

Arcam AB (publ)

Reg. no 556539-5356

Interim report January – June 2016

Significant investments in technology and capacity

- Net sales increased by 17 % to 307.6 (262.0) MSEK
- Operating income amounted to 4.1 (23.5) MSEK
- Net income amounted to 9.8 (16.7) MSEK
- Earnings per share amounted to 0.47 (0.82) SEK
- 28 (23) systems were delivered in the period
- Order intake amounted to 15 (17) EBM systems

For the second quarter:

- Net sales amounted to 147.7 (150.6) MSEK
- Operating income amounted to -4.8 (19.7) MSEK
- Net income amounted to 1.5 (12.4) MSEK
- 14 (14) EBM systems were delivered in the second quarter
- Order intake amounted to 9 (7) systems

Telephone conference with CEO Magnus René and CFO Johan Brandt
July 21, 2016 at 2.00 p.m. (CEST)

Phone number to the conference:

SE: +46 8 566 426 90

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Link to presentation:

[Arcam Q2 conference call](#)

Significant investments in technology and capacity

The Arcam Group continues to grow and during the first six months the increase in sales was 17%. Sales for the period increased to 307.6 (262.0) MSEK and trailing twelve month sales amounts to 621.7 (490.0) MSEK. Operating income for the period was 4.1 (23.5) MSEK and trailing twelve month operating income amounts to 30.7 (49.0) MSEK.

In the first 6 months we increased our delivery pace and we delivered 28 (23) EBM systems. The last twelve months we thus delivered 56 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.

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 business. We invest significantly in technology, marketing and manufacturing capacity to meet our customers' demands and growing expectations on productivity and reliability.

Business status

During the second quarter we delivered 14 EBM systems and the majority went to customers in the implant or 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 14 systems. One of our new clients is the US based implant manufacturer Exactech. They produce EBM implants via a contract manufacturer since 2010 and they have decided to build its own manufacturing operation and placed an order of 2 EBM systems.

During the quarter 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. During the second quarter a new powder reactor was taken into account. Thus AP&C now has 6 reactors in operation, and we plan to have 8 reactors operating in our present plant Montreal by the end of this year. In May we also decided to increase further the capacity by building a new powder manufacturing plant outside Montreal, Canada. The investment is initially for 23 MCAD and we have through an agreement with Investissement Quebec received a total of 11.5 MCAD in loans and grants, of which 10 MCAD in interest-free loans and 1.5 MCAD in grants. The new facility will provide manufacturing redundancy, short term capacity increase and long term expansion capability. The new capacity increase follows on significant growth in 2015 and 2016 and a surge in demand for AP&C's high quality titanium powders for additive

manufacturing. With the present build-out AP&C will reach a capacity of at least 750 tons per year. The new plant will be built in modules and can in the long run 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 a 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. Hence, we have in the period written down the parent company holding in DiSanto with 28 MSEK. This has no effect on the consolidated numbers for the group.

Strengthened organization

During the first half of the year, 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 in Germany and in the future also serve as a local support office. The operation is led by Peter Jain, who has a solid background in the machine tool industry.

On the important Italian market, we have strengthened the organization with local management where our former agent Fausto Asvisio now works full time for us. The office in Turin is responsible for sales and service and is working close to our important customers in Italy.

With 14 machines in order, a stable aftermarket and a fast growing market for AM metal powders we are well positioned for a positive development in 2016.

Möln dal, July 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 July 21, 2016.

Net sales, result and order intake

Net sales

Net sales for the period increased to 307.6 (262.0) MSEK. Of the total amount of sales, EBM systems and services increased to 180.8 (164.7) MSEK, sales of metal powders and consumables to 79.9 (48.7) MSEK and contract manufacturing to 46.9 (47.6) MSEK.

In the second quarter, net sales amounted to 147.7 (150.6) MSEK.

Of the total amount of sales, EBM systems and services amounted to 86.9 (97.8) MSEK, sales of metal powders and consumables to 37.6 (23.9) MSEK and contract manufacturing to 23.2 (26.8) MSEK.

Results

Operating income for the period amounted to 4.1 (23.5) MSEK and operating income for the second quarter amounted to -4.8 (19.7) MSEK.

Net income for the period amounted to 9.8 (16.7) MSEK and net income for the second quarter increased to 1.5 (12.4) MSEK.

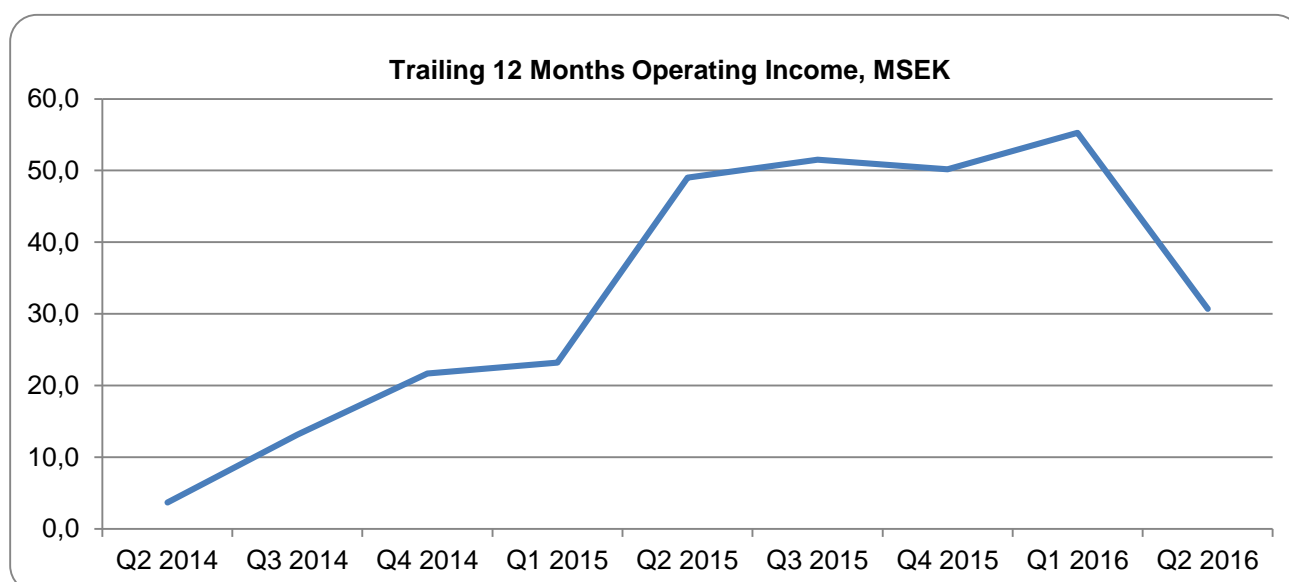
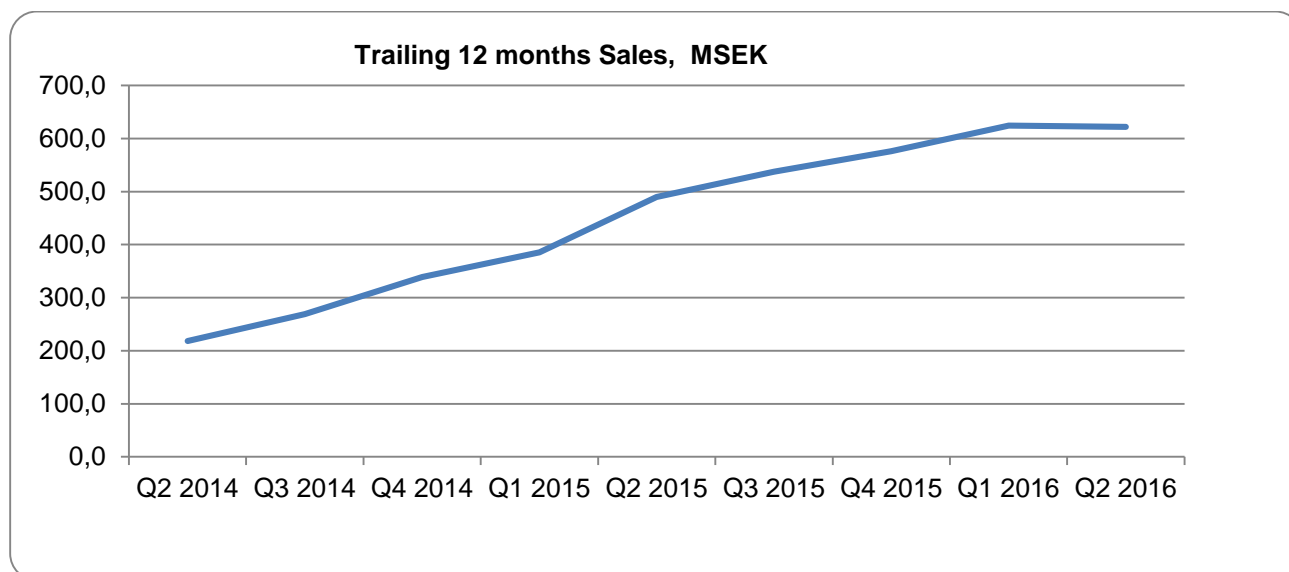
Order intake of EBM systems

During the period we booked 9 (7) new orders for EBM systems. At the end of the period the order book consists of 14 (13) systems.

Amounts in MSEK

Quarterly	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net Sales	147,7	159,9	176,0	138,1	150,6	111,4	137,1	90,8	46,1	64,9
Operating income	-4,8	8,9	14,0	12,6	19,7	3,8	15,3	10,2	-6,1	2,3
System orders	9	6	29	12	7	10	21	5	10	6
Trailing Twelve Months	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net Sales	621,7	624,6	576,1	537,3	490,0	385,4	339,0	268,8	218,3	226,2
Operating income	30,7	55,3	50,2	51,5	49,0	23,2	21,7	13,2	3,7	16,3
System orders	56	54	58	50	43	46	42	31	30	27

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 27.9 (7.6) MSEK of which intangible amounted to 1.7 (1.4) MSEK and tangible to 26.2 (6.1) MSEK. Investments in tangible assets for the period relates 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 12.4 (11.1) MSEK, of which group amortizations relating to the acquisitions amounted to 3.3 (3.6) MSEK.

Acquisition related cash flow related to payment for the acquisition of AP&C, amounted to 31.4 (65.2) MSEK, paid in the first quarter of 2016.

Financial status

Cash and cash equivalents at end of period amounted to 419.7 (464.8) MSEK. Cash includes 6.2 (3.1) MSEK that the company disposes EU funded projects.

The company maintains a strong cash position and a very strong equity ratio at 81.9 (82.0)%.

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 321 (247) 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 June 30 are:

Owner	Shares	(%)
OPPENHEIMER GLOB OPPORTUNITY FUND	3 148 808	15,2
FORSTA AP-FONDEN	1 799 999	8,7
HANDELSBANKEN FONDER AB RE JPMEL	1 254 317	6,1
CBLDN-UBS FINANCIAL SERVICES INC	613 712	3,0
NTC RE IEDU UCITS CLIENTS NON	547 033	2,6

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 thus 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 authorized the board to decide on the issues of new shares, convertible debentures and subscription options. The authorization covers and overall increase of the share capital not exceeding 2,000,000 SEK. The shares shall be issued at market stock price.

The AGM decided according to a suggestion from the board to establish a long term incentive program for management in the Arcam Group.

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.

Accounting principles

This report has not been reviewed by the auditors.

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 market segments.

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

Interim report for quarter 3 will be published on October 21 at 08.30 (CET).

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

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

Mölnadal, Sweden, July 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 GROUP	2016-04-01 2016-06-30	2015-04-01 2015-06-30	2016-01-01 2016-06-30	2015-01-01 2015-06-30	2015-01-01 2015-12-31
Net sales	147,7	150,6	307,6	262,0	576,1
Cost of sales	-107,7	-90,5	-218,7	-172,0	-383,8
Gross income	40,0	60,1	88,9	90,1	192,3
Research and development expenses	-18,0	-17,5	-34,2	-29,5	-60,9
Selling, general & administrative expenses	-27,6	-21,1	-50,1	-36,3	-81,1
Other operating income and expenses	0,8	-1,8	-0,5	-0,7	0,0
Operating income	-4,8	19,7	4,1	23,5	50,2
Net financial items	10,3	-4,4	15,3	0,4	-11,8
Tax	-4,0	-2,9	-9,6	-7,2	-14,0
Net profit for the period	1,5	12,4	9,8	16,7	24,3
Other comprehensive income					
Items that can be reclassified into profit or loss					
Translation differences on foreign operations	7,0	-5,4	10,7	3,2	-5,3
Translation differences on hedge instruments	-	-	-	-	-
Other comprehensive income for the period	7,0	-5,4	10,7	3,2	-5,3
Total comprehensive profit for the period	8,5	7,0	20,5	20,0	19,0
Earnings per share, SEK	0,07	0,23	0,47	0,82	1,18
Earnings per share after dilution, SEK	0,07	0,23	0,47	0,81	1,18

**BALANCE SHEET, MSEK
GROUP**

	2016-06-30	2015-06-30	2015-12-31
Goodwill	201,0	204,5	189,4
Other intangible fixed assets	41,9	49,2	42,6
Tangible fixed assets	91,2	57,3	69,4
Financial fixed assets	22,1	30,5	27,6
Total non-current assets	356,2	341,5	329,0
Inventory	207,2	139,6	157,4
Current receivables	155,5	152,3	193,1
Blocked funds	-	31,5	31,5
Cash and cash equivalents	419,7	433,3	428,7
Total current assets	782,4	756,7	810,6
Total assets	1 138,6	1 098,2	1 139,6
Stockholders' equity & liabilities			
Share capital	20,7	20,5	20,6
New share issue in progress	-	2,7	-
Other reserves	923,3	920,7	925,2
Translation reserve	28,1	20,9	11,7
Retained earnings	-39,7	-57,6	-49,5
Total equity	932,5	907,1	908,0
Other long term liabilities, interest bearing	2,6	6,2	4,0
Other long term liabilities, non-interest bearing	8,2	10,4	7,0
Current liabilities, interest bearing	2,6	-	2,5
Current liabilities, non-interest bearing	192,8	174,4	218,0
Total equity and liabilities	1 138,6	1 098,2	1 139,6

**CASH FLOW STATEMENT, MSEK
 GROUP**

	2016-04-01 2016-06-30	2015-04-01 2015-06-30	2016-01-01 2016-06-30	2015-01-01 2015-06-30	2015-01-01 2015-12-31
Cash flow from operations before changes in working capital	11,7	22,2	24,6	34,8	67,2
Total change in working capital	19,4	-21,5	-6,1	-62,6	-72,2
Cash flow from operations	31,1	0,7	18,5	-27,8	-4,9
Investments in intangible assets	-0,4	-0,9	-1,7	-1,4	-3,2
Investments in tangible assets	-19,2	-2,2	-26,2	-6,1	-24,5
Supplementary purchase consideration paid	0,0	-	-31,4	-65,2	-71,4
Cash flow from investments activities	-19,7	-3,1	-59,3	-72,7	-99,0
New share issue	1,6	245,4	1,6	245,4	245,4
Other	-1,3	-1,2	-1,3	-1,2	-2,4
Cash flow from financing activities	0,3	244,1	0,3	244,1	243,0
Increase/decrease in cash and cash equivalents	11,7	241,8	-40,4	143,7	139,0
Cash and cash equivalents at the beginning of the period	407,9	223,1	460,2	321,1	321,1
Cash and cash equivalents at end of the period	419,7	464,8	419,7	464,8	460,2

**EQUITY, MSEK
 GROUP**

	2016-01-01 2016-06-30	2015-01-01 2015-06-30	2015-01-01 2015-12-31
Opening balance	908,0	641,7	641,7
New share issue	1,6	250,2	252,9
New share issue in progress	-	2,7	-
Issue expenses	-	-7,5	-7,5
Incentive program	2,3	-	1,9
Net profit for the period	9,8	16,8	24,3
Other comprehensive income for the period	10,7	3,2	-5,3
Closing balance	932,5	907,1	908,0

**BUSINESS AND FINANCIAL RATIOS
 GROUP**

	2016-06-30	2015-06-30	2015-12-31
Equity ratio %	81,9	82,0	79,7
Return on equity %	1,1	1,6	3,1
Return on capital employed %	2,1	2,5	5,5
Equity per share, SEK	44,9	44,3	44,0
Earnings per share, SEK	0,47	0,82	1,18
Earnings per share after dilution, SEK	0,47	0,81	1,18
Cash flow from operating activities per share	0,89	0,03	-0,24
Number of employees by period end	321	247	285
Number of shares by period end	20 746 585	20 465 239	20 638 227
Number of warrants by period end	200 000	360 000	360 000
Market value per share by period end, SEK	216,50	142,25	184,50

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

INCOME STATEMENT, MSEK PARENT COMPANY	2016-04-01 2016-06-30	2015-04-01 2015-06-30	2016-01-01 2016-06-30	2015-01-01 2015-06-30	2015-01-01 2015-12-31
Net sales	95,6	111,6	201,6	188,2	423,5
Cost of sales	-67,4	-64,2	-136,1	-112,5	-263,6
Gross income	28,2	47,3	65,5	75,7	159,9
Research and development expenses	-17,5	-16,8	-33,5	-28,3	-60,4
Selling, general & administrative expenses	-15,9	-13,8	-28,6	-22,1	-47,9
Other operating income and expenses	1,0	-1,5	0,4	-1,5	-2,0
Operating income	-4,2	15,2	3,7	23,8	49,6
Net financial items	-16,6	-3,1	-10,4	3,2	-5,8
Tax	-2,1	-0,8	-5,0	-4,1	-8,3
Net profit for the period	-22,9	11,4	-11,7	22,9	35,5
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive profit for the period	-22,9	11,4	-11,7	22,9	35,5
Earnings per share, SEK	-1,11	0,56	-0,57	1,12	1,72
Earnings per share after dilution, SEK	-1,10	0,56	-0,56	1,12	1,71

BALANCE SHEET, MSEK PARENT COMPANY	2016-06-30	2015-06-30	2015-12-31
Intangible fixed assets	7,6	7,7	7,1
Tangible fixed assets	6,7	2,6	5,0
Financial assets	167,3	187,0	187,9
Receivables from group companies	234,8	130,8	124,8
Total fixed assets	416,3	328,0	324,8
Inventory	108,1	75,7	92,1
Current receivables	104,4	119,2	146,8
Receivables from group companies	31,7	43,9	68,6
Blocked funds	-	31,5	31,5
Cash and cash equivalents	394,5	417,2	409,3
Total current assets	638,6	687,4	748,2
Total assets	1 055,0	1 015,5	1 073,0
Stockholders' equity & liabilities			
Share capital	20,7	20,5	20,6
New share issue in progress	-	2,7	-
Statutory reserve	62,3	62,3	62,3
Retained earnings	823,3	815,7	832,1
Total equity	906,3	901,2	915,0
Liabilities to group companies	11,6	4,3	4,6
Current liabilities, non-interest bearing	137,1	110,0	153,4
Total stockholders' equity & liabilities	1 055,0	1 015,5	1 073,0