

INTERIM REPORT SECOND QUARTER 2017

Second quarter

- The results for the second quarter should be considered against a strong comparative in the second quarter of 2016, being the strongest quarter of 2016.
- Net sales decreased by 8% to SEK 106.5 (115.6) million. Adjusted to fixed exchange rates, net sales decreased by 10%.
- Adjusted operating profit decreased by 20% to SEK 34.9 (43.8) million.
- Adjusted profit before tax decreased by 24% to SEK 26.4 (34.6) million.
- Operating profit (as reported under IFRS) decreased by 8% to SEK 39.2 (42.5) million.
- Profit before tax (as reported under IFRS) decreased by 6% to SEK 43.7 (46.5) million.

First half

- Net sales decreased by 1% to SEK 221.5 (223.0) million. Adjusted to fixed exchange rates, net sales decreased by 2%.
- Adjusted operating profit increased by 2% to SEK 79.3 (77.8) million.
- Adjusted profit before tax increased by 4% to SEK 61.7 (59.2) million.
- In February 2017, Diamorph AB (publ) acquired the final 10% of Diamorph Bearings AB and so today controls 100% of each of its subsidiaries.
- Operating profit (as reported under IFRS) increased by 9% to SEK 82.4 (75.4) million.
- Profit before tax (as reported under IFRS) decreased by 21% to SEK 75.7 (96.3) million.

Significant events after the end of the first half

- On 10 August 2017 Diamorph AB (publ) gave notice that it is exercising its option for early voluntary redemption in full of the SEK 450 million outstanding bonds. The bonds will be redeemed using a combination of existing surplus cash as well as from proceeds drawn down through a new senior secured bank facility.

Amounts in SEK millions (unless stated otherwise)	Q2 2017	Q2 2016	Δ%	Q1-Q2 2017	Q1-Q2 2016	Δ%	2016
		Restated ²			Restated ²		Restated ²
Net sales	106.5	115.6	-10 ¹	221.5	223.0	-2 ¹	423.6
Adjusted operating profit ¹	34.9	43.8 ²	-20	79.3	77.8 ²	2	144.1 ²
Adjusted operating profit margin, % ¹	32.8	37.9 ²		35.8	34.9 ²		34.0 ²
Adjusted profit before tax ¹	26.4	34.6 ²	-24	61.7	59.2 ²	4	106.7 ²
Operating cash flow	31.7	31.5	1	70.1	51.7	36	115.8
Operating cash conversion, %	81	74		85	69		83
Adjusted earnings per share ¹ (SEK)	0.40	0.51 ²	-22	0.93	0.87 ²	7	1.55 ²
Average number of shares in issue ('000)	52 847	52 678		52 847	52 636		52 741

¹ Diamorph uses adjusted figures as key performance measures in addition to those reported under IFRS. Reconciliations showing how the adjusted performance measures are derived from those reported under IFRS are shown on pages 7 and 14.

² Adjusted performance measures for 2016 have been restated to exclude acquisition-related intangible asset amortisation charges and associated tax credits.

Operating profit - reported (IFRS)	39.2	42.5	-8	82.4	75.4	9	139.6
Profit before tax - reported (IFRS)	43.7	46.5	-6	75.7	96.3	-21	141.1
Earnings per share - reported (IFRS) (SEK)	0.66	0.69	-4	1.04	1.43	-27	2.08

Operations

Market

There has been no substantive change in market conditions during the second quarter. Given the diversity of the markets we serve the picture is quite mixed and we continue to see opportunities in those markets.

In reviewing the sales performance it should be noted that the second quarter of 2016 represented a particularly strong comparative being the strongest quarter for Diamorph in 2016.

Significant events

Since the end of the first half

Earlier in 2017, Diamorph AB (publ) used part of the Group's surplus cash to make a voluntary partial repayment of SEK 50 million of bonds. We further indicated that we were reviewing the Group's borrowing structure to ensure that it appropriately balanced the certainty of availability of finance, our borrowing costs, and the flexibility we desire to support our growth ambitions.

This review is now completed. On 10 August 2017, Diamorph AB (publ) gave notice that it is exercising its option for early voluntary redemption in full of the SEK 450 million outstanding bonds. The bonds will be redeemed on 5 September 2017 and an early redemption premium of 3% (SEK 13.5 million) will be payable to bondholders. The complete notice to the bondholders is published on the Company's website.

The bonds will be redeemed using a combination of existing surplus cash accumulated within the Group as well as from proceeds drawn down through a new senior secured bank facility. Further information on the new bank facility is set out on page 4.

The completion of this refinancing transaction represents an important further step in the strategic development of Diamorph.

During the first quarter

In February 2017, Diamorph AB (publ) acquired the remaining 10% of Diamorph Bearings AB from the remaining minority shareholder. The consideration was calculated consistent with the arrangements agreed with the minority shareholder at the time of the acquisition of the Hob Certec business in 2011. Diamorph AB (publ) now controls 100% of Diamorph Bearings AB and therefore now controls 100% of all of its subsidiaries.

Sales

Second quarter

Sales for the second quarter amounted to SEK 106.5 (115.6) million delivering a decrease of 8% as reported. At fixed exchange rates sales decreased by 10% compared with the same period last year and by 9% compared with the first quarter of 2017. The relative performance of each business area is explained below.

Sales of high temperature materials amounted to SEK 68.4 (71.0) million delivering a decrease of 4% as reported. At fixed exchange rates sales decreased by 7% compared with the same period last year and by 7% compared with the first quarter of 2017. The decrease is driven mainly by weaker sales of fire protection product in the North American markets. There was also some impact on ceramic conveyor roller sales as a consequence of scheduled production downtime relating to the carefully planned transition for the new kiln investment in our Hob Certec business.

Sales of wear parts and bearings amounted to SEK 38.1 (44.6) million delivering a decrease of 15% as reported. At fixed exchange rates sales decreased by 16% compared with the same period last year and by 12% compared with the first quarter of 2017. The performance was driven mainly by lower marine bearing product sales.

First half

Sales in the first half amounted to SEK 221.5 (223.0) million, a decrease of 1% as reported. At fixed exchange rates sales decreased by 2% 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 140.8 (138.6) million delivering an increase of 2% as reported. At fixed exchange rates sales were flat compared to the same period last year. Demand for our ceramic conveyor roller products has remained healthy through the first half, as has demand for our fire protection products in the UK and rest of Europe. However the effect of this has been offset by lower sales of fire protection products in the USA where there has been a combination of challenges posed by competition and substitution from LED lighting/lower priced alternatives.

Sales of wear parts and bearings amounted to SEK 80.7 (84.4) million delivering a decrease of 4% as reported. At fixed exchange rates sales decreased by 5% compared to the same period last year. We have continued to see growth in our rail and marine tanker support businesses, and have experienced some level of recovery in early 2017 in the rotor vane business (more recently impacted by the downturn in the oil and gas industry). However this has been offset by lower marine bearing product sales due to certain projects in early 2016 not repeating and generally weak levels of activity within marine industries.

Financial performance

Revenues and profits

Revenue and operating profit performance

As described above, sales for the second quarter amounted to SEK 106.5 (115.6) million, representing a decrease of 8% as reported and a decrease of 10% at fixed exchange rates. Sales in the first half amounted to SEK 221.5 (223.0) million, representing a decrease of 1% as reported and a decrease of 2% at fixed exchange rates.

Driven by the sales performance gross profit amounted to SEK 60.5 (67.2) million in the second quarter and SEK 128.1 (125.7) million in the first half. The gross profit margin was 56.8% (58.1%) in the second quarter and 57.8% (56.4%) in the first half. The gross margin performance is quite consistent with previous periods and is impacted by a combination of factors including the product mix as well as the influence of the relative sales performance on the fixed overhead base.

In the second quarter operating expenses excluding acquisition-related and non-recurring items amounted to SEK 25.6 (23.4) million representing an increase of 9% as reported. In the first half operating expenses excluding acquisition-related and non-recurring items amounted to SEK 48.8 (47.9) million representing an increase of 2% as reported. At fixed exchange rates operating expenses were flat with previous year in the second quarter and increased by 2% in the first half.

Adjusted operating profit therefore amounted to SEK 34.9 (43.8) million in the second quarter and SEK 79.3 (77.8) million in the first half. As a result mainly of the reduction in sales given the fixed costs within the business overall adjusted operating profit margins decreased to 32.8% (37.9%) in the second quarter. Given the smaller year on year reduction in sales and slight improvement in gross margin %, overall adjusted operating profit margins increased to 35.8% (34.9%) in the first half.

As described in the Risks section on page 17 of the Annual Report for 2016 the Group can from time to time be involved in legal actions to defend its intellectual property rights. In April 2017 a settlement was reached with a third party relating to alleged infringements of one of the Group's trademarks by that third party. Diamorph has recognised non-recurring operating income of SEK 5.4 million in the second quarter relating to the settlement and recovery of legal expenses.

In the first quarter non-recurring operating expenses of SEK 0.2 million were incurred relating to legal expenses on the acquisition in February 2017 of the final 10% interest in Diamorph Bearings AB, meaning that net non-recurring operating income of SEK 5.2 million (expenses of 0.2) has been reported in the first half.

Acquisition-related intangible asset amortisation charges in the second quarter remained flat at SEK 1.1 (1.1) million and SEK 2.1

(2.2) million in the first half.

Operating profit (as reported under IFRS) therefore decreased to SEK 39.2 (42.5) million in the second quarter but increased to SEK 82.4 (75.4) million in the first half.

Financing charges and profits before tax

Net financial items amounted to income of SEK 4.5 (4.0) million in the second quarter and charges of SEK 6.7 (income of 20.9) million in the first half.

The changes in net financial items arise mainly from changes in non-recurring financing charges as underlying net financial expenses reduced slightly in the second quarter to SEK 8.5 (9.2) million and SEK 17.6 (18.6) million in the first half following the voluntary partial repayment of SEK 50 million of outstanding bonds in March 2017.

Non-recurring financial items totalled a credit of SEK 13.0 (13.2) million in the second quarter and SEK 10.9 (39.5) million in the first half. They mainly comprise exchange gains and losses on third party and intercompany financing balances and changes in the fair value of derivative financial instruments. The non-recurring financial items in the first half of 2017 also include the SEK 1.0 million charge relating to the voluntary partial repayment of SEK 50 million of outstanding bonds in March 2017.

Adjusted profit before tax (adjusted to remove the effect of acquisition-related and non-recurring operating and financing items) therefore decreased by 24% to SEK 26.4 (34.6) million in the second quarter but increased by 4% to SEK 61.7 (59.2) million in the first half.

Profit before tax (as reported under IFRS) reduced to SEK 43.7 (46.5) million in the second quarter and SEK 75.7 (96.3) million in the first half.

Taxes

Income taxes amounted to a charge of SEK 8.6 (9.3) million in the second quarter and SEK 20.7 (19.3) million in the first half. 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 5.3 (6.9) million in the second quarter and SEK 12.2 (11.8) million in the first half. The underlying tax charge represents an effective tax rate of 20% (20%) of adjusted profits before tax.

The non-recurring tax charges in the second quarter amounted to SEK 3.3 (2.4) million and SEK 8.5 (7.5) million in the first half. These relate to tax effects on the non-recurring operating and financing items described above. In the first half of 2017, the charges also include the

payment of SEK 5.9 million of withholding taxes to the Swiss tax administration as part of the process to liquidate KHP Marketing GmbH. The decision to liquidate this company has been taken to simplify the Group structure and eliminate unnecessary administrative costs.

Earnings per share

After allowing for the profits after tax attributable to minority interests adjusted earnings per share decreased by 22% to SEK 0.40 (0.51) per share in the second quarter but increased by 7% to SEK 0.93 (0.87) in the first half.

Earnings per share (as reported under IFRS) decreased by 4% to SEK 0.66 (0.69) per share in the second quarter and decreased by 27% to SEK 1.04 (1.43) in the first half.

Cash flow and financial position

Net cash flow from operating activities before changes in working capital amounted to SEK 34.0 (40.0) million in the second quarter and SEK 50.3 (51.3) million in the first half. The decrease in the second quarter is explained by the decrease in operating profit referred to above as well as an increase in tax payments. The small reduction in the first half reflects mainly the fact that higher tax payments were offset by the higher operating profit. The higher tax payments in 2017 arise because under the UK's quarterly instalment tax payment regime, tax payments in respect of the 2016 profit result continue to be paid in the first and second quarter of 2017; therefore the cash tax payments in the second quarter of 2017 partially reflect the higher tax charges arising on the foreign exchange gains reported in 2016.

Changes in working capital reduced cash flow by SEK 2.9 (8.5) million in the second quarter and by SEK 6.2 (20.9) million in the first half. Changes in working capital are mostly influenced by the phasing of sales.

Cash outflows from investing activities were SEK 7.8 (5.2) million in the second quarter and SEK 24.4 (29.8) million in the first half. Cash outflows in the first half include SEK 32.0 (19.0) million relating to the acquisition of shares from minority shareholders of Diamorph Bearings AB; the purchase in the first quarter of 2017 also caused a restriction over SEK 22.6 million of cash to be released. Cash outflows in the second quarter and half year also include investments in fixed assets of SEK 7.8 (5.2) million and SEK 12.4 (8.1) million respectively; in the current year the expenditure includes the initial expenditure to create and expand capacity for the production of longer ceramic conveyor rollers by the Hob Certec business in the Czech Republic. In both periods, cash outflows also include payments of GBP 230,000 into the Tenmat defined benefit pension scheme.

Cash flows from financial activities amounted to an outflow of SEK 1.9 (1.9) million in the second quarter and SEK 54.8 (3.7) million in the first half. This relates to the continued quarterly amortisation of the bank loan in the Hob Certec business and the voluntary partial repayment of SEK 50 million of outstanding bonds in March 2017.

Cash flow for the period, therefore, amounted to a cash inflow of SEK 21.4 (24.4) million in the second quarter and a cash outflow of SEK 35.1 (3.1) million in the first half. After adjusting for exchange rate differences, cash and cash equivalents at the end of the period amounted to SEK 178.7 (190.5) million.

Net debt

Net debt at the end of the period amounted to SEK 287.7 (330.8) million, a decrease of SEK 18.2 (increase of 1.6) million during the first half.

Equity and number of shares

The parent company's share capital at June 30, 2017 consisted of SEK 1 105 608 divided into 52 846 841 shares with a quota value of SEK 0.0209.

Group equity at June 30, 2017 amounted to SEK 470.0 (423.1) million, an increase of SEK 8.4 (decrease of 92.5) million during the first half of the year. In addition to the net profit of SEK 55.0 (77.0) million reported for the period, foreign exchange losses of SEK 23.9 (119.5) million arose primarily on GBP denominated net assets within the business.

In the first half of 2017, additional movements through equity have included a net SEK 23.1 million effect of the transaction with a minority shareholder to acquire a further 10% of Diamorph Bearings AB (SEK 32.0 million consideration paid, net of SEK 8.9 million for the previously recognised carrying value of a put option now extinguished).

In the first half of 2016, additional movements through equity arose from a) actuarial losses of SEK 31.0 million (net of deferred tax effects) on the Tenmat defined benefit pension scheme as a result mainly of significant changes to long-term UK interest rates after the UK's referendum on EU membership, and b) the transaction with a shareholder to acquire a further 10% of Diamorph Bearings AB for total consideration of SEK 22.8 million which was closely linked also with a directed share issue of SEK 3.8 million.

Significant events after the end of the first half

Refinancing of bonds with new bank facility

On 10 August 2017, Diamorph AB (publ) gave notice that it is exercising its option for early voluntary redemption in full of the SEK 450 million outstanding bonds. The bonds will be redeemed on 5 September 2017 and an early redemption premium of 3% (SEK 13.5 million) will be payable to bondholders. The complete notice to the bondholders is published on the Company's website.

The bonds will be redeemed using a combination of existing surplus cash accumulated within the Group as well as from proceeds drawn down through a new senior secured bank facility arranged with Nordea Bank AB ("Nordea").

The Nordea facility comprises a US\$5.7 million 3 year amortising term loan and €36 million revolving credit facility, giving an initial total facility of approximately 392 MSEK. The revolving credit facility is for an initial term of 3 years (with further extensions of up to 2 years possible under certain conditions) and it can be drawn in a combination of SEK, EUR, USD and GBP currencies. Interest on the borrowings will be based on a margin above floating interest rates, where the margin is linked to the Group's leverage position.

The Company expects to derive a number of benefits from this refinancing including:

- A reduction in financing costs. Depending on future movements in market interest rates, after taking account of transaction costs (including bank arrangement fees, legal fees and SEK 13.5 million early redemption fee payable to Bondholders), the payback period is expected to be approximately one year;
- Improved flexibility to efficiently manage the surplus cash generated by the Group; and
- The opportunity to better manage the currency exposures in the business since much of the Group's net operating income is derived in EUR and USD.

The completion of this refinancing transaction represents an important further step in the strategic development of Diamorph.

Repayment of bank loan in Hob Certec

Separately, on 3 August 2017, the Hob Certec has made its final balloon payment to fully repay the bank loan with Unicredit taken out at the time of the acquisition by Diamorph. This loan was repaid using surplus cash within the Group.

Employees

As of June 30, 2017 the Diamorph Group had 277 (270) employees.

Parent Company

The Parent Company's net revenue amounted to SEK 0.2 (0.6) million in the second quarter and SEK 0.5 (1.0) million in the first half. The operating result before non-recurring items amounted to a loss of SEK 0.9 (1.2) million in the second quarter and SEK 1.6 (2.1) million in the first half. Cash and cash equivalents at the end of the period amounted to SEK 10.0 (23.4) million.

Risks and uncertainties

The risk assessment is unchanged to the risk situation presented in the Annual Report for 2016.

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 2016, page 27.

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 2016 and are unchanged except that, as referred to previously in the first quarter report for 2017, the definitions of adjusted operating profit, profit before tax and earnings per share measures have been expanded to additionally exclude acquisition-related items being currently the charges relating to the amortisation of intangible assets; the adjusted earnings per share definition has been further adjusted to exclude tax credits associated with such charges.

The comparative adjusted profit and earnings figures for 2016 have been restated to reflect the changes; the effect of these changes on the adjusted measures reported for the year ended 31 December 2016 has been to increase the adjusted operating profit margin by 1.0%, adjusted profit before tax by SEK 4.3 million and adjusted earnings per share by SEK 0.06 per share.

Reconciliations between the profit and earnings figures reported under IFRS and the adjusted figures are set out on pages 7 and 14.

Approval and audit

The interim financial statements were approved by the board of directors on August 29, 2017.

The interim financial statements have not been audited.

Stockholm August 29, 2017.

Gordon MacLeman
CEO



Group income statement

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	Q1-Q2 2017	Q1-Q2 2016	FY 2016
Net sales	106.5	115.6	221.5	223.0	423.6
Cost of goods sold	-46.0	-48.4	-93.4	-97.3	-186.0
Gross profit	60.5	67.2	128.1	125.7	237.6
<i>Operating expenses</i>					
Sales	-15.2	-14.5	-29.0	-28.6	-58.8
Admin	-9.4	-7.5	-17.6	-16.6	-29.2
R&D	-2.1	-2.7	-4.5	-5.1	-10.0
Other operating income	5.4	-	5.4	-	-
Operating expenses	-21.3	-24.7	-45.7	-50.3	-98.0
Adjusted operating profit (before acquisition-related and non-recurring items)	34.9	43.8	79.3	77.8	144.1
Non-recurring items	5.4	-0.2	5.2	-0.2	-0.2
Acquisition-related intangible asset amortisation	-1.1	-1.1	-2.1	-2.2	-4.3
Operating profit	39.2	42.5	82.4	75.4	139.6
<i>Financial items</i>					
Financial income	-	-	-	-	0.1
Financial expenses	-8.5	-9.2	-17.6	-18.6	-37.5
Non-recurring financial charges	13.0	13.2	10.9	39.5	38.9
Net financial	4.5	4.0	-6.7	20.9	1.5
Profit before income tax	43.7	46.5	75.7	96.3	141.1
Income taxes	-8.6	-9.3	-20.7	-19.3	-29.0
Profit for the period	35.1	37.2	55.0	77.0	112.1
Consolidated statement of comprehensive income					
Profit for the period	35.1	37.2	55.0	77.0	112.1
<i>Other comprehensive loss for the period</i>					
Actuarial loss, net after tax	-	-31.0	-	-31.0	-35.4
Exchange rate differences	-26.0	-35.1	-23.9	-119.5	-109.8
Other comprehensive loss for the period	-26.0	-66.1	-23.9	-150.5	-145.2
Total comprehensive profit/loss for the period	-9.1	-28.9	31.1	-73.5	-33.1
<i>Profit / loss for the period attributable to:</i>					
Parent Company shareholders	35.1	36.6	55.2	75.4	109.6
Non-controlling interests	-	0.6	-0.2	1.6	2.5
<i>Total comprehensive profit / loss attributable to:</i>					
Parent Company shareholders	9.1	-29.7	31.3	-75.4	-36.2
Non-controlling interests	-	0.8	-0.2	1.9	3.1

Group balance sheet

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	FY 2016
ASSETS			
<i>Fixed assets</i>			
Intangible assets	669.7	682.8	684.3
Tangible assets	86.0	69.6	77.4
Total fixed assets	755.7	752.4	761.7
<i>Current assets</i>			
Inventories	32.9	32.1	31.1
Accounts receivable	80.7	78.6	75.1
Other receivables	3.5	9.0	4.0
Restricted cash	-	14.1	22.6
Cash and cash equivalents	178.7	190.5	213.2
Total current assets	295.8	324.3	346.0
TOTAL ASSETS	1 051.5	1 076.7	1 107.7
EQUITY			
<i>Equity</i>	470.0	423.1	461.6
Total equity	470.0	423.1	461.6
LIABILITIES			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	446.2	513.9	495.3
Pension liability	32.4	31.2	35.7
Deferred tax liability	20.1	24.5	20.1
Other non-current financial liabilities	-	6.6	8.9
Total long-term liabilities	498.7	576.2	560.0
<i>Current liabilities</i>			
Interest-bearing liabilities	20.2	7.4	23.8
Accrued interest	10.1	11.3	11.2
Accounts payable	26.5	24.2	26.9
Other liabilities and provisions	26.0	34.5	24.2
Total current liabilities	82.8	77.4	86.1
TOTAL LIABILITIES AND EQUITY	1 051.5	1 076.7	1 107.7

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 2017-01-01	447.6	14.0	461.6
Profit for the period	55.2	-0.2	55.0
<i>Other comprehensive income</i>			
Exchange rate differences	-23.9	-	-23.9
<i>Transactions with shareholders</i>			
Share-based payments	0.4	-	0.4
Purchase of non-controlling interest	-18.2	-13.8	-32.0
Revaluation of put option over non-controlling interests	8.9	-	8.9
Balance on 2017-06-30	470.0	-	470.0
Opening balance as per 2016-01-01	493.3	22.3	515.6
Profit for the period	75.4	1.6	77.0
<i>Other comprehensive income</i>			
Actuarial loss on defined benefit pension schemes	-39.5	-	-39.5
Tax on actuarial loss on defined benefit pension scheme	8.5	-	8.5
Exchange rate differences	-119.8	0.3	-119.5
<i>Transactions with shareholders</i>			
Share issue	3.8	-	3.8
Purchase of non-controlling interest	-11.4	-11.4	-22.8
Balance on 2016-06-30	410.3	12.8	423.1
Opening balance as per 2016-01-01	493.3	22.3	515.6
Profit for the period	109.6	2.5	112.1
<i>Other comprehensive income</i>			
Actuarial loss on defined benefit pension schemes	-44.2	-	-44.2
Tax credit on actuarial loss on defined benefit pension schemes	8.8	-	8.8
Exchange rate differences	-110.4	0.6	-109.8
<i>Transactions with shareholders</i>			
Share issue	3.8	-	3.8
Share-based payments	0.4	-	0.4
Purchase of non-controlling interest	-11.4	-11.4	-22.8
Revaluation of put option over non-controlling interests	-2.3	-	-2.3
Balance on 2016-12-31	447.6	14.0	461.6

Group cash flow

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	Q1-Q2 2017	Q1-Q2 2016	FY 2016
<i>Cash flow from operations</i>					
Operating profit	39.2	42.5	82.4	75.4	139.6
<i>Adjustments for items not included in cash flow :</i>					
Depreciation & amortisation	3.0	2.7	5.9	5.3	11.0
Share-based payment expense	0.2	-	0.4	-	0.4
Interest received	-	-	-	-	0.1
Interest paid	-0.2	-0.2	-17.8	-17.9	-35.7
Tax paid	-8.2	-5.0	-20.6	-11.5	-22.3
Cash flow from operations before change in working capital	34.0	40.0	50.3	51.3	93.1
Changes in working capital	-2.9	-8.5	-6.2	-20.9	-16.4
Cash flow from operations	31.1	31.5	44.1	30.4	76.7
<i>Cash flow from investment activities</i>					
Acquisition of non-controlling interest	-	-	-32.0	-19.0	-19.0
Release / (transfer) of restricted cash relating to acquisition of subsidiaries	-	-	22.6	-	-8.1
Payment to defined benefit pension scheme	-	-	-2.6	-2.7	-2.7
Investments in tangible and intangible fixed assets	-7.8	-5.2	-12.4	-8.1	-18.8
Total cash flow from investment activities	-7.8	-5.2	-24.4	-29.8	-48.6
Free cash flow for the period	23.3	26.3	19.7	0.6	28.1
<i>Cash flow from financial activities</i>					
Partial repayment of bonds, including early redemption fee	-	-	-51.0	-	-
Amortisation of loans	-1.9	-1.9	-3.8	-3.7	-7.5
Total cash flow from financial activities	-1.9	-1.9	-54.8	-3.7	-7.5
Cash flow for the period	21.4	24.4	-35.1	-3.1	20.6
Cash and cash equivalents at beginning of period	156.8	164.9	213.2	194.3	194.3
Exchange rate differences	0.5	1.2	0.6	-0.7	-1.7
Cash and cash equivalents at end of period	178.7	190.5	178.7	190.5	213.2

Parent Company income statement

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	Q1-Q2 2017	Q1-Q2 2016	FY 2016
Net sales	0.2	0.6	0.5	1.0	2.0
Cost of goods sold	-	-	-	-	-
Gross profit	0.2	0.6	0.5	1.0	2.0
<i>Operating expenses</i>					
Sales	-0.2	-0.6	-0.5	-1.0	-1.9
Admin	-0.9	-1.2	-1.6	-2.1	-3.6
Operating expenses	-1.1	-1.8	-2.1	-3.1	-5.5
Operating loss before non-recurring items	-0.9	-1.2	-1.6	-2.1	-3.5
Non-recurring items	-	-0.2	-0.2	-0.2	-0.2
Operating loss	-0.9	-1.4	-1.8	-2.3	-3.7
<i>Financial Items</i>					
Financial income	8.1	9.2	18.3	18.4	36.8
Financial expenses	-8.2	-9.4	-18.6	-19.1	-37.8
Net financial	-0.1	-0.2	-0.3	-0.7	-1.0
Loss before income tax	-1.0	-1.6	-2.1	-3.0	-4.7
Income taxes	-	-	-	-	-
Loss for the period	-1.0	-1.6	-2.1	-3.0	-4.7

Parent Company balance sheet

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	FY 2016
ASSETS			
<i>Fixed assets</i>			
Financial assets	692.4	708.6	709.5
Total fixed assets	692.4	708.6	709.5
<i>Current assets</i>			
Other receivables	10.1	11.2	12.2
Cash and cash equivalents	10.0	23.4	21.0
Total current assets	20.1	34.6	33.2
TOTAL ASSETS	712.5	743.2	742.7
EQUITY			
<i>Equity</i>			
Total equity	218.5	222.3	220.6
LIABILITIES			
<i>Long-term liabilities</i>			
Interest-bearing liabilities	446.2	494.4	495.3
Total long-term liabilities	446.2	494.4	495.3
<i>Current liabilities</i>			
Accrued interest	10.1	11.2	11.2
Accounts payable	-	0.1	0.2
Other liabilities and provisions	37.7	15.2	15.4
Total current liabilities	47.8	26.5	26.8
TOTAL LIABILITIES AND EQUITY	712.5	743.2	742.7

Parent Company cash flow

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	Q1-Q2 2017	Q1-Q2 2016	FY 2016
<i>Cash flow from operations</i>					
Operating profit	-0.9	-1.4	-1.8	-2.3	-3.7
<i>Adjustments for items not included in cash flow :</i>					
Interest received	-	-	17.5	28.5	46.0
Interest paid	-	-	-17.5	-17.5	-35.0
Cash flow from operations before change in working capital	-0.9	-1.4	-1.8	8.7	7.3
Changes in working capital	-0.1	0.2	0.3	10.0	9.0
Cash flow from operations	-1.0	-1.2	-1.5	18.7	16.3
<i>Cash flow from investment activities</i>					
Acquisition of non-controlling interest	-	-	-32.0	-19.0	-19.0
Total cash flow from investment activities	-	-	-32.0	-19.0	-19.0
Free cash flow for the period	-1.0	-1.2	-33.5	-0.3	-2.7
<i>Cash flow from financial activities</i>					
Loan received from subsidiary company	-	-	22.5	-	-
Partial repayment of bond, including early redemption fee	-	-	-51.0	-	-
Repayment of loan to subsidiary company, including fees	-	-	51.0	18.7	18.7
Total cash flow from financial activities	-	-	22.5	18.7	18.7
Cash flow for the period	-1.0	-1.2	-11.0	18.4	16.0
Cash and cash equivalents at beginning of period	11.0	24.6	21.0	5.0	5.0
Cash and cash equivalents at the end of the period	10.0	23.4	10.0	23.4	21.0

Adjusted key performance measures

In order to better show the underlying performance of the business, Diamorph uses adjusted figures for key performance measures in addition to those reported under IFRS. The adjusted operating profit performance is presented in the income statement on page 7. Reconciliations of adjusted profit before tax and adjusted earnings per share are shown below. Non-recurring items are items which management do not consider reflect the underlying performance of the business. Non-recurring tax items are analysed below and include both the tax effect of non-recurring operating and financing items, as well as non-recurring tax items.

Amounts in Swedish Krona (SEK) millions	Q2 2017	Q2 2016	Q1-Q2 2017	Q1-Q2 2016	FY 2016
Group					
Cash flow from operations as reported under IFRS	31.1	31.5	44.1	30.4	76.7
<i>Adjusted for:</i>					
Interest paid and received	0.2	0.2	17.8	17.9	35.6
Tax paid	8.2	5.0	20.6	11.5	22.3
Investments in tangible and intangible fixed assets	-7.8	-5.2	-12.4	-8.1	-18.8
Operating cash flow for purpose of calculating operating cash conversion %	31.7	31.5	70.1	51.7	115.8
Group					
Operating expenses as reported under IFRS	-21.3	-24.7	-45.7	-50.3	-98.0
<i>Adjusted for:</i>					
Non-recurring operating expenses	-5.4	0.2	-5.2	0.2	0.2
Acquisition-related intangible asset amortisation	1.1	1.1	2.1	2.2	4.3
Operating expenses before acquisition-related and non-recurring items	-25.6	-23.4	-48.8	-47.9	-93.5
Group					
Profit before tax as reported under IFRS	43.7	46.5	75.7	96.3	141.1
<i>Adjusted for:</i>					
Non-recurring expenses within operating profit	-5.4	0.2	-5.2	0.2	0.2
Acquisition-related intangible asset amortisation	1.1	1.1	2.1	2.2	4.3
Non-recurring items within net financing items	-13.0	-13.2	-10.9	-39.5	-38.9
Adjusted profit before tax	26.4	34.6	61.7	59.2	106.7
Group					
Tax charge as reported under IFRS	-8.6	-9.3	-20.7	-19.3	-29.0
<i>Adjusted for:</i>					
Tax charge/(credit) on non-recurring operating expenses or income	1.0	-	1.0	-	-
Tax charge/(credit) on acquisition-related intangible asset amortisation	-0.2	-0.2	-0.4	-0.4	-0.9
Tax charge/(credit) on non-recurring items within net financing items	2.5	2.6	2.0	7.9	9.3
Other non-recurring items - charge/(credit)	-	-	5.9	-	-1.7
Tax charge on adjusted basis	-5.3	-6.9	-12.2	-11.8	-22.3
Group					
Profit after tax attributable to parent company shareholders as reported under IFRS	35.1	36.6	55.2	75.4	109.6
<i>Adjusted for (excluding amounts attributable to minority interests where applicable*):</i>					
Non-recurring expense within operating profit	-5.4	0.2	-5.2	0.2	0.2
Acquisition-related intangible asset amortisation	1.1	1.1	2.1	2.2	4.3
Non-recurring items within net financing items*	-13.0	-13.3	-10.9	-39.6	-39.0
Tax effect of the above and other non-recurring tax items*	3.3	2.4	7.9	7.5	6.7
Profit after tax attributable to parent company shareholders on adjusted basis	21.1	27.0	49.1	45.7	81.8
Weighted average number of shares outstanding	52 846 841	52 678 114	52 846 841	52 635 933	52 741 387
Basic earnings per share as reported under IFRS	0.66	0.69	1.04	1.43	2.08
Adjusted earnings per share	0.40	0.51	0.93	0.87	1.55

For more information contact

Gordon MacLeman, CEO
Telephone: +44 7583 014571

Mark Hutchison, CFO
Telephone: +44 7930 118555

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Diamorph AB (publ)
E-mail: ir@diamorph.com Internet: www.diamorph.com
Address: Stureplan 15, 111 45, Stockholm
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