Annual report **2017**

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 more than 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. Melotte is a high-precision producer of metal components, molds and reconditioned molds. It has also played a leading role in the 3D printing of components for a number of years.

The Picanol Group employees operate all over the world to serve their customers. Nearly 2,300 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.

The Picanol Group in 2017:

Consolidated turnover:	688.93 million euros
Employment:	2,298
Euronext Brussels:	PIC
Web:	www.picanolgroup.com

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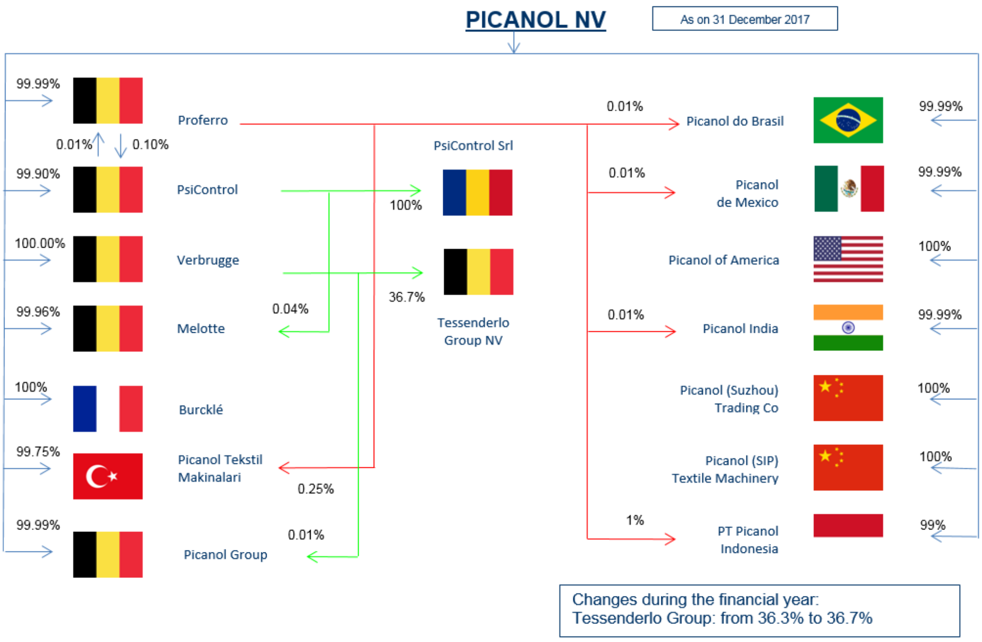
PRESENTATION OF THE PICANOL GROUP

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.

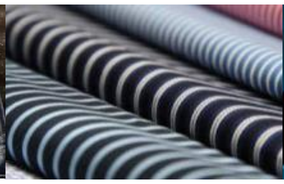
- **AIRJET WEAVING MACHINES**
  In the case of airjet weaving machines, the weft into the shed is propelled by a (compressed) airjet.

- **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

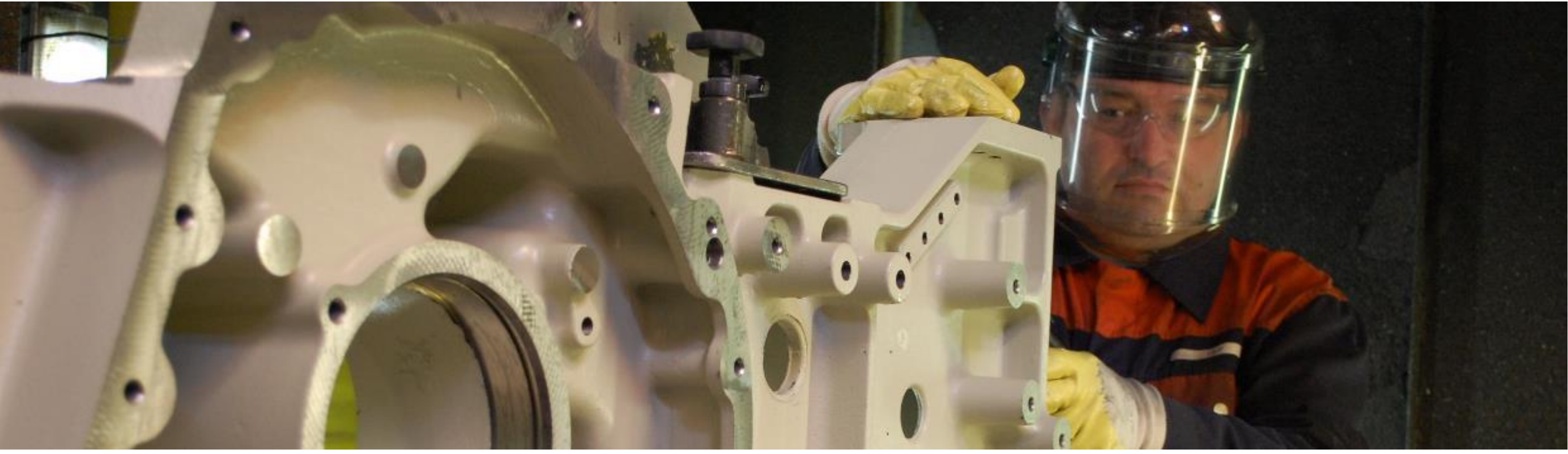
OMNI*plus* Summum
The latest airjet weaving machine for the higher market segments.

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
Engineered Casting Solutions

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 to 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.

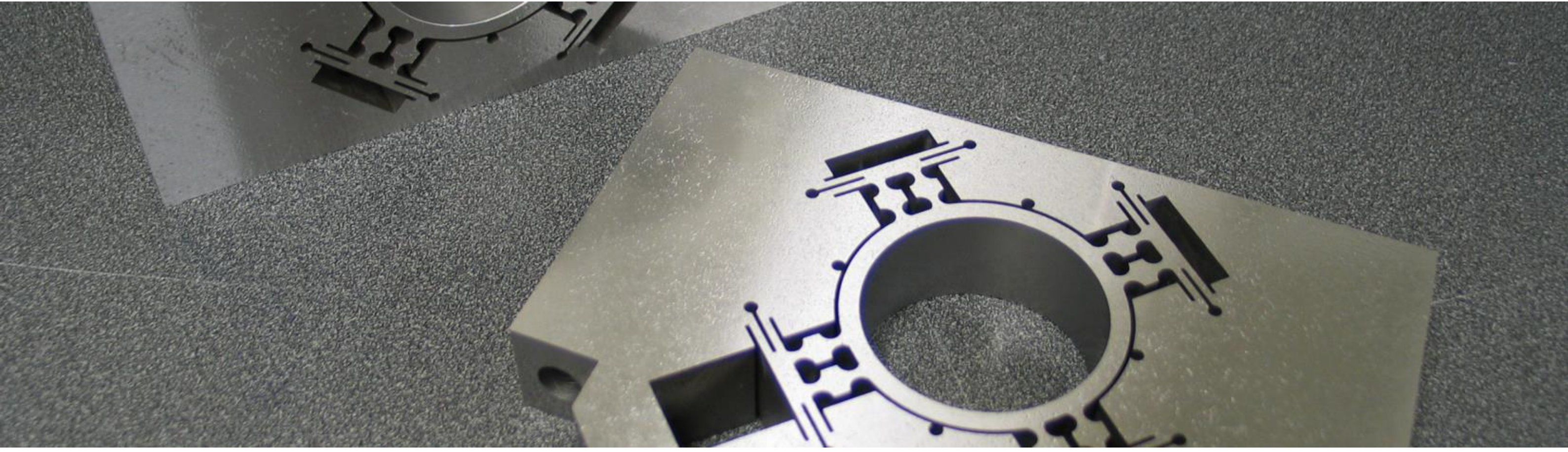



PSICONTROL

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

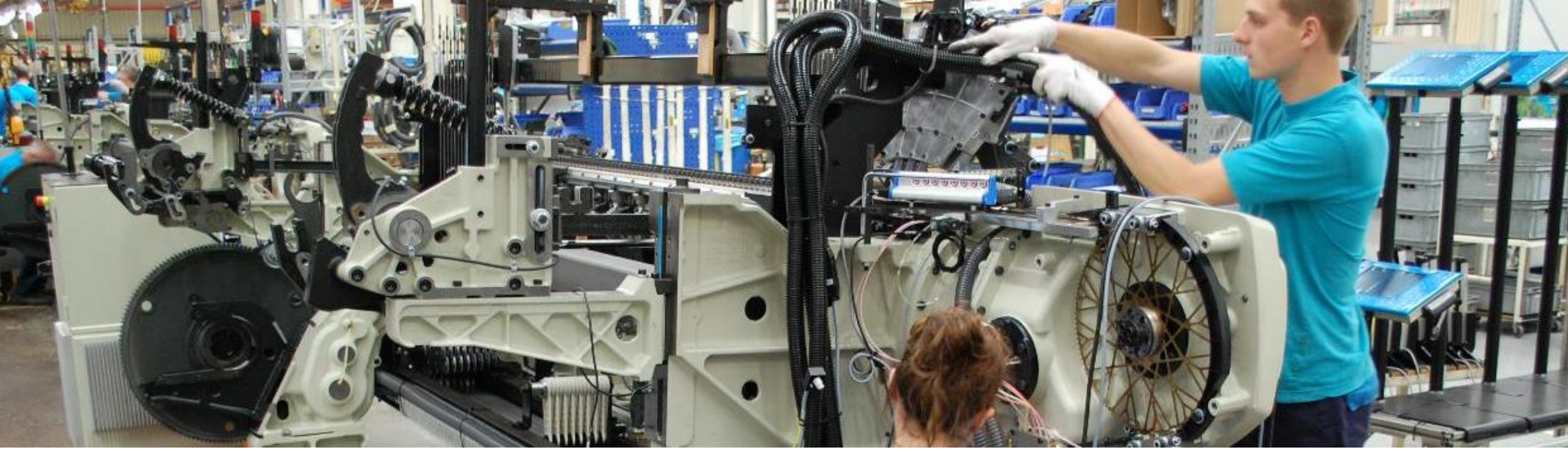
Melotte in Zonhoven (Belgium) specializes in manufacturing parts with high-precision, complex shapes, in special materials and small numbers. Both classical methods (turning, milling, grinding and spark erosion) and modern 3D printing techniques are used during the production process. Melotte specializes 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

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 2017 the Picanol Group employed 2,298 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,

Once again, the Picanol Group can look back on a year of significantly strong performance.

In 2017, the Weaving Machines division again experienced a record breaking year. The rising demand for quality and technology resulted in strong sales – mainly in Asia – and this led to further market share growth in many countries and weaving market segments. This resulted in Picanol putting a record number of weaving machines on the market in 2017. The sales of spare parts and accessories followed the positive trend of the weaving machines.

The Industries division (Proferro, PsiControl and Melotte) also showed strong sales growth in various market segments while making an increasing contribution to the group's turnover. On the other hand, rising material prices and a higher share of subcontracting versus own production had an adverse effect on the result. Within Industries, Proferro continues to modernize its machine park in order to increase profitability and production capacity.

The Picanol Group realized a consolidated turnover of 688.93 million euros over the full 2017 financial year, which represented an increase in turnover of 8% compared to the 639.78 million euros recorded in 2016 (record year in the history of the group). The activities of Picanol Group resulted in a net profit of 91.64 million euros in 2017, as compared to 88.38 million euros in 2016. Furthermore, Tessenderlo Group nv made a positive contribution to the net profit of 10.07 million euros (as compared to 31.34 million euros in 2016). The group ended 2017 with a net profit of 101.71 million euros, as compared to 119.72 million euros in 2016.

The Picanol Group recorded strong results for the eighth consecutive year.

<u>Dividend</u>
The Board of Directors will propose the payment of a gross dividend of 0.2 euros per share at the annual general meeting on April 18, 2018, for a total amount of 3.54 million euros.

<u>Beyond Industry 4.0: Let's Make it Together</u>
Currently, the Picanol Group operates in a constantly changing world of ever-increasing complexity and this creates many challenges. In addition to automation, product development, innovation and quality - of both products and services - agility, teamwork and, above all, smart responses to new technological challenges will be the keys to becoming and remaining successful in the future. The Picanol Group firmly believes in the further growth of its manufacturing industry in Belgium. And the company is also committed to the future and to sustainable growth, with its employees as the driving force.

In this context, the Picanol Group has launched Let's Make it Together in the course of 2017 to focus in the coming years on three priorities that should help it on its way to becoming the (manufacturing) company of and for the future:

1. WORLD CLASS MANUFACTURING TECHNOLOGIES
The Picanol Group will continue to invest in future-oriented equipment and efficient logistics processes. At the same time the company wants to create an appealing working environment.

2. DIGITAL COMPANY
The group is committed to the digitization of our production and processes by capturing, making available and using data efficiently. The use of good hardware and software platforms to support the business processes is of central importance in this context.

3. HUMAN-CENTERED COMPANY
The Picanol Group strives for an organization in which engaged employees have room for creativity and initiative. Its employees are actively supported in this regard, receiving ongoing training in order to further develop their talents and provide added value.

We are convinced that we have all of the capabilities and outstanding qualities that are necessary in order to meet these challenges and, together, to build the future of Picanol Group.

<u>Outlook</u>
For the first six months of 2018, the order book is well-filled. For the first half of 2018 the Picanol Group expects to realize a turnover in line with that of the first half of 2017, but is taking into account a further negative impact of rising commodity prices.

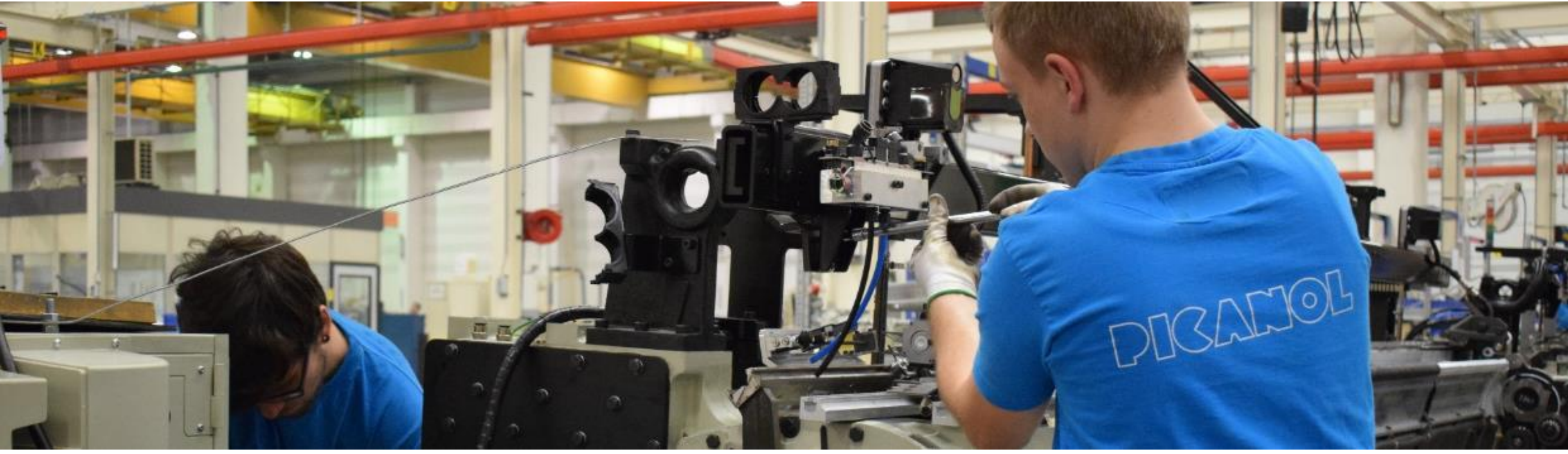
The Picanol Group remains cautious as it is active as an export-oriented company in a volatile world economy. Due to the cyclical nature of the textile market, strict cost-control remains of the essence.

On behalf of the Board of Directors, we would like to thank everyone who contributed to the success of Picanol Group during 2017: 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 2017, the Weaving Machines division experienced once more an absolute record year. The growing demand for quality and technology created strong sales – mainly in Asia and Europe – and resulted in further market share growth in many countries and market segments. This resulted in Picanol putting a record number of weaving machines on the market in 2017 and in continued high production volumes. The sale of spare parts and accessories followed the positive trend of the weaving machines.

All product lines have contributed to this success. Machines that have done particularly well in their respective market segments are the rapier machines, in particular the OptiMax-*i* which was launched in 2015 (and the TerryMax-*i* for terrycloth); the GTMax-*i* (of which a new generation was launched at ITMA Asia at the end of 2016); and the airjet weaving machines - the OMNI*plus* Summum (and the TERRY*plus* Summum, for terrycloth).

In 2017, 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 2017, Picanol participated in Inlegmash (Moscow, Russia), Saigontex (Saigon, Vietnam), Igatex (Karachi, Pakistan), Techtextil (Frankfurt, Germany), Caitme (Tashkent, Uzbekistan), Techtextil (Mumbai, India) and Itmach (Ahmedabad, India). In 2017, Picanol also launched a campaign to highlight its expertise in technical textile weaving.

In 2017, Picanol further invested in the renovation and modernization of its production facilities, and launched the ambitious 'Let's Make it Together' program at the Ypres site – helping it on its way to becoming the (manufacturing) company of the future. This will improve its competitive position in Ypres, in combination with further productivity and quality improvements.

<u>Outlook</u>
During the first part of 2018, Picanol’s order books have once again been well-filled thanks to the increasing need for quality and technology.

In 2018, 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 - all in the most sustainable way possible.

On the level of product development, sourcing and assembly, Picanol will also increase its efforts to further improve both productivity and process efficiency, and further roll out the ‘Let’s Make it Together’ program.

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.

Proferro

The strong economic climate in most market segments, such as compressors, agro, etc., meant that Proferro once again had a strong year. 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 2017, both in terms of casting and in the finishing of castings. In 2017, Proferro reached a new milestone with the casting of the 500,000th mold box on the HWS mold line. This line, for larger mold boxes and with automated cast iron transport, came into use in 2009. In 2017, Proferro started a night shift on the HWS line - for the first time in its history - in order to meet rising customer demand.

In 2017, Proferro further invested in the renovation and modernization of its technology and production facilities. Investments included a drying tunnel and a coreshoot machine in the core production plant and additional, four-axis milling machines. In the course of 2017, Proferro obtained the Deutsche Bahn certificate, which allows it to produce components for the German railway company.

PsiControl

At PsiControl, the strong growth of the Weaving Machines division went hand in hand with an even stronger growth path for external clients. PsiControl placed considerable emphasis on its custom-made controllers for medium-sized series and on its expertise in Electronic Manufacturing Services (EMS). The strong growth and technological evolution towards more complex printed circuit boards led to a record number of SMD components being placed at the production sites in Ypres and Rasnov in 2017.

In 2017, PsiControl once again participated in several trade fairs to further roll out its SwipeStat product range. The SwipeStat platform combines swipe and touch technology with the expertise of PsiControl in controllers and user interfaces. SwipeStat was presented at Eu'Vend (Germany) and ISH (Germany). In 2017, PsiControl invested in, among other things, an additional SMD line and a new wave soldering line.

Melotte

Melotte also achieved a significant increase in turnover in 2017 - for both classic and 3D printed parts. Furthermore, the mold reconditioning business also grew. This growth took place across all markets supplied by Melotte - electronics, (petro)chemicals, mechanical engineering, pharmaceuticals, etc. A new 3D printing machine was brought into service in 2017, allowing larger parts to be printed and the use of new materials. In 2017, Melotte continued to invest in machinery renewal, with the purchase of a new lathe with motorized tools.

Outlook

Based on the outlook of the Weaving Machines division, the Industries division also aims at achieving further growth in 2018. Proferro will take into account the strong impact of rising raw material prices in 2018. The outlook for PsiControl is positive in the various customer segments in which it operates. At various trade fairs throughout 2018, PsiControl will be focusing on the deployment of the SwipeStat product range, among others at MCE (Italy) and ESEF (The Netherlands). Implementation of a new ERP system will be on Melotte's agenda in 2018.

With different investment projects, the Industries division will be focusing more on capacity, quality, safety and the continued improvement of its processes during 2018.

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 (www.corporategovernancecommittee.be). This section presents the application of this policy in 2017.

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
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)*	Member of the audit committee Member of the nomination & remuneration committee	2020
Chantal De Vrieze, *permanent representative of 7 Capital sprl (2) – since 27/04/2017**	Member of the audit committee Member of the nomination & remuneration committee	2021

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

* *Chantal De Vrieze was appointed as Baron Hugo Vandamme's successor at the General Meeting of 27 April 2017.*

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, the 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 consists of three independent directors who meet all of the criteria set out in Article 526ter of the Belgian Company Code, the Belgian Corporate Governance Code and Picanol Group's Corporate Governance Charter.

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 the 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 five meetings in 2017. On one occasion, Luc Van Nevel was unable to attend. In 2017, 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
- Strategic plans and budget
- Transactions with related parties
- Investment and disinvestment projects
- Evaluation of the cooperation with the management committee
- Safety

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 Jean Pierre Dejaeghere (as the permanent representative of nv Kantoor Torrimmo), Luc Van Nevel (as the permanent representative of The Marble BVBA) and Chantal De Vrieze (as the permanent representative of 7 Capital sprl, since 27/04/2017). 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 2017. On one occasion, Luc Van Nevel was unable to attend. The audit committee also had several meetings with the external and internal auditors.

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
- Mandate of the auditor

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 Luc Van Nevel (as the permanent representative of The Marble BVBA), Jean Pierre Dejaeghere (as the permanent representative of nv Kantoor Torrimmo) and Chantal De Vrieze (as the permanent representative of 7 Capital sprl, since 27/04/2017). Luc Van Nevel 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
- Preparation of the remuneration report

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 two-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 directors receive a fixed annual remuneration plus remuneration dependent on their attendance at board and committee meetings. The fixed remuneration is 15,000 euros per year and the attendance fee is 2,000 euros per attendance. The Chairman of the Board of Directors receives additional, fixed remuneration of 60,000 euros. The directors receive neither a variable remuneration nor performance awards in shares. As of the 2017 General Meeting the remuneration of the Chairman of the Board of Directors was changed from a fixed remuneration of 60,000 euros to the same remuneration as the other directors, plus additional fixed remuneration of 60,000 euros.

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 Board, advised by 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	Attendance fees (Board of Directors and committees)	Total 2017
Stefaan Haspeslagh	executive	70,667	6,000	76,667
Luc Tack	executive	15,000	10,000	25,000
Patrick Steverlynck, as representative of Pasma nv	non-executive	15,000	10,000	25,000
Jean Pierre Dejaeghere, as representative of nv Kantoor Torrimmo	non-executive	15,000	10,000	25,000
Luc Van Nevel, as representative of The Marble BVBA	non-executive	15,000	8,000	23,000
Hugo Vandamme, as representative of HRV NV (until 27/04/2017)	non-executive	3,750	4,000	7,750
Chantal De Vrieze, as representative of 7 Capital sprl (since 27/04/2017)	non-executive	7,500	6,000	13,500

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

The management committee, with the exception of executive directors, receives a variable fee based on company results. The criteria for the 2017 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	**2017**
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	**2017**
Fixed remuneration	974,662
Variable remuneration	465,000
Total	**1,439,662**
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 2017, 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 2018.

V. AUDITOR'S REMUNERATION

The auditor received an amount of 160,420 euros for the performance of his audit task in 2017. In the course of 2017, the auditor and the auditor related parties invoiced 488 euros for non-audit tasks. No other items were submitted for approval by the audit committee in 2017.

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 2017 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 2017, 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 the past years, 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 84% of sales in 2017, 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 one ongoing dispute regarding the termination of an agency contract. 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

	2017		2016	
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%	4,332,134	24.48%
Other registered shares	9,744	0.06%	1,324	0.01%
Free float	1,877,876	10.61%	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

Article 523 of the Companies Code was not applied in 2017.

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 Board of Directors will again submit this for approval to the General Meeting of 2018, for a 3 year extension.

- 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. NON-FINANCIAL INFORMATION AND INFORMATION REGARDING DIVERSITY

In accordance with the European Directive 2014/95/EU and Article 119 and Article 96 of the Belgian Company Code, Picanol has reported on non-financial and diversity information as of the financial year 2017.

- ***Diversity policy with regard to members of the Board of Directors and management team***
  In addition to the criteria of independence, knowledge and experience, diversity considerations are also taken into account in the composition of Picanol Group's Board of Directors and management team.
  The proportion of women in Picanol Group's Board of Directors and management team amounts to 1 in 6. As regards the legal requirement to have 1/3 of the Board of Directors made up of women, Picanol Group will take the necessary measures to comply with this requirement within the relevant statutory periods. As Picanol Group has a free float of less than 50%, this obligation will apply with effect from 1 January 2019.

- ***Social, human resource and environmental policies***
  Sustainability and long-term focus are a recurring theme in Picanol Group's story over the past 80 years. Corporate social responsibility is an integral part of our strategy and is embedded in all processes and products of Picanol Group.
  The 2017 Sustainability Report describes our most important activities, objectives and performance criteria in relation to three pillars: our people, our planet and our community. The report has been published on our website, www.picanolgroup.com.

XII. DECLARATION CONCERNING THE INFORMATION GIVEN IN THIS ANNUAL REPORT FOR THE 12 MONTHS ENDING ON 31 DECEMBER 2017

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 13 March 2018.

II.1. CONSOLIDATED INCOME STATEMENT

(in '000 euros)	NOTES *	2017	2016
Sales	III.5.	688,928	639,778
Cost of sales		-529,532	-481,378
GROSS PROFIT		**159,396**	**158,400**
Gross profit % on sales		**23%**	**25%**
General and administrative expenses		-20,449	-18,502
Selling and marketing expenses		-18,305	-18,798
Other operating income	III.6.1.	138	381
Other operating expenses	III.6.1.	-10	-500
OPERATING RESULT	**III.6.2.**	**120,771**	**120,981**
Total interest income	III.6.3.	4,677	2,785
Total interest expenses	III.6.3.	-2,122	-1,734
Other financial income	III.6.3.	1,206	446
Other financial expenses	III.6.3.	-1,152	-714
RESULT BEFORE TAXES		**123,380**	**121,765**
Income taxes	III.6.4.	-31,741	-33,381
RESULT AFTER TAXES (CONSOLIDATED COMPANIES)		**91,640**	**88,383**
Share in the results of associated companies	III.7.5	10,074	31,342
PROFIT (LOSS) OF THE PERIOD		**101,714**	**119,725**
SHARE OF THE GROUP IN PROFIT (LOSS)		**101,714**	**119,725**

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

EARNINGS PER SHARE

(in '000 euros)	NOTES	2017	2016
Basic earnings per share	III.6.6.	5.75	6.76
Diluted earnings per share	III.6.6.	5.75	6.76

CONSOLIDATED INCOME STATEMENT

(in '000 euros)	**2017**	**2016**
SHARE OF THE GROUP IN PROFIT OR LOSS	**101,714**	**119,725**
Items that will not be subsequently transferred to profit and loss:	**4,483**	**-5,288**
Actuarial gains/(losses)	4,483	-5,288
Actuarial gains/(losses) at associated companies		
Items that will subsequently be transferred to profit and loss if specific conditions are met:	**-5,557**	**-572**
Exchange rate differences as a result of the conversion of foreign operations	-2,930	-1,099
Exchange rate differences as a result of the conversion of foreign operations at associated companies	-2,641	872
Share of other comprehensive income of associated companies	14	-345
Total other comprehensive income after taxes	**-1,074**	**-5,860**
TOTAL RESULT	**100,640**	**113,865**

II.2. CONSOLIDATED BALANCE SHEET

(in '000 euros)	NOTES *	2017	2016
FIXED ASSETS		**481,398**	**458,205**
Intangible assets	III.7.1.	1,014	1,041
Goodwill	III.7.2.	0	0
Tangible fixed assets	III.7.3.	62,129	58,950
Participation in associated companies	III.7.5.	417,000	397,196
Other financial investments	III.7.5.	44	44
Non-current receivables	III.7.6.	699	311
Deferred tax assets	III.7.7.	512	663
CURRENT ASSETS		**296,292**	**220,299**
Inventories and contracts in progress	III.7.8.	63,767	60,253
Trade receivables	III.7.9.	70,295	55,389
Other receivables	III.7.9.	28,881	23,372
Cash and cash equivalents	III.7.10.	133,350	81,285
TOTAL ASSETS		**777,690**	**678,504**
SHAREHOLDERS' EQUITY	**II.4.**	**630,214**	**531,344**
Equity attributable to the shareholders of the group		**630,214**	**531,344**
Share capital	III.7.11.	21,720	21,720
Share premiums	III.7.12.	1,518	1,518
Reserves		600,642	498,842
Translation differences		6,334	9,264
Minority interests		**0**	**0**
NON-CURRENT LIABILITIES		**10,313**	**12,132**
Employee benefit obligations	III.7.13.	4,821	5,128
Provisions	III.7.14.	27	118
Deferred tax liabilities	III.7.7.	5,190	6,886
Interest-bearing debt	III.7.15.	275	0
Other liabilities		0	0
CURRENT LIABILITIES		**137,163**	**135,028**
Employee benefit obligations	III.7.13.	1,060	1,362
Provisions	III.7.14.	8,390	7,113
Interest-bearing debt	III.7.15.	1,983	1,942
Trade payables	III.7.17.	73,810	75,499
Income taxes payable	III.7.17.	3,401	3,893
Other current liabilities	III.7.17.	48,519	45,219
TOTAL LIABILITIES		**777,690**	**678,504**

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

II.3. CONSOLIDATED CASH FLOW STATEMENT

(in '000 euros)	NOTES	2017	2016
Operating result		**120,771**	**120,981**
Depreciation on intangible and tangible fixed assets	III.7.1, III.7.3	8,364	8,963
Impairment of assets		75	61
Write-offs on current assets		-414	-783
Changes in provisions	III.7.13, III.7.14	577	-289
Gross cash flow from operating activities		**129,373**	**128,933**
Changes in working capital *		-22,292	-16,185
Paid income taxes		-33,816	-33,810
Interest received		4,677	2,785
Net cash flow from operating activities		**77,944**	**81,723**
Investment in an associated company		-7,883	-62,513
Acquisitions of intangible fixed assets	III.7.1.	-208	-380
Acquisitions of tangible fixed assets	III.7.3.	-12,111	-7,076
Net cash flow from investment activities		**-20,202**	**-69,969**
Interest paid		-2,122	-1,734
Dividends paid		-1,770	-1,770
Increase/(decrease) of export financing		13	-1,640
Increase of interest-bearing financial debt		506	0
Repayments of interest-bearing financial debt		-203	-1,583
Cash flow from finance activities		**-3,576**	**-6,727**
Effect of exchange rate fluctuations		-2,101	-1,093
Adjustments to cash and cash equivalents		**52,065**	**3,934**
Net cash position – opening balance		81,285	77,351
Net cash position – closing balance		133,350	81,285
		52,065	**3,934**

** 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 2017

(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**	**498,842**	**9,264**	**531,344**	**0**	**531,344**
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	101,714	0	101,714	0	101,714
Translation differences	0	0	0	-2,930	-2,930	0	-2,930
Actuarial gains (losses)			0	0	0	0	0
Share of other comprehensive income of associated companies			1,856	0	1,856	0	1,856
Total recognized profits and losses	**0**	**0**	**103,570**	**-2,930**	**100,003**	**0**	**100,003**
Dividends	0	0	-1,770	0	-1,770	0	-1,770
At the end of the reporting period	**21,720**	**1,518**	**600,642**	**6,334**	**630,214**	**0**	**630,214**

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**

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 gains on pension plans.

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2017

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 2017, 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 2017:

Standards and interpretations applicable for the annual period beginning on 1 January 2017:

- Annual improvements to IFRS 2014-2016 cycle: Amendments to IFRS 12 (applicable to financial years as of 1 January 2017, but not yet approved within the European Union)
- Amendment to IAS 7 The cash flow statement - Disclosure Initiative (applicable to financial years as of 1 January 2017)
- Amendment to IAS 12 Profit Taxes - Recognition of deferred tax assets for unrealized losses (applicable to financial years as of 1 January 2017)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2017:

- Annual improvements to IFRS 2014-2016 cycle: Amendments to IFRS 1 and IAS 28 (applicable to financial years as of 1 January 2018 but not yet approved within the European Union)
- 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 approved 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)
- IFRS 17 Insurance Contracts (applicable to financial years as of 1 January 2021 but not yet approved 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 to IFRS 9 Prepayment features with negative compensation (applicable to financial years as of 1 January 2019 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)

- Amendment to IAS 28 Long-term investments in associated participations and joint ventures (applicable to financial years as of 1 January 2019 but not yet approved within the European Union)
- IFRIC 22 Foreign currency transactions and advance consideration (applicable for annual periods from 1 January 2018, but not yet approved within the European Union)
- IFRIC 23 Uncertainty about income tax treatment (applicable to financial years as of 1 January 2019 but not yet approved within the European Union)

The application of the standards applicable for the annual period beginning on 1 January 2017 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 2017, 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 Group made a further analysis in 2017 of the impact of the application of IFRS15 on the financial statements. The adjustments detected were already included in the 2017 financial statements, but did not have a material impact. Picanol Group will finalize its detailed analysis in 2018, but does not expect any additional adjustments to have a material impact on the financial results.

Changes in classification applied to the 2017 financial statements:
- Servicing of the weaving machines: turnover relating to the installation of machines is deferred (where previously provisioned as an attributable cost)
- Performance guarantees: to the extent that part of the turnover is subject to certain performance obligations, this part has been deferred (where it was previously provisioned).

The analysis of the impact of IFRS 15 on results has been done using a 5-step plan:

<u>Step 1: Identifying contract(s) with a customer</u>
For the Weaving Machines division (86% of revenue in 2017), the vast majority of the contracts are individual purchase orders (POs). For the Industries division (PsiControl and Proferro), there might be some instances 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.

<u>Step 2: Identify the performance obligations in the contract</u>
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).

<u>Step 3: Determine the transaction price</u>
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 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.

<u>Step 4: Allocate the transaction price to the performance obligations in the contract</u>
IFRS 15 requires that the total 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.

<u>Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation</u>
Up until 2017, weaving machine turnover and the corresponding installation component were recognized at the time of delivery. Attributable costs relating to the installation were provisioned, insofar as the latter had not yet been carried out. Under IFRS 15, since 2017, revenue relating to the installation component has been recognized when these performance obligations are executed and the related costs incurred.

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 Machines division.

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.

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. According an analysis in 2017, the Picanol Group 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.

IFRS 9 Financial instruments (as revised in 2014)
(Effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.
The Group elected not to restate the comparative amounts of 2017 for the impact of IFRS 9.

Classification and measurement of financial assets
The date of initial application (i. e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group applies the requirements of IFRS 9 to instruments that have not been derecognized as at 1 January 2018 and does not apply the requirements of IFRS 9 to instruments that have already been derecognized as at 1 January 2018. The management of the Group reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has no impact on the Group's financial assets as regards their classification and measurement.

Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.
Specifically, IFRS 9 requires the Group to recognize a loss allowance for expected credit losses on 1) trade receivables; 2) contract assets; 3) loans to related parties; 4) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply; 5) cash and cash equivalents. The introduction of expected loss model by IFRS 9 does not have material impact on the Group's financial position or total comprehensive income at the date of initial applicable of IFRS 9.

General hedge accounting
The Group does not apply hedge accounting in its financial statements, thus, the IFRS 9 hedge accounting requirements have no impact on the Group's financial position or total comprehensive income at the date of initial applicable of IFRS 9.

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
<u>*Financial leases*</u>
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 Credendo.

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

Defined benefit plans
The group has primarily defined contribution plans in the Belgian entities. However, these Belgian group insurance plans have been treated as defined benefit plans since 2016, as they are subject to minimum statutory returns (see III.7.13).

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

Other employee benefit obligations
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'.

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.

Provision for warranty costs
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 revenue from the installation component has been recognized in accordance with IFRS15, since 2017, at the time of installation. In previous years, revenue was recognized immediately upon delivery of the machinery and the costs of installation were charged to the profit and loss account under the heading "cost of sales".

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 (see above). Revenue from service provision is recognized when the service is provided. Invoiced services yet to be provided (invoices due) or services provided but not yet invoiced are included in 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 2017, there are still insufficient elements to conclude that Picanol has control over Tessenderlo Group 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 40.7% of the shares of Tessenderlo Group nv
- The positions of CEO, CFO and Chairman of the Board of Directors of Tessenderlo Group are occupied by the same natural persons as the positions of CEO, CFO and Chairman on Picanol's Board of Directors.
- Picanol does not have a majority in the Board of Directors of Tessenderlo Group nv (the most important governing body of the company)
- Picanol is not assured of a majority at the general meeting of Tessenderlo Group 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 Group nv)

Given the overriding importance of Tessenderlo Group's Board of Directors on the policy and management of Tessenderlo Group, Picanol nv does not exercise control over Tessenderlo Group nv, in accordance with International Financial Reporting Standards. As a result, Tessenderlo Group 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 2017 in comparison with the financial year 2016. In the context of the adjustment to IFRS15 (see III. 1.2), there was only a (non-material) change in the classification of turnover and cost of sales, without an impact on the operating result.

III.4. CHANGES IN SCOPE OF CONSOLIDATION

In 2017, the stake in the associated company Tessenderlo Group was increased from 36.3% to 36.7%.

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**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
External sales	592,023	558,738	96,906	81,040			688,928	639,778
Inter-segment sales	1,883	1,335	92,424	87,317	-94,307	-88,652	0	0
Total sales	**593,906**	**560,073**	**189,330**	**168,357**	**-94,307**	**-88,652**	**688,928**	**639,778**
Operating profit	**108,122**	**105,977**	**12,650**	**15,004**			**120,771**	**120,981**
Total interest income	4,677	2,783	0	2			4,677	2,785
Total interest expense	-1,970	-1,555	-152	-178			-2,122	-1,734
Other financial income/expenses	-336	-33	391	-234			54	-267
Result before taxes	**110,492**	**107,172**	**12,889**	**14,593**			**123,380**	**121,765**
Other segment information:								
Depreciation	4,139	4,805	4,225	4,158			8,364	8,963
Investments	3,432	4,001	8,887	3,455			12,318	7,456
Total assets	154,873	138,720	118,425	101,971	504,391	437,812	777,690	678,504
Total liabilities	158,233	134,928	85,832	69,377	533,625	473,761	777,690	678,504

The consolidated group turnover increased in 2017 by 8% in comparison to the previous year. However, earnings from operations remained stable due to the negative impact of rising material prices and a higher share of subcontracting (versus own production), which had an adverse effect on the results of the Industries division. General and administrative expenses increased, which was predominantly due to IT project costs.

In the Weaving Machines division, the annual turnover increased by 6%. 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 fell slightly - from 19% to 18% - mainly due to higher material prices. The operating profit amounted to 108.1 million euros (as compared to 106.0 million euros in 2016).

The annual turnover in the Industries division increased by 12%. External client turnover increased by 20% as a result of the positive economic climate combined with strong growth in new projects. Profit margin fell from 9% to7%, reducing operating profit to 12.7 million euros (compared to 15.0 million euros in 2016), as a result of the sharp rise in raw material prices and the higher share of subcontracting versus own production (due to the volume peak). Major investments in production machinery were made in 2017 to better align own production capacity with increasing volume and increased profitability.

The non-segment assets mainly comprise the participation in Tessenderlo Group and cash. Non-segment liabilities mainly comprise the equity of Picanol NV.

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)	**2017**	**2016**
Europe, America and Africa	218,003	211,406
Far & Middle East	470,926	428,372
TOTAL	**688,928**	**639,778**

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)	**2017**	**2016**	**2017**	**2016**
Europe, America and Africa	55,988	51,624	12,047	6,958
Far & Middle East	7,155	8,367	271	498
TOTAL	**63,143**	**59,991**	**12,318**	**7,456**

III.6. INCOME STATEMENT

III.6.1. OTHER OPERATING INCOME

(in '000 euros)	**2017**	**2016**
Other operating income:	**138**	**381**
Reversal of restructuring provision	0	310
Other	138	71
Other operating expenses:	**-10**	**-500**
Restructuring fees	0	-452
Other	-10	-48
TOTAL	**129**	**-119**

III.6.2. OPERATING RESULT

(in '000 euros)	**2017**	**2016**
Sales	688,928	639,778
Purchases of goods and changes in inventories	-379,998	-337,984
Amortization, depreciation and Impairment	-8,439	-9,024
Amounts written off on inventories and receivables	414	783
Other goods and services	-71,267	-70,671
Personnel costs	-108,420	-102,070
Provisions	-577	289
Other operating income	138	381
Other operating expenses	-10	-500
TOTAL OPERATING RESULT	**120,771**	**120,981**

The turnover increased by 8% in comparison to 2016. The ratio of purchases and changes in inventories increased from 53% to 55% as a result of higher material prices and the higher proportion of subcontracting.. The other goods and services remained more or less stable. The personnel costs, especially those related to the production department, increased in proportion with the volume (the average number of staff members increased from 2,113 in 2016 to 2,262 in 2017).

III.6.3. FINANCIAL RESULT

(in '000 euros)	**2017**	**2016**
Interest income from bank deposits	102	97
Interest income from financial receivables	4,575	2,688
Total interest income	**4,677**	**2,785**
Interest on export finance	-2,039	-1,625
Interest on other loans	-2	-1
Interest on financial leases	-81	-107
Total interest expense	**-2,122**	**-1,734**
Exchange rate gains	1,206	446
Profit on revaluation of derivatives	0	0
Total other financial income	**1,206**	**446**
Exchange rate losses	-1,152	-714
Loss on revaluation of derivatives	0	0
Total other financial expenses	**-1,152**	**-714**
FINANCIAL RESULT	**2,609**	**784**

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 and depend on the geographical distribution of sales and the nature of the financing contracts.

III.6.4. INCOME TAXES

Recognized in the income statement:

(in '000 euros)	**2017**	**2016**
(a) Current tax	-33,324	-34,210
(b) Adjustments for tax payable in respect of previous Years	0	-1,285
(c) Postponed tax relating to the recognition and reversal of temporary differences	-92	2,114
(d) Adjustments to deferred taxes attributable to changes in tax rates and legislation	1,675	0
(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	0
(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	**-31,741**	**-33,381**

Effective tax rate reconciliation:

(in '000 euros)	**2017**	**%**	**2016**	**%**
Profit before tax and before income from associates	**123,380**		**121,765**	
Tax at the domestic tax rate of 33.99%	**-41,937**	**-33.99%**	**-41,388**	**-33.99%**
Tax effects of non-deductible expenses				
Non-tax-deductible expenses	-873	-0.71%	-1,015	-0.83%
Other non-deductible expenses	-411	-0.33%	-408	-0.34%
Tax effects of tax-exempt revenues				
Non-taxable financial and other income	5,454	4.42%	4,916	4.04%
Notional interest deduction	278	0.23%	1,042	0.86%
Impact of changes in tax rates on deferred taxes	1,675	1.36%		
Fiscal impact of corrections in deferred and current tax related to previous periods			912	-0.75%
Effect of different tax rates of entities in different jurisdictions	4,071	3.30%	2,560	2.10%
Tax expense and effective tax rate for the period	**-31,741**	**-25.73%**	**-33,381**	**-27.41%**

The "other non-deductible expenses" relate to taxes on dividends received. The "non-taxable financial and other income" rose due to the increase in received exempted grants and the increase in the tax deduction for patent income. The positive impact on deferred taxes due to changes in tax rates is as a result of new legislation in Belgium, under which the rate of 33.99% will be gradually reduced to 29.58% in 2018 and 2019 and 25% from 2020. The Belgian entities have a net deferred tax liability position due to differences in depreciation rules. 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 2017 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 2017 for the 2016 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 0.20 euros per share at the annual general meeting on 18 April 2018, for a total amount of 3.54 million euros.

III.6.6. EARNINGS PER SHARE

Basic earnings per share:

(in '000 euros)	**2017**	**2016**
Net profit or loss over the period	101,714	119,725
Net profit or loss from continuing operations	101,714	119,725
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	5.75	6.76
Basic earnings per share from continuing operations	5.75	6.76

Diluted earnings per share:

The diluted earnings per share of the Picanol Group are equivalent to the basic earnings per share, for both 2017 and 2016.

(in '000 euros)	**2017**	**2016**
Net profit or loss over the period	101,714	119,725
Profit or loss attributable to the ordinary shareholders of the company	101,714	119,725
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	5.75	6.76
Diluted earnings per share from continuing operations	5.75	6.76

III.7. BALANCE SHEET

III.7.1. INTANGIBLE ASSETS

(in '000 euros)	**Development expenses**	**Concessions, Patents and Licenses**	**Total**
Acquisitions:			
On 1 January 2016	**10,106**	**9,610**	**19,716**
Acquisitions	-	380	380
Disposals	-	-	-
Exchange rate profits and losses (-)	-	-31	-31
On 1 January 2017	**10,106**	**9,959**	**20,065**
Acquisitions	-	208	208
Disposals	-488	-	-488
Exchange rate profits and losses (-)	-	-54	-54
On 31 December 2017	**9,619**	**10,111**	**19,730**
Depreciation and impairment losses:			
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 1 January 2017	**-10,106**	**-8,918**	**-19,024**
Depreciation of the financial year	-	-206	-206
Disposals	488	-	488
Exchange rate profits and losses (-)	-	25	25
On 31 December 2017	**-9,619**	**-9,097**	**-18,716**
Net book value:			
On 1 January 2017	**0**	**1,041**	**1,041**
On 31 December 2017	**0**	**1,041**	**1,041**

Acquisitions of intangible fixed assets in 2017 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 11.5 million euros in 2017 (13.0 million euros in 2016).

The total net book value of 1.0 million euros of the intangible assets as at 31 December 2017 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, as a component of the general and administrative costs, whereas the impairment losses are recognized in other operating income/expenses.
At the end of 2017 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 2017 or in 2016.

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 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 1 January 2017	**42,156**	**169,154**	**12,515**	**1,085**	**3,032**	**227,943**
Acquisitions	24	2,272	1,237	72	8,505	12,111
Disposals	-	-144	-441	-25	-4	-614
Transfers	371	9,028	-241	-728	-8,430	-
Exchange rate profits and losses (-)	-779	-423	-250	-38	-2	-1,492
On 31 December 2017	**41,772**	**179,888**	**12,821**	**365**	**3,101**	**237,947**
Depreciation and impairment losses:						
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 1 January 2017	**-20,157**	**-137,538**	**-10,725**	**-574**	**-**	**-168,993**
Depreciation of the financial year	-1,580	-5,658	-840	-81	-	-8,158
Disposals	-	139	389	11	-	539
Transfers	-	-889	357	532	-	-
Exchange rate profits and losses (-)	301	282	185	27	-	794
On 31 December 2017	**-21,435**	**-143,665**	**-10,634**	**-84**	**-**	**-175,818**
Net book value:						
On 1 January 2017	**21,999**	**31,617**	**1,791**	**512**	**3,032**	**58,950**
On 31 December 2017	**20,337**	**36,223**	**2,187**	**281**	**3,101**	**62,129**

The total acquisitions of tangible fixed assets amounted to 12.1 million euros compared to 7.1 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. The acquisitions in furniture and mobile equipment include the bicycle lease program in Ypres at a purchase value of 0.5 million euros.

ASSETS UNDER FINANCIAL LEASE:

(in '000 euros)	**2017**	**2016**
Plant, equipment and machinery	**5,440**	**5,953**
Gross value	13,732	13,843
Accumulated depreciation	-8,292	-7,889
Furniture and mobile equipment	**444**	
Gross value	506	
Accumulated depreciation	-62	
Total assets under financial lease	**5,885**	**5,953**

The assets under financial leasing reported in ‘plant, equipment and machinery’ include a molding line and a machining center at Proferro nv and these, incorporated under "furniture and mobile equipment", include the new bicycle lease program for all companies located in Ypres, which was concluded in 2017.

III.7.4. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

		Shareholding % 2017	2016
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 Group nv	Troonstraat, 130, 1050 Brussels	36.72%	36.26%
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 2017.*

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	
			2017	2016
Tessenderlo Group nv	Chemicals	Belgium	36.72%	36.26%

In 2013, Picanol acquired, through its subsidiary Verbrugge nv, 27.52% of the shares of Tessenderlo Group 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 Group (for an amount of 71.9 million euros). In 2015, 2016 and 2017, interest was further increased through share purchases on the financial markets (for an amount of 23.1 million euros, 62.5 million euros and 7.9 million euros respectively). In 2013 and 2014, a fair value adjustment was made on the opening balance of Tessenderlo Group following the acquisition of 27.52% of the shares on 6 November 2013. Following the additional share purchases, no new fair value adjustments were made. Given the rate of participation in Tessenderlo Group of 36.72%, 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 2017 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 Group in accordance with the provisions of IFRS 10.

(in '000 euros)	2017	2016
At the end of the previous reporting period	**397,196**	**308,101**
Increased participation	7,883	62,513
Result of the financial year	10,074	31,342
Dividends		
Other comprehensive income	1,847	-4,761
At the end of the reporting period	**417,000**	**397,196**

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

Balance sheet on 31 December 2017

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Fixed assets	650,630	74,198	724,828	266,186
Current assets	761,069		761,069	279,495
Non-current liabilities	-464,495	-14,185	-478,680	-175,790
Current liabilities	-307,747		-307,747	-113,017
Net assets held for sale	0		0	0
Total net assets	**639,457**	**58,277**	**699,470**	**256,873**

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**

Period 2017:

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Revenue	1,657,302		1,657,302	607,864
Operating profit (EBIT)	111,343	-5,629	105,714	38,774
Result for the period	**25,632**	**1,834**	**27,466**	**10,074**
Other comprehensive income	5,035		5,035	1,847
Comprehensive result for the period	**30,667**	**1,834**	**32,501**	**11,921**

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**

In 2017, the result for the period of Tessenderlo Group nv was +25.6 million euros. The impact of fair value adjustments on the result for the period (100% value) amounted to +1.8 million euros. This fair value adjustment (depreciation on revalued fixed assets after tax) was positively influenced by a decrease in the US and French tax rates. For the determination of the group share, an average participation rate was calculated of 36.7%. As a result, the share of profit of associated companies for 2017 amounts to +10.1 million euros. The other elements of the result of Tessenderlo Group amount to +5.0 million euros at 100% value or +1.8 million euros (group share).

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

Related goodwill:

	2017	**2016**
Share of the net assets of the associated companies	256,873	240,805
Net book value of associated companies	417,000	397,196
Net book value of the related goodwill	**160,127**	**156,390**

The actual value of the participation in Tessenderlo Group nv as at 31 December 2017 amounted to 616.2 million euros (15,841,547 shares at a closing rate of 38.9 euros). The actual value of the participation in Tessenderlo Group nv as at 31 December 2016 amounted to 543.5 million euros (15,618,653 shares at a closing rate of 34.8 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 2017.

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)	**2017**		**2016**	
	Trade receivables	**Guarantees**	**Trade receivables**	**Guarantees**
At the beginning of the period:				
Gross value	256	55	563	54
Accumulated amounts written off				
Net book value	**256**	**55**	**563**	**54**
Changes during the period:				
Acquisitions	618		102	1
Reimbursement		-4		
Transfers	-226		-409	
At the end of the period:				
Gross value	648	51	256	55
Accumulated amounts written off	0	0	0	0
Net book value	**648**	**51**	**256**	**55**

The interest-bearing trade receivables consist entirely of the export financings accorded by banks to the Weaving Machines customers, but booked through 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 0.6 million euros, resulting in a total outstanding risk of 0.06 million euros as at 31 December 2017 or 10% 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)	2017		2016	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Intangible assets	0	0	0	0
Tangible fixed assets	0	-3,876	0	-4,978
Inventories	1,465	0	1,566	0
Other assets	12	-1,012	18	-994
Employee benefit obligations	25	0	35	0
Other provisions	196	0	189	0
Other liabilities	29	-1,397	66	-1,974
Tax loss carryforwards/tax credits	0	0	0	0
Other adjustments	0	1	0	-6
TOTAL	**1,727**	**-6,283**	**1,874**	**-7,952**
Valuation allowance	-122		-145	
Offset*	-1,094	1,094	-1,067	1,067
TOTAL (as reported in the balance sheet)	**512**	**-5,190**	**663**	**-6,886**

(*) 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 deferred tax liability on "tangible fixed assets" and "other liabilities" is the result of the gradual reduction of the Belgian tax rate from 33.99% in 2017 to 29.58% in 2018 and 2019 and 25% from 2020.

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 2017 and 2016.

DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT 31 DECEMBER 2017:

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 76.0 million euros and 1.4 million euros respectively as at 31 December 2017. As at 31 December 2016, these figures were 54.8 million euros and 0.9 million euros respectively.

III.7.8. INVENTORIES

(in '000 euros)		**2017**	**2016**
Raw materials and auxiliaries	Gross value	61,165	56,537
Raw materials and auxiliaries	Amounts written off	-23,246	-22,928
Raw materials and auxiliaries		**37,919**	**33,608**
Goods in progress	Gross value	10,611	10,391
Goods in progress	Amounts written off	-176	-179
Goods in progress		**10,435**	**10,211**
Finished goods	Gross value	19,494	20,792
Finished goods	Amounts written off	-4,239	-4,520
Finished goods		**15,255**	**16,272**
Down payments	Gross value	159	162
Down payments	Amounts written off	0	0
Down payments		**159**	**162**
Total	Gross value	91,429	87,881
Total	Amounts written off	-27,662	-27,628
Total inventories		**63,767**	**60,253**

As a result of the higher production volumes in 2017, mainly in the Industries division, the raw materials and auxiliaries increased. The depreciation on inventory included in the balance sheet remained more or less stable and is 30% of the gross stock value.

At 31 December 2017, 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 2017.

III.7.9. TRADE AND OTHER RECEIVABLES

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

(in '000 euros)	**2017**	**2016**
Trade receivables	70,295	55,389
Other receivables		
Recoverable VAT	4,054	3,718
Prepaid taxes	1,534	1,930
Deferred expenses	897	811
Other receivables	22,395	16,913

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 and the decision to no longer discount long-term LCs (as a result of the negative interest rates).

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 71.7 million euros (2016: 57.2 million euros). An allowance has been booked for irrecoverable amounts from the sale of goods to the value of 1.4 million euros (2016: 1.8 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)	**2017**	**2016**
At the beginning of the period:	**1,838**	**1,957**
Write-downs recorded	561	178
Utilizations or reversals of write-downs	-985	-281
Translation differences	-24	-16
At the end of the period:	**1,390**	**1,838**

The outstanding short-term trade receivables on 31 December 2017 before impairment are interest-bearing for a total of 3.1 million euros (2.5 million euros in 2016), which represents 6% 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)	**2017**	**2016**
Not yet due	60,814	45,554
Due < 1 year	9,480	9,835
Due > 1 year	0	0
Net book value	**70,295**	**55,389**

Other receivables comprise 20.4 million euros for bank notes of subsidiary PST (15.3 million euros in 2016). 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 2017, and at the end of December 2016. 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 68% (66% in 2016) of the consolidated gross trade receivables, or 49.1 million euros. Of these, 2.5 million euros (2.7 million euros in 2016) or 5% of the gross trade receivables are not covered through credit insurance. A provision of 1.1 million euros (1.5 million euros in 2016) 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)	**2017**	**2016**
Cash in bank and in hand	133,350	81,285
Total cash and cash equivalents	**133,350**	**81,285**

See II.3. consolidated cash flow statement.

III.7.11. SHARE CAPITAL

(in '000 euros)	**2017**	**2016**
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)	**2017**	**2016**
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

Reconciliation of the recorded provision for "employee benefit obligations" and the net liability for defined benefit plans:

(in '000 euros)	**2017**	**2016**
Balance:		
Pensions and similar obligations – long term	4,821	5,128
Pensions and similar obligations – short term	1,060	1,362
Total balance	**5,881**	**6,490**
Of which:		
Early retirement pensions	3,578	4,208
Other long-term employee benefits	1,427	1,315
Immaterial provisions at other branches	680	670
Defined benefit plans	**195**	**297**

The provision for early retirement pensions relates to Belgian subsidiaries and is booked at the moment in which an employee signs an early retirement pension agreement regarding all future obligations of the employer and according to actuarial principles.

The other, long-term, employee benefits comprise provisions for end of career premiums and seniority premiums calculated for all active employees, on an actuarial basis, pro rata to past service in Belgian subsidiaries.

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. This projected value at retirement date was subsequently discounted. The fair value of the fund's assets was determined as the present value of the non-contributory capital (i.e. the accrued reserves projected to retirement date based on the actual guaranteed return by the insurance company) plus the value of the financing funds. The difference between the pension liability and the fair value of the fund assets was recognized as a net liability on the balance sheet amounting to 68 Keuros as at 31/12/2017. In 2017, some older pension plans were reclassified as defined benefit plans.

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. The net liability recognized in these plans was 127 Keuros as at 31/12/2017.

As at 31/12/2016, the defined benefit plans also include the small STEP plan (non-financed plan). This plan provides for the lifetime payout of a fixed annual premium depending on the years of service upon retirement. This plan has since been completely phased out, as a result of which no net liability has been recognized as at 31/12/2017.

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.

	2017			**2016**		
(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	**14,174**	**-13,878**	**297**	**1,441**	**-992**	**450**
Charged to the profit and loss account:	**967**	**-179**	**787**	**69**	**-69**	**0**
Current service costs	784	0	784	35	-35	0
Interest costs (income)	182	-179	3	34	-34	0
Plan changes	0	0	0			0
Charged to shareholders' equity:	**52**	**19**	**71**	**-4**	**0**	**-4**
Actuarial (profits)/losses				-4		-4
Financial assumptions	0	0	0			
Adjustments based on experience	52	0	52			
Return on fund assets	0	19	19			
Other:	**53**	**-1,013**	**-960**	**12,669**	**-12,818**	**-149**
Paid benefit obligations	-559	382	-177	-149	0	-149
Employer contributions		-784	-784			
Reclassification of pension plans	612	-612	0	12,818	-12,818	

On 31 December	**15,246**	**-15,052**	**195**	**14,174**	**-13,878**	**297**
Funded obligations	15,246	-15,052	195	14,019	-13,878	142
Unfunded obligations	0		0	155		155
Total	**15,246**	**-15,052**	**195**	**14,174**	**-13,878**	**297**

The reclassifications carried out concern the reclassification of Belgian pension plans as defined benefit plans. The underlying assets relate to insurance contracts with underlying assets that primarily consist of fixed-income securities.

Expected employer contributions for 2018 are 0.8 million euros.

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

	2017	**2016**
Discount rate	1.3%	1.3%
Estimated rate of salary increases	2.0%	1.5%

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**
Pension liability	-1,837	+2,254
Fair value of fund assets	+1,811	-2,222
Net liability	**-26**	**+32**

III.7.14. PROVISIONS

	2017			**2016**		
(in '000 euros)	**< 1 year**	**> 1 year**	**Total**	**< 1 year**	**> 1 year**	**Total**
Product warranties	7,750	27	7,777	6,793	44	6,837
Environment		0	0		74	74
Restructuring			0			0
Other risks	640	0	640	320	0	320
Total	**8,390**	**27**	**8,417**	**7,113**	**118**	**7,231**

(in '000 euros)	**Product warranties**	**Environmental risks**	**Other risks**	**Total**
On 1 January 2017	**7,156**	**74**	**0**	**7,230**
Additions	3,607	0	640	4,247
Utilizations	-2,965	0	0	-2,965
Reversals	0	-74	0	-74
Exchange rate differences	-21	0	0	-21
On 31 December 2017	**7,777**	**0**	**640**	**8,417**
More than 1 year	27	0	0	27
Up to 1 year	7,750	0	640	8,390
Total	**7,778**	**0**	**640**	**8,417**

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 2017 is mainly due to the higher number of machines under guarantee.

III.7.15. INTEREST-BEARING DEBT

	2017			2016		
(in '000 euros)	**Expiry day < 1 year**	**Expiry day > 1 year**	**Total**	**Expiry day < 1 year**	**Expiry day > 1 year**	**Total**
Financial leases	197	275	472	169	0	169
Export finance	1,786	0	1,786	1,773	0	1,773
Total more than 1 year	**1,983**	**275**	**2,258**	**1,942**	**0**	**1,942**
Loan	0		0	0		0
Total up to 1 year	**0**		**0**	**0**		**0**
Total	**1,983**	**275**	**2,258**	**1,942**	**0**	**1,942**

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

	2017			2016		
	Expiry day < 1 year	**Expiry day > 1 year**	**Total**	**Expiry day < 1 year**	**Expiry day > 1 year**	**Total**
Financial leases	25	40	66	3	0	3
Export finance	0	0	0	0	0	0
Total	**25**	**40**	**66**	**3**	**0**	**3**

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 and the bicycle lease plan for staff concluded in 2017. The fair value of the underlying assets amounted to 5.9 million euros at the end of 2017 compared with 6.0 million euros on 31 December 2016.

The export financing only includes liabilities where the related trade receivable has already been discounted by Credendo but the risk has not yet been fully transferred.

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 asset side of the balance sheet as 'other receivables'.

Overview of forward exchange contracts:

	2017		**2016**	
(in '000 euros)	**Notional amount**	**Marked-to-market**	**Notional amount**	**Marked-to-market**
Forward sales contracts < 6 months	-793	+21	-1,449	-67
Forward sales contracts > 6 months	0	0	0	0
Subtotal forward sales contracts	**-793**	**+21**	**-1,449**	**-67**
Interest rate swaps (IRS)	0	0	0	0
Subtotal interest rate swaps	**0**	**0**	**0**	**0**
TOTAL	**-793**	**+21**	**-1,449**	**-67**

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)	**2017**	**2016**
Trade payables	73,810	75,499
Income taxes payable	3,401	3,893
Other current liabilities	48,519	45,219
Down payments received	21,884	20,637
Remuneration & social security	19,972	18,445
Accrued expenses and deferred income	6,161	5,393
Marked-to market derivatives	0	67
Other liabilities	502	677

'Trade payables' and 'other liabilities' in the above table are regarded as financial instruments. The remaining liabilities are regarded as non-financial liabilities.

Both short-term trade and other payables are non-interest-bearing liabilities both at 31 December 2017 and at the end of 2016.

III.8. MISCELLANEOUS

III.8.1. OPERATING LEASE AGREEMENTS

(in '000 euros)	**2017**	**2016**
Payments due within the year	911	825
Between 1 and 5 years	1,730	1,603
Minimum future lease payments	**2,641**	**2,428**

Operating lease payments represent rentals payable by the group for company cars and computer equipment. An amount of 0.9 million euros was recognized as a rental cost in the income statement in 2017.

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 2017**	**Total 2016**
Stefaan Haspeslagh	executive	70,667	6,000	76,667	60,000
Luc Tack	executive	15,000	10,000	25,000	25,000
Patrick Steverlynck, as representative of Pasma nv	non-executive	15,000	10,000	25,000	33,000
Jean Pierre Dejaeghere, as representative of nv Kantoor Torrimmo	non-executive	15,000	10,000	25,000	33,000
Luc Van Nevel, as representative of The Marble BVBA	non-executive	15,000	8,000	23,000	13,500
Hugo Vandamme, as representative of HRV nv (until 27/04/2017)	non-executive	3,750	4,000	7,750	33,000
Chantal De Vrieze, as representative of 7 Capital sprl (since 27/04/2017)	non-executive	7,500	6,000	13,500	-
Frank Meysman, as representative of M.O.S.T. BVBA (until 27/04/2016)	non-executive	-	-	-	13,750

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)	**2017**	**2016**
Trade receivables	24	21
Interest-bearing debt	0	0
Sales	1,482	2,097
Costs of sales	-20	-17
General & administration costs	-32	-32
Financing costs	0	0

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)	**2017**	**2016**
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	**2017**	**2016**
Fixed remuneration	974,662	964,849
Variable remuneration	465,000	366,205
Total	**1,439,662**	**1,331,054**
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 2017, 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	**2017**	**2016**	**2017**	**2016**
Brazilian Real	**BRL**	0.2757	0.2626	0.2517	0.2915
Chinese Yuan (Renminbi)	**CNY**	0.1311	0.1363	0.1281	0.1366
Indonesian Rupee (1000)	**IDR**	0.0660	0.0680	0.0616	0.0706
Indian Rupee	**INR**	0.0136	0.0135	0.0131	0.0140
Mexican Peso	**MXN**	0.0467	0.0485	0.0423	0.0459
Romanian Lei	**RON**	0.2186	0.2224	0.2147	0.2203
Turkish Lira	**TRY**	0.2422	0.2999	0.2200	0.2697
US Dollar	**USD**	0.8839	0.9074	0.8338	0.9487

III.8.5. PERSONNEL

	31/12/2017			31/12/2016		
In units	**Fully consolidated**	**Proportionally consolidated**	**Total**	**Fully consolidated**	**Proportionally consolidated**	**Total**
Management	6	0	6	6	0	6
White collar employees	650	0	650	641	0	641
Blue collar employees	1,648	0	1,648	1,545	0	1,545
Average number of personnel employed	2,262	0	2,262	2,113	0	2,113
Average number of personnel employed in Belgium	1,605	0	1,605	1,510	0	1,510
Remuneration and social charges (in '000 euros)	108,420		108,420	102,070	0	102,070

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

The auditor received an amount of 160,420 euros for the performance of his audit task in 2017. In the course of 2017, the auditor and the auditor related parties charged 488 euros for non-audit assignments. No other items were submitted for approval by the audit committee in 2017.

III.8.7. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group had no material contingent assets and liabilities on 31 December 2017.

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 2017, 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	858	EUR	42.9	-42.9
P(Sip)T (RMB)	Trade receivables	1,770	EUR	-88.5	88.5
	Trade payables	4,414	EUR	220.7	-220.7
Picanol (Suzhou) Trading Co	Trade receivables	549	EUR	-27.5	27.5
(RMB)	Trade payables	621	EUR	31.1	-31.1
				178.7	**-178.7**

Changes in the euro exchange rate during 2017 within the above-mentioned volatilities would have given a 179,000 euros higher/lower consolidated profit.

<u>Interest rate risk</u>
By the end of 2017, interest-bearing debt consisted solely of finance leases (fixed rate) and export financing.

The Picanol Group has a general policy of discounting the long-term receivables immediately to avoid interest rate risks. The export financing by the end of 2017 comprised only obligations of which the trade receivable was already discounted by Delcredere but the risk of which has not yet been completely transferred.

<u>Credit risk</u>
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.

<u>Liquidity risk</u>
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 adjusted to current and future financial needs. The Picanol Group has total credit lines excluding bank guarantees available for 57.1 million euros (2016: 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 (2016: 12 million euros), with 3.8 million euros of bank guarantees outstanding at 31 December 2017. 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)	**2017**	**2016**
FIXED ASSETS	**123,613**	**124,006**
Intangible assets	587	543
Tangible fixed assets	13,218	13,654
Financial fixed assets	109,808	109,808
CURRENT ASSETS	**466,645**	**400,939**
TOTAL ASSETS	**590,258**	**524,945**
SHAREHOLDERS' EQUITY	**472,164**	**405,134**
Share capital	22,200	22,200
Share premium account	1,518	1,518
Reserves	45,141	45,136
Profit/(loss) carried forward	403,304	336,280
Investment grants	0	0
PROVISIONS AND DEFERRED TAXES	**10,932**	**12,116**
LIABILITIES	**107,162**	**107,694**
Amounts payable after one year	114	0
Amounts payable within one year plus accrued expenses and deferred income	107,048	107,694
TOTAL LIABILITIES	**590,258**	**524,945**
SALES	526,865	510,096
OPERATING RESULT	83,528	87,627
FINANCIAL RESULTS	11,351	9,044
NON-RECURRING RESULTS	0	0
TAXES	-24,309	-26,664
PROFIT FOR THE FINANCIAL YEAR	**70,570**	**70,007**

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 65.3 million euros from 524.9 million euros as at the end of 2016 to 590.3 million euros at 31 December 2017. This rise was mainly due to increases in cash and cash equivalents.

The turnover of Picanol nv increased in 2017 by 3.3% compared to 2016, from 510.1 million euros to 526.9 million euros. The gross margin (operating income less the value of the trade goods, raw materials and consumables, services and other goods) decreased from 132.5 million euros in 2016 to 130.1 million euros at the end of 2017 – due to higher material prices. The gross margin in relation to the turnover decreased from 26.0% in 2016 to 24.7% in 2017. The operating profit decreased by 4.0 million euros to 83.5 million euros at the end of 2017. The net financial result increased by 2.3 million euros, mainly due to the increase in invoiced LC costs.

The net book value of participations in associated companies and the receivables on the relevant companies were assessed 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 for the year ended 31 December 2017

In the context of the statutory audit of the consolidated financial statements of Picanol NV ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report to you. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 15 April 2015, in accordance with the proposal of the Board of Directors issued upon recommendation of the audit committee and presentation of the works council. Our mandate will expire on the date of the shareholders' meeting approving the consolidated financial statements for the year ending 31 December 2017. Due to a lack of online archives dating back prior to 1997, we have not been able to determine exactly the first year of our appointment. We have started the statutory audit of the consolidated financial statements of Picanol NV prior to 31 December 1997.

Report on the audit of the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated statement balance sheet as at 31 December 2017, the consolidated income statement the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 777,690 (000) EUR and the consolidated income statement shows a consolidated net profit for the year then ended of 101,714 (000) EUR.

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 2017 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the Board of Directors and the company's officials the explanations and information necessary for performing our audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Assessment of control over associate Tessenderlo Group	
Picanol (via Verbrugge NV) holds 36.72% of the shares of Tessenderlo Group and acting jointly with Symphony Mills NV the company holds 40.65% of the shares of Tessenderlo Group, a company listed on the Euronext Stock Exchange, focused on food, agriculture, water management and on valorizing bio-residuals. Considering the fact that the same persons at Picanol Group and at Tessenderlo Group hold key positions of CEO, CFO and the position of President of the Board of directors, the assessment of control under the requirements of IFRS 10 over Tessenderlo Group is considered as a key audit matter as the analysis includes important judgements. The Group concluded that Picanol has significant influence under the requirements of IAS 28 and has no control under the requirements of IFRS 10. The group disclosed its position in note III.2 of the Consolidated Financial Statements.	We obtained an understanding of the group's analysis in this area including legal documentation, the composition of the Board of Directors, the applied governance and the voting rights exercised at the recent General shareholders' Meetings of Tessenderlo Group. Our focus included evaluating the appropriateness of the Group's methodology, evaluating and testing the judgments made by management and review performed by governing bodies. We tested the validity of the elements used in this analysis, have reviewed minutes of meetings held and checked the background of independent board members at Tessenderlo Group. IFRS specialists have been involved to review the reasonableness of assumptions used and the application of the key elements in IFRS 10 and IAS 28. We considered the adequacy of the Group's disclosures in the financial statements in respect of the no control assessment under IFRS 10.
Revenue recognition of Weaving Machines	
The Weaving Machines division recorded revenues of 592,023 (000) EUR. We focused on revenue recognition in the Weaving Machines division because of the use contracts covering different elements. These contracts require a thorough assessment of revenue recognition in the income statement as they have a higher inherent risk due to their complexity. This concerns in particular the accounting for transactions where different elements – machines, transport, installation and support, as well as interest income – are bundled in one contract. The complexity of bundled contracts relates to the allocation of revenues to the individual elements and the timing of their recognition. Group accounting policies for sales and revenue recognition are described in the summary of valuation rules in note III.1 and	We obtained an understanding of the revenue process in the Weaving Machines division, evaluated the relevant IT systems and the design and implementation of controls over the capture and recording of revenue transactions. In doing so, we involved our IT specialists to assist in the audit of automated controls, including interface controls between different IT applications. We focused on whether the revenues allocated to the machines, transport, installation, training and other elements directly linked to the sales were recorded based on the corresponding contractual agreements and in accordance with the Group's accounting principles and verified the timing of recognition of sales and direct related costs. We tested transactions on a sample basis to ensure that the amount of revenue deferred was accurately calculated and appropriately recognized. This involved reconciling the revenue from installation and support services with the figures derived from calculations based on the contractual terms and

segment information is disclosed in note III.5xxx	conditions. In addition, we tested whether each single element of the multiple element contract was recorded in the appropriate period. Further, where revenue was recorded through manual journal entries, we also performed tests on a sample basis to establish whether the sale had occurred or the service had been provided in the financial year in order to support the revenue recognition. We considered the adequacy of the Group's disclosures on revenue recognition of multiple element contracts in the financial statements.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's

report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (Revised in 2018) to the International Standards on Auditing (ISA), our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in the annual report, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements and other matters disclosed in this report

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for the period ended 31 December 2017 and it has been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our statutory audit of the consolidated financial statements we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement. We do not express and will not express any kind of assurance on the directors' report on the consolidated financial statements.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in a separate report that is part of section XI of the annual report. This statement on non-financial information includes all the information required by article 119, § 2 of the Companies Code and is in accordance with the consolidated financial statements for the financial year then ended. The non-financial information has been established by the company in accordance with the GRI. We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with this internationally recognized framework. Furthermore, we do not express any assurance on individual elements that have been disclosed in this non-financial information.

Statements regarding independence

- No prohibited non-audit services, as referred to by the law, have been performed and our audit firm and, if applicable, our network of audit firms, remained independent from the company during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit of the consolidated financial statements, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

- This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Gent, 13 March 2018

The statutory auditor

DELOITTE Bedrijfsrevisoren / Réviseurs 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 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 2017, the share capital was represented by 17,700,000 Picanol shares. During the course of 2017 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 2017.

The stock market capitalization on 31 December 2017 amounted to 1.64 billion euros.

Shareholder structure
The shareholder structure is shown on page 26.

Financial calendar

Annual general meeting	18/04/2018
Announcement of half-yearly results	22/08/2018 (before opening of the stock exchange)
Annual general meeting	16/04/2019

DIVIDEND
The Board of Directors will propose the payment of a gross dividend of 0.2 euros per share at the annual general meeting on 18 April 2018, for a total amount of 3.54 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'.
SMD	Surface-mounted device
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.

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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
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