Industrial Manufacturing Revolution

Annual Report 2014

SLM SOLUTIONS

Highlights

	Unit	2014	Change (in % or % points)	2013	2012
Revenue	TEUR	33,559	+55.5	21,575	17,509
Total operating revenue	TEUR	39,256	+75.6	22,352	19,007
Cost of materials	TEUR	21,040	+83.9	11,438	10,277
Cost of materials ratio (as % of total operating revenue)	%	53.6	+2.4	51.2	54.1
Personnel costs	TEUR	7,623*	+62.0	4,705	3,715
Personnel cost ratio (as % of total operating revenue)	%	19.4*	-1.7	21.1	20.0
Adjusted EBITDA**	TEUR	4,490	+80.2	2,491	1,938
Adjusted EBITDA margin (as % of revenue)	%	13.4	+1.9	11.5	11.1
Net result for the period	TEUR	-5,099	-	-430	903
Earnings per share***	EUR	-0.30	-	-	-
New order intake	Number of machines	62	+138.5	26	25
Machines sold	Number of machines	49	+75.0	28	21

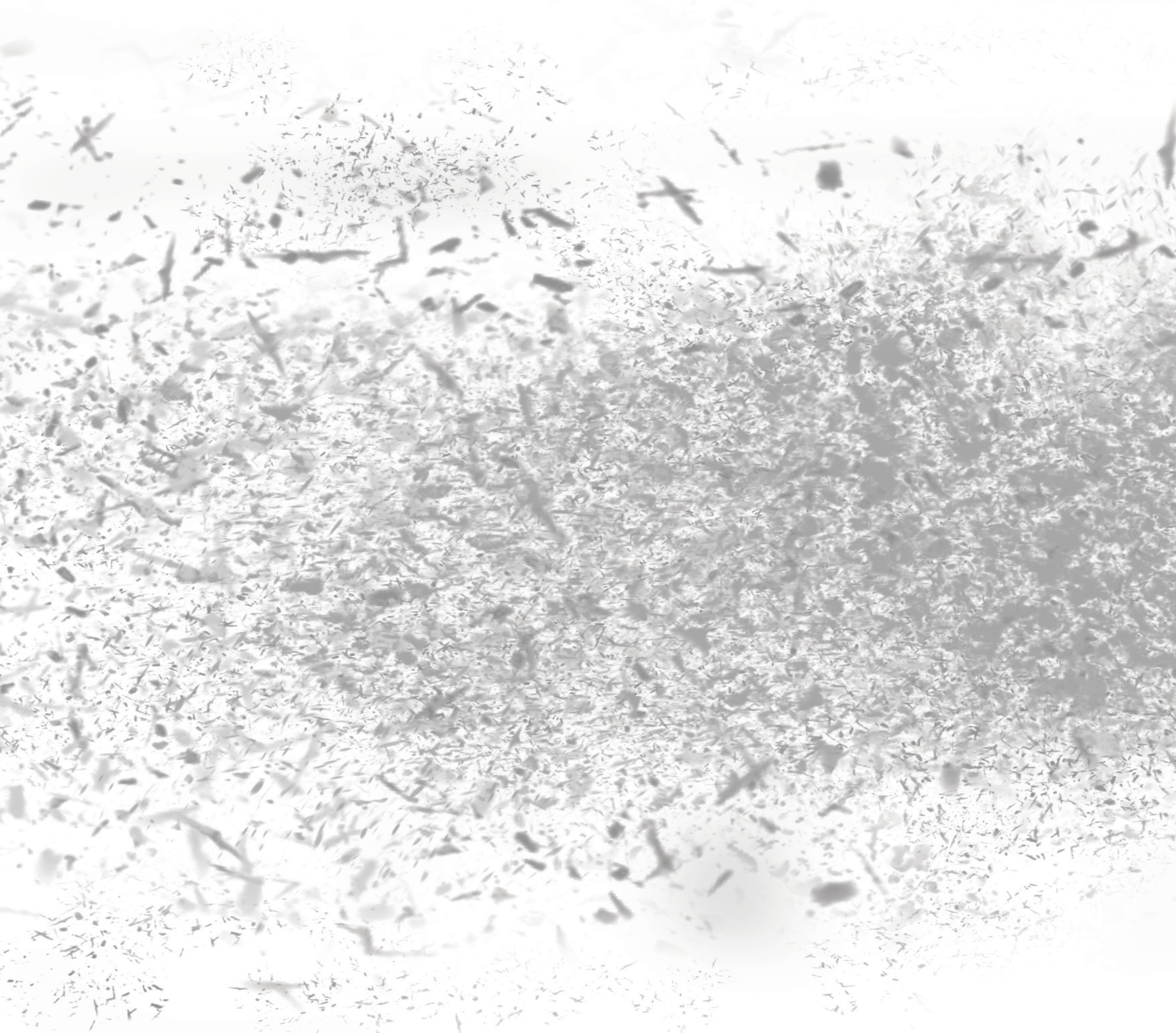
	Unit	31/12/14	Change (in % or % points)	31/12/13	31/12/12
Non-current assets	TEUR	22,456	+6.8	21,026	21,149
Current assets	TEUR	89,719	+515.8	14,569	18,123
Equity ratio	%	86.5	+45.2	41.3	37.8
Total assets	TEUR	112,175	+215.2	35,595	39,272

* Adjusted in the 2014 fiscal year for IPO bonus expenses of TEUR 5,650 and retention bonus expenses of TEUR 1,055.

** EBITDA in the 2014 fiscal year adjusted for one-off expenses for the IPO bonus, IPO transaction costs recognised as an expense, the retention bonus recognised under personnel costs, and investor relations costs.

*** Relating to the weighted average number of issued shares of 17,254,295, undiluted

Contents



The industrial manufacturing revolution

PIONEERS
in metal-based 3D printing

1970 Rapid prototyping in Lübeck: market maturity of prototype tooling

2003 Market maturity of selective laser melting technology and development of the SLM 250

1996 Pioneering work and fundamental research by Fockele & Schwarze and the Fraunhofer Institute for Laser Technology

May 2014

Growth placed on a new foundation: EUR 75 million of growth capital raised by IPO on Frankfurt Stock Exchange

2011

Company renamed SLM Solutions after spin-off from the MCP Group; concentration on laser melting technology

> **“It’s going to revolutionize design and manufacturing in the 21st century.”**
>
> (Elon Musk, founder and CEO of Space X, on the future of additive manufacturing)

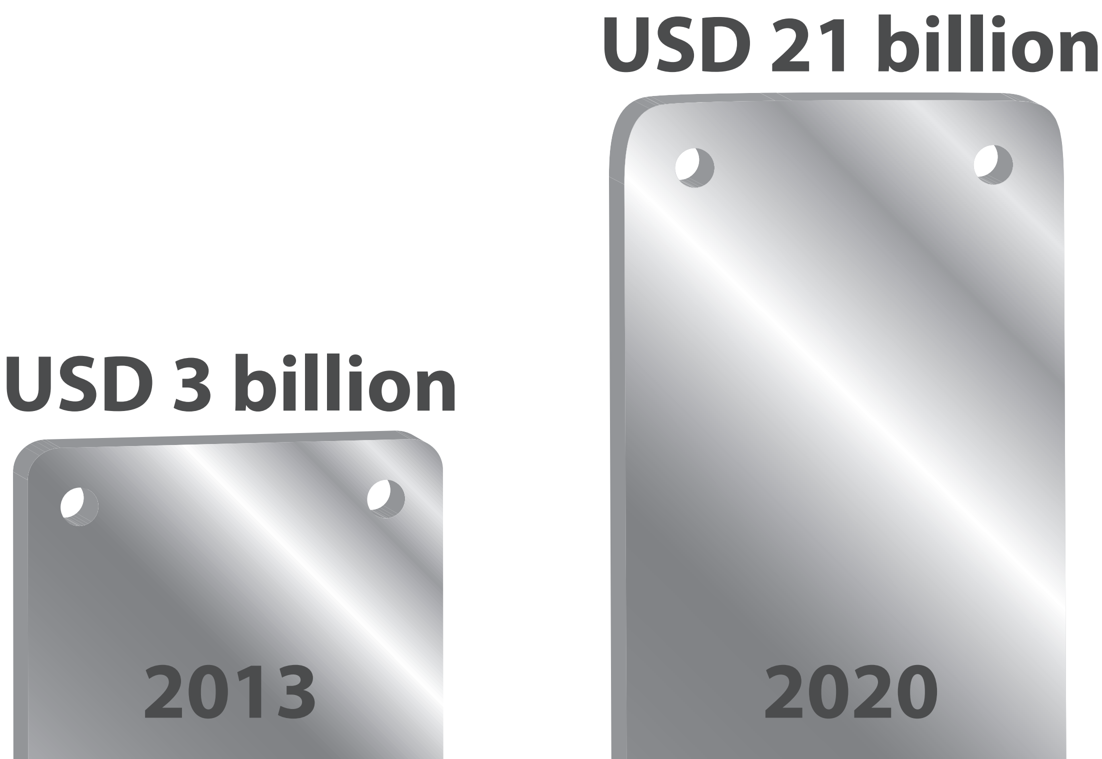
SELECTIVE LASER MELTING – the industrial manufacturing revolution

3D printing, otherwise known as additive manufacturing: Unlimited possibilities

„From chipping come chips“ – this mantra of traditional manufacturing does not apply to additive manufacturing processes, often referred to as „3D printing“. By contrast with conventional manufacturing processes such as casting or milling, an object in the 3D printing 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. The model is then 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 metal, plastic and sand are suitable for 3D printing.

Metal, and nothing but metal: SLM Solutions as selective laser melting pioneer

SLM Solutions is a technology leader in the development and production of metal-based additive manufacturing machines. SLM Solutions‘ machines can process any meltable alloy into a finished product – especially aluminium, titanium, cobalt chrome, Inconel, tool steel and stainless steel, as well as super alloys. SLM machines deploy selective laser melting technology that melts objects in a metallic powder bed with the help of laser beams.



Global 3D printing market volumes (Source: Wohlers Associate)

3D printing versus conventional manufacturing

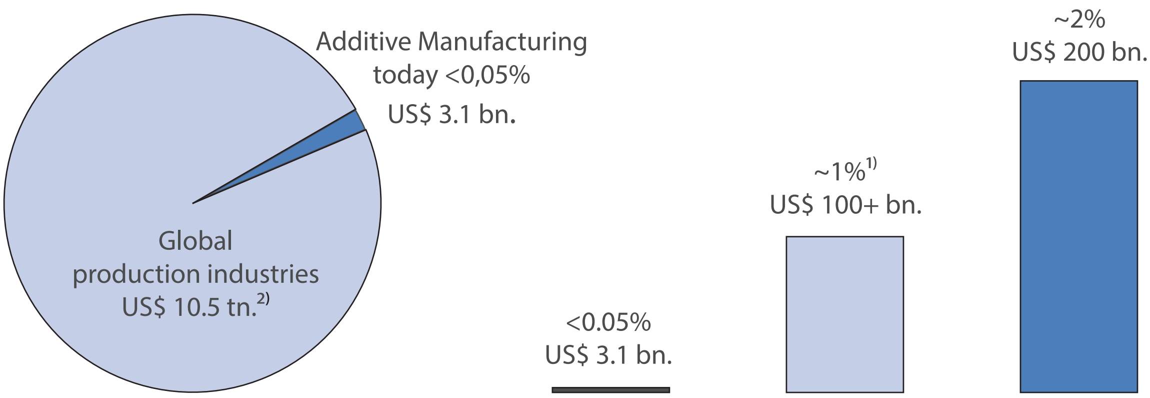
In scenarios involving the production of smaller series of complex components, additive manufacturing is often

faster: build time reduced by up to 90 percent
more efficiently: weight reduction of up to 60 percent, reduction in number of components of up to 95 percent
more cost-efficiently: reduction of component costs of up to 70 percent
more flexibly: „complexity comes for free"
in higher quality: superior materials properties such as density, stability, temperature and corrosion resistance, surface structure and biocompatibility

„Complexity comes for free": 3D printing allows maximum design freedom

Just a few years ago, laser melting machines were only capable of producing prototypes in small unit numbers. Today, the market for metal-based 3D printing stands at a turning point. Selective laser melting has now become such a mature technology that it is able to produce high-quality and highly complex components for industry in ever-larger series on a commercially viable basis. This has led experts to already refer to metal-based 3D printing as the driving force behind a new industrial revolution.

Huge market potential



1) Source Wohlers Associates, CODEX Partners
2) 2012

The overview on pages 12-13 presents components that can be produced on SLM Solutions' machines.

Where smaller series of complex components have to be produced, 3D printing is increasingly offering advantages and benefits compared with conventional manufacturing. Above all: the process can be used to produce any conceivable geometric form, however complex, in just one cast. „Time to market" – the time between product design and product marketing – is becoming shorter. Individual solutions and modifications to small series can be realised faster.

STRATEGIC measures on track

Research and development:

SLM Solutions draws on more than 15 years' experience in the laser melting of metals, and ranks as a technology leader today. The company is fielding an extensive machine portfolio that also includes multi-laser technology. In order to maintain our lead, we are increasingly investing in research and development. We are currently focusing on 40 projects, including materials research, the expansion of build chambers, and on improving build rates. At our Singapore site, we have been conducting fundamental research into our technology in a cooperation venture with Nanyang Technical University (NTU) since September 2014. The Management Board pays special attention to R&D activities. Henner Schöneborn has been Management Board member with responsibility for IP management since July 2014.

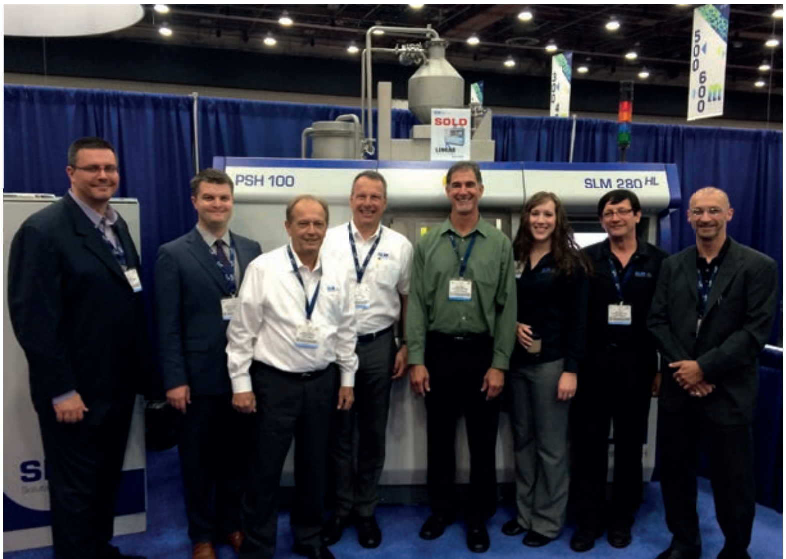
Consumables business

Metallic powders, especially aluminium, titanium, cobalt-chrome, Inconel, tool steel and stainless steel, as well as super alloys comprise the basic materials for manufacturing on our selective laser melting systems. Moreover, it is possible to customize these materials even better to suit the respective applications or machines. Consequently, we plan to further expand our business with metallic powders by entering into a strategic partnership with a metallic powder manufacturer in the medium term. Basically, an acquisition would also be a conceivable option.

Sales and service

Close customer proximity is essential for a highly complex technology such as selective laser melting. For this reason, we are gradually expanding our global sales and service network. We opened a sales branch in strategically important Singapore in 2014. We have further expanded our US sales and service team based in Novi, Michigan. Andreas Frahm, an international service and sales expert, has been active as Managing Director of our operating subsidiary SLM Solutions GmbH since October 2014, with responsibility for international sales, marketing and service activities.

Opening of SLM subsidiary in the German Centre in Singapore



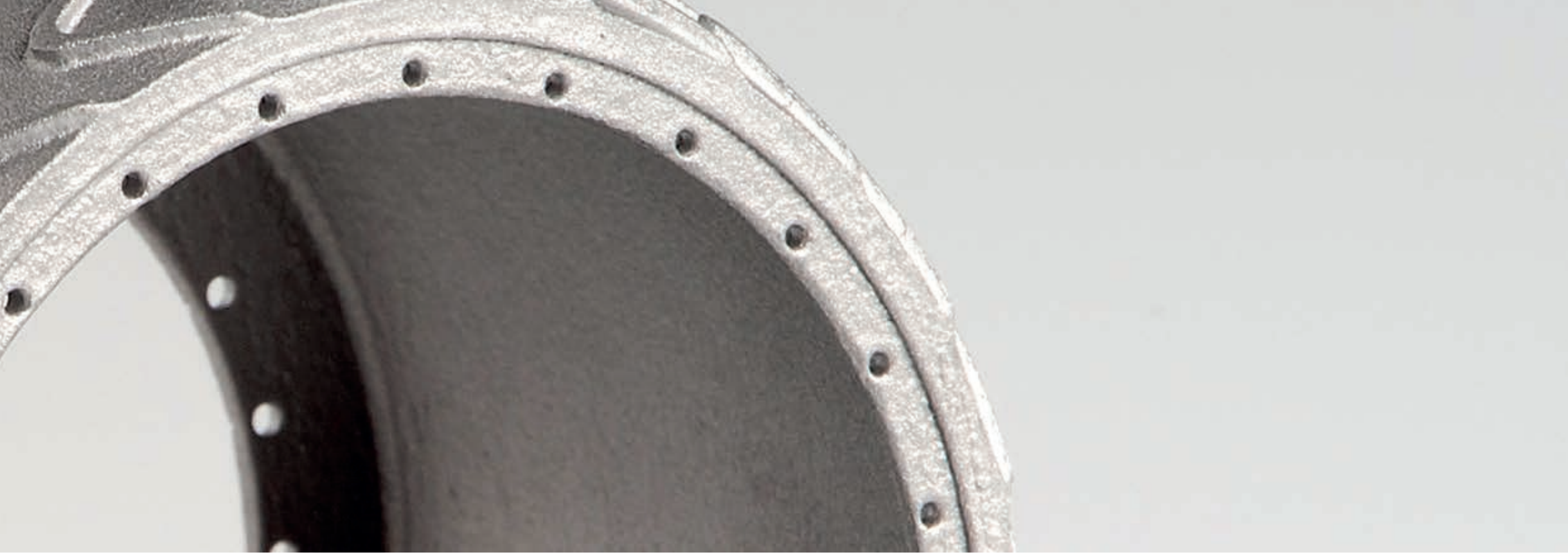
A STRONG TEAM – shaping the future together

Additive manufacturing will revolutionise industrial production over the coming decades. We aim to play a decisive role in shaping this revolution with our selective laser melting technology.

In order to achieve this, we need qualified and committed employees who aim to shape the future of 3D printing together with us.

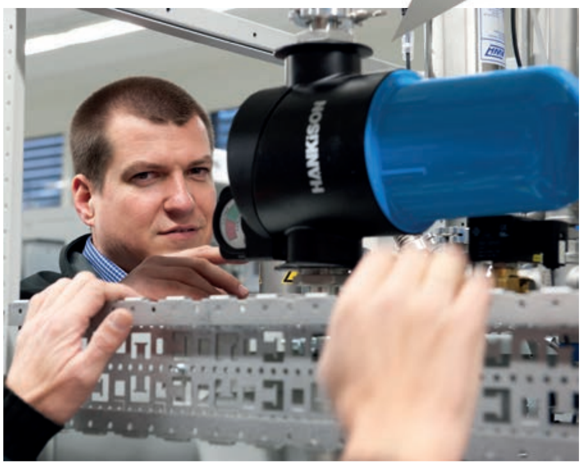
Already today, we are proud of our young and diversified team: with 146 employees from many nations, our workforce has almost doubled between December 2013 and December 2014. Many colleagues have also already worked for many years, or decades, at SLM Solutions.

But one thing unites us all: the urge to break new ground day by day – enthusiasm for the opportunities that additive manufacturing offers – and the ambition to jointly shape tomorrow's manufacturing world.

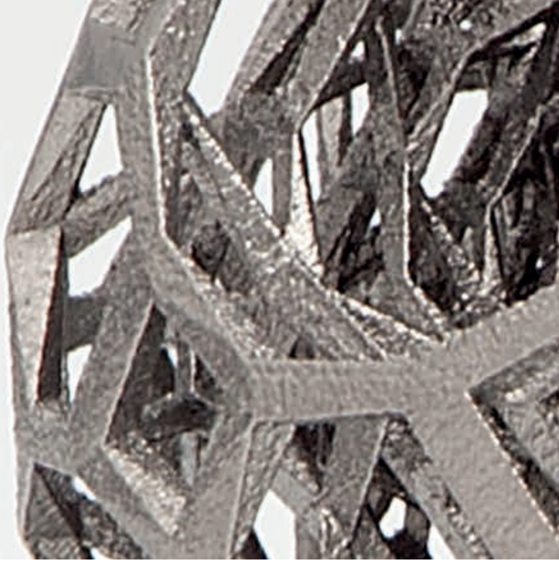


„Following graduation, SLM Solutions has given me the opportunity to continue to pursue my interest in practical research as a member of an international team." (Andreas Wiesner, Project Leader SLM 500^{HL})

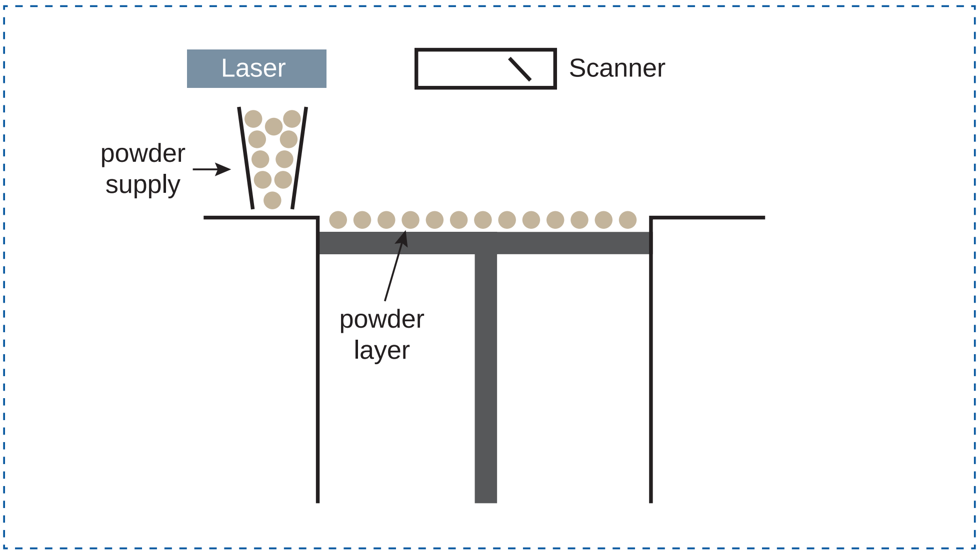
„I have accompanied the further development of the technology over many years, and have also developed myself further, both personally and professionally." (Stefan Ritt, Head of Global Marketing & Communication)



Selective laser melting comprises one of the powder bed fusion methods. In this process, metallic powder is melted layer by layer into a finished object by applying laser beams.

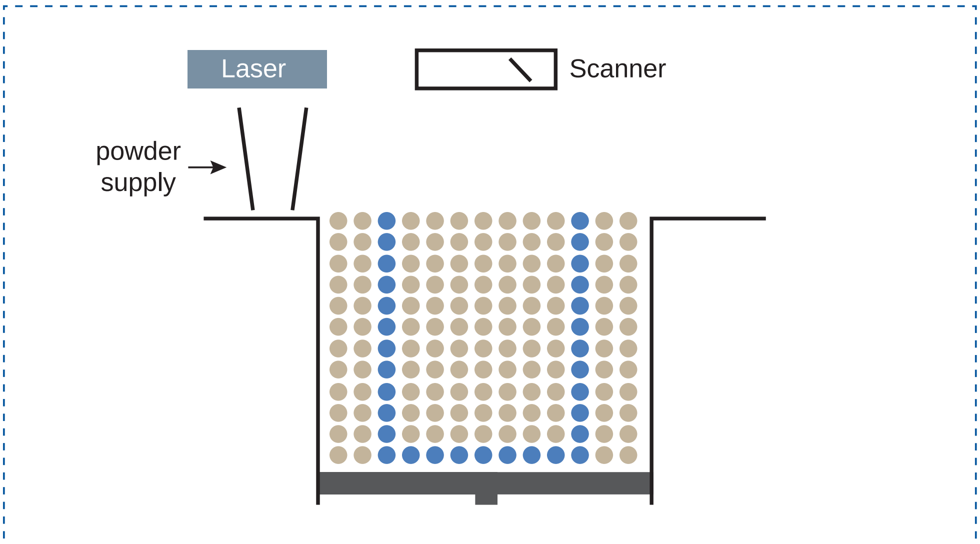


SELECTIVE LASER MELTING –
From metallic powder to finished component



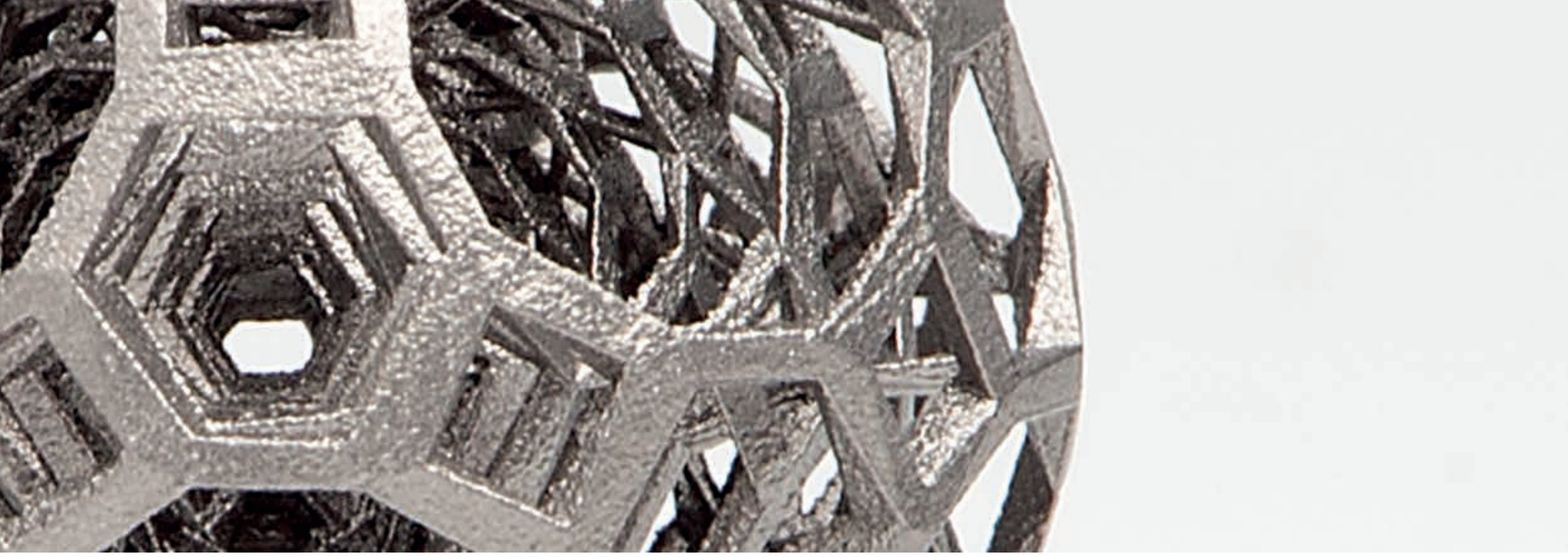
1 Spreading powder material

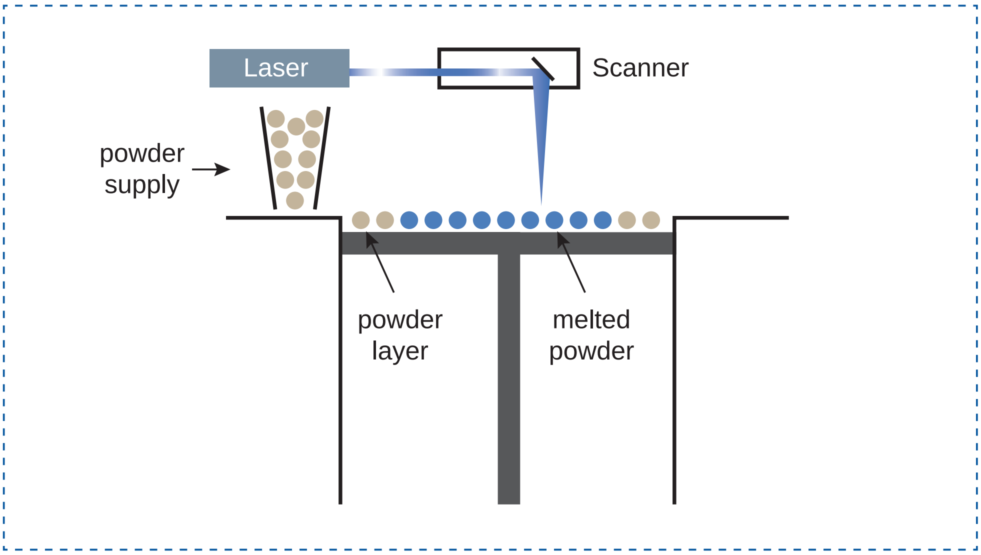
The supply of metallic powder is introduced into the build chamber, and distributed evenly as a thin layer on the build platform.



FINISH

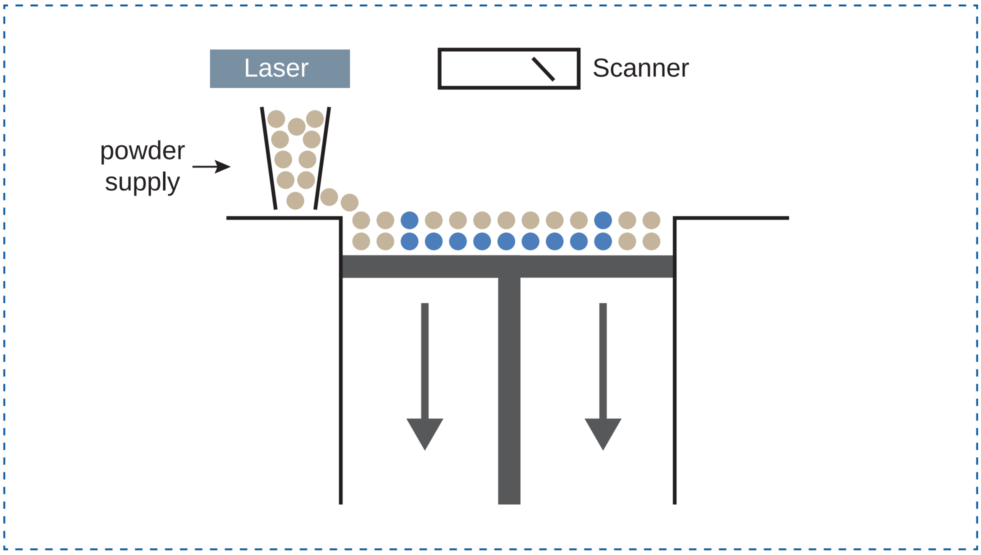
The finished component resulting from the melted layers is ready in the build chamber. The loose powder is then vacuum-extracted.





2 Selective laser melting

The laser beam selectively melts the first layer according to the CAD build plan.
The powder stays loose in the areas that have not been melted.



3 Lowering of build chamber and new powder feeding

OUR MACHINE PORTFOLIO – the right system for every need

Our current machine portfolio comprises three models that differ in terms of build chamber size, number of lasers deployed, speed („build rate“) and price. The systems can be adapted to customers‘ individual requirements through a large number of options and expansion possibilities. In terms of materials, all SLM machines are capable of processing aluminium, titanium, cobalt chrome, Iconel, tool steel and stainless steel, as well as super alloys.

SLM 280^{HL} – the top seller:

This model comprised almost 70% of our new order intake in 2014. The SLM 280^{HL} is equipped with high-performance multi-laser technology, and manufactures 68% faster than the SLM 125^{HL}. The SLM 280^{HL} is especially suitable for the industrial series manufacturing of medium-sized components.

SLM 125^{HL} – the compact model:

SLM Solutions‘ most compact machine is equipped with single-laser technology, and is particularly suitable for the production of small workpieces, as in medical applications and technology, or in research and development.

SLM 500^{HL} – the flagship:

The SLM 500^{HL} has ranked as the premium product in our product range since its market launch of the end of 2013. The unit can be equipped with up to four lasers, thereby boosting the build rate by more than 250% compared with the single-laser machine. The SLM 500^{HL} is thereby the most productive laser melting system on the market currently. It accounted for 18% of our new order intake in 2014.

METALLIC VARIETY:
from dental prostheses to turbine blades

Customers from highly varied sectors utilise our machines to produce complex components for a large number of applications – from dental prostheses through to turbine blades. All of these products have one thing in common: they must meet the highest standards in terms of stability, surface structure or biocompatibility. And the number of utilisation scenarios is on the rise: almost all geometric forms are possible.

Automotive

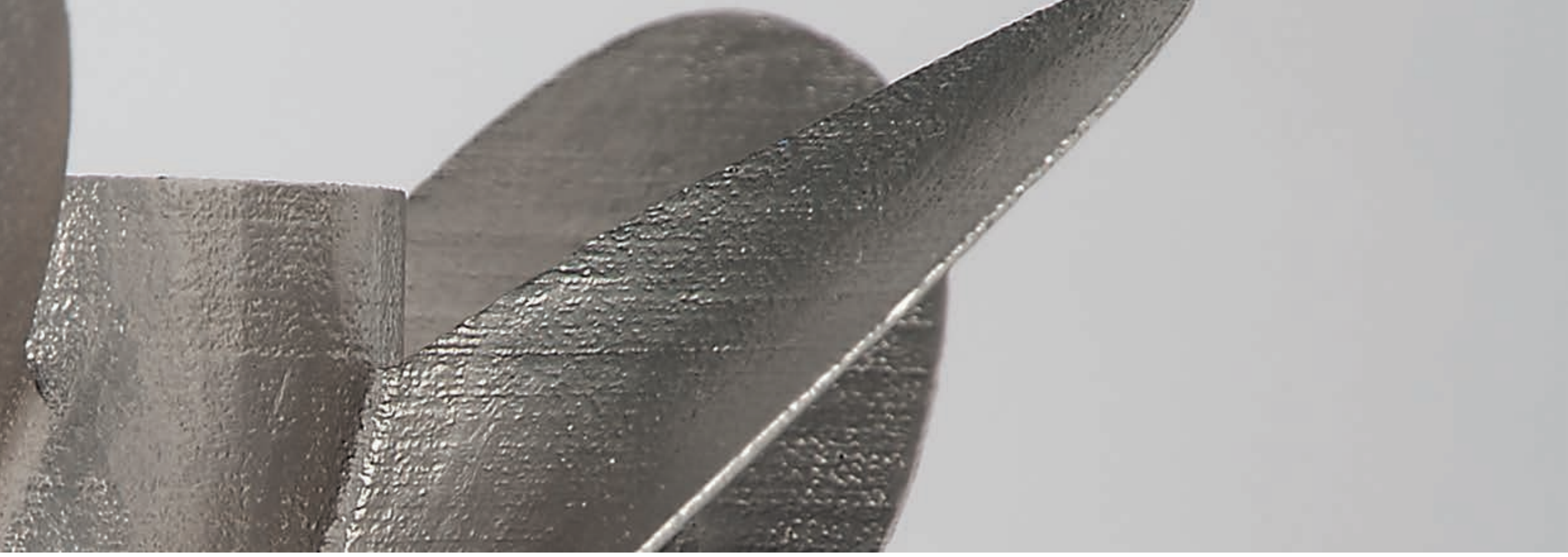
Only two days pass from the flexible design to the real-time test for this shaft flange.

Aerospace

This air duct made of titanium is produced in high precision without major rework.

Mechanical engineering

Pump impellers made of aluminum and stainless steel with a streamlined shape geometry are made without molding costs.



Dental prostheses

Individualized brackets and palatal plates are manufactured after a 3D scan – no dental impression or casting is needed.

Medical technology

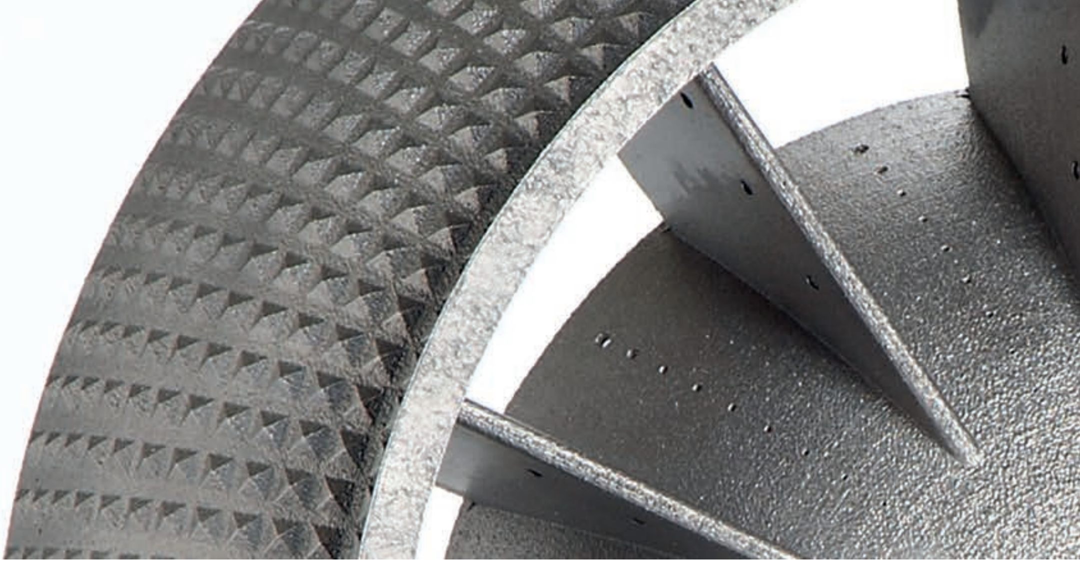
The freedom of design for individual titanium implants allows for a better ingrowth for the benefit of the patients.

Universities and institutes

Modern engineers will find new solutions to the problems of traditional manufacturing on a daily basis.

Energy sector

Small hydro stainless steel wheels are innovative components of a decentralized energy supply.



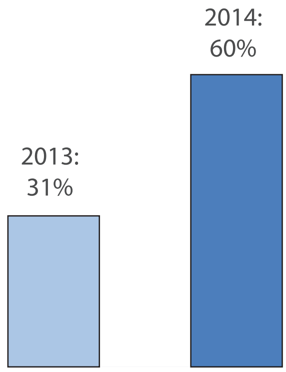
ON THE CUTTING EDGE thanks to technology leadership

SLM Solutions is the technologically leading provider in the metal-based additive manufacturing sector. In view of its technology leadership, the company is optimally positioned to play a globally leading role in metal-based 3D printing. Our multi-laser technology is a salient example of these strengths. Developed by the sector's pioneers, the technology is at work in the SLM 280HL und SLM 500HL products. The simultaneous deployment of two or four lasers significantly shortens the time required for component production.

Around 2,000 layers of 50 micrometres layer thickness each need to be melted in order to additively manufacture a component ten centimetres in height. The total production process time is then composed of setup time, coating time, exposure time, time to extract and cool the component, as well as post-processing time. SLM is working on continuously shortening this total time in order to systematically reduce specific component costs.

The clear trend is towards using several lasers: also when factoring in the higher purchase cost, component costs on our large SLM 500HL machine can be reduced by two thirds compared with the smaller machine. The 60% share of multi-laser machines' in the 2014 business year 2014 is almost twice the share recorded in 2013.

Multi-laser machines' share of new order intake



To the shareholders

Letter from the CEO

Dear shareholders, customers, business partners and colleagues,

We have prepared our first annual report under the ambitious motto of „Industrial Manufacturing Revolution". We aim to decisively determine and shape this revolution with our laser melting systems. As a pioneer, we have acquired more than 15 years' experience in metal-based additive manufacturing, and we are the technologically leading provider today. We raised EUR 75 million of growth capital with our successful IPO in May 2014 – and consequently the financial resources to play a globally leading role in the metal-based 3D printing area for the foreseeable future. As part of our growth strategy, we are focusing on research and development, extending our international service and sales network, as well as expanding our consumables business.

The SLM Solutions Group AG grew very successfully in the 2014 fiscal year: consolidated revenue was up by 55.5 % to reach EUR 33.6 million (previous year: EUR 21.6 million), with the growth tempo accelerating over the course of year. With 62 machines ordered (previous year: 26) and 138% growth, new order intake during the year under review lay significantly ahead of the 40 to 50 machines that we expected. As usual, the final quarter of the year proved to be our strongest by far. The 2015 fiscal year also saw a promising start with new order intake of 17 machines (previous year: 7) as of March 9.

We regard the confidence placed in our technology as evidenced by the fact that, firstly, an increasing number of machines are being ordered by our existing customers (2014: 42% versus 2013: 27%), and, secondly, several machines are being increasingly ordered as part of a single order (2014: 37% versus 2013: 8%). Multi-laser machines' share of our new order intake has risen from 31% of all systems in the previous year to 60% in the 2014 fiscal year. The company FIT Fruth – an additive manufacturing expert – ordered five units of our SLM 500HL flagship product as part of one order placed at the EuroMold trade fair – the largest single order in our company's history. FIT Fruth utilises the machines to produce transmission components for the automotive sector, for example.

These developments point clearly to the fact that the market has reached a turning point. The number of potential applications and target sectors is growing. And our technology is ready to be deployed by internationally operating manufacturing companies in complex component production.

We are adopting a broad positioning internationally: our US sales team has grown significantly during the year under review, and we have opened a sales branch in strategically important Singapore in order to expand our business in Asia. Together with the Technical University of Nanyang in Singapore (NTU) and supported by the Singapore Ministry of Finance, we also founded the NTU Additive Manufacturing Centre. This research centre will research the deployment of 3D printing technology in biomedicine, as well as new materials and technologies for the aerospace and energy sectors.

With a look to the future, we have a lot on our agenda. In order to help shape and design the industrial manufacturing revolution, we have a team of motivated and creative individuals in place who approach new tasks with enthusiasm and courage. Our staff numbers almost doubled last year to 146 employees. And we were also far from idle at management level: given our strong growth, in July we expanded the Management Board of SLM Solutions Group AG to include Henner Schöneborn, who is regarded as a pioneer in selective laser melting, and is responsible on our three-member Management Board for the Corporate Development and Innovation area. Sales and service expert Andreas Frahm was also appointed Managing Director of our SLM Solutions GmbH operating subsidiary on October 1, 2014.

We take an optimistic view of the upcoming year: new order intake – the most important indicator of our operating growth – should amount to more than 100 machines over the full course of the year. We also anticipate that we will achieve consolidated revenue of between EUR 55 million and EUR 60 million. Given the investments that are required in sales and service, as well as the implementation of our growth strategy, we anticipate an adjusted EBITDA margin (in relation to consolidated revenue) of between 12 and 13 % (2014: 13.4 %).

Dear shareholders, business partners and financing partners, we like to thank you for your confidence in us, and we would be pleased if you would continue to accompany us on our exciting path in the future. We would like to extend our particular thanks to our employees, whose commitment, flexibility and wealth of ideas make decisive contributions to further developing our technology, and consequently to bringing our visions to life.

Lübeck, April 2015

Dr. Markus Rechlin (CEO)

Management Board members

Dr. Markus Rechlin, CEO

Dr. Markus Rechlin is CEO of SLM Solutions Group AG. Markus Rechlin was previously active as Executive Vice President on Bain Capital's European Team. Prior to this post, Dr. Rechlin held a management consultant post at Boston Consulting Group and was Senior Executive at Dräger Medical, where he was responsible for various business units, including intensive medicine, patient monitoring and hospital information systems. Dr. Rechlin is a mechanical engineer and gained his doctorate at RWTH Aachen University.

Uwe Bögershausen, CFO

Uwe Bögershausen is CFO of SLM Solutions Group AG. After graduating in economics from Oldenburg University, Mr. Bögershausen was active as a management consultant, most recently until 2006 as project manager at Roland Berger. From 2006 until 2010, Mr. Bögershausen held the position of CFO at aleo Solar AG, Prenzlau, where he assisted the company's IPO, among other tasks. As from 2010, he was active as Managing Director at Derby Cycle Beteiligungs GmbH, becoming CFO to Derby Cycle AG following its IPO, a position which he held until 2012.

Henner Schöneborn, Management Board member

Henner Schöneborn has been a Management Board member at SLM Solutions Group AG with responsibility for the Corporate Development and Innovation area since July 2014. Henner Schöneborn has worked for SLM Solutions and its predecessor companies since 1993. Mr. Schöneborn draws on almost three decades of sector experience in the area of metal-based additive and subtractive manufacturing technologies. After graduating from Cologne College of Applied Sciences in mechanical engineering, Henner Schöneborn went on to qualify in technical operating management at the Cologne European Academy.

Report by the Supervisory Board

Ladies and gentlemen,

Following its successful IPO in May 2014, SLM Solutions Group AG is in position to help shape the industrial manufacturing revolution. I am particularly pleased to have been with the company for several decades. The fiscal year elapsed also proved to be a very successful one in strategic and operational terms. During all phases, the Supervisory Board Chairman closely accompanied and supported the company and the Management Board.

Continuous dialogue

During the 2014 fiscal year elapsed, 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 consulted continuously with the Management Board in 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 IPO and related capital increase, 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 regular information provided by the Management 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

The Supervisory Board convened for a total of six meetings during the period under review. The plenary Supervisory Board convened for four regular meetings during the course of the 2014 fiscal year. A further plenary meeting was held on February 24, 2015, and the accounts meeting was held on April 7, 2015. Further resolutions were also passed by the plenary Supervisory Board and its elected committees in accordance with bylaw provisions. On October 2, 2014, the Supervisory Board passed a unanimous resolution to appoint Mr. Andreas Frahm as Managing Director with sole representative authorisation of the subsidiary SLM Solutions GmbH, Lübeck.

Topics of the telephone **Supervisory Board meeting on March 23, 2014** included the election and appointment of board members, the approval of rules of business procedure for the boards, and an explanation of the formation report and of the formation audit report for the company. The members of the Chairman's committee and the audit committee were also elected. A resolution was also passed at this meeting to launch a staff bonus program.

At the **Supervisory Board meeting on July 3, 2014**, a summary of the IPO and an outlook for the rest of 2014 were presented. The Management Board reported on new order intake trends and customers' ordering patterns, among other matters. Internal reporting also formed a topic at this meeting. In addition, the Supervisory Board consulted about the current status of strategic measures connected with the international expansion. Mr. Henner Schöneborn was appointed as a member of the Management Board. The resolution was passed unanimously.

At the **Supervisory Board meeting on September 23, 2014**, the audit committee presented its report on its activity to date. The Management Board outlined the risk management system's core components. It explained the risk manual and risk report, which had been prepared on the basis of the IPO listing prospectus for SLM Solutions Group AG, and which define action-relevant risk areas and appropriate countermeasures. Further meeting topics included current business progress, order book trends, the outlook for the remainder of 2014, and questions about production and budget planning.

At the **Supervisory Board meeting on December 16, 2014**, the plenary board concerned itself with the 2014 fiscal year forecast and budget data for the 2015 fiscal year. The Management Board also provided an update on the company's strategic initiatives in important business areas, as well as a brief overview of price trends for SLM systems, and addressed the topic of strong hiring activity across all functional areas in the 2014 fiscal year.

The **Supervisory Board meeting on February 24, 2015** covered the topic of current business progress, and consulted about the preliminary 2014 results. The Management Board also reported on the results of the management closed conference. In addition, the Supervisory Board's independence formed a discussion topic.

At the **Supervisory Board meeting on April 7, 2015 (accounts meeting)**, the Supervisory Board concerned itself mainly with the review of the separate and consolidated financial statements for the 2014 fiscal year, with the results of the audit conducted by auditors BDO, and with the result of the audit of the Supervisory Board's efficiency.

Supervisory Board committees

The Supervisory Board has formed two committees from among its membership in order to prepare itself for selected topics: the Chairman's committee and the audit committee. The Chairman's committee convened once during the period under review. The **Chairman's committee** was authorised to make 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 timeframe ahead of the IPO.

At the **Chairman's committee on April 24, 2014**, the Chairman's committee agreed to the price range within which investors could submit price offers for the shares of SLM Solutions Group AG during the IPO offer period. It also approved the draft underwriting agreement.

The Extraordinary General Meeting of SLM Solutions Group AG on April 25, 2014 passed assenting resolutions relating to the underwriting agreement and the capital increase.

The audit committee convened for a total of four meetings during the period under review. The **audit committee meeting on May 19, 2014** consulted concerning the provision of information by the Management Board, the company's quarterly financial statements, the implementation of a set of rules of business procedure, and the auditor's disclosure agreement. Besides consulting on the 2014 half-year financial report, the **audit committee meeting on August 20, 2014** focussed on how complex transactions are reflected within the financial accounting function, the further development of the risk management system, as well as a discussion about selected balance sheet and income statement data.

The **audit committee meeting on November 14, 2014** concerned itself with the Q3 report, as well as with the fee agreement, independence statement, and the issuing of the audit mandate to the auditor. The audit focal points for the separate and consolidated 2014 financial statements were also determined and coordinated with the auditor.

At the **audit committee meeting on March 31, 2015**, 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 May 8, 2014, 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 May 13, 2013.

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 confirmed BDO AG Wirtschaftsprüfungsgesellschaft as the company's auditor on March 20, 2014. BDO audited the separate annual financial statements of SLM Solutions Group AG and the consolidated financial statements as of December 31, 2014, 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.

After 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 auditor responsible for the audit was present at the consultations about the separate and consolidated financial statements and 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 April 7, 2015, the Supervisory Board approved the separate and consolidated financial statements, along with the separate and Group management reports for the 2014 fiscal year, including disclosures pursuant to Section 315 (4) of the German Commercial Code (HGB). The separate annual financial statements for the 2014 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 fiscal year elapsed. 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, as before, wishes the company every success.

Lübeck, April 7, 2015

Hans J. Ihde
Supervisory Board Chairman of SLM Solutions Group AG

Supervisory Board members

Member	Profession	Mandates outside 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	GEA HX, Supervisory Board Chairman Faster SPA, Supervisory Board member Fokker Technologies Holding B.V., Supervisory Board member Henkelhausen Holding GmbH, Supervisory 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
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, Schäftlarn	Business administration graduate, Managing Director of DPE Deutsche Private Equity GmbH	Availon Holding GmbH, Advisory Board member 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

Share

IPO and share price performance

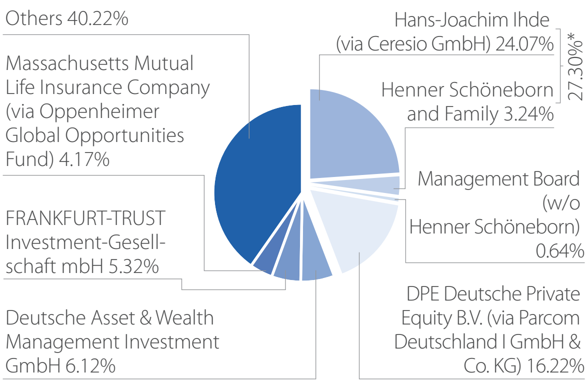
On May 9, 2014, the share of SLM Solutions Group AG made a successful start in the Prime Standard segment of the Frankfurt Stock Exchange. At EUR 18.20, the opening price was slightly ahead of the EUR 18.00 placing price. The price stood at EUR 18.04 at the end of the first day of trading. The share price has since recorded positive performance, proving less volatile than shares of other 3D printing manufacturers. The year-end share price on December 30, 2014 amounted to EUR 19.30. The share had appreciated by 7.0 % by that date, outperforming the TecDAX index on most trading days. The **average daily trading volume** on Xetra amounted to 33,740 shares between May 9 and December 31, 2014.

Share price chart (as of: March 18, 2015)

Key data (as of: March 18, 2015)

ISIN	DE000A111338
German Securities Identification Code (WKN)	A11133
Ticker symbol	AM3D
Sector	Industry
Trading segment	Regulated Market (Prime Standard)
Stock exchange	Frankfurt Stock Exchange
Designated sponsors	BHF-BANK AG Deutsche Bank AG
Initial listing	May 9, 2014
Placing price (EUR)	18.00
Number of shares	17,980,867 ordinary no par value bearer shares
Year-end closing price (EUR) on December 30, 2014	19.30
Year-end market capitalisation (EUR million)	347.0
High for the year (EUR) on July 7, 2014	21.99
Low for the year (EUR) on October 15, 2014	16.65

Shareholder structure (as of: March 18, 2015)



* Pooling agreement: joint pursuit of interests pursuant to Section 22 (2) WpHG

After the successful **placement** of some of the existing shareholders' shares as part of the IPO, a **free float** of 45.0 % according to the definition of Deutsche Börse AG was reached. This ensures a broadly diversified shareholder structure for the company that, in turn, comprises an important precondition for liquid trading in the stock, and boosts its attractiveness to investors.

At the same time, important key individuals at SLM Solutions Group AG are **committed anchor shareholders** in our company: Company founder Hans Ihde, Chairman of the company's Supervisory Board and majority shareholder of SLM shareholder Ceresio GmbH, Management Board member Henner Schöneborn, who has worked for SLM Solutions and its predecessor companies since 1993, and Mr. Schöneborn's sons, together hold a voting rights interest of 27.30 % through a **pooling agreement**, and pursue their interests jointly.

The interest held by former majority owner, Parcom Deutschland I GmbH & Co. KG, a fund advised by DPE Deutsche Private Equity GmbH in Munich, amounts to 16.22%.

Analysts

Six **analysts** currently cover the SLM Solutions share, most of them recommending it as a „Buy" as of the date when this annual report was published. No „Sell" recommendations were issued.

Institute	Analyst	Date	Rating	Share price target (EUR)
BHF-BANK	Thomas Effler	11/03/15	Overweight	25.00
CANACCORD Genuity	Bobby Burleson Prabhakar Gowrisankaran	21/11/14	Buy	25.00
Commerzbank	Florian Treisch	16/12/14	Hold	18.50
Credit Suisse	Jonathan Hurn Tiantian Li	25/06/14	Outperform	23.00
Deutsche Bank	Uwe Schupp	21/11/14	Buy	27.00
equinet Bank	Adrian Pehl	11/03/15	Buy	26.00

Based on analyst ratings available on the March 18, 2015 cut-off date

Investor relations

Since the IPO, SLM Solutions has cultivated 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 regular publication of announcements of relevance to the company (such as new order intake), detailed financial reporting, and continuous personal contact with investors, analysts, journalists and the interested public.

The Management Board of SLM Solutions Group AG also participates frequently in **capital market conferences**. For example, CFO Uwe Bögershausen gave a presentation on the company in June 2014 at the capital market conference hosted by Prior Börse in Egelsbach, as well as at the German Equity Capital Forum hosted by Deutsche Börse AG in Frankfurt am Main in November 2014. Coinciding with the German Equity Capital Forum, Frankfurt also played host to the world's largest trade fair for our sector, EuroMold, where SLM Solutions was represented with its own stand, and where the three company's Management Board members held numerous one-on-one and group discussions with interested investors. The Management Board also presented SLM

Solutions' business model and strategy at a number of **roadshows** held in Europe and North America.

Interested capital-providers, investors and analysts can find more information, which is updated constantly, 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 roadshow 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. Interested parties can enjoy timely and direct access to our corporate news through registering on an **e-mailing list** on our website.

Financial calendar

Date	Event
May 13, 2015	Q1 Report 2015
June 16, 2015	Annual General Meeting (Lübeck)
August 14, 2015	H1 Report 2015
November 13, 2015	9M Report 2015
November 23-25, 2015	German Equity Capital Forum, Frankfurt

Investor relations contact

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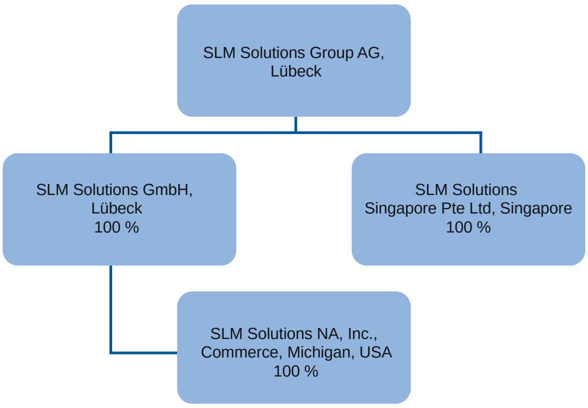
Group management report

Group management report
for the 2014 fiscal year

Basis of the Group

Group structure

The Group parent company, SLM Solutions Group AG, headquartered in Lübeck, Germany, has three wholly-owned subsidiaries: along with the operating subsidiary SLM Solutions GmbH, two further subsidiaries for sales and service, as well as research and development, were founded in the growth regions of relevance to the company, North America and Southeast Asia.



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 year under review:

- The main business is aggregated within the **SLM („selective laser melting") segment** – in other words, the assembly, marketing and sale of metal-based additive manufacturing systems that deploy selective laser melting technology. The services of SLM Solutions Group AG also include the sale of accessories, as well as other services such as machine maintenance.
- The **RP („rapid prototyping") segment**, which now represents a smaller business area for us, comprises the traditional business with vacuum casting systems and metal casting systems. SLM Solutions also offers a large number of consumables for various applications. Compared with the SLM segment, this area meanwhile bears a subordinate and further reducing significance.

Internal reporting during the year under review related to the SLM and RP operating segments. Internal reporting was revised at the start of the 2015 fiscal year, as steering is to be oriented to a greater extent to functional areas in the future. The **product range** in the SLM segment currently comprises three systems – the SLM 125^{HL}, the SLM 280^{HL} and the SLM 500^{HL} – which are differentiated according to size of build chamber and number of lasers employed. 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 any type of meltable alloy into a finished product.

SLM Solutions systems deploy **selective laser melting** technology: The process starts with a computer-generated 3D model of the object to be manufactured. This object is melted in layers by applying laser beams in a metallic powder bed. Components manufactured in this way meet the highest quality standards in terms of stability, surface structure and biocompatibility.

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 latitudes of freedom in product design which focuses on the desired functionalities of the component. This makes additive manufacturing especially suitable for the production of complex components that are required in small series. The additive manufacturing of metal parts offers tremendous speed advantages because no molds are needed, as complexity in this context no longer represents a cost factor compared with conventional production methods („complexity comes for free"). The quality leadership of SLM Solutions' products is increasingly supplemented by time savings in the production process through the use of multi-laser technology. This allows industrial manufacturing processes such as precision cutting to be increasingly supplemented by laser melting.

SLM Solutions' **customers** are active in widely diverging industrial areas, including aerospace, medical technology, the energy sector, as well as mechanical engineering and the automotive industry. Besides Germany, SLM Solutions' **target markets** include Europe, North America and Southeast Asia.

SLM Solutions' business is subject to **seasonal fluctuations that are typical of its sector**: A significant proportion of new order intake is generally generated during the fourth quarter of the year, while the first quarter is traditionally the weakest quarter of the year.

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 such technology and thereby growing significantly and profitably in the foreseeable future – and of growing faster than the market, if possible. To this end, SLM Solutions pursues a growth strategy consisting of three pillars, for which interim targets are frequently defined and evaluated:

- SLM Solutions focuses on **research and development** in order to secure and extend its technology leadership in the metal-based additive manufacturing area. The intellectual property rights portfolio is optimised continuously, and the number of R&D staff has grown significantly during the year under review. 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.
- Metallic powders comprise the starting material to manufacture on SLM Solutions' selective laser melting systems. 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. Consequently, SLM Solutions plans to further step up the **consumables business**. A strategic partnership with a metallic powder producer is planned in the medium term. Acquisitions will also be considered, in principle.
- Given the complexity of selective laser melting, proximity to customers comprises a critical competitive advantage for SLM Solutions. In order to loyalise existing customers long-term, generate recurring service revenues, and acquire new customers, SLM Solutions is gradually expanding its **international sales and service network**, and boosting its presence through presentation centres, demo machines, customer training sessions, and presence at important sector trade fairs.

The financial funds that we raised from the capital increase as part of the IPO are being applied in equal proportions to these three strategic areas, and also serve to strengthen the company's working capital.

Management system

As part of the internal steering system, the Management Board of SLM Solutions Group AG is informed at regular intervals about **internal**

key performance indicators. These mainly comprise the personnel cost ratio (personnel costs in relation to total operating revenue), cost of materials ratio (defined as cost materials in relation to total operating revenue), supplier quality (defined according to an internal scoring model), as well as hiring by functional areas, and product mix in the number of machines sold. SLM Solutions also identifies the following key indicators as central value and growth drivers for the business, and reports them externally at regular intervals:

- The company's **sales revenue trend** is the key performance indicator to assess exploitation of the company's growth potential.
- For SLM Solutions, as a young growth company, earnings before interest, tax, depreciation and amortisation adjusted to reflect one-off effects (**adjusted EBITDA**) provides us with our best indicator of profitability. This key indicator excludes national particularities relating to tax legislation and our selected financing structure, facilitating the comparison of the company with the international peer group.
- Moreover, two aspects need to be taken into account when assessing our revenue and earnings figures: Firstly, shipments can be delayed beyond reporting dates – frequently by customer request – which is why the **new order intake** that we report is a more suitable indicator than the number of machines sold or the revenue realised. Secondly, SLM Solutions' business is subject to **seasonal fluctuations that are typical of its sector**: A significant proportion of new order intake is generally generated during the fourth quarter of the year, while the first quarter is traditionally the weakest quarter of the year.

Research and development

Research and development form significant components of the business success of SLM Solutions. Further market potentials in the industrial manufacturing area are being increasingly developed 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 basic research into selective laser melting technology in cooperation with Nanyang Technical University (NTU) since September 1, 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. A further focus is on the growing role of value chain organisation in industrial manufacturing processes („Industry 4.0").

SLM Solutions' research and development department currently comprises 30 members of staff (previous year: 9 staff). Research and development spending amounted to TEUR 3,242 in the 2014 fiscal year (previous year: TEUR 1,445). Of this total, an amount of TEUR 2,430 was capitalised (previous year: TEUR 866), with the capitalisation ratio in the research and development area thereby amounting to 75.0% (previous year: 59.9%). The company is working on a total of 40 projects.

Employees

In order to consistently pursue the growth strategy the company has embarked upon, SLM Solutions must make recourse to qualified and motivated staff in all areas – most particularly in research and development, sales and service, as well as production.

Consequently, the **number of employees** increased significantly to 146 individuals as of December 31, 2014 (previous year: 79 individuals). In this context, staff additions were made across all of the company's functional areas. A total of four employees completed apprenticeships at SLM Solutions Group AG as of December 31, 2014. The following table shows the number of employees (excluding temporary help staff) as of December 31:

Employees by function

	31/12/14	**31/12/13**
Research and development	30	9
Sales	31	18
After-sales	12	7
Production	54	33
Administration	19	12
Total	**146**	**79**
of which Europe	129	75
of which USA	10	4
of which Asia	7	-

Economic and business report

Macroeconomic situation in target markets

In **Germany**, the important domestic market for SLM Solutions Group AG, gross domestic product (GDP) registered slight year-on-year growth of 1.5% over the full course of 2014, according to the German Federal Statistical Office.[1] Consequently, in the year elapsed the German economy grew faster than in the previous year, although somewhat more slowly than initially expected.

The **global economy** expanded at a moderate growth rate of just 3.3% in 2014, according to International Monetary Fund (IMF) data. The **Eurozone** economy saw a slow recovery at best, with growth amounting to only 0.8% as a result of the euro and state debt crisis.

By contrast, the **US economy** reported GDP growth of 2.4 %, reflecting improved economic policy conditions. In the IMF's aggregated **„Emerging and Developing Asia" region**, which not only includes China, but also India and the high-growth economies of the Southeast Asian ASEAN (Association of Southeast Asian Nations) economic zone, growth amounted to 6.5%.[2]

Market for metal-based 3D printing

SLM Solutions operates in a very attractive global growth market for additive manufacturing processes („3D printing"). In their latest 2014 sector report, experts at Wohlers Associates forecast considerable growth for the global 3D printing market. They estimate that the market volume worldwide will increase from USD 3 billion in 2013 to USD 12.5 billion in 2018, and pass the USD 21 billion mark by 2020.[3] Although the share of metal-based printing processes was still relatively small at 9 percent in 2012, SLM identifies particularly attractive growth opportunities in this context due to direct component manufacturing.[4]

The selective laser melting 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 the Roland Berger strategy consultants.[5] SLM Solutions is of the opinion that the market for metal-based 3D printing is at a turning point, as internationally operating industrial companies are increasingly transitioning to utilising selective

[1] German Federal Statistical Office on January 15, 2015, https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2015/01/PD15_016_811.html
[2] International Monetary Fund, World Economic Outlook Update, January 2015, http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf
[3] Wohlers Associates, Annual Worldwide Progress Report, July 2014
[4] CODEX Partners, Metal 3D printing market survey, February 2014
[5] Roland Berger, Additive Manufacturing – a game changer for the manufacturing industry?, November 2013

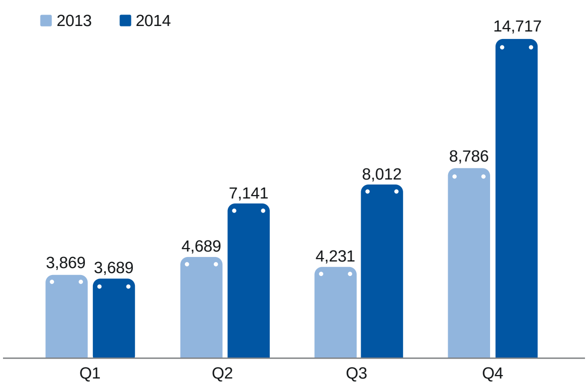
laser melting and other additive manufacturing technologies, not only for prototype production, but also increasingly for direct component manufacturing.

Business progress

In the 2014 fiscal year, SLM Solutions Group AG benefited from these market trends and its clear orientation to the metal-based additive manufacturing market. Business trends proved correspondingly positive, allowing the company's own expectations to be met, or even exceeded. Consequently, the Group's overall position can be described as very good.

Consolidated revenue was up by 55.5 % to TEUR 33,559 (previous year: TEUR 21,575), with the growth pace accelerating over the course of the year: While first-quarter revenue reported a slight year-on-year decline of -4.7 %, as expected, revenue rose by 52.3 % in the second quarter, by 89.4 % in the third quarter, and by 67.5 % in the final quarter.

Consolidated revenue (in TEUR)



With a total of 62 machines ordered (previous year: 26) and 138 % growth, **new order intake** in the year under review was significantly ahead of the 40 to 50 machines that we expected. March 31 saw a total of 7 orders on our books (previous year: 3), June 30 reported 27 orders (previous year: 10), followed by a total of 36 orders by September 30 (previous year: 14). Given the successful sector trade fair, EuroMold, in November, where some larger orders were received, new order intake peaked in the fourth quarter, at 26 machines ordered (previous year: 12). This led to a total order intake of 62 (previous year: 26) machines at December 31, 2014.

A total of 8 machines of the SLM 125^{HL} type were ordered (previous year: 3), 43 machines of the SLM 280^{HL} type (previous year: 17), and 11 of the largest machine, the SLM 500^{HL} (previous year: 4). The previous year's new order intake also included 2 orders for the SLM 250^{HL}, which is no longer offered.

In the year under review, SLM Solutions customers increasingly transitioned to ordering several machines at a time (so-called **multi-machine orders**): For example, additive manufacturing experts FIT Fruth Innovative Technologien GmbH (based in Lupburg in Germany's Upper Palatinate region) added to the two already operational systems by ordering five units of the SLM 500^{HL} at EuroMold – the largest single order in our company's history. FIT Fruth utilises SLM Solutions' machines for series production of transmission components for the automotive sector, for example. Six further customers also ordered more than one machine during the year under review. Besides this, existing customers made many **repeat purchases**. A number of orders were also received from the strategically important markets of North America and Asia.

SLM Solutions also made significant progress during the reporting year in terms of its **international expansion** – an important element of its growth strategy: In order to further build up its business in Asia, SLM Solutions opened a sales branch in strategically important Singapore on September 1, 2014. In addition, in May 2014, SLM Solutions assigned a cooperation agreement worth EUR 3 million with Singapore's Nanyang

Technical University (NTU). This agreement has given birth to the newly created NTU Additive Manufacturing Centre, which concentrates on deploying 3D printing technologies in the biomedicine area, while also researching new materials and technologies for the aerospace and energy sectors. This project is receiving financial support from the citystate's Economic Development Board.

SLM Solutions was represented at numerous **conferences and specialist trade fairs** during the year under review, including events in Lübeck, Berlin, Düsseldorf, Ankara, Detroit, Tucson, Birmingham (UK) and Frankfurt am Main. SLM Solutions utilises these opportunities to enter into intensive dialogue with sector representatives, customers and interested parties:

- At the **9th AIRTEC in Frankfurt**, a specialist exhibition for aerospace technology with B2B meetings and an international conference that was held in October, SLM Solutions showcased groundbreaking methods to deploy laser melting technology in industrial manufacturing.
- At **TCT Live 2014**, too, a global business forum for 3D design and 3D manufacturing techniques, SLM Solutions' sales team established many interesting contacts.
- In November 2014, SLM Solutions presented a new generation of additive manufacturing systems at the world's largest 3D printing specialist trade fair, **EuroMold**. At the same time in Frankfurt, Deutsche Börse AG was hosting its German Equity Capital Form, thereby allowing SLM Solutions to not only reach the specialist public, but also to present its technology to international investors at the same city.

Given the strong growth, the Management Board of SLM Solutions Group AG was expanded on July 28, 2014 to include industry expert Henner Schöneborn, who is regarded as a pioneer in selective laser melting, and is responsible on our three-member Management Board for the Corporate Development and Innovation area. With effect as of October 1, 2014, sales and service expert Andreas Frahm was also appointed **Managing Director of our operating subsidiary SLM Solutions GmbH**.

Results of operations

The **consolidated revenue** of SLM Solutions Group AG was up by 55.5 % to TEUR 33,559 in the 2014 fiscal year (previous year: TEUR 21,575), with the pace of growth accelerating over the course of the year: Most of this revenue (88.3 %) derived from the company's core business, which is comprised within the SLM segment. This segment's revenue rose by 78.6 % to TEUR 29,632 (previous year: TEUR 16,592). In the RP segment (RP = Rapid Prototyping), revenue fell, as planned, to TEUR 3,927 (previous year: TEUR 4,914).

Total operating revenue (the sum of sales revenue, inventory changes and other own work capitalised) of TEUR 39,257 was up by 75.6 % compared with the previous year's level (previous year: TEUR 22,352). This reflects a strong increase in new order intake and a **higher level of finished goods and work in progress** of TEUR 3,268 (previous year: TEUR 615). **Work performed by the enterprise and capitalised** also recorded significant year-on-year growth to TEUR 2,430 (previous year: TEUR 162). **Other operating income** of TEUR 1,443 (previous year: TEUR 439) chiefly comprises currency gains.

The higher level of business volume was also connected with the increase in the **cost of materials** to TEUR 21,040 (previous year: TEUR 11,438). The **cost of materials ratio** (in % of total operating revenue) was up by 2.4 percentage points to 53.6 % (previous year: 51.2 %). This is mainly attributable to the strong rise in finished goods and work in progress. As only production costs, excluding the margin to be achieved, are capitalised in this context, total operating revenue increased to a lesser extent than the cost of materials.

The previous shareholders reimbursed the major share of the **one-off IPO expenses** totalling TEUR 12,261 during the reporting period. Pursuant to IAS 32, expenses of TEUR 3,811 were offset directly with additional paid-in capital (see also note 7 in the notes to the consolidated financial statements), consequently without impacting profit or loss. One-off IPO-related expenses of TEUR 8,450 were recognised in profit or loss, and are composed as follows:

- **One-off expenses for the IPO (preliminary, auditing and advisory costs, as well as bank fees and insurance costs** of TEUR 2,800 were recognised among other operating expenses. Proportionate reimbursement of these expenses by the previous shareholders amounted to TEUR 1,812 in the year under review, which is recognised as an additional contribution transferred directly to equity (see the consolidated statement of changes in equity). **Other operating expenses** totalled TEUR 10,507 (previous year: TEUR 4,553).
- The one-off IPO bonus is attributable to all Management Board members and all SLM Group staff who started work at the company before January 1, 2013. All of these members of staff now hold shares in the company. One-off expenses for the „IPO bonus" of TEUR 5,650 were reported in accordance with IFRS under personnel costs, although these had already been fully reimbursed to SLM Solutions by the shareholders.
- With the successful conclusion of the IPO, SLM Group employees also participate in our so-called **Retention Bonus Program**. This comprises a three-year bonus program geared to fostering long-term employee loyalty to the company. For this program, personnel costs of TEUR 1,055 were recognised in the reporting year. The calculated net bonus amount of TEUR 510, which is available to purchase shares, was transferred to additional paid-in capital.

Given these factors, **personnel costs** were up to TEUR 14,328 in the year under review (previous year: TEUR 4,705). When adjusted for the IPO bonus and the retention bonus, personnel costs amounted to TEUR 7,623, up 62% year-on-year. The adjusted **personnel cost ratio** (in % of total operating revenue) stood at 19.4% (previous year: 21.1%). The almost doubling in the number of employees to 146 FTE (full-time equivalents) as of the balance sheet date (previous year: 79) should also be noted in this context, which is due to hiring in the areas of research and development, as well as the sales and service areas.

When adjusted to reflect one-off expenses for the IPO, the IPO bonus, the retention bonus, and investor relations costs, **adjusted EBITDA** (earnings before interest, tax, depreciation and amortisation) amounted to TEUR 4,490 in the year under review (previous year: TEUR 2,491, adjusted for one-off expenses of TEUR 396). This corresponds to an adjusted EBITDA margin (expressed as a percentage of revenue) of 13.4% (previous year: 11.5%). Unadjusted EBITDA stood at TEUR -5,715 (previous year: TEUR 2,095). EBITDA was achieved in the amount of TEUR 5,422 in the SLM segment whereas EBITDA in the RP segment amounted to TEUR -932 due to declining revenue and margins.

Depreciation and amortisation amounted to TEUR 865 in the reporting year (previous year: TEUR 585). At TEUR 1,282, amortisation of intangible assets as part of purchase price allocation (amortisation PPA-related) in connection with the acquisition of SLM Solutions GmbH by SLM Solutions Group AG in the previous year was below the previous year's level (TEUR 1,531).

The operating result (**EBIT**) adjusted for PPA-related amortisation stood at TEUR 2,343 (previous year: TEUR 375), with the EBIT margin (expressed as a percentage of sales revenue) equivalent to 7.0% (previous year: 7.0%). On an unadjusted basis, EBIT amounted to TEUR -7,322 (previous year: TEUR -21). **Interest expenses** of TEUR 240 were significantly below the previous year's level of TEUR 588.

Tax income amounted to TEUR 2,463 during the fiscal year under review, considerably above the previous year's TEUR 179. This increase is predominately attributable to capitalised tax savings due to capitalised tax loss carryforwards. As a consequence, the **consolidated net loss** after taxes amounted to TEUR -5,099 (previous year: TEUR -430). This corresponds to basic earnings per share of EUR -0.30, respectively diluted earnings per share of EUR -0.23.

Financial position

Cash flow from operating activities amounted to TEUR -13,324 during the year under review (previous year: TEUR -455). The decline is predominantly attributable to a marked reduction in the consolidated net result for the period, which includes one-off expenses for the IPO and the IPO bonus. Given the considerable improvement in the order book position, the reporting year also saw a higher level of funds tied up in working capital: Inventories increased to TEUR 11,964 (previous year: TEUR 5,928), and trade receivables rose to TEUR 12,147 (previous year: TEUR 5,803).

Cash flow from investing activities of TEUR -4,072 was markedly below the previous year's level (TEUR -10,001) that was significantly affected by payments for the takeover of SLM Solutions GmbH by SLM Solutions Group AG (TEUR 8,000). Investments during the reporting year were primarily attributable to the development of new application-oriented technologies for the SLM segment, some of which were reported under work performed by the company and capitalised.

Cash flow from financing activities was up fourfold to TEUR 78,501 (previous year: TEUR 12,544), reflecting cash inflows from the IPO (TEUR 71,189) and the reimbursement of costs by previous shareholders. Gross cash proceeds of TEUR 75,000 from the capital increase that formed part of the IPO were offset with the transaction costs of TEUR 3,811, which were reported directly in equity.

Cash and cash equivalents (less time deposits at banks with a term of more than three months) stood at TEUR 63,531 as of December 31, 2014 (previous year: TEUR 2,372).

Net assets

Due to the successful IPO and the company's growth, the **total assets** of SLM Solutions Group AG rose significantly to TEUR 112,175 as of December 31, 2014 (December 31, 2013: TEUR 35,595).

Non-current assets of TEUR 22,456 as of December 31, 2014 were slightly above the previous year's balance sheet date (TEUR 21,026). As in the previous year, **intangible assets** of TEUR 19,892 (previous year: TEUR 18,971) comprised the most significant share of non-current assets. These related mainly to laser technology and capitalised development expenses. **Property, plant and equipment** of TEUR 2,504 (previous year TEUR 2,051) chiefly reflected furniture and office equipment, as well as technical plant and machinery.

Current assets amounted to TEUR 89,719 as of the reporting date (previous year: TEUR 14,569), with their share of total assets consequently rising to 80.0% (previous year: 40.9%). This growth mainly results from the **cash** inflow as part of the IPO (position as of the reporting date: TEUR 63,563; previous year: TEUR 2,404). **Working capital** increased as a result of the good order book position: **Inventories** amounted to TEUR 11,964 as of the balance sheet date (previous year: TEUR 5,928), while **trade receivables** stood at TEUR 12,147 (previous year: TEUR 5,803). Here, too, the seasonality that is typical of the sector should be noted, as a result of which the pace of growth accelerated over the course of the year, with most of the orders being received in the fourth quarter.

As a consequence of the capital increase that formed part of the IPO, the company's **equity** advanced to TEUR 97,045 as of December 31, 2014 (previous year: TEUR 14,693), with the **equity ratio** rising to 86.5 % (previous year: 41.3 %). The bolstering of equity was chiefly due to the payment received from the IPO capital increase of TEUR 72,367, most of which was transferred to additional paid-in capital. The share capital rose to TEUR 17,981 as part of the IPO (previous year: TEUR 81), with additional paid-in capital standing at TEUR 85,551 on the reporting date (previous year: TEUR 15,085).

Given its strong equity backing, the SLM Solutions Group carries only a minor level of debt. **Non-current liabilities** were reduced further to TEUR 5,950 as of the reporting date (previous year: TEUR 16,196). In particular, **financial liabilities** were fully reduced (previous year: TEUR 7,968). For **pension obligations**, a higher level of provisions of TEUR 4,544 were recognised due to the lower interest rate level (previous year: TEUR 3,061). **Deferred tax liabilities** amounted to TEUR 1,166 as of the reporting date (previous year: TEUR 5,167), and derived mainly from a difference in the recognition of laser technology as part of the purchase price allocation between the IFRS accounts on the one hand and the tax accounts on the other. The decline in deferred tax liabilities reflects their offsetting with deferred tax assets relating to tax loss carryforwards.

Current liabilities stood at TEUR 9,180 as of the reporting date (previous year: TEUR 4,706), with trade payables amounting to TEUR 3,749 (previous year: TEUR 1,965). **Current provisions** of TEUR 1,288 (previous year: TEUR 442) related primarily to anticipated warranty and maintenance services. In relation to total equity and liabilities, current liabilities comprised an 8.2 % share as of the year-end (previous year: 13.2 %).

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.

The risk management system is being continuously further developed, and is based essentially on the recognised **scenario analysis method**. This method utilises a **matrix consisting of nine cells** in which both the **event risk** and the **risk effect** are divided into three categories of 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 steered systematically as part of a regular **risk inventory**. This allows disadvantageous developments of particular significance for the company's financial position and performance to be countered on 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 289 (1), 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 acts 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 with 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 consolidation scope. 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 by manual audits. The two sets of eyes principle, which minimises risk of fraudulent activity, is applied in general. 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 developed further continuously 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, that corporate risks do not have significant impacts.

Specific risks

The following risk areas have been defined for the SLM Solutions Group:

Market and sector risks

SLM Solutions' product portfolio could be too limited to be competitive against companies with broader product portfolios, especially as SLM Solutions' systems utilise only one technology.

SLM Solutions is strongly dependent on sales to particular sectors.

The occurrence of market and sector risks could exert pressure on the sales prices that can be achieved in the future, limit sales possibilities for our products, and result in declining revenues.

Corporate risks

A sharp increase in production volumes could negatively affect SLM Solutions' products and services. SLM Solutions' production capacities might prove insufficient given a strong demand rise.

SLM Solutions is strongly dependent on a limited number of suppliers of components and consumables for products.

SLM Solutions depends on third-party software.

IT infrastructure risks (capacity constraints, network segmentation, disaster prevention) were identified, and necessary improvement measures were initiated and addressed by the Managing Board.

Under applicable employment law, SLM Solutions might be unable to enforce non-competition obligations, thereby potentially being unable to prevent competitors benefiting from some employees' expertise after the termination of their employment relationships.

SLM Solutions might be unable to develop sufficient structures for organisational, information, risk monitoring and risk management purposes.

The occurrence of corporate risks could result in production and supply problems, and consequently related losses of customers and falling revenues.

Intellectual property risks

SLM Solutions might be unable to receive patent protection for the company's products, or to protect the company's intellectual property rights in another manner. Intellectual property rights that are significant for the business will expire in the future. Risks might exist in connection with the purchase of intellectual property rights, or related co-ownership rights.

The inefficacy or termination of license rights to certain patents / utility models might prevent SLM Solutions utilising the licensed technology. An expiry or termination of license rights, or the granting of license rights to competitors, might result in the entry of new competitors onto the additive manufacturing market. Regulations contained in agreements relating to intellectual property rights might prove disadvantageous, or infringe laws, especially anti-trust law. Utilisation rights for copyrights might be granted on a basis that is ineffective.

SLM Solutions could be exposed to claims arising from alleged infringements of patents or other intellectual property rights.

SLM Solutions is only co-owner of certain intellectual property rights together with third parties, and might be subject to restrictions relating to such jointly held intellectual property.

The materialisation of risks relating to intellectual property might limit future sales possibilities for our products, increase the cost base, and result in additional licence fees.

Legal, regulatory and tax risks

SLM Solutions' compliance system and the company's monitoring capacities might prove insufficient to prevent infringements of the law, to uncover infringements that have already occurred, or to prevent damage as a result of fraud or similar criminal acts. This might result in legal disputes, and subsequently result in significant fines.

Financial risks

SLM Solutions is exposed to risks deriving from financial instruments. Default risks also arise from receivables due from customers, as payment targets that are typical of the sector are agreed. We operate active receivables management, and apply 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.

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 our products result in cash flows in different currencies and in different amounts. The significant cash flows are processed in euros. Revenues are also increasingly being invoiced in US dollars. Exchange rate changes can have a significant effect on consolidated earnings. The deployment of hedging instruments as part of hedging is decided upon on a case-by-case basis.

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

Action-relevant risks

A total of six risks were categorised as action-relevant as part of the most recent risk inventories. Event risk and risk effect comprise the criteria for establishing relevance for action. According to the risk management manual, risks are regarded as action-relevant which exhibit either a high event risk (high probability that the risk will materialise) or a high risk effect (potential effect of the risk), and which are classified as at least medium in relation to the respective remaining criterion. The Management Board actively handles action-relevant risks, launching corresponding countermeasures in each case.

Economic weakness

A worsening of economic trends in Germany, Europe or worldwide can negatively affect demand for SLM products, precipitating consequent sales declines. Business trends in 3D printing are nevertheless currently still relatively independent of more minor economic changes. The SLM Solutions Group would, however, not be able to decouple itself from global economic weakness. In order to mitigate the risk emanating from economic weakness, SLM Solutions is focusing on increasingly internationalising its business in order to become independent of economic growth and trends in specific regions. SLM Solutions is also broadening the number of markets that it serves, and focusing on end-markets that exhibit less cyclicality (e.g. medical technology).

Seasonal fluctuation

SLM Solutions' business is subject to seasonal fluctuations, with the consequence that the company's revenues and operating results may fluctuate from quarter to quarter. In particular, a weak fourth quarter would have a strong impact on full-year results. In order to mitigate the risk relating to seasonal fluctuations, SLM Solutions is broadening its customer base with the objective of becoming less dependent on individual customers or sectors. SLM Solutions is aiming for a healthy mix of clients consisting of manufacturing companies, service centres and research institutions.

More intense competition

More intense competition or the entry of new competitors onto the market could lead to SLM Solutions losing market shares, as well as to a marked increase in pricing pressure and corresponding margin reduction. From SLM Solutions' perspective, no new market entrants are identifiable within the foreseeable future. The company also regards itself as well positioned for rising competition, as it invests permanently in developing its products further, and on improving its cost position.

Personnel recruitment, development and retention

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. Business trends in 2014 show that SLM Solutions is an attractive employer, and was able to recruit successfully. The company is also aware of the general discussions on the shortage of specialist and technical staff, and offers its employees attractive promotion and further training opportunities.

Product defects

Defects in SLM Solutions' products or enhancements to its existing products that give rise to product returns or warranty, personal injury, property damage, product liability or other claims could result in material expenses, diversion of management time and attention, and damage to our reputation. As a countermeasure, the company plans to implement a service database as part of a CRM system that enables continuous machine quality monitoring.

Export and import restrictions

Certain risks and restrictions exist for SLM Solutions in connection with the export and import of the company's products into, and from, other countries. This also includes consumables such as metallic powder. Such risks are addressed by the company's compliance system, which the Management Board is improving constantly.

Overall statement on the risk situation

The Management Board regards the company's overall risk position as appropriate, and as not comprising any going concern risk. The market for metal-based 3D printing machinery 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 going concern risks were identifiable, neither during the 2014 fiscal year, nor as of the date when this business report was prepared.

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.

- **Opportunities related to the capital market** arise for the company in the context of potential inclusion in equity indexes in the future, which would improve the company's visibility for 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 lasers and constant unit cost reduction allow major productivity enhancements to be achieved, which makes utilisation of the machines especially attractive for industrial series manufacturing.
- **Customer and sales opportunities:** Proximity to customers in connection with the monitoring and addressing of problems generates trust-based relationships of many years' standing, as well as additional sales potentials. Through 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** arise for SLM Solutions as a result of its many years of experience with the selective laser melting technology that the company applies, which creates high market entry barriers for competitors. Some of these 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:** Through recruiting qualified and motivated staff in the areas of research and development, and service and sales, growth opportunities arise for SLM Solutions in the sale of machines as well as in the after-sales business. A cooperation venture with a powder manufacturer or a corresponding future acquisition would allow SLM Solutions to expand its consumables business and extend its own value chain.

Forecast

The SLM Solutions Group bases its forecast for 2015 on the following **underlying economic and sector-related assumptions**:

- The International Monetary Fund (IMF) forecasts that the global economy will return to stronger growth of 3.5% year-on-year. In the company's target markets, weaker growth of just 1.3% is anticipated in Germany, while growth of 1.2% is forecast for the Eurozone. In the company's defined growth regions where it is driving ahead with its international expansion, the IMF assumes strong growth of 3.6% in the USA, and slightly weaker growth in the „Emerging and Developing Asia" region amounting to 6.4%.[6]
- The annual Wohlers Report, which reports on the global 3D printing sector and provides market estimates, sees major growth potential especially in the area of additive manufacturing processes that are applied in industry: the report states a more than fourfold rise of global

market volumes to USD 12.5 billion by 2018 – over the level recorded in 2013 – and bases this on the assumption that a minimum 2 % of future global manufacturing will be additive.[7]

As of March 31, 2015, new order intake stood at 17 machines – compared with 7 machines during the prior-year comparable period, reflecting marked growth of 143 %. The high order book position in the traditionally weak first quarter 2015 can also be regarded as an indicator of further growth. The RP segment was almost fully relinquished toward the end of the 2014 fiscal year, and only the business with consumables is being continued. In view of these factors, the Management Board of SLM Solutions Group AG is assuming a continuation of the growth course for the 2015 fiscal year:

- In light of its focus on the high-growth future market with laser melting systems, the Management Board anticipates **consolidated revenue** increasing to between EUR 55 million and EUR 60 million in 2015.
- **New order intake**, as the most important indicator of the company's operating growth, should stand in excess of 100 machines over the full course of 2015 given the trends in customer ordering patterns to date.
- In addition, the Management Board anticipates an **adjusted EBITDA margin** (adjusted for one-off effects and in relation to consolidated revenue) of between 12 and 13 % in 2015.

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".

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

[6] International Monetary Fund, World Economic Outlook Update, January 2015 http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf
[7] Wohlers Associates, Annual Worldwide Progress Report, July 2014

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 pursuing the company's interests as well as enhancing 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 three members: Dr. Markus Rechlin (CEO), 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 them 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 comprises six members: Hans-Joachim Ihde (Chairman), Peter Grosch (Deputy Chairman), Lars Becker, Klaus J. Grimberg, Bernd Hackmann and Volker Hichert.

At its meeting on March 23, 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 concerns itself especially with 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 timeframe 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 its 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 focal audit 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 establishment of the consolidated financial statements for the 2014 fiscal year is based on the principles of International Financial Reporting Standards (IFRS), as applicable in the European Union. The separate financial statements are prepared according to the regulations of the German Commercial Code (HGB). The AGM on March 20, 2014 elected BDO AG Wirtschaftsprüfungsgesellschaft as the auditor of the separate and consolidated financial statements for the 2014 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, investors 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 AG within the Investor Relations area. This is supplemented by an investor relations electronic mailing list through which interested parties receive current 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), 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)
08/05/14	Uwe Bögershausen	Purchase (as part of IPO bonus program)	21,896	18.00	394,128
08/05/14	Dr. Markus Rechlin	Purchase (as part of IPO bonus program)	92,876	18.00	1,671,768
08/05/14	Ceresio GmbH	Sale (as part of IPO)	493,838	18.00	8,889,084
08/05/14	Ceresio GmbH	Sale (as part of IPO bonus program)	13,721	18.00	246,978
27/05/14	Ceresio GmbH	Purchase (repurchase of shares for which the greenshoe option as part the IPO was not exercised)	846	18.00	15,228

Mr. Henner Schöneborn was appointed to the Management Board of SLM Solutions Group AG as of July 28, 2014. To this extent, when he bought his shares in the company he was still not a Management Board member, and not obligated to issue directors' dealings notifications.

On December 31, 2014, the following **Management and Supervisory board members** directly or indirectly held the following shares in the company:

Party	Directly held shares	Indirectly held shares	Total interest
Management Board			
Dr. Markus Rechlin	0.52 %	-	0.52 %
Uwe Bögershausen	0.12 %	-	0.12 %
Henner Schöneborn and family	3.24 %	-	3.24 %*
Supervisory Board			
Hans-Joachim Ihde (via Ceresio GmbH)**	-	24.07 %	24.07 %

* Pursuant to a pooling agreement with Mr. 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 27.30 %..

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

Takeover law disclosures pursuant to Section 289 (4) and 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. Restrictions affecting share voting rights or transfers of shares: In the Underwriting Agreement, the Company has committed to an obligation vis-à-vis the Underwriters that, during the period commencing on the date of the Underwriting Agreement and ending six months after the introduction of the Shares to trading on the Frankfurt Stock Exchange, it will not, without the prior written consent of the Joint Bookrunners

(i) announce or effect an increase of the share capital of the Company out of authorized capital;

(ii) submit a proposal for a capital increase to any meeting of the shareholders for resolution; or

(iii) announce to issue, effect or submit a proposal for the issuance of any securities convertible into Shares of the Company, with option rights for Shares of the Company; or

(iv) enter into a transaction or perform any action economically similar to those described in (i) to (iii) above.

The Existing Shareholders have, each separately and not jointly, committed to an obligation vis-à-vis each Underwriter that, during the period commencing on the date of the Underwriting Agreement and ending twelve months after the introduction of the Shares to trading on the Frankfurt Stock Exchange, they will not, without the prior written consent of the Joint Bookrunners

(i) offer, pledge, allot, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Shares of the Company or any other securities of the Company, including securities convertible into or exercisable or exchangeable for Shares of the Company;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of Shares of the Company, whether any such transaction described in clause (i) above or this clause (ii) is to be settled by delivery of Shares of the Company or such other securities, in cash or otherwise;

(iii) make any demand for, or exercise any right with respect to, the registration under US securities laws of any Shares of the Company or any security convertible into or exercisable or exchangeable for Shares of the Company or any derivatives thereon;

(iv) propose any increase in the share capital of the Company, vote in favor of such a proposed increase or otherwise support any proposal for the issuance of any securities convertible into Shares of the Company, with option rights for Shares of the Company; or

(v) enter into a transaction or perform any action economically similar to those described in (i) through (iv) above.

This does neither apply to the Offer Shares nor to Shares to be sold by the Existing Shareholders to members of the management and further employees of the companies of the SLM Group in connection with the IPO-Bonus.

With regard to Shares to be acquired in connection with the IPO-bonus, each beneficiary undertook or is supposed to undertake that he/she will

(i) not sell, pledge or otherwise dispose of, any of the acquired Shares within a period of twelve months after the listing of the Company's shares on the Frankfurt Stock Exchange and

(ii) sign any lock-up agreement that the Underwriters require the beneficiaries to sign.

With regard to Shares to be acquired in connection with the bonus program, each participant undertook or is supposed to undertake vis-à-vis the Existing Shareholders that he/she will not sell, pledge or otherwise dispose of, any of the Shares allotted in connection with the non-cash capital increase within a period of twelve months after the receipt of these shares.

3. Direct or indirect interest in the share capital exceeding 10% of the voting rights as of December 31, 2014: 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), the Management Board is aware of the following direct or indirect interest 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%
DPE Deutsche Private Equity B.V., Schiphol, Niederlande (via Parcom Deutschland I GmbH & Co. KG, München, Germany)	2,917,282	16.22%

* 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 27.30%..

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 Management Board members and concerning bylaw amendments:

- The **appointment and recall from office of Management Board members** are 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 where 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. The share capital was conditionally increased by a resolution passed by the AGM of April 17, 2014 by up to EUR 6,907,100.00 through issuing up to 6,907,100 new ordinary bearer shares. As a result of the AGM of April 17, 2014, the Management Board is also authorised, with Supervisory Board approval, until April 16, 2019, to increase the share capital, once or on several occasions, by up to a total of EUR 6,907,100.00 through issuing up to 6,907,100 new ordinary bearer shares against cash and / or non-cash capital contributions (Approved Capital 2014).

On the basis of the authorisation issued by resolution dated April 17, 2014, the company, represented by its Management Board, was authorised until the end of April 19, 2014 to purchase its own shares in a volume of up to 10% of the share capital existing on the resolution date.

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.

9. Compensation agreements 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. For the instance that the interest of the shares held or controlled either directly or indirectly by Mr. Ihde were to fall below a total of 25% of the share capital, one Managing Director of SLM Solutions GmbH has been granted a special right of termination. If this Managing Director were to utilise this special right of termination, the Managing Director would be entitled to the compensation that would have been paid without the exercising of the special termination right until the regular end of his employment agreement, albeit for no longer than nine months. A 100% target attainment rate is imputed in relation to variable compensation in this context.

Compensation

The compensation scheme for the Management and Supervisory boards of This 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 fixed in the service agreements that were entered into when the Management Board members were appointed. Compensation comprises both fixed and variable components, in compliance with the German Corporate Governance Code. The so-called „Retention Bonus Program" comprises a component with long-term incentive effect and risk character, as part of which individual Management Board members receive shares in SLM Solutions Group AG according to standard market vesting periods.

Management Board compensation amounted to TEUR 4,841 in the fiscal year elapsed (previous year: TEUR 393). The Management Board receives a bonus for 2014 that is calculated and paid depending on revenue and EBITDA when the consolidated annual financial statements have been approved. The maximum amounts to TEUR 100, which was fully expensed as a provision in the year under review. This expense is recognised under „salaries and other current payments".

The Annual General Meetings decides on the remuneration of the members of the Supervisory Board and its committees. By resolution of the shareholders' meetings from April 17, 2014 the members of the Supervisory Board receive a fixed remuneration of EUR 18,000.00 payable after the fiscal year end, in addition to to the reimbursement of their expenses. For the Chairman of the Supervisory Board an additional amount of EUR 36,000.00 and for the Deputy Chairman additional EUR 18,000.00 are paid.

Supervisory Board compensation

in TEUR	2014	2013
Compensation for Supervisory Board activities	124	50
Total	**124**	**50**

Management Board compensation

in TEUR	2014	2013
Salaries and other current payments (fixed and performance-related)	594	393
Share-based compensation	4,247	0
Total	**4,841**	**393**

Details of Management and Supervisory board compensation are presented in note 33 of the notes to the consolidated financial statements.

The Supervisory Board was appointed with effect as of April 1, 2014. No Supervisory Board had been established until this date. Until April 1, 2014, an Advisory Board had been established for SLM Solutions Holding GmbH, whose 2013 compensation is presented in note 31 of the notes to the consolidated financial statements.

Consolidated financial statements and related notes

Consolidated statement of financial position

as of December 31, 2014

in TEUR	Note	2014	2013
Assets		**112,175**	**35,595**
Current assets		**89,719**	**14,569**
Cash and cash equivalents	15	63,563	2,404
Trade receivables	16	12,147	5,803
Inventories	17	11,964	5,928
Current tax receivables		163	172
Other assets	18	1,882	262
Non-current assets		**22,456**	**21,026**
Intangible assets	19	19,892	18,971
Property, plant and equipment	20	2,504	2,051
Other assets		39	4
Deferred tax assets	14	21	0
Equity and liabilities		**112,175**	**35,595**
Current liabilities		**9,180**	**4,706**
Trade payables		3,749	1,965
Other financial liabilities		38	56
Provisions	24	1,288	442
Other liabilities	22	4,105	2,243
Non-current liabilities		**5,950**	**16,196**
Financial liabilities	21	0	7,968
Pension and similar obligations	23	4,544	3,061
Deferred tax liabilities	14	1,166	5,167
Provisions	7; 24	240	0
Equity	**25**	**97,045**	**14,693**
Subscribed share capital		17,981	81
Additional paid-in capital		85,551	15,085
Retained earnings		-5,835	-736
Other reserves		-652	263

Consolidated income statement
for the fiscal year January 1, 2014 to December 31, 2014

in TEUR	Note	2014	2013
Revenue	10	33,559	21,575
Changes in inventories of finished goods and work-in-progress		3,268	615
Other work performed by the company and capitalised	19	2,430	162
Total operating revenue		**39,257**	**22,352**
Cost of materials	8	-21,040	-11,438
Gross profit		**18,217**	**10,914**
Personnel costs	9	-14,328	-4,705
Other operating income	11	1,443	439
Other operating expenses	12	-10,507	-4,553
EBITDA		**-5,175**	**2,095**
Depreciation, amortisation and impairment losses	19; 20	-2,147	-2,116
Operating profit or loss (EBIT)		**-7,322**	**-21**
Interest and similar expenses	13	-240	-588
Earnings before tax (EBT)		**-7,562**	**-609**
Income taxes	14	2,463	179
Consolidated net loss for the period		**-5,099**	**-430**
of which attributable to parent company owners		-5,099	-430
Basic (undiluted) earnings per share in EUR	25	-0.30	-
Diluted earnings per share in EUR	25	-0.23	-

Consolidated statement of comprehensive income

for the fiscal year January 1, 2014 to December 31, 2014

in TEUR	Note	2014	2013
Consolidated net loss for the period		**-5,099**	**-430**
Other income, items not to be reclassified to profit or loss in the future:			
Actuarial gains and losses	25	-928	264
Items to be reclassified to profit or loss:			
Exchange rate translation differences	25	14	-1
Consolidated total comprehensive income		**-6,013**	**-167**
of which attributable to parent company owners		-6,013	-167

Consolidated statement of cash flows
for the fiscal year January 1, 2014 to December 31, 2014

in EUR	Note	2014	2013
Cash flows from operating activities			
Consolidated net profit or loss		-5,099	-430
Depreciation, amortisation and impairment losses		2,147	2,116
Interest expense	13	240	588
(Gains) losses from investments		0	-9
Other non-cash expenses		1,055	0
Change in assets and liabilities		-8,831	-1,713
Inventories		-5,484	-1,071
Receivables		-6,344	-1,159
Pension liabilities		447	41
Liabilities		1,841	-766
Provisions		541	224
Other assets and liabilities		168	1,018
Changes in tax receivables, deferred tax assets and tax provisions		-2,836	-1,007
Cash flows from operating activities		**-13,324**	**-455**
Cash flows from investing activities			
Payments relating to business combinations, net of cash received		0	-8,000
Purchases of property, plant and equipment, and intangible assets	20	-1,998	-1,882
Work performed by the enterprise and capitalised	19	-2,430	-162
Proceeds from the sale of property, plant and equipment, and intangible assets		356	43
Cash flows from investing activities		**-4,072**	**-10,001**
Cash flows from financing activities			
Capital injection by shareholder		0	8,022
Other payments from shareholders	7	7,462	7,578
Capital injection from IPO		71,189	0
Repayment of loans		-18	-2,837
Repayment of lease liabilities		0	-139
Interest paid		-132	-80
Cash flows from financing activities		**78,501**	**12,544**
Net increase (decrease) in cash and cash equivalents		**61,105**	**2,088**
Change in financing funds due to exchange rate changes		54	0
Financing funds at start of period		2,404	316
Financing funds at end of period (as recognised in consolidated statement of financial position)	15	63,563	2,404
Fixed term deposits	15	-32	-32
Financing funds at end of period		**63,531**	**2,372**

Consolidated statement of changes in equity

for the fiscal year January 1, 2014 to December 31, 2014

in TEUR	Sub-scribed capital	Capital reserve	Group retained earnings	Other reserves	Total	Minority holding	Total equity
Balance as at 01/01/13	**25**	**8,020**	**-306**	**0**	**7,739**	**7,109**	**14,848**
Total comprehensive income	0	0	-430	263	-167	0	-167
Capital increase	22	0	0	0	22	0	22
Non-cash capital contribution	34	7,065	0	0	7,099	-7,109	-10
Balance as at 31/12/13	**81**	**15,085**	**-736**	**263**	**14,692**	**0**	**14,693**
Total comprehensive income	0	0	-5,099	-914	-6,013	0	-6,013
Capital increase from company funds	13,733	-13,733	0	0	0	0	0
Capital increase****	4,167	68,199	0	0	72,366	0	72,366
Reimbursements by shareholders*	0	7,462	0	0	7,462	0	7,462
Non-cash capital contribution**	0	8,028	0	0	8,028	0	8,028
Net bonus amount for the purchase of shares***	0	510	0	0	510	0	510
Balance as at 31/12/14	**17,981**	**85,551**	**-5,835**	**-652**	**97,045**	**0**	**97,045**

* Reimbursement of IPO transaction costs of TEUR 1,812 and of IPO bonus of TEUR 5,650 by previous shareholders

** Capital contribution of loans plus interest by previous shareholders Parcom Deutschland I GmbH & Co. KG

*** Net bonus amount arising from Retention Bonus Program for purchase of shares (see note 7)

**** Gross inflow of TEUR 75,000 minus IPO costs not impacting profit or loss after taxes of TEUR 2,634 (see note 7 explanation)

Notes to the consolidated financial statements
as of December 31, 2014

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 a company based in Germany headquartered at Roggenhorster Strasse 9c, 23556 Lübeck, being registered under commercial register sheet number HRB 13827 at Lübeck District Court.

The Group operates in the „selective laser melting" (SLM) sector. Note 3 presents information about ultimate parent entities.

The preparation of the consolidated financial statements was completed on 26 March 2015. The consolidated statements are expected to be submitted to the Supervisory Board for approval for publication on 31 March 2015..

Note 2) Basis of preparation

These consolidated financial statements have been prepared according to International Financial Reporting Standards (IFRS) as approved by the European Union, as well as the supplementary regulations pursuant to § 315a para. 1 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) Scope of consolidation

Subsidiaries

The consolidated financial statements are comprised of the accounts of SLM Solutions Group AG and its subsidiaries which it controls directly or indirectly. No special purpose entities or comparable structured entities exist.

Subsidiaries are consolidated from the date on which they are acquired. This is the date from which the Group has control. 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. Consolidation is continued until the date on which the Group no longer has control. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, applying consistent accounting policies and valuation principles. All intragroup balances, unrealised gains and losses resulting from intragroup transactions, and dividends, are eliminated in full.

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 right:

Shareholdings according to § 314 para. 2 German Commercial Code (HGB):

Name	**Interest in %**
SLM Solutions GmbH, Lübeck	100
SLM Solutions NA, Inc., Michigan / USA	100
SLM Solutions Singapore Pte, Ltd. (founded in fiscal year 2014)	100

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 May 26, 2014, SLM concluded a cooperation agreement with Singapore-based Nanyang Technological University (NTU), which runs until August 18, 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.

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. Singapore-based subsidiary SLM Solutions Singapore (SLM SG) has defined the Singapore dollar as its functional currency. 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 applying the average exchange rates for the period.

Differences as a result of such translation are recognised directly in equity. Currency translation differences are reclassified to net income when foreign subsidiaries are sold.

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:

	31. Dec.		Fiscal year	
Currency	**2014**	**2013**	**2014**	**2013**
U.S. Dollar	1,210	1,377	1,340	1,328
SG Dollar	1,604	--	1,684	--

Transactions that are not denominated in an entity's functional currency are recognised applying the spot exchange rate at 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 at that date. Gains and losses from these foreign currency translations are recognised in profit or loss. Non-monetary transactions denominated in foreign currencies are measured applying the historical spot exchange rate.

Revenue recognition

Revenue is recognised to the extent 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:

SLM generates revenue in the normal course of its business: revenue 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 delivery of the goods.

SLM renders services such as after-sales services. Revenues from service transactions are recognised when the services are rendered. Revenues from long-term service contracts are recognised straight-line over the contract term.

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 generally 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 expenses

Provisions for estimated costs relating to product warranties are recognised under „raw materials and consumables used" on the date when the underlying sale 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. Anticipated losses related to incomplete contracts are recognised in the period when the current estimate of total contract costs exceeds contract revenue.

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 research 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" as other internally generated intangible assets. Other development costs are expensed as incurred.

Intangible assets

Intangible assets comprise capitalised development costs, patents, licenses and similar rights.

The development costs for new technologies and products are capitalised as intangible assets, provided the recognition criteria of IAS 38 are met. 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. Research costs and development costs that cannot be capitalised are expensed in the period when they occur. Amortisation charges applied to intangible assets are disclosed under amortisation expenses. 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 years

Property, plant and equipment

Property, plant and equipment that are utilised within the company for longer than one year are measured at cost less accumalated 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. 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

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 other 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. If fair value cannot be determined, the assets' value-in-use is applied as 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 (exception: goodwill).

Income taxes

The company applies IAS 12 „Income Taxes". 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. 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. The effect on deferred tax assets and liabilities 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.

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. Production costs comprise direct costs of materials, labour costs and 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 statement of income.

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, and trade receivables. 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. 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 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 are measured at cost. The company considers all highly liquid investments with terms of less than three months from the date of acquisition to be cash equivalents.

Loans and receivables

Financial assets classified as loans and receivables are measured 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

SLM measures financial liabilities at amortised cost applying the effective interest method.

SLM does not deploy any derivative financial instruments.

Note 5) New financial reporting regulations

Compared with the consolidated financial statements of SLM Solutions Group AG as of December 31, 2013, the following standards and interpretations required mandatory application in the fiscal year under review:

IFRS 10 Consolidated Financial Statements

This standard was published on May 12, 2011, and must be applied for fiscal years commencing on or after January 1, 2014.

IFRS 10 includes aspects of full consolidation that have been regulated to date in IAS 27 and SIC 12. IFRS 10 also includes a standard consolidation concept. A parent-subsidiary relationship is determined on the basis of the criteria of power, variability in returns, and the link between the two entities.

The IFRS 10 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise in the year under review.

IFRS 11 Joint Arrangements

This standard was published on May 12, 2011, and must be applied for fiscal years commencing on or after January 1, 2014. IFRS 11 provides rules for where an entity exercises joint control over a joint venture or a jointly controlled operation. IFRS 11 replaces IAS 31 and SIC 13. Only two types of joint arrangements now exist following the amended definitions: jointly controlled operations and joint ventures.

The proportionate consolidation option for jointly controlled entities that has existed to date under IAS 31 has been abolished. Instead, the equity method must be applied in consolidated financial statements for joint arrangements classified as joint ventures. In addition, joint operations are recognised in the separate and consolidated financial statements of the parent entity, as has been the case to date.

The regulations of IFRS 11 are not relevant for the operating activities that SLM has conducted to date. As the result of concluding a cooperation agreement in 2014, which is to be classified as a joint operation in the meaning of IFRS 11, the effects of the IFRS 11 regulations are considerable from the 2014 fiscal year, however. Please see note 3 „Joint arrangements".

IFRS 12 Disclosure of Interests in Other Entities

This standard was published on May 12, 2011, and must be applied for fiscal years commencing on or after January 1, 2014. IFRS 12 replaces the previous regulations relating to disclosures in the notes to financial statements contained in IAS 27, IAS 28, IAS 31 and SIC 12. As a consequence, the standard establishes uniform disclosure requirements for all types of interests in other entities.

The IFRS 12 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise in the year under review.

IAS 27 Separate Financial Statements

This standard was published on May 12, 2011, and must be applied for fiscal years commencing on or after January 1, 2014. IAS 27 was amended as a result of new standards relating to the consolidation package (IFRS 10, IFRS 11). IAS 27 now comprises only guidelines relating to the accounting treatment of subsidiaries, joint ventures and associates, and the disclosures that are to be made for them in the notes to separate IFRS financial statements.

The IAS 27 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise in the year under review.

IAS 28 Investments in Associates and Joint Ventures

This standard was published on May 12, 2011, and must be applied for fiscal years commencing on or after January 1, 2014. IAS 28 was also amended as a result of amendments to standards relating to consolidation scope. Compared with the previous version of IAS 28, the revised version reflects changes that are more editorial than content-related. IAS 28 sets out rules for applying the equity method.

The IAS 27 regulations are generally not relevant for the SLM Solutions Group.

Recoverable Amount Disclosures for Non-Financial Assets (amendments to IAS 36)

This amendment was published on May 29, 2013, and must be applied for fiscal years commencing on or after January 1, 2014. The amendments are attributable to a subsequent amendment to IAS 36 as part of publishing IFRS 13. With the introduction of IFRS 13, some disclosure regulations in IAS 36 were formulated too broadly. Examples would have included stating the recoverable amount of cash-generating units with goodwill, or intangible assets with indefinite useful life, irrespective of whether an impairment loss had been recognised. By contrast, the amendments entail a corresponding requirement to disclose the recoverable amount only if an impairment loss was also actually recognised during the fiscal year.

The IAS 36 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise in the year under review.

Novation of Derivatives and Continuation of Hedge Accounting (amendments to IAS 39))

This amendment was published on June 27, 2013, and must be applied for fiscal years commencing on or after January 1, 2014. The amendments aim to avoid effects on hedge accounting when derecognising derivatives that are required due to novation. Due to the amendments to IAS 39, derivatives continue to be designated as hedging instruments in continuing hedges despite novation, if certain criteria are met cumulatively.

The IAS 39 regulations are generally not relevant for the SLM Solutions Group.

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition guidelines (amendment to IFRS 10, IFRS 11 and IFRS 12)

This amendment was published on June 28, 2012, and must be applied for fiscal years commencing on or after January 1, 2014. These amendments serve to clarify first-time application of IFRS 10, and include additional reliefs in all standards of the consolidation package. In addition, the requirement to restate comparable figures due to retrospective application is required only for the immediately preceding period when reporting more than one comparable period.

The IAS 27 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise in the year under review.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

This amendment was published on October 31, 2012, and must be applied for fiscal years commencing on or after January 1, 2014. The amendments to IFRS 10, IFRS 12 and IAS 27 serve to define an investment entity. It also requires a parent entity that is an investment entity to measure at fair value through profit or loss its interests in individual subsidiaries.

These regulations concerning investment entities are generally not relevant for the SLM Solutions Group.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32)

This amendment was published on December 16, 2011, and must be applied for fiscal years commencing on or after January 1, 2014. The amendment to the application guidelines of IAS 32 includes clarifying some regulations relating to the offsetting of financial assets and financial liabilities in the statement of financial position.

The existing offsetting model is retained, but is made more specific by additional application guidelines. According to the clarification, an enforceable legal entitlement to offset must exist currently. In other words, the claim cannot depend on a future event. The claim must be legally enforceable both during the normal course of business and in the instance of default or insolvency.

The IAS 32 regulations are generally relevant for the SLM Solutions Group. Significant effects did not arise in the year under review.

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 AG.

The standards have not been applied voluntarily, to the extent that such voluntary application is permissible:

Issue date	Standard / interpretation	Amendment / new regulation	Mandatory first-time application date	EU adoption
24/07/14	IFRS 9 "Financial Instruments"	Guidelines on the accounting treatment of financial instruments	Fiscal years commencing on or after 01/01/18	no
30/01/14	IFRS 14 "Regulatory Deferral Accounts"	Accounting treatment of regulatory deferral accounts	Fiscal years commencing on or after 01/01/16	no
28/05/14	IFRS 15 "Revenue from Contracts with Customers"	Accounting regulations relating to the timing and level of revenue recognition	Fiscal years commencing on or after 01/01/17	no
18/12/10	Amendment to IFRS 10, IFRS 12 and IAS 28	Application of investment entities' exemption from consolidation requirement	Fiscal years commencing on or after 01/01/16	no
18/12/14	Amendment to IAS 1	Clarification of specific disclosures in the notes to financial statements	Fiscal years commencing on or after 01/01/16	no
11/09/14	Amendment to IFRS 10 and IAS 28	Sale or transfer of assets between an investor and an associate or joint venture	Fiscal years commencing on or after 01/01/16	no
12/08/14	IAS 27 "Separate Financial Statements"	Reintroduction of the option to apply the equity method in an investor's separate financial statements for interests in subsidiaries, joint ventures and associates	Fiscal years commencing on or after 01/01/16	no
30/06/14	Amendment to IAS 16 and IAS 41	Accounting treatment of bearer plants	Fiscal years commencing on or after 01/01/16	no
12/05/14	Amendment to IAS 16 and IAS 28	Application of the revenue-based depreciation method	Fiscal years commencing on or after 01/01/16	no
06/05/14	Amendment to IFRS 11	Guidelines for the accounting treatment of acquisitions of interests in a joint venture	Fiscal years commencing on or after 01/01/16	no

25/09/14	Improvements to IFRS (2012-2014)	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	Fiscal years commencing on or after 01/01/16	no
12/12/13	Improvements to IFRS (2011-2013)	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	Fiscal years commencing on or after 01/07/14	yes
12/12/13	Improvements to IFRS (2010-2012)	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 7, IAS 16 / IAS 38 and IAS 24	Fiscal years commencing on or after 01/07/14	yes
21/11/13	Amendment to IAS 19	Defined Benefit Plans: Employee Contributions	Fiscal years commencing on or after 01/07/14	yes
20/05/13	IFRIC 21 "Levies"	Guidelines for the recognition of a liability for a government-imposed levy	Fiscal years commencing on or after 17/06/14	yes

To the extent that their content is of relevance, SLM AG will prospectively not apply any of the above-listed standards until the respective mandatory first-time application date. On the basis of current knowledge, it is not expected that future application will result in any significant effects on recognition and measurement.

Note 6) Estimates and assumptions

To prepare the consolidated financial statements, estimates and assumptions are required to a certain degree that affect the recognition, 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 initial recognition of intangible assets and the determination of their fair values in the process of the purchase price allocation for business combinations, the assessment of the recoverability of intangible assets, the determination of useful economic lives, the calculation of deferred tax claims on losses carried forward, the extent to which receivables have retained their value, the recognition and measurement of provisions and pension commitments, as well as sensitivity analyses performed in accordance with IFRS 7. The values that actually result may differ from the estimates. 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

The IPO that was successfully implemented on May 9, 2014, resulted in a high level of one-off non-operating expenses in the 2013 and 2014 fiscal years. In order to better understand the operating business trend, these expenses are explained separately below:

	Until December 2014			
Expenses*	**Level**	**Reimbursement****	**Net charge for the company**	**2013*****
Preliminary costs	264	140	124	66
Advisory costs	1,313	547	766	100
Auditing costs	822	433	389	–
Bank fees	3,147	130	3,017	–
Insurance	1,065	562	503	–
IPO bonus	5,650	5,650	0	–
	12,261	7,462	4,799	166

* Some of these expenses are reported directly in equity, and some of them are expensed (see below).
** The reimbursement is shown as a deposit by shareholders outside the scope of the income statement.
*** The costs incurred in the 2013 fiscal year were expensed in their entirety.

These one-off expenses significantly affected the company's net financial position and performance.

Of the total IPO costs of TEUR 12,261, expenses of TEUR 3,811 are to be offset directly with additional paid-in capital, without impact on profit or loss, in accordance with IAS 32. Of the difference of TEUR 8,450, an amount of TEUR 5,650 is reported in personnel costs, and an amount of TEUR 2,800 in other operating expenses.

The previous shareholders obligated themselves to proportional compensation of the expenses connected with the successfully implemented IPO, as the previous shareholders' existing shares were placed alongside newly issued shares. The level of the reimbursement was calculated after taking all costs into account, and amounts to TEUR 1,812 (net). The reimbursement is presented as an additional contribution to equity in the IFRS consolidated financial statements.

SLM AG staff were granted a bonus (retention bonus) for the period following the IPO. In addition, staff who were significantly involved in the IPO were granted a further bonus (IPO bonus). Both bonus payments are tied to the share's initial listing price. The staff are obligated to utilise their payment entitlements (less statutory social security contributions and taxes) to purchase the previous shareholders' shares (IPO bonus), or to transfer them as non-cash capital contributions into SLM AG (retention bonus).

IPO bonus

The basis value for determining the bonus payment is derived from the value of all old shares after the company was converted into a German public stock corporation („Aktiengesellschaft“) in accordance with the issue proceeds achieved, deducting the previous shareholders' investment (less IPO costs). The entitlement is derived by multiplying the basis value by a specific percentage rate. The granting of the IPO bonus is to be treated as a cash-settled share-based payment transaction.

The shareholders have committed themselves to fully reimburse the IPO bonus. This reimbursement of TEUR 5,650 is shown as an additional contribution to equity. The reimbursement of the IPO bonus occurs according to the interest held in the share capital by the previous shareholders before the IPO. The reimbursement of the other transaction costs occurs according to the shares in the issue proceeds of the previous shareholders and of the company.

Retention bonus

Starting with the IPO, for each year of employment an entitlement exists to a bonus that relates at least to the average share price during the three-month period following initial issue, although it can also correspond to the current share price on the bonus exercise date. The beneficiaries are obligated 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 exists.

From the bonus payment, the employee acquires shares by way of a non-cash capital contribution at a fixed subscription price of EUR 19.60. As the date of the non-cash capital contribution is critical for the measurement of the wage tax consequences, the net bonus level and the number of potential shares were calculated by way of an estimate.

Staff do not receive the bonus immediately, but instead in three tranches, in each case one, two, and three years after the IPO. The starting value for the payout entitlement when a tranche falls due is in each case one third of the originally committed amount of EUR 2,831,674 (= EUR 943,891 per tranche). Outstanding tranches lapse if an employee leaves the company during the related duration.

Due to the special requirements, especially the requisite averaging of all potential price trends over the first three months, a simulation model is applied to measure the retention bonus. This comprises the following characteristics:

- The share price performance during one year is modelled through 80 time steps. The change within one time step depends on the preceding changes. Given a sufficiently large number of simulation runs, these assumptions allow the share price at the end of each time interval to be lognormally distributed with an average. With a drift rate equivalent to the risk-free rate, the resultant distribution of the share price corresponds precisely to the distribution imputed in standard option valuation models such as the Black-Scholes model.
- The simulation was conducted in Microsoft Excel using the Oracle Crystal Ball add-in. The reported results derive as an arithmetic average from 100,000 simulation runs. In order to verify the simulation model, the distribution that was generated after three years was applied as the basis to measure an option value for a European option with a three-year term and an exercise price equivalent to the share price on May 9, 2014. Given a less than 1 % standard error in the simulation result, this differs by just 0.14 % from the option value measured analytically applying the Black-Scholes model.

The model is based on the following parameters and assumptions:

- The first closing price on the IPO date, May 9, 2014, of EUR 18.14 serves as the starting point to simulate the measurement of the net bonus on the grant date. The closing price on December 31, 2014 of EUR 19.30 was applied as the starting point for the simulation to measure the tax and social security liabilities.
- The subscription price is a given amount for the measurement on December 31, 2014, which derives from the actual share price performance until August 8, 2014, and amounts to EUR 19.60.
- Volatility of 60% was imputed on the May 9, 2014 measurement date. Volatility of 40% was imputed on the December 31, 2014 measurement date.
- Average charge rate: A value of 49.5% is derived for 2014. This figure is transferred unchanged for the tranches that fall due in 2015, 2016 and 2017.
- Risk-free rate = 0.25%; no dividends.

Measurement of the net bonus as of May 9, 2014:

in EUR	**First tranche**	**Second tranche**	**Third tranche**
Fair value	439,000	404,000	373,000
Expense in the 2014 fiscal year	292,667	134,667	82,889

Measurement of the payment obligation as of December 31, 2014 (share of personal income taxes):

in EUR	**First tranche**	**Second tranche**	**Third tranche**
Fair value	457.000	439.000	422.000
Expense in the 2014 fiscal year	304.667	146.333	93.778

As of December 31, 2014, personnel costs of TEUR 1,055 for the retention bonus were recognised in the consolidated financial statements. The calculated net bonus amount of TEUR 510, which is available to purchase shares, was transferred to additional paid-in capital. The calculated wage tax portion of TEUR 545 was recognised as a provision, TEUR 240 of which was recognised under non-current provisions.

In addition to the aforementioned expenses, TEUR 160 of investor relations costs were also incurred in the year under review.

Note 8) Cost of materials

in TEUR	2014	2013
Raw materials and consumables used	18,883	10,605
Costs of purchased services	2,157	833
	21,040	**11,438**

Note 9) Personnel costs

The average number of employees in fiscal year 2014 was 87 salary earners, 57 wage earners and four trainees. In 2013 on average 41 salary earners, 30 wage earners and one trainee were employed.

Payments to governmental defined contribution plans amount to TEUR 448 in 2014. In 2013 those payments amounted to TEUR 275.

in TEUR	2014	2013
Wages and salaries	13,344	4,063
Statutory social welfare contributions and expenses for optional support payments	953	601
Expenses relating to pension plans and employee benefits	31	41
	14,328	**4,705**

Note 10) Revenue

Revenue is categorised as follows:

in TEUR	2014	2013
Sale of machines and replacement parts	29,038	16,205
Sale of merchandise	3,844	4,218
Rendering of services	677	1,152
	33,559	**21,575**

Note11) Other operating income

Other operating income is categorised as follows:

in TEUR	2014	2013
Currency gains	1,093	174
Government grants	15	105
Payments in kind to employees	100	49
Release of liabilities	44	43
Reimbursements from insurance	4	37
Gain on disposal of property, plant and equipment	1	9
Other	186	22
	1,443	**439**

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	2014	2013
Sales expenses	2,135	1,276
Operating expenses	4,914	1,080
Administrative expenses	997	687
Office premise costs	533	467
Travel expenses	962	405
Vehicle costs	226	172
Receivables management	392	284
Other	348	182
	10,507	**4,553**

Note 13) Interest and similar expenses

in TEUR	2014	2013
Pension related interest expense	109	110
Borrowing costs	2	9
Interest charges on shareholder loans	98	398
Interest expenses on bank loans	22	58
Other	9	13
Interest expenses	**240**	**588**

Note 14) Income taxes

The major components of income tax expense for the years ended December 31, 2014 and 2013 are as follows:

in TEUR	2014	2013
Current income tax:		
Current income tax expenses	0	163
Refund of prior period taxes	0	-14
Other	0	4
Deferred tax		
Recognition and release of temporary differences	116	-169
Recognition of tax loss carryforwards	-2,579	-163
Income taxes as per income statement	**-2,463**	**-179**
Total comprehensive income		
Income taxes recognised directly in other comprehensive income:		
Actuarial losses/gains on performance-oriented pension provisions	415	-118
Income taxes recognised in total comprehensive income	**415**	**-118**

Deferred taxes credited directly to equity amount to TEUR 1,144 (previous year: TEUR 0), and derive from the costs connected with the IPO in the year under review that were offset directly with equity.

Income taxes paid amount to TEUR 0 in 2014 (previous year: TEUR 163).

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 15.05 % and the combined tax rate totals 30.88 %. 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.

A reconciliation between tax expense and the product of profit before tax multiplied by the domestic tax rate for the years ended 31 December 2014 and 2013 is as follows:

in TEUR	**2014**	**2013**
Loss before taxes	-7,562	-609
Expected income tax calculated at 30.88 % (2013: 30.88 %).	2,335	189
Tax effects deriving from:		
Non-tax-deductible expenses	-7	-17
Differing tax rates	39	0
Tax-free income	62	0
Adjustments to tax loss carryforwards	21	0
Prior years' income taxes	0	14
Other	13	-7
Income taxes	**2,463**	**179**

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

in TEUR	31/12/14	31/12/13
Intangible assets	-5,915	-5,693
Tangible assets	82	63
Other non-current assets	-34	0
Loss carryforwards	3,929	206
Pension liabilities	689	283
Provisions	4	4
Liabilities	-84	-30
Consolidation	184	0
Total deferred tax assets (liabilities)	**-1,145**	**-5,167**
Presentation in the statement of financial position		
Deferred tax assets	4,888	556
Netting with deferred tax liabilities	-4,867	-556
Deferred tax assets in the statement of financial position	**21**	**0**
Deferred tax liabilities	-6,033	-5,723
Netting with deferred tax assets	4,867	556
Deferred tax liabilities in the statement of financial position	-1,166	-5,167

	in TEUR
Deferred tax liabilities (net) as of 31/12/13	**5,167**
Deferred taxes recognised in profit or loss	-2,442
Deferred taxes recognised directly in equity	-1,144
Deferred taxes recognised in total comprehensive income	-415
Deferred tax liabilities (net) as of 31/12/14	**1,166**

	in TEUR
Deferred tax assets (net) as of 31/12/13	**0**
Deferred taxes recognised in profit or loss	21
Deferred tax assets (net) as of 31/12/14	**21**

The Group has not recognised deferred tax assets of TEUR 61 (2013: TEUR 0) relating to losses of TEUR 198, which can be carried forward and offset against future taxable earnings.

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	31/12/14	31/12/13
Cash at banks	63,529	2,368
Cash on hand	2	4
Fixed-term deposits	32	32
	63,563	**2,404**

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	31/12/14	31/12/13
Trade receivables	12,321	5,996
Valuation allowances	-175	-193
	12,147	**5,803**

Changes in valuation allowances are as follows:

in TEUR	Individually impaired	Collectively impaired	Total
01/01/13	**0**	**82**	**82**
Addition	105	6	111
31/12/13	**105**	**88**	**193**
Addition	69	7	76
Utilisation	-94	0	-94
31/12/14	**80**	**95**	**175**

For major clients, 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 impaired receivables' term structure is as follows:

in TEUR	2014	2013
Up to 3 months	0	0
3 - 6 months	80	105

In addition, a large number of minor 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 December 31:

				Overdue but not impaired		
in TEUR	Total	Impaired receivables	Neither overdue nor impaired	< 31 Days	31-60 Days	> 60 Days
2014	**12,321**	690	5,602	1,847	3,749	433
2013	**5,996**	**609**	3,223	2,095	69	0

As of December 31, 2014, no indications of credit risk existed relating to receivables, whether overdue or impaired.

Note 17) Inventories

in TEUR	31/12/14	31/12/13
Raw materials and supplies	4,040	1,321
Work in process	2,286	1,255
Finished goods and merchandise	5,251	3,038
Prepayments rendered	388	314
	11,964	**5,928**

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. In the 2014 fiscal year, a total of TEUR 381 was expensed for inventories that are recognised at net realisable value (previous year: TEUR 131). The carrying amounts of the individual impaired inventories amounts to TEUR 100 as of December 31, 2014 (December 31, 2013: TEUR 392).

Note 18) Other current asset

in TEUR	31/12/14	31/12/13
VAT receivables	576	171
Receivables from cooperation agreement with NTU	1,189	0
Other	117	91
	1,882	**262**

Note 19) Intangible assets

in TEUR	Cost as of 01/01/14	Additions	Cost as of 31/12/14	Accumulated amortisation and impairment losses as of 31/12/14	Carrying amount as of 31/12/14	Amortisation and impairment losses in the 2014 fiscal year
Capitalised development costs	1,588	2,430	4,018	-567	3,451	-372
Patents, licences and similar rights	7	162	169	-24	145	-17
Laser technology	18,123	0	18,123	-2,416	15,707	-1,208
Customer base	737	0	737	-148	589	-74
Order book position	249	0	249	-249	0	0
Intangible assets	**20,704**	**2,592**	**23,296**	**-3,404**	**19,892**	**-1,671**

in TEUR	Cost as of 01/01/13	Additions	Cost as of 31/12/13	Accumulated amortisation and impairment losses as of 31/12/13	Carrying amount as of 31/12/13	Amortisation and impairment losses in the 2013 fiscal year
Capitalised development costs	722	866	1,588	-195	1,393	-195
Patents, licences and similar rights	7	0	7	-7	0	-7
Laser technology	18,123	0	18,123	-1,208	16,915	-1,208
Customer base	737	0	737	-74	663	-74
Order book position	249	0	249	-249	0	-249
Intangible assets	**19,838**	**866**	**20,704**	**-1,733**	**18,971**	**-1,733**

The expense arising from amortisation charges applied to intangible assets is included under the amortisation expense item in the statement of comprehensive income.

The remaining amortisation period for intangible assets is as follows:

- Capitalised development costs 4 years
- Patents, licences and similar rights 5 years
- Laser technology 15 years
- Customer base 10 years
- Order book position 1 year

No impairment test was conducted for the 2014 fiscal year as no indications of impairment existed. No impairment losses were recognised.

Government grants related to amortised R&D amounted to TEUR 240 in 2014 (previous year: TEUR 105). They are reported under current liabilities if the capitalised development projects have not been concluded.

The total research and development expenses that were recognised as expenses in the 2014 year amount to TEUR 812. A corresponding expense of TEUR 558 was recognised in the 2013 fiscal year.

SLM has no open purchase orders as of December 31, 2014.

Note 20) Tangible assets

in TEUR	Cost as of 01/01/14	Additions	Disposals	Reclassifications	Cost as of 31/12/14	Accumulated depreciation and impairment losses as of 31/12/14	Carrying amount as of 31/12/14	Amortisation and impairment losses in the 2014 fiscal year
Technical machinery and equipment	1,334	608	-843	0	1,099	-457	642	-249
Furniture and office equipment	740	925	-30	246	1,881	-327	1,554	-227
Prepayments rendered for tangible assets	285	303	-34	-246	308	0	308	0
Tangible assets	**2,359**	**1,836**	**-907**	**0**	**3,288**	**-784**	**2,504**	**-476**

in TEUR	Cost as of January 1, 2013	Additions	Disposals	Reclassifications	Cost as of December 31, 2013	Accumulated depreciation and impairment losses as of December 31, 2013	Carrying amount as of December 31, 2013	Amortisation and impairment losses in the 2013 fiscal year
Technical machinery and equipment	808	526	0	0	1,334	-208	1,126	-208
Furniture and office equipment	376	367	-3	0	740	-100	640	-100
Prepayments rendered for property, plant and equipment	0	285	0	0	285	0	285	0
Property, plant and equipment	**1,184**	**1,178**	**-3**	**0**	**2,359**	**-308**	**2,051**	**-308**

No impairment losses were recognised.

SLM has no open purchase orders as of December 31, 2014.

Note 21) Other non-current assets

in TEUR	31/12/14	31/12/13
Shareholder loan: Parcom Deutschland I GmbH & Co. KG	0	7,930
Other	0	38
Non-current assets	**0**	**7,968**

Note 22) Other current assets

in TEUR	31/12/14	31/12/13
Prepayments received	1,633	532
Commission / bonus payments	221	333
Licence payments	728	298
Government grants	225	281
Legal and consulting costs	220	264
Other personnel costs	720	178
Debtors with credit balances	44	38
Wage tax liabilities	99	31
Social security contributions	11	1
Other personnel costs	204	287
	4,105	**2,243**

Government grants for development projects that have not yet been completed are deferred as of December 31, 2014.

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 September 29, 1969), whose members they have been to date.

According to the guidelines dated May 10, 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 % per further year of service 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.

December 31, 2014 was selected as the valuation date.

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, and where differences occur between actual and expected returns on plan assets.

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 income statement.

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

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

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

in TEUR	2014	2013
Present value as of 01/01	**3,061**	**3,291**
Expense for pension claims	73	78
Interest expense	109	110
Pension payments	-42	-36
Actuarial gains and losses	1,343	-382
Amount carried forward due to acquisition	0	0
Present value as of 31/12	**4,544**	**3,061**
Plan assets	0	0
Pension provisions as per the consolidated statement of financial position	**4,544**	**3,061**

No plan assets exist.

The actuarial gains and losses in 2014 arise from changes to the financial assumptions.

The following valuation bases were applied to measure the pension obligations:

	2014	2013
Interest rate	2.02%	3.55%
Income increases	2.50%	2.50%
Pension increases	1.70%	2.00%
Employee turnover	1.00%	1.00%

A one basis point change to the imputed interest rate would affect the valuation as follows (2014):

	Interest rate		Income trend		Pension adjustments	
	Increase of 1.0%	**Decrease of 1.0%**	**Increase of 1.0%**	**Decrease of 1.0%**	**Increase of 1.0%**	**Decrease of 1.0%**
Effect on DBO (2014)	-864	1,160	676	-555	276	-248
Effect on DBO (2013)	-539	712	174	-156	411	-342

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	2014	2013
up to one year	64,098	47,709
between 2 and 5 years	303,196	293,873
between 5 and 10 years	463,294	480,319
Prospective payments in the next 10 years	**830,588**	**821,901**

Note 24) Provisions

The provisions developed as follows:

in TEUR	2014	2013
As of 01/01	**442**	218
Addition in the fiscal year	1,288	442
Consumption	-442	-218
Dissolution	0	0
Carry forward	0	0
As of 31/12	**1,288**	**442**

A provision is made for expected claims with respect to warranties and maintenance for products that were sold during the last two years. It is based on the experience from the past with respect to the number of repairs and returns. The assumptions made for the calculation of the warranty provision are based on current sales levels and currently available information on returns that is based on the two year warranty period for all products sold. The determination of the amount stems from 1 %, 2 % or 3 % of the respective machine revenue depending on place of delivery (Germany 1 %, other Europe 2 % and Rest of world 3 %).

It is expected that most of these claims with respect to warranties and maintenance will be created in the next fiscal year and that all of them will be formed within two years after the balance sheet date.

The retention bonus provision relates to payroll tax obligations and possible social security contributions in connection with the retention bonus. We refer to our comments in Note 7.

Note 25) Equity

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

By AGM resolution of April 17, 2014, the Management Board is authorised, with Supervisory Board assent, to increase the share capital by April 16, 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 April 17, 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 March 20, 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 the issuing of shares as part of the IPO, the share capital is divided into 17,980,867 ordinary registered no par bearer shares each with a notional value of EUR 1.00 in the share capital.

Shares in circulation at the time of conversion (20/03/14)	13,814,200	76.83 %
Changes in 2014	4,166,667	23.17 %
Shares in issue at the end of the period (31/12/14)	17,980,867	100.00 %

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 December 31, 2014 and December 31, 2013 was measured as follows:

in TEUR	**2014**	**2013**
Equity	97,045	14,693
Total assets	112,175	35,595
Equity ratio	**86.51 %**	**41.28 %**

The increase in the equity ratio 2014 is attributable to the IPO and the concurrent capital increase.

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.

Where a corporation is converted into a public stock corporation during the course the year, earnings per share are calculated assuming that the company had been a public stock corporation for the full year. As a consequence, the numerator consists of the entire earnings for the year, and the denominator consists of the average number of shares in issue since the company's conversion.

	2014	**2013**
Number of shares in issue as of 01/01	-	-
Number of shares in issue during the fiscal year	17,980,867	-
Weighted average number of shares in issue	**17,254,295**	-

	2014	**2013**
Consolidated net profit/loss attributable to parent company sharehol-ders (in TEUR)	-5,099,000	-
Weighted average number of shares in issue for basic earnings per share	17,254,295	-
Basic (undiluted) earnings per share in EUR	**-0.30**	-

Earnings per share (diluted)

The effects explained under note 5) about the retention bonus program were taken into account when calculating diluted earnings per share. The number of shares to be issued lies at the discretion of neither the company nor the employee as the number of shares to be issued depends on wage tax charges. For this reason, the following potential shares in the meaning of IAS 33 were taken into account to calculate diluted earnings:

	31/12/14	31/12/13
Gross bonus payment in EUR	2,831,674	-
Beneficiaries' reference price in EUR	19.60	-
Assumed share price on share issue reference date in EUR	19.30	-
Flat rate tax charge	49.5 %	-
Calculated tax payment in EUR	1,380,224	-
Net bonus level in EUR	1,451,450	-
Number of shares, undiluted	17,254,295	-
Number of shares to be purchased	74,054	-
Number of shares, diluted	17,328,349	-
Consolidated net profit/loss attributable to parent company shareholders (in TEUR) (for undiluted profit/loss)	-5,099,000	-
Personnel costs for retention bonus in EUR	1,055,000	-
Consolidated net profit/loss attributable to parent company shareholders (in TEUR) (for diluted earnings)	-4,044,000	-

	2014	2013
Weighted average number of shares in issue	17,254,295	-
Adjustments to share-based compensation as part of retention bonus	74,054	-
Weighted average number of shares for diluted earnings per share	**17,328,349**	**-**

	2014	2013
Consolidated net profit/loss attributable to parent company shareholders (in TEUR) (for diluted earnings)	-4,044,000	-
Weighted average number of shares for diluted earnings per share	17,328,349	-
Diluted earnings per share in EUR	**-0.23**	**-**

Other comprehensive income

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

in TEUR	2014	2013
Consolidated net loss	**-5,099**	**-430**
Items not to be reclassified to profit or loss in the future:		
Actuarial losses / gains on defined pension provisions	-1,343	381
Deferred taxes on actuarial losses / gains	415	-118
Income / expenses to be reclassified to profit or loss in the future:		
Currency translation differences	14	-1
Other income, net of tax	**-914**	**262**
Total comprehensive income	**-6,013**	**-168**

Retained earnings

Retained earnings of TEUR 5.835 consist of the 2014 consolidated net result of TEUR 5,099 and TEUR 736 of loss carried forward.

Note 26) Additional disclosures about capital

The total economic equity comprising the equity as presented in the statement of financial position and the shareholder loans reports the following changes:

in TEUR	2014	2013
Equity	97,045	14,693
Shareholder loans	0	7,930
Economic equity	97,045	22,623
Assets	112,175	35,595
in %	86.51 %	63.56 %

Note 27) Lease obligation

Operating lease commitments

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. No restrictions are placed upon the Group when entering into these leases.

As of December 31, 2014 and 2013, future minimum payment obligations under non-cancellable operating leases are as follows:

	2014	**2013**
Less than 1 year	1,227	740
More than 1 year and up to 5 years	2,054	1,580
More than 5 years	260	44

Total operating lease expenses for the fiscal years as of December 31, 2014 and 2013 amounted to TEUR 871 and TEUR 418 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.

Finance lease obligations

The Group has no finance lease obligations as of December 31, 2014 and 2013.

Note 28) Additional disclosures about financial instruments

SLM utilises the following categories of financial instruments:

- Cash and cash equivalents
- Loans and receivables
- Financial liabilities measured at amortised cost

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:

	Fair value		Carrying amount	
in TEUR	**2014**	**2013**	**2014**	**2013**
Loans and receivables	75,710	8,207	75,710	8,206
Financial liabilities measured at cost applying the effective interest method	5,891	11,349	5,891	11,349

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 values of cash and cash equivalents, trade receivables and trade payables with a remaining term of up to twelve months, other current financial liabilities, and borrowings under revolving credit facilities, approximate their carrying amount, mainly due to the these instruments' short terms.

The fair value that is stated here for information purposes is to be allocated to Level 3 of the fair value hierarchy. The inputs for the fair values of receivables and financial liabilities comprise the prices that were agreed between SLM and its contractual parties for the individual transactions.

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

	Net profit		Net loss	
in TEUR	**2014**	**2013**	**2014**	**2013**
Loans and receivables	1,118	174	76	111
Financial liabilities measured at cost applying the effective interest method	0	0	132	479

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. The net gains (losses) deriving from financial liabilities measured at amortised cost applying the effective interest method arise from interest payments.

Note 29) 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 risk 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 optimize 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 open trade receivables and other trade receivables prove uncollectible
- Risk of rising exchange rates in Asia and other non-euro countries

- Risk of falling exchange rates in the USA and other non-euro countries
- Risk of interest rate increases
- Nonadherence 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. A receivables position with one individual customer amounted to TEUR 748 as of December 31, 2014, and is due to one multi-machine order. 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 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 entered into new debt instrument contracts in order to maintain a variable and sufficient credit line. SLM AG has introduced working capital ratios into its internal reporting structure to allow the risk of an insufficiency of funds to be monitored frequently.

SLM AG was partially financed by shareholder loans until February 2014. The interest on shareholder loans amounted to 8% p.a. With the decision to implement an IPO, the loan, along with interest, was transferred to additional paid-in capital.

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

in TEUR	31/12/14 Trade payables	31/12/14 Other financial liabilities	31/12/13 Trade payables	31/12/13 Other financial liabilities
Within one year				
Interest	0	0	3	0
Repayment	3,749	38	1,965	56
Total	**3,749**	**38**	**1,968**	**56**
More than one year, but not more than five years				
Interest	0	0	1	0
Repayment	0	0	0	38
Total	**0**	**0**	**1**	**38**
More than five years				
Interest	0	0	0	17,577
Repayment	0	0	0	7,578
Total	**0**	**0**	**0**	**21,155**
	3,749	**38**	**1,969**	**25,249**

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 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 acquires some raw materials and supplies that are denominated in Japanese yen. Ongoing exchange-rate changes may affect the company's profitability. Nevertheless, SLM AG has not made recourse to any foreign currency swaps or comparable instruments to hedge variable exchange rates. Instead, the management of SLM AG purchases foreign currency in the relevant amount on the order date. 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 (due to fair value changes of monetary assets and liabilities) and consolidated equity due to potential change in the exchange rate between US dollar and SGD dollar, 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**
2014	10%	739	511
	-10%	-607	-419
2013	10%	90	62
	-10%	-74	-51

	Change in SGD exchange rate	**Effect on profit before tax**	**Effect on equity**
2014	10%	0	0
	-10%	0	0
2013	10%	146	101
	-10%	-120	-83

Interest-rate risk

Due to its IPO in May 2014, SLM no longer required 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.

Collateral

SLM holds collateral only to secure trade receivables (e.g. retention of title).

Note 30) Presentation of segment reporting pursuant to IFRS 8

Presentation of reportable segments

Pursuant to IFRS 8, SLM Solutions Group AG is required to include segment reporting in the notes to its consolidated financial statements. 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.

Due to the different technologies, activities and customer groups for the relatively new SLM technology, and the comparatively more traditional casting technology in the RP area, the company distinguishes two operating segments. The Group reported on them accordingly as „RP" and „SLM" in the 2014 fiscal year in the context of internal reporting to the Management and Supervisory boards, which were identified as the chief operating decision-makers. No summary of the operating segments is available.

As a consequence, the reportable segments are as follows:

- The main business is aggregated within the SLM („selective laser melting") segment – in other words, the assembly, marketing and sale of metal-based additive manufacturing systems that deploy selective laser melting technology. The services of SLM Solutions Group AG also include the sale of accessories, as well as other services such as machine maintenance.
- The RP („rapid prototyping") segment, which now represents a smaller business area, comprises the traditional business with vacuum casting systems and metal casting systems. SLM Solutions also offers a large number of consumables for various applications. Compared with the SLM segment, this area meanwhile bears a subordinate and further reducing significance.

These two segments formed the basis of segment reporting in the year under review. Due to the declining significance of the RP segment, other segments will be applied in the 2015 fiscal year that have a greater orientation to functional areas.

The two aforementioned segments comprise all of SLM's activities in the 2014 fiscal year.

The composition of the reportable segments has not changed compared with the previous year. Revenue and EBITDA comprise the central steering elements. Assets and liabilities are not disclosed separately. The company does not plan to utilise segment reporting as an aid to making decisions in its financing activities. The construction order services that were offered were discontinued in the third quarter. Only consumables trading is being continued.

Segment reporting for the 2014 fiscal year:

in TEUR	SLM	RP	Bridge	Total
Revenue	**29,632**	**3,927**	**0**	**33,559**
Expense	24,210	4,859	0	29,069
Adjusted EBITDA	**5,422**	**-932**	**0**	**4,490**
Depreciation, amortisation and impairment losses				-2,147
Interest expense				-240
Income taxes				2,463
IPO costs and other one-off expenses*				-9,665
Consolidated net profit/loss				**-5,099**

* Adjusted for IPO bonus (TEUR 5,650); expensed IPO transaction costs (TEUR 2,800); retention bonus (TEUR 1,055) and investor relations costs (TEUR 160)

Segment reporting for the 2013 fiscal year:

in TEUR	SLM	RP	Bridge	Total
Revenue	**16,592**	**4,914**	**69**	**21,575**
Expense	14,283	4,737		19,020
EBITDA	**2,309**	**177**	**-391**	**2,095**
Depreciation, amortisation and impairment losses				-2,116
Interest expense				-588
Income taxes				179
Net income				**-430**

Above and beyond the depreciation, amortisation and impairment losses listed above, significant non-cash income and expenses were to be recognised in the context of the retention bonus amounting to TEUR 1,055 (previous year: TEUR 0).

The segment revenues shown above are revenues from external customers.

No significant transactions occurred between the different segments.

SLM achieved its revenues of TEUR 33,559 exclusively with the sale of goods (previous year: TEUR 21,575).

Segment revenue distribution:

Geographic information:

in TEUR	2014	2013
Germany	12,752	7,178
Asia-Pacific	3,654	4,907
European countries (EU, excluding Germany)	6,462	4,352
United States of America	8,029	3,672
Other countries	2,900	1,678
	33,797	**21,787**
Bonuses / rebates / discounts	-238	-212
	33,559	**21,575**

The revenue information provided above relates to customers' locations.

All significant assets are held solely in Germany.

Note 31) Related party disclosures

Management Board members and related parties from the date of the conversion into a public stock corporation in March 2014:

- Dr. Markus Rechlin and family
- Uwe Bögershausen and family
- Henner Schöneborn and family (from July 2014)

Managing directors and related parties in 2013 and until March 2014:

- Michael Kring and family (until February 2013)
- Hans-Joachim Ihde and family (until August 2013)
- Dr. Markus Rechlin and family (from August 2013)

Supervisory Board members and related parties from the date of the conversion into a public stock corporation in March 2014:

- 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

Advisory Board members and related parties from the date of the conversion into a public stock corporation in March 2014:

- Dr. Markus Rechlin and family (until August 2013)
- Hans-Joachim Ihde and family (from August 2013)
- Bernd Hackmann and family
- Volker Hichert and family
- Lars Becker and family

Related party to the SLM Group comprise the following:

- SLM Solutions GmbH
- SLM Solutions NA, Inc. Michigan, USA
- SLM Solutions Singapore Pte. Ltd.
- Parcom Deutschland I GmbH & Co. KG
- Ceresio GmbH

Until the successful conclusion of the IPO, Parcom Deutschland I GmbH & Co. KG was the majority shareholder of SLM AG. ING Group NV, which has its corporate seat in Amsterdam, Netherlands, was the ultimate parent company of the Group until the date of the successful IPO.

Since the successful admission to stock market listing of the company, no shareholder exerts direct control. Due to their remaining interests in the subscribed share capital, which are also subject to lock-up holding periods, 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 presence majority.

The deliveries, services and other business transactions rendered until December 31, 2014 as part of normal operating activities correspond in their scope to the business relationships during the financial year 2013, and, with the exception of the shareholder financing existing until February 28, 2014 totalling TEUR 8,028 which was booked into the capital increase on February 28, 2014, exert no significant influence on SLM's financial position and performance. In addition, cost transfer statements were issued to the company in anticipation of the IPO which have a significant effect on SLM's financial position and performance, and which are explained in note 7.

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

Compensation of the Supervisory Board members of SLM AG in 2014:

Supervisory Board compensation	**in TEUR**
Mr. Ihde	41
Mr. Grosch	27
Mr. Hackmann	14
Mr. Grimberg	14
Mr. Hichert	14
Mr. Becker	14

Besides compensation for his Supervisory Board work, Mr. Ihde received payment of TEUR 178 as part of a consultancy agreement. No other compensation for the Supervisory Board members was paid in the 2014 fiscal year.

Compensation of Advisory Board members of SLM Solutions Holding GmbH in 2013:

	in TEUR
Mr. Ihde	0
Mr. Hackmann	25
Mr. Hichert	25
Mr. Becker	0

Compensation of Management Board members in 2014:

in TEUR	Salaries and other current payments (fixed and performance-based)	Performance-based compensation	Share-based compensation
Mr. Rechlin	201	50	3,165
Mr. Bögershausen	191	50	1,082
Mr. Schöneborn	102	0	0
	494	**100**	**4,247**

Compensation of Management Board members and Managing Directors of SLM Solutions GmbH in 2013:

in TEUR	Salaries and other current payments (fixed and performance-based)	Performance-based compensation
Mr. Rechlin	84	20
Mr. Bögershausen	45	15
Mr. Ihde	229	0
	358	**35**

The Management Board receives a bonus for 2014 that is calculated and paid depending on revenue and EBITDA when the consolidated annual financial statements have been approved. The maximum amounts to TEUR 100, which was fully expensed as a provision in 2014. This expense is recognised under „performance-based compensation".

The Supervisory Board of SLM AG was appointed with effect as of April 1, 2014. For SLM Solutions GmbH as the legal predecessor of SLM AG, an Advisory Board was established until April 1, 2014 whose 2013 compensation is reported under „Supervisory Board compensation".

The following individuals and companies that are not listed above were also identified as related parties in 2013:

- Parcom Deutschland I GmbH & Co. KG as shareholder with receivables deriving from shareholder financing in an amount of TEUR 7,930 and interest for 2013 of TEUR 351
- DPE-Deutsche Private Equity GmbH and its managing directors with salaries and other current payments of TEUR 306
- Ceresio GmbH as shareholder, whose shareholders and family members with an amount of TEUR 46
- Mr. Schöneborn as shareholder and family members with salaries and other current payments of TEUR 159 and interest of TEUR 1
- Michael Kring as shareholder with salaries and other current payments of TEUR 0

Note 32) Auditor's fee

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

in TEUR	2014	2013
Auditing services	195	59
Other certification services	108	0
Tax advisory services	37	27
Other services	816	26

Note 33) 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 34) 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 company's financial position and performance.

Lübeck, March 31, 2015

Dr. Markus Rechlin
SLM Solutions Group AG

Uwe Bögershausen

Henner Schöneborn

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 2014 financial year.

Lübeck, March 31, 2015

Dr. Markus Rechlin	Uwe Bögershausen	Henner Schöneborn

SLM Solutions Group AG

Audit opinion

We have audited the consolidated financial statements prepared by SLM Solutions Group AG, Luebeck, comprising of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, together with the group management report for the financial year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the consolidated management report in accordance with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch: German Commercial Code) are the responsibility of the company's management. 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 Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit such that misstatements, whether due to fraud or error, 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 also includes assessing the accounting information of the subdivisions included in the consolidated financial statements, the definition of the scope of consolidation, the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual 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 IFRS as adopted by the EU and the supplementary requirements of the German Commercial Law as stipulated by Section 315a (1) HGB, and give a true and fair view of the group's net assets, financial position and results of operations in accordance with these requirements. The group management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Luebeck, March 31, 2015

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