

## INTERIM REPORT FIRST QUARTER 2016

### First quarter

- Net sales decreased by 8% to SEK 107.4 (116.9) million. Adjusted to fixed exchange rates, net sales decreased by 7%.
- Operating profit reduced by 28% to SEK 32.9 (45.4) million.
- Profit before tax, excluding non-recurring items, reduced by 35% to SEK 23.5 (36.0) million.
- The results for the first quarter should be considered against a strong comparative in the first quarter of 2015. They also reflect longer term investments being made in sales and marketing to support the launch of the new Ferobide product and grow sales of existing products.

Amounts in SEK millions (unless stated otherwise)	Q1 2016	Q1 2015	Δ%	2015
Net sales	107.4	116.9	-7 <sup>1</sup>	431.5
Operating profit	32.9	45.4	-28	151.2
Operating profit margin, % <sup>1</sup>	30.6	38.8		35.0
Profit before tax <sup>1</sup>	23.5	36.0	-35	113.5
Operating cash flow	20.2	35.2	-43	160.9
Operating cash conversion, %	61	78		106
Earnings per share <sup>1</sup> (SEK)	0.34	0.53	-36	1.67
Average number of shares ('000)	52,594	52,594		52,594
<sup>1</sup> Adjusted to fixed exchange rates and excluding non-recurring items - see adjusted performance measures on page 4				
Operating profit - reported	32.9	45.4		151.2
Profit/loss before tax - reported	49.8	19.0		108.2
Earnings/loss per share - reported (SEK)	0.74	0.29		1.65

# Operations

## First quarter

### Market

The demand in the markets in which we operate has continued to develop consistently with our previous expectations. It should be noted that the first quarter of 2015 represented a particularly strong comparative being the strongest quarter for Diamorph in 2015.

The softer market conditions noted in our more recent quarterly reports have largely persisted through the first quarter but given the diversity of the markets we serve the picture is quite mixed. We continue to see opportunities in the markets we serve and are targeting sales growth in 2016, although some projects may be phased more toward the second half of the year.

As noted previously we launched Ferobide, a new wear part product, in late 2015. Ferobide is being initially focused on the agricultural sector. The launch has been well received but this sector is naturally conservative when it comes to adopting new technologies. Sales in the first quarter were close to SEK 1.0 million and we remain cautiously optimistic about the prospects for this product.

### Sales

Sales for the first quarter amounted to SEK 107.4 (116.9) million representing a decrease of 8% as reported. At fixed exchange rates sales decreased by 7% compared with the same period last year but increased by 1% compared with the fourth quarter of 2015. The relative performance of each business area is explained below.

Sales of high temperature materials amounted to SEK 67.7 (69.0) million representing a decrease of 2% as reported. At fixed exchange rates sales decreased by 2% compared with the same period last year. Demand for our ceramic conveyor roller products has remained very healthy through the first quarter. Demand for our fire protection products has remained solid but sales were lower than in the first quarter of 2015 partly as a result of reductions in UK government building insulation incentives after last spring's election. At fixed exchange rates sales decreased by 3% compared with the fourth quarter of 2015 when there were higher sales of products for the glass processing industry.

Sales of wear parts and bearings amounted to SEK 39.7 (47.9) million representing a decrease of 17% as reported. At fixed exchange rates sales decreased by 15% compared with the same period last year, largely because of reduced rotor vane sales where the pace of customer expenditure in the oil and gas industry has had a marked impact. The first quarter of 2015 also benefitted from higher tanker pad wear part sales which have been at a reduced level so far in 2016. At fixed exchange rates sales increased by 8% compared with the fourth quarter of 2015 reflecting the first sales of the Ferobide product line referred to previously, as well as some more recent improvement in the level of rotor vane sales.

# Financial performance

## Revenues and profits

### *Revenue and operating profit performance*

As described above, sales for the first quarter amounted to SEK 107.4 (116.9) million, representing a decrease of 8% as reported or a decrease of 7% at fixed exchange rates.

Driven by the sales performance gross profit amounted to SEK 58.5 (65.8) million in the first quarter. The gross profit margin was 54.5% (56.3%) in the first quarter, being impacted by a combination of the product mix as well as the influence of the relative sales performance on the fixed overhead base.

Operating expenses in the first quarter amounted to SEK 25.6 (20.4) million representing an increase of 25% as reported. At fixed exchange rates operating expenses increased by 19% as investments are being made to support the launch of the Ferobide product and the sales and marketing teams have been strengthened to support growth of other existing product lines.

Operating profit before non-recurring items therefore amounted to SEK 32.9 (45.4) million in the first quarter. As a result of the change in gross margin % and increase in operating expenses, overall operating profit margins have reduced to 31% (39%) in the first quarter.

No non-recurring operating expenses were reported.

### *Financing charges and profits before tax*

Net financial items amounted to income of SEK 16.9 (expenses of 26.4) million in the first quarter. The changes in net financial items arise from changes in non-recurring financing charges as underlying net financial expenses remained flat at SEK 9.4 (9.4) million.

Non-recurring financial items totalled a credit of SEK 26.3 (charge of 17.0) million in the first quarter. They mainly comprise exchange gains and losses on third party and intercompany financing balances and changes in the fair value of derivative financial instruments. Exchange gains arose in the first quarter of 2016 as SEK has strengthened against GBP whilst losses arose in the first quarter of 2015 as SEK weakened against GBP during that period.

Adjusted profits before tax (adjusted to remove the effect of non-recurring financing items) therefore decreased by 35% to SEK 23.5 (36.0) million in the first quarter.

### *Taxes*

Income taxes amounted to a charge of SEK 10.0 (3.8) million in the first quarter. As for the net financial items income taxes comprises tax on the underlying business performance as well as non-recurring tax items.

The underlying tax charge was SEK 4.7 (7.2) million in the first quarter. The underlying tax charge represents an effective tax rate of 20% (20%) of adjusted profits before tax.

The non-recurring tax charges in the first quarter amounted to SEK 5.3 (credit of 3.4) million. These relate to tax effects on the non-recurring financing items described above.

### *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) decreased by 36% to SEK 0.34 (0.53) per share in the first quarter.

## Cash flow and financial position

Net cash flow from operating activities before changes in working capital amounted to SEK 11.3 (28.9) million in the first quarter. The decrease is explained by a combination of the decrease in operating profit referred to above and an increase in tax payments. Cash tax payments in 2015 were reduced by a number of factors including deductions for foreign exchange losses.

Changes in working capital reduced cash flow by SEK 12.4 (10.0) million in the first quarter. Changes in working capital are mostly influenced by the phasing of sales.

Cash outflows from investing activities were SEK 24.6 (18.7) million in the first quarter. Cash outflows include SEK 19.0 million relating to the acquisition of a further 10% of Diamorph Bearings AB (see below) and although the transaction completed in early April 2016, cash payments were held in escrow at the end of March. In the previous year the cash flow included the final payment of SEK 14.4 million relating to the acquisition of the Tenmat business. In both periods, cash outflows include payments of GBP 230,000 into the Tenmat defined benefit pension scheme.

Cash flows from financial activities amounted to an outflow of SEK 1.8 (1.9) million in the first quarter, relating to the continued amortisation of the bank loan in the Hob Certec business.

Cash flow for the period, therefore, amounted to a cash outflow of SEK 27.5 (1.7) million in the first quarter. After adjusting for exchange rate differences, cash and cash equivalents at the end of the period amounted to SEK 164.9 (102.9) million.

#### *Net debt*

Net debt at the end of the period amounted to SEK 357.5 (417.9) million, an increase of SEK 28.3 (0.8) million during the period.

## Equity and number of shares

The parent company's share capital at March 31, 2016 consisted of SEK 1,100,313 divided into 52,593,751 shares with a quota value of SEK 0.0209.

Group equity at March 31, 2016 amounted to SEK 471.0 (458.8) million, a decrease of SEK 44.6 (increase of 73.6) million during the first quarter. In addition to the net profit of SEK 39.8 (15.2) million reported for the first quarter foreign exchange losses of SEK 84.4 (gains of 58.4) million arose primarily on GBP denominated net assets within the business.

## Events occurring after the period end

In April 2016, Diamorph AB (publ) acquired a further 10% of Diamorph Bearings AB from 2 of the minority shareholders for consideration of SEK 22.8 million in a combination of cash and a promissory loan note. Diamorph AB (publ) now controls 90% of Diamorph Bearings AB.

In May 2016, the remaining minority shareholder in Diamorph Bearings AB issued a notice to exercise a put option requiring Diamorph Bearings AB to redeem his 10% shareholding for cash. Redemption of the shares is expected to take place in the first quarter of 2017 and thereafter Diamorph AB (publ) will control 100% of Diamorph Bearings AB. Further information regarding the put option is set out in note 4 of the Annual Report for 2015.

## Related party transactions

As disclosed in note 26 of the Annual Report for 2015, the financing arrangements for the acquisition of the Tenmat business in 2012 meant that senior executives held interests in the SEK 500 million bond issued by Diamorph AB (publ). In the first quarter of 2016, those interests have been sold in the open market and no senior executive held any interest in the bond at March 31, 2016.

During the first quarter Latour-Gruppen AB, a significant shareholder in Diamorph AB (publ), acquired SEK 144 million of bonds by making purchases in the open market. At March 31, 2016 Diamorph AB (publ) therefore had liabilities of SEK 144 million to Latour-Gruppen AB.

## Employees

As of March 31, 2016 the Diamorph group had 270 (253) employees.

## Parent Company

The Parent Company's net revenue amounted to SEK 0.4 (1.0) million in the first quarter. The operating result before non-recurring items amounted to a loss of SEK 0.9 (profit 0.2) million in the first quarter. Cash and cash equivalents at the end of the period amounted to SEK 24.6 (1.9) million.

## Risks and uncertainties

The risk assessment is unchanged to the risk situation presented in the Annual Report for 2015.

## 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 2015, page 26.

## 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 28 and 29 in the Annual Report for 2015 and are unchanged except that the way sales growth at fixed exchange rates is calculated has been expanded to additionally include adjustments for the effect of changes in US dollar and Euro exchange rates on the consolidated GBP results of the Tenmat business. The way changes in operating expenses at fixed exchange rates is calculated has been similarly expanded and also adjusted to remove the effect of unrealised gains and losses on forward exchange rates used for hedging purposes. Both of these changes have been made in order to more fairly demonstrate the underlying position given that GBP exchange rates have recently been quite markedly impacted by uncertainty leading up to the UK referendum on EU membership.

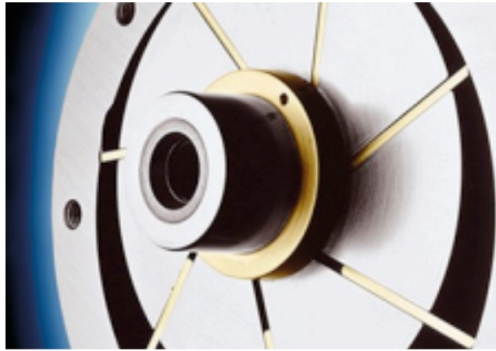
## Approval and audit

The interim financial statements were approved by the board of directors on May 23, 2016.

The interim financial statements have not been audited.

Stockholm May 23, 2016.

Gordon MacLeman  
CEO



# Group income statement

Amounts in Swedish Krona (SEK) millions	Q1 2016	Q1 2015	2015
Net sales	107.4	116.9	431.5
Cost of goods sold	-48.9	-51.1	-190.5
<b>Gross profit</b>	<b>58.5</b>	<b>65.8</b>	<b>241.0</b>
<i>Operating expenses</i>			
Sales	-14.1	-11.1	-52.5
Admin	-9.1	-7.2	-28.6
R&D	-2.4	-2.1	-9.3
Other operating income	-	-	0.6
Operating expenses	-25.6	-20.4	-89.8
<b>Operating profit before non-recurring items</b>	<b>32.9</b>	<b>45.4</b>	<b>151.2</b>
Non-recurring items	-	-	-
<b>Operating profit</b>	<b>32.9</b>	<b>45.4</b>	<b>151.2</b>
<i>Financial items</i>			
Financial income	-	-	0.2
Financial expenses	-9.4	-9.4	-37.9
Non-recurring financial charges	26.3	-17.0	-5.3
Net financial	16.9	-26.4	-43.0
<b>Profit before income tax</b>	<b>49.8</b>	<b>19.0</b>	<b>108.2</b>
Income taxes	-10.0	-3.8	-18.6
<b>Profit for the period</b>	<b>39.8</b>	<b>15.2</b>	<b>89.6</b>
<b>Consolidated statement of comprehensive income</b>			
Profit for the period	39.8	15.2	89.6
<i>Other comprehensive profit/loss for the period</i>			
Actuarial profit, net after tax	-	-	17.3
Exchange rate differences	-84.4	58.4	25.8
Other comprehensive profit / loss for the period	-84.4	58.4	43.1
<b>Total comprehensive profit / loss for the period</b>	<b>-44.6</b>	<b>73.6</b>	<b>132.7</b>
<i>Profit for the period attributable to:</i>			
Parent Company shareholders	38.8	15.0	86.7
Non-controlling interests	1.0	0.2	2.9
<i>Total comprehensive profit / loss attributable to:</i>			
Parent Company shareholders	-45.7	72.8	129.5
Non-controlling interests	1.1	0.8	3.2

# Group balance sheet

Amounts in Swedish Krona (SEK) millions	Q1 2016	Q1 2015	2015
<b>ASSETS</b>			
<i>Fixed assets</i>			
Intangible assets	704.8	777.4	756.3
Tangible assets	67.4	68.1	69.3
Financial assets	8.6	-	6.3
<b>Total fixed assets</b>	<b>780.8</b>	<b>845.5</b>	<b>831.9</b>
<i>Current assets</i>			
Inventories	32.4	29.3	30.5
Accounts receivable	67.1	81.7	64.2
Other receivables	4.0	7.4	5.3
Investments in marketable securities	-	7.5	-
Restricted cash	32.9	8.1	13.7
Cash and cash equivalents	164.9	102.9	194.3
<b>Total current assets</b>	<b>301.3</b>	<b>236.9</b>	<b>308.0</b>
<b>TOTAL ASSETS</b>	<b>1082.1</b>	<b>1082.4</b>	<b>1139.9</b>
<b>EQUITY</b>			
<i>Equity</i>	471.0	458.8	515.6
<b>Total equity</b>	<b>471.0</b>	<b>458.8</b>	<b>515.6</b>
<b>LIABILITIES</b>			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	515.1	521.0	516.3
Pension liability	-	15.5	-
Deferred tax liability	28.7	32.4	31.4
Other non-current financial liabilities	6.6	4.3	6.6
<b>Total long-term liabilities</b>	<b>550.4</b>	<b>573.2</b>	<b>554.3</b>
<i>Current liabilities</i>			
Interest-bearing liabilities	7.3	7.3	7.2
Accrued interest	2.5	2.5	11.3
Accounts payable	24.7	23.7	26.2
Other liabilities and provisions	26.2	16.9	25.3
<b>Total current liabilities</b>	<b>60.7</b>	<b>50.4</b>	<b>70.0</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1082.1</b>	<b>1082.4</b>	<b>1139.9</b>

## Group changes in equity

Amounts in Swedish Krona (SEK) millions	Equity attributable to Parent Company shareholders	Non-controlling Interests	Total Equity
<b>Opening balance as per 2016-01-01</b>	<b>493.3</b>	<b>22.3</b>	<b>515.6</b>
Profit for the period	38.8	1.0	39.8
<i>Other comprehensive income</i>			
Exchange rate differences	-84.5	0.1	-84.4
<b>Balance on 2016-03-31</b>	<b>447.6</b>	<b>23.4</b>	<b>471.0</b>
<b>Opening balance as per 2015-01-01</b>	<b>365.9</b>	<b>19.3</b>	<b>385.2</b>
Profit for the period	15.0	0.2	15.2
<i>Other comprehensive income</i>			
Exchange rate differences	57.8	0.6	58.4
<b>Balance on 2015-03-31</b>	<b>438.7</b>	<b>20.1</b>	<b>458.8</b>
<b>Opening balance as per 2015-01-01</b>	<b>365.9</b>	<b>19.3</b>	<b>385.2</b>
Profit for the period	86.7	2.9	89.6
<i>Other comprehensive income</i>			
Actuarial gain on defined benefit pension schemes	22.8	-	22.8
Tax on actuarial gain on defined benefit pension schemes	-5.5	-	-5.5
Exchange rate differences	25.5	0.3	25.8
<i>Transactions with shareholders</i>			
Revaluation of put option over non-controlling interests	-2.1	-0.2	-2.3
<b>Balance on 2015-12-31</b>	<b>493.3</b>	<b>22.3</b>	<b>515.6</b>



## Group cash flow

Amounts in Swedish Krona (SEK) millions	Q1 2016	Q1 2015	2015
<i>Cash flow from operations</i>			
Operating profit	32.9	45.4	151.2
<i>Adjustments for items not included in cash flow :</i>			
Depreciation & amortisation	2.6	2.7	11.2
Interest received	-	-	0.2
Interest paid	-17.7	-17.8	-36.1
Tax paid	-6.5	-1.4	-12.9
Cash flow from operations before change in working capital	11.3	28.9	113.6
Changes in working capital	-12.4	-10.0	8.5
<b>Cash flow from operations</b>	<b>-1.1</b>	<b>18.9</b>	<b>122.1</b>
<i>Cash flow from investment activities</i>			
Payments relating to acquisition of subsidiaries	-	-14.4	-14.4
Transfer of restricted cash relating to acquisition of subsidiaries	-19.0	-	-5.9
Payment to defined benefit pension scheme	-2.7	-2.9	-2.9
Investments in tangible and intangible fixed assets	-2.9	-2.9	-10.0
Investments in / disposal of marketable securities	-	1.5	9.0
Total cash flow from investment activities	-24.6	-18.7	-24.2
<b>Free cash flow for the period</b>	<b>-25.7</b>	<b>0.2</b>	<b>97.9</b>
<i>Cash flow from financial activities</i>			
Amortisation of loans	-1.8	-1.9	-7.4
Total cash flow from financial activities	-1.8	-1.9	-7.4
<b>Cash flow for the period</b>	<b>-27.5</b>	<b>-1.7</b>	<b>90.5</b>
Cash and cash equivalents at beginning of period	194.3	104.2	104.2
Exchange rate differences	-1.9	0.4	-0.4
<b>Cash and cash equivalents at end of period</b>	<b>164.9</b>	<b>102.9</b>	<b>194.3</b>

# Parent Company income statement

Amounts in Swedish Krona (SEK) millions	Q1 2016	Q1 2015	2015
Net sales	0.4	1.0	3.8
<b>Gross profit</b>	<b>0.4</b>	<b>1.0</b>	<b>3.8</b>
<i>Operating expenses</i>			
Sales	-0.4	-0.2	-1.8
Admin	-0.9	-0.6	-5.1
R&D	-	-	-
Operating expenses	-1.3	-0.8	-6.9
<b>Operating loss before non-recurring items</b>	<b>-0.9</b>	<b>0.2</b>	<b>-3.1</b>
Non-recurring items	-	-	-
<b>Operating loss</b>	<b>-0.9</b>	<b>0.2</b>	<b>-3.1</b>
<i>Financial Items</i>			
Financial income	9.2	9.6	37.7
Financial expenses	-9.7	-9.4	-37.4
Net financial	-0.5	0.2	0.3
<b>Profit/loss before income tax</b>	<b>-1.4</b>	<b>0.4</b>	<b>-2.8</b>
Income taxes	-	-	-
<b>Profit/loss for the period</b>	<b>-1.4</b>	<b>0.4</b>	<b>-2.8</b>

## Parent Company balance sheet

Amounts in Swedish Krona (SEK) millions	Q1 2016	Q1 2015	2015
<b>ASSETS</b>			
<i>Fixed assets</i>			
Tangible assets	-	-	-
Financial assets	685.4	683.6	684.9
<b>Total fixed assets</b>	<b>685.4</b>	<b>683.6</b>	<b>684.9</b>
<i>Current assets</i>			
Other receivables	2.5	42.0	52.2
Investments in marketable securities	-	7.5	-
Restricted cash	19.0	-	-
Cash and cash equivalents	24.6	1.9	5.0
<b>Total current assets</b>	<b>46.1</b>	<b>51.4</b>	<b>57.2</b>
<b>TOTAL ASSETS</b>	<b>731.5</b>	<b>735.0</b>	<b>742.1</b>
<b>EQUITY</b>			
<i>Equity</i>			
Total equity	220.1	224.7	221.5
<b>LIABILITIES</b>			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	494.0	492.3	493.6
<b>Total long-term liabilities</b>	<b>494.0</b>	<b>492.3</b>	<b>493.6</b>
<i>Current liabilities</i>			
Accrued interest	2.4	2.4	11.2
Accounts payable	0.1	0.1	0.2
Other liabilities and provisions	14.9	15.5	15.6
<b>Total current liabilities</b>	<b>17.4</b>	<b>18.0</b>	<b>27.0</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>731.5</b>	<b>735.0</b>	<b>742.1</b>

## Parent Company cash flow

Amounts in Swedish Krona (SEK) millions	Q1 2016	Q1 2015	2015
<i>Cash flow from operations</i>			
Operating profit	-0.9	0.2	-3.1
<i>Adjustments for items not included in cash flow :</i>			
Depreciation & amortisation	-	-	-
Interest received	17.5	17.5	35.0
Interest paid	-17.5	-17.5	-35.0
Cash flow from operations before change in working capital	-0.9	0.2	-3.1
Changes in working capital	39.5	-2.7	-3.8
<b>Cash flow from operations</b>	<b>38.6</b>	<b>-2.5</b>	<b>-6.9</b>
<i>Cash flow from investment activities</i>			
Transfer of restricted cash relating to acquisition of subsidiaries	-19.0	-	-
Investments in / disposal of marketable securities	-	1.5	9.0
Total cash flow from investment activities	-19.0	1.5	9.0
<b>Cash flow for the period</b>	<b>19.6</b>	<b>-1.0</b>	<b>2.1</b>
Cash and cash equivalents at beginning of period	5.0	2.9	2.9
<b>Cash and cash equivalents at the end of the period</b>	<b>24.6</b>	<b>1.9</b>	<b>5.0</b>

## Calendar

Q2 Report 2016

24 August 2016

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*Diamorph supplies advanced material solutions for especially demanding industrial applications. The company is headquartered in Stockholm and has operations in the United Kingdom and the Czech Republic. Learn more at [www.diamorph.com](http://www.diamorph.com).*



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