Annual report **2016**


PICANOL GROUP

COMPANY PROFILE

The Picanol Group is an international, customer-oriented group that specializes in the development, production and sale of high-tech weaving machines, cast iron parts and controllers.

Weaving Machines Division:
Picanol develops, manufactures and sells high-tech weaving machines based on air (airjet) or rapier technology. Picanol supplies weaving machines to weaving mills worldwide and also offers to its customers products and services such as weaving frames and reeds, training, upgrade kits and spare parts. For eighty years, Picanol has played a pioneering role in the global industry and is currently one of the world's leading weaving machine manufacturers.

Industries Division:
Proferro comprises all foundry activities and the group's machining activities. It produces cast iron parts for compressors and agricultural machinery, and parts for Picanol weaving machines. PsiControl designs, develops, manufactures and supports, among other things, controllers in various industries such as textile machinery, compressors and fleet management. In addition to the manufacture of high-precision metal parts, mold making and the revision of dies, Melotte has been engaged in the 3D printing of parts for several years.

The Picanol Group employees operate all over the world to serve their customers. More than 2,100 employees together cover a wide range of high-tech products and services, giving customers a lead over their competitors and creating added value.

In addition to the head office in Ypres (Belgium), the Picanol Group has production facilities in Asia and Europe that are linked to its own worldwide sales and service network.

The Picanol Group was founded in 1936 and it celebrated its 80th anniversary in 2016.

The Picanol Group in 2016:

Consolidated turnover:	639.78 million euros
Employment:	2,192

Euronext Brussels:	PIC
Web:	www.picanolgroup.com

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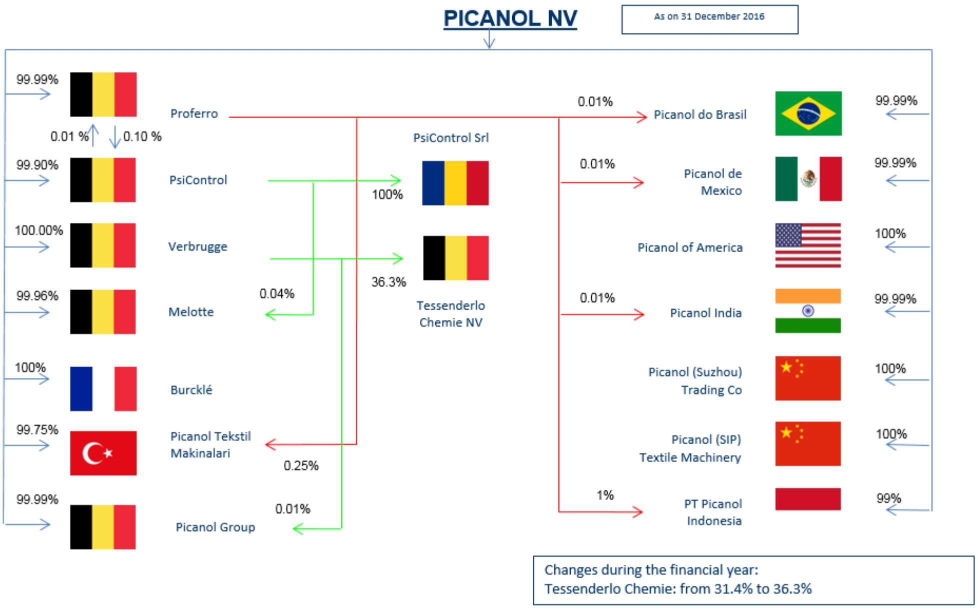
PRESENTATION OF THE PICANOL GROUP

AT THE SERVICE OF CUSTOMERS WORLDWIDE

The Picanol Group sells its weaving machines to customers worldwide and aims to be present in all important markets at the service of customers. For this purpose the group has a worldwide service and sales network. Through its highly trained, specialized and results-oriented employees and agents, the Picanol Group aims to create value for its customers all over the world. A number of crucial functions that depend on the know-how of the headquarters in Belgium are managed centrally. Matters specifically related to products made in the foreign production plants are dealt with locally. This ensures not only uniform implementation of the strategy and consistency of sales and marketing policy in the various markets, but also faster exchange of information between customers and personnel all over the world.

ORGANIZATIONAL CHART



PROFILE: WEAVING MACHINES DIVISION

ACTIVITIES

Within the Picanol Group the Weaving Machines Division (Picanol) covers all activities regarding development, production and sale of high-tech weaving machines and supplementary products, spare parts and services. Picanol sells high-tech weaving machines based on airjet or rapier technology. The Weaving Machines Division consists of three parts:

PICANOL
LET'S GROW TOGETHER

- Marketing, Sales & Services markets weaving machines to customers all over the world and is in charge of spare parts sales and aftermarket services. In Brazil, China, India, Indonesia, Mexico, Turkey and the US, this is organized through own local organizations.
- Product Development comprises all integrated R&D activities.
- Operations comprises all activities concerning sourcing, logistics, quality and assembly.

Weaving

In the weaving process, yarns are stretched on a weaving machine at right angles to each other. These stretched threads are known as warp (on the warp). Other yarns are then inserted one by one at right angles, interlacing with the warp. These yarns are called wefts and they are tightly pressed against each other. A fabric is formed by the interweaving of warp threads with successive wefts. Vertical metal rods with an eye (heddles) are placed in the weaving frames. Each warp thread is passed through the eye of a heddle. By bringing a portion of the weaving frames up and the other portion down, a shed (opening) of warp threads is created through which the weft is inserted. The weft thread is bound by alternating the weaving frames. Each new weft is beat against the already formed fabric by a weaving reed. The reed is made up of fine iron strips (slats) that keep the warp threads mutually parallel. Modern weaving machines use air, rapier, projectile or water technology. The type of weaving machine and the technology used to weave the wefts depend on the fabric that one wants to weave. The Picanol Group manufactures airjet and rapier weaving machines.

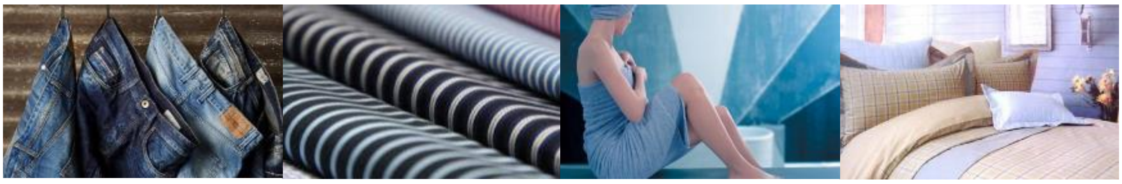
- **AIRJET WEAVING MACHINES**
  In the case of airjet weaving machines, the weft into the shed is propelled by a (compressed) airjet.

- **RAPIER WEAVING MACHINES**
  Rapier weaving machines have a rapier tape carrying a gripper on both sides. The left gripper takes the weft and guides it through the shed to the center of the fabric, where the right gripper takes over its task.

MARKET REVIEW

Picanol is active on the global market, both for rapier and for airjet technology. The high-tech Picanol weaving machines and supplementary products and services are sold through both its own branches and a network of agents worldwide. Picanol weaving machines are sold worldwide in more than 100 countries. Over 90% of all weaving machines go to customers located outside of Europe. Currently, some 2,600 weaving mills across the world are using Picanol machines, in total accounting for approximately 175,000 weaving machines. To date, Picanol has manufactured more than 360,000 weaving machines.

Picanol supplies **weaving machines for general textile applications**, such as denim (jeans), shirting fabric, terry cloth or household and interior textiles.



In addition, Picanol also supplies **weaving machines for niche applications** in technical textiles, such as airbags, medical textiles, parachutes or tire cord.

Due to a continued focus on achieving a maximum production rate and versatility in combination with a minimum consumption of raw materials and energy, Picanol has managed to build a solid market share in the apparel segment. Within the household segment, Picanol has established a strong position among weavers of interior textiles, especially with its OptiMax-*i* and GTMax-*i* weaving machines, as well as in sheeting, in which Picanol has already maintained a very good reputation since the OMNI series. Picanol's growing presence in the technical textiles segment offers attractive growth niches thanks to significant investments in the development of customized machines.

PRODUCTS & SERVICES

Rapier weaving machines

OptiMax-*i*
The latest rapier weaving machine for the higher segments and niche applications.

GT-Max/GTMax-*i*
Rapier weaving machine with universal application for the (upper) middle segment of the market.

TerryMax-*i*
Rapier weaving machine specially designed for the weaving of terry cloth, based on the OptiMax-*i* series.

Airjet weaving machines

OMNI*plus* Summum
The latest airjet weaving machine for the higher market segments.

OMNI*plus*-X
Airjet weaving machine for the upper middle segment of the market.

TERRY*plus* Summum
Airjet weaving machine specially designed for the weaving of terry cloth, based on the OMNI*plus* Summum series.

OMNI*plus* 800 TC
Airjet machine specially equipped for weaving tire cord, a technical fabric used for making vehicle tires.

Picanol also offers its customers upgrade kits and spare parts. In addition, it also brings a number of weaving accessories on the market such as reeds (Burcklé) and frames (GTP). The production of these accessories takes place in Belgium, France and Mexico under the brand names Burcklé and GTP.

PROFILE: INDUSTRIES DIVISION

The Industries Division comprises all companies that develop and produce industrial products for original equipment manufacturers and other segments.

PROFERRO

ACTIVITIES

Proferro comprises the foundry and the machining activities of the Picanol Group. Proferro offers engineered casting solutions for medium sized series (500 to 20,000 pieces) in a long-term partnership. Proferro aims to be the preferred partner for applications in which the customer focuses on modules and components with high added value.

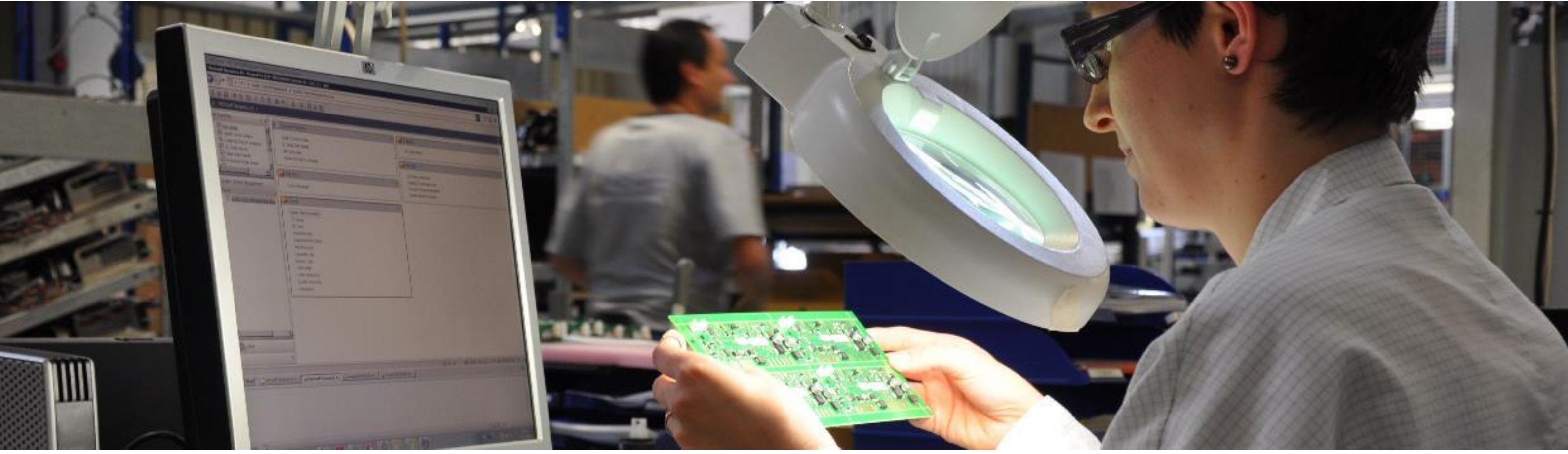
PRODUCTS & SERVICES

Proferro produces parts in grey lamellar and ductile cast iron ranging from 5 - 500 kg. When it comes to mechanical finishing, the group has various facilities both for prototyping and for series production using a very wide range of technologies including CNC machining, gear cutting, grinding and thermal treatment.

MARKET REVIEW

Proferro supplies original equipment manufacturers in various market segments worldwide such as agricultural machinery, earthmoving equipment, compressors, textile machinery and general engineering. By combining casting, mechanical finishing, assembly and co-design, it is able to successfully cater to the growing demand for larger, more technically complex core-intensive parts.



PSICONTROL

ACTIVITIES

With locations in Ypres (Belgium) and Rasnov (Romania), PsiControl concentrates on the design, development, production and support of custom-made controllers.

PRODUCTS & SERVICES

PsiControl offers custom solutions engineered around real-time controllers. By using its own platforms it is able to reduce development times and permit high-performance, cost-effective solutions. For this purpose, PsiControl has R&D and prototyping departments in Ypres and procurement, production and service activities in its branches in Ypres and Rasnov.

MARKET REVIEW

PsiControl concentrates mainly on industrial customers where reliability is crucial. It currently acts as a supplier to various sectors such as textile machinery, compressors, HVAC and fleet management.




MELOTTE

ACTIVITIES

Melotte in Zonhoven (Belgium) specializes in manufacturing parts with high-precision, complex shapes, in special materials and small numbers. Both classical methods (turning, milling, grinding and spark erosion) and modern 3D printing techniques are used during the production process. Melotte specializes in Selective Laser Melting (SLM) whereby metal powder is melted by a laser, thereby creating a part layer-by-layer. The classic processes combined with the modern 3D technologies and high-end finishing all under one roof make Melotte rather unique.

PRODUCTS & SERVICES

Melotte supports its customers from the concept phase and its engineers consider dialogue and cooperation to be an essential part of their job. For 3D processes, Melotte guarantees that it will introduce its customers to the vital methods required to create parts using the SLM technology. Melotte offers a wide range of materials, such as titanium, inconel, cobalt-chromium, tool steel, aluminum and others. Customers can also have their materials tested and validated by Melotte. The range is completed by related support services such as reverse engineering and modeling, laser scanning, 3D optical measurement and thermodynamic analysis.

MARKET REVIEW

Melotte supplies a highly diversified international market, including the petrochemical industry, the construction of specialist medical equipment, chemicals and pharmaceuticals. Thanks to the introduction of new production processes, Melotte is also tapping into new markets besides the existing customer segments, thereby primarily focusing on industrial customers requiring the manufacture of complex prototypes.

HUMAN RESOURCES

The Picanol Group's position as market leader and its technological leadership - in various areas with so many products - are due entirely to its members of personnel. The employees in the Picanol Group work together over a wide range of high-tech products and services, giving customers a lead over competitors and creating added value. At the end of 2016 the Picanol Group employed 2,192 people worldwide.

The Picanol Group is convinced that its employees make the difference and are crucial for the group's competitiveness. Its committed Human Resources policy is therefore designed to shape the Picanol Group into an organization in which all employees can develop themselves for the benefit of the Picanol Group and their personal skills.

ENVIRONMENT, HEALTH AND SAFETY

Care for the environment forms an essential part of the corporate policy. The Picanol Group systematically takes account of the environment in its operating processes and tries to minimize the impact of its activities on the environment by constantly paying close attention to, among other things, energy consumption and waste management.

The health and safety of employees is also of great concern to the Picanol Group and this includes such aspects as protection on the work floor, ergonomics and accident prevention. Numerous safety questions are examined and dealt with each year in collaboration with the Committee for Prevention and Protection at Work. One important part of the policy is the voluntary participation of many members of personnel, including first aiders, the internal firefighting team and the safety monitors who ensure that the necessary training courses are given on an annual basis in each department.

QUALITY & WORLD CLASS MANUFACTURING

Quality is a priority for all subsidiaries and employees worldwide. The group has a team of internal ISO 9001 auditors who form a crucial link in the quality process. Every year, various internal audits are carried out in order to continually fine-tune the quality system. In addition, the Picanol Group focuses worldwide on world class manufacturing (WCM). WCM means constantly striving to eliminate losses, with the involvement of all employees, so as to become a world class company. Currently, it focuses on the themes of cost development, continuous improvement, self-management, planned maintenance, total quality, training, health and safety and the environment. Various management audits are held on an annual basis with the management of the different departments that follow WCM. The Picanol Group also has a suggestion system that enables employees to put forward proposals for work-related improvements. In recent years, further steps have been taken in the implementation of self-managing teams within the Picanol Group.

REPORT BY THE BOARD OF DIRECTORS

LETTER TO THE SHAREHOLDERS

Dear Shareholder,

The Picanol Group can look back on the best year in its history and this took place in the same year that it celebrated its 80th anniversary.

In 2016, the Weaving Machines Division experienced a record breaking year. The growing demand for quality and technology created strong sales and an increased market share in many markets. This resulted in Picanol putting a record number of weaving machines on the market in 2016, thereby especially focusing on dealing with production peaks. The sale of parts and accessories followed the positive trend of the weaving machines.

The Industries Division also had a strong year and increased its contribution to the group result thanks to a higher turnover in various sectors. This allows the Picanol Group to achieve its strategic ambition to further diversify the activities of the group.

During 2016, Proferro once again strongly focused on its engineered casting solutions. The three pillar strategy of casting-finishing-assembly and the HWS molding line are increasingly valued by the market. This enabled Proferro to further expand its customer portfolio during 2016, both in casting and the finishing of the castings. On the other hand, Proferro was faced with a difficult economic situation in sectors such as agriculture.

At PsiControl, the strong growth of the Weaving Machines Division went hand in hand with an even stronger growth in external customers. PsiControl placed considerable emphasis on its custom-made controllers for medium-sized ranges and on its expertise in Electronic Manufacturing Services (EMS). This was reflected in a number of new customer projects in healthcare and industry.

<u>Results</u>
The Picanol Group realized a consolidated turnover of 639.78 million euros over the full 2016 financial year, which represented an increase in turnover of 20.8% compared to the 529.34 million euros recorded in 2015. This means that the Picanol Group outperformed its previous record year (a turnover of 559.98 million euros was recorded in 2013). The activities of Picanol Group led to a net profit of 88.38 million euros in 2016, as compared to 60.6 million euros in 2015. Furthermore, Tessenderlo Chemie nv made a positive contribution to the net profit of 31.34 million euros (as compared to 25.09 million euros in 2015). The group ended 2016 with a net profit of 119.73 million euros, as compared to 85.69 million euros in 2015. As such, Picanol Group recorded excellent results for the seventh successive year.

<u>Dividend</u>
The Board of Directors will propose the payment of a gross dividend of 0.1 euros per share (as was the case the previous year) at the annual general meeting on April 19, 2017, for a total amount of 1.77 million euros.

Milestones
During 2016, Picanol Group celebrated its eightieth anniversary. On Saturday 18 June 2016, this anniversary was celebrated with a festival for all employees and partners at our premises in Ypres. The 10th anniversary of PsiControl in Romania was also celebrated in 2016. Its subsidiary in Rasnov has grown strongly over the last few years, which means that the tandem with our plant in Ypres has resulted in an important advantage for PsiControl.

Outlook
For the first six months of 2017, the order book is well-filled. The Picanol Group expects a slight increase in turnover for the first half of 2017 compared to the first half of 2016, but is taking into account a limited impact of rising commodity prices.

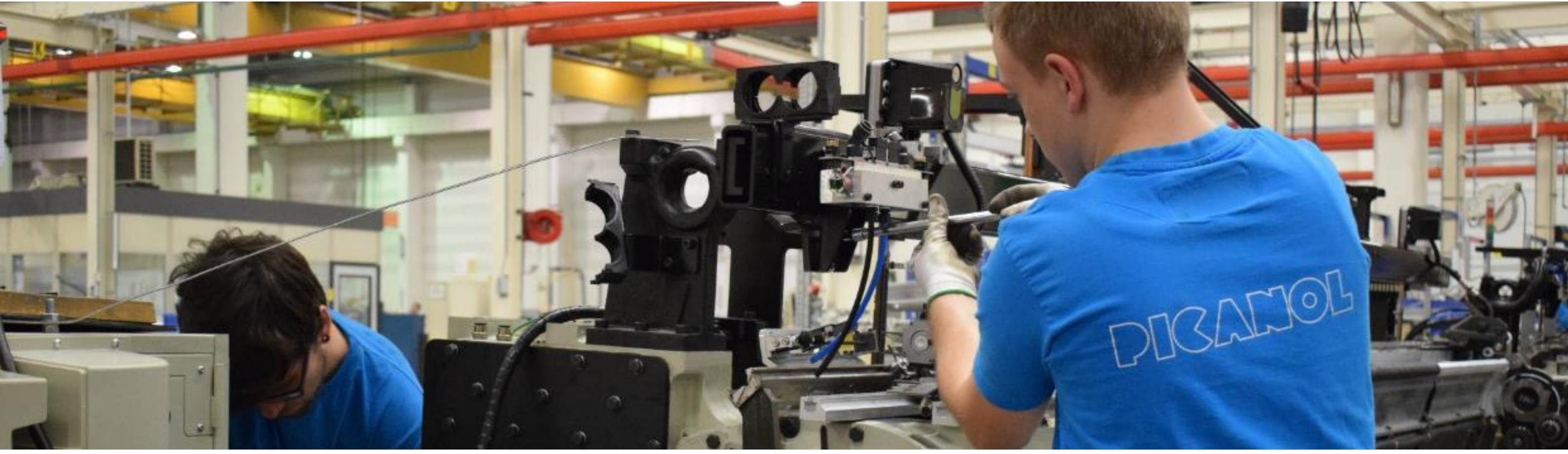
The Picanol Group remains cautious as it is active as an export-oriented company in a volatile world economy. Due to the cyclical nature of the textile market, strict cost-control remains of the essence. The contribution of Tessenderlo Group to the result considerably reduced Picanol Group's dependency on the cyclical textile market.

On behalf of the Board of Directors, we would like to thank everyone who contributed to the success of Picanol Group during 2016: Our employees for their loyalty and commitment, as well as our shareholders, customers and business partners for the trust that they have shown in our group.

Luc Tack
Managing director

Stefaan Haspeslagh
Chairman

Note: For some explanations on the financial statements of Picanol nv, please refer to page 74 of this annual report.



ACTIVITIES REPORT: WEAVING MACHINES DIVISION

WEAVING MACHINES

In 2016, the Weaving Machines Division experienced a record breaking year. The growing demand for quality and technology created strong sales – mainly in Asia and Europe – and an increased market share in many markets. This resulted in Picanol putting a record number of weaving machines on the market in 2016, thereby especially focusing on dealing with production peaks. The sale of parts and accessories followed the positive trend of the weaving machines.

In 2016, Picanol successfully participated in a number of international trade fairs to profile itself as the technological market leader in rapier and airjet weaving machines. This included a special focus on the new weaving machines that were launched in 2015 at ITMA Milan, such as the OptiMax-*i* and two weaving machines for terry cloth production (the TerryMax-*i* rapier and the TERRY*plus* Summum airjet weaving machines). In 2016, Picanol participated in the Dhaka International Textile & Garment Machinery Exhibition (Bangladesh), GTex Karachi and Igatex Lahore (Pakistan), IndoIntertex (Indonesia), ITM (Turkey), IFAI (US), Exintex (Mexico), ITMA-CITME (China) and ITME (India).

In 2016, the OptiMax rapier weaving machine was taken out of production and replaced by the OptiMax-*i*, which was launched in 2015 and is the fastest rapier weaving machine in the world that is series-produced.

In 2016, Picanol further invested in the renovation and modernization of its production facilities, including the upgrade of the automated warehouse and the logistics systems. In combination with further productivity and quality improvements, Picanol aims to enhance its competitiveness through these targeted investments in Ypres.

<u>Outlook</u>
During the first part of 2017, Picanol's order books have once again been filled thanks to the increasing need for quality and technology.

In 2017, Picanol will further develop its technological leadership through strengthening the product reach of its weaving machines and by offering applications for new market segments. The most important challenge in this area remains the enhancing of the (weaving) performance, the quality of the products and services and the cost competitiveness of the customer.

On the level of product development, sourcing and assembly, Picanol will also increase its efforts to further improve both productivity and process efficiency, in combination with a number of focused investments in, among other things, logistical systems.

For more detailed information on the financial results of the Weaving Machines Division, please refer to section III.5 of this annual report.

ACTIVITIES REPORT: INDUSTRIES DIVISION

The Industries Division also had a strong year thanks to the strong growth of the Weaving Machines Division and projects for customers in other sectors. Both Proferro and PsiControl were commercially successful with new customers and new orders from existing customers. On the other hand, Proferro was faced with a difficult economic situation in sectors such as agriculture.

Proferro

In 2016, Proferro once again strongly focused on its engineered casting solutions. The three pillar strategy of casting-finishing-assembly and the HWS molding line are increasingly valued by the market. This has allowed Proferro to expand its customer portfolio further in 2016, both in terms of casting and in the finishing of castings.

In 2016, Proferro further invested in the renovation and modernization of its technology and production facilities. Proferro invested, for instance, in various CNC machines in the finishing department, including a new fiber laser machine for the production of rapier components. This enables Proferro to offer the customer a total solution, from development to ready-to-assemble parts for other machine manufacturers. In 2016, Proferro launched in the foundry an internal training project named "Eureka" to increase technical process knowledge in the production environment. The year also saw Proferro working on Safety First, an internal safety campaign designed to manage risks and prevent incidents in Ypres.

PsiControl

At PsiControl, the strong growth of the Weaving Machines Division went hand in hand with an even stronger growth in external customers. PsiControl placed considerable emphasis on its custom-made controllers for medium-sized series and on its expertise in Electronic Manufacturing Services (EMS). This resulted in several new customer projects, including projects in the engineering industry and the healthcare sector. The strong growth and the technological evolution to more complex boards ensured that a record number of SMT components were installed at the production plants in Ypres and Rasnov. The 10th anniversary of PsiControl in Romania was also celebrated in 2016. The subsidiary in Rasnov has grown strongly over the past few years, which means that the tandem with our plant in Ypres has become a major asset for PsiControl. Since February 2016, PsiControl in Rasnov has also been certified according to the ISO13485 norm.

In 2016, PsiControl once again participated in several trade fairs to further roll out its SwipeStat platform. The SwipeStat platform combines swipe and touch technology with the expertise of PsiControl in controllers and user interfaces. SwipeStat was presented at MCE Milano (Italy) and COMPAMED (Germany). In 2016, PsiControl invested in, among other things, new 3D Automated Optical Inspection (AOI) systems, a new potting machine and an X-ray machine.

Melotte

Melotte was also able to realize a slight turnover increase in 2016, especially in the petrochemical industry. Furthermore, over the entire year, Melotte received orders from some highly technical instrument builders to manufacture very complex parts. The 3D SLM activities continued on their normal path. For the first time, parts were built in 3D in aluminum via a new SLM machine that was also used to print large items. In order to serve customers better and faster, the company invested in a laser welding system that could be used to carry out precise repairs to molds.

Outlook

Based on the outlook of the Weaving Machines Division, the Industries Division also aims at achieving further growth in 2017, although this will be differentiated across the various markets. For 2017, Proferro once again anticipates overcapacity in the European foundry sector and a weaker agricultural and mining sector, which will make it increasingly difficult to secure new projects. However, the outlook for PsiControl in the different customer segments is positive. At various trade fairs throughout 2017, PsiControl will be focusing on the deployment of the SwipeXL, an extension of the existing SwipeStat platform.

With different investment projects, the Industries Division will be focusing more on capacity, quality, safety and the continued improvement of its processes during 2017.

For more detailed information on the financial results of the Industries Division, please refer to section III.5 of this annual report.

CORPORATE GOVERNANCE DECLARATION

The Picanol Group applies the Belgian Corporate Governance code 2009 as the reference code. This section presents the application of this policy in 2016. In 2016, Picanol Group deviated from the provisions of the Belgian Corporate Governance Code on a number of points, which will be explained in more detail in this section.

For the general operations of the Board of Directors, the subcommittees of the Board of Directors and the management committee as far as they relate to corporate governance policy, readers are referred to the Corporate Governance Charter on the website www.picanolgroup.com.

I. BOARD OF DIRECTORS

I.1. Composition of the Board of Directors

		Appointed until the GM in
Stefaan Haspeslagh (1)	Chairman	2018
Luc Tack (1)	Managing director	2020
Patrick Steverlynck, *permanent representative of Pasma nv (3)*	Director	2020
Baron Hugo Vandamme, *permanent representative of HRV nv (2)*	Chairman of the nomination & remuneration committee Member of the audit committee	2020
Jean Pierre Dejaeghere, *permanent representative of nv Kantoor Torrimmo (2)*	Chairman of the audit committee Member of the nomination & remuneration committee	2019
Luc Van Nevel, *permanent representative of The Marble BVBA (2) – since 27/04/2016 **	Member of the audit committee Member of the nomination & remuneration committee	2020

(1) Executive director (2) Non-executive independent director (3) Non-executive director

* *Luc van Nevel was appointed as Frank Meysman's successor at the general meeting of 27 April 2016.*

Company secretary & compliance officer: Ms. Karen D'Hondt, Group Controller

The Board of Directors comprises six members, of whom the majority (four) are non-executive directors and half (three) are directors who are not employed by, or associated with, Picanol Group or its shareholders. As a result, the decision-making of the Board of Directors is not dominated by a group of directors and at least half of them are non-executive, which is in compliance with the Corporate Governance Code.

The Board of Directors has three independent directors, namely Hugo Vandamme (as the permanent representative of HRV nv), Jean Pierre Dejaeghere (as the permanent representative of Kantoor Torrimmo nv) and Luc Van Nevel (as the permanent representative of The Marble BVBA).

The three directors meet all of the criteria set out in Article 526ter of the Company Code, the Belgian Corporate Governance Code and the Corporate Governance Charter of the Picanol Group. One of these criteria is that a director may only be independent for a maximum period of 12 years, with a maximum of three reappointments. Since Picanol uses shorter appointment periods, Hugo Vandamme (as the permanent representative of HRV nv) has been reappointed four times, although he has served less than the maximum term of 12 years. From a technical point of view, he no longer complies with one of the sub-criteria set out in Article 526ter of the Company Code, the Belgian Corporate Governance Code and the Corporate Governance Charter of the Picanol Group. However, Hugo Vandamme (as the permanent representative of HRV nv) offers Picanol Group the expertise it needs as a B2B company of such an international scale and with such growth. For this reason and due to the fact that the majority of similar companies on the stock market apply a 12 year maximum (and adapt the duration of their mandates accordingly), the Picanol Group has decided to continue to take advantage of his added value as director. Since Hugo Vandamme will reach the maximum term of 12 years at the general meeting of 19 April 2017, the company will appoint a new, independent candidate.

Under the guidance of the Chairman, the directors assessed the operation of the Board of Directors and the collaboration with the management committee, in order to ensure that it functions efficiently.

As regards the inclusion of women in the Board of Directors, with the required competencies according to our Corporate Governance rules, the Picanol Group will comply with the statutory regulations and deadlines and will therefore undertake the necessary steps. As Picanol Group has a free float of less than 50%, one-third of the members of the Board of Directors must be female as from 1 January 2019 onwards.

I.2. Activities of the Board of Directors during the past financial year

The Board of Directors held nine meetings in 2016. On one occasion, Frank Meysman was unable to attend.
In 2016, the Board of Directors dealt with among others the following matters:
- The monthly reporting, the quarterly and half-year figures, the annual accounts, the annual report and the agenda for the general meetings
- The reports of the audit committee and the nomination & remuneration committee
- Transactions with related parties
- Investment and disinvestment projects
- Strategy and budget
- The proposed merger of Picanol Group's activities with Tessenderlo Chemie nv

I.3. Evaluation of the board

The Board of Directors, led by the Chairman, makes a three-yearly self-assessment to determine the efficient operating of the board and its committees. This evaluation has the following objectives:
- To assess the operation of the board
- To examine whether the topics are thoroughly prepared
- To assess the actual contribution, commitment and efficiency of each director
- To examine the current composition of the board in light of the desired composition
- To examine whether the composition of the Board of Directors fulfills the objective of assembling complementary skills in terms of competencies, experience and business knowledge

The nomination & remuneration committee receives notes from the directors and annually reports to the Board of Directors with an assessment of the operating of the board.

II. SUBCOMMITTEES OF THE BOARD OF DIRECTORS

II.1. Audit committee

Composition of the audit committee
The members of the audit committee are Hugo Vandamme (as the permanent representative of HRV nv), Jean Pierre Dejaeghere (as the permanent representative of nv Kantoor Torrimmo) and Luc Van Nevel (as the permanent representative of The Marble BVBA) (The Marble BVBA since 27/04/2016). They are all independent directors. Jean Pierre Dejaeghere was appointed as Chairman of the audit committee. In accordance with art. 526 bis of the Company Code, the Picanol Group declares that the Chairman of the audit committee, Jean Pierre Dejaeghere, has the necessary expert skills in accounting and auditing. Contrary to most Belgian listed companies, which have a reference shareholder, none of the three members of the audit committee are employed by or associated with Picanol Group or its shareholders.

Meetings of the audit committee
The committee held five meetings in 2016. On one occasion, Mr. Frank Meysman was unable to attend.

Special attention was paid to:
- The half-yearly and annual results, with the auditor's report
- The internal audit report
- Management letter of the auditor
- Procedures and risk evaluations

After each meeting the audit committee reported through its Chairman to the Board of Directors about the above-mentioned matters and gave its advice on decisions by the board.

Evaluation of the audit committee
The Chairman of the committee reports to the Board of Directors on a regular basis regarding the operation of the audit committee, which is checked against the Corporate Governance Charter and other relevant criteria approved by the Board of Directors.

II.2. Nomination & remuneration committee

Composition of the nomination & remuneration committee
The members of the nomination & remuneration committee are Hugo Vandamme (as the permanent representative of HRV nv), Mr. Jean Pierre Dejaeghere (as the permanent representative of nv Kantoor Torrimmo) and Luc Van Nevel (as the permanent representative of The Marble BVBA) (The Marble BVBA since 27/04/2016). Hugo Vandamme was appointed as Chairman of the nomination & remuneration committee. Contrary to most Belgian listed companies, which have a reference shareholder, none of the three members of the nomination & remuneration committee are employed by or associated with Picanol Group or its shareholders.

Meetings of the nomination & remuneration committee
The committee met two times during the report year with all members. in attendance. The following subjects were discussed, among others:
- Remuneration of the management committee and the executive directors
- Bonus plans
- Appointment of the directors

The Managing Director and Chairman were invited to this meeting, but did not participate in any negotiations regarding their own remuneration. The Chairman of the nomination & remuneration committee reported on these matters to the Board of Directors after the meetings and gave its advice with a view to decisions made by the board.

Evaluation of the nomination & remuneration committee
The Chairman of the committee reports to the Board of Directors on a regular basis regarding the operation of the nomination & remuneration committee, which is checked against the Corporate Governance Charter and other relevant criteria approved by the Board of Directors.

III. MANAGEMENT AND DAY-TO-DAY MANAGEMENT

The management committee is made up as follows:
- Luc Tack, Managing Director
- Findar BVBA, represented by Mr. Stefaan Haspeslagh, CFO
- Cathy Defoor, Vice-President Industries
- Geert Ostyn, Vice-President Weaving Machines
- Johan Verstraete, Vice-President Weaving Machines - Marketing, Sales & Services
- VOF Pretium Plus, represented by Philip De Bie, Vice-President Accessories & IT

The management committee meets on a weekly basis to determine the day-to-day management of the company. The management committee is not a board committee within the meaning of Art. 524bis W. Venn.

IV. REMUNERATION REPORT

IV.1. Procedure for the development of a remuneration policy and establishment of the remuneration levels for the Board of Directors and executive managers

The procedure for developing a remuneration policy and establishment of the remuneration levels for the members of the Board of Directors and the management committee is defined by the board at the proposal of the nomination & remuneration committee. At said proposal, the remunerations of the members of the executive management were approved by the Board of Directors insofar as they involved changes to the running contracts.

IV.2. Remuneration policy

The remuneration of non-executive directors comprises a fixed annual fee plus fees for attendance at committee and board meetings. The fixed remuneration is 15,000 euros per year and the attendance fee is 2,000 euros per attendance. The remuneration of the non-executive directors remained unchanged in 2016 compared to 2015. The remuneration of executive directors consists of a fixed fee only. Executive directors receive neither a variable remuneration nor performance awards in shares.
The Board of Directors will propose to the general meeting that the salary policy will be adjusted as follows from 1 January 2017:

- All directors will receive a fixed remuneration and an attendance fee for every meeting attended
- The Chairman will receive an additional fixed fee on top of this amount

The remuneration of the management committee consists of a fixed salary plus a variable fee based on company results. The variable fee lies between 25% (for on-target performance) to a maximum of 50% of the fixed fee. Based on the annual analysis, the nomination & remuneration committee may decide to deviate from this range. The management committee does not receive performance awards in shares. Currently, no recovery right has been determined through which the company may reclaim variable fees that have been awarded on the basis of inaccurate financial data.

We do not expect any material changes in the remuneration policy in the next two years.

IV.3. Remuneration of the directors

In euros		Fixed remuneration as director	Attendance fees (Board of Directors and committees)	Total 2016
Stefaan Haspeslagh	executive	60,000	-	60,000
Luc Tack	executive	25,000	-	25,000
Patrick Steverlynck, as representative of Pasma nv	non-executive	15,000	18,000	33,000
Hugo Vandamme, as representative of HRV nv	non-executive	15,000	18,000	33,000
Jean Pierre Dejaeghere, as representative of nv Kantoor Torrimmo	non-executive	15,000	18,000	33,000
Frank Meysman, as representative of M.O.S.T. BVBA (until 27/04/2016)	non-executive	3,750	10,000	13,750
Luc Van Nevel, as representative of The Marble BVBA (since 27/04/2016)	non-executive	7,500	6,000	13,500

IV.4. Evaluation criteria of the performance-based fees of the management committees

The management committee, with the exception of executive directors, receives a variable fee based on company results. The criteria for the 2016 variable fee are laid down in a contract and are based on:

- The group's performance (EBITDA): 65%
- Divisional and individual results: 35%

The criteria are established and evaluated annually, whereby the performance-related criteria are based on the group budget. The evaluation of the performance criteria is carried out by the Managing Director in consultation with the nomination & remuneration committee.

IV.5. Remuneration of the Managing Director

In euros	**2016**
Name	Luc Tack
Fixed remuneration	100,000
Variable remuneration	0
Total	**100,000**
Pension	0
Other benefits	0

Since 1 January 2015, the Managing Director has received a fixed remuneration as approved by the Board of Directors. The Managing Director does not receive long-term cash incentive plans.

IV.6. Remuneration of the other members of the executive management

In euros	**2016**
Fixed remuneration	964,849
Variable remuneration	366,205
Total	**1,331,054**
Pension	Fixed contributions: 63,000
Other benefits *	13,365

** Remuneration using car*

The level and structure of the remuneration of other members of the management committee seeks to enable the company to attract and motivate qualified managers. The remuneration is regularly checked to ensure that it corresponds with market trends.

The other members of the executive management do not receive long term cash incentive plans.

The members of the management committee do not receive directors' fees for the companies where they fulfill a director's position.

IV.7. Shares awarded to the management committee

Neither the Managing Director nor the members of the management committee are awarded shares or share options. No share option plans for the Managing Director or the other executive managers exist at present.

IV.8. Termination compensation

No termination fees exist for the Managing Director or the other executive managers. A notice period of twelve to eighteen months applies for the other executive managers.

IV.9. Deviation

At the general meeting of shareholders on 27 April 2016, the shareholders gave their approval to the Board of Directors to deviate from the Corporate Governance stipulations in relation to the distribution of bonuses in time. The bonuses of the other members of the executive management were therefore paid out in one sum. This will be put forward for approval again at the general meeting in 2017.

V. AUDITOR'S REMUNERATION

The auditor received an amount of 156,515 euros for the performance of his audit task in 2016. In the course of 2016, the auditor and the auditor related parties invoiced 56,416 euros, especially in the framework of the intended contribution of Picanol's activities in Tessenderlo. All other assignments except auditors' assignments were submitted to the audit committee for approval.

VI. RISK MANAGEMENT & INTERNAL CONTROL

The Picanol Group internal control system aims at safeguarding:

- The achievement of the company goals
- The reliability of the company's financial and non-financial information
- The compliance with the rules and regulations

Internal control is built on five pillars: The control environment, risk analysis and control activities, information and communication and, finally, supervision and corrective action.

VI.1. Control environment

Organization of internal control:

The audit committee is charged with monitoring the efficacy of the internal control and risk management systems. The responsibilities of the audit committee as regards financial reporting, internal control and risk management are detailed in the Corporate Governance Charter (this is available on the website www.picanolgroup.com).

The audit committee also supervises the activities of the internal auditor. The latter prepares an annual planning based on a risk analysis and carries out specific audit assignments at the request of the management committee or the Board of Directors. He reports his findings and recommendations directly to the audit committee. Management information control is the competence of the controlling team. The compliance function is performed by the corporate secretary.

For each position, the company has defined a clear competence framework as well as distinct management responsibilities.

Company ethics:

The company has defined a Corporate Governance Charter and a code of good practice.

VI.2. Risk analysis

Picanol performs regular analyses of the risks involved in its activities. In 2015, the risk analysis was reassessed. All of the key employees were asked to review their risk assessment and the evolution of several risk factors was determined. An assessment of the risks according to their impact and company vulnerability subsequently resulted in action plans that were evaluated in 2016 and updated by the management committee and the audit committee.

This analysis ultimately led to the identification of risks and definition of measures described below:

Risks associated with the company's activities

The company faces heavy competition and is subject to technological developments, and this will remain the case in the future. If the company fails to keep up with these technological developments, this could limit the market opportunities for its products or potential products, with a negative impact on its operating and financial results. The market for Picanol's products is highly competitive. Competitors include established companies with possibly greater financial, R&D, sales, marketing and personnel resources than Picanol, and which may also have more experience in developing, producing, marketing and supporting new technologies and products. The fields in which the company operates are characterized by technological development and innovations. There can be no guarantee that competitors are not already developing technologies and products that are just as efficient and/or as cheap – or even more so – than anything the company has now or may develop in the future. Competing products may be accepted more readily by the market than the company's own products and technological progress by competitors may lead to the company's products becoming either uncompetitive or obsolescent before the company is able to recover its R&D and marketing costs. If the company is not able to compete effectively then its activities may suffer considerably.

Picanol may not be able to protect its intellectual property rights

The company's future success depends to a large extent on its ability to protect its existing and future brands and products, and similarly to protect its intellectual property rights, including trademarks, patents, domain names, trade secrets and know-how. Picanol has managed to register various trademarks and patents to cover its brands and products, and it has applied to register other trademarks and patents to cover its newly developed brands and products, and expects to apply for further brand names and patents in the future. However, Picanol cannot be certain of obtaining registration of the trademarks and patents for which it has applied. There is also the risk of Picanol failing to renew a trademark or patent in time, or competitors being able to invalidate or circumvent any existing or future trademarks or patents granted to Picanol or licensed by it. Picanol cannot be certain that the steps taken by it to protect its portfolio of intellectual property rights (including trademark registrations and domain names) will be sufficient, or that third parties will not violate these property rights or illegally appropriate them. Furthermore, some countries in which Picanol operates offer less protection for intellectual property rights than in Europe. If Picanol is unable to protect its property rights against violation or misappropriation, this could have a significant negative impact on its activities, operating results, cash flows or financial situation, and in particular Picanol's ability to further develop its activities.

Picanol's operating results are influenced by exchange rate fluctuations

In 2016, Picanol earned the majority of its income from countries that use currency other than the euro. The competitors of Picanol also use a different currency than the euro. In addition, since Picanol presents its consolidated results in euros, any fluctuation in the exchange rates between the operating currencies of its subsidiaries and the euro has an impact on its consolidated income statement and balance sheet when the results of these operating companies are converted into euros for reporting purposes. In addition to the exchange rate risk, Picanol is exposed to currency transaction risks whenever one of its operating companies carries out transactions in a currency other than its own operating currency; this includes sale and purchase operations, as well as the issuing or creation of debt. In particular, part of Picanol's operating costs (including raw materials costs) are expressed in or linked to the US dollar. Falls in the value of the operating currencies used by Picanol's operating companies against the currencies in which their costs and expenditure are expressed generally result in higher costs and expenditures for these operating companies and have a negative effect on their operating margins. The company manages a portfolio of derivatives in order to hedge against exchange rate-related risks arising from operational and financial activities. Currency risks are hedged to the extent that they affect the company's cash flows. However, the company cannot guarantee that this policy will offer effective cover against the effects of exchange rates, especially in the longer term. Risks arising from the translation of the assets and obligations of foreign activities into the company's reporting currency are not hedged against.

Risks associated with dependency on particular customers

Picanol does not have any customers that account for more than 5% of its turnover and is therefore not exposed to specific customer risk. Moreover, the activity of Picanol mainly concerns investment goods, which has resulted in a highly diversified customer portfolio over the years.

Risks associated with the state of the economy and business cycles

Picanol mainly operates in the weaving machine sector, offering products used for the production activities of companies in the textile industry. Accordingly, the company's future results are strongly dependent on developments in the textile industry. Unexpected changes in the economic climate, the investment cycles of customers, significant developments in the field of technology and its acceptance by the market can all have an influence on this industry, and consequently on the company's results. Even though important growth was realized in 2015 and 2016, Picanol could not exclude the fact that the demand for weaving machines may once again reduce on a global level.

Picanol is exposed to risks associated with growth economies

A substantial part of the activities of Picanol, which represented approximately 76% of sales in 2016, can be attributed to emerging markets such as Brazil, China, India, Indonesia, Pakistan, Turkey and other emerging South American and Asian markets. Picanol's activities in these markets are subject to the usual risks associated with doing business in developing economies, such as political and economic uncertainties, currency controls, nationalization or expropriation, crime and disorder, political unrest, external intervention, exchange rate fluctuations and shifts in government policy. Such factors can influence Picanol's results by disrupting its activities or raising its operating costs in these countries, or by limiting Picanol's ability to repatriate its profits. The financial risks in growth economies also include risks associated with liquidity, inflation, devaluation, price volatility, non-convertibility of currency and failure to meet payment obligations. These various factors can negatively impact Picanol's activities, operating results and financial situation. As a result of Picanol's specific exposure, these factors may influence its position more than that of competitors with lower exposure to developing economies, and any dip in the growth economies as a whole may have a relatively greater impact on Picanol than on its competitors.

Picanol may not be able to attract or retain personnel for key positions

To develop, support and sell its products Picanol must be able to attract and retain skilled employees with specialist know-how. Picanol's strategy could be undermined by the company's inability to attract or retain employees in key positions, or by the unexpected loss of experienced employees. Picanol's success also depends on its ability to maintain good relations with its members of personnel. A significant majority of Picanol employees in a number of its activities are members of labor unions. Walkouts or strikes – which tend to occur during the renegotiation of collective labor agreements – could impair Picanol's ability to carry out its activities. No guarantees can be given against an increase in labor costs negatively impacting Picanol's activities, operating results or financial results.

Picanol's activities are also subject to environmental regulations, the compliance with which could bring substantial costs and could also lead to disputes in environmental matters

The Picanol activities are subject to the environmental regulations of national, federal and local authorities, which in some cases may even impose no-fault liability. Consequent liability on the part of Picanol could negatively impact its activities. The environmental regulations in the markets where Picanol operates are becoming ever stricter, with a growing emphasis on compliance. Although Picanol has set aside a budget for compliance with environmental legislation in its future capital expenditure and operating expenditure, no guarantees can be given against Picanol incurring significant environmental liability or against the relevant environmental legislation or regulations changing or becoming even stricter in the future.

Picanol's insurance cover may not be sufficient

The cost of some of Picanol's insurance policies may increase in the future. Furthermore, certain types of loss, such as losses due to war, terrorist attacks or natural disasters are usually not insured as insurance to cover them is either unobtainable or economically unfeasible. Indeed, insurance companies are increasingly unwilling to cover these types of events. If an uninsured loss occurs, or if the amount of the loss is greater than the cover, this may negatively impact the activities, operating results and financial situation of Picanol.

The company depends on outsourcing arrangements

The company depends on outsourcing arrangements for certain activities, mainly in IT. Although the company always strives to contract out its activities only to reputable companies with the relevant specialist experience, it has no or only limited control over such third parties, and so cannot guarantee that they will meet their obligations in full and in good time. Should such third parties fail to meet their obligations, this could have a significant negative impact on Picanol's activities.

Picanol may not be able to obtain the necessary financing to meet its future capital and refinancing requirements

Picanol may be obliged to raise additional financing to meet its future capital needs or to refinance its present debt burden, by means of public or private financing, strategic relationships or other agreements. There is no guarantee that the financing – should it be necessary – will be available on attractive terms or even available at all. Furthermore, any debt financing – if available – may result in restrictive conditions being imposed. Should Picanol be unable to carry out a capital increase or to finance its debt whenever necessary, this could negatively impact its activities, operating results and financial situation.

Risks involved in supplying products and services

The solutions offered by Picanol incorporate various products (hardware and/or software), technologies and services (hardware and/or software) which may contain hidden production defects. Since these products, technologies and services represent substantial investments and changes to operating activities on the part of customers, any serious defects or faults could damage the company's reputation. Furthermore, the company might be required to carry out expensive, time-consuming repairs. Product defects or malfunctions could also lead to losses being suffered by customers, in which case the customers could demand compensation from Picanol. Defending against such claims could be time-consuming and expensive, and generate adverse publicity, causing the company to lose customers. Although the company’s sales & service agreements generally contain clauses intended to limit its exposure to product liability claims, certain laws or unfavorable court decisions could impair the effectiveness of such liability limitation. The company has product liability insurance which it considers to be commensurate with practice in the industry, but it cannot guarantee that its present coverage is sufficient to meet potential product liability claims against it, or that it will be able to obtain or maintain sufficient insurance at acceptable conditions in the future. The company does not currently have any outstanding substantial claims against it for the supply of goods and services. During the past 3 years no claims were made at the expense of the company.

Risks associated with suppliers

Picanol’s products are made up of materials and components from various suppliers. To be able to produce, sell and deliver its products, Picanol has to rely on correct and timely delivery by third parties. Should the company's suppliers fail to supply correctly, in time or indeed at all, this could lead to Picanol's deliveries in turn being delayed or incomplete, which could result in lower turnover. For some key components Picanol is dependent on a single supplier, but in all such cases the supplier is an established company that can be relied upon not to stop production of the products concerned or to make changes to its product range. The company has fully charted all of these key components and evaluated their criticality. For the most critical of these, it tries to line up a second supplier, so as to limit the company’s dependence on suppliers. Although the company has identified alternative suppliers, there is no guarantee against these suppliers stopping production of the products concerned or making changes to their product range, or against Picanol being able to obtain alternative products at acceptable conditions. The group is dependent on its three largest suppliers for 15% of its turnover.

Risks associated with exposure to credit risks on trade accounts receivable

Picanol is exposed to credit risks on trade accounts receivable from certain co-contractors. Should one of the present or future large co-contractors not be able to meet its trade debts, then the company could suffer losses as a result. There is no certainty of the company being able to limit its potential losses of income from customers who are not able to pay in time.

Risks associated with disputes, court cases and/or other procedures

The company is involved in several ongoing disputes.

These relate to the execution of a sales contract, the termination of an agent contract and product guarantee warrantees. A more detailed explanation on the provisions made for these disputes can be found in section III.7.14. of this annual report.

VI.3. Control activities

An important factor in control activities is the annual budgeting process that involves a check of the company's strategy, risk factors, business plans and targeted results. The realization of set targets is being monitored by the controlling team on a monthly basis and is thoroughly discussed with the individual business units during dashboard meetings.

Operational risks are safeguarded through periodic audits carried out by an Internal Auditor, who also monitors compliance with processes and procedures. Special attention is given to the security of IT systems, segregation of duties, clear job descriptions for all employees and the existence of distinct procedures and guidelines.

VI.4. Information & communication

In order to provide reliable financial information, Picanol uses a globally standardized reporting structure as well as globally applied IFRS valuation rules (which are published in the annual report). The controlling team is responsible for checking the coherence of the reported figures submitted by the subsidiary firms. The information system for financial data management is backed up on a daily basis and access to the system is limited.

VI.5. Supervision and control

Supervising authority is vested in the Board of Directors and executed through the audit committee via control of the quarterly reports, validation of the internal audit program and evaluation of the risk factors and related action plans.

VII. SHAREHOLDER STRUCTURE AND AGREEMENTS, CERTIFICATE HOLDER AGREEMENTS

	2016		2015	
HOLDERS OF VOTING RIGHTS	**NUMBER OF VOTES**	**% OF VOTES**	**NUMBER OF VOTES**	**% OF VOTES**
Artela nv	11,480,246	64.86%	11,480,246	64.86%
Symphony Mills nv	4,332,134	24.48%	4,269,597	24.12%
Other registered shares	1,324	0.01%	63,861	0.36%
Free float	1,886,296	10.66%	1,886,296	10.66%
TOTAL	**17,700,000**	**100.00%**	**17,700,000**	**100.00%**

Luc Tack controls Symphony Mills nv and Artela nv.

VIII. INSIDER TRADING AND MARKET RIGGING

The Trading Regulations lay down the conditions under which shares in the company can be acquired or disposed of by directors and key employees, in compliance with the relevant legislation. The Trading Regulations are explained in the Corporate Governance Charter that is available on the website www.picanolgroup.com.

IX. a. APPLICATION OF ART. 523 OF THE COMPANY CODE

Extract from the board minutes of 26 April 2016:

[…]

Conflict of interest:

Statement regarding Luc Tack:

Luc Tack informed the board, in accordance with article 523 Belgian Companies Code (BCC), that he might have a potential conflict of interest regarding the fourth point on the agenda where the board was to decide on the acquisition of additional shares in Tessenderlo Chemie. This potential conflict of interest derived from the fact that Luc Tack is the controlling shareholder of Symphony Mills nv, which in turn is a shareholder of both Picanol nv as well as Tessenderlo Chemie. Even though the personal interest of Luc Tack and the interest of Picanol Group as a shareholder of Tessenderlo Chemie nv were the same, Luc Tack decided to avoid any suggestion of conflict of interest and to apply the procedure provided in Art. 523. Luc Tack then also declared that he would not participate in (and would leave the meeting during) the decision regarding the fourth point on the agenda of this meeting of the Board of Directors. Luc Tack requested that the auditor of Picanol nv was informed about this potential conflict of interest. Prior to progressing to the deliberations and decision in relation to this point on the agenda, Luc Tack left the meeting.

Deliberations and decisions:
The remaining directors discussed the fact that there could be possible opportunities in the coming months to purchase additional Tessenderlo shares and to gradually increase the interest in Tessenderlo this way. The directors considered three recent analyst reports with respect to Tessenderlo Chemie from ABN Amro, ING and Degroof-Petercam. The directors also noted that the cash resources of Picanol Group amounted to 104 million euros. The directors ruled that the increase of the participation in Tessenderlo Chemie was in the interest of Picanol. The Board of Directors gave special authorization to Luc Tack and Stefaan Haspeslagh, jointly or independently, to acquire an amount of 60 million euros of additional shares over a period of 24 months, either through the placement of direct orders on the stock market or by granting a discretionary mandate by the company to an asset manager and/or bank.

Extract from the board minutes of 25 October 2016:
[…]
Conflict of interest:
Statement regarding Luc Tack:
Luc Tack informed the board, in accordance with article 523 Belgian Companies Code (BCC), that he might have a potential conflict of interest regarding the decision on the acquisition of additional shares in Tessenderlo Chemie. This potential conflict of interest derived from the fact that Luc Tack is the controlling shareholder of Symphony Mills nv, which in turn is a shareholder of both Picanol nv as well as Tessenderlo Chemie. Even though the personal interest of Luc Tack and the interest of Picanol Group as a shareholder of Tessenderlo Chemie nv were the same, Luc Tack decided to avoid any suggestion of conflict of interest and to apply the procedure provided in Art. 523. Luc Tack then also declared that he would not participate in (and would leave the meeting during) the decision. Luc Tack requested that the auditor of Picanol nv was informed about this potential conflict of interest. Prior to progressing to the deliberations and decision, Luc Tack left the meeting.
Deliberations and decisions:
Stefaan Haspeslagh explained that within the mandate of the 60 million euros awarded by the Board of Directors during the meeting of 26 April 2016, 25.5 million euros of shares had been bought up to that point at an average price of 29.3 euros. In order to be able to utilize possible opportunities offered in the future, the Chairman requested a new mandate, once again for 60 million euros, which would replace the current mandate. The directors also noted that the cash resources of Picanol Group currently amounted to 92 million euros. The directors ruled that the increase of the participation in Tessenderlo Chemie was in the interest of Picanol. The Board of Directors gave special authorization to Luc Tack and Stefaan Haspeslagh, jointly or independently, to acquire an amount of 60 million euros of additional shares.

Extract from the board minutes of 13 December 2016:
[…]
Conflict of interest:
Statement regarding Luc Tack:
Luc Tack informed the board, in accordance with article 523 Belgian Companies Code (BCC), that he might have a potential conflict of interest regarding the decision on the acquisition of additional shares in Tessenderlo Chemie. This potential conflict of interest derived from the fact that Luc Tack is the controlling shareholder of Symphony Mills nv, which in turn is a shareholder of both Picanol nv as well as Tessenderlo Chemie. Even though the personal interest of Luc Tack and the interest of Picanol Group as a shareholder of Tessenderlo Chemie nv were the same, Luc Tack decided to avoid any suggestion of conflict of interest and to apply the procedure provided in Art. 523. Luc Tack then also declared that he would not participate in (and would leave the meeting during) the decision. Luc Tack requested that the auditor of Picanol nv was informed about this potential conflict of interest. Prior to progressing to the deliberations and decision, Luc Tack left the meeting.
Deliberations and decisions:
Stefaan Haspeslagh explained that within the mandate of the 60 million euros awarded by the Board of Directors during the meeting of 25 October 2016, 37.0 million euros of shares had been bought up to that point at an average price of 29.3 euros. In order to be able to utilize possible opportunities offered in the future, the Chairman requested a new mandate, once again for 60 million euros, which would replace the current mandate. The directors asked that it be ensured that the cash resources of the group would at all times comply with the minimum cash reserve. The directors ruled that the increase of the participation in Tessenderlo Chemie was in the interest of Picanol. The Board of Directors gave special

authorization to Luc Tack and Stefaan Haspeslagh, jointly or independently, to acquire an amount of 60 million euros of additional shares.

X. INFORMATION REQUIRED UNDER ARTICLE 34 OF THE ROYAL DECREE OF 14 NOVEMBER 2007

Article 34 of the Royal Decree of 14 November 2007 requires Picanol nv to provide an explanation on certain elements in the annual report, insofar as they have consequences in the event of a public takeover bid. The main provisions are summarized below:

- There are no holders of securities with special control rights.
- There are no statutory restrictions on the exercise of voting rights.
- In the event of a public takeover bid on the securities of the company, the Board of Directors is expressly authorized to increase the share capital under the conditions specified in Article 607 of the Companies Code, after the company was notified by the Financial Services and Markets Authority (FSMA) of a public takeover bid for securities of the company. This authorization is granted for a period of three (3) years from the date of the extraordinary general meeting of the fifteenth of April two thousand and fifteen, on which the authorization was granted.
- The company is managed by a board of at least six directors - members or not - who are appointed by the general meeting. The mandate of a director may be revoked at any time. If a directorship becomes vacant as a result of death, resignation or any other reason, the remaining directors may tentatively fill a vacancy in a general council. In that situation, the general assembly will proceed to the final appointment at its next meeting.
- In compliance with the laws concerning attendance and majority, the general meeting may amend the articles of association.
- The company may, without the prior authorization of the general meeting, according to article 620 etc. of the Company Code and within the boundaries outlined in the aforementioned article 620 of the Company code, acquire its own shares via the stock exchange or outside the stock exchange, at a unit price that will comply with the legal provisions, but that may not be lower than ten per cent (10%) of the lowest closing rate of the last twenty (20) trading days before the transaction and not higher than ten per cent (10%) of the highest closing rate of the last twenty (20) trading days before the transaction.

XI. DECLARATION CONCERNING THE INFORMATION GIVEN IN THIS ANNUAL REPORT FOR THE 12 MONTHS ENDING ON 31 DECEMBER 2016

The undersigned declare that:

- The yearly accounts drawn up as per the standards applying to annual accounts give a true picture of the assets, the financial situation and the results of Picanol nv and of the enterprises included in the consolidation;
- The report gives a true picture of the results, developments and position of Picanol nv and of the enterprises included in the consolidation, along with a true description of the main risks and uncertainties facing them.

Luc Tack, Managing Director
Stefaan Haspeslagh, Chairman of the Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS

I. DEFINITIONS

Associated companies	Companies in which Picanol has a significant influence and which are accounted for under the equity method.
Shareholders' equity	Shareholders' equity, including minority interests, for the calculation of ratios.
Joint ventures	Entities under joint control and which are proportionally consolidated.
EBIT	Operating result.
EBITDA	EBIT + depreciation and impairment of assets + adjustments of write-offs on inventories and trade receivables + adjustments of other provisions.
Subsidiaries	Entities under the control of Picanol and which are fully consolidated.
Working capital	+ Non-current receivables + Inventories and contracts in progress + Trade receivables + Other receivables - Trade payables - Other current liabilities
Gross margin	Sales – cost of sales.
Export finance	Bank loans to refinance credit granted to our customers, secured by bills of exchange accepted by our customers.

II. FINANCIAL STATEMENTS

The consolidated financial statements were approved for publication by the Board of Directors on 28 February 2017.

II.1. CONSOLIDATED INCOME STATEMENT

(in '000 euros)	**NOTES ***	**2016**	**2015**
Sales	III.5.	639,778	529,344
Cost of sales		-481,378	-412,295
GROSS PROFIT		**158,400**	**117,049**
Gross profit % on sales		***25%***	***22%***
General and administrative expenses		-18,502	-15,802
Selling and marketing expenses		-18,798	-17,621
Other operating income	III.6.1.	381	113
Other operating expenses	III.6.1.	-500	-162
OPERATING RESULT	**III.6.2.**	**120,981**	**83,578**
Total interest income	III.6.3.	2,785	2,802
Total interest expenses	III.6.3.	-1,734	-1,540
Other financial income	III.6.3.	446	730
Other financial expenses	III.6.3.	-714	-888
RESULT BEFORE TAXES		**121,765**	**84,682**
Income taxes	III.6.4.	-33,381	-24,080
RESULT AFTER TAXES (CONSOLIDATED COMPANIES)		**88,383**	**60,603**
Share in the results of associated companies	III.7.5	31,342	25,089
PROFIT (LOSS) OF THE PERIOD		**119,725**	**85,692**
SHARE OF THE GROUP IN PROFIT (LOSS)		**119,725**	**85,692**

** The accompanying notes form an integral part of this income statement.*

EARNINGS PER SHARE

(in '000 euros)	**NOTES**	**2016**	**2015**
Basic earnings per share	III.6.6.	6.76	4.84
Diluted earnings per share	III.6.6.	6.76	4.84

CONSOLIDATED INCOME STATEMENT

(in '000 euros)	**2016**	**2015**
SHARE OF THE GROUP IN PROFIT OR LOSS	**119,725**	**85,692**
Items that will not be subsequently transferred to profit and loss:	**-5,288**	**3,689**
Actuarial gains/(losses)		
Actuarial gains/(losses) at associated companies	-5,288	3,689
Items that will subsequently be transferred to profit and loss if specific conditions are met:	**-572**	**-4,705**
Exchange rate differences as a result of the conversion of foreign operations	-1,099	2,832
Exchange rate differences as a result of the conversion of foreign operations at associated companies	872	-7,465
Share of other comprehensive income of associated companies	-345	-72
Total other comprehensive income after taxes	**-5,860**	**-1,016**
TOTAL RESULT	**113,865**	**84,676**

II.2. CONSOLIDATED BALANCE SHEET

(in '000 euros)	NOTES *	2016	2015
FIXED ASSETS		**458,205**	**371,361**
Intangible assets	III.7.1.	1,041	1,659
Goodwill	III.7.2.	0	0
Tangible fixed assets	III.7.3.	58,950	60,163
Participation in associated companies	III.7.5.	397,196	308,101
Other financial investments	III.7.5.	44	44
Non-current receivables	III.7.6.	311	617
Deferred tax assets	III.7.7.	663	777
CURRENT ASSETS		**220,299**	**193,529**
Inventories and contracts in progress	III.7.8.	60,253	53,063
Trade receivables	III.7.9.	55,389	49,220
Other receivables	III.7.9.	23,372	13,895
Cash and cash equivalents	III.7.10.	81,285	77,351
TOTAL ASSETS		**678,504**	**564,890**
SHAREHOLDERS' EQUITY	**II.4.**	**531,344**	**419,249**
Equity attributable to the shareholders of the group		**531,344**	**419,249**
Share capital	III.7.11.	21,720	21,720
Share premiums	III.7.12.	1,518	1,518
Reserves		498,842	385,648
Translation differences		9,264	10,363
Minority interests		**0**	**0**
NON-CURRENT LIABILITIES		**12,132**	**15,099**
Employee benefit obligations	III.7.13.	5,128	5,888
Provisions	III.7.14.	118	109
Deferred tax liabilities	III.7.7.	6,886	9,102
Interest-bearing debt	III.7.15.	0	0
Other liabilities		0	0
CURRENT LIABILITIES		**135,028**	**130,542**
Employee benefit obligations	III.7.13.	1,362	1,362
Provisions	III.7.14.	7,113	6,651
Interest-bearing debt	III.7.15.	1,942	5,165
Trade payables	III.7.17.	75,499	63,666
Income taxes payable	III.7.17.	3,893	2,208
Other current liabilities	III.7.17.	45,219	51,490
TOTAL LIABILITIES		**678,504**	**564,890**

** The accompanying notes form an integral part of this balance.*

II.3. CONSOLIDATED CASH FLOW STATEMENT

(in '000 euros)	NOTES	2016	2015
Operating result		**120,981**	**83,578**
Depreciation on intangible and tangible fixed assets	III.7.1, III.7.3	8,963	8,527
Impairment of assets		61	287
Write-offs on current assets		-783	77
Changes in provisions	III.7.13, III.7.14	-289	-3,933
Profit/(loss) on the disposal of fixed assets		0	0
Gross cash flow from operating activities		**128,933**	**88,536**
Changes in working capital *		-16,185	19,111
Paid income taxes		-33,810	-23,574
Interest received		2,785	2,802
Net cash flow from operating activities		**81,723**	**86,875**
Investment in an associated company		-62,513	-23,117
Acquisitions of intangible fixed assets	III.7.1.	-380	-191
Acquisitions of tangible fixed assets	III.7.3.	-7,076	-7,918
Net cash flow from investment activities		**-69,969**	**-31,226**
Interest paid		-1,734	-1,540
Dividends paid		-1,770	-1,770
Increase/(decrease) of export financing		-1,640	1,517
Increase of interest-bearing financial debt		0	500
Repayments of interest-bearing financial debt		-1,583	-8,492
Cash flow from finance activities		**-6,727**	**-9,784**
Effect of exchange rate fluctuations		-1,093	1,977
Adjustments to cash and cash equivalents		**3,934**	**47,842**
Net cash position – opening balance		77,351	29,509
Net cash position – closing balance		81,285	77,351
		3,934	**47,842**

** Changes in the working capital: working capital current period – working capital previous period – write-offs on current assets*

II.4. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Per 31 Dec 2016

(in '000 euros)	Share capital	Share premiums	Reserves	Translation differences	Total before minority interests	Minority interests	Total after minority interests
At the end of the preceding period	**21,720**	**1,518**	**385,648**	**10,363**	**419,249**	**0**	**419,249**
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	119,725	0	119,725	0	119,725
Translation differences	0	0	0	-1,099	-1,099	0	-1,099
Actuarial gains (losses)			0	0	0		0
Share of other comprehensive income of associated companies			-4,761		-4,761		-4,761
Total recognized profits and losses	**0**	**0**	**114,964**	**-1,099**	**113,865**	**0**	**113,865**
Dividends	**0**	**0**	**-1,770**	**0**	**-1,770**	**0**	**-1,770**
At the end of the reporting period	**21,720**	**1,518**	**498,842**	**9,264**	**531,344**	**0**	**531,344**

Per 31 Dec 2015

(in '000 euros)	Share capital	Share premiums	Reserves	Translation differences	Total before minority interests	Minority interests	Total after minority interests
At the end of the preceding period	**21,720**	**1,518**	**305,574**	**7,531**	**336,344**	**0**	**336,343**
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	85,692	0	85,692	0	85,692
Translation differences	0	0	0	2,832	2,832	0	2,832
Actuarial gains (losses)							
Share of other comprehensive income of associated companies			-3,848		-3,848		-3,848
Total recognized profits and losses	**0**	**0**	**81,844**	**2,832**	**84,676**	**0**	**84,676**
Dividends	**0**	**0**	**-1,770**	**0**	**-1,770**	**0**	**-1,770**
At the end of the reporting period	**21,720**	**1,518**	**385,648**	**10,363**	**419,249**	**0**	**419,249**

The negative impact of the translation differences is due to the depreciation of most of the functional currencies of the subsidiaries against the euro during the financial year. The other comprehensive income of associates mainly concerns actuarial losses.

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2016

III.1. SUMMARY OF THE VALUATION RULES

STATEMENT OF COMPLIANCE – PRINCIPLES FOR THE COMPILATION OF THE FINANCIAL STATEMENTS

Since 1 January 2005, the consolidated financial statements of the Picanol Group have been compiled in accordance with the International Financial Reporting Standards (IFRS), as drawn up by the International Accounting Standards Board (IASB) and approved by the European Union.

III.1.2. GENERAL PRINCIPLES

Basis of presentation
The consolidated financial statements are expressed in thousands of euros. They have been compiled on the basis of the historical cost convention.

The application of the above-mentioned standards has an impact on the presentation of the financial statements in terms of the accounting principles, but has not led to any significant changes.

The valuation rules have consistently been applied to the year 2016, and also to the previous financial year and the opening balance on the IFRS transition date, except for the following standards that came into application in 2016:

Standards and interpretations applicable for the annual period beginning on 1 January 2016

- Amendments to IFRS (2010-2012) (applicable for annual periods from 1 February 2015)
- Amendments to IFRS (2012-2014) (applicable for annual periods from 1 January 2016)
- Amendments to IAS 1 *Presentation of the annual financial statements - Disclosure initiative* (applicable for annual periods from 1 January 2016)
- Amendment of IAS 16 and IAS 38 *Tangible and Intangible fixed assets – Clarification of acceptable methods of depreciation and amortization* (applicable for annual periods from 1 January 2016)
- Amendments to IAS 19 *Employee benefits - Employee contributions* (applicable for annual periods from 1 February 2015)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2016:

- IFRS 9 *Financial Instruments* and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 14 *Regulatory deferral accounts* (applicable for annual periods from 1 January 2016, but not yet endorsed within the European Union)
- IFRS 15 *Revenue from Contracts with Customers* (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 16 *Lease agreements* (applicable for annual periods as of 1 January 2019, but not yet endorsed within the European Union)
- Amendments to IFRS (2014-2016) (applicable for annual periods from 1 January 2017 or 2018, but not yet endorsed within the European Union)
- Amendments to IFRS 2 *Classification and measurement of share-based payment transactions* (applicable for annual periods from 1 January 2018, but not yet approved within the European Union)
- Amendment of IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture* (effective date postponed for an indefinite term, which means that the approval within the European Union is also postponed)
- Amendments to IAS 7 *Statement of cash flows – Disclosure Initiative* (applicable for annual periods from 1 January 2017, but not yet endorsed within the European Union)

- Amendment to IAS 12 *Income Taxes - Recognition of deferred tax assets for unrealized losses* (applicable for annual periods as of 1 January 2017, but not yet endorsed within the European Union)
- Amendments to IAS 40 *Transfer of investment property* (applicable for annual periods from 1 January 2018, but not yet endorsed within the European Union)
- IFRIC 22 *Foreign currency transactions and advance consideration* (applicable for annual periods from 1 January 2018, but not yet endorsed within the European Union)

The application of the standards applicable for the annual period beginning on 1 January 2016 will not have any material impact on the annual accounts. With regard to the application of the published standards, but not yet effective for the year beginning on 1 January 2016, an analysis by the management of the potential impact on initial adoption of these standards and interpretations is in progress.

IFRS 15: Income from contracts with customers
IFRS 15 replaces the current provisions with regard to income recognition under IFRS and is applicable from the 2018 financial year. The new standard determines that the sales price must be allocated to all identifiable performance obligations in a contract and that turnover must be recognized at the time when the performance obligation has been complied with. Picanol will apply the new standard on the specified date and explain the change in the valuation method used in the 2017 annual report and the expected impact on the financial statements. The group prepared a preliminary analysis in 2016 regarding the impact of the new standard. This preliminary analysis showed that no material impact is expected on the result and the classification amendments will be implemented with regard to:

- Servicing of the weaving machines: Where the turnover related to the installation of the machines will be postponed (where this is currently posted to an accrued expenses account)
- Performance guarantees: Insofar as a part of the turnover is subject to certain performance obligations, this will be postponed (where this is currently provided for)

IFRS 15 was issued in May 2014 and Clarifications to IFRS 15 in April 2016 as part of a convergence project with the FASB. The standard is to be applied for reporting periods beginning on 1 January 2018 or later. The standard replaces the current standards IAS 18 and IAS 11 as well as their interpretations.

Either a full retrospective application or a modified retrospective application is required and early adoption is permitted. The group plans to adopt the new standard on the required effective date using the modified retrospective method. Under this method, IFRS 15 will only be applied to contracts that are not completed as of the date of initial application (1 January 2018). This would mean that comparative figures of 2017 will not be restated and that the cumulative effect of initially applying IFRS 15 will be recognized as an adjustment to the opening balance of retained earnings of 2018.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard establishes a five-step approach to revenue recognition:

- Step 1: Identifying contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

As regards the timing of the revenue recognition, under IFRS 15 an entity recognizes revenue when (at a specific moment in time) or as (over time) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is satisfied to the customer. Under the current standard IAS 18, “transfer or risks and rewards” was the main element as regards the timing of revenue recognition in respect of sale of goods.
During 2016, the group performed a preliminary assessment of IFRS 15 at the level of the parent entity and its subsidiaries, which is subject to changes arising from a more detailed ongoing analysis.

At this point in time, any potential impacts of the application of IFRS 15 at Picanol's associate Tessenderlo Chemie are not quantifiable with regard to the impact on the net result of Picanol Group.

Step 1: Identifying contract(s) with a customer
For the Weaving Machines Division (87% of revenue in 2016), the vast majority of the contracts are individual purchase orders (POs). For the Industries Division, there might be some instances (PsiControl and Proferro) where the group enters into general agreements that specify products and target quantities to be delivered but for which the customer is not committed to the quantities. The supplied quantities are based on the customer's purchase orders.

Step 2: Identify the performance obligations in the contract
The vast majority of the performance obligations of the group relate to the delivery of goods, the transportation services and the installation of weaving machines. However, the revenue component in respect of these transport and installation services is considered not material (less than respectively 2 - 4% on sales).

Step 3: Determine the transaction price
Variable consideration in the Weaving Machine Division mainly relates to potential volume discounts in respect of the sale of spare parts. In our current half-year reporting these volume discounts are not accounted for but the potential error is assessed to be immaterial to the consolidated financials. In the past, there were a few occasions where service level agreements in respect of the weaving machines were part of the contract. If such agreements would be entered into again, we will have to evaluate under IFRS 15 to what extent the transaction price can be recognized or a portion of the transaction price shall be deferred.

In some of the customer contracts in the Industries Division, the transaction price of the goods is tied to the raw material prices and other elements of the cost to produce. However, these changes are applied only to future POs and they do not affect the prices of already delivered goods. As the delivered quantities are distinct performance obligations, these changes are not applied retrospectively to goods already delivered. As of today, these contracts are not material to the business of the group.
There are no significant financing components in transaction prices that need to be accounted for separately under IFRS 15.

It is uncommon that consideration is paid to customers. Based upon historical information, these are considered as not material to the consolidated revenue.

Step 4: Allocate the transaction price to the performance obligations in the contract
IFRS 15 requires that the transaction price is allocated to the different performance obligations of the contract on the basis of their relative stand-alone selling price. In the Weaving Machines Division, there might be some contracts where this principle is not properly applied but the potential impact on the revenue figures is currently assessed to be immaterial. Generally, this issue might only arise for contracts where the goods are not delivered at the same time. However, for half-year and year-end reporting the group will monitor this situation properly and adjust revenue figures if the impact would become material.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
Currently, the group recognizes the revenue in respect of the weaving machines and the installation component at the moment the machines are delivered. A cost to come in respect of the installation is accounted for if the latter has not been completed. Under IFRS 15, the revenue component in respect of the installation shall be recognized when the installation is completed and the related costs of the installation shall be recognized as incurred.

The group will change its current accounting applied in respect of the installation services upon application of IFRS 15. As the installation component represents 1 - 2% of the total transaction price, this change will not result in any substantial correction.
For the sale of products, revenue is currently recognized when the related risks and rewards of ownership are transferred to the customer. It is generally determined by the INCO terms. Revenue is only recognized at this moment after other requirements of IAS 18 have also been met (such as no

continuing management involvement, revenue and costs can be reliably measured and probable recovery of the considerations). Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. Based on an initial assessment, the group did not identify material differences between transfer of control and the current transfer or risk and rewards in the weaving segment.

Under IFRS 15, if an entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date, revenue shall be recognized over time.

Currently, the revenue on goods sold by PsiControl and Proferro (Industries Division) is recognized in a similar way to the Weaving Machines Division (at a point in time). However, the performance of PsiControl and Proferro generally do not create an asset with an alternative use to these entities. The terms of the contract itself do not incorporate explicit clauses that provide these entities enforceable right to payment for performance completed to date. Under IFRS 15, an entity shall not only consider the terms of the contract but also any laws that apply to the contract. The group is currently in the process of obtaining legal advice regarding whether the laws that apply to these activities would provide these enforceable rights. However, if the revenue in these activities would have to be recognized over time, the impact of the group's revenue figures would currently not be material.

Other elements
The group does currently not incur incremental costs of obtaining a contract with the customer and did not identify costs to fulfil a contract that shall be recognized under IFRS 15.

IFRS 16: Lease agreements
IFRS 16 replaces the current provisions with regard to the valuation and presentation of lease obligations where the leases will always be recognized according to the recognition of financial leases. Picanol has a very limited number of operational leases (limited to company cars and computer equipment), which means that the expected impact on the financial statements will not be significant.

Foreign currency
The presentation currency of the Picanol Group is euros.

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transaction. At each balance sheet date, any monetary assets and liabilities that are expressed in foreign currency are translated at the closing rate. Any non-monetary assets and liabilities carried at fair value and denominated in a foreign currency are translated at the rate of exchange applicable at the time when their fair value was determined. Any profits and losses which result from these transactions are recognized in the income statement as part of the financial result.

Assets and liabilities of the group's foreign operations are translated at the closing rate. Profits and losses are translated at the average exchange rate over the period. Any currency exchange differences resulting from this will be recognized in shareholders' equity, under 'translation differences'. Upon disposal of the foreign operation, the accumulated exchange rate differences as recorded in equity will be recognized in the income statement.

Consolidation principles
Subsidiaries
The consolidated financial statements include all subsidiaries of which the group has acquired control. Picanol nv has control of a participation when Picanol nv is exposed to, or has rights to variable income from its involvement in the participations and has the possibility to influence these proceeds through its power over the participation. Such control is supposed to exist when Picanol nv holds, either directly or indirectly, over 50% of the voting rights of the entity. In assessing control, an investor takes his or her potential voting rights as well as the potential voting rights held by other parties into account to determine whether he has control. Potential voting rights are rights to acquire voting rights in an entity, such as rights deriving from convertible instruments or options, including forward contracts. These potential voting rights are only taken into account if it concerns substantive rights.

The following factors are also taken into account in the determination of control:

- The purpose and set-up of the participation
- What the relevant activities are and how decisions on these activities are made
- Whether the rights of the investor offer him the continuous opportunity to control the relevant activities
- Whether the investor is exposed to, or has rights to variable income from his or her involvement in the participations
- Whether the investor has the possibility to use his power over the participation to influence the amount of the proceeds of the investor

Acquisition of subsidiaries is accounted for according to the acquisition method.

The transferred remuneration of a business combination is valued at the total fair value on the date of the acquisition of transferred assets, liabilities entered into or taken over, and the equity interests issued by the acquirer. As of 2010, the costs related to the acquisition are being charged to the results. The identifiable assets, liabilities and contingent liabilities of the acquired party that meet the conditions for recognition under IFRS 3 *Business combinations* are recognized at the fair value on the purchase date with the exception of the fixed assets (or groups of assets disposed of) classified as held for sale in accordance with IFRS 5 *Fixed assets* held for resale and discontinued operations. Each interest without controlling interest in the acquired party is stated at the minority's share of the net fair value of the identifiable assets, liabilities and contingent liabilities.

The financial statements of the subsidiaries are recognized in the consolidation scope from the moment that Picanol nv acquires control until the date on which this control ceases. The financial statements of the subsidiaries bear the same reporting date as that of the parent company. These financial statements are compiled on the basis of uniform principles for financial reporting for comparable transactions and other events in similar circumstances. Balances and transactions, profits and losses within the group are totally eliminated.

Associated companies

Associated companies are companies in which the group has significant influence and which are neither a subsidiary nor a joint venture. This is assumed when the company holds 20% or more of the voting rights of the company. The financial information regarding these companies has been prepared in accordance with the accounting policies of the group. If the group acquires significant influence in an associate, the share of the acquired assets, liabilities and contingent liabilities must initially be revalued at fair value at the acquisition date and accounted for under the equity method. If the acquisition consideration exceeds the fair value of the acquired share in the assets, liabilities and contingent liabilities, this difference must be recorded as goodwill. If this calculated goodwill is negative, the difference must immediately be recognized in income. The group's share of the profit of the associated companies will be included in the consolidated financial statements in accordance with the equity method until the day that this significant influence ceases to exist. IFRS do not provide specific rules on how to proceed with the acquisition of an additional stake in an associated company. Therefore, the management has applied the following accounting policy: the equity method has been adjusted by the 'fair value' of the additional interest. The nominal value of the goodwill related to the acquisition of an additional share in the associated company is calculated as the difference between the 'fair value' of this additional interest and the book value of the additional proportionate part of the net assets acquired. The investments in associates on the balance sheet include the book value of related goodwill. The share of profit of associates is included in the result of the group for the period.

III.1.3. BALANCE SHEET

Intangible assets
Intangible assets are valued at cost less accumulated depreciation and any impairment losses.

Internally generated intangible assets
Research expenditure is charged to the income statement when incurred.
Internal generated development expenses are only recognized as intangible assets if they meet the following criteria:

- An identifiable asset has been created
- It is probable that the created asset will generate economic benefits that will flow to the entity
- The development cost of the asset can be measured reliably
- It is technically possible for internally-generated intangible fixed assets to be produced in such a way that they are available at a later date for use or sale
- The intention – and the ability – exists to use or sell these intangible assets
- The necessary technical, financial and other resources are available to complete their development and to assist in their use or sale

Capitalized development costs are depreciated on a straight-line basis over a period of 5 years, from the moment a weaving machine is launched onto the market. This is in line with the average lifecycle of a weaving machine.

Separately acquired intangible assets
Patents and licenses
The costs of acquired patents and licenses are depreciated on a straight-line basis over their useful life, with a maximum useful life of 5 years.

Computer software
External and internal costs directly linked to the purchase or to the installation of business software applications for ERP, Supply Chain, CRM, etc. are capitalized as intangible assets. These are depreciated on a straight-line basis over their useful life, which is equivalent to 5 years.

Goodwill
The acquirer shall recognize goodwill as of the acquisition date measured as the excess of the aggregate of the consideration transferred, which generally requires acquisition-date fair value, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is measured at cost less any accumulated impairment losses.

The cash generating unit to which goodwill is allocated is checked every year for impairment and whenever there is an indication that the unit has experienced impairment. The impairment test is performed by comparing the book value of a unit with the realizable value. If the realizable value is lower than the book value, the impairment is first imputed against the goodwill allocated to the unit and then to the other assets of the unit in direct proportion to the book value of each asset in the unit. An impairment loss recorded for goodwill cannot be reversed at a later date.

If the interest of the Picanol Group in the recognized net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then:

(a) The identification and the valuation of the identifiable assets, liabilities and contingent liabilities of the acquired party and the cost valuation of the business combination will be assessed
(b) Any surplus remaining after that assessment will immediately be recognized in the income statement

Tangible fixed assets
Tangible fixed assets are recognized in the balance sheet at the historical cost of acquisition less accumulated depreciation and any impairment. The historical cost of acquisition includes the actual purchase price plus any incidental costs incurred to bring the asset to its working condition and location for its intended use. Borrowing costs are not capitalized.

Any subsequent costs associated with tangible fixed assets are generally immediately expensed within the period in which they occur. Such costs are only capitalized if it can be demonstrated that the economic benefits generated by this expenditure will be higher than their initial estimated performance standard, and that the cost of the asset can be measured reliably. The costs of dismantling and removing tangible fixed assets and the costs of regular maintenance are viewed as later expenditures that do not generate any additional economic benefits for these assets. As laid down in the accounting principles, these costs are immediately charged to the result for the period in which they arise. If there are material dismantling costs or major overhauls, then these are treated in accordance with IAS 16.13-14.

Depreciation is calculated on a straight-line basis as follows:

- Buildings 20 years
- Equipment, plant & machinery 10 years
- Melting furnace 15 years
- Tooling, molds 5 years
- Office furniture 10 years
- Office and computer equipment 4 years
- Vehicles 5 years
- Internal transport equipment 10 years

The residual value and the useful life of an asset are reviewed at least at the end of each financial year and if the expectations differ from previous estimates, adjustments are processed as an adjustment in estimate in accordance with *IAS 8 Principles of financial reporting, changes in estimates and errors*.

Lease agreements
Financial leases
Lease agreements are classified as financial leases if the group substantially bears all the risks and rewards associated with the agreement. Tangible fixed assets acquired by means of a financial lease are recognized in the balance sheet at:

- The fair value of the leased asset or, if lower,
- The discounted value of the minimum lease payments, as stipulated at the start of the lease agreement

The corresponding liability to the lessor is presented in the balance sheet as a financial liability.

Lease payments are partly presented as financial expenses and partly as settlement of the outstanding liability, so that a constant interest charge in comparison with the outstanding capital is created over the full term.

The depreciation rules for assets acquired in the form of a financial lease are consistent with those for assets acquired as property. If there is any uncertainty as to whether the company will own the asset at the end of the lease, then the asset must be written off in full over the lease period or over the useful life should this be shorter.

Operating leases
All lease agreements not classified as financial leases are operating leases. Payments made under an operating lease contract are expensed on a straight-line basis over the term of the agreement. Benefits received or which will be received upon termination or at the renewal of an operating lease will also be recognized on a straight-line basis as a reduction of the rental costs over the lease term.

Export financing
The company does not act as a lessor. On the other hand, it permits long-term repayment of trade debts. These debts are financed by means of export financing and are guaranteed by Delcredere.

Accounting processing of the export financing:
When a machine contract is invoiced, the client receivable (which is spread over several years) is booked under "non-current receivables" and "trade receivables". There are several options to finance these long-term receivables. If Picanol takes out a parallel supplier credit with a bank, this debt will be booked under "Interest-bearing debt" (short and long term). Picanol may also decide to proceed with discounting client receivables through a bank or a credit insurer. In this case, the client receivables will be settled the moment the risk of the asset is transferred. The discount costs are included in the profit and loss account under "interest expense". The income related to re-invoicing the interest costs to the customer is included in the income statement under "interest income".

Impairment of tangible and intangible assets with the exception of goodwill
The assets of the Picanol Group, other than inventories, deferred tax assets, employee benefits and financial instruments, are reviewed for impairment whenever there are indications that the carrying amount of an asset or a cash generating unit is possibly no longer recoverable. These indicators are revised at least once every year.

If the carrying amount of an asset or a cash generating unit exceeds its realizable value, an impairment loss will be recognized in the income statement. The realizable value of an asset or of a cash generating unit is equal to the higher of the fair value minus the costs to sell and the value in use of the asset or a cash generating unit, whereby the fair value is equal to the amount that can be obtained from its sale in a transaction between knowledgeable, willing and independent parties, and of which the value in use corresponds to the discounted value of the estimated future cash flows which would be expected to flow from the asset or a cash generating unit.

Impairment losses recognized in previous financial years are reversed in the income statement if there are any indications that a previously recognized impairment of an asset no longer exists or has decreased. Impairment losses on goodwill are not reversed.

Available-for-sale fixed assets
Fixed assets or groups of assets that are being disposed of are classified as available for sale if their carrying amount will primarily be realized in a sale transaction and not through its continued use. This only applies when the assets (or the group of assets being disposed of) are immediately available for sale in their present condition and if the sale is highly probable. A sale is only considered as highly probable if the appropriate management level has committed itself to a plan to sell the asset.

Fixed assets (or group of assets which are being disposed of) are valued at the lower of carrying amount or fair value minus the selling costs.

Borrowing costs
All borrowing costs are expensed in the period in which they are incurred.

Inventories
Inventories are valued at the lower of cost or net realizable value. The net realizable value is the estimated sale price within the normal course of business less the estimated costs for completion of the sales transaction.

The Picanol Group uses an inventory valuation method similar to the FIFO method. This approach involves a method in which the stock is valued at regular intervals at the most recent purchase price. In view of the rapid stock rotation of raw materials on the one hand, and the strict application of write-downs of slow-rotating stock items on the other hand, this valuation method is a reasonable approximation of the FIFO method. Furthermore, write-downs are being recognized depending on the age of the items. This method ensures that there is no over-valuation of stock.

The cost of the inventory includes all the purchase costs, conversion costs and any other costs necessary to bring the inventory to its present location and condition.

Minority interests
Minority interests are a share in the profit or the loss and the net assets of a subsidiary which are attributable to the equity interests that are not held directly or via subsidiaries by the parent company.

At the time of acquisition, the minority interest is initially recognized as the minority share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired party. This will later also include the minority share of the profits or losses.

Employee benefit obligations
The group has primarily defined contribution plans as well as defined benefit plans in Picanol nv, Proferro nv, PsiControl nv and Verbrugge nv.

<u>Defined contribution plans</u>
This mostly concerns early retirements in the Belgian entities. For the early retirement pensions, a provision is included as a liability and as an obligation on the earliest of the following dates:

(a) When the entity can no longer withdraw the offer of the termination benefit, or
(b) When the entity recognizes the costs of restructuring which provides for the payment of termination benefit

The Picanol Group does not have any constructive liability for future early retirement, as a result of which no provision is made for such obligation.

In the income statement, pension costs for the year in respect of past service are included in 'cost of sales' and 'general and administrative expenses', while the interest cost is recognized under 'total interest expenses'.

The Belgian group insurance plans that were to date considered to be defined contribution plans are treated with effect from this financial year as defined benefit plans because they are subject to minimum legal returns (see III.7.13).

<u>Defined benefit plans</u>
For defined benefit plans the pension liability of the financial year has to be calculated on the basis of the 'projected unit credit method'.
The amount recognized as a net liability of a defined benefit plan is the net total of the following amounts:

(a) The current value at the balance sheet date of the defined benefit obligations (calculated applying a discount rate based on market yields of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability)
(b) Less the fair value at the balance sheet date of any investment funds, from which the liabilities must be directly settled

Provisions
Provisions are recognized at the balance sheet date if the group has a present obligation (legal or constructive) due to a past event, if it is probable that this liability will require a future outflow of resources embodying economic benefits in order to settle the obligation and if a reliable estimate can be made of the amount of the obligation.

Provisions are recognized as the best estimate of the expenditure required to settle the existing obligation at the balance sheet date.

<u>Provision for warranty costs</u>
A provision for warranty costs will be made for products under warranty on the basis of historical data with regard to repairs and returned goods. The provision for warranty costs will be made on the basis

of historical data on repairs and returned goods and on the basis of sold weaving machines. A provision is being made for performance warranties based on the individual analysis.

Provision for restructuring
A provision for restructuring will only be made if the group has drawn up a detailed and formal restructuring program and if the expectation is being created with the relevant parties that the group will be implementing the restructuring program, either by the group already having started its implementation, or by having informed the relevant parties of its main features prior to the balance sheet date.

Financial instruments
Investments in equity instruments that do not have a quoted market price in an active market and the fair value of which cannot be reliably measured
After the initial valuation, these are valued at cost less any incidental impairment losses.

The company applies write-downs to accounts receivable if there is any sign of them not being collectable, either wholly or partly. The company considers each claim on a case-by-case basis, using specific information about the claim concerned as well as general historic information. It also takes into account its own share of risk for the claim concerned when setting the write-down.

Available-for-sale financial assets
Available-for-sale financial assets are initially recognized at fair value plus any transaction costs directly attributable to their acquisition. Following their initial recognition, these assets are valued at fair value without any deduction of incidental transaction costs incurred by the sale or any other form of disposal. Any profit or loss generated by these assets is immediately recognized in shareholders' equity with the exception of impairment losses and foreign currency gains or losses until the financial asset is derecognized, and with any cumulative gain or loss previously recognized through shareholders' equity transferred to profit or loss.

Financial liabilities and equity instruments
Financial liabilities and equity instruments issued by the group are classified in accordance with the economic reality of the contractual agreement and with the definitions of a financial liability and shareholders' equity instruments.

Equity instruments
Equity instruments issued by the company are recognized in accordance with the amounts received, less any direct issue costs.

Interest-bearing loans
Interest-bearing bank loans and fixed advances are recognized on the basis of the amounts received, less any direct issue costs. Financial charges, including premiums payable upon settlement or redemption and direct issue costs, are recognized proportionally through the income statement in accordance with the effective interest method and are added to the recognized amount of the instrument to the degree that they are not settled in the relevant period.

Derivatives
The Picanol Group does not apply hedge accounting to derivatives. These are recognized in the income statement at fair value.

Should hedge accounting be applied in the future, the following rules would be applied:

(a) Cash flow hedges protect against the effect of foreign currency fluctuations on the fair value of recognized assets and liabilities. The profit and loss from both the revaluation of the hedging instrument (e.g. forward contracts) and the revaluation of the hedged assets and liabilities are immediately recognized through the income statement.

(b) Cash flow hedges protect against any variation in cash flow which (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable expected future transaction and (ii) could have an impact on the profit or loss. The share of profit or loss on the hedge instrument which has been established as an effective hedge is recognized directly in shareholders' equity and the non-effective share of the profit or loss on the hedge instrument will be recognized through the income statement.

(c) If the hedge of an expected future transaction leads to the recognition of a non-financial asset or a non-financial liability, or if an expected future transaction concerning a non-financial asset or non-financial liability becomes a firm undertaking for which administrative processing of fair value hedge transactions is applied, then the entity will take the following action:

- The entity transfers the associated profits or losses recognized in the shareholders' equity to the income statement in the same period or periods in which the acquired asset or the liability entered into has an impact on the profit and loss. However, if an entity expects that (part of) the loss which is directly recognized in the shareholders' equity will no longer be feasible in one or several future periods, then the entity must transfer the expected non-realizable amount to profit and loss.
- The entity transfers the associated profits and losses which are recognized in the shareholders' equity in order to recognize these in initial cost or any other book value of the asset or liability.

Financial instruments are not used at all for speculative purposes. The Picanol Group does not hold other derivatives in any form.

III.1.4. REVENUE

General

Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognized when all the following criteria are met:

(a) The company has transferred all of the substantial risks and rewards associated with ownership of the goods to the buyer

(b) The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold

(c) The amount of revenue can be measured reliably

(d) It is probable that the economic benefits associated with the transaction will flow to the company, and;

(e) The costs already incurred or still to be incurred relating to the transaction can be measured reliably

In many cases, the group sells its weaving machines with installation costs included. The cost component for these services can be reliably estimated and is limited in relation to the sales price of the machine (1 - 2% of sales price). The installation component is not viewed as an essential part of the sales transaction so that revenue is recognized on the basis of delivery of the weaving machines. At the time of revenue recognition, the installation costs are charged against the income statement under 'loss of sales'. These accrued charges are included under 'other liabilities' on the liabilities side of the balance sheet.

Delivery of services

If the result of a transaction involving the rendering of services can be measured reliably, the revenue associated with those services has to be recognized in direct proportion to the services rendered at the balance sheet date. The services provided are mainly for the installation of weaving machines. The costs of the service and the turnover generated by it are recognized at the time when the service is provided. The turnover from services associated with installation of weaving machines is recognized when the machines are delivered. This turnover is insignificant compared with the company's total turnover. In the case of services unconnected with installing weaving machines, the turnover is recognized at the time when the service is provided. These are short projects lasting a few days and are insignificant compared with the company's total turnover. Services that have been invoiced but not yet provided, or provided but not yet invoiced, are recorded as trade receivables.

Interest income from loans and export finance
Interest is recognized in accordance with the effective interest method (IAS39).

Dividend income
Dividend income is recognized when the shareholders' right to receive payment is established.

Income taxes
The tax expense of the period represents the sum of the current tax expense and deferred tax expense. The current tax expense is based on the taxable profit of the financial year. Taxable profit differs from the net profit as stated in the income statement because it excludes income or expenditure that is taxable or deductible in other years, and it further excludes components which will never be taxable or deductible. The Picanol Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred taxes are taxes payable or recoverable on the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit, and these are recognized on the basis of the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized when the temporary differences originate from goodwill (or negative goodwill) or from the initial recognition of an asset or of a liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit not the taxable profit or loss (taxable loss).

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, interests in joint ventures and associated companies, except when the Picanol Group is able to control the timing of the reversal of the temporary difference and when it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of the deferred tax assets is reviewed at each balance sheet and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the tax assets to be recovered. Deferred taxes are calculated at the tax rates which will probably be applied to the period in which the liability is settled or the assets are realized. Deferred taxes will be debited or credited in the income statement, except if they relate to components which are directly debited or credited in shareholders' equity, in which case the deferred taxes will also be recognized in shareholders' equity.

Deferred tax assets and liabilities are netted if they relate to income tax levied by the same tax authority and if the group has the intention to settle its current tax assets and liabilities on a net basis.

III.2. ASSESSMENT CRITERIA AND ESTIMATES IN THE APPLICATION OF VALUATION RULES

In some cases, the application of valuation rules requires an accounting assessment. With regard to the current financial year, the group has ruled that based on the facts and circumstances as at 31 December 2016, there are still insufficient elements to conclude that Picanol has control over Tessenderlo Chemie nv in accordance with *IFRS 10 Consolidated Financial Statements.*

This evaluation is mainly based on the consideration that:

- Picanol (via Verbrugge nv) and acting jointly with Symphony Mills nv holds 40.2% of the shares of Tessenderlo Chemie nv
- Picanol does not have a majority in the Board of Directors of Tessenderlo Chemie nv (the most important governing body of the company)
- Picanol is not assured of a majority at the general meeting of Tessenderlo Chemie nv when the approval of the shareholders is required concerning important operational and strategic decisions (as was apparent at the scheduled general meeting regarding the intended contribution of Picanol in Tessenderlo Chemie nv)

Consequently, Picanol nv does not control Tessenderlo Chemie nv as referred to in the International Financial Reporting Standards. As a result, Tessenderlo Chemie nv is still considered an associated company over which Picanol nv has a significant influence pursuant to *IAS 28 Investments in Associates*.

Under IFRS, for preparation of the group's consolidated financial statements, the group must use estimates and suppositions that may affect the amounts of the assets and liabilities, the amounts of the contingent assets and liabilities, and the amounts of costs and revenues. The actual results may deviate from these estimates. Estimates are particularly important for, but not restricted to, the determination of the obligations regarding stipulated pension schemes, impairments, provisions and deferred taxes.

III.3. CHANGES IN ACCOUNTING PRINCIPLES APPLIED

There were no changes in accounting principles applied in the financial year 2016 in comparison with the financial year 2015.

III.4. CHANGES IN SCOPE OF CONSOLIDATION

In 2016, the stake in the associated company Tessenderlo Chemie was increased from 31.4% to 36.3%.

III.5. SEGMENT INFORMATION

III.5.1. BUSINESS SEGMENTS

The two divisions - Weaving Machines and Industries – make up the primary segmentation of the group. More information on these divisions can be found in the first part of this report. Sales between segments are carried out on an arm's length basis. The supporting Corporate, Finance, IT and HR activities are allocated to the business segments on the basis of various factors (activity, contribution to turnover %, etc.), in accordance with the management reporting.

(in '000 euros)	**Weaving Machines**		**Industries**		**Non-segment/ (eliminations)**		**Picanol Group**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External sales	558,738	457,943	81,040	71,401			639,778	529,344
Inter-segment sales	1,335	1,063	87,317	70,445	-88,652	-71,508	0	0
Total sales	**560,073**	**459,006**	**168,357**	**141,846**	**-88,652**	**-71,508**	**639,778**	**529,344**
Operating profit	**105,977**	**74,529**	**15,004**	**9,049**			**120,981**	**83,578**
Other segment information:								
Total interest income	2,783	2,794	2	8			2,785	2,802
Total interest expense	-1,555	-1,343	-178	-197			-1,734	-1,540
Depreciation	4,805	4,955	4,158	3,572			8,963	8,527
Investments	4,001	1,983	3,455	6,126			7,456	8,109
Total assets	138,720	118,282	101,971	86,998	437,812	359,610	678,504	564,890
Total liabilities	134,928	103,527	69,377	54,404	473,761	406,958	678,504	564,890

The consolidated group turnover increased in 2016 by 21% in comparison to the previous year. The operating profit increased by 45% due to the higher gross profit rate (from 22% to 25%) and this was because the fixed costs included in the cost of sales did not increase in line with the turnover. The administrative and sales costs increased due to IT project costs, the cost of renovations at the factory in Ypres and the reversal of provisions in 2015.

In the Weaving Machines Division, the annual turnover increased by 22%. This was due to a stronger global demand for Picanol weaving machines, which further strengthened its market position. The sales of spare parts and accessories also evolved positively. The profit ratio increased from 16% to 19% (due to the non-linear increase of the fixed cost) and the operating profit amounted to 106.0 million euros (as compared to 74.5 million euros in 2015).

The annual turnover in the Industries Division increased by approximately 19%. The turnover from external customers increased by 14% as a result of the strong growth of new projects and increasing volumes from existing customers. However, the downswing in the agricultural and mining sectors negatively impacted the turnover of Proferro. Due to the higher volumes, in combination with a strict control of the fixed production costs, the profit margin increased from 6% in 2015 to 9% in 2016 and the operating profit increased from 9.0 million euros to 15.0 million euros.

The non-segment assets mainly comprise the participation in Tessenderlo Chemie and cash.

III.5.2. GEOGRAPHICAL SEGMENTS

The group's activities can mainly be divided between Europe, America & Africa on the one hand, and the Far & Middle East on the other hand. It is impossible to have a further geographical breakdown based on the current report structure. The tables below show the sales and fixed assets of the Picanol Group by geographical market.

SALES

(in '000 euros)	**2016**	**2015**
Europe, America and Africa	211,406	191,194
Far & Middle East	428,372	338,150
TOTAL	**639,778**	**529,344**

The company has a large customer portfolio which helps them to realize their turnover without depending on a small group of customers.

INTANGIBLE ASSETS – TANGIBLE FIXED ASSETS

	Net carrying value		**Acquisitions**	
(in '000 euros)	**2016**	**2015**	**2016**	**2015**
Europe, America and Africa	51,624	52,627	6,958	7,959
Far & Middle East	8,367	9,195	498	150
TOTAL	**59,991**	**61,822**	**7,456**	**8,109**

III.6. INCOME STATEMENT

III.6.1. OTHER OPERATING INCOME

(in '000 euros)	**2016**	**2015**
Other operating income:	**381**	**113**
Reversal of restructuring provision	310	
Gain on the sale of assets		49
Other	71	65
Other operating expenses:	**-500**	**-162**
Restructuring fees	-452	
Loss on the sale of assets		-112
Other	-48	-50
TOTAL	**-119**	**-49**

III.6.2. OPERATING RESULT

(in '000 euros)	**2016**	**2015**
Sales	639,778	529,344
Purchases of goods and changes in inventories	-337,984	-276,159
Amortization, depreciation and Impairment	-9,024	-8,814
Amounts written off on inventories and receivables	783	-77
Other goods and services	-70,671	-70,266
Personnel costs	-102,070	-94,334
Provisions	289	3,933
Other operating income	381	113
Other operating expenses	-500	-162
TOTAL OPERATING RESULT	**120,981**	**83,578**

The turnover increased by 21% in comparison to 2015. The ratio of purchases and changes in inventories versus sales remained more or less the same at 53% (as compared to 52% in 2015). The personnel costs, especially those related to the production department, increased in proportion with the volume (the average number of staff members increased from 1,997 in 2015 to 2,113 in 2016). The other goods and services remained more or less stable. The reversal of provisions in 2015 mainly relates to pensions and environmental provisions.

III.6.3. FINANCIAL RESULT

(in '000 euros)	**2016**	**2015**
Interest income from bank deposits	97	331
Interest income from financial receivables	2,688	2,471
Total interest income	**2,785**	**2,802**
Interest on export finance	-1,625	-1,329
Interest on other loans	-1	-18
Interest on financial leases	-107	-192
Total interest expense	**-1,734**	**-1,540**
Exchange rate gains	446	708
Profit on revaluation of derivatives	0	22
Total other financial income	***446***	***730***
Exchange rate losses	-714	-888
Loss on revaluation of derivatives	0	0
Total other financial expenses	***-714***	***-888***
FINANCIAL RESULT	**784**	**1,104**

The interest expense on export financing and LC on the one hand, and the interest income from financial receivables on the other hand, are rising due to the increasing sales volume.

III.6.4. INCOME TAXES

Recognized in the income statement:

(in '000 euros)	**2016**	**2015**
(a) Current tax	-34,210	-23,738
(b) Adjustments for tax payable in respect of previous Years	-1,285	0
(c) Postponed tax relating to the recognition and reversal of temporary differences	2,114	-266
(e) The benefit from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense	0	-76
(f) The benefit from a previously unrecognized tax loss, credit or temporary difference of a prior period that is used to reduce deferred tax expenses	0	0
(g) Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset	0	0
TOTAL INCOME TAXES	**-33,381**	**-24,080**

Effective tax rate reconciliation:

(in '000 euros)	**2016**	**%**	**2015**	**%**
Profit before tax and before income from associates	**121,765**		**84,682**	
Tax at the domestic tax rate of 33.99%	**-41,388**	**33.99%**	**-28,784**	**33.99%**
Tax effects of non-deductible expenses				
Non-tax-deductible expenses	-1,015	-0.83%	-799	-0.94%
Other non-deductible expenses	-408	-0.31%	-1,292	-1.53%
Tax effects of tax-exempt revenues				
Non-taxable financial and other income	4,916	4.04%	3,982	4.70%
Notional interest deduction	1,042	0.86%	1,160	1.37%
Fiscal impact of corrections in deferred and current tax related to previous periods	912	-0.56%	0	0.00%
Effect of different tax rates of entities in different jurisdictions	2,560	2.10%	1,651	1.95%
Tax expense and effective tax rate for the period	**-33,381**	**-28.70%**	**-24,080**	**-28.44%**

The "other non-deductible expenses" relate to taxes on dividends received. The "non-taxable financial and other income" rose due to the increase in the tax deduction for patent income (due to the higher sales). The “fiscal impact of corrections in deferred and current tax, related to previous periods” concerns a tax correction on the years 2014 and 2015 and a reversal of deferred tax liabilities booked in past years. The positive influence of different tax rates rose due to the increase in the profit of the subsidiaries in China (which has a lower tax rate).

Deferred tax income/(expenses) recognized directly in shareholders’ equity

In 2016 no deferred tax income or expense were directly included in the equity.

III.6.5. DIVIDENDS

A gross dividend of 0.10 euros per share was paid in 2016 for the 2015 financial year, which amounted to a total of 1.77 million euros. The Board of Directors will propose the payment of a gross dividend of 0.10 euros per share at the annual general meeting on 19 April 2017, for a total amount of 1.77 million euros.

III.6.6. EARNINGS PER SHARE

Basic earnings per share:

(in '000 euros)	**2016**	**2015**
Net profit or loss over the period	119,725	85,692
Net profit or loss from continuing operations	119,725	85,692
Number of shares:		
Ordinary shares as at 01/01	17,700,000	17,700,000
Ordinary shares as at 31/12	17,700,000	17,700,000
Weighted average number of outstanding ordinary shares	17,700,000	17,700,000
In euros:		
Basic earnings per share	6.76	4.84
Basic earnings per share from continuing operations	6.76	4.84

Diluted earnings per share:

The diluted earnings per share of the Picanol Group are equivalent to the basic earnings per share, for both 2016 and 2015.

(in '000 euros)	**2016**	**2015**
Net profit or loss over the period	119,725	85,692
Profit or loss attributable to the ordinary shareholders of the company	119,725	85,692
Number of shares:		
Weighted average number of outstanding ordinary shares	17,700,000	17,700,000
Weighted average number of shares for the diluted earnings per share	17,700,000	17,700,000
In euros:		
Diluted earnings per share	6.76	4.84
Diluted earnings per share from continuing operations	6.76	4.84

III.7. BALANCE SHEET

III.7.1. INTANGIBLE ASSETS

Acquisitions:

(in '000 euros)	Development expenses	Concessions, Patents and Licenses	Total
On 1 January 2015	**10,106**	**9,990**	**20,096**
Acquisitions	-	191	191
Disposals	-	-619	-619
Exchange rate profits and losses (-)	-	48	48
On 1 January 2016	**10,106**	**9,610**	**19,716**
Acquisitions	-	380	380
Disposals	-	-	-
Exchange rate profits and losses (-)	-	-31	-31
On 31 December 2016	**10,106**	**9,959**	**20,065**

Depreciation and impairment losses:

On 1 January 2015	**-8,423**	**-8,872**	**-17,295**
Depreciation of the financial year	-937	-201	-1,137
Disposals	-	389	389
Exchange rate profits and losses (-)	-	-14	-14
On 1 January 2016	**-9,359**	**-8,698**	**-18,057**
Depreciation of the financial year	-749	-230	-979
Disposals	-	-	-
Exchange rate profits and losses (-)	-	12	12
On 31 December 2016	**-10,106**	**-8,918**	**-19,024**

Net book value:

On 1 January 2016	**746**	**913**	**1,659**
On 31 December 2016	**0**	**1,041**	**1,041**

Acquisitions of intangible fixed assets in 2016 include capitalized software licenses, mainly within Picanol nv. The acquisitions include no own production.

The amount for research & development and engineering posted as costs in the income statement was 13.0 million euros in 2016 (12.0 million euros in 2015).

The total net book value of 1.0 million euros of the intangible assets as at 31 December 2016 consists primarily of the following components:

- Capitalized software licenses for all companies of the group: 0.6 million euros;
- "Land use right" in PST: 0.4 million euros.

The depreciation of the intangible assets is recognized under the depreciation heading, partly as a component of the cost of sales (which concerns capitalized development costs) and partly under general and administrative costs (which concerns capitalized software), whereas the impairment losses are recognized in other operating income/expenses.
At the end of 2016 there were no contractual commitments for the purchase of intangible assets.

III.7.2. GOODWILL

No goodwill is recognized in the consolidated financial statements on 31 December 2016 or in 2015.

III.7.3. TANGIBLE FIXED ASSETS

(in '000 euros)	**Land and buildings**	**Plant, equipment and machinery**	**Furniture and vehicles**	**Other tangible fixed assets**	**Assets under construct ion**	**Total**
Acquisitions:						
On 1 January 2015	**41,637**	**176,359**	**12,012**	**1,223**	**1,969**	**233,200**
Acquisitions	29	5,927	179	61	1,722	7,918
Disposals	-	-18,626	-208	-3	-1	-18,838
Transfers		1,947	-	-	-1,947	-
Exchange rate profits and losses (-)	779	238	160	47	-5	1,219
On 1 January 2016	**42,444**	**165,846**	**12,143**	**1,329**	**1,739**	**223,500**
Acquisitions	27	1,743	640	188	4,478	7,076
Disposals	-10	-1,462	-210	-381	-1	-2,064
Transfers	-	3,178	7	-	-3,184	-
Exchange rate profits and losses (-)	-305	-150	-64	-51	1	-569
On 31 December 2016	**42,156**	**169,154**	**12,515**	**1,085**	**3,032**	**227,943**
Depreciation and impairment losses:						
On 1 January 2015	**-17,317**	**-146,692**	**-9,398**	**-790**		**-174,196**
Depreciation of the financial year	-1,120	-5,203	-978	-88		-7,390
Disposals	-	18,576	202	3		18,781
Transfers	-	-	-	-		-
Exchange rate profits and losses (-)	-210	-156	-124	-42		-532
On 1 January 2016	**-18,647**	**-133,475**	**-10,298**	**-917**		**-163,337**
Depreciation of the financial year	-1,640	-5,486	-781	-78	-	-7,984
Disposals	10	1,316	296	381	-	2,003
Transfers	-	-	-	-	-	-
Exchange rate profits and losses (-)	120	107	58	40	-	325
On 31 December 2016	**-20,157**	**-137,538**	**-10,725**	**-574**	**-**	**-168,993**
Net book value:						
On 1 January 2016	**23,797**	**32,371**	**1,845**	**412**	**1,739**	**60,163**
On 31 December 2016	**21,999**	**31,617**	**1,791**	**512**	**3,032**	**58,950**

The total acquisitions of tangible fixed assets amounted to 7.1 million euros compared to 7.9 million euros during the previous reporting period. Acquisitions of installations and equipment were primarily related to investments in new production machines for Proferro nv, Picanol nv, Melotte nv and PsiControl Romania. Finally, the acquisitions of assets under construction and advanced prepayments include a new logistics system and new production machines in Ypres.

The sales and disposals include the disposals of miscellaneous unused assets mainly at PsiControl nv. The net book value of the sold and decommissioned assets amounted to 61 Keuros.

ASSETS UNDER FINANCIAL LEASE:

(in '000 euros)	**2016**	**2015**
Plant, equipment and machinery – Gross value	13,843	13,843
Plant, equipment and machinery – Accumulated depreciation	-7,889	-7,139
Total assets under financial lease	**5,953**	**6,704**

The assets under financial leasing reported in 'plant, equipment and machinery' include a molding line and a machining center at Proferro nv. During the financial year 2016, no new financial lease contracts were concluded.

III.7.4. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

		Shareholding %	
		2016	**2015**
1. FULLY CONSOLIDATED ENTITIES (*)			
Belgium			
Proferro nv	Steverlyncklaan 15 , 8900 Ypres	100.00%	100.00%
PsiControl nv	Steverlyncklaan 15, 8900 Ypres	100.00%	100.00%
Verbrugge nv	Steverlyncklaan 15, 8900 Ypres	100.00%	100.00%
Melotte nv	Industrieweg 2019, 3520 Zonhoven	100.00%	100.00%
Picanol Group nv	Steverlyncklaan 15, 8900 Ypres	100.00%	100.00%
France			
Burcklé ET CIE SAS	Rue de Bourbach-le-haut 9, 68290 Bourbach-Le-Bas	100.00%	100.00%
Turkey			
Picanol Tekstil Makinalari	Merkez Mah., Yildirim Beyazid Cad. 179/2	100.00%	100.00%
Romania			
PsiControl Srl	Campului Street 1A, 505400 Rasnov, Brasov County	100.00%	100.00%
People's Republic of China			
Picanol (Suzhou Ind. Park) Textile Machinery Co. Ltd.	Fengting Avenue/ Songzhuan Road, SIP, Suzhou	100.00%	100.00%
Picanol (Suzhou) Trading Co. Ltd.	Fengting Avenue/ Songzhuan Road, SIP, Suzhou	100.00%	100.00%
Indonesia			
PT Picanol Indonesia	Jl. Moh. Toha KM 5.3 , 56 40261 Bandung	100.00%	100.00%
United States			
Picanol of America	Kitty Hawk Road 65, Greenville S.C. 29605	100.00%	100.00%
Mexico			
Picanol de Mexico SA DE CV	Avena 475 Col. Granjas, Iztacalco, 08400, Mexico D.F.	100.00%	100.00%
Brazil			
Picanol Do Brasil	Rua Treze de Maio,164, CEP13471-030 Americana/SP	100.00%	100.00%
India			
Picanol India Private Limited	Block B-1, Janak Puri, Community Centre, New Delhi 110058	100.00%	100.00%
2. ASSOCIATED COMPANIES (**)			
Belgium			
Tessenderlo Chemie NV	Troonstraat, 130, 1050 Brussels	36.26%	31.34%
3. OTHER NON-CONSOLIDATED ENTITIES			
Belgium			
Syndicaat van Belgische textielmachinebouwers (Symatex)	A. Reyerslaan 80 , 1030 Brussels	34.00%	34.00%

**There are no restrictions on the transfer of funds from the subsidiaries to the investor, nor on the access to assets and the settlement of the obligations of the subsidiaries.*

***There are no restrictions on the transfer of funds from the associated company to the investor as long as the banking covenants of the associated company are observed. The company has no knowledge of a breach of banking covenants as at 31 December 2016.*

III.7.5. PARTICIPATIONS IN ASSOCIATED COMPANIES AND OTHER FINANCIAL ASSETS

PARTICIPATIONS IN ASSOCIATED COMPANIES

Overview of the participations in associated companies:

Name	Activity	Place of business	Percentage of participation	
			2016	2015
Tessenderlo Chemie nv	Chemicals	Belgium	36.26%	31.43%

In 2013, Picanol acquired, through its subsidiary Verbrugge nv, 27.52% of the shares of Tessenderlo Chemie for the sum of 192.4 million euros. In 2014, Picanol increased its stake to 30.20% through the acquisition of additional shares following the capital increase of Tessenderlo Chemie (for an amount of 71.9 million euros). In 2015 and 2016, interest was further increased through share purchases on the financial markets (for an amount of 23.1 million euros and 62.5 million euros respectively). In 2013 and 2014, a fair value adjustment was made on the opening balance of Tessenderlo Chemie following the acquisition of 27.52% of the shares on 6 November 2013. Following the additional share purchases in 2014, 2015 and 2016, no new fair value adjustments were made. Given the rate of participation in Tessenderlo Chemie of 36.26%, this participation was recognized in the consolidated financial statements as an associated company according to the equity method. Based on the facts and circumstances on which decisions were taken in 2016 on the relevant activities in the Board of Directors and the management committee, it was also decided that Picanol does not exercise control over Tessenderlo Chemie in accordance with the provisions of IFRS 10.

(in '000 euros)	2016	2015
At the end of the previous reporting period	**308,101**	**263,743**
Increased participation	62,513	23,117
Result of the financial year	31,342	25,089
Dividends		
Other comprehensive income	-4,761	-3,847
At the end of the reporting period	**397,196**	**308,101**

The assets, liabilities and results of the associated company are summarized below:

Balance sheet on 31 December 2016

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Fixed assets	661,413	79,828	741,241	268,778
Current assets	697,369		697,369	252,870
Non-current liabilities	-482,752	-21,649	-504,401	-182,899
Current liabilities	-270,133		-270,133	-97,952
Net assets held for sale	21		21	8
Total net assets	**605,918**	**58,179**	**664,097**	**240,805**

Balance sheet on 31 December 2015

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Fixed assets	628,940	85,226	714,166	224,437
Current assets	673,251		673,251	211,579
Non-current liabilities	-468,153	-23,727	-491,880	-154,581
Current liabilities	-317,233		-317,233	-99,695
Net assets held for sale	1,440		1,440	453
Total net assets	**518,245**	**61,499**	**579,744**	**182,193**

Period 2016:

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Revenue	1,590,077		1,590,077	521,738
Operating profit (EBIT)	118,137	-5,398	112,739	36,992
Result for the period	**98,840**	**-3,320**	**95,520**	**31,342**
Other comprehensive income	-14,511		-14,511	-4,761
Comprehensive result for the period	**84,329**	**-3,320**	**81,009**	**26,581**

Period 2015:

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Revenue	1,589,003		1,589,003	491,087
Operating profit (EBIT)	77,084	-5,398	71,686	22,155
Result for the period	**84,499**	**-3,320**	**81,179**	**25,089**
Other comprehensive income	-12,447		-12,447	-3,847
Comprehensive result for the period	**72,052**	**-3,320**	**68,732**	**21,242**

In 2016, the result for the period of Tessenderlo Chemie nv was +98.8 million euros. The impact of fair value adjustments on the result for the period (100% value) amounted to -3.3 million euros (depreciation on revalued fixed assets). For the determination of the group share, an average participation rate was calculated of 32.8%. As a result, the share of profit of associated companies for 2016 amounts to +31.3 million euros. The other elements of the result of Tessenderlo Chemie amount to -14.5 million euros at 100% value or -4.8 million euros (group share).

For more information about the annual results of Tessenderlo Chemie we refer readers to the annual report of Tessenderlo Chemie at www.tessenderlo.com.

Related goodwill:

	2016	**2015**
Share of the net assets of the associated companies	240,805	182,193
Net book value of associated companies	397,196	308,101
Net book value of the related goodwill	**156,390**	**125,908**

The actual value of the participation in Tessenderlo Chemie nv as at 31 December 2016 amounted to 543.5 million euros (15,618,653 shares at a closing rate of 34.8 euros). The actual value of the participation in Tessenderlo Chemie nv as at 31 December 2015 amounted to 370.8 million euros (13,482,812 shares at a closing rate of 27.5 euros).

There are no restrictions regarding the transfer of funds from the associated company to the investor, as long as the bank covenants of the associated company are respected. The company has no knowledge of a breach of banking covenants as at 31 December 2016.

No contingent liabilities have been incurred by the investor with respect to the associated company.

OTHER FINANCIAL ASSETS

Other financial assets (amounting to 44,000 euros) are investments in unlisted entities. These investments are carried at cost, less any impairment losses.

III.7.6. NON-CURRENT RECEIVABLES

Non-current receivables are broken down below into interest-bearing trade receivables and guarantees:

(in '000 euros)	**2016**		**2015**	
	Trade receivables	**Guarantees**	**Trade receivables**	**Guarantees**
At the beginning of the period:				
Gross value	563	54	439	54
Accumulated amounts written off				
Net book value	**563**	**54**	**439**	**54**
Changes during the period:				
Acquisitions	102	1	445	0
Reimbursement				
Transfers	-409		-321	
At the end of the period:				
Gross value	256	55	563	54
Accumulated amounts written off	0	0	0	0
Net book value	**256**	**55**	**563**	**54**

The interest-bearing trade receivables consist entirely of the export financings accorded by Picanol nv. The non-current interest-bearing trade receivables are all amounts stated in euros. The non-current interest-bearing trade receivables are insured for a total of 0.2 million euros, resulting in a total outstanding risk of 0.02 million euros as at 31 December 2016 or 9% of the total outstanding amount of interest-bearing trade receivables. None of the non-current interest-bearing trade receivables are past due.

III.7.7. DEFERRED TAX ASSETS AND LIABILITIES

Recognized deferred tax

(in '000 euros)	2016		2015	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Intangible assets	0	0	0	-210
Tangible fixed assets	0	-4,978	0	-4,885
Inventories	1,566	0	1,341	0
Other assets	18	-994	15	-561
Employee benefit obligations	35	0	32	0
Other provisions	189	0	144	-624
Other liabilities	66	-1,974	18	-1,819
Tax loss carryforwards/tax credits	0	0	0	0
Other adjustments	0	-6	0	-1,595
TOTAL	**1,874**	**-7,952**	**1,549**	**-9,694**
Valuation allowance	-145		-181	
Offset*	-1,067	1,067	-592	592
TOTAL (as reported in the balance sheet)	**663**	**-6,886**	**777**	**-9,102**

(*) IAS 12 (Income Tax) requires that deferred tax assets and deferred tax liabilities should, under certain conditions, be offset against each other.

The decrease in the deferred tax liability regarding “Other provisions” was caused by the fiscal rejection of a legal provision for maintenance work. The decrease in the deferred tax liability on “other adjustments” was caused by the reversal of a provision for dividend tax.

Deferred tax assets that cannot be recovered over a period of 5 years are not recognized or are subject to a valuation adjustment. The expected tax results are based on the business plan as explained under III.2.

There were no material unrecognized fiscal losses in 2016 and 2015.

DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT 31 DECEMBER 2016:

No liabilities or assets were recognized for temporary differences relating to non-distributed earnings of subsidiaries and joint ventures controlled by the group as the group determines itself the timing of the dividend distribution. Undistributed reserves of subsidiaries and the related unrecognized deferred tax liability amounted to 54.8 million euros and 0.9 million euros respectively as at 31 December 2016. As at 31 December 2015, these figures were 39.0 million euros and 0.8 million euros respectively.

III.7.8. INVENTORIES

(in '000 euros)		**2016**	**2015**
Raw materials and auxiliaries	Gross value	56,537	53,540
Raw materials and auxiliaries	Amounts written off	-22,928	-23,826
Raw materials and auxiliaries		**33,608**	**29,714**
Goods in progress	Gross value	10,391	10,651
Goods in progress	Amounts written off	-179	-154
Goods in progress		**10,211**	**10,498**
Finished goods	Gross value	20,792	17,009
Finished goods	Amounts written off	-4,520	-4,312
Finished goods		**16,272**	**12,697**
Down payments	Gross value	162	154
Down payments	Amounts written off	0	0
Down payments		**162**	**154**
Total	Gross value	87,881	81,354
Total	Amounts written off	-27,628	-28,292
Total inventories		**60,253**	**53,063**

As a result of the higher production volumes in 2016, both the raw materials and auxiliaries (+3.0 million euros) and the finished goods (+3.8 million euros) increased. The increase was mainly concentrated in Picanol nv and PsiControl in Ypres and Romania. The write-off value of the stock in the balance sheet decreased by 0.7 million euros to 27.6 million euros (31% of the gross stock value).

At 31 December 2016, no inventory was pledged for any obligations. Other than in the usual course of business, the Picanol Group had no contractual commitments with regard to inventory at the end of 2016.

III.7.9. TRADE AND OTHER RECEIVABLES

Trade and other receivables can be broken down into the following categories:

(in '000 euros)	**2016**	**2015**
Trade receivables	55,389	49,220
Other receivables		
Recoverable VAT	3,718	4,014
Prepaid taxes	1,930	1,042
Deferred expenses	811	789
Other receivables	16,913	8,051

The categories of trade receivables and marked-to-market derivatives are considered as financial instruments, while the other headings are not.

The increase in trade receivables is due to the increased activity, particularly at Picanol nv.

Trade receivables at the balance sheet date consist of the amounts receivable from the sale of goods and the supply of services to the value of 57.2 million euros (2015: 51.2 million euros). An allowance has been booked for irrecoverable amounts from the sale of goods to the value of 1.8 million euros (2015: 2.0 million euros). This allowance has been determined based on historical data concerning non-payments, applying group valuation rules and individual assessment. Movements in the provision for doubtful debtors are included in the income statement under 'selling and marketing expenses'. Movements in the provision for doubtful debtors during the reporting period can be summarized as follows:

(in '000 euros)	**2016**	**2015**
At the beginning of the period:	**1,957**	**3,769**
Write-downs recorded	178	399
Utilizations or reversals of write-downs	-281	-2,202
Translation differences	-16	-10
At the end of the period:	**1,838**	**1,957**

The outstanding short-term trade receivables on 31 December 2016 before impairment are interest-bearing for a total of 2.5 million euros (4.2 million euros in 2015), which represents 7% of the total outstanding gross short-term trade receivables.

The ageing analysis of the carrying amount of trade receivables can be summarized as follows:

(in '000 euros)	**2016**	**2015**
Not yet due	45,554	42,197
Due < 1 year	9,835	7,023
Due > 1 year	0	0
Net book value	**55,389**	**49,220**

Other receivables comprise 15.3 million euros for bank notes of subsidiary PST (6.5 million euros in 2015). The bank notes are claims against financial institutions with a maturity of more than 3 months and are interest-bearing and include only non-due receivables at the end of December 2016, and at the end of December 2015. The other receivables increased due to higher activity at PST. The deferred expenses mainly consist of prepaid expenses.

Credit risk
General information on the credit risk can be found under III.8.8.

Picanol nv's credit policy is continuously monitored. A credit assessment is carried out on any counterparty requesting major credit amounts. The credit risk is also covered by credit insurance policies concluded with credit insurance companies and by the systematic use, where possible, of trade financing instruments. The other group companies also apply credit policies, but according to their own needs, as their trade receivables are of minor importance. Since the vast majority of trade receivables are covered by credit insurance, the credit risk is only limited to outstanding trade receivables not covered by such insurance.

The gross, short and long-term trade receivables of Picanol nv represent 66% (70% in 2015) of the consolidated gross trade receivables, or 38.2 million euros. Of these, 2.7 million euros (4.4 million euros in 2015) or 7% of the gross trade receivables are not covered through credit insurance. The gross trade receivables of P(SIP)T represent 1% (1% in 2015) of consolidated trade receivables, which are not exposed to any risk, given the general rule of delivery against payment. A provision of 1.5 million euros (1.6 million euros in 2015) has been provided against the total uninsured consolidated open risk. The uncovered long-term credit risk is discussed in III.7.6. The credit risk on cash is limited, being linked to traditional bank deposits placed with banks.

III.7.10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held by the group and short-term bank deposits with an original maturity of up to 3 months. The carrying amount of these assets is approximately equivalent to their fair value:

(in '000 euros)	**2016**	**2015**
Cash in bank and in hand	81,285	77,351
Total cash and cash equivalents	**81,285**	**77,351**

See II.3. Consolidated cash flow statement.

III.7.11. SHARE CAPITAL

(in '000 euros)	**2016**	**2015**
Issued shares		
17,700,000 ordinary shares without nominal value	21,720	21,720
Fully paid-up shares		
17,700,000 ordinary shares without nominal value	21,720	21,720

III.7.12. SHARE PREMIUM

(in '000 euros)	**2016**	**2015**
Balance at the beginning	**1,518**	**1,518**
Premium on the issue of shareholders' equity	0	0
Expenses on the issue of shareholders' equity	0	0
End balance	**1,518**	**1,518**

III.7.13. EMPLOYEE BENEFIT OBLIGATIONS

Various entities within the Picanol Group have defined benefit plans and/or defined contribution plans. Defined benefit plans which typically provide retirement benefits in proportion with the remuneration level and service time exist only in the Belgian entities. These plans are insured.

The provisions for staff rewards comprise early retirement pensions and other long term staff rewards in the Belgian entities and non-material obligations in other subsidiaries. The Belgian group insurance plans that were to date considered to be defined contribution plans are treated with effect from this year as defined benefit plans as they are subject to minimum legal returns (see below).

Reconciliation between the recorded provision for "Employee benefit obligations" and the net liability for defined benefit plans:

(in '000 euros)	**2016**	**2015**
Balance:		
Employee benefit obligations – long term	5,128	5,888
Employee benefit obligations – short term	1,362	1,362
Total balance	**6,490**	**7,250**
Of which:		
Early retirement pensions	4,208	4,868
Other long-term employee benefits	1,315	1,248
Immaterial provisions at other branches	670	684
Defined benefit plans	**297**	**450**

The early retirement provision is recognized the moment an employee signs an early retirement agreement for all future obligations on the part of the employer, and this is calculated on an actuarial basis.

The other long-term employee benefits consist of provisions for end of employment premiums and seniority premiums, calculated for all active employees on an actuarial basis and calculated in proportion to the period of service.

DEFINED BENEFIT PLANS:

The defined benefit plans mostly concern Belgian pension plans that are subject to legal minimum return requirements and are thus treated with effect from the 2016 financial year as defined benefit plans. These plans are fully financed by the group via insurance companies.
The legal minimum guaranteed return amounts to 3.25% for the contributions paid until the end of 2015. For new contributions from 2016, the legal minimum return is linked to the return on Belgian linear bonds with a duration of 10 years, with a minimum return of 1.75% and a maximum of 3.75%. This minimum return requirement is calculated as an average over the entire career of the member.
For the calculation of the pension obligation, a projection is made for all members based on the accrued reserves and returns from the past up to retirement date, based on the minimum legal return or, if higher, the actual guaranteed return by the insurance company. Since the actual guaranteed return on the accrued reserves is higher than the legal minimum return pension obligation, the net pension obligation was zero and the different valuation method does not impact the comparative figures. The accrued reserves under these plans amount to 7.6 million euros with an average return of 3.5%.

The defined benefit plans also include "defined benefit" group insurance plans for management and expatriates that are externally funded by insurers. Both plans are closed and all of the new group insurance plans are defined contribution plans. The accrued reserves under these plans amount to 2.9 million euros and the net liability amounts to 0.1 million euros.

In addition, the defined benefit plans also include the small STEP plan (non-financed plan), which was decided in 2013 would be gradually terminated in phases over a five year period. This plan provides for the lifetime payout of a fixed annual premium depending on the years of service upon retirement. The net liability recognized for the small STEP plan amounts to 0.2 million euros.

The main risks to the defined benefit plans relate to the discount rate, inflation rate and mortality tables. The income and expenses that are charged to the profit and loss account are included in the cost of sales and general and administrative expenses.

	2016			2015		
(in '000 euros)	Retirement benefit obligations	Fair value of plan assets	Net liability	Retirement benefit obligations	Fair value of plan assets	Net liability
On 1 January	**1,441**	**-992**	**450**	**2,636**	**-923**	**1,713**
Charged to the profit and loss account:	**69**	**-69**	**0**	**-891**	**-69**	**-960**
Current service costs	35	-35	0	35	-35	0
Interest costs (income)	34	-34	0	34	-34	0
Plan changes			0	-960		-960
Charged to shareholders' equity:	**-4**	**0**	**-4**	**-151**	**0**	**-151**
Actuarial (profits)/losses	-4		-4	-151		-151
(Profits)/losses due to demographic assumptions						
Other:	**12,669**	**-12,818**	**-149**	**-153**	**0**	**-153**
Paid benefit obligations	-149	0	-149	-153		-153
Reclassification of pension plans	12,818	-12,818				
On 31 December	**14,174**	**-13,878**	**297**	**1,440**	**-992**	**450**
Funded obligations	14,019	-13,878	142	1,123	-992	132
Unfunded obligations	155		155	317		317
Total	**14,174**	**-13,878**	**297**	**1,440**	**-992**	**450**

The changes in the plan that were charged to the result in 2015 are due to the phased closure of the small STEP plan.

The other changes that were implemented in 2016, which did not influence the result, concern the reclassification of the Belgian pension plans to defined benefit plans.

The underlying assets relate to insurance contracts with underlying assets that primarily consist of fixed-income securities.

The main actuarial assumptions used at the balance sheet date (weighted averages):

	2016	2015
Discount rate	1.3%	2.0%
Estimated rate of salary increases	1.5%	2.0%

The discount rate is based on the yield of high quality corporate bonds with a maturity of 10 years, which corresponds to the duration of the retirement benefit obligations.

Sensitivity analysis regarding changes in actuarial assumptions:

Sensitivity regarding a change in the discount rate:

(in '000 euros)	1% increase	1% decrease
Gross liability	-25	29

III.7.14. PROVISIONS

	2016			2015		
(in '000 euros)	< 1 year	> 1 year	Total	< 1 year	> 1 year	Total
Product warranties	7,113	44	7,156	6,341	29	6,371
Environment		74	74		79	79
Restructuring			0			0
Other risks	0	0	0	310	0	310
Total	**7,113**	**118**	**7,231**	**6,651**	**109**	**6,760**

(in '000 euros)	Product warranties	Environmental risks	Other risks	Total
On 1 January 2016	**6,371**	**79**	**310**	**6,760**
Additions	3,226	0	0	3,226
Utilizations	-2,442	-5	-310	-2,757
Reversals	0	0	0	0
Exchange rate differences	-12	0	0	-12
On 31 December 2016	**7,157**	**74**	**0**	**7,231**
More than 1 year	44	74	0	118
Up to 1 year	7,113	0	0	7,113
Total	**7,156**	**74**	**0**	**7,231**

The provisions for product warranties primarily relate to warranties associated with the sale of weaving machines. The provisions are calculated on the basis of historical costs of product warranties related to the supply of goods and services. They are recalculated annually on the basis of actual costs incurred in the previous financial year. The increase in this provision in 2016 is mainly due to the higher number of machines under guarantee.
The provision for other risks and expenses was utilized in 2016 following the settlement of a dispute with regard to a dismissal.

III.7.15. INTEREST-BEARING DEBT

	2016			2015		
(in '000 euros)	Expiry day < 1 year	Expiry day > 1 year	Total	Expiry day < 1 year	Expiry day > 1 year	Total
Financial leases	169	0	169	1,252	0	1,252
Export finance	1,773	0	1,773	3,413	0	3,413
Total more than 1 year	**1,942**	**0**	**1,942**	**4,665**	**0**	**4,665**
Loan	0		0	500		500
Total up to 1 year	**0**		**0**	**500**		**500**
Total	**1,942**	**0**	**1,942**	**5,165**	**0**	**5,165**

The total future financial charges on interest-bearing liabilities are due within the following periods:

	2016			2015		
	Expiry day < 1 year	Expiry day > 1 year	Total	Expiry day < 1 year	Expiry day > 1 year	Total
Financial leases	3	0	3	26	0	26
Export finance	0	0	0	20	0	20
Total	**3**	**0**	**3**	**46**	**0**	**46**

The table of due dates together with the list of due dates for future interest charges represent the total future cash flows for the existing financial obligations.

The financial leases primarily relate to the plant and equipment of Proferro nv. The total interest charges are 4% per annum. The fair value of the underlying assets amounted to 6.0 million euros at the end of 2016 compared with 6.7 million euros on 31 December 2015.

The export financing decreased, in spite of the increased volumes, as it depends on the regional distribution of the sales. The export financing includes obligations for which the corresponding trade receivable has already been discounted by Delcredere but the risk of which has not yet been fully transferred.

In 2016, the loan of 0.5 million euros which was contracted by Melotte was paid back in full.

The majority of the financial liabilities of the group are centrally contracted and managed by Picanol nv. The financial liabilities do not include loans that are subject to 'debt covenants'.

III.7.16. DERIVATIVE FINANCIAL INSTRUMENTS

The various categories of financial assets and obligations that apply to the company are limited to loans and accounts receivable, financial obligations valued at the amortized cost price and financial assets/liabilities entered at their real value in the income statement. As regards the financial assets/liabilities valued at their real value in the income statement, their inclusion is shown separately under the section 'trade and other accounts receivable,' with further explanations under the section 'financial derivatives.' The other categories are discussed in the respective explanations for each section.

The Picanol Group does not apply hedge accounting to derivative financial instruments.

The Picanol Group manages a portfolio of derivatives in order to cover risks relating to exchange rate fluctuations resulting from operating and financial activities. Currency risks are hedged insofar as they influence the group's cash flows. Risks resulting from the conversion of assets and liabilities of the foreign activities into the presentation currency of the Picanol Group are not hedged. It is the company policy not to engage in speculative or leveraged transactions or to hold or issue derivatives for trading purposes.

Picanol nv occasionally has foreign currency hedges in the form of forward contracts. These primarily concern forward sales contracts related to expected cash inflows, whereby the USD is sold forward. The change in market value is recognized in the income statement. The marked-to-market value of these forward contracts for which no underlying assets or liabilities exist is justified by orders placed but not yet invoiced.

The valuation method is based on the valuation models as defined by the banks with which the forward contracts are placed. The marked-to-market value of the derivative financial instruments is presented on the liabilities side of the balance sheet as 'other current liabilities'.

Overview of forward exchange contracts:

	2016		2015	
(in '000 euros)	**Notional amount**	**Marked-to-market**	**Notional amount**	**Marked-to-market**
Forward sales contracts < 6 months	-1,449	-67	-892	22
Forward sales contracts > 6 months	0	0	0	0
Subtotal forward sales contracts	**-1,449**	**-67**	**-892**	**22**
Interest rate swaps (IRS)	0	0	0	0
Subtotal interest rate swaps	**0**	**0**	**0**	**0**
TOTAL	**-1,449**	**-67**	**-892**	**22**

The adjustment to the marked-to-market value of the financial instruments is recognized in the income statement under 'other financial income and expenses'.

III.7.17. TRADE AND OTHER PAYABLES

(in '000 euros)	**2016**	**2015**
Trade payables	75,499	63,666
Income taxes payable	3,893	2,208
Other current liabilities	45,219	51,490
Down payments received	20,637	26,464
Remuneration & social security	18,445	17,871
Accrued expenses and deferred income	5,393	6,887
Marked-to market derivatives	67	0
Other liabilities	677	268

'Trade payables' and 'other liabilities' in the above table are regarded as financial instruments. The remaining liabilities are regarded as non-financial liabilities. The increase in trade payables is due to the increase in production volumes.

Both short-term trade and other payables are non-interest-bearing liabilities both at 31 December 2016 and at the end of 2015.

III.8. MISCELLANEOUS

III.8.1. OPERATING LEASE AGREEMENTS

(in '000 euros)	**2016**	**2015**
Payments due within the year	825	650
Between 1 and 5 years	1,603	867
Minimum future lease payments	**2,428**	**1,517**

Operating lease payments represent rentals payable by the group for company cars.

An amount of 0.7 million euros was recognized as a rental cost in the income statement in 2016, as well as in 2015.

III.8.2. EVENTS AFTER THE BALANCE SHEET DATE

There were no important events after the balance sheet date.

III.8.3. RELATED PARTY TRANSACTIONS

Remuneration and other fees of directors:

(in '000 euros)		**Fixed remuneration as director**	**Attendance fees (Board of Directors and committees)**	**Total 2016**	**Total 2015**
Stefaan Haspeslagh	executive	60,000	-	60,000	60,000
Luc Tack	executive	25,000	-	25,000	25,000
Patrick Steverlynck, as representative of Pasma nv	non-executive	15,000	18,000	33,000	23,000
Hugo Vandamme, as representative of HRV nv	non-executive	15,000	18,000	33,000	35,000
Jean Pierre Dejaeghere, as representative of nv Kantoor Torrimmo	non-executive	15,000	18,000	33,000	35,000
Frank Meysman, as representative of M.O.S.T. BVBA (until 27/04/2016)	non-executive	3,750	10,000	13,750	33,000
Luc Van Nevel, as representative of The Marble BVBA (since 27/04/2016)	non-executive	7,500	6,000	13,500	-

There are no severance payments determined for the Managing Director, nor for the other executive directors.

Services and various commercial transactions with shareholders:

(in Keuros)	**2016**	**2015**
Trade receivables	21	51
Interest-bearing debt	0	0
Sales	2,097	2,185
Costs of sales	-17	-61
General & administration costs	-114	-32
Financing costs	0	-14

The above amounts comprise the revenues and expenses of Picanol Group for services and various commercial transactions at market conditions. These include, amongst other things, remunerations that are also covered in the Corporate Governance section.

Remuneration of the Managing Director:

(in '000 euros)	**2016**	**2015**
Name	Luc Tack	Luc Tack
Fixed remuneration	100,000	100,000
Variable remuneration	-	-
Total	**100,000**	**100,000**
Pension	-	-
Other benefits	-	-

The Managing Director does not receive long-term cash incentive plans.

Remuneration of the other members of the executive management:

In euros	2016	2015
Fixed remuneration	964,849	964,122
Variable remuneration	366,205	325,657
Total	**1,331,054**	**1,289,779**
Pension (fixed contribution)	63,000	63,000
Other benefits*	13,375	13,375

** Remuneration usage car*

The level and structure of the remuneration of other members of the management committee seek to enable the company to attract and motivate qualified managers. The remuneration is regularly checked to ensure that it corresponds with market trends.

The other members of the management committee do not receive long-term cash incentive plans. The members of the management committee do not receive directors' fees for the companies where they fulfill a director's position. A notice period between 1 year and 18 months was implemented for the other executive managers.

At the general meeting of shareholders of 27 April 2016, the shareholders approved the Board of Directors' proposal to deviate from the provisions of Corporate Governance in relation to the distribution of bonuses in time. The bonuses of the other members of the executive management were therefore paid out in one sum.

III.8.4. EXCHANGE RATES

		Average exchange rates		Closing exchange rates	
	ISO	**2016**	**2015**	**2016**	**2015**
Brazilian Real	**BRL**	0.2626	0.2713	0.2915	0.2319
Chinese Yuan (Renminbi)	**CNY**	0.1363	0.1438	0.1366	0.1416
Indonesian Rupee (1000)	**IDR**	0.0680	0.0673	0.0706	0.0655
Indian Rupee	**INR**	0.0135	0.0141	0.0140	0.0139
Mexican Peso	**MXN**	0.0485	0.0568	0.0459	0.0529
Romanian Lei	**RON**	0.2224	0.2250	0.2203	0.2210
Turkish Lira	**TRY**	0.2999	0.3304	0.2697	0.3148
US Dollar	**USD**	0.9074	0.9051	0.9487	0.9185

III.8.5. PERSONNEL

	31/12/2016			31/12/2015		
In units	**Fully consolidated**	**Proportionally consolidated**	**Total**	**Fully consolidated**	**Proportionally consolidated**	**Total**
Management	6	0	6	6	0	6
White collar employees	641	0	641	632	0	632
Blue collar employees	1,545	0	1,545	1,424	0	1,424
Average number of personnel employed	2,113	0	2,113	1,997	0	1,997
Average number of personnel employed in Belgium	1,510	0	1,510	1,428	0	1,428
Remuneration and social charges (in '000 euros)	102,070	0	102,070	94,334	0	94,334

III.8.6. AUDIT AND NON-AUDIT SERVICES PROVIDED BY THE AUDITOR

The auditor received an amount of 156,515 euros for the performance of his audit task in 2016. In the course of 2016, the auditor and the auditor related parties charged 56,416 euros, especially in the framework of the intended contribution in Tessenderlo.

III.8.7. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group had no material contingent assets and liabilities on 31 December 2016.

III.8.8. FINANCIAL RISK MANAGEMENT

The Picanol Group is exposed to risks deriving from movements in exchange rates, interest rates and market prices that affect its assets and liabilities. These are the main market risks to which the group is exposed. Picanol Group's financial risk management seeks to limit the effects of these market risks from its operating and financial activities. The group is also confronted with interest and liquidity risks, for which it applies the necessary means to control.

Currency risk

The Picanol Group incurs currency risks mainly on sales and purchase and, to a lesser degree, on financial debt that is expressed in a currency other than the subsidiary's functional currency.

The Picanol Group manages a portfolio of derivatives covering the currency risks deriving from business and financial activities. These are discussed in III.7.16.

The currencies in which the main Picanol Group subsidiaries operate are the US dollar and the Chinese renminbi. Based on the volatility of these currencies against the euro in 2016, we give below the sensitivity of a 5% positive/negative fluctuation of the US dollar and Chinese renminbi exchange rates.

(in '000 euros)					
Company	**Balance sheet position**	**Amount**	**Currency**	**Effect + 5%**	**Effect - 5%**
GTP Greenville (USD)	Trade payables	1,116	EUR	55.8	-55.8
P(Sip)T (RMB)	Trade receivables	2,263	EUR	-113.2	113.2
	Trade payables	3,017	EUR	150.9	-150.9
GTP Istanbul (YTL)	Trade receivables	197	EUR	-9.9	9.9
	Trade payables	144	EUR	7.2	-7.2
				90.9	**-90.9**

Changes in the euro exchange rate during 2016 within the above-mentioned volatilities would have given a 91,000 euros higher/lower consolidated profit.

Interest rate risk

By the end of 2016, interest-bearing debt consisted solely of finance leases (fixed rate) and export financing.

Picanol has a general policy of discounting the long-term receivables immediately to avoid interest rate risks. The export financing by the end of 2016 comprised only obligations of which the trade receivable was already discounted by Delcredere but the risk of which has not yet been completely transferred.

Credit risk
The group's most important current financial assets are its cash and cash equivalents and its trade and other receivables. These represent the group's maximum exposure to the credit risk of financial assets.

The group's credit risk lies primarily in its trade receivables. The amounts shown in the balance sheet are presented including the provisions for doubtful debtors. These are estimated by group management based upon historical data and estimates of the current economic environment. The maximum exposure to credit risk is equal to the book value of all financial assets. For a detailed discussion of this risk the reader is referred to III.7.9.

Liquidity risk
In order to guarantee its liquidity and financial flexibility at all times, the Picanol Group has various uncommitted credit lines in euros in amounts that are considered adequate to current and future financial needs. The Picanol Group has total credit lines excluding bank guarantees available for 57.1 million euros (2015: 57.1 million euros) of which export financing is representing 20.0 million euros and 37.1 million euros in straight loans. At the balance sheet date, the credit lines were used for an amount of 0 million euros excluding bank guarantees.

The credit line for bank guarantees amounts to 12 million euros (2015: 12 million euros), with 6.3 million euros of bank guarantees outstanding at 31 December 2016. The Picanol Group uses these bank guarantees primarily for commercial purposes (tender process delivery guarantee).

III.8.9. MISCELLANEOUS

Capital management
The capital management of the Picanol Group aims essentially at:

- Protecting the capital to ensure continuous business operations resulting in a continuous shareholder value and benefits for other stakeholders
- The dividend policy of the Picanol Group is based on an annual judgment concerning the return for shareholders, maintaining a free cash flow and opportunities for financing further growth

The capital of the group is formed in accordance with the outstanding risk, which changes according to economic developments and the risk profile of the underlying assets. The Picanol Group can change the dividend to shareholders, issue new shares or sell assets in order to maintain or change the capital structure.

STATUTORY FINANCIAL STATEMENTS OF PICANOL NV

PICANOL nv (in '000 euros)	**2016**	**2015**
FIXED ASSETS	**124,006**	**123,816**
Intangible assets	543	311
Tangible fixed assets	13,654	13,466
Financial fixed assets	109,808	110,038
CURRENT ASSETS	**400,939**	**337,167**
TOTAL ASSETS	**524,945**	**460,983**
SHAREHOLDERS' EQUITY	**405,134**	**336,897**
Share capital	22,200	22,200
Share premium account	1,518	1,518
Reserves	45,136	45,136
Profit/(loss) carried forward	336,280	268,042
Investment grants	0	0
PROVISIONS AND DEFERRED TAXES	**12,116**	**12,136**
LIABILITIES	**107,694**	**111,951**
Amounts payable after one year	0	0
Amounts payable within one year plus accrued expenses and deferred income	107,694	111,951
TOTAL LIABILITIES	**524,945**	**460,983**
SALES	510,096	409,770
OPERATING RESULT	87,627	59,515
FINANCIAL RESULTS	9,044	22,183
NON-RECURRING RESULTS	0	48
TAXES	-26,664	-17,050
PROFIT FOR THE FINANCIAL YEAR	**70,007**	**64,696**

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

Notes to the balance sheet and income statements of the parent company Picanol nv

The total assets of Picanol nv increased by 64.0 million euros from 461.0 million euros as at the end of 2015 to 524.9 million euros at 31 December 2016. This rise was mainly due to the increase of the loan extended to the subsidiary Verbrugge nv (due to share purchases by Verbrugge nv) and the working capital increase as a result of the higher turnover.

The turnover of Picanol nv increased in 2016 by 24% compared to 2015 (from 409.8 million euros to 510.1 million euros) and this was due to the increasing demand for Picanol weaving machines. The gross margin (operating income less the value of the trade goods, raw materials and consumables, services and other goods) increased from 100.7 million euros in 2015 to 132.5 million euros at the end of 2016. The gross margin in relation to the turnover increased from 24.6% in 2015 to 26.0% in 2016. The operating profit increased by 28.0 million euros to 87.6 million euros at the end of 2016.

The net financial result decreased by 13.1 million euros, mainly due to less dividends paid out by several subsidiaries.

The net book value of participations in associated companies and the receivables on the relevant companies were valued and ratified by the Board of Directors.

As a world player, the Picanol Group is faced with the geopolitical situations that its customers are coping with. In addition, the financial competitiveness is highly dependent on structural exchange rate fluctuations. Permanent technological development is also vital in order to safeguard Picanol's position as a world player in the sector.

See paragraph III.2 on the assessment of the risks of going concern and asset valuation.

A full version of the statutory financial statements, as well as the corresponding reports, is available on the website: www.picanolgroup.com.

Financial instruments
Picanol nv practices foreign currency hedges through forward contracts. Under no circumstances are derivative instruments used for speculative purposes. Otherwise, the company uses no other form of financial instruments whatsoever.

Branch offices
The company has no branch offices.

Conflicts of interest
See the section entitled 'Corporate Governance' in this annual report.

Report of the auditor
The statutory auditor has issued an unqualified opinion on the statutory financial statements of Picanol nv.

STATUTORY AUDITOR'S REPORT

Statutory auditor's report to the shareholders' meeting of Picanol nv on the consolidated financial statements for the year ended 31 December 2016

To the shareholders
As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated balance as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion
We have audited the consolidated financial statements of Picanol NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated balance shows total assets of 678,504 (000) EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 119,725 (000) EUR.

Responsibility of the Board of Directors for the preparation of the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the Board of Directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion
In our opinion, the consolidated financial statements of Picanol NV give a true and fair view of the group's net equity and financial position as of 31 December 2016, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements
The Board of Directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Gent, 1 March 2017

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Kurt Dehoorne

INFORMATION FOR SHAREHOLDERS

SHARES AND LISTING

Euronext Brussels code: BE0003807246
Mnemo: PIC

ICB Sector classification:

Industry: *2000, Industrials*
Sector (raw): *2700, Industrial Goods & Services*
Sector: *2750, Industrial Engineering*
Subsector: *2757, Industrial Machinery*

The Picanol Group has been listed on the Brussels stock exchange since 1966. Following the merger of the Amsterdam, Brussels and Paris stock exchanges in September 2000, it has been listed on Euronext Brussels under the abbreviation PIC. In 2017, Euronext Brussels has included the Picanol Group in the continuous market, compartment A (Large Cap). The Picanol Group is part of the BEL Mid Index.

On 31 December 2016, the share capital was represented by 17,700,000 Picanol shares. During the course of 2016 no changes occurred in Picanol's share capital.

As regards the present capital structure there were no outstanding share options, warrants or convertible bonds as at 31 December 2016.

The stock market capitalization on 31 December 2016 amounted to 1.373 billion euros.

Shareholder structure
The shareholder structure is shown on page 26.

Financial calendar

Annual general meeting	19/04/2017
Announcement of half-yearly results	23/08/2017 (before opening of the stock exchange)
Announcement of annual results 2017	28/02/2018 (before opening of the stock exchange)
Annual general meeting	18/04/2018

DIVIDEND
The Board of Directors will propose the payment of a gross dividend of 0.1 euros per share at the annual general meeting on 19 April 2017, for a total amount of 1.77 million euros.

GLOSSARY

Airjet	Airjet weaving machine
CNC	Computer Numerical Control. This refers to the computer controlled system of the machine tool.
Heddle	Each warp runs through a heddle. The heddles are mounted in groups on the weaving frame.
HWS	Heinrich Wagner Sinto molding line for large casting.
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
Frame	*See weaving frame.*
Lamellar or grey cast iron	An alloy based on iron and carbon with at least 2.0% but usually more than 3.0% carbon. It is the most common sort of cast iron.
Nodular cast iron	Grey cast iron where the graphite is in the form of spherical nodules. Nodular cast iron has much better mechanical properties than lamellar cast iron, it is tougher and very resistant to cracking.
R&D	Research & Development
Rapier	Rapier weaving machine
Reed	Comb-like device through which the warp ends are threaded. Each time a pick is inserted, the reed pushes it up against the material already woven, a process known as 'beating up'.
Tire cord	Fabric used as reinforcement in vehicle tires.
User interface	A user environment or user interface between man and machine.
WCM	World Class Manufacturing
Weaving machine	Machine on which a fabric is made using two groups of threads. The threads running lengthwise are known as warp threads, those running perpendicular to the warp threads are the weft threads.
Weaving frame	The weaving frame or frame moves a warp thread up and down in a weaving machine.

ADDRESSES

Belgium
Picanol – headquarters/Picanol Group nv
Steverlyncklaan 15
8900 Ypres
Tel +32 57 22 21 11
Fax +32 57 22 22 20

Proferro
Steverlyncklaan 15
8900 Ypres
Tel +32 57 22 21 11
Fax +32 57 22 22 00

Verbrugge
Steverlyncklaan 15
8900 Ypres
Tel +32 57 22 21 11
Fax +32 57 22 22 55

PsiControl
Steverlyncklaan 15
8900 Ypres
Tel +32 57 40 96 96
Fax +32 57 40 96 97

Melotte
Industrieweg 2019
3520 Zonhoven
Tel +32 11 53 99 40
Fax +32 11 81 39 54

Brazil
Picanol do Brasil
Rua Treze de Maio, 164
CEP 13471-030
Americana/ SP
Tel +55 19 3478-9600
Fax +55 19 3478-9608

France
Burcklé
Rue de Bourbach-le-Haut 9
68290 Bourbach-le-Bas
Tel +33 3 89 82 8989
Fax +33 3 89 82 8359

India
Picanol India Private Ltd
DSM - 621 & 622, DLF Towers
Block - IV, 15 Shivaji Marg
Moti Nagar,
New Delhi, India, 110 015
Tel +91 11 42461201-2
Fax +91 11 42461202

Indonesia
PT. Picanol Indonesia
Jl. Moh. Toha Km 5,3 no. 56
Bandung 40261
West Java Indonesia
Tel +62 22 521 1865
Fax +62 22 520 0591

Mexico
Picanol de Mexico
Avena 475, Col. Granjas México, Iztacalco, 08400
Mexico D.F.
Tel +52 55 56 57 1740
Fax +52 55 56 57 0041

Romania
PsiControl Srl
Campului Street 1A
505400 Rasnov
Brasov County
Tel +40 268 230081
Fax +40 268 230015

Turkey
Picanol Tekstil Makinalari
Dunya Ticaret Merkezi
A2 blok kat:5 no:210
Ataturk Havalimani Karsisi
34149 Yesilkoy/Istanbul
Tel. +90 212 465 88 08
Fax +90 212 465 88 11

United States
Picanol of America
Kitty Hawk Road 65
Greenville SC 29605
Tel +1 864 288 5475
Fax +1 864 987 0972

People's Republic of China
Picanol (Suzhou Industrial Park) Textile Machinery Co. Ltd.
2, Songzhuang Road, FengTing Avenue
Suzhou Industrial Park
Suzhou 215122
Tel +86 512 6287 0688
Fax +86 512 6287 0710

Picanol (Suzhou) Trading Co., Ltd.
2, Songzhuang Road, FengTing Avenue
Suzhou Industrial Park
Suzhou 215122
Tel +86 512 6287 0688
Fax +86 512 6287 0981

Picanol Guangzhou Sales Office
Room 701, Office Tower
China Hotel, Liuhua Road
Guangzhou 510015
Guangdong Province
Tel +86 20 86 266110
Fax +86 20 86 6660

Investor Relations

General and financial information on the Picanol Group (press releases, annual reports, annual accounts, financial calendar, corporate governance charter etc.) can be found on the corporate website www.picanolgroup.com, in English and in Dutch. For more information, please contact the Corporate Communication department.

The annual report is available in Dutch and English on the website of the Picanol Group: www.picanolgroup.com.

The Dutch version of this annual report is to be considered as the reference.

Responsible editor:
Luc Tack
Managing director
Steverlyncklaan 15
8900 Ypres
Belgium

PICANOL GROUP

Picanol nv
Steverlyncklaan 15
8900 Ypres
Tel. +32 57 222 111
E-mail info@picanol.be
www.picanolgroup.com