

- Net income TSEK 86,863 (11,313)
- Profit/loss after taxes TSEK -38,117 (-19,033)
- Cash and cash equivalents at reporting date TSEK 51,585 (88,550)

Important Events during the Third Quarter

- Four orders received for wind power turbines valued at MSEK 135
- Test orders received for fuel cell plates, intended for mobile phones and GPS systems
- Strengthened ownership base through a directed share issue to Alecta and Swedbank Robur
- Resolution made to build a new factory for manufacturing of towers for wind turbines
- Appointment of a new CEO and a new controller strengthens the organization

Important Events after the Period End

- Order received for wind park valued at MSEK 229
- Order received to modernize Sweden's largest hydropower plant
- Three test orders received for flow plates from the automotive and portable electronics industries
- Preferential rights issue generated MSEK 112.5 before issue costs
- Directed issue to the Foundation for Baltic and East European Studies (Östersjöstiftelsen)
- New CEO at DynaWind AB

Group in Summary

Amounts in TSEK

	Q3 06/07	Q3 05/06	Q1-Q3 06/07	Q1-Q3 05/06
Turnover (TSEK)	40,579	10,475	86,863	11,313
Loss after taxes (TSEK)	-19,600	-8,661	-38,117	-19,033
Cashflow after investments (TSEK)	-	-	-55,939	-41,875
Earnings per share (TSEK)	-0,17	-0,09	-0,34	-0,23
Investments in intangible assets (TSEK)	1,916	1,085	13,422	4,259

Q3 period and any references to "third quarter" refer to the third quarter of the fiscal year, 1 November 2006 – 31 January 2007.

06/07 refers to current fiscal year, 1 May 2006 – 30 April 2007.

05/06 refers to preceding fiscal year, 1 May 2005 – 30 April 2006.

This is Morphic

Morphic Technologies is a growing, industrial Group from Sweden, specializing in fuel cell, wind and hydroelectric power, as well as, production technology. The company's positive growth opportunities are associated with a global desire to decrease dependency on oil, stunt record-high oil prices and promote technological progress. Aside from the Parent Company, the Group comprises of five subsidiaries: Aerodyn AB, Cell Impact AB, Dynamis AB, DynaWind AB and Finshyttan Hydro Power AB.

Operations are located in Karlskoga, Filipstad and Gothenburg, employing approximately 100 people. Morphic Technologies Class B shares have been unofficially listed since 1 September 2000 and listed on the Stockholm Stock Exchange's trading site, First North (previously known as Nya Marknaden) since 1 September 2004 with Remium Securities as a sponsor. There are approximately 10,000 shareholders.

Morphic Technologies has a split fiscal year from May 1 until April 30.

Financial Development for the Period

- Net Sales: TSEK 86,863 (11,313)
- Profit/loss after taxes: TSEK -38,117 (-19,033)
- Cash and cash equivalents on reporting date: TSEK 51,585 (88,550)
- Solidity: 70.4% (83.6%)

The Group's net sales for the first nine months of the financial year totalled TSEK 86,863 (11,313) with a reported result of TSEK -38,117 (-19,033).

During the period, the Group has invested in marketing, establishing in new markets, and recruitment of new staff. Those costs are charged to the income. Revenues generated by these investments will not appear until future periods. The small-scale tower manufacturing of wind power turbines has incurred significantly higher costs than anticipated. The move to industrial, mass production of the towers will change these conditions significantly.

The Group's unappropriated cash and cash equivalents totalled TSEK 51,585 (88,550) with 70.4% (83.6%) solidity on reporting date on 31 January 2007. During the period, group investments in intangible fixed assets totalled TSEK 13,422 (4,259).

Fuel Cells

- Test orders for mobile telephones and GPS systems received
- Another two collaboration agreements signed with the Chinese automotive industry
- Pilot project initiated with the municipality of Filipstad

With virtually non-existent impact on the environment and superior energy efficiency, fuel cells could potentially replace most of today's energy systems. Morphic has developed technology making it possible to manufacture essential components for fuel cells considerably cheaper, quicker and with higher quality than ever before.

Order for flow plates for mobile telephones received

In December, Morphic's subsidiary, Cell Impact AB, received an order for flow plates intended for fuel cells for mobile telephones. The client is a world-leading mobile telephone manufacturer that is in the process of producing a test series of fuel-cell driven telephones. Positive test results will pave the way for a full-scale introduction to future mobile telephone models.

Test orders for flow plates received from leading automobile manufacturers

Following the period end, Cell Impact has received two separate orders from two different automobile manufacturers. Both clients are among the top ten largest car manufacturers in the world. They both intend to evaluate Cell Impact's unique products in a series of fuel-cell stacks for vehicle propulsion.

Larger test order received for flow plates intended for laptop computers

Following period end, Cell Impact AB has also received a larger test order for flow plates from a US manufacturer of fuel cells for laptop computers. A positive evaluation will pave the way for mass production during the 2007/2008 financial year.

Sizeable demand in Asia

Two further cooperation agreements were signed with the Chinese automotive industry in the third quarter. Similar to those agreements signed during the second quarter, these involve adapting the client's fuel cell plates in order to reach optimal economy of production and performance. The plates are meant to be used in fuel-cell stacks for propelling vehicles. There is considerable interest for fuel cells in China and, it is likely that China will become the first commercial market for fuel-cell driven vehicles.

Electricity from landfill gas with fuel cells

In the third quarter, the municipality of Filipstad announced plans to utilize surplus gas from a waste facility to produce electricity using fuel cells. Morphic will be the systems supplier for the project. The Municipality has applied for a so-called "Klimp-bidrag" (grant) from the Swedish Environmental Protection Agency in order to finance the project.

Fuel cells combined with wind power

Development of Morphic's own energy systems, combining wind power and fuel cells, continued in the third quarter. In a primary stage, a conventional fuel cell, coupled with a hydrogen electrolyzer, will be used with Morphic's own wind turbines. A methanol fuel cell and Morphic's own patent pending energy converter will complement the system in the following stage. The pilot facility will become operational in the spring of 2007.

Wind Power

- Order received for four 1 MW and two 3 MW wind power turbines
- Decision to invest in increased production capacity and new production facility
- Order received for a complete wind park

Wind power is under major expansion in Sweden and is expected to represent the largest portion of the future increase within renewable electricity production. Morphic can offer singular turbines and complete wind power parks.

Increased production capacity

Morphic invests in increased production capacity to meet increasing demand for wind turbines. This includes a new production facility in Kristinehamn, Sweden, with a production capacity corresponding to 100 wind turbine towers per year. The new plant is planned to be operational in the summer of 2007.

Order received for the first stage of the Vänern Windpark

Following period end, Morphic's subsidiary, DynaWind AB, received an order for a complete wind park entailing delivery and installation of five, 3 MW wind power turbines to the Vänern Windpark. The order is valued at MSEK 229. A total of ten 3 MW wind power turbines are planned in Gässlingegrund in Sweden's largest lake, Vänern. Aside from the five presently ordered wind power turbines, DynaWind has also submitted a bid to build the second half of the wind park. The remaining five turbines are presently subject of public procurement. The wind park constructions are in conjunction with the construction and civil engineering company PEAB and are estimated to begin in 2007. Delivery of the wind power turbines is planned for 2008.

During the period, Morphic sold its three building permits in the wind parks, on the condition that the permits would use DynaWind's wind turbines. The received orders demonstrate that the conditions have been fulfilled and the sale of the permits will generate an additional five million kronor in addition to the above-mentioned order.

Hydroelectric power

- Modernisation of Harsprånget

Hydroelectric power is the basis in the Swedish energy support and in coming years, comprehensive investments are expected for modernisation and efficiency gain within the area. Since its acquisition Aerodyn AB, Morphic is one of the leading actors in terms of maintenance and service of hydroelectric power turbines.

Following period end, Morphic's subsidiary Finshyttan Hydro Power AB received an order to modernize one of the units of

Sweden's largest hydroelectric power plant; Harsprånget in the river Luleälv. The order is placed by Vattenfall AB Vattenkraft. The order includes, among other things, new bearings and seals, new actuator and refurbishment of the Francis runner. The work will be performed on site as well as at the company's facilities in Filipstad.

Production technology

- Cutting machine delivered
- Large orders received for ship propellers
- Strategic order for the SensActive system

The business area comprises sub-contracted manufacturing of ship propulsion components and other large-scale components. The area also involves developing and selling machines for cost-effective component production based on Morphic's high-speed technology.

Delivery of cutting machine system

In late September 2006, Morphic's subsidiary, Dynamis AB, received a strategic order that uses the very latest technology in adiabatic high-speed cutting. The Dynamis machine cuts the material with a hard, precise chopping motion, resulting in a cut without deformation, cracks or burrs. Production speed is very high, without material loss and no need for environmentally hazardous cutting fluids. The machine system was delivered to the client, following period end and serves as an important reference in the continued commercialization of cutting machines.

Manufacturing of ship propellers

The international shipping industry enjoys continued high turnover. Morphic's subsidiary, Aerodyn AB, has had continual near full capacity in blade and hub production for ship propulsion systems. The order intake is high and the capacity utilization high. Orders for delivery are reaching well into 2007 and 2008.

SensActive Orders

Morphic Technologies subsidiary, Dynamis AB received a strategically important order for the SensActive system from Swedish spring manufacturer Lesjöfors Fjädrar AB in November 2006. SensActive is a material-handling system developed by Dynamis and is in this case used to measure coil springs. SensActive enables the robot to identify, pick up and handle an object directly from a pallet. The objects can lie completely unsorted in the container, even in layers, and still be found thanks to the use of three-dimensional measuring technology. This unique technology, is expected to set a new standard in material handling and processing in the engineering industry.

Parent Company

Net sales for the period totalled TSEK 2,383 (1,915) with a result of TSEK -16,218 (-12,419). During the period, the parent company invested in fixed assets in the amount of TSEK 41,721 (94,767). The parent company's unappropriated cash and cash equivalents totalled TSEK 35,732 (64,265) with a solidity of 70.3% (97.7%) on reporting date 31 January 2007.

Intellectual Property Rights

■ Granted patents on reporting date: 33

On reporting date, Morphic's patent portfolio consisted of 14 inventions where all were patented in Sweden and the majority in other countries and regions. Morphic's strategy regarding intellectual property rights is intended to protect the company's core technology and their application. The company continuously applies for patent protection, pattern protection, and trademarks in different regions on developed technologies, methods and processes in cases the company deems it strengthens protection from infringement.

Legal Disputes

Neither Morphic Technologies nor its subsidiaries were involved in any legal dispute, trials or arbitration at the time this report was written.

Organization and staff members

During and after the period, a number of people have been recruited to the Group. Staff numbers totalled 112 at reporting date.

New CEO

As mentioned in the interim report for the second quarter, Mr. Jonas Eklind has been appointed the new CEO for Morphic Technologies. Most recently, he occupied the post of President Kitron AB and Corporate Vice President Sweden Kitron ASA. Mr. Eklind has entered his new post in November 2006.

New Financial Manager

Mr. Björn Konradsen has been appointed new Financial Manager in Morphic Technologies AB during the period. Mr. Konradsen will enter his new post in April and will be responsible for the financial controls and Morphic's profitability among other things. The current financial manager, Mrs. Helena Nilsson, retains responsibility for the Group's accounting.

Mr. Konradsen leaves his post as CFO of the engineering company, Bharat Forge Kilsta AB, as well as the subsidiary Bharat Forge Scottish Stampings Ltd. The companies employ a total of 580 people and have net sales totalling MSEK 1,400.

New CEO for DynaWind AB

Following period end, Mr. Anders Sjögren has been appointed the new CEO for Morphic's subsidiary, DynaWind AB, by the company's board. Previous CEO, Mr. Leif Jonsson, continues to head the company's sales operations as Sales Manager.

Mr. Sjögren, who is a 52-year-old economist, leaves his most recent position as CEO and Chairman of the Oiltech Group where he was responsible for a powerful mass growth, improved revenue margins and increased profits. Before Oiltech, Mr. Sjögren has gained 20 years experience, primarily from Dynapac and Hägglunds.

Mr. Sjögren entered his position as CEO in February, 2007.

Business development in separate company

A new subsidiary, Morphic Business Development AB, was formed during the period. All group R&D projects will be placed in the new company.

Extraordinary General Meeting

On Thursday, February 1, at the Extraordinary General Meeting of Morphic Technologies AB (publ) a resolution was made in accordance with the Board of Directors' proposal regarding the following:

- to increase the company's share capital with a maximum of SEK 449,981.80 by a new issue of not more than 11,249,545 shares, of which not more than 840,000 class A shares and not more than 11,249,545 class B shares. The company's shareholders shall have preferential rights to subscribe to the new shares, whereby ten (10) old shares entitle the holder to subscribe to one new share. Shareholders of class A shares are entitled to subscribe to either class A shares or class B shares. Class B shareholders are entitled to subscribe to class B shares. The subscription price shall amount to SEK 10 per share. The record date for participation in the preferential rights issue shall be 9 February, 2007. Subscription by exercising subscription rights shall be made in cash between 19 February and 9 March, 2007. The Board reserves the right to extend the subscription period. The Board shall decide on the allocation of shares to others who have subscribed for shares without the support of preferential rights, whereupon allocations shall first and foremost be allocated between those shareholders who are shareholders in the Company on the record day.
- to increase the company's share capital by a maximum SEK 120,000 by a new share issue not more than 3,000,000 class B shares at a subscription rate of SEK 11 per share. The new share issue entails that the preferential rights of existing shareholders will be bypassed and

intended for larger private and institutional investors. As previously mentioned, Morphic has an agreement with The Foundation for Baltic and East European Studies (*Östersjöstiftelsen*) that the Foundation shall subscribe to the directed placement in its entirety and guarantee a fee-exempt in issue shares on a preferential basis.

New share issues

- Approximately 24.2 million shares issued in three separate issuances
- The company gains approximately MSEK 275 before issue expenses

Directed issue to Alecta and Swedbank Robur

During the third quarter, Morphic's board of directors resolved, with the support of the annual general meeting's authority, to perform a directed new share issuance. In order to strengthen Morphic's capital base and simultaneously increase institutional ownership of the company, 10 million class B shares at a rate of SEK 13 each will be issued and directed to Alecta and Swedbank Robur. The new shares do not grant preference to preferential rights issue.

Preferential rights issue following period end

On 1 February 2007, at the extraordinary general meeting, a resolution was made to perform a new issuance with preferential rights for existing shareholders. Those shareholders registered in the shareholder register on record date 9 February, are entitled to subscribe to a new share at a rate of SEK 10 for every ten shares. Please also see "Extraordinary General Meeting" above.

The preferential rights issue was oversubscribed by a factor of four and provides the company with MSEK 112.5 before issue costs. The new share issue entails a new subscription of 10,915,545 class B shares and 334,000 class A shares. Share subscription with primary preferential rights totalling MSEK 111.8 arrived at the same time as the share subscriptions with subsidiary preferential rights totalling MSEK 364. In addition, MSEK 82 was subscribed to without preferential rights. This results in approximately SEK 700,000 that has been allocated between those shareholders that have reported subscription outside their primary preferential rights (subsidiary preferential rights).

Shares not supported by subscription rights have first and foremost been allocated to shareholders who owned less than one round lot, thereafter the remaining shares have been allotted to previous shareholders who have registered an interest in subscribing to shares without the benefit of subscription rights. Those who have registered a subscription without having previously been shareholder, will not receive allotment.

Directed Issue to the Foundation for Baltic and Eastern European Studies

On 1 February 2007, at the extraordinary general meeting, a resolution was made to execute a new share issuance without preferential rights for the company's shareholders. 3 million class B shares were issued and directed to the Foundation for Baltic and Eastern European Studies at a rate of SEK 11. The new shares do not grant priority in preferential rights issue.

The Morphic share

Morphic's class B share has been connected to Stockholm stock exchange trading site, First North, since 12 June 2006. The class B share was previously traded at the Stockholmsbörsen New Market (Nya Marknaden) since September 2004. The company's sponsor at First North is Remium AB.

Between 1 November and 31 January, the third quarter of the financial year, the share price has increased by 63.7% as compared to OMXSPI during the same period, which rose by 10.6%. The highest paid share price during the period was SEK 20.20 and the lowest was SEK 11.30. Morphic's value on the stock exchange was MSEK 2.019 at period end. During the period, 45,813,931 class B shares were traded with a total value of MSEK 701,839,768. This corresponds to a turnover rate of 183.6%.

Transfer to the Nordic Exchange

The high level of growth that is expected to continue is also contingent on adequate access to the capital market. To increase interest in Morphic, raise share liquidity and thereby bring about a more effective pricing of the share, and attract new categories of shareholders, the company is now taking the next logical step in its evolution as a stock market company by applying for listing on the Nordic Exchange. Listing is planned for autumn 2007.

Share Capital

On 31 January 2007, reporting date, the number of outstanding shares totalled 112,495,451 of which 8,400,000 were class A shares and 104,095,451 class B.

Following the new issuance, the total number of shares in the company total 136,744,996, of which 130,360,966 are class B shares and 6,384,000 are class A shares corresponding to share capital of SEK 5,469,799.80.

Incentive Program

The Board decided on 4 July 2006, contingent upon the approval of the Annual General Meeting, to issue a maximum of 3,300,000 options. The issuance is directed to key individuals and staff members within the Morphic Group. 2,970,000 shares have been subscribed.

Subscription options can be utilized for the purpose of subscription between 1 October 2009 and 31 October

2009. The conditions for subscription have been adjusted following the recently executed preferential rights issue. Every subscription option entitles the owner the right to subscribe to 1.06 new shares at a subscription rate of SEK 15.10. If all subscribed subscription options are exercised in order to subscribe to shares this entails an increase in share capital with SEK 125,928 corresponding to a dilution of 2.3%.

Annual General Meeting

Morphic Technologies AB's annual general meeting will be held in Gothenburg on 19 October 2007.

Future Prospects

Initiated sales within wind power as well as fuel cells indicate operations that can expect powerful growth within Morpic. The company's comprehensive growth targets are to reach, assuming a good level of profitability, at least MSEK 2,000 in net sales for the 2008/09 financial year. The company's overall growth targets mirror the Group's unique market situation and also serve as a good basis for increased revenue and operational profitability. With completed capital gains, the company will, amongst other things, invest in increasing capacity in wind power, build up sourcing operations for critical components and establish a service organization. The company will also invest in the development of the company's own wind power turbines. Regarding the fuel cell operations, the company will continue to build up a global marketing organization. The company will further invest in developing the company's energy converter and energy systems. The investments are intended to create conditions for an initiated sale of energy systems in 2007.

Accounting Principles

This interim report has been prepared in accordance with *IAS 34 Interim Financial Reporting*, in accordance with those requirements set by the Swedish Financial Accounting Standard's recommendation *RR 31, Interim Reports for Groups*. As of 1 May 2005, Morpic Technologies applies international accounting standards, *International Financial Reporting Standards (IFRS)*, previously IAS, as adopted by the European Commission. The transfer to IFRS, in accordance to the EU Regulation has been executed in accordance with IFRS 1.

During this period, Morpic has begun to adopt *IAS 11 Construction Contracts* for certain larger projects.

In all other respects, the same accounting principles, definitions of key ratios and calculation methods as in the most recent annual report are applied. The Parent Company report has been prepared in accordance with RR32.

Consolidated Income Statement

Amounts in TSEK	Q3 06/07	Q3 05/06	Q1-Q3 06/07	Q1-Q3 05/06
OPERATING INCOME				
Net sales	40,008	10,465	85,885	11,177
Change in inventory	7,322	4,861	12,553	6,842
Work performed by the company for its own use and capitalized	642	194	2,327	352
Other operating income	571	10	978	136
TOTAL REVENUE	48,543	15,530	101,743	18,507
OPERATING COSTS				
Purchase of goods and services	-38,203	-8,252	-60,312	-9,800
Other external costs	-8,814	-7,475	-26,786	-12,854
Personnel costs	-18,103	-6,555	-44,227	-10,790
Depreciation/amortization and write-down of tangible and intangible assets	-3,050	-1,970	-9,002	-3,770
TOTAL OPERATING COSTS	-68,170	-24,252	-140,327	-37,214
Operating loss	-19 627	-8 722	-38 584	-18 707
RESULT FROM FINANCIAL INVESTMENTS				
Financial income	690	233	1,103	370
Financial costs	-663	-269	-780	-793
Deferred tax		54	144	54
Minority		43		43
Net loss for the period	-19,600	-8,661	-38,117	-19,033
Result per weighted number of shares before and after dilution	-0,17	-0,09	-0,34	-0,23
Weighted number of shares during the period	112,495,451	95,041,924	111,769,790	84,521,043
Total number of shares at period end	112,495,451	109,255,303	112,495,451	109,255,303

Consolidated Balance Sheet

Amount in TSEK

07-01-31

06-04-30

Assets

FIXED ASSETS

Intangible assets	79,422	65,851
Tangible assets	90,579	73,124
Financial assets	638	642
TOTAL FIXED ASSETS	170,639	139,617

CURRENT ASSETS

Inventories, finished goods	32,188	13,280
Current receivables	36,711	17,739
Cash and cash equivalents	51,585	88,550
TOTAL CURRENT ASSETS	120,484	119,569

Total assets

291,123**259,186**

Equity and liabilities

EQUITY

Share capital	4,500	4,375
Other contributed capital	320,268	291,892
Accumulated deficit	-119,820	-80,129
Minority interests	0	634
TOTAL EQUITY	204,948	216,772

LONG-TERM LIABILITIES

12,849

12,890

CURRENT LIABILITIES

73,326

29,524

Total equity and deficits

291,123**259,186**

Pledged assets

37,364

37,364

Contingent liabilities

15,136

15,136

Consolidated Cash Flow Statement

Amount in TSEK	Q1-Q3 06/07	Q1-Q3 05/06
Cash flow from operating activities	-20,742	-30,227
Cash flow from investing activities	-35,197	-11,648
Cash flow from financing activities	18,974	106,739
CASH FLOW FOR THE PERIOD	-36,965	64,864
Cash and cash equivalents at the beginning of the period	88,550	25,732

Cash and cash equivalents at end of the period	51,585	90,596
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Change in Equity at Group

Amount in TSEK	Q1-Q3 06/07	Q1-Q3 05/06
Amount at beginning of the period	216,772	30,051
New share issue	26,927	210,564
Loss for the period	-38,117	-19,033
Minority interests	-634	688

Total equity at end of the period	204,948	222,270
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NOTE 1 SEGMENT REPORTING

Segment	Omsättning Q3 06/07	Resultat Q3 06/07	Omsättning Q1-Q3 06/07	Resultat Q1-Q3 06/07
Fuel Cells	-101	-3,515	818	-8,535
Ship Propulsion	25,670	2,061	61,911	5,175
Production Technology	4,295	-818	10,586	-3,385
Business Development	513	-7,898	2,383	-18,395
Wind Power	10,194	-921	10,194	-1,564
Hydroelectric Power	5,578	-7,760	11,332	-9,557
Group eliminations	-6,141	-776	-11,339	-2,324
The Group	40,008	-19,627	85,885	-38,585

Amounts in TSEK. Profit/loss refers to operating profit/loss before net financial items.

Karlskoga March 28, 2007

Morphic Technologies AB (publ)

Board of Directors

Future reporting periods

- Year End Report 06/07: 28 June 2007
- Three-monthly report 07/08: 27 September 2007
- Annual General Meeting: 19 October 2007

Translation Disclaimer

This document is a translation from the Swedish original. No guarantees are made that the translation is free from errors.

Examination

This report is unaudited.