indicates a potential of some 2 TWh through modernization and making turbines and other components more efficient. Upgrading generators and transformers should make it possible to provide an additional 1.1 TWh. The efficiency of a typical hydroelectric power station today is around 85–90 percent. By upgrading to modern technology it is possible to increase efficiency by two to six percent, an improvement that is reflected directly in revenue and profitability.

In the short term, prior to 2010, a production increase of 430 GWh is planned according to the Swedish Energy Authority. Of this, 50 GWh comes from small new stations and the rest from upgrading of large plants.

Market With few Players

A major rationalization has taken place on the manufacturing front in recent decades and a number of smaller manufacturers have left the business. Morphic is currently one of the few operators with a large workshop of its own in Sweden. The substantial investments needed to enter the market create a high barrier to entry for new players. Waplan Mekaniska Verktad is today the only major turbine manufacturer with its own production facility in Sweden. GE Energy (Sweden) AB no longer has any manufacturing in Sweden, focusing instead of installation, commissioning and maintenance.

In August, after the end of the fiscal year, an order was received from GE Energy for the renovation and modernization of a hydroelectric turbine in the Letsi hydro power station.

Objectives

The objective in hydroelectric power is to firmly establish Morphic's position as the leading Swedish operator in the renovation and upgrading of hydroelectric power stations in Scandinavia. The strategy is to gradually focus on large hydroelectric power stations.

EXAMPLE OF COMPLETED PROJECTS	
Trängslet 3:	Renovation of revolving gasket for Trottet valve. Purchaser: Fortum Generation AB
Skogsforsen 2:	Total renovation of bulb turbine and rebuilding of control system for high pressure system. Purchaser: E.ON Vattenkraft Sverige AB
Rya 3:	Total renovation of propeller pump including rebuilding. Purchaser: GRYAAB
Rällsälv:	Renovation of Kaplan blade wheel and turbine axle. Purchaser: Fortum Service AB
Porsi 2:	Dismounting/assembly of Kaplan turbine and renovation of blade wheel. Purchaser: Vattenfall AB Vattenkraft
Leringsforsen:	Total renovation of Kaplan turbine and rebuilding of control system for high pressure system. Purchaser: Vattenfall AB Vattenkraft
Kvarnforsen:	Total renovation of Kaplan turbine including new blade wheel and rebuilding of control system for high-pressure system. Purchaser: Härjeåns Kraft AB

MANY SMALL HYDROELECTRIC POWER STATIONS IN SWEDEN	
No. of hydroelectric power stations	Effect
200	>10 MW
500	1.5–10 MW
1,200	< 1.5 MW

Source: Swedish Energy Authority

Energy Systems

Growth in the wind power and fuel cell markets has been extremely high in recent years. Morphic's objective is to connect the two technology areas thus creating a completely new type of energy system, totally based on renewable energy. The objective is to facilitate a stable, local and environmentally sustainable production of electricity.

The basic principle in electricity production is that the electricity produced must be consumed immediately. A problem with electricity production based on wind power is that production is often too uneven to be a valid alternative to more traditional types of energy. A wind turbine generates electricity when the wind blows but otherwise stands still. There hasn't previously been any efficient way of storing energy on a large scale to be used later when production is lower.

Morphic's Energy System

Morphic's energy system represents a completely new way of converting, storing and using energy from renewable sources. The system consists of a fuel cell-based energy converter in which energy from the wind turbine is converted using a chemical process into an energy-bearer such as hydrogen or methanol. This fuel can then be stored for later conversion to electrical energy using a fuel cell system.

In addition to the energy converter, the system consists of small and medium-sized proprietary wind turbines of up to 500 kW.

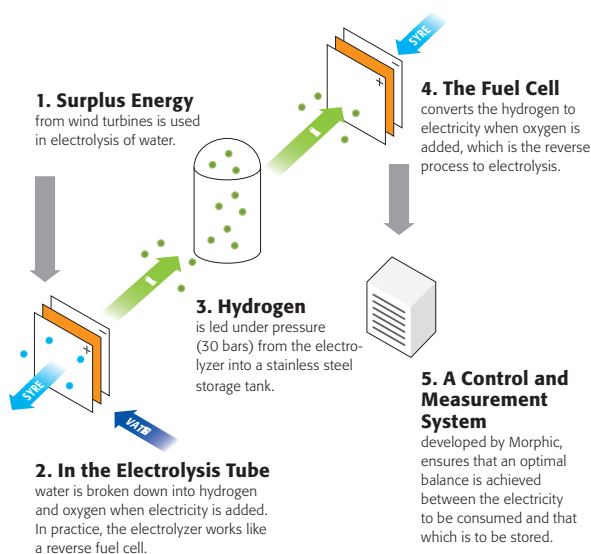
The turbines have been developed to meet the requirements and directives for large wind turbines in terms of reliability, safety and long service intervals. Their simple, robust design with direct-powered generator, electronic voltage conversion and power dividing has a number of advantages including high efficiency and reliable operation.

There is a broad potential market for energy systems, and interest in the system has already been shown by telecom companies, energy companies and wind parks along with factories and agriculture.

Intensive Development Process

Both the energy converter and wind turbines are under development. Development of the system received a major boost during the year with the acquisition of 55 percent of Greek company Helbio S.A., active in the development of technology for cost-effective hydrogen production. A first demonstration installation combining wind power with fuel cells was installed in Karlskoga in autumn 2007.

MORPHIC'S FIRST DEMONSTRATION PLANT IN KARLSKOGA



Strategic Acquisition in Energy Technology

In August, Morphic acquired 55 per cent of the Greek energy technology company Helbio S.A., a leader in systems for effective and ecofriendly production of hydrogen based on renewable fuel such as ethanol and biogas. At the heart of Helbio's patented technology are so called reformers which enable liquid and gaseous fuels such as alcohols and hydrocarbons to be converted to hydrogen. The strength of the technology lies in its high efficiency, low production costs and in particular the ability to produce hydrogen locally. This therefore eliminates two of the factors that have long restricted the wider usage of hydrogen technology: high production costs and difficulties associated with distribution.

For Morphic, the acquisition secures access to technical competence as well as critical components.

Helbio S.A. will be integrated into Morphic Business Development, but continue to operate under its own name.

For more information, visit Helbio's website www.helbio.com

Share Data

During fiscal 2006/07 the Morpic share price increased by 114 percent, which can be compared to the 22 percent increase in the OMXSPI index in the same period. The highest price paid during the period was SEK 30.00 and the lowest was SEK 7.80. Morpic's market capitalization was SEK 3,637 million at the end of the year.

Average daily trading was 748,362 shares (544,995) or SEK 14.1 million (4.9). A total of 180,798,807 (137,883,747) Class B shares were sold with a total value of SEK 3,546 million (1,246). This is equivalent to a turnover rate of 168 percent (157).

Owner Relationships

There were approximately 21,000 shareholders as of April 31, 2007. The number of shareholders has further increased since the end of the fiscal year to some 22,000 at the time of publication.

Share Issues Implemented

To facilitate continued strong expansion, primarily in the fuel cell and wind power areas, a preferential issue and three directed issues were made in 2006/07. In total they supplied Morpic with SEK 297 million prior to issue expenses.

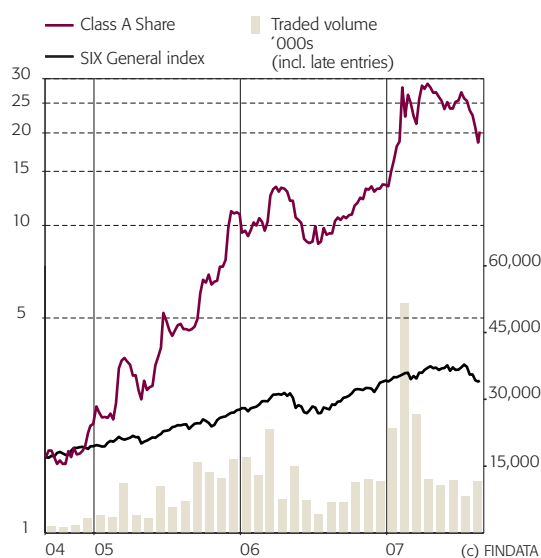
Directed Issues

A directed issue was made in the first quarter backed by an authorization from the Extraordinary General Meeting on June 1, 2006. It provided the Company with approximately SEK 21 million before issue expenses through the issue of 2,636,000 Class B shares. The purpose of the issue was to provide funds for investments as well as acquisitions in conjunction with new expansion opportunities for the Group.

During the third quarter the Morpic Board of Directors, backed by authorization from the AGM, decided to make a directed issue. With the purpose of strengthening Morpic's capital base while also increasing institutional ownership in the Company, 10 million Class B shares were issued at a price of SEK 13 directed to Alecta and Swedbank Robur.

At the Extraordinary General Meeting on February 1, 2007, it was resolved to implement a non-preferential share issue to the Company's shareholders. 3 million Class B shares were issued and directed to the Östersjöstiftelsen at a share price of SEK 11.

SHARE PRICE DEVELOPMENT SEPT 1, 2004–AUG 31 2007



MAJORITY OWNERS AUGUST 31, 2007

	Class A shares	Class B shares	Equity interest (%)	Share of votes (%)
Mariegården Investment AB	1,380,000	11,085,000	9.1	13.1
Kurt Dahlberg and company	1,802,500	1,768,739	2.6	10.4
Peter Enå and company	1,151,500	135,632	0.9	6.1
Kjell Östergren	770,000	3,823,600	3.4	6.0
Jan Alvé	770,000	1,389,960	1.6	4.8
Alecta Pensionsförsäkring	0	8,000,000	5.9	4.2
Östersjöstiftelsen	0	2,847,000	2.1	1.5
Swedbank Robur	0	2,080,400	1.5	1.1
Jan Hugo Lindstedt	110,000	93,310	0.1	0.6
Client Omnibus AC Fund No OD44	0	1,055,000	0.8	0.6
Total	5,984,000	32,278,641	28.0	48.3
Other	0	98,482,355	72.0	51.7
Total	5,984,000	130,760,996	100.0	100.0

Preferential Issue

At the Extraordinary General Meeting on February 1, 2007, it was resolved to make a preferential share issue to existing shareholders. Shareholders registered in the share register on record day, February 9, received the right to subscribe one new share for every ten shares held at the price of SEK 10.

Shares and Share Register

Share capital on balance sheet date amounted to SEK 5,069,799.80 divided between 136,744,996 shares, of which 5,984,000 were Class A shares and the rest Class B shares. The maximum share capital is SEK 13,200,000 under the Articles of Incorporation. The share's quotient value is SEK 0.04 and all shares are fully paid-up. All shares have the same right to full dividend. Class A shares carry 1 vote and Class B shares 1/10 vote.

The Company's shares are issued in accordance with Swedish legislation and the denomination is Swedish kronor (SEK). The Company's share register with information on shareholders is managed by VPC at address: VPC AB, Box 8722, SE-103 97 Stockholm, Sweden. Under the Companies Act (2005:551), shareholders have a pre-emptive right to new share issues, share warrants and convertible bonds, but this pre-emptive right can be waived by resolution of the AGM.

Incentive Program

The Board of Directors decided on July 4, on the authority of the AGM, to issue up to 3,300,000 share warrants each with the right to subscribe to a new Class B share at a price of SEK 16. The issue has been directed to key personnel and employees in the Morpic Group. A total of 3,010,000 share warrants have been subscribed. Share warrants can be exercised for subscription during the period October 1, 2009 to October 31, 2009. Subscription conditions have been modified following the preferential issue in March 2007. Each share warrant carries the right to subscribe to 1.06 new shares at a share price of SEK 15.10. If all subscribed share warrants are exercised for share subscription, it would increase share capital by SEK 127,624 which represents a dilution of 2.3 percent.

Further information on the current options scheme is provided on page 62, note 12.

Morphic Technologies Class B share has been listed on the First North trading site on the Stockholm Stock Exchange since September 12, 2006. The share is traded under the name MORP B. A trading lot is 500 shares. The ISIN code for the Class A share is SE 0000672107 and for the Class B share is SE 0000672115. During fiscal 2007/08, trading will be moved to the Nordic List on the Stockholm Stock Exchange.

OWNERSHIP CATEGORIES AUG 31, 2007

	Capital (%)	Votes (%)
Foreign owners	16.4	11.8
Swedish owners	83.6	88.2
– Institutional owners	12.2	8.7
– Other legal entities	15.5	19.0
– Individuals	55.9	60.5

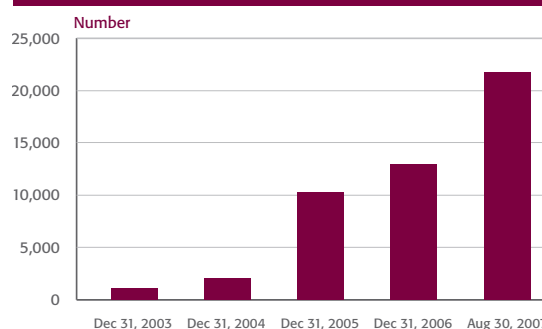
OWNERSHIP CONCENTRATION AUG 31, 2007

	Capital (%)	Votes (%)
10 largest owners	35.5	53.2
25 largest owners	41.9	58.3
100 largest owners	52.8	66.1

SHAREHOLDER STRUCTURE AUG 31, 2007

Shareholding	No. of shareholders	Equity interest (%)	Votes (%)
1–1,000	11,633	4	3
1,001–10,000	8,730	20	14
10,001–100,000	1,276	23	16
100,001–1,000,000	93	17	14
1,000,001–	11	36	53
Total	21,743	100.0	100.0

NUMBER OF SHAREHOLDERS 2003–2007



Dividend Policy

Profitability is the Group's overriding objective. The Board of Directors intends to propose a dividend when the Company reports strong profits and cash flow.

Liquidity Guarantee

Remium Securities has acted as liquidity guarantor since April 11, 2005. This means that Remium is responsible for ensuring that there are buyers and sellers for five trading lots with a maximum difference between buying and selling price (spread) of 3.5 percent.

Change to the Nordic List

The anticipated continuation of Morphic's rapid growth assumes adequate access to the capital market. To increase interest in Morphic, increase the share's liquidity and hence the efficiency of its pricing, as well as attract new categories of shareholders, the Company now intends to take a natural step in its development as a share market company by applying for listing on the Nordic list.

SHAREHOLDER CONTACT

Morphic Technologies aims to provide clear information to facilitate market evaluation of the Company. Current information about Morphic is available on www.morphic.se. It is also possible to follow the share price trend on the website as well as subscribe to current press releases and financial information.

For IR-related information, please contact Johannes Falk, Communications Manager, on phone +46 (0)586 673 93 or e-mail johannes.falk@morphic.se.

SHARE CAPITAL DEVELOPMENT

Fiscal year	Type of change	Change		Total after the change		Total number of shares	Quotient value	Share capital, SEK
		Class A shares	Class B shares	Class A shares	Class B shares			
99/01	Company founded	10,000,000	0	10,000,000	0	10,000,000	0.01	100,000
99/01	New share issue		10,300,000	10,000,000	10,300,000	20,300,000	0.01	203,000
99/01	New subscription		38,000	10,000,000	10,338,000	20,338,000	0.01	203,380
99/01	New share issue		2,215,000	10,000,000	12,553,000	22,553,000	0.01	225,530
99/01	Bonus issue			10,000,000	12,553,000	22,553,000	0.04	902,120
99/01	New subscription		8,567,954	10,000,000	21,120,954	31,120,954	0.04	1,244,838
01/02	New subscription		205,000	10,000,000	21,325,954	31,325,954	0.04	1,253,038
01/02	New subscription		2,850,900	10,000,000	24,176,854	34,176,854	0.04	1,367,074
01/02	New subscription		5,500,000	10,000,000	29,676,854	39,676,854	0.04	1,587,074
03/04	Preferential issue		4,988,935	10,000,000	34,665,789	44,665,789	0.04	1,786,632
03/04	Directed share issue		5,011,050	10,000,000	39,676,839	49,676,839	0.04	1,987,074
03/04	Directed share issue		5,740,000	10,000,000	45,416,839	55,416,839	0.04	2,216,674
04/05	Directed share issue		4,260,000	10,000,000	49,676,839	59,676,839	0.04	2,387,074
04/05	New subscription employee options		300,000	10,000,000	49,976,839	59,976,839	0.04	2,390,274
04/05	Directed share issue		10,000,000	10,000,000	59,976,839	69,976,839	0.04	2,799,074
04/05	Conversion	-1,300,000	1,300,000	8,700,000	61,276,839	69,976,839	0.04	2,799,074
04/05	New subscription employee options		120,000	8,700,000	61,396,839	70,096,839	0.04	2,803,874
05/06	Preferential issue		14,019,367	8,700,000	75,416,206	84,116,206	0.04	3,364,648
05/06	New subscription employee options		823,368	8,700,000	76,239,574	84,939,574	0.04	3,397,583
05/06	Non-cash issue (1)		203,665	8,700,000	76,443,239	85,143,239	0.04	3,405,730
05/06	Non-cash issue (2)		7,124,150	8,700,000	83,567,389	92,267,389	0.04	3,690,696
05/06	Preferential issue		16,987,914	8,700,000	100,555,303	109,255,303	0.04	4,370,212
05/06	New subscription employee options		113,240	8,700,000	100,668,543	109,368,543	0.04	4,374,742
06/07	Conversion	-300,000	300,000	8,400,000	100,968,543	109,368,543	0.04	4,374,742
06/07	Non-cash issue (2)		490,908	8,400,000	101,459,451	109,859,451	0.04	4,394,378
06/07	Directed share issue		2,636,000	8,400,000	104,095,451	112,495,451	0.04	4,499,818
06/07	Conversion	-2,350,000	2,350,000	6,050,000	106,445,451	112,495,451	0.04	4,499,818
06/07	Directed share issue		8,000,000	6,050,000	114,445,451	120,495,451	0.04	4,819,818
06/07	Directed share issue		2,000,000	6,050,000	116,445,451	122,495,451	0.04	4,899,818
06/07	Conversion	-400,000	400,000	5,650,000	116,845,451	122,495,451	0.04	4,899,818
06/07	Preferential issue		334,000	10,915,545	5,984,000	127,760,996	0.04	5,349,800
06/07	Directed issue		3,000,000	5,984,000	130,760,996	136,744,996	0.04	5,469,800

(1) – Acquisition of SensActive AB (2) – Acquisition of Aerodyn AB

Risk Factors

An investment in Morphic shares carries an assumption of risk. The risks can generally be divided into three main categories: operative, financial and external. All three can affect the Group's financial development and position if not managed in a optimal manner.

The reason for describing the risk situation here is to provide investors and other parties a picture of the risk environment that Morphic Technologies operates in, as well as to show how the Company works to minimize the negative effects of the risks. The risks are described in rank order and make no claims to be full or complete.

Operational Risks

Employees

Morphic has been in existence since 1999 and the Company's founders are still operative in the Company. Despite the relatively substantial resources that have been put into competence transfer in recent years, a loss of one of the founders or other key personnel could have a negative effect on the Group. Access to skilled employees is also a risk factor, as Morphic competes in professional areas that are limited in size. The availability of qualified technical personnel is also somewhat limited in the Värmland region. This puts a lot of pressure on Company management to create a workplace that can attract competent personnel. In order to lessen long-term turnover risk while also attracting new employees Morphic is striving to, in addition to offering market-based salaries, offer a stimulating and developing work environment along with regular offers of various types of incentive programs.

Contract Risks

Morphic has signed contracts with a number of parties and further contracts will most likely be entered in the future. Despite substantial resources being put into the quality of the contracts, there is always a risk that the Company doesn't negotiate adequate contracts or sufficiently protect itself against breach of contract.

Intellectual Rights and Disputes

Morphic regularly applies for patents on inventions and protection of business names, brand names and trademarks. Patent infringement represents a constant risk and Morphic is well prepared to assert its intellectual rights through legal processes if necessary. Neither Morphic Technologies or any of its subsidiaries were involved in any dispute, trial or arbitration when this annual report was prepared.

Customer Dependency

Morphic's sales are generated from a limited number of customers. The profit effect would therefore be relatively serious if a major customer became insolvent or chose another supplier.

Technical Development and Production Risks

Broad research and technical development is taking place in all areas. If the Company should fail to develop and release products and/or services based on its R&D projects to date, there is a risk that the value of the Company's production facilities would need to be impaired. The Company is dependent on a functioning production chain in its operations. Should this chain fail, there is a risk that it would affect the opportunities to retain and attract customers.

One of the single biggest risks related to production is related to the price trend for electricity and steel. Production of wind turbines are relatively electricity intensive and a higher electricity price could have a significant negative effect on company profit. Towers for wind turbines are made from steel, which means that trends in the steel market could also have a profit effect.

Product Responsibility

Any failure of Morphic's products could lead to claims for liability and damages.

Financial Risks

Liquidity Risk (Share)

The Morphic share carries a risk that turnover can vary from one period to another and there can be a large difference between buying and selling price at different times. The liquidity of the Morphic share can also be affected by a various internal and external factors. Internal factors include announcement of new company acquisitions, new products, technology changes, quarterly variations in the Company's operating profit and changes in profit and sales forecasts. External factors include the general economic climate, economic downturns and other factors unrelated to the Company's business development. Even fluctuations in the markets where Morphic operates can have a significant impact on the Company's share price.

Company's Limited Resources

Morphic is a small company with limited financial resources. Should the Company fail to use the resources in the best manner it would have a negative effect on the Group.

External Risks

Market-specific Risks

Subsidiaries in the Morphic Group operate in different markets with different customer segments and different underlying driving forces. This means that the market-specific risks vary.

Development in the wind and hydroelectric power industries (DynaWind AB and Finshyttan Hydro Power AB) is greatly affected by electricity price trends as well as legislation and regulations in the energy market. The high electricity prices in recent years have, for example, benefited the production of electricity using wind power. A significantly lower electricity price would make wind power-based electricity less profitable, which could ultimately lead to reduced demand. To increase the share of electricity from renewable energy sources, many European countries have introduced financial subsidies that favor this type of electricity production. Sweden has a system of electricity certificates in which electricity producers receive an electricity certificate for every MWh of renewable electricity produced. Electricity customers must buy these certificates based on their electricity consumption. A reduction or removal of government subsidies, such as the system of electricity certificates, could lead to reduced demand for the Company's products. Morphic follows developments on the energy market

constantly. It is the strongly-held conviction of Morphic management that electricity from renewable energy sources, with or without subsidies, will represent a serious alternative to fossil-based forms of energy in the long-term.

For the fuel cell business in Cell Impact, the primary operative risks are delays from the Company's customers in introducing fuel cell products to the market. As always in the introduction of new technology, running in problems or delays can arise that are difficult to foresee in advance.

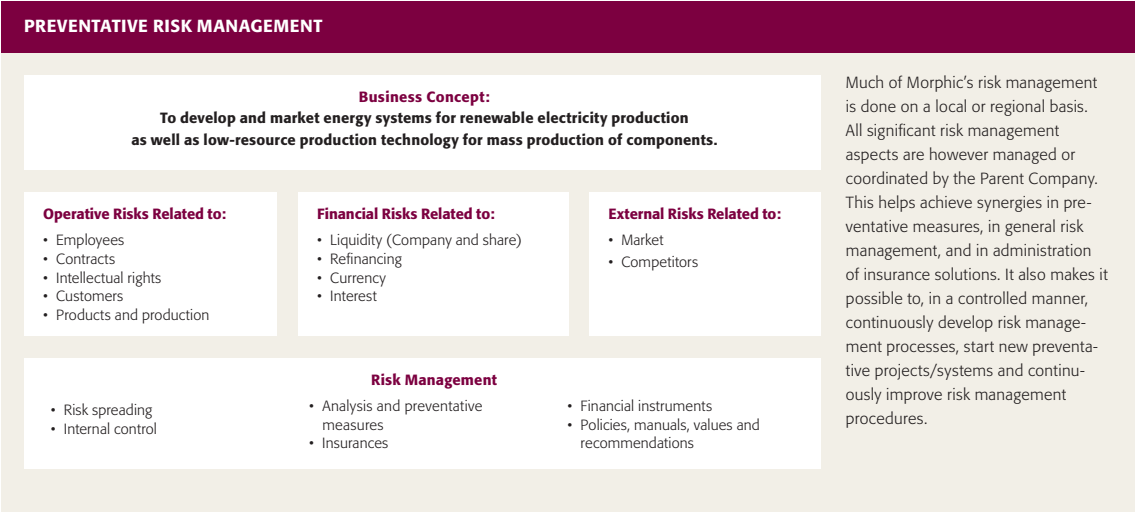
Dynamis AB is primarily dependent on the engineering industry's willingness to invest in new automation and production technology. Aerodyn AB is dependent on the development of the shipping and shipbuilding markets. A decline in shipbuilding would negatively affect development in the business.

Competitors

The competitive situation varies between the various business areas. The main competition in the fuel cell business is other production methods, such as etching and milling. For the wind and hydroelectricity businesses, competition in the Swedish market is limited to a handful of operators. The business in ship propulsion is global and Morphic competes here with a great many players. Competition is also relatively heavy in the area of automation equipment sales.

Other Risks

Other risks the Group is exposed to include fire, traditional insurance risks and theft.



Six-year Overview

SEK thousand unless otherwise specified	2006/07*	2005/06*	2004/05*	2003/04	2002/03	2001/02
Condensed income statements						
Revenue	149,289	38,991	2,276	9,646	1,553	840
Other operating income	19,259	3,157	-69	854	-7	292
Operating expenses	-236,498	-66,659	-18,201	-20,546	-13,680	-8,936
Operating profit/loss	-67,950	-24,511	-15,994	-10,046	-12,134	-7,804
Finance costs – net	1,215	-108	-575	-768	-313	-311
Profit/loss after finance costs	-66,735	-24,619	-16,569	-10,814	-12,447	-8,115
Income tax expense	-215	-12	11	-17	-1	-13
Profit/loss for the year	-66,950	-24,631	-16,558	-10,831	-12,448	-8,128
Condensed balance sheets						
Balance sheet total	602,495	259,186	48,278	27,023	25,848	35,162
Intangible assets	73,017	65,851	7,913	7,122	5,953	3,850
Property, plant and equipment	101,446	73,124	12,388	11,868	13,597	14,249
Financial assets	573	642	586	586	586	517
Current assets	427,459	119,569	28,391	7,447	1,970	16,546
Equity	441,127	216,774	30,052	13,631	12,106	22,441
Non-current liabilities	13,574	12,890	7,238	8,069	8,955	7,994
Current liabilities	147,794	29,522	11,987	5,323	4,787	4,727
Condensed cash flow statements						
Cash flows from operating activities	-55,041	-25,622	-12,363	-8,879	-11,678	-5,537
Investments in intangible assets	-14,875	-5,610	-1,643	-1,816	-2,422	-2,587
Investments in property, plant and equipment	-35,882	-17,303	-2,345	-94	-952	-7,082
Investments in financial assets	-84,141	-1,588	-62	—	-69	-238
Cash flows from financing activities	286,298	112,941	37,650	14,444	961	16,003
Cash flow for the year	97,913	62,818	21,361	3,655	-14,160	559
Cash and cash equivalents at end of the year	186,463	88,550	25,732	4,371	788	14,948
Profitability ratios						
Adjusted equity	441,127	216,774	30,052	13,627	12,104	22,439
Capital employed	456,739	232,313	44,599	23,714	21,992	31,366
Profit margin, %	neg	neg	neg	neg	neg	neg
Return on total assets, %	neg	neg	neg	neg	neg	neg
Return on equity, %	neg	neg	neg	neg	neg	neg
Capital structure						
Debt/equity ratio, %	4	7	48	72	82	40
Interest coverage ratio, times	73	-30	-25	-13	-19	-13
Equity ratio, %	73	84	61	50	47	64
Share of risk-bearing capital, %	73	84	61	50	47	64
Employees						
Average No. of employees	113	44	12	9	9	6
No. of employees at the end of the fiscal year	118	90	11	11	9	8
Sales per employee	1,321	886	190	1,072	173	140
Share information						
No. of shares at the end of the year	136,744,996	109,368,543	70,096,839	55,416,839	39,676,854	39,676,854
Weighted No. of registered shares – basic	113,068,632	90,553,688	60,075,900	47,732,216	39,676,854	31,855,191
Weighted No. of shares – diluted	113,068,632	90,553,688	60,075,900	47,732,216	44,665,789	34,141,358
No. of shareholders	20,924	9,598	2,008	1,136	625	452
Share-price information						
Share price at the end of the fiscal year, SEK	26.60	13.60	3.08	2.05	0.70	1.80
Highest share price during the fiscal year, SEK	30.00	15.00	4.30	2.45	2.00	2.70
Lowest share price during the fiscal year, SEK	7.80	2.90	1.70	0.60	0.55	1.10
Market value at the end of the fiscal year	3,637,416,894	1,487,412,184	215,898	113,605	27,773	71,418
Share data						
Basic earnings per share (weighted), SEK	-0.59	-0.27	-0.28	-0.23	-0.31	-0.26
Basic equity per share (weighted), SEK	3.90	2.39	0.50	0.29	0.31	0.70

* Accounts prepared in accordance with IFRS. Were previous years to be translated to IFRS smaller changes would be evident in depreciation/amortization and goodwill.

Directors' Report

The Board of Directors and the CEO of Morphic Technologies AB (publ), Corporate Identity Number (CIN) 556580-2526, hereby submit the annual report and consolidated financial statements for the fiscal year May 1, 2006–April 30, 2007.

Morphic Technologies is an expanding Swedish industrial group with operations in fuel cells, wind and hydroelectric power, energy systems and production technology. In addition to the Parent Company, the Group consists of seven subsidiaries and two sub-subsidiaries. Business operations are in Karlskoga, Filipstad, Kristinehamn and Gothenburg in Sweden. The Group has 120 employees.

Group Structure

Morphic Technologies is Parent Company of the wholly-owned subsidiaries Cell Impact AB (CIN 556585-6936), DynaWind AB (CIN 556703-5711), Finshyttan Hydro Power AB (CIN 556703-5752), Aerodyn AB (CIN 556373-7583), Dynamis AB (CIN 556588-8103), Morphic Business Development AB (CIN 556640-6244) and MLCC (CIN 556576-6655).

Owner Relationships

Morphic's Class B share was listed on First North (previously Nya Marknaden) on September 1, 2004 having been unofficially listed on Gothenburg's OTC list since 2000. The Company's sponsor on First North is Remium Securities AB. On April 30, 2007, the number of shareholders was approximately 21,000. The number of shares amounted to 136,744,996, of which 5,984,000 were Class A shares. At that time the Class A shares were divided between six owners, who together controlled 41 per cent of the votes.

The Morphic Share

During the fiscal year May 1, 2006–April 30, 2007, the share price has increased by 114 percent compared to the OMXSPI index which increased by 22 percent in the same period. The highest price paid during the period was SEK 30.00 and the lowest was SEK 7.80. Morphic's market capitalization was SEK 3,637 million at the end of the year. Turnover during the year was 180,798,807 Class B shares.

Change to the Nordic List

The anticipated continuation of Morphic's rapid growth assumes adequate access to the capital market. To increase interest in Morphic, increase the share's liquidity and hence the efficiency of its pricing, as well as attract new categories of shareholders, the Company is now taking the next step in its development as a listed company by applying for listing on the Nordic list this autumn.

Significant Events During the Fiscal Year

Fuel Cells

Morphic subsidiary Cell Impact entered agreements in 2006/07 with customers in a number of different fields, including the automotive, telecom and consumer electronics industries. Contracts were signed during the year with two of the ten largest automotive manufacturers in the world for production of test series of flow plates for fuel cells. In addition, cooperation agreements were signed with not less than five Chinese companies associated with the domestic automotive industry.

A number of contracts were also signed in the consumer electronics field. In December 2006, contracts were signed with a leading mobile phone manufacturer for production and evaluation of a large quantity of flow plates for fuel cells for mobile phones. Fuel cells will be used to fully or partially replace the phone battery and extend operating time. In early 2007 a contract was signed with a leading manufacturer of GPS systems, and at the end of the fiscal year a contract was signed with one of the world's largest consumer electronics companies related to flow plates for use in many of its products.

Sales in the business area remain insignificant and have during the year consisted of test series in advance of anticipated volume production. Costs for new recruitments and global marketing activities have been expensed during the year and investments also made in proprietary production equipment for flow plates.

Wind Power

Demand for wind turbines was high during the past year. A total of 11 turbines were sold to customers in Sweden in 2006/07 with a total order value of approximately SEK 340 million. The single biggest order comprises ten turbines, five of which were received after the end of the fiscal year, for the Vindpark Vänern project. The turbines have rated output of 3 MW each and the total order value is approximately SEK 460 million. The turbines are to be delivered in 2008 and 2009.

To meet the heavy demand for wind turbines, a decision was made in winter 2006 to build a new factory in the Gustavberg industrial area in Kristinehamn for the production of towers for wind turbines. The investment involves a substantial capacity increase from the current level of just over 10 towers per year to around 100 towers per year. The factory is expected to be completed in autumn 2007.

Invoicing commenced during fiscal 2006/07 for the first wind turbines within the framework of the license agreement with WinWinD. A small portion of the order amount is invoiced when the order is received. Most of the outstanding amount is then invoiced six months prior to delivery and on actual delivery. The last portion is invoiced after approved trial operation. Investments were also made in a new factory for tower production during the fiscal year.

Energy Systems

Development of Morphic's proprietary energy system, based on wind power in combination with fuel cells, proceeded throughout the fiscal year. The energy system utilizes electricity from wind and other forms of power and stores it in the form of hydrogen or methanol for later consumption. As part of Morphic's pilot installation, a wind turbine was developed and installed during the year and a fuel cell and storage system installed after the end of the fiscal year. A conventional fuel cell combined with an electrolyzer for hydrogen is being used in the initial phase. It is intended the energy system will be expanded with ethanol and biogas solutions along with a methanol fuel cell and Morphic's proprietary energy converter (patent pending).

Production Technology

Morphic subsidiary Aerodyn had continued high coverage during the period for the production of blades and hubs for manufacturers of propulsion systems for ships. Order intake and capacity utilization were both high. The company has orders for deliveries that extend into 2008.

Morphic Technologies subsidiary Dynamis launched SensActive™ in October, a unique measuring and material handling system. The SensActive system uses robot technology to pick and handle objects directly from pallets, a process not previously possible. The system can also make highly accurate control measurements of an object in all dimensions to ensure all tolerances are met. The use of three-dimensional measuring technology means that objects can be handled accurately even when lying unsorted in packages or on top of one another. The only technology of its type in the world, the system is expected to set new standards for material handling in the engineering industry. Dynamis is now aiming to become a global system supplier for the proprietary and patented measuring and material handling system SensActive. The business related to high-speed technology, comprising subcontracting and machine manufacture, was moved to subsidiary Cell Impact.

Morphic subsidiary Finshyttan Hydro Power AB has received an order for the renovation and modernization of generating unit 5 in the Harsprånget hydroelectricity station on Lule älv. The order is from Vattenfall AB Vattenkraft.

Sales in the hydroelectric power segment were limited during the year due to the temporary use of the production plant for production of towers for wind turbines prior to the new tower factory going into operation in autumn 2007. The negative result derives from the impairment of previously activated development costs pertaining to the production of towers for wind turbines. The development took place when the wind and hydroelectricity operations were run within Aerodyn and has therefore been recognized under hydroelectric power.

Significant Events After the end of the Fiscal Year

After the end of the fiscal year, Cell Impact has received a number of test orders for flow plates for a range of applications including telecommunications, portable computers and systems for electrical energy and heating. To meet the high level of ongoing interest from the Asian market, it was decided in summer 2007 to establish a customer center for production of fuel cell components outside Tokyo in Japan. The facility will offer customers throughout the Asian region the opportunity to produce and align flow plates for their fuel cells.

Morphic received an order in late June for an additional five of the Company's largest wind turbines for the Vindpark Vänern project. Delivery is planned for 2008 and 2009. The total order value for the installation of the five turbines is SEK 234 million.

In May 2007, Dynamis AB received an order from Haldex Brake Products for the SensActive material handling system. The system will be used as part of a complete material handling system, and integrated in the Haldex production process.

Acquisition of Energy Technology Company Helbio S.A.

In August, 55 percent of the shares in Greek energy technology company Helbio S.A. were acquired. The company is a leading player in systems for efficient and ecofriendly production of hydrogen from renewable fuels.

Private Placements

A directed issue was made in the first quarter backed by an authorization from the Extraordinary General Meeting on June 1, 2006. It provided the Company with approximately SEK 21 million before issue expenses through the issue of 2,636,000 Class B shares. The purpose of the issue was to secure investments as well as acquisitions in conjunction with new expansion opportunities for the Group.

The Morphic Board of Directors decided during the third quarter, backed by authorization from the AGM, to make a directed issue. With the intention of strengthening Morphic's capital base while also increasing institutional ownership in the Company, 10 million Class B shares were issued at a price of SEK 13 and directed to Alecta and Swedbank Robur.

At the Extraordinary General Meeting on February 1, 2007, it was resolved to implement a non-preferential share issue to the Company's shareholders. 3 million Class B shares were issued and directed to Östersjöstiftelsen at a share price of SEK 11.

Preferential Issue

At the Extraordinary General Meeting on February 1, 2007, it was resolved to make a preferential share issue to existing shareholders. Shareholders registered in the share register on record day, February 9, were entitled to subscribe one new share for every ten shares held at a price of SEK 10.

Financial Instruments

Objectives and the principles applied for financial risk management, as well as exposure to credit risks etc. are described in Note 3.

Incentive Program

The Board of Directors decided on July 4, with authorization of the AGM, to issue up to 3,300,000 share warrants each entitling subscription of a new Class B share at a price of SEK 16. The issue has been directed to key persons and employees of the Morphic Group. A total of 3,010,000 share warrants have been subscribed. Share warrants can be exercised for subscription during the period October 1, 2009 to October 31, 2009.

Subscription conditions have been modified following the preferential issue in March 2007. Each share warrant carries the right to subscribe to 1.06 new shares at a share price of SEK 15.10. If all subscribed share warrants are exercised for share subscription, it would increase share capital by SEK 127,624 which represents a dilution of 2.3 percent.

Environment

With the exception of Aerodyn AB, Group companies do not run any operations that are covered by the licensing and reporting obligations of the Swedish Environmental Code. Aerodyn AB submits an annual environmental report for its operation in Karlskoga to the property owner that holds the environmental concession on behalf of Aerodyn AB (publ).

Revenue

Consolidated net revenue for the 2006/07 fiscal year was SEK 143.7 million (38.6). The increase was largely due to sales from the acquired segment of subcontracted production of ship propellers and wind power which has been included in consolidated accounts since December 2005.

Sales of flow plates for fuel cells, heat exchangers and subcontracted production of metal components is still small and during the year consisted largely of test series prior to anticipated volume production. Sales in the hydroelectric power segment were also limited during the year as a result of the temporary use of the production plant for production of towers for wind turbines prior to the commissioning of the new tower factory in autumn 2007.

Loss after Tax

Loss after tax for fiscal 2006/07 was SEK -66.9 million, which was a decrease compared to the previous year (SEK -24.6 million). The negative result was largely due to the increased costs in the Group for new recruitment, primarily of management, and to support the Company's expansion. In addition, the result has also been negatively impacted by increased expenses associated with global marketing activities and high costs for initial tower production at the plant in Filipstad.

Financial Position

Morphic's equity increased to SEK 441.1 million (216.8). The equity ratio on balance sheet date was 73.2 percent (83.6 percent). The Group's balance sheet total increased to SEK 602.5 million (259.2). The change in equity is explained by the new share issues made of approximately SEK 297 million before issue expenses. Cash and cash equivalents on April 30, 2007 were SEK 186.5 million (88.6).

Cash Flows

The negative cash flow from current operations before changes in operating capital increased during the year by 142 percent to SEK -47.7 million (-18.5), which represents SEK -0.35 per share (-0.17).

Investments and Depreciation/Amortization

The Group's net investments for fiscal 2006/07 were SEK 51.1 million (18.4). The increased investments in property, plant and equipment include investments in new plant for the production of towers for wind turbines for DynaWind and investments in a new production line for production of flow plates dimensioned for the transport and automotive industries. The Group's investments in intangible assets were SEK 14.9 million (5.6). Depreciation and amortization during the period was SEK 11.6 million (6.4).

Employees

Employee expenses were SEK 61.7 million (22.2). The number of employees at the end of the fiscal year was 118 (92), an increase during the year of 26 employees. The increase is largely due to the recruitment of senior management and personnel for the Group's six operative subsidiaries.

Parent Company

The Parent Company's net sales were SEK 4,727 thousand (1,585) with profit of SEK -20,310 thousand (-17,259). During the fiscal year the Parent Company made investments in non-current assets of SEK 158,694 thousand (58,869). The Parent Company had disposable cash and cash equivalents on balance sheet date April 30, 2007 of SEK 181,891 thousand (64,265) with an equity ratio of 99.0 percent (97.7).

Future Outlook

The common factor for all business areas is an increased demand for energy solutions that ensure energy supply and reduce dependency on fossil fuels. For Morphic, the trend in the energy area represents a major opportunity. The objective in the fuel cell area is to establish the Company as a long-term strategic partner and a leading global supplier of flow plates. In the wind power area, the Company's objective is to expand the business in line with market growth. The ambition is to retain the current market share of 20–25 percent for the business area in Sweden.

Planned/ongoing projects include the assurance of delivery capacity in other critical areas in addition to production of large wind turbine towers, and to facilitate the development and commercialization of small wind turbines of 20 to 500 kW. In the fuel cell business, a marketing organization is being set up in Europe and North America in addition to the current establishment in Asia. The Company will also further develop and promote the pace of development and commercialization of Morphic's energy system. Introductory pilot plant sales are expected to be made in autumn 2007.

At the Extraordinary General Meeting held after the end of the fiscal year, Eva-Lotta Kraft and Lars Olof Nilsson were elected as new directors in the Morphic Technologies Board. The strengthening of the Board's competence should be seen in light of the Company's future operative challenges as well as the planned listing on the Nordic list in autumn 2007. The growth objective, to achieve sales of at least SEK 2,000 million with strong profitability in fiscal 2008/09, remains valid and reflects the Group's unique market position and strong assumptions for revenue growth in the business.

Proposal for Appropriation of Profits

The following profit is at the disposition of the AGM (SEK thousand):

Accumulated loss	-72,565
Share premium reserve	291,281
Loss for the year	-20,310
Intra-Group transfer received	5,849
	<u>204,255</u>

The Board and CEO propose that the Parent Company's accumulated loss of SEK 204,255,532 be carried forward.

Consolidated Income Statement

Amounts in SEK thousand	Note	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
OPERATING INCOME, ETC	6, 7, 8			
Net revenue		143,738	38,574	1,815
Change in inventories		15,971	1,179	–463
Work performed by the company for its own use and capitalized		3,288	1,978	394
Other operating income	7, 11	5,551	417	461
TOTAL OPERATING INCOME, ETC		168,548	42,148	2,207
OPERATING EXPENSES				
Purchase of goods and services		–113,582	–16,203	–362
Other external expenses	9, 10	–41,354	–20,039	–6,258
Employee costs	13	–61,714	–22,213	–8,322
Depreciation, amortization and impairment of assets		–19,029	–6,446	–3,259
Other operating expenses	11	–819	–1,758	–
TOTAL OPERATING EXPENSES		–236,498	–66,659	–18,201
OPERATING PROFIT/LOSS		–67,950	–24,511	–15,994
PROFIT/LOSS FROM FINANCIAL INVESTMENTS				
Finance income	15	2,138	743	65
Finance costs	16	–923	–851	–640
TOTAL PROFIT/LOSS FROM FINANCIAL INVESTMENTS		1,215	–108	–575
PROFIT/LOSS AFTER FINANCE COSTS		–66,735	–24,619	–16,569
Income tax	17	–215	–12	11
LOSS FOR THE YEAR		–66,950	–24,631	–16,558
PERTAINING TO				
Parent Company shareholders		–66,982	–24,534	–16,558
Minority interest		32	–97	–
		–66,950	–24,631	–16,558
Basic and diluted earnings per weighted no. of shares (SEK)	18	–0.59	–0.27	–0.28
Weighted number of shares during the period		113,068,632	90,553,688	60,075,900
Total number of shares at the end of the period		136,744,996	109,368,543	70,096,839

Income Statement, Parent Company

Amounts in SEK thousand	Note	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
	2			
OPERATING INCOME, ETC	7, 43			
Net revenue		4,727	1,585	2,024
Changes in inventories		–3,685	–201	–463
Work performed by the company for its own use and capitalized		603	–	395
Other operating income	7, 11	146	59	911
TOTAL OPERATING INCOME, ETC		1,791	1,443	2,867
OPERATING EXPENSES	43			
Purchase of goods and services		–707	–1,553	–3,987
Other external expenses	9, 10	–12,799	–11,791	–7,203
Employee costs	13	–12,762	–4,661	–4,378
Depreciation, amortization and impairment of assets		–1,984	–1,741	–3,220
Other operating expenses	11	–10	–	–
TOTAL OPERATING EXPENSES		–28,262	–19,746	–18,788
OPERATING PROFIT/LOSS		–26,471	–18,303	–15,921
PROFIT/LOSS FROM FINANCIAL INVESTMENTS				
Other interest income and similar profit items	15	3,949	1,346	64
Interest expenses and similar profit items	16	–63	–302	–600
TOTAL PROFIT/LOSS FROM FINANCIAL INVESTMENTS		3,886	1,044	–536
PROFIT/LOSS AFTER FINANCE COSTS		–22,585	–17,259	–16,457
Tax on profit for the year	17	2,275	–	–
LOSS FOR THE YEAR		–20,310	–17,259	–16,457

Consolidated Balance Sheet

Amounts in SEK thousand	Note	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Assets				
NON-CURRENT ASSETS				
INTANGIBLE ASSETS				
Capitalized expenditure for development and similar	19	10,547	9,771	5,046
Concessions, patents and similar	20	7,288	4,132	2,669
Goodwill	21	55,182	51,948	198
TOTAL INTANGIBLE ASSETS		73,017	65,851	7,913
PROPERTY, PLANT AND EQUIPMENT				
Land and buildings	22	13,939	7,036	6,311
Plant and machinery	23	50,487	36,649	4,163
Equipment, tools, fixtures and fittings	24	10,214	6,911	349
Construction in progress and advance payments for property, plant and equipment	25	26,806	22,528	1,565
TOTAL PROPERTY, PLANT AND EQUIPMENT		101,446	73,124	12,388
FINANCIAL ASSETS				
Investments in associates	26	—	69	69
Financial assets held for trading	27	457	457	457
Deferred tax assets		33	33	—
Deposits	28	83	83	60
TOTAL FINANCIAL ASSETS		573	642	586
TOTAL NON-CURRENT ASSETS		175,036	139,617	20,887
CURRENT ASSETS				
INVENTORIES, ETC.				
Inventories	29	69	3,685	—
Ongoing work-in-progress	30	12,250	9,595	—
Advances for goods and services		26,186	—	—
TOTAL INVENTORIES, ETC		38,505	13,280	0
CURRENT RECEIVABLES				
Trade receivables		99,811	11,323	154
Current tax assets		293	—	—
Other current receivables		10,123	4,024	959
Prepaid expenses and accrued revenue	31	8,123	2,392	1,546
TOTAL CURRENT RECEIVABLES		118,350	17,739	2,659
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	32	—	9,850	15,021
BLOCKED ACCOUNTS	33	84,141	—	—
CASH AND CASH EQUIVALENTS	42	186,463	78,700	10,711
TOTAL CURRENT ASSETS		427,459	119,569	28,391
Total assets		602,495	259,186	49,278

Consolidated Balance Sheet

Amounts in SEK thousand	Note	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Equity and liabilities				
EQUITY	34			
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Share capital		5,470	4,375	2,804
Other paid-up capital		583,170	291,892	82,843
Other reserves		-402	—	—
Accumulated loss		-80,129	-55,595	-39,037
Loss for the year		-66,982	-24,534	-16,558
Minority interest		—	634	—
TOTAL EQUITY		441,127	216,772	30,052
NON-CURRENT LIABILITIES	35			
Liabilities to credit institutions		13,574	12,890	7,238
TOTAL NON-CURRENT LIABILITIES		13,574	12,890	7,238
CURRENT LIABILITIES				
Other provisions	36	1,661	961	210
Liabilities to credit institutions	35	2,038	2,649	7,168
Trade payables		47,964	12,843	1,481
Advance payments from customers		3,316	1,908	686
Current income tax liabilities		—	24	—
Contracted customer liabilities	6	67,699	—	—
Derivative instruments	37	402	—	—
Other current liabilities		9,772	2,389	430
Accrued expenses and deferred income	38	14,942	8,750	2,013
TOTAL CURRENT LIABILITIES		147,794	29,524	11,988
Total equity and liabilities		602,495	259,186	49,278
PLEGGED ASSETS	39	112,307	37,364	26,466
CONTINGENT LIABILITIES	40	106,789	15,136	325

Balance Sheet, Parent Company

Amounts in SEK thousand	Note	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Assets				
NON-CURRENT ASSETS				
INTANGIBLE ASSETS				
Capitalized expenditure for research and development and similar	19	2,535	3,750	4,770
Concessions, patents and similar	20	6,244	2,485	2,232
TOTAL INTANGIBLE ASSETS		8,779	6,235	7,002
PROPERTY, PLANT AND EQUIPMENT				
Land and buildings	22	—	—	6,311
Plant and machinery	23	—	7	4,163
Equipment, tools, fixtures and fittings	24	420	144	275
Construction in progress and advance payments for property, plant and equipment	25	730	—	1,565
TOTAL PROPERTY, PLANT AND EQUIPMENT		1,150	151	12,314
FINANCIAL ASSETS				
Interest in Group companies	44	161,723	100,577	620
Receivables from subsidiaries		55,249	51,487	—
Investments in associates	26	—	69	69
Other securities held as fixed assets		457	457	—
Other long-term receivables		60	60	517
TOTAL FINANCIAL ASSETS		217,489	152,650	1,206
TOTAL NON-CURRENT ASSETS		227,418	159,036	20,522
CURRENT ASSETS				
INVENTORIES, ETC.				
Finished goods and goods for resale		—	3,685	—
TOTAL INVENTORIES, ETC.		0	3,685	0
CURRENT RECEIVABLES				
Trade receivables		—	—	154
Receivables from Group companies		8,399	488	—
Tax liabilities		80	—	—
Other current receivables		2,781	676	908
Prepaid expenses and accrued revenue	31	2,162	741	1,528
TOTAL CURRENT RECEIVABLES		13,422	1,905	2,590
INVESTMENTS	32	—	—	15,021
BLOCKED ACCOUNTS	33	84,142	—	—
CASH AND BANK BALANCES	42	181,891	64,265	6,037
TOTAL CURRENT ASSETS		279,455	69,855	23,648
Total assets		506,873	228,891	44,170

Balance Sheet, Parent Company

Amounts in SEK thousand	Note	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Equity and liabilities				
EQUITY	34			
RESTRICTED EQUITY				
Share capital (136,744,966 shares with a quotient value of SEK 0.04)		5,470	4,375	2,804
Statutory reserve		291,892	291,892	82,843
		297,362	296,267	85,647
NON-RESTRICTED EQUITY/ACCUMULATED LOSS				
Accumulated loss		-66,716	-55,306	-38,849
Share premium reserve		291,281	—	—
Loss for the year		-20,310	-17,259	-16,457
		204,255	-72,565	-55,306
TOTAL EQUITY		501,617	233,702	30,341
PROVISIONS				
Other provisions	36	—	—	210
TOTAL PROVISIONS		0	0	210
NON-CURRENT LIABILITIES	35			
Liabilities to credit institutions		—	1,468	7,238
TOTAL NON-CURRENT LIABILITIES		0	1,468	7,238
CURRENT LIABILITIES				
Liabilities to credit institutions	35	31	1,151	2,167
Liabilities to Group companies		—	—	1,077
Trade payables		1,835	977	1,204
Other current liabilities		277	136	71
Advance payments customers		—	—	686
Accrued expenses and deferred income	38	3,113	1,457	1,176
TOTAL CURRENT LIABILITIES		5,256	3,721	6,381
Total equity and liabilities		506,873	228,891	44,170
PLEDGED ASSETS	39	84,147	20,066	26,466
CONTINGENT LIABILITIES	40	16,658	9,535	325

Consolidated Cash Flow Statement

Amounts in SEK thousand	Note	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Operations				
OPERATING ACTIVITIES				
Operating profit before net finance costs		–67,950	–24,511	–16,063
Depreciation/amortization		11,578	6,539	3,307
Other items not affecting liquidity	46	8,154	–393	–
		–48,218	–18,365	–12,756
Interest received		2,138	743	3
Interest paid		–923	–851	–640
Income tax paid		–703	–76	–1
CASH GENERATED FROM OPERATIONS BEFORE CHANGES IN OPERATING CAPITAL		–47,706	–18,549	–13,394
Increase in inventories		–25,224	–4,916	367
Increase in receivables		–100,318	–1,154	50
Increase in current liabilities		118,207	–1,003	614
CASH FLOWS FROM OPERATING ACTIVITIES		–55,041	–25,622	–12,363
INVESTING ACTIVITIES				
Investments in intangible assets		–14,875	–5,610	–1,643
Disposal of intangible assets		900	–	–
Investments in property, plant and equipment		–35,882	–17,303	–2,345
Disposal of property, plant and equipment		654	1,176	–
Investments in subsidiaries	41	–	–2,743	–
Increase in current investments		–84,141	–21	62
CASH FLOWS FROM INVESTING ACTIVITIES		–133,344	–24,501	–3,926
FINANCING ACTIVITIES				
New share issue after issue expenses		286,626	121,375	32,983
Loans received		2,739	7,099	6,520
Repayment of debt		–2,456	–15,533	–1,853
Increase/decrease in current financial liabilities		–611	–	–
CASH FLOWS FROM FINANCING ACTIVITIES		286,298	112,941	37,650
Cash flow for the year		97,913	62,818	21,361
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		88,550	25,732	4,371
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	42	186,463	88,550	25,732

Cash Flow Statement, Parent Company

Amounts in SEK thousand	Note	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
OPERATING ACTIVITIES				
Operating profit before net finance costs		–26,471	–18,303	–15,922
Depreciation/amortization		1,914	1,740	3,197
Other items not affecting liquidity		69	–210	–
		–24,488	–16,773	–12,725
Interest received		3,949	1,346	64
Interest paid		–63	–303	–599
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING CAPITAL		–20,602	–15,730	–13,260
Decrease in inventories		3,685	–3,685	367
Increase in receivables		–11,517	685	–1,046
Increase in current liabilities		2,654	–1,644	1,855
CASH FLOWS FROM OPERATING ACTIVITIES		–25,780	–20,374	–12,084
INVESTING ACTIVITIES				
Investments in intangible assets		–6,597	–514	–1,565
Disposal of intangible assets		2,239	–	–
Investments in property, plant and equipment		–3,046	–157	–2,043
Disposal of property, plant and equipment		1,947	11,860	–
Investments in subsidiaries		5,744	–	–
Investments in other financial assets		–64,909	–58,198	–
Other financial items		–84,142	–	–
CASH FLOWS FROM INVESTING ACTIVITIES		–148,764	–47,009	–3,608
FINANCING ACTIVITIES				
New share issue		286,633	117,377	32,982
Loans received		–	–	1,700
Repayment of debt		–2,588	–6,786	–2,261
Intra-Group transfers received/paid		8,124	–	–
CASH FLOWS FROM FINANCING ACTIVITIES		292,169	110,591	32,421
Cash flow for the year		117,625	43,208	16,729
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		64,266	21,058	4,329
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	42	181,891	64,266	21,058

Consolidated Statement of Changes in Equity

Amounts in SEK thousand	Note	Share capital	Other paid-up capital	Other reserves	Accumulated loss	Minority interest	Total equity
Opening balance May 1, 2004		2,217	50,447	—	-39,037	—	13,627
Profit/loss for the year		—	—	—	-16,558	—	-16,558
New share issue		587	32,396	—	—	—	32,983
Closing balance April 30, 2005	34	2,804	82,843	—	-55,595	—	30,052
Opening balance May 1, 2005		2,804	82,843	—	-55,595	—	30,052
Profit/loss for the year		—	—	—	-24,534	—	-24,534
Company acquisition	41	—	—	—	—	634	634
Non-cash issue, company acquisition		293	88,952	—	—	—	89,245
New share issue		1,278	120,097	—	—	—	121,375
Closing balance April 30, 2006	34	4,375	291,892	—	-80,129	634	216,772
Opening balance May 1, 2006		4,375	291,892	—	-80,129	634	216,772
Cash flow hedging	37	—	—	-402	—	—	-402
Total transactions recognized direct to equity		—	—	-402	—	—	-402
Profit/loss for the year		—	—	—	-66,982	32	-66,950
Total recognized income and expenses		—	—	-402	-66,982	32	-67,352
Company acquisition		—	—	—	—	-666	-666
Non-cash issue, company acquisition		20	5,724	—	—	—	5,744
New share issue		1,075	284,049	—	—	—	285,124
Option scheme	12	—	1,505	—	—	—	1,505
Equity April 30, 2007	34	5,470	583,170	-402	-147,111	—	441,127

Statement of Changes in Equity, Parent Company

Amounts in SEK thousand	Note	Share capital	Statutory reserve fund	Share premium reserve	Accumulated loss	Total equity
Opening balance May 1, 2004		2,217	—	50,447	-38,849	13,815
Loss for the year		—	—	—	-16,457	-16,457
New share issue		587	—	32,396	—	32,983
Closing balance April 30, 2005	34	2,804	—	82,843	-55,306	30,341
Opening balance May 1, 2005		2,804	—	82,843	-55,306	30,341
Loss for the year		—	—	—	-17,259	-17,259
New share issue		1,571	—	209,049	—	210,620
Closing balance April 30, 2006	34	4,375	0	291,892	-72,565	223,702
Opening balance May 1, 2006		4,375	—	291,892	-72,565	223,702
Loss for the year		—	—	—	-20,310	-20,310
Transfer share premium reserve		—	291,892	-291,892	—	—
Intra-Group transfer received		—	—	—	8,124	8,124
Tax effect of intra-Group transfer		—	—	—	-2,275	-2,275
New share issue		1,095	—	289,776	—	290,871
Option scheme		—	—	1,505	—	1,505
Closing balance April 30, 2007	34	5,470	291,892	291,281	-87,026	501,617

Notes

NOTE 1 GENERAL INFORMATION

Morphic Technologies AB (publ) (Parent Company, CIN 556580-2526) and its subsidiaries (comprising the Group) is an expanding Swedish industrial group with operations in fuel cells, wind and hydroelectric power and production technology. The Group has offices in Karlskoga, Gothenburg, Filipstad, Kristinehamn and Helsingborg.

The Parent Company is a Swedish-registered limited liability company with its registered office in Karlskoga. The head office is located at Gammelbackavägen 6, Karlskoga, Sweden.

The Parent Company is listed on the First North trading site on the Stockholm Stock Exchange.

The Board of Morphic Technologies AB (publ) has approved this annual report for publication on September 26, 2007.

NOTE 2 ACCOUNTING AND VALUATION POLICIES

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. The Group also complies with the recommendation of the Swedish Financial Accounting Standards Council, RR 30:5 Supplementary Rules for Consolidated Financial Statements.

The consolidated financial statements have been prepared using the cost method with the exception of financial assets held for trading and financial assets and liabilities (including derivative instruments) valued at fair value through profit or loss.

Preparation of reports in accordance with IFRS requires the application of significant accounting estimations. In applying the Company's accounting policies management is also required to make certain judgments. The areas considered to be particularly complex and of most importance to the consolidated financial statements are described in Note 5.

Information on Future Standards

IAS 1 Amendment – Presentation of Financial Statements:

Capital Disclosures

The amendment is effective January 1, 2007. This amendment is currently considered to add requirements for disclosures such as what the entity regards as capital, capital structure and policies for managing capital.

IFRS 7 Financial Instruments: Disclosures

The standard is effective from January 1, 2007. For Morphic Technologies, it is not considered that this standard requires any disclosures in addition to what is provided in this annual report.

IFRS 8 Operating Segments

The standard is effective from January 1, 2009 and applies to annual periods from this date. The standard applies to the division of the Company's business into different segments. The standard specifies that the entity bases its reporting on its internal reporting structure and determines the reportable segments based on this structure. Morphic does not anticipate that any new segments will arise when this standard takes effect.

IFRIC 9 Reassessment of Embedded Derivatives

The interpretation is effective from June 1, 2006 and applies to annual periods starting after June 1, 2006. The interpretation is a clarification of IAS 39 regarding embedded derivatives, primarily regarding the changed assessment of embedded derivatives resulting from changed market conditions. The recommendation will not have any effects on Morphic's accounts.

IFRIC 10 Interim Financial Reporting and Impairment

The interpretation is effective from November 1, 2006 and applies to annual periods starting after this date. The interpretation specifies that an impairment loss in a previous interim period shall not be reversed in a subsequent full or part-year report. The Group will apply IFRIC 10 from May 1, 2007 but it is not expected to have any effect on Group accounts.

IFRIC 11 IFRS 2 Group and Treasury Share Transactions

The interpretation is effective from March 1, 2007 and applies to annual periods starting after this date. The interpretation provides guidance on classification of share-based payments in which the entity buys its own equity instruments (treasury shares) to settle the share-based payment obligation, and accounting for option schemes in subsidiaries that apply IFRS. The Group will apply IFRIC 11 from May 1, 2007 but it is not expected to have any effect on Group accounts.

*IFRIC 12 Service Concession Arrangements**

The interpretation is effective from March 1, 2008 and applies to annual periods starting after this date. It covers the arrangements where a private company is to provide an infrastructure for the supply of public services for a specific time period. The entity receives payment for this service during the period of the contract. The Group will apply IFRIC 12 from May 1, 2008 but it is not expected to have any effect on Group accounts.

*IFRIC 13 – Customer Loyalty Programmes**

The interpretation is effective from July 1, 2008 and applies to annual periods starting after this date. It is not expected to have any impact on Group accounts.

*IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction**

The interpretation is effective from January 1, 2008 and applies to annual periods starting after this date. It is not expected to have any impact on Group accounts.

* These standards/interpretations are not currently adopted by the EU.

2.1 Consolidated Financial Statements

Consolidated financial statements comprising parent company, subsidiaries and associates.

Subsidiaries

Subsidiaries are all entities over which the Group can govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are removed from the consolidated accounts from the date on which control ceases.

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intra-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated.

Transactions With Minority Shares

The Group applies the principle of recognizing transactions with minority owners as third-party transactions. On acquisition of minority shares where the purchase price exceeds the acquired share of the carrying amount of the subsidiary's net assets, the difference is recognized as goodwill. On disposal of the minority share where the payment received differs from the carrying amount of the share of net assets that are being disposed, a profit or loss arises.

This profit or loss is recognized in the income statement.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

2.2 Foreign Currencies

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Swedish kronor, which is the Parent Company's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date of exchange rates of monetary assets

and liabilities denominated in foreign currencies are recognized in the income statement. The exception is when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges, where profits/losses are recognized in equity.

2.3 Revenue Recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue comprises the fair value of sales recognized net of value-added tax, discounts and exchange rate differences on sales in foreign currency. Sales within the Group are eliminated.

Sales of Goods

Sales of goods are recognized when the products are delivered to the customer, and the customer has accepted the products in accordance with the terms of sale.

Sales of Services

Service contracts can be classified in two groups: fixed price contracts and contracts on current account.

Fixed price contracts are recognized when the work is completed. Contracts on current accounts are recognized on a monthly basis.

Construction Contracts

Project revenue for construction contracts is recognized in accordance with IAS 11 Construction contracts. This means that profit from a project is recognized as the project progresses. The percentage of completion is largely based on project costs incurred in proportion to the total costs that are expected to complete the contract. Costs that have arisen during the year but pertain to future work are not included in the accrued project costs when the completion base is determined, but rather recognized as inventory. If the outcome cannot be estimated reliably, contract revenue is recognized equivalent to the contract costs incurred on balance sheet date (zero settlement). Expected losses should be recognized immediately. Using the percentage of completion method, the difference between the invoiced amount and unearned revenue should be shown as a liability. (Liabilities to customers for contract work under a construction contract).

Income Pertaining to Royalty/Licenses and Interest

Royalty and licenses are recognized in accordance with the substance of the related agreements partly when payment is received and partly allocated over the contract period.

Interest income is recognized on a time-proportion basis using the effective interest method.

2.4 Income tax

Reported income tax comprises tax that is to be paid or recovered pertaining to the current year as well as adjustments pertaining to current tax from previous years. All tax liabilities and assets are valued at the nominal amount based on the tax rates and laws that have been enacted or substantially enacted. For items recognized in the income statement, the associated tax effects are also recognized in the income statement. For items recognized directly in equity, the associated tax effects are also recognized directly in equity.

Deferred income tax

Deferred income tax is recognized in full, in accordance with the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is calculated on the temporary differences that arise in shares in subsidiaries and associates. Deferred tax is not calculated when the time for repayment of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not be reversed in the near future.

Deferred tax is not recognized if it arises as the result of a transaction that constitutes the initial recognition of an asset or liability that is not a business combination and which, at the time of the transaction, had no effect on either the recognized or taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets pertaining to deductible deficiency or other future tax-related deductions are recognized to the extent that it is probable that the deduction can be set off against a surplus on future taxation.

2.5 Borrowing Costs

Borrowing costs are charged to the income statement for the period to which they pertain.

2.6 Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not depreciated but rather allocated to cash-generating units and then tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.

Capitalized Expenditure for Development and Similar

Costs associated with research are recognized as an expense as incurred. Identifiable costs directly associated with development projects (related to design and testing of new or improved products) are recognized as intangible assets to the extent that these costs are expected to generate future financial benefits and can be measured in a reliable manner. Other development costs are recognized as expenses as incurred.

Development costs recognized as assets are amortized from the time of completion using the straight-line method over their estimated useful life. The amortization period does not exceed five years.

Concessions, Patents and Similar

Patents

Patents are carried at costs. Patents have a limited useful life and are recognized at cost less accumulated amortization. Amortization is made using the straight-line method over the useful life of the patents, not normally exceeding five years.

Licenses

Licenses are recognized at cost. Licenses have a limited useful life and are carried at cost less accumulated amortization. Straight-line amortization is used to allocate license costs over their estimated useful life.

2.7 Property, Plant and Equipment

Property, plant and equipment is carried at cost including directly applicable expenses less depreciation and impairment.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits and costs associated with the item can be measured reliably. Costs for repair and maintenance are recognized as expenses.

The Group applies component depreciation. Land is not depreciated. There is no depreciation of assets that are under construction. Depreciation on other plant, property and equipment is calculated over the estimated useful lives of the assets. The straight-line method is used for all types of property, plant and equipment.

The following depreciation periods are used:	Number of years
Industrial buildings	25
Plant and machinery	5–20
Equipment, tools, fixtures and fittings	3–5
Land improvements	20

An asset's carrying amount is tested annually for impairment and recognized immediately at its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated useful life is also tested annually.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized under the headings Other operating income and Other operating expenses in the income statement.

2.8 Impairment

Assets that have an indefinite useful life, such as land and goodwill, are not subject to depreciation/amortization but are tested annually for impairment. All assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment when there is a change in the circumstances motivating impairment of the asset's recovery value. The recoverable amount increases the carrying amount of the asset, although not more than the value the asset would have had (after deduction for standard depreciation/amortization) had there been no impairment.

Assets that are not yet completed are also tested for impairment.

2.9 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment reduce the carrying value of the asset.

2.10 Financial Instruments

The Group classifies its financial instruments in the following categories:

Assets

- Financial assets at fair value through profit or loss
- Loan receivables and trade receivables
- Available-for-sale financial assets

Liabilities

- Liabilities to credit institutes and other liabilities
- Derivates

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every balance sheet date.

Financial Assets at Fair Value Through Profit or Loss

This category has two sub-categories: 'financial assets held for trading', and those designated at fair value through profit or loss at inception. This category includes current investments.

The fair values of quoted investments are based on current bid prices. For unlisted securities and financial assets for which the market is not active, the Group determines fair value by using valuation techniques. These include the use of information from recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models. This makes maximum use of market inputs and relies as little as possible on entity-specific inputs.

All transactions involving securities are reported on settlement date.

Profits and losses resulting from changes in fair value in the Financial assets valued at fair value via profit and loss are recognized in the period in which they arose and are included in the income statement item Finance income/expenses – net.

Trade Receivables and Other Receivables

Trade receivables and other receivables are receivables that arise when the Group sells goods, services or money to a third party, without the intention of trading in the receivables. This category includes prepayments from customers, deposits, trade receivables, blocked funds and other receivables. The form of regulation for such receivables is often determined in advance. They are normally included in current assets at the amount expected to be received after deduction of individually-assessed uncertain receivables. Receivables with maturity greater than 12 months after the balance sheet date are classified as current assets. Trade receivables and other receivables are initially recognized at cost and thereafter at amortized cost using the effective interest method.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flow, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories, such as unlisted shares. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Financial assets are initially recognized at fair value plus transaction costs. Available-for-sale financial assets are recognized at fair value after the trade date. Changes in fair value recognized in equity.

If the market for a financial asset is not active (and for unlisted securities), the Group determines fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models. This makes maximum use of market inputs and relying as little as possible on entity-specific inputs.

Liabilities to Credit Institutes and Other Liabilities

Liabilities to credit institutes and other liabilities are initially valued at amortized cost using the effective interest method. These liabilities are then recognized at amortized cost. The item 'Other liabilities' includes trade creditors, prepayments from customers and other current liabilities. Liabilities in this category are classified as current if they are expected to be realized within 12 months of balance sheet date, otherwise they are classified as non-current.

Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the time being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognized liabilities (fair value hedge),
- (b) hedges of a particular risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge); or
- (c) hedges of a net investment in a foreign operation (net investment hedge).

Morphic has derivatives included in the category of cash flow hedges. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserve in shareholders equity are shown in Note 37. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within other gains/losses – net.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of currency swaps hedging variable rate borrowings is recognized in the income statement within Finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import deliveries is recognized in the income statement within Other income. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example,

inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Purchase of goods and services in case of inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within Other gains/losses – net.

Purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.11 Provisions and Guarantee Commitments

Provisions for statutory requirements are recognized when the Group has a legal or informal obligation resulting from prior events, that an outflow of resources will more likely than not be required to settle the matter, and that the amount can be reliably estimated. No provisions are made for future operating losses.

2.12 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Morphic has a number of leases in its operations. The leases involve cars and office machinery and as they are considered to be of minor significance in terms of consolidated profit and position, they are recognized as operating leases.

2.13 Inventories, etc.

Inventories are stated at the lower of cost and net realizable value at balance sheet date using the first-in, first-out (FIFO) method. Collective valuation is applied to homogeneous inventory groups.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Ongoing service contracts are recognized as 'Ongoing work in progress' and its cost comprises direct costs and a reasonable share of indirect costs. Costs do not include research and development, sales, administrative and borrowing costs.

2.14 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group is organized such that business segments are the primary segments and thus include the secondary geographical segments.

2.15 Cash Flow Analysis

The cash flow statement is prepared using the indirect method. The reported cash flow comprises only transactions that produce inwards and outwards payments. Changes in Group structure, acquisitions and sales are recognized at their net value excluding cash and cash equivalents, under 'Acquisitions and disposals of subsidiaries', and are included in the cash flows from investing operations.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term investments which as well as being exposed to insignificant risk of value fluctuation,

- are traded on the open market at specified amounts, or
- have original maturities of three months or less.

2.16 Employee Benefits

Pension Obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no obligations to pay further contributions. The costs are charged to consolidated profit as the benefits are earned.

In a defined benefit plan, benefits to employees and former employees are based on their salary on retirement and the number of years of service. The Group is responsible for the determined benefits being paid. Within the Group there are defined contribution and defined benefit pension plans.

Obligations for age and family pensions for employees (ITP plan) in Sweden are secured through insurance with Alecta. According to statement URA 42 from the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, this is a defined benefit pension plan that comprises numerous employees. Morphe Technologies has not had access to the necessary information for fiscal 2006/07 to be able to report this as a defined benefit plan. The ITP pension plan is therefore recognized as a defined contribution plan. Contributions for the year for pension insurances with Alecta amount to SEK 13,845 thousand. Alecta's surplus can be distributed to insurance policy holders and/or the insured. At the end of March 2007, Alecta's surplus in the form of the collective

consolidation level, amounted to SEK 153.0 (141.7) percent. The collective consolidation level consists of the market value of Alecta's assets in relationship to insurance policy holders based on Alecta's actuarial assumptions, which are not in accordance with IAS 19.

Share-Based Payments

In accordance with IFRS 2 the fair value of the plans, where the Company makes payments using its own capital instruments, are to be recognized as an expense in the income statement with a corresponding posting to equity. Employees of Morphe Technologies and its subsidiaries have received share warrants. It is the policy of Morphe Technologies that employees granted equity instruments (share warrants etc) shall provide market-based compensation for the instruments when they are granted. Valuation has been done using the Black & Scholes method. Share-based payments have therefore not been charged to the balance sheet or income statement.

Payment for the options from employees has been recognized directly in Other paid-up capital.

Payments received, after deduction of any directly related transaction costs, are credited to share capital (quotient value) and other paid-up capital when the options are exercised.

2.17 Share Capital

Ordinary shares are classified as equity. Transaction costs which can be directly related to the issue of new shares are recognized net after tax in equity as a deduction from the proceeds of issue.

NOTE 3 PARENT COMPANY'S ACCOUNTING POLICIES

The annual accounts of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and RR 32:05 Accounting for legal entities, which means that the Parent Company follows the Group's accounting policies in all significant areas.

NOTE 4 FINANCIAL RISK MANAGEMENT AND DERIVATIVE INSTRUMENTS

The activities of the Group expose it to a variety of financial risks. Morphe's overall risk management program focuses on the unpredictability of financial markets.

Financial Risks

Risk management is carried out centrally by the Parent Company under policies approved by the Board of Directors. These policies specify that activities over certain levels are to be approved by the CEO/Board of the Parent Company.

Credit and Counterparty Risks

The finance function strives to spread credit risks and monitor that sales are made to customers with an appropriate credit background. Morphic has guidelines for the amount of credit exposure that can be granted per counterparty.

Interest Risk

The Group has SEK 84,141 thousand in current fixed-interest investments and municipal notes as well as SEK 186,463 in cash and cash equivalents in interest-bearing accounts. Borrowing is done with variable interest and the Group has SEK 15,612 in interest-bearing debt. A change in the interest rate of +/- 1 percent would affect consolidated profit by SEK 2,550 thousand.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and an adequate amount of committed credit facilities to finance operations. The company has reported losses in recent years and in 2006/07 carried out share issues that have provided the company with new capital.

Foreign Exchange Risk

Group revenue is normally invoiced in Swedish kronor (SEK). Currency exposure occurs when goods and services are purchased that could affect the Group's profit and cash flow. Based on guidelines from the Board of Directors, the Group's finance function works to hedge such exposures using future rate agreements. The greatest foreign exchange exposure is in EUR.

NOTE 5 ESTIMATES AND ASSUMPTIONS

Preparation of Morphic Technologies AB's consolidated financial statements involves a number of estimates and assumptions being made which can affect the value of the reported assets, liabilities and provisions at the time the accounts are prepared. This also affects the reported value of sales and expenses during the reporting period.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Capitalized Carried Forward Development Costs

In conjunction with the capitalization of carried forward development costs, the Group makes a number of estimates and assumptions about the future value of assets and that future economic benefits will fall to the

Company. When coming impairment tests are made, in addition to those mentioned above, estimates and assumptions are made regarding future growth rate and discount rate.

Impairment Testing for Goodwill and Other Acquisition-Related Intangible Assets

In conjunction with impairment testing for goodwill and other acquisition-related intangible assets, the carrying amount is compared to the recoverable amount. The recoverable amount is the greater of an asset's net selling price and value in use. Where there are no normal listed prices which can be used to estimate the asset's net selling price, the value in use will normally be the amount that the carrying amount is compared with. The calculation of value in use is based on assumptions and estimates. Key assumptions include sales growth and operating margin development, which are used to discount future cash flows.

A sensitivity analysis has been done, for example with 10 percent higher margins or a 10 percent higher discount rate. None of these analyses indicate any impairment requirement.

Valuation of Deferred Tax Assets

Morphic Technologies AB's accumulated tax loss deduction at the end of the period was approximately SEK 87,273 thousand. On valuation of the tax loss deduction, the judgment has been made that no deferred tax assets are to be recognized pertaining to these loss deductions.

NOTE 6 CONSTRUCTION CONTRACTS

Group

Construction contracts are recognized based on percentage of completion. See Note 2, Accounting and valuation policies.

Details From the Income Statement

Accrued revenue and expenses in fiscal 2006/07 was SEK 12,324 thousand.

As none of the projects has a percentage of completion on balance sheet date greater than the applied safety margins, no profit has been recognized.

Details From the Balance Sheet

	Apr 30, 2007
Invoicing	80,023
Accrued expenses	-12,324
Total liabilities	67,699

NOTE 7 ALLOCATION OF REVENUE

	GROUP			PARENT COMPANY		
	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Net revenue includes income from:						
Products	131,414	34,821	967	1,843	296	1,128
Services	—	376	—	—	303	—
Construction contracts	12,324	—	—	—	—	—
Royalty, licenses, etc.	—	515	217	—	515	217
Total	143,738	35,712	1,184	1,843	1,114	1,345
Other income includes income from:						
Payment for rights sold	4,100	—	—	—	—	—
Other payments	865	—	—	94	9	—
Rent	77	89	186	37	43	636
Government grants	509	182	275	15	7	275
Total	5,551	271	461	146	59	911

NOTE 8 SEGMENT REPORTING

On April 30, 2007, the Group was organized in the following business segments:

- Fuel cells (included in Cell Impact AB's operations)
- Ship propulsion (included in Aerodyn AB's operations)

- Production technology (included in Dynamis AB's operations)
 - Business development (included in Morpnic Technologies AB (publ) and Morpnic Business Development AB's operations)
 - Wind power (included in DynaWind AB's operations)
 - Hydroelectric power (included in Finshyttan Hydropower AB's operations)
- These form our primary segments.

Profit by segment for fiscal 2006/07 is presented below:

	Sales revenue	Operating profit/loss	Finance costs	Profit/loss before tax	Income tax	Profit/loss for the year
Fuel cells	1,301	–13,119	–1,073	–13,997	—	–13,997
Ship propulsion*	97,729	14,707	–849	13,931	–2,512	11,419
Production technology	19,184	–4,589	–525	–5,075	22	–5,053
Business development	4,874	–28,320	–75	–24,445	2,275	–22,170
Wind power*	32,971	–4,410	–112	–4,518	—	–4,518
Hydroelectric power*	18,498	–26,507	–413	–26,920	—	–26,920
Elimination of Group transactions	–25,268	–5,712	2,124	–5,711	—	–5,711
Group	149,289	–67,950	–923	–66,735	–215	–66,950

* The segments Ship propulsion, Wind power and Hydroelectric power were presented in 2005/06 in the Wind and hydroelectric power segment.

A translation for fiscal 2005/06 to provide comparability has not proven possible. The Company is therefore also reporting these segments together for fiscal 2006/07.

	Sales revenue	Operating profit/loss	Finance costs	Profit/loss before tax	Income tax	Profit/loss for the year
Wind and hydroelectric power*	149,198	–16,210	–1,374	–17,507	–2,512	–20,019

Profit by segment for fiscal 2005/06 is presented below:

	Sales revenue	Operating profit/loss	Finance costs	Profit/loss before tax	Income tax	Profit/loss for the year
Fuel cells	165	–4,176	–584	–4,705	102	–4,603
Production technology	18,710	529	–285	257	–114	143
Business development	1,643	–18,303	–302	–17,259	—	–17,259
Wind and hydroelectric power*	29,079	–1,373	–386	–1,724	—	–1,724
Elimination of Group transactions	–10,606	–1,188	706	–1,188	—	–1,188
Group	38,991	–24,511	–851	–24,619	–12	–24,631

Other profit items for the segment in fiscal 2006/07 are presented below:

	Depreciation/amortization Property, plant and equipment	Intangible assets	Intangible assets	Impairment	Financial assets
Fuel cells	113	560			
Ship propulsion*	2,102	300			
Production technology	2,104		379		
Business development	102	1,857			69
Wind power*	72				
Hydroelectric power*	1,014		6,819		
Elimination of Group transactions	3,411	126			
Group	8,918	2,843	7,198		69
Wind and hydroelectric power*	3,188	300	6,819		0

Other profit items for the segment in fiscal 2005/06 are presented below:

	Depreciation/amortization Property, plant and equipment	Intangible assets
Fuel cells	-16	-337
Production technology	-1,761	0
Business development	-461	-1,281
Wind and hydroelectric power	-1,573	171
Elimination of Group transactions	-1,124	-63
Group	-4,935	-1,510

Transactions between segments are based on normal commercial terms.

The following table shows assets and liabilities as of April 30, 2007 and investments in intangible assets and property, plant and equipment during fiscal 2006/07.

	Assets	Liabilities	Investments
Fuel cells	34,009	33,008	10,398
Ship propulsion*	51,251	35,267	4,259
Production technology	26,797	25,780	10,246
Business development	516,329	13,336	11,484
Wind power*	117,548	116,548	8,232
Hydroelectric power*	29,877	28,777	9,751
Elimination of Group transactions	-173,316	-91,348	-3,228
Group	602,495	161,368	51,142
Wind and hydroelectric power*	198,676	180,592	22,242

The following table shows assets and liabilities at April 30, 2006 and investments during fiscal 2005/06.

	Assets	Liabilities	Investments
Fuel cells	33,480	32,480	16,644
Production technology	21,587	20,292	4,277
Business development	228,991	5,290	592
Wind and hydroelectric power*	49,043	38,475	4,218
Elimination of Group transactions	-73,914	-54,125	—
Group	259,187	42,412	25,731

The segment's assets consist primarily of property, plant and equipment, intangible assets, work in progress, receivables from current operations and cash and cash equivalents.

Information on Secondary Segments – Geographic Areas

The Group's six business segments operate and have all their assets in Sweden. Group sales are primarily in Sweden and other European countries.

Sales revenue/ geographic region	2006/2007	2005/2006	2004/2005
Sweden	109,528	28,004	2,276
Europe	39,761	9,985	
Rest of world	0	1,002	
Total	149,289	38,991	2,276

The allocation of sales revenue is based on the country where the customer is located.

All assets and investments are located in Sweden.

NOTE 9 PAYMENT TO AUDITORS

	May 1, 2006– Apr 30, 2007	GROUP May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	PARENT COMPANY May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Auditing assignments						
Öhrlings PricewaterhouseCoopers	574	275	137	256	175	100
Assignments other than auditing assignments						
Öhrlings PricewaterhouseCoopers	537	296	42	468	279	42
	1,111	571	179	724	454	142

NOTE 10 LEASE COSTS

	May 1, 2006– Apr 30, 2007	GROUP May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	PARENT COMPANY May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Leasing expenses (excl. rent for premises) amounts during the year to	902	107	93	85	39	74

NOTE 11 EXCHANGE RATE DIFFERENCES

	May 1, 2006– Apr 30, 2007	GROUP May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	PARENT COMPANY May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Other income						
–Exchange gain	574	122	17	20	9	17
Other external expenses						
–exchange losses	–537	–63	–41	–9	–1	–41
Total exchange rate difference	37	59	–24	11	8	–24

NOTE 12 OPTIONS SCHEME

The Board of Directors in Morpic Technologies has, against consideration of SEK 0.50 per option, assigned 3,010,000 warrants to employees in the Morpic Group. Each warrant entitles subscription of 1.06 (1)* new Class B share in the month of October 2009. The issue price for the options is SEK 15.10 (SEK 16)* for each newly subscribed share. The options were issued at market value as determined by an external valuation using the Black & Scholes option pricing model. Data used is share price SEK 9.55, volatility 20 percent, alternative interest 3.4 percent. Option premiums have been recognized in equity.

The options were assigned to employees in December 2006.

* The figures are recalculated due to changed option terms following the new share issue. The amount in brackets refers to the original amount.

NOTE 13 AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER BENEFITS AND SOCIAL SECURITY CONTRIBUTIONS

	GROUP			PARENT COMPANY		
	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Average number of male and female employees is as follows:						
Female	12	5	2	2	–	–
Male	101	39	10	7	4	5
Total	113	44	12	9	4	5
Salary and benefits amounted to:						
Board of Directors and Presidents	6,722	2,050	1,513	3,338	1,110	1,046
Other employees	33,015	13,117	4,032	3,747	1,527	1,868
Total salary and benefits	39,737	15,167	5,545	7,085	2,637	2,914
Legal and contracted social security contributions	14,207	5,252	2,077	2,660	975	1,146
Pension expenses (of which for Board and Presidents SEK 1,049 thousand (210))	3,842	954	635	1,495	462	434
Total salary, benefits, social security contributions and pension expenses	57,786	21,373	8,257	11,240	4,074	4,494

Benefits to senior management, SEK

	Base salary/ board fee	Pension expenses	Other Benefits	Total
Chairman of the Board	811,161	168,380	20,543	1,000,084
Other directors	649,040	155,084	14,655	818,779
CEO	1,103,297	198,835	20,543	1,322,676
Other senior management	1,455,257	376,696	73,132	1,905,085

All employment contracts in the company follow the termination regulations in collective agreements.

The CEO has a mutual notice period of six months. On termination by the employer, an additional 12 months salary is paid.

There are no pension obligations over and above paid pension premiums.

Policies and Nomination Processes

The Chairman's salary is negotiated by two other directors. The CEO's salary is negotiated by the Chairman. Salaries for other management are negotiated individually with the CEO in consultation with the Chairman. Benefits to the Chairman, CEO and other senior management have been determined during the year.

Absence due to illness

Information regarding absence due to illness is not presented because the average number of employees during the preceding two financial years has not exceeded 10.

NOTE 14 DIRECTORS AND OTHER SENIOR MANAGEMENT – MALE/FEMALE

GROUP (INCL. SUBSIDIARIES)	Apr 30, 2007		Apr 30, 2006		Apr 30, 2005	
	Number at end of the fiscal year	Of which male	Number at end of the fiscal year	Of which male	Number at end of the fiscal year	Of which male
Directors	18	67%	17	94%	11	91%
Presidents and other senior management	11	91%	6	83%	6	83%
PARENT COMPANY						
Directors	6	83%	7	86%	7	86%
President and other senior management	4	75%	4	75%	5	100%

NOTE 15 FINANCE INCOME

	GROUP			PARENT COMPANY		
	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Interest income	1,988	588	3	3,949	1,191	2
Capital gains result on disposals	150	155	62	—	155	62
Total	2,138	743	65	3,949	1,346	64

NOTE 16 FINANCE COSTS

	GROUP			PARENT COMPANY		
	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Interest expenses	923	851	640	63	302	600
Total	923	851	640	63	302	600

NOTE 17 INCOME TAX

GROUP	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Current tax for the year	–79	–101	–
Current tax pertaining to previous years			–1
Deferred income tax	–136	89	12
Total	–215	–12	11
PARENT COMPANY			
Current tax for the year, pertaining to intra-Group transfers received	2,275	–	–
Total	2,275	–	–

Due to the requirements for reporting deferred tax on deductible deficiencies, the Group has not reported deferred tax assets on deductible deficiencies of SEK 144,267 thousand. Deferred tax pertaining to the Parent Company is SEK 87,194 thousand. The Group's tax rate is 28 percent.

NOTE 18 EARNINGS PER SHARE

GROUP	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Net profit for the year pertaining to shareholders of the Parent Company	–66,735	–24,619	–16,558
Profit used to calculate earnings per share	–66,735	–24,619	–16,558
Weighted no. of registered shares before dilution	113,068,632	90,553,688	60,675,900
Total number of shares before dilution	113,068,632	90,553,688	60,075,900
No. of shares at the end of the year	136,744,996	109,368,543	70,096,839
Basic and diluted earnings per weighted No. of shares	– 0.59	– 0.27	– 0.28

Basic earnings per share are calculated on the profit pertaining to the shareholders of the Parent Company divided by a weighted average number of outstanding ordinary shares for the period.

As the Group has a negative result, no calculation has been made of dilution effect on outstanding options.

NOTE 19 CAPITALIZED EXPENDITURE FOR DEVELOPMENT AND SIMILAR

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening cost	12,341	6,421	5,030	6,076	6,076	5,030
Capitalized expenses for the year, internal development	4,858	2,237	665	2,126	—	518
Capitalized expenses for the year, purchases	5,737	1,311	726	—	—	528
Grants received	–80	—	—	—	—	—
Sale and retirements	–900	—	—	–2,126	—	—
Through acquisition of subsidiaries	—	2,372	—	—	—	—
Closing accumulated cost	21,956	12,341	6,421	6,076	6,076	6,076
Opening amortization	–2,501	–1,306	–413	–2,326	–1,306	–413
Amortization for the year	–1,641	–1,195	–893	–1,215	–1,020	–893
Closing accumulated amortization	–4,142	–2,501	–1,306	–3,541	–2,326	–1,306
Opening impairment	–69	–69	—	—	—	—
Impairment for the year	–7,198	—	—	—	—	—
Impairment (received grants)	—	—	–69	—	—	—
Closing accumulated impairment	–7,267	–69	–69	0	0	—
Closing residual value	10,547	9,771	5,046	2,535	3,750	4,770

Capitalized expenditure arising from acquisition of subsidiaries in the previous fiscal year has been corrected and recognized at the net amount.

No expenses for development have been recognized. The Group has not had any research expenses during the year. During the year an impairment loss has been made for capitalized expenditure related to production of towers for wind turbines as they are not expected to provide future value to the Group.

NOTE 20 CONCESSIONS, PATENTS AND SIMILAR

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening cost	5,343	3,282	2,720	3,307	2,793	2,274
Change for the year						
– Capitalized expenses, purchases	4,358	2,061	562	4,358	514	519
Closing accumulated cost	9,701	5,343	3,282	7,665	3,307	2,793
Opening amortization	–960	–362	–162	–570	–310	–133
– Amortization for the year	–1,202	–598	–200	–600	–261	–177
Closing accumulated amortization	–2,162	–960	–362	–1,170	–571	–310
Opening impairment	–251	–251	–251	–251	–251	–251
Closing accumulated impairment	–251	–251	–251	–251	–251	–251
Closing residual value	7,288	4,132	2,669	6,244	2,485	2,232

NOTE 21 GOODWILL

GROUP	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening cost	51,948	198	198
Change for the year			
– Capitalized expenses for the year, purchases	3,234	51,750	–
Closing accumulated cost	55,182	51,948	198

The recoverable amount of a cash-generating unit is based on estimates of value in use. These are calculated using estimated future cash flows based on financial budgets that are approved by management and which cover a five-year period.

The following key assumptions have been used for calculating value in use:

Gross margin:	10.1–44.3%
Discount rate:	7.2%

A sensitivity analysis has been done, for example with 10 percent higher margins or a 10 percent higher discount rate. None of these analyses indicate any impairment requirement.

The rate of growth is estimated based on the Company's forecasts and market estimates. Growth rates vary heavily between the various segments.

GOODWILL PER CASH GENERATING UNIT	2006/2007	2005/2006	2004/2005
Business development	5	–	–
Ship propulsion	8,319	7,828	–
Wind power	44,905	42,264	–
Hydroelectric power	1,640	1,543	–
Fuel cells	198	198	198
Production technology	115	115	–
Total	55,182	51,948	198

NOTE 22 LAND AND BUILDINGS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening cost	9,517	7,406	7,406	–	7,406	7,406
Change for the year						
– Purchases	7,096	418	–	–	–	–
– Sale and retirements	–	–	–	–	–7,406	–
– Through acquisition of subsidiaries	–	1,693	–	–	–	–
Closing accumulated cost	16,613	9,517	7,406	0	0	7,406
Opening depreciation	–1,299	–1,095	–866	–	–1,095	–866
Change for the year						
– Sale and disposal	–	–	–	–	1,224	–
– Depreciation	–193	–204	–229	–	–129	–229
Closing accumulated depreciation	–1,492	–1,299	–1,095	0	0	–1,095
Opening impairment	–1,182	–	–	–	–	–
Impairment for the year	–	–1,182	–	–	–	–
Total impairment	–1,182	–1,182	–	0	0	–
Closing residual value	13,939	7,036	6,311	0	0	6,311
CARRYING AMOUNT OF PROPERTIES IN SWEDEN						
Land	1,963	2,072	1,728	–	–	1,728
Buildings	9,878	4,719	4,406	–	–	4,406
TAXATION VALUE OF PROPERTIES IN SWEDEN						
Land	1,220	1,220	407	–	–	407
Buildings	1,965	1,965	1,171	–	–	1,171

An external valuation of the property in Karlskoga was made in the previous year which resulted in an impairment that affected the previous year's result. The year's valuation did not cause any change in the carrying amount.

NOTE 23 PLANT AND MACHINERY

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening cost	44,985	9,635	8,708	142	9,635	8,708
Change for the year						
– Purchases	7,020	854	927	—	16	927
– Sale and retirement	–6,234	–1,614	—	–142	–9,509	—
– Through acquisition of subsidiaries	1,554	34,465	—	—	—	—
– Transfer from new plant under construction	—	1,645	—	—	—	—
– Reclassifications	12,729	—	—	—	—	—
Closing accumulated cost	60,054	44,985	9 635	0	142	9,635
Opening depreciation	–8,332	–4,569	–2,838	–131	–4,569	–2,838
– Sale and retirement	5,774	225	—	138	4,688	—
– Depreciation	–6,500	–3,988	–1,731	–7	–250	–1,731
– Reclassifications	–509	—	—	—	—	—
Closing accumulated depreciation	–9,567	–8,332	–4,569	0	–131	–4,569
Opening impairment (received grants)	–4	–903	–903	–4	–903	–903
Change for the year						
– Sale and retirements	—	899	—	—	899	—
– Reversed impairment	4	—	—	4	—	—
Closing accumulated impairment (received grants)	0	–4	–903	0	–4	–903
Closing residual value	50,487	36,649	4,163	0	7	4,163

Plant and machinery arising from acquisition of subsidiaries in the previous fiscal year has been corrected and is carried at the net amount.

NOTE 24 EQUIPMENT, TOOLS, FIXTURES AND FITTINGS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening cost	8,391	1,212	1,042	795	1,095	984
Change for the year						
– Purchases	5,931	4,253	212	370	116	153
– Sale and retirement	–712	–3	–42	–568	–416	–42
– Through acquisition of subsidiaries	—	2,929	—	—	—	—
– Reclassifications	–957	—	—	—	—	—
Closing accumulated cost	12,653	8,391	1,212	597	795	1,095
Opening depreciation	–1,430	–809	–627	–601	–766	–600
Change for the year						
– Sale and retirement	518	—	—	518	300	—
– Depreciation	–2,047	–621	–182	–94	–135	–166
– Reclassifications	520	—	—	—	—	—
Closing accumulated depreciation	–2,439	–1,430	–809	–177	–601	–766
Opening depreciation (received grants)	–50	–54	–54	–50	–54	–54
Change for the year						
– Sale and retirement	—	4	—	—	4	—
– Reversed impairment	50	—	—	50	—	—
Closing accumulated impairment (received grants)	0	–50	–54	0	–50	–54
Closing residual value	10,214	6,911	349	420	144	275

Equipment, tools, fixtures and fittings arising from acquisition of subsidiaries in the previous fiscal year has been corrected and is carried at the net amount.

NOTE 25 CONSTRUCTION IN PROGRESS AND PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening accrued expenses	22,527	1,565	—	—	1,565	—
Expenses accrued during the year	15,114	12,667	1,565	—	80	1,565
Through acquisition of subsidiaries	290	9,940	—	—	—	—
Transferred to plant and machinery	–11,855	–1,645	—	—	–1,645	—
Prepayments related to property investment	730	—	—	730	—	—
Closing accrued expenses	26,806	22,527	1,565	730	0	1,565

NOTE 26 INVESTMENTS IN ASSOCIATES

PARENT COMPANY	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Opening value	69	69	69
Change for the year			
– Impairment	–69	—	—
Closing accumulated cost	0	69	69
Closing carrying amount	—	69	69

Impairment has been made because the operation will be closed.
The impairment loss is recognized in the income statement under Depreciation, amortization and impairment of assets.

NOTE 27 FINANCIAL ASSETS HELD FOR TRADING

GROUP	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Unlisted shares	457	457	457

NOTE 28 DEPOSITS

	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Deposits	83	83	60

Deposits pertain to supplier commitments.

NOTE 29 INVENTORIES

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Carried at cost						
Raw materials	69	—	—	—	—	—
Finished goods	—	3,685	—	—	3,685	—
Total	69	3,685	0	0	3,685	0

NOTE 30 ONGOING WORK IN PROGRESS

	GROUP			PARENT COMPANY		
	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Opening cost	9,595	—	—	—	—	—
Accrued expenses	2,655	9,595	—	—	—	—
Total	12,250	9,595	—	—	—	—

NOTE 31 PREPAID EXPENSES AND ACCRUED REVENUE

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Prepaid rent	598	192	67	191	94	67
Accrued interest income	978	423	—	952	391	—
Contribution from country administrative board	3,998	—	—	—	—	—
Insurances	247	207	173	110	117	158
Accrued revenue	791	788	1,132	48	—	1,132
Prepaid flotation costs	400	—	—	400	—	—
Energy tax	253	—	—	—	—	—
Other items	858	782	174	461	139	171
Total	8,123	2,392	1,546	2,162	741	1,528

NOTE 32 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Securities funds						
Cost	9,850	10,000	15,021	—	—	15,021
Impairment securities funds	—	—150	—	—	—	—
Prepaid securities funds	—9,850	—	—	—	—	—
Carrying amount	0	9,850	15,021	0	0	15,021

NOTE 33 BLOCKED ACCOUNTS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Fixed interest investments						
Cost	64,141	—	—	64,141	—	—
Accrued interest in the period	85	—	—	85	—	—
Other funds						
Funds in blocked accounts	19,915	—	—	19,915	—	—
Carrying amount	84,141	—	—	84,141	—	—
Market value on balance sheet date	84,141	—	—	84,141	—	—

Fixed interest investments comprise only blocked bank accounts for guarantee provisions. The investments run on a monthly basis and are reinvested immediately on maturity. The average interest during the current period was 3.194 percent.

NOTE 34 EQUITY

Specification of changes in equity is included in the reports under Parent Company's change in equity and consolidated change in equity.

Shares

NUMBER OF SHARES	Class A shares	Class B shares	Total number
Number April 30, 2004	10,000,000	45,416,839	55,416,839
Conversion	-1,300,000	1,300,000	
New share issue	—	14,680,000	14,680,000
Number April 30, 2005	8,700,000	61,396,839	70,096,839
New share issue	—	39,271,704	39,271,704
Number April 30, 2006	8,700,000	100,668,543	109,368,543
Conversion	-3,050,000	3,050,000	—
New share issue	334,000	27,042,453	27,376,453
Number April 30, 2007	5,984,000	130,760,996	136,744,996

The share's quotient value is SEK 0.04. All shares are fully paid-up. Morphic holds 0 (0) of its own Class A shares and Class B shares. Each Class A share is entitled to one vote and each Class B share to 1/10 vote. During the year four new share issues were carried out. In July 2006, 2,636,000 new Class B shares were issued. In April 2007, three new share issues were made involving 334,000 Class A shares and 23,915,545 Class B shares. In May 2006 a non-cash issue of 490,908 shares was made for the acquisition of a minority in Aerodyn.

NOTE 35 LIABILITIES TO CREDIT INSTITUTIONS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Bank loans and bank overdraft facilities						
Maturity of loans is as follows:						
Between 0 and 1 year (current)	2,038	2,649	7,168	31	1,151	2,167
Between 1 and 2 years	5,694	5,985	2,168	—	933	2,168
Between 2 and 5 years	2,287	3,280	2,820	—	536	2,820
More than 5 years	5,593	3,625	2,250	—	—	2,250
Total	15,612	15,539	14,406	31	2,620	9,405
Of which overdraft facility	3,577	3,055	—	—	—	—

Funds available to the Group on bank overdraft facilities amount to SEK 5,000 thousand (5,000), of which SEK 3,577 thousand (3,055) is utilized.

The Parent Company has no available bank overdraft facilities. Effective interest has been 5.58 percent during the fiscal year and lending has consisted of standard bank credit. There is no difference between carrying amount and fair value for non-current borrowings. All borrowing is in SEK.

NOTE 36 OTHER PROVISIONS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Guarantee commitments	1,221	100	210	—	—	210
Deferred tax Group	440	610	—	—	—	—
Other provisions	—	251	—	—	—	—
Total	1,661	961	210	0	0	210

The Company considers that an outflow of resources in provision for guarantee commitments will occur in the coming fiscal year.

NOTE 37 DERIVATIVE INSTRUMENTS

The Parent Company has no transactions with derivative instruments.

Forward Exchange Contracts

	2006/2007		2005/2006	
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts				
– cash flow hedging	—	402	—	—
Current component	—	402	—	—

Profits and losses in equity on forward exchange contracts at April 30, 2007 will be transferred to the income statement at various times during the fiscal year.

Fair value of forward exchange contracts has been calculated as the expenses/revenue that arise if the contract is closed on balance sheet date. Official bank rates have been used where available. The amount has otherwise been calculated using yield models based on anticipated cash flow.

Forward exchange contracts are used to hedge future cash flows pertaining to estimated purchase requirements from outside Sweden.

The income statement has not been affected by any exchange contract effects during the period.

NOTE 38 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Accrued interest expenses	6	10	70	—	9	70
Accrued employee costs	10,567	6,880	1,440	2,055	1,093	628
Accrued expenses in conjunction with marketing	556	395	—	—	184	—
Accrued guarantees	—	475	—	—	—	—
Accrued rent expenses	—	—	—	619	—	—
Accrued production expenses	1,388	—	—	—	—	—
Other items	2,425	990	503	439	171	478
Total	14,942	8,750	2,013	3,113	1,457	1,176

NOTE 39 PLEDGED ASSETS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
For own provisions and liabilities						
With respect to liabilities to credit institutions						
Property mortgages	14,415	15,565	12,600	—	11,600	12,600
Floating charges	13,745	20,911	8,466	—	8,466	8,466
Total with respect to own liabilities and provisions	28,160	36,476	21,066	—	20,066	21,066
For own contingent liabilities						
Pledged account for issue of bank guarantee	84,147	888	400	84,147	—	400
Pledged account for guarantee to subsidiaries			5,000			5,000
Total pledged assets	112,307	37,364	26,466	84,147	20,066	26,466

NOTE 40 CONTINGENT LIABILITIES

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Contingent liabilities benefiting other Group companies	18,020	14,262	—	16,633	9,388	—
Granted rural subsidy 2003	—	46	71	—	46	71
Granted development grant 2001	25	101	254	25	101	254
Granted development grant 2004	347	232	—	—	—	—
Granted development grant 2005	149	495	—	—	—	—
Granted development grant 2006	1,625	—	—	—	—	—
Issued bank guarantees	86,623	—	—	—	—	—
Total contingent liabilities	106,789	15,136	325	16,658	9,535	325

The Company has received government grants. The grants have reduced the acquisition value of equipment and grants related to expenses have been recognized under "Other operating income". Reclamation possibilities cease in accordance with the provisions of SFS (2000:279), i.e. by 30, 25, 20, 15 and 10 percent of the contribution amount respectively during the five years following full payment of the grant.

NOTE 41 ACQUISITION OF SUBSIDIARIES

	2006/2007	2005/2006
Intangible assets		1,372
Property, plant and equipment	1,845	50,646
Goodwill	3,230	51,635
Other assets		22,240
Other liabilities		–32,483
Minority interests	668	–2,582
Cash and cash equivalents		1,258
Total cost	5,743	92,086
Cash and cash equivalents in Aerodyn AB		–1,257
Fair value of issued shares	–5,743	–87,271
Cash flow effect	0	3,558

During the year the following subsidiaries have been acquired:

Company	Operation	Date of acquisition	Share of equity, %	Share of votes, %
Aerodyn AB (556373-7583)	Ship propulsion	May 15, 2006	6	3

All acquired subsidiaries are carried in the consolidated financial statements according to the purchase method.

Minority in Aerodyn

The acquisition was made through a non-cash issue of 490,908 Class B shares in Morpheic Technologies. The shares are valued on transaction date at a market value (share price) of SEK 11.70, creating a total share value and thus acquisition cost of SEK 5,743,624.

The following information relates to acquired net assets and goodwill (SEK thousand):

Fair value of issued shares	5,743
Total purchase price	5,743
Fair value of acquired net assets	
Property, plant and equipment	1,845
Minority share 6%	668
Goodwill	3,230

Acquisition of minority in Aerodyn AB does not affect the Group's cash and cash equivalents.

NOTE 42 CASH AND CASH EQUIVALENTS

	GROUP			PARENT COMPANY		
	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Investments	—	—	—	—	—	15,021
Cash and bank balances	—	—	—	181,891	64,265	6,037
Other financial assets at fair value through profit or loss	—	9,850	15,021	—	—	—
Cash and cash equivalents	186,463	78,700	10,712	—	—	—
Total	186,463	88,550	25,733	181,891	64,265	21,058

NOTE 43 TRANSACTIONS WITH AFFILIATED COMPANIES

PARENT COMPANY	Apr 30, 2007	Apr 30, 2006	Apr 30, 2005
Of the Company's net sales, sales to subsidiaries represent	4,727	564	234
Of the Company's purchases, purchases from subsidiaries represent	3,839	2,485	7,160

NOTE 44 SHARES IN GROUP COMPANIES

GROUP	Corporate Identity Number	Reg. office	Share of equity (%)
Dynamis AB	556588-8103	Karlskoga	100
Cell Impact AB	556585-6936	Karlskoga	100
Aerodyn AB	556373-7583	Karlskoga	99.91
Morphic Business Development AB	556640-6244	Karlskoga	100
DynaWind AB	556703-5711	Filipstad	100
Finshyttan Hydropower AB	556703-5752	Filipstad	100
MCCL AB	556576-6655	Karlskoga	100

PARENT COMPANY	Share of equity, %	Share of votes, %	Number of shares	Carrying amount
Dynamis AB	100	100	100,000,000	5,876
Cell Impact AB	100	100	100,000,000	20,128
Morphic Business Development AB	100		1,000	4,120
Aerodyn AB	99.91	100	722,650	97,835
Finshyttan Hydropower AB	100	100	1,000	27,866
DynaWind AB	100	100	10,000	5,518
MLCC AB	100	100	3,800,000	380
Total				161,723

NOTE 45 SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

- Cell Impact has received a number of test orders for flow plates.
- Customer center for demonstration of production has been established in Japan.
- Orders for an additional five wind turbines for the Vindpark Vänern project have been received.
- Order for the SensActive system has been received from Haldex Brake Products.

See also page 40 of the Directors' Report for more detailed information.

NOTE 46 OTHER ITEMS NOT AFFECTING LIQUIDITY

	May 1, 2006– Apr 30, 2007	May 1, 2005– Apr 30, 2006	May 1, 2004– Apr 30, 2005
Change in provisions	870	–393	—
Impairment	7,284	—	—
Total other items not affecting liquidity	8,154	–393	—

The income statements and balance sheets will be presented for adoption at the Annual General Meeting on October 19, 2007.
Karlskoga, Sweden September 26, 2007

Peter Enå
Chairman

Kurt Dahlberg Jan Alvéén Kjell Östergren Börje Vernet Anette Myrheim Eva-Lotta Kraft Lars Olof Nilsson

My audit report was presented on September 26, 2007

Inger Carlsson
Authorized Public Accountant

DEFINITIONS

Share of Risk Bearing Capital

Equity plus deferred tax as a percentage of balance sheet total at the end of the year.

Return on Average Equity

Net profit after financial income and expenses as a percentage of average adjusted equity.

Return on Average Total Capital

Net profit after financial income and expenses plus financial expenses as a percentage of average balance sheet total.

Equity per Share

Equity divided by number of shares on balance sheet date.

Adjusted Equity

Equity plus equity share (72%) of untaxed reserves.

Market Value at the end of the Year

Share price at the end of the fiscal year multiplied by the number of shares (Class A and B) at the end of the year.

Revenue per Employee

Revenue divided by the average number of employees.

Interest Cover

Net profit after financial income and expenses plus interest expenses divided by interest expenses.

Debt/Equity Ratio

Interest-bearing liabilities divided by equity at the end of the year.

Equity Ratio

Equity as percentage of balance sheet total at the end of the year.

Capital Employed

Balance sheet total less non interest-bearing liabilities (incl. latent tax liability).

Profit Margin

Profit after financial income and expenses as a percentage of sales.

Auditor's Report

To the Annual General Meeting of Morphic Technologies AB (publ) Corporate Identity Number 556580-2526.

I have audited the annual accounts, the consolidated financial statements, the accounting records and the administration of the Board of Directors and the CEO in Morphic Technologies AB (publ) for the financial year May 1, 2006–April 30, 2007. The annual report and financial statements of the Company are included in the printed version of this document on pages 40–74. These accounts and the administration of the company, along with the application of the Swedish Annual Accounts Act for the annual accounts and the international accounting standards IFRS as adopted by the EU for the consolidated financial statements, are the responsibility of the Board of Directors and the CEO. My responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the CEO and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of information in the annual accounts and consolidated financial statements. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any director or the CEO. I have also examined whether any director or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Incorporation. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the Annual Accounts Act and, thereby, give a true and fair view of the Company's financial position and results of operations. The Directors' Report is in accordance with the other parts of the annual accounts and consolidated financial statements.

I recommend to the Annual General Meeting that the income statement and balance sheet for the Parent Company and the consolidated income statement and consolidated balance sheet be adopted, appropriate the profit in accordance with the proposal in the Directors' Report and that the directors and CEO be discharged from liability for the financial year.

Örebro, September 26, 2007

Inger Carlsson
Authorized Public Accountant

Corporate Governance

Morphic Technologies AB (publ) (hereby called "Morphic") is a Swedish public company whose operations are run in accordance with the Swedish Companies Act, its Articles of Incorporation and specific internal controls. Morphic is not currently covered by the Swedish Code of Corporate Governance but will apply the code in conjunction with its planned flotation on the Nordic list.

Through a practice of openly providing information, however, the Board and management of the Company aim to make it easier for individual shareholders to follow the Company's decision-making process and clarify where responsibility and authority lie within the Company.

Morphic is the Parent Company of the Group and includes the Group Executive Committee and the Group's treasury function. Morphic owns and administrates intellectual rights and is responsible for the Group's strategic business development. The head office is located in Karlskoga, Sweden. The Group Executive Committee coordinates corporate functions in economy, finance, IT, purchasing, production, logistics, business development, HR and information.

From September 1, 2006 the operative business related to product development, marketing and production takes place in the wholly-owned subsidiaries Cell Impact AB, DynaWind AB, Finshyttan Hydro Power AB, Aerodyn AB (99 percent owned), Dynamis AB and Morphic Business Development AB. The management of these subsidiaries is based on the strategies and framework determined at Group level.

Annual General Meeting

The Annual General Meeting (AGM) is the highest decision-making body in Morphic. Decisions made at the AGM are based on shareholders exercising their voting rights. These decisions include adoption of the annual report, discharge of the Board from liability, appointment of directors to the Board and other significant matters requiring a decision by the AGM. Formalities associated with the AGM are regulated by the Swedish Companies Act and the Articles of Incorporation. All shareholders have the same right of proposal and participation at the AGM. Each Class A share carries one vote while each Class B share carries a one-tenth vote. Notice of AGM is to be given not more than six weeks and not less than four weeks prior to the meeting.

Among the key decisions made at the last AGM were:

- To accept the income statements and balance sheets for the Parent Company and Group
- To carry forward the accumulated loss
- To discharge directors of the Board and the CEO from liability as recommended by the auditor
- To adopt a new option scheme
- To authorize the Board to decide to make new share issue/s excluding the pre-emptive rights of shareholders representing a dilution of approximately 8.2 percent.

The AGM also decided to re-elect directors Peter Enå, Jan Alvé, Kurt Dahlberg, Kjell Östergren and Anette Myrheim. Thomas Widstrand and Thomas Krishan had declined re-election.

Börje Vernet was newly elected as a director.

The full minutes of the AGM are available on www.morphic.se.

Extraordinary General Meeting

At the EGM in February 2007 it was decided to increase the Company's share capital by a maximum of SEK 449,981.80 through the issue of a maximum of 11,249,545 shares, not more than 840,000 of which were to be Class A shares and 11,249,545 to be Class B shares. The decision was also made to increase the Company's share capital by a maximum of SEK 120,000 through the new issue of up to 3,000,000 Class B shares at an issue price of SEK 11 per share.

At the EGM in June 2007, after the end of the fiscal year, it was decided to elect Eva-Lotta Kraft and Lars Olof Nilsson as new directors in the Board of Morphic Technologies AB (publ) along with the previously elected Peter Enå (Chairman), Jan Alvé, Kurt Dahlberg, Anette Myrheim, Börje Vernet and Kjell Östergren. An annual board fee of SEK 200,000 was also determined for directors not employed in the Company. The fee is to be paid for the period from the date of this EGM until the next Annual General Meeting and adjusted proportionally to the length of the assignment.

Full EGM minutes are available on www.morphic.se.

Board of Directors

The Board operates in compliance with the Swedish Companies Act and Articles of Incorporation and carries ultimate responsibility for the organization and administration of the Company. The Board of Directors is responsible for monitoring the development and financial position of the Company, determining strategies, business plans and budgets as well as financial reports. The Board is also responsible for appointing and discharging the CEO and deciding on significant organizational and operational changes. The responsibilities of the Board also include ensuring that the Company has satisfactory control over the financial situation and that information pertaining to financial and other development is communicated in interim reports. The purpose of the Board's evaluations and decision-making is ultimately to promote shareholder interests in value development and return. The work is controlled by the formal plan that the Board adopts at the initial board meeting after the election each year. The formal work plan controls aspects such as how often the Board of Directors is to meet and the matters to be discussed at each meeting, as well as describing the division of work and responsibility between the Board of Directors, its Chairman and the CEO.

The Morphic Board of Directors comprises eight directors elected by the AGM. Directors elected by AGM have a one year term of office. The duties of the Board are governed by the Swedish Companies Act and the Articles of Association. The Board includes Peter Enå who also has a senior management position and substantial shareholding in the Company. Kjell Östergren and Jan Alvéen also have significant personal shareholdings in the Company. Directors Lars Olof Nilsson, Eva-Lotta Kraft and Anette Myrheim are considered by the Board to be independent in relation to the Company's major shareholders. The Morphic Board deems all elected directors, with the exception of Peter Enå and Kurt Dahlberg, to be independent in relation to the Company. The President is acting Secretary of the Board.

A complete presentation of the directors is made on page 80 of this Annual Report and also on www.morphic.se.

Chairman

Through ongoing contact with the CEO, the Chairman is to follow the Company's development and ensure that directors regularly receive the information required to fulfil their assignments. The Chairman also manages the work of the Board.

The present Chairman is Peter Enå who has held the position since November 2006. Enå is one of the founders of Morphic and was formerly President and CEO. Enå is still operative in the Company but is not part of the Group Executive Committee.

Procedures of the Board of Directors

The basis of the Board's work in 2006/07 consists of four ordinary meetings, where different matters are covered in accordance with the formal work plan.

- Notice of meeting, agenda and documentation for the board meeting should normally be distributed a week prior to the meeting. Itemized minutes are to be made of the meetings.
- The allocation of responsibility specifies the Board's responsibility along with the key tasks of the Chairman and the CEO. The CEO Instructions include limitations of authority related to decisions on investments, acquisitions, transfers and certain contracts.
- To enable the Board to monitor and check the financial position and development of the Group on an ongoing basis, the CEO is to provide the Board with monthly reports covering sales, profit, capital binding, cash flow, balance sheet and follow-up and updating of forecasts.

The Board has not appointed a specific committee to work with audit-related matters and these are handled by the Board as a whole. The auditors should meet the Board at least once per year and present their observations. The Board has not appointed an internal audit function as the current size of the Group does not presently require such a function. External auditors and Group controllers conduct the controls considered necessary to ensure observation of the Group's guidelines and policies.

The Company has no specific nomination committee as the nomination process has until now been jointly managed by the majority owners. It is proposed that a Nomination Committee be established prior to the 2008 AGM, consisting of representatives of the Company's four biggest shareholders in terms of votes and the Chairman of the Board (convener). Members of the Nomination Committee are to be published not less than six months prior to the 2008 AGM. If ownership relations change significantly before the Nomination Committee has completed its assignment it should be possible to change its composition.

The Nomination Committee should prepare proposals for the following decisions at the 2008 AGM: (i) proposal for election of the Chairman of the Meeting, (ii) proposal for election to the Board of Directors, (iii) proposal for election of Chairman of the Board, (iv) proposal for board fees, (v) proposal for fees for the Company's auditors, and (vi) proposal for how the nomination process should be run prior to the 2009 AGM.

Benefits to the CEO and Senior Management

The CEO's salary is negotiated by the Chairman of the Board. Salaries for other management are negotiated individually with the CEO in consultation with the Chairman. Benefits to the Chairman of the Board, CEO and other senior management are presented in Note 13 in the latest financial statements. The Board's proposal to the 2006/07 AGM regarding the policy for compensation and other terms of employment for management is primarily to enable the Company to offer market-based compensation to senior management. Compensation is based on the significance of the assignment and the demands made on competence, experience and performance. Benefits consist of fixed salary, bonus, pension and other benefits and termination agreement.

Board of Directors' Benefits

At the 2006 AGM it was decided that the board fee for fiscal 2006/07 should total SEK 120,000 for the Chairman and SEK 60,000 for other directors. No fee is to be paid to directors employed in the Company.

At the EGM in June, 2007, after the end of the fiscal year, it was decided that all directors not employed in the Company should receive an annual board fee of SEK 200,000. The fee is to be paid for the period from the date of this EGM until the next Annual General Meeting and adjusted in proportion to the length of the assignment.

Work of the Board of Directors 2006/07

The Board held 16 minuted meetings in fiscal 2006/07. The work was largely characterized by matters related to strategy, acquisition, share issues and financial reports. A substantial effort was also put into preparing the flotation on the Nordic list. Directors do not take part in decisions on matters in which they could be considered to have a conflict of interest.

Corporate Management

The Morpic President, who is also the CEO, is responsible for managing and controlling the operations of the Group in line with the strategy determined by the Board. The President has appointed a Group Executive Committee which, in addition to the President, consists of Morpic's controller, CFO, and communications and IR Manager. The Committee meets each month under the leadership of the CEO. Less formal follow-up meetings are also held regularly. Control of the Group's operation is exercised through monthly financial reporting from each subsidiary and regular meetings with subsidiary management.

Subsidiary Management

Management of subsidiaries reflects that of the Parent Company. Individual subsidiary boards manage overall issues in accordance with the requirements of the Swedish Companies Act which involves following the guidelines of the owners and the Board's formal work plan. Each subsidiary has a president who has operative responsibility for the business and reports directly to the Morpic President. Reporting occurs on a monthly basis.

Auditors and Audit Committee

Morphic's auditors are elected by the AGM in accordance with the Articles of Incorporation for a four-year period. The current period commenced in 2004 and a new election of auditors will thus be held at the 2008 AGM. Since 2000, Morphic's auditor has been Inger Carlsson, Öhrlings Pricewaterhouse-Coopers AB. Information on auditor's fees is presented in Note 9 in the Annual Report.

The head auditor receives the adopted minutes from Morphic board meetings. The auditor also has access to the monthly financial reports made to the Board. The Company's auditor has met the Board as a whole on one occasion during the year. Prior to adoption of the annual financial statements, the auditor presents his overall observations from the audit of the Group's internal control and accounts to the Board of Directors. The Morphic Board has decided that the Board as a whole function as the Audit Committee and carry out its duties.

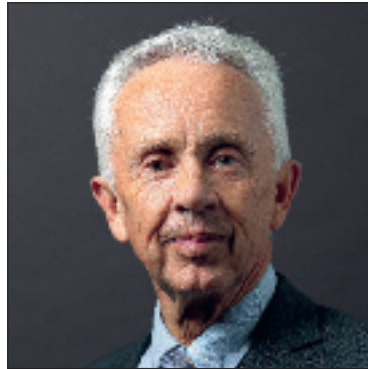
ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2006/2007

Name	Role in Board	Board meetings 16 meetings in total	Born	Director since	Nationality	Independent company/ Major shareholder
Peter Enå	Chairman of the Board	16/16	1969	1999	Swedish	Dependent/Independent
Kurt Dahlberg	Honorary Chairman/Director	16/16	1943	2004	Swedish	Dependent/Independent
Anette Myrheim	Director	15/16	1963	2001	Norwegian	Independent/Independent
Jan Alvé	Director	14/16	1942	2001	Swedish	Independent/Independent
Kjell Östergren	Director	16/16	1951	2005	Swedish	Independent/Dependent
Börje Vernet	Director	13/16	1953	2006	Swedish	Independent/Independent
Eva-Lotta Kraft	Director	0/16	1951	2007	Swedish	Independent/Independent
Lars Olof Nilsson	Director	0/16	1962	2007	Swedish	Independent/Independent

Board of Directors and Auditors



Peter Enå (born 1969)
Executive Chairman since 2006.
Director since 1999.
Previously President and CEO of
Morphic Technologies since 1999.
Previously responsible for new product
business development and processes
on the North American market at SKF.
Shareholding: 1,151,000 Class A shares,
135,632 Class B shares, 300,000
warrants
peter.ena@morphic.se



Kurt Dahlberg (born 1943)
Honorary Chairman since June 2007.
Director since 2004.
Previously operative in various technical
management positions. 20 years experi-
ence from Bofors with senior management
positions in technology and market devel-
opment. Founder of companies Morpnic
Technology AB, Impactor Technology AB,
Hydropulsor AB and Exodyn AB.
Shareholding: 1,802,500 Class A shares,
1,768,739 Class B shares, 250,000
warrants
kurt.dahlberg@morphic.se



Jan Alven (born 1942)
Director since 2001.
Technical director Dacke PMC
(prev. Hexagon Automation) and
General Manager Dacke PMC Kina.
Founder of a number of companies incl.
Hydraulik Leverantören which is part of
Dacke PMC. Extensive experience as
problem-solver and system builder in
the hydraulic field.
Shareholding: 770,000 Class A shares,
1,391,200 Class B shares (incl. affiliates)
jan.alven@hydlev.se



Kjell Östergren (born 1951)
Director since 2005.
Director of Mariégården Investment AB
and of Gustavus Capital Asset Manage-
ment AB. Broad background in interna-
tional asset management and venture
capital.
Shareholding: 770,000 Class A shares,
3,823,600 Class B shares
kjell@ostergren.biz



Börje Vernet (born 1953)
Director since 2006.
CEO of GP Plastindustri in the
Nordstjernan Group since August 2007.
Former Business Development Manager
at Morpnic Technologies. Vernet was
Business Area Manager at Hexagon
Automation (1999–2005) with 22
subsidiaries in Scandinavia, the Baltic
States, Russia and China.
Shareholding: 150,000 warrants
vernet@telia.com



Anette Myrheim (born 1963)
Director since 2001.
Previously positions include Manager of
Marketing Communications Volvo Truck
Corporation International Division and
Product Category Manager Luxo Industri
AB with responsibility for product devel-
opment and launch of new products.
Extensive experience in marketing, mar-
keting communications and business
development in the Volvo Group.
Shareholding: 9,240 Class B shares
anette.myrheim@gmail.com

ELECTED AT EXTRAORDINARY GENERAL MEETING JUNE 27, 2007



Eva-Lotta Kraft (born 1951)
Director since 2007.
Director of Munters AB (publ), ÅF AB (publ) and Samhall AB. Previously Divisional Manager at the Swedish Defence Research Agency (2004–2007) and prior to that, Divisional Manager and Vice President of Siemens-Elcoma along with business management at other technical companies including Alfa Laval.
Shareholding: 0
evalotta.kraft@telia.com



Lars Olof Nilsson (born 1962)
Director since 2007.
Director of listed companies IGE AB (publ) and BE Group AB (publ). Extensive international experience in business development and financial issues.
Nilsson is also currently advisor to Nordic Capital. Previously, Senior Vice President with responsibility for business development at Trelleborg (2002–2006), group treasurer (1992–2005) and a member of group management at Trelleborg.
Shareholding: 20,000 Class B shares
lars.nilsson@kaptensbacken.com

Accountant

Inger Carlsson

Authorized Public Accountant, Öhrlings PricewaterhouseCoopers AB.
Accountant for Morpic Technologies since 2000.

Senior Management



Jonas Eklind (born 1963)
President and CEO
Employed since 2006
Previous experience: President Kitron AB and Executive Manager Sweden, Kitron ASA (2004–2006). Group Development Manager, Kitron ASA (2004).
Shareholding: 11,000 Class B shares
jonas.eklund@morphic.se



Björn Konradsen (born 1967)
CFO
Employed since 2007
Previous experience: CFO Bharat Forge Kilsta AB (2001–2007).
Controller Imatra Kilsta AB (now Bharat Forge Kilsta AB) (1995–2001).
Shareholding: 0
bjorn.konradsen@morphic.se



Helena Nilsson (born 1970)
Controller
Employed since 2000
Previous experience:
Shareholding: 40,000 Class B shares, 150,000 warrants
helena.nilsson@morphic.se



Johannes Falk (born 1967)
Communications and IR Manager
Employed since 2006
Previous experience: Communication and IR Manager at listed Diamyd Medical AB (publ) (1999–2006).
Sales Officer, SEB Fund and Insurances (1997–1999).
Shareholding: 300,000 warrants
johannes.falk@morphic.se



Martin Valfridsson (born 1972)
President Cell Impact
Employed since 2006
Previous experience: Operations Manager, Vice President, HL Display Karlskoga AB (2003–2006). Manager R&D and Product Development, Clover Electronics Co. Ltd., Japan (2001–2003).
Shareholding: 150,000 warrants
martin.valfridsson@cellimpact.se



Anders Sjögren (born 1955)
President DynaWind AB
Employed since 2007
Chairman of Vindkraften i Sverige, industry organization for suppliers of wind turbines and subcontractors.
Previous experience: President Oiltech AB (2000–2006). President IMO AB (1997–1999).
Shareholding: 11,000 Class B shares
anders.sjogren@dynawind.se



Håkan Örtqvist (born 1961)
President Finshyttan Hydro Power AB
Employed since 2006
Previous experience: Arvika Smide AB,
Production Manager Rexcell (Duni),
Factory manager TM3 Airlaid.
Shareholding: 100 Class B shares,
50,000 warrants
hakan.ortqvist@finshyttan.se



Lars Andersson (born 1962)
President Aerodyn AB
Employed since 1993
Previous experience: Bofors AB,
Investment Purchaser (1986–1993).
Shareholding: 110,412 Class B shares,
150,000 warrants
lars.andersson@aerodyn.se



Anders Reyier (born 1953)
President Dynamis AB
Employed since 2005
Previous experience: President, Capod
Systems AB (1991–2000). President,
Namatis Technology AB (1999–2004).
Shareholding: 137,192 Class B shares,
150,000 warrants
anders.reyier@dynamis.se

Addresses

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Fax: +46 (0)590 131 20
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