MATERIALISE NV
Company having made a public appeal to savings

Technologielaan 15
B-3001 Leuven
enterprise number 0441.131.254
RPR/RPM Leuven

(the "**Company**")

MANAGEMENT REPORT
TO THE ANNUAL GENERAL MEETING
TO BE HELD ON 5 JUNE 2018

Ladies and Gentlemen,

In accordance with the requirements laid down by law and the statutes of the Company, we are pleased to report to you about the activities of the Company and its subsidiaries (the "**Group**") for the financial year starting on January 1, 2017 and ending on December 31, 2017, and to present to you both the statutory annual accounts as well as the consolidated annual accounts as at December 31, 2017. This report has been prepared in accordance with articles 95 and 119 of the Belgian Companies Code. For additional information, we also refer to our annual report on Form 20-F which has been filed with the SEC and is available on our website.

1. ANALYSIS OF THE OPERATING RESULTS ON A CONSOLIDATED BASIS

On a consolidated basis, the results of our operations, as derived from our consolidated annual accounts prepared in accordance with IFRS, can be summarised as follows:

Comparison of the Years Ended December 31, 2017 and 2016

	Year Ended December 31,		
	2017	2016	% Change
	(in thousands of €)		*(%)*
Revenue	142,573	114,477	24.5%
Cost of sales	(62,787)	(46,706)	34.4%
Gross profit	**79,786**	**67,771**	**17.7%**
Research and development expenses	(19,959)	(17,682)	12.9%
Sales and marketing expenses	(39,109)	(36,153)	8.2%
General and administrative expenses	(25,484)	(20,041)	27.2%
Net other operating income (expenses)	5,631	6,212	-9.4%
Operating (loss) profit	**865**	**107**	**708.4%**
Financial expenses	(4,728)	(2,437)	94.0%
Financial income	3,210	2,039	57.4%
Share in loss of joint venture	(469)	(1,018)	-53.9%
(Loss) profit before taxes	**(1,122)**	**(1,309)**	**-14.3%**
Income taxes	(534)	(1,710)	-69.8%
Net (loss) profit	**(1,656)**	**(3,019)**	**-45.2%**

Comparison for the Years Ended December 31, 2017 and 2016 by Segment

	Materialise Software	Materialise Medical	Materialise Manufacturing	Total Segments	Adjustments & Eliminations[1]	Consolidated
			(in thousands of €, except percentages)			
For the year ended December 31, 2017						
Revenues	35,770	42,841	63,712	142,323	250	142,573
Segment EBITDA (unaudited)	13,926	4,400	4,967	23,293	(9,797)	13,496
Segment EBITDA %	38.9%	10.3%	7.8%	16.4%		9.5%
For the year ended December 31, 2016						
Revenues	30,122	37,910	46,406	114,438	39	114,477
Segment EBITDA (unaudited)	10,130	894	3,848	14,872	(6,391)	8,481
Segment EBITDA %	33.6%	2.4%	8.3%	13.0%		7.4%

(1) Adjustments & Eliminations to Revenues consist of occasional one-off sales by our core competencies not allocated to any of our segments. Adjustments & Eliminations to Segment EBITDA consist of corporate research and development, corporate headquarter costs and other operating income (expense).

Analysis

Revenue. Revenue was €142.6 million in the year ended December 31, 2017 compared to €114.5 million in the year ended December 31, 2016, an increase of €28.1 million, or 24.5 %.

Revenue from our Materialise Software segment increased from €30.1 million in the year ended December 31, 2016 to €35.8 million in the year ended December 31, 2017, which represented an increase of €5.7 million, or 18.8 %. This growth was primarily boosted by OEM sales growth of 23.8%.

Revenue from our Materialise Medical segment increased from €37.9 million in the year ended December 31, 2016 to €42.8 million in the year ended December 31, 2017, representing an increase of €4.9 million, or 13.0 %. Medical software growth was 16.5%, partner sales growth 3.7%, and direct sales growth 12.3%. Within our medical software department recurrent revenue from annual and renewed licenses and maintenance fees increased by 22.2%, while revenue of perpetual licenses and services increased by 5.6% in line with the new sales model that was introduced in April 2014, whereby, except for research and academic centers, our medical software will generally

be offered through time-based licenses (and no longer on a perpetual basis). Recurrent revenues from annual and renewed licenses and maintenance fees represented 68.7% of total medical software revenues in the year ended December 31, 2017, compared to 64.9% in the year ended December 31, 2016.

Revenue from our Materialise Manufacturing segment increased from €46.4 million in the year ended December 31, 2016 to €63.7 million in the year ended December 31, 2017, representing an increase of €17.3 million, or 37.3 %. Revenue from the ACTech business that was acquired in October 2017 contributed €10 million in 2017. We increased the number of 3D printers dedicated to the Materialise Manufacturing segment from 120 3D printers and six vacuum casting machines at December 31, 2016 to 155 3D printers and six vacuum casting machines at December 31, 2017, including nine 3D printers operated by ACTech.

During the year ended December 31, 2017, and across our various segments, 36.1% of our revenue was derived from Materialise Software and Materialise Medical software licenses and related services, as compared to 38.1% in the year ended December 31, 2016, 44.7% of our revenues was derived from the sale of printed industrial and consumer products (including the ACTech business), compared to 40.6% in the year ended December 31, 2016 and 19.2% of our revenues was derived from the sale of medical devices (guides as well as implants) that were brought to the market together with complex software planning solutions, including royalties and other fees, as compared to 21.3% in the year ended December 31, 2016.

Cost of sales. Cost of sales was €62.8 million in the year ended December 31, 2017 compared to €46.7 million in the year ended December 31, 2016, an increase of €16.1million, or 34.4 %. This increase in cost of sales was primarily attributable to increased purchases of goods and services and payroll expenses. Cost of sales of the acquired ACTech business contributed €7.3 million in 2017.

Gross profit. The overall gross profit margin (our gross profit divided by our revenue) decreased to 56.0% in the year ended December 31, 2017 from 59.2% in the year ended December 31, 2016. The decrease was primarily due to the relative increase of the manufacturing business, which generally has a lower gross profit margin, as a result of the ACTech acquisition.

Research and development, or R&D, sales and marketing, or S&M, and general and administrative, or G&A, expenses. R&D, S&M and G&A expenses increased, in the aggregate, 14.5% to €84.6 million for the year ended December 31, 2017 from €73.9 million in the year ended December 31, 2016. R&D expenses (excluding ACTech business) increased from €17.7 million to €20.0 million, S&M expenses increased from €36.2 million to €38.1 million, and G&A expenses increased from €20.0 million to €24.0 million. In 2017, €2.5 million of the R&D, S&M and G&A expenses related to the ACTech business.

Net other operating income. Net other operating income decreased from €6.2 million in the year ended December 31, 2016 to €5.6 million in the year ended December 31, 2017. This decrease in other operating income was primarily attributable to net foreign currency exchange losses related to our operating activities.

Financial result (financial expenses and financial income). The net financial result decreased from €-0.4 million in the year ended December 31, 2016 to €-1.5 million in the year ended December 31, 2017. The net financial result mainly relates to variances with respect to financial foreign currency results, which were primarily related to foreign exchange fluctuations on the portion of the initial public offering proceeds held in U.S. dollars.

Income taxes. Income taxes in the year ended December 31, 2017 resulted in an expense of €0.5 million, which was a combination of deferred tax bookings, and income taxes due over the result for the period.

Net profit. As a result of the factors described above, the net loss was €1.7 million in the year ended December 31, 2017 compared to a net loss of €3.0 million in the year ended December 31, 2016, a decrease of €1.3 million.

EBITDA. As a result of the factors described above, our consolidated EBITDA increased from €8.5 million in the year ended December 31, 2016 to €13.5 million in the year ended December 31, 2017, an increase of €5.0 million, or 59.1 %, and our total segment EBITDA increased from €14.9 million in the year ended December 31, 2016 to €23.3 million in the year ended December 31, 2017, an increase of €8.4 million, or 56.6 %. The 2017 EBITDA includes the ACTech business's contribution of €2.1 million.

Our Materialise Software segment's EBITDA increased from €10.1 million in the year ended December 31, 2016 to €13.9 million in the year ended December 31, 2017, an increase of €3.8 million, or 37.5 %. This segment's EBITDA margin (the segment's EBITDA divided by the segment's revenue) increased from 33.6 % for the year ended December 31, 2016 to 38.9 % in the year ended December 31, 2017.

Our Materialise Medical segment's EBITDA increased from €0.9 million in the year ended December 31, 2016 to €4.4 million in the year ended December 31, 2017. The segment's EBITDA margin increased from 2.4 % in the year ended December 31, 2016 to 10.3 % in the year ended December 31, 2017, which was mainly the result of an increase of the segment's gross margin by 7.5% compared to an increase of 4.5% across the segment's operational expenses.

Our Materialise Manufacturing segment's EBITDA increased from €3.8 million in the year ended December 31, 2016 to €5.0 million in the year ended December 31, 2017. The EBITDA margin of this segment decreased from 8.3% in the year ended December 31, 2016 to 7.8% in the year ended December 31, 2017.

2. ANALYSIS OF THE OPERATING RESULTS AT THE LEVEL OF THE COMPANY

At the level of the Company, the results of our operations, as derived from our statutory annual accounts prepared in accordance with Belgian GAAP, can be summarised as follows:

Comparison of the Years Ended December 31, 2017 and 2016

	Year Ended December 31,		
	2017	2016	% Change
	(in thousands of €)		*(%)*
Operating income	**128,561**	**102,999**	**24.82**
Operating charges	137,727	111,385	23.55
Operating profit (loss)	**-9166**	**-8,475**	
Financial income	2758	2,013	37.00
Financial charges	5769	1,832	232.70
Gain (loss) on ordinary activities before taxes	**-12179**	**-8,196**	
Extraordinary income			
Extraordinary charges			
Gain (loss) for the period before taxes			
Transfer from deferred taxes	2	3	
Taxes on result	126	166	
Net profit	**-12302**	**-8,358**	

Analysis

The operations of the Company are in line with the operations of the Group. Reference is made to Section 1 in this respect.

The major difference with the Group reporting consists in the treatment of development expenses that have been activated since 2015 in the Company's statutory accounts according to Belgian GAAP. In 2016 the activated development expenses amounted to €12,761,898, compared to €15,984,767 for 2017. The operating loss of €9.2 million in 2017 and €8.4 million in 2016 is primarily the result of the treatment of depreciation of activated development expenses. Financial charges for the year include €2.0 million non-recurrent cost. According to the Belgian accounting legislation such activated development expenses must be depreciated at 100% during the year of activation. Although we have losses for the second consecutive year, we see no reason to change our valuation rules in the company that have been based upon going concern. Such presumption is justified on the basis of the Company's cash position that allows to continue its operations in accordance with the business plan.

APPROPRIATION OF PROFITS

The period which has expired concluded with a net loss of €12,302,333.

Together with the carried forward profit of the previous financial year (€9,117,961), the total amount to be appropriated amounts to €3,184,372, which we recommend to carry forward in its entirety.

3. STRUCTURE AND DEVELOPMENT OF THE GROUP

On December 31, 2017, we had 24 (direct and indirect) subsidiaries (in Belgium (2), France (2), England (5), Germany (3), Czech Republic, Austria, Poland, the United States (2), Columbia, Japan, Malaysia, China, Italy, Australia and Ukraine).

We owned 100% of the shares of Mobelife NV. On December 5, 2016, after a transfer of all assets of Mobelife NV to the Company, Mobelife NV was dissolved and ceased to exist. The business of Mobelife NV has been fully integrated in and is continued by our Materialise Medical segment.

On December 31, 2016, we decided to transfer all the assets and activities of RapidFit, LLC, a subsidiary of RapidFit NV.

Moreover, with regard to the 50/50 joint-venture company RS Print NV, each party contributed € 500,000 to the joint-venture at its incorporation and during the year ending on December 31, 2017 further contributions to RS Print NV have been made as part of a commitment to contribute an additional €4.0 million.

On June 29, 2016 and November 7, 2016 respectively, CENAT BVBA and Elbimmo NV were merged into the Company as well as Materialise Metal BVBA was liquidated on 5 December 2016.

On October 4, 2017, we acquired ACTech, a full- service manufacturer of complex metal parts based in Germany, based on a total enterprise value of €43.7 million for a total cash payment of €29.4 million.

On November 6, 2017, we dissolved RapidFit LLC and on November 13, 2017, we dissolved Orthoview LLC, a subsidiary of OrthoView Holdings Limited.

4. MATERIAL EVENTS SINCE THE END OF THE FINANCIAL YEAR

Apart from what is mentioned below, there are no material events since the end of the financial year.

In connection with the exercise of 25,714 warrants, representing 102,856 shares, from the 2013 warrant plan in the course of October and November 2017, the share capital was raised for the amount of €6,000 and the share premium was raised for the amount of €201,000 by deed before the notary on March 30, 2018. As per December 31, 2017 the funds received in connection with the exercise of the warrants (€207,000) were accounted for on a restricted bank account.

5. RISKS AND UNCERTAINTIES

The risks and uncertainties, with which both the Group and the Company are faced, can be summarized as follows. However, other than those risks and uncertainties, we are not aware of any circumstances that are likely to have a material influence on the development of the Company.

- We may not be able to maintain or increase the market share or reputation of our software and other products and services that they need to remain or become a market standard.

- We may not be successful in continuing to enhance and adapt our software, products and services in line with developments in market technologies and demands.

- The research and development programs that we are currently engaged in, or that we may establish in the future, may not be successful and our significant investments in these programs may be lost.

- Existing and increased competition may reduce our revenue and profits.

- We rely on collaborations with users of our additive manufacturing solutions to be present in certain large scale markets and, indirectly, to expand into potentially high-growth specialty markets. Our inability to continue to develop or maintain these relationships in the future could harm our ability to remain competitive in existing markets and expand into other markets.

- Our revenue and results of operations may fluctuate.

- Demand for additive manufacturing generally and our additive manufacturing software solutions, products and services in particular may not increase adequately.

- We are dependent upon sales to certain industries.

- If our relationships with suppliers, including with limited source suppliers of consumables, were to terminate or our manufacturing arrangements were to be disrupted, our business could be adversely affected.

- We depend on the knowledge and skills of our senior management and other key personnel, and if we are unable to retain and motivate them or recruit additional qualified personnel, our operations could suffer.

- We may need to raise additional capital from time to time in order to meet our growth strategy and may be unable to do so on attractive terms, or at all.

- Our international operations subject us to various risks, and our failure to manage these risks could adversely affect our results of operations.

- Our international operations pose currency risks, which may adversely affect our results of operations and net income.

- Changes in tax laws, treaties or regulations could adversely affect our financial results.

- We may engage in acquisitions or investments that could disrupt our business, cause dilution to our shareholders and harm our financial condition and results of operations.

- We may enter into collaborations, in-licensing arrangements, joint ventures, strategic alliances or partnerships with third parties that may not result in the

development of commercially viable products or the generation of significant future revenue.

- Failure to comply with the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation could result in fines, criminal penalties and an adverse effect on our business.

- Errors or defects in our software or other products could cause us to incur additional costs, lose revenue and business opportunities, damage our reputation and expose us to potential liability.

- We rely on our information technology systems to manage numerous aspects of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our results of operations.

- A breach of security in our products or computer systems may compromise the integrity of our products, harm our reputation, create additional liability and adversely impact our financial results.

- We rely on third party technology, platform, carriers, server and hardware providers, and a failure of service by these providers could adversely affect our business and reputation.

- Workplace accidents or environmental damage could result in substantial remedial obligations and damage to our reputation.

- Our operations are subject to environmental laws and other government regulations that could result in liabilities in the future.

- If our service center operations are disrupted, sales of our 3D printing services, including the medical devices that we print, may be affected, which could have an adverse effect on our results of operations.

- We could experience unforeseen difficulties in building and operating key portions of our 3D printing infrastructure.

- We may not have adequate insurance for potential liabilities, including liabilities arising from litigation.

- Current and future global economic uncertainties and political conditions may adversely affect our results of operations.

- We face potential liability related to the privacy and security of personal information we collect.

- Our medical business, financial condition, results of operations and cash flows could be significantly and negatively affected by substantial government regulations.

- Modifications to our medical products marketed in the United States may require new 510(k) clearances or premarket approvals, or may require us to cease marketing or recall the modified products until clearances are obtained.

- Healthcare policy changes, including legislation to reform the U.S. healthcare system and legislation to reform the EU medical Device legislation, could adversely affect us.

- Our financial performance may be adversely affected by medical device tax provisions in the health care reform laws.

- The use, including the misuse or off-label use, of our medical services and products may be deemed unauthorized use or improper promotion, which could harm our image in the marketplace or result in injuries that lead to product liability suits and could be costly to our business or result in regulatory sanctions.

- If our marketed medical devices are defective or otherwise pose safety risks, the relevant governmental authorities could require their recall, or we may initiate a recall of our products voluntarily.

- If our products cause or contribute to a death or a serious injury, or malfunction in certain ways, we will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions.

- Our Materialise Medical segment's 3D printing operations are required to operate within a quality management system that is compliant with the regulations of various jurisdictions, including the requirements of ISO 13485, and the U.S. Quality System Regulation, which is costly and could subject us to enforcement action.

- We may be subject to or otherwise affected by U.S. federal and state, European or other healthcare laws, including fraud and abuse and health information privacy and security laws, and could face substantial penalties if we are unable to fully comply with such laws.

- If we are unable to obtain patent protection for our products or otherwise protect our intellectual property rights, our business could suffer.

- We may not be able to protect our trade secrets and intellectual property.

- We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.

- Obtaining and maintaining our patent protection depends on compliance with various procedural, documentary, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

- We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

- If disputes arise, we could lose rights that are important to our business or be subject to restrictions on the conduct of our business.

- Certain technologies and patents have been developed with collaboration partners and we may face restrictions on this jointly developed intellectual property.

- Our use of open source software may expose us to additional risks and harm our intellectual property.

6. RESEARCH AND DEVELOPMENT

We have an ongoing research and development program to improve and expand the capabilities of our existing technology portfolio, which reflects our continued investments in a range of disciplines, including software development, industrial, mechanical and biomedical engineering, physics and chemistry.

We have a long history of research and development through collaborations, which augment our internal development efforts. Our earliest joint research projects date from the early 1990s with market leading collaboration partners such as Siemens AG, Zeneca and the University of Leuven (*Katholieke Universiteit Leuven*), or KU Leuven. Many of our innovations are based on industrial collaborations such as those with Phonak Staefa Switzerland and Zimmer Biomet.

As of December 2017, we were active in 24 government funded research projects. With our platform technologies and strong track record in successful commercialization of scientific innovations, we receive many requests for participation in new development projects. While we strongly protect our intellectual property in our core competencies, many of our products require collaborations in order to create healthy ecosystems for their successful implementation.

As of December 31, 2017, we had more than 80 active research and development projects in various stages of completion and approximately 300 FTEs and fully dedicated consultants working on research and development in our facilities in Belgium, France, Germany, Poland, the United Kingdom, Ukraine, China and Malaysia.

For the year ended December 31, 2017, our research and development expenses were €20.0 million, or 14.0% of our revenue, as compared to €17.7 million, or 15.4% of our revenue in 2016.

We also regularly apply for research and development grants and subsidies under European, Belgian, British, French, German, Polish and Czech grant rules. The majority of these grants and subsidies are non-refundable. We have received grants and subsidies from different authorities, including the Flemish government (VLAIO, or Vlaams Agentschap Innoveren en Ondernemen, the former IWT) and the European Union (FP7 and H2020 framework programs). In addition, December 20, 2017, the European Investment Bank (EIB) and Materialise entered into a finance contract to

support our ongoing research and development programs for growth from 2017 to 2020. The contract provides a credit of up to €35 million.

We expect to continue to invest significantly in research and development in the future.

7. FINANCIAL INSTRUMENTS

The Company has used interest rate and foreign currency swaps as financial instruments in the course of the financial period.

8. MISCELLEANOUS

8.1 Exceptional tasks performed by the auditor

Not applicable

8.2 Conflicts of interest

During the financial year ending on December 31, 2017, the board of directors of the Company has applied the conflicts of interest procedure of Article 523 of the Companies Code during its meeting of June 20, 2017 in connection with the transfer of the convertible bond loan to a civil company. Such transfer has not resulted in any patrimonial consequences for the Company.

EXTRACT FROM THE BOARD OF DIRECTORS MEETING REPORT, WHICH WAS HELD ON 20 JUNE 2017

THE FOLLOWING DECISION WAS TAKEN:

"*Mr Leys and Mrs Kindt have requested the Board of Directors for the approval of the transfer of the convertible bond loan to a civil company.*

This convertible bond loan was issued and granted through notarial deed passed on November 28, 2013. In accordance with the conditions, the convertible bonds are transferable only after approval thereof by the Company.

Article 523 of the Code on Companies – declaration of directors

Before the Board of Directors takes a decision, Mr Peter Leys declares that, in his capacity as a director, he has a conflict of interest within the meaning of article 523 of the Code on Companies, since, as a director of the company, he has to cast a vote regarding this agenda topic.

Peter Leys requests that his declaration be included in the report of the meeting. The other formalities, prescribed by article 523 of the Code on Companies, must be adhered to, as a result the aforementioned decision (and the nature thereof) will be described hereafter and will be motivated and the financial consequences thereof for the company will be described.

The Board of Directors will mention this in its annual report.

The statutory auditor will be informed.

Discussion and decision

After discussion, the directors take the following decision with an unanimous vote:

The directors are of the opinion that this transfer is acceptable, given the fact that the transfer is part of a larger framework of an ordinary succession planning. The approval of this transfer does not result in an irregular benefit, at the detriment of the company, nor shall it influence the company in any negative way.

The Board of Directors therefore approves, with a unanimous vote, the planned transfer of the convertible bonds loan."

8.3 **Use of authorised capital**

By resolution of the extraordinary shareholders' meeting of April 23, 2014, which entered into force on June 30, 2014, our shareholders authorized the board of directors, for a period of five years from August 18, 2014, to increase the Company's share capital, in one or more transactions, up to a maximum amount of €2,714,634.83 (the so-called authorised capital).

The authorised capital has not been used in 2017.

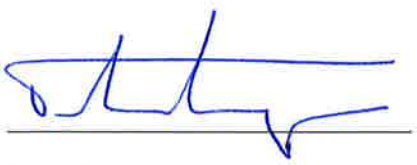
8.4 **Acquisition or disposal of own shares**

Not applicable

9. **DISCHARGE**

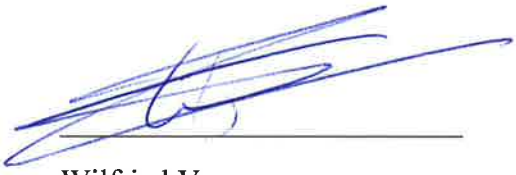
We propose that the directors and auditors are formally discharged for the performance of their mandates during the financial period which has just expired.

Done in Leuven on 30 April 2018



Peter Leys

Chairman



Wilfried Vancraen

Director