MATERIALISE NV
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 29 JUNE 2021

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, 2020 and ending on December 31, 2020, and to present to you both the statutory annual accounts as well as the consolidated annual accounts as at December 31, 2020. This report has been prepared in accordance with articles 3:5 and 3:32 of the Belgian Code of Companies and Associations. 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 as issued by IASB and adopted by the European Union, can be summarised as follows:

Comparison of the Years Ended December 31, 2020 and 2019

	Year Ended December 31,		
	2020	**2019**	**% Change**
	(in thousands of €)		*(%)*
Revenue	170.449	196.679	-13,34%
Cost of sales	(76.446)	(86.972)	-12,18%
Gross profit	**94.003**	**109.707**	**-14,25%**
Research and development expenses	(27.104)	(23.348)	16,09%
Sales and marketing expenses	(44.636)	(52.989)	-15,76%
General and administrative expenses	(29.337)	(31.786)	-7,70%
Net other operating income (expenses)	2.436	5.432	-55,15%
Operating (loss) profit	**(4.638)**	**7.016**	
Financial expenses	(5.995)	(3.682)	
Financial income	2.452	1.377	
Share in loss of joint venture	(39)	(392)	
(Loss) profit before taxes	**(8.220)**	**4.319**	

	Year Ended December 31,		
	2020	**2019**	**% Change**
	(in thousands of €)		*(%)*
Income taxes	949	(2.595)	
Net (loss) profit for the year	**(7.272)**	**1.724**	

* The year 2019 has been restated to reflect the final accounting of the business combination with Engimplan.

Comparison for the Years Ended December 31, 2020 and 2019 by Segment

	Materialise Software	**Materialise Medical**	**Materialise Manufacturing**	**Total Segments**	**Unallocated (1)**	**Consolidated**
	(in thousands of €, except percentages)					
For the year ended December 31, 2020						
Revenues	39.054	61.729	69.635	170.418	31	170.449
Segment Adjusted EBITDA	13.383	13.915	2.548	29.847	(9.468)	20.378
Segment Adjusted EBITDA %	34,3%	22,5%	3,7%	17,5%	–	12,0%
For the year ended December 31, 2019						
Revenues	41.654	60.808	94.156	196.618	61	196.679
Segment Adjusted EBITDA	13.812	10.774	12.154	36.740	(10.084)	26.656
Segment Adjusted EBITDA %	33,2%	17,7%	12,9%	18,7%		13,6%

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

Comparison for the Years Ended December 31, 2020 and 2019

	Year Ended December 31,	
	2020	**2019**
	(in thousands of €)	
Assets		
Non-current assets	166.925	158.215
Current assets	160.742	191.186
Total assets	**327.667**	**349.401**
Equity and liabilities		
Equity attributable to the owners of the parent	*133.104*	*139.506*
Non-controlling interest	-	*3.276*
Equity	133.104	142.782
Non-current liabilities	110.118	122.574
Current liabilities	84.445	84.045
Total equity and liabilities	**327.667**	**349.401**

Analysis

Revenue. Revenue was €170,4 million in the year ended December 31, 2020 compared to € 196,7 million in the year ended December 31, 2019, a decrease of €26 million, or -13,3%. Deferred revenue from licence and maintenance fees increased €2,6 million to €30,2 million in the year ended December 31, 2020.

Revenue from our Materialise Software segment decreased 6,2% from €41,7 million in the year ended December 31, 2019 to €39,1 million in the year ended December 31, 2020. Recurrent revenue, consisting of limited license fees and maintenance fees, grew 14,9%. Non-recurrent revenue, mainly consisting of perpetual fees, decreased 26,7%.

Revenue from our Materialise Medical segment increased €0,9 million, or 1,5%, from €60,8 million in the year ended December 31, 2019 to €61,7 million in the year ended December 31, 2020. Medical software revenue grew by 3,3% from 2019 to 2020. Within our medical software department recurrent revenue from annual and renewed licenses and maintenance fees increased by 2,4%. Our non-recurrent revenue from perpetual licenses and services increased also 6,3%. Revenues from medical devices, implants and services grew 0,7% in this financial year. As of December 31, 2020, our Materialise Medical segment operated 41 3D printers, as compared to 32 as of December 31, 2019.

Revenue from our Materialise Manufacturing segment decreased from €94,2 million in the year ended December 31, 2019 to €69,6 million in the year ended December 31, 2020. This decrease was almost integrally driven by the impact of the COVID-19 pandemic, which affected our manufacturing market segments in general, and the automotive and aerospace market in particular. As of December 31, 2020, Materialise Manufacturing operated 147 3D printers, six vacuum casting machines and 20 CNC machines, as compared to 149, six and 20 as of December 31, 2019, respectively.

Cost of sales. Cost of sales was €76,4 million in the year ended December 31, 2020, a decrease of 12,1% compared to the previous financial year. This decrease is mainly attributable to the lower revenue.

Gross profit. Gross profit decreased €15,7 million from €109,7 million in the year ended December 31, 2019, to €94,0 million in the year ended December 31, 2020, mainly driven by the decreased revenue in the Materialise Manufacturing segment. The overall gross profit margin (gross profit divided by our revenue) decreased slightly from 55,8% to 55,2%, mainly as a result of the overcapacity in the Manufacturing segment, partly compensated by a decrease in salary costs and efficiency improvements.

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 decreased 6,5%, in the aggregate, to €101,1 million R&D expenses increased with €3,8 million to €27,1 million, S&M expenses decreased from €53,0 million to €44,6 million and G&A expenses decreased from €31,8 million to €29,3 million.

The R&D costs include a special impairment charge on the activated costs of the tracheal splint project of €2,1 million.

Net other operating income. Net other operating income decreased to €2,4 million in the year ended December 31, 2020, compared to €5,4 million in the year ended December 31, 2019. The 2020 result is impacted by the €2,5 million impairment of goodwill and intangibles of Engimplan, as a result of the pandemic in Brazil that delayed the roll out of our business plan in that region, including the introduction of 3D printed devices. The 2020 result also included a positive €0,8 million revaluation of our initial 50% interest in RS Print.

Net financial expense (financial expenses and financial income). In each of 2019 and 2020, the net financial expense mainly related to the net interest expense from loans and deposits of financial institutions. The net financial cost (financial expenses and financial income) increased from €-2,3 million in the year ended December 31, 2019 to €-3,5 million in the year ended December 31, 2020. This increase was mainly due to an increase of (un)realized exchange losses of €1,5 million, partly offset by the revaluation of the Fluidda convertible loan by €0,3 million.

Income taxes. Income taxes in the year ended December 31, 2020 resulted in an income of €0,9 million, mainly attributable to a new German tax law that allows taking back taxes on previous financial years. The income tax in 2019 amounted to €2,6 million.

Net profit. As a result of the factors described above, net loss was €7,3 million in the year ended December 31, 2020 compared to a net profit of €1,6 million in the year ended December 31, 2019.

EBITDA. The consolidated EBITDA decreased from €26,2 million in the year ended December 31, 2019 to €15,1 million in the year ended December 31, 2020, a decrease of €11,1 million, or 42,3%. Our EBITDA included non-recurring expenses of €2,5 million from Engimplan's impairment and €2,1 million from the tracheal splint development project impairment, and income for €0,8 million from the revaluation of our initial 50% interest in RS Print, which expenses and income were excluded from our Adjusted EBITDA. Our Adjusted EBITDA amounted to €20,4 million in the previous financial year.

Our Materialise Software segment's Adjusted EBITDA decreased from €13,8 million in the year ended December 31, 2019 to €13,4 million in the year ended December 31, 2020, an decrease of €0,4 million, or 3,1%. This segment's Adjusted EBITDA margin (the segment's Adjusted EBITDA divided by the segment's revenue) increased from 33,2% for the year ended December 31, 2019 to 34,3% in the year ended December 31, 2020. The increase in the Adjusted EBITDA margin was due to cost control measures as a result of the coronavirus pandemic: the revenue decreased by 6,2%, which was almost completely matched by a decrease in operating expenses by 8,3%, mainly in G&A expenses and S&M expenses. The segment's R&D costs were flat.

Our Materialise Medical segment's Adjusted EBITDA increased from €10,8 million in the year ended December 31, 2019 to €13,9 million in the year ended December 31, 2020. The segment's Adjusted EBITDA margin increased from 17,7% in the year ended December 31, 2019 to 22,5% in the year ended December 31, 2020, as a result of revenue growth, efficiency measures and cost control measures regarding S&M and G&A, while the strategic R&D expenses continued growing

Our Materialise Manufacturing segment's Adjusted EBITDA decreased from €12,2 million in the year ended December 31, 2019 to €2,5 million in the year ended December 31, 2020. The Adjusted EBITDA margin of this segment decreased from 12,9% in the year ended December 31, 2019 to 3,7% in the year ended December 31, 2020. While the gross margin dropped by 7%, operating expenses (S&M, R&D, and G&A) decreased by 14,7%.

The total balance sheet amounted to €327,7 million in the year ended December 31, 2020, compared to €349,4 million in the year ended December 31, 2019.

Non-current assets increased €8,8 million from €158,1 to €166,9 million in the year ended December 31, 2020. Our goodwill increased by €0,7 million. Our intangible assets, property, plant & equipment and right-of-use assets increased by €3,3 million to €132,2 million. Our other non-current assets amount to €4,1 million.

Our cash and cash equivalents decreased with €17,4 million to €111,5 million per December 31, 2020.

Our loans & borrowings decreased €13,6 million to €104,5 million per December 31, 2020. Of the total debt, €13,9 million is short term.

Total equity per December 31, 2020 amounts to €133,1 million compared to €142,7 million last year.

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 summarized as follows:

Comparison of the Years Ended December 31, 2020 and 2019

	Year Ended December 31, 2020	2019	% Change
	(in thousands of €)		*(%)*
Operating income	**133.434**	**136.990**	**-2,6%**
70 Turnover	111.059	111.490	-0,4%
71 Stocks of finished goods and WIP increase	-342	253	
72 Own work capitalized	17.591	19.600	-10,2%
74 Other operating income	5.011	5.629	-11,0%
76 Non-recurring operating income	114	18	
Operating charges	**135.081**	**143.154**	**-5,6%**
60 Raw materials-consumables	24.628	29.502	-16,5%
61 Services and other goods	38.499	41.709	-7,7%
62 Remuneration, social security and pensions	41.855	44.458	-5,9%
63 Depreciations and other amounts written off	29.377	26.767	9,8%
64 Other operating charges	556	664	-16,2%
66 Non-recurring operating charges	166	54	
Operating profit (loss)	**-1.647**	**-6.164**	**-73,3%**
Financial income	6.250	4.445	
Financial charges	4.052	3.526	
Gain (loss) on ordinary activities before taxes	**552**	**-5.245**	
Transfer from deferred taxes and tax free reserves	5	4	
Taxes on result	187	274	
Net profit	**370**	**-5.515**	

	Year Ended December 31, 2020	2019
	(in thousands of €)	
Assets	**289.715**	**289.046**
Formation expenses		
Fixed assets	139.263	140.550
Current assets	150.452	148.496
Equity and Liabilities	**289.715**	**289.046**
Equity	128.816	124.341
Provisions and deferred taxes	1.243	14
Amounts payable	159.656	164.691

Analysis

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

Operating income was €133,4 million in the year ended December 31, 2020 compared to €137,0 million in the year ended December 31, 2019, an decrease of €3,6 million, or 2,6%.

Operating charges amounted to €135,1 million in the year ended December 31, 2020, compared to €143,2 million in the year ended December 31, 2019. This decrease of 5,6% was mainly due to:

- lower purchases of raw materials & consumables of €4,9 million;
- lower purchases of services & other goods of €3,2 million;
- remuneration cost decreased €2,6 million or 5,9%;
- depreciation and provisions increased €2,6 million to €29,4 million and includes 100% depreciation of development expenses of €17,2 million that were activated in 2020 , allowing the company to keep benefiting from tax credits;

As a result, the operating loss in 2020 amounted to €1,6 million, compared to €6,2 million in 2019.

Financial income amounted to €6,2 million in 2020, compared to €4,4 million in 2019 and includes dividends of €2,0 million received from subsidiaries.

Financial charges amounted to €4,1 million in the year ended December 31, 2020, compared to €3,5 million in the year ended December 31, 2019.

In 2020 there is a net profit of €0,4 million, compared to a loss of €5,5 million last year.

The total balance sheet amounted to €289,7 million in the year ended December 31, 2020, compared to €289,0 million in the year ended December 31, 2019.

Fixed assets net book value slightly decreased €1,3 million to €139,3 million in the year ended December 31, 2020. Our tangible and intangible fixed assets decreased slightly to €47,0 million (€47,5 million last year). Our participating interests increased with €5,9 million to €40,3 million, mainly as a result of acquiring the remaining 50% of RSPrint NV.

Our other long term receivables of €6,0 million per December 31, 2020 included a convertible loan to Fluidda NV of €3,0 million and to Ditto of €2,9 million

Our cash at bank decreased €14,5 million to €90,5 million per December 31, 2020.

Our financial debt decreased €10,1 million to €94,4 million per December 31, 2020 of which €11,5 million is related to short term debt.

Total equity per December 31, 2020 amounts to €128,8 million compared to €124,3 million last year. This increase is the result of the net profit of the year of €0,4 million, the capital increase of €3,1 million from the exercise of warrants and a conversion of a convertible loan of € 1,0 million

Although we had still a small operational loss in 2020, we maintain our valuation rules in the company, based on going concern. Such presumption is justified by the Company's equity position of €130,0 million end 2020, and the outcome of the sensitivity testing that we have performed on our projected income statements and bank covenants.

Appropriation of profit

The net profit for 2020, to be appropriated, amounted to €369.855.

Together with the carried forward loss of the previous financial year €23.345.497, the total amount to be appropriated amounts to €22.975.641, which we propose to carry forward in its entirety.

3. STRUCTURE AND DEVELOPMENT OF THE GROUP

On December 31, 2020, Materialise NV had 26 (direct and indirect) subsidiaries:

Name	**Country of incorporation**	**% equity interest**
Materialise NV	Belgium	100%
Materialise France SAS	France	100%
Materialise GmbH	Germany	100%
Materialise Japan K.K.	Japan	100%
Materialise Czech Republic SRO	Czech Republic	100%
Materialise USA, LLC	United States	99%
Materialise UK Limited	United Kingdom	100%
OBL SAS	France	100%
Materialise Austria GmbH	Austria	100%
Materialise Malaysia SDN. Bhd.	Malaysia	100%
Materialise Ukraine LLC	Ukraine	100%
RapidFit NV	Belgium	83%
Meridian Technique Limited	United Kingdom	100%
OrthoView Holdings Limited	United Kingdom	100%
Materialise SA	Poland	100%
Materialise Colombia SAS	Colombia	100%
RSPRINT powered by Materialise NV	Belgium	100%
Materialise Shanghai Co.Ltd	China	100%
Engimplan Engenharia de Implante Industria & Comércio Ltda	Brazil	100%
Engimplan Holding Ltda	Brazil	100%
Materialise Limited	South-Korea	100%
Materialise Australia PTY Ltd	Australia	100%
Materialise S.R.L.	Italy	100%
ACTech GmbH	Germany	100%
ACTech Holding GmbH	Germany	100%
ACTech, Inc	United States	100%

On July 18, 2018, we and BASF New Business GmbH, or BASF New Business, a subsidiary of BASF SE, the German chemical conglomerate (FWB: BAS), entered into a Strategic Alliance Partnership Agreement. The Strategic Alliance Partnership Agreement establishes a framework for collaboration to leverage the parties' existing strengths and expertise to develop new materials for the 3D printing industry.

In connection with the entry into the Strategic Alliance Partnership Agreement, we and BASF Antwerpen NV, or BASF Antwerpen, a subsidiary of BASF SE, entered into a Subscription Agreement pursuant to which BASF Antwerpen subscribed for 1.953.125 of our newly issued ordinary shares in a private placement, for an aggregate subscription price of approximately $25 million. The ordinary shares subscribed for were delivered to BASF Antwerpen on July 19, 2018.

On July 27, 2018, we sold 3.450.000 ADSs in a follow-on public offering at a public offering price of $13,00 per ADS and received net proceeds of approximately $40,2 million.

After acquiring 75% of the shares of Engimplan on August 6, 2019 through a combined acquisition of existing and new shares through our Brazilian subsidiary Engimplan Holding Ltda., or Engimplan Holding, in August 2019, we acquired the remaining 25% interest in Engimplan in December 2020 in exchange for Engimplan's spinal implant business line, which was non-strategic for us. This acquisition made us Engimplan's sole shareholder (through Engimplan Holding). Engimplan is a Brazil-based manufacturer of orthopaedic and CMF implants and instruments. As part of these transactions, we have gained access to Engimplan's local production facility and we intend to expand Engimplan's portfolio with our 3D printed implants and expertise and leverage Engimplan's existing partner and distribution network in Brazil. We believe that the combination of our expertise in 3D printed medical solutions and Engimplan's innovative product portfolio will help accelerate the introduction of 3D printed, personalized implants and instruments in the Brazilian market.

On November 9, 2020, we acquired the remaining 50% of the shares and voting interests in RS Print, making us RS Print's sole shareholder. In addition, we acquired substantially all of the assets of RS Scan.

On October 30, 2020, we incorporated a wholly owned subsidiary in South Korea.

4. MATERIAL EVENTS SINCE THE END OF THE FINANCIAL YEAR

Warrant exercises

In connection with the exercise of 1.350 warrants, representing 1.350 shares, from the 2015 warrant plan in the course of March 2021, the share capital was raised for the amount of €102,09 and the share premium was raised for the amount of €8.605,41 by deed before the notary on May 5th, 2021.

Impact of coronavirus

As of the date of this report, we are unable to predict the duration and severity of the spread of the coronavirus and the political and economic responses thereto and, as a result, we are unable to assess with certainty its impact on our business and operations, results of operations, financial condition, cash flows and liquidity during 2021 and beyond.

Ditto

Materialise holds convertible note receivables versus Ditto, a US based developer of virtual eyewear try-on platforms, which was announced in September 2020. We collaborate with Ditto to advance the digital transformation in the eyewear industry. In the frame of this collaboration, we have granted a convertible loan facility, carrying a capitalizing interest of 8%, to Ditto as disclosed under Note 10, of which Ditto drew €2,9 million as of December 31, 2020.

Because the business objectives that were defined as a condition for Ditto to continue to draw under the facility no longer met in 2021, we decided in April 2021 to only extend a portion of the remaining amount that was available under the credit facility to Ditto. We estimate that, as a result of the combination of the lower than forecasted revenues and the unavailability of the remaining credit facility, Ditto may need additional funding to finance its operations and we currently have no clear visibility as to whether Ditto will be able to access such additional financing. As a result, uncertainty has arisen about Ditto's capacity to reimburse the loan according to the terms of our agreement with them. Therefore, an impairment has been accounted for in the course of 2021 on our outstanding loan to Ditto including capitalized interest and 2021 funding's for a total amount of€3,8 million. The amount includes the tranches granted as per April 8, 2021. This impairment from an accounting perspective does not impact our continuing belief in the Ditto technology platform and in the potential of the collaboration between Ditto and Materialise.

Link3D

On April 9, 2021 Materialise entered into a call option agreement to acquire 100% of equity interests of US based Link3D Inc., an additive workflow and manufacturing execution systems (MES) company. An acquisition would extend Materialise's ability to help companies gain control of their manufacturing floor as they scale up their additive manufacturing (AM) capability into volume production and would allow Materialise to accelerate its roadmap to offer cloud-based access to its integrated software platform. An acquisition would also broaden Materialise's industrial customer base across North America, Europe and Asia Pacific, and offer Link3D customers a seamless connection to Materialise's Magics 3D print suite.

Under the terms of the agreement, the call option purchase price amounts to US$ 2 million. The call option can be exercised during the month of November of 2021. The call option exercise price in exchange for the 100% of the Link3D equity interests, equals the maximum amount of US$ 33,50 million against which the call option purchase price of US$ 2,0 million will be credited. In case Materialise elects not to exercise the call option, the option purchase price is not reimbursable.

Simultaneously, to the call option agreement, Materialise and Link3D entered in an interim loan agreement, allowing Link3D to borrow additional funds up to US$ 1,8 million.

There are no other significant events subsequent to the statement of financial position date that would require adjustments or disclosures to the financial statements.

5. RISKS AND UNCERTAINTIES

The risks and uncertainties, with which both the Group and the Company are faced, can be summarized as follows. For a more detailed explanation of these risks, please refer to the 20-F related to fiscal year 2020. 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.

- The coronavirus global health crisis adversely impacted our business and results of operations in 2020 and may have a material adverse impact on our business, results of operations, financial condition, cash flows or liquidity during 2021 and beyond.

- 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.

- The dominant software subscription model in the industrial sector is changing, and we may not be successful in developing a cloud-based platform to offer our software.

- 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.

- 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.

- 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.

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

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

- We cannot predict the outcome of a lawsuit in which we are involved.

- We do not expect to be a passive foreign investment company for U.S. federal income tax purposes; however, there is a risk that we may be classified as a passive foreign investment company, which could result in materially adverse U.S. federal income tax consequences to U.S. investors.

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, Zimmer Biomet, DePuy Synthes, and BASF SE and its subsidiaries. As of December 2020, we were active in over 20 government funded research projects and we also employed multiple researchers with a publicly funded scholarship. 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, 2020, we had approximately 80 active research and development projects in various stages of completion and approximately 410 FTEs and fully dedicated consultants working on research and development in our facilities in Belgium, France, Germany, the United Kingdom, the United States, Ukraine, China and Malaysia.

In addition, our strategic partnership with BASF New Business GmbH focuses on collaboration for research and development activities in multiple areas, primarily focusing on the introduction of new plastic materials in additive processes.

We also regularly apply for research and development grants and subsidies under European, Belgian, British, French and German, 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 European Union (FP7 and H2020 framework programs) and BMBF, the German Federal Ministry of Education and Research.

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. A more detailed information is included in our notes to the consolidated financial statements, more specifically in note 25 for foreign exchange, liquidity, interest rate and credit risk.

8. MISCELLEANOUS

8.1 Internal audit and risk management

We have implemented an internal control system based on the COSO framework. Our management has made an assessment regarding the framework's 17 principles in respect of the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring). All components are being actively addressed by our management.

During the year ended December 31, 2020, we plan to continue to enhance our internal control over financial reporting in an effort to remediate any weaknesses identified and to enhance our overall control environment. We are committed to ensuring that our internal control over financial reporting is designed and operating effectively.

Notwithstanding any identified material weaknesses and management’s assessment that internal control over financial reporting was not entirely effective as of December 31, 2020, management believes that the audited consolidated financial statements fairly present, in all material respects, our financial condition, results of operations and cash flows for the fiscal years presented in conformity with IFRS.

We further refer to Item 15 included in our annual report on Form 20-F which has been filed with the SEC and is available on our website.

8.2 Conflicts of interest

The procedure applicable to for conflicts of interest provided by the Belgian Code of Companies and Associations was applied during the meeting of the board of directors of November 13, 2020. Below is an extract from the minutes of said meeting:

*“**3. Discussion of the impact of the proposed merger on the company and its shareholders.***

Prior declarations by Mr. Fried Vancraen, Ms. Hilde Ingelaere and Mr. Sander Vancraen

*Prior to the deliberation and resolutions by the Board of Directors, Mr. Fried Vancraen and Ms. Hilde Ingelaere, each a director of Materialise NV ("**Materialise**" or the "**Company**"), made the following declarations as far as needed and applicable, in accordance with the provisions of article 7:96 of the Belgian Companies and Associations Code:*

- *As explained in the Merger Proposal, immediately prior to the Proposed Merger, Ailanthus would not have any assets, other than its 13.428.688 shares in Materialise, and its balance sheet would only consist of the aforementioned shares and related accounting net equity elements related thereto. As a result of the Proposed Merger, Ailanthus would be merged into Materialise and cease to exist, and Materialise would acquire all of Ailanthus's shares in Materialise as well as the accounting net equity elements related thereto. In consideration of the Proposed Merger, Materialise would issue to the shareholders of Ailanthus, Mr. Wilfried Vancraen and Ms. Hilde Ingelaere, 13.428.688 new shares in Materialise, representing the same number of Materialise shares as Materialise would acquire through the Proposed Merger. The Materialise shares that Materialise would acquire through the Proposed Merger would be annulled as part of the transaction. For further information, reference is made to the Merger Proposal.*

- *The Proposed Merger is still subject to the issuance by the Belgian tax authorities of a ruling confirming the tax neutrality of the Proposed Merger for Ailanthus and Materialise. A formal request to obtain such ruling (the "**Ruling Application**") will be submitted shortly, and the Belgian tax authorities are expected to issue a positive ruling before year end. Furthermore, as explained in the Merger Proposal, Mr. Wilfried Vancraen and Ms. Hilde Ingelaere confirm that they shall compensate and indemnify Materialise and its shareholders for the adverse consequences of the Proposed Merger, as the case may be, including the costs and expenses that Materialise will incur in connection with the Proposed Merger.*

- *In order to allow the general shareholders' meetings of respectively Materialise and Ailanthus to consider and vote on the Proposed Merger by 31 December 2020 at the latest, Ailanthus, Mr. Wilfried Vancraen and Ms. Hilde Ingelaere request, as far as needed and applicable in accordance with article 7:126 of the Belgian Companies and Associations Code, that:*

  - *the Merger Proposal be approved by the Board of Directors of Materialise, and be filed with the registrar of the enterprise court of Leuven (Belgium) at the earliest convenience, and*

  - *the Board of Directors convenes an extraordinary general shareholders of Materialise, and prepares such reports and complies with such formalities as shall be required in order to allow the general shareholders' meeting of Materialise to consider and vote on the Proposed Merger.*

Mr. Sander Vancraen, director of the Company then made the following declaration as far as needed and applicable, in accordance with the provisions of article 7:96 of the Belgian Companies and Associations Code. Mr. Sander Vancraen is a family member of Mr. Wilfried Vancraen and Ms. Hilde Ingelaere, is a member of the Board of

Directors of Ailanthus, and is likely to benefit from the contemplated restructuring of the estate of Mr. Wilfried Vancraen and Ms. Hilde Ingelaere, including as a result of the Merger Proposal.

Each of Mr. Wilfried Vancraen, Ms. Hilde Ingelaere and Mr. Sander Vancraen hence informed the meeting that, as a result, they may have a conflict of interest, as far as needed and applicable within the meaning of article 7:96 of the Belgian Companies and Associations Code, in relation to the resolutions to be passed by the Board of Directors with respect to the Proposed Merger. They also requested that, on their behalf, the Company's statutory auditor would be informed of the foregoing, as far as needed and applicable in accordance with the provisions of article 7:96 of the Belgian Companies and Associations Code. Despite this potential conflict, however, each of them stated that they believed that the Proposed Merger is in the Company's interest.

Subsequently, Mr. Wilfried Vancraen, Ms. Hilde Ingelaere and Mr. Sander Vancraen no longer took part in the further deliberation and resolutions of the board of directors with respect to the Proposed Merger.

Prior declarations by the other directors

None of the other directors declared to have an interest in the Proposed Merger that would require the application of the procedure set out in the provisions of article 7:96 of the Belgian Companies and Associations Code.

Considerations and deliberations by the Board of Directors

The remaining members of the Board of Directors took note of the prior declarations by Mr. Wilfried Vancraen, Ms. Hilde Ingelaere and Mr. Sander Vancraen.

The Board of Directors took into consideration the aforementioned request of its major shareholders, being Ailanthus, Mr. Wilfried Vancraen and Ms. Hilde Ingelaere. It further considered the following:

- *The final decision regarding the Proposed Merger will ultimately need to be taken by the general shareholders' meeting of the Company.*

- *Further steps will still need to be taken by the Company before the Proposed Merger can be submitted to a vote to the general shareholders' meeting of the Company. These steps include, amongst other things, the filing of the Merger Proposal and the preparation of a special report by the Board. In the report, the Board will further describe (amongst other things) the Proposed Merger, the financial consequences thereof for the Company's shareholders, and the motivation of the Proposed Merger. The report will need to be made available to shareholders, together with the proposed resolutions to implement the Proposed Merger.*

- *The Board also noted that the Proposed Merger is still subject to the issuance by the Belgian tax authorities of a ruling confirming the tax neutrality of the Proposed Merger for Ailanthus and Materialise, and that Mr. Wilfried Vancraen and Ms. Hilde Ingelaere confirm that they shall compensate and indemnify Materialise and* *its shareholders for the adverse consequences of the Proposed Merger, as the case may be, including the costs and expenses that Materialise will incur in connection with the Proposed Merger.*

- *The filing of the Merger Proposal is only an intermediate step, and does not yet constitute an approval of the Proposed Merger.*

- *For now therefore, in order to allow the general shareholders' meeting of Materialise to consider and vote on the Proposed Merger by 31 December 2020, and taking into account the request of its major shareholders (as far as needed and applicable in accordance with article 7:126 of the Belgian Companies and Associations Code), the Board agrees in principle with the filing of the Merger Proposal with the registrar of the enterprise court of Leuven (Belgium).*

- *In parallel, the Company's management will be requested to further prepare the respective steps for the Proposed Merger, including the aforementioned report of the Board of Directors, as well as the proposed agreement regarding the compensation and indemnification by Mr. Wilfried Vancraen and Ms. Hilde Ingelaere.*

4. Decision on the merger proposal, including possible conditions precedent in the interest of the company and its shareholders.

After the deliberation, the directors unanimously decide to approve the Merger Proposal, and request that the Merger Proposal is filed with the registrar of the enterprise court of Leuven (Belgium) at the earliest convenience.

The directors unanimously decide that, in the preparation and as a condition precedent to the submission of the Proposed Merger to the vote of Company's shareholders, the following actions must be prepared:

- *Seek and obtain a written confirmation from an external law firm that all legal requirements in relation to the Proposed Merger have been complied with and that no legal adverse consequences for the Company are triggered by the Proposed Merger;*
- *Seek and obtain a written confirmation from an external tax lawyer that (i) all tax consequences following from the Proposed Merger have been identified and that any unidentified liability for tax consequence is assumed by Mr Wilfried Vancraen and Ms Hilde Ingelaere and (ii) the Ruling Application ensures tax neutrality of the Proposed Merger for Materialise;*
- *Execution of an indemnification agreement, which provides a warranty from Mr Wilfried Vancraen and Ms Hilde Ingelaere to cover for all adverse consequences of the Proposed Merger.*

Further, the submission of the Proposed Merger to the vote of the Company's shareholders will be subject to the issuance by the Belgian Advance Ruling Commission of a positive decision on the Ruling Application."

8.3 Authorized 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 €2.714.34,83 (the so-called authorised capital).

More recently (and replacing the previous resolution), by resolution of our extraordinary shareholders' meeting of November 5, 2020, which entered into force on November 9, 2020, our shareholders authorized our board of directors, for a period of five years from November 9, 2020, to increase our share capital, in one or more transactions (including through the issuance of warrants), up to a maximum amount of €4.067.700,72 (the so-called authorised capital).

8.4 **Acquisition or disposal of own shares**

Not applicable.

[*Signature Page Follows*]

Done in Leuven on June 4, 2021

Peter Leys
Peter Leys (Jun 4, 2021 16:50 GMT+2)

Peter Leys

Director

Wilfried Vancraen

Director