

WELL PREPARED

Annual Report 2016



HIGHLIGHTS

	Unit	2016	Change (in %)	2015	2014
Revenue	TEUR	80,707	+22.0	66,137	33,559
Total operating revenue	TEUR	90,476	+15.0	78,654	39,256
Cost of materials	TEUR	-49,246	+16.5	-42,265	-21,040
Cost of materials ratio (as % of total operating revenue)	%	54.4		53.7	53.6
Personnel costs, adjusted*	TEUR	-23,328	+50.4	-15,511	-7,623
Personnel cost ratio, adjusted* (as % of total operating revenue)	%	25.8		19.7	19.4
Adjusted EBITDA**	TEUR	3,069	-61.9	8,050	4,490
Adjusted EBITDA margin** (as % of revenue)	%	3.8		12.2	13.4
Consolidated net result	TEUR	-3,483		2,160	-5,099
Earnings per share***	EUR	-0.19		0.12	-0.30
New order intake	Number of units	130	+27.5	102	62
New order intake	TEUR	79,992	+30.9	61,132	36,557
Machines sold	Number of units	118	+26.9	93	49
Of which SLM 500	Number of units	24	+50.0	16	8
Of which SLM 280	Number of units	65	+4.8	62	34
Of which SLM 125	Number of units	29	+93.3	15	7

	Unit	31/12/16	Change (in %)	31/12/15	31/12/14
Non-current assets	TEUR	40,789	+17.5	34,708	22,456
Current assets	TEUR	83,043	-12.8	95,212	89,719
Equity ratio	%	76.9		76.2	86.5
Total assets	TEUR	123,833	-4.7	129,920	112,175

* Adjusted in 2016 for the retention bonus totalling TEUR 465, and for the retention bonus of TEUR 1,277 in 2015

** Adjusted in 2016 for the retention bonus (see *) and transaction costs totalling TEUR 564, and in 2015 for the retention bonus expenses and income of TEUR 1,190

*** Basic (undiluted), calculated with 17,980,867 shares (previous year: 17,980,867 shares)

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WELL PREPARED



ON THE WAY TO BECOMING AN INTEGRATED SYSTEMS SUPPLIER

By contrast with conventional manufacturing processes such as casting or milling, an item in the additive manufacturing process is newly created from the outset from its original material. The process starts with a 3D computer-produced model of the object to be manufactured. In the next step, the model is separated into slices that are „printed“ layer by layer one on top of the other. Depending on what the item is to be used for, materials such as aluminium, nickel alloys and titanium are appropriate for metal-based additive manufacturing.



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Shorter product lifecycles often present companies with the challenge of having to redevelop and further develop already existing parts. Here, a manufacturing process’ potential already needs to be taken into maximum account during the development phase to best meet customer requirements. The construction software deployed in development plays a crucial role in this context: intelligent software can calculate a part’s stability, for example, and indicate to the user at which points material can still be saved without reducing load-bearing capacity.



In this way, additive manufacturing processes' great flexibility is exploited to the maximum, material consumption is optimised, and the possibility to reduce a component's weight is leveraged to the full.

Since 2016, SLM Solutions has been developing its own construction software optimised to develop parts produced later on SLM machines. SLM Solutions Group machines are deployed in different industrial sectors to produce a variety of workpieces. Users make the greatest quality and safety requirements of manufactured parts – including surface finish and stability, for example. The same is true of the manufacturing process on SLM machines. SLM machines are expected to manufacture parts to constantly high quality – including in relation to the reproducible precision of workpieces, for example. The properties of the metal powder utilised – including its purity, fluidity and bulk density – significantly affect the achievable results.

For this reason, SLM Solutions has been active in the metal powder manufacturing area since 2016, to supply customers with materials that ideally fit SLM manufacturing machines for the respective application cases.

SLM Solutions aims not only to offer its customers a production plant but also an extensive portfolio of solutions related to metal-based additive manufacturing. Customers can purchase on a one-stop shop basis from SLM a wide variety of the products and services they require over the years to deploy metal-based additive manufacturing. And they can be certain we will continuously use the experience we gain from our customer relationships to further develop our range of services and products, to thereby remain a leading supplier of high-quality and technologically advanced solutions.



MILESTONES IN 2016

Our joint venture for construction software

SLM Solutions formed a joint venture with Austrian software developer CADS in February 2016, and is developing construction software that enables users to develop components with greater ease.

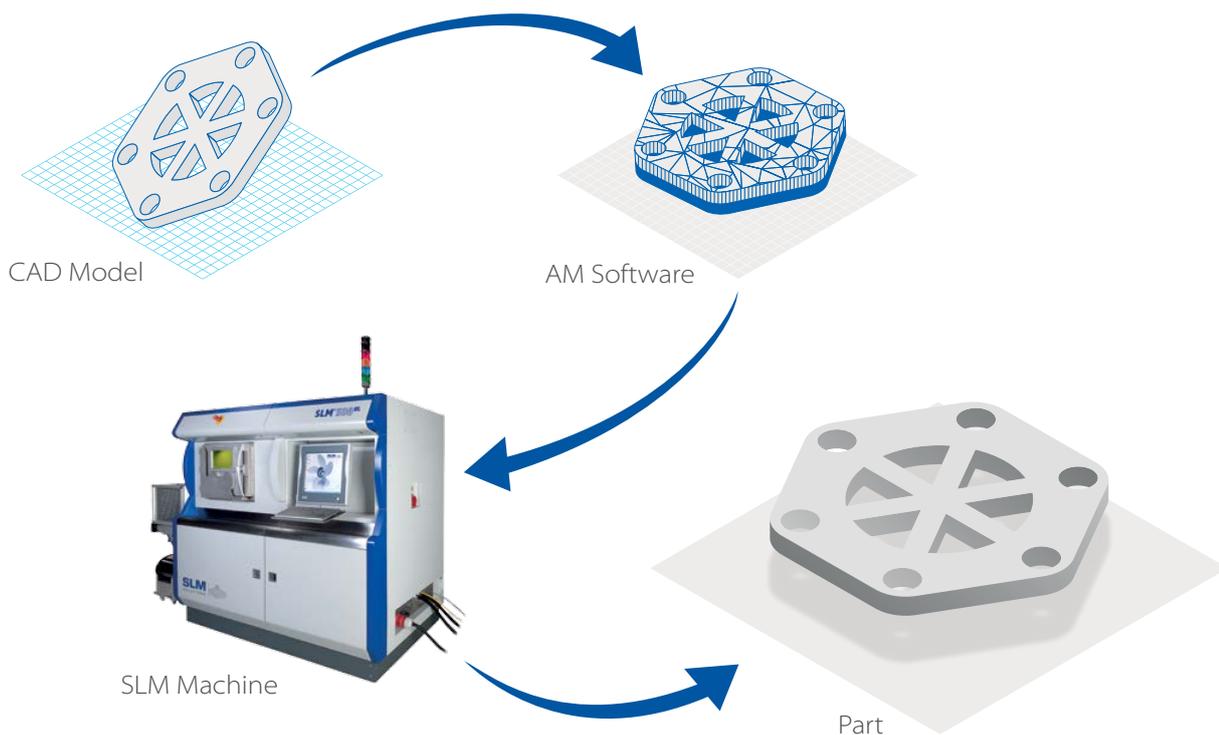
SLM has worked with the construction software of a third-party provider to date, but this software fails to address the particularities of selective laser melting and customer wishes to the desired extent.

In the medium term, proprietary software development offers a major opportunity to better meet customers' requirements in construction

practice. Construction software is designed to make the great freedom of component geometry – one of the most significant advantages offered by additive manufacturing processes – optimally usable by customers.

SLM Solutions sells this software mainly for application in combination with its own machines, but it can be applied machine-independently in principle.

The current focus is on programming the data preparation module, with beta testing to start in 2017.





Our joint venture for metal powders

A joint venture to expand the metal powder business was founded in July 2016 together with PKM Future Holding GmbH – the main shareholder of TLS Spezialpulver.

We have defined the development, production and refining steps of metallic special powders as the collaboration's essential core tasks.

The joint venture now enables the production of customised consumables for SLM machine users. SLM can thereby optimally address individual customer requirements.

Overall, production capacity for more than 100 tonnes of aluminium powder for additive manufacturing applications per year is planned initially. Along with aluminium powder, other materials are also to be produced and offered in the future.

The installation and construction of the atomisation plant will be the next major milestone in this project.

»Our joint ventures in metal powder production and software are essential for our development towards an integrated systems supplier.«

Uwe Bögershausen, CFO





EXPANSION IN LÜBECK

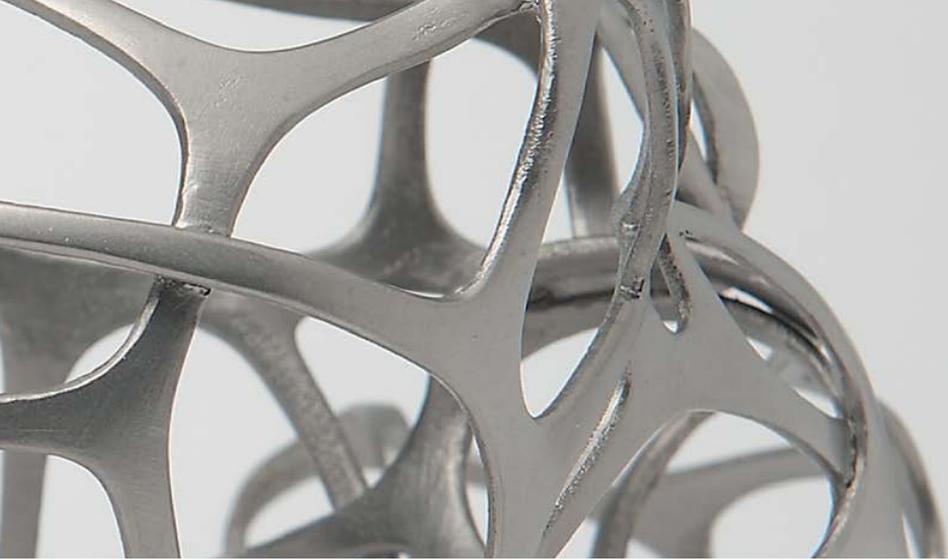
In December 2016, the initial groundbreaking ceremony for the new building for the Group's head office in Lübeck-Genin was held in the presence of 300 guests. New production halls, efficient logistics infrastructure and administrative buildings are being built in an approximately 15-month construction period.

More than 400 people will work at the new site once it is completed. The move to the new corporate headquarters is planned for spring 2018. SLM Solutions is investing a total of EUR 20 million at the Lübeck location. The state of Schleswig-Holstein is financing some of the total investment.



»Our current location is bursting at the seams, and we've already had to rent further properties. The new building for our head office forms an important element in SLM Solutions Group's future growth.«

Uwe Bögershausen, CFO



»We decided quite intentionally in Lübeck's favour when choosing the site. We want to invest in the region where we have deep roots. In our recruiting strategy, we're already seeking individuals who wish to accompany us on our path to the future.«

Henner Schöneborn



ADDITIVE MANUFACTURING IN THE AUTOMOTIVE INDUSTRY

Additive manufacturing processes are also playing an increasingly important role in the automotive industry. Renault Trucks, for example, has recently announced it aims to focus more on metal-based 3D printing in engine production in the future. Toyota, Volkswagen and BMW also aim to increasingly integrate the technology into their manufacturing.

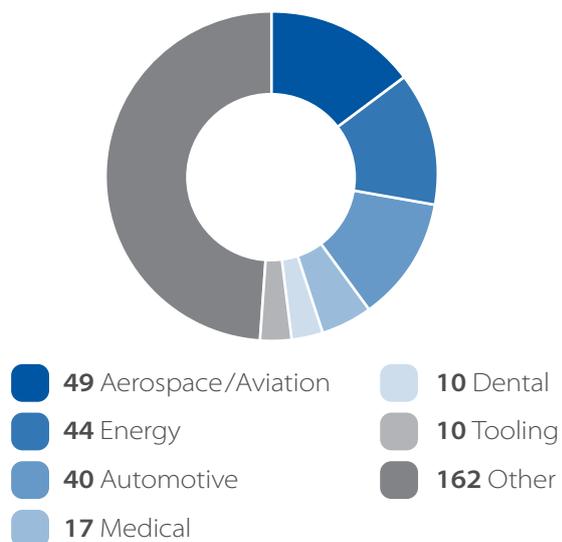
In Germany, the FIT Additive Manufacturing Group is a leading supplier of additively manufactured series components such as transmission parts. For series production, it utilises one of the world's largest manufacturing capacities for additively produced metal components – a park consisting of SLM Solutions Group machines.

FIT's focus is on realigning construction when developing components, and not just on reproducing parts originally manufactured conventionally. Applying the metal-based additive manufacturing process here allows fully new forms to be designed, and components with extremely complex geometries to be realised. The saving of surplus material this facilitates enables a marked weight reduction compared to conventionally manufactured parts. The possibility to optimise a component in relation to its intended deployment purpose also reduces the expense

for subsequent and further processing. Due to the flexibility of the additive manufacturing process, the positioning of components on the platform in the machine construction room can already be taken into consideration during construction, too, thereby exploiting maximum packing density and producing as many parts as possible with a single machine run. All of these aspects enable the FIT Additive Manufacturing Group to improve component quality while cutting costs at the same time.

Like other contract manufacturers, FIT benefits particularly from SLM systems' patented multi-laser technology, which delivers higher productivity.

Number of installed machines by sector





»We produce high-performance components and can offer our customers a significant cost saving potential. Deploying SLM Solutions Group's technologically leading production systems is of great importance to us in this context.«

Carl Fruth, member of the Management Board of FIT AG



TO THE SHAREHOLDERS

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INTERVIEW WITH THE MANAGEMENT BOARD



Uwe Bögershausen, CFO

2016 was an extremely exciting year for SLM Solutions. What conclusion do you draw from the business year just ended? What were the highlights?

Uwe Bögershausen (UB): The past year showed very clearly that general interest in our technology has grown very significantly. I think General Electric's takeover offer speaks for itself in this context. Additive manufacturing has now become quite mature and is taking its place alongside conventional manufacturing processes. Its industrial relevance is beyond question – and not just in a few niches, but in the main. With our multi-laser technology, we're a leading company that is very well positioned on the market.

The Management and Supervisory boards recommended the takeover offer. The takeover nonetheless came to nought. Are you now adjusting the strategy, inasmuch as SLM Solutions has to continue as an independent company on the market?

UB: Now some time has passed, we still take the view that it was a very good offer. But we're also continuing on our path to becoming an integrated system supplier as an independent company. We've reached important milestones in 2016 with the founding of our joint ventures in the areas of software development and metal powder production. The market for metal-based additive manufacturing processes became narrower during the second half of 2016 due to takeover

activity. You can also assume overall interest in additive manufacturing will grow even further in the future. As one of the few independent providers, we aim to consistently exploit the opportunities on offer. We're technologically very well positioned and have very good products.

How far has the establishment of the „software“ and „consumables“ business areas advanced to date and when do you expect the first positive sales and earnings effects?

UB: Establishing the two joint ventures is running to plan. We're satisfied with the progress achieved to date. As anticipated in our initial planning, from today's perspective we also expect the first sales contributions to be generated in 2018. As business development progresses, we then also anticipate tangible contributions on the earnings side.

Henner Schöneborn (HS): We're taking big strides forward. Our team in Austria has been busy programming the data preparation software since mid last year – we're going to launch beta testing in 2017. We aim to make its application easier in many sectors, and automate some aspects, including in data preparation, for example. We also want to reduce the manual interfaces and thereby contribute to standardisation in the sector. The software is designed to be deployed for all powder bed based additive manufacturing processes – although it's optimised for our machines.

In our other joint venture with the company TLS in Bitterfeld, we'll establish and install the atomisation plant for metal powder production as the next step – mainly for aluminium, but later also for further materials such as titanium and special steels.

What opportunities arise from a closer intermeshing with these areas for redeveloping and further developing 3D printing machines?

HS: We're a system supplier – most customers want a plug and play solution and in the final analysis that includes the entire package of products and services. We want to deliver everything the customer needs and everything the customer would like – from software through to powders. Our aim is to also advise and support them in integrating our technology and their technology into their manufacturing processes.

To date, the aviation industry has regularly been cited as the sector that is especially far advanced in applying additive manufacturing processes. In which sectors is additive manufacturing still gaining momentum?

UB: We're positively surprised by demand from the tooling and toolmaking areas. The automotive industry is also performing very well, and we see an increasing number of application possibilities there. From where we're looking, an increasing number of manufacturers and suppliers are making the leap from prototyping to series manufacturing. Energy sector companies appreciate additive manufacturing's flexibility where the production of replacement parts for high-performance components such as drill heads is concerned. This enables maintenance processes for capital-intensive plants to be structured more efficiently, and parts can be redeployed faster.

You received very positive feedback on your products at formnext 2016 and were pleased with how the trade fair went. What technological further developments occurred to machines in 2016, and which are planned for the future?

HS: We had a lot of talks at the trade fair. We also presented our new machine versions there and received positive feedback on them. Process smoke formation during smelting and its related extraction represents one of the challenges posed by multi-laser technology – here we've taken a big leap forward with our Version 2.0 of the SLM 280. Overall, we've improved and added 28 aspects compared with the predecessor version, all of which contribute to the system's stability and component quality. We've collected a lot of ideas for further improvements from discussions at formnext. I believe this proximity to customers is what distinguishes us and makes us strong.

Let's turn our attentions to the most recent developments in the Management Board of the SLM Solutions Group. How advanced is the search for a new CEO?

UB: The search for a successor is primarily a matter for the Supervisory Board. As far as we know, the Supervisory Board has defined a clear requirement profile and is currently in discussions with possible candidates. You can rest assured that any news will be communicated as soon as decisions have been made.

The share price was up by more than 70% in 2016. By the year-end it was higher than before the failed takeover bid. In your view, what influencing factors are driving this extremely positive performance?

UB: As far as our share's performance goes, many of our investors will be very pleased with 2016. I believe an important factor is that 2016 can be regarded as „Proof of Concept“ for our technology. Many investors might see our company in a more beneficial light in terms of their risk appraisal as a consequence. But you certainly can't rule out the possibility of the share price also being influenced by speculation about further sector consolidation.

The SLM Solution Group's strategic development has been connected with significant hiring recently. This was reflected in your cost structure accordingly. Will you continue to pursue this course in 2017?

UB: We're a growth company and will continue to adapt our structures to reflect strategic necessities – but in a considered manner. We're not building up the cost structure in anticipation of coming business, but instead conservatively once business is there. We monitor business trends very precisely and aim to have cost and sales growing in a healthy relationship with each other. We'll continue to invest where we see opportunities arise.

You failed to reach the guidance you initially issued for 2016, and you adjusted your sales and earnings forecasts during the year. What targets are you setting for 2017?

UB: 2016 was affected by extraordinary events to a great extent and fell short of our expectations. Next year, we expect a return to the previous years' strong growth: sales revenue growth is expected to lie between around 36% and 49%, so we should be in a range between EUR 110 million and EUR 120 million. We should achieve an adjusted EBITDA margin in a range between 10% and 13%. Adjusted EBITDA would then be between EUR 11 million and EUR 15 million. As far as operating cash flow goes, we aim to achieve breakeven in 2017.



Henner Schöneborn

In which direction is the additive manufacturing market developing over the coming years and what role would SLM Solutions like to play in it?

UB: We're convinced the market will continue to enjoy strong growth. The fact that our sector is currently undergoing realignment doesn't just bring risks, but also many opportunities. Our technology forms the foundation for our successful future in such an environment. We see ourselves as optimally equipped to remain a leading company in the metal-based manufacturing technology market. Our comprehensive offering for our machines will continue to make a major contribution in this context.

The final question relates to the planned construction of the new company headquarter in Lübeck: How is the progress and when is it supposed to be completed?

UB: The first cut of the spade was already in December 2016. SLM Solutions Group AG builds its company headquarter on 70,000 sqm of land, including an assembly hall, logistics, one office building as well as a customer forum and a development area. We welcome the support by the state of Schlesweig-Holstein, which supported the planned investment with a large commitment of EUR 20 million. To this day, the planning process has been an exemplary cooperation between the state, the city, our general contractor and SLM Solutions. The new building is well on schedule, we expect the entire building to be completed in the spring of 2018.

MANAGEMENT BOARD MEMBERS



Uwe Bögershausen, CFO

Uwe Bögershausen (*1973) is CFO of SLM Solutions. He studied economics at the University of Oldenburg between 1994 and 1999 (final degree: "Diplom-Ökonom"). Between 1999 and 2000, he worked as an advisor at the Wiesbaden-based company CSC Ploenzke AG, before becoming project manager at Roland Berger in the period up to 2006. From 2006 until 2010, Bögershausen held the position of CFO at aleo Solar AG, Prenzlau, where he most notably supported the company's IPO. From 2010, he was Managing Director at Derby Cycle Beteiligungs GmbH, becoming CFO at Derby Cycle AG following its IPO, a position which he held until 2012. In September 2013, Bögershausen joined SLM Solutions Holding as Head of Finance before becoming CFO of SLM Solutions as part of its transition into a stock market company in 2014. His contract runs until June 2018.



Henner Schöneborn

After graduating from Cologne College of Applied Sciences in mechanical engineering, Henner Schöneborn (*1963) went on to qualify in technical operating management at the Cologne European Academy. Before making the move to SLM Solutions, one of the positions he held was as a product manager at the Stuttgart-based tool machine technology company Hahn & Kolb. He has been working for SLM Solutions or its predecessor company since 1993, and is able to draw on almost three decades of industry experience as well as proven expertise in the field of metal-based additives and subtractive manufacturing technologies. Schöneborn has been responsible for "Corporate Development and Innovation" in the SLM Solutions Management Board since July 2014, and has a contract through until June 2017.

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

REPORT BY THE SUPERVISORY BOARD

Ladies and Gentlemen,

Metal-based manufacturing, a sector significantly influenced by SLM Solutions, is still on track to revolutionise industrial production. The entire 3D industry worldwide exceeded a value of 4.7 billion euros in 2015. Analysts estimate that this value will rise to between 20 and 30 billion euros by 2020. The proposed take-over by General Electric (USA), which we supported, did not come to fruition, as you will be aware of, but the intention of taking over SLM Solutions as technology leader certainly made waves on the global market.

Even as an independent company, we believe that we are very well positioned to help shape the way forward over the next few years thanks to our technological USPs and our outstanding team. Together with the Management Board and the other members of the Supervisory Board, I look forward to continuing to support the implementation of the Company's operating and strategic measures and push its development forwards.

Continuous dialogue

During the past 2016 fiscal year, the Supervisory Board of SLM Solutions Group AG conscientiously performed the tasks that are incumbent upon it according to the law and the Company's bylaws. It continuously consulted with the Management Board regarding the operational management of the Company, and supervised its managerial activities. 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.

Our share price performance, as well as topics of relevance to the capital market and compliance, also formed part of the regular information provided by the Management Board.



Hans J. Ihde, Chairman of the Supervisory Board

The Supervisory Board was included at an early stage in all fundamentally important decisions. 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.

The Supervisory Board Chairman and the Management Board were also in close contact 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 seven times for regular meetings during the reporting period.

The meeting on 14 June 2016 focused on the current course of business and the outlook for the rest of the 2016 fiscal year based on internally prepared documents on new order intake, the order book position, sales, revenue, production output and employee headcount. In addition to other topics, the current planning status of the new-build project in Lübeck as well as the corresponding cost estimate were also discussed.

The meeting on 30 August 2016 discussed several matters from the due diligence review conducted by GE Germany Holdings AG and General Electric Company ("General Electric") as part of a possible public takeover offer and corresponding measures. The first review by General Electric took place between mid-August and the end of August 2016 after the prior communication of an opt-out from the ad-hoc obligation to the German Federal Financial Supervisory Authority (BaFin) by SLM Solutions Group AG.

The meeting on 5 September 2016 was held in Frankfurt am Main and after in-depth discussion it focused on the draft of a business combination agreement (BCA) with General Electric that was subsequently assessed as being in the company's best interests. Discussions also covered the prospective compensation per share of SLM Solutions Group AG as well as the fairness opinion to be finalised by a selected third party. The new-build project in Lübeck as well as the current course of business were also briefly discussed in the meeting.

On 5 October 2016, the valuation memorandum and fairness opinion letter for the public takeover offer by General Electric were subject to final discussion, approved and unanimously adopted together with the joint statement of Management Board and Supervisory Board pursuant to Section 27 WpÜG. The statement was published on the following day on the Company website and in the Federal Gazette. Other topics covered in the meeting included the current course of business in 2016, technical developments in selective laser melting systems as well as the agreed merger of SLM Solutions GmbH, Lübeck, with the group parent company SLM Solutions Group AG, Lübeck.

In the Supervisory Board meeting on 15 December 2016, discussion centred on the strategic alignment of the Company after the expiry of the take-over offer from General Electric. Moreover, discussion covered the transaction-related one-off expenses incurred and the adjusted forecast for 2016 published via ad-hoc release on 1 December 2016: After the key industry trade fair formnext and the improved visibility for the year as a whole, the forecast was reduced for the full year 2016. Moreover, the meeting covered the budget planning for 2017; and binding cost cuts as part of a to be revised budget were agreed for two scenarios and in turn presented in the meeting on 1 February 2017 and confirmed by the Supervisory Board.

At the accounts meeting on 23 March 2017, the Supervisory Board concerned itself mainly with reviewing the separate and consolidated financial statements for the 2016 fiscal year and with the results of the audit conducted by auditors PricewaterhouseCoopers. In this meeting, the Supervisory Board produced an opinion assessing the efficiency of its supervisory activities and in particular their verification.

Audit committee meetings

The audit committee met five times during the reporting period. Four meetings were held in connection with the publication dates of the group financial statements and one extraordinary meeting was held in the middle of the year. On 4 May 2016, aspects of the accounting of the unaudited interim financial statements for the first quarter 2016 were discussed as well as the first condensed management report on the back of the new version of the Exchange Rules for the Frankfurt Stock Exchange published on 12 November 2015. The extraordinary meeting on 11 July 2016 focused on internal reporting, particularly the recording of cost of materials as well as the calculation of working capital and the key figures derived from it. On 3 August 2016 and 3 November 2016, the committee reviewed the financial statements for the H1 report 2016 as well as the interim report for the third quarter 2016 respectively. At the audit committee meeting on 15 March 2017, the auditor's audit report and documents relating to financial statements were subjected to in-depth preliminary examination. The auditor participated in this meeting in order to explain its audit activities.

Corporate Governance

On 22 March 2016, 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 in the version dated 5 May 2015. 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 compliance with the German Corporate Governance Code.

Audit of the separate and consolidated financial statements

The AGM elected Pricewaterhouse Coopers AG Wirtschaftsprüfungsgesellschaft, Hannover, as the Company's auditor on 14 June 2016. It audited the separate annual financial statements of SLM Solutions Group AG and the consolidated financial statements as of 31 December 2016, 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 23 March 2017, the Supervisory Board approved the separate and

consolidated financial statements, along with the separate and Group management reports for the 2016 fiscal year, including disclosures pursuant to Section 315 (4) of the German Commercial Code (HGB). The separate annual financial statements for the 2016 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 outstanding work during the past fiscal year. Thanks are also due to our shareholders, who invested their confidence and trust in us as part of our IPO and over the further course of the year. With regard to the challenges of the new fiscal year, the Supervisory Board continues to wish the Company every success.

Lübeck, 23 March 2017



Hans-J. Ihde
Chairman of the SLM Supervisory Board

Supervisory Board members

Member	Profession	Mandate outside of the SLM Group
Hans-Joachim Ihde, Lübeck (Supervisory Board Chairman)	Business executive, Managing Director of Ceresio GmbH	Ceresio GmbH, Managing Director
Peter Grosch, Kressbronn (Deputy Supervisory Board Chairman)	Supervisory Board member	Kelvion Holding GmbH Supervisory Board Chairman (until May 2016) Faster SPA, Supervisory Board member (until January 2017) 3i Group plc London, Supervisory Board member EURO-DIESEL S.A. Belgium, Advisory Board Chairman Henkelhausen Holding GmbH, Supervisory Board member VORWERK & SOHN GmbH & Co. KG, Advisory Board member
Lars Becker, Munich	Investment manager	Expertum Holding GmbH, Advisory Board member Webtrekk Group GmbH, Advisory Board member Sercoo Group GmbH, Advisory Board member
Klaus J. Grimberg, Bremen	Business administration graduate, public certified auditor	Financial Experts Association e.V., Advisory Board Chairman
Bernd Hackmann, Barsinghausen	Engineering graduate, independent consultant to technology companies	Viscom AG, Supervisory Board Chairman LPKF Laser & Electronics AG, Deputy Supervisory Board Chairman
Volker Hichert, Hamburg	Business administration graduate, Managing Director of DPE Deutsche Private Equity GmbH	Barbarossa Investment GmbH, Managing Director DPE Deutsche Private Equity Gesellschaft mbH, Managing Director Deutsche Private Equity Administration GmbH, Managing Director proFagus GmbH, Advisory Board member SEDAN Beteiligungen GmbH, Managing Director WESTFALIA-Automotive GmbH, Advisory Board member Elatec GmbH, Advisory Board member

THE SHARE

Price development

The share of SLM Solutions Group AG has been traded on the Prime Standard segment of the Frankfurt Stock Exchange since 9 May 2014 and has been part of the TecDAX technology stock index since March 2016.

The share price recorded very positive development overall during the twelve months of the 2016 fiscal year. The closing price of EUR 32.50 on 30 December 2016 was 71.1% up on the closing price on 30 December 2015 (EUR 19.00). The substantial gain in the second half of the year accompanied the period of the attempted takeover by GE Germany Holdings AG. In the period between 6 September 2016 (announcement of the takeover offer) up to and including 20 October 2016 (two trading days before the

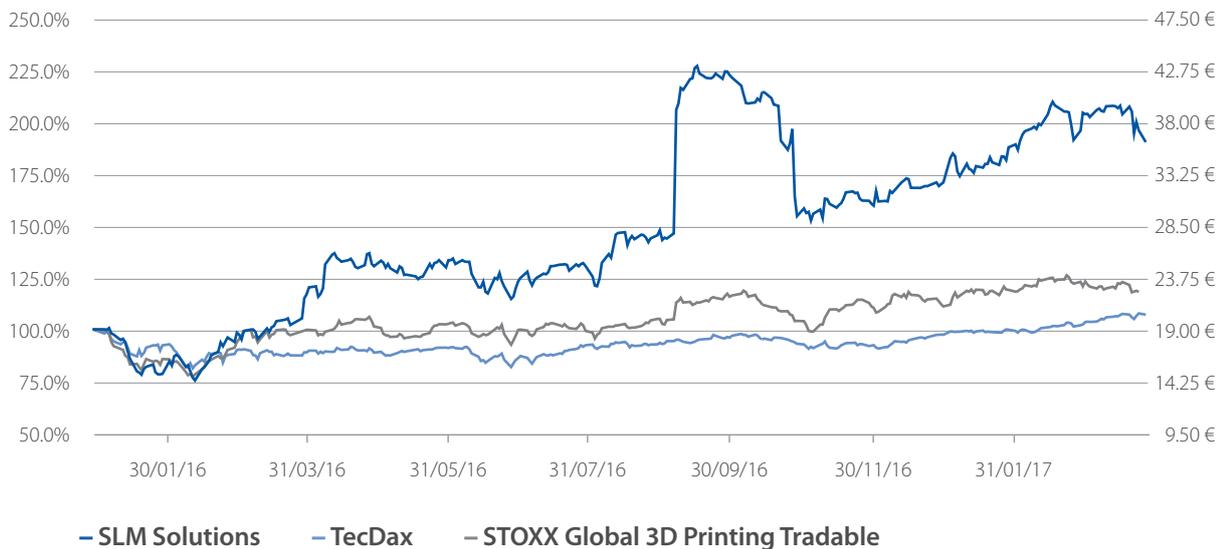
expiry of the takeover offer on 24 October 2016), the Xetra closing price of the share was permanently above the offer price of EUR 38.00 per share. In the period since the takeover offer expired, the share price has continued its upwards trajectory from the summer.

As of 31 December 2016, market capitalisation totalled EUR 584.4 million based on 17,980,867 shares in circulation (30 December 2015: EUR 341.6 million).

Overall, the Company share recorded a stronger performance during this period than the benchmark industry index STOXX Global 3D Printing Tradable (+11.1%) and the TecDAX price index (-2.6%).

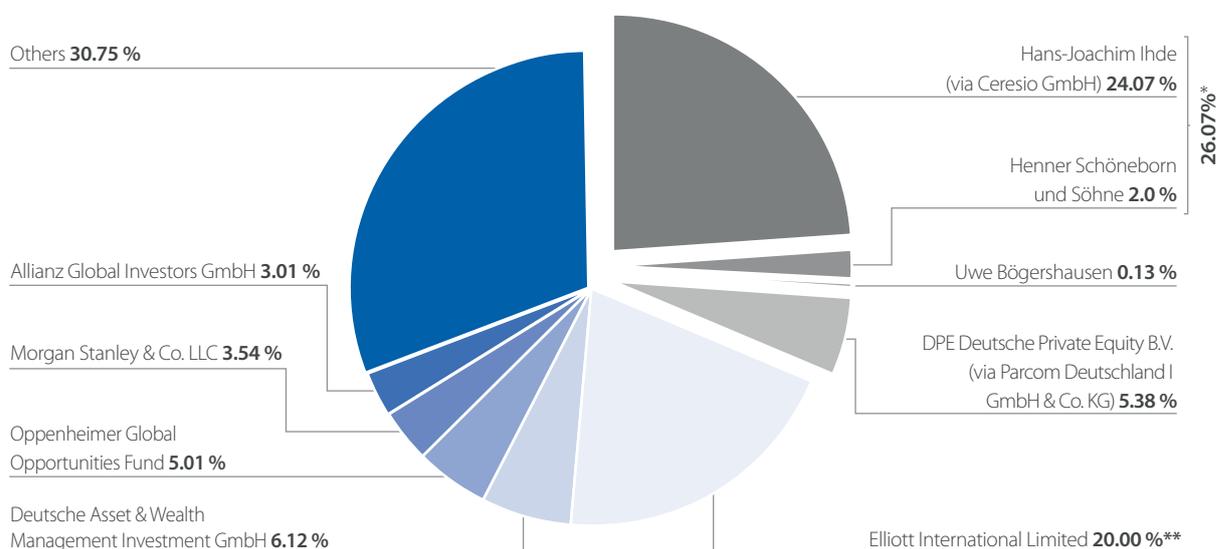
The average number of SLM Solutions Group AG shares traded daily on Xetra was 72,234 in 2016.

Share price chart (as of: 27 March 2017)



Key data (as of: 27 March 2017)

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	TecDAX
Initial listing	9 May 2014
Placing price in EUR	18.00
Closing price in EUR on 30 December 2016	32.50
Closing price in EUR on 27 March 2017	36.20
Number of shares	17,980,867 ordinary no par value bearer shares

Shareholder structure (As of: 27 March 2017)

* Pooling agreement: Representing common interests pursuant to Section 22 (2) WpHG

** Shares are attributed via the subsidiary Cornwall GmbH & Co. KG (20.001 %)

Analysts

The development of the SLM Solutions share is currently being accompanied by seven analysts. BHF-Bank and Credit Suisse terminated their coverage in the year under review, ODDO SEYDLER is a new entry. At the time of this report's publication, the majority of analysts issued a neutral or sell recommendation due to the price level.

Institute	Analyst	Date	Rating	Share price target (EUR)
Berenberg	Gerhard Orgonas	20/12/2016	Hold	33.00
CANACCORD Genuity	Bobby Burleson	03/03/2017	Hold	38.00
Commerzbank	Adrian Pehl	07/02/2017	Reduce	23.50
Deutsche Bank	Uwe Schupp	02/12/2016	Buy	40.00
equinet Bank	Cengiz Sen	06/03/2017	Reduce	27.50
HSBC	Philip Saliba	28/11/2016	Reduce	25.00
ODDO SEYDLER	Thomas Effler	27/03/2017	Neutral	38.50

Based on analyst ratings available on the cut-off date (27 March 2017)

Investor relations

SLM Solutions maintains 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 by 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 (such as new order intake or the foundation of joint ventures), detailed financial reporting, and continuous personal contact with investors, analysts, journalists and the interested public.

The Management Board of SLM Solutions Group AG also regularly participates in capital market conferences and presents the business model and strategy of SLM Solutions at road shows in Europe and North America. Investor discussions took place on 2 and 3 May 2016 as part of a Deutsche Bank road show in Munich and Paris. The Management Board was available for one-to-one discussions at the RAPID trade fair at the end of May in Orlando, Florida. Additional investor discussions were also held as part of the road show day organised by HSBC on 2 June 2016 in Frankfurt. In November 2016, SLM Solutions appeared at the Equity Forum 2016 in Frankfurt. The SLM Solutions Group also showcased the latest versions of its additive manufacturing systems at the formnext trade fair in November 2016.

Interested capital-providers, investors and analysts can find more information, which is 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 as downloads from 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

At the second Annual General Meeting of the Company in the media docks Lübeck on 14 June 2016, SLM Solutions Group AG shareholders resolved on ratification of the Management and Supervisory Boards for the 2015 fiscal year and elected the auditor for the 2016 fiscal year. The management of the Company confirmed the outlook for the current year at the Annual General Meeting. The detailed voting results and the presentation of the Management Board can be viewed on the Company's website.

Financial calendar

11/05/2017	Q1 Report 2017
02/06/2017	Annual General Meeting (Lübeck)
10/08/2017	H1 Report 2017
09/11/2017	9M Report 2017

IR contact

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GROUP MANAGEMENT REPORT

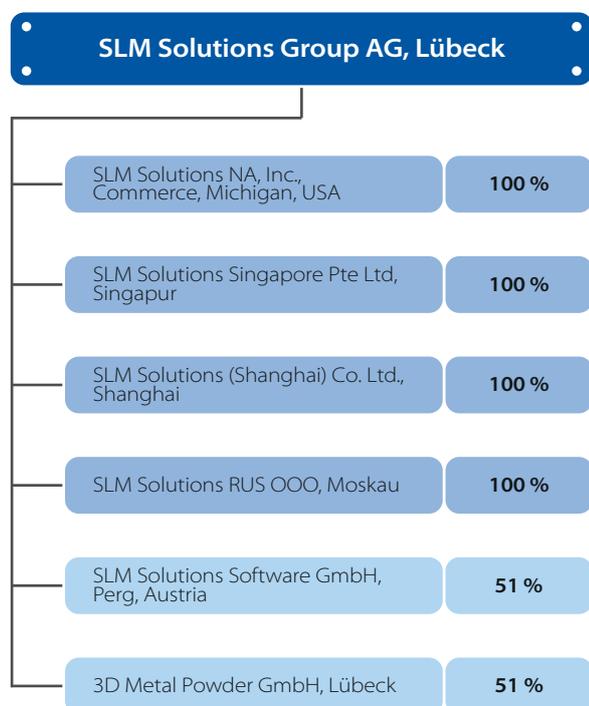
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GROUP MANAGEMENT REPORT for the fiscal year 2016

Basis of the Group

Group structure

SLM Solutions Group AG (SLM AG), headquartered in Lübeck, Germany, had four wholly-owned subsidiaries and two joint ventures as of 31 December 2016. To date, SLM Solutions Group AG has operated as the financial and management holding company within the Group. SLM Solutions GmbH, which formerly reflected the Group's only production site as well as significant parts of the operating and administration-related tasks and product development, merged with SLM Solutions Group AG as of 1 January 2016. The latter now also coordinates the global sales activities. The subsidiaries based in Singapore, the USA, China and Russia promote local sales activities in their allocated geographical regions. In addition, they also provide services for customers.



On 8 February 2016, SLM Solutions Software GmbH was founded in Austria, and SLM Solutions Group AG holds 51% of the share capital in the company. This company focuses on the development of special software which facilitates the optimal design of parts for additive manufacturing.

On 14 July 2016, the joint venture for the development, production and sale of metal powders founded with the main shareholder of TLS Technik GmbH & Co. Spezialpulver KG in Bitterfeld ("TLS Spezialpulver") was entered into the commercial register. SLM Solutions Group AG also holds 51% of the share capital in the Lübeck-based company 3D Metal Powder GmbH.

Employees

Full-time equivalents (FTE)	31/12/16	31/12/15
Research and development	64	57
Sales	66	48
After Sales	49	32
Production	116	93
Administration	37	30
Total	332	260
of which Europe	292	231
of which USA	26	17
of which Asia	14	12

Business model

SLM Solutions Group AG, headquartered in Lübeck, Germany, is a leading provider of **metal-based additive manufacturing technology** ("3D printing technology").

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

- The **"Machine Sales"** segment encompasses the development and production as well as the marketing and sale of machines 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"** 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. The business with software and consumables (metal powders), which is currently being established, as well as training and other services not connected to machines is allocated to this segment.

The **product range** currently comprises three systems – the SLM 125, the SLM 280 and the SLM 500 – which are differentiated according to 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, Inconel, 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 Company had the chance to showcase the latest model of the SLM 280 series version at formnext 2016. Within the scope of close customer relationships, special designs, e.g. with larger build chambers, also have a role to play.

SLM Solutions' systems use **selective laser melting technology**: The additive manufacturing process begins with a computer-generated 3D model of the object to be manufactured. 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.

One of the significant **benefits of additive manufacturing** 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 part's desired functionalities. 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 estimates by the consultancy Bain & Company, additive manufacturing has left the experimentation phase. Large industrial companies with long-standing experience in additive manufacturing have increasingly integrated the new technologies into the value creation chain in order to tap competitive advantages. In terms of the organisational structure, the use of additive technologies shifts the focus away from operating production systems and supply chain management, and increasingly towards engineering and production planning.¹ Boston Consulting Group can already identify

¹Bain & Company: Five questions to shape a winning 3-D printing strategy, 13 November 2015, <http://www.bain.de/press/press-archive/3d-druck-an-der-schwelle-der-massenanfertigung.aspx>

financially advantageous applications for additive manufacturing processes today. These include the individual manufacturing of medical products or the production of high-quality, complex components in the aerospace industry.²

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. Differentiation can be made among SLM machine customers between contract manufacturers and end customers. SLM Solutions' **target markets** include the regions North America and South-East Asia in addition to Europe (including Germany).

SLM Solution's machine business is subject to **seasonal fluctuations** typical for the industry: In general, a significant share of revenue and 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 of SLM Solutions intends to counter this seasonality somewhat going forward by expanding the After Sales business, particularly by extending the product range to include products less subject to fluctuations, such as consumables and software.

Targets and strategy

SLM Solutions pursues the objective of remaining **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 its technology leadership in the metal-based additive manufacturing area. The intellectual property rights portfolio is continuously optimised. The team of R&D employees built up over the past few years ensures the extension of the technology leadership 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. The joint venture founded with CADS GmbH from Austria serves to develop special construction software in house. This software is intended to facilitate the optimal design of components for additive manufacturing and indirectly contribute to the further propagation of additive product methods by breaking down the barriers to entry. Together with the cooperation with the engineering office JUREC from Blankenburg, software development represents an opportunity to better deliver on the requirements of customers' construction work. In addition, SLM Solutions is committing more strongly to the business with metallic powders, which is the input material for production using SLM Solutions' selective laser melting systems: 3D Metal Powder GmbH was entered into the commercial register on 14 July 2016. The expansion in the powder business is also intended to be established as a second pillar of business in addition to machine sales, and should contribute to a lessening of the typical industry seasonality of the Group on a revenue and earnings level. As materials can be tailored extremely precisely to the respective application or machine, above-average margins can be achieved with the development and sale of metallic powders.

² Boston Consulting Group: Is It Time to Take the 3-D Plunge? Hope Versus Hype in Additive Manufacturing, 4. Dezember 2015, <https://www.bcgperspectives.com/content/articles/engineered-products-project-business-time-to-take-3-d-plunge/>

- Given the complexity of selective laser melting, 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.
- In addition, the **adjusted 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 without extraordinary influences 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:

Management system

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

- The Company's **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.
- The **personnel cost ratio** (defined as personnel costs in relation to total operating revenue, adjusted for one-off expenses)
- **Cost of materials ratio** (defined as cost of materials in relation to total operating revenue)
- **Product mix in the number of machines sold and new order intake**

Research and development

Research and development are significant components of the business success of SLM Solutions. Further market potential in the industrial manufacturing area is being increasingly tapped by progress made with multi-laser technology. The Company commands an extensive portfolio of intellectual property rights, including patents and licenses for selective laser melting technology and the hull-core imaging process.

As a selective laser melting pioneer, SLM Solutions benefits from worldwide cooperation ventures with universities and research institutions, some of which are subsidised by public-sector funding – in Germany, for example, by the Federal Ministry for Economic Affairs and Energy (BMWi) and the Federal Ministry of Education and Research (BMBF). In Singapore, SLM Solutions has been conducting development work into selective laser melting technology in cooperation with Nanyang Technical University (NTU) since 1 September 2014. Investments in research and development focus on the areas of build chamber expansion, process improvement, materials research, the endurance and reliability of our selective laser melting systems, further improvements to build rates and software development. Moreover, a further focus is the increasing value chain organisation in industrial manufacturing processes (“Industry 4.0”).

The research and development department of SLM Solutions consisted of 64 FTEs (full-time equivalents) as of 31 December 2016 (previous year: 57 FTEs). Research and development expenses totalled TEUR 8,414 during the reporting period (previous year: TEUR 5,380).

Economic and business report

Macroeconomic situation in the target markets

The gross domestic product (GDP) in the important home market of **Germany** grew by 1.9% year on year in 2016 on a price-adjusted basis according to information from the Federal Statistical Office. This positive overall economic development was largely driven by domestic momentum: Private spending rose by 2.0% on a price-adjusted basis. Public spending increased even more strongly, recording growth of 4.2%. This robust rise is attributable to the high immigration level in 2016. In total, consumer spending rose by 2.5% and was the largest driver of German economic growth in 2016. Investments in equipment were up 1.7% on the previous year on a price-adjusted basis.³

For 2017, Kiel Institute for the World Economy anticipates growth in German GDP of 1.7%. No negative impacts are expected in the short term from either the Brexit vote or the US presidential elections. As a result, a rise in exports is forecast which could support the upwards momentum. However, positive domestic economic forces are likely to remain more important: Construction investment could continue to rise given the favourable financing conditions available. Thanks to the favourable employment market situation and the continued sharp rise in public transfer payments, private spending will also likely continue its strong growth. However, a rise in oil prices could mean that private spending is no longer stimulated by low energy prices.⁴

³ Federal Statistical Office, “Deutsche Wirtschaft im Jahr 2016 weiter im Aufschwung”, Press release from 12 January 2017

⁴ Kiel Institute for the World Economy, “Kieler Konjunkturberichte”, “Deutsche Konjunktur im Winter 2016”

According to the latest forecast from the International Monetary Fund (IMF), the **global economy** grew 3.1% in 2016.⁵ The IMF is anticipating growth of 3.4% for 2017. This is strongly influenced by the assumption that the situation is likely to normalise in emerging nations and developing countries which currently face macroeconomic challenges.

The IMF is estimating growth of 1.7% in 2016 for the **Eurozone**. For 2017, the organisation anticipates that Eurozone growth will slow slightly to 1.6%.

The International Monetary Fund anticipates economic growth of 1.6% in 2016 for the **US economy**. Assuming that the US economy is stimulated by politicians, the IMF expects economic growth to rise to 2.3% in 2017.

The IMF anticipates that economic output in **Russia** decreased by 0.6% in 2016. A return to growth is expected for 2017 (+1.1%).

The International Monetary Fund is also anticipating economic growth of 6.3% in 2016 in the pooled region **“Emerging and Developing Asia”**, which encompasses the ASEAN economies (Association of Southeast Asian Nations) in addition to China and India. A slight rise of 6.4% is forecast for 2017. The ASEAN member states include important target markets for SLM Solutions in Singapore, Indonesia, Thailand and Vietnam.

Market for additive manufacturing

SLM Solutions operates in the very attractive global **growth market for additive manufacturing processes**. In their most recent industry report 2016, experts from Wohlers Associates anticipate significant growth for the overall global market. They estimate that the global market volume for additive manufacturing (machine sales and services for all additive processes) totalled USD 5.2 billion in 2015 after average annual growth of 31.5% in the years from 2013 to 2015. The market volume is forecast to be USD 8.8 billion in 2017, USD 15.8 billion in 2019 and USD 26.5 billion by 2021.

SLM Solutions has identified attractive growth opportunities in the field of metal-based additive manufacturing: The number of **machines sold** globally in this sub-market rose by 46.9% in 2015 according to Wohlers Associates. The global market volume in the field of **metallic consumables** rose by 80.9% in 2015 to USD 88.1 million.⁶ According to a global survey of 900 companies from 12 countries by the auditing and consulting firm EY, 52% of those surveyed named metal (52%) as the most important input material in relation to introducing additive production systems, well ahead of polymers (31%) or ceramics (6%).⁷

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, according to Roland Berger strategy consultants.⁸ Moreover, additive manufacturing processes are now said to be mature enough for use in series production. From a technical point of view, this degree of development 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.

⁵ International Monetary Fund; World Economic Outlook Update, January 2017

⁶ Wohlers Associates, Annual Worldwide Progress Report 2016, April 2016

⁷ EY, EY's Global 3D printing Report 2016, press conference (Presentation), 19 July 2016,

[http://www.ey.com/Publication/vwLUAssets/ey-praesentation-3d-druck/\\$FILE/ey-praesentation-3d-druck.pdf](http://www.ey.com/Publication/vwLUAssets/ey-praesentation-3d-druck/$FILE/ey-praesentation-3d-druck.pdf)

⁸ Roland Berger, Additive Manufacturing – a game changer for the manufacturing industry?, November 2013

Business progress

SLM Solutions received orders for 130 machines during the 2016 fiscal year (previous year: 102 machines). This represents an increase of 27.5% compared to 2015. 82 of these machines were ordered by new customers. The 130 machines also include used machines which were previously used as demonstration systems, among other uses.

The machines ordered in 2016 were worth a total of TEUR 79,992. This represents an increase of 30.9% compared to the previous year period (previous year: TEUR 61,132). The order value is primarily determined by the product mix in the respective orders placed.

In the 2016 fiscal year, the "Machine Sales" segment, which encompasses machine sales and accessories, contributed revenue of TEUR 69,675 (previous year: TEUR 59,165) and therefore 86.3% of group revenue (previous year: 89.5%). The "After Sales" segment, which encompasses service revenue, sales of replacement parts and sales of merchandise, generated revenue of TEUR 11,032 in 2016 (previous year: TEUR 6,972) and therefore 13.7% of consolidated revenue (previous year: 10.5%).

Important strategic partnerships were established during the reporting period. In the application software field, SLM Solutions Software GmbH was founded in February 2016 together with the Austrian company CADS GmbH based in Perg. The common goal is the in-house development of a software intended to facilitate the development of additive parts for buyers of SLM Solutions systems. In addition, entry into the powder business was pushed forward in an effort to achieve a position in which made-to-measure consumables can be delivered for each respective customer application: 3D Metal Powder GmbH was entered into the commercial register on 14 July 2016 based on the basic agreement made with PKM Future Holdings (majority shareholder of TLS Spezialpulver) in February 2016. The main core tasks of the collaboration have been defined as the development, production and refinement of special metallic powders. Initially, a production capacity of 100 tons of powder a year is to be set up for aluminium.

SLM Solutions was able to continue to push forward the international expansion of the Company by opening an office in Moscow in February 2016. This branch office bolsters sales and service in another foreign growth market.

The second Annual General Meeting of SLM Solutions Group AG was held on 14 June 2016, at which the shareholders ratified the actions of the Management Board and Supervisory Board of the Company for the 2015 fiscal year and elected the auditor for the 2016 fiscal year. The voting results were subsequently published on the Company website.

The second half of 2016 was particularly dominated by the takeover offer by GE Germany Holdings AG announced on 6 September 2016 and published on 26 September 2016. After the minimum acceptance threshold of 75% of the outstanding SLM shares was not reached, the offer expired on 24 October 2016, 12:00 midnight local time in Frankfurt. The Management Board and Supervisory Board of SLM Solutions Group AG had recommended unanimously on 5 October 2016 to accept the takeover offer.

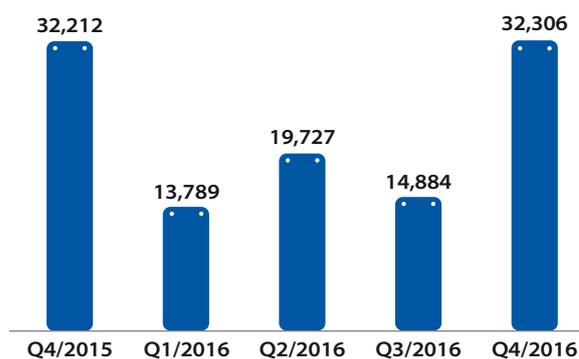
Due to the expansion of production in Germany, SLM Solutions is planning to move within its home town of Lübeck from the Roggenhorst industrial estate to the Genin Süd industrial estate by 2018. A seven-hectare property was purchased at the latter in 2015, and payment was made at the start of 2016. In December 2016, 300 guests attended the ground-breaking ceremony for the construction of the new group headquarters.

The 2016 fiscal year was dominated by extraordinary events and ultimately fell short of expectations. Nevertheless, the Management Board of the Company does not view business development in 2016 as negative overall. The general interest in the technology rose considerably and the industrial relevance is undeniable.

Results of operations

The consolidated revenue of SLM Solutions Group AG was up by 22.0% to TEUR 80,707 in the 2016 fiscal year (previous year: TEUR 66,137). 86.3% of revenue stems from the core business of the Company in the sale of laser melting systems (previous year: 89.5%). This segment's revenue rose by 17.8% to TEUR 69,675 (previous year: TEUR 59,165). Revenue of TEUR 11,032 (previous year: TEUR 6,972) was generated in the After Sales segment, representing a contribution of 13.7% overall (previous year: 10.5%). This segment encompasses all sales not included in machine sales and mainly comprises sales of consumables, replacement parts and service agreements.

Revenue development (TEUR)



As a result, the forecast for the 2016 fiscal year which was reduced to a corridor between TEUR 75,000 and TEUR 80,000 in December was slightly exceeded. SLM Solutions had originally anticipated revenue between TEUR 85,000 and TEUR 90,000, however it was forced to revise this forecast downwards due to the changing dynamic of the market environment in the second half of 2016. This change was substantially influenced by the takeover offer submitted by the company General Electric.

Total operating revenue (the sum of sales revenue, inventory changes and other own work capitalised) of TEUR 90,476 was up by 15.0% compared with the previous year (previous year: TEUR 78,654). This reflects the 27.5% rise in new order intake (28 machines) compared to 2015. The increase in finished goods and work in progress by TEUR 6,309 was below the level of the previous year (TEUR 8,434), as was own work capitalised totalling TEUR 3,460 (previous year: TEUR 4,082).

Other operating income came in at TEUR 1,539, lower than in 2015 (TEUR 2,067). This largely consists of the release of provisions and income from currency fluctuations.

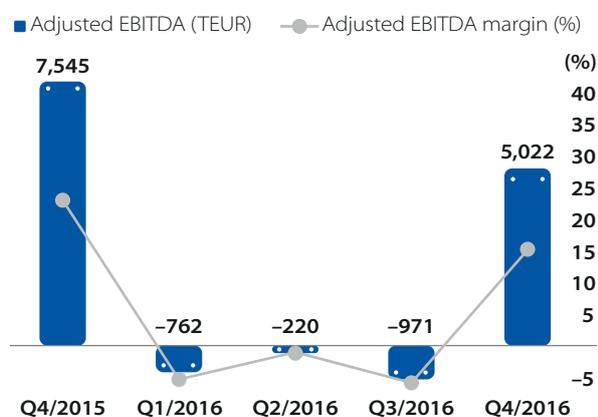
Cost of materials grew slightly stronger than the rise in total operating revenue, up 16.5% to TEUR 49,246 (previous year: TEUR 42,265). The cost of materials ratio (as% of total operating revenue) came in at 54.4%, on a par with the previous year (previous year: 53.7%).

The increase in personnel to 332 full-time equivalents (FTEs) as of the reporting date 31 December 2016 (31 December 2015: 260 FTEs) was the reason for the disproportionate rise in adjusted personnel costs by 50.4% to TEUR 23,328 (previous year: TEUR 15,511). The adjusted personnel cost ratio (as% of total operating revenue) was therefore at 25.8% (previous year: 19.7%). The 2016 fiscal year was adjusted for personnel costs of TEUR 465 for the three-year employee retention bonus program set up for the IPO in 2014 (previous year: TEUR 1,277). On an unadjusted basis, personnel costs for the 2016 fiscal year came in at TEUR 23,793 and were therefore 38.5% up on the previous year figure of TEUR 17,179.

Other operating expenses totalled TEUR 16,936 in 2016 and were therefore 18.5% up on the previous year figure of TEUR 14,298. The main items within this figure were rental expenses, trade fair and marketing costs as well as travel expenses.

EBITDA (earnings before interest, taxes, depreciation and amortisation) adjusted for the effects resulting from the retention bonus totalling TEUR 465 as well as for the transaction costs of TEUR 564 incurred as part of the takeover offer totalled TEUR 3,069 during the reporting period (previous year: TEUR 8,050). The adjusted EBITDA margin (as% of revenue) came in at 3.8% for the 2016 fiscal year (previous year: 12.2%). The adjusted EBITDA margin forecast in December 2016 in the single-digit region was achieved. Originally, the management anticipated an increase in the adjusted EBITDA margin for 2016 year on year, however the Company was unable to realise this primarily due to the lower revenue growth in the second half of the year. On an unadjusted basis, EBITDA stood at TEUR 2,040 in 2016 (previous year: TEUR 6,978), while the corresponding margin came in at 2.5% (previous year: 10.6%).

Adjusted EBITDA (TEUR) and EBITDA margin (%)



Depreciation and amortisation rose compared to the previous year by 59.7% to TEUR 5,190 (previous year: TEUR 3,250). This figure includes amortisation relating to purchase price allocations (PPA) totalling TEUR 1,282, similar to the previous year. In particular, the rise in investment in the previous year focusing on technical systems and machines impacted the level of depreciation and amortisation.

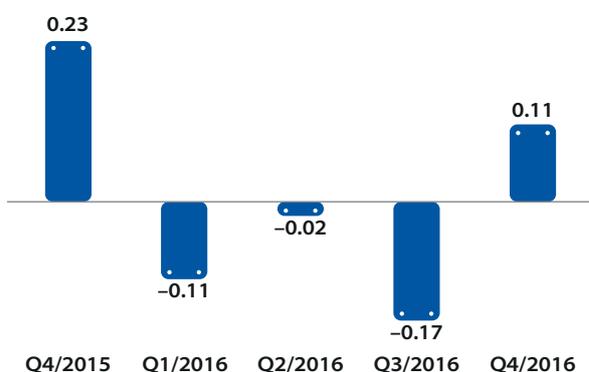
The operating result (EBIT) came in at TEUR –3,150 in the 2016 fiscal year (previous year: TEUR 3,728). The EBIT margin (as % of revenue) stood at –3.9% in the reporting period and was therefore substantially worse than the previous year (previous year: 5.6%).

The financial result came in at TEUR –662 for the 2016 fiscal year (previous year: TEUR –14). This was made up of interest expenses of TEUR –194 (previous year: TEUR –111), interest income of TEUR 13 (previous year: TEUR 97) and income from investments of TEUR –481 (previous year: TEUR 0). Income from investments stems from SLM Solutions Software GmbH and 3D Metal Powder GmbH, in which SLM Solutions Group AG holds 51% of the share capital respectively. Both joint ventures were founded during the course of 2016.

Tax income came in at TEUR 328 for the 2016 fiscal year (previous year: Tax expense of TEUR 1,435).

The net result for the period after taxes totalled TEUR –3,483 for the 2016 fiscal year (previous year: TEUR 2,160). This corresponds with basic and diluted earnings of EUR –0.19 per share (previous year: EUR 0.12). The earnings per share figures provided in this paragraph are calculated based on 17,980,867 shares in circulation.

Earnings per share (undiluted) (EUR)



Financial position

Cash flow from operating activities came in at TEUR –6,283 in the 2016 fiscal year, down on the previous year figure (previous year: TEUR –7,364). This was mainly due to the negative net result for the 2016 fiscal year.

Cash outflows as part of investment activity of TEUR –13,696 were recorded in 2016, up on the previous year (TEUR –11,300). The cash outflow relating to the property purchase in Lübeck totalling TEUR 4,225 is contained in cash outflows for investments in intangible assets and property, plant and equipment totalling TEUR –14,398 (previous year: TEUR –7,218). As in the previous year, additional investments in the reporting period were dedicated to application-oriented technology for the Machine Sales segment, some of which was reported under own work capitalised. Moreover, cash flow from investing activities contains a return from a fixed-term deposit made in the second half of 2015 totalling TEUR 5,002 (previous year: TEUR –5,002).

Cash flow from financing activities was roughly on a par with the previous year for 2016 at TEUR –33 (TEUR –58).

Cash and cash equivalents (less fixed rental deposits with a term of more than three months totalling TEUR 31) stood at TEUR 19,997 as of 31 December 2016 (31 December 2015: TEUR 39,888).

The Company has received a commitment for lines of credit (current account and guarantees) totalling TEUR 7,000, which was only used to secure the guarantees with TEUR 3,538 due to the upbeat liquidity situation.

Net assets

The total assets of SLM Solutions AG totalled TEUR 123,833 as of 31 December 2016 (31 December 2015: TEUR 129,920).

Non-current assets of TEUR 40,789 as of the reporting date were up on the previous year (31 December 2015: TEUR 34,708). As in the previous year, intangible assets of TEUR 22,005 comprised the largest share of non-current assets (31 December 2015: TEUR 21,638). These mainly encompass laser technology and capitalised development expenses. The rise in property, plant and equipment to TEUR 18,360 is attributable to investments in the property for the planned new build as well as demonstration and development systems (31 December 2015: TEUR 13,032). The interests in the joint ventures as well as a loan to 3D Metal Powder GmbH totalling TEUR 371 (previous year: TEUR 0) was reported in financial assets.

Current assets came in at TEUR 83,043 on the reporting date (31 December 2015: TEUR 95,212). As a result, it made up 67.1% of total assets (previous year: 73.3%). The main reason for the fall in its overall share was the decrease in cash and cash equivalents to TEUR 20,028 (31 December 2015: TEUR 39,920). Trade receivables of TEUR 29,145 were up on the previous year figure (31 December 2015: TEUR 26,341). The same applies for inventories of TEUR 31,107, which was higher than the previous year (31 December 2015: TEUR 21,663).

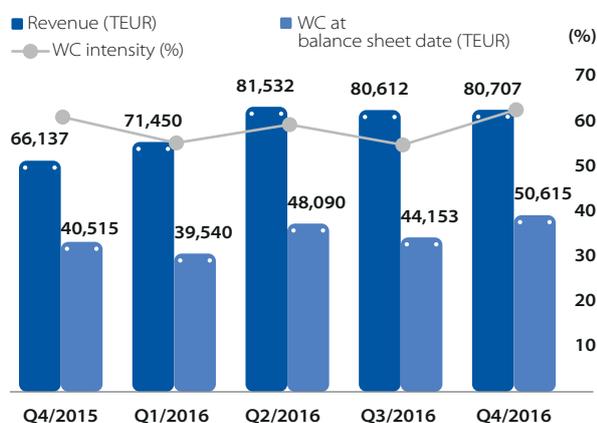
The Company's equity fell year on year to TEUR 95,202 on the reporting date (31 December 2015: TEUR 99,004). The equity ratio rose to 76.9% (31 December 2015: 76.2%).

Non-current liabilities remained roughly on a par with the previous year level at TEUR 7,793 (31 December 2015: TEUR 7,394). Deferred tax liabilities were reduced to TEUR 1,566 (31 December 2015: TEUR 2,497). However, pension obligations of TEUR 5,112 were up on the previous year (31 December 2015: TEUR 4,375).

Current liabilities came in at TEUR 20,839 on the reporting date, below the previous year's figure of TEUR 23,521. Current provisions of TEUR 2,494 (31 December 2015: TEUR 2,551), as in the previous year, mainly consisted of provisions for warranty and maintenance services. Trade payables and other liabilities came in at TEUR 14,348 on the reporting date, up on the previous year (31 December 2015: TEUR 11,121).

Working capital totalled TEUR 50,615 on the reporting date (previous year: TEUR 40,515). In relation to the annual revenue of TEUR 80,707 (previous year: TEUR 66,137), this resulted in working capital intensity of 62.7% (previous year: 61.3%). Trade receivables, inventories and trade payables were all included in the calculation for working capital on the reporting date 31 December 2016.

Working Capital (%)



Events after the balance sheet date

After the end of the reporting period, no events of particular significance occurred that have effects on the financial position and performance

Opportunities and risks

Management system for opportunities and risks

SLM Solutions Group AG operates in a technologically sophisticated and demanding market of the future 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 positive growth and 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 SLM Solutions Group identify opportunities and risks at an early stage, and respond proactively to them. As a consequence, the risk management system comprises not only an important safeguarding instrument, but also helps the Company achieve its objectives.

This risk management system is continuously evolving and is largely based on a nine-cell matrix, in which both the event risk and the risk effect are divided into the three categories low, medium and high. This ranking method (risk ranking sequence) is readily comprehensible, creates a high degree of risk transparency, and provides an easy visual overview. The risk policy principles are set out in a risk manual that defines and describes the risk management process. This manual is reviewed frequently and revised when required, and is binding for SLM Solutions Group AG and its subsidiaries. All relevant risks are identified, quantified, communicated and managed systematically as part of an annual risk inventory. 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" is understood to refer to the possibility of negative future changes to a company's financial position, and the term "opportunity" 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 the risk that events or actions prevent 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 management meetings. Appropriate countermeasures are launched if risks are identified.

Central risk responsibility lies with the Management Board. The Company is not aware of any current going concern risks to SLM Solutions Group AG.

SLM Solutions Group AG works continuously on the further development and improvement of the management system for opportunities and risks. Established structures ensure that opportunities and risks of relevance to business operations are identified in good time.

Internal controlling and risk management system in relation to the Group financial accounting process (report pursuant to Section 315 (2) No. 5 of the German Commercial Code (HGB))

SLM Solutions Group AG has an internal controlling and risk management system relating to the Group financial accounting process in which appropriate structures and processes are defined, and which is 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 compliance with statutory standards, accounting regulations and internal accounting instructions that are binding for all of the companies included in the consolidated financial statements. Amendments to laws and financial accounting standards, as well as other promulgations, are analysed continuously in relation to their relevance and effects for the consolidated 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 consolidated 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 who make recourse to 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 controlling system is continuously developed further and adapted to the Company's strong growth. A backlog of documentation and entering of updates into the technical system cannot be excluded in 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.

Risk profile

The various risks that have been identified and quantified are allocated to the risk areas.

As part of the ongoing risk inventory, so-called observation areas (risk areas) have been defined for SLM Solutions in an effort to minimise the organisational workload and better handle these risks. 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

The level of a risk can be defined according to the event risk and the degree of its impact.

The criterion "degree of impact" is based on the assessment of the valuing party. The valuation is a gross figure.

The following categories have been defined for this:

- Low (up to EUR 250,000)
- Medium (up to EUR 1,000,000)
- High (over EUR 1,000,000)

The "event risk" dimension allows the risk assessment to be categorised - in relation to the likelihood of occurrence within one year:

- Low (up to 33%)
- Medium (up to 66%)
- High (up to 99%)

The various risks that have been identified and quantified are allocated to the risk areas.

In total, 117 risks to SLM Solutions were identified as of 31 December 2016.

None of these risks were considered to endanger the survival of the Company as a going concern.

In total, nine risks were identified as being action-relevant. These individual risks are described in the following, together with the countermeasures introduced.

Seasonal fluctuation

This risk was estimated to have a high event risk and a high risk effect.

In an effort to reduce the risk of seasonal fluctuations, SLM Solutions is increasing its mix within the customer portfolio of production companies, service centres and research institutions. In addition, the Company is continuing to expand its After Sales business which is less afflicted by these fluctuations.

More intense competition

This risk was assessed as having a medium event risk and a high risk effect.

More intense competition or the entry of new competitors onto the market could lead to SLM Solutions losing market shares, as well as to an increase in pricing pressure and corresponding margin reduction. SLM Solutions maintains its competitive advantage and raises the market entry barrier for third parties by permanently investing in the development of new components and machines and further developing the technology already established on the market.

Personnel recruitment, development and retention of qualified personnel

This risk was assessed as having a high event risk and a high risk effect.

SLM Solutions operates in a technologically sophisticated and demanding market. Consequently, SLM Solutions depends on the recruitment, development and retention of qualified managers and staff. That is why appreciation of employees is a key component of the corporate culture and an element of the management at SLM Solutions. SLM offers its employees attractive training, promotion and personal development options.

Product defects

This risk was assessed as having a high event risk and a high risk effect.

In addition to the direct costs incurred, damage to reputation which could lead to the loss of customers in the short to medium term could result from the assertion of warranty claims, claims stemming from damage to persons or property, product liability or similar claims. Among other things, a service database and regular quality meetings were implemented as countermeasures.

Disruptions to production operations

This risk was assessed as having a medium event risk and a high risk effect.

Certain risks and restrictions exist for SLM Solutions in connection with possible production disruptions. If production operations are disrupted, the timely delivery of products could not be guaranteed in the short term, which could result in either additional costs or a loss of revenue on the back of image damage in the medium term. SLM Solutions is working on plans for possible scenarios, allowing alternatives to be set in motion if disruptions occur.

Failure or slow-down of the growth strategy

This risk was assessed as having a medium event risk and a high risk effect.

The growth planned by SLM Solutions could be lower than planned. The event risk of this risk has been considered "medium", however the effects would be high as the expected effects of fixed cost depression would not be reached and the investments already made in the current growth phase could not be realised in future.

Contractual risks

This risk was assessed as having a high event risk and a high risk effect.

The demand for professional contract management in the fields of procurement, customer service, sales and administration has grown together with the strong growth of SLM Solutions. The danger exists that SLM Solutions cannot entirely make use of the advantages from existing agreements. Management measures have already been implemented, including the roll-out of a contract management system.

"Good governance" risks

This risk was assessed as having a high event risk and a high risk effect.

During the reporting period, the SLM Solutions Group consisted of a total of seven companies, of which four companies were based abroad and two were joint ventures. The danger exists that the Management Board of SLM Solutions Group AG in particular is unable to sufficiently monitor the management of the individual companies. The Management Board of SLM has introduced rules of business procedure at the individual subsidiaries. These rules of business procedure are intended to provide the operational framework for the local management. In addition, the local management in each subsidiary is being complemented by at least one employee from SLM Solutions Group AG.

Expiry of patents

This risk was assessed as having a high event risk and a medium risk effect.

Over the course of the next few years, various basic patents on SLM technology are expiring. The expiry of the basic patents facilitates access to the technology for new competitors. SLM Solutions is using targeted technology and innovation management to counter this. SLM Solutions is investing in the further development of products and technologies as well as in securing intellectual property rights.

Financial risks

Over and above the risks presented above, SLM Solutions is also subject to risks stemming from financial instruments. Default risks also arise from receivables due from customers, as payment targets that are typical of the sector are agreed. SLM Solutions operates active receivables management, and applies valuation allowances where required that take into account up-to-date credit information about individual customers and receivables' term structures.

Bank deposits are held exclusively at banks with good credit ratings. However, default risks cannot be completely ruled out.

Due to its good liquidity position, SLM Solutions is currently subject to no liquidity risks, or only to liquidity risks that are to be classified as low.

SLM Solutions is exposed to currency risks due to the international nature of its business. The manufacturing and sale of the products result in cash flows in different currencies and in different amounts. The significant cash flows are processed in euros. Revenue is also partly invoiced in US dollars, Singapore dollars and Chinese yuan. Exchange rate changes can have a significant effect on the consolidated net result. The deployment of hedging instruments as part of hedging is decided upon on a case-by-case basis, however no such instruments were deployed in the 2016 fiscal year.

SLM Solutions currently bears no interest-rate risk as no major interest-bearing receivables and liabilities exist.

Opportunities

Opportunities also arise for SLM Solutions in the defined risk areas insofar as the Company's future financial and business development enables targets to be exceeded in these areas.

Capital market-related opportunities

As part of its admittance to the TecDAX on 21 March 2016, SLM Solutions gained opportunities which offer improved visibility for the Company towards international investors. Due to the capital increase as part of the IPO in May 2014, SLM Solutions also has sufficient free funds to gradually implement its own growth strategy.

Market and sector opportunities

SLM Solutions benefits from technology leadership in selective laser melting when competing with other additive manufacturing system producers. The deployment of multiple laser technology and constant unit cost reduction allow major productivity enhancements to be achieved, which makes utilisation of the machines especially attractive for industrial series manufacturing. SLM Solutions has continuously increased production capacities and can therefore react quickly to the requirements of the market.

Customer and sales opportunities

Proximity to customers in connection with the monitoring and addressing of problems generates trust-based relationships over the course of years, as well as additional sales potential. By investing the proceeds from the IPO in 2014 in the expansion of international sales as well as in research and development, SLM Solutions can constantly further improve its own products' safety, and set standards within its own sector.

Opportunities related to intellectual property

SLM Solutions can draw on many years of experience with the selective laser melting technology that the Company applies, which creates high market entry barriers for competitors. Some of this technology's pioneers are employed at SLM Solutions, and their expertise helps SLM Solutions to retain this advantage, and also expand it to some extent.

Corporate opportunities

By recruiting qualified and motivated staff in the areas of research and development, as well as service and sales, growth opportunities arise for SLM Solutions in the sale of machines as well as in after-sales business. The cooperation in the powder field allows SLM Solutions to expand its business with consumables and extend its own value creation chain.

Overall statement on the opportunity and risk situation

The monitored risks relate to both segments of the Company. The Management Board continues to regard the Company's overall risk position as appropriate and as not comprising any going concern risk. 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 sufficient and state-of-the-art, capital backing enables further growth, and its staff form a highly qualified and successfully performing team. As a consequence, the Management Board regards the

Company as well positioned for future market growth and development. Despite the greatest care, it cannot be excluded entirely that significant risks that have not been identified to date exert a negative effect on our business development and trends. No risks which could endanger the Company as a going concern are currently identifiable..

Forecast

The SLM Solutions Group is basing its forecast for 2017 on the following **underlying economic and sector-related assumptions**:

- According to its latest figures from January 2017, the International Monetary Fund (IMF) is anticipating that the **global economy** will grow at a higher rate than the previous year: 3.4% growth is forecast. Growth of 1.6% is anticipated in the Eurozone (previous year: 1.7%).⁹
- In the most important individual market **Germany**, Kiel Institute for the World Economy is expecting growth of 1.7% (previous year: 1.9%).¹⁰
- In the growth regions defined by SLM, in which the international expansion is being promoted, the IMF is anticipating growth of 2.3% in the **USA** (previous year: 1.6%), a slight increase in growth in the **"Emerging and Developing Asia"** region to 6.4% (previous year: 6.3%) and a rise in economic output in Russia by 1.1% (previous year: -0.6%).¹¹
- The annual Wohlers report on the **global 3D printing industry**, which provides a comprehensive market assessment, identified major growth potential in the field of additive manufacturing methods applied in industry: A global market volume of USD 26.5 billion is anticipated for 2021, five times the volume of 2015 (USD 5.2 billion).¹²

⁹ International Monetary Fund; World Economic Outlook Update, January 2017

¹⁰ Kiel Institute for the World Economy, "Kieler Konjunkturberichte," "Deutsche Konjunktur im Winter 2016"

¹¹ International Monetary Fund; World Economic Outlook Update, January 2017

¹² Wohlers Associates, Annual Worldwide Progress Report 2016, April 2016

- On the back of a recent industry survey, the market research institute Gartner assumes that the number of delivered 3D printing machines in the “powder bed fusion” field will grow by 47.2% per year until 2019.¹³ SLM Solutions is also very confident regarding the market potential and is aiming to exceed the forecast **market growth** if possible, and further extend its position as technology leader.
- The management is anticipating a return to the strong growth track of previous years for the 2017 fiscal year. The operating result will be substantially improved on the back of increasing revenue. Due to the good position of the technology on the market, consolidated revenue of between TEUR 110,000 and TEUR 120,000 is anticipated.
- Together with the stated revenue corridor for the 2017 fiscal year, the Management Board is expecting an adjusted EBITDA margin (in relation to consolidated revenue) of 10–13%. The broad nature of this estimate is due to the remaining impacts of the takeover offer in the fourth quarter of 2016. The higher the actual revenue achieved, the higher the corresponding adjusted EBITDA margin will be.
- The adjusted EBITDA figure will reflect the published scope of the adjusted EBITDA margin between EUR 11 million and EUR 15 million. The higher the actual revenue generated, the higher the adjusted EBITDA figure will be accordingly.
- The materials and personnel cost ratio will fall due to the constant success in negotiations and economies of scale compared to the 2016 fiscal year: The higher the actual revenue generated, the greater the reduction in the cost ratios achieved.

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.

Corporate governance declaration pursuant to Section 289a of the German Commercial Code (HGB)

The corporate governance declaration pursuant to Section 289a of the German Commercial Code (HGB) has been published on the Company's website at www.slm-solutions.com under “Investor Relations” and “Corporate Governance”.

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

The corporate governance declaration 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”.

¹³ Gartner Forecast: 3D Printers, Worldwide, 2015

Management and Supervisory board working methodology

Pursuant to the statutory regulations stipulated by German stock corporation law, SLM Solutions Group AG operates a dual executive and supervisory structure. While the Management Board manages the Company's business, the Supervisory Board consults with the Management Board about the management of the Company, and supervises such management. The areas of responsibility of the Management and Supervisory boards are set out in the German Stock Corporation Act (AktG) and the Company's bylaws. The Management and Supervisory boards of SLM Solutions Group AG work together closely for the Company's benefit.

- The **Management Board** manages SLM Solutions Group AG under its own responsibility, and is its legal representative. The Management Board is obligated to pursue the Company's interests as well as enhance the Company's sustainable value. To this end, it develops the Company's strategic orientation, coordinates it with the Supervisory Board, and ensures that it is implemented. The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals. Moreover, it ensures compliance with statutory provisions and the Company's internal guidelines, including by Group companies (compliance). The Management Board's reporting duties are set out comprehensively according to their type and content in the Management Board's rules of business procedure. The Supervisory Board appoints the Management Board and sets its compensation. The Management Board of SLM Solutions Group AG currently consists of two members: Uwe Bögershausen (CFO) and Henner Schöneborn ("Corporate Development and Innovation").
- The **Supervisory Board** of SLM Solutions Group AG consults with and supervises the Management Board in its managerial activities according to statutory provisions and the

Company's bylaws. It appoints the Management Board, and is entitled to recall its members from office for justified reasons. The Management Board provides frequent, up-to-date and comprehensive information to the Supervisory Board, especially relating to basic corporate planning questions, as well as about the Company's financial position and performance, profitability, and business trends and development. The Supervisory Board of SLM Solutions Group AG currently consists of six members: Hans-Joachim Ihde (Chairman), Peter Grosch (Vice-Chairman), Lars Becker, Klaus J. Grimberg, Bernd Hackmann and Volker Hichert. At its meeting on 24 March 2014, the Supervisory Board of SLM Solutions elected an **audit committee** and a **chairman's committee**. The **chairman's committee** consists of the Supervisory Board chair, the deputy chair and a further member elected by the Supervisory Board. It particularly focuses on the appointment and recall from office of Management Board members, and the CEO's appointment, with the conclusion, amendment and termination of employment contracts with Management Board members, as well as with the Management Board compensation scheme's structure, including significant contractual elements and total compensation of individual Management Board members. On the date when it was appointed, the chairman's committee was also authorised to take the Supervisory Board's place in making all decisions connected with the IPO and the capital increase, to pass resolutions, to implement actions, and to issue and receive statements in order to be able to act with greater flexibility within a tight time-frame ahead of the IPO. The **audit committee** supervises the financial accounting process, including the efficacy of both the internal controlling system and the risk management system. The audit committee discusses quarterly reports, and handles questions relating to compliance and reporting to the Supervisory Board. The committee also prepares for the Supervisory

Board review of the separate annual financial statements, the management report and the proposal for the application of unappropriated retained earnings, as well as the consolidated financial statements and Group management report. In this context, the audit committee has the auditor provide it with an in-depth view of the Company's financial position and performance. It concerns itself with questions relating to the auditor's required independence, the issuing of the audit mandate to the auditor, the setting of audit focal points and agreeing the auditor's fee.

Shareholders and AGM

The shareholders of SLM Solutions Group AG exercise their rights at shareholders' general meetings. Each ordinary share embodies the same voting right. Shareholders' general meetings make decisions on the tasks that are allocated to them pursuant to the law, including the application of unappropriated retained earnings, the discharge of the Management and Supervisory boards, the auditor's appointment, the election of Supervisory Board members, bylaw amendments and capital measures. As a matter of principle, the Supervisory Board chair presides over the shareholders' general meetings. In order to assist shareholders in exercising their rights personally, the requisite documents are published online once the convening invitations to the meeting have been dispatched. Shareholders can authorise a proxy to exercise their voting rights in line with their instructions.

Financial accounting and auditing

The financial accounting of the consolidated financial statements for the 2016 fiscal year is based on the principles of International Financial Reporting Standards (IFRS), as applicable in the European Union, as well as on additional provisions pursuant to Section 315a (1) of the German Commercial Code (HGB). The separate financial statements are prepared according to the

regulations of the German Commercial Code (HGB) and the regulations of the German Stock Corporation Act (AktG). The AGM on 14 June 2016 elected PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft as the auditor of the separate and consolidated financial statements for the 2016 fiscal year. The Supervisory Board issued the audit mandate. Before the proposed election, the Supervisory Board obtained a declaration of independence from the auditor.

Transparent communication

The Management Board is of the opinion that responsible and value-creating corporate management is not only distinguished by setting up efficient structures, but especially also by open communication and a high degree of transparency on the part of the Company. For this reason, SLM Solutions Group AG sets itself the objective of informing investors, analysts and other interested parties openly, quickly and correctly. Extensive information that is continuously updated is available for this purpose on the website of SLM Solutions Group within the Investor Relations area. This is supplemented by an investor relations electronic mailing list through which interested parties receive the latest corporate news via email. Frequent roadshows in Europe and North America, as well as conference calls to accompany publication of quarterly and annual report, are also conducted.

Directors' dealings and shareholdings

Pursuant to Section 15 of the German Securities Trading Act (WpHG) and article 19 of the Market Abuse Directive (Marktmissbrauchsverordnung) since July 2016, 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.

During the year under review, the following **transactions requiring mandatory reporting** in the share of SLM Solutions Group AG (ISIN: DE000A111338, WKN: A11133) were recorded, which can also be accessed from the Investor Relations area of the Company's website:

Date	Party	Transaction type	Number of shares	Price per share (in EUR)	Total volume (in EUR)
04/03/2016	Henner Schöneborn	Sale	73,234	18.365	1,344,942.41
12/04/2016	Marevest Beteiligungs GmbH	Sale	8,900	25.907	230,572.30
03/01/2017	Dr. Markus Rechlin	Discretionary sell order	92,876	at least 32.00	at least 2,972,032.00

	Directly held shares	Indirectly held shares	Total interest
Party Management Board			
Dr. Markus Rechlin (including via Marevest Beteiligungs GmbH)***	0.00 %	0.00 %	0.00 %
Uwe Bögershausen	0.13 %	-	0.13 %
Henner Schöneborn and family	2.00 %	-	2.00 %*
Supervisory Board			
Hans-Joachim Ihde (via Ceresio GmbH)**	-	24.07 %	24.07 %

* Pursuant to a pooling agreement with Hans-Joachim Ihde (via Ceresio GmbH) as well as with Mr. Fabian and Mr. Roman Schöneborn, the joint voting rights interest in SLM Solutions Group AG amounts to 26.07 %.

** Attribution via Ceresio GmbH, Lübeck, Germany, pursuant to Section 22 (1) Clause 1 No. 1 of the German Securities Trading Act (WpHG)

*** Partly attributed via Marevest Beteiligungs GmbH

Takeover law disclosures pursuant to Section 315 (4) of the German Commercial Code (HGB)

1. Share capital composition: The share capital of SLM Solutions Group AG is divided into 17,980,867 no par value ordinary bearer shares (no par shares). Differing share classes do not exist. Each share is fully entitled to a vote and to dividends. 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. There are no restrictions affecting share voting rights or transfers of shares.

3. Direct or indirect interests in the share capital exceeding 10% of the voting rights as of 31 December 2016:

Based on notifications that it has received about significant voting rights interests pursuant to Section 21 of the German Securities Trading Act (WpHG) and about directors' dealings pursuant to Section 15a of the German Securities Trading Act (WpHG) and article 19 of the Market Abuse Directive, the Management Board is aware of the following direct or indirect interests in the share capital that exceed 10% of the voting rights:

	Number of voting rights	Share of voting rights
Hans-Joachim Ihde (via Ceresio GmbH, Lübeck, Germany)*	4,327,241	24.07%
Elliot International Limited**	3,596,353	20.00%

* Pursuant to a pooling agreement with Mr. Henner Schöneborn, as well as with Mr. Fabian and Mr. Roman Schöneborn, the joint voting rights interest in SLM Solutions Group AG amounts to 26.07%.

** Shares are attributed via the subsidiary Cornwall GmbH & Co. KG (20.001%)

4. Shares with special rights conveying controlling powers do not exist.

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 concerning 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 5 of the Company's bylaws, the Management Board can consist of one or several individuals. 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 another share capital majority, although only a larger share capital majority applies for an amendment to the Company's business purpose.

7. Management Board authorisations, especially relating to the ability to issue or repurchase shares:

The Management Board can issue new shares only on the basis of AGM resolutions relating to increasing the share capital, or issuing approved and contingent share capitals.

8. Significant agreements do not exist on the part of the Company that are subject to a change of control as a consequence of a takeover offer.

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 that were extended in 2015. The existing employment contracts were supplemented with a long-term incentive program (LTI) during the 2015 fiscal year. Compensation for individual members of the Management Board comprises both fixed and variable components, in compliance with the German Corporate Governance Code. In the previous year, the so-called "Retention Bonus Program" was selected as a component with a long-term incentive. In line with a resolution from the Management and Supervisory boards, the bonus program was changed into a cash payment program with regard to the type of fulfilment for all employees in 2015, and is accounted for in share-based compensation for the 2016 reporting year.

A performance-related pension commitment exists for Henner Schöneborn from his long-term work as a manager at SLM Solutions GmbH, which amounted to a provision of TEUR 1,034 as of 31 December 2016 (previous year: TEUR 942). 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.

Management Board compensation for the 2016 fiscal year amounted to TEUR 1,121 (previous year: 897) and breaks down as follows:

Management Board compensation

in TEUR	Dr. Rechlin	Mr. Bögershausen	Mr. Schöneborn	Total
Fixed compensation 2016	270	250	230	750
Fixed compensation 2015	225	215	212	652
Performance-based compensation 2016	90	90	38	218
Performance-based compensation 2015	50	50	0	100
Share-based compensation 2016	59	59	0	118
Share-based compensation 2015	56	56	0	112
Additional benefits 2016	9	8	18	35
Additional benefits 2015	9	8	16	33
Total remuneration 2016	428	407	286	1,121
Total remuneration 2015	340	329	228	897
Retirement benefits 2016	0	0	92	92
Retirement benefits 2015	0	0	12	12

The performance-based compensation contains an agreed bonus and is explained in more detail in Note 30.

Both of the following tables present the allocations granted for the 2016 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.

Granted allocations

in TEUR	Fixed com- pen- sation	Fringe benefits	Total	Perfor- mance- based com- pensati- on	LTI*	Total	Retire- ment benefits	Total compen- sation
Dr. Rechlin								
Target amount 2016	270	9	279	100	59	438	0	438
Target amount 2015	225	9	234	75	56	365	0	365
Minimum amount 2016	270	9	279	0	0	279	0	279
Maximum amount 2016	270	9	279	130	150	559	0	559
Mr. Bögershausen								
Target amount 2016	250	8	258	100	59	417	0	417
Target amount 2015	215	8	223	75	56	354	0	354
Minimum amount 2016	250	8	258	0	0	258	0	258
Maximum amount 2016	250	8	258	130	150	538	0	538
Mr. Schöneborn								
Target amount 2016	230	18	248	50	0	298	40	338
Target amount 2015	212	16	228	20	0	248	42	290
Minimum amount 2016	230	18	248	0	0	248	40	288
Maximum amount 2016	230	18	248	65	0	313	40	353

* Long-term incentive program with an annual maximum allocation of EUR 150 thousand. This allocation will be converted into shares as of 10 July 2017, with a maximum value of EUR 54 each.

Payments

in TEUR	Dr. Rechlin		Mr. Bögershausen		Mr. Schöneborn	
	2016	2015	2016	2015	2016	2015
Fixed compensation	270	225	250	215	230	212
Fringe benefits	9	9	8	8	18	16
Total	279	234	258	223	248	228
Performance-based compensation	90	50	90	50	38	0
Retention bonus	0	0	261	261	0	0
Total	369	284	609	534	286	228
Retirement benefits	0	0	0	0	40	42
Total compensation	369	284	609	531	326	270

In addition to the Management Board employment contract, the Management Board members receive another compensation component with a long-term incentive, which applies for the duration of their work on the Management 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 TEUR 150 per Management Board member.

The rights are allocated on an annual basis and for the first time on 10 July 2016 based on the development of 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 2015/2016 becomes valid on 20 July 2018. 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 payout 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 expense recorded totals TEUR 144 for Dr. Markus Rechlin (previous year: TEUR 0) and TEUR 144 for Mr Bögershausen (previous year: TEUR 0) for the 2016 fiscal year.

The provision from the retention bonus for Uwe Bögershausen totals TEUR 232 (previous year: TEUR 363).

In line with a resolution from the AGM on 17 April 2014, the members of the Supervisory Board receive a fixed compensation of EUR 18,000.00 per member payable after the conclusion of the fiscal year in addition to the reimbursement of their expenses. The Chairman of the Supervisory Board receives an additional EUR 36,000.00, while the Deputy Chairman of the Supervisory Board receives an additional EUR 18,000.00.

Supervisory Board compensation

in TEUR	2016	2015
Compensation for Supervisory Board activities	162	162
Total	162	162

Lübeck, 22 March 2017

The Management Board





CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES

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CONSOLIDATED INCOME STATEMENT

as of 31 December 2016

in TEUR	Note	2016	2015
Revenue	10	80,707	66,137
Changes in inventories of finished goods and work-in-progress		6,309	8,434
Other work performed by the Company and capitalised	19	3,460	4,082
Total operating revenue		90,476	78,654
Cost of materials	8	-49,246	-42,265
Gross profit		41,230	36,388
Personnel costs	9	-23,793	-16,788
Other operating income	11	1,539	1,557
Other operating expenses	12	-16,936	-14,298
EBITDA		2,040	6,860
Depreciation, amortisation and impairment losses	19; 20	-5,190	-3,250
Operating profit or loss (EBIT)		-3,150	3,610
Other interest income		12	97
Interest income from shareholder loans		1	0
Interest and similar expenses	13	-194	-111
Profit or loss from equity-accounted companies		-481	0
Earnings before tax (EBT)		-3,812	3,595
Income taxes	14	364	-1,428
Other taxes		-36	-7
Net profit/loss for the period		-3,483	2,160
Net profit/loss for the period allocated to the owners of the parent company		-3,483	2,160
Number of shares in millions		18.0	18.0
Earnings per share (basic) in EUR		-0.19	0.12
Earnings per share (diluted) in EUR		-0.19	0.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January 2016 to 31 December 2016

in TEUR	Note	2016	2015
Net profit/loss for the period		-3,483	2,160
Income / expenses not to be reclassified to profit or loss in the future:			
Actuarial gains and losses	25	-392	226
Income / expenses to be reclassified to profit or loss in the future:			
Income/expenses from currency conversion	25	73	83
Other comprehensive income		-319	309
Consolidated total comprehensive income		-3,803	2,469
Attribution of comprehensive income:			
Shareholders of SLM Solutions Group AG		-3,803	2,469

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the fiscal year from 1 January 2016 to 31 December 2016

in TEUR	Note	2016	2015
Assets			
Cash and cash equivalents	15	20,028	39,920
Trade receivables	16	29,145	26,341
Other financial assets	18	92	5,179
Inventories	17	31,107	21,663
Current tax receivables		182	120
Other assets	18	2,489	1,989
Total current assets		83,043	95,212
Intangible assets	19	22,005	21,638
Property, plant and equipment	20	18,360	13,032
Equity-accounted investments		120	0
Other investments		251	
Other assets		53	37
Total non-current assets		40,789	34,708
Assets (total)		123,833	129,920
Equity and liabilities			
Trade payables and other liabilities		12,004	11,121
Other financial liabilities		6,071	9,849
Tax provisions		269	0
Provisions	24	2,494	2,551
Total current liabilities		20,839	23,521
Pensions and similar obligations	23	5,112	4,375
Deferred tax liabilities	14	1,566	2,497
Provisions	7	1,114	522
Total non-current liabilities		7,793	7,394
Subscribed share capital		17,981	17,981
Additional paid-in capital		85,041	85,041
Consolidated loss for the period included in retained earnings		-7,158	-3,675
Other reserves		-662	-343
Total equity	25	95,202	99,004
Equity and liabilities (total)		123,833	129,920

CONSOLIDATED STATEMENT OF CASH FLOWS

for the fiscal year from 1 January 2016 to 31 December 2016

in EUR	2016	2015
Net profit/loss for the period	-3,483	2,160
Depreciation, amortisation and impairment losses	5,190	3,250
Interest expenses	194	111
Interest income	-13	-97
Income taxes	-364	1,435
Non-cash expenses	1,422	1,435
Changes in assets and liabilities	-11,213	-15,500
Inventories	-9,443	-9,700
Receivables	-2,804	-14,151
Pensions and similar obligations	-48	-160
Liabilities	2,149	4,997
Provisions	-1,966	-240
Other liabilities	-3,162	3,856
Other assets and liabilities	4,063	-103
Income taxes paid	-91	0
Net cash flows from operating activities	-6,283	-7,364
Cash outflows for investments in intangible assets and property, plant and equipment	-14,398	-7,218
Investments in development costs	-3,460	-4,082
Cash outflows for investments in equity-accounted companies	-601	0
Cash outflows for investments in financial assets	-251	0
Interest received	13	0
Cash inflows from financial assets as part of short-term financial management	5,002	0
Cash outflows from financial assets as part of short-term financial management	0	-5,002*
Net cash flows from investing activities	-13,696	-16,302
Cash outflows for the repayment of financial liabilities	0	-38
Interest payments	-33	-20
Net cash flows from financing activities	-33	-58
Net increase (decrease) in cash and cash equivalents	-20,012	-23,724
Change in financing funds due to exchange rate changes	120	81
Financing funds at the start of the reporting period	39,920	63,563
Financing funds at the end of the reporting period**	20,028	39,920
Rental deposit	-31	-32
Financing funds at the start of the period	39,888	63,531
Financing funds at the end of the period	19,997	39,888

* The previous year was adjusted pursuant to IAS 8.42(a). In the consolidated statement of cash flows 2015, the cash outflow for the fixed-term deposit totalling TEUR 5,002 was reported as cash flow from financing activities. As this is a cash flow from investing activities within the meaning of IAS 7.16, this is now recognised as a cash flow from investing activities in the comparable period.

** For reconciliation of cash and cash equivalents according to the statement of financial position see Note 15).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the fiscal year from 1 January 2016 to 31 December 2016

in TEUR	Subscri- bed capital	Capital reserve	Consolida- ted loss for the period included in retained earnings	Other reserves	Total equity
Balance as of 1 Jan. 2015	17,981	85,551	-5,835	-652	97,045
Consolidated net result			2,160		2,160
Equity changes arising from actuarial gains/losses				309	309
Other changes in equity		-510			-510
Balance as of 31 Dec. 2015	17,981	85,041	-3,675	-343	99,004
Balance as of 1 Jan. 2016	17,981	85,041	-3,675	-343	99,004
Consolidated net result			-3,483		-3,483
Changes in equity from foreign currencies				73	73
Equity changes arising from actuarial gains/losses				-392	-392
Balance as of 31 Dec. 2016	17,981	85,041	-7,158	-662	95,201

SLM Solutions Group AG, Lübeck

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

 as of 31 December 2016

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 at Roggenhorster Strasse 9c, 23556 Lübeck, 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.

The preparation of the consolidated financial statements was completed on 22 March 2017 and will likely be approved by the Supervisory Board for publication on 23 March 2017.

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 315a (1) of the German Commercial Code (HGB).

The consolidated financial statements have been prepared on a historical cost basis and are presented in thousands of euros (TEUR). Minor differences in figures can occur as the result of commercial rounding.

Note 3) Consolidation

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. 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. SLM AG controls an investee when it is exposed or has rights to variable financial returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, applying consistent accounting and measurement policies. To the extent required, the annual financial statements of the subsidiaries are adjusted to align the accounting and measurement methods with the methods used within the Group. 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 in %
SLM Solutions NA, Inc., Wixom/USA	100
SLM Solutions Singapore Pte, Ltd.	100
SLM Solutions Shanghai Co. Ltd.	100
SLM Solutions RUS OOO	100

From a financial point of view, the scope of consolidation changed from the previous year to the extent that the former subsidiary SLM Solutions GmbH merged with SLM Solutions Group AG in 2016 retroactively effective from 1 January 2016.

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), which runs until 18 August 2019. This entailed agreeing close cooperation in research and development activities in additive manufacturing technologies. Both parties are to contribute their respective expertise in this context. The cooperation agreement comprises joint activity relating to research, and the development of intellectual property. Both parties provide staff who jointly conduct 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.

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.

Although SLM AG holds an interest of 51 %, no control exists for these companies, as shareholders' resolutions require unanimity.

SLM AG has committed to equip SLM Solutions Software GmbH with cash of up to a total of TEUR 980 over and above the initial contribution (TEUR 588 of this has already been paid). The financial contributions are dependent on the financial requirements of SLM Solutions Software GmbH and are made available upon request. These contributions are to be made in a way so that they can be recognised in the capital reserve of SLM Solutions Software GmbH.

Note 4) Summary 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.

Foreign currency translation

USA-based subsidiary SLM Solutions NA (SLM US) has defined the US dollar as its functional currency. The Singapore-based subsidiary SLM Solutions Singapore Pte Ltd (SLM SG) has made the Singapore dollar its functional currency, while Shanghai-based SLM Solutions Shanghai Co. Ltd. (SLM CN) uses the Chinese RMB and the Moscow-based subsidiary SLM Solutions RUS OOO uses the Russian RUB. The assets and liabilities of foreign subsidiaries whose functional currency is not the euro are translated applying the spot exchange rate at the end of the reporting period. The consolidated income statement is translated by applying the average monthly exchange rates. Differences as a result of such translation are recorded directly in other comprehensive income and accrued directly in equity.

The following exchange rates for the US dollar – SLM's most important currency outside the Eurozone – and for the Singapore dollar are applied in the consolidated financial statements:

Währung	31 Dec.		Fiscal year	
	2016	2015	2016	2015
US-Dollar	1.054	1.089	1.107	1.089
SG-Dollar	1.523	1.542	1.528	1.542
CNY	7.320	7.061	7.350	7.061
RUB*	64.300	80.674	74.222	80.674

Transactions that are not denominated in an entity's functional currency are recognised by applying the spot exchange rate on the date when the underlying transactions are initially recognised. At the end of the reporting period, foreign currency-denominated monetary assets and liabilities are translated to the functional currency applying the spot exchange rate prevailing on that date. Gains and losses from these foreign currency translations are recognised in profit or loss. Equity is valued at the historical spot rate.

Revenue recognition

Revenue is recognised to the extent that the economic benefits will accrue to the Group, and such revenue can be reliably measured, irrespective of when the payment is rendered. Revenue is measured at the fair value of the consideration received or to be received, taking into account contractually defined payment terms, and excluding taxes. The following specific recognition criteria must also be met before revenue is recognised:

Income from the sale of goods is recognised when the significant risks and rewards entailed in ownership of the goods have transferred to the buyer, usually on provision of the goods on delivery.

Revenues from service transactions are recognised when the services are rendered.

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 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.

Product-related provisions

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. In the case of new products, expert opinions and industry data are also taken into consideration in estimating product warranty provisions.

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.

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". Other development costs are expensed as incurred.

Intangible assets

The development costs for new technologies and products are capitalised as intangible assets, provided the recognition criteria of IAS 38 are met. Acquired intangible assets with an ascertainable useful life are recorded at cost less accumulated amortisation and impairment losses. Intangible assets acquired as part of a business combination are recorded separately from goodwill and measured at fair value on the date of acquisition. In the following periods, just like the individual acquired intangible assets, they are recorded at cost less accumulated amortisation and impairment losses. Capitalised development costs, as well as all other intangible assets, are amortised straight-line from the commencement of utilisation over the expected product life-cycle, which normally amounts to four years. Amortisation charges applied to intangible assets are disclosed under depreciation, amortisation and impairment losses in the consolidated income statement. The Group has no intangible assets with indefinite useful lives. The intangible assets' useful lives are as follows:

Fundamental technology assets	15 years
Customer base	10 years
Order book position	1 year
Other intangible assets	4-5 years

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. Depreciation is based principally on the following useful lives:

Technical machinery and equipment	4 to 15 years
Furniture and office equipment	5 to 15 years

Possible shorter useful lives due to the planned relocation in the 2018 fiscal year were accounted for accordingly.

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 other intangible assets 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 annually for impairment. Recoverability of assets is measured by comparing the carrying amount of the asset to its recoverable amount, which comprises the higher of the asset's value-in-use and its fair value less costs of disposal. 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. 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 assets' value-in-use corresponds to the present value of their estimated future cash flows. 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.

Income taxes

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

Current taxes are measured on the basis of the profit or loss during the fiscal year as calculated applying local tax regulations. This also takes into account expected and rendered additional tax payments or tax refunds for previous years. Potential tax risks and uncertain tax claims are valued using the best possible estimate.

Under the liability method, deferred tax assets and liabilities are recognised for future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities as recognised in the financial statements, and their taxable base value (tax base). The effect of a change in tax rates is recognised in the income statement (unless related to items directly recognised in equity) in the period when the new laws are enacted or substantively enacted.

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 if it is highly likely that sufficient taxable profit will be available to offset losses in future.

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.

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 laser melting 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.

Defined benefit plans

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.

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.

Financial instruments

Financial instruments are contracts that result in the origination of a financial asset at one contractual party, and in the origination of a financial liability or an equity instrument at the other contractual party. The Company's financial instruments primarily comprise cash and cash equivalents, trade receivables and other financial assets. SLM holds no financial instruments that classify as "held to maturity", "fair value through profit and loss" or "available for sale". The Company's financial liabilities chiefly comprise trade payables and other financial liabilities. SLM does not exercise the option to designate financial assets or financial liabilities as at fair value through profit or loss on initial recognition (fair value option). Financial instruments are recognised on their trading date. Financial instruments are derecognised when no more rights to the cash flows exist.

Financial instruments are recognised when SLM becomes a contractual party to the instrument.

Financial instruments are measured at fair value on initial recognition. If the financial instruments are not measured at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition or issue of financial instruments are recognised. Subsequent measurement depends on their categorisation.

An impairment loss is recognised if objective indications exist that impairment has already occurred as a consequence of an event occurring after first-time recognition of the asset, and such a loss-incurring event has effects on its estimated future cash flows.

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.

Loans and receivables

Financial assets categorised as loans and receivables are initially measured at fair value and then at amortised cost applying the effective interest method, less any impairment losses. The Company examines whether substantial evidence exists of impairment following initial recognition (in other words, it is highly probable that the borrower will become insolvent or the obligor is in considerable financial difficulties). The Company determines the extent of the impairment on the basis of expected future cash flows. Impairment losses on trade and other receivables are generally recorded in separate allowance accounts. Loans and receivables with a term of more than one year are discounted.

Financial liabilities

Financial liabilities are measured at cost applying the effective interest method.

SLM does not deploy any derivative financial instruments.

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

Note 5) New financial reporting regulations

Compared with the consolidated financial statements of SLM Solutions Group AG as of 31 December 2015, the following changes to standards and interpretations required mandatory application for the first time in the fiscal year under review:

IAS 19 Defined Benefit Plans: Employee Contributions

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. The amendment is applied retrospectively. The amendments clarify the requirements relating to the attribution of employee contributions and/or contributions from third parties to periods of service if contributions are linked to service. In addition, expedients are provided if the contributions are independent from the number of years of service.

The IAS 19 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise as a result of the change in the year under review.

IFRS 2 Share-based Payment

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. The amendment contains a clarification of the definition of vesting conditions, with separate definitions for performance conditions and service conditions being adopted into appendix A of the standard.

The IFRS 2 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise as a result of the change in the year under review.

IFRS 3 Business Combinations

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. As a result of this amendment, all contingent consideration not classified as equity is subject to a subsequent measurement at fair value with any resultant effects recognised in profit or loss.

The changes to IFRS 3 are not relevant for the SLM Solutions Group.

IFRS 8 Operating Segments

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. When aggregating operating segments into reportable segments, judgements made by the management about how the operating segments were identified and reconciliation of the segment assets with the corresponding amounts in the statement of financial position is only required if the disclosures on segment assets are also part of the financial information which is regularly provided to the chief operating decision maker.

The IFRS 8 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise as a result of the change in the year under review.

IFRS 13 Fair Value Measurement

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. The amendment to the "Basis for Conclusions" in IFRS 13 clarifies that with the changes to IFRS 9 and IAS 39 resulting from IFRS 13, the IASB did not remove the ability to forego discounting for current receivables and liabilities if immaterial.

The IFRS 13 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise as a result of the change in the year under review.

IAS 16 Property, Plant and Equipment/IAS 38 Intangible Assets

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. The amendment clarifies how accumulated depreciation is determined on the measurement date when applying the revaluation model pursuant to IAS 16.35 and IAS 38.80.

The changes to IAS16/IAS38 are not relevant for the SLM Solutions Group.

IAS 24 Angaben über Beziehungen zu nahestehenden Unternehmen und Personen

This amendment was published on 9 January 2015, and must be applied for fiscal years commencing on or after 1 February 2015. The amendment extends the definition of "related parties" to include entities providing key management personnel services to the reporting entity without a relation otherwise existing between the entities within the meaning of IAS 24 (so-called "management entities").

The changes to IFRS 24 are not relevant for the SLM Solutions Group.

IFRS 11 Joint Arrangements – Acquisitions of Interests in Joint Operations

This amendment was published on 25 November 2015, and applies prospectively for acquisitions of interests which take place in reporting periods commencing on or after 1 January 2016. The amendments do not apply if the reporting entity and the interest-holding parties are controlled by the same ultimate controlling entity.

The amendment clarifies that acquisitions and additional acquisitions of interests in joint operations, in which the activity constitutes a business as defined in IFRS 3, are to be accounted according to the principles for business combinations in IFRS 3 and other applicable IFRSs, providing these principles do not conflict with the guidance in IFRS 11. As a result, the amount of an acquired interest in a joint operation:

- The measurement of the acquired identifiable assets and liabilities is made at fair value at the time of the transaction. Any possible goodwill and deferred taxes generated by the initial recognition of assets and liabilities are to be recognised.
- In the case of acquisitions of additional interests while maintaining joint control, the interest held to date is not to be remeasured.
- The cash-generating unit which the goodwill was allocated to has to be subjected to an impairment test within the meaning of IAS 36 at least once a year and in the case of indications suggesting that impairments exist.
- Transaction costs are to be recognised as expense.
- The disclosures required in IFRS 3 and other standards in relation to business combinations are to be provided.

The changes to IFRS 11 are not relevant for the SLM Solutions Group.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Asset – Clarification of Acceptable Methods of Depreciation and Amortisation

This amendment was published on 3 December 2015, and must be applied for fiscal years commencing on or after 1 January 2016.

This amendment is intended to provide clarification with regards to the selection of methods for the depreciation and amortisation of property, plant and equipment and intangible assets. In principle, the depreciation and amortisation of property, plant and equipment and intangible assets has to be undertaken in such a way that it reflects the consumption of the future economic benefit generated by the asset as expected by the company. In this regard, the IASB has now clarified that depreciation of property, plant and equipment based on the revenue of the goods it produces does not correspond with this approach and is therefore not appropriate as the revenue is not only dependent on the consumption of the asset but also other factors, such as sales volumes, price or inflation. This clarification will also be fundamentally adopted into IAS 38 for the amortisation of intangible assets with a limited useful life. However, in this regard the IASB is introducing a rebuttable presumption. According to this, the revenue-based amortisation of intangible assets with a limited useful life is only permissible in two cases. Firstly if the “value” of the asset can be directly expressed with the revenue generated, or secondly if it can be proven that there is a strong correlation between the revenue generated and the loss of value of the intangible asset. The first case only exists if the predominant limiting factor of an intangible asset is achieving a revenue threshold. The starting point for determining the appropriate amortisation method for intangible assets is always determining the predominant limiting factor. The IASB has indicated that another basis is to be used if it presents the consumption of the intangible asset more effectively.

The changes to IFRS 16 and IAS 38 are not relevant for the SLM Solutions Group.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants

This amendment was published on 24 November 2015, and must be applied for fiscal years commencing on or after 1 January 2016. The published amendments clarify that bearer plants are to be accounted up to the date their bear produce – similar to property, plant and equipment created in-house – at cost and subsequently within the scope of IAS 16 either using the cost model or the revaluation model. Accounting in line with the requirements of IAS 41 is no longer permitted going forward. During the transition to the new requirements, the fair value of these types of plants can be recognised as cost as so-called “substitute for cost”. The disclosures required according to IAS 8.28(f) do not have to be provided for the current period.

The changes to IFRS 16 and IAS 41 are not relevant for the SLM Solutions Group.

IAS 27 Separate Financial Statements – Application of the Equity Method in Separate Financial Statements

This amendment was published on 23 December 2015, and must be applied for fiscal years commencing on or after 1 January 2016. As a result of these amendments, interests in subsidiaries, joint ventures and associated companies can also be accounted according to the equity method in the separate IFRS financial statements in future. As a result, all previously available options for including these types of companies in separate financial statements are available, namely: recognition at (amortised) cost, measurement as financial instruments held for trading pursuant to IAS 39 and IFRS 9 as well as disclosure using the equity method. The IAS 27 regulations are generally relevant for the SLM Solutions Group.

Significant effects did not arise as a result of the amendment in the year under review.

IAS 1 Presentation of Financial Statements

This amendment was published on 19 December 2015, and must be applied for fiscal years commencing on or after 1 January 2016. The amendments largely focus on clarifying that disclosures are only necessary if their content is material. This also explicitly applies if an IFRS requires a list of minimum disclosures. The model structure of the disclosures is discarded in an effort to facilitate a company-specific structure and clarification has also been provided that companies are free to choose in which part of the disclosures the accounting and measurement methods are discussed. Moreover, the amendments contain explanations on the aggregation and disaggregation of items in the statement of financial position and statement of comprehensive income, and a clarification that interests in the other comprehensive income of equity-accounted companies are to be presented in separate items in the statement of comprehensive income, and said items may or may not be reclassified into the income statement in future.

The IAS 1 regulations are generally relevant for the SLM Solutions Group.

Significant effects did not arise as a result of the amendment in the year under review.

IFRS 10, 12 and IAS 28 Investment Entities – Consolidating Investment Entities

This amendment was published on 23 September 2016, and must be applied for fiscal years commencing on or after 1 January 2016. This standard serves to clarify issues relating to the application of the exemption from consolidation under IFRS 10 if the parent company meets the definition of an “investment entity”.

The changes to IFRS 10, 12 and IAS 28 are not relevant for the SLM Solutions Group.

New standards and interpretations not yet mandatorily applicable

The IASB and IFRS IC have also issued the following standards, interpretations and amendments to existing standards, whose application is not yet mandatory for SLM Solutions Group AG. The standards have not been applied voluntarily, to the extent that such voluntary application is permissible:

The IASB standard “IFRS 9 – Financial Instruments”, published on 24 July 2014, is a three-phase project aimed at replacing “IAS 39 – Financial Instruments: Recognition and Measurement”. The standard regulates the classification and measurement of financial instruments, the accounting of impairments to financial assets as well as the account of hedging relationships. The standard is mandatory for EU users of IFRS for fiscal years commencing on or after 1 January 2018. The SLM Group is current analysing the impacts of the application of IFRS 9, however no material impacts on the financial position and performance of the Group are anticipated.

The standard “IFRS 15 – Revenue from Contracts with Customers” published by the IASB on 28 May 2014 replaces the previous standards on revenue “IAS 18” and “IAS 11”. This standard stipulates when and how much revenue is to be recorded. According to this standard, revenue is only realised if the customer receives the power of disposal over the agreed goods and services, and is able to gain benefits from these. Set criteria is used to differentiated between time-related and period-related fulfilment of performance. In addition, further disclosures are to be made which provide the addressees of the financial statements with more informative and relevant information. The standard is mandatory for EU users of IFRS for fiscal years from 1 January 2018. The SLM Group is current analysing the impacts on the revenue amount and on the date of revenue realisation. In exceptional cases and in certain constellations, the new standard could cause deferral in revenue realisation, particularly given the identification of separate obligations within a contract. In addition, additional disclosures are to be expected. As part of the initial application, use will likely be made, at least in part, of the retrospective method.

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. No EU endorsement has yet been made. The SLM Group is current analysing the effects from the amendments to the standard on the financial position and performance of the Group. A slight extension of the statement of financial position is anticipated as the currently disclosed operating lease relationships are to be recognised as utilisation rights and leasing liabilities in the statement of financial position. Expenses incurred for previous operating lease relationships will no longer be recorded as leasing expenses in future. The new regulations lead to amortisation on the utilisation rights and interest expenses, and as a result the SLM Group expects corresponding shifts within profit/loss, accompanied by a slightly positive impact on EBIT.

Further new standards and interpretations which are not yet mandatory and not relevant for SLM AG:

Issue date	Standard/in- terpretation	Amendment/new standard	Amendment/new regulation	EU adopti- on date
11 April 2016	Amendment to IAS 7	Statement of Cash Flows Disclosure Initiative	Fiscal years commencing on or after 1 January 2017	No
19 January 2016	Amendment to IAS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses	Fiscal years commencing on or after 1 January 2017	No
20 June 2016	Amendment to IFRS 2	Share-based Compensation	Fiscal years commencing on or after 1 January 2018	No
12 September 2016	Amendment to IFRS 4	Application of IFRS 9 with IFRS 4 Insurance Contracts	Fiscal years commencing on or after 1 February 2018	No
8 December 2016	Improvements to IFRS (2014–2016)	Amendments to the standards IFRS 1, IFRS 12, IAS 28	IFRS 12: Fiscal years commencing on or after 1 January 2017 IFRS 1 and IAS 28: Fiscal years commencing on or after 1 January 2018	No
8 December 2016	IFRIC 22	Foreign currency conversion for advance consideration	Fiscal years commencing on or after 1 January 2018	No
8 December 2016	Amendment to IAS 40	Classification of properties not yet completed	Fiscal years commencing on or after 1 January 2018	No

To the extent that their content is of relevance, SLM Solutions Group AG will prospectively not apply any of the above-listed standards until the respective mandatory first-time application date.

Note 6) Estimates and assumptions

To prepare the consolidated financial statements, estimates and assumptions are required to a certain degree that affect the measurement and presentation of assets, liabilities, and of income and expenses. In doing so, all available information is taken into account. Basic assumptions and estimates relate to the capitalisation of development costs, measurement of intangible assets, the determination of useful economic lives, the calculation of deferred tax claims, the extent to which receivables have retained their value, the recognition and measurement of provisions, as well as sensitivity analyses performed in accordance with IFRS 7.

Particularly important are also estimation uncertainties resulting from the current tense interest situation, which relate to the amount of the reported pension provisions. As a result, the values that actually result may differ from the estimates.

In the case of provisions, particularly provisions for warranties and reworking, deviations can occur to the actual expenses for warranties and reworking incurred, as the provisions are determined based on figures oriented on the past. As part of this the warranty and/or reworking costs per machine are quantified and used as the measurement basis for the machines under warranty or machines in reworking at the turn of the year.

New information is taken into account as soon as it is available. As of the date when these consolidated financial statements were prepared, it was assumed that no significant changes had arisen compared with the assumptions and estimates.

Note 7) Effects of the successful IPO on the financial position and performance of SLM Solutions Group AG

Retention bonus

The bonus agreement concluded in 2014 stipulated that starting with the IPO, for each year of employment over a period of three years an entitlement exists for selected employees and one member of the Management Board to a retention bonus that relates at least to the average share price during the 3-month period following initial issue, although it can also correspond to the current share price on the respective bonus exercise date. For the first commitment, a determination of the entitlement based on this is made for the next three years after successful initial listing. An identical entitlement exists for twelve months respectively. The individual entitlement is based on the respective work performance pro rata temporis with expiry of every contractual year. The pay-out entitlement when a tranche falls due is in each case one third of the originally committed amount (i.e. TEUR 943 per tranche). Outstanding entitlements lapse if an employee leaves the company during the related duration.

An entitled employee receives three commitments that provide for service period conditions of one, two and three years. Expense offsetting then takes place for every individual commitment depending on the fulfilment of service period conditions. As a result the following system applies for expense offsetting in relation to time:

	12 months	24 months	36 months
Tranche 1	100 % (of tranche 1)		
Tranche 2	50 % (of tranche 2)	50 % (tranche 2)	
Tranche 3	33 % (of tranche 3)	33 % (of tranche 3)	33 % (of tranche 3)

According to the bonus agreement, the beneficiaries were obligated in 2014 to contribute the bonus entitlement as part of a non-cash capital increase against the granting of shares in SLM AG, and to hold them for a period of at least twelve months. A commitment with agreed equity settlement existed. With the resolution of the Supervisory Board from May 2015, the obligation to make a contribution in exchange for the granting of shares was cancelled and the program was reclassified in terms of its fulfilment type into a pure cash payment program.

The calculated and as yet unpaid portion of the bonus amount totalling TEUR 835 (previous year: TEUR 1,305) was recorded as a provision.

As of 31 December 2016, personnel costs of TEUR 465 (previous year: TEUR 1,277) for the retention bonus were recognised in the consolidated financial statements.

Measurement of the payment obligation as of 31/12/2016:

in TEUR	First tranche	Second tranche	Third tranche
Fair value	0	0	940
Expense in the 2016 fiscal year	0	151	314

Measurement of the payment obligation as of 31/12/2015:

in TEUR	First tranche	Second tranche	Third tranche
Fair value	0	943	940
Expense in the 2015 fiscal year	482	783	522

Note 8) Cost of materials

in TEUR	2016	2015
Raw materials and consumables used	46,829	38,468
Costs of purchased services	2,417	3,796
	49,246	42,265

Note 9) Personnel costs

The following FTEs were employed on average during the 2016 fiscal year: 269 salary earners, 30 wage earners and 26 interns (previous year: 165 salary earners, 35 wage earners and 9 interns).

in TEUR	2016	2015
Wages and salaries	20,922	14,757
Statutory social welfare contributions and expenses for optional support payments	2,931	1,913
Expenses relating to pension plans and employee benefits	100	118
	23,953	16,788

Note 10) Revenue

Revenue is categorised as follows:

in TEUR	2016	2015
Sales of machines and accessories	69,675	59,165
Sales of merchandise including powder in After Sales business	4,736	4,222
Replacement parts and services in After Sales business	6,295	2,750
	80,707	66,137

The categorisation of revenue has been adjusted to match the current segment reporting.

The category "Machine sales and accessories" corresponds with the "Machine Sales" segment, which contains all sales included within a machine order. The categories "Sales of merchandise including powder in After Sales business" and "Replacement parts and services in After Sales business" together make up the "After Sales" segment.

Note 11) Other operating income

Other operating income is categorised as follows:

in TEUR	2016	2015
Currency gains	569	1,016
Government grants	54	44
Payments in kind to employees	213	136
Release of liabilities	359	56
Reimbursements from insurance	4	26
Gain on disposal of property, plant and equipment	0	9
Release of the retention bonus	0	87
Other	340	183
	1,539	1,557

SLM has received government grants for various development projects. Where such subsidies relate to capitalised and completed development projects, they are deducted under the "Other work performed by the enterprise and capitalised" item. Where capitalised development projects have not been completed, the government grants that have been received are reported under liabilities.

All subsidies are granted conditional on corresponding cost documentation. No unfulfilled conditions or contingencies relate to these grants.

Note 12) Other operating expenses

in TEUR	2016	2015
Sales expenses	4,370	4,141
Operating expenses	5,273	4,248
Administrative expenses	2,530	2,074
Office premises costs	1,588	908
Travel expenses	2,281	2,009
Vehicle costs	535	308
Receivables management	16	330
Other	343	280
	16,936	14,298

Note 13) Interest and similar expenses

in TEUR	2016	2015
Pension-related interest expense	106	91
Borrowing costs	29	0
Interest expenses on bank loans	4	0
Other	55	20
Interest expenses	194	111

Note 14) Income taxes

The major components of income tax expense for the fiscal years ended 31 December 2016 and 2015 are as follows:

Composition of tax income

in TEUR	2016	2015
<i>Current income tax</i>		
Current income tax expenses	97	172
Expenses of prior period taxes	276	7
Other	0	0
<i>Deferred tax</i>		
Recognition and release of temporary differences	283	781
Recognition of tax loss carryforwards	-1,020	475
Income taxes as per income statement	-364	1,435
Total comprehensive income		
Income taxes recognised directly in other comprehensive income:		
Actuarial losses/gains on pension provisions	191	104
Income taxes recognised in total comprehensive income	191	104

Deferred taxes totalling TEUR 191 (previous year: TEUR 104), incurred on the income and expenses on other comprehensive income, were recorded in other comprehensive income (actuarial loss).

Income taxes paid amounted to TEUR 91 in 2016 (previous year: TEUR 140).

In Germany, the calculation of current 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 the German trade tax is a non-deductible expense, the average trade tax rate amounts to 15.75 % and the combined tax rate totals 31.575 % (previous year: 31.575 %). Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

For foreign subsidiaries, current taxes are calculated based on local tax laws and applicable tax rates in individual foreign countries. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The tax rates applicable to Group companies varies between 17 % and 34 %. These have not changed compared to the previous year.

The commercial 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 with future profits is also limited by time. This results in the following situation for deferred taxes: Loss carryforwards totalling TEUR 641 (previous year: TEUR 1,381) were estimated to be non-usable overall. Of this amount, TEUR 522 expire within a period of 20 years (previous year: TEUR 443), and TEUR 43 within five years (previous year: TEUR 55). Loss carryforwards of TEUR 75 can be used indefinitely (previous year: TEUR 883).

Due to the use of taxes losses not previously recognised and tax credits from previous periods, the actual income tax expense for the current fiscal year is reduced by TEUR 116 (previous year: TEUR 0).

A reconciliation between tax expense and the product of profit before tax multiplied by the domestic tax rate for the fiscal years ended 31 December 2016 and 2015 is as follows:

Reconciliation

in TEUR	2016	2015
Profit/loss before taxes	-3,812	3,580
Expected income tax calculated at 31.575 % (2015: 31.575 %)	1,204	-1,130
<i>Tax effects deriving from:</i>		
Non-tax-deductible expenses	-141	29
Differing tax rates	74	102
Tax-free income	3	14
Adjustments to tax loss carryforwards	-550	-475
Previous years' income taxes	-276	-7
Other	50	32
Income taxes	364	-1,435

The following overview reconciles deferred taxes with the underlying items in the statement of financial position:

Gross table

in TEUR	31.12.2016	31.12.2015
Intangible assets	-6,790	-6,127
Tangible assets	176	-183
Other non-current assets	-258	0
Loss carryforwards	4,475	3,454
Pension liabilities	808	499
Provisions	16	26
Liabilities	6	-166
Total deferred tax assets (liabilities)	-1,567	-2,497
Presentation in the statement of financial position:		
Deferred tax assets	5,481	4,089
Offsetting with deferred tax liabilities	-5,481	-4,089
Deferred tax assets as per the consolidated statement of financial position	0	0
Deferred tax liabilities	7,048	6,586
Offsetting with deferred tax assets	-5,481	-4,089
Deferred tax liabilities as per the consolidated statement of financial position	1,567	2,497

TEUR 220 (previous year: TEUR 0) of the deferred income tax claims are due within a year. TEUR 109 (previous year: TEUR 92) of the deferred income tax obligations are due within a year.

Note 15) 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 TEUR	31/12/16	31/12/15
Cash at banks	19,993	39,887
Cash on hand	4	1
Fixed-term deposits	32	32
	20,028	39,920

In order to derive cash and cash equivalents as disclosed in the statement of cash flows, fixed-term deposits amounting to TEUR 32 were excluded. The fixed-term deposits are of limited availability, as they serve as a security for rental contracts.

Note 16) Trade receivables

in TEUR	31/12/16	31/12/15
Trade receivables	29,400	26,736
Valuation allowances	-255	-396
	29,145	26,341

Changes in valuation allowances are as follows:

in TEUR	Impairment
01/01/15	175
Addition	276
Utilisation	-55
31/12/15	396
Addition	232
Utilisation	-373
31/12/16	255

The requirement for an impairment is analysed at each reporting date on an individual basis. Valuation allowances are applied if a business partner encounters unanticipated financial difficulties, for example. The individually impaired receivables' term structure is as follows:

in TEUR	2016	2015
Up to 3 months	0	0
3-6 months	255	396

In addition, a large number of low-value receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual historical data.

The due date analysis of trade receivables is as follows as of 31 December:

in TEUR	Total	Impaired receivables	Neither overdue nor impaired	Overdue, but not impaired		
				< 31 Days	31-60 Days	> 60 Days
2016	29,400	149	8,814	5,960	5,499	8,977
2015	26,737	596	6,429	7,486	4,710	7,516

As of 31 December 2016, no indications of credit risk existed relating to receivables, whether overdue or impaired.

Note 17) Inventories

in TEUR	2016	2015
Raw materials and supplies	7,055	5,197
Work in process	9,355	2,999
Finished goods and merchandise	14,600	12,972
Prepayments rendered	97	496
	31,107	21,663

Raw materials and supplies, work in process, and finished goods and merchandise held for resale are valued at the lower of cost and net realisable value.

Note 18) Other current assets and other current financial assets

Other current assets comprised the following:

in TEUR	31/12/16	31/12/15
VAT receivables	965	538
Receivables from the cooperation agreement with NTU (see Note 3)	365	1,250
Other	1,158	201
	2,489	1,989

* Mainly includes prepayments for rents, fairs and insurance.

Other current assets largely consist of VAT receivables totalling TEUR 965 (previous year: TEUR 539).

Note 19) Intangible assets

in TEUR	Cost of acquisition or production costs as of 1 January 2015	Additions	Disposals	Reclassifications	Purchase or production costs as of 31 December 2016	Accumulated amortisation, depreciation and impairment losses as of 31 December 2016	Carrying amount as of 31 December 2016	Amortisation, depreciation and impairment losses in the 2016 fiscal year
Capitalised development costs	7,181	3,111	0	-12	10,280	-2,018	8,262	-1,180
Patents, licences and similar rights	425	0	-292	135	268	-258	11	-114
Acquired in connection with a business combination	19,109	0	0	0	19,109	-5,377	13,732	-1,282
Laser technology	18,123	0	0	0	18,123	-4,832	13,291	-1,208
Customer base	737	0	0	0	737	-296	441	-74
Order book position	249	0	0	0	249	-249	0	0
Intangible assets	26,715	3,111	-292	123	29,657	-7,653	22,005	-2,576

in TEUR	Cost of acquisition or production costs as of 1 January 2015	Additions	Disposals	Reclassifications	Purchase or production costs as of 31 December 2015	Accumulated amortisation, depreciation and impairment losses as of 31 December 2015	Carrying amount as of 31 December 2015	Amortisation, depreciation and impairment losses in the 2015 fiscal year
Capitalised development costs	4,018	3,163	0	0	7,181	-838	6,343	-271
Patents, licences and similar rights	169	256	0	0	425	-144	281	-120
Acquired in connection with a business combination	19,109	0	0	0	19,109	-4,095	15,015	-1,282
Laser technology	18,123	0	0	0	18,123	-3,624	14,499	-1,208
Customer base	737	0	0	0	737	-222	516	-74
Order book position	249	0	0	0	249	-249	0	-0
Intangible assets	23,296	3,419	0	0	26,715	-5,077	21,639	-1,673

The overall amount of research and development costs incurred in the 2016 fiscal year totalled TEUR 8,414 (previous year: TEUR 5,380).

Note 20) Property, plant and equipment

in TEUR	Purchase or produc- tion costs as of 1 January 2016	Addi- tions	Dispo- sals	Reclassi- fications	Cost of acquisition or produc- tion costs as of 31 Decem- ber 2016	Accumulated amortisation, depreciation and impair- ment losses as of 31 December 2016	Carrying amount as of 31 Decem- ber 2016	Amorti- sation, depre- ciation and impair- ment losses in the 2016 fiscal year
Property	4,225	338	0	0	4,563	0	4,563	0
Technical machinery and equip- ment	7,592	4,130	-2,278	0	9,444	-2,959	6,485	-1,643
Furniture and office equipment	3,501	1,762	-101	637	5,799	-2,015	3,784	-970
Prepay- ments rendered for property, plant and equipment	75	4,292	-78	-761	3,528	0	3,528	0
Property, plant and equipment	15,393	10,522	-2,457	-124	23,334	-4,975	18,360	-2,614

in TEUR	Purchase or produc- tion costs as of 1 January 2015	Addi- tions	Dispo- sals	Reclassi- fications	Cost of acquisition or produc- tion costs as of 31 Decem- ber 2015	Accumulated amortisation, depreciation and impair- ment losses as of 31 December 2015	Carrying amount as of 31 Decem- ber 2015	Amorti- sation, depre- ciation and impair- ment losses in the 2015 fiscal year
Property	0	4,225	0	0	4,225	0	4,225	0
Technical machinery and equip- ment	1,099	6,313	0	-180	7,592	-1,316	6,276	-859
Furniture and office equipment	1,881	1,054	0	-566	3,501	-1,045	2,456	-718
Prepayments rendered for property, plant and equipment	308	513	0	746	75	0	75	0
Property, plant and equipment	3,288	12,105	0	0	15,393	-2,361	13,032	-1,577

Note 21) Other financial liabilities

Other financial liabilities all have a remaining term of no more than a year and break down as follows:

in TEUR	31/12/16	31/12/15
Commission/bonus payments	2,474	1,079
Licence payments	1,280	1,883
Legal and consulting costs	182	388
Other personnel costs	1,610	2,034
Debitors with credit balances	435	204
Property purchase price	0	4,225
Other	91	36
	6,071	9,849

Moreover, material obligations exist from the Lübeck Genin new build investment project from a general contractor agreement signed in 2016 totalling TEUR 20,825, of which TEUR 3,124 had already been made as a down payment as of the reporting date.

Note 22) Trade payables and other liabilities

in TEUR	31/12/16	31/12/15
Trade payables	9,637	7,489
Other liabilities	4,711	3,632
	14,348	11,121

Other liabilities are non-financial in their nature and all have a remaining term of no more than a year. They break down as follows:

in TEUR	31/12/16	31/12/15
Prepayments received	1,861	2,454
Government grants*	93	292
Other personnel costs	835	313
Wage tax liabilities	318	331
Social security contributions	48	30
Other	1,555**	212
	4,711	3,632

* Government grants for development projects that have not yet been completed are deferred as of 31 December 2016.

** Basically includes provisions from warranties and creditors' accounts

Note 23) 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. Accordingly, 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 % 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.

The losses recorded in the fiscal year were overwhelmingly created by the effects of changes in interest rates.

The pension obligations are reported as follows in the consolidated statement of financial position:

in TEUR	2016	2015
Present value as of 1 January	4,375	4,544
Length of service expenses	100	117
Interest expense	106	91
Pension payments	-53	-48
Actuarial gains and losses	584	-330
Present value as of 31 December	5,112	4,375
Plan assets	0	0
Pension provisions as per the consolidated statement of financial position	5,112	4,375

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

	2016	2015
Interest rate	1.72%	2.42%
Increases in income	2.50%	2.50%
Pension adjustments	1.70%	1.70%
Employee turnover rate	1.00%	1.00%

A one basis 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 (2016)	-959	1,280	795	-651	203	-183
Effect on DBO (2015)	-790	1,046	647	-533	239	-217

The sensitivity is based on modifying all assumptions by +/- 1 basis 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).

According to the analysis of the expected due dates of the outstanding pension payments, the following amounts will prospectively be paid out during the next ten years:

in TEUR	2016	2015
up to one year	58	64
between 2 and 5 years	288	300
between 5 and 10 years	532	458
Prospective payments in the next 10 years	878	822

Note 24) Provisions

Provisions developed as follows:

in TEUR	01/01/2016	Utilisation	Release	Addition	31/12/2016
Non-current provisions					
Warranty provisions	0	0	0	826	826
LTI	0	0	0	288	288
Retention Bonus	522	522	0	0	0
	522	522	0	1,114	1,114
Current provisions					
Warranty provisions	1,751	1,054	0	902	1,599
Retention Bonus	783	379	0	431	835
Other	17	17	0	60	60
	2,551	1,450	0	1,393	2,494

in TEUR	01.01.2015	Verbrauch	Auflösung	Zuführung	31/12/2015
Non-current provisions					
Retention bonus	240	0	0	282	522
	240	0	0	282	522
Current provisions					
Warranty provisions	972	678	0	1,457	1,751
Retention bonus	304	217	87	783	783
Other	12	12	0	17	17
	1,288	907	87	2,257	2,551

The provision for claims relating to warranties from the sales of machines was formed for TEUR 2,425. It is based on past empirical data relating to the number of repairs and product returns. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the two-year warranty period for all products sold.

It is expected that most of these warranty claims will be incurred over the next two fiscal years, and that all will have been incurred within two years after the reporting date.

The obligations relating to the retention bonus exist until 2017 and are therefore recognised as a current provision. For more on this, please refer to our explanatory notes in Note 7.

Note 25) Equity

Subscribed share capital

All shares have been fully paid in. All shares comprise ordinary shares.

By AGM resolution of 17 April 2014, the Management Board is authorised, with Supervisory Board assent, to increase the share capital by 16 April 2019 by up to a total of 6,907,100 new ordinary bearer shares against cash or non-cash capital contributions.

The share capital is conditionally increased by a resolution passed by the AGM of 17 April 2014, by up to EUR 6,907,100 through issuing up to 6,907,100 new ordinary bearer shares.

By way of resolution of the Shareholders' General Meeting of 20 March 2014, the Company's share capital was increased from Company funds by EUR 13,732,940.00, from EUR 81,260.00 to EUR 13,814,200.00. After converting into a public stock corporation and issuing shares as part of the IPO, the subscribed capital as of 31 December 2014 was divided into 17,980,867 fully paid ordinary registered no par bearer shares each with a notional value of EUR 1.00 in the share capital. They carry one voting right each and are entitled to dividends. In the 2016 fiscal year, no shares were issued, meaning that 17,980,867 shares were still in circulation as of 31 December 2016.

The Group's aims with regard to capital management lie in securing the Company as a going concern in order to continue to provide its owners with income, and other stakeholders with the payments or services to which they are entitled. A further objective is to optimise the capital structure in order to minimise capital costs. Although the capital structure is currently dominated by equity given the recent occurrence of the IPO, the targeted deployment of debt funding in the future cannot be excluded, including in the context of an acquisition, for example.

The Group can also adapt the capital structure through other instruments where required. These include dividend payments to owners, capital repayments to owners, the issuing of new shares, or the sale of interests in assets.

Given the IPO's recent occurrence, the Group monitors its capital on the basis of its equity ratio, which comprises the relationship between equity and total assets. Both figures are derived from the figures as recognised in the consolidated statement of financial position.

The Group's strategy consists of normalising its relatively high equity ratio over the course of the coming years, and of raising an appropriate level of debt funding, including for acquisitions, for example.

The equity ratio as of 31 December 2016 and 31 December 2015 was measured as follows:

in TEUR	2016	2015
Equity	95,202	99,004
Total assets	123,833	129,920
Equity ratio	76.88%	76.20%

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.

	2016	2015
Number of shares in issue as of 1 January	17,980,867	17,980,867
Number of shares in issue during the fiscal year	0	0
Weighted average number of shares in issue	17,980,867	17,980,867

	2016	2015
Consolidated net profit/loss attributable to parent company shareholders (in EUR)	-3,483	2,160
Weighted average number of shares in issue	17,980,867	17,980,867
Basic (undiluted) earnings per share in EUR	-0.19	0.12

Earnings per share (diluted)

As in the previous year, the diluted earnings correspond with the undiluted earnings, as no factors exist which would have altered the earnings.

Other comprehensive income

Other comprehensive income comprises actual gains and losses, and exchange rate translation differences

in TEUR	2016	2015
Net gain	-3,483	2,160
Items not to be reclassified to profit or loss in the future:		
actuarial gains/losses on pensions	-584	330
deferred taxes on actuarial gains/losses	191	-104
Income/expenses to be reclassified to profit or loss in the future:		
Exchange rate translation differences from foreign businesses	73	83
Other comprehensive income, net of tax	-319	309
Total comprehensive income	-3,803	2,469

The exchange rate differences included in total comprehensive income were as follows:

in TEUR	Reconciliation of exchange rate translation differences
01/01/2016	96
Translation SLM Solutions NA, Inc.	46
Translation SLM Solutions Singapore Pte.	-9
Translation SLM Solutions Shanghai Co. Ltd.	-7
Translation SLM Solutions RUS OOO	42
31/12/2016	169

Capital reserve

The capital reserve as of 31 December 2016 totalled TEUR 85,041 (previous year: TEUR 85,041).

Consolidated loss for the period included in retained earnings

Consolidated loss for the period included in retained earnings of TEUR -7,158 (previous year: TEUR -3,675) consisted of the 2016 consolidated net result of TEUR -3,483 (previous year: TEUR 2,160) and TEUR -3,675 of loss carried forward (previous year: TEUR -5,835).

Note 26) Leasing

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 2016 and 2015, future minimum payment obligations under non-cancellable operating leases are as follows:

in TEUR	2016	2015
Less than 1 year	1,748	1,668
More than 1 year and up to 5 years	2,167	2,977
More than 5 years	43	217

Total operating lease expenses for the fiscal years as of 31 December 2016 and 2015 amounted to TEUR 2,079 and TEUR 1,337 respectively. These relate exclusively to amounts for minimum lease payments, while no contingent lease payments and payments from subleases exist.

SLM has entered into no leases with variable lease payments.

Future rental income from operating leasing relationships as lessor

In the 2016 fiscal year, the Group concluded two operating leasing agreements for one machine from the selective laser melting field respectively.

The Group will generate the following minimum leasing payments (in TEUR) from the existing operating leasing relationships:

in TEUR	Up to 1 year	Between 1 and 5 years	Total
Rental machine 1	71	99	169
Rental machine 2	109	217	326
Total	179	316	495

Receivables from finance leasing relationships as lessor

In the 2016 fiscal year, the Group had one existing finance leasing agreement for a machine from the selective laser melting field, in which the ownership rights for the leasing object are automatically passed over to the lessee at the end of the contractual period. The carrying amount of the receivable at the time of conclusion of contract totalled TEUR 475 and decreased pro rata by the repayment amount of the monthly rental payments totalling TEUR 10. A right to 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 TEUR	2016	2015
Less than 1 year	168	125
More than 1 year and up to 5 years	226	346
More than 5 years	0	0
Total	394	471

in TEUR	Up to 1 year	Between 1 and 5 years	Over 5 years	Total 2016	Total 2015
Future instalments	168	226	0	394	471
+ non-guaranteed residual value	0	0	0	0	0
= Investment value	168	226	0	394	471
Minimum leasing payments	168	226	0	394	471

No impairments exist for uncollectible outstanding minimum leasing payments.

Sale and lease back

SLM has concluded one sale-and-lease-back agreement for one machine with a leasing company. This leasing relationship is classified as finance leasing. This expired in January 2017 and the machine was bought back.

Note 27) Additional disclosures about financial instruments

SLM utilises the following classes of financial instruments:

- Loans and receivables
- Financial liabilities measured at amortised cost

Cash and cash equivalents, trade receivables and other financial assets are attributed to loan and receivables.

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

The following table presents the fair values and carrying amounts of financial assets and financial liabilities recognised at cost, or at amortised cost:

in TEUR	Fair value		Carrying amount	
	2016	2015	2016	2015
Loans and receivables	49,265	71,263	49,265	71,263
Financial assets	251	0	251	0
Financial liabilities measured at cost applying the effective interest method	15,033	17,338	15,033	17,388

Except for a fixed term deposit of TEUR 32, SLM has complete discretionary power over its cash and cash equivalents. These fixed-term deposits serve as collateral for contractual obligations arising from leased buildings.

The fair value of the cash and cash equivalents, the receivables as well as the other current financial liabilities largely corresponds with the carrying amount.

Net gains (losses) on financial instruments are as follows:

in TEUR	Net gain		Net loss	
	2016	2015	2016	2015
Loans and receivables	607	1,027	90	76
Financial assets	0	0	0	0
Financial liabilities measured at cost applying the effective interest method	0	0	339	264

Net losses on loans and receivables include changes in valuation allowances, gains or losses on derecognition, currency translation, as well as recoveries of amounts previously written-off. No net profits from financial assets exist in the fiscal year. The net gains (losses) deriving from financial liabilities measured at amortised cost applying the effective interest method arise from interest payments.

Note 28) 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.

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. The following principal financial risks have been identified:

- Risk of insufficient funds to finance ongoing expansion
- Risk that outstanding trade receivables and other trade receivables prove uncollectible
- Risk of rising exchange rates in Asia and other non-euro countries
- Risk of rising exchange rates in the USA and other non-euro countries
- Risk of interest rate increases
- Non-adherence to financial covenants

Risk concentration

Cluster risks do not exist at SLM AG in general, as its sales are to be characterised as very broadly diversified both regionally and in relation to customers and products. 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

SLM AG monitors its liquidity on a regular basis. The medium-term objective of SLM AG is to maintain a balance between continuity of funding and sustainable liquidity through the use of bank overdrafts, bank loans, debentures, finance and operating leases, as well as shareholder loans.

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.

The table below summarises the term profile of the Group's financial liabilities based on contractual undiscounted payments.

in TEUR	31/12/16		31/12/15	
	Trade payables and other liabilities	Other financial liabilities	Trade payables and other liabilities	Other financial liabilities
Within one year	9,637	6,232	7,489	9,367
More than one year	0	0	0	0

Credit and default risk

Credit default risk comprises the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily from trade receivables), and from its financing activities, including deposits with banks. The maximum credit and default risk corresponds to the carrying amount of the financial assets.

Before every sale exceeding defined thresholds, the management of SLM AG checks the respective counterparty's creditworthiness. Moreover, legal title remains with SLM AG 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).

Currency risk

SLM AG mostly acquires raw materials and supplies in euros. A significant proportion of sales transactions are also concluded in foreign currencies, particularly USD, 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 2016 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 US dollar, SG dollar and Chinese Yuan, 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.

in TEUR	Change in USD exchange rate	Effect on profit before tax	Effect on equity
2016	10%	1,421	972
	-10%	-1,277	-874
2015	10%	1,479	1,012
	-10%	-1,555	-1,064
	Change in SGD exchange rate	Effect on profit before tax	Effect on equity
2016	10%	-477	-326
	-10%	-965	-661
2015	10%	57	39
	-10%	22	15
	Change in SGD exchange rate	Effect on profit before tax	Effect on equity
2016	10%	198	137
	-10%	-178	-123
2015	10%	0	0
	-10%	0	0

As virtually no revenue was generated in RUB in the 2016 fiscal year, changes to the exchange rates of this currency do not have any impacts on the profit before taxes or equity.

Interest-rate risk

Due to its IPO in May 2014, SLM does not currently require any bank loans. No interest-rate risk exists as a consequence.

SLM deploys no derivative financial instruments or hedging instruments.

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

Note 29) Presentation of segment reporting pursuant to IFRS 8

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 Company has made the "Machine Sales" and "After Sales" segments reporting elements for the Management Board and Supervisory Board, and therefore identified them as reportable segments. In the "Machine Sales" segment, the machine sales from the selective laser melting field are taken into account in addition to accessories based on new order intake. The "After Sales" segment includes service revenue, replacement parts sales and merchandise sales from secondary business.

These two segments formed the basis of segment reporting in the year under review.

The two aforementioned segments comprise all of SLM's activities in the 2016 fiscal year.

Revenue and EBITDA comprise the central steering elements. Assets and liabilities are not disclosed separately.

Segment reporting for the 2016 fiscal year:

in TEUR	Machine Sales	After Sales	Total
Revenue	69,675	11,032	80,707
Expense	62,590	15,047	77,637
EBITDA*	7,085	-4,015	3,070
Depreciation, amortisation and impairment losses			-3,908
PPA amortization			-1,282
Interest expense*			-662
Income taxes			328
Adjusted costs*			-1,029
Net profit			-3,483

Segment reporting for the 2015 fiscal year:

in TEUR	Machine Sales	After Sales	Total
Revenue	59,165	6,972	66,137
Expense	47,012	10,957	57,969
EBITDA**	12,153	-3,985	8,168
Depreciation, amortisation and impairment losses			-1,968
PPA amortization			-1,282
Interest expense			-133
income taxes			-1,435
Adjusted costs**			-1,190
Net profit			2,160

* Adjusted for the retention bonus totalling TEUR 465 and transactions costs of TEUR 564

** Adjusted for the retention bonus of TEUR 1,190 (personnel costs of TEUR -1,277 and reversal of provision of TEUR 87)

In addition to depreciation, amortisation and impairment losses, material non-cash expenses in the year under review existed in connection with the retention bonus of TEUR 431 (previous year: TEUR TEUR 1,305).

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:

Geographic information:

in TEUR	2016	2015
Germany	19,423	17,772
Asia-Pacific	20,529	8,365
European countries (EU, excluding Germany)	19,110	13,404
United States of America	21,235	24,057
Other countries	1,848	2,893
	82,145	66,491
Bonuses/rebates/discounts	-1,438	-354
	80,707	66,137

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.

Management Board members and related parties:

- Dr. Markus Rechlin and family
- Uwe Bögershausen and family
- Henner Schöneborn and family

Supervisory Board members and related parties:

- Hans-Joachim Ihde and family
- Peter Grosch and family
- Bernd Hackmann and family
- Klaus- J. Grimberg and family
- Volker Hichert and family
- Lars Becker and family

Related parties to the SLM Group comprise the following:

- Ceresio GmbH
- Marevest Beteiligung GmbH
- SLM Solutions Software GmbH
- 3 D Metal Powder GmbH

No shareholder exerts direct control. Due to their interests in the subscribed share capital, the previous shareholders (Parcom Deutschland I GmbH & Co. KG and its shareholder and managing director, Mr. Henner Schöneborn, as well as Ceresio GmbH and its shareholder and managing director), can continue to exert significant influence over the Company, and exert notional control at shareholders' general meetings depending on the present majority.

The deliveries, services and other business transactions rendered until 31 December 2016 for equity-accounted companies (here: SLM Solutions Software GmbH and 3 D Metal Powder GmbH) have been expanded as follows compared to the previous year:

in TEUR	Total amount in the 2016 fiscal year	Outstanding items as of 31 December 2016
Type of business		
Goods and services provides	198	4
Benefits received	90	90
Loans	251	251

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

Compensation of the Supervisory Board members of SLM AG:

The Supervisory Board of SLM AG was appointed effective as of 1 April 2014.

in TEUR	Supervisory Board compensation 2016	Supervisory Board compensation 2015
Mr. Ihde	54	54
Mr. Grosch	36	36
Mr. Hackmann	18	18
Mr. Grimberg	18	18
Mr. Hichert	18	18
Mr. Becker	18	18
Total	162	162

Besides compensation for his Supervisory Board work, Mr. Ihde received payment of TEUR 131 (previous year: TEUR 170) as part of a consultancy agreement with SLM AG. Mr. Grimberg received TEUR 4 as part of consulting work (previous year: TEUR 0).

No other compensation for the Supervisory Board members was paid in the 2016 fiscal year.

Compensation of Management Board members in 2016:

in TEUR	Salaries and other current payments (non-performance- based)	Performance- based compensation	Share-based compensation	Pension benefit
Mr. Rechlin	279	115	144	0
Mr. Bögershausen	258	115	405*	0
Mr. Schöneborn	248	68	0	91
Total	785	298	549	91

* TEUR 261 from Retention Bonus

Compensation of Management Board members in 2015:

in TEUR	Salaries and other current payments (non-performance- based)	Performance- based compensation	Share-based compensation	Pension benefit
Mr. Rechlin	234	75	0	0
Mr. Bögershausen	223	75	261	0
Mr. Schöneborn	228	20	0	40
Total	685	170	261	40

A performance-based bonus was agreed with the Management Board which is set and determined after the approval of the consolidated annual financial statements. In anticipation of this, 100% of the bonus, totalling TEUR 250, was deferred as an expense in the full amount in 2016. Based on the figures available at the time of the preparation of the consolidated financial statements, no bonus payment to the Management Board is anticipated for the 2016 fiscal year.

The provision for benefit entitlements for related persons totalled TEUR 1,034 as of 31 December 2016. TEUR 91 was added during the fiscal year.

Since 18/12/2015, an agreement for a share-based compensation system has been in place for the Management Board members Dr. Markus Rechlin and Mr. Uwe Bögershausen. 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 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. The expenses recorded in the period correspond with the provision of EUR 288.

The valuation of the fair value of the liability totalling EUR 704 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 TEUR	2016	2015
Auditing of financial statements	122	220*
Other certification services	5	0
Tax advisory services	73	24
Other services	0	36
Total	200	280

* Of which TEUR 110 for previous years

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), and made it permanently available to the public on the Company's website (www.slm-solutions.com).

Note 33) Events after the balance sheet date

No 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.

On 23 January 2017, the CEO Dr. Markus Rechlin was dismissed by the Supervisory Board.

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

To the best of our knowledge, and in accordance with the applicable reporting principles for annual financial reporting, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, and the Group management report presents the progression of business including the business results and the Group's position so that a true and fair view is conveyed, and describes the significant opportunities and risks pertaining to the Group's prospective development in the 2016 financial year.

Lübeck, 22 March 2017



Uwe Bögershausen
SLM Solutions Group AG



Henner Schöneborn

Auditor's Report

We have audited the consolidated financial statements prepared by the SLM Solutions Group AG, Lübeck, comprising the statement of financial position, the income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1st to December 31st 2016. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 23 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer
German Public Auditor

Prof. Dr. Mathias Schellhorn
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Pictures

SLM Solutions Group AG
shutterstock - Levent Konuk
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Financial calendar

11/05/2017	Q1 Report 2017
02/06/2017	Annual General Meeting (Lübeck)
10/08/2017	H1 Report 2017
09/11/2017	9M Report 2017