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MATERIALISE

Public limited liability company
Technologielaan 15
3001 Leuven (Heverlee)
Company number 0441.131.254
RPR Leuven

(the "**Company**" or "**Materialise**")

1. Context

Article 12:25, paragraph 1 of the Code of Companies and Associations ("**CCA**") provides the following:

"In each company, the administrative body shall draw up a detailed written report describing the state of the assets and liabilities of the companies to be merged and explaining and justifying, from a legal and economic point of view, the desirability of the merger, its terms and conditions, the manner in which it will take place and its effects, the methods used to determine the share exchange ratio, the relative importance attached to those methods, the valuation arrived at by each method, any difficulties that may have arisen and the proposed exchange ratio".

In accordance with this article, the board of directors of the Company has drawn up a detailed written report on the proposed merger by absorption of Ailanthus, a public limited liability company with registered office at J.Van der Vorstlaan(LOO) 19, 3040 Huldenberg and with company number 0461,745,338 ("Ailanthus") by the Company.

At the request of Ailanthus (shareholder of Materialise holding 24.8% of its shares) and its shareholders (Mr. Wilfried Vancraen and Ms. Hilde Ingelaere), in accordance with section 7:126 CCA (the "**Request**"), the board of directors of Materialise and the board of directors of Ailanthus have prepared a joint proposal for merger by absorption. It will be submitted for approval to the respective extraordinary general meetings of shareholders of Materialise and Ailanthus at the request of Ailanthus and its shareholders (hereinafter jointly the "**Applicants**"), in accordance with the provisions of sections 12:2 and 12:24 et seq. of the CCA.

2. Financial situation

The financial situation of Materialise is shown in the interim balance sheet of Materialise as at 30 September 2020, which is attached as Appendix 1.

The financial situation of Ailanthus is shown in the interim balance sheet of Ailanthus as at 30 September 2020, which is attached as Appendix 2.

3. Legal and economic explanation of the merger

The proposed merger will be submitted for approval to the shareholders' meeting of Materialise at the request of the Applicants and, according to the Applicants, is part of the estate and succession planning of Wilfried Vancraen and Hilde Ingelaere.

The Applicants explain that, in the absence of the proposed merger, there is a risk that in the event of the death of Wilfried Vancraen and/or Hilde Ingelaere, such a high amount of inheritance tax would be payable that their heirs might be forced to sell a substantial package of shares in the Company.

1. The board of directors acknowledges that the current strategic direction of the Company would benefit from a so-called mixed shareholding consisting of stable and committed shareholders/founders (and their family) on the one hand and a larger and more volatile group of well-informed investors on the other hand. Although the board of directors is aware that this mixed composition of the Company's shareholding may change at any time beyond its control, it believes that it is in the Company's best interest that such change is the result of a well-considered and prepared decision by the shareholders or investors involved and is not motivated by unexpected pressure to pay, in the short term, tax debts that would arise as a result of, for example, a death. Such an unexpected change in the shareholding could jeopardize the long-term planning and continuity of the Company.

The Board of Directors adds, for the sake of clarity, that it has not been informed at this time of any intention on the part of the Applicants to sell a substantial part of their shares. On the contrary, the Applicants have explained to the Board of Directors that the proposed merger is precisely aimed at better organizing and stabilizing their current shareholding.

2. Moreover, the transaction takes place in full transparency. The Board of Directors has had ample opportunity ask questions to the Applicants and their counsel and has no reason to believe that the merger is being proposed for any reason other than that included in the Request and repeated and clarified above.
3. Finally, as further explained below, the transaction will be neutral in all material respects for both the Company and its shareholders. More specifically, this implies that after the proposed merger there will be as many shares of Materialise outstanding as before, that there will be no changes to the rights and obligations of the shares, that the articles of association of the Company will remain unchanged and that all costs and other consequences for the Company and its shareholders will be fully reimbursed and compensated by the Applicants.

The Board of Directors has obtained independent advice from the law firm Baker & McKenzie and the tax firm Doolaeye, Verbist & De Meyere on all possible material tax and legal risks associated with the proposed merger for Materialise and its shareholders and has included and covered these risks in the indemnification agreement (which also includes catch-all language for unidentified risks, should they exist).

4. Modalities and consequences of the proposed merger

4.1. In general

Ailanthus is the company of Mr. Wilfried Vancraen and Mrs. Hilde Ingelaere; they jointly own all shares in Ailanthus. This company currently holds 13,428,688 (or 24.8%) of the shares in Materialise. The shareholding of Ailanthus is as follows:

Name	Number of shares	Percentage
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Hilde Ingelaere	57,737	99,00%
Wilfried Vancraen	583	1,00%
Total	58.320	100,00%

As part of the intended transaction, Materialise will absorb Ailanthus through a merger by absorption, after which Ailanthus will cease to exist. As a result of this transaction, the assets and liabilities of Ailanthus (in the condition they will be in immediately prior to the merger) will be transferred to Materialise. At the time of the proposed merger, as a result of the implementation of a partial demerger of Ailanthus prior to the merger that is the subject of the present report, the assets and liabilities of Ailanthus will consist exclusively of the 13,428,688 shares held by Ailanthus in Materialise (and the corresponding accounting equity components).

As a result of this reorganization transaction, Materialise will only acquire its own shares (and the corresponding accounting equity components).

The transfer of the 13,428,688 shares held by Ailanthus in Materialise (and the corresponding accounting equity of Ailanthus) to Materialise will be remunerated by Materialise by issuing 13,428,688 new shares in Materialise to the shareholders of Ailanthus.

Immediately after the intended transaction (in the same notarial deed), Materialise will proceed with the cancellation of its own shares acquired as a result of the merger by absorption. As a result of this cancellation, Materialise's shareholding before and after the transaction will remain completely the same. An equal number of shares in Materialise held by Ailanthus will be held directly by Mr. Wilfried Vancraen and Ms. Hilde Ingelaere (on top of the other shares in Materialise NV already held by Mr. Wilfried Vancraen and Ms. Hilde Ingelaere) after the completion of the merger and the cancellation.

4.2. Conditions

By including the following three conditions in their draft merger proposal, the Applicants have undertaken to carry out the proposed merger only if the following items are available on the date of the respective extraordinary general meetings of shareholders of Materialise and Ailanthus:

- i) A positive decision of the Office for Rulings in Fiscal Matters that confirms the tax neutrality of the proposed merger for both Ailanthus and Materialise;
- ii) implementation of the aforementioned partial demerger of Ailanthus, as a result of which Ailanthus' assets and liabilities will consist solely of the 13,428,688 shares held by Ailanthus in Materialise (and the corresponding accounting equity components); and
- iii) the reaching of a final agreement between Materialise NV, on the one hand, and Ailanthus NV and its shareholders (Mr Wilfried Vancraen and Mrs Hilde Ingelaere), on the other hand, concerning the undertaking given by Ailanthus NV and its shareholders (Mr Wilfried Vancraen and Mrs Hilde Ingelaere) to Materialise NV to reimburse Materialise NV for all costs incurred by Materialise NV, all possible liabilities of Materialise NV and all possible negative tax consequences for certain of its shareholders (if such liabilities and/or consequences should exist) as a result of the intended merger.

5. Method used to determine the exchange ratio and the values resulting from this method

In order to determine the exchange ratio in the context of the merger, the board of directors proposes to use the share price of Materialise (in a one-to-one ratio represented by American Depositary Shares) on NASDAQ. This is the most obvious method of valuation, as the shares in Materialise will be the sole asset of Ailanthus at the time of the merger, and as Materialise shares will also be the only form of consideration that Materialise will grant to the shareholders of Ailanthus in the context of the merger. For the valuation, the average share price of the 30 calendar days prior to 26 November 2020 (i.e. from 27 October through (and including) 25 November) will be used.

In light of the above, the value of Ailanthus is EUR 450,237,220. As Materialise issued a total of 54,169,257 shares on 29 November 2020, its value is EUR 1,816,187,530. As will be illustrated below, given the specificity of the proposed merger (where the acquired company has no assets or liabilities other than shares of the acquiring company (and the corresponding accounting equity components)), this valuation is rather theoretical.

The board of directors proposes to issue a total of 13,428,688 new shares to the shareholders of Ailanthus NV. This is exactly the same number of shares as the number of Materialise shares held by Ailanthus at the time of the merger. This proposal can be justified, among other things, as follows:

1. Following the acquisition (and immediate subsequent destruction) of the 13,428,688 shares of Materialise held by Ailanthus at the time of the merger, the value of Materialise "as such" will not increase (partly because the acquired shares will be immediately cancelled), but the value of all other outstanding shares of Materialise will increase by an amount equal to the total value of the contributed (and subsequently cancelled) shares (because the total value of Materialise will be represented by fewer shares).

As with any merger, the increase in value of the shares of the (absorbing) company (as a result of the acquisition of the assets and liabilities of the absorbed company) is "compensated" by a dilutive issue of new shares of the absorbing company to the shareholders of the absorbed company.

If the company to be acquired (as in the present case) exclusively holds shares of the absorbing company, it is appropriate to remunerate this contribution with exactly the same number of new shares (with exactly the same rights and obligations as the contributed shares).

The result of applying this compensation is that the situation of both Materialise and its existing shareholders remains unchanged. The only thing that does change is that both Ailanthus and 13,428,688 "old" shares in Materialise will disappear and that the shareholders of Ailanthus, Mr. Wilfried Vancraen and Ms. Hilde Ingelaere, will hold 13,428,688 "new" shares in Materialise.

2. Even if one would make abstraction of the cancellation of the own shares that Materialise will acquire as a result of the merger of Ailanthus with Materialise, one comes to the same conclusion. In that case, the value of the consideration (13,428,688 new shares in Materialise) would exactly match the value of the assets and liabilities of Ailanthus brought in (13,428,688 old shares in Materialise).

3. The above reasoning assumes that, at the time of the merger, Ailanthus does not hold any assets and liabilities other than 13,428,688 shares in Materialise (and the corresponding accounting equity components).

This is achieved through the demerger of all other assets and liabilities of Ailanthus to a new company immediately prior to the merger. Legal counsel of Materialise has confirmed that this demerger will indeed result in Ailanthus not holding any other assets or liabilities at the time of the merger and in addition, Mr. Wilfried Vancraen and Ms. Hilde Ingelaere have contractually committed to indemnify Materialise against any claim or demand against Ailanthus for which Materialise would be addressed after the merger with Ailanthus.

6. Proposed exchange ratio

Since the share capital of Ailanthus is represented by 58,320 shares, this means that per share in Ailanthus, approximately 230.26 shares would be issued.

This exchange ratio was determined as follows:

$$\frac{\text{value Ailanthus}}{\text{value Materialise}} \times \frac{\text{number of shares Materialise}}{\text{number of shares Ailanthus}}$$

$$\frac{450,237,220}{1,816,187,530} \times \frac{54,169,257}{58,320} = \mathbf{230.26} \text{ (afgerond)}$$

Dit geeft als resultaat: 1 aandeel Ailanthus = 230,26 (afgerond) aandelen Materialise.

7. Allocation of new shares

The exact number of shares held by Ailanthus in Materialise will be distributed by Materialise to the shareholders of Ailanthus on the occasion of the merger. Thus, at the time of the merger, 13,428,688 shares will be issued to Mrs. Hilde Ingelaere and Mr. Wilfried Vancraen, in the following proportions:

Name	Number of shares
Hilde Ingelaere	13,294,447
Wilfried Vancraen	134,241
Total	13,428,688

8. Participation in the profits

The newly issued shares will give right to participation in the profits (regardless of whether these profits were accumulated before or after the contemplated transaction) from the moment of their issuance.

9. Entry into force of the merger for accounting and fiscal purposes

The contemplated merger will take place without retroactive effect for accounting and tax purposes.

Annexes:

- Interim balance sheet of Materialise as at 30 September 2020

2. Interim balance sheet of Ailanthus as at 30 September 2020

Name:
Title:
Date:

Name:
Title:
Date: