Annual report **2018**

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. 2,329 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 2018:

Consolidated turnover:	666.71 million euros
Employment:	2,329
Euronext Brussels:	PIC
Web:	www.picanolgroup.com

CONTENTS

PRESENTATION OF THE PICANOL GROUP

AT THE SERVICE OF CUSTOMERS WORLDWIDE

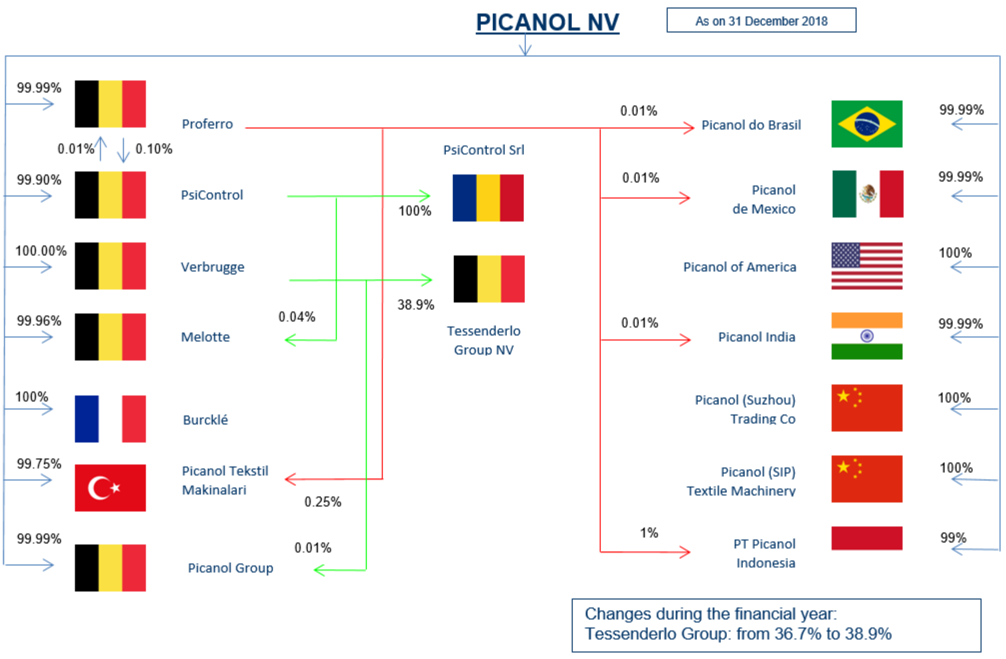
The Picanol Group sells its weaving machines to customers worldwide and aims to be present in all important markets at the service of customers. For this purpose the group has a worldwide service and sales network. Through its highly trained, specialized and results-oriented employees and agents, the 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.


Head office in Belgium


Production plant in China


Production plant in Romenia

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:

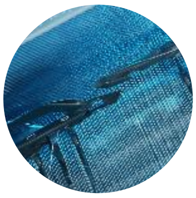
- Marketing, Sales & Services markets weaving machines to customers all over the world and is in charge of spare parts sales and aftermarket services. In Brazil, China, India, Indonesia, Mexico, Turkey and the US, this is organized through own local organizations.
- Product Development comprises all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

The production of weaving machines takes place in Belgium at Picanol nv and in China at Picanol (SIP) Textile Machinery. Our local organizations, which provide spare parts and service, are Picanol Tekstil Makinalari, Picanol do Brazil, Picanol de Mexico, Picanol of America, Picanol India, Picanol (Suzhou) Trading Co and PT Picanol Indonesia. The production of weaving machine accessories takes place in Verbrugge nv (Belgium) and Burcklé (France).

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 375,000 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.

GTMax-*i* 3.0
Universal rapier weaving machine for the higher-performing, middle segment of the market.

Airjet weaving machines

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

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

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

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

PROFERRO
Engineered Casting Solutions

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, with box sizes of 1600x1200x(2x400). 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

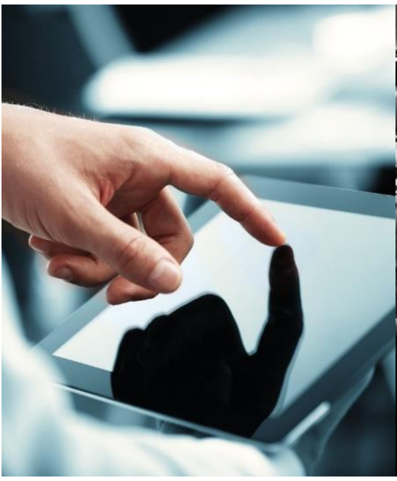
With locations in Ypres (Belgium) and Rasnov (Romania), PsiControl concentrates on the design, development, production and support of custom-made controllers.

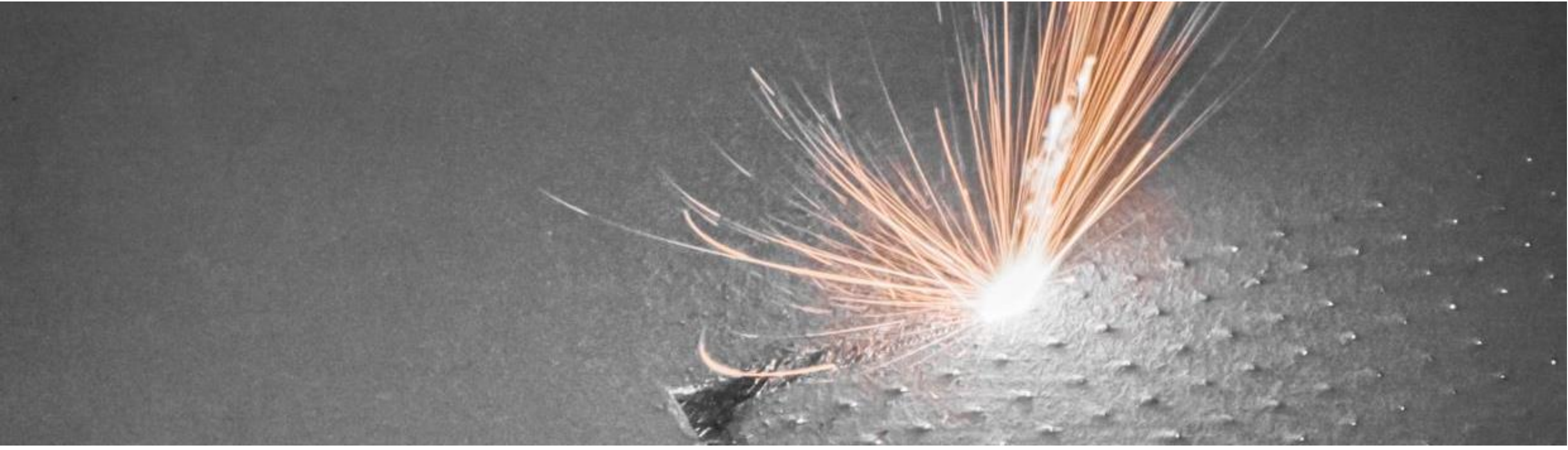
PRODUCTS & SERVICES

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 2018 the Picanol Group employed 2,329 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

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.

The statement of non-financial information is included in a separate sustainability report and published on the company's website. This separate report constitutes the declaration of non-financial information of the group and meets the requirements of art. 96, § 4, and art. 119, § 2, of the Companies Code. This separate report will be annexed to the annual report.

REPORT BY THE BOARD OF DIRECTORS

LETTER TO THE SHAREHOLDERS

Dear Shareholder,

Picanol Group reports ninth consecutive year of strong results in 2018.

Following an absolute record year in 2017, the Weaving Machines division again experienced an excellent year. Based on the well-filled order book at the end of 2017, it achieved a strong first half-year, with high demand for quality and technology resulting in strong sales. In the second half of the year, increasing geopolitical uncertainty in the markets caused a slowdown in demand for weaving machines.

The Industries division also had another strong year, which was driven by Weaving Machines and this was mainly thanks to the strong growth in new projects. The Industries division thus continues to contribute to the growing diversification of the group by fully focusing on castings and mechanical finishing (Proferro), controller capacities (PsiControl) and precision parts (Melotte). In 2018, Industries continued to modernize its machine park in order to increase profitability and production capacity.

The Picanol Group realized a consolidated turnover of 666.71 million euros over the full 2018 financial year, which represented a decrease in turnover compared to the 688.93 million euros recorded in 2017 (record year in the history of the group). The activities of Picanol Group resulted in a result after taxes (consolidated companies) of 77.98 million euros in 2018, as compared to 91.64 million euros in 2017. Furthermore, Tessenderlo Group nv made a positive contribution to the net profit of 32.95 million euros (as compared to 10.07 million euros in 2017). The group ended 2018 with a net profit of 110.92 million euros, as compared to 101.71 million euros in 2017.

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 April 17, 2019, for a total amount of 3.54 million euros.

Let’s Make it Together
In 2018, the group continued to work in Ypres on the internal Let's Make it Together campaign, which was launched in 2017. With this campaign, the group intends to fully commit to the future and sustainable growth of the Picanol Group in Ypres, focusing on three main pillars: world class manufacturing technologies, a digital company and a human-centered company. In 2018, for instance, further investments were made in Ypres in many new finishing machines, adapted processes and employee training.

2018 was also the year in which the technology box The Cube was launched. This has already provided some 700 employees with the opportunity to get up close and personal with a number of new relevant technologies, challenges and associated opportunities in an accessible manner.

Given that improving the competitiveness through further productivity and quality improvements as well as targeted investments is a top priority, the Board of Directors approved investments for Ypres for 2019 for an amount of 25 million euros. This investment plan includes an automated high-bay warehouse and a major modernization of the machine capacity at Proferro and Picanol. In addition, the Picanol Group also plans investments at Melotte and PsiControl in Romania.

Outlook
The following statements are forward looking statements and actual results may vary considerably.

For 2019, the Picanol Group is taking into account a slowdown in the global weaving machine market. This is due to the current macroeconomic and geopolitical climate, in which customers are more cautious and investment decisions might either be delayed or postponed. In 2019, Industries will mainly aim for further growth with customers in other markets. For the first half of 2019, Picanol Group expects sales to fall by approximately 25% compared to the first half of 2018.

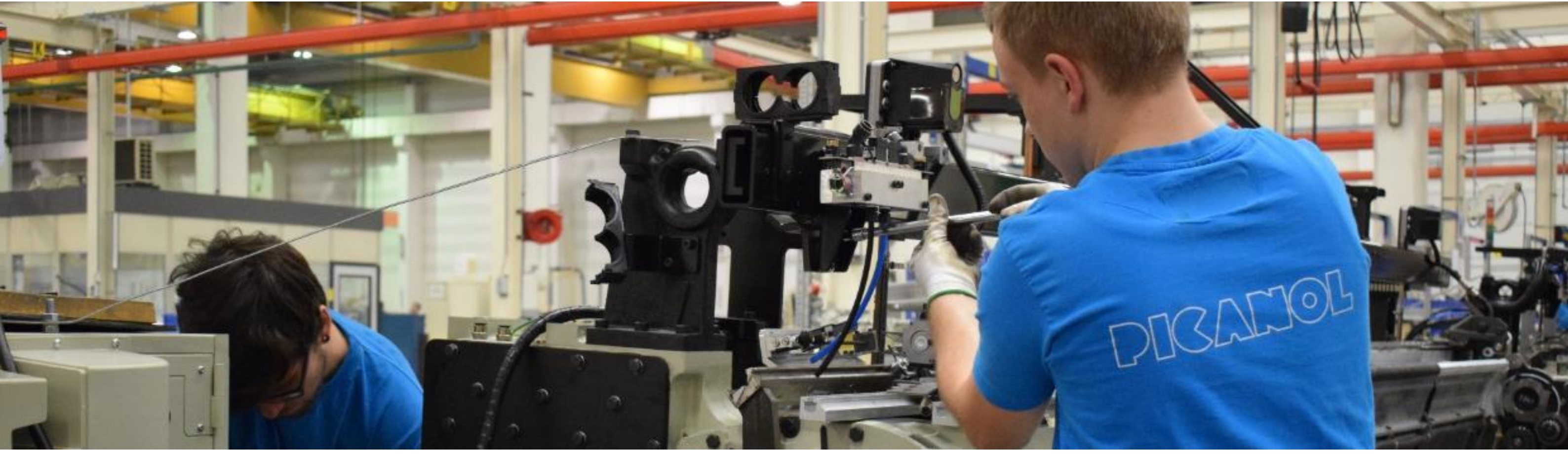
The Picanol Group remains cautious, as it is active as an export-oriented company in a volatile world economy. Due to the cyclical nature of the textile market, strict cost-control remains of the essence. Picanol Group's reliance on the cyclic textile market has been reduced, as a result of the increased contribution of the Industries division and Tessenderlo Group to the results.

On behalf of the Board of Directors, we would like to thank everyone who contributed to the success of Picanol Group during 2018: 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 72 of this annual report.



ACTIVITIES REPORT WEAVING MACHINES DIVISION

Based on a well-filled 2017 order book, the Weaving Machines division had a strong first half-year in 2018. The demand for quality and technology led to strong sales, especially in Asian countries. This resulted in a historically high production level of the OptiMax-*i* rapier weaving machine in Ypres. This machine is recognized as the best denim-weaving machine in the world.

In the second half of the year, global demand for weaving machines, spare parts and accessories slowed down as a result of increasing uncertainty, partly due to the impending trade conflict between the US and PR China.

In 2018, Picanol participated in a number of international trade fairs to profile itself as the technological market leader in rapier and airjet weaving machines, including ITM Istanbul (Turkey) and ITMA-CITME Shanghai (PR China). At the last trade fair, special attention was paid to the GTMax-*i* 3.0. This is a new version of the GT-Max generation of rapier weaving machines.

The main R&D focal points for 2018 were the development of weaving machines with higher performance, materials efficiency, user-friendliness, simpler and more stable adjustability, and the extensive use of sensors and digitization with a view to future connectivity. The results will be on display at the ITMA fair in 2019.

In 2018, Picanol further invested in the renovation and modernization of its production facilities, and continued to focus on Let's Make it Together at the Ypres site on its way to becoming the (manufacturing) company of and for the future. This will improve its competitive position in Ypres, in combination with further productivity and quality improvements.

Outlook

For 2019, the Picanol Group is taking into account a slowdown in the global weaving machine market. This is due to the current macroeconomic and geopolitical climate, in which customers are more cautious and investment decisions might either be delayed or postponed.

In 2019, 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. At the ITMA Barcelona 2019 textile machine trade fair, Picanol will once again show that it is still the technology leader and it provides the best guarantee for the future of its customers.

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 with investments in new machines and training.

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 Weaving Machines division and new 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 2018.

In 2018, a major investment package for 2018-2020 was approved. This will accelerate the further renewal and modernization of production facilities, with a positive impact on Proferro's performance in the coming years. The main investments were in precision, quality and automation.

PsiControl

PsiControl had a strong growth path in 2018. 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 2018.

In 2018, 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 MCE (Italy) and ESEF (The Netherlands). In addition, PsiControl participated in the electronica fair in Germany.

Melotte

In 2018, Melotte continued in the spirit of 2017, experiencing a strong year for both classic and 3D printed parts and for mold repairs. This growth took place across all markets supplied by Melotte - electronics, (petro)chemicals, mechanical engineering, pharmaceuticals, etc. In 2018, Melotte continued to invest in machinery renewal.

Outlook

Based on the outlook of the Weaving Machines division, the Industries division expects a decline in 2019. Proferro still expects high raw material prices for 2019. The outlook for PsiControl is positive in the various customer segments in which it operates. At various trade fairs throughout 2019, PsiControl will be focusing on the deployment of the SwipeStat product range, among others at ISH (Germany) and Caravan (Germany). The commissioning of a new pendulum milling machine is scheduled for 2019 at Melotte. With various investment projects, Industries will focus in 2019 on capacity, quality, safety and the continued improvement of its processes.

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 2018.

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	2022
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) – until February 2019*	Member of the audit committee Member of the nomination & remuneration committee	2020
Chantal De Vrieze, *permanent representative of 7 Capital sprl (2)*	Member of the audit committee Member of the nomination & remuneration committee	2021

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

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. The non-executive directors will hold no more than five directorships in listed companies. The mandates held in listed companies (other than Picanol) by the non-executive directors are:

- Patrick Steverlynck: none
- Jean Pierre Dejaeghere: TINC Comm. V. A.
- Luc Van Nevel: none
- Chantal De Vrieze: EVS, Colruyt
- Ann Vereecke: Ter Beke

In February 2019, Picanol Group co-opted Ms. Ann Vereecke, permanent representative of Ann Vereecke bvba, as a non-executive independent director in order to further strengthen and diversify its Board of Directors. This appointment is valid until the conclusion of the 2020 general meeting. Ms.

Vereecke replaces Mr. Luc Van Nevel, as permanent representative of The Marble bvba. Mr. Van Nevel has resigned from the Board of Directors.

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

The Board of Directors held five meetings in 2018 with a full quorum.
In 2018, 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
- Evaluation of the audit of associated company
- Investment and disinvestment projects
- Evaluation of the cooperation with the management committee
- Sustainability: sustainability report, environment and safety
- GDPR

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). 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 four meetings in 2018 with a full quorum. 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
- Appointment 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). Luc Van Nevel was appointed as Chairman of the nomination & remuneration committee. 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
- Training: Picanol Academy

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.

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 2018
Stefaan Haspeslagh	executive	75,000	10,000	85,000
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	10,000	25,000
Chantal De Vrieze, as representative of 7 Capital sprl	non-executive	15,000	10,000	25,000

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 2018 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	**2018**
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	**2018**
Fixed remuneration	984,166
Variable remuneration	465,000
Total	**1,449,166**
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. The following notice periods are provided for the members of the Management Committee:

Luc Tack, managing director	None
Findar BVBA, represented by Stefaan Haspeslagh, CFO	None
Cathy Defoor, Vice President Industries	18 months

Geert Ostyn, Vice President Weaving Machines	18 months
Johan Verstraete, Vice President Weaving Machines – Marketing, Sales & Services	18 months
VOF Pretium Plus, represented by Philip De Bie, Vice President Accessories & IT	18 months

IV.9. Deviation

At the general meeting of shareholders on 18 April 2018, 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 2019.

V. AUDITOR'S REMUNERATION

The auditor received an amount of 145,100 euros for the performance of his audit task in 2018. In the course of 2018, no non-audit assignments were invoiced by the statutory auditor or to parties related to the statutory auditor. No other items were submitted for approval by the audit committee in 2018.

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. 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 and updated annually 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 2018, 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 77% of sales in 2018, 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 presently has one, material, pending dispute relating to the supply of goods and services. However, this is fully covered by product liability insurance. 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 14% 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 product liability. As this risk is fully insured, the company has not created a provision in this regard.

Risk associated with a fluctuation in raw material prices
The cost price of Picanol's products is subject to fluctuation in raw material prices, mainly of iron ore, copper, aluminum and sheet steel. Proferro has agreements with its customers whereby fluctuations in the most important raw material prices are settled periodically, on the basis of raw material indices.

Risk associated with unavailability of IT systems
The company increasingly uses IT systems to process, transmit and store electronic information and, as such, to operate efficiently and communicate with customers. A significant part of the communication between employees, customers and suppliers of the company depends on information technology. The company relies on information systems to manage inventory, accounting, purchasing and sales applications, and to maintain cost-efficient operations. As with all major systems, the company's information systems may be vulnerable to a variety of failures resulting from events beyond its control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers or other security problems. These or other, similar failures may disrupt the group’s business or negatively affect the results of its operations or its financial situation.

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

	2018		2017	
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	18,434	0.10%	9,744	0.06%
Free float	1,869,186	10.56%	1,877,876	10.61%
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 and 524 OF THE COMPANY CODE

Extract from the minutes of the Board of Directors of May 7, 2018:
[…]
Conflict of interest:
Statement by Mr. Luc Tack:
Mr. Luc Tack declares in accordance with article 523 of the Company Code that he may have an equity interest that could conflict with the decision on the acquisition of additional shares in Tessenderlo Group. This potential conflict of interest arises from the fact that Mr. Luc Tack is the controlling shareholder of Symphony Mills nv, which is not only a shareholder of Picanol nv, but also a direct shareholder of Tessenderlo Group. Although the personal interest of Mr. Luc Tack and the interest of Picanol Group nv as shareholder of Tessenderlo Group nv are similar, Mr. Luc Tack has decided to avoid any suggestion of a conflict of interest and to apply the procedure provided in Art 523. Mr. Luc Tack therefore declared that he would not participate in (and leave the meeting during) the decision-making process. Mr. Luc Tack requested that the statutory auditor of Picanol nv be informed of this potential conflict of interest. Mr. Luc Tack left the meeting before it proceeded on this decision.

Mr. Haspeslagh explained that, within the mandate of 60 million euros granted by the Board of Directors during the meeting of December 13, 2016, 8.6 million euros of shares had been purchased to date. In order to be able to take advantage of any opportunities that might present themselves in the future, the chair asked for a new mandate, once again for 60 million euros, which would replace the current mandate. The directors asked for assurances that the group's cash resources would meet the minimum cash reserve at any time. The directors then decided that a further increase of shares in Tessenderlo Group is in the interests of Picanol, if achieved at an attractive price, provided that other opportunities are also considered. The Board of Directors granted special authorization to Luc Tack and Stefaan Haspeslagh, acting jointly or severally, to acquire additional shares up to an amount of 60 million euros.

There was no cause to apply article 524 of the Companies Code during 2018.

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 April 18, 2018, on which the authorization was granted. The Board of Directors will again submit this for approval to the General Meeting of 2021, 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 both the Board of Directors and the Management Committee of Picanol Group was 1 to 6 at the end of the reporting period. Since Picanol Group has a free float of less than 50%, the obligation that women comprise one-third of the Board of Directors does not apply until January 1, 2019. In early February 2019, Picanol Group co-opted Ms Ann Vereecke as non-executive independent director in order to further strengthen and diversify its Board of Directors and to comply with legal requirements.

- ***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 2018 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 2018

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.
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.
LC	Letter of Credit, documentary credit

II. FINANCIAL STATEMENTS

II.1. CONSOLIDATED INCOME STATEMENT

(in '000 euros)	NOTES *	2018	2017
Revenue	III.5.	666,710	688,928
Cost of sales		-523,149	-529,532
GROSS PROFIT		**143,561**	**159,396**
General and administrative expenses		-23,532	-20,449
Sales and marketing expenses		-18,025	-18,305
Other operating income	III.6.1.	56	138
Other operating expenses	III.6.1.	-44	-10
OPERATING RESULT	**III.6.2.**	**102,017**	**120,771**
Total interest income	III.6.3.	3,740	4,677
Total interest expenses	III.6.3.	-1,860	-2,122
Other financial income	III.6.3.	804	1,206
Other financial expenses	III.6.3.	-1,117	-1,152
Financial income/(expense) net		**1,567**	**2,609**
PROFIT BEFORE TAXES		**103,584**	**123,380**
Income taxes	III.6.4.	-25,608	-31,741
PROFIT AFTER TAXES (CONSOLIDATED COMPANIES)		**77,976**	**91,640**
Share of profit of equity-accounted investees, net of tax **	III.7.4	32,947	10,074
PROFIT (LOSS) OF THE PERIOD		**110,923**	**101,714**
PROFIT (LOSS) FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY		**110,923**	**101,714**

** The accompanying notes form an integral part of this income statement.*
*** In accordance with IAS1, Picanol Group has opted to show its "share of profit of equity-accounted investees" after the "profit after taxes (consolidated companies)".*

EARNINGS PER SHARE

(in '000 euros)	NOTES	2018	2017
Basic earnings per share	III.6.6.	6.27	5.75
Diluted earnings per share	III.6.6.	6.27	5.75

II.2. CONSOLIDATED STATEMENT OF PROFIT FOR THE REPORTING PERIOD WITH NET PROFIT TAKEN UP DIRECTLY AS EQUITY

(in '000 euros)	**2018**	**2017**
Profit or loss for the financial year attributable to the shareholders of the company	**110,923**	**101,714**
Items that will not be subsequently transferred to profit and loss:	**488**	**4,483**
Actuarial gains/(losses)		
Actuarial gains/(losses) from equity accounted investees	488	4,483
Items that will subsequently be transferred to profit and loss if specific conditions are met:	**788**	**-5,557**
Exchange rate differences as a result of the conversion of foreign operations	-712	-2,930
Exchange rate differences as a result of the conversion of foreign operations at associated companies	-683	-2,641
Share of other comprehensive income of associated companies	2,183	14
Total other comprehensive income after taxes	**1,277**	**-1,074**
Total comprehensive income	**112,199**	**100,640**

II.3. CONSOLIDATED BALANCE SHEET

(in '000 euros)	**NOTES ***	**2018**	**2017**
NON-CURRENT ASSETS		**553,171**	**481,398**
Intangible assets	III.7.1.	1,139	1,014
Tangible fixed assets	III.7.2.	64,735	62,129
Equity accounted investees	III.7.4.	482,341	417,000
Other financial investments	III.7.4.	44	44
Non-current receivables	III.7.5.	4,004	699
Deferred tax assets	III.7.6.	908	512
CURRENT ASSETS		**315,133**	**296,292**
Inventories	III.7.7.	62,848	63,767
Trade receivables	III.7.8.	59,516	70,295
Other receivables	III.7.8.	19,736	28,881
Cash and cash equivalents	III.7.9.	173,033	133,350
TOTAL ASSETS		**868,304**	**777,690**
SHAREHOLDERS' EQUITY	**II.4.**	**738,873**	**630,214**
Equity attributable to the shareholders of the group		**738,873**	**630,214**
Share capital	III.7.10.	21,720	21,720
Share premiums	III.7.11.	1,518	1,518
Reserves		710,013	600,642
Translation differences		5,622	6,334
NON-CURRENT LIABILITIES		**8,989**	**10,313**
Employee benefits	III.7.12.	4,055	4,821
Provisions	III.7.13.	19	27
Deferred tax liabilities	III.7.6.	4,638	5,190
Interest-bearing debt	III.7.14.	277	275
CURRENT LIABILITIES		**120,442**	**137,163**
Employee benefit obligations	III.7.12.	851	1,060
Provisions	III.7.13.	7,419	8,390
Interest-bearing debt	III.7.14.	1,175	1,983
Trade payables	III.7.16.	67,594	73,810
Income taxes payable	III.7.16.	2,558	3,401
Other current liabilities	III.7.16.	40,845	48,519
TOTAL LIABILITIES		**868,304**	**777,690**

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

II.3. CONSOLIDATED CASH FLOW STATEMENT

(in '000 euros)	NOTES	2018	2017
Operating result		**102,017**	**120,771**
Depreciation on intangible and tangible fixed assets	III.7.1, III.7.2	8,967	8,364
Impairment of assets		63	75
Write-offs on current assets	III.7.7, III.7.8.	3,444	-414
Changes in provisions	III.7.12, III.7.13	-1,954	577
Gross cash flow from operating activities		**112,536**	**129,373**
Changes in working capital		203	-22,292
Paid income taxes		-27,441	-33,816
Interest received	III.6.3.	3,740	4,677
Net cash flow from operating activities		**89,038**	**77,944**
Investment in equity accounted investees	III.7.4.	-30,406	-7,883
Acquisitions of intangible fixed assets	III.7.1.	-350	-208
Acquisitions of tangible fixed assets	III.7.2.	-11,503	-12,111
Net cash flow from investment activities		**-42,259**	**-20,202**
Interest paid	III.6.3.	-1,860	-2,122
Dividends paid	III.6.5.	-3,540	-1,770
Increase of interest-bearing financial debt	III.7.14	1,270	519
Repayments of interest-bearing financial debt	III.7.14	-2,076	-203
Cash flow from finance activities		**-6,206**	**-3,576**
Effect of exchange rate fluctuations		-890	-2,101
Adjustments to cash and cash equivalents		**39,683**	**52,065**
Net cash position – opening balance (01/01)		133,350	81,285
Net cash position – closing balance (31/12)		173,033	133,350
		39,683	**52,065**

Working capital:	**31/12/2018**	**31/12/2017**	**Change**
Stocks and orders in progress	62,848	63,767	-919
Amounts receivable after more than one year	4,004	699	3,305
Trade receivables	79,252	99,175	-19,923
Trade payables	-67,594	-73,810	6,216
Advances received	-15,553	-21,884	6,331
Remuneration and social security	-18,729	-19,972	1,243
Other liabilities	-6,563	-6,663	100
Working capital net	**37,665**	**41,312**	**-3,647**
Increase/(Decrease) in value reductions on current assets			3,444
Changes in working capital			**-203**

<u>II.4.</u> STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Per 31 Dec 2018

(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**	**600,642**	**6,334**	**630,214**	**0**	**630,214**
Changes in scope of consolidation			0	0	0	0	0
Result over the reporting period			110,923	0	110,923	0	110,923
Translation differences			0	-712	-712	0	-712
Actuarial gains (losses)			0	0	0	0	0
Share of other comprehensive income of associated companies			1,989	0	*1,989*	*0*	*1,989*
Total recognized profits and losses	**0**	**0**	**112,911**	**-712**	**112,199**	**0**	**112,199**
Dividends			-3,540	0	-3,540	0	-3,540
At the end of the reporting period	**21,720**	**1,518**	**710,013**	**5,622**	**738,873**	**0**	**738,873**

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**

The other comprehensive income of associates mainly concerns hedging reserves relating to financial instruments.

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2018

III.1. SUMMARY OF THE VALUATION RULES

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

The consolidated financial statements of the Picanol Group have been compiled in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The consolidated financial statements were authorized for publication by the Board of Directors on March 13, 2019.

III.1.2. GENERAL PRINCIPLES

Basis of presentation
The consolidated financial statements are presented in euros, the functional currency of the Picanol Group, rounded to the nearest thousand euros. They have been compiled on the basis of the historical cost convention.

The valuation rules have consistently been applied to the year 2018, and also to the previous financial year and the opening balance on the IFRS transition date.

New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are not yet effective for financial years ending December 31, 2018 and have not been applied in preparing these consolidated financial statements:

IFRS 16 Leases published on 13 January 2016 makes a distinction between a service contract and a lease based on whether the contract conveys the right to control the use of an identified asset and introduces a single, on-balance sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. This standard has been endorsed by the EU.

The group will apply IFRS 16 from January 1, 2019 by using the modified retrospective method. An in-depth analysis of the impact on the financial statements was carried out in 2018. As at December 31, 2018, this would lead to the following adjustment:

in '000 euros

Tangible fixed assets - acquisition cost	9,016
Tangible fixed assets - depreciation	- 4,876
Interest-bearing financial liabilities < 1 year	-1,316
Interest-bearing financial liabilities > 1 year	- 2,825

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) issued on 12 October 2017, clarifies how companies should account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The amendments are not expected to have a material impact on the Group's consolidated financial statements. These amendments have not yet been endorsed by the EU.

IFRIC 23 Uncertainty over Income Tax Treatments issued on 7 June 2017, clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. An entity is required to assume that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. Detection risk is not considered in the recognition and measurement of uncertain tax treatments. The entity should measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty; either the most likely amount method or the expected value method. The interpretation is effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted. The amendments are not expected to have a material impact on the Group's consolidated financial statements. This interpretation has been endorsed by the EU.

Annual improvements to IFRSs 2015-2017 Cycle, issued on 12 December 2017, covers the following minor amendments:

- IFRS 3 Business Combinations: the amendments clarify that a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 Joint Arrangements: the amendments clarify that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income Taxes: the amendments clarify that a company accounts for all income tax consequences of dividend payments consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
- IAS 23 Borrowing Costs: the amendments clarify that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The amendments are not expected to have a material impact on the Group's consolidated financial statements. These amendments have not yet been endorsed by the EU2[1].

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) issued on 7 February 2018, clarifies that on amendment, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remainder of the annual reporting period are calculated using updated actuarial assumptions – i.e. consistent with the calculation of a gain or loss on the plan amendment, curtailment or settlement. The amendment also clarifies that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. The entity then determines the effect of the asset ceiling after plan amendment, curtailment or settlement. Any change in that effect is recognized in other comprehensive income (except for amounts included in net interest). The amendments are effective for annual periods beginning on or after 1 January 2019 and are applied prospectively. The amendments are not expected to have a material impact on the Group's consolidated financial statements. These amendments have not yet been endorsed by the EU.

Amendment to IFRS 3 Business Combinations, issued on 22 October 2018, provides more guidance on the definition of a business. The amendment includes an election to use a concentration test. This is a simplified assessment that will result in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If one does not apply the concentration test, or the test is failed, then the assessment focuses on the existence of substantive process. The amendment applies to businesses acquired in annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendment has not yet been endorsed by the EU.

Amendments to IAS 1 and IAS 8: Definition of Material was issued on 31 October 2018 clarifying the definition of ‘Material’ and aligning the definition of ‘material’ across the standards. The new definition states that “information is considered material, if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primarily users of general purpose financial statements make on the basis of those financial statements, which provide information about a specific reporting entity”. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments are effective prospectively for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendment has not yet been endorsed by the EU.

On 29 March 2018, the IASB has issued **Amendments to References to the Conceptual Framework in IFRS Standards (Amendments to CF)**. The Conceptual Framework sets out the fundamental concepts of financial reporting that guides the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction; and it helps stakeholders to understand the Standards better. Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting, which is to provide information that is useful in making resource allocation decisions.
- Reinstating prudence, defined as the exercise of caution when making judgements under conditions of uncertainty, as a component of neutrality.
- Defining a reporting entity, which might be a legal entity or a portion of a legal entity.
- Revising the definition of an asset as a present economic resource controlled by the entity as a result of past events.
- Revising the definition of a liability as a present obligation of the entity to transfer an economic resource as a result of past events.
- Removing the probability threshold for recognition, and adding guidance on derecognition.
- Adding guidance on the information provided by different measurement bases, and explaining factors to consider when selecting a measurement basis.
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where the relevance or faithful representation of the financial statements would be enhanced.

The amendments are effective for annual periods beginning on or after 1 January 2020, whereas the Board will start using the revised Conceptual Framework immediately. These amendments have not yet been endorsed by the EU.

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.

When the group acquires a significant influence in an associated company, this participation is initially valued at cost price (the acquisition price including transaction costs). Subsequently, the group's share in the results of associated companies is included in the consolidated financial statements in accordance with the equity method until the day that significant influence ceases.
The initial cost is adjusted by a revaluation of the acquired share in the assets and liabilities of the associated company to its fair value at the acquisition date. If the acquisition consideration exceeds the fair value of the acquired share of the acquired assets, liabilities and contingent liabilities, this difference is recognized as goodwill. If the goodwill thus calculated is negative, this difference is immediately recognized in the result.
When an additional share in the associate is acquired, the equity method is adjusted by the acquisition price of the additional share. The nominal value of the goodwill related to the acquisition of an additional share in the associated company was determined as the difference between the acquisition price of this additional share and the carrying amount of the additional proportion 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.

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. When components of a non-current asset have differing useful lives, they are accounted for as separate items of property, plant and equipment.

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 5 years
- Office furniture 10 years
- Office and computer equipment 4 years
- Vehicles 5 years
- Internal transport equipment 10 years

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

Lease agreements

Financial leases

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

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

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

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

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

Operating leases

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

Export financing

The company does not act as a lessor. On the other hand, it permits long-term repayment of trade debts. These receivables are financed through bank 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. For the purpose of impairment testing, assets are grouped into the smallest groups of assets that generate cash flows from continuing operations which are largely independent of cash flows from other assets or cash-generating units.

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. The fair value is equal to the amount that could be obtained from the sale in a normal transaction between market participants in the most important or advantageous market to which the group has access. If the asset is traded in an active market, this market price forms the basis of the valuation.
Value in use corresponds to the present value of the estimated future cash flows expected to arise from the asset or cashflow-generating entity.

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.

Finance costs and income
All borrowing costs and revenues are recognized in the income statement 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.

Cash and cash equivalents
Cash includes cash and bank balances with credit institutions. Cash equivalents are short-term investments with a maturity of less than 3 months and for which there is no significant risk of impairment.

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.7.12).

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'.

Short-term employee remuneration

Short-term employee remuneration is recognized when the related services are rendered. A liability is recognized for the amount expected to be paid out as short-term bonus plans if the group has a legal or constructive obligation as a result of past service by employees and this obligation can be measured reliably.

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
Initial recognition of financial instruments is at fair value, adjusted for transaction costs, except for the category FVTPL ('fair value through profit & loss') where transaction costs are recognized directly in the income statement. After the initial valuation, the financial instruments are valued on the basis of the valuation categories described above.

Financial assets
The group only has trade receivables, cash and bank notes as financial assets. These were classified as loans and receivables before January 1, 2018 and were consequently valued at amortized cost. In classifying and valuing these financial assets, we subjected them to two tests; a business model test and a cash flow characteristics test.
'Business model' refers to the way in which a company manages its financial assets to generate cash flows from them. This can be done by generating cash flows by receiving only the contractual cash flows of interest and principal (HTC, held to collect), by generating both contractual cash flows and by selling the instrument (HTC&S, held to collect and sell) or by applying other business models. In principle, the group only holds financial assets under the HTC model. The Chinese bank notes can also be used at an early stage for the payment of own suppliers. Given the short-term maturity and the interest rate applicable to these notes, the amortized cost of these notes is a good approximation of their market value. In addition, the contractual terms of the financial instrument only apply to cash flows that include only regular interest and principal repayment. As a result, all financial assets are valued at amortized cost under IFRS9.

<u>Impairment of Financial fixed assets until January 1, 2018</u>
The company applies write-downs on its financial assets if there are indicators that these receivables are not collectable (in whole or in part). The company assesses this on an individual basis using both specific information linked to the receivable and global historical information. In addition, it also takes into account the share of the risk on the relevant receivable in order to determine the impairment.

<u>Impairment of financial assets as from January 1, 2018</u>
A credit loss model is used with respect to the impairment of financial assets. The expected credit losses and changes in those expected credit losses are recognized at each reporting date to reflect the changes in credit risk since the initial recognition of the financial assets. The group recognizes a loss for expected credit losses on trade receivables and other financial assets in accordance with the requirements of IFRS9. The application of IFRS9 - impairment of financial assets - has no material impact on the group's result.

<u>Equity instruments</u>
Equity instruments issued by the company are recognized in accordance with the amounts received, less any direct issue costs. The application of IFRS 9 has no impact on this valuation.

<u>Financial liabilities</u>
Interest-bearing bank loans and fixed advances are recorded according to the the amounts received, net of direct issue costs. Financial charges, including premiums payable on settlement or redemption and direct issue costs, will be accounted for on a proportionate basis in the profit and loss account using the effective interest method and will be added to the booked amount for the instrument to the extent that they are not settled in the period to which they relate. The application of IFRS 9 has no impact on this valuation. In both 2017 and 2018, these are recognized at amortized cost.

<u>Hedge accounting</u>
The group does not apply hedge accounting in its financial statements for 2017 and 2018.

III.1.4. PROFIT AND LOSS ACCOUNT

Turnover

IFRS 15, effective for annual periods beginning on or after 2018, provides that the selling price must be allocated to all identifiable performance obligations in a contract and that revenue must be recognized when the performance obligation is met. The analysis in accordance with IFRS 15 is based on the 5-step plan below:

Step 1: Identifying the contract with the customer:
For both the Weaving Machines and Industries divisions, the vast majority of contracts involve individual orders.

Step 2: Identifying individual performance obligations in the contract:
The performance obligation for the Weaving Machines division mainly relates to the supply of goods (weaving machines and related spare parts) and the related transport and installation services. Based on the criteria of IFRS 15, we identify two performance obligations. On the one hand, the supply and transport of the weaving machines and the relevant spare parts and, on the other hand, the installation services. The installation services are a separate performance obligation as they can be performed by the customer or by a third party. However, the revenue relating to such installation is not material in relation to the group's revenue.
The performance obligation for the Industries division mainly relates to the supply of goods (castings and electronics) and the associated transport services. Within the electronics division - in addition to the delivery of goods - design and development costs are also invoiced to the customer. These will be charged separately to the customer. However, the revenue relating to this design and development costs is not material in relation to the group's revenue.

Step 3: Determining the transaction price:
Variable compensation in the Weaving Machines division is largely limited to volume discounts on the sales of spare parts.
In certain agreements with customers within the Industries division, the transaction price of the goods is linked to the raw material prices and other elements of the production cost. However, these changes are only applied to future deliveries of goods and have no impact on the transaction price of goods already delivered. These contracts are not material to the group's activities. There are no significant financing components included in the transaction prices that are to be settled separately under IFRS 15. It is unusual for compensation to be paid to customers. Based on historical information, these are considered immaterial in relation to total consolidated revenues.

Step 4: Allocating the transaction price to the individual performance obligations in the contract:
The transaction price is allocated to the individual performance obligations based on the respective individual sales prices as included in the contract with the customer.

Step 5: Recognition of revenue at the moment the company fulfils a performance obligation:
Under IFRS 15, revenue is recognized when the customer acquires control of the goods. The group has not identified any material differences between the transfer of control and the transfer of risks and rewards of ownership. Sales of goods are recognized at the time of transfer of risks and rewards of ownership to the customer, generally determined by INCO terms. In accordance with IFRS 15, since 2017, revenue relating to the installation component is recognized when these performance obligations are performed and the related costs are incurred. Guarantee obligations are included in the definition of ‘assurance-type’ guarantee and are provided in accordance with IAS 37. We refer to the 'Provisions for warranty costs'. The payment terms vary from customer to customer and can be reduced to three categories: export finance (see above), LCs, or regular customer credits (30-60 days). The credit risk is covered as far as possible via credit insurance companies.

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

Dividend income
Dividends are recognized at the time of allocation by the general meeting.

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 2018, 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 43.2% of the shares of Tessenderlo Group nv
- Although 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 defined benefit plans, provisions and deferred taxes.

III.3. CHANGES IN ACCOUNTING PRINCIPLES APPLIED

There were no changes in accounting principles applied in the financial year 2018 in comparison with the financial year 2017.

III.4. CHANGES IN SCOPE OF CONSOLIDATION

There were no changes to the scope of consolidation in 2018.

III.5. SEGMENT INFORMATION & BREAKDOWN OF TURNOVER

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**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
External sales	562,061	592,023	104,650	96,906			666,710	688,928
Inter-segment sales	1,869	1,883	93,394	92,424	-95,263	-94,307	0	0
Total sales	**563,930**	**593,906**	**198,044**	**189,330**	**-95,263**	**-94,307**	**666,710**	**688,928**
Operating profit	**88,132**	**108,122**	**13,885**	**12,650**			**102,017**	**120,771**
Total interest income	3,739	4,677	0	0			3,740	4,677
Total interest expense	-1,667	-1,970	-193	-152			-1,860	-2,122
Other financial income/expenses	-20	-336	-293	391			-313	54
Result before taxes	**90,185**	**110,492**	**13,399**	**12,890**			**103,584**	**123,380**
Other segment information:								
Depreciation	4,278	4,139	4,689	4,225			8,967	8,364
Investments	4,175	3,432	7,678	8,887			11,853	12,318
Total assets	133,467	154,873	123,604	118,425	611,233	504,391	868,304	777,690
Total liabilities	192,146	158,233	91,011	85,832	585,148	533,625	868,304	777,690

The consolidated group turnover decreased in 2018 by 3% in comparison to the previous year. The operating result decreased by 16% due to the negative impact of rising raw material prices, rising fixed costs and increasing inventory provisions (see also III.6.2). The increase in fixed costs mainly relates to development and start-up costs linked to new product launches, trade fair costs, IT project costs and infrastructure costs (in the context of plant refurbishment works).

In the Weaving Machines division, the annual turnover decreased by 5% compared to 2017 (the best year in the history of the group). The profit ratio fell - from 18% to 16% - due to higher material prices and increased fixed costs. The operating result amounted to 88.1 million euros (as compared to 108.1 million euros in 2017).

The annual turnover in the Industries division increased by 5%. External client turnover increased by 8% as a result of the positive economic climate combined with strong growth in new projects. Turnover with the Weaving Machines division remained more or less stable. Despite the sharp rise in raw material prices, the Industries division was able to keep the profit margin stable at 7%, raising the operating result to 13.9 million euros (compared to 12.7 million euros in 2017). In 2018, the company continued to invest heavily in the latest technology in production machines in order to better adapt its own production capacity to increasing volume and to increase 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. BREAKDOWN OF REVENUE

(in '000 euros)	**2018**	**2017**
Geographical:		
Europe, America and Africa	213,118	218,003
Far & Middle East	453,593	470,926
	666,710	**688,928**
Per product line:		
Weaving machines & accessories	562,061	592,023
Cast iron parts & machining	60,927	57,673
Electronics	43,723	39,233
	666,710	**688,928**
Timing of turnover recognition:		
Goods transferred at one time	666,710	688,928
TOTAL	**666,710**	**688,928**

The group's activities can be divided between Europe, America & Africa on the one hand, and the Far & Middle East on the other hand. The division was based on the geographical location of the customer. The company has an extensive customer portfolio, so it does not depend on a limited number of customers in order to realize its turnover.

III.5.3. GEOGRAPHICAL BREAKDOWN OF INTANGIBLE AND TANGIBLE FIXED ASSETS

	Net carrying value		**Acquisitions**	
(in '000 euros)	**2018**	**2017**	**2018**	**2017**
Europe, America and Africa	59,238	55,988	11,357	12,047
Far & Middle East	6,636	7,155	495	271
TOTAL	**65,874**	**63,143**	**11,853**	**12,318**

III.6. INCOME STATEMENT

III.6.1. OTHER OPERATING INCOME

(in '000 euros)	**2018**	**2017**
Other operating income:	**56**	**138**
Reversal of restructuring provision	0	0
Other	56	138
Other operating expenses:	**-44**	**-10**
Restructuring fees	0	0
Other	-44	-10
TOTAL	**12**	**129**

III.6.2. OPERATING RESULT

(in '000 euros)	**2018**	**2017**
Revenue	666,710	688,928
Purchases of goods and changes in inventories	-365,737	-379,998
Amortization, depreciation and Impairment	-9,143	-8,439
Amounts written off on inventories and receivables	-3,444	414
Other goods and services	-77,184	-71,267
Personnel costs	-111,153	-108,420
Provisions	1,954	-577
Other operating income	56	138
Other operating expenses	-44	-10
TOTAL OPERATING RESULT	**102,017**	**120,771**

The turnover decreased by 3% in comparison to 2017. The “purchases of goods and changes in inventories” ratio remained stable at 55%. Write-downs on inventories increased mainly due to the start-up of new product lines that led to delayed inventory rotation. The ‘other goods and services’ increased due to development and start-up costs of new projects, IT project costs and infrastructure works. IWT grants (amounting to 0.7 million euros) received in the context of R&D projects are deducted from the related costs under the heading ‘other goods and services’. Staff costs rose by 3%, which was partly due to targeted recruitment in R&D and IT (the average number of employees rose from 2,262 in 2017 to 2,306 in 2018).

III.6.3. FINANCIAL RESULT

(in '000 euros)	**2018**	**2017**
Interest income from bank deposits	139	102
Interest income from financial receivables	3,601	4,575
Total interest income	**3,740**	**4,677**
Interest on export finance	-1,743	-2,039
Interest on other loans	-14	-2
Interest on financial leases	-103	-81
Total interest expense	**-1,860**	**-2,122**
Exchange rate gains	804	1,206
Profit on revaluation of derivatives	0	0
Total other financial income	***804***	***1,206***
Exchange rate losses	-1,117	-1,152
Loss on revaluation of derivatives	0	0
Total other financial expenses	***-1,117***	***-1,152***
FINANCIAL RESULT	**1,567**	**2,609**

The interest expense on export financing and LC on the one hand, and the interest income from financial receivables on the other hand, decreased, partly due to lower sales volumes. This financial income and expense also depends heavily on the geographical spread of sales and the nature of the financing contracts.

III.6.4. INCOME TAXES

Recognized in the income statement:

(in '000 euros)	**2018**	**2017**
(a) Current tax	-25,634	-33,324
(b) Adjustments for tax payable in respect of previous years	-964	0
(c) Deferred tax relating to the recognition and reversal of temporary differences	990	-92
(d) Adjustments to deferred taxes attributable to changes in tax rates and legislation	0	1,675
(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	**-25,608**	**-31,741**

Effective tax rate reconciliation:

(in '000 euros)	**2018**	**%**	**2017**	**%**
Profit before tax and before income from associates	**103,584**		**123,380**	
Tax at the domestic tax rate of 29.58%	**-30,640**	**-29.58%**	**-41,937**	**-33.99%**
Tax effects of non-deductible expenses				
Non-tax-deductible expenses	-831	-0.80%	-873	-0.71%
Other non-deductible expenses	-314	-0.30%	-411	-0.33%
Tax effects of tax-exempt revenues				
Non-taxable financial and other income	4,395	4.24%	5,454	4.42%
Notional interest deduction	125	0.12%	278	0.23%
Impact of changes in tax rates on deferred taxes	0	0.00%	1,675	1.36%
Fiscal impact of corrections in deferred and current tax related to previous periods	0	0.00%		
Effect of different tax rates of entities in different jurisdictions	1,658	1.60%	4,071	3.30%
Tax expense and effective tax rate for the period	**-25,608**	**-24.72%**	**-31,741**	**-25.73%**

The "other non-deductible expenses" relate to taxes on dividends received. The ‘non-taxable financial and other income’ concerns received, exempt IWT grants and deductions for patent income. The positive impact on deferred taxes as a result of changes in tax rates in 2017 was due to the tax reform in Belgium. Finally, the positive impact of different tax rates has decreased because the reference rate was adjusted from 33.99% to 29.58% and due to the lower profit from subsidiaries in China (with a lower tax rate).

Deferred tax income/(expenses) recognized directly in shareholders’ equity
In 2018 no deferred tax income or expense were directly included in the equity.

III.6.5. DIVIDENDS

A gross dividend of 0.20 euros per share was paid in 2018 for the 2017 financial year, which amounted to a total of 3.54 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 17 April 2019, for a total amount of 3.54 million euros.

III.6.6. EARNINGS PER SHARE

Basic earnings per share:

(in '000 euros)	**2018**	**2017**
Net profit or loss over the period	110,923	101,714
Net profit or loss from continuing operations	110,923	101,714
Number of shares:		
Ordinary shares as at 01/01	17,700,000	17,700,000
Ordinary shares as at 31/12	17,700,000	17,700,000
Weighted average number of outstanding ordinary shares	17,700,000	17,700,000
In euros:		
Basic earnings per share	6.27	5.75
Basic earnings per share from continuing operations	6.27	5.75

Diluted earnings per share:

The diluted earnings per share of Picanol Group are equal to the basic earnings per share for the financial years of 2018 and 2017.

(in '000 euros)	**2018**	**2017**
Net profit or loss over the period	110,923	101,714
Profit or loss attributable to the ordinary shareholders of the company	110,923	101,714
Number of shares:		
Weighted average number of outstanding ordinary shares	17,700,000	17,700,000
Weighted average number of shares for the diluted earnings per share	17,700,000	17,700,000
In euros:		
Diluted earnings per share	6.27	5.75
Diluted earnings per share from continuing operations	6.27	5.75

III.7. BALANCE SHEET

III.7.1. INTANGIBLE ASSETS

(in '000 euros)	Development expenses	Concessions, Patents and Licenses	Total
Acquisitions:			
On 1 January 2017	**10,106**	**9,959**	**20,065**
Acquisitions	-	208	208
Disposals	-488	-	-488
Exchange rate profits and losses (-)	-	-54	-54
On 1 January 2018	**9,619**	**10,111**	**19,730**
Acquisitions	-	350	350
Disposals	-	-25	-25
Exchange rate profits and losses (-)	-	-10	-10
On 31 December 2018	**9,619**	**10,426**	**20,045**
Depreciation and impairment losses:			
On 1 January 2017	**-10,106**	**-8,918**	**-19,024**
Depreciation of the financial year	-	-206	-206
Disposals	489	-	489
Exchange rate profits and losses (-)	-	25	25
On 1 January 2018	**-9,619**	**-9,097**	**-18,716**
Depreciation of the financial year	-	-220	-220
Disposals	-	25	25
Exchange rate profits and losses (-)	-	5	5
On 31 December 2018	**-9,619**	**-9,287**	**-18,906**
Net book value:			
On 1 January 2018	**0**	**1,014**	**1,014**
On 31 December 2018	**0**	**1,139**	**1,139**

Acquisitions of intangible fixed assets in 2018 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 14.1 million euros in 2018 (11.5 million euros in 2017).

The total net book value of 1.1 million euros of the intangible assets as at 31 December 2018 consists primarily of the following components:

- Capitalized software licenses for all companies of the group: 0.4 million euros;
- "Land use right" in PST: 0.7 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 2018 there were no contractual commitments for the purchase of intangible assets.

III.7.2. TANGIBLE FIXED ASSETS

(in '000 euros)	**Land and buildings**	**Plant, equipment and machinery**	**Furniture and vehicles**	**Other tangible fixed assets**	**Assets under construction**	**Total**
Acquisitions:						
On 1 January 2017*	**43,012**	**169,154**	**12,515**	**1,085**	**3,032**	**228,799**
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 1 January 2018*	**42,628**	**179,888**	**12,821**	**365**	**3,101**	**238,803**
Acquisitions	26	3,430	1,320	-	6,727	11,503
Disposals	-	-1,277	-324	-	-	-1,600
Transfers	384	4,836	-	-	-5,209	11
Exchange rate profits and losses (-)	-74	-55	-30	5	-	-154
On 31 December 2018	**42,965**	**186,821**	**13,787**	**370**	**4,620**	**248,563**
Depreciation and impairment losses:						
On 1 January 2017*	**-21,013**	**-137,538**	**-10,725**	**-574**	**-**	**-169,849**
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 1 January 2018*	**-22,291**	**-143,665**	**-10,634**	**-84**	**-**	**-176,674**
Depreciation of the financial year	-1,649	-6,107	-985	-5	-	-8,747
Disposals	-	1,215	313	-	-	1,528
Transfers	-	-	-	-	-	-
Exchange rate profits and losses (-)	38	36	14	-3	-	85
On 31 December 2018	**-23,902**	**-148,521**	**-11,312**	**-93**	**-**	**-183,828**
Net book value:						
On 1 January 2018	**20,337**	**36,223**	**2,187**	**281**	**3,101**	**62,129**
On 31 December 2018	**19,063**	**38,300**	**2,475**	**277**	**4,620**	**64,735**

** The 2017 figures have been reclassified between acquisition cost on the one hand and depreciation and impairments on the other, but without impact on the net book value.*

The total acquisitions of tangible fixed assets amounted to 11.5 million euros compared to 12.1 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. The acquisitions of furniture and rolling equipment mainly comprise forklifts and the bicycle leasing program in Ypres.

ASSETS UNDER FINANCIAL LEASE:

(in '000 euros)	**2018**	**2017**
Plant, equipment and machinery	**4,707**	**5,440**
Gross value	13,732	13,732
Accumulated depreciation	-9,026	-8,292
Furniture and mobile equipment	**588**	**444**
Gross value	855	506
Accumulated depreciation	-267	-62
Total assets under financial lease	**5,295**	**5,885**

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.

III.7.3. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

		Shareholding % 2018	2017
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	DSM - 621 & 622, DLF Towers, Block - IV, 15 Shivaji Marg, Moti Nagar, New Delhi, 110 015	100.00%	100.00%
2. ASSOCIATED COMPANIES (**)			
Belgium			
Tessenderlo Group nv	Troonstraat, 130, 1050 Brussels	38.91%	36.72%
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 2018.*

III.7.4. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

PARTICIPATIONS IN ASSOCIATED COMPANIES

Overview of the participations in associated companies:

Name	Activity	Place of business	Percentage of participation	
			2018	2017
Tessenderlo Group nv	Chemicals	Belgium	38.91%	36.72%

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 subsequent years, interest was further increased through share purchases on the financial markets. 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 November 6, 2013. Following the additional share purchases, no new fair value adjustments were made. Given the rate of participation in Tessenderlo Group of 38.91%, this participation was recognized in the consolidated financial statements as an associated company according to the equity method. Further, based on the facts and circumstances on which decisions on relevant activities were taken in 2018 by the Board of Directors and the Management Committee, it was decided, after evaluation by the Board of Directors, that Picanol does not exercise control over Tessenderlo Group in accordance with the provisions of IFRS 10.

(in '000 euros)	**2018**	**2017**
At the end of the previous reporting period	**417,000**	**397,196**
Increased participation	30,406	7,883
Result of the financial year	32,947	10,074
Dividends		
Other comprehensive income	1,989	1,847
At the end of the reporting period	**482,341**	**417,000**

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

Balance sheet on 31 December 2018

(in '000 euros)	**Before the fair value adjustment**	**The fair value adjustment**	**After the fair value adjustment**	**Group share**
Fixed assets	1,083,362	69,058	1,152,420	448,350
Current assets	754,588		754,588	293,573
Non-current liabilities	-773,499	-12,848	-786,347	-305,930
Current liabilities	-327,251		-327,251	-127,317
Net assets held for sale	0		0	0
Total net assets	**737,200**	**56,209**	**793,409**	**308,677**

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**

Period 2018:

(in '000 euros)	Before the fair value adjustment	The fair value adjustment	After the fair value adjustment	Group share
Revenue	1,620,939		1,620,939	607,493
Operating profit (EBIT)	112,107	-5,141	106,966	40,089
Result for the period	**91,716**	**-3,804**	**87,912**	**32,947**
Other comprehensive income	5,306		5,306	1,989
Comprehensive result for the period	**97,022**	**-3,804**	**93,218**	**34,936**

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**

In 2018, the result for the period of Tessenderlo Group nv was +91.7 million euros. The impact of fair value adjustments on the result for the period (100% value) amounted to -3.8 million euros. For the determination of the group share, a time-weighted average participation rate was calculated of 37.48%. As a result, the share of profit of associated companies for 2018 amounts to +32.9 million euros. The other elements of the result of Tessenderlo Group amount to +5.3 million euros at 100% value or +2.0 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:

	2018	**2017**
Share of the net assets of the associated companies	308,677	256,873
Net book value of associated companies	482,341	417,000
Net book value of the related goodwill	**173,664**	**160,127**

The actual value (based on quoted prices in an active market) of the participation in Tessenderlo Group nv as at December 31, 2018 amounted to 488.5 million euros (16,786,389 shares at a closing rate of 29.1 euros). The actual value of the participation in Tessenderlo Group nv as at December 31, 2017 amounted to 616.2 million euros (15,841,547 shares at a closing rate of 38.9 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 December 31, 2018.

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

OTHER FINANCIAL ASSETS

Other financial assets are investments in unlisted entities. These investments are carried at cost, less any impairment losses.

III.7.5. NON-CURRENT RECEIVABLES

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

(in '000 euros)	**2018**		**2017**	
	Trade receivables	**Guarantees**	**Trade receivables**	**Guarantees**
At the beginning of the period:				
Gross value	648	51	256	55
Accumulated amounts written off				
Net book value	**648**	**51**	**256**	**55**
Changes during the period:	-	-		
Acquisitions	3,656		618	
Reimbursement		-2		-4
Transfers	-349		-226	
At the end of the period:	-	-		
Gross value	3,955	49	648	51
Accumulated amounts written off	0	0	0	0
Net book value	**3,955**	**49**	**648**	**51**

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 3.4 million euros, resulting in a total outstanding risk of 0.5 million euros as at December 31, 2018 or 13% of the total outstanding amount of interest-bearing trade receivables. None of the non-current interest-bearing trade receivables are past due.

III.7.6. DEFERRED TAX ASSETS AND LIABILITIES

Recognized deferred tax

(in '000 euros)	2018		2017	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Intangible assets	0	0	0	0
Tangible fixed assets	0	-3,980	0	-3,876
Inventories	1,227	0	1,465	0
Other assets	6	-271	12	-1,012
Employee benefit obligations	27	0	25	0
Other provisions	688	0	196	0
Other liabilities	25	-1,324	29	-1,397
Tax loss carryforwards/tax credits	0	0	0	0
Other adjustments	0	7	0	1
TOTAL	**1,973**	**-5,568**	**1,727**	**-6,283**
Valuation allowance	-135		-122	
Offset*	-930	930	-1,094	1,094
TOTAL (as reported in the balance sheet)	**908**	**-4,638**	**512**	**-5,190**

(*) 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 other assets is the result of a decrease in the statutory deferred income of the subsidiary in China. Deferred tax assets that cannot be recovered over a period of 5 years are not recognized or are subject to a valuation adjustment. The unrecognized amount was 0.1 million euros as at December 31, 2018.

There were no material unrecognized fiscal losses in 2018 and 2017.

DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT DECEMBER 31, 2018:

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 86.3 million euros and 1.3 million euros respectively as at December 31, 2018. As at December 31, 2017, these figures were 76.0 million euros and 1.4 million euros respectively.

III.7.7. INVENTORIES

(in '000 euros)		**2018**	**2017**
Raw materials and auxiliaries	Gross value	64,163	61,165
Raw materials and auxiliaries	Amounts written off	-26,292	-23,246
Raw materials and auxiliaries		**37,870**	**37,919**
Goods in progress	Gross value	9,235	10,611
Goods in progress	Amounts written off	-208	-176
Goods in progress		**9,027**	**10,435**
Finished goods	Gross value	20,644	19,494
Finished goods	Amounts written off	-4,713	-4,239
Finished goods		**15,932**	**15,255**
Down payments	Gross value	19	159
Down payments	Amounts written off	0	0
Down payments		**19**	**159**
Total	Gross value	94,061	91,429
Total	Amounts written off	-31,213	-27,662
Total inventories		**62,848**	**63,767**

The gross stock value increased slightly (by 3%) but the write-down on the stock increased by 3.6 million euros. This is mainly due to the start-up of new products, both in Weaving Machines and in Industries, which have a negative impact on inventory rotation.

At December 31, 2018, no inventory was pledged for any obligations. The Picanol Group had no contractual commitments with regard to inventory at the end of 2018.

III.7.8. TRADE AND OTHER RECEIVABLES

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

(in '000 euros)	**2018**	**2017**
Trade receivables	59,516	70,295
Other receivables		
Recoverable VAT	3,516	4,054
Prepaid taxes	3,377	1,534
Deferred expenses	973	897
Other receivables	11,870	22,395

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

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 60.8 million euros (2017: 71.7 million euros). An allowance has been booked for irrecoverable amounts from the sale of goods to the value of 1.3 million euros (2017: 1.4 million euros). This allowance has been determined based on past experience 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)	**2018**	**2017**
At the beginning of the period:	**1,390**	**1,838**
Write-downs recorded	555	561
Utilizations or reversals of write-downs	-637	-985
Translation differences	-25	-24
At the end of the period:	**1,283**	**1,390**

The outstanding short-term trade receivables on December 31, 2018 before impairment are interest-bearing for a total of 2.5 million euros (3.1 million euros in 2017), which represents 4% 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)	**2018**	**2017**
Not yet due	51,664	60,814
Due < 1 year	7,857	9,480
Due > 1 year	0	0
Net book value	**59,516**	**70,295**

Other receivables (amounting to 11.9 million euros) comprise 10.8 million euros for bank notes of subsidiary PST (20.4 million euros in 2017). The bank notes are receivables with 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 2018, and at the end of December 2017. The other receivables decreased due to lower 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 Group'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, like LCs. 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 65% (68% in 2017) of the consolidated gross trade receivables, or 42.0 million euros. Of these, 2.6 million euros (2.5 million euros in 2017) or 4% of the gross trade receivables are not covered through credit insurance. This means that 96% of the outstanding receivables are unconditionally and fully covered by a credit insurance company or are confirmed LCs for which the risk is fully covered by a bank. A provision of 1.0 million euros (1.1 million euros in 2017) has been provided against the total uninsured consolidated open risk. The outstanding trade receivables of the other group entities (representing 35%) are also for the most part (>80%) covered by credit insurance. All receivables remain outstanding until payment by the customer or discounting at a credit insurer or bank.

The uncovered long-term credit risk is discussed in III.7.5. The credit risk on cash is limited, being linked to traditional bank deposits placed with banks.

III.7.9. 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)	**2018**	**2017**
Cash in bank and in hand	173,033	133,350
Total cash and cash equivalents	**173,033**	**133,350**

See II.3. consolidated cash flow statement.

III.7.10. SHARE CAPITAL

(in '000 euros)	**2018**	**2017**
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.7.11. SHARE PREMIUM

(in '000 euros)	**2018**	**2017**
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.7.12. EMPLOYEE BENEFIT OBLIGATIONS

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

(in '000 euros)	**2018**	**2017**
Balance:		
Pensions and similar obligations – long term	4,055	4,821
Pensions and similar obligations – short term	851	1,060
Total balance	**4,906**	**5,881**
Of which:		
Early retirement pensions	2,711	3,578
Other long-term employee benefits	1,344	1,427
Immaterial provisions at other branches	662	680
Defined benefit plans	**189**	**195**

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 0.02 million euros as at 31/12/2018.

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 0.2 million euros as at 31/12/2018.

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.

	2018			**2017**		
(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	**15,246**	**-15,051**	**195**	**14,174**	**-13,878**	**297**
Charged to the profit and loss account:	**1,305**	**-423**	**882**	**967**	**-179**	**787**
Current service costs	1,007	0	1,007	784	0	784
Interest costs (income)	298	-423	-125	182	-179	3
Plan changes	0	0	0	0	0	0
Charged to shareholders' equity:	**172**	**-53**	**119**	**52**	**19**	**71**
Actuarial (profits)/losses			0			
Financial assumptions	0	0	0	0	0	0
Adjustments based on experience	172	0	172	52	0	52
Return on fund assets	0	-53	-53	0	19	19
Other:	**-167**	**-840**	**-1,007**	**53**	**-1,013**	**-960**
Paid benefit obligations	-167	167	0	-559	382	-177
Employer contributions		-1,007	-1,007		-784	-784
Reclassification of pension plans			0	612	-612	0
On 31 December	**16,556**	**-16,366**	**189**	**15,246**	**-15,052**	**195**
Funded obligations	16,556	-16,366	189	15,246	-15,051	195
Unfunded obligations	0	0	0	0	0	0
Total	**16,556**	**-16,366**	**189**	**15,246**	**-15,052**	**195**

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

Expected employer contributions for 2019 are 0.8 million euros.

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

	2018	2017
Discount rate	1.3%	1.3%

The discount rate is based on the yield of high quality corporate bonds with a maturity of 12 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	-1,782	+2,173
Fair value of fund assets	+1,751	-2,134
Net liability	**-31**	**+39**

III.7.13. PROVISIONS

	2018			2017		
(in '000 euros)	< 1 year	> 1 year	Total	< 1 year	> 1 year	Total
Guarantee obligation	6,779	19	6,798	7,750	27	7,777
Environment		0	0		0	0
Restructuring			0			0
Other risks	640	0	640	640	0	640
Total	**7,419**	**19**	**7,438**	**8,390**	**27**	**8,417**

(in '000 euros)	Product warranties	Environmental risks	Other risks	Total
On 1 January 2018	**7,778**	**0**	**640**	**8,418**
Additions	2,743	0	0	2,743
Utilizations	-2,823	0	0	-2,823
Reversals	-897	0	0	-897
Exchange rate differences	-3	0	0	-3
On 31 December 2018	**6,798**	**0**	**640**	**7,438**
More than 1 year	19	0	0	19
Up to 1 year	6,779	0	640	7,419
Total	**6,798**	**0**	**640**	**7,438**

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 2018 is mainly due to the higher number of machines under guarantee.

III.7.14. INTEREST-BEARING DEBT

	2018			2017		
(in '000 euros)	**Expiry day < 1 year**	**Expiry day > 1 year**	**Total**	**Expiry day < 1 year**	**Expiry day > 1 year**	**Total**
Financial leases	290	277	567	197	275	472
Export finance	885	0	885	1,786	0	1,786
Total more than 1 year	**1,175**	**277**	**1,452**	**1,983**	**275**	**2,258**
Loan	0		0	0		0
Total up to 1 year	**0**		**0**	**0**		**0**
Total	**1,175**	**277**	**1,452**	**1,983**	**275**	**2,258**

(in '000 euros)	Financial lease	Export finance	**Total**
As at January 1, 2018	**472**	**1,786**	**2,258**
Additions	385	885	1,270
Repayments	-290	-1,786	-2,076
At December 31, 2018	**567**	**885**	**1,452**

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

	2018			2017		
	Expiry day < 1 year	**Expiry day > 1 year**	**Total**	**Expiry day < 1 year**	**Expiry day > 1 year**	**Total**
Financial leases	42	41	83	25	40	66
Export finance	0	0	0	0	0	0
Total	**42**	**41**	**83**	**25**	**40**	**66**

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 5.3 million euros at the end of 2018 compared with 5.9 million euros on December 31, 2017.

The export financing only includes liabilities where the related trade receivable has already been discounted by Credendo (and Picanol will therefore already have received the full amount), but the risk has not yet been fully transferred, as this only happens after the first payment by the customer. This is therefore a short-term risk.

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.7.15. 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 market value of derivative financial instruments is presented in the balance sheet in the account 'other receivables'/'other liabilities'.

Overview of forward exchange contracts:

	2018		**2017**	
(in '000 euros)	**Notional amount**	**Marked-to-market**	**Notional amount**	**Marked-to-market**
Forward sales contracts < 6 months	-50	0	-793	+21
Forward sales contracts > 6 months	0	0	0	0
Subtotal forward sales contracts	**-50**	**0**	**-793**	**+21**
Interest rate swaps (IRS)	0	0	0	0
Subtotal interest rate swaps	**0**	**0**	**0**	**0**
TOTAL	**-50**	**0**	**-793**	**+21**

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.7.16. TRADE AND OTHER PAYABLES

(in '000 euros)	**2018**	**2017**
Trade payables	67,594	73,810
Income taxes payable	2,558	3,401
Other current liabilities	40,845	48,519
Down payments received	15,553	21,884
Remuneration & social security	18,729	19,972
Accrued expenses and deferred income	5,428	6,161
Marked-to market derivatives	0	0
Other liabilities	1,135	502

'Trade payables' and 'other liabilities' in the above table are regarded as financial instruments. The remaining liabilities are regarded as non-financial liabilities. The advances received for an amount of 15.6 million euros include amounts older than one year for 0.6 million euros, the remainder being advance payments relating to new contracts received in 2018. Delivery and recognition of revenue is expected next year. Both short-term trade and other payables are non-interest-bearing liabilities both at December 31, 2018 and at the end of 2017.

III.8. MISCELLANEOUS

III.8.1. OPERATING LEASE AGREEMENTS

(in '000 euros)	**2018**	**2017***
Payments due within the year	1,316	1,237
Between 1 and 5 years	2,825	3,004
Minimum future lease payments	**4,141**	**4,241**

** The figures for 2017 have been adjusted on the basis of the analysis carried out in the context of IFRS16.*

Operating lease payments represent rentals payable by the group for company cars and buildings. An amount of 1.1 million euros was recognized as a rental cost in the income statement in 2018.

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

Picanol Group considers as related parties its main shareholder, subsidiaries, associated company, directors and the Management Committee. We consider executive directors and the Management Committee as key managers. There were no transactions with key management personnel (other than remuneration) and no transactions with other categories of related parties.

Services and various commercial transactions with shareholders:

For the shareholder structure, we refer you to paragraph VII. of the Corporate Governance statement in this annual report.

(in Keuros)	**2018**	**2017**
Trade receivables	9	24
Interest-bearing debt	-81	0
Sales	465	1,482
Costs of sales	-31	-20
General & administration costs	0	-32

The above amounts comprise the revenues and expenses of Picanol Group for commercial transactions related to the sale of weaving machines and spare parts with companies affiliated to the reference shareholder.

Services and various commercial transactions with the associated company:

(in '000 euros)	**2018**	**2017**
Trade payables	-52	-3
General & administrative costs	-74	-18

The above amounts include legal and IT services provided by Tessenderlo Group to Picanol Group under a service agreement.

Remuneration and other fees of directors:

(in '000 euros)		**Fixed remuneration as director**	**Attendance fees (Board of Directors and committees)**	**Total 2018**	**Total 2017**
Stefaan Haspeslagh	executive	75,000	10,000	85,000	76,667
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	25,000
Jean Pierre Dejaeghere, as representative of nv Kantoor Torrimmo	non-executive	15,000	10,000	25,000	25,000
Luc Van Nevel, as representative of The Marble BVBA	non-executive	15,000	10,000	25,000	23,000
Hugo Vandamme, as representative of HRV nv (until 27/04/2017)	non-executive	15,000	10,000	25,000	7,750
Chantal De Vrieze, as representative of 7 Capital sprl (since 27/04/2017)	non-executive	15,000	10,000	25,000	13,500

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

Remuneration of the Managing Director:

(in '000 euros)	**2018**	**2017**
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:

For the composition of the Management Committee we refer you to III. in the Corporate Governance statement.

In euros	**2018**	**2017**
Fixed remuneration	984,166	974,662
Variable remuneration	465,000	465,000
Total	**1,449,166**	**1,439,662**
Pension (fixed contribution)	63,000	63,000
Other benefits*	13,365	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. No transactions, other than remuneration, have taken place with the members of the Management Committee.

At the general meeting of shareholders of April 18 2018, 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	**2018**	**2017**	**2018**	**2017**
Brazilian Real	**BRL**	0.2321	0.2757	0.2250	0.2517
Chinese Yuan (Renminbi)	**CNY**	0.1282	0.1311	0.1270	0.1281
Indonesian Rupee (1000)	**IDR**	0.0596	0.0660	0.0606	0.0616
Indian Rupee	**INR**	0.0124	0.0136	0.0125	0.0131
Mexican Peso	**MXN**	0.0441	0.0467	0.0445	0.0423
Romanian Lei	**RON**	0.2147	0.2186	0.2144	0.2147
Turkish Lira	**TRY**	0.1801	0.2422	0.1650	0.2200
US Dollar	**USD**	0.8476	0.8839	0.8734	0.8338

III.8.5. PERSONNEL

In units	**2018**	**2017**
Management	6	6
White collar employees	689	650
Blue collar employees	1,640	1,648
Average number of personnel employed	2,306	2,262
Average number of personnel employed in Belgium	1,651	1,605
Remuneration and social charges (in '000 euros)	111,153	108,420

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

The auditor received an amount of 145,100 euros for the performance of his audit task in 2018. In the course of 2018, no non-audit assignments were invoiced by the statutory auditor or to parties related to the statutory auditor. No other items were submitted for approval by the audit committee in 2018.

III.8.7. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group had no material contingent assets and liabilities on December 31, 2018.

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. The Picanol Group manages a portfolio of derivatives covering the currency risks deriving from business and financial activities. These are discussed in III.7.15. The exposure of the group is shown below. The exposure in euros mainly concerns intercompany euro receivables and trade payables in foreign subsidiaries.

(in '000 euros)	**2018**	
	EUR	**USD**
Assets	8,387	2,668
Liabilities	-296	-2,227
Gross exposure	**8,091**	**441**
Hedging		-50
Net exposure	**8,091**	**391**

The currencies in which the main Picanol Group subsidiaries operate are the US dollar, the Chinese renminbi and the Romanian Lei. Based on the volatility of these currencies against the euro in 2018, we give below the sensitivity of a 5% positive/negative fluctuation.

Changes in the euro exchange rate during 2018 within the above-mentioned volatilities would have given a 358,000 euros higher/lower consolidated profit. This does not take into account hedging, which is only a nominal amount of 50 thousand euros.

(in '000 euros)	**Impact P&L**		**Impact equity**	
	+5%	**+5%**	**+5%**	**-5%**
RMB	63	63	-1,692	1,692
RUR	238	238	-818	818
USD	57	57	-105	105
Totaal	**358**	**358**	**-2,615**	**2,615**

Interest rate risk

By the end of 2018, 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 2018 comprised only obligations of which the trade receivable was already discounted by Credendo but the risk of which has not yet been completely transferred.

Credit risk

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

The group's credit risk lies primarily in its trade receivables. The amounts shown in the balance sheet are presented including the provisions for doubtful debtors. These are estimated by group management based upon past experience 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.7.8.

Liquidity risk

In order to guarantee its liquidity and financial flexibility at all times, the Picanol Group has various uncommitted credit lines in euros in amounts that are adjusted to current and future financial needs. The Picanol Group has total credit lines excluding bank guarantees available for 57.1 million euros (2017: 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. Outstanding export financing only includes liabilities where the relevant trade receivable has already been discounted by Credendo, but where the risk has not yet been fully transferred. Picanol Group has the option of discounting export financing and LCs with banks or credit insurance institutions and will decide on a case-by-case basis whether to use them depending on the liquidity position and the discount cost.

The credit line for bank guarantees amounts to 17 million euros (2017: 12 million euros), with 4.8 million euros of bank guarantees outstanding at December 31, 2018. 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)	**2018**	**2017**
FIXED ASSETS	**123,593**	**123,613**
Intangible assets	699	543
Tangible fixed assets	13,085	13,654
Financial fixed assets	109,808	109,808
CURRENT ASSETS	**506,091**	**466,645**
TOTAL ASSETS	**629,684**	**590,258**
SHAREHOLDERS' EQUITY	**531,853**	**472,164**
Share capital	22,200	22,200
Share premium account	1,518	1,518
Reserves	45,159	45,141
Profit/(loss) carried forward	462,976	403,304
Investment grants	0	0
PROVISIONS AND DEFERRED TAXES	**9,464**	**10,932**
LIABILITIES	**88,366**	**107,162**
	130	0
	82,878	107,694
TOTAL LIABILITIES	**629,684**	**590,258**
SALES	519,402	526,865
OPERATING RESULT	72,324	83,528
FINANCIAL RESULTS	10,126	11,351
NON-RECURRING RESULTS	0	0
TAXES	-19,221	-24,309
PROFIT FOR THE FINANCIAL YEAR	**63,229**	**70,570**

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 39.4 million euros from 590.3 million euros as at the end of 2017 to 629.7 million euros at December 31, 2018. This rise was mainly due to increases in cash and cash equivalents.

The turnover of Picanol nv decreased in 2018 by 1.4% compared to 2017, from 526.9 million euros to 519.4 million euros. The gross margin (operating income less the value of the trade goods, raw materials and consumables, services and other goods) decreased slightly – from 130.1 million euros in 2017 to 120.5 million euros – due to higher material prices. The gross margin in relation to the turnover decreased from 25% in 2017 to 23% in 2018. The operating profit decreased by 11.2 million euros to 72.3 million euros at the end of 2018. The net financial result decreased by 1.2 million euros, mainly due to the decrease 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 general meeting of Picanol NV on the consolidated financial statements as of and for the year ended 31 December 2018

In the context of the statutory audit of the consolidated financial statements of Picanol NV ("the Company") and its subsidiaries (jointly "the Group"), we provide you with our statutory auditor's report. This includes our report on the consolidated financial statements for the year ended 31 December 2018, as well as other legal and regulatory requirements. Our report is one and indivisible.

We were appointed as statutory auditor by the general meeting of 18 April 2018, in accordance with the proposal of the board of directors issued on the recommendation of the audit committee and as presented by the workers' council. Our mandate will expire on the date of the general meeting deliberating on the annual accounts for the year ended 31 December 2020. This is the first year we performed the statutory audit of the consolidated financial statements of Picanol NV.

Report on the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the Group as of and for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, consolidated statement of profit for the reporting period with net profit taken up directly as equity, consolidated cash flow statement and statement of changes in shareholders' equity for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated balance sheet amounts to EUR 868 304 (000) and the consolidated income statement shows a profit for the year of EUR 110 923 (000).

In our opinion, the consolidated financial statements give a true and fair view of the Group's equity and financial position as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Basis for our unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as adopted in Belgium. In addition, we have applied the ISAs as issued by the IAASB applicable for the current accounting year while these have not been adopted in Belgium yet. Our responsibilities under those standards are further described in the "Statutory auditors' responsibility for the audit of the consolidated financial statements" section of our report. We have complied with the ethical requirements that are relevant to our audit of the consolidated financial statements in Belgium, including the independence requirements.

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 we have 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 judgement, 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.

Assessment of control over associate Tessenderlo Group

- *Description*

  Picanol NV indirectly holds - via Verbrugge NV - 38,9% of the shares of Tessenderlo Group NV ('the Investee") and, acting jointly with Symphony Mills NV, the Company holds 43,2% of the shares of Tessenderlo Group, a company listed on the Euronext Brussels Stock Exchange, focused on food, agriculture, water management and valorizing bio residuals.

  Considering the fact that the same individuals at Picanol NV and at Tessenderlo Group NV hold key positions of CEO, CFO as well as the position of President of the Board of Directors, the assessment of control under the requirements of IFRS 10 *Consolidated Financial Statements* over Tessenderlo Group NV is considered a key audit matter as the conclusion reached would have a significant pervasive impact on the Group's consolidated financial statement. The control model under IFRS 10 is complex and the determination of who exercises control over the Investee requires significant judgement from the Board of Directors.

  The Board of Directors concluded that Picanol NV has significant influence under the requirements of IAS 28 *Investments in Associates and Joint Ventures* and has no control under the requirements of IFRS 10. The Group disclosed its position in note III.2 of the consolidated financial statements.

- *Our audit procedures*

  We gained an understanding of the analysis performed by the Group and obtained any relevant underlying information such as legal documentation, Board of Directors' composition, governance structure at the Investee, voting rights exercised at the recent General shareholders' meetings of Tessenderlo Group NV, and the reconfirmation of the shareholders' agreement between Picanol NV and Symphony Mills NV.

  Our focus included:

  - Evaluating the appropriateness of the Group's methodology for assessing whether control over the investee in accordance with IFRS 10,
  - Evaluating and assessing the judgments and assumptions made by the Board of Directors; and
  - Testing the accuracy of the elements used in the Board of Directors' analysis.

  In addition, we reviewed minutes of shareholders' meetings held recently and read publicly available information on the background of the independent board members of Tessenderlo Group NV.

  We considered the adequacy of the Group's disclosures in the financial statements in respect of its conclusion that it does not exercise control over Tessenderlo Group NV in accordance with IFRS 10.

Revenue recognition of Weaving Machines

- *Description*

  The Weaving Machines division recorded revenues of EUR 562 061 (000) for the year ended December 31, 2018.

  We focused on revenue recognition in the Weaving Machines division because the underlying contracts contain multiple 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 multiple elements – machines, transport, installation and support, as well as financing elements – are bundled in one contract. The complexity of bundled contracts relates to the allocation of revenues to the individual elements of the contract and the timing of their respective recognition.

  Group accounting policies for sales and revenue recognition are described in note III.1 and segment information is disclosed in note III.5.1 of the consolidated financial statements.

- *Our audit procedures*

  We obtained an understanding of the revenue process in the Weaving Machines division, evaluated the design and implementation of controls over the capture and recording of revenue transactions. 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. We verified whether the Group's accounting principles are in accordance with the applicable accounting standards.

We tested transactions on a sample basis to ensure that the amount of revenue recognized was calculated accurately and recognized appropriately. This involved reconciling the revenue from installation and support services with the figures derived from calculations based on the contractual terms and conditions. In addition, we tested whether each single element of the multiple element contract was recorded in the correct 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 revenue recognition.
We considered the adequacy of the Group's disclosures on revenue recognition of multiple element contracts in the consolidated financial statements.

Board of directors' responsibilities for the preparation of the consolidated financial statements
The board of directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as 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 related to 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 realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance as to whether the consolidated 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 ISAs 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 the users taken on the basis of these consolidated financial statements.

When performing our audit we comply with the legal, regulatory and professional requirements applicable to audits of the consolidated financial statements in Belgium.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also perform the following procedures:

- 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal controls 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 the board of directors;
- Conclude on the appropriateness of the board of directors' 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 auditors' 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 auditors' 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, including the disclosures, 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 or 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

For the matters communicated with 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 public disclosure about the matter.

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 board of directors' annual report on the consolidated financial statements, the statement of the non-financial information attached to the board of directors' annual report on the consolidated financial statements and the other information included in the annual report.

Statutory auditor's responsibilities
In the context of our mandate and in accordance with the Belgian standard (revised in 2018) which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the board of directors' annual report on the consolidated financial statements, the statement of the non-financial information attached to the board of directors' annual report on the consolidated financial statements and the other information included in the annual report, and to report on these matters.

Aspects concerning the board of directors' annual report on the consolidated financial statements and other information included in the annual report
Based on specific work performed on the board of directors' annual report on the consolidated financial statements, we are of the opinion that this report is consistent with the consolidated financial statements for the same period and has been prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated financial statements, we are also responsible for considering, in particular based on the knowledge gained throughout the audit, whether the board of directors' annual report on the consolidated financial statements and other information included in the annual report:

- Presentation of the Picanol Group
- Information for shareholders

contains material misstatements, or information that is incorrectly stated or misleading. In the context of the procedures carried out, we did not identify any material misstatements that we have to report to you.

The non-financial information required by article 119 §2 of the Companies' Code has been included in a separate report attached to the board of directors' annual report on the consolidated financial statement. This report on the non-financial information contains the information required by article 119 §2 of the Companies' Code and is consistent with the consolidated financial statements for the same period. The Company has prepared this non-financial information based on GRI. In accordance with art 144 §1,6° of the Belgian Companies' Code, we do not comment on whether this non-financial information has been prepared in accordance with GRI mentioned in the board of directors' annual report on the consolidated financial statements.

Information about the independence

- Our audit firm and our network have not performed any engagement which is incompatible with the statutory audit of the consolidated financial statements and our audit firm remained independent of the Group during the term of our mandate.
- The fees for the additional engagements which are compatible with the statutory audit referred to in article 134 of the Companies' Code were correctly stated and disclosed in the notes to the consolidated financial statements.

Other aspect

- This report is consistent with our additional report to the audit committee on the basis of Article 11 of Regulation (EU) No 537/2014.

Zaventem, March 14, 2019
KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren
Statutory Auditor
represented by

Patrick De Schutter
Réviseur d'Entreprises / Bedrijfsrevisor

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. 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 December 31, 2018, the share capital was represented by 17,700,000 Picanol shares. During the course of 2018 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 2018.

The stock market capitalization on December 31, 2018 amounted to 1.2 billion euros.

Shareholder structure

The shareholder structure is shown on page 26.

Financial calendar

Annual general meeting	17/04/2019
Announcement of half-yearly results	26/08/2019 (before opening of the stock exchange)
Annual general meeting	15/04/2020

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 April 17, 2019, 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
Steverlynckklaan 15
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PICANOL GROUP

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