

Arcam AB

Reg. no 556539-5356

Year-end report 2016

Major investments and challenging market situation

- Net sales increased by 12,5% to 648.3 (576.1) MSEK
- Operating income amounted to -29.8 (50.2) MSEK
- Net income amounted to -10.8 (24.3) MSEK
(the operating income and net sales for the period includes non-recurring costs of 44.8 (0) MSEK)
- Earnings per share amounted to -0.52 (1.18) SEK
- 50 (50) EBM systems were delivered during the period
- Order intake amounted to 48 (58) EBM systems
- GE has acquired 76.1% of all shares in Arcam

For the fourth quarter:

- Sales increased by 18% to 208.1 (176.0) MSEK
- Operating income amounted to -29.1 (14.0) MSEK
- Net income amounted to -17.5 (2.7) MSEK
(the operating income and net sales for the period includes non-recurring costs of 44.8 (0) MSEK)
- Order intake amounted to 24 (29) systems
- 15 (16) EBM systems were delivered in the fourth quarter

Significant events after the end of the period:

- The company has called for an extraordinary general meeting on February 7, 2017 at 4 pm (CET).
- The company has received an unconditional shareholder contribution of 16.9 MSEK.

Basic information about Arcam can be found on page 10 in this report.

Major investments and challenging market situation

After a strong fourth quarter, we closed the year with net sales of 648.3 MSEK and an operating profit of -29.8 MSEK. The underlying operating income amounted to 15.0 MSEK after adjustments for non-recurring costs.

During the year we booked 48 new EBM orders, a decrease compared with the previous year when we reached 58 orders. We enter 2017 with an order book of 25 systems.

The second half of the year was dominated by GE's tender which for us is a strong confirmation that the business that we have built together now becomes a major player in the additive manufacturing industry. The bidding process had an impact on our operations since management had less time to act in the market. Our EBM customers took a somewhat cautious position and we see that it takes longer to close new orders.

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.

Business status

During the fourth quarter we delivered 15 EBM systems to customers in the implant and the aerospace industry. In the period we received 24 new orders and the order book by the end of the quarter amounts to 25 systems. 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.

During the period Arcam Q10plus and Arcam Q20plus were launched. The new systems are an enhanced version of the Arcam Q-series EBM systems for Additive Manufacturing. Arcam Qplus offers up to 25 % higher productivity with 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.

Our contract manufacturer DiSanto 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.

The EBM business and contract manufacturing have been characterized by slow growth, while in metal powder manufacturing we have grown significantly.

We have continued to develop synergies between EBM® systems, metal powders and contract manufacturing and we now see that our broad offering is well received by the market. We have also made significant investments in capacity expansion to continue to meet the demand for our customers' growing needs.

AP&C expands

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. By the end of 2016 we had 8 reactors in operation in the existing facility in Montreal.

In May we decided to increase further 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.

Arcam's strategy is to offer cost-effective production solutions that simplify and accelerate the transition from traditional manufacturing to additive manufacturing. A prerequisite for this is to offer the highest quality powder at a competitive price.

Strengthened organization

During the year we strengthened our sales and support organization in Germany, Italy and in the USA with new sales people and a strengthened sales management. A new sales office in Stuttgart will drive sales on the German market. 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.

In the beginning of January 2016 Alain Dupont was appointed president of powder manufacturer AP&C in Canada. In February 2016 Tom Barrett was appointed president of contract manufacturer DiSanto in the USA.

Ownership structure

On 6 September GE made a public offer to acquire all shares of Arcam AB. GE's offer was completed on 29 November and GE currently owns 76.15% of all shares of Arcam.

For us at Arcam GE's interest in a strong confirmation that the company we have built together for many years is a major player in the additive manufacturing industry. In connection with the offer the fund Elliott acquired over 11% of the shares and thus became the second largest shareholder.

With some of the world's largest companies as customers, a strong cash position and, most important, a team of dedicated and driven employees, we are well positioned to take advantage of our opportunities in the fast growing market for Additive Manufacturing.

Möln dal, February 7, 2017

Magnus René, President & CEO

The information has been made public in accordance with the Securities Market Act and/or the Financial Instruments Trading Act. The information was published on February 7, 2017 at 14:00 (CET).

Net sales, result and order intake

Net sales

Net sales for the year increased to a total of 648.3 (576.1) MSEK, of which sales in the fourth quarter amounted to 208.1 (176.0) MSEK.

Of the total sales EBM systems and services amounted to 360 (360) MSEK, sales of metal powders 197 (113) MSEK and contract manufacturing 91 (103) MSEK.

Result

The operating income for the period amounts to -29.8 (50.2) MSEK of which the fourth quarter amounted to -29.1 (14.0) MSEK. Net profit for the period amounted to -10.8 (24.3) MSEK of which for the fourth quarter -17.5 (2.7) MSEK. The operating income and net sales for the period includes non-recurring costs of 44.8 (0) MSEK, which relates to financial and legal advice, as well as costs related to an early redemption of the company's share saving program.

The weakening in operating profit compared with the previous year is mainly due to costs for the development of the local organizations, low utilization of capacity expansion in EBM production and the weak performance of the conventional production of DiSanto.

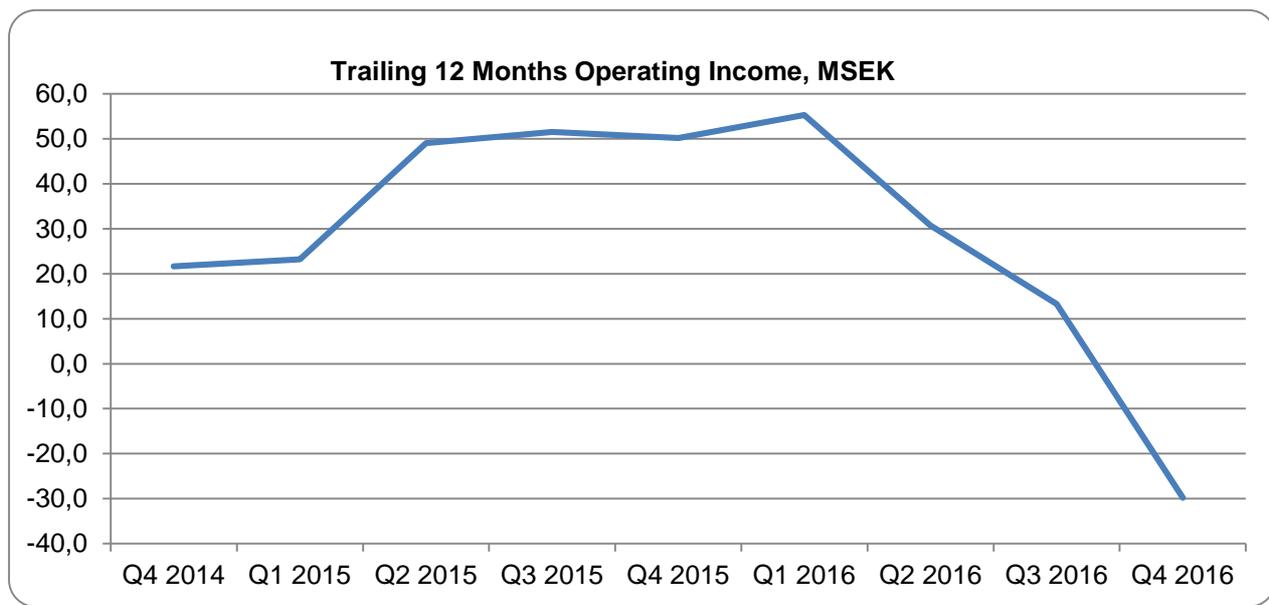
EBM order intake

During the year 48 (58) new orders for EBM systems were booked. At the end of the year the order book was 25 (27) systems.

Amounts in MSEK

Quarterly	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net Sales	208,1	132,6	147,7	159,9	176,0	138,1	150,6	111,4
Operating income	-29,1	-4,8	-4,8	8,9	14,0	12,6	19,7	3,8
System orders	24	9	9	6	29	12	7	10
Trailing Twelve Months	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net Sales	648,3	616,2	621,7	624,6	576,1	537,3	490,0	385,4
Operating income	-29,8	13,3	30,7	55,3	50,2	51,5	49,0	23,2
System orders	48	53	56	54	58	50	43	46

Quarterly and trailing 12-months sales, earnings and system orders



Investments, depreciation and financial status

Investments and depreciation

Investments in fixed assets amounted to 72.9 (27.6) MSEK of which intangible fixed assets amounted to 4.5 (3.2) MSEK and tangible fixed assets to 68.4 (24.4) MSEK. Investments in intangible fixed assets during the period refer to investments in patents.

Depreciations on tangible and intangible fixed assets amounted to SEK 27.5 (23.2) MSEK.

Acquisition related cash flow, mainly as payment for the acquisition of AP&C, amounted to 33.4 (71.4) MSEK, which was paid during the first quarter of 2016.

Financial status

Cash and cash equivalents at the end of the period amounted to 317.6 (460.2) MSEK. Cash includes 8.8 (8.3) MSEK which the company disposes and operates for the EU development projects.

The company has a strong cash position and a strong equity ratio, 78 (79) %.

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 60 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 348 (285) persons. Increase in the number of employees depends on a general growth in capacity and also as a result of a strengthened local sales and support organization.

Arcam share

Arcam's largest shareholders as of December 31, 2016 are:

Owner	Shares	(%)
GE SWEDEN HOLDING AB	15 797 577	76,1%
MERRILL LYNCH INTERNATIONAL	2 350 044	11,3%
SEB	606 704	2,9%
UBS AG LONDON BRANCH EQUITIES	353 557	1,7%
JP MORGAN CHASE BANK NA, W9	263 038	1,3%
Total number of shares	20 746 585	

Of the company's shares, the company holds 200,000 class C-shares.

Annual General Meeting and extraordinary shareholder meeting

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.

On December 28, 2016 the nomination committee members gave notice that they resign from their engagements. No new nomination committee has been appointed.

The company has called for an Extraordinary General Meeting on February 7, 2017 where the main owner GE has proposed the election of a new board.

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.

This report has not been reviewed by auditors.

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.

Group and Parent Company's business risks and risk management and management of financial risks are described in detail in the Annual Report for 2015.

Information policy

Arcam follows the rules for disclosure of information stipulated in NASDAQ OMX 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.

Significant events after the end of the period

Arcam has received an unconditional shareholder contribution from the company's principal owner of 16.9 MSEK. The contribution relates costs related to an early redemption of the company's share saving plan

Dividend

The Board and the CEO propose that no dividend is paid for the fiscal year 2016.

Financial Calendar

The Annual Report 2016 will be published in the second week of March and can be found on the company's webpage.

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

Interim report for the quarter 1-3 is published on 21 April, 21 July and 20 October.

The Year End Report gives a true and fair view of the operations, financial position and results and also describes significant risks and uncertainties facing the Group.

Mölnadal, February 7, 2017

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 U.S. 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 U.S. 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	2016-10-01	2015-10-01	2016-01-01	2015-01-01
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Net sales	208,1	176,0	648,3	576,1
Cost of sales	-138,2	-113,6	-455,9	-383,8
Gross income	69,9	62,3	192,4	192,3
Research and development expenses	-25,4	-18,4	-74,9	-60,9
Selling, general & administrative expenses	-35,3	-27,9	-114,1	-81,1
Other operating income and expenses	-38,3	-2,1	-33,2	-
Operating income	-29,1	14,0	-29,8	50,2
Net financial items	10,4	-6,3	28,5	-11,8
Tax	1,2	-5,0	-9,5	-14,0
Net profit for the period	-17,5	2,7	-10,8	24,3
Other comprehensive income				
Items that can be reclassified into profit or loss				
Translation differences on foreign operations	5,7	-3,8	17,5	-5,3
Translation differences on hedge instruments	-	-	-	-
Other comprehensive income for the period	5,7	-3,8	17,5	-5,3
Total comprehensive profit for the period	-11,8	-1,1	6,7	19,0
Earnings per share, SEK	-0,84	0,13	-0,52	1,18
Earnings per share after dilution, SEK	-0,84	0,13	-0,52	1,18

BALANCE SHEET, MSEK GROUP

GROUP	2016-12-31	2015-12-31
Goodwill	208,4	189,4
Other intangible fixed assets	39,9	42,6
Tangible fixed assets	128,6	69,4
Financial fixed assets	28,5	27,6
Total non-current assets	405,4	329,0
Inventory	266,5	157,4
Current receivables	202,6	193,1
Blocked funds	-	31,5
Cash and cash equivalents	317,6	428,7
Total current assets	786,6	810,6
Total assets	1 192,1	1 139,6
Stockholders' equity & liabilities		
Share capital	20,7	20,6
Development cost reserve	3,5	-
Other reserves	923,3	925,2
Translation reserve	44,9	11,7
Retained earnings	-63,7	-49,5
Total equity	928,7	908,0
Other long term liabilities, interest bearing	1,5	4,0
Other long term liabilities, non-interest bearing	10,1	7,0
Current liabilities, interest bearing	2,9	2,5
Current liabilities, non-interest bearing	248,9	218,0
Total equity and liabilities	1 192,1	1 139,6

CASH FLOW STATEMENT, MSEK GROUP	2016-10-01	2015-10-01	2016-01-01	2015-01-01
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Cash flow from operations before changes in working capital	-15,3	18,3	17,2	67,2
Total change in working capital	-25,7	2,7	-52,3	-72,2
Cash flow from operations	-40,9	21,0	-35,1	-4,9
Investments in intangible assets	-1,9	-0,9	-4,5	-3,2
Investments in tangible assets	-24,3	-11,6	-68,4	-24,5
Supplementary purchase consideration paid	0,0	-	-33,4	-71,4
Cash flow from investments activities	-26,2	-12,5	-106,3	-99,0
New share issue	-	-	1,6	245,4
Other	-1,5	-1,3	-2,8	-2,4
Cash flow from financing activities	-1,5	-1,3	-1,2	243,0
Increase/decrease in cash and cash equivalents	-68,6	7,3	-142,5	139,0
Cash and cash equivalents at the beginning of the period	386,2	452,9	460,2	321,1
Cash and cash equivalents at end of the period	317,6	460,2	317,6	460,2

EQUITY, MSEK GROUP	2016-01-01	2015-01-01
	2016-12-31	2015-12-31
Opening balance	908,0	641,7
New share issue	1,6	252,9
Issue expenses	-	-7,5
Incentive program	12,4	1,9
Net profit for the period	-10,8	24,3
Other comprehensive income for the period	17,5	-5,3
Closing balance	928,7	908,0

BUSINESS AND FINANCIAL RATIOS GROUP	2016-12-31	2015-12-31
	Equity ratio %	77,9
Return on equity %	-1,2	3,1
Return on capital employed %	0,0	5,5
Equity per share, SEK	44,8	44,0
Earnings per share, SEK	-0,52	1,18
Earnings per share after dilution, SEK	-0,52	1,18
Cash flow from operating activities per share	-1,70	-0,25
Number of employees by period end	348	285
Number of shares by period end	20 746 585	20 638 227
Number of warrants by period end	200 000	360 000
Market value per share by period end, SEK	318,00	184,50

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

INCOME STATEMENT, MSEK PARENT COMPANY	2016-10-01 2016-12-31	2015-10-01 2015-12-31	2016-01-01 2016-12-31	2015-01-01 2015-12-31
Net sales	128,7	139,7	403,4	423,5
Cost of sales	-77,7	-85,8	-274,9	-263,6
Gross income	51,0	53,9	128,5	159,9
Research and development expenses	-25,0	-18,5	-73,6	-60,4
Selling, general & administrative expenses	-20,3	-16,6	-66,3	-47,9
Other operating income and expenses	-38,1	-2,3	-36,9	-2,0
Operating income	-32,5	16,4	-48,3	49,6
Net financial items	20,1	-4,8	13,8	-5,8
Tax	2,0	-2,9	-0,3	-8,3
Net profit for the period	-10,4	8,7	-34,9	35,5
Other comprehensive income for the period	-	-	-	-
Total comprehensive profit for the period	-10,4	8,7	-34,9	35,5
Earnings per share, SEK	-0,50	0,42	-1,68	1,72
Earnings per share after dilution, SEK	-0,50	0,42	-1,68	1,71

BALANCE SHEET, MSEK PARENT COMPANY	2016-12-31	2015-12-31
Intangible fixed assets	7,6	7,1
Tangible fixed assets	6,5	5,0
Financial assets	172,0	187,9
Receivables from group companies	316,1	124,8
Total fixed assets	502,2	324,8
Inventory	130,5	92,1
Current receivables	135,7	146,8
Receivables from group companies	39,7	68,6
Blocked funds	-	31,5
Cash and cash equivalents	287,4	409,3
Total current assets	593,3	748,2
Total assets	1 095,5	1 073,0
Stockholders' equity & liabilities		
Share capital	20,7	20,6
Development cost reserve	3,5	-
Statutory reserve	62,3	62,3
Retained earnings	799,4	832,1
Total equity	885,9	915,0
Liabilities to group companies	8,0	4,6
Current liabilities, non-interest bearing	201,6	153,4
Total stockholders' equity & liabilities	1 095,5	1 073,0

Note 1 Assets pledged and contingent liabilities

MSEK

Group	2016-12-31	2015-12-31
Bank guarantees (Swedish Customs)	0,4	0,4
Bank guarantees (Customers)	7,2	0,0
Total Assets pledged	7,6	0,4
Total Contingent liabilities	-	-

Parent company

	2016-12-31	2015-12-31
Bank guarantees (Swedish Customs)	0,4	0,4
Bank guarantees (Customers)	7,2	0,0
Total Assets pledged	7,6	0,4
Warranty to OD Reality (relates to DiSanto's rents)	27,3	28,0
Warranty to Raymor Industries Inc (Earn Out)	-	30,8
Total Contingent liabilities	27,3	58,8