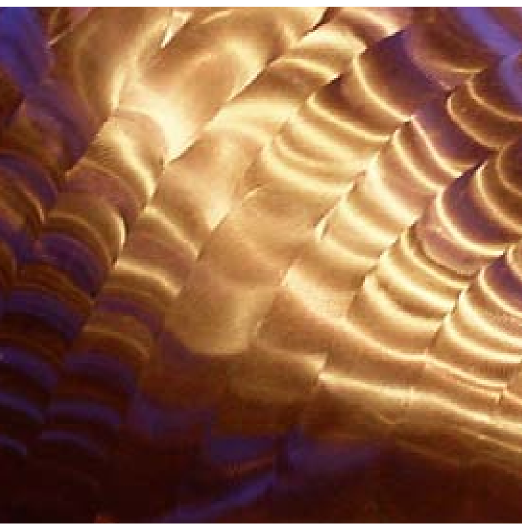
morphic™

Annual Report 2008



Contents

Information to Shareholders
Morphic's press releases and reports are distributed through Cision (www.cision.se). Annual reports, other reports and statements and press releases can be ordered directly from the company by request to Morphic Technologies AB, Gammelbackavägen 6, 691 51 Karlskoga, Sweden, by telephone +46 (0)586-673 90 or by e-mail at info@morphic.se. All currently available information can also be found at www.morphic.com.

Annual General Meeting
The Annual General Meeting will be held in Karlskoga, Sweden on May 27. In accordance with the company's articles of association, the notice of AGM is published in daily newspapers in Sweden and at www.morphic.com. It provides information on how to give notice of attendance. Shareholders with nominee-registered shares should instruct the bank or brokerage managing the shares to temporarily register the shares in their own name at least two banking days before the record date.

Financial Information
- Interim report for the period January–March 2009: May 27
- Interim report for the period April–June 2009: August 27
- Interim report for the period July–September 2009: November 25
- Interim report for the period October–December 2009: February 26, 2010

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This is Morphic Technologies

Morphic Technologies is a corporate group operating primarily in the areas of fuel cells and wind power. Morphic is headquartered in Karlskoga, Sweden, and conducts operations in Sweden, Greece, Italy, Switzerland, Japan, China, the United States and Norway. The Group has about 200 employees.

Business Concept

Morphic develops and produces systems which capture, store and convert renewable energy into electricity for private and industrial use.

Vision

Morphic wants to achieve a radical change from costly and harmful energy to free and clean energy.

	Business Area	Business	Key Events in 2008
	Morphic Fuel Cells *Page* 6	Development and sales of complete fuel cells as well as critical components, including flow plates, reformers and electrolyzers. The business area also develops small-scale wind turbines for local electricity generation.	• Energy system delivered to Patras, Greece • Several new prototype orders for fuel cell plates • Supplementary order from leading global auto maker • Morphic chosen as supplier of fuel cells for infrastructure project in London • Successful tests of energy system for converting biogas into electricity and heat • Live tests of Morphic's small-scale wind turbine
	Morphic Wind *Page* 16	Production and sale of wind turbines, primarily in the 1–3.5 MW categories. The company offers individual turbines as well as complete wind farms. The turbines are designed for onshore use and have a big potential for offshore (wind classes IEC 2 and 3) and coastal onshore (IEC 1) locations.	• Order for ten 3 MW wind turbines • Acquisition of 81.55 percent of ScanWind AS of Norway • Statement of intent with Vattenfall AB • Partnership agreement with Kenersys AG • Wind activities organized under the same parent company, WellPower AB • A structured process has been initiated to find new industrial and financial partners for the wind business

In addition to its core business, the Group also conducts operations in Ship Propulsion.

The Year in Brief

- Net turnover SEK 310.2m (215.2)*
- Operating loss SEK –347.8m (–45.1)
- Loss after tax SEK –306.8m (–40.2)*
- Cash flow from operating activities SEK –260.2m (–12.3)*
- Earnings per share SEK –1.46 (–0.27)*
- Consolidated cash and cash equivalents at the balance sheet date were SEK 226.2m (248.6), of which SEK 101.2m (102.5) refers to frozen assets

* refers to the corresponding period the previous year (8 months). For other income and expense items, see Note 48.

Core Business Focus
In 2008 the Board of Directors took the decision to reorganize the Group's operations into two free-standing core businesses with the aim of simplifying and streamlining the Group's operations: Morphic Fuel Cells and Morphic Wind.

Several New Prototype Orders for Fuel Cell Plates
The Group concluded several new contracts for prototype flow plates. The customers include established players in the consumer electronics and automotive industries.

Test Order for Nine Test Platforms for the Automotive Industry
After successful tests of two previously delivered test and verification platforms, one of the world's five largest auto manufacturers ordered nine platforms intended for the production of fuel cell plates.

Morphic Chosen as Supplier of Fuel Cells for Infrastructure Project in London
The Morphic subsidiary Exergy Fuel Cells has been chosen as one of two companies that will be delivering fuel cells to an ongoing infrastructure project in London.

Successful Tests of Energy System for Converting Biogas into Electricity and Heat
In December 2007 the Morphic Technologies subsidiary Helbio S.A. received an order for an energy system for converting biogas from sewage into electricity and heat. The system has since been installed, and careful tests show that the system delivers the promised performance.

Lake Vänern Wind Park
Much effort was put into preparations for raising the first towers in the Lake Vänern Wind Park. A lot of the work centered on the classification of the maritime operation, WestWind, involved in transporting the components to the Gässlingegrundet shallows in the lake. The first turbine was raised in mid-April and the whole wind farm is expected to be up and running in fall 2009.

Order for Ten Wind Turbines from Skellefteå Kraft AB
In early 2008 Morphic received an order for ten 3 MW wind turbines from Skellefteå Kraft AB, a Swedish energy company. The order is worth SEK 360m.

Acquisition of ScanWind
Morphic acquired 81.55 percent of the Norwegian wind turbine maker ScanWind AS.

Partnership Agreement with Kenersys of Germany
Morphic signed a partnership agreement with the German wind turbine maker Kenersys. The agreement gives Morphic an exclusive right to sell and market Kenersys' wind turbines in the Nordic and Baltic countries and a non-exclusive right in Poland, with certain exceptions for some of Kenersys' existing customers.

Impairment Charges in Subsidiaries
Due to the restructuring of the Group's business model and the weak economic climate, the company has identified total impairment losses of SEK 135.6m, primarily in AccaGen, Exergy and Helbio, which had a negative impact on consolidated earnings.

Events after the End of the Financial Year

- Order for hydrogen production system
- Exergy Fuel Cells S.r.l. awarded project grant
- Letter of intent for delivery of fuel cells for motorhomes and house trailers
- Financial targets dropped
- In April 2009 the Chairman, Peter Enå, and the Board member Kurt Dahlberg, requested to leave Morphic's Board of Directors. At the same time Mr Enå and Mr Dahlberg terminated their employment with Morphic and left their operational roles. Morphic's Board has appointed Peter Ekenger as new Chairman.
- In April the subsidiary company Dynamis AB was sold as part of the ongoing effort to refocus and restructure the Group. The transaction will have only a marginal positive impact on the company's financial position.

Key figures

	08 (8 mths)	07/08	06/07	05/06	04/05
Net turnover, SEKm	310.2	356.7	143.7	38.6	1.8
Earnings after net financial items, SEKm	–334.9	–100.2	–66.7	–24.6	–16.6
Earnings after tax, SEKm	–306.8	–97.7	–67.0	–24.6	–16.6
Return on capital employed, %	neg	neg	neg	neg	neg
Equity/assets ratio, %	71	66	73	84	61
Average number of employees	220	163	113	44	12

Big Challenges and Big Potential

The market for production and storage of renewable energy has enormous potential. Growth expectations are driven by the necessity of cutting greenhouse gas emissions as fast as possible in order to avert further negative effects on the climate.

Morphic's vision is to achieve a shift from costly and harmful energy to free and clean energy. The company has in a short space of time built up strong expertise in several technologies that will play an important role in ensuring tomorrow's energy supply. Strong forces, political and economic, and a steadily growing awareness of environmental issues are working to our advantage and helping us along.

It is essential that we create a more efficient organization. I am building a smaller and more market-oriented company with a clear customer focus. Savings are being made through a review of priorities, streamlining measures and the sale of non-core operations. In the last six months a number of measures have been taken to build a stable foundation for our continued operations. We have created a single sales force for the Group, enabling us to launch our products in the market in less time while generating positive cash flows and sustainable profits.

A strong focus on liquidity in the Group is necessary to secure our future. Costs need to be cut while ensuring that the conditions for our continued development remain intact. This is a big challenge but we are confident that we will rise to it. Despite the global financial crisis, which in the short term has affected our order book and led to the postponement of orders under framework agreements, the market is being driven by demand for products that can quickly reduce emissions of greenhouse gases, which are so damaging to the environment and the climate.

Net turnover in the eight-month financial year 2008 increased by 44 percent compared with the same period in 2007. The improvement is primarily due to fast growth in our wind power business. However, the Group's earnings weakened. The main reasons for this are high development costs, intensified marketing activities and the consolidation of ScanWind. Large impairment losses in our foreign subsidiaries and restructuring costs also had a negative impact on earnings. During the year changes were made to the Board of Directors and management, affecting the Board's ability to work effectively. Strong measures have now been taken to ensure good order in future. Throughout the Group there is a strong will to succeed.

In 2008 Morphic continued to build the Swedish wind power industry, creating a foundation for new, strong players. We are helping to create a strong wind power industry with a base in Sweden and Norway. Despite generating an aggregate sales volume from delivered and ongoing wind projects of around SEK 1.5bn, this has not been sufficient to cover our costs. Because of the capital-intensive nature of our business, a new ownership structure is required to ensure that it evolves into a competitive and profitable industry. That is why, in November, we initiated a process of selling all or parts of our wind power business. We are currently engaged in discussions with several potential buyers. The goal is to conclude the process in 2009.

Developments in the last few years indicate that we are on the threshold of a major shift in the way that electricity is generated and consumed. We will be seeing more efficient batteries but also entirely new technologies, of which fuel cells are one. This is because fuel cells don't replace batteries, but could be seen as a continuous battery charger. Our fuel cell offering comprises complete fuel cells as well as critical components and technology for hydrogen production. We have received several orders from strategically important customers and our foreign subsidiaries have successfully completed part-deliveries of equipment under existing contracts.

Exergy Fuel Cells has, for instance, concluded a distribution agreement with a leisure products retailer that wants to launch our fuel cells in the market and include them in their catalog of standard products. This opens the doors for sales to the entire leisure market: motorhomes, yachts and house trailers, to mention but a few examples.

Using our in-house technology, Helbio has succeeded in converting methane from a sewage treatment plant, achieving a high level of performance. There is a lot of interest, and we are currently marketing the systems in Europe. At Cell Impact a growing order book is expected to gradually increase volumes and improve profitability. The automotive and consumer electronics industries are continuing their activities in the field, and the number of partnership agreements on our unique production technology is constantly growing.

A successful sale of the wind power business will give Morphic the financial resources it needs to develop its fuel cell business as well as capacity for continued investments in related areas offering potential synergies for a market that will be accessible in the near term.

Finally, I would like to thank all our shareholders for their strong support. The year ahead will be an intensive period. In the challenging market we now face we will be aiming to further advance our position through our entirely unique product offering.

Karlskoga, April 2009

Martin Valfridsson
President and CEO

Morphic Fuel Cells

Morphic is one of the leading players in development and sales of technology platforms and products that will enable the commercial launch of fuel cell technology.

Morphic's fuel cell offering comprises complete fuel cells as well as critical components and technology for hydrogen production.

Following the organizational changes implemented in fall 2008, the parent company is responsible for coordination of the Group's activities in the area of fuel cells. Operational activities are conducted through the subsidiary companies Cell Impact, AccaGen, Helbio, Exergy Fuel Cells and Morphic Systems. During the year the companies started to operate more as independent manufacturing and sales companies with a stronger focus on establishing a market presence in their respective fields.

Morphic Fuel Cells' business is divided into five segments:

- Manufacture and sale of flow plates
- Sale of complete fuel cell systems
- Development and sale of electrolyzers
- Development and sale of systems for fuel conversion
- Development of small wind turbines for local production of electricity

Key Events in 2008

- Energy system delivered to Patras, Greece
- Several new prototype orders for fuel cell plates
- Supplementary order from leading global auto maker
- Morphic chosen as supplier of fuel cells for infrastructure project in London
- Successful tests of energy system for converting biogas into electricity and heat
- Live tests of Morphic's small-scale wind turbine
- Per Sand appointed new CEO of Cell Impact AB

Earnings 2008

SEKm	2008*	2007*
Net turnover	23.5	3.8
Operating loss before impairment	–51.4	–14.9
Impairment losses	–153.9	—
Operating loss	–205.3	–14.9

* Refers to the period May–December.

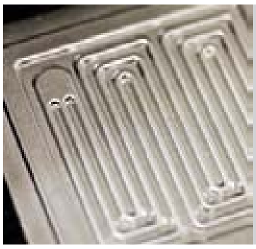
The business area reports an operating loss of SEK –205.3m (–14.9) for the financial year. Marketing activities in Asia, the United States and Europe, which were stepped up in 2008, had a significant impact on the operating result. Several important new members of staff were recruited for the marketing drive. The Flow Plates segment continued its efforts to optimize production equipment while working with customers to ensure the capacity required to meet an expected increase in deliveries on volume orders. As announced previously, Morphic Fuel Cells has initiated deliveries of flow plates worth an estimated SEK 200m under two separate framework agreements. Due to the situation in the economy and the market, the two customers have expressed a desire to postpone the remaining deliveries.

During the year the Fuel Cell and Fuel Processing segments completed and made deliveries of equipment under existing orders.

The business area's operating loss includes impairment losses of SEK –153.9m identified through impairment tests.

Five Segments

Morphic's fuel cell offering comprises complete fuel cells as well as critical components and technology for hydrogen production.

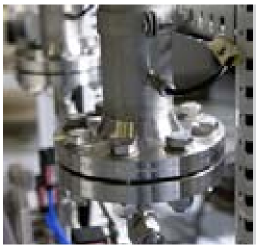


FLOW PLATES

Flow plates are one of the most critical components of a fuel cell system. Morphic has developed a technology that makes it possible to manufacture flow plates faster, less expensively and to a higher quality than was previously possible.

COMPLETE FUEL CELLS

The Morphic subsidiary Exergy Fuel Cells specializes in developing and manufacturing high-efficiency fuel cells for stationary energy systems and standby power units.



ELECTROLYZERS

Through its subsidiary, AccaGen, Morphic provides high-efficiency electrolyzers to customers in the fuel cell industry.

FUEL PROCESSING

The Morphic subsidiary Helbio develops technology that makes it possible to extract hydrogen from a variety of fuels.

MORPHIC SMALL WIND TURBINES

Morphic develops and markets small-scale wind turbines, SWT20, for demanding applications. These are ideal for mobile telephony applications as a complement to or replacement for diesel generators and are well suited for use in locations where the supply of electricity is lacking or uncertain.

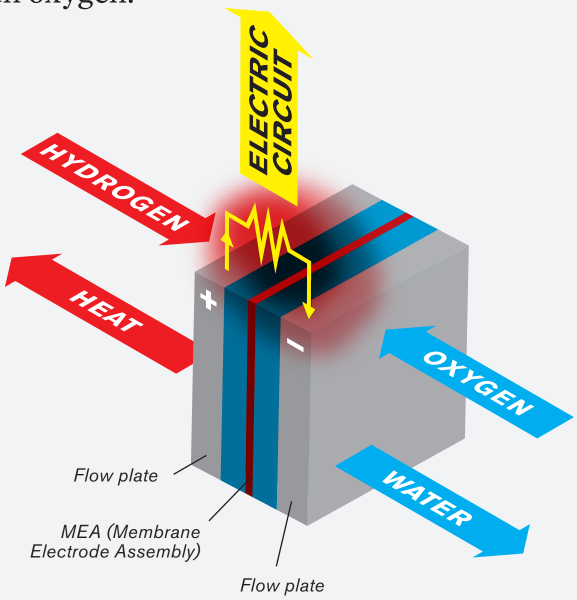
A Fuel Cell: How It Works

Fuel cells can best be described as energy converters which make it possible to efficiently convert hydrogen into electricity and heat.

In a fuel cell system, electricity is produced when hydrogen is broken down in a controlled manner and reacts with oxygen.

Thanks to their long expected useful lives and theoretically non-existent environmental impact, fuel cells constitute an interesting alternative to most existing energy converters. The technology can be used to produce electricity for industries and homes as well as vehicles and portable electronics.

The Technology
In a fuel cell hydrogen molecules are broken down into protons and electrons with the help of a catalyst. Protons migrate through and come into contact with oxygen molecules introduced on the other side of the membrane. The electrons are driven by the voltage in an external circuit and are united with the protons and oxygen on the other side of the membrane to form water, which is the only byproduct. The heat generated in the fuel cell needs to be cooled away, and can be used for heating of vehicles or housing, if required.



... and this is the market

The market for fuel cells can be divided into three general areas: portable electronics, stationary electrical power units, and the transport and automotive industries.

- *Portable Electronics*
  Before fuel cells make their breakthrough in the transport and automotive industry, they are expected to supplement the traditional batteries currently used in computers, cell phones and mp3 players, and completely replace battery chargers. The main advantage of fuel cells is their longer run time. Fuel cell-powered units can also be recharged must faster than today's batteries. When a fuel cell runs out of fuel, it can quickly be refilled.

- *Stationary Electrical Generators*
  The most advanced fuel cells are currently used in stationary generators designed for residential and industrial use. High efficiency and reliability are two key benefits. In 2005 Japanese companies such as Ebara Ballard, Fuji Electric, Kyocera and Matsushita Electric Works initiated a limited commercialization of 1 kW CHP (Combined Heat and Power) units for residential use. The sector also covers standby generators for banks, hospitals, mobile base stations and other uses. This market segment is expected to be worth €650m in Europe and in the United States by the end of 2010 and 2012, respectively (Frost & Sullivan and Freedonia Group).

- *The Transport and Automotive Industry*
  The is a large sector that essentially covers all means of transport, including cars, motorcycles, mopeds, buses, trucks, trains, boats and commercial vehicles.

  In recent years demand from end users has also increased markedly. One indication of this is the breakthrough for hybrid and 'green' vehicles. In 2008 green cars accounted for one in every three new cars sold in Sweden.

Honda FCX runs on fuel cells.

Segment:

FLOW PLATES

Flow plates are one of the most critical components of a fuel cell system. Morphic has developed a technology that makes it possible to manufacture flow plates faster, less expensively and with a higher thermal efficiency than was previously possible.

In simple terms, a fuel cell consists of an electrolyte with two electrodes on either side. Flow plates are mounted outside the electrodes, between which the supplied fuel (e.g. hydrogen or methanol) reacts with oxygen. The plates have a pattern of surface channels or tracks for conducting the gas. The pattern is unique for each fuel cell manufacturer.

A Crucial Component

A complete system can contain hundreds of cells.

So far, the pattern on the plates has mostly been produced by milling, etching or injection molding. These methods, however, are time-consuming and costly, and have limitations in terms of the design and types of material that can be used.

Faster, Less Expensively and to a Higher Quality

Morphic has developed a technology that makes it possible to manufacture flow plates faster, less expensively and to a higher quality than was previously possible. In Morphic's patented method, which is based on a process called adiabatic softening, the patterns on the plates are created by subjecting the plates to a powerful impact that produces a very high, dynamic pressure for a fraction of a second.

The technology offers several advantages: the production time per plate is shortened drastically while the ability to achieve much more intricate details in the pattern of the plate results in a more efficient flow. The material used for the plate can be selected on the basis of required conductivity, corrosion resistance and price, instead of the requirements of the manufacturing process.

At www.morphic.com you can read more about Morphic's patented production technology.

In-house Production

Flow plates are produced at Morphic's production plants in Karlskoga and Japan. The plants have for the first time made it possible to mass-produce flow plates at currently competitive prices from a range of different materials.

A key strength is the company's ability to offer both prototype and large-scale production. The facilities are designed to enable rapid adjustment of production from initial test orders to additional pilot series and finally full-scale production. Like other production techniques, Morphic's methods carry an initial tool cost that requires a certain production volume to be profitable, but the method is competitive even at relatively small volumes.

So far, two production lines have been built, of which one has been sized and adapted to the needs of the automotive industry. As part of its strategy, Morphic intends to build production facilities close to its customers once the customer base has reached a critical mass. In addition to flow plate production, Morphic will also be offering contract production of other types of metallic components.

The production facilities have been certified according to ISO 9001:2000 and ISO 14001:2004.

Establishing a Presence in Asia

In spring 2007 Morphic opened a sales office in Shanghai, with the aim of tapping the potential of the Asian market. Two years later, in spring 2008, the company also opened a customer center for production of fuel cell components outside Tokyo in Japan. At the center customers in all Asian markets can produce test series and fine-tune flow plates for their fuel cells.

Business Model

Morphic employs a variety of business models in which flow plates are produced using in-house resources, by a partner under an outsourcing agreement or directly on the customer's premises. This creates a foundation for rapid growth, since production resources can grow in line with business volumes.

In terms of the value chain, Morphic operates as a subcontractor for manufacturers of fuel cell systems. The revenue thus consists of compensation for processing of flow plates. The customer normally provides the starting material and the compensation is based on the number of plates produced.

Marketing Strategy

In the priority segments almost all development of fuel cell applications is conducted directly on the customers' premises. The strategy is therefore direct targeting of the customers' technical and business decision-makers. The success factor is to use in-house personnel such as sales engineers, application engineers and constructors to influence, guide and assist the customers' purchasing and construction departments to develop the optimal flow plate.

Segment:

FLOW PLATES

Key Events during and after the End of the Financial Year

Several New Prototype Orders for Fuel Cell Plates
Several new contracts for prototype flow plates were signed. The customers include consumer electronics and automotive makers. At year-end 2008 Morphic had signed a total of about 200 agreements with customers in different industries on partnerships relating to Morphic's method for component processing using high-speed technology, known as adiabatic softening.

Supplementary Order from Leading Auto Maker
After successful tests of two previously delivered test and verification platforms, one of the world's five largest auto manufacturers ordered nine platforms intended for the production of fuel cell plates. The platforms will be used to test and optimize three types of flow plates, which, if the tests are successful, will be included in three of the fuel cell systems used in the company's end products.

Segment:

COMPLETE FUEL CELLS

Through its subsidiary company Exergy Fuel Cells, Morphic can offer complete stationary fuel cells in a range of sizes and models. Exergy Fuel Cells specializes in developing and manufacturing fuel cells for stationary energy systems and standby generators. Several of the company's fuel cell products have moved on from the prototype stage and are already in small-scale test production.

Production
Exergy Fuel Cells has built a production platform for production of stacks and complete fuel cells. Stack production is based on the principle of efficiently layering the components located between the flow plates and then combining the whole packet into a complete stack.

To assemble the complete fuel cell, the stack is integrated into a cabinet together with the other components, of which several are standard components sourced from external suppliers. The complete fuel cell is then verified in tests and delivered to the customer. During times of high demand the assembly of fuel cells can be wholly or partially outsourced to an external partner.

Business Model
Exergy offers fuel cell stacks as well as complete fuel cells for different power classes. The fuel cell stacks are generally intended to be used with hydrogen as fuel. Using a base of flow plates with a specified area, the output of the stack is adjusted by varying the total number of flow plates. The output is proportional to the number of flow plates.

Marketing Strategy
Exergy Fuel Cells has developed a number of product platforms from which it offers products, which are used primarily as auxiliary power units (APU), backup solutions and combined heat and power systems (CHP).

Synergies exist, mainly with Cell Impact (plates) and Helbio (reformers for production of hydrogen from a range of different fuels).

In all areas of application the strategy is to sell to a local partner, which handles sales, repairs and maintenance for the end customers.

Key Events during and after the End of the Financial Year

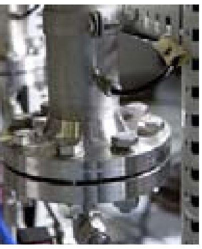
Infrastructure Project in London
The Morphic subsidiary Exergy Fuel Cells was chosen as one of two companies that will be delivering fuel cells to an ongoing infrastructure project in London. The project is aimed at equipping temporary power installations in street environments with fuel cells, thus helping to cut pollution and noise levels.

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

Letter of Intent for Delivery of Fuel Cells for House Trailers and Motorhomes
Exergy Fuel Cells has initiated a partnership with Narbonne Accessoires in Narbonne, France, which gives Exergy an exclusive right to distribute its fuel cells for house trailers and motorhomes in Narbonne Accessoires' distribution networks in France and Spain.

Segment:

ELECTROLYZERS AND FUEL PROCESSING



A major breakthrough for fuel cells requires that there is good access to the fuel that powers the cells. One of the fuels that are best suited for powering fuel cells is hydrogen. In terms of energy efficiency, hydrogen is in a class of its own. The substance does not exist in its elemental form in nature, but needs to be produced, either from other fuels (fossil or non-fossil) or by electrolysis of water.

Morphic offers technology that enables both alternatives.

Leading Developer in Fuel Conversion
Morphic subsidiary Helbio develops technology that makes it possible to extract hydrogen from a variety of fuels (Fuel Processing). The core component of Helbio's patented technology is the reformer, or fuel converter, which can be used to produce hydrogen at low cost from biogas, liquefied petroleum gas, ethanol, methanol and other liquid hydrocarbons.

Helbio's system can be employed in conjunction with industrial use of hydrogen, and also as a preliminary stage for fuel cells used to generate electricity and heat. The biggest potential market is solutions for stationary and mobile energy systems and standby generators.

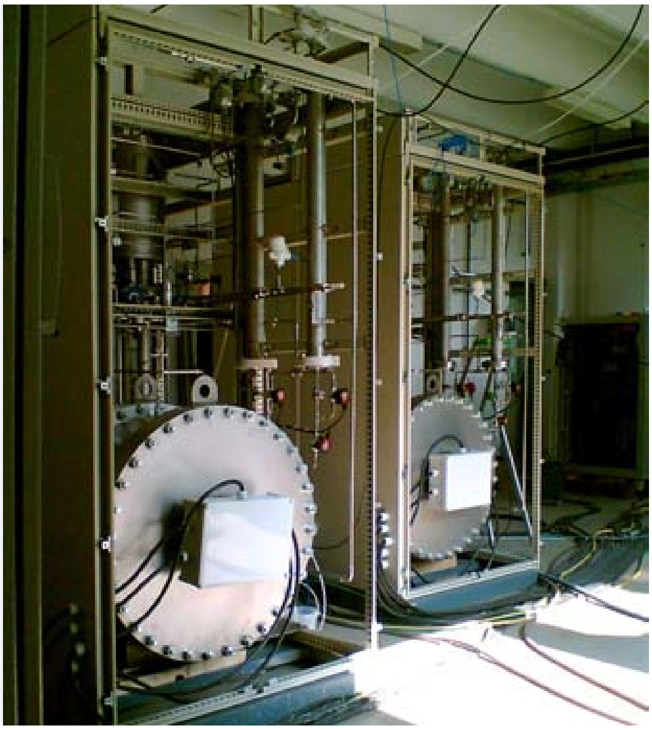
High-efficiency Electrolyzers
Through its subsidiary AccaGen, Morphic offers in-house-developed, patent-pending electrolyzers, which are used to produce hydrogen through electrolysis, i.e. by breaking down water into hydrogen and oxygen.

In recent years AccaGen has been focusing on developing the electrolyzer into a standardized product adapted for major industrial and energy-related customers. Major global returning customers include Linde, the state-owned South African energy company ESkom and PDVSA, a state-owned oil company in Venezuela.

Key Events during and after the End of the Financial Year

Conversion of Methane into Electricity and Heat
In summer 2008 Morphic delivered its first energy system for converting biogas from sewage water into electricity and heat. The customer is Patras Municipal Corporation for Water Supply and Waste Water Management. The system has worked well and all tests show that the promised performance has been achieved.

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



Segment:
FUEL PROCESSING

Methane from Sewage Works Turned into Electricity and Heat

In December 2007 Helbio S.A., a Morphic subsidiary, received an order for an energy system for converting biogas from sewage into electricity and heat. The system was delivered in spring 2008 and all tests show that the system is delivering the promised performance.

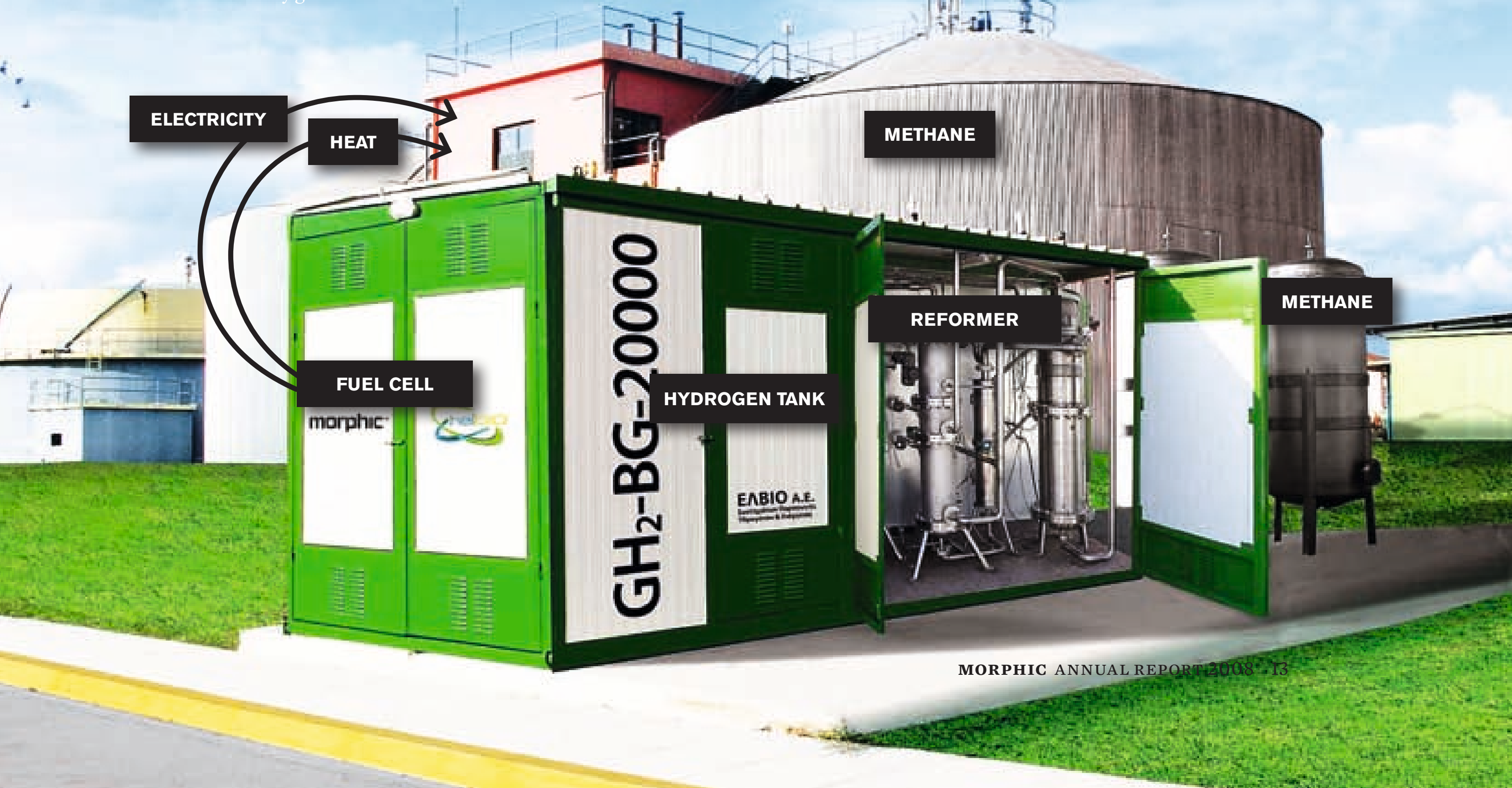
The buyer is Patras Municipal Corporation for Water Supply and Waste Water Management and the system produces 20 kW of electrical energy and 25 kW of heat energy. It was delivered in June 2008 and has since been installed, calibrated and tested.

In the system, heat or electricity is extracted from biogas, which in turn is extracted directly from sewage. The first part of the system is a purification filter for the biogas that filters out sulfur, malodorous substances and other impurities. The biogas is then converted into hydrogen using Helbio's unique reformer before being fed to a fuel cell manufactured by Morphic's Italian subsidiary, Exergy Fuel Cells, in Bologna.

The unique feature of the concept is that the generated hydrogen is sufficiently pure to run a fuel cell without contaminating the membranes and catalyst. The carbon monoxide content of the hydrogen must be less than 50 ppm (parts per million). Helbio's biogas reformer has been shown to achieve a purity of 1.5 ppm CO, which is exceptionally good.

"We are very pleased with the system's performance. As far as we know, this is the first time a compact biogas system with a reformer and fuel cell has been demonstrated in practice. The next step will be to offer products with higher outputs – 125 kW and 250 kW fuel cells – in partnership with Exergy Fuel Cells," Professor Xenophon Verykios, CEO of Helbio, says.

The first system for conversion of biogas from sewage into electricity and heat was installed in summer 2008.



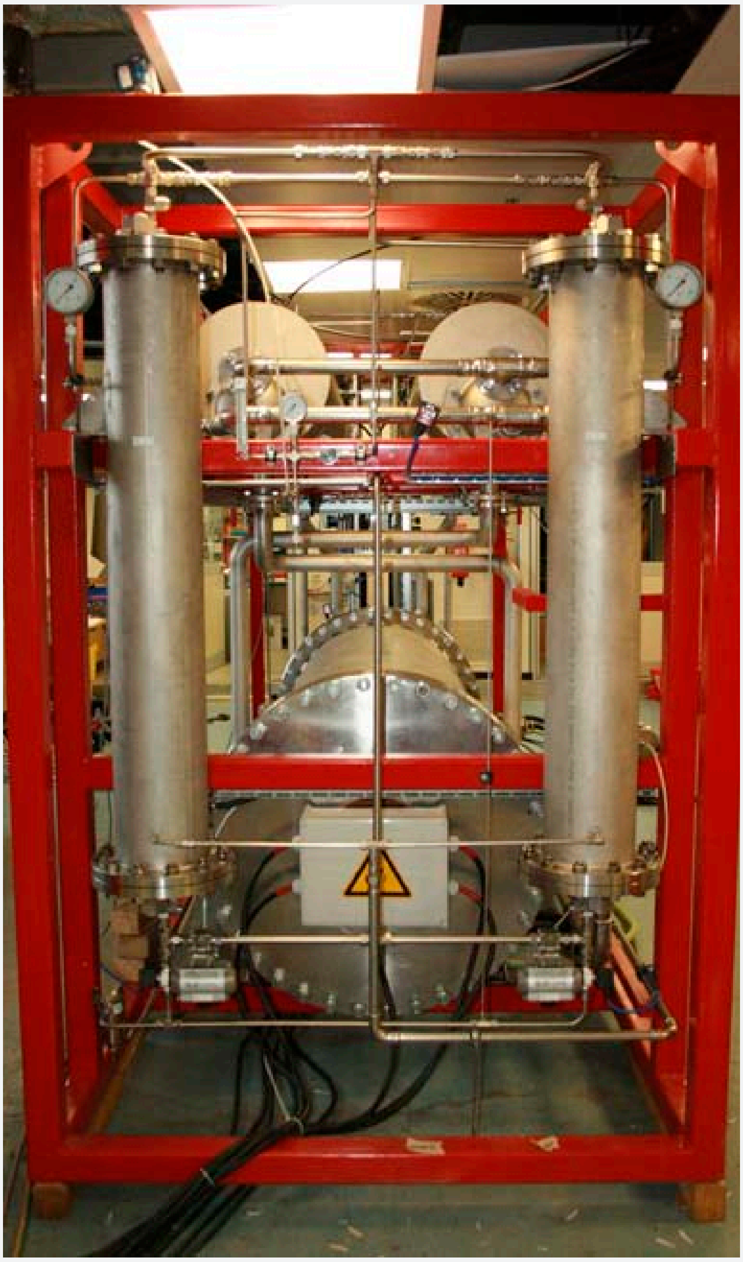
Segment:
ELECTROLYZERS

Efficient Electrolyzers Crucial for Production of Hydrogen

In terms of energy efficiency, hydrogen is in a class of its own. The substance does not exist in its elemental form in nature, but needs to be produced, either from other fuels or by electrolysis of water. This requires efficient electrolyzers.

Through its subsidiary AccaGen, Morphic offers in-house-developed, high-efficiency electrolyzers. The electrolyzer operates on the principle that water that is added is broken down into hydrogen and oxygen in a controlled process. The process continues for as long as electricity is added.

AccaGen's pressurized electrolyzers are used for generating hydrogen for fuel cells but are also currently used for hydrogen production in the steel industry (protective gas for hardening furnaces), the food industry (hydrogenation of fat), the nuclear power industry (cooling medium for generators), and to produce hydrogen for filling stations for hydrogen-powered vehicles.



Segment:
MORPHIC SMALL WIND TURBINES

Live Tests of Morphic's Small-scale Wind Turbine

Morphic Fuel Cells is also developing small-scale wind turbines that are optimized for demanding applications in locations with no access to other infrastructure for electrical generation or distribution. In spring 2009 live tests in realistic conditions were initiated in southern Öland, an island off the coast of Sweden.

The turbine has a robust construction that provides a high level of accessibility and long service intervals. It is built to handle IEC class 2 wind conditions and is ideal as a complement to or replacement for diesel generators. It is also well suited for use in locations where the supply of electricity is lacking or uncertain.

Read more at www.morphic.com

Morphic Wind

Morphic has in a short time established itself as a fast growing Scandinavian player in wind power. The business comprises sales of complete wind turbines, manufacture of towers and other components, and associated services.

Morphic manufactures, markets and sells individual wind turbines as well as entire wind farms. The offer comprises wind turbines designed for use in onshore (IEC 2 and 3 wind classes) and coastal onshore (IEC1 wind class) locations.

Morphic's offer in wind power can be divided into:

- Sales of 1–3.5 MW wind turbines
- Manufacture and installation of towers
- Servicing and running maintenance

The technological solution used in Morphic's turbines is provided through in-house development in ScanWind as well as licensing agreements with selected partners. The towers for the turbines are produced at the Group's own production plant in Kristinehamn, Sweden. The remaining components are sourced from external suppliers. In addition to sales of complete turbines, Morphic also offers production of towers only as well as project management and service agreements, providing fast local service.

In 2008 the machine processing company Finshyttan was integrated in the wind business. The company will be manufacturing components relating to the wind industry.

Organization

Morphic Wind's operational activities are conducted in the wholly owned subsidiaries Dynawind AB and Finshyttan Hydropower AB, and the majority-owned company ScanWind AS (81.55%). The production and sale of 1 and 3 MW wind turbines are performed in partnership with WinWinD of Finland. For 2 and 2.5 MW turbines Morphic Wind has a partnership with Kenersys, a German turbine manufacturer. 3.5 MW and larger turbines for offshore locations are developed and produced by ScanWind.

Key Events in 2008

- Order for ten 3 MW wind turbines
- Acquisition of 81.55 percent of ScanWind AS of Norway
- Statement of intent with Vattenfall AB
- Partnership agreement with Kenersys AG
- Wind activities organized under the same parent company, WellPower AB

Earnings 2008

SEKm	2008*	2007*
Net turnover	209.2	142.0
Operating loss	–58.5	–6.7

* Refers to the period May–December.

Morphic Wind reports an operating loss of SEK –58.5m (–6.7) for the financial year.

The business area's result was negatively affected by expenses incurred due to delays in the Lake Vänern Wind Park project. The delays were due to component delays as well as adverse weather conditions in the fall.

Ongoing projects in 2008 also suffered from poor profitability while volumes were inadequate to cover the business area's cost base over the short term.

During the year the business area invested heavily in developing the companies to handle larger volumes. The organization was strengthened in several areas, including project management, installation, sales and construction. This was achieved through new recruitment as well as training of existing staff.

Additional investments to raise capacity in production were made, partly to handle larger volumes and partly to build capacity for producing other types of towers.

A structured process has been initiated to find new industrial and financial partners for the wind business .

Raising of towers at the Lake Vänern Wind Park in April 2009.

Turbines

The offer comprises wind turbines designed for use in onshore (IEC 2 and 3 wind classes) and coastal onshore (IEC1 wind class) locations. In a short space of time the company has sold 40 turbines with an aggregate value of about SEK 1.5bn.

Following the recent expansion in wind power, the market area has been significantly increased. To take full advantage of the potential in the segment, a structured process aimed at finding industrial and financial partners has been initiated.

Turbines

ScanWind

In June 2008 Morphic acquired about 81.55 percent of the Norwegian wind turbine maker ScanWind Group AS. ScanWind manufactures and markets wind turbines with capacities of 3.5 MW or more that are specially designed for the IEC 1 and IEC 2 wind classes, locations exposed to extreme wind conditions and tough climates, such as costal areas, and is developing a machine for offshore locations.

ScanWind's turbine is designed for maximum production, durability and reliability, providing a superior ratio of electricity production to weight. The acquisition broadens Morphic's product portfolio in wind power and opens up entirely new markets.

The turbine provides a superior ratio of electricity production to weight. The low weight is crucial for profitability, especially in offshore locations. Competing direct-drive multimegawatt machines weigh considerably more, reducing profitability. While turbines constructed with gearboxes have a weight-to-output ratio comparable to ScanWind's, they are ill adapted for coastal locations and offshore installations, leading to high servicing costs, poor accessibility and lower profitability.

WinWinD

WinWinD provides the technological solution and develops turbines while Morphic handles sales, production, installation and service. Morphic has an exclusive right to market and sell WinWinD's turbines in the Swedish market and a non-exclusive right in the Norwegian market.

Morphic's 1 and 3 MW WinWinD turbines provide the highest yield in the market, a high level of operational safety and short lead times, creating a strong competitive advantage. The turbines have a modern, patented construction in which the generator operates at a low variable RPM. In place of a traditional gearbox the turbines use an energy-absorbing bearing and planet gear that is not susceptible to imbalances in energy transmission. This ensures lower wear and tear, resulting in a long useful life and higher profitability compared with traditional turbines.

There is strong interest in WinWinD's turbines, and the company is now building a new turbine factory in Hamina, Finland to meet the demand. The new factory will double production capacity.

Major owners of WinWinD include Masdar, Sterling Infotech Group, Finnish Industry Investment Ltd and key individuals.

Kenersys

Morphic has an agreement giving it sole rights to sell and market Kenersys' 2 and 2.5 MW wind turbines in the Nordic and Baltic markets and a non-exclusive right in Poland.

Kenersys' machines are based on tried-and-tested components and design solutions. The turbines use a multi-stage gearbox in which one gear stage is a planet gear. The gearbox has a proven track record of reliability and has been used successfully in hundreds of wind turbines worldwide. The turbines offer high reliability, low servicing requirements and high energy generation. They are designed to provide high yields in most wind conditions and can therefore be used as standard systems.

The turbines are manufactured at Kenersys' production plant in northern Germany and then transported to Sweden. Under current plans, all related services, including production of the towers used for Kenersys' turbines, will be provided from Morphic's plant in Sweden.

Kenersys was founded by Kalyani Group to handle the group's wind power business. The company is now owned by Kalyani Group and First Reserve Corporation, a US private equity firm. The head office is located in Münster, Germany.

Tower Production
Morphic offers production of towers for wind turbines. The company's Kristinehamn plant is one of the most modern production plants for turbine towers in Europe. It was taken into operation in fall 2007 and currently employs about 16 staff.

The investment has dramatically increased capacity. Depending on the size and model of turbine, the plant now has capacity to produce about 100 MW a year.

Installation and Service
In addition to turbines and tower production, Morphic also offers installation, servicing and maintenance of wind turbines.

The service organization is based at the tower factory in Kristinehamn, where staff maintain preparedness to provide support to customers at short notice. 24/7 remote monitoring and regular retrieval and analysis of operational data are standard features of all turbines.

Production Strategy
Today Morphic produces towers and attachment components in the tower factory at Kristinehamn while nacelles are produced by ScanWind and also sourced externally.

In certain projects Morphic delivers turnkey projects including foundations and infrastructure. This part of the project is always contracted out to an external provider, generally at a fixed price or through shared risk agreements with the end customer and supplier.

Business Model
In terms of the value chain, Morphic is now a full range supplier of wind power solutions. In addition to sales of complete turbines, Morphic also offers service agreements, providing fast local service.

Lake Vänern Wind Park is the first wind farm to be built in a lake.
The Morphic subsidiary Dynawind is delivering the turbines.

A Growing Market

The advantage of wind power is that it is entirely renewable, produces no emissions and has only a limited impact on nature. Moreover, turbines have been growing ever larger and more efficient. Together, these factors have in recent years led to a surge in interest in wind power investments.

According to a survey performed by BTM Consult, installed wind power capacity has trebled over the last five years. The market has gone from a capacity of 32 GW in 2002 to about 95 GW in 2007, representing an annual rate of growth of about 20 percent. By 2017 total installed capacity is expected to have increased to about 700 GW.

At the end of 2007 Europe accounted for about 60 percent, or 57 GW, of total installed wind power capacity. At the same time wind power accounted for most of Europe's electricity generated from renewable sources, excluding hydroelectric power. Nationally, Germany and Spain account for a large share of total capacity, but their dominance has diminished somewhat following new investment in France, Italy and the UK.

Developments in the Market

In onshore wind power Morphic' primary focus is on the Nordic market. For offshore projects the market is global.

Although Sweden is deemed to have the best conditions for wind power in the world, the rollout so far has been timid compared with other European countries like Germany, Spain and Denmark. In Denmark, where total wind resources are smaller than in Sweden, wind power now accounts for about 23 percent of national electricity production, against only 1 percent in Sweden, according to EWEA. At the end of 2007 total installed wind power capacity in Sweden was about 800 MW.

Strong Expansion Expected

Since 2001 the European Commission has had a goal of ensuring that 12 percent of total energy use in EU should come from renewable sources by 2010. The target for 2020 is 20 percent. Achieving these goals will require a continued expansion of wind power, especially in countries like Sweden and Norway, where conditions for wind power are good.

In spring 2006 the Swedish parliament voted to increase investment in renewable energy, especially wind power. The goal is to increase renewable electricity production in Sweden by 17 TWh by 2016. According to the Swedish Energy Agency, wind power is expected to account for the lion's share of the increase. Under Sweden's 2002 national planning target, the wind power sector should have sufficient capacity by 2015 to produce 10 TWh, or about 7 percent of Sweden's annual electricity production. This means that wind power will be generating 15 times more electricity than at the beginning of the century.

In late November 2007 the Swedish Energy Agency proposed that Sweden's national planning target for electricity production from wind power be raised to 30 TWh by 2020. An increase to 30 TWh would, depending on output and wind conditions, require an increase from 900 wind turbines at present to 3,000–6,000.

Svensk Vind estimates total investments during the period 2007–2016 at SEK 60bn. The single largest player in the field is government-owned Vattenfall, which announced a ten-year SEK 40bn investment program in May 2006. Several of the other major producers in the energy and electricity market have also announced that they will be increasing their investments in the field.

The fast pace of development is also evident in the number of planned projects, which has increased steadily in recent years. Many projects that had been stalled by complex permit processes are now starting to be realized. As the turbines grow ever taller and techniques for wind resource mapping become increasingly sophisticated, the number of good onshore sites has increased even in more inland locations. As wind power continues to develop and expand, the Board believes that offshore turbines, too, are set to become increasingly important .

Big Potential in Offshore

A lot of the potential in the wind power market is in offshore projects. Advances in turbine technology have now reached a stage where the extra cost involved in installing offshore turbines can be justified. BTM Consulting predicts that European offshore installations will increase by 5,800 MW from 2008–2011.

In Sweden the Energy Agency has proposed that about 10 TWh of wind-generated electricity should come from offshore wind farms and 20 TWh from onshore wind farms by 2020. Vattenfall is planning to invest SEK 40bn in wind power over the next ten years, of which about 50 percent is expected to be invested in offshore and 50 percent in onshore wind farms.

In connection with the acquisition of ScanWind, Morphic signed a statement of intent with Vattenfall on a partnership for development of ScanWind's wind turbine for offshore locations.

Moreover, the company believes that ScanWind's machines can even today be offered to many planned coastal wind farms, where building permits have in many cases already been granted and where the company believes it is in a favorable competitive position thanks to the robust design of ScanWind's machine. The company intends to look for industrial partners for the global market.

Political Support

To increase the share of electricity generated from renewable energy sources, many European countries have introduced economic support systems to promote such production. Sweden has a system of electricity certificates. The system came into effect on May 1, 2003 and replaced the previous government investment and operating grants for wind power, solar electricity, bio-power, including peat, and small-scale hydroelectric power. Norway and Finland have far advanced plans to introduce similar systems.

In spring 2006 the Swedish government announced that it would be extending the system to 2030, which is expected to promote the continued development of wind power. The system is market-based and creates competition among different types of renewable energy. Consumers of electricity are legally required to buy electricity certificates corresponding to a certain share of their electricity consumption. Producers of electricity receive one electricity certificate for each kWh of electricity they produce.

Marketing Strategy

In wind power Morphic operates in a fast growing market. Sales are primarily conducted through the Group's own sales and technology organization by direct targeting of decision-makers in the purchasing process. These mainly comprise end customers, such as energy companies and landowners, energy-intensive industries and/or investors, but also intermediaries, such as projectors and developers. Sales are also made through other channels with the aid of specific financial solutions arranged through banks and leasing partners. Morphic offers advice on the siting of wind turbines, choice of model, wind measurements, project planning processes, planning applications and permit processes. The Group also handles all aspects of installing the turbines and provides service, maintenance and repairs.

Competitors

Internationally, the market for production of wind turbines is dominated by five large, established players: Vestas Wind Systems A/S of Denmark, GE Energy of the US (a business area of General Electric Company), Enercon GmbH of Germany, Gamesa Corporación Techológica of Spain and Siemens AG of Germany. In addition to these, there are a number of national wind turbine developers and manufacturers. In recent years large energy companies, operating mainly in fossil fuels, have also established themselves in wind power. These include BP Alternative Energy and Shell Renewables.

Far from everyone conducts in-house production of bulky components, such as towers and blades. Another factor is that the size and weight of the turbines makes them complicated and expensive to transport. Production is therefore normally outsourced to local partners.

The only major players with production in Sweden, other than Morphic, are Enercon GmbH, which conducts operations in Malmö through its subsidiary EWP Windtower Production AB, and Vestas, which has a casting operation in Guldsmedshyttan run by the subsidiary Vestascastings Guldsmedshyttan AB.

Accumulated capacity (MW)	Year-end 2007	Year-end 2010 (estimate)	Annual growth, %	Total growth, %
Denmark	3,125	4,150	9.9	32.8
Sweden	788	1,665	28.3	111.3
Norway	333	1,053	46.8	216.2
Poland	276	1,000	53.6	262.3
Finland	110	220	26.0	100.0
Estonia	58	150	37.3	158.6
Lithuania	50	100	26.0	100.0
Latvia	27	100	54.7	270.4

Source: European Wind Energy Association (EWEA) and SINTEF.

Wind Power in Sweden	2007	2006	2005
Installed power (MW)	800	583	493
Power, increase during year, %	37	18	9
Total reported wind power production (TWh)	1.4	1.0	0.9
Production, increase during year, %	40	5	2
No. of registered turbines	958	828	760
No. of new turbines	130	68	37

Source: Swedish Energy Authority.

Target Groups for Morphic's Wind Turbines

Energy firms who want to offer their customers the option of buying green electricity

Wind farm projectors

Private individuals buying shares in existing or future wind farms

Private investors who view wind turbines purely as investment opportunities

Landowners who want to use their land for something productive and generate revenues

Industrial firms and other energy-intensive players

ScanWind's turbines have been developed to handle the toughest and most demanding wind locations.

Other Operations

In addition to its core activities in fuel cells and wind power, Morphic also conducts operations in ship propulsion. However, as communicated in previous reports, this business will be spun off when conditions are deemed favorable. Morphic's Automation business was sold in April 2008.

Ship Propulsion

The Morphic subsidiary Aerodyn AB is one of Sweden's leading manufacturers of high-quality ship propellers. The operations comprise manufacture of complete propellers as well as propeller blades, bosses and axles for ferries, tankers, freighters and other vessels. Established customer relationships, a high level of technological expertise, high quality and an extensive range of machinery are the company's key competitive assets. The customers include practically all major suppliers of complete propeller systems: Rolls Royce plc, Wärtsilä Oyj Abp, MAN AG and Berg Propulsion Holding AB. The end customers are individual shipping companies in all regions of the world.

Production

The products are manufactured in Karlskoga. The existing premises and production equipment would allow for further increases in output without additional investment.

Competitors

Aerodyn AB operates in the high-quality propeller segment, where the competition comes mainly from five European companies, of which Mecklenburger Metallguss GmbH and Fundilusa Portuguesas LDA are the two leading players.

Contract Production and Component Processing

The patented method used by Morphic in the production of fuel cell flow plates and heat exchangers is also well suited for the production of other types of components. The method offers both cost and quality advantages over conventional production methods, such as turning, milling and etching.

Business Model

The segment's business model and place in the value chain are similar to those of the Fuel Cell Components segment. The company's revenues are based on the actual processing of components. The customer normally provides the starting material, and the compensation is based on the number of processed units.

Market

The company focuses on process-intensive components, which are sold primarily to the engineering and automotive industries.

Earnings 2008

SEKm	2008*	2007/08*
Net turnover	87.5	75.5
Operating loss	–83.9	–23.5

* Refers to the period May–December.

Key Events during and after the End of the Financial Year

Strategic Test Order

In September 2008 Morphic received a small, strategic test order for production of magnesium chassis. The customer is a major Asian consumer electronics manufacturer and the order is the result of successful initial tests at Morphic's Technology and Customer Center outside Tokyo in Japan.

The Morphic Share

On March 4, 2008 Morphic was listed on the OMX Nordic Exchange Stockholm. Following the listing, trading in Morphic's B shares was transferred from First North to the mid-cap segment of the Nordic Exchange. The ticker symbol is MORP-B. Morphic is included in the Industrials sector.

During the financial year 2008 (8 months) Morphic's share price fell by 81.81 percent. In the same period the OMXSPI index lost 35.82 percent. The highest price paid during the period was SEK 13.80 and the lowest SEK 1. At the end of the period, December 31, 2008, Morphic had a market capitalization of SEK 426m. On an average trading day 1,646,284 shares (731,235) were traded, representing a value of SEK 7.1m (13.6). A total of 276.6m B shares (184.66) were traded, representing a total value of SEK 1,197.2m (3,652.9). This is equivalent to a turnover rate of 181 percent (137.6).

At the balance sheet date Morphic's share capital was about SEK 13.1m, represented by SEK 327,744,044 shares, of which 11,968,000 were of series A and 315,776,044 of series B. The number of shareholders was 28,858.

The Morphic Share and the Register of Shareholders
At the balance sheet date the number of outstanding shares was 327,744,044, of which 11,968,000 were of series A and 315,776,044 of series B. Under the company's articles of association, the share capital may not exceed SEK 24,000,000. Each share has a quota value of SEK 0.04 and all shares are fully paid-up. All shares carry equal rights to full dividends. Series A shares carry one vote each and series B shares carry one tenth of a vote each.

The company's shares were issued under Swedish law and are denominated in Swedish kronor (SEK). The company's register of shareholders containing information about shareholders is managed by Euroclear Sweden (formerly VPC), Box 7822, 103 97, Stockholm, Sweden. Under the Swedish Companies Act (2005:551), shareholders have pre-emption rights to subscribe for new shares, warrants and convertible bonds but this right of pre-emption can be set aside by a decision of the Annual General Meeting.

Authorizations from the 2008 AGM
The AGM authorized the Board to decide, on one or more occasions before the next AGM, to issue new shares for a cash or non-cash consideration or by offset or subject to other terms and conditions, and thereby to derogate from existing shareholders' pre-emption rights. If new shares are issued for cash without pre-emption rights, the issue price must be set at market rates. The purpose of the authorization is to enable acquisitions in the company's core business areas for a cash or non-cash consideration or by payment in the form of new shares or a combination of these, and to provide funding and customary collateral under delivery agreements. The number of shares issued under the authorization may not exceed 10 percent of the company's share capital after the recently concluded rights issue. If new shares are issued under the authorization with pre-emption rights for existing shareholders, holders of series A shares have the right to subscribe for A shares and holders of series B shares will have the right to subscribe for B shares in proportion to their existing shareholdings. If new shares are issued in derogation of existing shareholders' pre-emption rights, only shares of series B may be issued.
The Board withdrew its proposal authorizing the Board to decide on the issue of new shares to be used in lieu of cash payment of underwriting fees. The reason is that none of the underwriters chose this alternative.

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

During the period September 30 to October 13, 2008 Morphic completed a rights issue based on an authorization from the extraordinary general meeting on July 10, 2008. Under the terms of the issue, holders of series A shares were entitled to subscribe for A shares and holders of series B shares were entitled to subscribe for B shares. The rights issue was aimed at funding the acquisition of ScanWind AS. Under a resolution adopted by the Board on September 19, 2008, shareholders had the right to subscribe for new shares at a subscription price of SEK 2.40 per share. The rights issue raised SEK 363m after issue costs and increased the number of shares by 163,872,022, from 163,872,022 to 327,744,044.

Incentive Schemes
There are two outstanding equity-based incentive schemes in Morphic: At the Annual General Meeting on October 30, 2006 the shareholders approved the Board's decision on the issue of warrants.

The issue comprised no more than 3,300,000 warrants, each entitling the holder to subscribe for one new B share at a price of SEK 16 during the period October 1–October 31, 2009. The issue of warrants was aimed at key individuals and the personnel of the Morphic Group. 3,010,000 warrants have been subscribed for.

In accordance with the terms and conditions for the warrants, the conditions are adjusted in connection with share offerings in Morphic. After adjustment, each warrant now entitles the holder to purchase 1.37 B shares at a price of SEK 11.70. If all subscribed warrants are exercised to subscribe for shares, resulting, after the adjustment, in the issue of 4,123,700 new B shares, the new shares would represent about 1.3 percent of Morphic's share capital at December 31, 2008. (See Note 12 in the Annual Report for more information).

On May 2, 2008 allocations were made under another options scheme. Under the scheme, a maximum of 4,500,000 options may be issued. Each employee stock option originally entitled the holder to acquire one B share in Morphic at a price of SEK 16 during the period March 1–March 31, 2013. After adjustment to take account of terms and conditions in options contracts relating to rights issues, each employee stock option now entitles the holder to subscribe for 1.29 B shares at a price of SEK 12.40. The right to exercise the options is subject to a performance condition linked to the Group's turnover and operating margin. The option holder must also be an employee of the Morphic Group.

To guarantee the company's obligations in respect of issued options and its duty to pay social-security contributions, it was decided to issue 6,000,000 warrants. If all 6,000,000 warrants are issued and exercised to subscribe for 7,740,000 shares under the options scheme, the new shares would represent approximately 2.4 percent of the company's share capital at December 31, 2008. If all options/warrants in the two incentive schemes described above are used to subscribe for new shares, resulting in an issue of 11,863,700 B shares, the new shares would represent about 3.6 percent of Morphic's share capital at December 31, 2008.

Dividend Policy

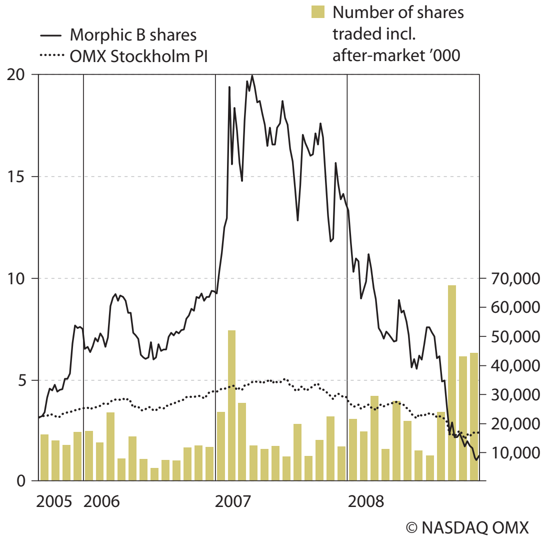
In addition to adding value for its customers and partners, Morphic aims to generate a good economic return for the company's owners. Profitability is the Group's overall goal. The Board of Directors intends to propose a dividend once the company is generating strong earnings and cash flows.

Information to Shareholders

Morphic aims to facilitate the market's valuation of the company by issuing clear information. Up-to-date information about the company can be found at www.morphic.com. Visitors to the website can also follow the performance of the share price and register to receive the latest press releases and financial information.

THE MORPHIC SHARE
For IR-related information, contact:
Johannes Falk, Senior Vice President,
Investor Relations
E-mail: johannes.falk@morphic.com

Share Price Performance Sep 1, 2005–Dec 31, 2008



Owner Categories Dec 31, 2008

	Capital (%)	Votes (%)
Foreign-domiciled owners	15.0	11.3
Swedish owners	85.0	88.7
– Institutional owners	0.5	0.3
– Other legal entities	12.8	18.1
– Private individuals	71.7	70.3
Total	**100.0**	**100.0**

Ownership Structure, Dec 31, 2008

Shareholding	No. of shareholders	Ownership share (%)	Votes (%)
1–1,000	10,802	1.7	1.3
1,001–10,000	14,569	17.1	12.9
10,001–100,000	3,249	26.6	20.0
100,001–1,000,000	209	15.1	13.0
1,000,001–	29	39.5	52.8
Total	28,858	100.0	100.0

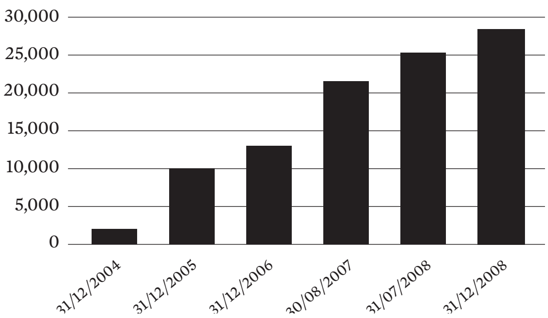
Largest Owners, Dec 31, 2008

	A shares	B shares	Ownership share (%)	Voting share (%)
Mariegården Investment AB	3,530,000	12,085,000	4.8	10.9
Dahlberg, Kurt w comp.	3,605,000	2,468,372	1.9	8.8
Nordea fonder	—	27,325,240	8.3	6.3
Enå, Peter w comp.	2,303,000	1,081,787	1.0	5.5
Alvén, Jan	1,540,000	1,870,119	1.0	4.0
Östergren, Kjell	770,000	4,643,600	1.7	2.8
Östersjöstiftelsen	—	11,402,617	3.5	2.6
ComInvest	—	3,000,000	0.9	0.7
Plena AB	—	2,628,560	0.8	0.6
JP Morgan Bank	—	2,447,890	0.7	0.6
Total	**11,748,000**	**68,953,185**	**24.6**	**42.8**
Other	220,000	246,822,859	75.4	57.2
Total	**11,968,000**	**315,776,044**	**100.0**	**100.0**

Owner Concentration Dec 15, 2008

	Holding (%)	Votes (%)
10 largest owners	24.6	42.8
25 largest owners	38.1	51.8
100 largest owners	48.4	61.2

Number of Shareholders 2004–2008



Five-year Summary

SEK '000 unless otherwise stated	2008*	2007/08	2006/07	2005/06	2004/05
Income statement					
Net turnover	310,218	356,651	143,738	38,574	1,815
Other income	17,936	28,988	24,810	3,574	392
Operating costs	–675,948	–492,537	–236,498	–66,659	–18,201
Operating loss	–347,794	–106,898	–67,950	–24,511	–15,994
Financial items	12,850	6,711	1,215	–108	–575
Loss after financial items	–334,944	–100,187	–66,735	–24,619	–16,569
Tax	28,107	2,468	–215	–12	11
Earnings 2008	–306,837	–97,719	–66,950	–24,631	–16,558
Balance sheet					
Total assets	1,211,740	946,667	602,495	259,186	48,278
Intangible fixed assets	434,305	355,285	73,017	65,851	7,913
Tangible fixed assets	201,845	148,683	101,446	73,124	12,388
Financial fixed assets	535	8,837	573	642	586
Current assets	575,055	433,863	427,459	119,569	28,391
Shareholders' equity	858,885	625,216	441,127	216,774	30,052
Long-term liabilities	120,816	105,869	13,574	12,890	7,238
Current liabilities	232,039	215,582	147,794	29,522	11,987
Cash flow statement					
Cash flow from operating activities	–260,236	–38,863	–55,041	–25,622	–12,363
Investments in intangible fixed assets	–22,432	–12,052	–14,875	–5,610	–1,643
Investments in tangible fixed assets	–18,332	–57,319	–35,882	–17,303	–2,345
Investments in financial fixed assets	–208,757	–231,802	–84,141	–1,588	–62
Cash flow from financing activities	488,623	296,683	286,298	112,941	37,650
Cash flow for the year	–21,134	–40,362	97,913	62,818	21,361
Cash and cash equivalents at year-end	124,967	146,101	186,463	88,550	25,732
Profitability measures					
Adjusted equity	858,885	625,216	441,127	216,774	30,052
Capital employed	923,696	691,704	456,739	232,313	44,599
Profit margin, %	neg	neg	neg	neg	neg
Return on total capital, %	neg	neg	neg	neg	neg
Return on equity, %	neg	neg	neg	neg	neg
Capital structure					
Debt/equity ratio, %	8	11	4	7	48
Interest coverage ratio, times	–29	–26	–71	–30	–25
Equity/assets ratio, %	71	66	73	84	61
Risk-bearing capital, %	72	71	73	84	61
Personnel					
Average number of employees	220	163	113	44	12
Number of employees at end of financial year	246	192	118	90	11
Turnover per employee	1,410	2,244	1,321	886	190
Share data					
Number of shares at year-end	327,744,044	150,772,022	136,744,996	109,368,543	70,096,839
Weighted number of registered shares before dilution	207,353,552	147,149,682	113,068,632	90,553,688	60,075,900
Weighted number of shares after dilution	207,353,552	147,149,682	113,068,632	90,553,688	60,075,900
Number of shareholders	28,858	23,930	20,924	9,598	2,008
Share price data					
Share price at end of financial year, SEK	1.30	10.35	26.60	13.60	3.08
Highest share price during financial year, SEK	13.80	29.90	30.00	15.00	4.30
Lowest share price during financial year, SEK	1.00	9.40	7.80	2.90	1.70
Market value at end of financial year	426,067,257	1,560,490	3,637,416,894	1,487,412,184	215,898
Data per share					
Loss for year attributable to parent company shareholders divided by weighted no. of shares (before dilution), SEK	–1.46	–0.65	–0.52	–0.27	–0.28
Equity attributable to parent company shareholders divided by weighted no. of shares (before dilution), SEK	3.89	4.14	3.90	2.39	0.50

* Refers to May–December 2008, shortened financial year.

Directors’ Report

The Board of Directors and Chief Executive Officer of Morphic Technologies AB (publ), organization number 556580-2526, hereby present their annual report and consolidated financial statements for the financial year May 1, 2008–December 31, 2008.

Morphic Technologies is a Swedish engineering group operating in the areas of fuels cells, wind and hydroelectric power, and production technology. In addition to the parent company, the Group consists of seven subsidiaries and eight second-tier subsidiaries. The Group conducts operations in Sweden (Karlskoga, Filipstad, Kristinehamn and Karlstad), Greece, Italy, Switzerland, Norway and Japan, and has approximately 200 employees.

Group Structure

Morphic Technologies is the parent company of the wholly owned subsidiaries Cell Impact AB (org.no. 556585-6936), Aerodyn AB (org.no. 556373-7583), Finshyttan Hydro Power AB (org.no. 556703-5752), Well Power AB (org.no. 556723-0270), Dynamis AB (org.no. 556588-8103), Morphic System AB (org.no. 556640-6244) and MLCC (org.no. 556576-6655). Morphic System in turn owns the foreign companies Exergy Fuel Cells s.r.l., Helbio S.A. (55%) and AccaGen S.A. Wellpower owns DynaWind AB (org. no. 556703-5711) and ScanWind AS of Norway (81.55%). Dynamis owns Euro Industrial Automation AB (org. no. 556565-6690).

Share Capital and Ownership

Share Capital and Ownership Structure

At the balance sheet date, December 31, 2008, Morphic’s share capital was SEK 13.1m, represented by 327,744,044 shares, of which 11,968,000 were of series A and 315,776,044 of series B. Each A share carries one vote and each B share carries one tenth of a vote. All shares carry the same rights to a share of the company’s assets and earnings and entitle the holder to an equal share of any dividends paid. In accordance with the Swedish Companies Act, Morphic’s articles of association also grant special rights to holders of shares of different classes if the company issues new shares and certain other instruments.

The 2008 AGM authorized the Board to decide on the issue of new shares. The number of shares issued under the authorization may not exceed 10 percent of the company’s share capital after the rights issue in October 2008. The authorization has not been used.

Ownership Structure

According to the register of shareholders maintained by Euroclear Sweden (formerly VPC AB), Morphic had 28,858 shareholders at December 31, 2008. Mariegården Investment AB was the largest owner, with 4.8 percent of the capital and 10.9 percent of the votes.

Morphic is not party to any significant agreement that will have an impact on or be amended or cease to apply in the event of a change in the control of the company following a public takeover bid. No Director or employee of Morphic is entitled to compensation if his or her assignment or employment is terminated as a result of a public takeover bid or a decision by the general meeting.

For more information about Morphic’s shares and shareholders, see The Morphic Share on page 27. Information about shareholders and ownership is updated continuously on Morphic’s website, www.morphic.com. For more information about Morphic’s employment contracts, see Note 13 on pages 63–64.

Articles of Association

Under Morphic’s articles of association, the election of the Board of Directors must always take place at the Annual General Meeting. Other than this, the articles of association do not contain any provisions on the appointment or dismissal of Directors, or on amendments of the articles of association. A shareholder is entitled to vote for the full number of shares represented by him or her at a general meeting of Morphic. Issued shares are freely transferable, without limitation by statute or Morphic’s articles of association. Morphic is not aware of any agreements among shareholders that could result in limitations of the right to transfer shares in the company. Morphic’s articles of association are available for download at www.morphic.com.

Stock Exchange Listing

On March 4, 2008 Morphic was listed on the OMX Nordic Exchange Stockholm. Following the listing, trading in Morphic’s B shares was transferred from First North to the mid-cap segment of the Nordic Exchange. The ticker symbol is MORP-B. Morphic is included in the Industrials sector.

During the eight-month period Morphic’s share price fell by 81.81 percent. In the same period OMXSPI lost 35.82 percent. The highest price paid during the period was SEK 13.80 (SEK 9.53 after adjusting for the issue of new shares) and the lowest price paid SEK 1. At the end of the period Morphic had a market capitalization of SEK 426m. During the period 276.6m B shares were traded for a value of SEK 1,197.2m. This is equivalent to a turnover rate of 181 percent.

Financial Targets

Financial Targets Dropped

Morphic has previously published financial targets for consolidated turnover and other key figures in 2012. However, the global financial crisis has had such far-reaching and lasting consequences for Morphic, in respect of factors both within and beyond the control of Morphic, that the Board of Directors does not consider it possible to define a long-term financial target at present. Nevertheless, the Board believes the underlying fundamentals are still as strong as ever, especially in energy and environmental technology, and will favor Morphic going forward.

Internal Control and Changes to the Board of Directors and Management

In 2008 significant changes were made to the Board of Directors and management.

A new Chief Executive Officer was appointed shortly after the general meeting on October 28, 2008. Several key individuals in senior management left their positions, partly due to differences of opinion with the company's founders and because they considered that these had assumed too large an operational role and promoted strategies that did not have sufficient support and did not take sufficient account of the company's financial position and liquidity. The Board has not been able to work effectively and has been affected by turbulence and differing opinions on the management and future orientation of the company.

These irregularities have now ceased and strong measures have been taken to ensure good order in future.

In April 2009, after the end of the financial year, two of Morphic's founders, Kurt Dahlberg and Peter Enå, who are also shareholders with a large number of votes, left the Board and all other duties in the Group with the exception of their seats on the company's Audit Committee.

At the time of the company's listing on the NASDAQ OMX exchange and up until his departure Peter Enå was Acting Chairman of the company. Kurt Dahlberg was a Board Director and initially worked as a consultant for the company on an hourly basis. After a reorganization Mr Dahlberg was given an operational role as Director Market Development and as a member of the senior management team. Following protests from management and a discussion with the company's auditor and the Stockholm Stock Exchange it was established that this arrangement conflicted with Stock Exchange rules. On April 1 Kurt Dahlberg therefore left the Board and, having reached retirement age, also his other duties at the company.

In 2008 Dan Borgström, the founder of Aerodyn, a company acquired by Morphic, was engaged as a consultant and subsequently employed by Morphic through his company, Sky Raider AB. In the course of work on the year-end final statement and auditing details emerged which indicate that the amounts invoiced by Sky Raider significantly exceeded the actual number of hours worked (representing an excess charge of about SEK 600,000). It was also found that there was no valid underlying consulting contract. Peter Enå has stated to the company's Audit Committee that he had engaged the services of Dan Borgström without the knowledge of the then CEO. The company has been unable to find any documentation for such additional assignments. In consequence of this, Peter Enå chose to leave Morphic's Board and all his duties at the company on April 8. Dan Borgström terminated his employment in April.

Moreover, an internal control relating to the Italian subsidiary Exergy Fuel Cells revealed information indicating that certain transactions with a Greek company worth a total of SEK 3m may not have been made on commercial terms. The Greek company's shareholders include several foreign executives, related parties to Morphic and Dan Borgström. According to reports, the transactions, which involved the purchase of shares and took place during the financial year, were made at the request of Peter Enå and Kurt Dahlberg.

Significant Events during the Financial Year

Morphic implemented a reorganization aimed at focusing activities on its two core businesses, Morphic Wind and Morphic Fuel Cells. As part of the reorganization the company's operations in Sundbyberg, Sweden were wound down and a new CEO, Martin Valfridsson, was appointed.

Morphic Fuel Cells

Interest in Morphic's offer in the area of fuel cells remained strong, although the order book failed to reach the hoped-for level.

Morphic Fuel Cells received several new prototype orders for fuel cell plates. The customers included new as well as existing customers, who chose to add to previous orders. Other key events included the delivery of a complete energy system for conversion of biogas from sewage water into electricity and heat, and an order from toolmaker JV Bahco Bisov for a system for hydrogen production. Exergy Fuel Cells was also chosen to supply fuel cells for an infrastructure project in London.

Morphic's new laboratory in Karlskoga was taken into operation in 2008. The purpose of the laboratory is to cut down the time spent on development, production control and testing. The business area also develops small-scale wind turbines. Live tests of the turbines were conducted in realistic conditions on the island of Öland off the coast of Sweden.

In the course of impairment tests the company identified impairment losses of about SEK 135.6m on the business area's assets.

* *Comparison figures refer to the corresponding period the previous year (May–Dec 2007).*

Wind Power
In the first quarter of the year Morphic acquired about 80 percent of the Norwegian wind turbine maker ScanWind AS. The acquisition has expanded Morphic's product offering in wind turbines to comprise turbines designed for more exposed nearshore and offshore wind sites.

Morphic received an order for ten 3 MW wind turbines for the Uljabuouda wind farm, built by Skellefteå Kraft AB. The order is worth SEK 360m.

In June Morphic signed a partnership agreement with wind turbine maker Kenersys that gives the company an exclusive right to sell and market Kenersys' products in the Nordic and Baltic countries and a non-exclusive right in Poland.

The Lake Vänern Wind Park project suffered from delays. These were caused by component delays and delays in the final verification of the lifting platform, but adverse weather conditions in the fall also played a big role.

Other Operations
A process aimed at a potential divestment of the Ship Propulsion segment (Aerodyn AB) was initiated. A process of evaluating the business model or a potential divestment of the Morphic subsidiary Dynamis AB in the Automation Technology segment was also initiated.

Events after the End of the Financial Year
In January 2009 Morphic received an order for a hydrogen production system from JV Bahco Bisov, a toolmaker. The system will be used in a new factory and the order is worth €200,000.

In February Morphic initiated a partnership with Narbonne Accessoires on distribution of Exergy's fuel cells for house trailers in Narbonne Accessoires' distribution networks in France and Spain. In the same month Exergy Fuel Cells S.r.l. received a "Selection Industria 2015" project grant for the MICROGEN30 project. Exergy's share of the grant is worth €1,960,000 (approx. SEK 20m).

In April 2009 the first tower in the Lake Vänern Wind Park project was raised. The rotor is scheduled to be mounted in May and all ten turbines are expected to be operational in October.

In April 2009 the Chairman, Peter Enå, and the Board member Kurt Dahlberg, requested to leave Morphic's Board of Directors. At the same time Mr Enå and Mr Dahlberg terminated their employment with Morphic and left their operational roles. Morphic's Board has appointed Peter Ekenger as new Chairman.

In April the subsidiary company Dynamis AB was sold as part of the ongoing effort to refocus and restructure the Group. The transaction will have only a marginal positive impact on the company's financial position.

In the course of preparing the year-end financial statement for 2008 a review was made of Morphic's financial targets. The global financial crisis has had such far-reaching and lasting consequences for Morphic, in respect of factors both within and beyond the company's control, that the Board of Directors does not consider it possible to define a long-term financial target at present.

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

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

Incentive Schemes
There are two outstanding equity-based incentive schemes in Morphic: A market-based warrants scheme (2006/09) expiring on October 31, 2009 and an employee stock option scheme (2008/12) expiring on May 31, 2013. After the rights issue in 2008 each outstanding warrant in the market-based scheme entitles the holder to subscribe for 1.37 B shares in Morphic at a subscription price of SEK 11.70. Holders of employee stock options will in future be entitled to subscribe for 1.29 B shares in Morphic at a subscription price of SEK 12.40. If all warrants/options in the two schemes are exercised to subscribe for new shares the new shares would represent about 3.6 percent of Morphic's share capital at December 31, 2008.

Environment
Government-regulated Activities
All subsidiaries bear individual responsibility for ensuring compliance with the Environmental Code and for ensuring that their environmental work complies with the Group's environmental policy. The wind business (DynaWind) has a permit under the Environmental Code for the production of 100 wind turbines per year at the

* *Comparison figures refer to the corresponding period the previous year (May–Dec 2007).*

Kroksvik 3:3 industrial estate in Kristinehamn. DynaWind also has a permit to store and handle flammable goods – paint and gas – under the Flammables and Explosives Act (SFS 1988:868). The superintendents for such handling under SFS 1988:1145 have been approved by the rescue service. Each year, Aerodyn AB submits an environmental report on its activities in Karlskoga to the property owner, which holds the environmental license on behalf of Aerodyn AB. In other respects, the Group has no negative environmental impact arising from the use of tangible fixed assets.

Turnover*

The Group's net turnover for the shortened financial year was SEK 310.2m, an increase of 44.1 percent compared with the same period the year before (215.2). The increase was largely due to expanded activities in the wind power business, primarily preparatory work and deliveries of components for the raising of towers in the Lake Vänern Wind Park in spring 2009.

Revenues in Morphic Fuel Cells were markedly higher than in 2007/2008, partly because AccaGen and Exergy had not been fully consolidated in the previous period.

Earnings after Tax*

The Group reports a loss after tax for the financial year of SEK –306.8m (–40.2). A large portion of the loss is attributable to restructuring measures and one-off costs relating to the restructuring of Morphic Systems. The annual result also includes one-off charges of SEK 5.7m relating to termination salary and severance pay for the former CEO of Morphic Technologies and other non-recurring expenses. The restructuring of Morphic Systems also gave rise to an impairment loss of SEK 11.7m on capitalized development costs.

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

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

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

In addition to the above, consolidated earnings include impairment losses on intangible assets of SEK 167.m.

Financial Position

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

Cash and cash equivalents at the balance sheet date, December 31, 2008, were SEK 226.1m (248.6), of which SEK 101.2m (102.5) refers to frozen assets. Interest-bearing liabilities were SEK 66.3m .

Cash Flow*

Cash flow from operations declined by SEK 272.5m compared with the previous year, to SEK –260.2m (12.3), which is equivalent to SEK –1.26 per share (0.08). The deterioration is largely due to changes in project liquidity in Morphic Wind. Other reasons relate to the foreign subsidiaries, which had only been partly consolidated in the previous period.

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

Investments, Depreciation and Amortization

The Group's net investments in tangible fixed assets during the financial year were SEK 18.3m (57.3). Depreciation of tangible fixed assets was SEK 26.2m (15.9). The Group made investments in intangible assets of SEK 22.4m (12.1). Amortization of intangible assets during the period was SEK 21.6m (13.3). All investments are recognized exclusive of business investments.

Impairment Losses

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

Personnel

The Group's personnel costs during the financial year were SEK 114.8m (97.1) and the overall number of employees at the end of the period was 246 (170), an increase of 44.7 percent in comparison with the same period during the previous financial year.

Guidelines on the Setting of Salaries and Other Compensation to the Chief Executive Officer and Other Members of Senior Management

The 2008 Annual General Meeting adopted a set of principles for compensation and other employment terms for senior management. A description of the principles used during the financial year is found in Note 13 on page 63 of this annual report. The complete text of the resolution from the 2008 AGM is available at www.morphic.com.

The Board's proposal to the AGM 2009 for guidelines on the setting of salaries and other compensation to the Chief Executive Officer and other members of Group management is presented in the following.

The basic principle is that the company should seek to offer its senior executives a market-based compensation package. Compensation should be based on the importance of the tasks involved, and on the skills, experience and performance requirements of each role. It should consist of the following components: a fixed basic salary, bonus, pension benefits and other benefits and terms and conditions of termination. Bonuses are limited to 60 percent of the fixed basic salary. Pension payments are made in accordance with the adopted pension plan. Under the pension plan, the pension benefit corresponds to the ITP occupational pension plan for salaries of up to 7.5 income base amounts while salaries exceeding 7.5 income base amounts entitle the beneficiary to a defined contribution pension of 30 percent, secured through insurance, of that part of his or her fixed basic salary that exceeds 7.5 income base amounts. The company applies a retirement age of 65 for senior management.

The Parent Company*

The parent company posts a loss after tax of SEK –334.3m (–16.4). The increased loss is mainly due to writedowns of SEK 318.8m on the parent company's assets and interests in subsidiaries. During the period the parent company made investments in fixed assets totaling SEK 476m, of which SEK 2.6m refers to patents and SEK 0.9m refers to tangible fixed assets. The remaining SEK 472.5m refers to investments in the subsidiaries. At the balance sheet date cash and cash equivalents in the parent company were SEK 83.4m (92.0). The equity/assets ratio was 98.2 percent (96.8).

Risk Factors

Morphic is an international group and is therefore exposed to various risks in its day-to-day operations. Operational risks are managed primarily at subsidiary company level. The Group functions – HR, Communication, IT, Purchasing, Finance and Business Development – manage and coordinate risks in their respective areas. The management and coordination of financial and insurable risks is primarily handled by the Finance function.

The purpose of the following description of the risk situation is partly to provide a picture of the risk environment in which Morphic Technologies operates and partly to show how the Company works to minimize the negative effects of the risks. The risks are not listed in order of importance and the description does not purport to be complete.

Developing new products in entirely or partly new markets is always associated with risks, both internal and external. The internal challenges include organization-building, the ability to choose the right production and marketing strategy and the ability to manage growth. The most significant external risks include the risk of a general delay in the market introduction of fuel cells and a risk of subcontractors not having sufficient capacity and being unable to deliver. There are also risks related to the liquidity of trading in the Company's shares. On top of this, there are also risks associated with the funding of the business.

Operational Risks

Personnel

Morphic has existed since 1999. Access to skilled personnel constitutes a risk factor, since Morphic competes for personnel in professional categories that are of limited size. Moreover, access to qualified technical personnel in Örebro and the county of Värmland is relatively limited. This puts strong pressure on management to create a workplace that is able to attract skilled personnel. To limit the risk of defections in the long term while attracting new personnel, Morphic strives to offer, in addition to competitive salaries, a stimulating and inspiring work environment, and to regularly introduce incentive schemes for employees.

Suppliers

The largest single supplier to Morphic is WinWinD, which delivers the core technology for DynaWind's wind turbines. In the event that WinWinD were to be unable to provide the required capacity, Morphic would be free to choose other external suppliers if required. There is a risk, however, that strong general demand will lead to a shortage of components.

Contractual Risks

Morphic has concluded agreements with several parties and will in all likelihood conclude further agreements in future. Although considerable resources are devoted to ensuring that the Company signs agreements of high legal quality, there is always a risk that it may fail to conclude agreements of sufficient quality or fail to protect itself against breaches of contract in a way that is acceptable for the Company.

Intellectual Property Rights and Disputes

As a rule, Morphic applies for protection of intellectual property rights for inventions, company names, brands and other intellectual property rights. However, there is always a risk that competitors will, intentionally or unintentionally, encroach upon Morphic's rights. If this should happen, there is a risk that the Company will be unable to fully assert its rights in a court process, which could have a negative impact on earnings.

Customer Dependence

Morphic's turnover currently derives from a limited number of customers. The Company's turnover and earnings would be hit relatively hard in the event that a major customer becomes insolvent or chooses another supplier.

Technological Development and Production Risks
Extensive research and technological development is being conducted in all areas. If the Company should fail to develop and launch products and/or services based on the R&D work it has conducted so far, there is a risk that the value of the Company's production facilities would have to be written down further. In its business the Company is dependent on a functioning production chain. If this chain should break, there is a risk that this would affect the Company's opportunities to retain and attract customers.

Product Liability
Any errors in Morphic's products could entail a liability to pay damages.

Market-specific Risks
The subsidiaries in the Morphic Group operate in different markets with different customer segments and often different underlying driving forces. This means that market-specific risks differ from one segment to another.

Wind Power
Raw Material Prices
One of the single largest production-related risks concerns the development of the price of steel. The towers for the wind turbines are made from steel, which means that steel market developments could affect the results.

Electricity Prices
The development of the Wind and Hydroelectric Power segment is to a large degree dependent on the development of the price of electricity and on laws and regulations governing the energy market. For example, the high electricity prices of recent years have benefited wind power-generated electricity. A significantly lower electricity price would make wind power-generated electricity less profitable. In the longer term this could lead to lower demand. A temporarily lower electricity price could prompt wind power customers to delay new investments in wind turbines.

Access to Components and Delivery Delays
The Company aims to grow by selling high-quality wind turbines with relatively short delivery times. Quality, delivery security and the ability to generate revenues are crucial parameters. To achieve its goal, the Company has invested in a tower factory that has raised production capacity by a factor of ten. In this segment the limitation is not on the demand side, but depends on delivery capacity. The component that has until now constituted the main limitation on delivery capacity is blades for the rotor. As the market opportunities greatly exceed the Company's delivery capacity, the Company has taken measures to increase capacity together with its subcontractors. There is a risk that the supply of blades will limit the Company's ability to deliver as planned.

Product Liability
The manufacture and installation of wind turbines are subject to a series of certifications and controls that are designed to prevent, as far as possible, any errors in the construction, in materials or in the manufacturing process and thereby ensure the reliability of the products. There is still a risk that errors will pass the controls or that controls are inadequately performed or designed. There is also a risk that external conditions that are beyond anyone's control or ability to predict may cause reliability problems or failures. Responsibility in case of such disruptions will depend on the circumstances of each individual case, but may fall on the Company, subcontractors, the customer or another party.

Competition
As regards the wind power business, competition in the Swedish market is limited to a small number of players. There is a risk that more players will seek to establish themselves in Sweden and thereby affect the Company's ability to retain a high market share. Moreover, DynaWind is a new player and WinWinD's wind turbines are relatively new on the market. There is a risk that customers will prefer to choose an established supplier with a long history.

Flow Plates
Delays at Morphic's Customers
The Company's sales are dependent on the Company's customers commence the development of their introduction onto the market of fuel cell products. Delays at the Company's customer sites relating to market introductions of fuel cell products therefore constitutes one of the principal operating risks. Delays at customer sites may be market-based and technology-based. The timing and choice of the geographical area for market introductions constitute a significant part of the Company's customers' strategies. As always when new technology is being introduced, there may be teething problems or delays which are difficult to predict at present.

Competition
In the fuel cell business the main competition comes from other methods of production, including etching and milling. The Company's competitors are mainly established, large component manufacturers which are able to compete, despite using a markedly inferior production process, thanks to their size and lengthy experience of volume production of components.

The Company estimates that its patents and the continuous development of its own production process constitute a significant competitive advantage in relation to established component manufacturers.

Ship Propulsion
Customer Dependence
Aerodyn AB is dependent on the development of the international shipping and shipbuilding market. A decrease in shipbuilding could have a negative impact on the development of the business. The ship propulsion business is global, and Morphic is competing with a large number of players.

Raw Material Prices
Rising prices for stainless steel and bronze, primarily, are increasing the Company's raw materials purchasing costs, but since the Company's products are priced individually on a per-order basis, this will not affect the Company's margins. On the other hand, rising commodity prices increase the cost of building new ships, creating a risk of falling demand for the Company's products.

Components
New Manufacturing Process
Cell Impact's manufacturing process is relatively new on the market. Its advantages for the manufacture of flow plates are evident, but it may prove more difficult to establish the process for other components. There is also a risk that customers will prefer to stick to an existing process, despite the benefits provided by the Company's offer. There is also a risk that the work of demonstrating the benefits of the process to potential customers will take longer than expected.

Electricity Prices
The business operation linked to hydro power is dependent on the market's continued desire to improve the performance of existing hydroelectric power plants. A lower electricity price could postpone such investments.

Competition
Contract production of heavy components and hydro power components for the Scandinavian market has a limited number of competitors, since local production is preferred. For contract production of small components, the competition consists of established manufacturing processes in a global market.

Energy Technology
New Product
Morphic's energy systems are sold in a new and changing market. There is a risk that selling and establishing the systems in the market will take longer than expected due to difficulties in choosing the right types of customers in the initial phases. As always when introducing new technology, teething problems or delays may also occur that are difficult to predict at present.

Financial Risks

The main financial risks comprise the Company's limited resources, tax risks and risk related to the liquidity of the shares. In addition to the risks listed below, the main financial risks and how these are managed are described in Note 4 on page 58.

Liquidity Risk (Shares)
As regards Morphic's shares, there is a risk that turnover may vary during certain periods and that the spread between bid and offer prices is large from time to time. The liquidity of Morphic's shares can be affected by a number of different internal and external factors. Internal factors include announcements of the takeover of new companies, new products, technological shifts, quarterly variations in the Company's operating profits and changes in earnings and revenue forecasts. External factors include general economic conditions, economic downturns and other factors that are not related to the development of the Company's business. Fluctuations in those markets where Morphic conducts operations could also have a significant impact on the Company's share price.

Market Growth
The rapid expansion primarily in the wind power, fuel cell and energy technology fields may require relatively large investments. If the Company fails to obtain finance or to use its resources in the optimum way, this could have a negative impact on the Group.

Tax Risks
In connection with issuing warrants to the Group's employees, Morphic has commissioned a valuation of these warrants that has been used as a basis for pricing. If the tax authority were to decline to accept the valuation, this could result in tax penalties and an obligation on Morphic to pay employer contributions.

Political Risks

Investments in technology for electricity production do not differ financially from other investments – the investor strives to achieve as high a return as possible at a given risk level. Since production costs differ between different sources of energy, and since electricity prices are set on the Nordic electricity market Nord Pool, investments – in the absence of subsidies – will primarily be made in sources of energy that can display a relatively low cost per kWh of electricity produced.

Wind power, one of Morphic's principal markets, normally costs SEK 0.40 to SEK 0.60 per kWh to produce, making it expensive in relation to other types of energy. If the price of electricity falls below SEK 0.40 per kWh, wind power would even be unprofitable. In all years except 2006 the average price on Nord Pool has been below this level. The price per kWh in the years 2007, 2006, 2005 and 2004 was SEK 0.26, 0.45, 0.28 and 0.26, respectively. In early 2008 it was about SEK 0.45 per kWh.

To increase the share of electricity generated from renewable energy sources, many European countries have introduced economic support systems to promote such production. Sweden has a system of electricity certificates. The electricity certificate system came into force on May 1, 2003 and replaced the previous government investment and operating grants for wind power, solar electricity, biopower, including peat, and small-scale hydroelectric power. The system is market-based and creates competition among different types of renewable energy. Consumers of electricity are legally required to buy electricity certificates corresponding to a certain share (quota) of their electricity consumption. Producers of electricity receive one electricity certificate for each MWh of electricity they produce.

To compare the costs for electricity from wind power with other energy sources, the factors on which the analysis is based need to be the same. The cost of wind-generated electricity must thus be compared with the cost of electricity generated from other, new energy-producing technologies. Comparisons cannot be made with nuclear or coal power plants that have been operating for many years, since in this case the initial investment will already have been paid off.

Instead of taxing these energy sources on the basis of the external costs that they give rise to, the Swedish government has opted to offer assistance to renewable types of energy to compensate for the fact that they do not give rise to large external costs. If the cost of producing electricity is calculated without taking account of taxes and grants, the cost of wind power is about SEK 0.40/kWh, which is a few hundredths of a Swedish krona more than electricity from a combined cycle gas turbine plant and new hydroelectric power plant.

If taxes and subsidies are included, wind power is currently the second cheapest way to produce electricity after waste-based power plants. From this perspective, it is thus cheaper to produce electricity from new facilities using wind power than to use coal power, for instance.

A reduction in or abolition of government subsidies, such as the electricity certificate system, could lead to a reduction in demand for the Company's products. Morphic continuously monitors developments in the energy market. It is management's absolute conviction that, in the longer term, electricity from renewable types of energy, with or without subsidies, will constitute a real alternative to fossil-based forms of energy. The development of infrastructure for hydrogen is also partially dependent on government subsidies and support, and there is also a potential risk that politicians and business will fail to work together to ensure the continued development of the technology. However, developments in last few years indicate that this is not the case.

Other Risks

Apart from operational, financial and insurable risks, there is also the risk that management, the Board of Directors or shareholders will not receive the correct information to enable them to make the right decisions in different situations, or that they do not receive information at the right time. Morphic therefore works continuously to guarantee the quality of its internal as well as its external financial reporting. Other risks that the Group is exposed to include fire, traditional insurance risks and theft.

Outlook

In the financial year 2009 the Group will have a partially new focus and structure.

The significant investment in wind power highlighted by the acquisition of ScanWind just under a year ago has proved much too costly. Developing this business will require financial partners. The global financial crisis, which hit us with full force in fall 2008, has compelled us to abandon our ambition of becoming a significant player in this very capital-intensive field and instead focus on working as a partner with the wind power industry in finding new, efficient solutions for producing and storing clean electricity.

In late 2008 we initiated a process aimed at selling our wind power business, either in whole or in parts. This work is currently under way and the goal is to find a solution during 2009.

We have also initiated processes aimed at divesting or winding up non-core operations that are not strategically important or expected to generate positive cash flows in the next five years. In April 2009, after the end of the financial year, the automation technology company Dynamis AB was sold.

A successful sale of the wind power business will give Morphic the financial resources it needs to develop its remaining operations as well as capacity for continued investments in related areas offering potential synergies for a market that will be accessible in the near term.

A strong focus on liquidity in the Group is necessary to secure our future. Costs need to be cut while ensuring that the conditions for our continued development remain intact. This is a big challenge but we are confident that we will rise to it.

Throughout the Group there is a strong will to succeed.

In the last few months we have seen a growing interest in our products in Morphic Fuel Cells, where a growing order book is expected to gradually increase volumes and improve profitability.

Morphic has previously published financial targets for consolidated turnover and other key figures in 2012. However, the consequences of the financial crisis have been so extensive that the Board has chosen not to define a long-term financial target at present.

Appropriation of Retained Earnings

The shareholders are asked to decide on the appropriation of the following earnings (SEK '000):

Accumulated deficit	–101,638
Share premium account	1,036,781
Loss for the year	–334,312
Group contributions received	11,545
	612,376

The Board of Directors and Chief Executive Officer propose that the parent company's retained earnings of SEK 612,375,866 should be carried forward.

Financial Statements

Consolidated Income Statement

SEK '000	Note	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Operating income etc	6, 7, 8		
Net turnover		310,218	356,651
Change in inventories		–23,404	15,135
Capitalized production costs		7,309	4,770
Other operating income	7, 11	34,031	9,083
Total income etc		**328,154**	**385,639**
Operating costs			
Purchase of goods and services		–254,450	–267,861
Other external costs	9, 10	–84,473	–94,258
Personnel costs	13	–114,761	–97,060
Depreciation, amortization and impairment of tangible fixed assets and intangible assets		–215,091	–29,380
Other operating costs	11	–7,173	–3,978
Total operating costs		**–675,948**	**–492,537**
Operating loss		**–347,794**	**–106,898**
Profit/loss from financial investments			
Financial income	15	23,866	10,412
Financial expenses	16	–11,016	–3,701
Total profit from financial investments		**12,850**	**6,711**
Loss after financial items		**–334,944**	**–100,187**
Income tax	17	28,107	2,468
Loss for the year		**–306,837**	**–97,719**
Attributable to:			
Parent company shareholders		–301,892	–95,612
Minority interest		–4,945	–2,107
		–306,837	**–97,719**
Earnings divided by weighted average no. of shares before and after dilution (SEK)	18	–1.46	–0.65
Weighted average number of shares during period		207,353,552	147,149,682
Total no. of shares at end of period		327,744,044	150,772,022

For comparison figures for the corresponding period the previous year (8 months), see Note 48.

Parent Company Income Statement

SEK '000	Note	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Operating income etc	2, 7, 46		
Net turnover		440	220
Other operating income	7, 11	21	43
Total income etc		**461**	**263**
Operating costs	47		
Purchase of goods and services		–319	–275
Other external costs	9, 10	–20,182	–26,443
Personnel costs	13	–23,465	–18,010
Depreciation, amortization and impairment of tangible fixed assets and intangible assets		–2,692	–2,186
Other operating costs		–23	–63
Total operating costs		**–46,681**	**–46,977**
Operating loss		**–46,220**	**–46,714**
Profit/loss from financial investments			
Impairment of interests in subsidiaries	47	–318,823	—
Other interest income and similar items	15	28,285	17,518
Interest expense and similar items	16	–2,044	–439
Total profit/loss from financial investments		**–292,582**	**17,079**
Loss after financial items		**–338,802**	**–29,635**
Tax on profit for the year	17	4,490	5,641
Loss for the year		**–334,312**	**–23,994**

For comparison figures for the corresponding period the previous year (8 months), see Note 48.

Consolidated Balance Sheet

SEK '000	Note	Dec 31, 2008	Apr 30, 2008
Assets			
Fixed assets			
Intangible assets			
Capitalized costs for research and development and similar work	20	261,699	175,330
Franchises, patents and similar	21	57,730	53,673
Goodwill	22	114,876	126,281
Total intangible assets		**434,305**	**355,284**
Tangible fixed assets			
Buildings and land	23	41,606	21,653
Machinery and other technical plant	24	94,114	98,508
Equipment, tools and installations	25	56,357	21,092
Current new plant and advance payments relating to tangible fixed assets	26	9,768	7,430
Total tangible fixed assets		**201,845**	**148,683**
Financial fixed assets			
Available-for-sale financial assets	27	–	457
Deferred tax asset	17	–	33
Derivatives	28	–	698
Deposits	29	535	849
Frozen assets	30	–	6,800
Total financial fixed assets		**535**	**8,837**
Total fixed assets		**636,685**	**512,804**
Current assets			
Inventories etc			
Inventories	31	10,386	3,872
Work in progress on behalf of third parties	32	21,867	34,008
Advances for goods and services		78,900	13,617
Total inventories etc		**111,153**	**51,497**
Current receivables			
Trade receivables	33	137,854	81,799
Receivables from buyers of construction contracts	6	51,284	16,017
Other current receivables		21,574	13,371
Derivatives	28	10,107	918
Prepaid expenses and accrued income	34	16,937	21,638
Total current receivables		**237,756**	**133,743**
Frozen assets	30	101,179	102,522
Cash and cash equivalents	35	124,967	146,101
Total current assets		**575,055**	**433,863**
Total assets		**1,211,740**	**946,667**

Consolidated Balance Sheet

SEK '000	Note	Dec 31, 2008	Apr 30, 2008
Equity and liabilities			
Shareholders' equity	36		
Capital and reserves attributable to parent company shareholders			
Share capital		13,110	6,031
Other contributed capital		1,338,944	844,536
Other reserves		2,209	3,182
Accumulated deficit		–245,428	–148,977
Loss for the year		–301,892	–95,612
Minority		51,942	16,056
Total shareholders' equity		**858,885**	**625,216**
Long-term liabilities			
Liabilities to credit institutions	37	49,567	54,827
Other long-term liabilities		1,000	1,030
Provision for deferred tax		70,249	50,012
Total long-term liabilities		**120,816**	**105,869**
Current liabilities			
Other provisions	38	6,243	687
Liabilities to credit institutions	37, 39	15,699	10,196
Trade payables	40	59,832	57,169
Advances from customers		—	15,669
Current tax liabilities		2,532	22
Liabilities to customers under construction contracts	6	75,797	91,889
Derivatives	28	2,302	435
Other current liabilities		36,678	12,670
Accrued expenses and deferred income	41	32,956	26,845
Total current liabilities		**232,039**	**215,582**
Total equity and liabilities		**1,211,740**	**946,667**
Assets pledged as security	42	235,388	234,730
Contingent liabilities	43	26,855	25,131

Parent Company Balance Sheet

SEK '000	Note	Dec 31, 2008	Apr 30, 2008
Assets			
Fixed assets			
Intangible assets			
Capitalized costs for research and development and similar work	20	738	1,320
Patents and similar	21	7,555	6,997
Total intangible assets		**8,293**	**8,317**
Tangible fixed assets			
Equipment, tools and installations	25	1,681	346
Current new plant and advance payments relating to tangible fixed assets	26	–	486
Total tangible fixed assets		**1,681**	**832**
Financial fixed assets			
Interests in Group companies	47	210,813	232,041
Receivables from subsidiaries		527,560	320,525
Other long-term securities holdings		–	457
Other long-term receivables		–	6,862
Total financial fixed assets		**738,373**	**559,885**
Total fixed assets		**748,347**	**569,034**
Current assets			
Current receivables			
Receivables from Group companies		17,277	1,459
Tax assets		115	155
Other current receivables		996	2,336
Prepaid expenses and accrued income	34	9,498	7,210
Total current receivables		**27,886**	**11,160**
Frozen assets	30	76,803	101,632
Cash and bank balances	35	83,427	92,033
Total current assets		**188,116**	**204,825**
Total assets		**936,463**	**773,859**

Parent Company Balance Sheet

SEK '000	Note	Dec 31, 2008	Apr 30, 2008
Equity and liabilities			
Shareholders' equity	36		
Restricted equity			
Share capital		13,110	6,031
Statutory reserve		291,892	291,892
Employee stock options		2,209	–
Total restricted equity		**307,211**	**297,923**
Non-restricted equity/Accumulated deficit			
Accumulated deficit		–90,093	–77,644
Share premium account		1,036,781	552,648
Loss for the year		–334,312	–23,994
Total non-restricted equity/Accumulated deficit		**612,376**	**451,010**
Total shareholders' equity		**919,587**	**748,933**
Provisions			
Other provisions	38	179	–
Total provisions		**179**	**0**
Current liabilities			
Trade payables		2,501	4,985
Liabilities to subsidiaries		94	12,715
Other current liabilities		833	649
Accrued expenses and deferred income	41	13,269	6,577
Total current liabilities		**16,697**	**24,926**
Total equity and liabilities		**936,463**	**773,859**
Assets pledged as security	42	75,533	108,223
Contingent liabilities	43	208,138	224,628

Consolidated Cash Flow Statement

SEK '000	Note	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Operations			
Operating activities			
Operating loss before financial items		–347,794	–106,898
Depreciation and amortization		47,251	29,248
Other items not affecting liquidity	44	172,849	97
		–127,694	**–77,553**
Interest received		8,788	10,412
Interest paid		–6,887	–3,701
Income tax paid		3,084	–1,133
Cash flow from operations before changes in working capital		**–122,709**	**–71,975**
Increase/decrease in inventories		–42,474	–1,799
Increase/decrease in receivables		–81,165	4,077
Increase/decrease in current liabilities		–13,888	30,834
Cash flow from operating activities		**–260,236**	**–38,863**
Investing activities			
Investments in intangible assets		–22,432	–12,052
Investments in tangible fixed assets		–18,332	–57,319
Tangible fixed assets sold		—	2,991
Investments in subsidiaries	45	–228,237	–205,159
Investments in other financial fixed assets		—	–8,262
Increase in short-term financial investments		19,480	–18,381
Cash flow from investing activities		**–249,521**	**–298,182**
Financing activities			
Issue of new shares		491,212	261,927
Loans received		—	51,516
Repayment of loans		–8,092	–16,993
Increase/decrease in current financial liabilities		5,503	233
Cash flow from financing activities		**488,623**	**296,683**
Cash flow for the year		–21,134	–40,362
Cash and cash equivalents at beginning of year		146,101	186,463
Cash and cash equivalents at year-end	35	124,967	146,101

Parent Company Cash Flow Statement

SEK '000	Note	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Operating activities			
Operating loss before financial items		–46,220	–46,714
Depreciation and amortization		1,226	2,167
Other items not affecting liquidity		3,675	19
		–41,319	**–44,528**
Interest received		28,285	17,518
Interest paid		–2,044	–439
Cash flow from operations before changes in working capital		**–15,078**	**–27,449**
Increase/decrease in receivables		–691	–23,008
Increase/decrease in current liabilities		–8,050	19,703
Cash flow from operating activities		**–23,819**	**–30,754**
Investing activities			
Investments in intangible assets		–2,570	–1,555
Other financial items		—	–17,490
Investments in tangible fixed assets		–947	–582
Tangible fixed assets sold		—	730
Investments in subsidiaries		–497,311	–315,448
Investments in other financial fixed assets		24,829	–6,801
Cash flow from investing activities		**–475,999**	**–341,146**
Financing activities			
Issue of new shares		491,212	261,926
Repayment of loans		—	–31
Group contributions received/paid		—	20,147
Cash flow from financing activities		**491,212**	**282,042**
Cash flow for the year		–8,606	–89,858
Cash and cash equivalents at beginning of year		92,033	181,891
Cash and cash equivalents at year-end	35	83,427	92,033

Consolidated Statement of Changes in Equity

SEK '000	Note	Share capital	Other contributed capital	Other reserves	Accumulated deficit	Minority interest	Total share-holders' equity
Opening balance May 1, 2007		**5,470**	**583,170**	**–402**	**–147,111**	**—**	**441,127**
Translation reserve		—	—	3,182	—	—	3,182
Tax effect of Group contributions		—	—	—	–1,435	—	–1,435
Cash flow hedges		—	—	402	—	—	402
Other adjustments in foreign Group companies		—	—	—	–431	–465	–896
Total transactions recognized directly in equity		**—**	**—**	**3,584**	**–1,866**	**–465**	**1,253**
Loss for the year		—	—	—	–95,612	–2,107	–97,719
Total recognized income and expenses		**—**	**—**	**—**	**–95,612**	**–2,107**	**–97,719**
Acquisition of businesses		—	—	—	—	18,628	18,628
Issue of new shares		561	261,366	—	—	—	261,927
Shareholders' equity at Apr 30, 2008	36	**6,031**	**844,536**	**3,182**	**–244,589**	**16,056**	**625,216**
Opening balance May 1, 2008		**6,031**	**844,536**	**3,182**	**–244,589**	**16,056**	**625,216**
Translation reserve		—	—	6,412	—	6,499	12,911
Other adjustments in foreign Group companies		—	—	—	–158	—	–158
Employee stock option scheme		—	—	—	2,209	—	2,209
Total transactions recognized directly in equity		**—**	**—**	**6,412**	**2,051**	**6,499**	**14,962**
Loss for the year		—	—	—	–301,892	–4,945	–306,837
Total recognized income and expenses		**—**	**—**	**—**	**–301,892**	**–4,945**	**–306,837**
Acquisition of businesses		—	—	—	—	34,332	34,332
Issue of new shares		7,079	484,133	—	—	—	491,212
Shareholders' equity at Dec 31, 2008	36	**13,110**	**1,328,669**	**9,594**	**–544,430**	**51,942**	**858,885**

Parent Company Statement of Changes in Equity

SEK '000	Note	Share capital	Statutory reserve	Share premium account	Accumulated deficit	Total share-holders' equity
Opening balance May 1, 2007		**5,470**	**291,892**	**291,281**	**–87,026**	**501,617**
Loss for the year		—	—	—	–23,994	–23,994
Adjustment for Group contributions relating to previous years		—	—	—	–3,689	–3,689
Tax effect of adjustment for Group contributions received		—	—	—	–1,435	–1,435
Group contributions		—	—	—	20,147	20,147
Tax effect of Group contributions		—	—	—	–5,641	–5,641
Issue of new shares		561	—	261,367	—	261,928
Closing balance Apr 30, 2008	36	**6,031**	**291,892**	**552,648**	**–101,638**	**748,933**
Opening balance May 1, 2008		**6,031**	**291,892**	**552,648**	**–101,638**	**748,933**
Loss for the year		—	—	—	–334,312	–334,312
Group contributions		—	—	—	16,035	16,035
Tax effect of Group contributions		—	—	—	–4,490	–4,490
Issue of new shares		7,079	—	484,133	—	491,212
Employee stock options		—	—	—	2,209	2,209
Closing balance Dec 31, 2008	36	**13,110**	**291,892**	**1,036,781**	**–422,196**	**919,587**

Notes

NOTE 1 GENERAL INFORMATION

Morphic Technologies AB (publ) (parent company, organization number 556580-2526) and its companies (collectively, the "Group") is a growing Swedish engineering group operating in the areas of flow plates, fuels cells, electrolyzers, reformers, propulsion, wind power, automation technology and component production. The Group has offices in Karlskoga, Skänninge, Filipstad and Kristinehamn in Sweden, Patra (Greece), Bologna (Italy), Lugano (Switzerland), and Trondheim (Norway).

The parent company is a limited liability company domiciled in Sweden with registered office in Karlskoga. The address of the head office is Gammelbackavägen 6, Karlskoga, Sweden.

The parent company is listed on the OMX Nordic Exchange Stockholm.

The present consolidated financial statements were approved for publication by the Board of Directors of Morphic Technologies AB (publ) on April 29, 2009.

The income statement and balance sheet will be presented for approval to the AGM on May 27, 2009.

NOTE 2 ACCOUNTING POLICIES AND VALUATION PRINCIPLES

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, the International Financial Reporting Standards (IFRS), as adopted by the European Commission, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Recommendation RFR 1.1 Supplementary Accounting Rules for Corporate Groups of the Swedish Financial Accounting Standards Council has also been applied.

The consolidated financial statements have been prepared using the cost method. Preparing financial statements in compliance with IFRS requires the use of important accounting estimates. Management is also required to make certain assessments in applying the company's accounting policies. Areas that are deemed to be complex or that are of material significance for the consolidated financial statements are described in Note 5.

(a) Amendments of Existing Standards that Entered into Force in 2008
IAS 39 (Amendment) and IFRS 7 (Amendment) Reclassification of Financial Instruments (applies from July 1, 2008). The amendment of IAS 39 gives companies the option of reclassifying financial assets held for trading under certain circumstances. The amendment is not obligatory and is expected to mainly affect banks and similar enterprises. The Group does not apply the amendment to IAS 39 and IFRS 7 (Amendment).

(b) Interpretations that Entered into Force in 2008*
IFRIC 14**, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC 14 provides guidance for assessing the limit in IAS 19 used in valuing a defined benefit asset. It also explains how the defined benefit asset or liability can be affected by a similar obligation relating to a minimum funding requirement. This interpretation has no impact on the Group's financial statements, since there are no defined benefit assets in any of the Group's pension plans and because these plans do not place any minimum funding requirements on the Group.
IFRIC 11, IFRS 2 – Group and Treasury Share Transactions relates to share-based transactions using treasury shares or involving Group companies (e.g. options on parent company shares). IFRIC 11 provides guidance on how such transactions should be accounted for as share-based payments that are settled through equity instruments or cash in the separate financial statements for the parent company and other affected Group companies. This interpretation has no impact on the Group's financial statements.

(c) Standards and Amendments Applied in Advance by the Group
IFRS 8 Operating Segments was applied in advance in 2008. IFRS 8 replaces IAS 14 Segment Reporting. Under the new standard, segment information must be presented from the point of view of management, which means that it should be presented in the same way as in the company's internal reporting. For the Group this has led to an increase in the number of reported segments. In addition, segments are reported in a way that is more consistent with the internal reports submitted to the most senior executive. Since management divides goodwill into groups of cash-generating units at segment level, the change in respect of segments for which disclosures must be made required a reallocation of SEK 80,164,000 (68,564,000) in goodwill from the operating segment Energy Technology to the newly identified operating segments Fuel Cells, Electrolyzers and Fuel Processing. A number of other segments have simply been renamed, see Note 22. The reallocation has not resulted in any impairment of goodwill but the impairment tests made required impairment charges in the above-mentioned segments. Comparison figures for 2007/08 have been restated to reflect the new segment structure.

(d) Interpretation that is Obligatory for 2008 but is Not Relevant for the Group
The following interpretation* of existing standards is obligatory for financial years beginning on January 1, 2008 or later but is not applicable to the Group's operations.
• IFRIC 12* Service Concession Arrangements.

(e) Standards, Amendments and Interpretations of Existing Standards Where the Amendment Has Not Yet Entered into Force and Has Not Been Applied in Advance by the Group
The following standards and interpretations of existing standards have been published and are obligatory for consolidated financial statements for financial years beginning on January 1, 2009 or later but have not been applied in advance:

- IAS 23 (Amendment) Borrowing Costs (applies from January 1, 2009). Under the amendment, borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale must be included in the original cost of the asset. The alternative of charging these borrowing costs to expense immediately has been removed. The Group will apply IAS 23 (Amendment) from January 1, 2009 but it is not currently relevant for the Group.
- IAS 1 (Revised) Presentation of Financial Statements (applies from January 1, 2009). The revised standard prohibits the passing of income and expense items ("non-owner changes in equity") in the report through changes in equity. Instead, "non-owner changes in equity" must be accounted for separately from changes in equity that refer to transactions with shareholders. All non-owner changes in equity must be reported either in a single statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income). If a company makes a retrospective restatement or changes the classification of comparative information it is required to present a restated balance sheet as of the beginning of the comparative period on top of the applicable requirement to present balance sheets at the end of the relevant period and the comparative period. The Group will apply IAS 1 (Amendment) from January 1, 2009. It is likely that it will present both a separate income statement and a statement of comprehensive income.
- IFRS 2 (Amendment) Share-based Payments (applies from January 1, 2009). The amended standard relates to vesting conditions and cancellations. It clarifies that vesting conditions refer only to service conditions and performance conditions. Non-vesting conditions are another element of share-based payments. This element must be taken into account in establishing fair value at the allocation date for transactions with employees and other parties that provide similar services. However, it does not affect the number of options that are expected to be earned or the valuation of these after the date of allocation. All cancellations, regardless of whether they are made by the company or by other parties, must be treated in the same way in the financial statements. The Group will apply IFRS 2 (Amendment) from January 1, 2009 but the standard is not expected to have any material impact on the Group's financial statements.
- IAS 32 (Amendment)* Financial Instruments: Classification and IAS 1 (Amendment) Presentation of Financial Statements – Puttable Financial Instruments and Obligation Arising on Liquidation (applies from January 1, 2009). Under the amended standards, redeemable financial instruments and instruments, or portions of instruments, which place an obligation on the company to transfer a proportional share of the company's net assets to another party only upon liquidation should be classified as equity, provided that the financial instruments have special characteristics and meet certain conditions. The Group will apply IAS 32 and IAS 1 (Amendment) from January 1, 2009 but this is not expected to have any impact on the Group's financial statements.
- IAS 39 (Amendment)* Financial Instruments: Recognition and Measurement – Eligible Hedged Items (applies from July 1, 2009). The amendment clarifies how existing policies for hedge accounting should be applied in two specific situations. It specifies when inflation can be identified as the hedged risk in a financial instrument and how to account for options that are used as hedge instruments. The Group will apply IAS 39 (Amendment) from January 1, 2009 but this is not expected to have any impact on the Group's financial statements.
- IFRS 1 (Amendment)* First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements (applies from January 1, 2009). The amendment relates to the valuation of shareholdings in subsidiaries, jointly controlled companies and associated companies upon transition to IFRS. It allows first-time adopters to use an assumed cost, either fair value or the carrying amount in accordance with previously reported accounting rules in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27, replacing it with a requirement that the owner report dividends as revenues in its separate financial statements. The Group will apply IFRS 1 (Amendment) from January 1, 2009, since all subsidiaries in the Group will be switching to IFRS. This amendment has no impact on the Group's financial statements.
- IAS 27 (Revised)*, Consolidated and Separate Financial Statements (applies from July 1, 2009). Under the revised standard, the effects of all transactions with minority shareholders must be recognized in equity if they do not result in a change in the controlling influence and no longer give rise to goodwill or gains and losses. The standard also states that when a parent company loses its controlling influence any remaining share must be restated at fair value with any gain or loss recognized in the income statement. The Group will apply IAS 27 (Revised) prospectively for transactions with minority shareholders from January 1, 2010.
- IFRS 3 (Revised)* Business Combinations (applies from July 1, 2009). The revised standard still prescribes the purchase method for business combinations, with some significant changes. One is that all payments for the purchase of a business are recognized at fair value at the date of acquisition while subsequent contingent payments are classified as liabilities, which are then revalued through the income statement. For each acquisition the acquiring entity can value the minority interest in the acquired business either at fair value or at the minority shareholders' proportional share of the net assets of the acquired business. All acquisition-related transaction costs must be charged to expense. The Group will apply IFRS 3 (Revised) prospectively for business combinations from January 1, 2010.
- IFRS 5 (Amendment)* Non-current Assets Held for Disposal and Discontinued Operations (and the consequent amendment of IFRS 1, First-time Adoption of IFRS) (applies from July 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. It explains that all assets and liabilities of a subsidiary are classified as held for disposal if a plan for partial disposal leads to a loss of controlling influence.

The necessary disclosures must be made about this subsidiary if the definition of discontinued operation is met. The consequent amendment of IFRS 1 specifies that these changes must be applied prospectively from the date of transition to IFRS. The Group will apply IFRS 5 (Amendment) prospectively for partial disposals of subsidiaries from January 1, 2010.

- IAS 23 (Amendment)*, Borrowing Costs (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. The definition of borrowing costs has been changed so that interest expenses are calculated using the effective interest method as defined in IAS 39 Financial Instruments: Recognition and Measurement. This eliminates the difference between IAS 39 and IAS 23. The Group will apply IAS 23 (Amendment) in respect of capitalization of borrowing costs, prospectively from January 1, 2009.
- IAS 28 (Amendment)* Investments in Associates (and the consequent amendments to IAS 32 Financial Instruments: Classification and IFRS 7 Financial Instruments: Disclosures) (apply from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. An investment in an associated company is treated as an individual asset in respect of impairment tests and any impairment loss is not allocated to specific assets included in the investment, such as goodwill. Reversals of impairment losses are recognized as an adjustment of the value of the investment to the extent that the recoverable amount of the associate is increased. The Group will apply IAS 28 (Amendment) in testing for impairment of investments in subsidiaries and to any consequent impairment losses from January 1, 2009.
- IAS 36 (Amendment)* Impairment of Assets (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. When fair value less selling expenses is calculated using discounted cash flows, corresponding disclosures on the calculation of value in use must be made. The Group will apply IAS 28 (Amendment) and, where applicable, make the necessary disclosures on impairment tests from January 1, 2009.
- IAS 38 (Amendment)* Intangible Assets (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. A prepayment may only be recognized if payment has been made before the Group has gained access to goods or before services have been received. The Group will apply IAS 38 (Amendment) from January 1, 2009. This is not expected to lead to any impairment losses.
- IAS 19 (Amendment)* Employee Benefits (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008.
  - The amendment states that a change to a plan that changes the extent to which promised benefits are affected by future pay increases constitutes a reduction, while a change in benefits relating to service during previous periods gives rise to a negative expense for service during previous periods if it results in a reduction of the present value of the defined benefit obligation.
  - The definition of return on plan assets has been changed so that administrative expenses for the plan are deducted in calculating the return on plan assets only to the extent that such expenses have been excluded from the valuation of the defined benefit obligation.
  - The distinction between short-term and long-term employee benefits will be based on whether the benefits fall due within or after 12 months from the time when the employee's services were performed.
  - IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires disclosure, not recognition, of contingent liabilities. IAS 19 has been amended to ensure conformity.

  The Group will apply IAS 19 (Amendment) from January 1, 2009.
- IAS 39 (Amendment)* Financial Instruments: Recognition and Measurement (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008.
  - This amendment explains that assets can move in and out of the category designated at fair value through profit or loss as a derivative for cash flow hedging or hedging of a net investment begins or ceases to meet the requirements for hedge accounting.
  - The amendment explains the relationship between the definition of a financial asset or financial liability at fair value through profit or loss and items held for trading. A financial asset or liability which forms part of a portfolio of financial instruments that are managed together and for which there is a recent pattern of short-term profit-taking must be included in the portfolio upon initial recognition.
  - The current guidance on how to identify and document hedges establishes that a hedge instrument must involve a party outside the reporting unit and states that a segment can be an example of a reporting unit. This means that if hedge accounting is applied at segment level, the segment concerned is required to meet the requirements for hedge accounting. The amendment uses the segment example of segments so that IAS 39 agrees with IFRS 8 Operating Segments, which requires disclosures on segments based on the information that is provided to the most senior executive. For the purposes of segment reporting, each subsidiary currently identifies agreements with the Finance Department as fair value or cash flow hedges so that the hedges are recognized in the segment to which the hedged items belong. This conforms with the information that is assessed by the most senior executive. See Note 3.1 for further information. When the amendment has entered into force the hedge will continue to be accounted for in the segment to which the hedged items belong (and on which information is provided to the most senior executive) but the Group will not formally document and test this hedge relationship.
  - When a new carrying amount is established for a debt instrument, occurring when it ceases to be accounted for as a fair value hedge, the amendment specifies that the revised effective interest rate (calculated on the date when hedge accounting ceases) should be used. The Group will apply IAS 39 (Amendment) from January 1, 2009. This is not expected to have any impact on the Group's financial statements.
- IAS 1 (Amendment)* Presentation of Financial Statements (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. The amendment clarifies that certain, but not all, financial assets and liabilities that have been classified as held for trading pursuant to IAS 39 Financial Instruments: Recognition and Measurement constitute current assets and current liabilities, respectively. The Group will apply IAS 39 (Amendment) from January 1, 2009. This is not expected to have any impact on the Group's financial statements.
- There are a number of minor changes in IFRS 7 Financial Instruments: Disclosures, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 Events after the Balance Sheet Date, IAS 18 Revenue and IAS 34 Interim Financial Reporting, which are included in IASB's annual improvement project published in May 2008 (not

addressed in the above). It is unlikely that the changes will have any impact on the Group's financial statements, and they have therefore not been examined in detail.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (applies from October 1, 2008). IFRIC 16 clarifies the accounting treatment of hedges of net investments. This includes the fact that hedges of net investments refer to differences in the functional currency, not the reporting currency, and that hedging instruments can be held by any company within the Group. The requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates apply for the hedged items. The Group will apply IFRIC 16 from January 1, 2009. This is not expected to have any material impact on the Group's financial statements.

(f) Interpretations and Amendments of Existing Standards that Have Not Yet Entered into Force and that Are Not Relevant for the Group's Operations
The following interpretations and amendments of existing standards have been published and are obligatory for the Group for financial years beginning on January 1, 2009 or later but are not relevant for the Group:
- IFRIC 13 Customer Loyalty Programs (applies from July 1, 2008)**. IFRIC 13 states that when goods or services are sold together with some form of incentive for customer loyalty (e.g. loyalty points or free products), this constitutes a multiple-elements arrangement. The compensation received from the customer is divided among the various elements of the agreement and is recognized at fair value. IFRIC 13 is not relevant for the Group, since no Group company has a loyalty program.
- IAS 16 (Amendment)* Property, Plant and Equipment (and the consequent amendment of IAS 7 Cash Flow Statements) (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. A company whose ordinary operations include the leasing and subsequent sale of assets is required to recognize revenue from the sale of these assets in net turnover. For such assets the carrying amount is recognized in the item inventories when the asset becomes an asset held for sale. A consequent amendment of IAS 7 states that cash flows arising from the purchase, lease and sale of such assets are classified as cash flow from operating activities. The amendment will not have any impact on the Group, since there is no company in the Group whose ordinary activities include the leasing and subsequent sale of assets.
- IAS 27 (Amendment)*, Consolidated and Separate Financial Statements (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. When an investment in a subsidiary is recognized in accordance with IAS 39 Financial Instruments: Recognition and Measurement, classified as held for sale pursuant to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IAS 39 will continue to be apply. The amendment will not have any impact on the Group, since the Group applies the principle of recognizing investments in subsidiaries at cost in the separate financial statements of the owner company.
- IAS 28 (Amendment)* Investments in Associates (and the consequent amendments to IAS 32 Financial Instruments: Classification and IFRS 7 Financial Instruments: Disclosures) (apply from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. When investments in associates are recognized in accordance with IAS 39 Financial Instruments: Recognition and Measurement some, but not all, of the disclosures specified in IAS 29 must be made in addition to the disclosures specified in IAS 32 Financial Instruments: Classification and IFRS 7 Financial Instruments: Disclosures. The amendment will not have any impact on the Group, since the Group applies the principle of recognizing associates in accordance with the equity method of accounting in the consolidated financial statements.
- IAS 29 (Amendment)* Financial Reporting in Hyperinflationary Economies (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. The standard has been changed so that certain assets and liabilities are valued at fair value rather than at cost. The amendment will not have any impact on the Group, since none of the Group's subsidiaries or associates operate in hyperinflationary economies.
- IAS 31 (Amendment)* Interests in Joint Ventures (and the consequent amendments of IAS 32 and IFRS 7) (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. When an investment in a joint venture is recognized in accordance with IAS 39 Financial Instruments: Recognition and Measurement some, but not all, of the disclosures specified in IAS 31 must be made in addition to the disclosures specified in IAS 32 Financial Instruments: Classification and IFRS 7 Financial Instruments: Disclosures. The amendment will not have any impact on the Group, since there are no investments in joint ventures.
- IAS 38 (Amendment)* Intangible Assets (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. The amendment removes the formulation stating that there is "rarely or never" a compelling case for using a depreciation method that results in a slower rate of depreciation than the straight-line method. The amendment will not have any impact on the Group, since all intangible assets are depreciated on a straight-line basis.
- IAS 40 (Amendment)* Investment Property (and the consequent amendments of IAS 16) (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. The amendment states that property that is built or exploited for future use as an investment property should be accounted for in accordance with IAS 40. When the fair value model is applied such property is therefore valued at fair value. However, if it is not possible to reliably measure the fair value of an investment property in course of construction the property is valued at cost until whichever occurs first of the time when building work is completed and the time when the fair value can be reliably measured. The amendment has no impact on the Group, since the Group does not have any investment properties.
- IAS 41 (Amendment)* Agriculture (applies from January 1, 2009). The amendment is a part of IASB's annual improvement project, published in May 2008. The standard requires the use of a market-based discount rate when fair value is calculated based on discounted cash flows and removes the prohibition on taking account of biological transformation in calculating fair value. The amendment will not have any impact on the Group, since the Group is not engaged in agricultural activities.

- IAS 20 (Amendment)* Accounting for Government Grants and Disclosure of Government Assistance (applies from January 1, 2009). The benefit of a government loan carrying a below-market interest rate is measured as the difference between the carrying amount upon initial recognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement and loan payments received. The benefit is reported in accordance with IAS 20. The amendment will not have any impact on the Group, since there are no government loans or other government grants.
- The minor amendments* of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 40 Investment Property and IAS 41 Agriculture are part of IASB's annual improvement project, published in May 2008 (not described above). The amendments have no impact on the Group, as stated in the above descriptions.
- IFRIC 15 Agreements for Construction of Real Estate (applies from January 1, 2009). The interpretation explains whether IAS 18 Revenue or IAS 11 Construction Contracts should be applied for certain transactions. It is likely that this will lead to the application of IAS 18 on more transactions. IFRIC 15 is not relevant for the Group's business, since all revenues are reported in accordance with IAS 18.
- IFRIC 17 Distribution of Non-cash Assets to Owners (applies for financial years beginning on July 1, 2009 or later). IFRIC 17 provides guidance stating that a liability relating to distributions of non-cash assets must be recognized when the company has an obligation to its owners. The liability is valued at fair value. When the liability is settled, i.e. at the time of the dividend, the assets distributed to settle the liability should be restated at fair value. The result of the restatement must be reported in the income statement. IFRIC 17 also states that IFRS 5 Non-current Assets Held for Sale and Discontinued Operations is applicable for non-current assets that are available for distribution. The Group will apply IFRIC 17 for distributions of non-cash assets and in cases where the dividend payment is a mix of cash and non-cash assets, prospectively from January 1, 2010.

* Still subject to the EU's approval process.
** This interpretation became effective on July 1, 2008 but was not approved by the EU until December 2008.

2.1 Consolidated Financial Statements
The consolidated financial statements comprise the parent company and subsidiary companies.

Subsidiary Companies
Subsidiary companies are all those companies in which the Group has the right to formulate financial and operational strategies in a manner that is normally consistent with a shareholding of more than half of the votes. Subsidiaries are included in the consolidated financial statements as of the date on which the controlling influence is transferred to the Group. They are excluded from the consolidated financial statements as of the date on which the controlling influence ceases.

The purchase method is used in accounting for the acquisition of subsidiaries by the Group. The cost of an acquisition is the fair value of all assets provided as compensation, issued equity instruments and liabilities incurred or assumed at the transfer date plus costs directly attributable to the acquisition. Identifiable acquired assets and assumed liabilities and contingent liabilities in the acquisition of a business are initially valued at fair value at the acquisition date regardless of the size of any minority interest. The surplus consisting of the difference between cost and fair value of the Group's share of identifiable acquired net assets is recognized as goodwill. If the cost is less than fair value of the net assets of the acquired subsidiary the difference is recognized directly in the income statement.

Transactions, balances and internal profits in the Group are fully eliminated.

Transactions with Minority Owners
The Group applies the policy of reporting transactions with minority shareholders as transactions with third parties.

2.2 Foreign Currencies
Functional Currency and Reporting Currency
Items included in the financial statements for the various units of the Group are valued in the currency used in the economic environment in which each company primarily operates (functional currency). In the consolidated financial statements Swedish kronor (SEK) is used, which is the functional and reporting currency of the parent company.

Transactions and Balance Sheet Items
Transactions in foreign currencies are translated to the functional currency at transaction date exchange rates. Exchange rate gains and losses arising from such transactions and upon translation of monetary assets and liabilities in foreign currencies at balance sheet date exchange rates are recognized in the income statement. The exception is when the transactions constitute hedges and meet the conditions for hedge accounting of cash flows, in which case any gains/losses are recognized in equity.

Group Companies
Results and financial position for all Group companies (of which none have a hyperinflationary currency as functional currency) that have a different functional currency than the reporting currency are translated to the Group's reporting currency as follows:

a) assets and liabilities for each of the balance sheets are translated at balance sheet date exchange rates,
b) income and expenses for each of the income statements are translated at the average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the exchange rates applying at the transaction date, in which case income and expenses are translated at the transaction date exchange rate) and,
c) all resulting exchange rate differences are accounted for as a separate part of equity.

Upon consolidation, exchange rate differences arising from the translation of net profits in foreign operations and from borrowing and other currency instruments identified as hedges of such investments are transferred to equity.

Goodwill and fair value adjustments arising from the acquisition of a foreign business are treated as assets and liabilities in this business and translated at the balance sheet date exchange rate.

Exchange rates	Closing rate, Dec 31, 2008	Average rate May 1, 2008–Dec 31,2008
EUR	10.94	9.82
JPY	8.60	6.67
CHF	7.35	6.28
NOK	1.10	1.17*

* The average NOK rate refers to the period August 1, 2008–December 31, 2008, when the Norwegian company was consolidated in the Group.

2.3 Income

The Group recognizes income when the amount can be reliably measured, it is probable that future economic benefits will accrue to the company and specific criteria have been met for each of the Group's businesses, as described in the following. The amount is not deemed to be reliably measurable until all obligations relating to the sale have been fulfilled or expired. The Group bases its assessments on historical outcomes, taking account of the type of customer, type of transaction and any special circumstances applying in each case.

Income is defined as fair value of the sale, net of value-added tax, discounts and exchange rate differences in case of sales in foreign currencies. Intercompany transactions are fully eliminated.

Sale of Goods

A sale of goods is recognized as income upon delivery of the product to the customer and approval by the customer of the product in accordance with the terms and conditions of sale.

Sale of Services

The Group does not have significant sales of services. Income from services provided is accounted for in accordance with IAS 18. Most of the Group's assignments are charged on account, which means that income is recognized when the work has been performed.

Construction Contracts

Project income from construction contracts are accounted for in accordance with IAS 11 Construction Contracts.

Construction expenses are recognized when they are incurred. When the outcome of a construction contract can be reliably measured and it is probable that the contract will be profitable, the result of a project is recognized in accordance with the degree of completion of the project. The degree of completion is determined primarily on the basis of project costs paid in relation to estimated project costs paid upon completion. Expenditure that has been incurred during the year but that relates to future work is not included in project costs paid at the time of determining the degree of completion. If the outcome cannot be reliably measured the costs paid at the balance sheet date are recognized as income. Expected losses are charged to expense immediately.

The Group recognizes as assets any receivables from buyers of construction contracts for all assignments in progress for which the expenses and reported profits (less any reported losses) exceed the invoiced amount.

Partially invoiced amounts that have not yet been paid by the customer and amounts withheld by the buyer are included in the item Receivables from buyers of construction contracts.

The Group recognizes as liabilities any liabilities to buyers of construction contracts for all assignments in progress for which the invoiced amount exceeds the associated expenses and reported profits (less any reported losses). If any circumstances arise that could change the original estimates of income, expenses or degree of completion, the estimates are reviewed. These reviews can result in an increase or decrease of the estimated expense and affect income during the period in which management became aware of the circumstances prompting the change.

Royalty/License and Interest Income

Royalties and license income are recognized based on the terms and conditions of the agreement at the time when compensation is received and allocated to the relevant accounting periods over the term of the agreement.

Interest income is accounted for and allocated over the term of the agreement by applying the effective interest method.

2.4 Income Taxes

Recognized income taxes comprise tax that is payable or due in respect of the current year and adjustments relating to current tax for previous years. All tax liabilities and tax assets are valued at their nominal amounts and based on the tax rules and tax rates that have been adopted or that have been announced and are highly likely to be confirmed. For items recognized in the income statement the associated tax effects are also recognized in the income statement. For items that are recognized directly in equity the associated tax effects are also recognized directly in equity.

Deferred Tax

The full amount of deferred tax is accounted for, by applying the balance sheet liability method, for all temporary differences between the carrying amounts and tax bases of assets and liabilities in the consolidated financial statements. Deferred tax is not recognized if the time at which a temporary difference is reversed can be decided by the Group or it is probable that the temporary difference will not be reversed within the foreseeable future. Deferred tax is recognized by applying tax rates (and laws) that have been adopted or announced at the balance sheet date and that are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets relating to unused tax losses or other future tax deductions are recognized to the extent that it is probable that such deductions can be used to offset future taxable profits.

Deferred tax is recognized for all temporary differences on interests in subsidiaries and associated companies.

2.5 Borrowing Costs

Borrowing costs are charged to the income statement in the periods to which they refer.

2.6 Intangible Assets

Goodwill

Goodwill is the difference between cost and fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the time of acquisition. Goodwill is not amortized but allocated to cash-generating units and tested annually for impairment. Goodwill is stated at cost less accumulated impairment losses. Impairment losses for goodwill are never reversed.

Gains and losses from the sale of subsidiaries include the carrying amount of goodwill attributable to the divested company.

Capitalized Costs for Research and Development and Similar Work
Costs for research are expensed immediately. Costs relating to development projects attributable to construction and tests of new or improved products are capitalized as intangible assets when the following conditions are met:
(a) it is technically possible to complete the intangible asset so that it can be used,
(b) management intends to complete the intangible asset and use or sell it,
(c) there are prospects of using or selling the intangible asset,
(d) it can be shown how the intangible asset will generate probable future economic benefits,
(e) adequate technical, financial and other resources for completing the development of and using or selling the intangible asset during its development can be reliably measured.

Other development costs are expensed when they are incurred.
Capitalized development costs are amortized from the time of completion on a straight-line basis over the expected useful life. The amortization period does not exceed ten years.

Patents and Similar
Patents
Patents are stated at cost. Patents have a limited useful life and are stated at cost less accumulated amortization. The assets are amortized on a straight-line basis over their useful lives, normally 5–10 years.

Licenses
Licenses are stated at cost. Licenses have a limited useful life and are stated at cost less accumulated amortization. The assets are amortized on a straight-line basis so that the cost of the licenses is distributed over their estimated useful lives. The useful life does not exceed 10 years.

2.7 Tangible Fixed Assets
Tangible fixed assets are recognized at cost, including any directly attributable costs less depreciation and impairment losses.
Any additional costs increase the carrying amount of the asset only when such expenditure is expected to generate future economic benefits and the expenditure can be reliably measured. Expenditure for repairs and maintenance are recognized as costs.
Component depreciation is used in the Group. Land is not depreciated. Assets in the course of construction are not depreciated. All other tangible fixed assets are systematically depreciated over the assets' estimated useful lives. Straight-line depreciation is applied primarily for all types of tangible assets.

The following depreciable lives are applied	No. of years
Industrial buildings	25
Machinery and other technical plant	5–20
Equipment, tools and installations	3–5
Land improvements	20

The carrying amount of an asset is tested at least once a year and is written down to the recoverable amount as soon as the carrying amount exceeds the estimated recoverable amount. The expected useful life is also tested annually.
Gains and losses from the sale of assets are determined by comparing the sale proceeds and the carrying amount. The difference is recognized under the items Other operating income or Other operating expenses in the income statement.

2.8 Impairment
Assets with indefinite useful lives, such as goodwill, are not written down but tested annually for impairment. All assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The difference between the carrying amount and the recoverable amount is recognized as an impairment loss. The recoverable amount is the higher of fair value less selling expenses and value in use. In testing for impairment, assets are grouped to the lowest levels at which there are separate identifiable cash flows (cash-generating units). A previous impairment loss for an asset, with the exception of goodwill, is reversed when a change has occurred in the assumptions on which the asset's recoverable value was based at the time of recognizing the impairment loss. The reversal increases the carrying amount of the asset, but not beyond the value the asset would have had after deducting for normal depreciation/amortization and if no impairment loss had been recognized.
Assets that have not been completed are also tested for impairment.

2.9 Government Assistance
Government assistance is stated at fair value when it is reasonably certain that such assistance will be received and that the Group will satisfy all the associated conditions.
Government assistance attributable to expenses is deferred and recognized in the income statement in the period when the expenses that such assistance is intended to compensate for are incurred.
Government assistance for the procurement of tangible fixed assets reduces the carrying amount of the asset.

2.10 Financial Instruments
The Group divides its financial instruments into the following categories:

Assets
– Trade and other receivables
– Available-for-sale financial assets

Liabilities
– Financial liabilities are valued at fair value through the income statement
– Other financial liabilities

The classification depends on the purpose of the acquired investment asset. Management decides on the classification at the time of investment and reviews the decision at each reporting date.

Trade and Other Receivables
Trade and other receivables refer to receivables that arise when the Group provides goods, services or money to another party, without an intention to trade the receivable. This category includes: prepayments, deposits, trade receivables, frozen assets and other receivables. The form for set-

tling such receivables is generally determined in advance. These receivables are normally accounted for as current assets and stated at the amounts that are expected to be received less any individually assessed doubtful receivables. If a receivable becomes due for payment more than 12 months after the balance sheet date it is classified as a fixed asset. Trade receivables and other receivables are recognized initially at cost and subsequently at amortized cost by applying the effective interest method. A provision for impairment of receivables is made when there is objective evidence that the Group will not be able to recover all overdue amounts in accordance with the original terms and conditions for the receivables. The size of the provision is the difference between the carrying amount of the asset and the present value of established future cash flows, discounted using the effective interest rate. The provision is recognized in other external costs in the income statement.

Available-for-sale Financial Assets

Available-for-sale financial assets are assets that are not derivatives and where the assets have been identified as if they can be sold or not assigned to any of other category, such as holdings in unlisted shares. They are included in fixed assets unless management intends to sell the asset within 12 months of the balance sheet date. Upon initial recognition, available-for-sale financial assets are stated at fair value plus transaction costs. After acquisition, such assets are stated at fair value and any changes in fair value are recognized in equity.

If the market for a certain financial asset is not active (and if the securities are not listed on a marketplace), the Group determines fair value by applying valuation techniques such as the use of information about recently executed arm's length transactions, valuation by reference to fair value for another, materially equivalent instrument, analysis of discounted cash flows or option valuation models. In making such assessments, market information is used to the greatest extent possible while company-specific information is used to the smallest extent possible. If such information is not available the asset is valued at cost.

Liabilities to Credit Institutions and Other Liabilities

Liabilities to credit institutions and other liabilities are valued initially at fair value less transaction costs. Thereafter these liabilities are recognized at amortized cost. The item Other liabilities includes: trade payables, advances 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 the balance sheet date; other liabilities are classified as long-term.

Derivatives

Derivatives are recognized in the balance sheet at the contract date and valued at fair value, both initially and at subsequent reassessments. The method of accounting for the gain or loss arising upon reassessment depends on whether the derivative has been identified as a hedging instrument and, if such is the case, on the character of the hedged item. The Group identifies certain derivatives as:

(a) a hedge of fair value in respect of a recognized liability (fair value hedge),
(b) a hedge of a specific risk that is linked to a recognized liability or a very likely forecast transaction (cash flow hedge), or
(c) a hedge of a net investment in a foreign operation (net investment hedge).

Morphic has derivatives that are included in the category cash flow hedges. When the transaction is concluded the Group documents the relationship between the hedging instrument and the hedged item, as well as the Group's risk management goal and the risk management strategy for the hedge. The Group also documents its assessment, both when the hedge transaction is concluded and continuously, of whether the derivatives used in hedge transactions are effective in terms of offsetting changes in fair value or cash flows attributable to the hedged items. The full fair value of a derivative used as a hedging instrument is classified as a fixed asset or a long-term liability if the remaining term to maturity of the hedged item exceeds 12 months, and as a current asset or a current liability if the remaining term of the hedged item is less than 12 months. Derivatives held for trading are always classified as current assets or current liabilities.

Cash Flow Hedging

The effective portion of changes in fair value of a derivative that has been identified as a cash flow hedge and that meets the conditions for hedge accounting is recognized in equity. The gain or loss attributable to the ineffective portion is recognized immediately in the income statement in the items Other operating income and Other operating costs. Cumulative gains/losses in equity are transferred to the income statement in those periods when the hedged item affects the result (for instance, when the forecast sale that is hedged takes place). The gain or loss attributable to the effective portion of a currency swap that is used to hedge borrowing at variable rates of interest is recognized in the item Financial expense in the income statement. The gain or loss attributable to the effective portion of currency forward contracts used to hedge import deliveries is recognized in the item Other income in the income statement. If a hedge of a forecast transaction subsequently leads to the recognition of a non-financial asset (e.g. inventories), the gains and losses previously recognized in equity are transferred from equity and included in the initial cost of the asset. These amounts, which are recognized as assets, will later be recognized in Purchase of goods and services as regards inventories. When a hedge instrument expires or is sold or when the hedge no longer fulfills the criteria for hedge accounting and cumulative gains and losses relating to the hedge are included in equity, these gains/losses remain in equity and are recognized as income/expenses at the same time as the forecast transaction is finally recognized in the income statement. When a forecast transaction is no longer expected to take place the cumulative gain or loss recognized in equity is immediately transferred to the income statement item Other gains/losses – net.

Purchases and sales of financial assets are recognized at the transaction date, which is the date when the Group undertakes to buy or sell the asset. Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the Group has transferred virtually all risks and benefits associated with ownership. At each balance sheet date the Group assesses whether there is objective evidence of impairment of a financial asset or group of financial assets. As regards shares that have been classified as available-for-sale assets, a significant or protracted decline in fair value to below original cost is regarded as an indication of impairment. If such evidence exists for available-for-sale financial assets the cumulative loss, defined as the difference between cost and current fair value less any previous impairment losses recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses for equity instruments that have been recognized in the income statement are not passed back through the income statement.

2.11 Provisions and Warranties

Provisions for legal claims, such as warranties, are recognized when the Group has a legal or informal obligation arising from previous events, it is more probable than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably measured. No provisions are made for future operating losses.

2.12 Leases

Leases in which a significant share of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made during the lease term are charged to the income statement on a straight-line basis over the term of the lease. Morphic has signed certain leases for its own operations. The leases refer to cars and office machinery and cover small amounts. They will therefore not affect the assessment of the Group's results and financial position, and have been accounted for as operating leases.

2.13 Inventories etc.

Inventories are valued, by applying the first in, first out principle, at the lower of cost and net realizable value at the balance sheet date. Collective valuation is applied for homogenous product groups.

Net realizable value is the estimated selling price in the company's operating activities less any applicable variable selling expenses.

For work in progress, cost comprises direct costs paid and a reasonable portion of indirect costs paid. The original cost does not include research and development, sales, administration, and borrowing costs.

2.14 Segment Reporting

Operating segments are reported in a way that is consistent with the internal reports submitted to the most senior executive, i.e. the CFO for the Group. The most senior executive is the function that is responsible for allocating resources and assessing the results of operating segments.

2.15 Cash Flow Statement

The cash flow statement is prepared using IAS 7 indirect method. The recognized cash flow only comprises transactions resulting in incoming and outgoing payments.

Changes in the structure of the Group, acquisitions and sales are stated at their net values, excluding cash and cash equivalents, under Acquisition and sale of subsidiaries and are included in cash flow from investing activities.

Cash and cash equivalents includes, in addition to cash and bank balances, short-term financial investments that are exposed to insignificant risk of fluctuations in value, and

- are traded on an open market for known amounts or
- have a shorter remaining time to maturity than three months from the time of acquisition.

Frozen assets are not included in cash and cash equivalents.

2.16 Employee Benefits

Retirement Benefit Obligations

In a defined contribution plan the company makes fixed contributions to a separate legal entity and has no obligation to make any further contributions. Costs are charged to the consolidated income statement when the benefits are earned.

In a defined benefit plan benefits accrue to employees and former employees based on their salaries at the time of retirement and the number of years of service. The Group bears the risk of ensuring that the promised retirement benefits are paid. The Group has both defined contribution and defined benefit pension plans.

Commitments for retirement and family pensions for salaried employees in Sweden are secured through an insurance policy with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 3, this is a defined benefit pension plan covering several employers. For the financial year 2008 Morphic Technologies has not had access to information that would enable it to report this plan as a defined benefit plan. The ITP pension plan is therefore reported as a defined contribution plan in accordance with IAS 19p30. The year's contributions to Alecta pension plans are SEK 1,922,000. Alecta's surplus can be divided among the policyholders and/or insured parties. At the end of December 2008 Alecta's surplus in the form of the "collective funding ratio" was 112.0 (141.0) percent. The collective funding ratio is defined as the market value of Alecta's assets divided by its insurance commitments calculated using Alecta's actuarial assumptions, which do not fully comply with IAS 19.

Share-based Payments

The Group applies IFRS 2 Share-based Payment, which deals with share-based payments to employees.

Under IFRS 2, fair value in respect of plans where payment is made using equity instruments should be recognized as an expense in the income statement and in equity in the balance sheet. Under two separate schemes, warrants have been allocated to the personnel of Morphic Technologies and its subsidiaries. Morphic Technologies' first scheme was allocated in 2006 and based on the condition that beneficiaries pay a commercial price at the time of allocation for the allocated financial instruments. The first scheme has therefore not incurred any charges either in the balance sheet or the income statement.

In May 2008 personnel of Morphic Technologies AB (publ) and its subsidiaries received warrants under a second scheme. The fair value of service entitling employees to allocations of warrants is charged to expense. The total expensed amount is based on the fair value of the allocated warrants, excluding any impact of non-market-related service- and performance-based vesting conditions (e.g. profitability, sales growth targets and continual employment for a specified period). Non-market-related vesting conditions are taken into account in assumptions of how many options/warrants are expected to be earned. The expensed total amount is allocated over the vesting period, which is the period during which all the stated vesting conditions must be fulfilled. At each balance sheet date the company reviews its assessments of how many shares are expected to be earned based on the non-market-related vesting conditions. Any deviations from the original estimates identified in such reviews are recognized in the income statement with corresponding adjustments in equity.

Social-security contributions on the warrants schemes are restated continually during the term of the warrants in accordance with UFR 7.

Compensation in Case of Termination
Compensation in case of termination is paid when an employee's employment has been terminated by the Group before the normal time of retirement or when an employee accepts voluntary redundancy in exchange for such compensation. The Group recognizes severance pay when it is demonstrably obliged either to give notice to employees under a detailed formal plan without possibility of retraction or to provide compensation upon termination as a result of an offer to encourage voluntary redundancy. Benefits expiring more than 12 months after the balance sheet date are discounted to present value.

Share Capital
Ordinary shares are classified as shareholders' equity. Transaction costs that are directly attributable to the issue of new shares are recognized, net of tax, in equity less a deduction from the proceeds of the issue.

2.17 Contingent Liabilities
A contingent liability is recognized when there is a possible obligation and it has not yet been confirmed whether the company has an existing obligation that could lead to an outflow of resources or, alternatively, when there is an existing obligation that does not meet the criteria for recognition as a provision or other liability in the balance sheet because it is not probable that an outflow of resources will be required to settle the obligation or because the amount cannot be reliably estimated.

2.18 Earnings per Share
Earnings per share is calculated as earnings for the period attributable to parent company shareholders divided by average number of outstanding shares per reporting period. In calculating earnings per share after dilution, the average number of outstanding shares in the denominator is divided by the average number of shares that would be issued as an effect of ongoing share-based remuneration and employee stock option schemes and shares that have been redeemed or lapsed during the period. See Note 18.

NOTE 3 PARENT COMPANY'S ACCOUNTING POLICIES

The parent company prepares its annual report in accordance with the Swedish Annual Accounts Act and RFR 2.1 Accounting for Legal Entities, which means that the parent company applies the Group's accounting policies in all material respects.

The shared-based incentive schemes adopted by the annual general meeting as of 2004 are subject to IFRS 2 Share-based Payment.

Group contributions are accounted for in accordance with Statement UFR 2 of the Swedish Financial Reporting Board. Group contributions are reported as an increase of non-restricted equity with adjustments for the tax effect.

NOTE 4 FINANCIAL RISK MANAGEMENT AND DERIVATIVES

Through its activities the Group is exposed to a wide range of financial risks. The Group's general risk management policy focuses on the unpredictable nature of financial markets.

Financial Risks
Risk management follows the principles defined annually by the Board in the form of a finance policy.

Credit and Counterparty Risks
The Group operates in several areas of business, each with its own business logic. Credit management and payment terms must therefore be adapted to the business logic of each business area. In the wind business, where implementation times are generally long, the payment profile is normally divided into several part-payments linked to security.

The finance function strives to spread credit risks and ensures that all sales are made to customers with an appropriate credit history. Some of the Group's business areas are in a development phase where sales partly refer to test deliveries and prototype sales, and credit terms are therefore adapted to these circumstances.

Interest Risks
The Group's income and cash flow from operating activities are essentially independent of changes in market interest rates. The Group has SEK 0 (51,599,000) in fixed-interest investments and SEK 226,146,000 (248,623,000) in interest-bearing accounts. The Group raises loans bearing variable interest. Interest-bearing liabilities in the Group are SEK 65,266,000 (55,023,000). A change in interest rates of one percentage point would increase or reduce consolidated earnings by SEK +/–1,609,000.

Liquidity Risk
Liquidity risk is managed through continuous liquidity planning. Liquidity is governed centrally and is aimed at ensuring that the requisite liquid assets are available.

Financing Risk
Since the Group's business is in a build-up phase, activities are funded essentially with risk capital. The company has reported losses in the last few years and carried out share offerings in 2008 to raise new capital. There is also an authorization to conduct further issues of new shares, primarily for the purpose of refinancing acquisition credits and funding planned development work.

NOTE 5 ASSESSMENTS AND ASSUMPTIONS

In preparing the consolidated financial statements for Morphic Technologies AB, certain estimates and assumptions need to be made that can affect the value of the reported assets, liabilities and provisions at year-end. The carrying amounts of sales and expenses during the presented periods are also affected.

Estimates and assessments are evaluated continuously and based on historical experiences and other factors, including expectations of future events that are deemed reasonable under existing circumstances.

Estimates and assumptions that involve a significant risk of material adjustments to the carrying amounts of assets and liabilities during the coming financial year are discussed in the following.

Capitalized Development Costs
When development costs are capitalized the Group makes certain assessments and assumptions about the future value of the assets, and that future economic benefits will accrue to the company. In connection with future impairment tests, certain assumptions and estimates, in addition to those mentioned above, are made about future growth rates and discount rates.

Testing for Impairment of Goodwill and Other Acquisition-related Intangible Assets
When goodwill and other acquisition-related intangible assets are tested for impairment the carrying amount is compared with the recoverable amount. The recoverable amount is the higher of an asset's net realizable value and value in use. Since no quoted prices that could be used to assess the assets' net realizable value are normally available, the carrying amount is normally compared with value in use. The calculation of value in use is based on assumptions and assessments. The most significant assumptions refer to sales growth and operating margins, which have been used to discount future cash flows.

A sensitivity analysis has been performed with 10 percent lower margins or a 10 percent higher discount rate (WACC).

These analyses have resulted in impairment losses at the balance sheet date on the excess over book value and goodwill relating to AccaGen, Exergy and Helbio (only goodwill).

Valuation of Deferred Tax Assets
The Group's accumulated tax losses at the end of the period were approximately SEK 375,731,000. In valuing the tax losses, the assessment was made that no deferred tax asset attributable to these tax losses should be recognized.

NOTE 6 CONSTRUCTION CONTRACTS

Group
Income from construction contracts is recognized based on the degree of completion of the projects. See Note 1 Accounting Policies and Valuation Principles.

	May 1, 2008–Dec 31, 2008	May 1, 2007–Apr 30, 2008
Receivables from buyers of construction contracts	51,284	16,017
Liabilities to customers under construction contracts	–75,797	–91,889
Accumulated project costs and reported gains/losses	333,412	198,145
Less invoiced amounts	–357,925	–274,017
Total liability	**–24,513**	**–75,872**

The above presentation of project costs and reported gains/losses includes a provision for expected project losses of SEK –16,374,000.

NOTE 7 BREAKDOWN OF INCOME

	GROUP		PARENT COMPANY	
	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Net turnover includes revenues from:				
Goods	141,861	157,000	–	–
Services	2,277	2,066	440	220
Construction contracts	163,262	196,911	–	–
Other	2,818	674	–	–
Total	**310,218**	**356,651**	**440**	**220**
Other income includes income from:				
Foreign exchange gains	26,428	5,587	20	17
Other payments	606	2,638	1	6
Rents	594	–	–	–
Government grants	6,403	858	–	20
Total	**34,031**	**9,083**	**21**	**43**

NOTE 8 SEGMENT REPORTING

At December 31, 2008 the Group was organized into the following operating segments:
- Flow Plates (comprises the activities of Cell Impact AB)
- Ship Propulsion (comprises the activities of Aerodyn AB)
- Automation Technology (comprises the activities of Dynamis AB and EIA)
- Fuel Cells (comprises Exergy S.r.l.)
- Electrolyzers (comprises AccaGen)
- Fuel Processing (comprises Helbio)
- Small Wind Turbines (comprises Morphic Systems AB)
- Wind Power (comprises the activities of DynaWind AB and ScanWind AS Group)
- Components (comprises the activities of Finshyttan Hydropower AB)

The segments' results for the financial year 2008 are shown below:

SEK '000	Sales income	Operating profit/loss	Financial expenses	Profit/loss before tax	Income tax	Profit/loss for the year
Flow Plates	297	–13,727	–2,231	–15,840	–7	–15,847
Fuel Cells	5,382	–62,997	–1,454	–64,401	11,849	–52,552
Electrolyzers	8,098	–111,321	–489	–111,801	13,570	–98,231
Fuel Processing	9,728	–15,097	–20	–15,114	837	–14,278
Wind Power	194,804	–58,704	–14,728	–65,606	1,854	–63,752
Components	14,361	199	–586	–368	–	–368
Ship Propulsion	69,721	13,273	–86	13,920	–4,487	9,433
Automation	15,631	–15,837	–595	–17,816	1	–17,815
Small Wind Turbines	4	–2,154	–3,359	497	–	497
Central costs*	440	–46,221	–2,501	–19,009	4,490	–14,519
Morphic Systems AB**	1,477	–35,208	–9,276	–39,406	–	–39,405
Elimination of intercompany transactions	–9,725	–	24,309	–	–	–
Group	**310,218**	**–347,794**	**–11,016**	**–334,994**	**28,107**	**–306,837**

The segments' results for the financial year 2007/2008 are shown below:

SEK '000	Sales income	Operating profit/loss	Financial expenses	Profit/loss before tax	Income tax	Profit/loss for the year
Flow Plates	1,378	–19,776	–1,975	–21,644	–2	–21,646
Fuel Cells	1,541	–6,216	–564	–6,733	713	–6,020
Electrolyzers	2,802	–3,805	–374	–4,118	865	–3,253
Fuel Processing	1,698	–5,719	–60	–5,777	891	–4,886
Wind Power	199,005	–20,842	–1,974	–21,093	–	–21,093
Components	35,692	–1,136	–979	–2,086	–	–2,086
Ship Propulsion	111,382	16,845	–139	17,035	–5,641	11,394
Automation	10,842	–9,131	–999	–10,078	–	–10,078
Small Wind Turbines	–	–	–	–	–	–
Central costs*	220	–46,718	–439	–23,993	5,641	–18,352
Morphic Systems AB**	1,072	–10,400	–5,740	–16,056	–	–16,056
Elimination of intercompany transactions	–8,981	–	9,542	–5,643	–	–5,643
Group	**356,651**	**–106,898**	**–3,701**	**–100,187**	**2,467**	**–97,719**

Other income and expense items for the segments in the financial year 2008 are shown below:

	Depreciation/Amortization		Impairment losses	
	Tangible fixed assets	Intangible assets	Intangible assets	Financial assets
Flow Plates	3,569	604	–	–
Fuel Cells	1,114	4,930	45,934	–
Electrolyzers	456	7,091	94,550	–
Fuel Processing	271	3,608	13,535	–
Wind Power	7,769	8,397	–	–
Components	1,620	–	–	–
Ship Propulsion	3,195	–	–	–
Automation	187	104	4,719	–
Small Wind Turbines	834	208	9,704	–
Central costs*	98	1,127	1,466	457
Morphic Systems AB**	–	–	–	–
Group	**19,113**	**26,069**	**169,908**	**457**

Other income and expense items for the segments in the financial year 2007/2008 are shown below:

	Depreciation/Amortization		Impairment losses	
	Tangible fixed assets	Intangible assets	Intangible assets	Financial assets
Flow Plates	5,417	–	–	–
Fuel Cells	602	2,757	–	–
Electrolyzers	321	3,127	–	–
Fuel Processing	722	3,399	–	–
Wind Power	1,989	–	–	–
Components	2,407	–	–	–
Ship Propulsion	4,574	–	–	–
Automation	970	–	–	–
Small Wind Turbines	–	–	–	–
Central costs*	150	2,036	–	–
Morphic Systems AB**	197	580	132	–
Group	**17,349**	**11,899**	**132**	–

Transactions among segments are made on normal, commercial terms.

The following table shows assets and liabilities as at December 31, 2008 and investments during the financial year 2008.

SEK '000	Assets	Liabilities	Investments
Flow Plates	45,326	50,701	2,624
Fuel Cells	80,236	69,953	15,346
Electrolyzers	71,622	58,533	268
Fuel Processing	66,004	1,312	579
Wind Power	579,034	585,928	3,016
Components	22,091	21,708	275
Ship Propulsion	122,637	36,207	2,763
Automation	12,640	15,656	95
Small Wind Turbines	137,006	136,006	16,454
Central costs*	936,463	16,889	2,144
Morphic Systems AB**	–	–	–
Elimination of intercompany transactions	–470,570	–640,699	–
Group	**1,211,740**	**352,855**	**43,565**

The following table shows assets and liabilities at April 30, 2008 and investments during the financial year 2007/2008.

SEK '000	Assets	Liabilities	Investments
Flow Plates	35,136	34,461	4,543
Fuel Cells	107,775	45,278	5,066
Electrolyzers	147,518	42,502	292
Fuel Processing	69,777	13,815	232
Wind Power	180,832	179,832	46,846
Components	21,144	19,344	1,019
Ship Propulsion	137,437	11,911	3,111
Automation	30,306	30,864	1,791
Small Wind Turbines	—	—	—
Central costs*	774,341	24,938	2,218
Morphic Systems AB**	20,438	235,149	10,998
Elimination of intercompany transactions	–491,103	–316,643	—
Group	**946,667**	**321,451**	**76,116**

* Refers to the parent company and MLCC.
** Refers to Morphic Systems AB with its previous focus, which was changed in fall 2008.

The segments' assets primarily consist of tangible assets, intangible assets, work in progress, receivables for operating activities, and cash and cash equivalents.

NOTE 9 COMPENSATION TO THE AUDITORS

	GROUP		PARENT COMPANY	
	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Audit assignments				
Öhrlings PricewaterhouseCoopers	1,693	912	418	300
Other assignments than audit assignments				
Öhrlings PricewaterhouseCoopers	1,122	2,000	797	1,904
	2,815	**2,912**	**1,215**	**2,204**

Audit assignments refer to the examination of the annual report and accounts and the administration of the Board of Directors and Chief Executive Officer, other tasks that are incumbent on the company's auditor and advice or other assistance occasioned by observations made in the course of such examination or the performance of such tasks. Everything else is other assignments.

NOTE 10 LEASE PAYMENTS

	GROUP		PARENT COMPANY	
	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Lease payments (excl rents for premises) during the year were:	2,547	1,384	383	434
Lease payments in coming years are as follows:				
> 1 year	4,173	5,111	497	356
1–5 years	17,745	25,232	397	392
> 5 year	1,160	—	—	—

Rental costs are not included in the above.
The Group also leases various machinery and other technical plant under non-cancelable operating leases.

NOTE 11 FOREIGN EXCHANGE DIFFERENCES

	GROUP		PARENT COMPANY	
	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Other income				
–Foreign exchange gains	26,428	5,587	20	17
Other external costs				
–Foreign exchange losses	–1,889	–2,566	–23	–64
Total foreign exchange difference	**24,539**	**3,021**	**–3**	**–47**

NOTE 12 OPTIONS SCHEMES

The Board of Morphic Technologies has distributed 3,010,000 warrants to employees of the Morphic Group at a price of SEK 0.50 per warrant. Each warrant entitles the holder to subscribe for 1.37 (1)* new B shares during the month of October 2009. The subscription price for the warrants is SEK 11.70 (16)* for each new share. The warrants will be issued at a market price set on the basis of an external valuation made in accordance with the Black-Scholes formula for valuing options. The data used is volatility 20 percent, alternative interest 3.4 percent.

The premium for the warrants has been recognized in shareholders' equity. The warrants were allocated to members of staff in December 2006.

Employee stock options have been allocated free of charge to senior executives and other key individuals in Group companies and associated companies in Sweden and abroad. Allocations have been made with regard to the employee's salary level, experience and position in the company. The right to exercise the options is subject to a performance condition linked to the Group's turnover and operating margin.

The performance condition means that options can be exercised only if the Group achieves a consolidated turnover in the calendar year 2012 of at least SEK 3bn and an operating margin of at least 10 percent. To fully satisfy the performance condition, whereby all allocated options would be exercisable, the Group's turnover in the calendar year 2012 must be at least SEK 10bn and the operating margin at least 15 percent.

Under the scheme, a maximum of 4,500,000 options may be issued. Each employee stock option entitles the holder, during the period March 1–May 31, 2013, to acquire one B share in Morphic at a price of 110 percent of the volume-weighted average price of Morphic's B shares during the period March 4–17, 2008. In accordance therewith, the exercise price for the employee stock options has been set at SEK 16.

After restatement to take account of terms and conditions in options contracts relating to rights issues, each employee stock option entitles the holder to subscribe for 1.29 B shares at a price of SEK 12.40.

The weighted average fair value of options allocated during the period, calculated using the Black & Scholes valuation model, was SEK 3.66 per option. The key input data used in the model were: weighted average share price of SEK 10.25 at allocation date, the above-mentioned exercise price upon allocation, 60 percent volatility, no expected dividend payments and an annual risk free rate of 4.1 percent. See Note 13 for information on the total cost recognized in the income statement for stock options allocated to employees.

* The figures have been restated based on the terms and conditions applying to the warrants after completion of the share offering. Figures in parentheses refer to the original amounts.

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

	GROUP		PARENT COMPANY	
	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
The average number of employees, broken down between women and men, was:				
Men	180	139	5	5
Women	35	24	5	4
Total	**215**	**163**	**10**	**9**
Average number of employees				
Sweden – men	123	118	5	5
– women	22	20	5	4
Greece – men	8	3	—	—
– women	3	—	—	—
Italy – men	8	8	—	—
– women	5	3	—	—
Switzerland – men	12	10	—	—
– women	1	1	—	—
Norway – men	29	—	—	—
– women	4	—	—	—
Salaries and compensation were:				
Board and CEO	15,392	10,399	8,120	5,103
Other employees	62,787	50,883	7,899	5,239
Total salaries and compensation	**78,179**	**61,282**	**16,019**	**10,342**
Statutory and contractual social-security contributions	23,940	20,592	5,353	4,380
Stock options allocated to employees	2,270	—	1,440	—
Pension costs (of which SEK 887,000 (1,049,000) refers to Board and CEO)	8,903	4,692	2,020	1,307
Total salaries, compensation, social-security contributions and pension costs	**113,292**	**86,566**	**24,832**	**16,029**

Compensation to senior executives, SEK	Basic salary/ Directors' fee	Other benefits	Pension costs	Other compensation	Total
Chairman of the Board during the financial year					
Peter Enå	965,120	49,287	250,376	6,446	1,271,229
Directors during the financial year					
Kurt Dahlberg	656,072	–	–	–	656,072
Anette Myrheim	133,328	–	–	–	133,328
Kjell Östergren	133,328	–	–	–	133,328
Peter Ekenger	40,834	–	–	–	40,834
Directors who left the Board during the financial year					
Jan Alvén	80,364	–	–	–	80,364
Lars Olof Nilsson	66,664	–	–	–	66,664
Eva Lotta Kraft	66,664	–	–	–	66,664
Chief Executive Officer					
Jonas Eklind, to Oct 28, 2008	1,715,373	77,329	636,774	3,875,631	6,305,107
Martin Valfridsson, from Oct 29, 2008	372,493	12,254	–	–	384,747
Rest of senior management	3,738,597	104,663	1,025,820	312,517	5,181,597

Compensation to Senior Executives

The Board of Directors

The compensation paid to members of the Board of Directors is decided by the Annual General Meeting. In fall 2008 the AGM approved a fee of SEK 200,000 per Director. No separate fee is paid for committee work. Executive directors do not receive a separate fee for Boardroom work.

The Chairman of the Board and the CEO

Decisions on compensation for the Chairman of the Board and the Chief Executive Officer are taken by the Board.

The Chairman's and CEO's contracts are terminable on six months' notice by either party. In case of termination by the employer, the CEO is entitled to 12 months' severance pay.

Rest of Group Management

In 2008 senior management consisted of seven individuals. Employment terms and compensation for senior management are decided by the Compensation Committee. Senior management's employment contracts are subject to a maximum of six months' notice. In case of termination by the employer, members of senior management are entitled to six months' severance pay.

The Compensation Committee

The Compensation Committee is appointed from among the members of the Board. The committee's tasks include drafting proposals for the Board on employment terms for the Board of Directors and CEO, and deciding on compensation for other members of management. For information about the committee's tasks and composition, see page 83.

All other employment contracts in the company comply with the dismissal rules in the collective agreement.

There are no other retirement benefit obligations in addition to the pension premiums paid.

Sick Leave

Information about sick leave is not provided, since the average number of employees of the parent company in the last two years has been less than ten.

NOTE 14 BOARD MEMBERS AND OTHER SENIOR EXECUCTIVES BROKEN DOWN BY SEX

	Dec 31, 2008		Apr 30, 2008	
Group (incl. subsidiaries)	No. at balance sheet date	Of which, men %	No. at balance sheet date	Of which, men %
Board members	45	76	39	72
CEOs and other senior executives	20	75	14	93
Parent company				
Board members	5	80	7	71
CEOs and other senior executives	7	57	4	75

NOTE 15 FINANCIAL INCOME

	GROUP		PARENT COMPANY	
	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Interest income	8,788	9,434	28,063	17,514
Foreign exchange differences	15,078	978	222	4
Total	**23,866**	**10,412**	**28,285**	**17,518**

NOTE 16 FINANCIAL EXPENSES

	GROUP		PARENT COMPANY	
	May 1, 2008–Dec 31, 2008	May 1, 2007–Apr 30, 2008	May 1, 2008–Dec 31, 2008	May 1, 2007–Apr 30, 2008
Financial expenses	—	—	—	196
Interest expenses	6,887	2,870	2,044	8
Foreign exchange differences	3,672	831	—	235
Impairment of available-for-sale financial assets	457	—	—	—
Total	**11,016**	**3,701**	**2,044**	**439**

NOTE 17 INCOME TAX

	GROUP		PARENT COMPANY	
SEK '000	2008	2007/08	2008	2007/08
Current tax	–392	–12	4,490	5,641
Deferred tax	28,499	2,480	0	—
Total	**28,107**	**2,468**	**4,490**	**5,641**

Difference between consolidated tax expense and tax expense based on applicable national tax rates in each country.

	GROUP		PARENT COMPANY	
SEK '000	2008	2007/08	2008	2007/08
Loss before tax	–334,944	–100,187	–334,312	–29,635
Tax at national tax rate in each country	93,757	27,908	93,607	8,298
Tax relating to non-taxable income	10	3	1	2
Tax relating to non-deductible expenses	–99	–148	–89,299	–53
Changed valuation, deferred tax asset	–33	—	—	—
Changed valuation, deferred tax liability	–39,451	1,878	—	—
Change of non-valued tax loss	–26,077	–27,172	181	–2,606
Tax expense for the year	**28,107**	**2,468**	**4,490**	**5,641**

Change in deferred tax asset/tax liability for the period

	GROUP	
Deferred tax asset, SEK '000	2008	2007/2008
Opening balance	33	33
Reclassifications	—	—
Acquisitions	—	—
Recognized in income statement	—	—
Other	–33	—
Closing balance	**0**	**33**

	GROUP	
Deferred tax liability, SEK '000	2008	2007/08
Opening balance	50,012	0
Reclassifications	—	440
Acquisitions	45,184	51,450
Recognized in income statement	–28,499	–2,480
Foreign exchange differences	3,552	602
Closing balance	**70,249**	**50,012**

Tax losses in the parent company are SEK 133,709,000. Consolidated tax losses have not been measured, since the business is still in a build-up phase, and future earnings are therefore subject to uncertainty. Consolidated tax losses are SEK 375,731,000. The consolidated weighted average tax rate is 28 percent.

NOTE 18 EARNINGS PER SHARE

Group	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Reported loss attributable to parent company shareholders	–301,892	–95,612
Earnings for calculation of earnings per share	**–301,892**	**–95,612**
Weighted average number of registered shares before dilution	207,100,079	143,461,526
Fund element impact due to issue of new shares	253,473	3,688,156
Total number of shares after dilution and issue of new shares	**207,353,552**	**147,149,682**
Number of shares at end of year	327,744,044	150,772,022
Earnings per share before and after dilution	–1.46	–0.65

Since consolidated earnings are negative, a conversion of outstanding options would result in a lower loss per share, and no dilution would therefore occur.

NOTE 19 FINANCIAL INSTRUMENT BY CATEGORY

The accounting policy for financial instruments has been applied for the following items:

December 31, 2008	Loans and trade receivables	Derivatives used for hedging	Available-for-sale	Total
Assets in balance sheet				
Available-for-sale financial assets	–	–	0	0
Derivatives	–	10,107	–	10,107
Frozen assets	101,179	–	–	101,179
Deposits	22	–	–	22
Trade receivables	137,854	–	–	137,854
Receivable from buyers of construction contracts	51,284	–	–	51,284
Cash and cash equivalents	124,967	–	–	124,967
Total	**415,306**	**10,107**	**0**	**425,413**

	Derivatives used for hedging	Other financial liabilities	Total
Liabilities in balance sheet			
Liabilities to credit institutions	–	65,266	65,266
Other long-term liabilities	–	1,000	1,000
Trade payables	–	59,832	59,832
Liabilities to customers under construction contracts	–	75,797	75,797
Derivatives	2,302	–	2,302
Total	**2,302**	**201,895**	**204,197**

April 30, 2008	Loans and trade receivables	Derivatives used for hedging	Available-for-sale	Total
Assets in balance sheet				
Available-for-sale financial assets	–	–	457	457
Derivatives	–	1,616	–	1,616
Frozen assets	109,322	–	–	109,322
Deposits	849	–	–	849
Trade receivables	81,799	–	–	81,799
Receivable from buyers of construction contracts	16,017	–	–	16,017
Cash and cash equivalents	146,101	–	–	146,101
Total	**354,088**	**1,616**	**457**	**356,161**

	Derivatives used for hedging	Other financial liabilities	Total
Liabilities in balance sheet			
Liabilities to credit institutions	—	65,023	65,023
Other long-term liabilities	—	1,030	1,030
Trade payables	—	57,169	57,169
Liabilities to customers under construction contracts	—	91,889	91,889
Derivatives	435	—	435
Total	**435**	**215,111**	**215,546**

NOTE 20 CAPITALIZED COSTS FOR RESEARCH AND DEVELOPMENT AND SIMILAR WORK

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Cost at beginning of year	195,412	21,956	6,076	6,076
Costs capitalized for the year, internal development	7,933	4,571	—	—
Costs capitalized for the year, purchases	13,240	5,414	1,441	—
Sales and disposals	–129	—	—	—
Through acquisition of Group companies	180,631	160,732	—	—
Reclassifications	197	—	—	—
Translation differences	5,647	2,739	—	—
Cost at end of year	**402,931**	**195,412**	**7,517**	**6,076**
Amortization at beginning of year	–12,702	–4,142	–4,756	–3,541
Amortization for the year	–16,964	–8,560	–581	–1,215
Reclassifications	–108	—	—	—
Translation differences	–1,883	—	—	—
Accumulated amortization at end of year	**–31,657**	**–12,702**	**–5,337**	**–4,756**
Impairment loss at beginning of year	–7,380	–7,267	—	—
Sales and disposals	—	—	–1,442	—
Impairment loss for the year	–102,195	–113	—	—
Accumulated impairment loss at end of year	–109,575	–7,380	–1,442	0
Residual value at end of year	**261,699**	**175,330**	**738**	**1,320**

During the year the Group charged SEK 3,060,000 to expense in respect of research and development costs. The Group has recognized an impairment loss of SEK 13.8m relating to development projects that are no longer expected to generate future values for the Group.

NOTE 21 PATENTS AND SIMILAR

SEK '000	GROUP Dec 31, 2008	GROUP Apr 30, 2008	PARENT COMPANY Dec 31, 2008	PARENT COMPANY Apr 30, 2008
Cost at beginning of year	60,864	9,701	9,219	7,664
Change for the year				
– Costs capitalized, purchases	1,259	2,613	1,128	1,555
Through acquisition of Group companies	–	48,517	–	–
– Sales and disposals	–750	–	–	–
Translation differences	8,829	33	–	–
Cost at end of year	**70,202**	**60,864**	**10,347**	**9,219**
Amortization at beginning of year	–6,940	–2,162	–1,971	–1,169
– Amortization for the year	–4,674	–4,778	–546	–802
– Sales and disposals	750	–	–	–
Translation differences	–1,333	–	–	–
Accumulated amortization at end of year	**–12,197**	**–6,940**	**–2,517**	**–1,971**
Impairment loss at beginning of year	–251	–251	–251	–251
Impairment loss for the year	–24	–	–24	–
Accumulated impairment loss at end of year	–275	–251	–275	–251
Residual value at end of year	**57,730**	**53,673**	**7,555**	**6,997**

NOTE 22 GOODWILL

Group	Dec 31, 20081	Apr 30, 2008
Cost at beginning of year	126,281	55,182
Change for the year		
– Acquisition of businesses	54,355	70,070
– Translation differences	8,355	1,029
Cost at end of year	**188,991**	**126,281**
Change for the year		
Impairment loss at beginning of year	–	–
– Impairment loss	–65,039	–
– Translation differences	–9,076	–
Accumulated impairment loss at end of year	–74,115	0
Carrying amount at end of year	**114,876**	**126,281**

The value of goodwill is tested annually through estimates of future cash flows. Future cash flows have been estimated in the budget, complemented with a general assessment for another four years into the future. In the analysis gross margins ranging from 4 to 40 percent have been used. A growth rate of 2 percent has been used to extrapolate cash flow forecasts beyond the forecasting period. This has been done in consultation with the managements of the subsidiary companies. The present value of cash flows and the recoverable amount have been compared with the carrying amount, including goodwill.

To calculate the cost of capital, Morphic has employed several different weighted average costs of capital, depending on the risk and expected growth rate of each business area. The WACC (before tax) used has been estimated at between 10.5 and 26.7 percent. Sensitivity analyses with a 10 percent lower gross margin or 10 percent higher WACC have been performed. The impairment tests and sensitivity analyses performed resulted in impairment losses of SEK 39.4m in AccaGen, SEK 12.1m in Exergy and SEK 13.5m in Helbio.

SEK '000	Dec 31, 2008	Apr 30, 2008
Flow Plates (previously Fuel Cell Components)	198	198
Ship Propulsion	8,319	8,319
Automation (previously Automation Technology)	0	2,651
Previously Energy Technology, now divided into		
Fuel Cells	0	11,529
Electrolyzers	0	36,465
Fuel Processing	8,958	20,570
Wind Power	95,756	44,904
Components (previously Contract Production)	1,640	1,640
Other	5	5
Total	**114,876**	**126,281**

NOTE 23 BUILDINGS AND LAND

	GROUP	
	Dec 31, 2008	Apr 30, 2008
Cost at beginning of year	24,798	16,613
Change for the year		
– Purchases	—	38
– Through acquisition of Group companies	20,677	7,943
– Translation differences	818	204
Cost at end of year	**46,293**	**24,798**
Depreciation at beginning of year	–1,963	–1,492
Change for the year		
– Depreciation	–1,583	–471
– Translation differences	41	—
Accumulated depreciation at end of year	**–3,505**	**–1,963**
Impairment loss at beginning of year	–1,182	–1,182
Total impairment losses	**–1,182**	**–1,182**
Residual value at end of year	**41,606**	**21,653**
Carrying amount for properties in Sweden		
Land	2,060	2,060
Buildings	10,442	9,434
Assessed values for properties in Sweden		
Land	1,358	1,383
Buildings	3,627	2,907

NOTE 24 MACHINERY AND OTHER TECHNICAL PLANT

	GROUP	
	Dec 31, 2008	Apr 30, 2008
Cost at beginning of year	120,316	60,054
Change for the year		
– Purchases	7,221	39,339
– Government assistance for the year	—	–7,611
– Sales and disposals	–5,169	–1,266
– Through acquisition of Group companies	—	1,559
– Transferred from assets in progress	1,936	23,701
– Reclassifications	265	4,538
– Translation differences	6,720	2
Cost at end of year	**–131,289**	**120,316**
Depreciation at beginning of year	–21,808	–9,567
– Sales and disposals	2,502	114
– Depreciation	–17,668	–11,731
– Reclassifications	—	–624
– Translation differences	–201	—
Accumulated depreciation at end of year	**–37,175**	**–21,808**
Change for the year		
Grants received at end of year	0	0
Residual value at end of year	**94,114**	**98,508**

NOTE 25 EQUIPMENT, TOOLS AND INSTALLATIONS

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Cost at beginning of year	26,821	12,653	520	597
Change for the year				
– Purchases	9,058	15,086	53	95
– Government assistance for the year	—	–1,395	—	—
– Sales and disposals	–179	–1,772	–28	–172
– Through acquisition of Group companies	32,805	2,249	—	—
– Reclassifications	1,585	—	1,380	—
– Translation differences	–435	—	—	—
Cost at end of year	**69,655**	**26,821**	**1,925**	**520**
Depreciation at beginning of year	–5,710	–2,439	–155	–177
Change for the year				
– Sales and disposals	101	437	28	172
– Depreciation	–6,943	–3,708	–98	–150
– Translation differences	–727	—	—	—
Accumulated depreciation at end of year	**–13,279**	**–5,710**	**–225**	**–155**
Impairment loss at beginning of year	–19	—	–19	—
– Impairment losses during the year	—	–19	—	–19
Accumulated impairment loss at end of year	**–19**	**–19**	**–19**	**–19**
Residual value at end of year	**56,357**	**21,092**	**1,681**	**346**

NOTE 26 CURRENT NEW PLANT AND ADVANCE PAYMENTS RELATING TO TANGIBLE FIXED ASSETS

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Costs paid at beginning of year	7,431	26,806	486	730
Costs paid during the year	5,858	6,055	894	486
Transferred to machinery and technical plant	–1,936	–23,701	—	—
Transferred to equipment, tools and installations	–1,585	—	–1,380	—
Sales	—	–1,000	—	—
Advances relating to property investment	—	–730	—	–730
Costs paid at end of year	**9,768**	**7,430**	**0**	**486**

NOTE 27 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group	Dec 31, 2008	Apr 30, 2008
Unlisted equities	—	457

NOTE 28 DERIVATIVES

The parent company does not conduct any transactions using derivatives.

Foreign exchange futures	Dec 31, 2008		Apr 30, 2008	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange futures				
– cash flow hedges	10,107	2,302	1,616	435
Long-term portion	—	—	698	—
Short-term portion	10,107	2,302	918	435

In calculating fair value of futures contracts, the costs/income that would have arisen if the contracts had been closed at the balance sheet date have been used. Official bank prices have been used to the extent that such prices are available. In other cases, the value has been calculated using yield models based on expected cash flows.

Foreign exchange futures are used to hedge future cash flows in respect of estimated requirements for purchases from abroad.

The effects of foreign exchange futures have had an impact on the income statement during the period, since they did not meet the criteria for classification as effective.

NOTE 29 DEPOSITS

	Dec 31, 2008	Apr 30, 2008
Deposits	535	849

Deposits refer to supplier undertakings.

NOTE 30 FROZEN ASSETS

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Fixed-interest investments				
Cost	—	51,500	—	51,500
Interest accrued during the period	—	94	—	94
Other assets				
Bank deposits in frozen accounts	99,909	57,612	75,533	56,722
Interest accrued during the year	1,270	116	1,270	116
Carrying amount	**101,179**	**109,322**	**76,803**	**108,432**
Market value at balance sheet date	101,179	109,322	76,803	108,432
Of which, long-term	—	6,800	—	6,800

Fixed-interest investments refer to deposits. The maturity is up to one month.

NOTE 31 INVENTORIES

	GROUP	
	Dec 31, 2008	Apr 30, 2008
Stated at cost		
Raw materials	7,226	3,406
Goods in progress	993	—
Merchandise	2,167	466
Total	**10,386**	**3,872**

NOTE 32 WORK IN PROGRESS

	GROUP	
	Dec 31, 2008	Apr 30, 2008
Cost at beginning of year	34,008	12,250
Costs paid	4,559	13,168
From acquisitions	—	8,590
Translation difference	1,687	—
Invoiced	–18,387	—
Total	**21,867**	**34,008**

NOTE 33 TRADE RECEIVABLES

No impairment is deemed to exist for trade receivables that are overdue by less than three months. At December 31, 2008 trade receivables of SEK 54,546,000 (57,538,000) were overdue. Of the total amount, only SEK 53,000 (0) has been deemed doubtful, and no impairment loss has therefore been recognized. The age analysis for these trade receivables is shown in the following:

	GROUP	
	Dec 31, 2008	Apr 30, 2008
Overdue trade receivables by time overdue		
Less than three months	12,071	15,833
3 to 6 months	39,651	9,811
More than 6 months	2,824	31,894
Total	**54,546**	**57,538**
Carrying amounts by currency for trade receivables in the Group		
SEK	75,009	72,708
EUR	51,114	8,965
CHF	101	126
USD	1,286	–
NOK	10,344	–
Total	**137,854**	**81,799**

NOTE 34 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Prepaid rents	1,045	277	–	–
Accrued interest income	5,977	2,649	5,088	2,116
Government grants	2,059	10,062	–	–
Insurances	2,062	2,344	570	287
Accrued income	475	865	438	44
Prepaid consulting fees	3,121	4,660	3,121	4,660
Other items	2,198	781	281	103
Total	**16,937**	**21,638**	**9,498**	**7,210**

NOTE 35 CASH AND CASH EQUIVALENTS

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Bank balances	124,967	146,101	83,427	92,033
Total	**124,967**	**146,101**	**83,427**	**92,033**

NOTE 36 SHAREHOLDERS' EQUITY

A specification of changes in shareholders' equity is found in the parent company and consolidated statements of changes in equity.

Number of shares	A shares	B shares	Total number
Number, May 1, 2007	5,984,000	130,760,996	136,744,996
Issue of new shares	–	14,027,026	14,027,026
Number, Apr 30, 2008	**5,984,000**	**144,788,022**	**150,772,022**
Number, May 1, 2008	5,984,000	144,788,022	150,772,022
Issue of new shares	5,984,000	170,988,022	176,972,022
Number, Dec 31, 2008	**11,968,000**	**315,776,044**	**327,744,044**

The shares have a quota value of SEK 0.04.
All shares are fully paid-up.
The company has 0 (0) treasury shares of series A and series B.
Each A share carries one vote and each B share carries one tenth of a vote.

NOTE 37 LIABILITIES TO CREDIT INSTITUTIONS

	GROUP	
	Dec 31, 2008	Apr 30, 2008
Bank loans and overdraft facilities		
The maturity structure for the loans is as follows:		
0–1 year (short-term)	15,699	10,196
1–2 years	14,860	8,222
2–5 years	18,676	18,287
More than 5 years	16,031	28,318
Total	**65,266**	**65,023**
Group's borrowing, carrying amounts by currency:		
SEK	49,049	55,662
EUR	–	131
CHF	16,217	9,230
Total	**65,266**	**65,023**

The borrowing refers to ordinary bank credits. All loans raised bear variable interest, and there is no difference between the carrying amount and fair value of the Group's long-term borrowing. Fair value is based on discounted cash flows using an interest rate of 5.91 percent.

NOTE 38 OTHER PROVISIONS

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Opening amount	687	1,661	–	–
From acquisitions	1,600	–	–	–
Warranties, new provisions	439	551	–	–
Other provisions	9,442	136	179	–
Unused provision reversed	–1,110	–	–	–
Used during the year	–5,286	–1,661	–	–
Translation differences	471	–	–	–
Total	**6,243**	**687**	**179**	**0**

The company expects that an outflow of allocated resources in respect of warranties, etc. will occur during the coming financial year.

NOTE 39 OVERDRAFT FACILITY

The credit available under the Group's overdraft facility is SEK 23,000,000 (13,707,000), of which SEK 638,000 (2,489,000) has been used. The parent company has no overdraft facilities.

NOTE 40 TRADE PAYABLES

Group	May 1, 2008– Dec 31, 2008	May 1, 2007– Apr 30, 2008
Carrying amounts by currency for the Group's trade payables		
SEK	26,747	49,952
EUR	27,108	5,589
CHF	1,494	1,628
USD	3,045	–
NOK	1,413	–
Other	25	–
Total	**59,832**	**57,169**

NOTE 41 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Accrued interest expense	64	–	–	–
Accrued personnel costs	25,557	17,252	10,835	5,467
Accrued rental cost	31	338	10	55
Accrued production costs	1,201	4,880	–	–
Other items	6,103	4,375	2,424	1,055
Total	**32,956**	**26,845**	**13,269**	**6,577**

NOTE 42 ASSETS PLEDGED AS SECURITY

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
For own provisions and liabilities				
Relating to liabilities to credit institutions				
Property mortgages	25,863	22,831	–	–
Floating charges	80,395	66,145	–	–
Total relating to own liabilities and provisions	**106,258**	**88,976**	**0**	**0**
For own contingent liabilities				
Pledged account for provision of bank guarantee	96,796	108,774	75,533	108,223
Pledged assets	32,334	36,980	–	–
Total assets pledged as security	**235,388**	**234,730**	**75,533**	**108,223**

NOTE 43 CONTINGENT LIABILITIES

	GROUP		PARENT COMPANY	
	Dec 31, 2008	Apr 30, 2008	Dec 31, 2008	Apr 30, 2008
Contingent liability on behalf of other Group companies	–	–	208,128	224,618
Development grants received	8,801	972	10	10
Warranties	–	5,679	–	–
Contingent liabilities for own liabilities	18,054	18,480	–	–
Total contingent liabilities	**26,855**	**25,131**	**208,138**	**224,628**

In addition to the above contingent liabilities, the Group has bank and insurance guarantees of SEK 189,434,000 (204,524,000).

The company has received government assistance. The grants have reduced the cost of equipment. Grants relating to costs have been recognized in other operating income. Under the Swedish Ordinance on Development Assistance (SFS 2000:279), the risk of awarded grants being reclaimed is reduced gradually, by 30, 25, 20, 15 and 10 percent of the amount of assistance, during the five-year period following full payment of the assistance.

NOTE 44 OTHER ITEMS NOT AFFECTING LIQUIDITY

	GROUP		PARENT COMPANY	
	May 1, 2008–Dec 31, 2008	May 1, 2007–Apr 30, 2008	May 1, 2008–Dec 31, 2008	May 1, 2007–Apr 30, 2008
Effect of booking, employee stock options	2,209	—	2,209	—
Changes in provisions	4,690	–534	—	—
Impairment losses	164,376	132	1,466	—
Foreign exchange differences	3,252	—	—	—
Other items	–1,678	499	—	19
Total	**172,849**	**97**	**3,675**	**19**

NOTE 45 ACQUISITION OF GROUP COMPANIES

SEK '000	2008	2007/08
Intangible assets	180,607	209,249
Tangible fixed assets	53,482	11,751
Goodwill	54,413	70,071
Other assets	42,658	30,958
Other liabilities	–17,661	–46,674
Deferred tax	–45,184	–51,577
Minority interests	–40,078	–18,628
Cash and cash equivalents	2,354	5,263
Total cost	**230,591**	**210,413**
Fair value of issued shares		
Acquired cash and cash equivalents	–2,354	–5,263
Cash flow effect	**228,237**	**205,150**

During the year the following Group companies were acquired:

Company	Business	Acquisition date	Capital share, %	Voting share, %
ScanWind AS	Wind Power	Jul 31, 2008	80	80
ScanWind AS	Wind Power	Oct 10, 2008	1.55	1.55

ScanWind

During the year Morphic acquired 81.55 percent of the shares of the Norwegian wind power group ScanWind AS. ScanWind manufactures and markets wind turbines with capacities of 3.5 MW that are specially designed for the IEC 1 and IEC 2 wind classes, locations exposed to extreme wind conditions and tough climates, such as costal areas.

ScanWind became a part of the Morphic Group on July 31, 2008 and has been integrated in the consolidated income statement and balance sheet as of that date. ScanWind is part of the Wind Power segment. In the consolidated income statement ScanWind's share of revenues is SEK 28.6m. Its share of the total loss is SEK –20.9m.

The cash flow effect of the acquisition is SEK 228.2m, consisting of a cash payment of SEK 226.4m and acquisition costs of SEK 4.2m less the acquired cash assets of SEK 2.4m. If the acquisition had taken place at the beginning of the financial year consolidated net turnover would have increased by SEK 4.8m and the consolidated operating result would have been reduced by SEK 10.0m. Goodwill is attributable to the unique technological expertise in wind turbines for extreme wind conditions and tough climates.

SEK '000	Fair value	Carrying amount
Intangible assets	180,607	19,236
Tangible assets	53,482	53,482
Current assets	42,658	42,658
Cash balances	2,354	2,354
Deferred tax	–45,184	—
Current liabilities	–17,661	–16,795
Acquired net assets	216,256	100,935

Acquisition analysis

SEK '000	
Cash consideration	226,365
Acquisition costs	4,226
Acquisition price	230,591
Group's share of acquired net assets	176,178
Goodwill	54,413

NOTE 46 RELATED-PARTY TRANSACTIONS

Parent company	Dec 31, 2008	Apr 30, 2008
Share of net turnover that refers to sales to subsidiaries	405	220
Share of total purchases that refers to purchases from subsidiaries	1,915	1,289

NOTE 47 INTERESTS IN GROUP COMPANIES

Group	Org. no.	Registered office	Capital share (%)
Dynamis AB	556588-8103	Karlskoga	100
Cell Impact AB	556585-6936	Karlskoga	100
Aerodyn AB	556373-7583	Karlskoga	100
Morphic Systems AB	556640-6244	Karlskoga	100
WellPower AB	556723-0270	Karlskoga	100
Finshyttan Hydropower AB	556703-5752	Filipstad	100
MLCC AB	556576-6655	Karlskoga	100

Parent company	Capital share, %	Voting share, %	Number of shares	Carrying amount
Dynamis AB	100	100	100,000,000	0
Cell Impact AB	100	100	100,000,000	41,052
Morphic Systems AB	100	100	1,000	1,108
Aerodyn AB	100	100	768,000	97,835
Finshyttan Hydropower AB	100	100	1,000	4,038
WellPower AB	100	100	10,000	66,400
MLCC AB	100	100	3,800,000	380
Total				**210,813**

Interest in subsidiaries	Dec 31, 2008	Apr 30, 2008
Cost at beginning of year	232,041	161,723
Capital contributions	297,595	70,318
Cost at end of year	**529,636**	**232,041**
Impairment losses	–318,823	—
Carrying amount at end of year	**210,813**	**232,041**

NOTE 48 COMPARISON FIGURES

Consolidated Income Statement

SEK '000	May 1, 2008–Dec 31, 2008	May 1, 2008–Dec 31, 2007
Operating income etc		
Net turnover	310,218	215,188
Change in inventories	–23,404	10,572
Capitalized production costs	7,309	2,499
Other operating income	34,031	3,944
Total income etc	**328,154**	**232,253**
Operating costs		
Purchase of goods and services	–254,450	–159,640
Other external costs	–84,473	–46,110
Personnel costs	–114,761	–56,231
Depreciation, amortization and impairment of tangible fixed assets and intangible assets	–215,091	–12,609
Other operating costs	–7,173	–2,767
Total operating costs	**–675,948**	**–277,357**
Operating loss	**–347,794**	**–45,104**
Profit/loss from financial investments		
Loss from interests in associated companies	–457	—
Financial income	23,866	6,217
Financial expenses	–10,559	–1,728
Total profit from financial investments	**12,850**	**4,489**
Loss after financial items	**–334,944**	**–40,615**
Income tax	28,107	372
Loss for the year	**–306,837**	**–40,243**
Attributable to:		
Parent company shareholders	–301,892	–39,170
Minority interest	–4,945	–1,073
	–306,837	**–40,243**
Earnings per share before and after dilution (SEK)	–1.46	–0.27
Weighted no. of shares during period	207,353,552	143,905,011
Total no. of shares at end of period	327,744,044	150,772,022

Parent Company Income Statement

SEK '000	May 1, 2008– Dec 31, 2008	May 1, 2007– Dec 31, 2007
Operating income etc		
Net turnover	440	70
Other operating income	21	11
Total income etc	**461**	**81**
Operating costs		
Purchase of goods and services	–319	0
Other external costs	–20,182	–13,312
Personnel costs	–23,465	–10,011
Depreciation, amortization and impairment of tangible fixed assets and intangible assets	–2,692	–1,415
Other operating costs	–23	–12
Total operating costs	**–46,681**	**–24,750**
Operating loss	**–46,220**	**–24,669**
Profit/loss from financial investments		
Profit/loss from other securities and receivables that are fixed assets	–318,823	
Other interest income and similar items	28,285	8,297
Interest expense and similar items	–2,044	–21
Total profit/loss from financial investments	**–292,582**	**8,276**
Loss after financial items	**–338,802**	**–16,393**
Tax on profit for the year	4,490	—
Loss for the year	**–334,312**	**–16,393**

NOTE 49 EVENTS AFTER THE BALANCE SHEET DATE

- Order for hydrogen production system
- Project grant to Exergy Fuel Cells S.r.l
- Letter of intent for delivery of fuel cells for motorhomes and house trailers
- Financial targets dropped
- Changes to Morphic's Board, Peter Ekenger new Chairman
- Sale of Dynamis AB

For a more detailed description, see page 31 of the Directors' Report.

The income statements and balance sheets will be presented for approval to the AGM on May 27, 2009.

Karlskoga, April 29, 2009

Peter Ekenger
Chairman of the Board

Anette Myrheim

Kjell Östergren

We presented our audit report on April 30, 2009.
The audit report differs from the standard formulation.

PricewaterhouseCoopers AB
Michael Bengtsson
Authorized Public Accountant

Audit Report

To the shareholders of Morphic Technologies AB (publ), org. no. 556580-2526

We have examined the annual accounts, consolidated financial statements and accounting records as well as the Board of Directors' and Chief Executive Officer's administration of Morphic Technologies AB (publ) for the financial year May 1–December 31, 2008. The company's annual accounts and consolidated financial statement are included in the printed version of this document on pages 31–79. Responsibility for the accounts and administration of the company and for ensuring compliance with the Swedish Annual Accounts Act in preparing the annual accounts and with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Swedish Annual Accounts Act in preparing the consolidated financial statements rests with the Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on the annual accounts, consolidated financial statements and administration based on our audit.

The audit has been performed in accordance with generally accepted auditing standards in Sweden (Swedish GAAP). This means that we have planned and conducted the audit so as to obtain a high but not absolute assurance that the annual accounts and consolidated financial statements are free of material misstatement. An audit entails an examination of a selection of vouchers and other accounting information. It also comprises a review of the accounting policies and the Board of Directors' and Chief Executive Officer's adherence to these policies and an assessment of significant estimates employed by the Board of Directors and Chief Executive Officer in preparing the annual accounts and consolidated financial statements as well as an evaluation of the overall information contained in the annual accounts and consolidated financial statements. As a basis for our statement on release from liability, we have examined significant decisions, actions and circumstances of the company in order to be able to determine the liability, if any, to the company of any Director or the Chief Executive Officer. We have also examined whether any Director or the Chief Executive Officer has in any other way acted in violation of the Swedish Companies Act, the Annual Accounts Act or the company's articles of association. We believe our audit gives us a reasonable basis for making the following statements.

The annual accounts have been prepared in accordance with the Annual Accounts Act and provide a true and fair view of the company's results and financial position in accordance with generally accepted auditing standards in Sweden. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and implemented in the Swedish Annual Accounts Act, and provide a true and fair view of the Group's results and financial position. The Directors' Report accords with the other parts of the annual accounts and consolidated financial statements.

We recommend that the AGM adopt the parent company and consolidated income statements and balance sheets, and allocate the earnings of the parent company in accordance with the proposal in the Directors' Report.

As described in the Directors' Report, there were obvious failures in the work of the Board during the latter part of the financial year. A fundamental reason for this, in our view, is the strong position and operational role that two of the company's founders, Peter Enå, Chairman, and Kurt Dahlberg, Director, have had in the work of the Board as well as the day-to-day activities of the company. We have noted that Mr Enå has participated in and influenced the day-to-day management of the company to an extent and in a manner that conflict with the Board's rules of procedure and without a specific mandate from the Board, and that Mr Dahlberg, with the consent of Mr Enå, has contravened the provisions (known as the "ambassador exception") in NASDAQ OMX's rules for issuers, which, if they had been observed, would have limited Mr Dahlberg's ability to assume an operational role in the company.

Notably, the failures in the work of the Board have been evident in the question of whether the company should make investments in a Greek company called Advent. From the minutes of the Board it is clear that the Board, after discussing the issue on several occasions, decided not to make any investment in Advent. Our audit has revealed information which, taken together, indicates that Mr Enå and Mr Dahlberg have actively sought to promote the Advent investment, notably by encouraging certain senior executives to make this investment privately. However, based on the information we have received, we cannot exclude that these private investments may have been made on behalf of the company. It has also emerged that the company's Italian subsidiary has made payments of €300,000 to Advent with reference to agreements between the companies. The CEO of the Italian subsidiary has informed us that the agreement was entered into on the initiative of Mr Dahlberg and that the subsidiary has not received the agreed services from Advent to an extent corresponding to this amount.

As is clear from the Directors' Report, there are uncertainties about expenses relating to consulting assignments performed by Skyraider AB. These uncertainties are of such nature that it cannot be excluded that the company has been charged for services that were not performed to a corresponding extent.

It cannot be excluded that the failures in the work of the Board and the above-mentioned circumstances relating to Advent and Skyraider may have caused economic damage to the company. In our view, responsibility for any damage in these respects rests primarily with Mr Enå and Mr Dahlberg. For the purpose of enabling the company to make the necessary further investigations and to take possible legal action, we therefore recommend that the Annual General Meeting not grant freedom from liability to Mr Enå and Mr Dahlberg.

In view of the above background, we have also considered the issue of whether the Chief Executive Officer, Martin Valfridsson, bears responsibility for any damage incurred as a result of the transactions with Skyraider. Based on our overall assessment, in which we have taken particular note of Mr Enå's and Mr Dahlberg's strong positions and operational roles in the company, we believe it is reasonable to recommend that the AGM release Mr Valfridsson from liability for the financial year. We also recommend that the AGM release the former Chief Executive Officer, Jonas Eklind, from liability for the financial year along with the Directors Peter Ekenger, Annette Myrheim and Kjell Östergren.

We would also point out that in March 2009 Mr Dahlberg signed an employment contract for Dan Borgström on behalf of the company, which applies retroactively from October 1, 2008. According to the former CEO, Jonas Eklind, Mr Borgström was not employed at the time when Mr Eklind left the company on October 28, 2008. It cannot be excluded that this action on the part of Mr Dahlberg may have caused damage to the company. Since the action was taken in the financial year 2009, the issue of release from liability will be addressed only in the audit report for 2009.

Stockholm, April 30, 2009
PricewaterhouseCoopers AB
Michael Bengtsson, Authorized Public Accountant

Corporate Governance Report

Morphic Technologies AB ("Morphic" or the "Company") is a Swedish public limited liability company with the organization number 556580-2526. As of March 4, 2008 Morphic has been listed on NASDAQ OMX in Stockholm (the "Stock Exchange").

Swedish Corporate Governance Code
Morphic Technologies AB ("Morphic") applies the Swedish Corporate Governance Code (the "Code"). In 2008 the following two departures from the provisions of the Code were made.

At meetings of the Board of Directors a member of the Board, normally the Chairman, was appointed to take the minutes. The need for a separate minute-taker is regularly reviewed. Moreover, the Board did not hold any meeting with the Company's auditor without the presence of the Chief Executive Officer or other members of the Company's management. The Board has, however, met the auditor with the presence of the Chief Executive Officer to review the audit of the year-end financial statement. In the Board's view, the issues addressed have in these cases been of such character that it was deemed appropriate and effective to permit the CEO and management to participate in these meetings.

The Company has also departed from the rules of the Code in respect of the composition of the Nominating Committee, Board of Directors and Audit Committee. A more detailed commentary of these departures is given in the respective sections below.

Clear Division of Responsibilities
The ability to maintain the trust of customers, shareholders and other parties is of crucial importance for Morphic. A key factor for this is a clear and effective structure for division of responsibilities and governance with a view to avoiding conflicts of interest.

The structure for division of responsibilities and governance comprises:
- The general meeting
- The Board of Directors
- The Chief Executive Officer/President
- The auditor

The Board of Directors and the CEO exercise their governing and controlling roles on the basis of a number of policies and instructions. The purpose of Morphic's policies and instructions is to clarify the division of responsibilities within the Group.

The General Meeting
Normally, shareholders exercise their influence in the Company at the general meeting, which is the highest decision-making body of the Company. All shareholders who are registered in the register of shareholders and have notified their attendance in time have the right to participate in a general meeting and vote all their shares. Shareholders who are unable to attend personally may opt to be represented by a proxy.

The general meeting decides, among other things, on amendments to the articles of association and the allocation of the Company's earnings, elects the Board of Directors and auditor, decides on freedom from liability for the members of the Board and the CEO, decides on Directors' fees and approves the principles of compensation for the CEO.

The Nominating Committee
Under a resolution adopted at the 2008 AGM, a Nominating Committee has been appointed for the 2009 AGM. Four of the Company's largest shareholders have appointed one representative each, who together with the Chairman of the Board (the convener) constitute the Nominating Committee. The four representatives are: Kåre Gilstring, appointed by Mariegården Investment AB, Kurt Dahlberg, for own account, Thomas Ehlin, appointed by Nordea Fonder, and Peter Enå (until April 8 the Chairman of Morphic), for own account. The composition of the Nominating Committee was announced on December 19, 2008. After Peter Enå left his seat on the Board, the Nominating Committee also includes the new Chairman of the Board, Peter Ekenger. The Chairman of the Nominating Committee is Kåre Gilstring.

Peter Enå has been Executive Chairman and Kurt Dahlberg has held the position of Director Market Development in the Company. They have thus also been part of management. This means that the composition of the Nominating Committee did not comply with the rules of the Code until the time when Mr Enå and Mr Dahlberg left their positions at Morphic.

The Nominating Committee's task is to draw up proposals for chairman of the general meeting, for the election of Directors and the Chairman of the Board, for Directors' and auditor's fees, for the division of the fees among the members of the Board, for compensation for committee work, and for the nomination process for the 2010 AGM, to be presented for approval by the AGM.

A key principle is that the Board should have a size and composition that are appropriate for the Company. The results of the evaluation of the Board and its members constitute a part of the material used by the Nominating Committee.

The Nominating Committee's proposals and a reasoned opinion on the proposal for Board of Directors will be posted on the Company's website no later than two weeks before the AGM. A report on the work of the Nominating Committee will also be submitted at the AGM. No additional compensation has been paid to the members of the Nominating Committee.

The Board of Directors
The articles of association specify that Morphic's Board shall consist of at least three and no more than ten ordinary members with up to ten deputies. These are appointed by the shareholders at the AGM for a mandate period of one year, up to the end of the following AGM.

In 2008 the Board of Directors consisted of five ordinary members with no deputies. Peter Enå, Kurt Dahlberg, Anette Myrheim, Kjell Östergren and Peter Ekenger were elected to sit on the Board by the AGM. In accordance with the Corporate Governance Code, the AGM also appointed the Chairman of the Board, Peter Enå, for a mandate period lasting until the end of the following AGM. The Board is quorate when more than half of the members are present. Two of the members elected by the AGM, Peter Enå and Kurt Dahlberg, have been employed in the Company and formed part of management. The Company has thereby breached the Code as well as the listing requirements of Nasdaq OMX Stockholm on independent Directors. However, both have now left their positions in the Company, Peter Enå on April 8 and Kurt Dahlberg on April 1. Peter Enå also left the Board on April 8 and Kurt Dahlberg on April 1. Peter Ekenger has been appointed Acting Chairman.

With the exception of Peter Enå and Kurt Dahlberg, all other Directors elected by the AGM are regarded as independent in relation to the Company and management. With the exception of Kjell Östergren, who is not regarded as independent in relation to one of the Company's major shareholders (owners of 10 percent or more of the shares or votes of the Company), all Directors are independent in relation to major owners. Independent means that the Directors have no significant ties to the Company, its management or major shareholders other than being members of the Board. Information on the composition of the Board as of the 2008 AGM is presented in the table on page 85 and information on Directors is presented on page 86 of the annual report.

The Board has adopted rules of procedure governing its role and work as well as separate instructions for the Board committees. The Board holds overall responsibility for the activities conducted in the Company and Group and decides on the nature, focus (strategy), frameworks and goals of the business. The Board regularly reviews and evaluates the activities based on the goals and guidelines that it has defined. The Board is also responsible for ensuring that the activities are organized in a way that ensures adequate control of accounting, resource management and economic conditions, and that ensures that risks associated with the activities are identified and defined, and that they are measured, followed up and controlled, all in compliance with external and internal rules, including the Company's articles of association.

The Board appoints and has the power to remove the CEO from office.

The Chairman organizes and leads the Board's work and convenes Board meetings, sets the agenda and prepares agenda items for Board meetings after consulting with the Chief Executive Officer.

The Directors receive regular information, as well as instruction where required, on changes of rules, including those relating to the Company's activities and the responsibilities of Directors of a listed company. They continuously have the opportunity to discuss issues with the Chairman of the Board.

The CEO takes part in all Board meetings, except on issues where there is a potential for bias, such as where the work of the CEO is being evaluated. Other members of management participate when this is required to provide the Board with information or at the request of the Board or the CEO. In 2008 the Board discussed matters without the presence of the CEO or another member of the management team.

Seventeen Board meetings were held during the year. Directors' attendance at Board meetings is shown in the table on page 85.

During the year the Board focused – in addition to operational activities – on issues relating to funding, acquisitions of businesses, the Company's stockmarket listing and the restructuring of the Group. The CEO participated in 11 Board meetings. The meetings in which the CEO did not participate chiefly related to decisions on share offerings and allocations, which formally constituted separate Board meetings and have therefore been included in the statistics. Apart from the Board and CEO, other executives of the Company presented reports on specific issues at the Board meetings. As stated, Peter Enå has in addition to his role as Chairman of the Board also been an employee of the Company. His main tasks have been to prepare long-term strategic issues that lie outside the CEO's strategic work on applicable business plans, shareholder issues and strategic alliances.

The Board's overall responsibility cannot be delegated. However, the Board has set up committees to handle, on the basis of instructions issued by the Board, certain defined issues and to prepare such issues for decisions by the Board. Within the Board there are currently two committees: the Audit Committee and the Compensation Committee. Minutes are taken at meetings of the committees, which are submitted to the other members of the Board as soon as possible after the meetings. The committees report to the Board on a regular basis. Members are appointed for one year at a time. An important principle is that as many as possible of the Board's members should take part in the work of the committees. Neither the CEO nor other executives of the company are members of the Audit Committee or the Compensation Committee. The work of the Board committees is regulated in instructions adopted by the Board. Other than what has been said in the foregoing regarding Peter Enå, no division of responsibilities is applied in the Board.

The Audit Committee

The Board's Audit Committee supports the Board in its work on quality-assuring the Company's financial reporting and its internal control over financial reporting. The Committee stays in regular contact with the Company's auditor, to obtain information about the direction and scope of the audit, and to discuss opinions on the Company's risks, The Committee also discusses the year-end financial statement and interim reports as well as audit reports and amendments to accounting rules. The Committee monitors that any notes or comments from the auditor are addressed. It also sets guidelines for which other services than audits may be purchased from the Company's auditor, evaluates the audit work and informs the Company's Nominating Committee of the results of the evaluation, and assists the Nominating Committee in preparing proposals for election of an auditor and remuneration of audit work.

Until August 2008 the Audit Committee consisted of the Board members Lars-Olof Nilsson (chairman), Eva-Lotta Kraft and Kurt Dahlberg. The Company's Board then decided that the whole Board should constitute the Audit Committee. In view of the fact that Peter Enå and Kurt

Dahlberg through their operational positions have been part of management, this arrangement did not comply with the Code until Mr Enå and Mr Dahlberg left the Board. The Board meets as the Audit Committee at separate meetings alongside its ordinary Board work. The Committee held three meetings during the year. Members' attendance at meetings of the Committee is shown in the table on page 85.

The Compensation Committee
The Board's Compensation Committee draws up proposals for principles of compensation for the CEO and for other members of management, which are submitted for approval to the general meeting and the Board of Directors, respectively. The Compensation Committee also prepares proposals for terms of employment for the CEO and Chairman and submits these for approval to the Board. The Committee decides on terms of employment for other members of management and prepares the Board's proposals for incentive schemes and pension plans requiring resolutions by the general meeting. It also monitors outstanding options schemes.

The Committee consists of three members, of which one has been an employee of the Group. In 2008 the Committee comprised the following members: Peter Enå, chairman, Anette Myrheim and Kjell Östergren. The Committee held two meetings during the year. Members' attendance at meetings of the Committee is shown in the table on page 85.

Evaluation of the Board of Directors, Chief Executive Officer and Executive Management
The Chairman of the Board makes a formal evaluation of the work of individual Directors once a year.

The Board regularly evaluates the CEO's and executive management's work. Neither the CEO nor any other member of the executive management team participates in such evaluations.

Senior Management
The senior management (management) of Morphic consists of six individuals: the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Director Investor Relations, Director Human Resources, Director Group Marketing and Chief Operating Officer (COO). The management team meets every month under the direction of the CEO. In addition, regular progress meetings of a more informal nature are also held. Control over the activities of the Group is exercised through monthly financial reports from each subsidiary, regular meetings with the managements of the subsidiary companies and by other means.

The Chief Executive Officer/President
The Board has adopted a set of instructions governing the work and role of the CEO. The CEO is responsible for the day-to-day administration of the company's activities in compliance with the Board's guidelines and adopted policies and instructions. He or she reports to the Board and presents a special chief executive's report at each Board meeting covering developments in the business based on decisions that have been adopted by the Board. The CEO also keeps the Board and Chairman up-to-date on the Group's financial position and performance.

Martin Valfridsson has held the position of CEO since October 2008. Prior to that, Jonas Eklind was CEO during the period November 2006–October 2008. More information on the Chief Executive Officer is presented on page 87.

Risk Organization and Responsibility
Ultimate responsibility for the Group's risk organization and for ensuring good internal control over the activities rests with the Board of Directors.

The CEO is tasked with ensuring that Morphic's organization and work methods are appropriate and that the activities are conducted in compliance with applicable laws and other rules applying to a listed company. The CEO holds a special responsibility for presenting significant information concerning the Group's risks to the Board.

Information about the Auditor
The articles of association specify that the Company shall have one or no more than two auditors with no more than the same number of deputies. In compliance with Swedish law, auditors are appointed for a period of four years.

PricewaterhouseCoopers AB is the company's auditing firm. The authorized public accountant Michael Bengtsson is chief auditor. The auditor was elected by the 2008 AGM for a mandate period of four years. During the previous mandate period the authorized public accountant Inger Carlsson, PricewaterhouseCoopers AB, was the Company's auditor.

The auditor's task is to examine the annual report and accounts as well as the management of the Board of Directors and Chief Executive Officer. Regular reports on the results of the audit are presented to the Board throughout the year and to the shareholders in the audit report. The audit report is presented to the AGM and contains recommendations for shareholder resolutions on the approval of the parent company and consolidated income statements and balance sheets, the appropriation of retained earnings and release from liability for the members of the Board and the Chief Executive Officer. The auditor participates at the AGM and presents a report to the general meeting on the audit and observations made in the course of the audit.

The audit is conducted in accordance with the Companies Act and generally accepted auditing standards, which means that the audit is planned and conducted on the basis of knowledge of the activities, development and strategies of the Group. The audit involves verifying compliance with the articles of association, the Companies Act and the Annual Accounts Act, as well as the International Financial Reporting Standards (IFRS) and the Stock Exchange's disclosure requirements for annual accounts.

The fee invoiced by the auditor for the audit of the Company's financial statements for the financial year 2008 is SEK 418,000.

During the year the auditor has also had certain consulting assignments in addition to the audit, notably in connection with the Company's listing on the Stock Exchange and in preparing opinions pursuant to the Companies Act and examining prospectuses in connection with the Company's share offerings. The overall fee for PricewaterhouseCoopers' services in addition to audits during the financial year 2008 was SEK 797,000.

In compliance with the Swedish Auditors Act, the auditors regularly test their independence in relation to the Company.

The Board's Description of Internal Control and Risk Management Relating to Financial Reporting for the Financial Year 2008

Morphic is a fast growing company that is establishing new products in a dynamic market. The products contain advanced technology and are being commercialized in an extremely competitive market. Specific requirements on financial strength and resilience are some of the crucial factors for the Company's continued development.

Internal control of financial reporting is defined as the process, performed by the Board, management and other authorized personnel, that is aimed at ensuring a reasonable degree of assurance of the correctness of financial reporting.

Control Environment and Corporate Governance

In accordance with the Companies Act, Morphic's Board of Directors has adopted written rules of procedure for its work. The rules of procedure and the instructions governing the work of the CEO and the Board committees provide for a clear division of roles and responsibilities that is aimed at ensuring efficient management of the Company's risks. The current rules of procedure, including the instructions governing the work of the CEO and the reporting instructions, were adopted at the constituent meeting of the Board on October 20, 2008.

The rules of procedure and instructions are intended to serve as documents governing the work of the Board and to guarantee that the Board fulfils its duties and obligations in compliance with the Companies Act, Stock Exchange rules, the Code and other rules and instructions, as applicable from time to time, such as good practice in the securities market.

The rules of procedure define the division of work and responsibilities within the Board and its two committees, the duties of the Board Chairman and the duties and authority of the CEO. They also include a plan for the work of the Board in the coming financial year and details of matters to be addressed at each meeting of the Board. The instructions governing the work of the CEO contain restrictions concerning decisions on investments, acquisitions, transfers and certain agreements. They also include instructions on reporting, which regulate the CEO's reporting to the Board.

The Board has adopted a number of basic guidelines and limits that are significant for internal control. These policies and instructions are reviewed annually. Examples of such guidelines include:

- Rules of procedure
- Finance policy
- Financial handbook
- Investment policy
- Code of conduct
- Information policy

Management reports to the Board regularly in accordance with specified procedures. Management is responsible for ensuring compliance with the adopted procedures and systems for internal control to ensure correct management of significant risks in day-to-day activities. This includes procedures and guidelines for various executives, to ensure that they understand the significance of their respective roles in maintaining a high level of internal control.

Risk Assessment

Management continually analyses risks in respect of the Company's financial reporting. Risk assessments are integrated with the Company's business processes, where risks are continually analyzed and followed up. Risk assessments of financial reporting are a part of and depend on the overall risk situation affecting the Company as a whole. The Company's overall risks and the management of these are identified and presented in the Directors' Report on page 31. The Audit Committee plays an important role in risk assessment, since it reports observations in its focus areas and prepares matters for decisions by the Board.

Communication and Control Activities

Prior to each ordinary meeting, the Board receives financial statements. The financial situations of the parent company and Group are addressed as a separate item at each ordinary Board meeting. When a significant risk is identified measures are taken to eliminate the risk or reduce it to an acceptable level.

Manuals, guidelines and policy documents that are significant for financial reporting are updated continuously and distributed to those concerned. To ensure that external information is correct, the Company's Board has adopted an information policy.

Financial reporting for all subsidiaries is handled by the Company's finance department. During the financial year the Board changed the organization of the Company's accounting function. To create a clearer structure in financial reporting for the Company's various businesses, the subsidiaries now report directly to the accounting department in the parent company. Impairment tests and issues relating to percentage of completion accounting have formed part of the Board's control activities. During the financial year a new IT system was installed in the Company with the aim of further strengthening the documentation, information and follow-up of financial reporting.

Follow-up

The Board of Directors of Morphic holds ultimate responsibility for internal control and ensures compliance with the internal control framework. The Board has assessed the need for a special audit function (internal audit), and decided that such a function is not required at present. Instead, the examination has been performed by executives that also have other duties in the Company. However, the issue is reviewed each year, in accordance with the rules of procedure for the Board.

The Board regularly receives financial statements, and the Group's financial position and development are discussed at each meeting. The Board's Audit Committee examines all quarterly reports and the year-end financial statements before they are published externally. Based on management's reports and the observations of the Audit Committee, the Board forms an opinion of the Company's control environment, organization, responsibilities and authority as well as the completeness of financial reporting.

Compensation to the Board, CEO and Other Members of Executive Management

The Board of Directors

The 2008 AGM of Morphic approved a total fee of SEK 600,000 for the Company's non-executive Directors, i.e. SEK 200,000 for each Director. No additional compensation is paid for committee work.

Guidelines for Compensation of Senior Management

The 2008 AGM adopted guidelines for compensation of senior management.

Composition of Senior Management

Senior management consists of the CEO, CFO, Director Investor Relations, Director Human Resources, COO and Director Group Marketing.

Market-based Compensation

Morphic strives to offer market-based compensation to the CEO and other members of senior management. The compensation should be based on the importance of the tasks involved and on skills, experience and performance requirements.

The compensation consists of the following components:

- Fixed basic salary
- Bonus
- Pension benefits
- Other benefits and termination conditions

Fixed Basic Salary

Senior management should be paid a market-based fixed cash salary.

Bonus

In addition to their basic salary, senior management should be offered a bonus (variable compensation) that is tied to achievement of Morphic's targets for earnings, sales growth and other key figures as well as certain individually defined targets. The bonus is limited to 70 percent of the basic salary paid during the year for the CEO and 40–60 percent of the basic salary paid during the year for other members of senior management.

Share-based Incentive Schemes

The Board believes long-term variable pay in the form of share-based incentive schemes strengthens employees' interest in the Group's activities and highlights the link between employment benefits and the Company's performance. It is essential that the Company is able to create conditions that allow it to recruit and retain skilled personnel. The Board therefore considers that share-based incentive schemes benefit Morphic and its shareholders.

There are two outstanding share-based incentive schemes in Morphic.

The first scheme was adopted by the 2006 AGM and refers to warrants subscribed by the employees at a market price based on an external valuation statement. The warrants must be exercised by October 31, 2009.

The second scheme was adopted at the extraordinary general meeting held on March 3, 2008 and refers to employee stock options. The options are issued free of charge to the employees but the right to exercise the options is linked to a performance condition based on consolidated turnover and operating margin. The scheme has a term of about five years.

Information about Morphic's outstanding share-based incentive schemes is found in Note 12 on page 63 of this annual report.

Pension Benefits

Morphic applies a retirement age of 65 for senior management. For salary components under 7.5 income base amounts the pension benefit corresponds to the ITP occupational pension plan, except for the CEO, who receives a supplementary pension provision of up to 15 percent of his or her total salary. For salary portions exceeding 7.5 income base amounts a defined contribution pension of thirty-three (33) percent of the employee's monthly salary is paid, which is secured through an insurance policy. No pension benefits in addition to the applicable collective agreement are earned on bonuses.

Other Benefits and Employment Terms

The maximum period of notice is six months, and severance pay is limited to a maximum of 12 months' salary benefits.

In other respects, management should be entitled to the customary non-monetary benefits.

Authorization for the Board

The Board of Directors has the right to derogate from the above guidelines if it considers that there are special reasons warranting this in any individual case.

This corporate governance report has not been examined by Morphic's auditor.

Name	Born	Elected	Position	Audit Committee	Compensation Committee	Total fee, SEK	Attendance, Board meetings	Attendance, committee meetings
Peter Enå	1969	1999	Chairman**	Yes	Yes	0*	100%	100%
Kurt Dahlberg	1943	2004	Director	Yes	No	0*	100%	100%
Anette Myrheim	1963	2001	Director	Yes	Yes	200,000	100%	100%
Kjell Östergren	1951	2005	Director	Yes	Yes	200,000	100%	100%
Peter Ekenger	1945	2008	Director	Yes	No	200,000	100%	100%

* Has received compensation from the Company in the form of salary. For more information, see Note 13.

** After the end of the financial year Peter Ekenger replaced Peter Enå as Chairman of the Board.

Board of Directors and Auditor

Peter Ekenger (born 1945)
Chairman of the Board since 2009.
Board member since 2008.
Principal occupation: Business consultant.
International business consultant with assignments for Volvo, Bure, the Clinton Climate Initiative and other clients. Previously Secretary-General of the European Round Table of Industrialists and Director of the Swedish Chamber of Commerce in Brazil. Has held a series of executive positions at Volvo in Gothenburg and Latin America. Project manager for "Vind i tankarna" (Running on Wind), a project aimed at improving Sweden's competitiveness in the electrical power and automotive industries by creating incentives for Swedish production of wind turbines and promoting the use of electricity from wind turbines to power vehicles.
Shareholding: —
Nationality: Swedish
Independence: Independent in relation to the company and major shareholders.

Anette Myrheim (born 1963)
Board member since 2001.
Principal occupation: Works in marketing at the Stark advertising agency.
Previously Head of Marketing Communications at Volvo Truck Corporation International Division and Product Group Manager at Luxo Industri AB with responsibility for product development and new product launches. Many years of experience in marketing and corporate communications in the Volvo Group.
Shareholding: 11,240 B shares
Nationality: Norwegian
Independence: Independent in relation to the company and major shareholders.

Kjell Östergren (born 1951)
Board member since 2005.
Principal occupation: Director of Union House Ltd.
Director of Mariegården Investment AB and Gustavus Capital Asset Management AB. Broad experience of international asset management and venture capital.
Shareholding: 4,300,000 A shares, 16,728,600 B shares (incl. company)
Nationality: Swedish
Independence: Dependent in relation to major shareholders, independent in relation to the company.

Peter Ekenger

Anette Myrheim

Kjell Östergren

Auditor

Michael Bengtsson
Authorized Public Accountant, PricewaterhouseCoopers AB.
Auditor of Morphic Technologies since 2008.

Senior Management

Martin Valfridsson (born 1972)
President and CEO of Morphic Technologies
M.Sc. in Economics and Business, M.Sc. in Engineering
Previous experience from various senior positions in ABB, Ericsson and HL Display, and as head of product development at Clover Electronics, stationed in Japan.
Shareholding: 150,000 warrants
Nationality: Swedish
Independence: Independent in relation to the company and major shareholders.

Helena Nilsson (born 1970)
CFO
Shareholding: 40,000 B shares, 150,000 warrants
Nationality: Swedish
Independence: Independent in relation to the company and major shareholders.

Johannes Falk (born 1967)
Director Investor Relations
MFA
Previously Director of Investor Relations at Diamyd Medical, a company listed on the Stockholm Stock Exchange.
Shareholding: 300,000 warrants
Nationality: Swedish
Independence: Independent in relation to the company and major shareholders.

Helena Woxlin (born 1967)
Director Human Resources
Previously Head of Department at the pharmaceutical company Recip/Recipharm. Various positions at AstraZeneca 1997–2007.
M.Sc. in Chemical Engineering and formerly employed in Vattenfall Utveckling.
Shareholding: 1,000 B shares
Nationality: Swedish
Independence: Independent in relation to the company and major shareholders.

Kenneth Johansson (born 1961)
COO
M.Sc. in Economics and Business, M.Sc. in Engineering
Previously CTO at Pricer AB, Director Global Product Management at Emerson Energy Systems AB and various senior positions at Ericsson and ABB Switzerland.
Shareholding: –
Nationality: Swedish
Independence: Independent in relation to the company and major shareholders.

Slavica Djuric (born 1965)
Director Group Marketing
University studies in economics, law and French.
Formerly CFO at Dynamis. Has worked at the purchasing and marketing department of Bofors. Economist at Riksbyggen and the marketing department of Länsteatern.
Shareholding: 105,100 B shares, 100,000 warrants
Nationality: Swedish
Independence: Independent in relation to major shareholders.


Martin Valfridsson


Helena Nilsson


Johannes Falk


Helena Woxlin


Kenneth Johansson


Slavica Djuric

Definitions

Adjusted equity
Shareholders' equity plus the equity share (72%) of untaxed reserves.

Capital employed
Total assets less non-interest-bearing liabilities (including contingent tax liability).

Debt/equity ratio
Interest-bearing liabilities divided by shareholders' equity at year-end.

Equity/assets ratio
Shareholders' equity as a percentage of total assets at year-end.

Equity per share
Shareholders' equity divided by the number of shares at the balance sheet date.

Interest coverage ratio
Profit after net financial items plus interest expense, divided by interest expense.

Market value at year-end
Share price at the end of the financial year multiplied by the number of shares (A and B) at year-end.

Profit margin
Profit after financial items, as a percentage of turnover.

Return on average total capital
Profit after net financial items plus financial expense, as a percentage of average total assets.

Return on average equity
Profit after financial items, as a percentage of average adjusted equity.

Share of risk-bearing capital
Shareholders' equity plus deferred tax, as a percentage of total assets at year-end.

Turnover per employee
Turnover devided by average number of employees.

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