

INTERIM REPORT THIRD QUARTER 2015

Third quarter

- Net sales increased by 3% to SEK 98.7 (95.5) million. Adjusted to fixed exchange rates, net sales decreased by 7%.
- Operating profit increased by 5% to SEK 32.3 (30.9) million.
- Profit before tax, excluding non-recurring items, increased by 36% to SEK 22.9 (16.9) million.

January-September

- Net sales increased by 14% to SEK 322.6 (284.2) million. Adjusted to fixed exchange rates, net sales increased by 1%.
- Operating profit increased by 21% to SEK 117.2 (96.5) million
- Profit before tax, excluding non-recurring items, increased by 63% to SEK 88.9 (54.6) million

Amounts in SEK millions (unless stated otherwise)	Q3 2015	Q3 2014	Δ%	Q1- Q3 2015	Q1- Q3 2014	Δ%	2014
Net sales	98.7	95.5	-7 ¹	322.6	284.2	1 ¹	383.7
Operating profit ¹	32.3	30.9	5	117.2	96.5	21	127.8
Operating profit margin, % ¹	32.7	32.4		36.3	34.0		33.3
Profit before tax ¹	22.9	16.9	36	88.9	54.6	63	76.4
Operating cash flow	40.4	34.4	17	125.3	94.3	33	135.3
Operating cash conversion, %	125	111		107	98		109
Earnings per share ¹ (SEK)	0.33	0.19	74	1.30	0.73	78	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	32.3	30.9		117.2	96.5		124.4
Profit/loss before tax - reported	24.3	-38.3		70.9	-19.2		-4.7
Earnings/loss per share - reported (SEK)	0.35	-0.70		1.04	-0.58		-0.15

Operations

Third quarter

Market

The demand in the markets in which we operate has continued to develop consistently with our previous expectations although certain of our markets have continued to soften as the year has progressed.

Our European markets are quite weak and risks and uncertainties continue to exist in this market. The UK market has remained one of the strongest however the tightening of government budgets after the UK general election in May has started to have an impact. The US markets we serve have continued to slow a little, particularly as customer expenditure in the oil and gas sectors has reduced following recent declines in commodity prices.

We are cautious about the near term but notwithstanding the market backdrop we continue to see commercial opportunities in the niche markets we serve. In early November we have launched a new wear part product that will initially be focused on the agricultural sector.

Sales

Sales for the third quarter amounted to SEK 98.7 (95.5) million delivering an increase of 3% as reported. At fixed exchange rates sales decreased by 7% compared with the same period last year and by 10% compared with the second quarter of 2015. The relative performance of each business area is explained below.

Sales of high temperature materials amounted to SEK 61.4 (59.4) million delivering an increase of 3% as reported. At fixed exchange rates sales decreased by 7% compared with the same period last year and by 8% compared with the second quarter of 2015. The third quarter of 2014 included high electrical insulation product sales for the UK rail authority and at that time our sales of ceramic brake discs were also strong. The weaker general market conditions have not created an environment in which reduced business in these areas could be offset although demand for our ceramic conveyor roller products has remained healthy. The decrease in sales compared to the second quarter to some extent also reflects normal seasonality in sales from the traditional impact of summer vacation especially in Europe.

Sales of wear parts and bearings amounted to SEK 37.3 (36.1) million delivering an increase of 3% as reported. At fixed exchange rates sales decreased by 9% compared with the same period last year and by 12% compared with the second quarter of 2015. Sales of wear parts and bearings grew in the third quarter, supported especially by a number of orders from the rail and marine sectors. However this was not sufficient to offset a significant decline in rotor vane sales where the pace of customer expenditure in the oil and gas industry has had a marked impact.

Nine Months

Sales

Sales in the first nine months amounted to SEK 322.6 (284.2) million delivering an increase of 14% as reported. At fixed exchange rates sales increased by 1% 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 195.9 (164.0) million delivering an increase of 19% as reported. At fixed exchange rates sales increased by 7% compared to the same period last year. The increase has been primarily driven by sales of fire protection products in the UK and to a lesser extent US markets as well as sales of ceramic conveyor rollers.

Sales of wear parts and bearings amounted to SEK 126.7 (120.2) million delivering an increase of 5% as reported. At fixed exchange rates sales decreased by 8% compared to the same period last year. In addition to the effect of the slow-down in rotor vane sales, the previous year's performance was impacted by a large marine bearing project in the second quarter of 2014.

Financial performance

Revenues and profits

Revenue and operating profit performance

As described above, sales for the third quarter amounted to SEK 98.7 (95.5) million, representing an increase of 3% as reported or a decrease of 7% at fixed exchange rates. Sales in the first nine months amounted to SEK 322.6 (284.2) million representing an increase of 14% as reported or 1% at fixed exchange rates.

Driven by the sales performance, gross profit amounted to SEK 54.0 (51.9) million in the third quarter and SEK 180.9 (155.8) million in the first nine months. The gross profit margin was 54.7% (54.3%) in the third quarter and 56.1% (54.8%) in the first nine months. 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 third quarter amounted to SEK 21.7 (21.0) million representing an increase of 3% as reported. Operating expenses in the first nine months amounted to SEK 63.7 (59.3) million representing an increase of 7% as reported. At fixed exchange rates operating expenses reduced by 7% and 4% in the third quarter and first nine months respectively. This reflects cost reduction actions taken at the end of 2014.

Operating profit amounted to SEK 32.3 (30.9) million in the third quarter and SEK 117.2 (96.5) million in the first nine months. As a result of the improvement in gross margin % and cost reduction actions taken on overhead expenses, overall operating profit margins have improved to 33% (32%) in the third quarter and 36% (34%) in the first nine months.

Financing charges and profits before tax

Net financial expenses amounted to SEK 8.0 (69.2) million in the third quarter and SEK 46.3 (115.7) million in the first nine months. 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 9.4 (14.0) million in the third quarter and SEK 28.3 (41.9) million in the first nine months, primarily as a result of the strategic refinancing of the bond at a lower interest rate.

Non-recurring financial items totalled a credit of SEK 1.4 (charge of 55.2) million in the third quarter and a charge of SEK 18.0 (73.8) million in the first nine months. They mainly comprise changes in the fair value of derivative financial instruments and exchange gains and losses on third party and intercompany financing balances in the current year. In the previous year there were additionally costs relat-

ing to the refinancing the bond and 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 36% to SEK 22.9 (16.9) million in the third quarter and by 63% to SEK 88.9 (54.6) million in the first nine months 2014.

Taxes

Income taxes amounted to a charge of SEK 4.9 (credit of 2.0) million in the third quarter and SEK 14.2 (9.5) million in the first nine months. 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 4.6 (6.0) million in the third quarter and SEK 17.8 (14.0) million in the first nine months. The underlying tax charge in 2015 represents an effective tax rate of approximately 20% of adjusted profits before tax.

Non-recurring tax charges totalled SEK 0.3 (credit of 8.0) million in the third quarter and there was a non-recurring tax credit of SEK 3.6 (4.5) million in the first nine months. 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 74% to SEK 0.33 (0.19) per share in the third quarter and by 78% to SEK 1.30 (0.73) in the first nine months.

Cash flow and financial position

Net cash flow from operating activities before changes in working capital amounted to SEK 13.7 (6.2) million in the third quarter and SEK 80.9 (42.1) million in the first nine months. The increases are mainly explained by the increase in operating profit and a reduction in interest payments arising from the strategic refinancing of the bond.

Changes in working capital increased cash flow by SEK 7.5 (2.1) million in the third quarter and by SEK 6.5 (reduction of 3.8) million in the first nine months. Changes in working capital are mostly influenced by the phasing of sales.

Cash outflows from investing activities were SEK 2.4 (63.8) million in the third quarter and SEK 20.8 (68.1) million in the first nine months. The outflow in the third quarter arises mainly from setting aside SEK

5.9 (4.8) million of cash under a pledge agreement with a minority shareholder of Diamorph Bearings AB, but is offset by the disposal of SEK 5.7 (-) million of marketable securities. Cash flow from investing activities in the first nine months 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 1.9 (1.8) million in the third quarter and SEK 5.6 (8.9) million in the first nine months. This relates to the continued amortisation of the bank loan in the Hob Certec business.

Cash flow for the period, therefore, amounted to an inflow of SEK 16.9 (outflow of 57.3) million in the third quarter and SEK 61.0 (outflow of 38.7) million in the first nine months. After adjusting for exchange rate differences, cash and cash equivalents at the end of the period amounted to SEK 164.3 (111.4) million.

Net debt

Net debt at September 30, 2015 amounted to SEK 361.9 (387.0) million, a reduction of SEK 55.2 (8.7) million during the first nine months of the year.

Equity and number of shares

The parent company's share capital at September 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 September 30, 2015 amounted to SEK 503.4 (369.4) million, an increase of SEK 118.2 (57.6) million during the first nine months of the year. In addition to the net profit of SEK 56.7 (loss of 28.7) million reported for the first nine month period foreign exchange gains of SEK 61.5 (86.3) million arose primarily on GBP denominated net assets within the business.

Employees

As of September 30, 2015 the Diamorph group had 263 (264) employees.

Parent Company

The Parent Company's net revenue amounted to SEK 0.6 (0.9) mil-

lion in the third quarter and SEK 2.6 (2.5) million in the first nine months. The operating result amounted to a loss of SEK 0.8 (1.6) million in the third quarter and a loss of SEK 1.0 (6.2) in the first nine months, the improvement reflecting cost reduction actions taken. Cash and cash equivalents at the end of the period amounted to SEK 5.9 (25.0) 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.

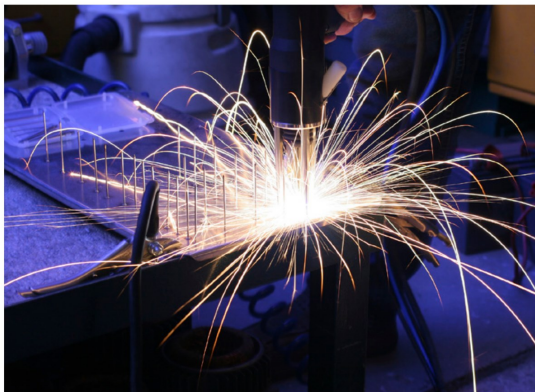
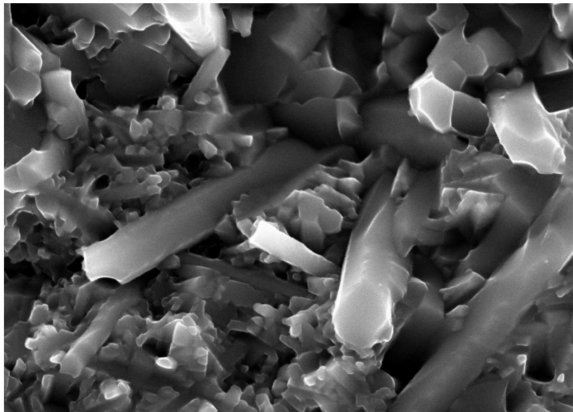
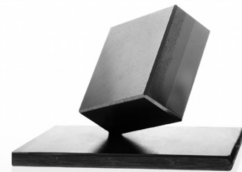
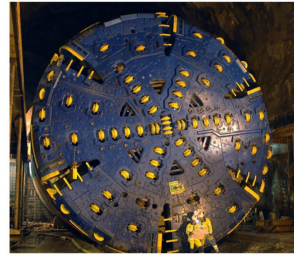
Approval and audit

The interim financial statements were approved by the board of directors on November 27, 2015.

The interim financial statements have not been audited.

Stockholm November 27, 2015.

Gordon MacLeman
CEO



Group income statement

Amounts in Swedish Krona (SEK) millions	Q3 2015	Q3 2014	Q1-Q3 2015	Q1- Q3 2014	2014
Net sales	98.7	95.5	322.6	284.2	383.7
Cost of goods sold	-44.7	-43.6	-141.7	-128.4	-171.1
Gross profit	54.0	51.9	180.9	155.8	212.6
<i>Operating expenses</i>					
Sales	-12.8	-10.6	-37.4	-31.0	-42.5
Admin	-6.5	-7.6	-20.2	-19.4	-30.2
R&D	-2.4	-2.9	-6.7	-9.0	-12.4
Other operating income	-	0.1	0.6	0.1	0.3
Operating expenses	-21.7	-21.0	-63.7	-59.3	-84.8
Operating profit before non-recurring items	32.3	30.9	117.2	96.5	127.8
Non-recurring items	-	-	-	-	-3.4
Operating profit	32.3	30.9	117.2	96.5	124.4
<i>Financial items</i>					
Financial income	0.1	0.1	0.1	0.3	0.3
Financial expenses	-9.5	-14.1	-28.4	-42.2	-51.7
Non-recurring financial charges	1.4	-55.2	-18.0	-73.8	-77.7
Net financial	-8.0	-69.2	-46.3	-115.7	-129.1
Profit/loss before income tax	24.3	-38.3	70.9	-19.2	-4.7
Income taxes	-4.9	2.0	-14.2	-9.5	-1.1
Profit/loss for the period	19.4	-36.3	56.7	-28.7	-5.8
Consolidated statement of comprehensive income					
Profit/loss for the period	19.4	-36.3	56.7	-28.7	-5.8
<i>Other comprehensive profit/loss for the period</i>					
Actuarial loss, net after tax	-	-	-	-	-34.2
Exchange rate differences	-14.8	20.9	61.5	86.3	117.7
Other comprehensive profit for the period	-14.8	20.9	61.5	86.3	83.5
Total comprehensive profit for the period	4.6	-15.4	118.2	57.6	77.7
<i>Profit/loss for the period attributable to:</i>					
Parent Company shareholders	18.4	-36.8	54.7	-30.5	-8.1
Non-controlling interests	1.0	0.5	2.0	1.8	2.3
<i>Total comprehensive profit attributable to:</i>					
Parent Company shareholders	3.6	-15.9	115.6	55.3	74.3
Non-controlling interests	1.0	0.5	2.6	2.3	3.4

Group balance sheet

Amounts in Swedish Krona (SEK) millions	Q3 2015	Q3 2014	2014
ASSETS			
<i>Fixed assets</i>			
Intangible assets	778.7	721.7	741.9
Tangible assets	69.1	67.4	65.1
Financial assets	-	26.2	-
Total fixed assets	847.8	815.3	807.0
<i>Current assets</i>			
Inventories	29.4	28.7	28.8
Accounts receivable	63.6	63.4	69.0
Other receivables	4.7	4.0	10.9
Investments in marketable securities	-	-	9.0
Restricted cash	14.0	358.4	8.2
Cash and cash equivalents	164.3	111.4	104.2
Total current assets	276.0	565.9	230.1
TOTAL ASSETS	1123.8	1381.2	1037.1
EQUITY			
<i>Equity</i>	503.4	369.4	385.2
Total equity	503.4	369.4	385.2
LIABILITIES			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	518.8	523.4	522.8
Pension liability	15.5	-	17.5
Deferred tax liability	32.2	37.0	30.9
Provisions	-	-	-
Other non-current financial liabilities	4.3	-	4.3
Total long-term liabilities	570.8	560.4	575.5
<i>Current liabilities</i>			
Interest-bearing liabilities	7.4	290.1	7.5
Accrued interest	2.5	14.5	11.3
Accounts payable	22.7	19.6	22.1
Other liabilities and provisions	17.0	127.2	35.5
Total current liabilities	49.6	451.4	76.4
TOTAL LIABILITIES AND EQUITY	1123.8	1381.2	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	54.7	2.0	56.7
<i>Other comprehensive income</i>			
Exchange rate differences	60.9	0.6	61.5
Balance on 2015-09-30	481.5	21.9	503.4
Opening balance as per 2014-01-01	295.4	16.4	311.8
Profit for the period	-30.5	1.8	-28.7
<i>Other comprehensive income</i>			
Exchange rate differences	85.8	0.5	86.3
Balance on 2014-09-30	350.7	18.7	369.4
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	Q3 2015	Q3 2014	Q1- Q3 2015	Q1- Q3 2014	2014
<i>Cash flow from operations</i>					
Operating profit	32.3	30.9	117.2	96.5	124.4
<i>Adjustments for items not included in cash flow :</i>					
Depreciation & amortisation	2.8	2.6	8.2	7.1	13.0
Interest received	0.1	0.1	0.1	0.3	0.3
Interest paid	-17.8	-25.9	-35.8	-52.2	-64.8
Tax paid	-3.7	-1.5	-8.8	-9.6	-11.3
Cash flow from operations before change in working capital	13.7	6.2	80.9	42.1	61.6
Changes in working capital	7.5	2.1	6.5	-3.8	4.5
Cash flow from operations	21.2	8.3	87.4	38.3	66.1
<i>Cash flow from investment activities</i>					
Payments relating to acquisition of subsidiaries	-	-57.8	-14.4	-57.8	-117.9
Transfer of restricted cash relating to acquisition of subsidiaries	-5.9	-4.8	-5.9	-4.8	-4.8
Payment to defined benefit pension scheme	-	-	-2.9	-	-
Investments in tangible and intangible fixed assets	-2.2	-1.2	-6.6	-5.5	-6.6
Investments in/disposal of marketable securities	5.7	-	9.0	-	-9.0
Total cash flow from investment activities	-2.4	-63.8	-20.8	-68.1	-138.3
Free cash flow for the period	18.8	-55.5	66.6	-29.8	-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	-1.9	-1.8	-5.6	-8.9	-10.7
Total cash flow from financial activities	-1.9	-1.8	-5.6	-8.9	23.6
Cash flow for the period	16.9	-57.3	61.0	-38.7	-48.6
Cash and cash equivalents at beginning of period	148.4	166.0	104.2	141.4	141.4
Exchange rate differences	-1.0	2.7	-0.9	8.7	11.4
Cash and cash equivalents at end of period	164.3	111.4	164.3	111.4	104.2

Parent Company income statement

Amounts in Swedish Krona (SEK) millions	Q3 2015	Q3 2014	Q1- Q3 2015	Q1- Q3 2014	2014
Net sales	0.6	0.9	2.6	2.5	3.4
Cost of goods sold	-	-	-	-	-
Gross profit	0.6	0.9	2.6	2.5	3.4
<i>Operating expenses</i>					
Sales	-0.4	-0.8	-1.1	-2.5	-3.8
Admin	-1.0	-0.9	-2.5	-3.1	-5.0
R&D	-	-0.8	-	-3.1	-4.3
Operating expenses	-1.4	-2.5	-3.6	-8.7	-13.1
Operating loss before non-recurring items	-0.8	-1.6	-1.0	-6.2	-9.7
Non-recurring items	-	-	-	-	-3.4
Operating loss	-0.8	-1.6	-1.0	-6.2	-13.1
<i>Financial Items</i>					
Financial income	9.1	58.9	28.1	86.5	95.5
Financial expenses	-9.4	-58.2	-28.1	-85.5	-96.3
Net financial	-0.3	0.7	-	1.0	-0.8
Profit/loss before income tax	-1.1	-0.9	-1.0	-5.2	-13.9
Income taxes	-	-	-	-	-
Profit/loss for the period	-1.1	-0.9	-1.0	-5.2	-13.9

Parent Company balance sheet

Amounts in Swedish Krona (SEK) millions	Q3 2015	Q3 2014	2014
ASSETS			
<i>Fixed assets</i>			
Tangible assets	-	3.0	-
Financial assets	684.5	658.2	683.2
Total fixed assets	684.5	661.2	683.2
<i>Current assets</i>			
Other receivables	41.3	29.8	49.2
Investments in marketable securities	-	-	9.0
Restricted cash	-	350.5	-
Cash and cash equivalents	5.9	25.0	2.9
Total current assets	47.2	405.3	61.1
TOTAL ASSETS	731.7	1066.5	744.3
EQUITY			
<i>Equity</i>	223.3	233.0	224.3
Total equity	223.3	233.0	224.3
LIABILITIES			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	493.1	774.8	491.8
Total long-term liabilities	493.1	774.8	491.8
<i>Current liabilities</i>			
Accrued interest	2.4	14.3	11.2
Accounts payable	0.1	0.5	0.2
Other liabilities and provisions	12.8	43.9	16.8
Total current liabilities	15.3	58.7	28.2
TOTAL LIABILITIES AND EQUITY	731.7	1066.5	744.3

Parent Company cash flow

Amounts in Swedish Krona (SEK) millions	Q3 2015	Q3 2014	Q1- Q3 2015	Q1- Q3 2014	2014
<i>Cash flow from operations</i>					
Operating profit	-0.8	-1.6	-1.0	-6.2	-13.1
<i>Adjustments for items not included in cash flow :</i>					
Depreciation & amortisation	-	0.1	-	0.3	3.3
Interest received	17.5	12.2	35.0	37.7	37.7
Interest paid	-17.5	-25.5	-35.0	-51.0	-63.2
Cash flow from operations before change in working capital	-0.8	-14.8	-1.0	-19.2	-35.3
Changes in working capital	-1.0	-2.2	-5.0	-3.6	-2.1
Cash flow from operations	-1.8	-17.0	-6.0	-22.8	-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	5.7	-	9.0	-	-9.0
Total cash flow from investment activities	5.7	-	9.0	-	-41.8
Free cash flow for the period	3.9	-17.0	3.0	-22.8	-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	3.9	-17.0	3.0	-22.8	-44.9
Cash and cash equivalents at beginning of period	2.0	42.0	2.9	47.8	47.8
Cash and cash equivalents at the end of the period	5.9	25.0	5.9	25.0	2.9

Calendar

Year end report 2015

29 February 2016

For more information contact

Gordon MacLeman, CEO
Telephone: +44 7583 014571

Mark Hutchison, CFO
Telephone: +44 7930 118555

Diamorph AB (publ)

The information was submitted for publication on November 27, 2015 at 08:00.

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.



Diamorph AB (publ)
E-mail: ir@diamorph.com Internet: www.diamorph.com
Address: c/o Serendipity Innovations, Stureplan 15, 111 45, Stockholm
Registered office: Stockholm Corporate registration number: 556647-5371