

# Annual report 2014



**PICANOL** GROUP



## COMPANY PROFILE

The Picanol Group is an international, customer-oriented group specialized in development, production and sale of high-tech weaving machines, engineered casting solutions and custom-made controllers.

### Division Weaving Machines:

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 & reeds, training, upgrade kits and spare parts. For more than seventy-five years, Picanol has played a pioneering role in the industry worldwide, and is one of the current world leading weaving machine manufacturers.

### Division Industries:

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

The Picanol Group employees operate all over the world to serve their customers. The 1,931 employees together cover a wide range of high-tech products, systems 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, linked to its own worldwide sales and service network.

The Picanol Group was founded in 1936.

### The Picanol Group in 2014:

Consolidated turnover: 418.17 million euro

Employment: 1,931

Euronext Brussels: PIC

Web: [www.picanolgroup.com](http://www.picanolgroup.com)

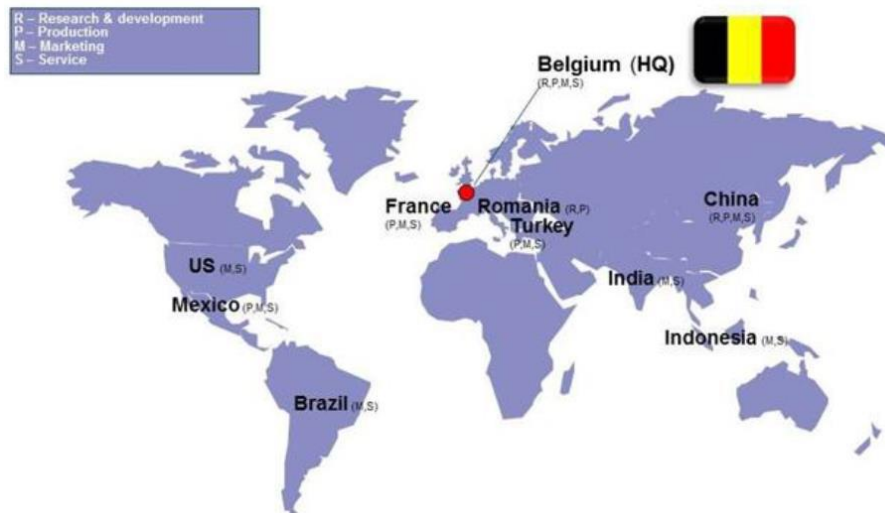
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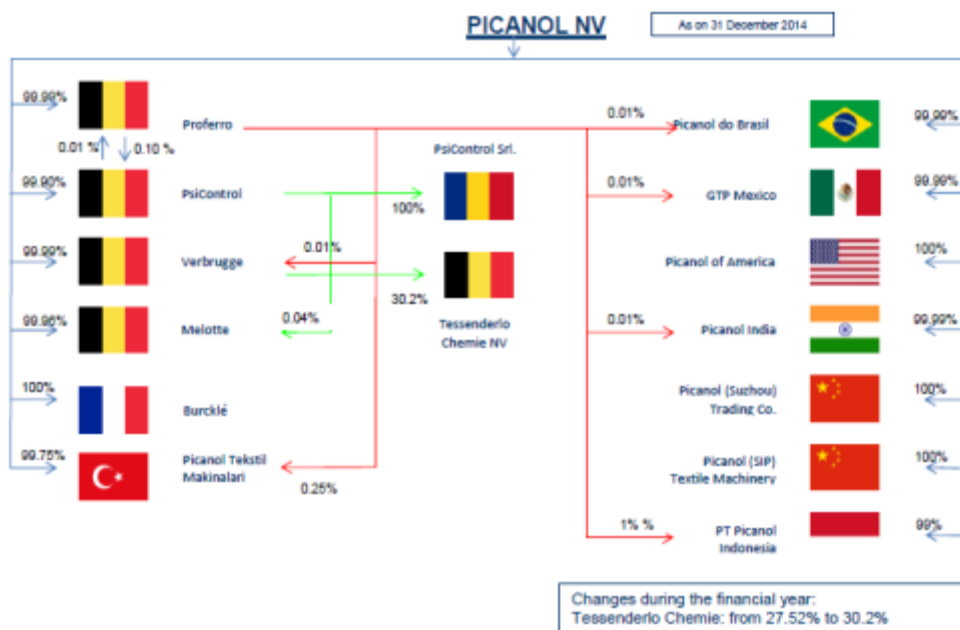
# PRESENTATION OF THE PICANOL GROUP

## AT THE SERVICE OF CUSTOMERS WORLDWIDE

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



## ORGANIZATIONAL CHART



### ACTIVITIES

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

### MARKET REVIEW

Picanol has served for many decades the entire world market, both for rapier and for airjet technology. The high-tech Picanol weaving machines and supplementary products and services are sold through its own branches and through a network of agents worldwide. There are three main segments for fabric products, namely clothing textiles, household and interior textiles and technical textiles (e.g. airbags, medical textile, parachute and tire cord). Today, about 2,600 weaving mills around the world use Picanol machinery, totaling some 150,000 weaving machines.

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 was able to strengthen its position, especially with the successful launch of the OptiMax and GTMax-i for weavers of interior textiles. Picanol's growing presence in the technical textiles segment offers attractive growth niches, thanks to significant investments in the development of customized machines. More than 90% of all weaving machines are sold to customers outside of Europe.

## PRODUCTS & SERVICES

### OMN*plus* Summit

The latest airjet weaving machine for the higher market segments.



### DptiMax

Rapier weaving machine for the higher segments and niche applications, including technical textiles up to 540 cm.



### OMN*plus* 800

Airjet weaving machine for the higher segments, combining high versatility with maximum production speeds.



### DptiMax (guided positive gripper)

Positive rapier machine for technical textiles in widths up to 540 cm.



### OMN*plus* 800 TC

Airjet machine specially equipped for weaving tire cord, a technical fabric used for making vehicle tires. This machine is based on the OMN*plus* 800 series.



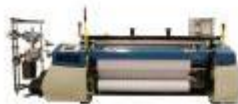
### TERRY*plus* 800

Airjet weaving machine specially designed for weaving of terry cloth, based on the OMN*plus* 800 series.



### OMN*plus*-X

Airjet weaving machine for the upper middle segment of the market.



### GT-Max / GTMax-i

Rapier weaving machine with universal application for the [upper] middle segment of the market.



### GTX*plus*

Rapier weaving machine with universal application for the middle segment of the market.



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**

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

### ***PROFERRO***

#### **ACTIVITIES**

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

#### **PRODUCTS & SERVICES**

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

#### **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 cater successfully to the growing demand for larger, more technically difficult core-intensive parts.

### ***PSICONTROL***

#### **ACTIVITIES**

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

#### **PRODUCTS & SERVICES**

PsiControl offers custom solutions engineered around real-time controllers, power electronics and electronically-controlled motors. 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) develops and produces innovative product solutions using Direct Digital Manufacturing (DDM) and Near-to-Net-Shape Manufacturing (NNSM) technologies. Direct Digital Manufacturing is a symbiosis between two different manufacturing methods: the analogue one that produces through means of degenerative processes (material removal) and the digital processes where material growth is used. DDM combines both methods, low impact material growth and high-end finishing.

### **PRODUCTS & SERVICES**

Melotte offers solutions in the form of high-tech components characterized by high precision, complex shapes, special materials, short delivery times and great reliability of operation. Melotte uses SLM (Selective Laser Melting) installations to produce components in titanium, inconell, cobalt-chromium, ceramics, tool steel and aluminum. The range is completed by related support services such as reverse engineering and modeling, laser scanning, optical measurement and thermodynamic analysis.

### **MARKTOVERZICHT**

Melotte supplies a highly diversified international market, including the petrochemical industry, construction of specialist medical equipment, chemicals and pharmaceuticals. With the introduction of new production processes it is able to tackle new markets in addition to the existing customer segments.

## **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 2014 the Picanol Group worldwide employed 1,931 people.

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 develop 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 are also of great concern to the Picanol Group, including such aspects as ergonomics, accident prevention and protection on the work floor. Numerous safety questions are examined and dealt with each year in collaboration with the Committee for Prevention, Protection and Welfare 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 annually in each department.

## QUALITY & WORLD CLASS MANUFACTURING

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

## REPORT BY THE BOARD OF DIRECTORS

### LETTER TO THE SHAREHOLDERS

Dear shareholder,

In line with the previously announced forecasts, the Picanol Group (Euronext: PIC) realized a consolidated turnover of 418.17 million euros over the full 2014 financial year. Compared to 2013, which was the best year in the history of the group, the Picanol Group closed the year 2014 with a net profit of 52.40 million euros, compared to 73.11 million euros in 2013.

The Weaving Machines division made a hesitant start to 2014 based on the weaker order book at the end of 2013. The first half of the year was characterized by a lower demand for weaving machines worldwide. This resulted in a sharp decline in orders compared to the record year of 2013. The demand for Picanol weaving machines increased in the fourth quarter of 2014 with the technological leadership of Picanol being further bolstered by the weaker euro.

Lower demand from the Weaving Machines division also translated into a decrease in turnover for Industries in 2014. The decrease in turnover was partly offset by rising sales to other customers, while Industries strongly focused on engineered casting solutions (Proferro) and its controller capacities (PsiControl) to attract new projects.

#### Dividend

For the first time since the financial year 2007, the board of directors will propose the payment of a gross dividend of 0.1 euros at the annual general meeting on 15 April 2015, for a total amount of 1.77 million euros.

#### Investment plan

In 2014, a new test area and a new training center for weaving machines were put into use in Ypres. The new buildings were officially inaugurated in the presence of Geert Bourgeois, Minister-President of the Flemish Government. In combination with further productivity and quality improvements, the Picanol Group is aiming to improve its competitiveness in Ypres.



### Outlook

Picanol anticipates that the global market for weaving machines in 2015 will remain at approximately the same level as that of 2014. The order book is well-filled for the first half of 2015 thanks to the increasing demand for quality and technology, and this is supported by the favorable exchange rate offered by the euro. The second half of the year is currently less clear, as investment decisions regarding new machinery may be affected by the prices of energy and raw materials (mainly cotton) as well as exchange rate developments. Based on the outlook of Weaving Machines, Industries also predominantly aims at further growth in 2015, albeit differentiated across the various markets.

For the first half of 2015, the Picanol Group expects to realize an increase in turnover. This is anticipated to be between the turnover recorded during the first half of 2013 and the turnover of the first half of 2014.

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.

2015 will be another challenging year that both we and our employees will address 'head on'. On behalf of the board of directors, we would like to thank our employees for their commitment, flexibility and enthusiasm during 2014. The base of success of the Picanol Group now more than ever rests on the quality, motivation and the commitment of our dedicated employees.

Luc Tack  
Managing director

Stefaan Haspeslagh  
Chairman

*Note: For a few notes on the statutory financial statements of Picanol NV, we refer to page 70 of this annual report.*

***WEAVING MACHINES***

The Weaving Machines division made a hesitant start to 2014 based on the weaker order book at the end of 2013. The first half of the year was characterized by lower demand for weaving machines mainly in China and South-America. This resulted in a sharp decline in orders compared to the record year of 2013. The demand for Picanol weaving machines increased in the fourth quarter of 2014 with the technological leadership of Picanol being further bolstered by the weaker euro.

In 2014, Picanol successfully participated in a number of international trade fairs where it confirmed itself as the technological market leader in rapier and airjet weaving machines. It participated in Techtextil Middle East (Dubai), the Dhaka International Textile & Garment Machinery Exhibition (Bangladesh), Kortex Korea (Korea), Textile Asia and Iगतex (Pakistan), Inlegmash Moscow (Russia), Indo Inter Tex Jakarta (Indonesia) and Techtextil North America (US). At the ITMA ASIA + CITME 2014, Picanol introduced its GTMax-i rapier weaving machine for the first time. This is the high-performance version of the GT-Max. In October 2014, Picanol also organized an open day in South Korea to present the benefits of its rapier technology to Korean weavers. Picanol focused mainly on the new weaving machines as well as on its added value in the weaving of technical textiles.

In 2014, Picanol continued to invest in the renewal and modernization of its production facilities. In combination with further productivity and quality improvements, the Picanol Group is aiming to improve its competitiveness in Ypres. In addition to the acquisition of several new finishing machines, Picanol invested in a new test area and a new training center for weaving machines in Ypres, which enables Picanol to offer an even higher level of quality and service. In the test area all finished weaving machines are tested both mechanically and electronically before being sent to the customer. In the new training and visitor center Picanol technicians train customers from all over the world in optimal circumstances. The new buildings were officially inaugurated in the presence of Geert Bourgeois, Minister-President of the Flemish Government. In 2014, Picanol celebrated the 20<sup>th</sup> anniversary of its production plant in Suzhou and over 50 years of presence in the Chinese market.

**Outlook**

Picanol anticipates that the global market for weaving machines in 2015 will remain at approximately the same level as that of 2014. The order book is well-filled for the first half of 2015 thanks to the increasing demand for quality and technology, and this is supported by the favorable exchange rate offered by the euro. The second half of the year is currently less clear, as investment decisions regarding new machinery may be affected by the prices of energy and raw materials (particularly cotton) as well as exchange rate developments.

In 2015, Picanol will continue to expand its role as the technological market leader by further increasing the product range of its weaving machines and by offering applications for new market segments. The main challenge thereby remains to further strengthen the (weaving) performance, the quality and the cost competitiveness of the customer. At the textile machinery exhibition ITMA Milano 2015, Picanol will once again demonstrate that it is the technology leader in air and rapier weaving machines. In the run-up to this trade fair, Picanol is launching a new marketing campaign in 2015. With the slogan 'Let's grow together' Picanol wants to make a clear statement that it wants to grow together with its customers, by offering the best mix of machines, features, services, knowhow and the commitment of the Picanol team.

With regard to product development, sourcing and assembly, Picanol will increase its efforts to improve both productivity and process efficiency, in combination with several targeted investments such as logistic systems.

Lower demand from the Weaving Machines division also translated into a decrease in turnover for Industries in 2014. The decrease in turnover was partly offset by rising sales to other customers, while Industries strongly focused on engineered casting solutions (Proferro) and its controller capacities (PsiControl) to attract new projects.

### Proferro

In 2014, Proferro celebrated its 25<sup>th</sup> anniversary. In September 1989, Picanol split the foundry division from its other activities and included it in the Proferro company. In the past 25 years, which were characterized by a constant focus on innovation and quality, Proferro grew into a leading player in the foundry world with its engineered casting solutions.

In 2014, Proferro again focused strongly on its engineered casting solutions. The three-pillar strategy of casting - finishing - assembly and the HWS molding line are increasingly appreciated by the market. This allowed Proferro to further expand its customer portfolio in 2014 with new customers in both casting and for the finishing of castings.

In 2014, Proferro invested in the further development of its foundry and mechanical finishing department. The casting area, for instance, was expanded to increase the production rate of ductile cast iron on the HWS molding line. During the summer vacation of 2014, a new filter was installed for the cupola furnace. The flue gases from our cupola furnace are purified by an afterburner and a filter installation. The quality of the emitted air is monitored by means of an emission measurement program. As part of the further automation and robotization, in 2014 Proferro invested in the development of its mechanical finishing department, among other things through the purchase of various turning and milling centers. This has enabled Proferro to offer its customers a complete solution, from development to ready-to-use parts for other machine manufacturers.

In line with its ambition to focus strongly on a broader presence in the market, Proferro also strengthened its sales team during the past year, among others, to respond to the growing American market.

### PsiControl

The past year, PsiControl focused strongly on its custom-made controllers for mid-sized series and its expertise in Electronic Manufacturing Services (EMS). These provided projects in both the industrial machinery and healthcare industries. Thereby, the tandem between the production sites in Ypres and Rasnov is an important asset for PsiControl.

In 2014, PsiControl introduced its SwipeStat platform, which responds to the increasing demand for interfaces based on touch technology. Due to its flexible design, the SwipeStat can be used in various environments and applications that require a compact, budget-friendly and intuitive user interface - such as a room thermostat or other machine controllers. In 2014, PsiControl participated in a number of exhibitions to introduce its SwipeStat platform. The SwipeStat was shown at MCE Expocomfort (Italy) and User Interface Design (Netherlands).

In 2014, PsiControl continued in renewing and modernizing its production facilities. These investments included among others a new warehouse space and a new 3D Automated Optical Inspection (AOI) installation in Ypres.

### Melotte

Due to the reduction of activities at a very important customer, Melotte suffered a decrease in turnover in 2014, which could only partially be offset by the customer portfolio for traditional and 3D printed parts. In the area of traditional activities such as repairing molds, making parts for the Oil & Gas industry and the production of small series of precision components for mechanical engineering, Melotte was able to take full advantage of the investments in production machines and in the 3D measuring technique, which resulted in a positive effect on the order book towards the end of the year. In 2014, Melotte further invested in production techniques in the field of 3D printing.

### Outlook

Industries aims at further growth in 2015, albeit differentiated across the various markets. For 2015, Proferro expects an overcapacity in the European foundry sector, which will make it more difficult to attract new projects. In 2015, PsiControl will participate in a number of exhibitions where it will focus on the roll-out of the SwipeStat platform.

Industries will further automate and robotize its operations in 2015 with targeted investments. In 2015, Proferro plans to make various investments in new CNC machines. PsiControl will invest in new measuring and testing equipment and a new pick and place machine in Ypres, as well as a new 3D AOI system and a wave soldering machine in Rasnov.

## CORPORATE GOVERNANCE DECLARATION

The Picanol Group applies the Belgian Corporate Governance code 2009 as reference code. This chapter presents the application of this policy in 2014.

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](http://www.picanolgroup.com).

### **I. BOARD OF DIRECTORS**

#### **I.1. Composition of the board of directors**

		Appointed until the GM in
Mr. Stefaan Haspeslagh (1)	Chairman	2018
Mr. Luc Tack (1)	Managing director	2016
Baron Hugo Vandamme <i>permanent representative of HRV NV (2)</i>	Chairman of the nomination & remuneration committee Member of the audit committee	2016
Mr. Frank Meysman, <i>permanent representative of M.O.S.T. BVBA (2)</i>	Chairman of the audit committee Member of the nomination & remuneration committee	2016
Mr. Jean Pierre Dejaeghere <i>permanent representative of NV Kantoor Torrimmo (2)</i>	Member of the audit committee Member of the nomination & remuneration committee	2015
Mr. Patrick Steverlynck (3), <i>permanent representative of Pasma NV</i>	Director	2016

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

#### **Company secretary & Compliance Officer**

Mss. Karen D'Hondt, Group Controller.

The board of directors is made up of six members, four of them being non-executive directors. Three of the directors are independent in the sense of art. 524 of the Company Code, as required by the Corporate Governance Charter of the Picanol Group.

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

As regards the inclusion of women in the board of directors, with the required competencies according to our Corporate Governance-rules, the Picanol Group will comply with the statutory regulations and deadlines and will therefore undertake the necessary steps. The nomination & remuneration committee will identify and nominate candidates at the general meeting in 2016 for approval by the board of directors.



## **I.2. Activities of the board of directors during the past financial year**

The board of directors met five times in 2014, under the full presence of the directors.

In 2014 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 2015 budget, the business plan and the long-term strategy;
- the reports of the audit committee and the nomination & remuneration committee;
- transactions with related parties;
- investment and disinvestment projects;
- delegation to an ad hoc committee regarding the capital increase in Tessenderlo Chemie.

## **I.3. Evaluation of the board**

The board of directors, led by the chairman, makes an annual self-assessment to determine the efficient operating of the board and its committees. The evaluation has 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 the 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 and 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 Frank Meysman (as permanent representative of M.O.S.T. BVBA), Baron Hugo Vandamme (as permanent representative of HRV NV) and Jean Pierre Dejaeghere (as permanent representative of NV Kantoor Torrimmo).

In accordance with art. 526 bis of the Company Code, the Picanol Group declares that the chairman of the audit committee, Frank Meysman, meets the requirements of independence and has the necessary expert skills in accounting and auditing.

#### **Meetings of the audit committee**

The committee met four times in 2014, under the full presence of its members.

Special attention was paid to:

- the half-yearly and annual results, with the auditor's report;
- the internal audit report;
- management letter of the auditor;
- procedures and risk evaluations.

After each meeting the audit committee reported through its chairman to the board of directors about the above mentioned matters, and gave its advice on decisions by the board.

#### **Evaluation of the audit committee**

Each year, the chairman of the committee reports to the board of directors on 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 Mr. Frank Meysman (as permanent representative of M.O.S.T. BVBA), Baron Hugo Vandamme (as permanent representative of HRV NV) and Mr. Jean Pierre Dejaeghere (as permanent representative of NV Kantoor Torrimmo).

### **Meetings of the nomination & remuneration committee**

The committee met two times during the report year under the full presence of its members. The following subjects were discussed, among others:

- remuneration of the management committee;
- explanation on the HR policy;
- remuneration of the directors.

The managing director and chairman were invited to these meetings. 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 by the board.

### **Evaluation of the nomination & remuneration committee**

Each year, the chairman of the committee reports to the board of directors on 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 & Service;
- VOF Pretium Plus, represented by Mr. Philip De Bie, Vice-President Accessories & IT.

The management committee meets weekly 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 the proposal of the nomination and remuneration committee, the remunerations of the members of the executive management were approved by the board of directors in so far as they involved changes to the running contracts.

### **IV.2. Remuneration policy**

The remuneration of non-executive directors comprises a fixed annual fee plus fees for attendance at committee and board meetings. The fixed remuneration is 15,000 euros a year and the attendance fee is 2,000 euros per attendance. The remuneration of the non-executive directors remained unchanged in 2014 compared to 2013.

The remuneration of executive directors consists of a fixed fee only. Executive directors receive neither a variable remuneration nor performance awards in shares.

The remuneration of the management committee consists of a fixed fee plus a variable fee based on company results. The variable fee for 'on target' performance lies between 25% and a maximum 50% of the fixed fee. Based on the annual analysis, the nomination & remuneration committee may take a different decision. 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 EUR		Fixed remuneration as director	Attendance fees (board of directors and committees)	Ad hoc*	Total 2014
Stefaan Haspeslagh	executive	60,000	-	-	60,000
Luc Tack	executive	-	-	-	-
Patrick Steverlynck, as representative of Pasma NV	executive	15,000	10,000	-	25,000
Frank Meysman, as representative of M.O.S.T. BVBA	non-executive	15,000	10,000	8,000	33,000
Hugo Vandamme, as representative of HRV NV	non-executive	15,000	10,000	8,000	33,000
Jean Pierre Dejaeghere, as representative of NV Kantoor Torrimmo	non-executive	15,000	10,000	8,000	33,000

\* Compensation as a member of the ad hoc committee with regard to the capital increase in Tessenderlo Chemie.

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

The management committee, with the exception of executive directors, receives a variable fee based on company results. The criteria for the 2014 variable fee are laid down in a contract and are based on:

- the results of the group: 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

<i>In EUR</i>	<b>Total 2014</b>
Name	Luc Tack
Fixed remuneration	-
Variable remuneration	-
<b>Total</b>	-
Pension	-
Other benefits	-

The managing director does not receive long-term cash incentive plans.

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

<i>In EUR</i>	<b>Total 2014</b>
Fixed remuneration	946,845
Variable remuneration	477,565
<b>Total</b>	<b>1,424,410</b>
Pension	Fixed contributions: 60,792
Other benefits*	13,365

\* Remuneration usage car

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

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

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

#### IV.7. Shares awarded to the management committee

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

#### IV.8. Termination compensation

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

#### IV.9. Deviation

At the general meeting of shareholders on 20 April 2011, the shareholders approved 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 2015.

### V. AUDITOR'S REMUNERATION

The auditor received an amount of 142,800 euros for performance of his audit task in 2014. During the course of 2014, the auditor and the auditor related parties charged 37,818 euros for legal advice.

## **VI. RISK MANAGEMENT AND INTERNAL CONTROL**

The Picanol Group internal control system aims at safeguarding:

- achievement of the company goals;
- reliability of the company's financial and non-financial information;
- 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 (available on the website [www.picanolgroup.com](http://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 company secretary.

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

#### **Company ethics:**

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

### **VI.2. Risk analysis**

Picanol performs regular analyses of the risks involved in its activities. In 2010, a risk analysis was carried out. 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 are regularly monitored by the management committee. The entire set of risk factors and action plans were re-evaluated in 2013 by 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 so 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 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 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 future. However, Picanol cannot be certain of obtaining registration of the trademarks and patents applied for. There is also the risk of Picanol failing to renew a trade mark 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 trade mark 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 2014 Picanol earned the majority of its income from countries that use currency other than the euro. Also the competitors of Picanol 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 so is not exposed to specific customer risk. Moreover, the activity of the Picanol Group 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. After the strong demand for weaving machines in 2012 and 2013, the demand for weaving machines decreased in 2014. Picanol takes into account that the demand for weaving machines worldwide could be lower in the coming years.

***Picanol is exposed to risks associated with growth economies***

A significant proportion of Picanol's activities, representing some 70% of its turnover in 2014 – is derived from growth economies such as China, Turkey, Brazil, Pakistan, Indonesia and India, as well as other rapidly-developing 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 various of its activities are members of labor unions. Walkouts or strikes – which tend to occur during 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, compliance with which could bring substantial costs, and which 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 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 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 e.g. due to war, terrorist attack or natural disasters are usually not insured, because 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, then 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, then 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 at attractive conditions, 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, as well as generating 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 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 currently does not have any outstanding substantial claims against it for the supply of goods and services. During the past 3 years no claims were pronounced 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 lead to 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 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 12% 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 loss as a result. There is no certainty of the company being able to limit its potential losses of income from customers who are not able to pay in time.

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

The company is involved in several ongoing disputes.

The first dispute concerns an environmental claim. Although the Picanol management considers it unlikely for this dispute to be decided against Picanol, such an eventuality cannot be ruled out. A decision against Picanol could have a substantial impact on the company's results. A provision of 1.4 million euros has been set aside to cover this dispute, based on the company's own estimate of the clean-up costs if the company is obliged to clean up the ground on the Roeselare site. This estimate is based on the last known indicative soil survey. The other disputes concern a claim about the execution of a sales contract, a possible dispute on an environmental issue and a dispute regarding the termination of an employment contract and with respect to the termination of an agent contract and a possible lawsuit in the US. More information concerning the booked provisions can be found under the section III.7.14. in this annual report.

**VI.3. Control activities**

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

HOLDERS OF VOTING RIGHTS	2014*		2013	
	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	4,269,597	24.12%	4,172,996	23.58%
Other registered shares	89,165	0.50%	151,702	0.86%
Free float	1,860,992	10.51%	1,895,056	10.71%
<b>TOTAL</b>	<b>17,700,000</b>	<b>100.00%</b>	<b>17,700,000</b>	<b>100.00%</b>

\*situation on 11 March 2015

Mr. 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 being explained in the Corporate Governance Charter available on the website [www.picanolgroup.com](http://www.picanolgroup.com).

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

### **Procedure:**

The regulation relating to conflicts of interest has been included in the Corporate Governance Charter and is summarized below:

Each member of the board of directors or the management committee shall immediately communicate any conflict of interest to the chairman of the board of directors and the other members of the board or the management committee. The members in question should provide the chairman of the board of directors and other members of the board or the management committee with all information relating to the conflict, including information on the persons with whom he or she has a family relationship (his/her spouse, registered partner or other life companion, foster child or relative by blood or marriage to the second degree).

A member of the board of directors or the management committee shall not participate in the discussions or decision making on a subject or transaction in connection with which he or she has a conflict of interest with Picanol NV. Such a transaction, if approved, must be concluded on terms that are at least customary in the corresponding sector and need to be approved in advance by the board if it concerns a decision that should be taken by the management committee.

Reference will be made to these transactions in the annual report, including a declaration that the provisions of the charter have been observed.

### **Extract from the minutes of the board of directors of 14 November 2014:**

#### **“ Agenda:**

- 1 *Explanation regarding article 524 of the Belgian Companies Code*
- 2 *Delegation to an ad hoc committee*
- 3 *Miscellaneous*

**Conflict of interests:**

*Statement by Mr. Luc Tack:*

*Mr. Luc Tack declared pursuant to Article 523 of the Companies Code that he may have a financial interest that might be contrary to the second item on the agenda of this meeting of the board of directors, whereby it should be deliberated and decided on the creation of an ad hoc committee composed of independent directors who will be exclusively authorized to deliberate on, and where appropriate, approve specific decisions or actions of Verbrugge NV in connection with the planned capital increase of Tessenderlo Chemie. 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 Chemie. Mr. Luc Tack therefore stated he would not participate in (and would leave the meeting prior to) the deliberation and decision on the second item on the agenda of the board of directors. Mr. Luc Tack asked that the Auditor of Picanol NV be informed of this potential conflict of interest.*

*Statement by Mr. Stefaan Haspeslagh:*

*Mr. Stefaan Haspeslagh declared pursuant to Article 523 of the Companies Code that he may have a financial interest that might be contrary to the second item on the agenda of this meeting of the board of directors, whereby it should be deliberated and decided on the creation of an ad hoc committee composed of independent directors who will be exclusively authorized to deliberate on, and where appropriate, approve specific decisions or actions of Verbrugge NV in connection with the planned capital increase of Tessenderlo Chemie. This potential conflict of interest arises from the fact that Mr. Stefaan Haspeslagh is the controlling shareholder of Findar BVBA, and as a member of the GMC of Tessenderlo Chemie he receives a remuneration where the amount is also set by the results of the company. Mr. Stefaan Haspeslagh therefore stated he would not participate in (and would leave the meeting prior to) the deliberation and decision on the second item on the agenda of the board of directors. Mr. Stefaan Haspeslagh asked that the auditor of Picanol NV be informed of this potential conflict of interest.*

*During the discussion of the second item on the agenda of this board of directors, Mr. Frank Meysman acted as the chairman of the board of directors.*

**Deliberation and decision making:**

**1. Explanation regarding Article 524 of the Belgian Companies Code**

*Based on a prior discussion by the board of directors of 26 August 2014 and following a confirmation e-mail on 16 September 2014, the directors voted that Verbrugge NV would support the planned capital increase in Tessenderlo Chemie NV and would subscribe to such a capital increase through full exercise of the subscription rights attached to the shares held by Verbrugge NV in Tessenderlo Chemie NV. It was decided at the meeting of the board of directors of 28 October 2014 that advice would be sought on whether this previously granted approval was a decision or transaction that falls under Article 524 of the Companies Code. The chairman informed the directors that the necessary advice was sought and that based thereon, it can be confirmed that the previously granted approval was not a decision or transaction that falls under Article 524 of the Companies Code, and thus is/was not subject to the special procedure provided for in Article 524 of the Companies Code. This particular procedure applies only to decisions or actions of Verbrugge NV in connection with the planned capital increase of Tessenderlo Chemie or the consent of Picanol NV with any such decisions or actions, if and to the extent that Tessenderlo Chemie at the time such decisions or actions are carried out, can be regarded as a company affiliated with Picanol NV within the meaning of Article 11 of the Companies Code. At present, Tessenderlo Chemie cannot yet be regarded as a company affiliated to Picanol NV. However, if Verbrugge NV will exercise its voting rights at the extraordinary general meeting of Tessenderlo Chemie that will deliberate and decide on the planned capital increase, which represent the majority of the shares at the meeting, it will, in accordance with Article 5 §3 of the Companies Code, it will be assumed to have a de facto control over Tessenderlo Chemie. In such a case, Tessenderlo Chemie can be considered an affiliate of Picanol NV within the meaning of Article 11 of the Companies Code, in the absence of evidence to the contrary. In accordance with Article 11 (1) of the Companies Code, "a company affiliated with Picanol NV" is taken to mean the company that, according to the information available to the administrative body of Picanol NV, is controlled by a company over which Picanol NV itself exercises a power of control. Since the representatives of the Picanol Group are not in the majority on the Board of Tessenderlo Chemie NV, Tessenderlo Chemie NV can still not be regarded as an affiliated company.*

## **2. Delegation to an ad hoc committee**

*The chairman then pointed to the fact that it is important to avoid the semblance or perception of abuse of inside information in respect of Picanol NV and/or Verbrugge NV regarding the decisions or actions of Verbrugge NV under the planned capital increase of Tessenderlo Chemie or the consent of Picanol NV with any such decisions or actions. Such semblance or perception may arise since Mr. Luc Tack and Mr. Stefaan Haspeslagh (both directors of Picanol NV and either in a personal capacity or as a permanent representative of Picanol NV, are also directors of Verbrugge NV) are also CEO and executive director respectively of Tessenderlo Chemie, and it may be considered that in these capacities they frequently have prior knowledge of Tessenderlo Chemie. Furthermore, it cannot be excluded that at the time of the relevant decisions or actions, Mr. Stefaan Haspeslagh and/or Mr. Luc Tack may effectively have inside information in relation to Tessenderlo Chemie.*

*To avoid any appearance or perception of abuse of inside information as well as any violation of the prohibitions of Article 25 of the Law of 2 August 2002 on the supervision of the financial sector and financial services, the chairman proposed to establish an ad hoc committee, composed of the independent directors of Picanol NV and to grant such an ad hoc committee the exclusive power to:*

- (i) deliberate and, where appropriate, approve at its sole discretion the so-called Commitment and Lock-up Undertaking, which is to be delivered by Verbrugge NV in favor of KBC Securities NV, and in which Verbrugge NV undertakes to (i) exercise all subscription rights attached to the shares it holds in Tessenderlo Chemie NV as well as all Scrips it would gain, within the context of the planned capital increase, thus subscribing to such a planned capital increase for the corresponding amount, and (ii) not to transfer any shares of Tessenderlo Chemie for a period of 180 days following the signing of the underwriting agreement between KBC Securities NV and Tessenderlo Chemie NV*
- (ii) deliberate and, where appropriate, to approve at its sole discretion the acquisition by Verbrugge NV during the initial subscription of additional subscription rights and/or Scrips that will be sold at the end of the subscription period for the capital increase within the framework of a private placement, and to make a statement to Tessenderlo Chemie NV regarding the corresponding intentions of Verbrugge NV;*
- (iii) deliberate and, where appropriate, to approve at its sole discretion the acquisition by Verbrugge NV of additional shares of Tessenderlo Chemie, either through purchases on the stock exchange or through private purchases;*
- (iv) deliberate and, where appropriate, to approve at its sole discretion the acquisition of shares, additional subscription rights and Scrips, as mentioned in (ii) and (iii), and taking into account the shares in Tessenderlo held in affiliated companies, this way achieving a stake of more than 30% in Tessenderlo NV, although taking into account the fact that the 30% limit may not be exceeded by acquiring additional shares since it is in no way the intention that Verbrugge NV should make a mandatory public offering on Tessenderlo Chemie NV and should issue a statement to Tessenderlo Chemie NV regarding the corresponding intentions of Verbrugge NV.*

*Following deliberation, the board of directors unanimously decided to approve the proposal of the chairman to establish an ad hoc committee and the above-mentioned delegation of powers to this ad hoc committee. In light of the parallel decision making at the level of the board of directors of Verbrugge NV which shows that under the conflict of interest of Mr. Luc Tack and Mr. Stefaan Haspeslagh, this board has delegated the decision to its shareholder. This decision will also apply as a decision regarding Verbrugge NV. The ad hoc committee shall therefore also be entitled to set the corresponding actions on behalf of Verbrugge NV, which, for the reasons stated above, will also contribute to avoiding any appearance or perception of abuse of inside information as well as any violation of the prohibitions of Article 25 of the Law of 2 August 2002 on the supervision of the financial sector and financial services."*

**Extract from the minutes of the board of directors of 10 March 2015:**

*“Agenda:*

- *Prior agenda item: application regarding Article 523 of the Belgian Companies Code*
- *Agenda item: remuneration of the managing director*

*Prior agenda item: application regarding Article 523 of the Belgian Companies Code.*

*Before starting the discussion of the first agenda item, Mr. Luc Tack requested the floor. As director of Picanol NV, he declared to have a financial interest with the scheduled decision that may conflict - in the sense of Article 523 of the Companies Code - with that of the company, since this decision relates to his future remuneration as managing director. He requested his statement on the application of Article 523 of the Companies Code be recorded in the minutes of the board of directors. He stated that under the provisions of Article 523, § 1 (4) of the Companies Code he would not participate in the deliberations and the vote on the first agenda item. He undertook to inform the Auditor of the company immediately after having informed the board of directors of the application of Article 523 of the Companies Code.*

***Agenda item: remuneration of the managing director***

*Before the start of this agenda item, Mr. Luc Tack left the meeting. After hearing the proposal and the recommendations of the nomination & remuneration committee, the board of directors decided unanimously to grant a fixed fee of 100,000 euros per year to the managing director as of 1 January 2015. The managing director will receive no variable remuneration or other benefits. Mr. Luc Tack will, in addition to his salary as managing director, also receive a director's fee in accordance with those of the other directors (the fixed remuneration amounts to 15,000 euros per year and the attendance fees amount to 2,000 euros per session). This will be submitted to the general meeting of 15 April 2015 for approval. The board of directors believed that this compensation is fair and that this decision was taken in the interest of the company. The remuneration of the managing director will be published in the corporate governance statement in the annual report.”*

## **IX.b. APPLICATION OF ART. 524 OF THE COMPANY CODE**

**Extract from the minutes of the board of directors of 22 December 2014:**

**“ Agenda:**

1. *Prior agenda item: application of Article 523 of the Belgian Companies Code*
2. *First agenda item: application of Article 524 of the Belgian Companies Code*
3. *Second agenda item: ratification of the credit agreement between Picanol NV and Symphony Mills NV (the Lender) in compliance with Article 524 of the Companies Code.*

**Deliberations and decisions:**

**1. Prior agenda item: application of Article 523 of the Belgian Companies Code:**

*Before starting the discussion of the agenda items, Mr. Luc Tack requested the floor. As director and/or shareholder of Picanol NV, he declared to have a financial interest with the scheduled decision that may conflict - in the sense of Article 523 of the Companies Code - with that of the company, in view of the fact that he is a director and majority shareholder of each of the parties involved in the credit agreement. He requested his statement on the application of Article 523 of the Companies Code be recorded in the minutes of the board of directors. He stated that, under the provisions of Article 523, § 1 (4) of the Companies Code, he would not participate in the deliberations and the vote on both agenda items for which he has stated that he has a conflict of financial interest. He undertook to inform the Auditor of the company immediately after having informed the board of directors of the application of Article 523 of the Companies Code. He stated that the action to be ratified/approved is in the interest of Picanol NV. After the above statements, Mr. Luc Tack advised that, due to his conflict of interest under Article 523 of the Companies Code, he, as a director, could not participate in the deliberation and decision on the two agenda items. After having made the aforementioned statement and prior to the discussion of the two agenda items he left the meeting. The other directors declared that the aforementioned director would not participate in the deliberation and voting on the two agenda items.*

**2. First agenda item: application of Article 524 of the Belgian Companies Code.**

*The chairman stated that article 524 of the Companies Code will be applied for the second agenda item. The committee of independent directors stated in its opinion that, taking into account the documents submitted, the proposed credit agreement is in the interest of Picanol NV and that the interest rate conditions are competitive. The committee declared that the transaction was acceptable and that it has the following characteristics:*

- *straight loan of 10 million euros;*
- *interest rate Euribor 1 month + 65 points;*
- *maturity of 1 month, renewable automatically;*
- *terminable by either party upon request;*
- *interest payable monthly;*
- *borrowed amount may be reduced or increased based on mutual agreement;*
- *no securities are issued.*

*The financial consequences for the Picanol NV company are: the closing of this credit agreement results in a short-term debt for Picanol NV for an amount of 10,000,000 euros. A monthly interest is paid on this debt, which is based on the interest rate of Euribor 1-month + 65 points. This credit agreement is in the interest of Picanol NV as it temporarily provides Picanol with additional financial resources at favorable interest rates. After having taken note of the opinion of the committee of independent directors, all directors who could participate in the vote decided to join the opinion of the committee of independent directors. They also requested that Picanol adjust the amount taken out monthly to the real financial needs. A copy of the opinion of the committee of independent directors is attached to these minutes as an appendix.*

**3. Second agenda item: ratification of the credit agreement in compliance with Article 524 of the Companies Code**

*The directors unanimously ratified the credit agreement between Picanol NV and Symphony Mills NV as of 16 December 2014 with the characteristics described in section 2."*

**From the report of the Auditor of 10 March 2015:**

*Under Article 524 § 3 of the Companies Code, the Auditor should provide an opinion on the accuracy of the information listed in the opinion of the Committee of Independent Directors and in the minutes of the board of directors. This opinion should then be attached to the minutes of the board of directors. We have verified the accuracy of the information contained in the opinion of the Committee of independent directors and in the minutes of the board of directors. Based on the work we performed we have no knowledge of elements that would lead us to conclude that the information contained in the opinion of the committee of independent directors or in the minutes of the board of directors would not be accurate.*

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

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

- There are no holders of securities with special control rights.
- There are no statutory restrictions on the exercise of voting rights.
- In the event of a public takeover bid on the securities of the company, the board of directors is expressly authorized to increase the share capital under the conditions specified in Article 607 of the Companies Code, after the company was notified by the Financial Services and Markets Authority (FSMA) of a public takeover bid for securities of the company. This authorization is granted for a period of three (3) years from the date of the extraordinary general meeting of the eighteenth of April two thousand and twelve, on which the authorization was granted.
- The company is managed by a board of at least six directors - members or not - who are appointed by the general meeting. The mandate of a director may be revoked at any time. If a directorship becomes vacant as a result of death, resignation or any other reason, the remaining directors may tentatively fill a vacancy in a general council. In that situation, the general assembly will proceed to the final appointment at its next meeting.
- In compliance with the laws concerning attendance and majority, the general meeting may amend the articles of association.

**XI. Declaration concerning the information given in this annual report for the 12 months ending on the 31 December 2014**

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

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## I. DEFINITIONS

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

## II. FINANCIAL STATEMENTS

The consolidated financial statements were approved for publication by the board of directors on 10 March 2015.

### II.1. CONSOLIDATED INCOME STATEMENT

<i>(in '000 euros)</i>	NOTES *	2014	2013 **
Sales	III.5.	418,165	559,979
Cost of sales		-331,793	-422,569
<b>GROSS PROFIT</b>		<b>86,372</b>	<b>137,411</b>
<i>Gross profit % on sales</i>		<i>20.7%</i>	<i>24.5%</i>
General and administrative expenses		-16,216	-17,349
Selling and marketing expenses		-16,294	-16,779
Other operating income	III.6.1.	502	377
Other operating expenses	III.6.1.	-183	-4
<b>OPERATING RESULT</b>	<b>III.6.2.</b>	<b>54,180</b>	<b>103,656</b>
Total interest income	III.6.3.	2,180	4,590
Total interest expenses	III.6.3.	-738	-1,963
Other financial income	III.6.3.	1,245	1,022
Other financial expenses	III.6.3.	-1,125	-917
<b>RESULT BEFORE TAXES</b>		<b>55,742</b>	<b>106,387</b>
Income taxes	III.6.4.	-15,075	-30,830
<b>RESULT AFTER TAXES (CONSOLIDATED COMPANIES)</b>		<b>40,667</b>	<b>75,556</b>
Share in the results of associated companies	III.7.5	11,735	-2,447
<b>PROFIT (LOSS) OF THE PERIOD</b>		<b>52,402</b>	<b>73,108</b>
<b>SHARE OF THE GROUP IN PROFIT (LOSS)</b>		<b>52,402</b>	<b>73,108</b>

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

\*\* The figures for 2013 were adjusted for the fair value adjustment for the fixed assets of the associated company Tessenderlo Chemie, see III.7.5. This has an impact on the share in the results of associated companies of -0.06 million euros.

### EARNINGS PER SHARE

<i>(in '000 euros)</i>	NOTES	2014	2013
Basic earnings per share	III.6.6.	2.96	4.13
Diluted earnings per share	III.6.6.	2.96	4.13

## CONSOLIDATED INCOME STATEMENT

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
<b>SHARE OF THE GROUP IN PROFIT OR LOSS</b>	<b>52,402</b>	<b>73,108</b>
<b>Items that will not be subsequently transferred to profit and loss:</b>	<b>-3,653</b>	<b>-847</b>
Actuarial gains / (losses)	-38	-111
Actuarial gains / (losses) at associated companies	-3,615	-736
<b>Items that will subsequently be transferred to profit and loss if specific conditions are met:</b>	<b>-873</b>	<b>-1,455</b>
Translation differences	4,370	-1,265
Translation differences at associated companies	-3,811	-460
Share of other comprehensive income of associated companies	-1,432	270
<b>Total other comprehensive income after taxes</b>	<b>-4,526</b>	<b>-2,302</b>
<b>TOTAL RESULT</b>	<b>47,876</b>	<b>70,806</b>

## II.2. CONSOLIDATED BALANCE SHEET

<i>(in '000 euros)</i>	NOTES *	2014	2013 **
<b>FIXED ASSETS</b>		<b>326,913</b>	<b>247,099</b>
Intangible assets	III.7.1.	2,801	3,655
Goodwill	III.7.2.	0	0
Tangible fixed assets	III.7.3.	59,003	53,050
Participation in associated companies	III.7.5.	263,743	188,996
Other financial investments	III.7.5.	58	58
Non-current receivables	III.7.6.	493	481
Deferred tax assets	III.7.7.	815	859
<b>CURRENT ASSETS</b>		<b>133,091</b>	<b>173,796</b>
Inventories and contracts in progress	III.7.8.	45,613	52,723
Trade receivables	III.7.9.	39,465	50,380
Other receivables	III.7.9.	18,504	30,222
Cash and cash equivalents	III.7.10.	29,509	40,471
<b>TOTAL ASSETS</b>		<b>460,004</b>	<b>420,895</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>II.4.</b>	<b>336,343</b>	<b>288,467</b>
<b>Equity attributable to the shareholders of the group</b>		<b>336,343</b>	<b>288,467</b>
Share capital	III.7.11.	21,720	21,720
Share premiums	III.7.12.	1,518	1,518
Reserves		305,574	262,068
Translation differences		7,531	3,161
<b>Minority interests</b>		<b>0</b>	<b>0</b>
<b>NON-CURRENT LIABILITIES</b>		<b>18,009</b>	<b>20,998</b>
Employee benefit obligations	III.7.13.	7,721	7,350
Provisions	III.7.14.	1,501	1,617
Deferred tax liabilities	III.7.7.	8,787	9,198
Interest-bearing debt	III.7.16.	0	2,833
Other liabilities	III.7.16.	0	0
<b>CURRENT LIABILITIES</b>		<b>105,651</b>	<b>111,429</b>
Employee benefit obligations	III.7.13.	1,603	1,945
Provisions	III.7.14.	7,118	6,382
Interest-bearing debt	III.7.16.	11,640	10,757
Trade payables	III.7.17.	46,459	51,894
Income taxes payable	III.7.17.	2,044	2,570
Other current liabilities	III.7.17.	36,787	37,881
<b>TOTAL LIABILITIES</b>		<b>460,004</b>	<b>420,895</b>

\* The accompanying notes are an integral part of this balance sheet.

\*\* The figures for 2013 were adjusted for the fair value adjustment for the fixed assets of the company Tessenderlo Chemie, see III.7.5. This has an impact on the share in the results of associated companies of -0.06 million euros.

### II.3. CONSOLIDATED CASH FLOW STATEMENT

<i>(in '000 euros)</i>	NOTES	2014	2013
<b>Operating result</b>		<b>54,180</b>	<b>103,656</b>
Depreciation on intangible and tangible fixed assets	III.7.1. & III.7.3.	8,713	8,858
Write-offs on current assets		2,098	-1,077
Changes in provisions	III.7.13. & III.7.14.	611	-1,501
(Profit)/loss on the disposal of fixed assets		61	257
<b>Gross cash flow from operating activities</b>		<b>65,664</b>	<b>110,193</b>
Changes in working capital*		21,104	10,552
Paid income taxes		-15,898	-28,218
Interest received		2,180	4,588
<b>Net cash flow from operating activities</b>		<b>73,049</b>	<b>97,116</b>
Investment in an associated company		-71,870	-192,370
Acquisitions of intangible fixed assets	III.7.1.	-315	-227
Acquisitions of tangible fixed assets	III.7.3.	-12,491	-10,043
<b>Net cash flow from investment activities</b>		<b>-84,676</b>	<b>-202,640</b>
Interest paid		-738	-1,963
Increase/(decrease) of export financing		-7,475	4,888
Increased interest-bearing financial liabilities		7,000	0
Repayments of interest-bearing financial debt		-1,476	-1,476
<b>Cash flow from finance activities</b>		<b>-2,689</b>	<b>1,449</b>
Effect of exchange rate fluctuations		3,354	-779
<b>Adjustments to cash and cash equivalents</b>		<b>-10,962</b>	<b>-104,855</b>
Net cash position - opening balance		40,471	145,326
Net cash position - closing balance		29,509	40,471
		<b>-10,962</b>	<b>-104,855</b>

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

## II.4. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Per 31 Dec 2014

	Share capital	Share premiums	Reserves	Translation differences	Total before minority interests	Minority interests	Total after minority interests
<i>(in '000 euros)</i>							
<b>At the end of the preceding period</b>	<b>21,720</b>	<b>1,518</b>	<b>262,068</b>	<b>3,161</b>	<b>288,467</b>	<b>0</b>	<b>288,467</b>
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	52,402	0	52,402	0	52,402
Translation differences	0	0	0	4,370	4,370	0	4,370
Actuarial gains (losses)			-38	0	-38		-38
Share of other comprehensive income of associated companies			-8,860		-8,860		-8,860
<b>Total recognized profits and losses</b>	<b>0</b>	<b>0</b>	<b>43,506</b>	<b>4,370</b>	<b>47,876</b>	<b>0</b>	<b>47,876</b>
<b>Dividends</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>At the end of the reporting period</b>	<b>21,720</b>	<b>1,518</b>	<b>305,574</b>	<b>7,531</b>	<b>336,343</b>	<b>0</b>	<b>336,343</b>

Per 31 Dec 2013

	Share capital	Share premiums	Reserves	Translation differences	Total before minority interests	Minority interests	Total after minority interests
<i>(in '000 euros)</i>							
<b>At the end of the preceding period</b>	<b>21,720</b>	<b>1,518</b>	<b>189,996</b>	<b>4,426</b>	<b>217,661</b>	<b>0</b>	<b>217,661</b>
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	73,108	0	73,108	0	73,108
Translation differences	0	0	0	-1,265	-1,265	0	-1,265
Actuarial gains (losses)			-111	0	-111		-111
Share of other comprehensive income of associated companies			-926		-926		-926
<b>Total recognized profits and losses</b>	<b>0</b>	<b>0</b>	<b>72,072</b>	<b>-1,265</b>	<b>70,806</b>	<b>0</b>	<b>70,806</b>
<b>Dividends</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>At the end of the reporting period</b>	<b>21,720</b>	<b>1,518</b>	<b>262,068</b>	<b>3,161</b>	<b>288,467</b>	<b>0</b>	<b>288,467</b>

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

# III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2014

## III.1. SUMMARY OF THE VALUATION RULES

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

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

#### III.1.2. GENERAL PRINCIPLES

##### Basis of presentation

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

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

The valuation rules have consistently been applied to the year 2014, and also to the previous financial year and the opening balance on the IFRS transition date, except for the following standards that came into application in 2014:

##### Standards and interpretations applicable for the annual period beginning on 1 January 2014:

- IFRS 10 Consolidated Financial Statements (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 11 Joint Arrangements (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 12 Disclosures of Interests in Other Entities (applicable for annual periods beginning on or after 1 January 2014)
- IAS 28 Investments in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 Consolidated Financial Statements and Disclosure of Interests in Other Entities: Investment Entities (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 39 Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting (applicable for annual periods beginning on or after 1 January 2014)

##### Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2014:

- IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018 but not yet endorsed in the EU)
- IFRS 15 Revenue from Contracts with Customers (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in EU)
- Improvements to IFRS (2010-2012) (applicable for annual periods beginning on or after 1 February 2015)
- Improvements to IFRS (2011-2013) (applicable for annual periods beginning on or after 1 January 2015)
- Improvements to IFRS (2012-2014) (applicable for annual periods beginning on or after 1 July 2014, but not yet endorsed in the EU)
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in the EU)
- Amendments to IFRS 11 Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)
- Amendments to IAS 16 and IAS 38 Property, Plant and Equipment and Intangible Assets – Clarification of

Acceptable Methods of Depreciation and Amortisation (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)

- Amendments to IAS 19 Employee Benefits - Employee Contributions (applicable for annual periods beginning on or after 1 February 2015)
- IFRIC 21 Levies (applicable for annual periods beginning on or after 17 June 2014)

The application of the standards published, but not yet of use for the beginning of the financial year on 1 January 2014, will not have any material impact on the annual accounts. Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2014, will not have any material impact on the annual accounts.

### **Foreign currency**

The presentation currency of the Picanol Group is EUR.

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 the potential voting rights held by other parties into account to determine whether he has power. 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 power:

- 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; and
- 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 transfer related costs are being charged to the results. The identifiable assets, liabilities and contingent liabilities of the acquirer 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 acquire is stated at the minority's proportion 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. They are included in the consolidation using the equity method from the date the significant influence commences until the date that significant influence ends.

### **III.1.3. BALANCE SHEET**

#### **Intangible assets**

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

#### Internally generated intangible assets

Research expenditure is charged to the income statement when incurred.

Internal generated development expenses are only recognized as intangible assets if they meet the following criteria:

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

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

#### Separately acquired intangible assets

##### **Patents and licenses**

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

##### **Computer software**

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

##### **Goodwill**

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

The cash generating unit to which goodwill is allocated is checked every year for impairment, and whenever there is an indication that the unit has experienced impairment. The impairment test is

performed by comparing the book value of a unit with the realizable value. If the realizable value is lower than the book value, the impairment is first imputed against the goodwill allocated to the unit, and then to the other assets of the unit in direct proportion to the book value of each asset in the unit. An impairment loss recorded for goodwill cannot be reversed at a later date.

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

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

### **Tangible fixed assets**

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

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

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

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

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

### **Lease agreements**

#### Financial leases

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

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

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

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

The depreciation rules for assets acquired in 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 lessor. On the other hand it permits long-term repayment of trade debts. These debts are financed by means of export financing and are guaranteed by Delcredere.

Accounting processing of the export financing:

When a machine contract is invoiced, the client receivable (which is spread over several years) is booked under "receivables over more than one year" 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 financial liabilities" (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 if there are indications that the carrying amount of an asset or a cash generating unit is possibly no longer recoverable. These indicators are at least yearly revised.

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

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

#### **Available-for-sale fixed assets**

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

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

#### **Borrowing costs**

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

#### **Inventories**

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

The Picanol Group uses an inventory valuation method which approaches 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, this valuation method is a reasonable approximation of the FIFO method. Furthermore, write-downs are being recognized depending on the age of the items. This method ensures that there is no over-valuation of stock.

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

### **Minority interests**

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

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

### **Employee benefit obligations**

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

#### Defined contribution plans

The contribution obligations to the defined contribution plans are expensed by the group in the income statement as they incur. All defined contribution plans in Belgium are required by law to ensure a minimum return. With regard to the minimal return required by the appropriate legislation in Belgium, the risk is in fact carried by external insurance companies.

#### Defined benefit plans

For defined benefit plans the pension liability of the financial year has to be calculated on the basis of the 'projected unit 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.

A provision for current early retirements is recognized as a liability and as a charge at 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.

Where termination benefits fall due more than 12 months after the balance sheet date they shall be discounted.

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

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

### **Provisions**

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

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

#### Provision for warranty costs

A provision for warranty costs will be made for products under warranty on the basis of historical data with regard to repairs and returned goods. The provision for warranty costs will be made on the basis of historical data on repairs and returned goods and on the basis of sold weaving machines. A provision is being made for performance warranties based on the individual analysis.

#### Provision for restructuring

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

### **Financial instruments**

#### Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

After the initial valuation, these are valued at cost less any incidental impairment losses.

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

#### Available-for-sale financial assets

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

#### Financial liabilities and equity instruments

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

#### Equity instruments

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

#### Interest-bearing loans

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

#### Derivatives

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

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

- (a) Cash flow hedges protect against the effect of foreign currency fluctuations on the fair value of recognized assets and liabilities. The profit and loss from both the revaluation of the hedging

instrument (e.g. forward contracts) and the revaluation of the hedged assets and liabilities are immediately recognized through the income statement.

- (b) Cash flow hedges protect against any variation in cash flow which (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable expected future transaction and (ii) could have an impact on the profit or loss. The share of profit or loss on the hedge instrument which has been established as an effective hedge is recognized directly in shareholders' equity and the non-effective share of the profit or loss on the hedge instrument will be recognized through the income statement.
- (c) If the hedge of an expected future transaction leads to the recognition of a non-financial asset or a non-financial liability, or if an expected future transaction concerning a non-financial asset or non-financial liability becomes a firm undertaking for which administrative processing of fair value hedge transactions is applied, then the entity will take the following action:
- The entity transfers the associated profits or losses recognized in the shareholders' equity to the income statement in the same period or periods in which the acquired asset or the liability entered into has an impact on the profit and loss. However, if an entity expects that (part of) the loss which is directly recognized in the shareholders' equity will no longer be feasible in one or several future periods, then the entity must transfer the expected non-realizable amount to profit and loss.
  - The entity transfers the associated profits and losses which are recognized in the shareholders' equity in order to recognize these in initial cost or any other book value of the asset or liability.

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

### III.1.4. REVENUE

#### General

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

#### Sale of goods

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

- (a) the company has transferred all the substantial risks and rewards associated with ownership of the goods to the buyer;
- (b) the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the company; and
- (e) the costs already incurred or still to be incurred relating to the transaction can be measured reliably.

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

#### Delivery of services

If the result of a transaction involving the rendering of services can be measured reliably, the revenue associated with those services has to be recognized in direct proportion to the services rendered at the balance sheet date. The services provided are mainly for the installation of weaving machines. The costs of the service and the turnover generated by it are recognized at the time when the service is provided. The turnover from services associated with installation of weaving machines is recognized when the machines are delivered. This turnover is insignificant compared with the company's total

turnover. In the case of services unconnected with installing weaving machines, the turnover is recognized at the time when the service is provided. These are short projects lasting a few days, and are insignificant compared with the company's total turnover. Services which have been invoiced but not yet provided, or provided but not yet invoiced, are recorded as trade receivables.

#### Interest income from loans and export finance

Interest is recognized in accordance with the effective interest method (IAS39).

#### Dividend income

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

#### **Income taxes**

The tax expense of the period represents the sum of the current tax expense and deferred tax expense. The current tax expense is based on the taxable profit of the financial year. Taxable profit differs from the net profit as stated in the income statement because it excludes income or expenditure that is taxable or deductible in other years, and it further excludes components which will never be taxable or deductible. The Picanol Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred taxes are taxes payable or recoverable on the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit, and these are recognized on the basis of the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized when the temporary differences originate from goodwill (or negative goodwill) or from the initial recognition of an asset or of a liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor 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 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 it relates 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. In the course of the current fiscal year, the group has not had to make any accounting assessments.

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

### III.3. CHANGES IN ACCOUNTING PRINCIPLES APPLIED

There were no changes in accounting principles applied in the financial year 2014 in comparison with the financial year 2013.

### III.4. CHANGES IN SCOPE OF CONSOLIDATION

In 2014, the stake in the associated company Tessenderlo Chemie was increased from 27.52% to 30.20%.

### III.5. SEGMENT INFORMATION

#### III.5.1. BUSINESS SEGMENTS

The two divisions - Weaving Machines and Industries – make up the primary segmentation of the group. More information on these divisions can be found in the first part of this report. Sales between segments are carried out at arm's length.

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	
	2014	2013	2014	2013	2014	2013	2014	2013
External sales	346,414	491,920	71,751	68,060			418,165	559,979
Inter-segment sales	837	1,169	50,732	75,323	-51,569	-76,492	0	0
<b>Total sales</b>	<b>347,251</b>	<b>493,089</b>	<b>122,482</b>	<b>143,383</b>	<b>-51,569</b>	<b>-76,492</b>	<b>418,165</b>	<b>559,980</b>
<b>Operating profit</b>	<b>51,025</b>	<b>90,448</b>	<b>3,155</b>	<b>13,208</b>			<b>54,180</b>	<b>103,656</b>
<b>Other segment information:</b>								
Financial income	2,149	4,560	31	31			2,180	4,590
Financial expenses	-498	-1,656	-240	-308			-738	-1,963
Depreciation	4,869	5,225	3,844	3,633			8,713	8,858
Investments	8,696	4,923	4,110	5,347			12,805	10,270
Total assets	110,217	133,082	77,344	75,576	272,444	212,238	460,004	420,895
Total liabilities	78,405	94,206	44,750	42,982	336,849	283,708	460,004	420,895

The consolidated turnover in 2014 decreased by 25% compared to the previous year. The operating result decreased by 48% due to the lower gross margin (from 25% to 21%), as the fixed production costs included in cost of sales did not decrease in line with turnover. The administrative and selling expenses dropped as a result of a continuous focus on cost control and efficiency improvement, and also as a result of received subsidies.

The Weaving Machines segment realized a turnover decrease of 30%, due to the sharp decline in the worldwide demand for weaving machines. Sales of spare parts and accessories continued to perform well. The profit ratio decreased from 18% to 15% (as the fixed costs did not decrease in line) and the operating profit was 51.0 million euros (compared to 90.4 million euros in 2013).

The Industries segment saw a turnover decrease of 15%. The turnover increase of 5% to other customers could not compensate for the lower demand from Weaving Machines. As the production costs did not decrease in line with turnover, the profit margin dropped from 9% in 2013 to 3% in 2014. The operating profit decreased from 13.2 million euros to 3.1 million euros.

#### III.5.2. GEOGRAPHICAL SEGMENTS

The group's activities can mainly be divided between Europe, America & Africa on the one hand, and



Far & Middle East on the other. It is impossible to have a further geographical breakdown based on the current report structure. The table below shows the sales and fixed assets of the Picanol Group by geographical market.

## SALES

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Europe, America and Africa	185,429	165,099
Far & Middle East	232,736	394,880
<b>TOTAL</b>	<b>418,165</b>	<b>559,979</b>

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

## INTANGIBLE ASSETS – TANGIBLE FIXED ASSETS

<i>(in '000 euros)</i>	Net carrying value		Acquisitions	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Europe, America and Africa	52,267	47,242	12,570	9,309
Far & Middle East	9,537	9,463	235	961
<b>TOTAL</b>	<b>61,804</b>	<b>56,705</b>	<b>12,805</b>	<b>10,270</b>

## III.6. INCOME STATEMENT

### III.6.1. OTHER OPERATING INCOME

<i>(in '000 euro)</i>	<b>2014</b>	<b>2013</b>
<b>Other operating income:</b>	<b>502</b>	<b>377</b>
Net capital gain on sale assets	408	234
Other	94	143
<b>Other operating expenses:</b>	<b>-183</b>	<b>-4</b>
Other	-183	-4
<b>TOTAL</b>	<b>319</b>	<b>374</b>

Other operating expenses mainly include a provision for retirements.

### III.6.2. OPERATING RESULT

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Sales	418,165	559,979
Purchases of goods and changes in inventories	-208,743	-291,910
Amortization, depreciation and impairment	-8,713	-8,858
Amounts written off on inventories and receivables	-2,098	1,077
Other goods and services	-55,970	-63,887
Personnel costs	-88,168	-94,620
Provisions	-611	1,501
Other operating income	502	377
Other operating expenses	-183	-4
<b>TOTAL OPERATING RESULT</b>	<b>54,180</b>	<b>103,656</b>

Turnover decreased by 25% compared to 2013. The ratio of purchases and stock changes versus revenues improved from 52% to 50% due to good sales margins. Depreciation on stock increased as a result of lower stock rotation. Staff costs and other goods and services that are part of the cost of sales decreased due to lower sales. The increase in provisions relates mainly to an increase in the provision for performance guarantees.

### III.6.3. FINANCIAL RESULT

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Interest income from bank deposits	544	1,911
Interest income from financial receivables	1,636	2,680
<b>Total financial income</b>	<b>2,180</b>	<b>4,590</b>
Interest on export finance	-435	-1,549
Interest on other loans	-22	-49
Interest on financial leases	-281	-366
<b>Total financial expenses</b>	<b>-738</b>	<b>-1,963</b>
Exchange rate differences	1,245	1,016
Profit on revaluation of derivatives	0	6
<b>Total other financial income</b>	<b>1,245</b>	<b>1,022</b>
Exchange rate differences	-1,086	-917
Loss on revaluation of derivatives	-39	0
<b>Total other financial expenses</b>	<b>-1,125</b>	<b>-917</b>
<b>FINANCIAL RESULT</b>	<b>1,562</b>	<b>2,730</b>

Interest income on bank deposits dropped due to the decrease of the funds. The interest costs on export financing, on the one hand, and the interest income from financial assets, on the other hand, dropped due to the decreasing amount of export financing. The use of export financing versus other forms of financing (such as Letters of Credit) is dependent on the regional distribution of sales.

### III.6.4. INCOME TAXES

#### Recognized in the income statement:

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
(a) Current tax	-15,372	-28,152
(b) Adjustments for tax payable in respect of previous years	0	0
(c) Deferred tax relating to the recognition and reversal of temporary differences.	384	327
(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	-3,096
(f) The benefit from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense.	3	91
(g) Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset	-91	
<b>TOTAL INCOME TAXES</b>	<b>-15,075</b>	<b>-30,830</b>

#### Effective tax rate reconciliation:

<i>(in '000 euros)</i>	<b>2014</b>	<b>%</b>	<b>2013</b>	<b>%</b>
<b>Profit before tax and before income from associates</b>	<b>55,742</b>		<b>106,386</b>	
<b>Tax at the domestic tax rate of 33.99%</b>	<b>-18,946</b>	<b>33.99%</b>	<b>-36,161</b>	<b>33.99%</b>
Tax effects of non-deductible expenses				
Non-tax-deductible expenses	-776	-1.39%	-834	-0.78%
Other	-1,095	-1.96%	-371	-0.35%
Tax effects of tax-exempt revenues				
Non-taxable financial and other income	2,856	5.12%	3,170	2.98%
Notional interest deduction	1,620	2.91%	1,228	1.15%
Effects of different tax rates of group entities in other jurisdictions	1,469	2.63%	1,865	1.75%
Tax effect of utilization of tax losses not previously recognized	0	0.00%	0	0.00%
Influence of including temporary differences not recognized in previous periods	0	0.00%	272	0.00%
Valuation allowance on deferred tax assets	-202	-0.36%	0	0.00%
<b>Tax expense and effective tax rate for the period</b>	<b>-15,075</b>	<b>-27.05%</b>	<b>-30,830</b>	<b>-28.98%</b>

The increase in "other non-deductible expenses" relates to tax payable on dividends received. The "non-taxable financial and other income" refers to deduction for patent income and grant exemptions.

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

In 2014 no deferred tax credits were directly included in the equity.

### III.6.5. DIVIDENDS

In 2014, no dividend was paid for the financial year 2013. The board of directors will propose the payment of a gross dividend of 0.1 euros at the annual general meeting on 15 April 2015, for a total amount of 1.77 million euros.

### III.6.6. EARNINGS PER SHARE

#### Basic earnings per share

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Net profit or loss over the period	52,402	73,108
Net profit or loss from continuing operations	52,402	73,108
<b>Number of shares:</b>		
Ordinary shares per 01/01	17,700,000	17,700,000
Ordinary shares per 31/12	17,700,000	17,700,000
Weighted average number of outstanding ordinary shares	17,700,000	17,700,000
<b>In euros:</b>		
Basic earnings per share	2.96	4.13
Basic earnings per share from continuing operations	2.96	4.13

#### Diluted earnings per share

The diluted earnings per share of the Picanol Group are equivalent to the basic earnings per share, for both 2014 and 2013.

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Net profit or loss over the period	52,402	73,108
Profit or loss attributable to the ordinary shareholders of the company	52,402	73,108
<b>Number of shares:</b>		
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
<b>In euros:</b>		
Diluted earnings per share	2.96	4.13
Diluted earnings per share from continuing operations	2.96	4.13

### **III.7. BALANCE SHEET**

#### **III.7.1. INTANGIBLE ASSETS**

	<b>Development expenses</b>	<b>Concessions, Patents and Licenses</b>	<b>Total</b>
<i>(in '000 EUR)</i>			
<b>Acquisitions:</b>			
<b>On 1 January 2013</b>	<b>9,918</b>	<b>12,767</b>	<b>22,685</b>
Acquisitions	136	91	227
Disposals	-	-84	-84
Exchange rate profits and losses (-)	-	-14	-14
<b>On 1 January 2014</b>	<b>10,054</b>	<b>12,760</b>	<b>22,814</b>
Acquisitions	52	263	315
Disposals	-	-3,107	-3,107
Exchange rate profits and losses (-)	-	74	74
<b>On 31 December 2014</b>	<b>10,106</b>	<b>9,990</b>	<b>20,096</b>

#### **Depreciation and impairment losses:**

<b>On 1 January 2013</b>	<b>-6,540</b>	<b>-11,412</b>	<b>-17,952</b>
Depreciation of the financial year	-924	-383	-1,307
Disposals	-	95	95
Exchange rate profits and losses (-)	-	6	6
<b>On 1 January 2014</b>	<b>-7,464</b>	<b>-11,694</b>	<b>-19,158</b>
Depreciation of the financial year	-959	-253	-1,212
Disposals	-	3,100	3,100
Exchange rate profits and losses (-)	-	-24	-24
<b>On 31 December 2014</b>	<b>-8,423</b>	<b>-8,872</b>	<b>-17,295</b>

#### **Net book value:**

<b>On 1 January 2014</b>	<b>2,590</b>	<b>1,065</b>	<b>3,655</b>
<b>On 31 December 2014</b>	<b>1,683</b>	<b>1,118</b>	<b>2,801</b>

Acquisitions of intangible fixed assets in the Picanol Group in 2014 are mainly due to the capitalization of the development costs within Melotte NV and capitalized software licenses within Picanol NV. The acquisitions include internally generated production for an amount of 0.1 million euros. This internally generated production includes all the activated development costs within Melotte NV related to Digital Manufacturing projects.

The amount for research & development and engineering posted as costs in the income statement was 11.6 million euros in 2014 (12.9 million euros in 2013).

The total net book value of 2.8 million euros of the intangible assets as at 31 December 2014 consists primarily of the following components:

- Capitalized development expenses of Picanol NV with a net book value of 1.5 million euros. These development costs are being depreciated over 5 years.
- Capitalized software licenses for all companies of the group.

The depreciation of the intangible assets is recognized under the depreciation heading, partly as a component of the cost of sales (which concerns activated development costs) and partly under general and administrative costs (which concerns activated software), whereas the impairment losses are recognized in other operating income/expenses. At the end of 2014 there are no contractual commitments for the purchase of intangible assets.

### III.7.2. GOODWILL

No goodwill is recognized in the consolidated financial statements on 31 December 2014 or in 2013.

### III.7.3. TANGIBLE FIXED ASSETS

<i>(in '000 euros)</i>	Land and buildings	Plant, equipment and machinery	Furniture and vehicles	Other tangible fixed assets	Assets under construction	Total
<b>Acquisitions:</b>						
<b>On 1 January 2013</b>	<b>36,241</b>	<b>174,882</b>	<b>11,051</b>	<b>1,160</b>	<b>1,574</b>	<b>224,908</b>
Acquisitions	44	4,919	1,591	64	3,425	10,043
Disposals	-1,699	-1,282	-185	-47	-19	-3,232
Transfers	1,722	327	-	-	-2,048	0
Exchange rate profits and losses (-)	-315	-98	-109	-20	14	-529
<b>On 1 January 2014</b>	<b>35,993</b>	<b>178,748</b>	<b>12,347</b>	<b>1,156</b>	<b>2,946</b>	<b>231,191</b>
Acquisitions	4,208	4,536	900	3	2,844	12,491
Disposals	-480	-10,259	-1,562	-19	-2	-12,321
Transfers	829	2,930	60	-	-3,819	-
Exchange rate profits and losses (-)	1,087	403	267	83	0	1,840
<b>On 31 December 2014</b>	<b>41,637</b>	<b>176,359</b>	<b>12,012</b>	<b>1,223</b>	<b>1,969</b>	<b>233,200</b>
<b>Depreciation and impairment losses:</b>						
<b>On 1 January 2013</b>	<b>-16,084</b>	<b>-147,628</b>	<b>-9,392</b>	<b>-641</b>	<b>-</b>	<b>-173,746</b>
Depreciation of the financial year	-1,626	-5,152	-692	-81	-	-7,551
Disposals	1,526	1,208	182	47	-	2,964
Transfers	-2	-	-	2	-	-
Exchange rate profits and losses (-)	50	49	79	14	-	192
<b>On 1 January 2014</b>	<b>-16,136</b>	<b>-151,523</b>	<b>-9,823</b>	<b>-659</b>	<b>-</b>	<b>-178,141</b>
Depreciation of the financial year	-1,335	-5,158	-926	-81	-	-7,501
Disposals	451	10,236	1,561	19	-	12,267
Transfers	-	-	-	-	-	-
Exchange rate profits and losses (-)	-296	-247	-210	-69	-	-822
<b>On 31 December 2014</b>	<b>-17,317</b>	<b>-146,692</b>	<b>-9,398</b>	<b>-790</b>	<b>-</b>	<b>-174,196</b>
<b>Net book value</b>						
<b>On 1 January 2014</b>	<b>19,857</b>	<b>27,225</b>	<b>2,524</b>	<b>498</b>	<b>2,946</b>	<b>53,050</b>
<b>On 31 December 2014</b>	<b>24,320</b>	<b>29,667</b>	<b>2,614</b>	<b>433</b>	<b>1,969</b>	<b>59,003</b>

The total acquisitions of tangible fixed assets amounted to 12.5 million euros compared to 10.0 million euros during the previous reporting period. The acquisitions of land and buildings relate to the new training center and production facilities in Ypres. The acquisitions of plants and machinery relate primarily to investments in new production machines for Proferro NV, Picanol NV and Melotte NV. The acquisitions of furniture and vehicles mainly include computer equipment and forklifts. The acquisitions in assets under construction and advance payments relate to new machines for Proferro.

The disposals mainly concern non-used assets in Picanol NV for an acquisition value of 11.3 million euros (installations and machinery were 10.0 million euros and furniture and vehicles was 1.3 million euros). The net value of these assets was 0 euro. The sales of land and buildings mainly include the sale of land and buildings of Burcklé and the machines and equipment concern and old production line of PsiControl in Romania. The net book value of the sold and decommissioned assets was 0.1

million euros.

#### ASSETS UNDER FINANCIAL LEASE

	2014	2013
<i>(in '000 euros)</i>		
Plant, equipment and machinery - Gross value	13,843	13,843
Plant, equipment and machinery - Accumulated depreciation	-6,336	-5,319
<b>Total assets under financial lease</b>	<b>7,507</b>	<b>8,524</b>

The assets under financial leasing reported in 'plant, equipment and machinery' include a molding line and a machining center at Proferro NV. During the financial year 2014, no new financial lease contracts were concluded.

#### III.7.4. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

		Shareholding %	
		2014	2013
<b>1. FULLY CONSOLIDATED ENTITIES (*)</b>			
<b>Belgium</b>			
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%
<b>France</b>			
Burcklé ET CIE SAS	Rue de Bourbach-le-haut 9, 68290 Bourbach-Le-Bas	100.00%	100.00%
<b>Turkey</b>			
Picanol Tekstil Makinalari	Merkez Mah., Yildirim Beyazid Cad. 179/2	100.00%	100.00%
<b>Romania</b>			
PsiControl Srl	Campului Street 1A, 505400 Rasnov, Brasov County	100.00%	100.00%
<b>People's Republic of China</b>			
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%
<b>Indonesia</b>			
PT Picanol Indonesia	Jl. Moh. Toha KM 5.3 , 56 40261 Bandung	100.00%	100.00%
<b>United States</b>			
Picanol of America	Kitty Hawk Road 65, Greenville S.C. 29605	100.00%	100.00%
<b>Mexico</b>			
GTP Mexico SA DE CV	Avena 475 Col. Granjas, Iztacalco, 08400, Mexico D.F.	100.00%	100.00%
<b>Brazil</b>			
Picanol Do Brasil	Rua Treze de Maio,164, CEP13471-030 Americana/SP	100.00%	100.00%
<b>India</b>			
Picanol India Private Limited	Block B-1, Janak Puri, Community Centre, New Delhi 110058	100.00%	100.00%
<b>2. ASSOCIATED COMPANIES (**)</b>			
<b>Belgium</b>			
Tessengerlo Chemie NV	Troonstraat, 130, 1050 Brussels	30.20%	27.52%
<b>3. OTHER NON-CONSOLIDATED ENTITIES</b>			
<b>Belgium</b>			
Syndicaat van Belgische textielmachinebouwers (Symatex)	A. Reyerslaan 80 , 1030 Brussels	34.00%	34.00%
Bedrijvencentrum Westhoek	Albert Dehemlaan 31, 8900 Ypres	12.82%	12.82%

\* There are no restrictions on the transfer of funds from the subsidiaries to the investor

\*\* There are no restrictions on the transfer of funds from the associated company to the investor, as long as the associated company's obligations under the bank covenants are met

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

## PARTICIPATIONS IN ASSOCIATED COMPANIES

Overview of the participations in associated companies:

Name	Activity	Place of business	Percentage of participation	
			2014	2013
Tessengerlo Chemie NV	Chemicals	Belgium	30.20%	27.52%

In 2013, Picanol acquired, through its subsidiary Verbrugge NV, 27.52% of the shares of Tessenderlo Chemie for the sum of 192.4 million euros. In 2014 Picanol increased its stake to 30.20% through the acquisition of additional shares following the capital increase of Tessenderlo Chemie (for an amount of 71.9 million euros).

In 2013 and 2014, a fair value adjustment was made on the opening balance of Tessenderlo Chemie following the acquisition of 27.52% of the shares by 6 November 2013. After the additional acquisition of 2.68% within the framework of the capital increase in late 2014, no new fair value adjustments were made.

Given the rate of participation in Tessenderlo Chemie of 30.20%, this participation was recognized in the consolidated financial statements as an associated company according to the equity method. Based on the facts and circumstances on which decisions were taken in 2014 on the relevant activities in the board of directors and the management committee, it was also decided that Picanol does not longer exercise control over Tessenderlo Chemie in accordance with the provisions of IFRS 10.

<i>(in '000 euros)</i>	2014	2013
<b>At the end of the previous reporting period</b>	<b>188,996</b>	<b>0</b>
First consolidation		192,370
Capital increase	71,871	
Result of the financial year	11,735	-2,447
Dividends		
Other comprehensive income	-8,860	-926
<b>At the end of the reporting period</b>	<b>263,743</b>	<b>188,996</b>

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

### Opening balance sheet on 6 November 2013

<i>(in '000 euros)</i>	Before the fair value adjustment	Fair value adjustment*	After fair value adjustment	Group share
Fixed assets	590,283	96,674	686,957	189,051
Current assets	493,748	21,244	514,992	141,726
Non-current liabilities	-387,565	-47,372	-434,937	-119,695
Current liabilities	-427,018	-10,188	-437,205	-120,319
Net assets held for sale	-866	-792	-1,658	-456
<b>Total net assets</b>	<b>268,583</b>	<b>59,566</b>	<b>328,149</b>	<b>90,307</b>

\* including fair value adjustments to the opening balance introduced in 2014

### Balance sheet on 31 December 2013

<i>(in '000 euros)</i>	Before the fair value adjustment	Fair value adjustment*	After fair value adjustment	Group share
Fixed assets	594,964	96,022	690,986	190,159
Current assets	486,160	11,951	498,111	137,080
Non-current liabilities	-432,362	-27,883	-460,246	-126,660
Current liabilities	-409,407	-4,063	-413,471	-113,787
Net assets held for sale	509		509	140



<b>Total net assets</b>	<b>239,863</b>	<b>76,026</b>	<b>315,889</b>	<b>86,933</b>
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\* including fair value adjustments to the opening balance introduced in 2014

#### Balance sheet on 31 December 2014

<i>(in '000 euros)</i>	<b>Before the fair value adjustment</b>	<b>The fair value adjustment</b>	<b>After the fair value adjustment</b>	<b>Group share</b>
Fixed assets	596,259	90,624	686,883	207,439
Current assets	586,860		586,860	177,232
Non-current liabilities	-260,797	-25,805	-286,602	-86,554
Current liabilities	-487,707		-487,707	-147,288
Net assets held for sale	2,328		2,328	703
<b>Total net assets</b>	<b>436,943</b>	<b>64,819</b>	<b>501,762</b>	<b>151,532</b>

#### Period 2013:

<i>(in '000 euros)</i>	<b>Before the fair value adjustment</b>	<b>The fair value adjustment</b>	<b>After the fair value adjustment</b>	<b>Group share</b>
Revenue	200,652		200,652	55,219
Operating profit (EBIT)	-13,417	13,929	512	141
<b>Result for the period</b>	<b>-15,705</b>	<b>6,811</b>	<b>-8,894</b>	<b>-2,448</b>
Other comprehensive income	-13,015	9,649	-3,366	-926
<b>Overall result for the period</b>	<b>-28,720</b>	<b>16,460</b>	<b>-12,260</b>	<b>-3,374</b>

\* including fair value adjustments to the opening balance introduced in 2014

#### Period 2014:

<i>(in '000 euros)</i>	<b>Before the fair value adjustment</b>	<b>The fair value adjustment</b>	<b>After the fair value adjustment</b>	<b>Group share</b>
Revenue	1,434,169		1,434,169	395,947
Operating profit (EBIT)	51,203	-17,349	33,854	9,346
<b>Result for the period</b>	<b>53,714</b>	<b>-11,207</b>	<b>42,507</b>	<b>11,735</b>
Other comprehensive income	-32,091		-32,091	-8,860
<b>Overall result for the period</b>	<b>21,623</b>	<b>-11,207</b>	<b>10,415</b>	<b>2,875</b>

In 2014, further fair value adjustments were made to the opening balance related to the tangible and intangible fixed assets (in accordance with the applicable IFRS rules which determine that a period of one year after acquisition applies). This additional fair value adjustment has an impact on the net assets in the opening balance of +68.4 million euros (100% value) or +18.8 million euros (group share), bringing the total of the fair value adjustments to the opening balance to 59.6 million euros (at 100%) or 16.4 million euros (group share).

In 2014, the result for the period of Tessenderlo Chemie NV was +53.7 million euros. The impact of fair value adjustments on the result for the period (100% value) amounted to -11.2 million euros: -7.9 million euros in adjustments on inventories and -3.3 million euros in depreciation on revalued fixed assets. For the determination of group share, an average participation rate was calculated of 27.61% (27.52% until 19 December 2014 and 30.2% from 20 to 31 December 2014). As a result, the share of profit of associates for 2014 amounts to +11.7 million euros. The other elements of the result of Tessenderlo Chemie amount to -32.1 million euros at 100% value or -8.9 million euros (group share).

For more information about the annual results of Tessenderlo Chemie we refer to the annual report of Tessenderlo Chemie on [www.tessenderlo.com](http://www.tessenderlo.com).

**Related goodwill:**

	2014	2013*
Share of the net assets of the associated companies	151,532	86,933
Net book value of associated companies	263,743	188,996
<b>Net book value of the related goodwill</b>	<b>112,211</b>	<b>102,063</b>

\* including fair value adjustments to the opening balance introduced in 2014

In the notes to the consolidated financial statements as per 31/12/2013, an amount of 120,875 euros was reported at net book value of goodwill before any fair value adjustment regarding the tangible and intangible fixed assets in the opening balance.

During the financial year, the following adjustments were made regarding this goodwill:

- as a result of the fair value adjustments on tangible and intangible fixed assets: -18,812kEUR
- following the additional acquisition of 2.68%: +10,148 kEUR

There are no restrictions regarding the transfer of funds from the associated companies to the investor, as long as the bank covenants of the associated company are respected.

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

**OTHER FINANCIAL ASSETS**

Other financial assets (amounting to 58 thousand euros) are investments in unlisted entities. These investments are carried at cost, less any impairment losses.

**III.7.6. NON-CURRENT RECEIVABLES**

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

(in '000 euros)	2014		2013	
	Trade receivables	Guarantees	Trade receivables	Guarantees
<b>At the beginning of the period:</b>				
Gross value	433	48	1,132	197
Accumulated amounts written off				
<b>Net book value</b>	<b>433</b>	<b>48</b>	<b>1,132</b>	<b>197</b>
<b>Changes during the period:</b>				
Acquisitions	403	6	337	0
Reimbursement				-149
Transfers	-397		-1,036	
<b>At the end of the period:</b>				
Gross value	439	54	433	48
Accumulated amounts written off	0	0	0	0
<b>Net book value</b>	<b>439</b>	<b>54</b>	<b>433</b>	<b>48</b>

The interest-bearing trade receivables consist entirely of the export financings accorded by Picanol NV. The non-current interest-bearing trade receivables are all amounts in EUR. The non-current interest-bearing trade receivables are insured for a total of 0.4 million euros, resulting in a total outstanding risk from 0.04 million euros at 31 December 2014 or 9% of the total outstanding amount of interest-bearing trade receivables. None of the non-current interest-bearing trade receivables are past due.

### III.7.7. DEFERRED TAX AND DEBTS

#### Recognized deferred tax

<i>(in '000 euros)</i>	2014		2013	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Intangible assets	0	-500	0	-788
Tangible fixed assets	0	-4,670	0	-4,586
Inventories	926	0	1,118	0
Other assets	20	-50	20	-496
Employee benefit obligations	43	0	34	0
Other provisions	108	-718	14	-770
Other liabilities	21	-1,448	16	-1,426
Tax loss carryforwards/ tax credits	76	0	163	0
Other adjustments	0	-1,595	0	-1,636
<b>TOTAL</b>	<b>1,193</b>	<b>-8,981</b>	<b>1,365</b>	<b>-9,703</b>
Valuation allowance	-186			
Offset*	-193	193	-505	505
<b>TOTAL (as reported in the balance sheet)</b>	<b>815</b>	<b>-8,787</b>	<b>859</b>	<b>-9,198</b>

(\*) 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 liabilities is mainly due to lower temporary differences in subsidiary PST.

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

There were no material recognized fiscal losses in 2014 and 2013.

#### DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT 31 DECEMBER 2014

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 reversal of the temporary differences. Undistributed reserves of subsidiaries and the related unrecognized deferred tax liability amount to 39.8 million euros and 1.1 million euros respectively at 31 December 2014. As at 31 December 2013, these figures were 48.8 million euros and 3.0 million euros respectively.

### III.7.8. INVENTORIES

<i>(in '000 euros)</i>		<b>2014</b>	<b>2013</b>
Raw materials and auxiliaries	Gross value	48,546	51,702
Raw materials and auxiliaries	Amounts written off	-23,685	-21,521
<b>Raw materials and auxiliaries</b>		<b>24,862</b>	<b>30,181</b>
Goods in progress	Gross value	8,982	8,523
Goods in progress	Amounts written off	-117	-106
<b>Goods in progress</b>		<b>8,865</b>	<b>8,417</b>
Finished goods	Gross value	16,098	17,988
Finished goods	Amounts written off	-4,296	-3,955
<b>Finished goods</b>		<b>11,802</b>	<b>14,033</b>
Downpayments	Gross value	84	92
Downpayments	Amounts written off	0	0
<b>Downpayments</b>		<b>84</b>	<b>92</b>
Total	Gross value	73,710	78,304
Total	Amounts written off	-28,098	-25,582
<b>Total inventories</b>		<b>45,613</b>	<b>52,723</b>

Due to the lower production volume in 2014, the raw materials and auxiliaries decreased (-5.3 million euros) while the work in process remained practically stable. The decrease was situated mainly at Picanol NV. The inventory of finished goods also dropped by 2.2 million euros due to the lower number of weaving machines ready for shipment on 31 December 2014. The depreciations on inventories included in the balance sheet increased from 25.6 to 28.1 million euros.

At 31 December 2014, no inventory was pledged for any obligations. Other than in the usual course of business, the Picanol Group has no contractual commitments with regard to inventory at the end of 2014.

### III.7.9. TRADE AND OTHER RECEIVABLES

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

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Trade receivables	39,465	50,380
Other receivables		
Recoverable VAT	2,665	2,984
Prepaid taxes	1,828	1,192
Deferred expenses	635	765
Miscellaneous receivables	13,375	25,282

The decrease in trade receivables is due to the lower activity on the one hand, and to the discounting of letter of credits on the other hand.

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

**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 43.2 million euros (2013: 54.6 million euros). An allowance has been booked for irrecoverable amounts from the sale of goods to the value of 3.8 million euros (2013: 4.2 million euros). This allowance has been determined based on historical data concerning non-payments, applying group valuation rules and individual assessment. Movements in the provision for doubtful debtors are included in the income statement under 'selling and marketing expenses'. Movements in the provision for doubtful debtors during the reporting period can be summarized as follows:

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
<b>At the beginning of the period:</b>	<b>4,187</b>	<b>5,200</b>
Write-downs recorded	215	271
Utilizations or reversals of write-downs	-644	-1,251
Translation differences	12	-32
<b>At the end of the period:</b>	<b>3,769</b>	<b>4,187</b>

The outstanding short-term trade receivables on 31 December 2014 before impairment are interest-bearing for a total of 4.4 million euros (11.4 million euros in 2013), which represents 10% of the total outstanding gross short-term trade receivables.

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

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Not yet due	29,402	41,901
Overdue < 1 year	6,094	8,480
Overdue > 1 year	0	0
<b>Net book value</b>	<b>39,465</b>	<b>50,380</b>

**Other receivables** comprise 11.8 million euros for bank notes of subsidiary PST (24.2 million euros in 2013). The bank notes are claims against financial institutions with a maturity of more than 3 months and are interest-bearing and include only non-due receivables at the end of December 2014, and at the end of December 2013. The deferred expenses mainly consist of prepaid expenses.

#### **Credit risk**

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

Picanol NV's credit policy is continuously monitored. A credit assessment is carried out on any counterparty requesting major credit amounts. The credit risk is also covered by credit insurance policies concluded with credit insurance companies and by the systematic use, where possible, of trade financing instruments. The other group companies also apply credit policies, but according to their own needs, as their trade receivables are of minor importance. Since the large majority of trade receivables are covered by a 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 55% (66% in 2013) of the consolidated gross trade receivables, or 23.8 million euros. Of these, 4.3 million euros (5.4 million euros in 2013) or 10% of the gross trade receivables are not covered through credit insurance. The gross trade receivables of P(SIP)T represent 5% (3% in 2013) of consolidated trade receivables, which are not exposed to any risk, given the general rule of delivery against payment. A provision of 3.8 million euros (4.2 million euros in 2013) has been provided against the total uninsured consolidated open risk. The uncovered long-term credit risk is discussed in III.7.6. The credit risk on cash is limited, being linked to traditional bank deposits placed with banks.

#### **III.7.10. CASH AND CASH EQUIVALENTS**

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

<i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
Cash in bank and in hand	29,509	40,471
<b>Total cash and cash equivalents</b>	<b>29,509</b>	<b>40,471</b>

The decrease in cash is primarily the result of the participation in Tessenderlo Chemie (see section II.3).

### III.7.11. SHARE CAPITAL

<i>(in '000 euros)</i>	2014	2013
<b>Issued shares</b>		
17,700,000 ordinary shares without nominal value	21,720	21,720
<b>Fully paid-up shares</b>		
17,700,000 ordinary shares without nominal value	21,720	21,720

### III.7.12. SHARE PREMIUM

<i>(in '000 euros)</i>	2014	2013
<b>Begin balance</b>	<b>1,518</b>	<b>1,518</b>
Premium on the issue of shareholders' equity	0	0
Expenses on the issue of shareholders' equity	0	0
<b>End balance</b>	<b>1,518</b>	<b>1,518</b>

### III.7.13. EMPLOYEE BENEFIT OBLIGATIONS

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

#### DEFINED CONTRIBUTION PLANS

The defined contribution schemes consist primarily of Belgian defined contribution plans. The Belgian defined contribution plans are subject to a statutory minimum-return requirement (currently 3.25% with respect to the employer contributions and 3.75% with respect to the employee contributions). A minimum return requirement is calculated as an average over the entire career of the insured. The statutory minimum return can be changed by royal decree, at which time the new minimum returns will be applicable to both the already accumulated reserves and future deposits. These plans are funded through insurance companies and have been treated as defined contribution plans for accounting purposes. No provision was included in the balance sheet because the accumulated reserves are higher than the minimum guaranteed reserves. The total accumulated reserves amount to 6.2 million euros, with a weighted average guaranteed interest rate of 3.5%.

<i>(in '000 euros)</i>	2014	2013
Paid contributions	1,076	931

In 2014 and 2013, premium payments consist only of recurrent amounts.

#### Reconciliation between the recorded provision for "Pensions and similar obligations" and net liability for defined benefit plans:

<i>(in '000 euros)</i>	2014	2013
<b>Balance:</b>		
Provisions – employee benefits – long term	7,721	7,350
Provisions – employee benefits – short term	1,603	1,945
<b>Total balance</b>	<b>9,324</b>	<b>9,295</b>
<b>Of which:</b>		
Early retirement pensions	5,684	6,111
Other long-term employee benefits	1,246	1,089
Immaterial provisions at other branches	681	262
<b>Defined benefit plans</b>	<b>1,713</b>	<b>1,834</b>

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

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

#### DEFINED BENEFIT PLANS:

The defined benefit plans include "defined benefit" group insurance plans for management and expatriates that are externally funded by insurers. Both plans are closed and all of the new group insurance plans are defined contribution plans. The net liability recognized for these group insurance plans amounts to 0.3 million euros.

In addition, the defined benefit plans also include the small STEP plan, which was decided in 2013 would be gradually terminated in phases over a five year period. This plan provides for the lifetime payout of a fixed annual premium depending on the years of service upon retirement. The provision for all active employees was withdrawn in 2013. The net liability recognized for the small STEP plan amounts to 1.4 million euros. The main risks to the defined benefit plans relate to the discount rate, inflation rate and mortality tables.

The income and expenses that are charged to the profit and loss account are included in the cost of sales and general and administrative expenses.

<i>(in '000 euros)</i>	2014			2013		
	Retirement benefit obligation	Fair value of plan assets	Net liability	Retirement benefit obligation	Fair value of plan assets	Net liability
<b>On 1 January</b>	<b>2,914</b>	<b>-1,080</b>	<b>1,834</b>	<b>3,822</b>	<b>-1,477</b>	<b>2,344</b>
<b>Charged to the profit and loss account:</b>	<b>64</b>	<b>-64</b>	<b>0</b>	<b>-973</b>	<b>353</b>	<b>-620</b>
Current service costs	24	-24	0			
Interest costs (income)	40	-40	0	132	-44	88
Plan changes	0	0	0	-1,105	397	-708
<b>Charged to shareholders' equity:</b>	<b>38</b>		<b>38</b>	<b>262</b>	<b>-152</b>	<b>111</b>
Actuarial (profits)/ losses	38		38			
(profits)/ losses due to demographic assumptions				262		262
Return on plan assets					-152	-152
<b>Other:</b>	<b>-380</b>	<b>221</b>	<b>-159</b>	<b>-197</b>	<b>196</b>	<b>-1</b>
Paid benefit obligations	-380	221	-159	-197	196	-1
<b>On 31 December</b>	<b>2,635</b>	<b>-923</b>	<b>1,713</b>	<b>2,914</b>	<b>-1,080</b>	<b>1,834</b>
Funded obligations	1,209	-923	286	1,366	-1,080	286
Unfunded obligations	1,426		1,426	1,548		1,548
<b>Total</b>	<b>2,636</b>	<b>-923</b>	<b>1,713</b>	<b>2,914</b>	<b>-1,080</b>	<b>1,834</b>

The changes in the plan that were charged to the result in 2013 are mainly due to the phased closure of the small STEP plan. The underlying assets relate to insurance contracts with underlying assets that primarily consist of fixed-income securities.

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

	2014	2013
Discount rate	1.50%	3.00%
Estimated rate of salary increases	1.50%	2.00%

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

### Sensitivity analysis regarding changes in actuarial assumptions:

Sensitivity regarding a change in the discount rate:

<i>(In '000 euros)</i>	1% increase	1% decrease
Gross liability	-272	272

### III.7.14. PROVISIONS

<i>(in '000 euros)</i>	2014			2013		
	< 1 year	> 1 year	Total	< 1 year	> 1 year	Total
Product warranties	5,133	0	5,133	4,806	55	4,861
Environment		1,501	1,501		1,511	1,511
Restructuring			0			0
Other risks	1,986	0	1,986	1,576	51	1,627
<b>Total</b>	<b>7,118</b>	<b>1,501</b>	<b>8,619</b>	<b>6,382</b>	<b>1,617</b>	<b>7,999</b>

<i>(in '000 euros)</i>	Product warranties	Environmental risks	Other risks	Total
<b>On 1 January 2014</b>	<b>4,861</b>	<b>1,511</b>	<b>1,627</b>	<b>7,999</b>
Additions	90	0	300	390
Utilizations	-15	-10	-51	-76
Reversals	163	0	0	163
Exchange rate differences	33	0	0	33
<b>On 31 December 2014</b>	<b>5,133</b>	<b>1,501</b>	<b>1,986</b>	<b>8,619</b>
More than 1 year	0	1,501	0	1,501
Up to 1 year	5,133	0	1,986	7,118
<b>Total</b>	<b>5,133</b>	<b>1,501</b>	<b>1,986</b>	<b>8,619</b>

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 provision for environmental risks only covers pollution risks associated with land located in Belgium. The other risks and charges include provisions for a pending dispute and other obligations regarding taxes and the environment under the sales agreement of the Steel Heddle activities of GTP Greenville.

### III.7.15. INTEREST-BEARING DEBT

<i>(in '000 euro)</i>	2014			2013		
	Expiry day < 1 year	Expiry day > 1 year	total	Expiry day < 1 year	Expiry day > 1 year	total
Financial leases	2,744	0	2,744	1,476	2,744	4,220
Export finance	1,896	0	1,896	9,281	89	9,370
<b>Total more than a year</b>	<b>4,640</b>	<b>0</b>	<b>4,640</b>	<b>10,757</b>	<b>2,833</b>	<b>13,590</b>
Loan	7,000	0	7,000	0	0	0
<b>Total up to 1 year</b>	<b>7,000</b>	<b>0</b>	<b>7,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>11,640</b>	<b>0</b>	<b>11,640</b>	<b>10,757</b>	<b>2,833</b>	<b>13,590</b>

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



	2014			2013		
	Expiry day < 1 year	Expiry day > 1 year	total	Expiry day < 1 year	Expiry day > 1 year	total
Financial leases	83	0	83	193	83	276
Export finance	1	0	1	2	1	3
<b>Total</b>	<b>84</b>	<b>0</b>	<b>84</b>	<b>195</b>	<b>84</b>	<b>279</b>

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 consolidated financial leases primarily relate to the plant and equipment of Proferro NV. The total interest charges are 4.7% per annum. The fair value of the underlying assets amounted to 7.5 million euros at the end of 2014 compared with 8.5 million euros on 31 December 2013.

The export financing fell due to lower volumes and is highly dependent on the regional distribution of sales. It is a mirror of the interest-bearing trade receivables and since the interest rates are similar, the net market value of this position is zero. The export financing includes obligations for which the corresponding trade receivable has already been discounted by Delcredere but the risk of which has not yet been fully transferred. The export financing is due within one year and was contracted in yen at a fixed rate.

In 2014, a loan of 7 million euros was contracted in connection with the participation in the capital increase of Tessenderlo Chemie. The loan was contracted with an affiliated company and can be renewed monthly. The majority of the financial liabilities of the group are centrally contracted and managed by Picanol NV. The financial liabilities do not include loans that are subject to 'debt covenants'.

### III.7.16. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The Picanol Group manages a portfolio of derivatives in order to cover risks relating to exchange rate fluctuations resulting from operating and financial activities. Currency risks are hedged in so far 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 has once in a while foreign currency hedges in the form of forward contracts. These primarily concern forward sales contracts related to expected cash inflows, whereby the USD is sold forward. The change in market value is recognized in the income statement. The marked-to-market value of these forward contracts for which no underlying assets or liabilities exist is justified by orders placed but not yet invoiced.

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

**Overview of forward exchange contracts:**

	2014		2013	
	Notional amount	Marked-to-market	Notional amount	Marked-to-market
<i>(in '000 euros)</i>				
Forward sales contracts < 6 months	959	-33	363	6
Forward sales contracts > 6 months	0	0	0	0
<b>Subtotal forward sales contracts</b>	<b>959</b>	<b>-33</b>	<b>363</b>	<b>6</b>
Interest Rate Swaps (IRS)	0	0	0	0
<b>Subtotal Interest Rate Swaps</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>959</b>	<b>-33</b>	<b>363</b>	<b>6</b>

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

**III.7.17. TRADE AND OTHER PAYABLES**

<i>(in '000 euros)</i>	2014	2013
Trade payables	46,459	51,894
Income taxes payable	2,044	2,570
Other payables	36,787	37,881
Downpayments received	15,298	17,447
Remuneration & social security	15,502	16,548
Accrued expenses and deferred income	5,677	3,406
Marked-to-market derivatives	33	-6
Other liabilities	277	486

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

The decrease in trade payables and received down payments are due to the reduction in production volumes.

Both short-term trade and other payables are non-interest-bearing liabilities both as at 31 December 2014, and at the end of 2013.

### **III.8. MISCELLANEOUS**

#### **III.8.1. OPERATING LEASE AGREEMENTS**

<i>(in '000 euro)</i>	<b>2014</b>	<b>2013</b>
Payments due within the year	670	693
Between 1 and 5 years	807	1,286
<b>Minimum future lease payments</b>	<b>1,477</b>	<b>1,980</b>

Operating lease payments represent rentals payable by the group for certain production, logistics and/or administration equipment.

An amount of 0.7 million euros was recognized as a rental cost in the income statement in 2014, in accordance to 2013.

#### **III.8.2. EVENTS AFTER THE BALANCE SHEET DATE**

There are no important events after the balance sheet date.

#### **III.8.3. RELATED PARTY TRANSACTIONS**

##### **Remuneration and other fees of directors**

<i>(in '000 euros)</i>		<b>Fixed Remuneration as director</b>	<b>Attendance fees (board of directors and committees)</b>	<b>Ad hoc*</b>	<b>Total 2014</b>	<b>Total 2013</b>
Stefaan Haspeslagh	executive	60,000	-	-	60,000	60,000
Luc Tack	executive	-	-	-	-	-
Patrick Steverlynck, as representative of Pasma NV	non-executive	15,000	10,000	-	25,000	25,000
Frank Meysman, as representative of M.O.S.T. BVBA	non-executive	15,000	10,000	8,000	33,000	23,000
Hugo Vandamme, as representative of HRV NV	non-executive	15,000	10,000	8,000	33,000	25,000
Jean Pierre Dejaeghere, as representative of NV Kantoor Torrimmo	non-executive	15,000	10,000	8,000	33,000	25,000

\* Compensation as a member of the ad hoc committee with regard to the capital increase in Tessenderlo Chemie.

There are no severance pays determined for the managing director, nor for the other executive directors. There is a notice term provided for the other executive managers with a term between 1 year and 18 months.

##### **Services and various commercial transactions with shareholders:**

<i>(in KEUR)</i>	<b>2014</b>	<b>2013</b>
Trade receivables	2	12
Interest-bearing debt	7,000	
Sales	648	519
Costs of sales	-14	-17
General & administration costs	-125	-285

The amounts mentioned above include the remunerations chargeable to the Picanol Group for services and various commercial transactions at market conditions. The amounts above include amongst other remunerations that are also covered in the Corporate Governance section.

### Remuneration of the managing director

(in '000 euros)	Total 2014	Total 2013
Name	Luc Tack	Luc Tack
Fixed remuneration	-	-
Variable remuneration	-	-
<b>Total</b>	-	-
Pension	-	-
Other benefits	-	-

The managing director does not receive long-term cash incentive plans.

### Remuneration of the other members of the executive management

In EUR	Total 2014	Total 2013
Fixed remuneration	946,845	1,071,776
Variable remuneration	477,565	313,086
<b>Total</b>	<b>1,424,410</b>	<b>1,384,862</b>
Pension (Fixed contribution)	60,792	59,431
Other benefits*	13,365	13,365

\* 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.

At the general meeting of shareholders of 20 April 2011, the shareholders approved the board of directors' proposal to deviate from the provisions of the Corporate Governance in relation to provisions on 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

	ISO	Average exchange rates		Closing exchange rates	
		2014	2013	2014	2013
Brazilian Real	BRL	0.3211	0.3490	0.3105	0.3070
Chinese Yuan (Renminbi)	CNY	0.1230	0.1224	0.1327	0.1198
Indonesian Rupee (1000)	IDR	0.0637	0.0717	0.0663	0.0596
Indian Rupee	INR	0.0124	0.0134	0.0130	0.0117
Mexican Peso	MXN	0.0568	0.0584	0.0560	0.0553
Romanian Leu	RON	0.2253	0.2265	0.2231	0.2237
Turkish Lira	TRY	0.3451	0.3918	0.3531	0.3378
US Dollar	USD	0.7580	0.7522	0.8237	0.7251

### III.8.5. PERSONNEL

In units	31/12/2014			31/12/2013		
	Fully consolidated	Proportionally consolidated	Total	Fully consolidated	Proportionally consolidated	Total
Management	6	0	6	6	0	6
White collars	612	0	612	590	0	590
Blue collars	1,320	0	1,320	1,394	0	1,394
Average number of personnel employed	1,936	0	1,936	1,997	0	1,997

Average number of personnel employed in Belgium	1,380	0	1,380	1,425	0	1,425
Remuneration and social charges (in '000 euros)	88,168		88,168	94,620		94,620

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

The auditor received an amount of 142,800 euros for performance of his audit task in 2014. In the course of 2014, the auditor and the auditor related parties charged 37,818 euros for tax and legal advice.

### III.8.7. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group has no material contingent assets and liabilities on 31 December 2014.

### III.8.8. FINANCIAL RISK MANAGEMENT

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

#### Currency risk

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

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

The currencies in which the main Picanol Group subsidiaries operate are the US dollar and the Chinese renminbi. Based on the volatility of these currencies against the euro in 2014, we give below the sensitivity of a 5% positive/negative fluctuation of the US dollar and Chinese renminbi exchange rates.

<i>(in '000 euros)</i>					
Company	Balance sheet position	Amount in local currency	Currency	Effect + 5%	Effect - 5%
GTP Greenville (USD)	Trade payables	883	EUR	44.2	-44.2
P(Sip)T (RMB)	Trade receivables	1,334	EUR	-66.7	66.7
	Trade payables	654	EUR	32.7	-32.7
GTP Mexico (MPE)	Other payables	85	EUR	4.3	-4.3
GTP Istanbul (YTL)	Trade payables	206	EUR	-10.3	10.3
	Trade receivables	72	EUR	3.6	-3.6
				<b>7.7</b>	<b>-7.7</b>

Changes in the euro exchange rate during 2014 within the above-mentioned volatilities would have given an 8 thousand euros higher/lower consolidated profit.

#### Interest rate risk

By the end of 2014, interest-bearing debt consisted solely of finance leases (fixed rate) and export financing and short term loan.

Given the fixed interest rates on the long-term receivables, and due to the fact that the export financing is simultaneously concluded with the related accounts receivable, the interest rate sensitivity is nil. The volume of interest-bearing trade receivables outstanding at 31 December 2014 against which export financing has been concluded at the same fixed interest rate amounts to 0.1 million euros (2013: 0.3 million euros).

#### **Credit risk**

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

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

#### **Liquidity risk**

In order to guarantee its liquidity and financial flexibility at all times, the Picanol Group has various uncommitted credit lines in euros in amounts that are considered adequate to current and future financial needs. The Picanol Group has total credit lines excluding bank guarantees available for 54.6 million euros (2013: 54.6 million euros) of which export financing is representing 20.0 million euros and 34.6 million euros straight loans. At balance sheet date the credit lines were used for an amount of 0.1 million euros excluding bank guarantees.

The credit line for bank guarantees amounts to 14.5 million euros (2013: 14.5 million euros), with 2.9 million euros of bank guarantees outstanding at 31 December 2014. 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

<b>PICANOL NV</b> <i>(in '000 euros)</i>	<b>2014</b>	<b>2013</b>
<b>FIXED ASSETS</b>	<b>123,816</b>	<b>85,448</b>
Intangible assets	484	423
Tangible fixed assets	15,377	9,122
Financial fixed assets	107,956	75,903
<b>CURRENT ASSETS</b>	<b>248,628</b>	<b>240,022</b>
<b>TOTAL ASSETS</b>	<b>372,444</b>	<b>325,470</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>275,740</b>	<b>227,168</b>
Share capital	22,200	22,200
Share premium account	1,518	1,518
Reserves	45,136	45,136
Profit/(loss) carried forward	206,885	158,313
Investment grants	0	0
<b>PROVISIONS AND DEFERRED TAXES</b>	<b>14,600</b>	<b>14,583</b>
<b>LIABILITIES</b>	<b>82,104</b>	<b>83,719</b>
Amounts payable after one year	0	89
Amounts payable within one year plus accrued expenses and deferred income	82,104	83,630
<b>TOTAL LIABILITIES</b>	<b>372,444</b>	<b>325,470</b>
SALES	305,612	431,919
OPERATING RESULT	42,466	73,427
FINANCIAL RESULTS	17,730	12,274
EXTRAORDINARY RESULTS	24	-417
TAXES	-11,647	-21,194
PROFIT FOR THE FINANCIAL YEAR	48,573	64,090

### NOTES TO THE STATUTORY FINANCIAL STATEMENTS

#### **Notes to the balance sheet and income statements of the parent company Picanol NV.**

The balance sheet total of Picanol NV increased by 47.0 million euros, from 325.5 million euros at the end of 2013 to 372.4 million euros at 31 December 2014. This increase was mainly due to the increase in capital in and the granted loan to Verbrugge NV in the context of the capital increase in Tessenderlo Chemie NV as well as the investments in new production facilities.

The turnover of Picanol NV decreased in 2014 with 29% compared to 2013, from 431.9 million euros to 305.6 million euros due to the decrease in the global weaving machine market. The gross margin (operating revenue less the purchases of raw materials and auxiliaries, services and various goods) decreased from 114.4 million euros in 2013 to 83.1 million euros in 2014. The gross margin, as a percentage of turnover increased from 26.5% in 2013 to 27.2% in 2014. The operating result dropped by 31.0 million euros to 42.5 million euros at the end of 2014.

The net financial result increased by 5.5 million euros, mainly due to more dividends paid out by several subsidiaries.

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

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

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

A full version of the statutory summary annual account, as well as the corresponding reports, is available on the website: [www.picanolgroup.com](http://www.picanolgroup.com).

#### **Financial instruments**

Picanol NV practices foreign currency hedges through forward contracts. Under no circumstances derivative instruments are used for speculative purposes. The company otherwise uses no other form of financial instruments whatsoever.

#### **Branch offices**

The company has no branch offices.

#### **Conflicts of interest**

See chapter 'Corporate Governance' in this annual report.

#### **Report of the auditor**

The statutory auditor has issued an unreserved opinion on the statutory financial statements of Picanol NV.



## **STATUTORY AUDITOR'S REPORT**

### **Statutory auditor's report to the general meeting about the consolidated financial statements for the year ended 31 December 2014**

#### **To the shareholders**

As required by law, we report to you on the statutory audit mandate which you have entrusted to us. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated balance as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

#### **Report on the consolidated financial statements – Unqualified opinion**

We have audited the accompanying consolidated financial statements of Picanol NV (“the company”) and its subsidiaries (jointly “the group”), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated balance shows total assets of 460 million euros and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 52 million euros.

#### **Responsibility of the board of directors for the preparation of the consolidated financial statements**

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements 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 the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Statutory auditor's responsibility**

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

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

**Unqualified opinion**

In our opinion, the consolidated financial statements of Picanol NV give a true and fair view of the group's net equity and financial position as on 31 December 2014, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

**Report on other legal and regulatory requirements**

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

In the framework of our mandate, and in accordance with the Belgian additional standard to the applicable international auditing standards, our responsibility is to verify, in all material respects, the compliance with certain legal and regulatory requirements. On this basis, we provide the following additional comment which does not modify the scope of our audit opinion on the consolidated financial statements:

The directors' report on the consolidated financial statements includes the information required by law, is in agreement with the consolidated financial statements and is not in obvious contradiction with any information obtained in the context of our mandate.

Kortrijk, 11 March 2015

The statutory auditor

DELOITTE Bedrijfsrevisoren

BV o.v.v.e. CVBA

Represented by Mario Dekeyser

## INFORMATION FOR SHAREHOLDERS

### SHARES AND LISTING

Euronext Brussels code: BE0003807246  
Mnemo: PIC

ICB Sector classification:

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

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

On 31 December 2014, the share capital was represented by 17,700,000 Picanol shares. During the course of 2014 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 2014.

The stock exchange capitalization on 31 December 2014 amounted to 469.93 million euros.

#### **Shareholder structure**

The shareholder structure is shown on page 25.

#### **Financial calendar**

Annual general meeting	15/04/2015
Announcement of half-yearly results	26/08/2015 (before opening of the stock exchange)
Announcement of annual results 2015	09/03/2016 (before opening of the stock exchange)
Annual general meeting	20/04/2016

#### **DIVIDEND**

The board of directors will propose the payment of a gross dividend of 0.1 euros at the annual general meeting on 15 April 2015, for a total amount of 1.77 million euros.

## GLOSSARY

CNC	Computer Numerical Control. This refers to the computer controlled system of the machine tool.
Ductile cast iron	Grey cast iron where the graphite is in the form of spherical nodules. Ductile cast iron has much better mechanical properties than lamellar cast iron, it is tougher and very resistant to cracking.
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	<i>See weaving frame.</i>
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.
R&D	Research & Development
Reed	Comb-like device through which the warp ends are threaded. Each time a pick is inserted, the reed pushes it up against the material already woven, a process known as 'beating up'.
Tire cord	Fabric used as reinforcement in vehicle tires.
User interface	A user environment or user interface between man and machine.
WCM	World Class Manufacturing
Weaving machine	Machine on which a fabric is made using two groups of threads. The threads running lengthwise are known as warp threads, those running perpendicular to the warp threads are the weft threads.
Weaving frame	The weaving frame or frame moves a warp thread up and down in a weaving machine.

## ADDRESSES

### Belgium

Picanol - headquarters  
Stevelyncklaan 15  
8900 Ypres  
Tel +32 57 22 21 11  
Fax +32 57 22 22 20

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

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

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

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

### Brazil

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

### France

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

### India

Picanol India Private Ltd  
Third Floor, Plot No. 23  
Block - B1  
Community Centre  
Janak Puri  
New Delhi 110058  
Tel +91 11 45595332  
Fax +91 11 45595334

### Indonesia

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

### Mexico

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

### Roemania

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

### Turkey

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

### United States

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

### People's Republic of China

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

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

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

## **Investor Relations**

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

The annual report is available in Dutch and English on the website of the Picanol Group [www.picanolgroup.com](http://www.picanolgroup.com).

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

Responsible editor:

Luc Tack

Managing director

Steverlyncklaan 15

8900 Ypres

Belgium



Picanol NV

Steverlyncklaan 15

8900 Ypres

Tel. +32 57 222 111

E-mail [info@picanol.be](mailto:info@picanol.be)

[www.picanolgroup.com](http://www.picanolgroup.com)