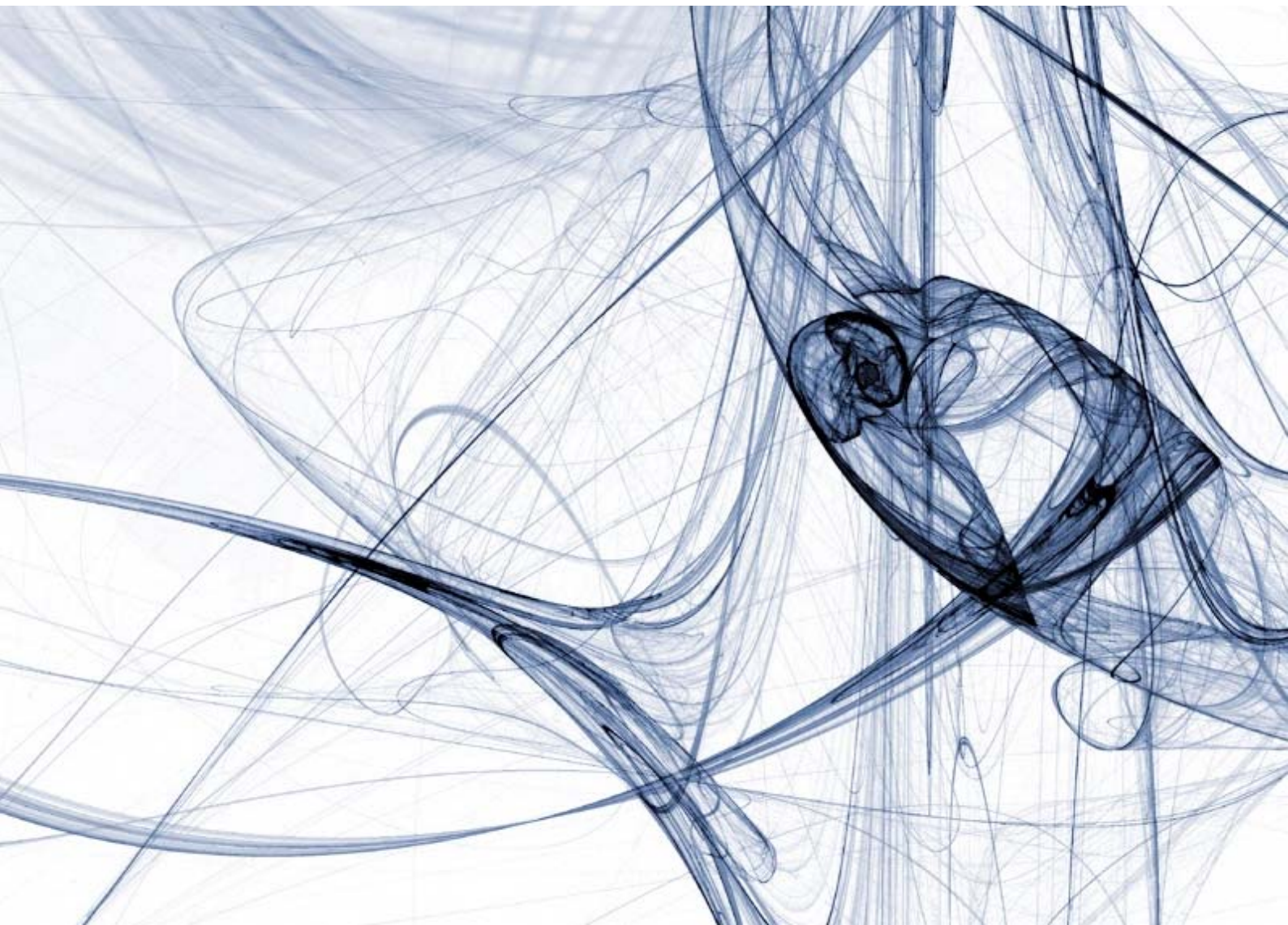




# **Diamorph AB Annual Report**

Company number 556647-5371

2007 Financial Year



# Contents

2	The Year in Brief
3	From the CEO
5	Board of Directors Report
8	Income Statement
9	Balance Sheet
10	Pledged Assets and Contingent Liabilities
11	Accounting Policies and Notes to Financial Statements
12	Notes
16	Signatures
17	Audit Report
18	Board of Directors



## The Year in Brief

- Net revenues TSEK 2,013
- Profit/loss after taxes TSEK -3,206
- Equity/assets ratio 94.8%
- Company balance sheet total TSEK 28,967

# From the CEO

The year just past was an eventful one for Diamorph. We can take a great deal of satisfaction in reviewing the past year as we can say that we have achieved all of our objectives in product development, company value and development of the organization. It's remarkable to remember how things looked only a year ago, when we were crowded together in the old premises, now that we've already outgrown our new location and are in the process of moving again.

From the beginning, our vision has been to become a world leader based on the company's unique intangible assets. Having strong partnerships with three research groups that are world leaders in the field has strengthened our prospects of achieving our objectives even more. With this foundation, the company has great prospects to offer unique and superior materials for various applications.



This unique foundation enables us to develop and improve a large number of products for many different markets. Therefore, it's been important to focus on the applications where there are other factors that will allow a small company to grow in a short time into a global player and world leader. In addition to unique product properties, opportunities such as extremely fast-growing markets can provide unique possibilities for a new player to grow for a time without pressure on prices as the primary means of competition. Increased environmental awareness is also a tremendous advantage in many cases for a young company without entrenched old structures that constitute restrictions. Many times there are requests for environmental improvements to production, where established players may be at a great disadvantage stemming from investments they've already made in old equipment.

During the past year we could confirm that we had found an application where several of the puzzle pieces mentioned above fell into place. Together with our customer, we were able to verify that our materials maintained the absolutely best imaginable quality in a market that is expanding explosively, which is currently experiencing a great shortage of components, and where our production methods entail a better "carbon footprint," and thus more environmentally friendly end products. I'm eagerly looking forward to mass production and deliveries of these products in the year ahead.

I also hope that our methodology of always developing products together with collaboration partners who know the specific needs of the market will continue to guide us down the right path in the future and be the catalyst for numerous new products in the years to come.



Another part of the same working method has been to let building of revenue have priority over the development of structures and the costs that the latter entails. Therefore we've always required an active financial commitment from our customers. In addition to helping us cover our costs in the development phase, this economic commitment has served as a boundary condition with many other advantages. It has assured us of a "genuine" commitment from our customer, who has also placed stringent demands on us and given us precise specifications due to this financial commitment. The customer is just as eager as we are to reach the end product quickly and with as few resources as possible. We have found that this is the best way of accelerating development, minimizing risk in the development phase and align our own interests with those of the customer's organization. This working method made it possible to grow without any "burn rate" whatsoever up until the previous fiscal year, even in the product development phase.

The downside to this working method became noticeable at the beginning of this fiscal year. At that time there were several world-class companies that wanted to work with Diamorph to develop new products, but the company had insufficient organizational resources to be able to initiate these partnerships. This experience has taught us that there are sometimes advantages to letting a certain amount of organizational expansion take priority over revenue streams, since recruiting and training specialized personnel can take time. We have therefore enacted an organizational expansion during the year to be able to increase the number of development projects. The expanded organization has also been the greatest contributing factor to this year's negative earnings.

With the expanded organization in place, we've already started several new partnerships to develop products in new application areas. Several of the ideas being discussed are components for energy and medical technology.

We're on the threshold of a very exciting year. For the first time we'll be delivering products that we developed in previous years. We'll also increase the number of partnerships and begin development of several new products. Therefore I'm looking forward to a significant increase in revenue in the year to come.

Ashkan Pouya,  
CEO

# Board of Directors Report

The Board and the CEO of Diamorph AB, company number 556647-5371, hereby submit the annual accounts for the financial year January 1, 2007 – December 31, 2007. The results of the year's business are stated in the following financial reports, which are to be ratified at the annual meeting.

## DESCRIPTION OF BUSINESS

Diamorph AB is a spin-off company from Stockholm University and the world-leading research conducted on advanced materials at the Arrhenius Laboratory. The company possesses numerous intellectual property rights for glass and ceramic materials with extreme properties such as extreme hardness and toughness, high refractive indices, good thermal properties and biocompatibility. The business concentrates on ceramic materials research for specific applications such as ceramic roller bearings, as well as highly reflective glass beads, where the company has a licensing agreement with Scandinavia's leading supplier of road markings. Our subsidiary Diamorph Ceramics is currently dormant, and is not consolidated into these annual accounts in accordance with the Swedish Annual Accounts Act 7:3 (see accounting policies).

## RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's research is concentrated on two areas, ceramic materials and glass materials, and the dividing line between these two groups of materials. Research and development work usually takes place in cooperation with industry leaders in the application area and leading college and university researchers to ensure the highest possible level of research on these new materials.

## FINANCIAL OVERVIEW

	2007	2006	2005
Net revenues	2,013,459	3,000,333	1,085,574
Operating result	-3,473,898	249,126	27,856
Result after financial items	-3,283,250	228,069	18,059
Total assets	28,966,677	2,891,345	780,839
Equity/Assets Ratio, %	94.8%	79%	16%
Average number of employees	6	2	1

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR AND AFTER ITS CLOSE

- In cooperation with a world leader in the ball bearing industry, the Company has been testing the materials' properties for use in ball bearings. During the year, the parties could confirm that the materials resulted in components of the absolute highest quality, while at the same time the production method entails a better "carbon footprint" and thus more environmentally-friendly end products. The market for these components is extremely expansive, growing by roughly 50% a year. Diamorph is planning for mass production and delivery of test orders in 2008.
- The Company completed a new capital issue during the year, which strengthened its balance sheet by approximately SEK 30 million. The issue was fully subscribed by several extremely experienced private investors. The new capital issue has secured the funds needed to establish the planned pilot production facility.
- An order for equipment for the planned pilot plant has been placed. The plan is for the equipment to be delivered in June 2008.
- The Company has undergone an organizational expansion during the year, and moved to larger facilities at the Arrhenius Laboratory. This space has already become too cramped, and preparations have been made to move out of the university facilities in conjunction with the building of the pilot plant. Thus the Company is planning to move to its own premises at Albanova in Stockholm in Q2 2008.
- The Swedish Energy Agency provided a grant to Diamorph AB for parts of the planned pilot plant. This was motivated by reduced energy consumption in our unique manufacturing, which contributes to more environmentally friendly products, as well as the fact that an important application area for the components produced are extremely critical for energy, because they are in short supply for the continued expansion of wind power.
- The company strengthened its trademark by registering the Diamorph trademark. A new website was launched, which simplifies communications and clarifies the Company's external contacts.

## FUTURE DEVELOPMENT AND RISKS

We feel that Diamorph is on the verge of strong growth and rapid expansion in coming years. Manufacturing in the Company's first pilot facility is starting in 2008. Examples of risks to the Company's expansion next year could be that the construction of the new facility takes longer than planned; that it takes longer than planned to attain full manufacturing capacity; or that scaling up production doesn't go according to plan. All research activities are attended by the risk that projects that are initiated will not arrive at the results planned. Diamorph is managing this risk primarily by diversifying its development portfolio through numerous projects in different areas.

## ALLOCATIONS OF PROFIT OR LOSS

The following funds are at the disposal of the annual meeting (in SEK):

Profit/loss brought forward	120,092
Profit/loss for the year	-3,206,497
	<hr/>
	<b>-3,086,405</b>

The Board of Directors and the CEO propose that the Company's accumulated loss of -SEK 3,086,405 be carried forward.

The Company's results and overall position are stated in the following income statement and balance sheet, with accompanying notes to the financial statements.

# Income Statement

<i>SEK</i>	<i>Note</i>	<i>2007-01-01- 2007-12-31</i>	<i>2006-01-01- 2006-12-31</i>
Net revenues		1,013,427	1,399,073
Other operating income	<i>1</i>	1,000,000	1,601,260
		2,013,427	3,000,333
<b>OPERATING EXPENSES</b>			
Raw materials and consumables		-270,594	-
Other external costs	<i>2</i>	-1,948,741	-1,324,441
Personnel costs	<i>3</i>	-3,187,890	-1,398,736
Depreciation, amortization and impairment of tangible and intangible fixed assets	<i>4</i>	-79,418	-24,198
Other operating expenses		-682	-3,832
<b>Operating profit/loss</b>		<b>-3,473,898</b>	<b>249,126</b>
<b>RESULT OFIT/LOSS FROM FINANCE ITEMS</b>			
Result from shares in associated companies		-	-14,000
Income from other investments and receivables include in noncurrent assets		178,214	-
Interest income and similar items		27,910	2,255
Interest expense and similar items		-15,476	-9,312
<b>Profit/loss after finance items</b>		<b>-3,283,250</b>	<b>228,069</b>
Year-end appropriations	<i>5</i>	76,753	-69,506
<b>Profit/loss before taxes</b>		<b>-3,206,497</b>	<b>158,563</b>
Taxes on the year's profit/loss		-	-51,049
<b>Profit/loss for the year</b>		<b>-3,206,497</b>	<b>107,514</b>

# Balance Sheet

SEK	Note	2007-12-31	2006-12-31
<b>ASSETS</b>			
<b>Fixed assets</b>			
<i>Intangible assets</i>			
Concessions, patents, licenses, trademarks and similar rights	6	59,441	17,427
Goodwill	7	-	5,908
		59,441	23,335
<i>Tangible noncurrent assets</i>			
Equipment, tools & installations	8	134,428	71,168
		134,428	71,168
<i>Financial assets</i>			
Shares in affiliated companies	9	86,000	86,000
		86,000	86,000
<b>Total noncurrent assets</b>		<b>279,869</b>	<b>180,503</b>
<b>Current assets</b>			
<i>Short-term receivables</i>			
Accounts receivable - trade		461,075	-
Loans to Group companies		7,098	1,600
Other receivables		182,635	7,518
Prepaid expenses and accrued income		-	364,003
		650,808	373,121
<i>Short-term investments</i>	10	7,937,186	1,500,000
<i>Cash and cash equivalents</i>		20,098,814	837,721
<b>Total current assets</b>		<b>28,686,808</b>	<b>2,710,842</b>
<b>TOTAL ASSETS</b>		<b>28,966,677</b>	<b>2,891,345</b>

# Balance Sheet

SEK	Note	2007-12-31	2006-12-31
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<i>11</i>		
<i>Restricted equity</i>			
Share capital (23,904 shares)		149,400	111,800
Legal reserve		500	500
<i>Non-restricted equity</i>			
Share premium reserve		30,402,620	1,988,300
Profit or loss brought forward		12,578	-
Previous year's profit or loss		107,514	12,578
Profit/loss for the year		-3,206,497	107,514
		-3,086,405	120,092
<b>Total equity</b>		<b>27,466,115</b>	<b>2,220,692</b>
<b>Untaxed reserves</b>			
Accumulated depreciation in excess of plan	<i>12</i>	-	18,753
Timing difference reserve	<i>13</i>	-	58,000
<b>Current liabilities</b>			
Accounts payable		698,293	21,789
Tax debt		46,495	55,781
Other liabilities		265,889	234,227
Accrued expenses and prepaid income		489,885	282,103
		1,500,562	593,900
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>28,966,677</b>	<b>2,891,345</b>

## Pledged Assets and Contingent Liabilities

	2007-12-31	2006-12-31
Pledged collateral	None	None
<i>Contingent liabilities</i>	None	None

# Accounting Policies and Notes to Financial Statements

Amounts in SEK unless stated otherwise.

## General Accounting Policies

These annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and the general advice of the Swedish Accounting Standards Board.

The principles are unchanged from the previous year.

Receivables are carried in the amounts expected to be collected.

Receivables and liabilities in foreign currencies have been converted at the exchange rate on the balance sheet date. Exchange rate differences for operating accounts receivable and liabilities are subjected to net accounting in the operating results, while exchange rate differences for accounts receivable and liabilities are subjected to net accounting as financial items.

Other assets and abilities have been valued at acquisition value unless stated otherwise.

Income and expenses are recognized in accordance with generally accepted accounting principles.

The Company is a parent company, but a consolidated financial statement was not prepared, in accordance with Chapter 7 Section 3 of the Swedish Annual Accounts Act.

## Valuation Principles, etc.

Assets, provisions and liabilities have been valued at acquisition value unless otherwise stated below.

### ***Depreciation methods for fixed assets***

Depreciation according to plan is based on the original acquisition values, less estimated residual value, and depreciation takes place over the asset's estimated useful life. Impairment is charged in cases of permanent loss of value.

The following depreciation percentage was applied, where the holdings period for assets acquired and disposed of during the year was taken into account.

<i>Fixed assets</i>	% per year
Tangible non-current assets:	
-Patents	20
-Goodwill	20
-Equipment, tools & installations	20
-Computers	20

# Notes

## Note 1 Other operating income

	2007-01-01- 2007-12-31	2006-01-01- 2006-12-31
Government grants received	1,000,000	1,601,260
<b>Total</b>	<b>1,000,000</b>	<b>1,601,260</b>

## Note 2 Fees and reimbursement of expenses paid to auditors

	2007-01-01- 2007-12-31	2006-01-01- 2006-12-31
<i>Ernst &amp; Young AB</i>		
Audit fee	63,500	15,000
Other assignments	10,000	8,500
<b>Total</b>	<b>73,500</b>	<b>23,500</b>

## Note 3 Employees and personnel costs

### *Average number of employees*

	2007-01-01- 2007-12-31	2006-01-01- 2006-12-31
Men	5	2
Women	1	-
<b>Total</b>	<b>6</b>	<b>2</b>

### *Wages, other compensation and social security contributions*

	2007-01-01- 2007-12-31	2006-01-01- 2006-12-31
Board of Directors and CEO	1,141,800	986,432
Other employees	1,160,750	48,700
<b>Total</b>	<b>2,302,550</b>	<b>1,035,132</b>
Social security contributions (of the above, pension costs)	723,622	303,963

SEK 32,635 (SEK 0) was received during the fiscal year in salary-related support and compensation. Personnel costs were reduced by this amount.

## Note 4 Depreciation and amortization of tangible and current intangible fixed assets

	2007-12-31	2006-12-31
Concessions, patents, licenses, trademarks	22,986	9,987
Goodwill	5,908	3,386
Equipment, tools & installations	50,524	10,825
<b>Total</b>	<b>79,418</b>	<b>24,198</b>

## Note 5 Balance sheet appropriations

	2007-01-01- 2007-12-31	2006-01-01- 2006-12-31
Changes in timing difference reserve	-58,000	58,000
Change in supplementary depreciation	-18,753	11,506
<b>Total</b>	<b>-76,753</b>	<b>69,506</b>

## Note 6 Concessions, patents, licenses, trademarks

	2007-12-31	2006-12-31
Accumulated acquisition values:		
-Opening balance	49,933	49,933
-New acquisitions	65,000	
	114,933	49,933
Accumulated amortization according to plan:		
-At the beginning of the year	-32,506	-22,519
-Amortization according to plan	-22,986	-9,987
	-55,492	-32,506
<b>Reported value at the end of the year</b>	<b>59,441</b>	<b>17,427</b>

## Note 7 Goodwill

	2007-12-31	2006-12-31
Accumulated acquisition values:		
-At the beginning of the year	16,929	16,929
	16,929	16,929
Accumulated amortization according to plan:		
-Opening balance	-11,021	-7,635
-Amortization according to plan	-5,908	-3,386
	-16,929	-11,021
<b>Reported value at the end of the year</b>	<b>-</b>	<b>5,908</b>

## Note 8 Equipment and tools

	2007-12-31	2006-12-31
Accumulated acquisition values:		
-Opening balance	87,575	35,885
-New acquisitions	113,784	51,690
	201,359	87,575
Accumulated depreciation according to plan:		
-At the beginning of the year	-16,407	-5,582
- Depreciation according to plan according to acquisition values	-50,524	-10,825
	-66,931	-16,407
<b>Reported value at the end of the year</b>	<b>134,428</b>	<b>71,168</b>

## Note 9 Shares in Group companies

	2007-12-31	2006-12-31
Accumulated acquisition values:		
-Opening balance	86,000	100,000
	86,000	100,000
Accumulated write-ups:	-	-
Accumulated impairment:		
-Opening balance	-14,000	-
- Impairment for the year	-	-14,000
	-	-14,000
<b>Reported value at the end of the year</b>	<b>86,000</b>	<b>86,000</b>

### *Specification of the Parent Company's holdings of shares and interests in Group companies*

This refers to the participating interest in the capital, which also corresponds to the share of votes for the total number of shares outstanding.

<i>Subsidiary/Company number/HQ</i>	<i>Number of shares</i>	<i>in %</i>	<i>Reported value</i>
Diamorph Ceramics AB, 556667-0989, Stockholm	100	100	86,000
			<b>86,000</b>

## Note 10 Short-term investments

	Reported value	Market value
Interest-bearing securities	7,937,186	7,988,375
	<b>7,937,186</b>	<b>7,988,375</b>

## Note 11 Equity

	<i>Capital stock</i>	Reserve fund	Non-restricted equity	Annual earnings
Opening balance	111,800	500	2,000,877	107,514
New issue of shares	37,600		28,414,321	
Transfer of previous year's profit/loss			107,514	-107,514
Profit/loss for the year				-3,206,497
<b>At the end of the year</b>	<b>149,400</b>	<b>500</b>	<b>30,522,712</b>	<b>-3,206,497</b>

## Note 12 Accumulated supplementary depreciation

	2007-12-31	2006-12-31
Machinery and equipment	-	18,753

## Note 13 Timing difference reserves

	2007-12-31	2006-12-31
Timing difference reserve, set aside in tax assessment for 2007	-	58,000
	-	<b>58,000</b>

# Signatures

Stockholm, June 3, 2008

Harry Frank  
Chairman

K Olof Hallrup

Björn Varnestig

Saeid Esmaeilzadeh

Lars Ivar Taflin

Ashkan Pouya  
CEO

Our audit report was submitted on June 3, 2008

Ernst & Young AB

Mia Rutenius  
Authorized Public Accountant

# Audit Report

To the annual meeting of Diamorph AB, company number 556647-5371

We have audited pages 5-16 of the Annual Accounts and the accounting records as well as the Board's and CEO's administration of Diamorph AB for the financial year January 1, 2007-- December 31, 2007. The Board of Directors and the CEO are responsible for the accounting documents and the administration, and for ensuring that the Swedish Annual Accounts Act is applied when preparing the Annual Accounts. Our responsibility is to comment on the Annual Accounts and the administration, based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. This means that we planned and prepared the audit to obtain high but not absolute assurance that the Annual Accounts do not contain significant errors. An audit includes examining a selection of the evidence supporting the amounts and other information in the accounting documents. An audit also includes assessing the accounting principles and their application by the Board of Directors and the CEO, as well as assessing significant estimates made by the Board of Directors and the CEO when they prepared the Annual Accounts, and evaluating the overall presentation of information in the Annual Accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances at the company in order to be able to determine the liability, if any, to the company of any Director or the CEO. We have also examined whether any Director or the CEO has in any other way acted in contravention of the Companies Act, the Swedish Annual Accounts Act or the articles of incorporation. In our view our audit provides us with a reasonable basis for our statements below.

The Annual Accounts have been prepared in accordance with the Swedish Annual Accounts Act and give a fair view of the company's results and financial position in accordance with generally accepted accounting principles in Sweden. The report of the Board of Directors is consistent with the other parts of the Annual Accounts.

We recommend that the annual meeting adopt the income statement and balance sheet; treat the loss according to the recommendation in the report of the Board of Directors; and discharge the members of the Board of Directors and the CEO from liability for the financial year.

Stockholm, June 3, 2008

Ernst & Young AB

Mia Rutenius

Authorized Public Accountant

# Board of Directors



*Prof. Harry Frank, Chairman of the Board.*

Professor Harry Frank has been director of research at ABB for 20 years. He has vast experience in commercializing new materials. Harry is a member of the Royal Swedish Academy of Sciences (KVA), as well as the Royal Swedish Academy of Engineering Sciences (IVA).



*Olof Hallrup*

Olof Hallrup has double degrees in economics and law, and over 20 years' experience in leading positions at Kinnevik and Stena. Olof has also been active as a board member and several startups and active as a business angel.



*Associate Professor Saeid Esmailzadeh*

Associate Professor Saeid Esmailzadeh is a researcher in materials chemistry at Stockholm University. Saeid has significant experience in materials development and patent issues. He is also one of Diamorph's founders.



*Dr. Björn Varnestig*

Björn has a Ph.D. in physics and is currently the CEO of Innovationsbron Stockholm. Dr. Varnestig has strong qualifications on the marketing and finance side, as he has experience from several research-intensive companies.



*Lars Taflin*

Lars has started and run several innovative companies up to their commercial success. He is now the CEO of Digitalvision AB as well as a member of the boards of Novator AB and Digitalvision AB.

## Address

Diamorph AB  
Arrheniuslaboratoriet  
SE-106 91 Stockholm  
Tel: +46 (0)70-718 70 60  
info@diamorph.com  
www.diamorph.com

# Approval

The undersigned board member hereby affirms that this copy of the annual report corresponds to the original, and that the profit/loss statement and balance sheet were adopted at the annual meeting on March 19, 2008. The meeting also resolved to approve the board's proposed allocation of profits/losses.

Stockholm

Saeid Esmailzadeh