PIONEERING TECHNOLOGY

Annual Report 2019

SLM SOLUTIONS

HIGHLIGHTS

	Unit	2019	Change (in %)	2018	2017
Revenue	kEUR	48,962	-31.7	71,659	82,494
Total operating revenue	kEUR	44,806	-46.9	84,413	83,346
Cost of materials	kEUR	-20,896	-53.4	-44,805	-38,575
Cost of materials ratio (in % of total operating revenue)	%	46.6		53.1	46.3
Personnel costs*	kEUR	-31,871	-6.9	-29,811	-26,597
Personnel cost ratio (as % of total operating revenue)	%	71.1		35.3	31.9
EBITDA**	kEUR	-26,001	-270.0	-7,027	1,965
EBITDA margin** (as % of revenue)	%	-53.1		-9.8	2.4
Consolidated net result	kEUR	-47,055	-251.6	-13,382	-3,741
Earnings per share***	EUR	-2,38	-221.6	-0,74	-0,21
New order intake****	Number of units	87	-5.4	92	113
New order intake****	kEUR	67,677	+20.8	56,025	71,661
Order book position*****	Number of units	44	+300.0	11	23
Order book position*****	kEUR	34,978	+401.8	6,970	14,408
Machines sold	Number of units	49	-50.5	99	113
Of which NextGen******	Number of units	1	0	0	0
Of which SLM®800	Number of units	3	0	0	1
Of which SLM®500	Number of units	10	-44.4	18	20
Of which SLM®280	Number of units	25	-59.0	61	68
Of which SLM®125	Number of units	10	-50.0	20	24

	Unit	12/31/19	Change (in %)	12/31/18	12/31/17
Non-current assets	kEUR	64,708	-3.7	67,202	55,276
Current assets	kEUR	71,929	-30.0	102,723	133,101
Equity ratio	%	32,6		46,5	49,4
Total assets	kEUR	136,637	-19.6	169,925	188,377

* adjusted in 2017 for retention bonus of kEUR 94

** adjusted in 2018 for costs relating to other periods for the importation of machines to the USA for periods between 2014 up to and including 2017 amounting to kEUR 1,013; adjusted in 2017 for retention bonus in the amount of kEUR 94

*** undiluted, calculated in 2019 with 19,778,953 shares (2017 and 2018: 17,980,867 shares)

**** in 2017, the order intake was corrected by 128 machines and a value of kEUR 97,503 from Chinese frame agreements

***** in 2017 and 2018, the order intake was corrected by 128 machines and a value of kEUR 97,503 from Chinese frame agreements

****** sale of the first test stand for the new generation of machines

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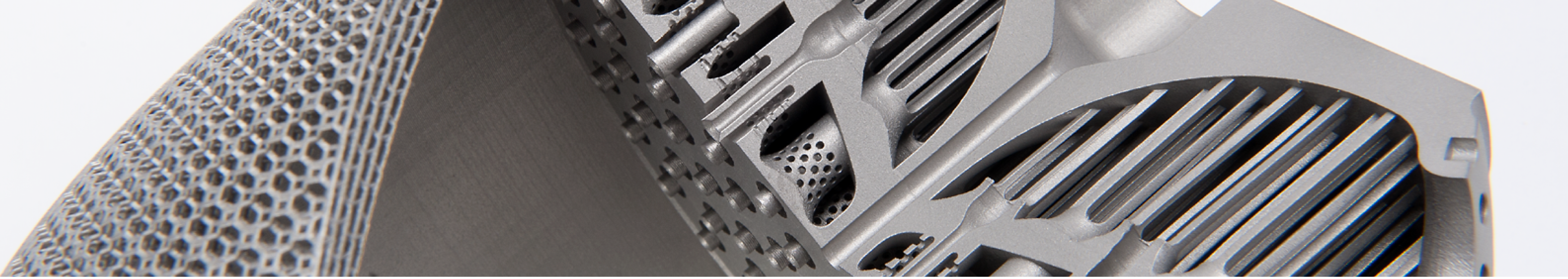


AM-PIONEER AND INTEGRATED SOLUTIONS PROVIDER

SLM Solutions is an expert partner in the field of metal-based, additive manufacturing technology. The company offers an extensive product and service portfolio for manufacturing complex metal components with the aid of SLM® technology for its customers active in the aerospace and automotive industries, the energy sector, toolmaking, the medical sector and research and development.

Products

The core business of SLM Solutions Group AG is to produce and sell machines for the additive manufacture of metal components ("metal 3D printers"). The company's products cover customers' needs and they differ essentially in the size of the installation space required and the number of lasers fitted in the machines. Machines with a current installation space of up to 500 x 280 x 850 mm for the powerful SLM®800 with four installed 400 or 700 watt lasers allow components to be efficiently mass produced. The robustness required for a consistently stable production process can only be achieved by means of the technology which SLM Solutions is constantly refining. Only with the aid of this technology can components of up to 850 mm be produced with a total of 26,000 layers with a layer thickness of 30µm without interruption and in consistent quality.

SLM Solutions is considered a pioneer of metal-based, additive manufacturing, and the company is devoted to safeguarding its position as the technology leader, serving customers with innovative products. SLM Solutions has a lead over the competition thanks its patented multi-laser technology: significant increases in productivity are achieved by using several lasers. This makes the machines particularly attractive for industrial series production.

The fully automatic unpacking station SLM®HUB for the SLM®800 rounds off the efficient manufacturing process. The removal of excess powder after components have been produced is built into the production process, with the remaining powder being sieved and automatically transported to the powder feed; the build cylinder together with manufactured components are transported to the output with the result that they only have to be taken out and cut from the substrate. Manual intervention can be entirely dispensed with here. Contactless handling of the powder guarantees the highest degree of reliability. Up to five SLM®800 machines can be connected to a single SLM®HUB. This increases machine availability cost-effectively, enabling the mass production of large components.

In the past, the company has reinvested a disproportionally high share of its sales in researching and developing new technologies as well as refining its existing machines and software. As of 31 December 2019, there were 94 members of staff employed (FTE) in Research and Development (R&D). Every day, they work on driving the development of innovative SLM® products forward. In the financial year 2019, SLM Solutions boosted its property rights portfolio to 52 patent families and now owns 238 issued patents around the world. When it some to technologies, SLM Solutions will continue rank as the industry trailblazer.

The next generation SLM® machine is currently progressing through the companies' product development cycle. This completely new machine could be equipped with up to twelve lasers and will be able to deliver unprecedented levels of productivity, with a significant increase in build volume compared to the largest machine in SLM Solutions' current portfolio. This should enable the serial production of printed metal components on a large scale. The first beta machines shall be presented and tested in 2020.

Powder

SLM Solutions Group AG offers a variety of high-quality metal powders where components with optimal characteristics can be manufactured – even when using several lasers simultaneously. The powders on offer include e.g. aluminium, iron or titanium alloys. In the long term, this area of the powder business will constitute a growing segment within the company. The powders can be fed into the production machines with the aid of small powder tanks, or alternatively fully automatically by means of a powder supply unit (fully automatically: PSV, manually: PSM and PSH). Remaining metal powder from the build process is refreshed and reused in the process.

The company sets high standards in the selection and production of metal powders, working exclusively with audited specialists in order to guarantee the consistent quality of its metal powders. Also for special alloys and small batch sizes SLM Solutions has qualified strategic partners. In this way an optimal customer solution is offered for every material and volume requirement.

Software

SLM Solutions' software solutions provide support in planning a job and preparing the data, using detailed planning options to avoid errors and thus reducing the customer's costs.

Customer training

Before production machines are delivered to customers, their employees are prepared for deploying and operating the machines. A broad training programme is complemented by the multimedia e-learning platform Ilias. While the machine is in use, the wish may arise for further training or refresher courses. The technicians from SLM Solutions can then carry out individual training on the customer's premises.

Service

In order to guarantee the durability of these powerful machines and maintain the continuously high quality of the components to be produced, the machines are regularly maintained by service technicians. The SLM Solutions service teams operate on customers' premises around the world, maintaining the productivity of the machines, improving the quality of build jobs and optimising the operation of the machines. SLM Solutions offers its customers three different service packages: Basic Care, Classic Care or Total Care which ensure the smooth operation of additive production machines.

Benchmark production

The SLM Solutions Group AG also offers to print benchmark products for its customers. The company is already running its own Application Centres (APZ) at its headquarters in Lübeck as well as its facilities in Singapore and Wixom, USA. In 2019, the company opened a further APZ in Shanghai, China. Among other services offered there, test components can be manufactured for customers who are thinking of acquiring an SLM machine for their own production. This provides customers with a high degree of flexibility.

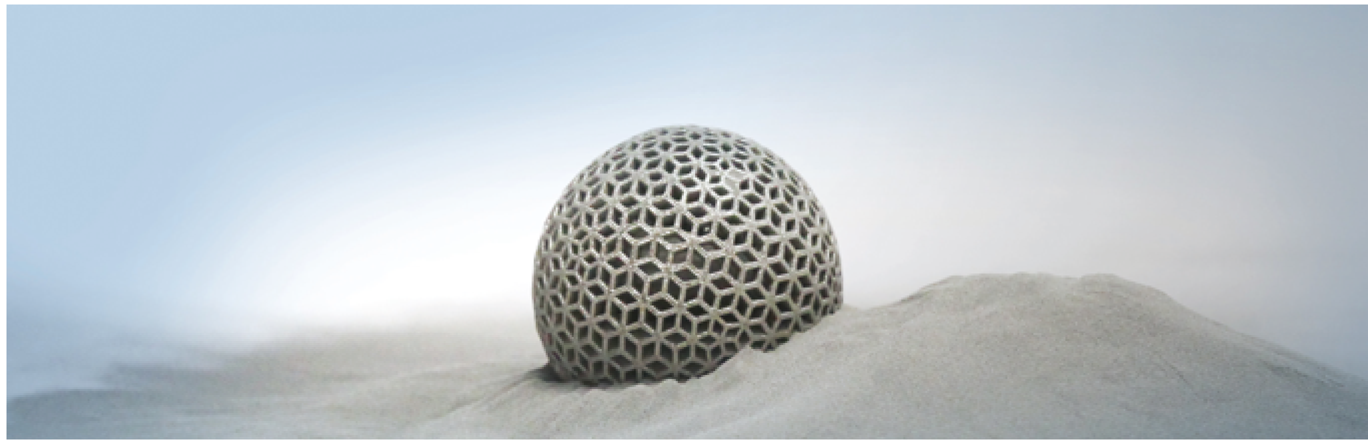
COOPERATIONS AND PARTNERSHIPS

Collaboration with Honeywell to reduce production times

In the last financial year, Honeywell and SLM Solutions entered into collaboration activities geared to cutting the production times of additive manufacturing technology. The specific purpose of the partnership is to qualify new parameters for additive production enabling printing to be conducted with higher layer thicknesses. Both companies want to be able to benefit by reducing the time and cost of production. As part of the partnership, Honeywell Aerospace is beginning by qualifying aluminium components with higher layer thickness of 60 and 90 µm on the SLM®500. SLM Solutions is providing Honeywell with its standard aluminium parameter sets for qualifying material with the aid of quad laser systems in order to achieve optimum material characteristics.

Rosswag Engineering supports the material qualification process

Rosswag Engineering is an expert partner to SLM Solutions in the material qualification process. Rosswag is capable of manufacturing special metal powders within a short time frame, simulating build job results and produce test components with the SLM Solutions' material development module. With SLM Solutions' material development module, Rosswag is able to reproduce component positioning and harness rules-based parameter variations for the automated, systematic analysis of parameter sets. After completion of the qualification process, production can call on extensive data, including metal powder characteristics, process parameters, key mechanical data and chemical and metallurgical material properties. These data offer genuine added value and constitute the basic prerequisite for mass production.



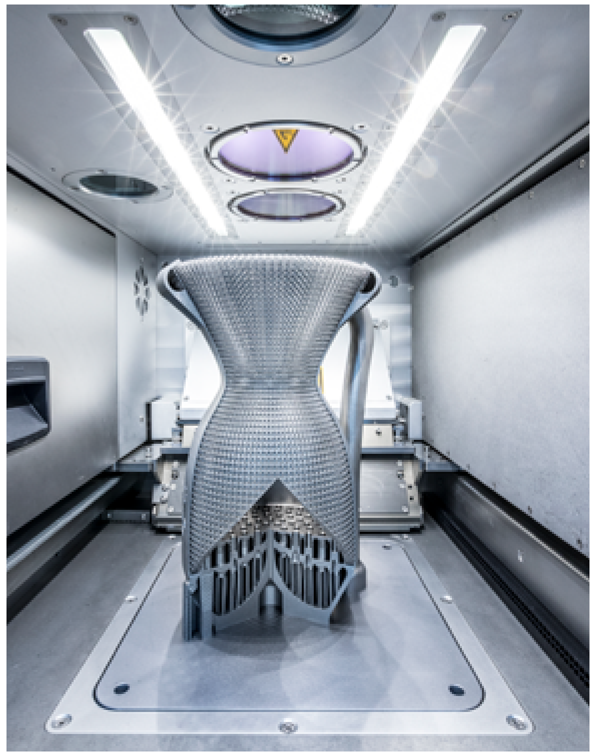
CUSTOMER FOCUS

In the 2019 financial year, SLM Solutions stepped up its sales activities appreciably and reorganised the company internally. On a global front, firstly, the company opened a new sales and service office as well as a further Application Centre in order to be closer to its customers. Secondly, the Sales Department has been reorganised with some new appointments. The employees now working in sales from decentralized offices around the world. Thanks to the geographical proximity and local organisation, they will be able to respond even better to customer enquiries and they report to a new departmental head responsible for the Sales and Service Departments who will redefine the strategic and operational policy.

The products of SLM Solutions stand for innovation. Some examples illustrate the kind of innovative ideas that can be achieved with the help of additive manufacturing technology.

CellCore – monolithic thrust chamber for a rocket propulsion system

The demands in the aerospace industry are extremely high: materials must be able to withstand particularly high stresses and strains while also being very light. The production costs for complex components with conventional manufacturing are usually high, the manufacturing process is very complicated entailing high wear and tear on tools from processing alloys that can only be machined with difficulty and usually takes several months due to the multiplicity of steps in the process. In collaboration with SLM Solutions Group AG, CellCore GmbH has developed a rocket propulsion system that can be produced in double quick time from a nickel chrome alloy with the aid of the selective laser melting procedure. This alloy exhibits outstanding tensile, fatigue, creep and breaking strength up to 700°C and is often used for aircraft and gas turbine components. Overall, the propulsion unit has greater stability thanks to its lattice structure and is also considerably lighter than conventionally produced units. The component was produced on the SLM®280 with a build time of less than three days.

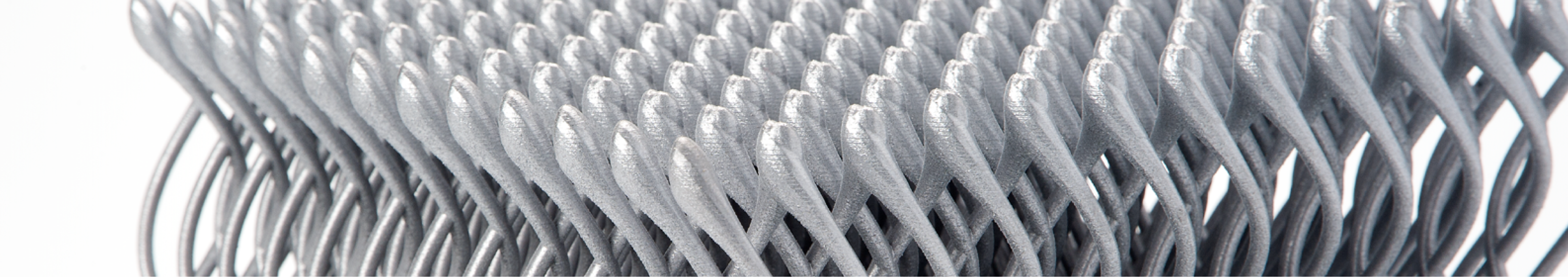


CeramicSpeed – Additively produced pulley wheels

The systematic use of lightweight construction techniques is important throughout the mobility sector. Long-distance cycle races, in particular, constitute a unique technical challenge as the weight of racing bikes needs to be as low and the strength of the material as high as possible. The company CeramicSpeed has developed an extremely light hollow pulley wheel of titanium with above-average durability in collaboration with the Danish Technological Institute (DTI). It is being used by professional cyclists to improve performance. A total of 120 components were mass produced simultaneously on a single build plate on the SLM®500 in a build time of only 21.5 hours.

PARARE - e-motor housing with built-in cooling

The KA racing team from KA Racing has constructed a novel e-motor housing in collaboration with SLM Solutions' customer PARARE GmbH. Thanks to the design freedom afforded by additive manufacturing techniques, the team has realised a motor housing from an aluminium alloy including a cooling duct in one workpiece for an affordable price. The complexity of the assembly process and the production costs have been reduced considerably by directly integrating the cooling duct. High savings in materials also led to increased energy savings and cost efficiency. The component was produced on the SLM®280. A total of four motor housings were produced simultaneously on one build plate in a construction time of 24 hours.



BEHIND THE SCENES: TEAMWORK @SLM SOLUTIONS

At SLM Solutions Group AG, a motivated team works across all hierarchical levels as well as the entire operative and supporting process chain. The common goal is to continuously advance metal-based additive manufacturing technology and to make the use of SLM® machines even more attractive for serial production. As of 31 December 2019, SLM Solutions employed 405 people (FTE) worldwide.

"The focus of our work today lies in conceiving tomorrow's SLM® machines. We want to reach the next technological development level to enable the SLM® technique to achieve wider distribution in industrial mass production. We always keep our eye on boosting productivity by increasing the installation space and raising the number of lasers."

Dr. Dieter Schwarze

Head of Scientific and Technology Research and SLM Solutions pioneer

As of 31 December 2019, SLM Solutions had 94 employees (FTE) at its Lübeck facility in the Research & Development (R&D) Department. The company is also working with research institutes and cooperating with strategic partners in the market. As well as the development of the next generation of machines, research and development work at SLM Solutions is concentrating on optimising the range of machines already available today.

"First and foremost, we want to be good listeners, not like town criers. We want to understand exactly how the production processes of our customers and potential customers work. Only then we can develop convincing solutions to enable our customers to integrate additive production technology into their production processes in a way that adds value."

Kamer Geyisi

Sales Italy, Balkans and Turkey

SLM Solutions attends to customers all round the world with an international sales team. Besides Europe, North America and Asia represent important markets for the company. Working from international sales offices, the Sales Department endeavors to get close to its customers. In the Application Centres in Lübeck and Wixom in Greater Detroit, USA as well as in Shanghai, China since 2019, customers can gain an impression of SLM® technologies and the machines of SLM Solutions.

"In the meantime, we have learned to listen very closely to our customers. Our team in product management acts as the interface between market requirements and our development department. In close cooperation and consultation with Sales and the R&D Department, we draw up a product portfolio for the coming years that meets the demands of our customers. Based on extensive test and inspection procedures, SLM Solutions is constantly working on improving the strength and capabilities of its machine portfolio."

Jason Ball

Head of Product Management

Product Management is an important department at SLM Solutions and reports directly to the Chief Executive Officer (CEO). The function serves as an important interface between customers and their requirements and the company's internal departments.

"All parts of the machines ordered pass through our hands – from the SLM®125 to the SLM®800. We prepare the machines for deployment with our customers with the utmost care and precision. I am proud to be part of the SLM Solutions family!"

Ralf Melzer
Production

In the 2019 financial year, SLM Solutions employed 92 people (FTE) in Supply Chain. These high-tech machines are produced centrally at the company's headquarters in Lübeck. On completion, every single machine is tested to ensure that it works perfectly. Around 500 machines can be produced in the production facility per year in single-shift operation.

"Our aspiration is to supply our customers with powerful, reliable machines with the best possible availability. In Quality Management, we assist the production and support processes at SLM Solutions with seminars as well as our global Q.wiki programme, among other things. We continuously ensure that our processes are transparent and the documentation uniform."

Anik Masukowitz
Quality Management

For many years, SLM Solutions has firmly anchored a quality management system according to the DIN EN ISO 9001:2015 standard in its corporate structure. On the one hand, the aim of the quality management system is to continuously optimise the already high level of machine availability and reliability. On the other hand, the target is to further improve the company processes continuously and to integrate them transparently in the company-wide process house.

"Our employees represent a valuable part of SLM Solutions. They all make a direct or indirect contributions to the implementation of customer projects. The HR Department takes charge of acquiring highly qualified personnel for the company and works every day on steadily driving employee growth."

Angelika Hofmann
HR Department

The HR Department at the headquarters in Lübeck is responsible for the worldwide acquisition of qualified staff and is responsible for the personnel development of its more than 400 employees (FTE) around the world.

"The delivery of machines is not the end of the relationship with our customers. Quite the opposite, important elements of our working relationship of trust are just getting started in the shape of many customer projects. Besides regular maintenance services, these also include advice on the use of a wide range of metal powders or the regular training of new machine users. To us it is very important to fulfil the role of a long-term partner at our customers' side."

Tomasz Korparcz
Global Service

SLM Solutions pools transactions with machine-related services, sales of replacement parts and accessories as well as the sale of consumables such as powder in the "After Sales" segment. The After Sales segment is growing around the world and already operating today with a broad-based service network in 45 countries on four continents.

TO THE SHAREHOLDERS

LETTER FROM THE CEO

Meddah Hadjar
CEO

Dear Shareholders of SLM Solutions Group AG,

2019 was an exceptionally difficult year and one marked by major changes for SLM, in a generally difficult market environment.

The metal AM market was significantly more muted than in previous years. This was driven by factors such as AM machines for various industries were not fully industrial, the high cost of adoption AM technology, and the certification and qualification cycles in certain industries were slower than anticipated. SLM Solutions has made great progress recently to address these areas.

In the view of the Executive Board, in addition to the AM market dynamics, the insufficient clarity in the strategy, lack of operational rigor and organizational maturity have made SLM Solutions' 2019 financial result absolutely unsatisfactory. After an in-depth analysis and based on my experience, I have concluded that SLM Solutions has great products with far superior multi-laser technology and SLM Solutions is well positioned in the industry. With this in mind, I will be able to build a best-in-class organization to lead the company to economic growth in the future.

Over the past few months I have been steadily improving our organization. In total, we have made new appointments to more than 10 essential management positions, thereby gaining important key expertise in the company. We have been able to strengthen our expertise in product development, improve: supply chain, quality, commercial focus, human resources and controlling, as well as in other important corporate functions. These initiatives will serve to strengthen our company over the long term and make the company more competitive.

The first tangible results can be seen in the order intake. Despite the difficult AM environment, our order backlog grew significantly in the second half of 2019. This is an indication that we have been able to regain market shares, gain customers confidence, particularly in the USA, in the aerospace industry, and in the automotive sector.

The path to sustainable economic success will take time. However, we are confident that our goal can be achieved with the measures that have been introduced and with the great motivation and qualifications of our team as well as the good cooperation with our customers.

I would like to thank our customers for the confidence they have placed in us to pursue the path of AM technology industrialization jointly with SLM Solutions. I would also like to thank the entire SLM Solutions team for their strong motivation and outstanding commitment to achieving the goals we have set, and especially you; our shareholders, for your patience in accompanying us on this journey.

Lübeck, in March 2020

Meddah Hadjar
Chief Executive Officer (CEO)
of the SLM Solutions Group AG

MANAGEMENT BOARD MEMBERS (as of: 31 December 2019)

Meddah Hadjar,
Chief Executive Officer (CEO)

Meddah Hadjar (*1967) has been active as Chief Executive Officer (CEO) of SLM Solutions Group AG since 1 May 2019. Mr Hadjar has a Bachelor's degree and a Master of Science degree in Aerospace Technology and commands extensive international experience of management, product management, additive manufacturing and engineering. For over two decades, Mr. Hadjar held key management positions with the US group General Electric, including the GE Aviation, GE Oil & Gas and GE Power & Energy divisions. Meddah Hadjar has been living and working in Germany since January 2018 leading Concept Laser GmbH within GE Additive.

Dr. Gereon W. Heinemann,
Member of the Management Board

Dr. Gereon W. Heinemann (*1970) was member of the executive board of SLM Solutions Group AG until 18 February 2020. He studied Production and Transformation Sciences at ETH Zurich, Global Production Engineering at TU Berlin and obtained his doctorate at ETH Zurich. Extensive operational experience followed at MEWAG AG, at Schlatter Industries AG, at Fritz Studer AG (Körber Group) and also at IRPAD AG before he worked for SLM Solutions.

Sam O'Leary,
Chief Operations Officer (COO)

Sam O'Leary (*1983) has been Chief Operating Officer (COO) of SLM Solutions Group AG since 1 December 2019. As COO, he is responsible for the production and product development / R&D departments as well as supply chain management and IT. Mr. O'Leary draws on a high degree of expertise in the fields of development and commercialisation of additive production plants, the industrialisation of production processes and optimisation of supply chains. Most recently, Mr. O'Leary was in charge of product management for the Concept Laser Division at General Electric and he was responsible for the development and commercialisation of all product systems. Earlier stages in Sam O'Leary's career comprised Alstom/GE and Score Group plc.

Neither of the Management Board members currently hold additional mandates outside of the SLM Group.

REPORT BY THE SUPERVISORY BOARD

Ladies and Gentlemen,

The 2019 financial year was a year of great transformation, personnel rejuvenation and strategic realignment at SLM Solutions Group AG. The company's poor strategic positioning led to completely unacceptable developments in 2018. The deterioration in the company's position accelerated in the course of the 2018 financial year and into the first quarters of 2019. At the end of March 2019, the company was provided with urgently needed funds of EUR 13 million through a capital increase excl. subscription rights, not only to stabilise the financial situation but also to tackle the pressing need for personnel rejuvenation in the Management Board and Supervisory Boards. Coinciding with the capital increase, Mr. Grosch and Mr. Becker resigned their Supervisory Board mandates and Dr. Michael Mertin and Thomas Schweppe were appointed to the company's Supervisory Board by the courts. In addition to the court appointments, the annual general meeting also elected Magnus René, Hans-Joachim Ihde, Dr. Roland Busch and Kevin Czinger to the Supervisory Board. On 5 September 2019, I was elected as the new Chairman of the Supervisory Board effective 6 September 2019. Dr Michael Mertin had resigned from his position as Chairman of the Supervisory Board.

Since 1 May 2019, SLM Solutions Group AG has had a new CEO in Meddah Hadjar with extensive experience of the sector, of restructuring and of management, who is playing a formative role in shaping and taking charge of the company's realignment.

A further element in the managerial rejuvenation was the termination of Axel Schulz's contract, the company's CSO (Chief Sales Officer), on 15 May 2019. In addition, the previous CFO (Chief Financial Officer) of SLM Solutions Group AG, Uwe Bögershausen, also left the company when his contract expired at the end of June 2019.

The search initiated by the Supervisory Board for competent additions to the Management Board culminated in the appointment of Sam O'Leary as COO with effect from 1 December 2019. At the same time, CEO Meddah Hadjar was driving the reorganisation of the company below the Management Board, and in the second half of the 2019 financial year, he was able to make significant appointments in the areas of product development and product management, quality, sales, the supply chain and human resources which are having a major effect on stabilising and realigning the company. Frank Hülsmann, who was appointed CFO on 1 January, 2020, unfortunately had to leave the company in March 2020 for health reasons.

Continuous dialogue

In the 2019 financial year, the Supervisory Board provided ongoing advice to the Management Board on running the company and constantly monitored and reviewed its performance. The yardsticks for doing so are lawfulness, regularity and practicality with the focus on the long-term financial success of the company. The Management Board informed the Supervisory Board regularly, promptly and extensively about all significant topics for SLM Solutions Group AG, especially about the corporate strategy, the status of the implementation of all strategic initiatives, and current business progress. Topics of relevance to the capital market and compliance also formed part of the regular information provided by the Management Board.

The Supervisory Board was at all times involved in the Management Board's decisions of fundamental importance to the company. As a consequence, we had sufficient opportunity to engage with topics, and to prepare for resolutions.

All matters that the Management Board submitted to the Supervisory Board for approval in accordance with the bylaws and the rules of business procedure were approved by the Supervisory Board after in-depth review and discussion with the Management Board.

Individual members of the Supervisory Board, in particular its Chairman and the Chairman of the Audit Committee were in close contact with the Management Board for the purposes of continuous information outside the scope of Supervisory Board meetings.

The quorum required by the bylaws of SLM Solutions Group AG was always complied with when the Supervisory Board passed resolutions.

Overview of topics covered by the Supervisory Board

In total, the Supervisory Board convened fourteen times for regular meetings during the reporting period. At two meetings, a member of the Supervisory Board was excused for private reasons; all other meetings were held with all members of the Board.

On 12 January 2019, the Supervisory Board met to approve the 2019 budget.

On 19 February 2019, the Supervisory Board met for a telephone conference on the current position of the business and the "Laser" project, and these were also the topics of discussion during the telephonic meeting of the Supervisory Board on 8 March 2019.

In its meeting on 20 March 2019, the Supervisory Board concerned itself with the audits of the annual financial statements and consolidated statements for the 2018 financial year conducted by PricewaterhouseCoopers. The Supervisory Board reviewed the quality of the last resolutions as part of its efficiency audit and examined the early warning system for risks.

The balance sheet meeting to discuss the annual financial statements and consolidated statements for 2018 was held by telephone on 25 March 2019.

The meeting on 27 March 2019 dealt primarily with the resolution for appointing a Chairman of the Management Board.

In its meeting on 28 March 2019, resolutions were adopted approving the capital increase of around 10% excluding subscription rights, the conclusion of an investment agreement a co-investment agreement.

The meeting on 9 April 2019 in the form of a telephone conference comprised the resolution for the agenda for the invitation to the annual general meeting.

In the Supervisory Board on 7 May 2019, the current state of the business was discussed, the latest risk management report and the latest Q1 figures. In this context, the Supervisory Board consulted on potential personal consequences on the Management Board.

On 28 May 2019, the Supervisory Board met by telephone to discuss the current state of the business in Asia, the general course of the business and to discuss potential candidates to add to the Management Board.

On 25 June 2019, the Supervisory Board convened following the annual general meeting and determined future appointments to the committees.

On 5 August 2019, the Supervisory Board met to discuss the current state of the business, the table of duties in the Management Board and organisational issues. The Supervisory Board also received a first overview from the new CEO on the company's main problem areas and plans for overcoming them.

In its meeting on 5 September 2019, the Supervisory Board turned its attention to the report of the audit committee, the current state of the business, the upcoming budget and planning process and the next steps for making appointments to the Management Board. In this meeting Dr. Michael Mertin resigned as a member of the Supervisory Board. The Supervisory Board elected Thomas Schweppe as the new chairman and Magnus René as deputy chairman.

On 18 November 2019, the Supervisory Board met to study the current state of the business, steps to realign the company, the current Q3 report, organisational issues and management appointments made by circulation since the last ordinary meeting of the Supervisory Board.

Composition and meetings of committees

The Supervisory Board of SLM Solutions has formed an Executive Committee, an Audit Committee, a Strategy Committee and a Nomination Committee.

Executive Committee

The Executive Committee is composed of the Chairman of the Supervisory Board, his deputy and another member to be elected by the Supervisory Board. The current members of the Presidential Committee are Thomas Schweppe (Chairman), Hans-Joachim Ihde and Magnus René. The Executive Committee deals in particular with the preparation of the appointment and dismissal of members of the Management Board and the appointment of a Chairman of the Management Board; with the conclusion, amendment and termination of employment contracts with the members of the Management Board; and with the structure of the remuneration system for the Management Board, including the main contractual elements and the total remuneration of the individual members of the Management Board. The Executive Committee convened four times during the reporting period.

Audit Committee

The Audit Committee consists of three members elected by the Supervisory Board. These are currently Dr. Roland Busch (Chairman), Magnus René and Thomas Schweppe. The Audit Committee monitors the accounting process, including the effectiveness of the internal control system and the effectiveness of the risk management system. It discusses the quarterly reports and deals with compliance issues and reporting to the Supervisory Board. It also prepares the Supervisory Board's examination of the annual financial statements, the management report and the proposal for the appropriation of profits, as well as the consolidated financial statements and the Group management report. In this context, the Audit Committee is informed in detail about the auditors' view of the net assets, financial position and results of operations. It deals with issues relating to the necessary independence of the auditor, the issuing of the audit mandate to the auditor, the determination of the focal points of the audit and the fee agreement.

The audit committee convened four times during the reporting period. All meetings in conjunction with the publication dates of the consolidated financial statements were also held. Aspects of the accounting for the unaudited interim financial statements for the first quarter of 2019 were discussed on 2 May 2019. The documentation for the financial statements for the 2019 half-year report was discussed on 5 August 2019 and for the third quarter 2019 interim report on 29 October 2019. At the audit committee meeting on 10 March 2020, documents relating both to individual and the consolidated financial statements were subjected to in-depth preliminary examination. The auditor participated in this meeting in order to explain its audit activities.

Strategy Committee

The Strategy Committee, founded in 2019, is composed of two members elected by the Supervisory Board. These are currently Kevin Czinger and Magnus René. The Strategy Committee deals with issues of fundamental business policy and corporate orientation as well as with projects of significance for SLM Solutions Group AG. It advises the Management Board on matters of strategic importance for the company and discusses options for achieving the strategic objectives.

Nomination Committee

The Nomination Committee is composed of the Chairman of the Supervisory Board and the other members of the Executive Committee. These are currently Thomas Schweppe (Chairman), Magnus René and Hans-Joachim Ihde. The Nomination Committee proposes suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting. The Nomination Committee met once during the reporting period.

Corporate Governance

On 12 February 2020, the Management and Supervisory Boards of SLM Solutions Group AG issued a declaration of conformity that is required pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the recommendations of the “German Corporate Governance Code” government commission as amended on 7 February 2017. Although no significant adaptations were made to the Corporate Governance Code during the period under review, the Management and Supervisory Boards concerned themselves intensively with corporate governance issues in general and compliance with the German Corporate Governance Code in particular.

Audit of the separate and consolidated financial statements

The AGM elected KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, as the Company’s auditor on 25 June 2019. It audited the separate annual financial statements of SLM Solutions Group AG and the consolidated financial statements as of 31 December 2019, as well as the separate and Group management report, furnishing them with unqualified audit opinions. The Supervisory Board was convinced of the auditor’s independence and of the individuals acting for the auditor.

Subsequent to in-depth preliminary examination by the audit committee and explanations of the audit actions by the auditor, the Supervisory Board, following its own review, raised no objections against either the separate financial statements or the consolidated financial statements.

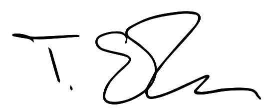
The audit report prepared by the auditor, as well as the financial statements documents, were submitted to all Supervisory Board members in good time. The responsible auditor was present at consultations on the separate and consolidated financial statements. He reported on the significant audit results and was available to provide additional information. The auditor also determined that a risk management system that complies with statutory regulations exists, having audited it and found it to be effective. Equally, no weaknesses that require reporting were ascertained in relation to the accounting-related internal controlling system.

At the accounts meeting on 24 March 2020, the Supervisory Board approved the separate and consolidated financial statements, along with the separate and Group management reports for the 2019 fiscal year, including disclosures pursuant to Section 315 (4) of the German Commercial Code (HGB). The separate annual financial statements for the 2019 fiscal year have been adopted as a consequence, pursuant to Section 172 of the German Stock Corporation Act (AktG).

The Supervisory Board concurred with the Management Board’s proposal relating to the application of the net loss included in retained earnings. The net loss included in retained earnings is to be carried forward to a new account.

On behalf of the Supervisory Board, I would like to thank the Management Board members, as well as all SLM Solutions Group staff for their continuing commitment and dedicated work during the past fiscal year. Our thanks are also due to our shareholders, who invested their confidence and trust in us in this less than easy period for the company. We are convinced that with the aid of the strategic, organisational and personnel changes initiated, we have laid the foundations for the company’s long-term, sustained success. In spite of the first positive results that are already discernible, such success can only be established over time, and it will continue to require the dedicated support of employees and further patience from shareholders.

Lübeck, March 24, 2020



Thomas Schweppe
Chairman of the SLM Solutions Supervisory Board

Supervisory Board members in 2019

Member	Profession	Mandate outside of the SLM Group as at December 31, 2019
Thomas Schweppe, Bad Homburg (starting April 16, 2019); (Deputy Supervisory Board Chairman from June 26 until September 5, 2019); (Chairman of the Supervisory Board from September 6, 2019)	Business executive	none
Magnus René, Boston (starting from June 26, 2019) (Deputy Supervisory Board Chairman starting September 6,2019)	Business executive	Ovzon AB, Board Director MARE Advisory LLC, Owner
Dr. Roland Busch, Frankenthal (starting June 26,2019)	Member of the Supervisory Board	LSG Lufthansa Service Holding AG, Member of the Supervisory Board (bis 15.10.2019) Yonder AG, Switzerland, Chairman of the Board of Directors Delvag Versicherungs-AG, Chairman of the Supervisory Board Lufthansa Cargo AG, Member of the Supervisory Board Swiss Global Air Lines Ltd., Member of the Board of Directors Lufthansa Pension Trust e. V, Member of the Board of Directors Lufthansa Malta Pension Holding Ltd., Member of the Investment Board Lufthansa Leasing GmbH, Member of the Supervisory Board
Kevin Czinger, (starting June, 26, 2019)	Business executive	none
Hans-Joachim Ihde, Lübeck (Supervisory Board Chairman until June 25, 2019)	Business executive,	Ceresio GmbH, Managing Director

Former Supervisory Board members in 2019

Former Member	Profession	Mandate outside of the SLM Group as at December 31, 2019
Dr. Michael Mertin, Jena (Deputy Supervisory Board Chairman from April 16 to June 25, 2019); (Chairman of the Supervisory Board from April 26 to September 5, 2019)	Dr. Engineer	none
Klaus J. Grimberg, Bremen (until June 25, 2019)	Business administration graduate, public certified auditor	Financial Experts Association e.V., Advisory Board Chairman
Bernd Hackmann, Barsinghausen (until June 25, 2019)	Engineering graduate, independent consultant to technology companies	none
Volker Hichert, Hamburg (until May 13, 2019)	Business administration graduate, Managing Director of DPE Deutsche Private Equity GmbH	proFagus GmbH, Advisory Board member Sercoo Group GmbH, Advisory Board member Air Alliance GmbH, Advisory Board member
Peter Grosch, Kressbronn (Deputy Supervisory board Chairman until April 16, 2019)	Supervisory Board member	3i Group plc London, England, Supervisory Board Member EURO-DIESEL S.A. Belgien, Chairman VORWERK&SOHN GmbH&Co. KG, Advisory Board Member
Lars Becker, Munich (until April 16, 2019)	Partner of Sherpa CapitalEntidad Gestora Sgeic, S.A.	Clarke, Modet y Compañía, S.L., Advisory Board member

THE SHARE

Price development (as of: 20 March 2020)

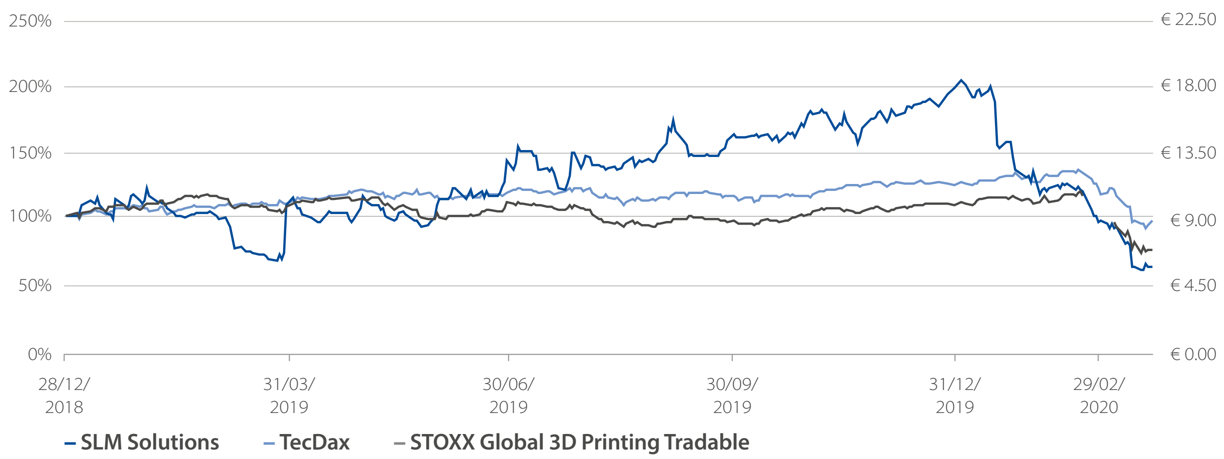
Shares of SLM Solutions Group AG have been traded on the Prime Standard segment of the Frankfurt Stock Exchange since 9 May 2014.

The performance of the SLM Solutions share was very volatile in 2019. The share price, which had already fallen sharply the previous year, collapsed to its lowest annual Xetra closing price of EUR 5.97 on 25 March 2019 prior to publication of the 2018 balance sheet. However, the capital increase carried out on 28 March 2019 and the confidence of our largest shareholders expressed through this increase as well as, prior to that, the announcement of the new CEO were important measures to strengthen confidence in SLM Solutions. On 30 December 2019, the stock posted its highest Xetra close in 2019 at EUR 17.64. This meant a rise of 96% by comparison with the 2018 closing price (EUR 9.00). With this performance, the stock surpassed growth in the TecDax (+23.0%) and the sector index STOXX Global 3D Printing Tradable (+7.9%) by a considerable margin. In mid-January 2020, Hans-Joachim Ihde, who previously had been the third-largest shareholder, conducted a block sale of approx. 5% of SLM Solutions shares. The market's capacity to absorb such large secondary placements remains low due to the low liquidity of the SLM Solutions share. The block sale was the sole decision of the shareholder, in which the company was not involved. Until 20 March 2020 the SLM® share price decreased significantly and the stock posted a Xetra closing price of EUR 5.50.

As a result of the capital increase carried out in March 2019, the number of shares in the company in circulation rose to 19,778,953. Market capitalisation at the end of 2019 stood at EUR 348.90 million (28 December 2018: EUR 161.83 million).

The average number of SLM Solutions Group AG shares traded daily on the Xetra trading system was 37,272 in 2019 (2018: 56,370).

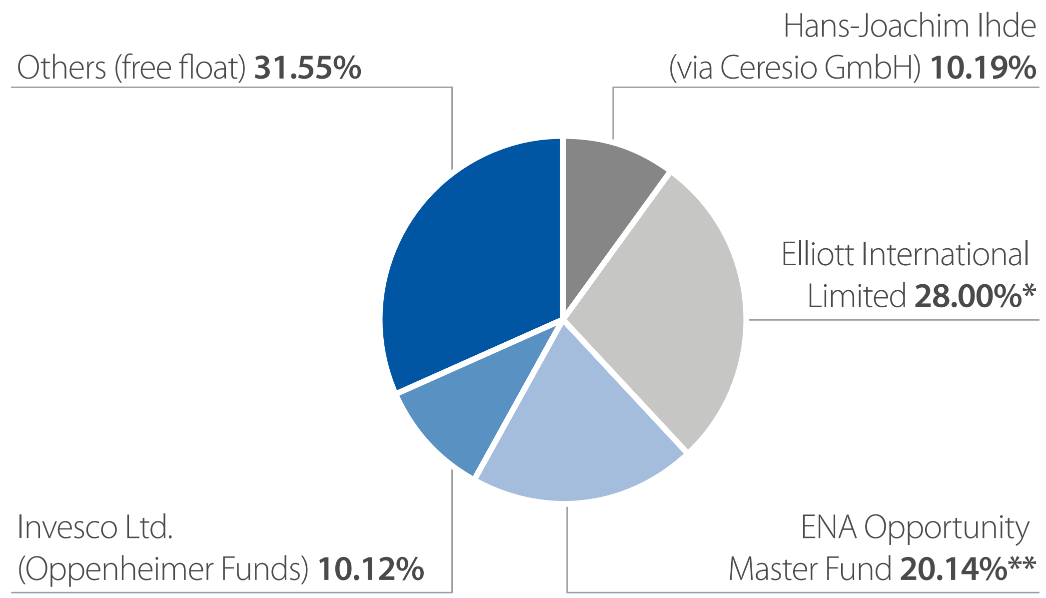
Share price chart (as of: March 20, 2020)



Key data (as of: March 20, 2020)

ISIN	DE000A111338
German Securities Identification Code (WKN)	A11133
Ticker symbol	AM3D
Sector	Industry
Trading segment	Regulated Market (Prime Standard)
Stock exchange	Frankfurt Stock Exchange
Indices	STOXX® Global 3D Printing Tradable DAXsubsector Advanced Industrial Equipment
Initial listing	9 May 2014
Placing price in EUR	18.00
Closing price in EUR on 30 December 2019	17.64
Closing price in EUR on 20 March 2019	5.50
Number of shares	19,778,953 ordinary no par value bearer shares

Shareholder structure (as of: March 20, 2020)



* Shares attributed to Mr. Paul E. Singer from Elliot International Limited through the subsidiary Cornwall GmbH & Co. KG
** Shares attributed to Mr. George Kounelakis from ENA Opportunity Master Fund LP

Directors' dealings and shareholdings

Pursuant to Article 19 of the Market Abuse Directive (Marktmissbrauchsverordnung), directors (and their related parties) of a company that is listed on the Regulated Market must inform the respective issuer and the German Federal Financial Supervisory Authority (BaFin) if they buy or sell shares or related financial instruments worth more than EUR 5,000 over the course of a calendar year.

The following reportable transactions were recorded in the reporting year or by the time the annual financial statements were prepared regarding the stock of SLM Solutions Group AG (ISIN: DE000A111338,

Sec. No.: A11133) which can also be called up on the company's website in the Investor Relations section. Only acting members of the management board respectively supervisory board are listed.

Date	Party	Transaction type	Number of shares	Price per share (in EUR)	Total volume (in EUR)
06/27/2019	Dr. Roland Busch	Purchase	2,000	11.11	22,214.92
01/15/2020	Hans-Joachim Ihde (via Ceresio GmbH)*	Sale	1,000,000	14.75	14,750,000.00

As of 20 March 2020

Party	Directly held shares	Indirectly held shares	Total interest
Supervisory Board			
Hans-Joachim Ihde (via Ceresio GmbH)*		10.19 %	10.19 %
Dr. Roland Busch	0.01 %		0.01 %

* Attribution via Ceresio GmbH, Lübeck, Germany, pursuant to Section 34 (1) Clause 1 No. 1 of the German Securities Trading Act (WpHG)

Analysts (as of: 20 March 2020)

Institute	Analyst	Date	Rating	Share price target (EUR)
Commerzbank	Adrian Pehl	02/04/2020	Hold	10.00
Deutsche Bank	Uwe Schupp	06/21/2019	Hold	11.00
Frankfurt Main Research	Enid Omerovic	11/08/2019	Hold	10.00

Based on analyst ratings available at the time of going to print

Growth of the SLM Solutions stock is currently being watched by three analysts. In March 2020, the analysts recommended holding the stock.

Investor relations

Since its flotation, SLM Solutions has maintained an intensive dialogue with the capital market. The Management Board of SLM Solutions sets great store in communicating frequently and transparently with the Company's shareholders and stakeholders and informing them continuously about the Company's development and growth. This is also to be ensured through the regular publication of announcements of relevance to the Company, detailed financial reporting, and continuous personal contact with investors, analysts, journalists and the interested public. The Management Board of SLM Solutions Group AG as well as persons responsible for the Investor Relations Department also regularly participate in capital market conferences and present the business model and strategy of SLM Solutions at road shows in Europe and North America.

In addition, meetings were held with investors at the company headquarters in Lübeck. An investor event, held as part of the industrial trade fair Formnext in Frankfurt/Main in November 2019, also offered an opportunity for dialogue with management.

Interested capital-providers, investors and analysts can find more information, updated continuously, on our website www.slm-solutions.com within the Investor Relations area. Along with financial reports, mandatory announcements and corporate news articles, visitors to our website can also access road show and analyst presentations there. Telephone conferences with webcasts are held when we publish our quarterly results, and the recordings are subsequently available on our website. All interested parties are provided with important company news promptly and directly via an electronic mailing list which users can register for on the website.

Annual General Meeting

Shareholders of SLM Solutions Group AG passed resolutions by majority vote at the fifth annual general meeting of the company in the media docks in Lübeck on 25 June 2019 including to approve the actions of the Management Board and Supervisory Board for the 2018 financial year, elected a new Supervisory Board, elected the auditor for the 2019 financial year and approved a resolution to cancel the existing Approved Capital 2018 and create a new Approved Capital 2019 with the option to exclude subscription rights and a corresponding amendment to the bylaws. The detailed voting results and the presentation of the Management Board can be viewed on the Company's website.

Financial calendar

05/07/2020	Q1 Report 2020
06/16/2020	Annual General Meeting (Lübeck)
08/13/2020	H1 Report 2020
11/05/2020	9M Report 2020

IR contact

SLM Solutions Group AG
Julia Stargardt
Telephone: +49 (0) 451 4060 - 4208
E-Mail: IR@slm-solutions.com

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT for the fiscal year 2019

Basis of the Group

Group structure

SLM Solutions Group AG (SLM AG), headquartered in Lübeck, Germany, had eight wholly-owned subsidiaries and one joint venture as of 31 December 2019. SLM Solutions Group AG acts as the only production facility in the Group and is responsible for a large proportion of operating and administrative tasks as well as product development within the Group, and it also coordinates global sales activities. The subsidiaries based in Singapore, the USA, Canada, China, Russia, India, Italy and France promote local sales activities in their allocated geographical regions. In addition, they also provide services for customers. The company in Canada was set up on 20 September 2019.

Until 30 July 2019, SLM Solutions Group AG held 51% of the share capital in SLM Solutions Software GmbH in Austria. CADS GmbH took over the shares of SLM Solutions Group AG.

The joint venture 3 D Metal Powder GmbH stood for the development, production and sale of metal powders. This company was founded due to the difficult availability of a "by-product" that we needed from metal powder producers. Meanwhile, the suppliers very quickly adapted to our needs and SLM Solutions Group AG has now, for strategic reasons, decided to offer its shares in the company for sale. SLM Solutions Group AG currently holds 51% of the share capital in this Lübeck-based company.

SLM Solutions Group AG, Lübeck

SLM Solutions NA, Inc., Wixom, Michigan, USA	100 %
SLM Solutions Singapore Pte Ltd, Singapore	100 %
SLM Solutions (Shanghai) Co. Ltd., Shanghai, China	100 %
SLM Solutions RUS OOO, Moscow, Russia	100 %
SLM Solutions (India) Private Limited, Bangalore, India	100 %
SLM Solutions (Italy) S.R.L., Milano, Italy	100 %
SLM Solutions (France) SAS, Paris, France	100 %
SLM Solutions (Canada), Inc., Toronto, Canada	100 %
3 D Metal Powder GmbH, Lübeck, Germany	51 %

Employees

Full-time equivalents (FTE)	12/31/19	12/31/18
Research and development	94	99
Sales	93	90
After Sales	76	68
Production	92	113
Administration	50	52
Total	**405**	**422**
of which Europe	331	364
of which USA	36	32
of which Asia	38	26

Business model

SLM Solutions Group AG, headquartered in Lübeck, Germany, is, in the company's view, a leading provider of **metal-based additive manufacturing technology** ("3D printing technology"). The product range currently comprises four systems – the SLM®125, SLM®280, SLM®500 and SLM®800 – which are differentiated by the size of the build chamber and the number of lasers which can be fitted. These systems enable direct production of highly complex metal components from a large number of source materials such as aluminium, titanium, cobalt-chrome, IN, tool steel or stainless steel, as well as super alloys. Our systems are capable of processing almost any type of weldable alloy into a finished product. The systems are constantly being developed further and equipped with new functions.

The business was divided into two operating segments in the period under review:

- The **Machine Business segment** encompasses the development and production as well as the marketing and sale of machines and peripheral equipment for selective laser melting. The machines are sold via a global distribution network. This segment currently represents the focal point of the business.
- The **After Sales Business segment** is of strategic interest for the Company and is increasingly gaining in importance. It encompasses business with machine-related services, the sales of replacement parts and accessories, as well as the sales of merchandise, consumables and services not related to machines.

The systems of SLM Solutions make use of the technology of **selective laser melting**: A computer 3D model of the object to be made constitutes the starting point for the additive manufacturing process. This object is melted in layers by applying one or multiple laser beams simultaneously in a metallic powder bed. Parts manufactured in this way meet the highest standards in terms of stability, surface structure and biocompatibility – different requirements are prioritised depending on the intended application.

Consultants Ampower rate selective laser melting as the best-known and leading technology in the field of metal-based additive manufacture. Of a total of 18 techniques, selective laser melting is ascribed the widest acceptance in industrial manufacture and the highest degree of technological maturity.[1]

One of the significant **benefits of additive manufacture** is its lower level of material consumption compared with conventional manufacturing methods. This approach also creates new degrees of freedom in product design which focuses on and benefits the desired functionalities of the component in question. As a result, additive manufacturing is well suited to producing complex components which can be used as prototypes or in series production. In contrast to conventional production methods, complexity is not a cost factor in this type of manufacturing ("complexity comes for free"). The additive manufacturing of metal parts also offers enormous advantages in terms of speed, as no moulds or tools are required. SLM Solutions' patented multi-laser technology underlines the Company's technology leadership. Industrial manufacturing processes such as precision cutting are being increasingly supplemented by laser melting.

According to a study conducted by Ernst & Young in 2019, companies expect to see the greatest benefits from the use of additive manufacturing techniques in three areas: the manufacture of products which meet customer requirements more effectively, a reduction in distribution complexity, transport and stocks as well as more efficient R&D processes thanks to rapid prototyping.[2] According to the results of Ernst &

[1] Ampower (2019), Metal Additive Manufacturing Report 2019 (Digital Edition)
[2] Ernst & Young (2019), EY's Global 3D Printing Report 2019, p. 9

Young's study, experience with additive manufacturing techniques among companies has also increased significantly in the last three years. 26% of the companies surveyed stated in 2019 that they were using additive manufacturing techniques in selected departments or developing business models for using 3D printing methods. In 2016 this figure was only 13%. Only 35% of the companies surveyed indicated that they were still on the starting blocks when it came to additive manufacture (2016: 76%).[3]

SLM Solutions' **customers** are active in widely diverging industrial areas, including aerospace, mechanical engineering, tool construction and the automotive industry, medical technology and the energy sector. In terms of the customers for SLM® machines, differentiation can be made between contract manufacturers and end users. SLM Solutions' **target markets** include the regions North America and Asia Pacific in addition to Europe (including Germany).

SLM Solutions' machine business is subject to **seasonal fluctuations** typical of the industry: in general, a significant share of new order intake is achieved in the fourth quarter of the year, while the first quarter is traditionally the weakest of the year. The Management Board intends to mitigate this seasonality in the medium term by further expanding its After Sales business and entering into partnerships as well as by extending its product range to include products such as consumables (powder) and software that are less susceptible to fluctuations.

Targets and strategy

SLM Solutions pursues the objective of securing its claimed position as the technologically leading provider in the metal-based additive manufacturing area over the long term, playing a decisive role in shaping this technology and thereby growing significantly and profitably in the foreseeable future. To this end, SLM Solutions pursues a medium-term growth strategy consisting of three pillars for which interim targets are frequently defined and evaluated:

- SLM Solutions focuses on **research and development (R&D)** in order to secure and extend the technology leadership it claims in the metal-based additive manufacturing area. The intellectual property rights portfolio is continuously optimised, and in the company's view, the R&D team ensures that its technology leadership is extended in a range of different projects. SLM Solutions also cooperates with research institutes and universities in order to further develop its technology, and to enable it to be deployed for increasingly new applications from all sectors.
- SLM is aiming to evolve into a **full-service solutions provider** in the field of additive manufacturing and grow into related business areas. For example, SLM Solutions is also expanding its business with metal powders which form the starting point for manufacturing by its selective laser melting plants. This **expansion in the powder business** by means of strategic partnerships in the form of close cooperation, is intended to develop as an additional business alongside machine sales, and should contribute to a lessening of the typical industry seasonality of the Group on a revenue and earnings level. To receive a high-quality finished product, the specification and qualification of the metal powder requires specialised expertise and quality-assured processes which at the moment are recompensed accordingly by the market.
- Given the complexity of selective laser melting, its proximity to customers represents a critical competitive advantage for SLM Solutions. In order to retain existing customers in the long term, generate recurring service revenues and acquire new customers, SLM Solutions is gradually expanding its **international sales and service network** by founding subsidiaries and sales cooperations based in different regions. The Company is constantly increasing its presence with presentation centres, demonstration machines, customer training sessions and participation at important trade fairs and keynote speeches.

[3] Ernst & Young (2019), EY's Global 3D Printing Report 2019, p. 7

Management system

SLM AG has identified the following key figures as the most important financial performance indicators for business and it publishes these regularly:

- The Company's **order and revenue trend** is the key performance indicator to assess exploitation of the Company's growth potential within a completed reporting period. This KPI is also regularly compared with the growth rate of the global market for additive manufacturing.
- For SLM Solutions, as a young growth company, the margin before interest, tax, depreciation and amortisation **(EBITDA margin)** provides us with the best indicator of profitability. This key indicator excludes national particularities relating to tax legislation, the selected financing structure and the intensity of investment in operating business, facilitating the comparison of the Company with the international peer group.
- In addition, **absolute EBITDA** serves as the main key figure disclosing the Company's profit. The intention of this key figure is to present the actual operating business and in doing so make earnings more comparable between fiscal years and other companies.

As part of the internal steering system, the Management Board of SLM Solutions Group AG is informed at regular intervals about internal key performance indicators. These mainly comprise:

- The **personnel cost ratio** (defined as personnel costs in relation to total operating revenue)
- The **cost of materials ratio** (defined as cost of materials in relation to total operating revenue)

Research and development

For years, SLM Solutions has been setting the stage for crucial elements of its business success through its Research and Development Department. Especially in the field of multi-laser technology where the company claims to be the market leader, it has proved possible to increasingly leverage market potential in the area of industrial production. The Company thereby commands an extensive portfolio of intellectual property rights, including patents and licenses not only for selective laser melting technology and the hull-core imaging process.

Global alliances with universities and research facilities allow SLM Solutions to always have its finger on the pulse of the times. This ensures a platform for the successful use of SLM® technology in volume production in various sectors. Investments in research and development concentrate primarily on the areas of productivity increases and robust production systems. But the spotlight is also on making improvements in the area of material research (e.g. materials that are hard to form/work) as well as finding ways to shorten the total production time of a new component. Interconnections in the industrial production environment ("Industry 4.0") are now an integral part of modern production and fit perfectly with the fully digitalized SLM® process.

The research and development department of SLM Solutions consisted of 94 FTEs (full-time equivalents) as of 31 December 2019 (previous year: 99 FTEs). Development costs of kEUR 4,994 (previous year kEUR 4,361) were capitalized in 2019. Before capitalisation in 2019, total development costs of kEUR 14,762 (previous year kEUR 9,787) were incurred.

The level of amortization of capitalized development costs in the 2019 fiscal year amounted to kEUR 2,041 (previous year: kEUR 1,293).

Economic and business report

Macroeconomic situation in target markets

Overall, the German economy grew at a moderate pace in 2019. According to initial calculations by the Federal Statistical Office (Destatis), price-adjusted gross domestic product (GDP) in 2019 was 0.6% higher than the figure for the prior year. This means the German economy has grown for the tenth year in succession, but the growth has lost momentum. In the two preceding years, price-adjusted GDP had grown by 2.5% in 2017 and 1.5% in 2018. Long-term analysis also shows that German economic growth in 2019 was below the average figure for the last ten years of +1.3%.[4]

Growth in 2019 was supported primarily by consumption: Private consumer spending rose 1.6% after adjustment for prices, while government consumption even grew 2.5 %. Price-adjusted gross investments in 2019, on the other hand, declined by 1.7% by comparison with the previous year. While gross capital investments grew powerfully (+2.5%), weak industrial production and rising exports were reflected in a noticeable reduction in inventories. German exports continued to grow in 2019 but not as strongly as in previous years. Adjusted for prices, exports grew year-on-year by 0.9% while imports were up 1.9%. Economic growth in 2019 on the output side of gross domestic product was a tale of two halves: On the one hand, services and the construction industry posted significant increases. On the other hand, the economic output of manufacturing industry (excl. construction) collapsed in 2019 (-3.6%). Weak production in the automotive industry, in particular, contributed to this decline. Altogether, price-adjusted gross value added in 2019 grew by 0.5% by comparison with the previous year.[5]

According to the Kiel Institute for the World Economy (IfW), global economic growth continued to run out of steam in 2019.[6] Global production grew last year by 3.0%, representing a fall of 0.7 percentage points by comparison with growth in 2018. The weakness of industrial production and global trade were the main factors holding back the pace of global growth in 2019.[7] Risks to further economic growth include lasting trade conflicts, an impending general strike in France and uncertainties with regard to the exact design of future arrangements between the EU and Great Britain following Brexit.[8]

Market for metal-based 3D printing

SLM Solutions operates in the **growth market for metal-based additive production techniques**. Consultants Ampower puts the global volume of the market for metal-based additive production for 2018 at EUR 1.5 billion (2017: EUR 1.1 billion).[9] Of this figure, EUR 0.8 billion or more than half was accounted for by production systems (2017: EUR 0.5 billion), EUR 0.4 billion by materials (2017: EUR 0.3 billion), and EUR 0.3 billion by services (2017: EUR 0.2 billion). By comparison with 2017, Ampower is thus reporting growth of the total market volume of 41% with particularly strong growth in the production systems sector (+57%, material +18%, services +38%).

According to the Amposer report, **suppliers** are expecting to see the global market for metal-based additive production techniques grow to EUR 4.6 billion in 2023 which would equate to average annual growth of 25.0%. With annual growth of 24.1%, the market for production systems is set to grow to a volume of EUR 2.4 billion in 2023, roughly in step with the total market.[10]

On the **user side**, the total global market for metal-based additive production techniques is also expected to grow by an average of 21.3% in 2023 reaching EUR 4.0 billion according to Ampower, significant growth albeit somewhat slower.[11] Data from Ernst & Young's study also show that metal-based additive production techniques are becoming progressively more important for users. 65% of the companies surveyed by Ernst & Young stated that they see metal as the most important work material in the field of additive manufacture going forward.[12]

The selective laser melting technology that SLM Solutions applies ranks among the so-called **"powder bed fusion" processes** that offer greater precision, surface quality and design freedom compared with other 3D printing processes. In addition, the Management Board of SLM Solutions Group AG is convinced that additive production techniques are now ready for use in volume production. From a technical point of view, this degree of development at SLM Solutions Group AG is indicated, among other things, by the option of being able to use up to four lasers at the same time to produce a part. SLM Solutions AG is currently developing a new generation of laser machines which far exceed previous technical capabilities thus opening up new areas of application.

Business progress

In the 2019 fiscal year, SLM Solutions Group AG received orders for 87 machines (previous year: 92 machines) totalling kEUR 67,677 (previous year: order value of kEUR 56,025). This represents an increase of 21% over the same period in the previous year which is due first and foremost to the positive growth of orders in the fourth quarter. As of 31 December 2019, the order book amounts to 44 machines (previous year: 11 machines[13]) with a volume of kEUR 34,978 (previous year: kEUR 6,970[14]).

The company was able to generate total sales of kEUR 48,962 (previous year: kEUR 71,659). The Machine Business segment accounted for sales amounting to kEUR 35,142 in fiscal 2019 (previous year: kEUR 56,274) and therefore represents 71.8% of Group sales (previous year: 78.5%). The After Sales Business segment comprising service sales, sales of spare parts and merchandise such as powder generated sales in 2019 totalling kEUR 13,821 (previous year: kEUR 15,386) and therefore represents 28.2% of Group sales (previous year: 21.5%). Sales have thus fallen significantly short of the original expectations of EUR 95.0 million. In July 2019, the company had already revised its forecast downwards without specifying a specific new sales target.

On 28 March, the Group conducted a capital increase from approved capital with the participation of currently the largest shareholders, Elliott and ENA Investment Capital, to a value of EUR 13.0 million in order to reinforce the financial position and thus stabilise financial developments. The proceeds are thus to be used for general company purposes.

The company opened an application centre at its Shanghai facility in May 2019. From the company's perspective, a demonstration centre of this kind is unique in China and will strengthen the company's presence in China and promote growth in the Asian region. The steady globalisation of the company is also underlined by the sales and service office opened in Canada in September 2019. North America is a very important market for the company, and the company continues to drive its sales activities on the ground, reinforcing its proximity to its customers.

In May 2019, Meddah Hadjar was appointed as the new Chief Executive Officer (CEO). Sam O'Leary has been the company's Chief Operating Officer (COO) since 1 December 2019. The company also announced in November 2019 that Frank Hülsmann will join the company's Management Board on 1 January 2020 as the new Chief Financial Officer (CFO). For health reasons, Frank Hülsmann had to leave the company in March 2020. There were also several changes to the Supervisory Board in fiscal 2019. As of 31 December 2019, the Supervisory Board consists of Thomas Schweppe (Chairman), Magnus René (Deputy Chairman), Dr. Roland Busch, Kevin Czinger and Hans-Joachim Ihde.

The fifth annual general meeting of the Group was held on 25 June 2019. The shareholders approved the conduct of the company's Management and

[4] Federal Statistical Office, German economy grew by 0.6% in 2019, Press Release No. 018 dated 15 January 2020
[5] Ibid
[6] Institute for the World Economy (2019), Kiel Economic Reports, Global Economy in Winter 2019 p. 2.
[7] Ibid, p. 3-4
[8] Ibid, p. 8-11
[9] Ampower (2019), Metal Additive Manufacturing Report 2019 (Digital Edition)
[10] Ampower (2019), Metal Additive Manufacturing Report 2019 (Digital Edition)
[11] Ampower (2019), Metal Additive Manufacturing Report 2019 (Digital Edition)
[12] Ernst & Young (2019), EY's Global 3D Printing Report 2019, p. 11
[13] Existing orders as of 31 December 2018: Orders received for 128 machines from umbrella contracts with a value of TEUR 97,503 deducted.
[14] Existing orders as of 31 December 2018: Orders received for 128 machines from umbrella contracts with a value of TEUR 97,503 deducted.

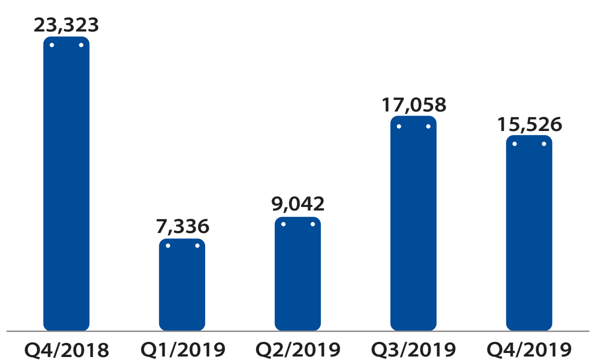
Supervisory Boards for the 2018 fiscal year and elected the auditor for fiscal 2019. A new Supervisory Board was also elected. The voting results were subsequently published on the Company website.

The joint venture agreement for SLM Software GmbH expired in full on 30 July 2019 by mutual agreement. CADS GmbH took over SLM Solutions Group AG's 51% stake in the company.

Results of operations

The exceptional fiscal year in 2019 is also reflected in the results of operations. SLM Solutions Group AG posted consolidated sales of kEUR 48,962 which represented a decline of 31.7% over the previous year (kEUR 71,659). 71.8% of sales stem from the company's core business, the Machine Business segment (previous year: 78.5%). This segment comprises machines from the Selective Laser Melting division together with options such as powder sieving stations and other peripheral equipment. Sales in the Machine Business segment fell to kEUR 35,142 (previous year: kEUR 56,274). The After Sales Business segment generated sales of kEUR 13,821 (previous year: kEUR 15,386), corresponding to a share of 28.2% (previous year 21.5%). This segment comprises service, spare parts, merchandise along with power as well as training and installation of the machines.

Revenue development (kEUR)



With consolidated sales of kEUR 48,962 which is 31.7% below the figure for the previous year due to the extremely weak order situation in the first half of 2019, the original sales expectation of the former management team of EUR 95.0 million was not met. The new CEO corrected this forecast on 26 July 2019 and announced that consolidated sales for fiscal 2019 would be significantly lower than originally forecast.

Total operating revenue (the sum of sales revenue, inventory changes and other own work capitalised) of kEUR 44,806 was also well below the figure for the previous year (kEUR 84,413). This reflects in particular the targeted reduction of inventories which led to a reduction in finished goods and work-in-progress of kEUR 7,524. In the previous year, finished goods and work-in-progress had increased by kEUR 9,399. Own work capitalised amounting to kEUR 3,368 was broadly similar to the previous year (kEUR 3,355).

Other operating income came in at kEUR 1,635, a significant drop from the previous year (kEUR 3,225). This figures essentially covers exchange rate differences.

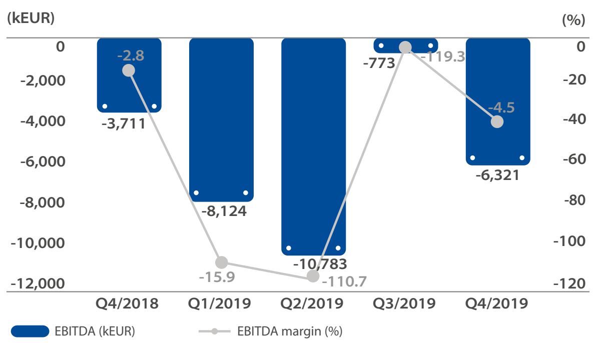
The cost of materials was cut by 12.1% to kEUR 20,896 (previous year: kEUR 44,805) as a result of purchasing negotiations and by reducing inventories. The cost of materials ratio (as % of total operating revenue) of 46.6% was significantly below the figure for the previous year of 53.1% due to the reduction in inventories.

SLM Solutions Group AG's personnel capacity fell in fiscal 2019 to 405 full-time equivalents (FTEs) as of the closing date of 31 December 2019 (31 December 2018: 422 FTEs). Personnel costs rose by 6.9% to kEUR 31,871 (previous year: kEUR 29,811) due to isolated severance payments and the targeted appointment of highly qualified specialists and managers. The personnel cost ratio (as % of total operating revenue) stood at 71.1% (previous year: 35.3%) due to the weak total operating revenue.

Other operating expenses totalled kEUR 19,234 which was 7.7% below the previous year figure of kEUR 20,838. The largest expense items are sales costs, operating costs and travel expenses.

SLM Solutions Group AG is reporting EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) for fiscal 2019 of kEUR -26,001. It was therefore kEUR 17,961 below the figure for the previous year (kEUR -8,040) in the reporting period. This is due to the decline in sales as well as adjustments and one-off expenses in the cost of materials, personnel expenses and write-offs of receivables. The EBITDA margin (as % of revenue) came in at -53.1% for the 2019 fiscal year (previous year: -11.2% unadjusted). The new CEO announced on 26 July 2019 that the EBITDA margin of the SLM Solutions Group would be significantly lower in 2019 than originally forecast. The former management had still been expecting EBITDA to reach breakeven.

EBITDA (kEUR) and EBITDA margin (%)



Depreciation and amortisation rose compared to the previous year by 32.3 % to kEUR 8,659 (previous year: kEUR 6,545).

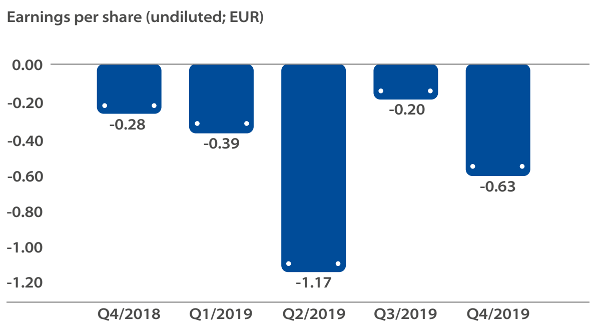
The operating result (EBIT) came in at kEUR -34,660 in the 2019 fiscal year (previous year: kEUR -14,586). The EBIT margin (as % of revenue) stood at -70.8% in the reporting period and was therefore substantially worse than the previous year (previous year: -20.4%).

The financial result of kEUR -3,976 was slightly down on the previous year (previous year: kEUR -4,083). It is made up of finance costs of kEUR -4,152 (previous year: kEUR -4,098) and interest income of TEUR 176 (previous year: kEUR 15).

Tax expenses of kEUR 8,419 were booked in fiscal 2019 (previous year: tax income of kEUR 5,287). The main reason for this is the first-time non-recognition of amounts from deferred tax assets exceeding deferred tax liabilities from losses carried forwards.

The net result for the period after taxes totalled kEUR -47,055 for the 2019 fiscal year (previous year: kEUR -13,382). This corresponds to basic and diluted earnings of EUR -2.38 per share (previous year: EUR -0.74). The convertible bond issued could have a dilutory effect but does not do so due to anti-dilution rules on account of the negative earnings for the year. The earnings per share figures provided in this paragraph are calculated based on 19,778,953 shares in circulation following the capital increase in March 2019 (previous year: 17,980,867 shares in circulation).

Earnings per share (undiluted) (EUR)



Financial position

In spite of its negative earnings position, SLM Solutions Group AG succeeded in generating positive cash flow from operating activities amounting to kEUR 3,453 in fiscal 2019 (previous year: kEUR -14,412).

Cash outflows as part of investment activity of kEUR -13,015 were recorded in 2019 which was on a par with the previous year (kEUR -12,996). Of this amount, capital expenditure on intangible assets and property, plant and equipment in fiscal 2019 came to kEUR -9,482 (previous year: kEUR -8,974). Further investments in the reporting period were partly accounted for by application-driven technology amounting to kEUR -3,368 (previous year: kEUR -3,335) which were recognised in own work capitalised.

A cash flow of kEUR 7,202 was generated from financing activities in fiscal 2019 (previous year: kEUR -8,666). The capital increase effected in March 2019 amounting to kEUR 13,000 more than compensated the interest payments and principal repayments of kEUR -5,798 (previous year: kEUR -8,666).

As of 31 December 2019, cash and cash equivalents stood at kEUR 25,523 (31 December 2018: kEUR 27,786).

No credit lines exist over and above the liquid funds (previous year: kTEUR 5,216).

Net assets

The total assets of SLM Solutions AG stood at kEUR 136,637 as of 31 December 2019 (31 December 2018: kEUR 169,925).

Non-current assets of kEUR 64,708 as of the reporting date were slightly down on the previous year (31 December 2018: kEUR 67,202). As in the previous year, property, plant and equipment of kEUR 39,136 comprised the largest share of non-current assets (31 December 2018: kEUR 36,432).

Intangible assets of kEUR 24,288 (31 December 2018: kEUR 23,523) mainly comprise laser technology and capitalised development costs. The joint venture holding in 3 D Metal Powder GmbH amounting to kEUR 345 is shown in current financial assets for the current fiscal year as this company is up for sale. In fiscal 2018, by contrast, investments in the joint ventures of SLM Software GmbH and 3 D Metal Powder GmbH totalling kEUR 1,175 were shown in non-current financial assets. SLM Software GmbH was sold in the second half of the 2019 fiscal year for strategic reasons.

Due to the non-capitalisation decision, deferred tax assets fell appreciably by comparison with the previous year, standing at kEUR 43 as of 31 December 2019 (previous year: kEUR 5,698).

Current assets came in at kEUR 71,929 on the reporting date (31 December 2018: kEUR 102,723). Their share of total assets fell in fiscal 2019 to 52.6% (previous year: 60.5%). The main reason for the change was lower trade receivables which fell to kEUR 15,488 (31 December 2018: kEUR 34,757) as well as the active reduction in inventories to kEUR 28,281 as of 31 December 2019 (31 December 2018: kEUR 36,763).

The Group's equity fell to kEUR 44,514 as of the closing date (31December 2018: kEUR 79,087). The equity ratio fell in the process to 32.6% (31 December 2018: 46.5%). By contrast, the debt ratio climbed to 67.4% on the closing date (31 December 2017: 53.5%).

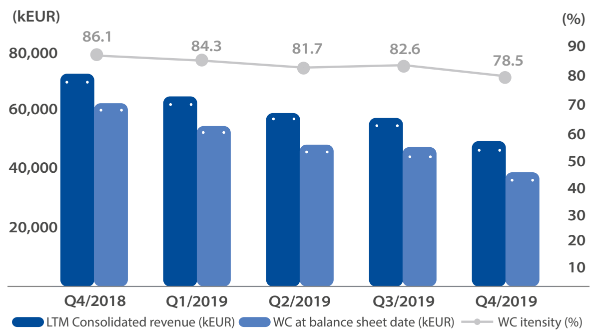
Non-current liabilities increased slightly year-on-year to kEUR 74,877 (31 December 2018: kEUR 71,129). They include two loans for the construction of the company's new headquarters in Lübeck which run until 31 March 2027. Repayments will be made in 30 equal, successive quarterly instalments of kEUR 333 and one final instalment of TEUR 133 beginning on 30 June 2019. First mortgages have been registered for these liabilities on the Estlandring property in Lübeck on behalf of the banks extending the loans. The convertible bond is also shown here. The issue volume for the convertible bond is EUR 58.5 million. The bond can be initially converted to 1,379,760 new or existing bearer shares. The initial conversion price is EUR 42.3987 corresponding to a premium of 28.0% over the reference price. The bond bears interest at the rate of 5.5% p.a. and matures on 11 October 2022. The convertible bond has both equity and debt components. The conversion right constitutes equity. Embedded derivatives in the form of termination rights do not have to be reported separately.

Pension obligations of kEUR 6,719 were up on the previous year (31 December 2018: kEUR 5,554). Long-term provisions of kEUR 139 were higher than for the previous year (31 December 2018: kEUR 70).

Current liabilities came in at kEUR 17,246 on the reporting date, below the previous year's figure (31 December 2018: kEUR 19,710). As in the preceding year, short-term provisions of kEUR 5,293 (31 December 2018: kEUR 4,490) mainly comprised provisions for warranties and servicing. Trade payables came in at kEUR 5,341 on the reporting date, significantly below the figure for the previous year (31 December 2018: kEUR 9,840). Other financial liabilities of kEUR 2,536 were higher than for the previous year (31 December 2018: kEUR 1,714) and non-financial liabilities at kEUR 4,054 exceeded the figure for the previous year of kEUR 3,459. As of the closing date, tax provisions had fallen significantly to kEUR 23 (31 December 2018: kEUR 205).

Working capital at kEUR 38,428 as of the closing date was significantly down on the previous year (31 December 2018: kEUR 61,680). In spite of weak annual sales of kEUR 48,962 (previous year: kEUR 71,659), this results in a lower working capital intensity of 78.5% (previous year: 86.1%). Trade receivables, inventories and trade payables were all included in the calculation for working capital on the reporting date of 31 December 2019 as well as 31 December 2018.

Working Capital (%)



Opportunities and risks

Management system for opportunities and risks

SLM Solutions Group AG operates in a technologically sophisticated and demanding market that entails both opportunities and risks. SLM Solutions has instituted a number of measures to secure the Company as a going concern and foster its development. The **management system for opportunities and risks**, which is integrated into all significant corporate processes continuously, forms an important part of these measures. This system helps the Group identify opportunities and risks at an early stage and respond proactively to them. The implementation and upkeep of a risk management system is therefore not only a statutory obligation for listed companies but also meets the objective of recognising all significant or existential risks or opportunities and reporting on them internally. It is largely to be seen as an integral part of the management information and control system.

The risk management system has been completely revised and improved during the reporting period. The rules and procedures apply to all companies in the Group in equal measure. Risks are evaluated in two dimensions: by their probability of occurrence (probability of occurrence in percent in relation to one hundred years; example: 10% = once in ten years) and by their effect (effect or potential level of loss in kEUR if the risk occurs). This is a net risk analysis. This means that all measures already successfully implemented which minimise the risk in question are taken into account and the risk to the company actually remaining is analysed. Finally, the risks evaluated are divided into three categories: major (red), significant (yellow) and moderate (green). This ranking method (risk ranking sequence) is readily comprehensible, creates a high degree of transparency, and provides an easy visual overview when displayed as a chart. In addition, the expected loss value (SEW) is calculated for each risk (risk occurrence multiplied by risk impact) in order to be able to rank the risks. This makes it easy to monitor and control risks. As well as evaluating the risk to the current status quo, a target evaluation of the risk can also be carried out (specifically: evaluation of how pronounced the future probability of occurrence and future effect of the risk might be). This permits an outlook to be formed and reveals how risks may change in the future. In addition, the potential effect on the company's reputation for each risk is analysed and separately evaluated. However, only the major risks are to be explained in greater detail with an SEW from a value of kEUR 1,500 in this management report.

The risk policy principles are set out in a **risk manual** that defines and describes the risk management process. This manual has also been completely revised and will be regularly reviewed and if necessary updated. It is binding on SLM Solutions Group AG and all subsidiaries. All relevant risks are systematically identified, evaluated and communicated internally as part of six-monthly **risk inventory**. Recommendations for action can be derived from it and target countermeasures initiated and their implementation monitored. In this way, risks can be professionally monitored and controlled. This allows disadvantageous developments of particular significance for the Company's financial position and performance to be countered in good time.

SLM Solutions acknowledges that handling business risks forms the core of all business activity. In accordance with German Accounting Standard (DRS) 20, the term **risk**[15] is understood to refer to the possibility of negative future changes to a company's financial position, and the term **opportunity**[16] is understood to refer to the possibility of positive future changes to a company's financial position. In relation to the company, risk is defined as any risk that prevents SLM Solutions Group AG from attaining its objectives, and/or from successfully implementing its strategy. All decisions that can influence the company's current and future position are subjected to the weighing up of related opportunities and risks. The company's current business position and its resultant risks are discussed at regular meetings of the Management Board. Appropriate countermeasures are launched if existential risks are identified.

Central risk responsibility lies with the Management Board. The Management Board has appointed a Risk Management Officer who supports the Management Board in the area of risk management.

Internal controlling and risk management system in relation to the Group financial accounting process (report pursuant to Section 315 (4) of the German Commercial Code (HGB)

SLM Solutions Group AG has an internal controlling and risk management system relating to the financial accounting process in which appropriate structures and processes are defined and implemented within the organisation. The system is designed to ensure that all business processes and transactions are accounted for quickly and correctly, and on a standardised basis. It ensures that statutory standards, accounting regulations and internal accounting instructions are observed. Amendments to laws and financial accounting standards, as well as other promulgations, are analysed continuously in relation to their relevance to and effects on the annual financial statements, and the resultant changes are integrated into the Group's internal systems and procedures.

Along with defined controlling mechanisms, the internal controlling system is also based on system-technical and manual coordination processes, separation between executive and controlling functions, and compliance with working instructions. The foreign Group companies prepare their financial statements locally, and transfer them using a standard defined Group data model. The Group companies are responsible for compliance with Group-wide guidelines and procedures that are set out in a manual, as well as for the proper and timely running of their accounting-related processes and systems. Central contacts at SLM Solutions Group AG support the local companies in the entire financial accounting process. The financial accounting process entails implementing measures that ensure that the annual financial statements conform to regulations. In this context, the measures serve to identify and measure risk, as well as to limit identified risks, and review them.

The consolidated accounts are prepared centrally based on the data from the subsidiaries included in the scope of consolidation. Specially trained staff drawing on recognised consolidation software solutions perform the consolidation measures, carry out certain coordination work, and monitor regulations relating to timing and processes. The staff supervise the system-technical controls, supplementing them with manual audits. The "two sets of eyes" principle, which minimises risk of fraudulent activity, is generally applied. Certain approval processes must be run through during the entire financial accounting process. The managers of the local companies bear responsibility for local implementation and supervision of the internal controlling system.

The internal control system is continuously refined. A backlog of documentation and entering of updates into the technical system cannot be excluded this context and is addressed through manual controls. It should be noted that, in general, the internal controlling system, irrespective of its structure, does not provide absolute security that significant misstatements in the financial accounting are avoided or uncovered. It nevertheless prevents, with sufficient certainty, corporate risks from having significant impacts.

[15] "Risk: Potential future developments or events which may lead to a negative forecast for the company or to a failure to hit its targets"
Source: German Accounting Standard No. 20 (DRS 20), page 12
[16] "Opportunity: Potential future developments or events which may lead to a positive forecast for the company or to deviation from the target"
Source: German Accounting Standard No. 20 (DRS 20), page 10

Risk profile

As part of the ongoing risk inventory, so-called observation areas (risk areas) have been defined for SLM Solutions Group AG in an effort to minimise the organisational workload and better handle these risks. The various risks that have been identified and quantified are allocated to the risk areas. This relates to the following risk areas:

- Capital market-related risks
- Market and sector risks
- Legal, regulatory and tax risks
- Intellectual property risks
- Corporate risks

As described above, the level of a risk can be defined according to the probability of its occurrence and the degree of its impact.

The "risk occurrence probability" dimension allows the risk to be assessed as:

- unlikely (up to 10%)
- possible (more than 10% to 50%)
- definitely conceivable (more than 50% to 90%)
- probable (more than 90%)

The substantive definition of the criterion "risk impact" is based on the assessment of the evaluating departments and on its impact on EBITDA in kEUR. The evaluation constitutes a net analysis. The following four levels have been defined in the process:

- low (up to kEUR 300)
- average (more than kEUR 300 to kEUR 1,500)
- high (more than kEUR 1,500 to kEUR 3,000)
- serious (more than kEUR 3,000)

In total, 101 risks to SLM Solutions were identified as of 31 December 2019 (previous year: 169). The four main individual risks with a calculated expected loss value of kEUR 1,500 and above are described below. There are four risks in total.

Loss of data through criminal activity with the aid of malware from third parties

The integrity or availability of data or systems could be put at risk by means of malware. As a result of an infection or unauthorised access by third parties (e.g. email communication, phishing), it is conceivable that company / business data or personal data might be lost. One possible result could be that data confidentiality could not be guaranteed. Overall, any such attack leads to a competitive disadvantage, loss of knowledge as well as to damage to reputation and possible compensation claims. The potential level of loss is rated as serious. Various measures have been implemented by the IT Department to mitigate the risk. Specifically, there are regular system updates and backups to save data, consistent patch management, extensive antivirus software and foolproof monitoring of systems and data flows. The IT Department has optimised its internal processes and continues to work on improving the systems and automating the monitoring process. It is also planned to increase staffing levels. The aim is to achieve 24-hour availability in close collaboration with qualified external partners to enable the company to respond as quickly as possible in the event of a potential loss.

Pirate copies and breach of company's own property rights

Newly founded companies could imitate the copyrighted name or logo of the SLM Solutions Group as well as its products. In the past, there have been several companies set up with the name "SLM" or similar designation – particularly in Asia. SLM Solutions Group AG has also registered various patents to protect the technology developed by the company. Competitors could also attempt to imitate the design of the product. The probability of occurrence is rated as definitely conceivable as in the last annual report. The potential loss is rated as high and is manifested in the form of lost profit and increasing risk of customers changing suppliers. The damage to the company's reputation would be very noticeable. SLM Solutions has registered various patents. Suspected breaches of copyright and patent infringements are consequent pursued.

Violation of third-party property rights

The use of technology protected by third parties, which is used unintentionally in our products, could lead to an injunction if the proprietor of the property right is not willing to license and ultimately to impairment of the business activity or even claims for damages. A damage to the company's image cannot be ruled out. Increasing intellectual property rights activity can be observed in the market environment. Despite the very sensitive handling of third-party property rights, an infringement could occur. The probability of occurrence is classified as possible. However, the impact would be severe, so that the overall risk falls into the "material" category. Among other things, regular monitoring of competition registrations counteracts the risk. In some cases, one can proceed against property rights that are allegedly wrongly granted. In addition, there is occasionally a willingness to license among competitors, so that license agreements or so-called cross-license agreements can be agreed. Proceedings are being taken against allegedly wrongly granted property rights.

Insufficient procurement of resources to fund expansion

It might be impossible to procure resources to the extent required or only on less favourable terms. The probability of occurrence is classed as possible. However, the impact could be serious. The following measures have been initiated to counter this risk. The company was authorised at the annual general meeting to raise capital, relationships with banks and investors are continuously cultivated and greater attention paid to the availability of liquid assets.

Opportunities

At SLM Solutions Group AG, the risks are recorded, assessed and managed as part of risk management. Opportunity management is not neglected. The company defines opportunities as value enhancement potential that goes beyond (budget) planning. At its core, therefore, it is a question of a possible overachieving of the planning. The potential opportunities are monitored and evaluated so that appropriate measures can be initiated if necessary, for example to make better use of business opportunities. A total of five opportunities were identified at the end of 2019 (previous year: five). These are listed below according to their weighting and are explained in more detail below.

- Company related opportunities
- Technology related opportunities
- Opportunities in the after-sales business
- Opportunities related to the internationalization of sales
- Capital market opportunities

Company related opportunities

If the company intensifies market analyzes as well as sales and marketing activities, business opportunities could be better used. There is a chance that SLM Solutions Group AG will be more noticed on the market and receive more inquiries and calls for tenders. The SLM Solutions Group is in the process of repositioning itself internally and has already filled management positions in the key areas of sales and marketing and is working to improve processes and increase transparency within the company.

Technology related opportunities

In competition with other manufacturers of additive manufacturing systems, SLM Solutions benefits from the technological leadership in selective laser melting. Through the use of multi-laser technology and the constant reduction of unit costs, large increases in productivity are achieved, which make the use of the machines particularly attractive for industrial series production. There is a chance that SLM Solutions will achieve new sales strength as soon as a new SLM® technology or a new SLM® machine is placed on the market ready for series production.

Opportunities in the after-sales business

Through investments in the expansion of local sales offices worldwide and the resulting proximity to the customer, relationships of trust and additional sales potential grow. In the 2019 financial year, sales and service offices were opened in Shanghai (China) and Canada, as well as an application center in Shanghai.

Capital market opportunities

The listing on the capital market offers SLM Solutions the opportunity to raise funds from the capital market in the future if necessary.

Overall statement on the opportunity and risk situation

The monitored risks relate to all segments of the company. The Management Board continues to regard the company's overall risk position as appropriate. The market for metal-based systems for additive manufacturing is generally intact and remains attractive due to the growth opportunities that it offers. The SLM Solutions Group is well positioned technologically, its production systems are state-of-the-art, and its staff form a highly qualified, powerful team. The Management Board sees the company as well positioned. Despite the greatest care, the possibility cannot be entirely ruled out that significant, hitherto unidentified risks will exert a negative effect on the growth of the business.

Forecast

For 2020, economic forecasters are expecting the global growth rate to increase to 3.3% and 3.4% in 2021.[17] The weakness of industrial production and global trade were the main factors holding back the pace of global growth in 2019.[18] Risks to further economic growth include lasting trade conflicts, an impending general strike in France and uncertainties with regard to the exact design of future arrangements between the EU and Great Britain following Brexit.[19]

The International Monetary Fund (IMF) is expecting GDP growth in the USA to level off in 2020: 2.0% and 2021: 1.7% by comparison with 2019: 2.3%. For the Eurozone, on the other hand, it is forecasting a slight rise in growth rates for 2020: 1.3% and 2021: 1.4% (2019: 1.2%). In Germany, the pick-up in growth rates in 2020 will be slightly weaker at 1.1% than in the Eurozone as a whole but much higher than in Germany in 2019 (0.5%). In 2021, growth is set to pick up further to 1.4% and be on a par with the Eurozone.[20] The researchers see the deciding factor behind the increased rate of growth as better industrial growth from the second half of 2020 which the improvement in sentiment indicators and order books is pointing to.[21] The growth of construction investment and private consumer expenditure is still seen as robust[22] with the latter driven by rising incomes in private households.[23] In spite of Brexit, growth in the United Kingdom should remain stable (2019: 1.3%, 2020: 1.4%, 2021: 1.5%). In Asia, growth rates in 2020 according to the IMF are to be significantly higher at 5.8% than in the USA or Europe and are set to rise even further in 2021 with 5.9%. Positive growth is forecast for Latin America after stagnation in 2019: 0.1% in 2020: 1.6% and 2021: 2.3%.[24]

SLM Solutions Group AG is basing its forecast for 2020 among other things on the following **underlying economic and sector-related assumptions**:

- According to its latest figures from January 2020, the International Monetary Fund (IMF) is anticipating that the **global economy** will grow at a higher rate in 2020 than the previous year: The forecast is calling for 3.3% growth for 2020 (2019: 2.9%). Among the risks that the IMF sees to further economic growth are increasing geopolitical tensions, particularly between the USA and Iran, a rise in social unrest, higher customs duties between the USA and its trading partners and natural disasters.[25]
- In the most important single market **Germany**, the IMF is expecting a growth rate of 1.1% for 2020 (2019: 0.5%).[26]
- In the growth regions defined by SLM in which it is driving its international expansion, the IMF is expecting economic growth to fall to 2.0% in 2020 in the **USA** (2019: 2.3%), a slight decline in China to 6.0% (2019: 6.1%) and a rise in the pace of growth in Russia to 1.9% (2019: 1.1%).[27]
- According to a report published by the Consultants Ampower, **suppliers** are expecting to see the global market for metal-based additive production techniques grow to EUR 4.6 billion by 2023 which would equate to average annual growth of 25.0%. With annual growth of 24.1%, the market for production systems is set to grow to a volume of EUR 2.4 billion in 2023, roughly in step with the total market. On the **user side**, the total global market for metal-based additive production techniques is expected to grow somewhat more slowly by an average of 21.3% in 2023 reaching EUR 4.0 billion according to Ampower.[28]
- The Federal Ministry for Economic Affairs and Energy still sees Germany as leading the world in the key area of additive manufacture (3D printing).[29] SLM Solutions is also very confident regarding the market potential and is aiming to further extend the position it claims for itself as the technology leader.

The current spread of the corona virus makes it very difficult at present to estimate the effects on the global economy. The International Monetary Fund (IMF) had revised its growth forecast for the global economy for 2020 downwards by only 0.1 percentage points due to the spread of the corona virus. The IMF expects global economic growth of 3.2 percent in the current year. The economists at Oxford Economics expect global growth to be 0.5 percentage points lower if the epidemic spreads to other countries in Asia, while if the epidemic spreads globally, growth will be reduced by 1.3 percentage points. The effects on the German economy are difficult to estimate based on the information available to date. No major macroeconomic effects could be derived from survey data from the Munich-based ifo Institute. However, continuing production stops in China are likely to have an impact on industrial production in Germany in the medium term.

A decline in Chinese consumer demand is also dampening German exports to China. Additionally, economic uncertainty is leading to a reduction in investments.[30]

Company forecast

- The company has identified the order book as a significant control metric and for 2020 it is expecting strong growth in the mid-double-digit percentage range by comparison with 2019.
- The former management of SLM Solutions Group AG forecast consolidated sales of EUR 95.0 million for the 2019 fiscal year. The new management announced on 26 July 2019, based on the revenue and order backlog, that consolidated sales in 2019 would be significantly lower than originally forecast. Consolidated sales came in far below the expectations of the former management at EUR 49.0 million. Management is expecting significant growth for fiscal 2020. Thanks to its restructured organisation and

[17] International Monetary Fund (2020), World Economic Outlook Update January 2020, p. 9
[18] Institute for the World Economy (2019), Kiel Economic Reports, Global Economy in Winter 2019 p. 3 -4.
[19] Institute for the World Economy (2019), Kiel Economic Reports, Global Economy in Winter 2019 p. 8 -11.
[20] International Monetary Fund (2020), World Economic Outlook Update January 2020, p. 9
[21] Institute for the World Economy (2019), Kiel Economic Reports, German Economy in Winter 2019, S. 2019 p. 3.
[22] Institute for the World Economy (2019), Kiel Economic Reports, German Economy in Winter 2019, S. 2019 p. 6.
[23] Institute for the World Economy (2019), Kiel Economic Reports, German Economy in Winter 2019, S. 2019 p. 7.
[24] International Monetary Fund (2020), World Economic Outlook Update January 2020, p. 9
[25] International Monetary Fund (2020), World Economic Outlook Update January 2020, p. 5, p. 6, p. 9
[26] International Monetary Fund (2020), World Economic Outlook Update January 2020, p. 9
[27] International Monetary Fund (2020), World Economic Outlook Update January 2020, p. 9
[28] Ampower (2019), Metal Additive Manufacturing Report 2019 (Digital Edition)
[29] Federal Ministry for Economic Affairs and Energy, National Industrial Strategy 2030, February 2019
[30] BMWI, 25. Februar 2020

expanded sales strength, the company is expecting consolidated sales to grow in mid-double-digit percentage range by comparison with consolidated sales in fiscal 2019.

- The former management had been expecting EBITDA to reach breakeven in fiscal 2019. This forecast was corrected by the new Management Board in July 2019. The new CEO announced on 26 July 2019 that the EBITDA margin would be significantly lower than originally forecast. The company generated an EBITDA of EUR -26.0 million in 2019 and an EBITDA margin of -53.1%. With regard to the sales forecast for fiscal 2020, the Management Board is expecting negative EBITDA in the upper single-digit million Euro range as well as a negative EBITDA margin (in relation to consolidated sales) in the low double-digit percentage range and therefore a significant improvement by comparison with the 2019.
- The cost of materials ratio improved appreciably in fiscal 2019 over the previous year due the reduction in inventories and successful purchasing negotiations. The forecast was therefore met. Further improvement in the low single-digit percentage point range is expected in fiscal 2020 by comparison with the current cost of materials ratio as further work is being conducted on optimising material costs and machines.
- The personnel cost ratio in fiscal 2019 worsened considerably by comparison with the previous year and does not match the forecast. The forecast called for a slight improvement in the ratio, but this did not materialise due to the low actual sales and consequently low total operating revenue generated by the company while appointing further qualified staff. The personnel cost ratio will see a double-digit percentage point improvement in 2020 by comparison with the previous year as sales are expected to pick up significantly and therefore total operating revenue, too.

As shown by the company's planning for the coming two years, the earnings position must be assumed to be negative. This is due to the continuous investment in research and development as well as the development of new products and the further strengthening and expansion of the sales organisation. At the same time, it can be concluded that liquid funds will presumably be exhausted in the second quarter of the 2021 financial year as per the planning, and the company will therefore require further financial resources.

These resources are to be acquired from existing and/or new investors in summer 2020 by means of a funding round taking the form of a capital increase or by issuing a convertible bond. These events and circumstances point to the existence of considerable uncertainty which may indicate a going concern risk.

The company is closely monitoring the development of the COVID19 situation, which has been spreading first in China and now globally. SLM has taken so far, all the necessary precautions to ensure the protection of its employees, customers and its business. For now, business operations continue more or less as usual with a noticeable delay in order intake, mainly due to travel restrictions and customers availability. In addition, SLM Solutions has decided to have a mandatory break at the Lübeck site from 30 March up to 17 April 2020, on the one hand to protect the health of its employees, on the other hand to be able to focus resources on the business for the time when COVID-19 related limitations to the business environment have subsided. However, a further increase in the severity of the COVID 19 crisis will likely also lead to more significant disruptions in the business. The current expectations in terms of business performance in 2020 are based on a normal business environment, not on an environment significantly impacted by the COVID 19 crisis. The executive board will continue to monitor the situation and update the shareholders, customers and employees accordingly.

Corporate governance

The German Corporate Governance Code (DCGK) comprises nationally and internationally recognised guidelines for good and responsible corporate management, steering and controlling. The Management and Supervisory boards of SLM Solutions Group AG are expressly committed to these standards, and endeavour to implement them within the Company. The aim is to establish transparency and expand trust among capital market participants, employees, customers and the public. The following corporate governance report that has been prepared by the Management and Supervisory Boards (as per section 3.10) describes the Company's significant corporate governance structures. It also includes a report on the compensation scheme for the Management and Supervisory boards.

Group declaration on corporate governance pursuant to Sections 289f, 315d of the German Commercial Code (HGB)

The Group declaration on corporate governance in accordance with Section 315d HGB in conjunction with Section 289f has been published on the Company's website at www.slm-solutions.com in the "Investor Relations" section under "Corporate Governance". https://www.slm-solutions.com/en/investor-relations/corporate-governance/mandatory-documents/. It also contains the declaration on the ratio of women.

Declaration pursuant to Section 161 of the German Stock Corporation Act (AktG)

The declaration on the recommendations of the "Government Commission's German Corporate Governance Code pursuant" to Section 161 of the German Stock Corporation Act (AktG) has been published on the Company's website at www.slm-solutions.com, under "Investor Relations" and "Corporate Governance".

Disclosures required under takeover legislation pursuant to Section 315a (1) of the German Commercial Code (HGB)

1. Composition of subscribed capital: The share capital of SLM Solutions Group AG is divided into 19,778,953 (previous year: 17,980,867) no par value bearer shares. There are no differing classes of shares. Each share carries full voting rights and dividend entitlements. Each share grants one vote at shareholders' general meetings in this context. Shareholders' rights and obligations otherwise derive from the regulations of the German Stock Corporation Act, especially from Sections 12, 53a et seq., 118 et seq. and 186 of the German Stock Corporation Act (AktG).

2. Ceresio GmbH one of whose owners is the company's Chairman of the Supervisory Board Hans-Joachim Ihde and which was holding around 15.25% of the Company's voting rights as of 31 December 2019, committed to a customary lock-up of 6 months on 15 January, 2020 towards the lead bank for the placement in the wake of the sale of a portion of its shares as a result of which its holding in Solutions Group AG fell to around 10.19%. The Management Board is not aware of any further restrictions affecting voting rights or the transfer of shares in the Company.

3. Direct or indirect share capital holdings which exceed 10% of the voting rights as of 31 December 2019 respectively 10 February 2020: On the basis of notices received regarding significant voting right shares in accordance with Section 40 (previous year: Section 21) of the Securities Trading Act (WpHG) and transactions conducted by persons with managerial responsibilities in accordance with Section 26 WpHG (previous year: §15 a WpHG) and Art. 19 of the Market Abuse Directive, the Management Board is aware of the following direct or indirect holdings of the company's shareholdings exceeding 10% of the voting rights:

	Number of voting rights	Share of voting rights
Hans-Joachim Ihde (via Ceresio GmbH, Lübeck, Germany)	2,015,887	10.19%
Elliot Investment Management L.P. (New York, United States of America)*	5,537,706	28.00%
ENA Opportunity Master Fund LP (Cayman Islands)	3,982,996	20.14%
Invesco Ltd. (Hamilton, Bermuda)	2,001,979	10.12%

* Shares are attributed via the subsidiary Cornwall GmbH & Co. KG

4. There are no shares with special rights conveying controlling powers.

5. A voting rights control of the share capital by participating employees does not exist.

6. Statutory regulations and bylaw provisions concerning the appointment and recall from office of members of the Management Board and bylaw amendments:

The appointment and recall from office of Management Board members is regulated in Sections 84 and 85 of the German Stock Corporation Act (AktG). Accordingly, the Supervisory Board appoints Management Board members for a maximum of five years. Reappointment or extension of period of office, in each case for a maximum of five years, is permitted. Pursuant to Section 6 of the Company's bylaws, the Management Board must consist of at least two persons. The Supervisory Board appoints Management Board members according to the provisions of the German Stock Corporation Act (AktG) and determines the number of Management Board members. The Supervisory Board can appoint one member to be the Management Board Chair (CEO). Pursuant to Section 84 (3) of the German Stock Corporation Act (AktG), the Supervisory Board can revoke both Management Board appointments and the Management Board Chair (CEO) appointment if good justification exists.

Sections 133 et seq., 179 et seq. of the German Stock Corporation Act (AktG) set out statutory regulations for bylaw amendments. These require AGM approval, as a matter of principle. AGM resolutions require a majority comprising at least three quarters of the share capital represented when resolutions are passed. The bylaws can determine a different share capital majority, although only a larger share capital majority applies for an amendment to the Company's business purpose.

7. Powers of the Management Board particularly with regard to the option to issue or buy back shares: The Management Board can only issue new shares on the basis of resolutions adopted by the AGM regarding an increase in the share capital or with respect to authorized and conditional capital.

In accordance with Section 4 (5) of the by-laws, the Management Board is authorized to increase the share capital by up to EUR 9,889,476.00 wholly or in part, once or in several stages by 24 June 2024 with the approval of the Supervisory Board by issuing up to 9,889,476 new bearer shares against cash payments and/or contributions in kind (Approved Capital 2019). As a general rule, shareholders must be granted subscription rights. Under conditions described in more detail in Section 4 (5), however, the Management Board is authorized to rule out shareholders' statutory subscription rights with the approval of the Supervisory Board.

Moreover, the company's share capital has been conditionally increased in accordance with Section 4 (6) of the by-laws by up to EUR 8,990,433.00 through the issue of up to 8,990,433 new bearer shares (Conditional Capital 2014/2018). The conditional capital increase serves to grant shares to the holders or creditors of convertible bonds and/or bonds with warrants which have been or will be issued by the company or any company at home or abroad in which the company directly or indirectly holds a majority share of the votes and capital, up to and including 21 June 2018 ("2014 Authorisation") on the basis of the authorization contained in the resolution adopted by the AGM on 14 April 2014 under Item 4.1 of the agenda or up to and including 21 June 2023 ("2018 Authorisation") on the basis of the authorisation contained in the resolution adopted by the AGM on 22 June 2018 under Item 6 of the agenda.

It will only be carried out if the conversion or option rights from the aforementioned bonds have actually been or will be exercised or conversion obligations arising from such bonds have been or will be fulfilled, and unless other forms of fulfilment have been or will be used for servicing. The new shares will be issued at the conversion or option price to be determined in accordance with the aforementioned authorization resolution adopted by the AGM on 22 June 2018. The new shares will participate in the profit from the beginning of the fiscal year in which they originate through the exercise of conversion or option rights or the fulfilment of conversion obligations; By way of exception to the above, the Management Board can, if legally permitted to do so and with the approval of the Supervisory Board, determine that the new shares will participate in the profit from the beginning of the fiscal year for which no AGM resolution on the appropriation of retained earnings has been adopted at the time when conversion or option rights are exercised or conversion obligations fulfilled. The Management Board is authorised to define further details for implementing the conditional capital increase. The Supervisory Board is authorised to modify the wording of Article 4 of the company's bylaws to fit the issuing of new shares from Conditional Capital 2014/2018. The same applies if Authorisation 2018 has not been or will not be exercised during its term or the corresponding conversion or option rights and/or conversion obligations have expired or expire due to the expiry of the exercise deadlines or in some other way.

8. The company has no significant agreements conditional on a change of control as a consequence of a takeover offer.

9. Compensation agreements do not exist on the part of the Company that have been entered into with Management Board members or employees for the instance of a change of control.

Compensation

The compensation scheme for the Management and Supervisory boards of SLM Solutions Group AG is based on the respective individuals' responsibilities and tasks, and in the existing variable components for the Management Board takes into account the Company's financial and business position. The Supervisory Board consults about and approves the Management Board's compensation. The current compensation structure was set in the service agreements. The existing employment contracts were supplemented with a long-term incentive program (LTI) during the 2015 fiscal year. The programme was extended in 2019 to include the service agreements of Mr. Meddah Hadjar and Mr. Sam O'Leary. Compensation for individual members of the Management Board comprises both fixed and variable components, in compliance with the German Corporate Governance Code.

A performance-related pension commitment exists for Henner Schöneborn from his long-term work as a manager at SLM Solutions GmbH, which amounts to a provision of kEUR 1,436 as of December 31, 2019 (previous year: kEUR 1,208). The pension commitment basically corresponds with the commitments granted to other employees and provides for retirement, invalidity and widow/widower pensions. The level of retirement and invalidity pensions amounts to 15% of pensionable compensation (last gross salary excluding incidental compensation), and, after the expiry of a waiting period of 10 years of service, increases by 1% for every further year of service up to a maximum of 35%.

The widow/widower pension amounts to 50% of the pension to which the spouse was entitled.

Compensation paid to Management Board members for the 2019 fiscal year is apportioned as follows:

in kEUR	*Former members of the Management Board*				*Members of the Management Board*						
	Dr. Rechlin	**Mr. Bögershausen**	**Mr. Schöneborn**	**Total**	**Mr. Schöneborn**	**Mr. Bögershausen**	**Dr. Schulz**	**Dr. Heinemann**	**Mr. Hadjar**	**Mr. O'Leary**	**Total**
Fixed remuneration 2019	0	0	0	0	0	175	125	300	367	25	992
Fixed remuneration 2018	0	0	0	0	125	300	275	125	0	0	825
Performance-based remuneration 2019	0	0	0	0	0	0	0	0	0	0	0
Performance-based remuneration 2018	0	0	0	0	0	0	0	0	0	0	0
Share-based remuneration 2019	0	0	0	0	0	0	0	0	140	227	367
Share-based remuneration 2018	0	0	0	0	0	0	109	116	0	0	225
One-off payment 2019	0	0	0	0	0	0	584	0	178	102	864
One-off payment 2018	0	0	0	0	0	0	0	0	0	0	0
Fringe benefits 2019	0	0	0	0	0	5	5	9	7	1	27
Fringe benefits 2018	0	0	0	0	6	11	14	5	0	0	36
Total remuneration 2019	**0**	**0**	**0**	**0**	**0**	**180**	**714**	**309**	**692**	**355**	**2,250**
Total remuneration 2018	**0**	**0**	**0**	**0**	**131**	**311**	**398**	**246**	**0**	**0**	**1,086**
Pension benefits 2019	0	0	211	211	0	0	0	0	0	0	0
Pension benefits 2018	0	0	45	45	45	0	0	0	0	0	45

Regarding the tables, it should be noted that Dr. Rechlin on 23 January 2017, Mr. Schöneborn as of 30 June 2018, Dr. Schulz resigned from the Management Board on 31 May 2019 and Mr. Bögershausen on 30 June 2019. The pension benefits for Mr. Schöneborn relate to his pension commitment.

Both of the following tables present the allocations granted for the 2019 fiscal year, including the achievable maximum and minimum compensation in the case of variable components as well as the payments received by the Management Board members, in line with the requirements of the German Corporate Governance Code.

Benefits granted to former members of the Management Board

in kEUR	**Fixed remuneration**	**One-off/ special payments**	**Fringe benefits**	**Total**	**Performance-based remuneration**	**LTI***	**Total**	**Pension benefits**	**Total remuneration**
Dr. Rechlin									
Target amount 2019	0	0	0	0	0	0	0	0	0
Target amount 2018	0	0	0	0	0	0	0	0	0
Minimum amount 2019	0	0	0	0	0	0	0	0	0
Maximum amount 2019	0	0	0	0	0	0	0	0	0
Mr. Schöneborn									
Target amount 2019	0	0	0	0	0	0	0	0	0
Target amount 2018	125	0	6	131	50	0	181	0	181
Minimum amount 2019	0	0	0	0	0	0	0	0	0
Maximum amount 2019	0	0	0	0	0	0	0	0	0

* Long Term Incentive Programme with a maximum annual allocation of kEUR 150, which will be converted into shares on 10 July of the second year thereafter and paid out with a maximum value of EUR 54 each.

Benefits granted to members of the Management Board

in kEUR	**Fixed remuneration**	**One-off/ special payments**	**Fringe benefits**	**Total**	**Performance-based remuneration**	**LTI***	**Total**	**Pension benefits**	**Total remuneration**
Mr. Bögershausen									
Target amount 2019	175	0	5	180	50	0	230	0	230
Target amount 2018	300	0	11	311	100	0	411	0	411
Minimum amount 2019	175	0	5	180	0	0	180	0	180
Maximum amount 2019	175	0	5	180	65	0	245	0	245
Dr. Schulz									
Target amount 2019	125	584	5	714	0	0	714	0	714
Target amount 2018	275	0	14	289	100	109	498	0	498
Minimum amount 2019	125	584	5	714	0	0	714	0	714
Maximum amount 2019	125	584	5	714	54	0	768	0	768

* Long Term Incentive Programme with a maximum annual allocation of kEUR 150, which will be converted into shares on 10 July of the second year thereafter and paid out with a maximum value of EUR 54 each

Benefits granted to members of the Management Board

in kEUR	Fixed remu-nerati-on	One-off/ special pay-ments	Fringe benefits	Total	Perfor-man-ce-ba-sed remun-eration	LTI*	Total	Pension benefits	Total remun-eration
Dr. Heinemann									
Target amount 2019	300	0	9	309	100	0	409	0	409
Target amount 2018	125	0	5	130	100	116	346	0	346
Minimum amount 2019	300	0	9	309	0	0	309	0	309
Maximum amount 2019	300	0	9	309	130	150	589	0	589
Mr. Hadjar									
Target amount 2019	367	178	7	552	67	140	759	0	759
Target amount 2018	0	0	0	0	0	0	0	0	0
Minimum amount 2019	367	178	7	552	0	0	552	0	552
Maximum amount 2019	367	178	7	552	87	150	789	0	789
Mr. O'Leary									
Target amount 2019	25	102	1	128	8	227	363	0	363
Target amount 2018	0	0	0	0	0	0	0	0	0
Minimum amount 2019	25	102	1	128	0	0	128	0	128
Maximum amount 2019	25	102	1	128	11	100	239	0	239

* Long Term Incentive Programme with a maximum annual allocation of kEUR 100 respectively kEUR 150, which will be converted into shares on 10 July of the second year thereafter and paid out with a maximum value of EUR 54 each.

Benefits paid to former members of the Management Board

in kEUR	Dr. Rechlin		Mr. Schöneborn	
	2019	2018	2019	2018
Fixed remuneration	0	0	0	125
One-off / special payments	0	0	0	0
Fringe benefits	0	0	0	6
Total	**0**	**0**	**0**	**131**
Performance-based remuneration	0	0	0	0
Share-based remuneration	42	191	48	0
Total	**42**	**191**	**48**	**131**
Pension expense	0	0	0	45
Total remuneration	**42**	**191**	**48**	**176**

Benefits paid to members of the Management Board

in kEUR	Mr. Schöne-born		Mr. Bögers-hausen		Dr. Schulz		Dr. Heinemann		Mr. Hadjar		Mr. O'Leary	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Fixed remuneration	0	0	175	300	125	275	300	125	367	0	25	0
One-off / special payments	0	0	0	0	584	0	0	0	168	0	100	0
Fringe benefits	0	0	5	11	5	14	9	5	7	0	1	0
Total	**0**	**0**	**180**	**311**	**714**	**289**	**309**	**130**	**542**	**0**	**126**	**0**
Performance-based remuneration	0	0	0	0	0	0	0	0	0	0	0	0
Share-based remuneration	0	45	42	191	0	0	0	0	0	0	0	0
Total	**0**	**45**	**222**	**502**	**714**	**289**	**309**	**130**	**542**	**0**	**126**	**0**
Pension expense	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**0**	**45**	**222**	**502**	**714**	**289**	**309**	**130**	**542**	**0**	**126**	**0**

Members of the Management Board receive the long-term incentive programme (LTI) already mentioned supplementary to their Managememt Board employment contract, and it applies for the duration of their service on the board. The LTI program is designed in such a way that stock appreciation rights (SAR) are allocated to Management Board members under certain conditions. Based on the percentage of appreciation in the share price of SLM Solutions Group AG and in accordance with a sliding scale, the maximum value of the annually payable SAR is kEUR 100 respectively kEUR 150 per Management Board member.

The rights are allocated on an annual basis on 10 July, based on the movement in the share price during the previous year period. As part of this, the respective reference prices are set by the Supervisory Board based on the share prices from May/June respectively. The entitlement to a pay-out for the issued SAR exists two years later, providing no extraordinary events occur, i.e. the payment entitlement for the year 2017/2018 becomes valid on 20 July 2020. The amount of the pay-out is then determined by multiplying the total number of SARs issued with the Company's share price on the day their payment entitlement becomes valid. The Supervisory Board intends to make the pay-out in cash. If the share price on this day is 200% above the starting price used of EUR 18.00, then this is capped at a share price of EUR 54.00.

The share-based income recognized for Dr. Markus Rechlin for the 2019 fiscal year amounts to kEUR 7 (previous year: Income kEUR 100), kEUR 7 for Mr. Bögershausen (previous year: Income kEUR 100) and kEUR 9 for Mr. Schöneborn (previous year: Income kEUR 105). This results in a share-based expense in 2019 of kEUR 39 for Dr.Gereon W. Heinemann, kEUR 31 for Mr. Meddah Hadjar and kEUR 6 for Mr. Sam O'Leary. Any entitlement on the part of Dr. Axel Schulz was covered by a one-off payment on his departure from the company.

The shareholders' meeting decides on the compensation for members of the Supervisory Board: and its committees. In line with a resolution on 2 June 2017, members of the Supervisory Board receive a fixed compensation of kEUR 25 per member payable after the conclusion of the fiscal year in addition to reimbursement of their expenses. The Chair receives double this rate and the Deputy Chair 1.5 times the rate. Compensation for members of the chairman's committee amounts to kEUR 5 each and that of the audit committee kEUR 7.5 with the Chair of each committee receiving twice the respective rate.

Supervisory Board compensation

in kEUR	**2019**	**2018**
Compensation for Supervisory Board activities	226	238
Total	**226**	**238**

There are no further compensation agreements for members of the Supervisory Board in the 2019 fiscal year.

CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES

CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2019

in kEUR	Note	2019	2018
Revenue	10	48,962	71,659
Reduction/ increase in inventories of finished goods and work-in-progress		-7,524	9,399
Other work performed by the company and capitalised	21	3,368	3,355
Total operating revenue		**44,806**	**84,413**
Cost of materials	11	-20,896	-44,805
Gross profit		**23,910**	**39,608**
Personnel costs	12	-31,871	-29,811
Other operating income	13	1,635	3,225
Other operating expenses	14	-19,234	-20,838
Profit or loss from equity-accounted companies		-442	-224
EBITDA		**-26,001**	**-8,040**
Depreciation, amortisation and impairment losses	21;22	-8,659	-6,545
Operating profit or loss (EBIT)		**-34,660**	**-14,586**
Other interest income		171	10
Interest income from shareholder loans		5	5
Interest and similar expenses	15	-4,152	-4,098
Earnings before tax (EBT)		**-38,636**	**-18,669**
Income tax	16	-8,419	5,287
Net profit/loss for the period		**-47,055**	**-13,382**
Net profit/loss for the period allocated to the owners of the parent company		-47,055	-13,382
Number of shares in millions		19,8	18,0
Earnings per share (basic) in EUR		-2.38	-0.74
Earnings per share (diluted) in EUR		-2.38	-0.74

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January to 31 December 2019

in kEUR	Note	2019	2018
Net profit/loss for the period		**-47,055**	**-13,382**
Income/expenses not to be reclassified to profit or loss in the future:			
Actuarial gains and losses	28	-730	– 89
Income/expenses to be reclassified to profit or loss in the future:			
Income/expenses from currency conversion	28	130	57
Other comprehensive income		**-600**	**– 32**
Consolidated total comprehensive income		**-47,655**	**– 13,415**
Attribution of comprehensive income:			
Shareholders of SLM Solutions Group AG		-47,655	– 13,415

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2019

in kEUR	Note	12/31/ 2019	12/31/ 2018
Assets			
Cash and cash equivalents	17	25,523	27,786
Trade receivables	18	15,488	34,757
Other financial assets	18	345	0
Inventories	19	28,281	36,763
Other non-financial assets	20	1,817	2,533
Current tax receivables		475	885
Total current assets		**71,929**	**102,723**
Intangible assets	21	24,288	23,523
Property, plant and equipment	22	39,136	36,432
Equity-accounted investments	4	0	913
Other investments		0	261
Other financial assets	18	525	375
Other non-financial assets	20	717	0
Deferred tax assets	16	43	5,698
Total non-current assets		**64,708**	**67,202**
Assets (total)		**136,637**	**169,925**
Equity and liabilities			
Trade payables		5,341	9,840
Financial liabilities held for trading	23	2,085	1,714
Other financial liabilities	24	451	0
Other non-financial liabilities	25	4,054	3,459
Provisions	27	5,293	4,490
Tax provisions		23	205
Total current liabilities		**17,246**	**19,710**
Financial liabilities held for trading	23	64,098	65,174
Pensions and similar obligations	26	6,719	5,554
Other financial liabilities	24	1,256	0
Other non-financial liabilities	25	425	331
Provisions	27	139	70
Deferred tax liabilities	16	2,240	0
Total non-current liabilities		**74,877**	**71,129**
Subscribed share capital		19,779	17,981
Additional paid-in capital		98,225	87,023
Consolidated loss for the period included in retained earnings		-71,337	-24,282
Reserves		-2,153	-1,636
Total equity	**28**	**44,514**	**79,087**
Equity and liabilities (total)		**136,637**	**169,925**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the fiscal year from 1 January to 31 December 2019

in kEUR	2019	2018
Net profit / loss for the period	-47,055	-13,382
Depreciation, amortisation and impairment losses	8,659	6,545
Interest expenses	4,152	4,098
Interest income	-176	-15
Income tax	8,419	-5,286
Non-cash expenses	442	232
Changes in assets and liabilities	28,440	-6,490
Inventories	8,482	-9,250
Receivables	19,268	3,985
Pensions and similar obligations	1,165	260
Liabilities	-4,500	-1,147
Provisions	872	-41
Other liabilities	3,144	513
Other assets and liabilities	7	-811
Income taxes paid	833	-113
Other changes in current assets	-260	0
Net cash flows from operating activities	**3,453**	**-14,412**
Cash outflows for investments in intangible assets and property, plant and equipment	-9,482	-8,974
Investments in development costs	-3,368	-3,355
Cash outflows for investments in joint ventures	-200	-671
Cash outflows for investments in financial assets	0	-5
Interest received	36	9
Net cash inflow / outflow from investment activities	**-13,015**	**-12,996**
Capital injection by shareholders	13,000	0
Cash outflows for loans	-963	-5,335
Repayment of lease liabilities	-850	0
Interest payments	-3,985	-3,331
Net cash flows from financing activities	**7,202**	**-8,666**
Net increase (decrease) in cash and cash equivalents	-2,360	-36,074
Change in financing funds due to exchange rate changes	97	148
Financing funds at the start of the reporting period	27,786	63,712
Financing funds at the end of the reporting period*	25,523	27,786
Cash and cash equivalents at start of period	**27,786**	**63,682**
Financing funds at the end of the period	**25,523**	**27,786**

* For reconciliation of cash and cash equivalents according to the statement of financial position see Note 17).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the fiscal year from 1 January to 31 December 2019

in kEUR	Subscribed capital	Capital reserve	Consolidated loss for the period included in retained earnings	First-time application reserve	Foreign exchange equalisation reserve	Other reserves	Total equity
Balance as of 1 Jan. 2018	**17,981**	**87,023**	**-10,899**	**0**	**-108**	**-864**	**92,501**
First-time application of IFRS 9 and 15				-632			-632
Consolidated net result			-13,382				-13,382
Changes in equity from foreign currencies					57		57
Equity changes arising from actuarial gains/losse						-89	-89
Balance as of 31 Dec. 2018	**17,981**	**87,023**	**-24,281**	**-632**	**-51**	**-953**	**79,087**
Balance as of 1 Jan. 2019	**17,981**	**87,023**	**-24,281**	**-632**	**-51**	**-953**	**79,087**
Consolidated net result			-47,055				-47,055
Correction				+83			+83
Changes in equity from foreign currencies					+130		+130
Equity changes arising from actuarial gains/losses						-730	-730
Addition from capital contribution	1,798	11,202					+13,000
Balance as of 31 Dec. 2019	**19,779**	**98,225**	**-71,337**	**-549**	**79**	**-1,683**	**44,514**

SLM Solutions Group AG, Lübeck

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS as of 31 December 2019

Note 1) Information about the Company

The accompanying consolidated financial statements present the operations of SLM Solutions Group AG ("the Company" or "SLM AG") with its registered office in Lübeck, Germany, and its subsidiaries (collectively "the Group"). SLM AG is the ultimate parent company within the Group.

SLM AG is a company based in Germany and is headquartered in Lübeck/Germany, being registered under commercial register sheet number 13827 at Lübeck District Court.

The Group is active in the field of metal-based additive manufacturing technology. Note 3 presents information about subordinate entities.

Preparation of the consolidated financial statements was concluded on 20 March 2020 and approved by the Management Board. They will probably be presented to the Supervisory Board for release for publication on 24 March 2020.

Note 2) Basis of preparation

The consolidated financial statements were prepared in line with the principles of International Financial Reporting Standards (IFRS), as applicable in the European Union, as well as with additional applicable provisions pursuant to Section 315e (1) of the German Commercial Code (HGB).

The consolidated financial statements have been prepared on the basis of amortised, historical cost of acquisition or production and are presented in thousands of Euros (kEUR). Minor differences in figures can occur as the result of commercial rounding.

These are the first consolidated financial statements for which IFRS 16 Leases has been applied. The changes to the main accounting methods associated with this are described in Note 5.

Note 3) Group of fully consolidated entities

Subsidiaries

The consolidated financial statements are comprised of the financial statements of SLM Solutions Group AG and the subsidiaries it controls.

Subsidiaries are consolidated from the point in time at which the Company gains control over the subsidiaries and until the point in time at which the Company's control ends. The Group exercises control over a company if it is exposed to fluctuating returns from its investment in the company, or it owns rights to such returns and has the ability to influence such returns by means of its control over the company.

As part of this, the results from the subsidiaries acquired or sold during the course of the year are recorded accordingly from the actual date of acquisition until the actual disposal date in the consolidated income statement and the Group's other comprehensive income.

The financial statements of the subsidiaries consolidated are prepared for the same reporting period as the parent company, applying consistent accounting and measurement policies. All internal Group assets, liabilities and equity, expenses and income, unrealised gains and losses resulting from intra-group transactions, and dividends, are eliminated within the framework of consolidation.

The consolidated financial statements comprise the separate annual financial statements of the parent company SLM Solutions Group AG, Lübeck, and the separate annual financial statements of the following companies in which SLM AG directly or indirectly holds the majority of the voting rights:

Name	Interest in %
SLM Solutions NA, Inc., Michigan, USA	100
SLM Solutions Singapore Pte, Ltd., Singapore	100
SLM Solutions (Shanghai) Co. Ltd., China	100
SLM Solutions RUS OOO, Russia	100
SLM Solutions (India) Private Limited*, India	100
SLM Solutions (Italy) S.R.L., Italy	100
SLM Solutions France) SAS, France	100
SLM Solutions (Canada) Ltd., Canada	100

* incl. indirect holding of 0.1% through SLM Solutions Singapore Pte, Ltd.

The group of fully consolidated entities was extended to include the subsidiary in Canada, set up on 20 September 2019.

The main responsibility of the subsidiaries is to provide sales activities and services for the Group in the particular region.

Joint Arrangements

Joint arrangements comprise contractual arrangements through which two or more persons jointly conduct business activities, and which have agreed joint control in relation to such activities. A distinction is to be made in this context between jointly controlled operations and joint ventures. The rights and obligations of the parties involved comprise the decisive characteristic in this context. If such rights and obligations exist in relation to the individual assets and liabilities of the joint arrangement, a jointly controlled operation exists. If such rights and obligations exist in relation to the net assets, a joint venture exists.

On 26 May 2014, SLM concluded a cooperation agreement with Singapore-based Nanyang Technological University (NTU) to run until 18 August 2019. This entailed agreeing close cooperation in research and development activities in additive manufacturing technologies. Both parties contributed their respective expertise in this context. The cooperation agreement comprised joint activity relating to research, and the development of intellectual property. Both parties provided staff who jointly conducted the operating activities. The main business headquarters is located in Singapore.

Due to a lack of existing interests in net assets, this cooperation venture comprises a joint operation. The assets and liabilities of the joint operation are included proportionately in the consolidated financial statements of SLM AG to the extent that the contractual partners possess rights and obligations in relation to them. The joint operation was provided with its own assets, to which SLM AG still holds the rights and which will therefore continue to be accounted. Income and expenditure from joint operations are recorded in profit/loss, providing they relate to said assets and/or are attributable to SLM AG. As of 12 /31/2019, the cooperation is in the process of being wound up.

Joint Ventures

According to the equity method, interests in associated companies or joint ventures are to be included in the consolidated statement of financial position together with their cost, and said interests are to be adjusted for changes to the interest of the Group in the profit or loss and other income of the associated company or joint venture after the date of acquisition. Losses recorded at an associated company or a joint venture which exceed the interest of the Group in this associated company or joint venture are not recorded.

No control as per IFRS 10 applies to the companies although SLM AG holds a 51% stake as shareholder resolutions require unanimity.

Holdings in SLM Solutions Software GmbH, Perg / Austria, set up in 2016, were sold in the 2019 fiscal year.

3 D Metal Powder GmbH, Lübeck, was set up in 2016 and has still not yet developed any significant operations. The company is showing subscribed capital of kEUR 25, equity of kEUR -21 and earnings of kEUR -13 with total assets of kEUR 534. The joint venture is intended to facilitate the manufacture of tailor-made consumables for users of SLM machines.

Due to the operational character of this equity-accounted joint venture, earnings from the equity-accounted company are shown as part of EBITDA and with it also EBIT.

Note 4) Explanation of significant accounting policies

The accounting policies listed below have been applied on a uniform basis to all periods presented in these consolidated financial statements.

Non-financial assets

The carrying amounts of the Group's non-financial assets – with the exception of inventories and deferred tax assets – are reviewed on every closing date to establish whether there are any signs of impairment. Should this be the case, the recoverable amount of the asset is estimated.

Impairment losses are recognised in profit or loss.

An impairment loss is only reversed if the carrying amount of the asset does not exceed the carrying amount which would have been determined less depreciation or amortisation if no impairment loss had been recognised.

Assets held for sale

Long-term assets or disposal groups comprising assets and liabilities are held for sale if it is highly likely that they will be realised mainly through sale and not through continued use.

In general, such assets are shown at their carrying amount or fair value less sales costs whichever is the lower. Impairment losses incurred on first-time classification as held for sale, and later gains or losses on their remeasurement are recognised in profit or loss.

Intangible assets and property, plant and equipment are no longer subject to systematic depreciation, and every equity-accounted investee is no longer accounted for by the equity method as soon as they are classed as held for sale.

Financial instruments

1. Recognition and initial measurement

Trade receivables are recognised at the time when they arise. All other financial assets and liabilities are recognised for the first time on the trade date when the company becomes a contracting party in accordance with the contractual provisions of the instrument.

A financial asset (apart from a trade receivable with no material financing component) or a financial liability is measured at its fair value on initial recognition. In the case of an item not measured at FVTPL (Fair value through profit or loss), the transaction costs directly attributable to its acquisition or issue are added or deducted. Trade receivables with no material financing component are measured at the transaction price on initial recognition.

2. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified and measured as follows:

- at amortised cost
- FVOCI debt instruments (Fair value through other comprehensive income) (investments in debt instruments measured at fair value with changes in other comprehensive income)
- FVOCI equity investments (equity investments measures at fair value with changes in other comprehensive income)
- FVTPL (at fair value with changes in value shown in profit or loss)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing its financial assets. In this case, all financial assets in question are reclassified on the first day of the reporting period following a change to the business model.

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been designated as FVTPL:

- It is held as part of a business model, the object of which is to hold financial assets for the purpose of receiving the contractual cash flows, and
- The terms of contract underlying the financial asset lead at fixed points in time to cash flows which comprise solely payments of principal and interest.

A debt instrument is designated as FVOCI if both of the following conditions are met and it has not been designated as FVTPL:

- It is held as part of a business model, the object of which is both to hold financial assets for the purpose of receiving the contractual cash flows, and to sell financial assets, and
- the terms of contract lead at fixed points in time to cash flows which comprise solely payments of principal and interest.

On the initial recognition or an equity investment not held for trading purposes, the Group has the irrevocable option to show subsequent changes in the fair value of the investment in other comprehensive income. This choice is made for each investment on a case-by-case basis.

The Group basically holds financial assets recognised at amortised cost. These are subsequently measured at amortised cost applying the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses as well as impairment losses are recognised in profit or loss. A gain or loss from derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities are categorized and measured at their amortized cost or at their fair value through profit or loss (FVTPL). A financial liability is categorised as FVTPL if it is classified as held for trading, it is a derivative or designated as such on initial recognition.

Financial liabilities classified as FVTPL are measured at their fair value, and net gains or losses, including finance costs, are recognised in profit or loss.

Other financial liabilities are measured at amortised cost applying the effective interest method in subsequent measurements. Finance costs and foreign currency translation differences are recognised in profit or loss. Gains or losses from derecognition are also recognised in profit or loss.

3. Current inventory of main financial assets and liabilities at SLM

Financial assets and liabilities at SLM are classified on the basis of categorising the contractual cash flows and the business model in which SLM holds the asset.

They are made up as follows:

- Liquid assets including demand deposits and any short-term time deposits
- Trade receivables from the sale or rent of machines and accessories, spare parts and consumables, services relating to these machines, machine rental.
- Other non-current assets from the sale of holdings in the equity investment, SLM Software GmbH
- Other financial assets
- Trade payables
- Other financial liabilities (mainly current liabilities to banks)
- Loan liabilities (towards banks with fixed term and interest rate)
- Convertible bond

No use was made of the option to recognise assets or liabilities at their fair value on acquisition.

The following assets are measured at amortised cost

- Liquid assets
- Trade receivables
- Receivable from the sale of holding in the equity investment, SLM Software GmbH in Perg
- Other financial assets

SLM's existing financial liabilities were classified and measured at amortised cost:

- Trade payables
- Other financial liabilities
- Loan liabilities
- Convertible bond

  The convertible bond has both equity and debt components. The conversion right represents equity in this case. The debt component, on the other hand, exhibits the characteristics for classification to be measured at amortised cost.

4. Derecognition of financial assets and liabilities

The Group derecognises a financial asset if the contractual rights pertaining to the cash flows from the financial asset expire or it transfers the rights for preserving the cash flows in a transaction in which all material risks and opportunities connected to ownership of the financial asset are also transferred. An asset is also derecognised if the Group neither transfers nor retains all material risks and opportunities connected to its ownership and it does not have power of disposal over the transferred asset. The Group carries out transactions in which it transfers recognised assets but retains either all or all material risks and opportunities from the transferred asset. In such cases, the transferred assets are not derecognised.

The Group derecognises a financial liability if the contractual obligations have been fulfilled, cancelled or have expired. Furthermore, the Group derecognises a financial liability if its contractual terms are changed and the cash flows of the modified liability are significantly different. In this case, a new financial liability is recognised at fair value based on the modified conditions. When a financial liability is derecognised, the difference between the carrying amount of the settled liability and the consideration paid (including cashless assets transferred or liabilities assumed) is recognised in profit or loss.

5. Offset

Financial assets and liabilities are netted and shown as a net amount in the balance sheet if the Group has a present, enforceable legal right to net off recognised amounts against each other, and it is intended either to settle the amounts on a net basis or to pay the associated liability at the same time as realising the asset.

6. Derivative financial instruments and treatment of hedging transactions

The Group currently holds no derivative financial instruments for hedging foreign exchange and interest rate risks.

Intangible assets

1. Research and development costs

SLM is a highly innovative group, and consequently focuses on research and development. Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge are expensed as incurred in the relevant period.

Costs for development activities where findings are applied to a plan or design for the production of new or substantially improved products and processes are capitalised if

(1) development costs can be measured reliably, the product or process is
(2) technically and
(3) commercially feasible,
(4) future economic benefits are probable and
(5) SLM intends, and
(6) has sufficient resources, to complete development and to use or sell the asset.

The capitalised costs comprise directly attributable expenditure that serves to prepare the asset for use, such as cost of materials, and direct and indirect labour costs. Such capitalised costs are reported under "intangible assets". All other development costs are expensed as incurred.

Capitalised development expenses are measured at acquisition or production cost, less accumulated impairment costs. This depreciation is spread on a straight-line basis over four years from the time of use.

An impairment review is conducted on these development costs if there are indications for doing so. To determine the substantive value of these intangible assets, the present value of the future cash flows is compared with the residual carrying amount. This measurement of the development costs is based on the forecast prepared by the Management Board for the company for the next five years. If required for the impairment review, this forecast is extended beyond the planning horizon. Values are discounted to their present value by the DCF method using weighted capital costs.

Development costs of kEUR 4,994 (previous year kEUR 4,361) were capitalized in 2019. In total, before activation in 2019, development costs were incurred in the amount of kEUR 14,762 (previous year: kEUR 9,787) including the amortisation of development projects already completed in the amount of kEUR 2,041 (previous year: kEUR 1,293).

2. Intangible assets acquired as part of a merger

As part of the merger, previously non-capitalised intangible assets were identified. This constitutes the basic technology of SLM machines and the customer base of the time. Assets are measured at cost less cumulative depreciation or impairment losses.

The basic technology is systematically depreciated on a straight-line basis over 15 years and the customer base over 10 years.

3. Other intangible assets

Acquired intangible assets with a limited useful life are recorded at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised from the time of use over a period of 3 to 8 years.

The Group has not capitalised any intangible assets with indefinite useful lives.

Property, plant and equipment

Property, plant and equipment that is subjected to wear and tear and utilised within the company for longer than one year is measured at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated straight-line over their economic useful lives. To the extent that they comprise qualifying assets, borrowing costs are included in cost pursuant to IAS 23. Maintenance and repair costs are recognised as expenses as incurred. Gains and losses from the disposal of assets are reported under other operating income or expenses in the consolidated income statement.

The depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values on a straight-line basis over the period of their estimated useful life. As a general rule, the depreciation is recognised in profit and loss. Land is not depreciated.

The estimated useful lives of the main property, plant and equipment are 50 years for the building, 4 to 15 years for technical equipment and machinery and 3 to 15 years for factory and office equipment.

Where indications of impairment exist, and where the recoverable amount is less than cost, the assets are written down to the recoverable amount.

Impairment of property, plant and equipment, and intangible assets

The company reviews property, plant and equipment, and the intangible assets, except development cost, for impairment whenever events or changes in circumstances indicate that the carrying amount has become impaired. Intangible assets that cannot yet be utilised are also tested for impairment if there are indications that this is required. Recoverability of assets is measured by comparing the carrying amount of the asset with its recoverable amount which comprises the higher of the asset's value-in-use and its fair value (Fair Value) less costs of disposal or market capitalisation on the relevant reporting date. If assets do not generate cash inflows that are largely independent of those from other assets or groups of assets, impairment testing is performed at the level of the cash-generating unit to which the asset belongs. At SLM, the CGU is the entire company. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets or cash-generating unit exceeds their recoverable amount. The value-in-use of assets corresponds to the present value of their expected future capital inflows with a planning horizon of five years. To determine the fair value in the fiscal year, the weighted average capital costs (WACC) were compiled on the basis of their current market values or higher value derived from market capitalisation. If indications exist that the reasons for the impairment no longer exist, an examination is conducted as to whether full or partial reversal of an impairment loss is required.

Inventories

Inventories are measured at cost or net realisable value, whichever is lower on the balance sheet date. Purchase costs are measured, as a matter of principle, on the basis of average value or applying the first-in, first-out method. The production costs of SLM systems contain the direct material and labour costs as well as the applicable manufacturing overheads including depreciation charges. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated selling costs.

Trade receivables

Trade receivables with no material financing component are measured at the transaction price on initial recognition. The analysis of trade receivables and other assets resulting from similar contracts showed that as a general rule, these assets exhibit the same risk characteristics. The Group's default risk is mainly affected by the individual characteristics of the customers. The Group carries impairment losses for expected credit losses for current and non-current financial assets which are measured at amortised cost including lease receivables and other financial assets. SLM has adopted the simplified model of expected credit losses for its trade receivables and assets and the general model of expected credit losses for its debt instruments shown at amortised cost and debt instruments recognized at their fair value in equity.

To this end, the assets are divided into three levels:

- Level 1 as the entry or basic level for all assets for which no objective indication of impairment at the time of acquisition
- Level 2 for a significant increase in the credit risk by comparison with entry level 1
- Level 3 in the case of objective indications of impairment for an individual asset

Measurement within levels:

- Level 1: Present value taking account of expected losses in the next 12 months, interest recognised on the basis of the gross carrying amount
- Level 2: Present value taking account of expected losses over the entire term, interest recognised on the basis of the gross carrying amount
- Level 3: As for Level 2 but higher (more individual) discount factor, interest recognised on the basis of the net carrying amount. The gross carrying amount is initially reduced by the loan loss provision and the effective interest method then applied

Determination of the effective interest rate for the three levels takes account of the following factors:

- customer's credit rating
- currency risk if not invoiced in EUR
- past events, current conditions and forecasts of future economic conditions
- country risk for payment history

The Group also hedges its trade receivables and other receivables via advance payments or payment guarantees, particularly in foreign markets. The Group has no trade receivables or contract assets for which no impairment losses have been recognised on the basis of collateral.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and other highly liquid assets with terms of a maximum of three months on acquisition. These are measured at cost.

Equity

1. Subscribed share capital

After the capital increase of around 10% in 2019, the subscribed capital is divided into 19,778,953 bearer shares with a paper value of one Euro each. The capital increase was effected by means of cash capital contributions. All shares have been fully paid in.

As a result of a resolution passed by the annual general meeting on 25 June 2019, the Management Board is authorized to increase the share capital by up to EUR 9,889,476.00 wholly or in part, once or in several stages by 24 June 2024 with the approval of the Supervisory Board by issuing up to 9,889,476 new bearer shares against cash payments and/or contributions in kind (Approved Capital 2019).

As a general rule, shareholders must be granted subscription rights; the statutory subscription right can also be granted in such a way that the new shares are taken over wholly or in part by a bank or consortium of banks determined by the Management Board with the obligation to offer them to the company's shareholders for subscription.

2. Additional paid-in capital

The capital reserve was increased by EUR 11,202,75.78 in 2019 through the issuing of the new shares. The increase was effected by means of cash capital contributions.

Provisions for pensions and similar obligations

SLM AG has granted pension commitments to some staff members based on their individual contracts. These relate to a defined benefit plan where amounts are determined that the beneficiaries receive on the commencement of their pensions, and which generally depend on one or several factors such as age, period of service and salary. Under this scheme, the employees receive pension benefits according to the bylaws and guidelines of the employee benefit scheme of the company HEK GmbH e. V. (founded on 29 September 1969), whose members they have been to date.

According to the guidelines dated 10 May 1971, retirement, invalidity and widows' pensions are paid. The pensions are paid on retirement ages of 60 for women and 65 for men. Invalidity pensions are paid where beneficiaries become unable to work before retirement age due to invalidity.

The level of retirement and invalidity pensions amounts to 15% of pensionable compensation (last gross salary excluding incidental compensation), and, after the expiry of a waiting period of 10 years of service, increases by 1 percentage point for every further year of service up to a maximum of 35%.

The widow/widower pension amounts to 50% of the pension to which the spouse was entitled.

These commitments comprise commitments that are financed by provisions. No pension funds exist. The Company pays the due obligations directly to the beneficiaries.

The provision for defined benefit plans recognised in the statement of financial position corresponds to the present value of the defined benefit obligation (DBO) on the balance sheet date. An independent actuary revalues the DBO every year applying the projected unit credit method. The present value of the DBO is calculated by discounting the expected future cash outflows by the yield on top grade corporate bonds. These corporate bonds are denominated in the currency of the amounts to be disbursed and carry maturities that are congruent with the pension obligations. Government bonds are applied as the basis in countries with insufficiently developed markets for such corporate bonds.

The level of pension obligations arising from defined benefit plans is measured on the basis of actuarial assumptions that necessitate estimates. Assumptions relating to life expectancy, the discounting factor, and expected salary and pension trends, comprise the significant parameters affecting the level of the pension obligation. Actuarial gains and losses arise if the actual values of the parameters for a year differ from the actuarial assumptions that have been made for the year.

Current service cost reflects the growth in the benefit obligation that has accrued to employees during the reporting period. Current service cost is recognised under personnel costs in the consolidated income statement.

The net interest cost is recognised under interest expenses in the consolidated income statement.

Actuarial gains and losses based on experiential adjustments and modifications to actuarial assumptions are recognised in other comprehensive income in the period in which they arise and are pooled in equity under other reserves.

A duration of 15 years was assumed and the following measurement principles were applied when determining the pension obligations:

	2019	2018
Interest rate	1.30%	2.02%
Increases in income	2.50%	2.50%
Pension adjustments	1.70%	1.70%
Employee turnover rate	1.00%	1.00%

A one percentage point change to the imputed interest rate would affect the valuation as follows:

	Interest rate		Income trend		Pension adjustment	
	Increase of 1 %	Decrease of 1 %	Increase of 1 %	Decrease of 1 %	Increase of 1 %	Decrease of 1 %
Effect on DBO (2019)	-1,203	1,640	230	-211	1,104	-828
Effect on DBO (2018)	-967	1,311	183	-168	868	-653

The sensitivity analysis is based on modifying all assumptions by +/-1 percentage point, and should present the respective effect on the DBO. When measuring the sensitivity of the defined benefit obligation to actuarial assumptions, the same methods are applied with which the pension provisions in the statement of financial position are measured (the present value of the defined benefit obligation was measured applying the projected unit credit method at the end of the reporting period). The methods and assumptions applied for the sensitivity analysis were unchanged compared with the previous year.

The Company is exposed to the following particular risks deriving from the defined benefit pension plan:

- The plan guarantees the beneficiaries lifelong pension payments, so that an increase in life expectancy results in a rise in plan liabilities.
- The pension payments depend on inflation, so that high inflation will feed through to higher liabilities (although the plan is protected from extreme inflation by statutory thresholds).

Other provisions

1. Product-related provisions for warranty

Provisions for estimated costs relating to product warranties are recognised on the date the revenue is recognised. The estimates are based on historical empirical data for warranty costs. Calculation of the provision takes account of empirical values and associated probabilities resulting from the frequency with which each machine type is used as well as the average material costs, personnel and travel expenses, other overheads and incidental expenses and the machines still covered by the warranty period. In the case of new product lines, the estimation for these provisions reflects the empirical values for existing product lines as well as expert opinions. The warranty period is usually 12 months.

2. Other provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Additions to provisions and reversals are generally recognised in the consolidated income statement.

For the provisions for LTI compensation, see the compensation report.

Leasing

A leasing relationship refers to an agreement in which the lessor transfers the right to use an asset to a lessee for an agreed period in return for a payment or a series of payments. The issue of allocating the rental property depends on whether the relationship is finance leasing or operating leasing. In the case of finance leasing, all risks and opportunities connected with the ownership of the rental property are essentially transferred. The right of ownership can be transferred in this case. Operating leasing is a leasing relationship that does not represent a finance leasing agreement.

The standard "IFRS 16 - Leases" published by the IASB on 13 January 2016 replaces the previous standards and interpretations on leasing relationships "IAS 17", "IFRIC 4", "SIC-15" and "SIC-27", and implements one single accounting model for leasing relationships for lessees. According to this, all leasing relationships are to be accounted as utilisation rights and liabilities from leasing agreements in the statement of financial position, unless the leasing period totals 12 months or less, or it relates to a low-value asset (one choice possible for each relationship). In contrast, the lessor will continue to differentiate between an "operating lease" and "financing lease". The standard is mandatory for fiscal years commencing on or after 1 January 2019.

SLM is both a lessor and a lessee as part of its business activities.

Since 1 January 2019, the Group has been evaluating at the start of the contract whether it justifies or contains a lease. This is the case if the contract assigns the right to control the use of an identified asset in return for consideration for a certain period. The Group uses the definition of a lease in IFRS 16 to assess whether a contract contains the right to control an identified asset.

1. SLM as lessee

On the date of provision or on the amendment of a contract containing a lease component, the Group splits the contractually agreed payment on the basis of the respective individual selling prices. However, for property leases, the Group has decided to refrain from separating non-lease components and instead to report lease and non-lease components as a single lease component. This relates in particular to rental contracts for subsidiaries which conduct their business in rented office space.

On the date of provision, the Group recognises an asset for the usage right granted and a lease liability. The right of use is initially measured at cost equating to the initial measurement of the lease liability, adjusted to take account of any payments on or before the date of provision plus any initial direct costs and the estimate cost of uninstalling or removing the underlying asset or to restore the underlying asset or site where it is located less any lease incentives received.

The right of use is then depreciated on a straight-line basis from the date of provision until the end of the lease period unless the ownership of the underlying assets is transferred to the Group at the end of the lease term or the cost of the usage right reflects the fact that the Group will exercise an option to buy. In this case, the usage right will be depreciated over the useful life of the underlying asset determined in accordance with the rules for property, plant and equipment. In addition, the usage right will be subject to continuous impairment losses, if required, and adjusted to reflect certain remeasurements of the lease liability.

Initially, the lease liability will be measured at the present value of lease payments not yet made on the date of provision, discounted at the interest rate on which the lease is based or if this cannot be easily determined at the Group's incremental borrowing interest rate. The Group normally uses its incremental borrowing interest rate as its discount rate.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments including de facto fixed payments
- variable lease payments linked to an index or (interest) rate, initially measured on the basis of the index or (interest) rate applicable on the date of provision
- amounts expected to be due for payment under a residual value guarantee, and
- the price of exercising a purchase option if the Group is reasonably certain of exercising it, lease payments for an extension option if the Group is reasonably certain of exercising it as well as penalties for premature termination of the lease unless the Group is reasonably certain of not terminating prematurely.

The lease liability is measured at the amortised carrying amount using the effective interest method. It is remeasured if the future lease payments change due to the movement of an index or (interest) rate, if the Group adjusts its estimate of expected payments as part of a residual value guarantee, if the Group changes its assessment of exercising an option to purchase, extend or terminate or if a de facto fixed lease payment changes.

In any such remeasurement of the lease liability, the carrying amount of the right of use will be adjusted accordingly or is recognised in profit or loss if the carrying amount of the right of use has reduced to zero.

The Group reports rights of use in the balance sheet under fixed assets as Right of use (ROU) and the lease liabilities under other financial liabilities.

The Group has decided not to recognise rights of use and lease liabilities for leases based on low value assets or for short-term leases. The Group recognises the lease payments associated with these leases over the term of the lease as other expenses on a linear basis.

2. SLM as lessor

At the start or amendment of a contract containing a lease component, the Group splits the contractually agreed payment on the basis of the respective individual selling prices.

If the Group acts as the lessor, it classifies every lease at the start of the contract as either a finance lease or operating lease.

In order to classify each lease, the Group has conducted an overall assessment as to whether the lease essentially transfers all risks and opportunities associated with ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is an operating lease. As part of this assessment, the Group takes certain indicators into account such as whether the lease covers most of the economic useful life of the assets.

If an agreement contains lease and non-lease components, the Group applies IFRS 15 to split the contractually agreed consideration.

The Group applies the derecognition and impairment rules of IFRS 9 to the net investment in the lease. The estimated, non-guaranteed residual values recognised in calculating the gross investment in the lease, are regularly reviewed by the Group.

Lease payments from operating leases are recognised by the Group as income under other revenues over the term of the lease on a straight-line basis.

In principle, the accounting methods to be applied by SLM as the lessor in accordance with IFRS 16 have not changed in practice by comparison with previous years.

Financial liabilities

Financial liabilities combine the convertible bond and loans for funding new construction work.

- SLM issued a convertible bond on 11 October 2017. The issue volume is EUR 58.5 million. The bond can be initially converted to 1,379,760 new or existing bearer shares. The initial conversion price is EUR 42.3987 corresponding to a premium of 28.0% over the reference price. The bond bears interest at the rate of 5.5% p.a. and matures on 11 October 2022. The accrued interest for the bond at the end of the year is shown under financial liabilities and has a residual term of under one year.

  The convertible bond has both equity and debt components. The conversion right constitutes equity. Embedded derivatives in the form of termination rights do not have to be reported separately. A net present value is determined for the convertible bond, calculated by using a discount rate derived from quoted yields for bonds with similar terms and similar credit ratings which are traded in active markets, specified by the issuing bank. The present value of the convertible bond on the closing date is EUR 56.3 million (previous year: EUR 55.5 million). Interest payments as well as compounding expenses are recognised as finance costs in profit and loss in the relevant year.
- Loans have been taken out to finance the new building. The two existing loan obligations mature on 31 December 2026. Repayments will be made in 30 equal, successive quarterly instalments of kEUR 333 beginning on 30 June 2019 and in a final instalment of kEUR 133. First mortgages have been registered for these liabilities on the Estlandring property in Lübeck on behalf of the banks extending the loans. Repayment for the following year is reported under current financial liabilities. The liabilities are recognised at their carrying amounts corresponding to a reasonable approximation of the present value of the cash flows.

Foreign currency translation

1. Transactions in foreign currencies

Transactions in foreign currencies are translated into the corresponding functional currency of Group companies at the spot rate on the day of the transaction.

Monetary assets and liabilities denominated in a foreign currency on the reporting date are translated into the functional currency at the closing rate.

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated at the rate applicable when the fair value is determined. Non-monetary items measured at historical cost in a foreign currency are converted at the exchange rate on the date of the transaction. Equity is converted at the historical spot rate. As a general rule, currency translation differences are recognised in profit and loss for the period and reported under finance expenses.

2. Foreign operations

Assets and liabilities from foreign operations are translated into euros at the closing rate on the reporting date. Income and expenses from the foreign operations are translated at the rate applicable at the time of the particular transaction.

Currency translation differences are recognised in other comprehensive income and reported under the currency translation reserve in equity unless the currency translation difference has been allocated to the non-controlling interests.

The following exchange rates have been used in the consolidated financial statements:

	12/31	12/31.	Average for year	Average for year
Currency	**2019**	**2018**	**2019**	**2018**
US-Dollar	1.123	1.145	1.111	1.181
SG-Dollar	1.511	1.559	1.508	1.593
CNY	7.821	7.875	7.797	7.807
RUB	69.956	79.715	69.987	74.053
INR	80.187	79.730	79.109	80.727
CAD	1.460	n. A.	1.464	n. A.

Revenue recognition

SLM generates sales revenues from the sale of machines and accessories as well as spare parts, merchandise and consumables as well as machine-related services. SLM is applying IFRS 15 for the first time on the fiscal year starting on 1 January 2018. The first-time application in 2018 changes revenue recognition from service and maintenance contracts concluded with the sale of machines and the previous accounting treatment under IAS 18. In transitioning to the new standard, SLM is applying the relief granted by IFRS 15 that contracts already fulfilled as of 31 December 2017 are not reassessed under IFRS 15 (C7).

Unrecognised sales from service and maintenance contracts in a volume of EUR 1.2 million were determined at customer level and accrued as of 1 January 2018. EUR 0.7 million related to 2018, EUR 0.3 million to 2019 and EUR 0.2 million to the following years, and these amounts are recognised in profit and loss for the corresponding periods.

The estimated costs relating to these service and maintenance contracts which were previously recognised as part of provisions for warranty services, were also reduced by EUR 0.8 million for the remaining contracts, as of 1 January 2018.

Taking into account deferred taxes of EUR 0.1 million, this resulted in a change in equity as of 1 January 2018 of EUR 0.2 million. This corresponds to EUR 0.015 per share with reference to the basic and diluted number of shares.

The effect of this conversion on 2019 results is to increase sales revenues by EUR 0.3 million with an opposing effect on income taxes (deferred taxes) in the amount of EUR 0.1 million. Liabilities to customers are EUR 0.3 million and deferred taxes EUR 0.1 million lower as of 12/31/2019 by comparison with the previous year. As of 12 /31/2019, EUR 0.2 million of sales revenues have been deferred as liabilities and by contrast EUR 0.1 million recognised as deferred tax assets.

When contracts are concluded, SLM reviews the goods or services to which the company has committed in a contract with the customer and also checks every commitment to verify whether a separate, depreciable good or delimitable service has been transferred. Contracts are designed such that the goods and services which the company has committed to transfer to the customer, are explicitly listed. On conclusion of the contract or at the start of the contract, SLM identifies whether the contractual obligation will be fulfilled at a particular time or over a particular period. As a general rule, separate contracts are concluded for contractual obligations relating to periods such as maintenance contracts. If the contractual obligation is not fulfilled over a certain period, the company will fulfil its contractual obligation at a certain time. In the process, SLM adheres to the rules regarding the transfer of control. SLM recognises the sales revenues when it has met and fulfilled its contractual obligation by transferring the contractually agreed good or service and/or asset to the customer. An asset is deemed to have been transferred if the customer has obtained power of disposal over this asset. With SLM, this constitutes in particular the delivery of machines and accessories, spare parts and metal powder. The sales revenues are generally recognised when the goods have been despatched from the Group's warehouse. In addition, customers can book optional services such as installation or training which are charged separately, and the sales revenues are recognised at the time the service is provided.

As a matter of principle, no contracts contain either variable remuneration or estimates or finance components. In accordance with contractual agreements, advance payments will be due and billed depending on the stage of completion and set off against the final payment. Advance payments received are reported in contractual liabilities.

A warranty of 12 months is agreed with the contracts which is recognised as a subsequent contractual obligation by way of a provision.

On the other hand, a company transfers the power of disposal over a good or service over a particular period, thereby meeting its contractual obligation, and recognises the sales revenues if one of the following criteria has been met:

- the customer is benefiting from the service and can use the service while it is being provided
- the service creates or enhances an asset (e.g. work in progress) and the customer obtains power of disposal over the asset while it is being created or enhanced, or
- as a result of the service, an asset is created which is of no alternative use to the company, and the company has a legal claim to payment of the services already provided.

With SLM, this relates in particular to rental, service and maintenance contracts. The revenues are distributed and collected over the term of the contracts in line with their deadlines with due consideration given to any special services or interest effects. Advance payments for subsequent periods are reported in contractual liabilities.

Employee benefits

1. Short-term benefits to employees

Obligations resulting from short-term benefits to employees are recognised as expenses as soon as the associated service is provided. A liability must be recognised for the amount expected to be paid if the Group presently has a legal or de facto obligation to pay this amount on the basis of work performed by the employee and the obligation can be reliably estimated.

2. Share-based compensation agreements

Share-based compensation agreements exist exclusively with members of the Management Board. For their measurement, we refer to the compensation report.

3. Performance-related compensation agreements

SLM only grants plans, that are not covered by capital, and measures claims deriving from defined benefit plans by applying the projected unit credit method. In determining the net present value of the future benefit entitlement for services already rendered (defined benefit obligation – DBO), SLM takes into account future compensation and benefit increases if the employee's final benefit entitlement at regular retirement age depends on future compensation or benefit increases.

SLM recognises actuarial gains and losses (resulting from an adjustment to the discount rate, for example) in full, and net of tax, in other comprehensive income in the year in which they occur.

Performance-related obligations are calculated annually by a recognised actuary.

4. Other long-term benefits to employees

Apart from the members of the Management Board, there are no agreements with employees on long-term benefits. For the compensation model for the Management Board, we refer to our description in the compensation report.

5. Termination benefits

Termination benefits are recognised as expenses at the earlier of the following times: when the Group is no longer able to withdraw the offer of such benefits or when the Group recognises costs for restructuring. If in the case of benefits, they are not expected to be fully paid within twelve months of the closing date, they are discounted to present value.

Government grants

In the normal course of its business, the Group receives government grants for its development activities. Government grants are recognised when it is reasonably certain that the conditions attached to the grants are met, and that the grants will be received. Grants awarded for the purchase or the production of property, plant and equipment (grants related to assets) are offset against the cost of the respective assets as soon as the development is finished, thereby reducing future depreciation and amortisation charges accordingly. Grants that have already been extended and received but not yet used for their intended purpose are recognised at fair value and accrued under liabilities.

Grants obtained for purposes other than property, plant and equipment (income-related grants) are reported in the consolidated income statement as other income in the period when such grants are received.

Grants are being awarded for the construction of the new plant in Lübeck Genin which will be deducted from the acquisition and production costs of the corresponding items of fixed assets. The subsidy period ends in 2020.

There are no unfulfilled subsidy conditions in the fiscal year that might lead to a demand for repayment on the part of the subsidy provider.

Financial income and finance costs

The Group's financial income and finance costs comprise:

- interest income
- interest and similar expenses
- dividend income

Interest income and interest expenses are recognised in profit or loss by the effective interest method. Dividend income is recognised in profit or loss at the time the Group's legal claim to payment comes into effect.

The effective interest rate is the rate that precisely discounts the estimated future receipts or payments during the expected life of the financial instrument to

- the net carrying amount of the financial asset or
- the residual carrying amount of the financial liability.

When calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (unless its credit rating is impaired) or the residual carrying amount of the liability. On the other hand, in the case of financial assets whose credit rating is impaired after initial recognition, the interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the credit rating of the asset is no longer impaired, the calculation of interest income is conducted on the gross amount again.

Income taxes

The income tax expense for the period consists of current and deferred taxes. Taxes are recognized in the income statement, unless they relate to items which are directly recognized in equity or in other comprehensive income. In this case, the taxes are also recognized in equity or in other comprehensive income.

1. Current taxes

Current taxes represent the expected tax liability or tax claim on the taxable income or tax loss for the fiscal year, on the basis of local tax regulations and rates applicable on the closing date or which will shortly apply, as well as all adjustments of the tax liability for earlier years. The amount of the expected tax liability or claim reflects the amount which represents the best estimate taking account of any existing tax-related uncertainties. Current tax liabilities also include all tax liabilities arising from the setting of dividends.

Current tax claims and liabilities are only netted on certain conditions.

2. Deferred taxes

Deferred taxes are formed in accordance with the liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities as recognized in the financial statements, and their taxable base value (tax base). Deferred taxes are measured using the tax rates expected to apply to temporary differences as soon as they reverse, using tax rates applicable or announced on the closing date. Deferred taxes reflect any uncertainty contained in income taxes.

The effect of a change in tax rates is recognized in the income statement in the period when the new laws are enacted or substantively enacted unless related to items directly recognized in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unutilised tax losses, and unutilised tax credits, can be utilised. Deferred taxes relating to items recognised directly in equity are also recognised directly in equity. One special rule applies here for the capitalisation of deferred tax assets on loss carryforwards. These are only to be capitalised and taking into account the minimum taxation if it is highly likely that sufficient taxable profit will be available to offset losses in future.

In Germany, the calculation of income tax is based on a corporate tax rate of 15% and a solidarity surcharge thereon of 5.5%, for all distributed and retained earnings.

In addition to corporate taxation, trade tax is levied on profits earned in Germany. As trade tax in Germany is a non-deductible expense, the average trade tax assessment rate is 15.75% and the total tax rate 31.575% (previous year: 31.575%).

For foreign subsidiaries, income taxes are calculated based on local tax laws and applicable tax rates in individual foreign countries. The tax rates applicable to group companies vary for deferred taxes between 17% (previous year: 17%) and 27.9% (previous year: 27.9%).

The loss carryforwards can only be offset against profits of following years to a limited extent depending on the respective national taxation laws. In addition, the options for offsetting against future profits may well be limited by time. Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities, and if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities, if the balance is to be settled on a net basis.

Note 5) New financial reporting regulations and future requirements

1. Compared with the consolidated financial statements of SLM Solutions Group AG as of 31 December 2018, the following changes to standards and interpretations required mandatory application for the first time in the fiscal year under review:

IFRS 16 Leases

The standard "IFRS 16 - Leases" published by the IASB on 13 January 2016 replaces the previous standards and interpretations on leasing relationships "IAS 17", "IFRIC 4", "SIC-15" and "SIC-27" and implements one single accounting model for leasing relationships for lessees. According to this, all leases are to be accounted as rights of use and liabilities from leasing agreements in the statement of financial position, unless the leasing period totals 12 months or less, or it relates to a low-value asset (one choice possible for each relationship). In contrast, the lessor will continue to differentiate between an "operating lease" and "finance lease". The standard is mandatory for fiscal years commencing on or after 1 January 2019.

As of 1 January 2019, the Group has applied IFRS 16 for the first time. For the transition to IFRS 16, the Group decided to apply the relief for retaining the assessment of which transactions represent leases. The Group only applied IFRS to contracts which had previously been identified as a lease. Contracts not identified as leases under IAS 17 and IFRIC 4, were not reviewed as to whether a lease applies under IFRS 16. The definition of a lease under IFRS 16 was therefore only used for contracts concluded or amended on or after 1 January 2019.

The Group has applied IFRS 16 in accordance with the modified retrospective method. The comparative information for 2018 has therefore not been adjusted, i.e. it is shown as previously under IAS 17 and with associated interpretations. In addition, the duties of disclosure in IFRS 16 were not universally applied to the comparative information.

Expenses incurred for previous operating leases will no longer be recorded as leasing expenses. The new regulations lead to amortisation on the rights of use and interest expenses or interest income in profit and loss.

Transitioning to IFRS 16, the Group recognized the additional rights of use and additional lease liabilities. The rights of use mainly relate to property rental agreements at two subsidiaries with a term of less than 5 years and to company cars. As of 1 January 2019, the rights of use totalled kEUR 2,251 in the Group, which were offset by lease liabilities of kEUR 2,251.

IFRIC 23: Uncertainty over Income Tax Treatments

The IASB issued its final interpretation of IFRIC 23 on June 7, 2017 and it will be compulsory to apply it to fiscal years starting on or after January 1, 2019 provided it is endorsed by the EU. IFRIC 23 must be applied to taxable profits (or tax losses), tax bases, tax losses not yet used, unused tax credits and tax rates if there is uncertainty with regard to income tax treatment if they are assessed in accordance with IAS 12. The basic assumption is that a tax authority is entitled to and has knowledge of all the relevant information.

The first-time application of the standard had no material effect on the company's statement of Financial Position or income statement.

A series of further new standards also had to be applied for the first time from 1 January 2019, but these had no material effect on the consolidated financial statements.

- Amendments to IFRS 9 Prepayment features with negative compensation
- Amendments to IAS 28 Long-term investments in associates and joint ventures
- Amendments to IFRS 19 Plan amendment, curtailment or settlement
- Annual improvements to the IFRS standards cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

2. New standards not yet to be applied

A series of new standards are to be applied in the first reporting period of a fiscal year commencing after 1 January 2019 although advance application is possible; however, the Group has not applied the new or amended standards in advance in preparing these consolidated financial statements. The following amended standards and interpretations are not expected to have any material effect on the consolidated financial statements.

- Amendments to references to the framework concept in IFRS standards (from 1 January 2020)
- Definition of a business (amendments to IFRS 3) (from 1 January 2020)
- Definition of "material" (amendments to IAS 1 and IAS 8) (from 1 January 2020)
- IFRS 17 Insurance contracts
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (time of first application still open)

Note 6) Estimates and assumptions

Estimates and assumptions are required to a certain extent when preparing consolidated financial statements. The estimates and assumptions have an impact on the recognition, measurement and presentation of assets, liabilities, income and expenses.

Key assumptions

These consolidated financial statements have been prepared on a going concern basis. As shown by the company's planning for the coming two years, the earnings position must be assumed to be negative. This is due to the continuous investment in research and development as well as the development of new products and the further strengthening and expansion of the sales organisation. At the same time, it can be concluded that liquid funds will presumably be exhausted in the second quarter of the 2021 financial year as per the planning, and the company will therefore require further financial resources. These resources are to be acquired from existing and/or new investors in summer 2020 by means of a funding round taking the form of a capital increase or by issuing a convertible bond. These events and circumstances point to the existence of considerable uncertainty which may indicate a going concern risk.

Estimates

All available information is taken into account in the process. Actual results may vary from this estimate. Basic estimates relate to the

- capitalisation of development costs
- impairment tests for development costs
- term of rental contracts and lease agreements as per IFRS 16
- determination of useful life
- calculation of deferred tax assets
- recognition of deferred tax assets for loss carryforwards with a view to future offsets
- impairment of receivables and the inherent risks expected
- recognition and measurement of Other provisions, particularly warranty provisions
- measurement of provision for share-based and performance-related obligations
- measurement of pension provisions
- sales accruals under IFRS 15
- as well as sensitivity analysis carried out to IFRS 7.

Estimation uncertainties resulting from the current tense interest situation which affect the amount of assets and liabilities reported or their impairment, are of particular importance.

Note 7) Error correction

In 2019, the Group discovered that in 2018 the changes recognised in equity through the initial application of the new standards in 2018 had been removed again from equity in the amount of kEUR 83 with effect from 01/01/2018. This was corrected in 2019.

Recognised in 2018:

Via equity to deferred tax assets EUR 82,755.92

In 2019 this was corrected with no effect on income:

Via deferred tax assets to equity EUR 82,755.92

Note 8) Additional disclosures about financial instruments

The financial instruments not measured at fair value are measured at discounted cash flows. The measurement model takes account of the present value of expected payments, discounted using a risk-adjusted discount rate. Financial liabilities are measured at amortised cost using the effective interest method.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. The table contains no details of the fair value if the carrying amount represents a reasonable approximation of the fair value.

	12/31/2019		12/31/2018	
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
in kEUR	Financial assets at amortized cost	Financial liabili-ties	Financial assets at amortized cost	Financial l iabilities
Financial assets not measured at fair value				
Trade receivables	15,488		34,757	
Other financial receivables, current	345		0	
Other financial receivables, non-current	525		375	
Cash and cash equivalents	25,523		27,786	
Financial liabilities not measured at fair value				
Trade payables		5,341		9,840
Secured bank loans		9,888		11,384
Convertible bond		56,295		55,504
Other financial liabilities, non-current		1,256		0
Other financial liabilities, current		451		0
Total	**41.881**	**73,231**	**62,918**	**76,728**

Otherwise, SLM does not deploy any financial instruments that are measured at fair value.

Note 9) Financial risk management

- Financial risk management at SLM AG comprises an important element in the planning and implementation of business strategies. The Management Board of SLM AG sets the financial risk management principles.

The Group is exposed to the following risks from the deployment of financial instruments:

- Default risk
- Liquidity risk
- Market risk

Rising market fluctuation levels can result in considerable volatility risks to cash flows and income for SLM AG. The Company's operating business as well as its investment and financing activities are affected by changes in foreign exchange rates, interest rates and commodity prices. In order to optimise the allocation of the financial resources across SLM's operating segments and companies, as well as to secure an optimal return for its shareholders, SLM identifies, analyses and proactively manages related financial market risks.

Due to its size, SLM has not implemented mathematical or comparable tools to manage financial risks. SLM AG has nevertheless introduced mandatory financial risk management measures that have been effectively installed for several years.

Default risk

The default risk is the risk of financial losses if a customer or counterparty of a financial instrument fails to meet their contractual obligations. The default risk applies to all trade receivables and large parts of other financial assets including deposits with banks. The maximum credit and default risk correspond to the carrying amount of the financial assets.

The Group has taken extensive steps to minimise these risks. If a sale exceeds defined limits, the Management Board or the management of SLM Solutions or the subsidiaries first checks on the credit rating of the counterparty. Moreover, legal title remains with SLM Solutions until full payment is received. Prepayments by customers and the deployment of commercial letters of credit comprise further risk-reducing measures.

The analysis of the extent to which financial assets that are neither overdue nor impaired have retained their value shows that no particular risks exist relating to the respective business partners (such as doubtful creditworthiness or empirical default rates).

The identifiable trend towards multi-machine orders, where customers order several machines as part of a single order, could result in comparatively higher receivables positions with individual customers. The Company counters this trend through further diversification of its customer base, and greater monitoring of related receivables positions. Normal instruments such as prepayments and other hedging instruments are also utilised for these types of orders.

Liquidity risk

The liquidity risk is the risk that the Group may not be in a position to meet its financial obligations by supplying cash or other financial assets as per the contract. The management of liquidity in the Group is intended to ensure that – as far as possible – there are always sufficient liquid assets available in normal and even tight circumstances to meet payment obligations when they fall due without suffering any unsustainable losses or damaging the reputation of the Group.

SLM AG monitors its liquidity on a regular basis. The Group endeavours to maintain its cash and cash equivalents at a level that exceeds the expected outflows resulting from financial liabilities (apart from trade payables) for the next 60 days. The Group also monitors the level of expected receipts from trade receivables and other receivables together with the expected outflows from trade payables as well as other liabilities.

SLM AG pursued its medium-term goal of guaranteeing continuity of funding and sustainable liquidity through the use of bank overdrafts, bank loans, debentures, finance and operating leases as well as shareholder loans, by issuing a convertible bond in October 2017. In 2019, the authorised capital was used to issue new shares. In accordance with a resolution passed by the annual general meeting in 2019, the Management Board is entitled to issue further shares.

SLM AG has taken measures to ensure the financing of its continuing expansion. SLM AG has introduced working capital ratios into its internal reporting structure to allow the risk of an insufficiency of funds to be monitored on a regular basis.

Furthermore, the Group has no credit lines.

As disclosed in the risk report, the Group has two secured bank loans with one of them containing conditions. Any future breach of the conditions may lead to a requirement to pay back the loan earlier than shown in the table.

The table below summarises the term profile of the Group's financial liabilities. It should be noted that the convertible bond is shown at its present value at the end of the fiscal year. The settlement amount in 2022 is kEUR 58,500.

			Maturities					
in kEUR	Total Fiscal year	Total Previous year	up to 1 year Fiscal year	up to 1 year Previous year	between 1 and 5years Fiscal year	between 1 and 5 years Previous year	over 5 years Fiscal year	over 5 years Previous year
Convertible bond	56,295	55,504	0	0	56,295	55,504	0	0
Liabilities to banks	9,888	11,384	2,085	1,714	5,335	5,335	2,468	3,267
Other financial liabilities	1,707	0	451	0	1,256	0	0	0
Trade payables	5,341	9,840	5,341	9,840	0	0	0	0
Total	73,231	76,728	7,877	11,554	62,886	60,839	2,468	3,267

Market risk

Market risk is the risk that market prices, e.g. exchange rates or interest rates will change, thereby affecting the Group's income or the value of the financial instruments held. The aim of market risk management is to manage and monitor market risk within acceptable boundaries and at the same time to optimise returns.

Currency risk

The Group is exposed to foreign currency transaction risks to the extent that the quoted prices of currencies in which sales and purchasing transactions as well as receivables and lending transactions are settled do not match the functional currency of Group companies. The functional currency of Group companies is the euro.

SLM AG mostly acquires raw materials and supplies in euros. A significant proportion of sales transactions are also concluded in foreign currencies, particularly US dollars, Singapore dollars, Chinese yuan, Russian roubles and Indian rupees which means that SLM AG is subject to exchange rate risks which could impact the profitability of the company. However, hedges are not currently deemed to be required. In the 2019 fiscal year, SLM AG has not made recourse to any foreign currency swaps or comparable instruments to hedge variable exchange rates. The management of SLM AG reserves the right to implement alternative measures if exchange rates become sustainably disadvantageous, or if total risk exposure necessitates such measures.

The following tables show the sensitivity of consolidated pre-tax earnings and consolidated equity due to potential change in the exchange rate between the US dollar, SG dollar, Chinese yuan, Russian rouble and Indian rupee given otherwise constant variables. The risk that the Group is exposed to through any changes in the exchange rates of all other currencies is immaterial.

As a general rule, the effect on pre-tax profits currently corresponds to the effect on equity. The company has tax loss carry-forwards which are only capitalised up to the level of excess liabilities.

in kEUR	Change of the US Dollar exchange rate	Effect on profit before taxes	Effect on equity
2019	10%	476	329
	-10%	-389	-269
2018	10%	1,052	727
	-10%	-858	-593

in kEUR	Change of the SGD exchange rate	Effect on profit before taxes	Effect on equity
2019	10%	332	230
	-10%	-604	-418
2018	10%	1.073	742
	-10%	-1,949	-1,347

in kEUR	Change of the CNY exchange rate	Effect on profit before taxes	Effect on equity
2019	10%	175	121
	-10%	-143	-99
2018	10%	174	120
	-10%	-142	-98

in kEUR	Change of the RUB exchange rate	Effect on profit before taxes	Effect on equity
2019	10%	30	21
	-10%	-24	-17
2018	10%	38	26
	-10%	-31	-22

in kEUR	Change of the INR exchange rate	Effect on profit before taxes	Effect on equity
2019	10%	2	1
	-10%	-3	-2
2018	10%	16	11
	-10%	-29	-20

Interest-rate risk

SLM Solutions currently exhibits a low interest rate risk. There are only limited receivables from customers with an interest-bearing instalment arrangement. There are loan agreements in place with associated and affiliated companies with customary, risk-averse interest agreements. The bank loans were agreed with fixed interest rates of up to 1.2%. These serve to fund the new construction work and are thus backed by corresponding collateral. The interest on the convertible bond is below the reference debt of a comparable bond with no conversion component with the result that the risk here is also seen as low.

SLM deploys no derivative financial instruments or hedging instruments.

SLM's Management Board has identified no significant concentrations of risk.

Note 10) Revenue

in kEUR	2019	2018
Sales of machines and accessories	35,142	56,274
Sale of merchandise including powder	4,625	5,064
Spare parts and services	9,195	10,321
	48,962	**71,659**

Note 11) Cost of materials

in kEUR	2019	2018
Cost of raw materials, supplies and goods for resale	18,834	42,180
Costs of purchased services	2,062	2,625
	20,896	**44,805**

Note 12) Personnel costs

The following full-time equivalents (FTEs) - split into six groups of employees - were employed on average in fiscal 2019: 3 member of the Management Board, 89 Sales, 76 After Sales, 91 R&D, 97 Production, 49 Administration and 18 of the above trainees / interns. (Prior year: 3 member of the Management Board, 81 Sales, 64 After Sales, 87 R&D, 105 Production, 44 Administration and 20 trainees / interns.

in kEUR	2019	2018
Wages and salaries	27,486	25,684
Social security contributions and expenses for optional benefits	4,163	3,918
Expenses for pension plans and employee pensions	222	209
	31,871	**29,811**

Note 13) Other operating income

in kEUR	2019	2018
Currency gains	740	1,845
Government grants	38	30
Payments in kind to employees	350	323
Release of provisions	205	722
Other	304	305
	1,635	**3,225**

Note 14) Other operating expenses

in kEUR	2019	2018
Sales expenses	4,325	5,094
Operating expenses	2,865	3,777
Legal and consulting expenses	2,924	2,497
Administrative expenses	2,380	2,356
Rentals, leases, premises	897	1,446
Travel expenses	2,585	2,914
Vehicle costs	433	681
Receivables management	2,517	489
Other	308	1,585
	19,234	**20,838**

Operating expenses essentially comprise IT and communications costs, insurances, servicing as well as tools and equipment.

Other expenses in the previous year included retrospective customs payments in the USA amounting to kEUR 1,013.

Note 15) Interest and similar expenses

in kEUR	2019	2018
Pension-related finance costs / income	112	102
Finance costs	32	43
Interest expenses from bank loans	99	68
Interest from convertible bond	3,803	3,882
Other	105	3
	4,152	**4,098**

Note 16) Taxes on income

The major components of income tax expense for the fiscal years ended 31 December 2019 or previous year are as follows:

Composition of tax income

in kEUR	2019	2018
Current income taxes		
Current income tax expense	0	-413
Tax expense/income from previous years	-61	0
	-61	**-413**
Deferred taxes		
Origination and reversal of temporary differences excl. loss carryforwards	-528	-525
Change in recognition of tax loss carryforwards	-7,830	6,225
	-8,358	**5,700**
Recognised in comprehensive income:	**-8,419**	**5,287**
Comprehensive income		
Deferred taxes recognized directly in other comprehensive income:		
Actuarial gains / losses from pension provisions	337	41
Income tax recognized in comprehensive income	**337**	**41**

The loss carryforwards in the subsidiaries totalling kEUR 4,324 (previous year: kEUR 162) were estimated to be non-usable overall. Of this amount, kEUR 0 (previous year: kEUR 0) expire within a period of 5 years, and loss carryforwards of kEUR 4,324 (previous year: kEUR 162) can be used indefinitely.

Deferred taxes on tax loss carryforwards of SLM Solutions Group AG amounting to kEUR 4,453 were capitalised to the extent that they were matched by deferred tax liabilities and taking into account the minimum taxation. These originate from SLM AG which has a history of losses. This imbalance has been created in particular by the net results of SLM Solutions Group AG in fiscal 2019 on top of existing loss carryforwards. In the previous year, a net surplus of assets was reported for the loss carryforwards in the amount of kEUR 5,698.

Reconciliation

	2019 in %	2019 in kEUR	2018 in %	2018 in kEUR
Pre-tax profit/loss		-38,636		-18,669
Expected income tax calculated at 31.575%(Prior year: 31.575%)	31.575	12,199	31.575	5,895
Tax effects resulting from:				
Non-tax-deductible expenses	2.763	1,072	-1.673	-649
Tax rate variances	0,000	0	-0.110	-43
Tax-free income	0,000	0	0.005	2
Losses in the current year in subsidiaries for which no deferred tax claims were recognised	-3.506	-1,354	0.294	114
Losses in the current year at the parent company for which no deferred tax claims were recognised	-37.090	-14,330	0.000	0
Deferred minimum taxation on future reversal of deferred taxes according to the balance sheet	5.798	2,240	0.000	0
Miscellaneous	0.448	173	-0.085	-33
Income tax	**0.000**	**0**	**30.006**	**5,287**

in kEUR	01/01/ 2019 Carry-ing amount -diffe-rence	01/01/ 2019 Defer-red taxes	2019 Recog-nised in profit and loss	2019 Recog-nised in equity	12/31/ 2019 Carry-ing amount -differen-ce	12/31/ 2019 Defer-red taxes, net	12/31/ 2019 Defer-red tax assets	12/31/ 2019 Defer-red tax liabili-ties
Intangible assets	22,971	-7,253	-352	0	24,085	-7,605	0	-7,605
Trade receivables and other assets	855	270	216	83	1,391	569	569	0
Accruals and deferrals	740	-234	-53	0	573	-181	0	-181
Loss carryforwards	0	12,283	-7,830	0	0	4,453	4,453	0
Pension obligations and other personnel obligations	2,857	902	-444	337	3,911	458	458	0
Trade payables and other liabilities	538	170	105	0	208	66	66	0
Total deferred tax assets / liabilities	**27,961**	**6,138**	**-8,358**	**420**	**30,168**	**-2,240**	**5,546**	**-7,786**

Note 17) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise cash at banks, cash on hand and fixed-term deposits. Together, these are reported on an aggregated basis as "cash and cash equivalents" in the statement of financial position.

in kEUR	12/31/2019	12/31/2018
Bank balances	23,057	27,783
Cash on hand	2	3
Fixed term deposits	2,464	0
	25,523	**27,786**

The fixed-term deposits were only of limited availability as in 2019, in particular, they served as a security for guarantees.

Note 18) Trade receivables and other financial receivables

in kEUR	12/31/2019	12/31/2018
Trade accounts receivable and other financial assets	17,639	35,087
Impairments	-1,281	-331
	16,358	**34,756**

The equity method investment in 3 D Metal Powder, which was previously shown in the "Financial assets accounted for using the equity method", including the loan to this company, previously reported as "Other financial assets", was recognized at the end of 2019 in the assets held for sale reclassified. The valuation was carried out at amortized cost of kEUR 260, which corresponds to the selling price.

in kEUR	Impairment
01/01/18	**406**
Added	61
Used / released	-136
12/31/18	**331**
Added	1,068
Used / released	118
12/31/19	**1,281**

Impairment allowance on trade accounts receivable and other financial assets

		Adjusted receivable in EUR	Adjustment in %	Adjustment in EUR
Level 1	1	5,745,188.98	0,5	28,725.94
by country risk	2	3,284,014.21	2,0	65,680.28
by category	3	3,995,819.97	5,0	199,791.00
	4	897,915.26	8,0	71,833.22
Level 2	> 6 month	662,462.97	10	66,246.30
by age of receivable	> 12 month	636,702.03	20	127,340.41
	> 24 month	132,805.81	40	53,122.32
Level 3				
based on individual insights		1,456,543.99		668,710.07
Total		**16,811,453.22**		**1,281,449.54**

Future rental income from operating leases as lessor

As of the end of the fiscal year, there is one operating lease agreement (previous year: two) in the area of selective laser melting. The Group generates the following minimum lease payments (in kEUR) from the existing operating leases:

in kEUR	Up to 1 year	1 to 5 years	Total
Leased machine 1	170	1,191	1,361
Total	170	1,191	1,361

Receivables from finance leases as lessor

The Group has a total of three (previous year: three) existing finance leasing agreements for machines and accessories from the selective laser melting field in which the ownership rights for the leasing object are automatically transferred to the lessee at the end of the contractual period. The carrying amount of the receivable at the time of conclusion of contract totalled kEUR 932 and decreases pro rata by the repayment amount of the monthly rental payments of altogether kEUR 19. A right of return exists which expires after 12 or 24 months. Below is a breakdown of the receivables from the leasing business according to remaining term as well as the reconciliation to the gross leasing receivables:

in kEUR	2019	2018
Less than 1 year	221	230
More than 1 year and up to 5 years	159	380
More than 5 years	0	0
Total	**380**	**610**

in kEUR	Up to 1 year	Between 1 and 5 years	Over 5 years	Total 2019	Total 2018
Future instalments			0	380	610
+ non-guaranteed residual value			0	0	0
= Investment value	221	159	0	380	610
Minimum lease payments	**221**	**159**	**0**	**380**	**610**

Note 19) Inventories

in kEUR	12/31/2019	12/31/2018
Raw materials and supplies	6,689	7,431
Unfinished goods	8,214	13,639
Finished goods and goods for resale	12,601	15,250
Prepayments	777	442
	28,281	**36,763**

Note 20) Other non-financial assets

in kEUR	12/31/2019	12/31/2018
VAT claims	399	1.157
Receivables from collaboration agreement with NTU	380	380
Receivable from the transfer of holdings in SLM Software GmbH	717	0
Miscellaneous*	1,038	996
	2,534	**2,533**

* essentially contain advance payments for rents, trade fairs and insurances

Receivables from the transfer of holdings in SLM Software GmbH are due by 12/31/2024.

Note 21) Intangible assets

in kEUR	Acquisition / production costs as of 01/01/19	Additions	Disposals	Reclassifications	Acquisition / production costs as of 12/31/19	Accumulated depreciation as of 01/01/19	Additions	Disposals	Reclassifications	Accumulated depreciation as of 12/31/19	Carrying amount as of 12/31/19	Carrying amount as of 01/01/19
Internally generated industrial property rights and similar rights and assets	7,215	1,167	-774	4,701	12,309	4,589	2,150	-2,018	0	4,722	7,587	2,628
Purchased concessions, industrial property rights and similar rights and assets and licenses to such rights and assets	1,599	140	-121	0	1,619	961	370	-85	0	1,245	373	638
Assets under construction Development costs	9,091	2,671	-621	-4,701	6,440	0	0	0	0	0	6,440	9,091
Acquisition associated with a business combination thereof:	19,109	0	0	0	19,109	7,941	1,282	0	0	9,222	9,887	11,168
Laser technology	18,124	0	0	0	18,124	7,249	1,208	0	0	8,458	9,666	10,874
Customer base	737	0	0	0	737	442	74	0	0	516	221	295
Orders at hand	249	0	0	0	249	249	0	0	0	249	0	0
Intangible assets	**37,015**	**3,979**	**-1,516**	**0**	**39,478**	**13,491**	**3,802**	**-2,103**	**0**	**15,190**	**24,288**	**23,524**

in kEUR	Acquisition / production costs as of 01/01/18	Additions	Disposals	Reclassifications	Acquisition / production costs as of 12/31/18	Accumulated depreciation as of 01/01/18	Additions	Disposals	Reclassifications	Accumulated depreciation as of 12/31/18	Carrying amount as of 12/31/18	Carrying amount as of 01/01/18
Internally generated industrial property rights and similar rights and assets	11,947	4,361	-1	0	16,307	3,297	1,292	0	0	4,589	11,718	8,650
Purchased concessions, industrial property rights and similar rights and assets and licenses to such rights and assets	1,426	183	-10	0	1,599	576	385	0	0	961	638	850
Acquisition associated with a business combination thereof:	19,109	0	0	0	19,109	6,659	1,282	0	0	7,941	11,168	12,450
Laser technology	18,123	0	0	0	18,123	6,040	1,208	0	0	7,248	10,875	12,083
Customer base	737	0	0	0	737	370	74	0	0	444	293	367
Orders at hand	249	0	0	0	249	249	0	0	0	249	0	0
Intangible assets	**32,482**	**4,544**	**-11**	**0**	**37,015**	**10,532**	**2,959**	**0**	**0**	**13,491**	**23,524**	**21,950**

Note 22) Property, plant and equipment

in kEUR	Acquisition / production costs as of 01/01/19	Additions	Disposals	Reclassifications	Acquisition / production costs as of 12/31/19	Accumulated depreciation as of 01/01/19	Additions	Disposals	Reclassifications	Accumulated depreciation as of 12/31/19	Carrying amount as of 12/31/19	Carrying amount as of 01/01/19
Property, property-equivalent rights and buildings including buildings on third-party land	25,038	-69	0	0	24,969	252	469	28	0	749	24,219	24,864
Technical equipment and machinery	13,557	6,531	-1,982	0	18,106	6,558	2,869	-2,086	-63	7,278	10,829	7,860
Other facilities, office furniture and equipment	5,527	2,190	-186	53	7,583	1,886	1,518	769	0	4,174	3,409	3,528
Assets under construction	1,004	601	-873	-53	679	0	0	0	0	0	679	1,360
Property, plant and equipment	**45,127**	**9,252**	**-3,042**	**0**	**51,337**	**8,696**	**4,857**	**-1,289**	**-63**	**12,201**	**39,136**	**37,612**

in kEUR	Acquisition / production costs as of 01/01/18	Additions	Disposals	Reclassifications	Acquisition / production costs as of 12/31/18	Accumulated depreciation as of 01/01/18	Additions	Disposals	Reclassifications	Accumulated depreciation as of 12/31/18	Carrying amount as of 12/31/18	Carrying amount as of 01/01/18
Property, property-equivalent rights and buildings including buildings on third-party land	4,567	3,979	0	16,492	25,038	252	252	0	0	252	24,786	4,315
Technical equipment and machinery	15,013	2,589	-4,045	0	13,557	4,406	2,152	0	0	6,558	6,999	10,607
Other facilities, office furniture and equipment	5,347	3,403	-3,223	0	5,527	705	1,181	0	0	1,886	3,641	4,642
Assets under construction	16,545	951	0	-16,492	1,004	0	0	0	0	0	1,004	16,545
Property, plant and equipment	**41,472**	**10,923**	**-7,268**	**0**	**45,127**	**5,363**	**3,585**	**0**	**0**	**8,696**	**36,431**	**36,109**

The first-time application of IFRS 16 as of 1 January 2019 results in a difference between the residual book value as of 31 December 2018 and the residual book value as of 1 January 2019 in the tables above.

The property reported in property, plant and equipment in the amount of kEUR 4,487 serves as collateral for the registered land charges amounting to EUR 10.7 million.

Note 23) Financial liabilities

in kEUR	12/31/2019	12/31/2018
Financial liabilities (non-current)		
- Convertible bond	56,295	55,504
- Liabilities to banks from loan	7,803	9,670
	64,098	**65,174**
Financial liabilities (current)		
- Liabilities to banks	2,085	1,714
	2,085	**1,714**
Financial liabilities	**66,183**	**66,888**

Of the liabilities to banks from the loans, a sum of kEUR 2,468 (previous year: kEUR 3,001) has a maturity of over five years.

Note 24) Other financial liabilities

in kEUR	12/31/2019	12/31/2018
Other financial liabilities (non-current)		
- Lease liabilities IFRS 16	1,256	0
	1,256	**0**
Other financial liabilities (current)		
- other obligations	46	0
- Lease liabilities IFRS 16	405	0
	451	**0**
Other financial liabilities	**1,707**	**0**

Leasing liabilities according to IFRS 16

The rights of use in 2019 are as follows (in kEUR):

As of 1. January 2019	2,251
Depreciation and amortization	-850
Additions	207
As of 31. December 2019	1,608

In addition, interest income of kEUR 15 was recognized in the income statement for the Group as a whole.

The long-term leases described above have a term of one to five years.

Obligations from operating leasing as lessee

The Group has entered into commercial leases on property, vehicles and IT infrastructure. These leases carry an average term of between one and five years. A renewal option is included in the property leasing contract.

As of 31 December 2019, future minimum payment obligations under non-cancellate operating leases are as follows:

in kEUR	2019	2018
Less than 1 year	405	581
More than 1 year and up to 5 years	1,256	735
More than 5 years	0	0

Sale and lease back

As of the reporting date, there are no sale and lease back agreements.

Reconciliation of the valuation of liabilities to the cash flows from financing activities

in kEUR	Remai-ning other financial liabilities	Conver-tible bond	Finance lease liabili-ties	Subscribed share capital / Additional paid-in capital	Reser-ves	Total
Balance as of 01 January 2019	**11,384**	**55,504**	**2,511**	**105,004**	**-1,636**	**172,767**
Changes in cash flow from financing activities						
Proceeds from the issue of shares				13,000		13,000
Repayment of loans	-963					-963
Payment of leasing liabilities			-850			-850
Interest paid	-573	-3,412				-3,985
Total change in cash flow from financing activities	**-1,353**	**-3,412**	**-850**	**13,000**	**0**	**7,202**
Other changes relating to equity					**-518**	**-518**
Balance as of 31 December 2019	**8,326**	**52,092**	**1,661**	**118,004**	**-2,154**	**177,929**

Note 25) Other non-financial liabilities

in kEUR	12/31/2019	12/31/2018
Other non-financial obligations (non-current)		
- Sales accruals under (IFRS 15)	291	331
- Personnel obligations	134	0
	425	**331**
Other non-financial liabilities (current)		
- payments received on account	1,590	644
- other taxes	19	100
- Personnel obligations	2,445	2,715
	4,054	**3,459**
Other non-financial liabilities	**4,478**	**3,790**

There are no liabilities with a maturity of over 5 years.

Note 26) Pensions and similar obligations

in kEUR	2019	2018
Present value as of 1 January	**5,554**	**5,294**
Expenses for pension entitlements	68	108
Interest expense	112	102
Pension payments	-82	-80
Gains / losses due to financial changes	1,067	135
Gains / losses due to demographic changes	0	-46
Gains / losses due to changes based on experience	0	41
Present value as of 31 December	**6,719**	**5,554**
Plan assets	0	0
Pension provisions in the balance sheet	**6,719**	**5,554**

* For subsequent years pension payments are expected to total kEUR 83 (previous year: kEUR 81).

Note 27) Provisions

in kEUR	01/01/2019	Used	Released	Added	12/31/2019
Non-current provisions					
Warranty provisions	0	0	0	139	139
Other provisions	70	70	0	0	0
	70	**70**	**0**	**139**	**139**
Current provisions					
Warranty provisions	3,195	3,189	6	3,959	3,959
Other provisions	1,296	712	40	790	1,334
	4,491	**3,901**	**46**	**4,749**	**5,293**

Note 28) Equity

The equity ratio as of 31 December 2019 and 31 December 2018 was measured as follows:

in kEUR	2019	2018
Equity	44,514	79,087
Total assets	136,637	169,925
Equity ratio	**32.6%**	**46.5%**

Earnings per share (basic)

Basic (undiluted) earnings per share are calculated by dividing the earnings that are attributable to the parent company's shareholders by the average number of shares in issue during the fiscal year.

	2019	2018
Number of shares in issue as of 1 January	17,980,867	17,980,867
Number of shares in issue during the fiscal year	1,798,086	0
Weighted average number of shares in issue	**19,778,953**	**17,980,867**

	2019	2018
Consolidated net profit/loss attributable to parent company shareholders (in kEUR)	-47,055	-13,382
Weighted average number of shares in issue	19,778,953	17,980,867
Basic (undiluted) earnings per share in EUR	**-2.38**	**-0.74**

Earnings per share (diluted)

As in the previous year, diluted earnings are the same as basic earnings. The convertible bond issued could have a dilutory effect but does not do so due to anti-dilution rules on account of the negative earnings for the year.

Other comprehensive income

Other comprehensive income in reserves, after tax, attributable to owners of the parent company, as of year-end in each case:

in kEUR	12/31/2019	12/31/2018
Other reserves	**1,683**	**953**
Financial gains / losses	2,460	1,393
Deferred taxes	-777	-440
Foreign exchange equalisation reserve	**-79**	**51**
First-time application reserve	**549**	**632**
IFRS 15	384	384
Deferred taxes	-121	-38
IFRS 9	418	418
Deferred taxes	-132	-132
Total	**2,153**	**1,636**

Note 29) Presentation of reportable segments

Presentation of reportable segments

The segmentation type is based on the management approach. Accordingly, operating segments are to be defined as corporate divisions for which separate financial information is available, and which the chief operating decision-maker regularly evaluates as part of the allocation of resources and appraisal of performance. The uppermost reporting level is decisive in this context. No summary of the operating segments was produced.

The segments "Machine Business" and "After Sales Business" were identified by the Management Board as business areas for internal reporting. The "Machine Business" segment looks at the machines from the Selective Laser Melting division together with options such as powder sieving stations and other peripheral equipment. The "After Sales Business" segment comprises service, spare parts, merchandise along with power as well as training and installation of the machines.

The two segments described formed the basis of segment reporting in the reporting period and comprise all activities of SLM in the fiscal year.

Central control elements comprise sales, the EBITDA margin and absolute EBITDA. Assets and liabilities are not disclosed separately.

Segment reporting for the 2019 fiscal year:

in kEUR	Machine Business	After Sales Business	Total
Revenue	**35,142**	**13,821**	**48,962**
Expenditure	-49,798	-25,166	-74,964
EBITDA	**-14,656**	**-11,345**	**-26,001**
Depreciation, amortisation and impairment losses			-7,377
PPA depreciation			-1,282
Interest result			-3,976
Taxes on income			-8,419
Net profit/loss for the period			**-47,055**

Segment reporting for the 2018 fiscal year:

in kEUR	Machine Business	After Sales Business	Total
Revenue	**56,274**	**15,386**	**71,659**
Expenditure	-59,739	-19,960	-79,699
EBITDA	**-3,465**	**-4,575**	**-8,040**
Depreciation, amortisation and impairment losses			-5,263
PPA depreciation			-1,282
Interest result			-4,084
Taxes on income			5,287
Net profit/loss for the period			**-13,382**

Besides depreciation and taxes on income, there was no material non-cash expenditure in the reporting year.

The segment revenue presented above relates to revenue from business with external customers. No significant transactions occurred between the different segments.

The accounting and measurement methods of the reportable segments correspond with the accounting and measurement methods used within the Group.

Segment revenue distribution:

in kEUR	2019	2018
Germany	5,442	7,624
Asia / Pacific	14,113	21,866
European countries (European Union without Germany)	17,167	23,590
United States of America	11,481	14,894
Other countries	759	3,685
	48,962	**71,659**

The revenue information provided above relates to customers' locations.

Note 30) Related party disclosures

Balances and transactions between the Company and its subsidiaries and related parties were eliminated during the consolidation process and are not explained within these notes. Details of transactions between the Group and other related parties are listed below.

Members of the Management Board in 2019:

- Uwe Bögershausen, Economist, CFO (until 30 June 2019)
- Dr. Axel Schulz, Engineer, CSO (until 31 May 2019)
- Dr. Gereon W. Heinemann, Engineer, CTO (until 18 February 2020)
- Meddah Hadjar, CEO (from 01 May 2019)
- Sam O'Leary, COO (from 01 December 2019)

Members of the Supervisory Board in 2019:

- Hans-Joachim Ihde
- Peter Grosch (until 16 April 2019)
- Bern Blackman (until 25. June 2019)
- Klaus-J. Grimberg (until 25 June 2019)
- Volker Hichert (until 13 May 2019)
- Lars Becker (until 16 April 2019)
- Michael Mertin (16 April until 5 September 2019)

- Thomas Schweppe (from 26 June 2019)
- Roland Busch (from 26 June 2019)
- Kevin Czinger (from 26 June 2019)
- Magnus René (from 26. June 2019)

Related parties to the SLM Group comprise the following:

- Ceresio GmbH
- SLM Solutions Software GmbH until 30 June 2019
- 3 D Metal Powder GmbH

No shareholder exerts direct control.

The goods and services as well as further transactions provided by 31 December or in the fiscal year to equity-accounted companies (here: SLM Solutions Software GmbH until 30 June 2019 and 3 D Metal Powder GmbH), changed as follows by comparison with the previous year:

in kEUR	Total amount in the 2019 fiscal year	Outstanding items as of 31 December 2019	Total amount in the 2018 fiscal year	Outstanding items as of 31 December 2018
Type of business				
Deliveries provided	63	0	50	1
Services received	164	0	152	23
Contribution to equity	0	0	671	0
Lendings	5	266	5	261
Outstanding / requested contributions	0	0	0	100
Advance payments	0	0	0	0

There were no transactions with related parties on non-market terms in the fiscal year.

The management consists of the Management and Supervisory boards. Management compensation is as follows:

Compensation of the Supervisory Board members of SLM AG:

in kEUR	**Supervisory Board compensation 2019**	Supervisory Board compensation 2018
Mr Ihde	45	60
Mr Grosch	12	43
Mr Hackmann	16	33
Mr Grimberg	20	40
Mr Hichert	11	30
Mr Becker	10	33
Mr Mertin	21	0
Mr Busch	20	0
Mr Czinger	13	0
Mr René	22	0
Mr Schweppe	36	0
Total	**226**	**238**

There were no further compensation agreements with Supervisory Board members in the 2019 fiscal year.

Compensation of Management Board members in 2019:

in kEUR	Salaries and other short-term benefits (performance-related)	Performance-related compensation	Share based compensation	Pension benefits	Termination benefits
Former members of the Management Board					
Dr. Rechlin	0	0	7	0	0
Mr Bögershausen	0	0	7	0	0
Mr Schöneborn	0	0	8	211	0
Members of the Management Board					
Mr Bögershausen	180	0	0	0	0
Dr. Schulz	130	0	0	0	584
Dr. Heinemann	309	100	65	0	0
Mr Hadjar	552	67	38	0	0
Mr O'Leary	128	8	6	0	0
Total	**1,299**	**175**	**131**	**211**	**584**

Compensation of Management Board members in 2018:

in kEUR	Salaries and other short-term benefits (performance-related)	Performance-related compensation	Share based compensation	Pension benefits	Termination benefits
Former members of the Management Board					
Mr Rechlin	0	0	0	0	0
Mr Schöneborn	0	0	0	45	0
Directors					
Mr Bögershausen	311	0	-185	0	0
Mr Schöneborn	131	0	-13	45	0
Dr. Schulz	289	0	18	0	0
Dr. Heinemann	130	0	16	0	0
Total	**861**	**0**	**-164**	**90**	**0**

As far as the tables are concerned, it should be noted that Dr. Markus Rechlin left the Management Board on January 23, 2017 and Henner Schöneborn on 30 June 2018. Dr. Axel Schulz left the Board on 31 May 2019 and Mr Uwe Bögershausen on 30 June 2019. Meddah Hadjar joined the Board on 01 May 2019 and Sam O'Leary on 01 December 2019.

A performance-based bonus was agreed with the Management Board which is set and determined after the approval of the consolidated annual financial statements. A provision of kEUR 175 was formed for the fiscal year 2019.

The provision for benefit entitlements for related persons totals kEUR 1,436 as of 31 December 2019 (prior year: kEUR 1,208).

Since 12/18/2015, an agreement for a share-based compensation system has been in place for the former Management Board members Dr. Markus Rechlin and Mr. Uwe Bögershausen. There has been an equivalent compensation system in place for former Board member Henner Schöneborn since 08/03/2017. This compensation scheme was extended to include Board members Dr. Axel Schulz as of 02/01/2018 and Dr. Gereon W. Heinemann as of 08/01/2018. Furthermore, Mr. Meddah Hadjar and Mr. Sam O'Leary have been entitled to the compensation scheme since 05/01/2019 and 12/01/2019 respectively. With the resignation of Dr. Schulz on 31 May 2019, all claims from this compensation scheme were settled. This program offers virtual stock (SAR), the basis for the issuance of which is the increase in the share price over the past year. At the start of the period, the Supervisory Board sets levels regards how many SARs are issued for which price increases. The maximum value of this interest is EUR 100,000 respectively EUR 150,000 p.a. The pay-out is made 2 years after the issuance of the SAR respectively at the share price applicable for payment, capped at a maximum of EUR 54.00. The agreement provides the right to settle the interest in shares, however the Supervisory Board only intends to settle in cash. As a result, the amount is accounted as cash-settled. Of the provision formed for this purpose, the sum of kEUR 132 was used in the period and recognised accordingly. As of 31 December 2019, the provision amounts to kEUR 126.

The valuation of the fair value of the liability totalling kEUR 799 was determined using a Monte Carlo method.

Note 31) Auditor's fee

The total fee invoiced by the auditor of the consolidated financial statements amounts to:

in kEUR	**2019**
Auditing of financial statements	139
Other certification services	0
Tax advisory services	0
Other services	0
Total	**139**

The audit services comprise the fees for auditing the consolidated financial statements as well as for audits of the separate financial statements of SLM Solutions Group AG prescribed in law. No further services were provided.

Note 32) Declaration of conformity to the German Corporate Governance Code

SLM AG has issued the declaration required by Section 161 of the German Stock Corporation Act (AktG), on the company's website (www.slm-solutions.com).

Note 33) Events after the balance sheet date

On 18 February 2020, Dr. Gereon W. Heinemann resigned his position as a member of the Management Board. On 2 March 2020, Mr. Frank Hülsmann resigned from his position as a member of the Management Board for health reasons.

No further events have occurred between the balance sheet date and the date of the preparation of these consolidated financial statements that have a significant effect on the Group's financial position and performance.

Responsibility statement

We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including the business result and the position of the Group, is portrayed in such a way in the Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development are fairly described.

Lübeck, 20 March 2020

Meddah Hadjar
Chief Executive Officer (CEO)
of the SLM Solutions Group AG

Sam O'Leary
Chief Operations Officer (COO)

INDEPENDENT AUDITOR´S REPORT

INDEPENDENT AUDITOR´S REPORT

„INDEPENDENT AUDITOR'S REPORT

To SLM Solutions Group AG, Lübeck

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of SLM Solutions Group AG, Lübeck, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SLM Solutions Group AG for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the „Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the „Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as „EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the „Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Material Uncertainty about the Company's Ability to Continue as a Going Concern

Please refer to Note 6 „Estimates and assumptions" in the notes to the consolidated financial statements and to the information in the section „Forecast of the company" of the group management report, in which the Parent Company's management specify that, as shown in the Company's budgeted figures for the next two financial years, negative financial performance is expected. This is due to the continued investment in research and development as well as the development of new products and the further establishment and expansion of sales.

In the course of our audit, we therefore identified the appropriateness of the going concern assumption as well as the appropriate presentation of the material uncertainty in connection with the ability to continue as a going concern in the consolidated financial statements as a significant risk and conducted the following audit procedures, among others: We first obtained an understanding of the planning process and discussed the significant assumptions involved in planning with those responsible. Further, we addressed the quality of the Group's forecasts to date by comparing the budgets from previous financial years with the earnings actually achieved and by analyzing deviations. Due to planned targets failing to materialize, we evaluated in particular the significant assumptions, such as revenue performance. In addition, we assessed both the order volume as of December 31, 2019, based on samples selected on the basis of risk and the development of order book in the initial months of 2020. Furthermore, we compared whether the assumptions are consistent with internal explanations and external market assessments. We assessed the liquidity generation measures planned by management to determine whether these are sufficiently probable and feasible. Furthermore, we evaluated the reliability of the underlying data. To take account of the current forecast uncertainty, we analyzed the effects of various scenarios on the Group's ability to continue as a going concern.

We do not issue a separate opinion on this matter.

The assumptions made by the Parent Company's management as well as the presentation in the notes to the consolidated financial statements and the group management report are plausible.

Nevertheless, it can be determined from the budget that cash and cash equivalents will be exhausted in Q2 2021 and the Parent Company will thus require liquid funds. Such funds are expected to be raised in summer 2020 by way of a financing round in the form of a capital increase and/or convertible bond from existing and/or new investors. As described in Note 6 „Estimates and assumptions" in the notes to the consolidated financial statements and the section „Company forecast" of the group management report, these events and circumstances indicate considerable uncertainty that may cast significant doubt on the Company's ability to continue its business activities and which represent a going concern risk within the meaning of Section 322 (2) sentence 3 of the German Commercial Code [HGB]. Our opinions have not been modified with respect to this matter.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

In the course of our audit, in addition to the aforementioned material uncertainty regarding the Group's ability to continue as a going concern, we identified the following key audit matter:

Recoverability of capitalized development expenses

For more information on the accounting policies applied, please refer to Note 4 „Summary of Significant Accounting and Valuation Principles" in the notes to the consolidated financial statements. Disclosures on the amount of capitalized development costs can be found in the notes under Note 21 „Intangible assets".

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of SLM Solutions Group AG, internally generated intangible assets in the amount of EUR 14.0 million (10% of total assets) were recognized under the item „Intangible assets". These concern development costs. Pursuant to IAS 38.57, 60 in conjunction with IAS 36, the Company must test the intangible assets recognized until the start of amortization annually for any impairment incurred. After amortization begins, the assets must be reviewed annually for indications of impairment. If this is the case, an ad-hoc impairment test must be carried out. For this purpose, the carrying amount of the assets is compared with their recoverable amount for the respective asset. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of fair value less costs to sell and the value in use of the asset. The recoverable amount is calculated using the discounted cash flow method. The calculation of the carrying amount is carried out regularly on the level of cash-generating units.

Impairment testing of intangible assets is complex and based on a range of assumptions that require judgment. In particular, these include the assessment as to whether there is an indication of impairment, forecast cash flows and the discount rates used.

In light of the significant decline in revenue in financial year 2019, there is the risk for the consolidated financial statements that an impairment of internally generated intangible assets existing as at the reporting date was not identified.

OUR AUDIT APPROACH

We obtained an understanding of the Company's process for the identification of indications of impairment as well as for the determination of the recoverable amount based on explanations provided by the staff of the accounting department as well as an assessment of the group accounting policy. We analyzed the indications of impairment identified by the Company and, on the basis of information obtained within the scope of our audit, assessed whether there are any indications of further impairment not identified by the Company.

With the involvement of our valuation experts, we ensured through our own comparative calculations that the Company's valuation model leads to appropriate results and assessed the appropriateness of the significant assumptions involved. In addition, we also discussed the expected cash inflows with those responsible for planning. Reconciliations were made with the budgets prepared by management and approved by the Supervisory Board to ensure their internal consistency. We also addressed the accuracy of the Company's forecasts to date by comparing the budgets of previous financial years with earnings actually generated and by analyzing deviations. Due to planned targets failing to materialize, we evaluated in particular the significant assumptions in the current budget, such as revenue performance. The appropriateness of the assumptions was assessed by way of comparison with external market assessments.

We compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

In order to take account of forecast uncertainty, we also investigated the impact of potential changes to the discount rate and the expected cash inflows on the recoverable amount (sensitivity analysis), by calculating alternative scenarios and comparing these with the Company's measurements.

OUR OBSERVATIONS

The approach including the valuation model underlying the impairment test for internally generated intangible assets is consistent with the valuation principles. The assumptions and parameters used by the Company are appropriate.

Other Information

Management and/or the Supervisory Board are/is responsible for the other information. The other information includes the following components of the group management report, whose content was not audited:

- the corporate governance statement referred to in the group management report:

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with

IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 25, 2019. We were engaged by the Supervisory Board on June 25, 2019. We have been the group auditor of SLM Solutions Group AG without interruption since financial year 2019.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Stefanie Hagenmüller.

Hamburg, March 20, 2020

KPMG AG

Wirtschaftsprüfungsgesellschaft

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Publisher

SLM Solutions Group AG
Estlandring 4
23560 Lübeck
Germany

Tel.: +49 (451) 4060-3000
Fax: +49 (451) 4060-3250
E-Mail: info@slm-solutions.com
www.slm-solutions.com

IR-Contact

SLM Solutions Group AG
Julia Stargardt

Tel.: +49 (0) 451 4060-4208
E-Mail: IR@slm-solutions.com
www.slm-solutions.com

Layout, Editor & Design

SLM Solutions Group AG
Estlandring 4
23560 Lübeck
Germany

Tel.: +49 (451) 4060-3000
Fax: +49 (451) 4060-3250
E-Mail: info@slm-solutions.com
www.slm-solutions.com

Pictures

SLM Solutions Group AG

Financial calendar

05 / 07 / 2020	Q1 Report 2020
06 / 16 / 2020	Annual General Meeting (Lübeck)
08 / 13 / 2020	H1 Report 2020
11 / 05 / 2020	9M Report 2020