

INTERIM REPORT SECOND QUARTER 2015

Second quarter

- Net sales increased by 7% to SEK 107.0 (100.1) million. Adjusted to fixed exchange rates, net sales decreased by 5%.
- Operating profit increased by 16% to SEK 39.5 (34.0) million.
- Profit before tax, excluding non-recurring items, increased by 49% to SEK 30.0 (20.2) million.

First half

- Net sales increased by 19% to SEK 223.9 (188.7) million. Adjusted to fixed exchange rates, net sales increased by 4%.
- Operating profit increased by 29% to SEK 84.9 (65.6) million
- Profit before tax, excluding non-recurring items, increased 75% to SEK 66.0 (37.7) million

Amounts in SEK millions (unless stated otherwise)	Q2 2015	Q2 2014	Δ%	Q1- Q2 2015	Q1- Q2 2014	Δ%	2014
Net sales	107.0	100.1	-5 ¹	223.9	188.7	4 ¹	383.7
Operating profit ¹	39.5	34.0	16	84.9	65.6	29	127.8
Operating profit margin, % ¹	36.9	34.0		37.9	34.8		33.3
Profit before tax ¹	30.0	20.2	49	66.0	37.7	75	76.4
Operating cash flow	49.7	36.8	35	84.9	59.9	42	135.3
Operating cash conversion, %	126	108		100	91		109
Earnings per share ¹ (SEK)	0.44	0.29	52	0.97	0.54	80	1.07
Average number of shares ('000)	52,594	52,594		52,594	52,594		52,594
¹ Adjusted to fixed exchange rates and excluding non-recurring items - see adjusted performance measures on page 4							
Operating profit - reported	39.5	34.0		84.9	65.6		124.4
Profit/loss before tax - reported	27.6	5.9		46.6	19.1		-4.7
Earnings/loss per share - reported (SEK)	0.40	-0.05		0.69	0.12		-0.15

Operations

Second quarter

Market

The demand in the markets in which we operate has continued to develop consistently with our previous expectations.

Europe remains stable but weak and risks and uncertainties continue to exist in this market. Whilst the UK market has remained strong, the recovery in the US markets we serve has slowed a little. As previously indicated the pace of customer expenditure in the oil and gas sectors following recent declines in commodity prices has started to have an impact. Notwithstanding this varied market backdrop we continue to see commercial opportunities in the niche markets we serve.

The sales performance noted below needs to be considered in the context of the stronger market conditions in the second quarter last year, being the strongest quarter last year.

Sales

Sales for the second quarter amounted to SEK 107.0 (100.1) million delivering an increase of 7% as reported. At fixed exchange rates sales decreased by 5% compared with the same period last year and by 10% compared with the first quarter of 2015. The relative performance of each business area is explained below.

Sales of high temperature materials amounted to SEK 65.5 (56.3) million delivering an increase of 16% as reported. At fixed exchange rates sales increased by 4% compared with the same period last year and decreased by 7% compared with the first quarter of 2015. The increase compared to last year continues to be driven by strong sales of fire protection products and ceramic conveyor rollers. The decrease in sales compared to the first quarter to some extent reflects seasonality in the sales of products that have building insulation properties which are traditionally stronger in the winter months.

Sales of wear parts and bearings amounted to SEK 41.5 (43.8) million delivering a reduction of 5% as reported. At fixed exchange rates sales decreased by 18% compared with the same period last year and by 15% compared with the first quarter of 2015. The performance was impacted by a large marine bearing project in the second quarter of 2014. The decrease in sales compared to the first quarter reflects higher tanker pad wear part sales in that quarter.

First half

Sales

Sales in the first half amounted to SEK 223.9 (188.7) million delivering an increase of 19% as reported. At fixed exchange rates sales increased by 4% compared to the same period last year. The relative performance of each business area is explained below.

Sales of high temperature materials amounted to SEK 134.5 (104.6) million delivering an increase of 29% as reported. At fixed exchange rates sales increased by 14% compared to the same period last year. The increase was primarily driven by sales of fire protection products in the UK and US markets as well as sales of ceramic conveyor rollers.

Sales of wear parts and bearings amounted to SEK 89.4 (84.1) million delivering an increase of 6% as reported. At fixed exchange rates sales decreased by 8% compared to the same period last year. As noted previously the previous year's performance was impacted by a large marine bearing project in 2014.

Financial performance

Revenues and profits

Revenue and operating profit performance

As described above, sales for the second quarter amounted to SEK 107.0 (100.1) million, representing an increase of 7% as reported or a decrease of 5% at fixed exchange rates. Sales in the first half amounted to SEK 223.9 (188.7) million representing an increase of 19% as reported or 4% at fixed exchange rates.

Driven by the sales performance gross profit amounted to SEK 61.1 (54.4) million in the second quarter and SEK 126.9 (103.9) million in the first half. The gross profit margin was 57.1% (54.3%) in the second quarter and 56.7% (55.1%) in the first half. The gross margin performance is impacted by a combination of a favourable product mix as well as the influence of the relative sales performance on the fixed overhead base.

Operating expenses in the second quarter amounted to SEK 21.6 (20.4) million representing an increase of 6% as reported. Operating expenses in the first half amounted to SEK 42.0 (38.3) million representing an increase of 10% as reported. At fixed exchange rates operating expenses reduced by 5% and 3% in the second quarter and first half respectively. This reflects cost reduction actions taken in 2014.

Operating profit amounted to SEK 39.5 (34.0) million in the second quarter and SEK 84.9 (65.6) million in the first half. As a result of the improvement in gross margin % and cost reduction actions taken on overhead expenses, overall operating profit margins have improved to 37% (34%) in the second quarter and 38% (35%) in the first half.

Financing charges and profits before tax

Net financial expenses amounted to SEK 11.9 (28.1) million in the first quarter and 38.3 (46.5) million in the first half. The changes in net financial expenses arise from a combination of reductions in underlying financing charges and changes in non-recurring financing charges.

Underlying net financing charges reduced to SEK 9.5 (13.8) million in the second quarter and SEK 18.9 (27.9) million in the first half, primarily as a result of the strategic refinancing of the bond at a lower interest rate.

Non-recurring financial charges totalled SEK 2.4 (14.3) million in the second quarter and SEK 19.4 (18.6) million in the first half. They mainly comprise changes in the fair value of derivative financial

instruments and exchange gains and losses on third party and inter-company financing balances in the current year. In the previous year there were additionally unwinding of discount charges on non-interest bearing liabilities.

Adjusted profits before tax (adjusted to remove the effect of non-recurring financing items) therefore increased by 49% to SEK 30.0 (20.2) million in the second quarter and by 75% to SEK 66.0 (37.7) million in the first half 2015.

Taxes

Income taxes amounted to a charge of SEK 5.5 (7.7) million in the second quarter and SEK 9.3 (11.5) million in the first half 2015. As for the net financial expenses the tax charge comprises tax on the underlying business performance as well as non-recurring tax items.

The underlying tax charge was SEK 6.0 (4.2) million in the second quarter and SEK 13.2 (8.0) million in the first half, the increase largely due to an increase in underlying profits before tax.

Non-recurring tax credits totalled SEK 0.5 (charge of 3.5) million in the second quarter and SEK 3.9 (charge of 3.5) million in the first half. These relate to tax effects on non-recurring financing items and other non-recurring tax items.

Earnings per share

After allowing for the profits after tax attributable to minority interests adjusted earnings per share (adjusted for non-recurring financing and tax items) increased by 52% to SEK 0.44 (0.29) per share in the second quarter and by 80% to SEK 0.97 (0.54) in the first half.

Cash flow and financial position

Net cash flow from operating activities before changes in working capital amounted to SEK 38.3 (32.0) million in the second quarter and SEK 67.2 (35.9) million in the first half. The increases are mainly explained by the increase in operating profit but the first half performance has additionally benefitted from a SEK 8 million reduction in interest payments in the first quarter arising from the strategic refinancing of the bond.

Changes in working capital increased cash flow by SEK 9.0 (2.5) million in the second quarter and reduced cash flow by SEK 1.0 (5.9)

million in the first half. Changes in working capital are mostly influenced by the phasing of sales.

Cash flows from investing activities were an inflow of SEK 0.3 (outflow of 2.0) million in the second quarter and an outflow of SEK 18.4 (4.3) million in the first half. The net inflow in the second quarter arises from the disposal of marketable securities, offsetting cash outflows relating to investments in new plant and equipment. Cash flow in the first half of 2015 includes the final cash flow of SEK 14.4 million relating to the acquisition of the Tenmat business and the first annual payment of GBP 230,000 (SEK 2.9 million) agreed with the trustees of the Tenmat defined benefit pension scheme.

Cash flows from financial activities amounted to an outflow of SEK 1.8 (5.2) million in the second quarter and SEK 3.7 (7.1) million in the first half. This relates to the continued amortisation of the bank loan in the Hob Certec business.

Cash flow for the period, therefore, amounted to a cash inflow of SEK 45.8 (27.3) million in the second quarter and SEK 44.1 (18.6) million in the first half. After adjusting for exchange rate differences, cash and cash equivalents at the end of the period amounted to SEK 148.4 (166.0) million.

Net debt

Net debt at June 30, 2015 amounted to SEK 372.9 (376.3) million, a reduction of SEK 44.2 (19.4) million during the first half of the year.

Equity and number of shares

The parent company's share capital at June 30, 2015 consisted of SEK 1,100,313 divided into 52,593,751 shares with a quota value of SEK 0.0209.

Group equity at June 30, 2015 amounted to SEK 498.8 (384.8) million, an increase of SEK 113.6 (73.0) million during the first half of the year. In addition to the net profit of SEK 37.3 (7.6) million reported for the period foreign exchange gains of SEK 76.3 (65.4) million arose primarily on GBP denominated net assets within the business.

Employees

As of June 30, 2015 the Diamorph group had 254 (255) employees.

Parent Company

The Parent Company's net revenue amounted to SEK 1.0 (0.8) million in the second quarter and SEK 2.0 (1.6) million in the first half. The operating loss amounted to SEK 0.4 (2.2) million in the second quarter and SEK 0.2 (4.6) million in the first half, the improvement reflecting cost reduction actions taken. Cash and cash equivalents at the end of the period amounted to SEK 2.0 (42.0) million.

Risks and uncertainties

The risk assessment is unchanged to the risk situation presented in the Annual Report for 2014.

Accounting principles

The accounting policies are unchanged since the last annual report. For a detailed description of the accounting policies applied by the Group and the Parent Company in this report see the Annual Report for fiscal year 2014, page 28.

Adjusted performance measures

Diamorph provides adjusted figures for key performance measures in addition to those reported under IFRS. The definitions of the adjusted measures are set out in notes 29 and 30 in the Annual Report for fiscal year 2014 and are unchanged.

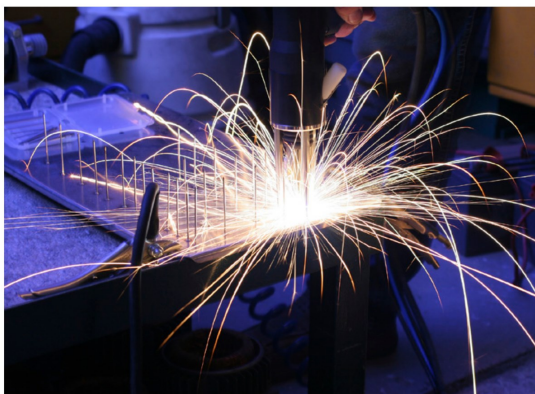
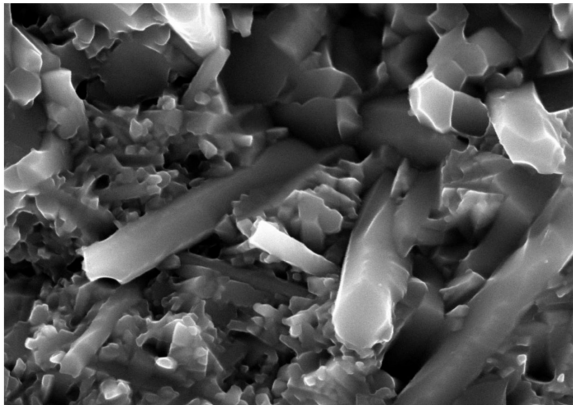
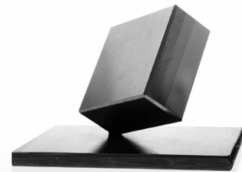
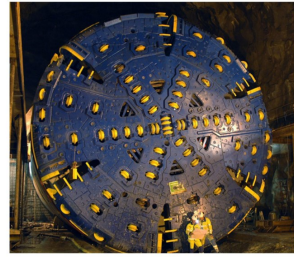
Approval and audit

The interim financial statements were approved by the board of directors on August 21, 2015.

The interim financial statements have not been audited.

Stockholm August 21, 2015.

Fredrik Svedberg
CEO



Group income statement

Amounts in Swedish Krona (SEK) millions	Q2 2015	Q2 2014	Q1-Q2 2015	Q1- Q2 2014	2014
Net sales	107.0	100.1	223.9	188.7	383.7
Cost of goods sold	-45.9	-45.7	-97.0	-84.8	-171.1
Gross profit	61.1	54.4	126.9	103.9	212.6
<i>Operating expenses</i>					
Sales	-13.5	-11.1	-24.6	-20.4	-42.5
Admin	-6.5	-6.3	-13.7	-11.8	-30.2
R&D	-2.2	-3.0	-4.3	-6.1	-12.4
Other operating income	0.6	-	0.6	-	0.3
Operating expenses	-21.6	-20.4	-42.0	-38.3	-84.8
Operating profit before non-recurring items	39.5	34.0	84.9	65.6	127.8
Non-recurring items	-	-	-	-	-3.4
Operating profit	39.5	34.0	84.9	65.6	124.4
<i>Financial items</i>					
Financial income	-	0.1	-	0.2	0.3
Financial expenses	-9.5	-13.9	-18.9	-28.1	-51.7
Non-recurring financial charges	-2.4	-14.3	-19.4	-18.6	-77.7
Net financial	-11.9	-28.1	-38.3	-46.5	-129.1
Profit/loss before income tax	27.6	5.9	46.6	19.1	-4.7
Income taxes	-5.5	-7.7	-9.3	-11.5	-1.1
Profit/loss for the period	22.1	-1.8	37.3	7.6	-5.8
Consolidated statement of comprehensive income					
Profit/loss for the period	22.1	-1.8	37.3	7.6	-5.8
<i>Other comprehensive profit/loss for the period</i>					
Actuarial loss, net after tax	-	-	-	-	-34.2
Exchange rate differences	17.9	59.7	76.3	65.4	117.7
Other comprehensive profit for the period	17.9	59.7	76.3	65.4	83.5
Total comprehensive profit for the period	40.0	57.9	113.6	73.0	77.7
<i>Profit/loss for the period attributable to:</i>					
Parent Company shareholders	21.3	-2.5	36.3	6.3	-8.1
Non-controlling interests	0.8	0.7	1.0	1.3	2.3
<i>Total comprehensive profit attributable to:</i>					
Parent Company shareholders	39.2	56.6	112.0	71.2	74.3
Non-controlling interests	0.8	1.3	1.6	1.8	3.4

Group balance sheet

Amounts in Swedish Krona (SEK) millions	Q2 2015	Q2 2014	2014
ASSETS			
<i>Fixed assets</i>			
Intangible assets	788.7	703.1	741.9
Tangible assets	68.8	67.0	65.1
Financial assets	-	25.5	-
Total fixed assets	857.5	795.6	807.0
<i>Current assets</i>			
Inventories	28.3	31.0	28.8
Accounts receivable	72.0	65.4	69.0
Other receivables	8.6	4.6	10.9
Investments in marketable securities	5.7	-	9.0
Restricted cash	8.0	3.1	8.2
Cash and cash equivalents	148.4	166.0	104.2
Total current assets	271.0	270.1	230.1
TOTAL ASSETS	1128.5	1065.7	1037.1
EQUITY			
<i>Equity</i>	498.8	384.8	385.2
Total equity	498.8	384.8	385.2
LIABILITIES			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	519.6	447.2	522.8
Pension liability	15.7	-	17.5
Deferred tax liability	33.4	36.9	30.9
Provisions	-	30.7	-
Other non-current financial liabilities	4.3	-	4.3
Total long-term liabilities	573.0	514.8	575.5
<i>Current liabilities</i>			
Interest-bearing liabilities	7.4	7.1	7.5
Accrued interest	11.3	24.9	11.3
Accounts payable	20.3	24.8	22.1
Other liabilities and provisions	17.7	109.3	35.5
Total current liabilities	56.7	166.1	76.4
TOTAL LIABILITIES AND EQUITY	1128.5	1065.7	1037.1

Group changes in equity

Amounts in Swedish Krona (SEK) millions	Equity attributable to Parent Company shareholders	Non-controlling interests	Total Equity
Opening balance as per 2015-01-01	365.9	19.3	385.2
Profit for the period	36.3	1.0	37.3
<i>Other comprehensive income</i>			
Exchange rate differences	75.7	0.6	76.3
Balance on 2015-06-30	477.9	20.9	498.8
Opening balance as per 2014-01-01	295.4	16.4	311.8
Profit for the period	6.3	1.3	7.6
<i>Other comprehensive income</i>			
Exchange rate differences	64.9	0.5	65.4
Balance on 2014-06-30	366.6	18.2	384.8
Opening balance as per 2014-01-01	295.4	16.4	311.8
Profit/loss for the period	-8.1	2.3	-5.8
<i>Other comprehensive income</i>			
Actuarial loss on defined benefit pension schemes	-42.7	-	-42.7
Tax on actuarial loss on defined benefit pension schemes	8.5	-	8.5
Exchange rate differences	116.6	1.1	117.7
<i>Transactions with shareholders</i>			
Revaluation of put option over non-controlling interests	-3.8	-0.5	-4.3
Balance on 2014-12-31	365.9	19.3	385.2

Group cash flow

Amounts in Swedish Krona (SEK) millions	Q2 2015	Q2 2014	Q1- Q2 2015	Q1- Q2 2014	2014
<i>Cash flow from operations</i>					
Operating profit	39.5	34.0	84.9	65.6	124.4
<i>Adjustments for items not included in cash flow :</i>					
Depreciation & amortisation	2.7	2.3	5.4	4.5	13.0
Interest received	-	0.2	-	0.2	0.3
Interest paid	-0.2	-0.3	-18.0	-26.3	-64.8
Tax paid	-3.7	-4.2	-5.1	-8.1	-11.3
Cash flow from operations before change in working capital	38.3	32.0	67.2	35.9	61.6
Changes in working capital	9.0	2.5	-1.0	-5.9	4.5
Cash flow from operations	47.3	34.5	66.2	30.0	66.1
<i>Cash flow from investment activities</i>					
Payments relating to acquisition of subsidiaries	-	-	-14.4	-	-117.9
Transfer of restricted cash relating to acquisition of subsidiaries	-	-	-	-	-4.8
Payment to defined benefit pension scheme	-	-	-2.9	-	-
Investments in tangible and intangible fixed assets	-1.5	-2.0	-4.4	-4.3	-6.6
Investments in/disposal of marketable securities	1.8	-	3.3	-	-9.0
Total cash flow from investment activities	0.3	-2.0	-18.4	-4.3	-138.3
Free cash flow for the period	47.6	32.5	47.8	25.7	-72.2
<i>Cash flow from financial activities</i>					
New loans, net of transaction costs	-	-	-	-	349.2
Repayment of loans, including early redemption fee	-	-	-	-	-314.9
Amortisation of loans	-1.8	-5.2	-3.7	-7.1	-10.7
Total cash flow from financial activities	-1.8	-5.2	-3.7	-7.1	23.6
Cash flow for the period	45.8	27.3	44.1	18.6	-48.6
Cash and cash equivalents at beginning of period	102.9	133.5	104.2	141.4	141.4
Exchange rate differences	-0.3	5.2	0.1	6.0	11.4
Cash and cash equivalents at end of period	148.4	166.0	148.4	166.0	104.2

Parent Company income statement

Amounts in Swedish Krona (SEK) millions	Q2 2015	Q2 2014	Q1- Q2 2015	Q1- Q2 2014	2014
Net sales	1.0	0.8	2.0	1.6	3.4
Cost of goods sold	-	-	-	-	-
Gross profit	1.0	0.8	2.0	1.6	3.4
<i>Operating expenses</i>					
Sales	-0.5	-0.9	-0.7	-1.7	-3.8
Admin	-0.9	-1.0	-1.5	-2.2	-5.0
R&D	-	-1.1	-	-2.3	-4.3
Operating expenses	-1.4	-3.0	-2.2	-6.2	-13.1
Operating loss before non-recurring items	-0.4	-2.2	-0.2	-4.6	-9.7
Non-recurring items	-	-	-	-	-3.4
Operating loss	-0.4	-2.2	-0.2	-4.6	-13.1
<i>Financial Items</i>					
Financial income	9.4	13.6	19.0	27.6	95.5
Financial expenses	-9.3	-13.6	-18.7	-27.3	-96.3
Net financial	0.1	-	0.3	0.3	-0.8
Profit/loss before income tax	-0.3	-2.2	0.1	-4.3	-13.9
Income taxes	-	-	-	-	-
Profit/loss for the period	-0.3	-2.2	0.1	-4.3	-13.9

Parent Company balance sheet

Amounts in Swedish Krona (SEK) millions	Q2 2015	Q2 2014	2014
ASSETS			
<i>Fixed assets</i>			
Tangible assets	-	3.1	-
Financial assets	684.1	605.6	683.2
Total fixed assets	684.1	608.7	683.2
<i>Current assets</i>			
Other receivables	51.5	35.1	49.2
Investments in marketable securities	5.7	-	9.0
Cash and cash equivalents	2.0	42.0	2.9
Total current assets	59.2	77.1	61.1
TOTAL ASSETS	743.3	685.8	744.3
EQUITY			
<i>Equity</i>	224.4	233.9	224.3
Total equity	224.4	233.9	224.3
LIABILITIES			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	492.7	413.9	491.8
Total long-term liabilities	492.7	413.9	491.8
<i>Current liabilities</i>			
Accrued interest	11.2	24.7	11.2
Accounts payable	0.1	0.4	0.2
Other liabilities and provisions	14.9	12.9	16.8
Total current liabilities	26.2	38.0	28.2
TOTAL LIABILITIES AND EQUITY	743.3	685.8	744.3

Parent Company cash flow

Amounts in Swedish Krona (SEK) millions	Q2 2015	Q2 2014	Q1- Q2 2015	Q1- Q2 2014	2014
<i>Cash flow from operations</i>					
Operating profit	-0.4	-2.2	-0.2	-4.6	-13.1
<i>Adjustments for items not included in cash flow :</i>					
Depreciation & amortisation	-	0.1	-	0.2	3.3
Interest received	-	25.5	17.5	25.5	37.7
Interest paid	-	-	-17.5	-25.5	-63.2
Cash flow from operations before change in working capital	-0.4	23.4	-0.2	-4.4	-35.3
Changes in working capital	-1.3	-0.7	-4.0	-1.4	-2.1
Cash flow from operations	-1.7	22.7	-4.2	-5.8	-37.4
<i>Cash flow from investment activities</i>					
Repayment of long term receivable	-	-	-	-	2.0
Increase in long term loan to Group companies	-	-	-	-	-34.8
Investments in/disposal of marketable securities	1.8	-	3.3	-	-9.0
Total cash flow from investment activities	1.8	-	3.3	-	-41.8
Free cash flow for the period	0.1	22.7	-0.9	-5.8	-79.2
<i>Cash flow from financial activities</i>					
New loans, net of transaction costs	-	-	-	-	349.2
Repayment of loans, including early redemption fee	-	-	-	-	-314.9
Total cash flow from financial activities	-	-	-	-	34.3
Cash flow for the period	0.1	22.7	-0.9	-5.8	-44.9
Cash and cash equivalents at beginning of period	1.9	19.3	2.9	47.8	47.8
Cash and cash equivalents at the end of the period	2.0	42.0	2.0	42.0	2.9

Calendar

Interim Report Q3 2015

27 November 2015

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Diamorph AB (publ)

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Diamorph supplies advanced material solutions for especially demanding industrial applications. The company is headquartered in Stockholm and has subsidiaries in the Czech Republic and the United Kingdom. Diamorph's vision is to become a globally leading niche supplier of advanced materials. Learn more at www.diamorph.com.



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