

Arcam AB

Reg. no 556539-5356

Interim report January – September 2016

Hesitant market

- Net sales increased by 10 % to 440.2 (400.1) MSEK
- Operating income amounted to -0.7 (36.2) MSEK
- Net income amounted to 6.7 (21.6) MSEK
- Earnings per share amounted to 0.32 (1.11) SEK
- 35 (34) systems were delivered in the period
- Order intake amounted to 24 (29) systems

For the third quarter:

- Net sales amounted to 132.6 (138.1) MSEK
- Operating income amounted to -4.8 (12.6) MSEK
- Net income amounted to -3.1 (4.9) MSEK
- Order intake amounted to 9 (12) systems
- 7 (11) EBM systems were delivered in the third quarter
- Public tender by GE to acquire all shares in Arcam

Significant events after the end of September:

- On October 18 GE Sweden extended the acceptance period of the tender until November 1, 2016.

Telephone conference with CEO Magnus René and CFO Johan Brandt
October 21, 2016 at 12.00 p.m. (CEST)

Phone number to the conference:

SE: +46 8 5664 2666

UK: +44 2030 0898 19

US: +1 8557 5322 35

Link to presentation:

[Arcam Q3 conference call](#)

Hesitant market

Sales for the period increased to 440.2 (400.1) MSEK and trailing twelve month sales increased to 616.2 (537.3) MSEK. The Arcam Group continues to grow and the growth in the period was 10%. Operating income for the first 9 months was -0.7 (36.2) MSEK and trailing twelve months, operating income amounts to 13.3 (51.5) MSEK.

In the first 9 months we delivered 35 (34) EBM systems and we received 24 (29) new EBM orders, whereof 9 (12) for the third quarter. The order book by the end of the period was 16 EBM systems. Our metal powder manufacturer AP&C more than doubled its order intake compared to the same period 2015. In May we decided to add significant capacity by building a new powder manufacturing plant in Montreal. The ground breaking ceremony was held on October 17.

The market is currently slightly hesitant and as a result we see that it takes longer to close new orders. This is partly a result of the uncertainty over the company's future ownership structure.

We continue to pursue and develop our long-term strategy to industrialize the EBM technology and simultaneously developing the metal powder manufacturing and contract manufacturing businesses. We invest significantly in technology, marketing and manufacturing capacity to meet our customers' demands and growing expectations on productivity and reliability.

Public offer by GE

As announced on September 6, GE made a public tender to acquire all shares in Arcam. The initial acceptance period of the Offer expired on October 14. GE has extended the acceptance period until November 1, 2016.

For us at Arcam the tender from GE is a strong confirmation that the company we have built, our team together with you and other partners, is a major player in the additive manufacturing industry and an attractive partner to GE.

We share with GE the belief that Additive Manufacturing is a fast growing, strategically important industry. GE plans to retain and expand Arcam's current customer base, in aerospace as well as in orthopedics. GE also intends to keep current locations of Arcam's operations and to retain current management and employees.

The Board of Arcam has unanimously recommended the shareholders to accept the offer and the statement by the Board can be found as a press release on the company website. Information about the public tender from GE can be found on our website and can be ordered from GE or from Handelsbanken.

Business status

During the third quarter we delivered 7 EBM systems to customers in the implant or in the aerospace industry. The demand for EBM systems is driven by how quickly our customers in the aerospace and implant industry are moving towards production, a process that is dependent on both technical and commercial factors. In the period we received 9 new orders and the order book by the end of the quarter amounts to 16 systems.

During the period Arcam Q10plus and Arcam Q20plus were launched. The new systems are a significantly enhanced generation of the Arcam Q-series EBM systems for Additive Manufacturing. Arcam Qplus offers up to 25 % higher productivity with significantly improved surface finish and precision. With Qplus Arcam also introduces Arcam xQam™, an X-ray based function for high precision auto-calibration and improved beam control.

To meet the growing demand for AP&C's high quality titanium powder for Additive Manufacturing, we continue to add significant capacity by building a new powder manufacturing plant. In May we decided to increase further the capacity by building a new powder manufacturing plant outside Montreal, Canada. The new facility will provide manufacturing redundancy, short term capacity increase and long term expansion capability. With the present build-out AP&C will reach a capacity by the end of 2017 of at least 750 tons per year. The new plant will be built in modules and can be extended so that we reach a combined total capacity of over 1,200 tons per year in both production plants.

Since February our contract manufacturer DiSanto has new management. The business continues to be burdened by weak sales for implants made with traditional technology. In the period several new customer projects for EBM manufactured implants have been added. Revenues from this part of the business is increasing but is still not compensating for the weak sales within traditionally manufactured implants.

Strengthened organization

During the period we strengthened our sales and support organization in Germany, Italy and in the USA with new sales people in the field and a strengthened sales management. A new sales office in Stuttgart will initially drive sales and in the future also serve as a local support office.

On the important Italian market, we have strengthened the organization with local management. The office in Turin is responsible for sales and service and is working close to our important customers in Italy.

With 16 machines in order and a fast growing AM metal powder market we are well positioned for a positive sales development in 2016.

Considering the hesitant market and our extensive investments in technology and capacity, it will be a challenge to achieve a result in line with last year.

Möln dal, October 21, 2016

Magnus René, President and CEO

This report contains information that Arcam AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication at 08.30 CEST on October 21, 2016.

Net sales, result and order intake

Net sales

Net sales for the period amounted to 440.2 (400.1) MSEK.

Of the total amount of sales, EBM systems and services amounted to 243.6 (241.5) MSEK, sales of metal powders to 129.2 (79.0) MSEK and contract manufacturing to 67.4 (79.5) MSEK.

In the third quarter, net sales amounted to 132.6 (138.1) MSEK.

Of the total amount of sales, EBM systems and services amounted to 62.8 (75.7) MSEK, sales of metal powders to 49.3 (30.5) MSEK and contract manufacturing to 20.5 (31.9) MSEK.

Results

Operating income for the period amounted to -0.7 (36.2) MSEK and operating income for the third quarter amounted to -4.8 (12.6).

Net income for the period amounted to 6.7 (21.6) MSEK and net income for the third quarter amounted to -3.1 (4.9) MSEK.

The low operating income compared to last year is mainly due to costs for expansion of our global operations, low utilization of our new production capacity and weak operating income for the conventional manufacturing at DiSanto.

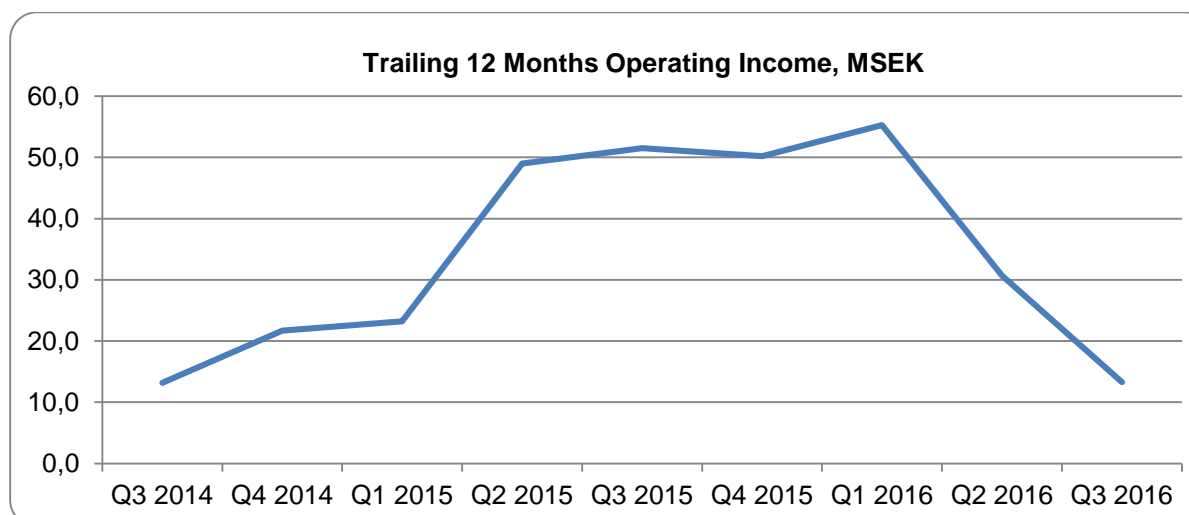
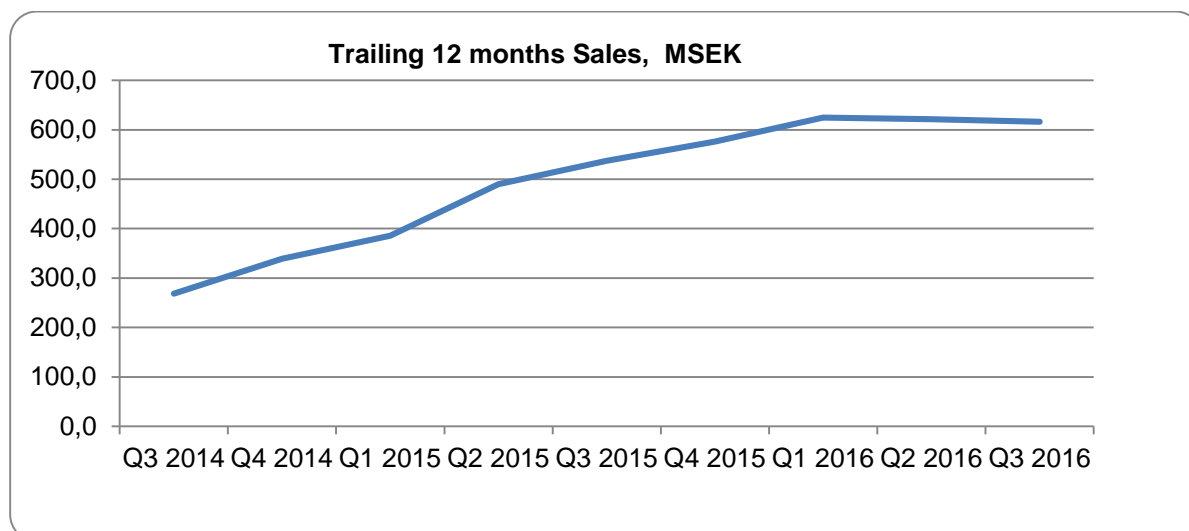
Order intake of EBM systems

During the period we booked 24 (29) new orders for EBM systems. At the end of the period the order book consists of 16 (14) systems.

Amounts in MSEK

Quarterly	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net Sales	132,6	147,7	159,9	176,0	138,1	150,6	111,4	137,1	90,8	46,1
Operating income	-4,8	-4,8	8,9	14,0	12,6	19,7	3,8	15,3	10,2	-6,1
System orders	9	9	6	29	12	7	10	21	5	10
Trailing Twelve Months	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net Sales	616,2	621,7	624,6	576,1	537,3	490,0	385,4	339,0	268,8	218,3
Operating income	13,3	30,7	55,3	50,2	51,5	49,0	23,2	21,7	13,2	3,7
System orders	53	56	54	58	50	43	46	42	31	30

Quarterly and trailing 12-month sales, net result and system orders



Investments, depreciation and financial status

Investments and depreciation

Investments in fixed assets amounted to 46.8 (15.1) MSEK of which tangible amounted to 44.2 MSEK and intangible to 2.6 MSEK. Investments in tangible assets for the period relates mainly to investments at AP&C. Investments in intangible assets for the period relates to investments in patents.

The amortization of intangible and tangible assets amounted to 19.7 (16.3) MSEK, of which group amortizations relating to the acquisitions amounted to 5.1 (5.4) MSEK. Acquisition related cash flow related to payment for the acquisition of AP&C, amounted to 33.4 (71.4) MSEK, paid in the first quarter of 2016.

Financial status

Cash and cash equivalents at end of period amounted to 386.2 (452.9) MSEK.
 Cash includes 6.3 (3.1) MSEK which the company disposes for EU-funded projects.

The company maintains a strong cash position and a very strong equity ratio at 82 (81)%.

Product development and industrialization

The company's development work on the EBM technology is focused on industrialization and automatization to fulfil the very high standards expected within the aerospace and orthopedic implant industries. The work is often done in close collaboration with leading customers to match their specific system requirements.

The development work going forward is focused on adopting the technology for industrial production environment, i.e. increased productivity and reliability. Automation and industrialization of the product range is thus highly prioritized and during the last year the Q-platform has been modernized. The EBM machines have, for example, been equipped with more powerful computing capability and automatic beam calibration. This gives increased performance in terms of both productivity and precision of the produced parts. The increased computing capacity has also enabled more advanced process monitoring and process control. The development work has resulted in new patent applications and today Arcam has around 100 granted patents spread over 50 patent families.

The two EU-funded projects that Arcam led through the Seventh Framework Program (FP7) have now been completed. These projects have resulted in two important patent applications for EBM technology systems with higher power than current systems. Work is underway to industrialize and implement these findings in Arcam's future products.

Arcam continues to cooperate with Oak Ridge National Lab (ORNL) to further develop the Inconel process and quality control through LayerQam™.

Metal powders manufacturer AP&C conducts long-term work to develop and industrialize the Plasma Atomization technology. During the last year, progress has been made in terms of the efficiency of the Plasma technology and several of the inventions have been patented.

Staff

The number of employees in the group at the end of the period is 328 (260) persons. The increase in the number of employees is the result of a capacity expansion and the fact that we have expanded our local sales and support offices.

Arcam share

Arcam's largest shareholders as of September 30 are:

Owner	Shares	(%)
GE SWEDEN HOLDINGS AB	2 941 484	14,18
MERRILL LYNCH INTERNATIONAL	1 924 932	9,28
FORSTA AP-FONDEN	1 799 999	8,68
HANDELSBANKEN SVENSKA SMABOLAG, SFOND	761 048	3,67
SEB	664 353	3,20
Total number of shares	20 746 585	

Using a mandate from the Annual General Meeting, a new share issue of 8,358 shares was executed as part of the share savings program. Also, during the second quarter, warrants were executed to subscribe to a total of 100,000 new C-shares.

Of the company's shares, the Company holds 200,000 C-shares in order to ensure commitments in the share savings program.

Annual General Meeting (AGM)

The AGM was held on March 22, 2016 and decided to re-elect the board members Göran Malm, Jan-Olof Brüer, Lars Bergström, Henrik Hedlund and Anna Malm Bernsten. Malin Ruijsenaars and Joakim Westh were newly elected as members of the Board. Göran Malm was elected Chairman of the Board.

The AGM decided that the Nomination Committee will consist of Olof Jonasson, Rolf Ekedahl and Thomas Carlström.

Olof Jonasson, who represents Första AP-fonden, was elected Chairman. The other members in the Nomination Committee are independent of major shareholders of the company.

The Annual General Meeting for 2016 will take place on March 28, 2017 at 5.00 pm (CET).

Accounting principles

The applied accounting principles are the same as for the Annual Report of 2015.

This report has been prepared in accordance with IAS 34 Interim Financial Reporting and for the parent company in accordance with the Annual Accounts Act and RFR 2, accounting for Legal Entities.

New IFRS rules have not affected the Group accounting as of January 1, 2016.

In accordance with the new guidelines from The European Securities and Markets Authority (ESMA) an analysis has been made on the alternative key figures found in the Arcam report.

No changes have occurred since the alternative key figures shown are considered to be traditional and established indicators. Arcam reports alternative indicators of external reporting to more clearly describe the activities to improve comparability between reporting periods.

Significant risks and uncertainties

The company sells complex systems in limited quantities. The sales process is long, and it takes 6-18 months to complete a deal. Changes in timing of transactions or deliveries may therefore have a major impact on the results for individual quarters.

The long-term development of the company is at this time also dependent on how the industrial economy develops. Although Arcam's priority markets are less cyclical than other sectors of the economy, it cannot be excluded that the current macro-economic and credit problems can have a negative impact on investment in machinery also in Arcam's key markets.

Arcam has developed a commercially viable product. To fully exploit the potential of the product requires continuous development work on the application side with the aim to introduce new materials. Whilst product development is expected to provide Arcam with additional competitive advantages, it cannot be excluded that development is delayed, either due to insufficient resources or because of technical challenges.

The business risks and risk management of the Group and the Parent Company, along with the management of financial risks, are further described in the Annual Report for 2015.

Information policy

Arcam follows the rules for disclosure of information stipulated in NASDAQ Stockholm rules for issuers. The company publishes business events that the company believes are critical and thus affect the valuation. Orders with a value exceeding 20 MSEK will always be published.

Financial Calendar

Year-end report for 2016 will be published on February 8, 2017 at 08.30 am (CET).

The Annual General Meeting for 2016 will take place on March 28, 2017 at 5.00 pm (CET).

This report has been briefly reviewed by the auditors.

Mölnadal, Sweden, October 21, 2016
Arcam AB (publ)

The Board

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This is Arcam

Operations

Arcam provides cost-efficient Additive Manufacturing solutions for production of metal components. Arcam's Electron Beam Melting (EBM[®]) technology offers design freedom combined with excellent material properties and high productivity. Arcam is, through our solution orientation and comprehensive product offering, an innovative partner for advanced manufacturing, primarily in the aerospace and medical industries.

Arcam provides Electron Beam Melting systems through Arcam AB in Sweden, powder metals through AP&C in Canada and implant contract manufacturing through DiSanto in the USA. The company is listed on Nasdaq Stockholm and the Head Office is located in Mölndal, Sweden.

History

Arcam was established in 1997, and in 2002 the first commercial EBM system, EBM S12 was introduced. In early 2007, Arcam A2 was introduced; a system of double construction volume compared with EBM S12. In late 2009 launched Arcam A1, an EBM system adapted for the production of orthopedic implants. In early 2013 Arcam Q10 was launched, a new EBM system with a focus on the implant market. With Arcam Q10 LayerQam was introduced, a system for quality control in production. In late 2013 Arcam launched Arcam Q20, an EBM system based on Arcam Q10 and adapted for the aerospace industry. In 2014 Arcam acquired AP&C in Canada and DiSanto in the USA, broadening the company offering to metal powders and contract manufacturing of orthopedic implants.

Market

Arcam's market is global with customers primarily in orthopedic implants and aerospace industries that take advantage of Arcam's technology for cost efficient manufacturing of products with advanced functionality.

Strategy in brief

Arcam focuses on two target groups in the manufacturing industries; orthopedic implant and aerospace industries. The focus in the short to medium term is to increase machine productivity, precision and accuracy.

Arcam protects its technology with strong patent protection where process knowledge are key components, for both hardware and software. Patents are filed in 11 key countries.

Arcam works closely with customers to thoroughly understand their needs and to meet their expectations.

Business in brief

Arcam provides Electron Beam Melting systems through Arcam AB in Sweden, powder metals through AP&C in Canada and implant contract manufacturing through DiSanto in the USA. Arcam's EBM systems is a hub in the offering to the market with metal powders and contract manufacturing being important supplementary products, broadening our offering to the market and providing recurring sales.

INCOME STATEMENT, MSEK	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
GROUP	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
Net sales	132,6	138,1	440,2	400,1	576,1
Cost of sales	-99,0	-98,2	-317,7	-270,2	-383,8
Gross income	33,6	39,9	122,5	129,9	192,3
Research and development expenses	-15,3	-13,1	-49,5	-42,6	-60,9
Selling, general & administrative expenses	-28,7	-17,0	-78,8	-53,2	-81,1
Other operating income and expenses	5,6	2,8	5,1	2,1	0,0
Operating income	-4,8	12,6	-0,7	36,2	50,2
Net financial items	2,8	-5,8	18,1	-5,5	-11,8
Tax	-1,1	-1,9	-10,7	-9,0	-14,0
Net profit for the period	-3,1	4,9	6,7	21,6	24,3
Other comprehensive income					
Items that can be reclassified into profit or loss					
Translation differences on foreign operations	1,1	-4,7	11,8	-1,5	-5,3
Translation differences on hedge instruments	-	-	-	-	-
Other comprehensive income for the period	1,1	-4,7	11,8	-1,5	-5,3
Total comprehensive profit for the period	-2,0	0,2	18,5	20,1	19,0
Earnings per share, SEK	-0,15	0,24	0,32	1,11	1,18
Earnings per share after dilution, SEK	-0,15	0,24	0,32	1,11	1,18

BALANCE SHEET, MSEK	2016-09-30	2015-09-30	2015-12-31
GROUP			
Goodwill	201,3	195,2	189,4
Other intangible fixed assets	40,2	45,6	42,6
Tangible fixed assets	105,9	61,3	69,4
Financial fixed assets	23,3	30,4	27,6
Total non-current assets	370,7	332,6	329,0
Inventory	241,0	141,8	157,4
Current receivables	135,8	188,7	193,1
Blocked funds	-	31,5	31,5
Cash and cash equivalents	386,2	421,4	428,7
Total current assets	763,0	783,4	810,6
Total assets	1 133,8	1 115,9	1 139,6
Stockholders' equity & liabilities			
Share capital	20,7	20,6	20,6
Other reserves	923,3	924,4	925,2
Translation reserve	31,0	15,6	11,7
Retained earnings	-43,2	-52,2	-49,5
Total equity	931,9	908,4	908,0
Other long term liabilities, interest bearing	2,8	5,1	4,0
Other long term liabilities, non-interest bearing	6,6	4,2	7,0
Current liabilities, interest bearing	2,6	2,5	2,5
Current liabilities, non-interest bearing	189,9	195,8	218,0
Total equity and liabilities	1 133,8	1 115,9	1 139,6

CASH FLOW STATEMENT, MSEK GROUP	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
Cash flow from operations before changes in working capital	7,9	14,1	32,5	48,9	67,2
Total change in working capital	-20,5	-12,3	-26,6	-74,9	-72,2
Cash flow from operations	-12,6	1,8	5,9	-25,9	-4,9
Investments in intangible assets	-0,9	-0,9	-2,6	-2,3	-3,2
Investments in tangible assets	-17,9	-6,7	-44,2	-12,8	-24,5
Supplementary purchase consideration paid	-2,0	-6,2	-33,4	-71,4	-71,4
Cash flow from investments activities	-20,8	-13,8	-80,1	-86,5	-99,0
New share issue	-	-	1,6	245,5	245,4
Other	-	-	-1,3	-1,2	-2,4
Cash flow from financing activities	0,0	0,0	0,3	244,2	243,0
Increase/decrease in cash and cash equivalents	-33,5	-11,9	-73,9	131,8	139,0
Cash and cash equivalents at the beginning of the period	419,7	464,8	460,2	321,1	321,1
Cash and cash equivalents at end of the period	386,2	452,9	386,2	452,9	460,2

EQUITY, MSEK GROUP	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2015-12-31
Opening balance	908,0	641,7	641,7
New share issue	1,6	253,0	252,9
Issue expenses	-	-7,5	-7,5
Incentive program	3,8	1,1	1,9
Net profit for the period	6,7	21,6	24,3
Other comprehensive income for the period	11,8	-1,5	-5,3
Closing balance	931,9	908,4	908,0

BUSINESS AND FINANCIAL RATIOS GROUP	2016-09-30	2015-09-30	2015-12-31
	Equity ratio %	82,2	81,4
Return on equity %	0,7	4,0	3,1
Return on capital employed %	1,9	4,0	5,5
Equity per share, SEK	44,9	44,0	44,0
Earnings per share, SEK	0,32	1,11	1,18
Earnings per share after dilution, SEK	0,32	1,11	1,18
Cash flow from operating activities per share	0,28	-1,26	-0,24
Number of employees by period end	328	260	285
Number of shares by period end	20 746 585	20 638 227	20 638 227
Number of warrants by period end	200 000	360 000	360 000
Market value per share by period end, SEK	293,00	147,25	184,50

Definitions of Business and Financial ratios are available at Arcam's website.

INCOME STATEMENT, MSEK PARENT COMPANY	2016-07-01 2016-09-30	2015-07-01 2015-09-30	2016-01-01 2016-09-30	2015-01-01 2015-09-30	2015-01-01 2015-12-31
Net sales	73,1	95,6	274,7	283,8	423,5
Cost of sales	-61,1	-65,3	-197,2	-177,8	-263,6
Gross income	12,0	30,3	77,5	106,0	159,9
Research and development expenses	-15,1	-13,7	-48,6	-42,0	-60,4
Selling, general & administrative expenses	-17,4	-9,1	-46,0	-31,2	-47,9
Other operating income and expenses	0,9	1,8	1,3	0,3	-2,0
Operating income	-19,6	9,3	-15,9	33,1	49,6
Net financial items	4,1	-4,2	-6,3	-1,0	-5,8
Tax	2,8	-1,3	-2,2	-5,4	-8,3
Net profit for the period	-12,7	3,8	-24,4	26,7	35,5
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive profit for the period	-12,7	3,8	-24,4	26,7	35,5
Earnings per share, SEK	-0,61	0,19	-1,18	1,37	1,72
Earnings per share after dilution, SEK	-0,61	0,18	-1,18	1,37	1,71

**BALANCE SHEET, MSEK
PARENT COMPANY**

	2016-09-30	2015-09-30	2015-12-31
Intangible fixed assets	7,4	7,4	7,1
Tangible fixed assets	6,6	3,1	5,0
Financial assets	170,1	190,8	187,9
Receivables from group companies	261,2	128,6	124,8
Total fixed assets	445,2	329,9	324,8
Inventory	122,4	76,9	92,1
Current receivables	89,9	141,8	146,8
Receivables from group companies	33,0	55,2	68,6
Blocked funds	-	31,5	31,5
Cash and cash equivalents	355,9	405,3	409,3
Total current assets	601,2	710,7	748,2
Total assets	1 046,5	1 040,6	1 073,0
Stockholders' equity & liabilities			
Share capital	20,7	20,6	20,6
Statutory reserve	62,3	62,3	62,3
Retained earnings	811,5	822,7	832,1
Total equity	894,6	905,7	915,0
Liabilities to group companies	5,5	6,7	4,6
Current liabilities, non-interest bearing	146,3	128,2	153,4
Total stockholders' equity & liabilities	1 046,5	1 040,6	1 073,0