# Annual report 2013

PICANOL GROUP

## COMPANY PROFILE

The Picanol Group is an international, customer-oriented group specialized in development, production and sale of weaving machines and other high-tech, industrial products, systems and services.

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 as weaving accessories, 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. Melotte develops and produces innovative product solutions using Direct Digital Manufacturing (DDM) and Near-to-Net-Shape Manufacturing (NNSM) technologies such as 3D-printing.

The Picanol Group employees operate all over the world to serve their customers. The 1,990 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 and celebrated its 75th anniversary in 2011.

The Picanol Group in 2013:

| | |
|---|---|
| Consolidated turnover: | 559.98 million euros |
| Employment | 1,990 |

| | |
|---|---|
| NYSE Euronext Brussels: | PIC |
| Web | www.picanolgroup.com |

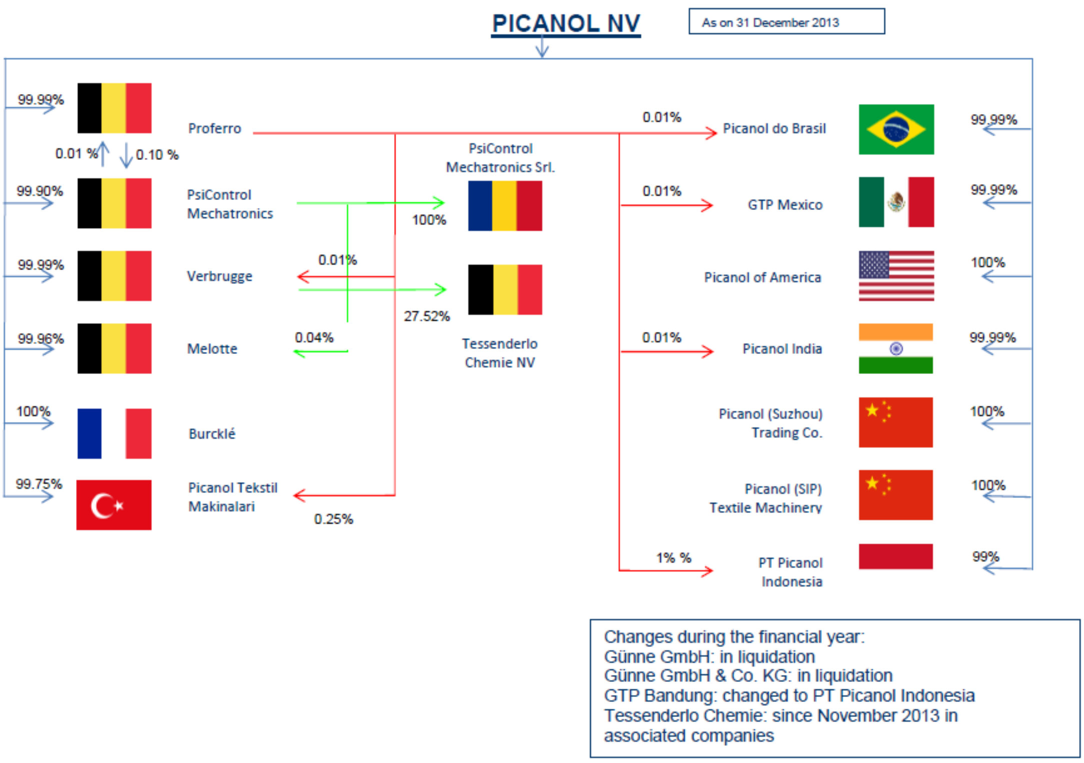
**CONTENTS**

# 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 that is continually adapted to the changing markets and the specific needs of customers. Through its network of highly trained, specialized and results-oriented employees and agents, the Picanol Group aims to create value for its customers all over the world. A number of crucial functions that depend on the know-how of the headquarters in Belgium are managed centrally. Matters specifically related to products made in the foreign production plants are dealt with locally. This ensures not only uniform implementation of the strategy and consistency of sales and marketing policy in the various markets, but also faster exchange of information between customers and personnel all over the world.


## ORGANIZATIONAL CHART



## PROFILE WEAVING MACHINES

**ACTIVITIES**

The Weaving Machines division (Picanol) covers all activities regarding development, production and sale of high-tech weaving machines and supplementary products and services. Picanol develops, manufactures and sells high-tech weaving machines based on airjet or rapier technology. For more than seventy-five years, Picanol has played a pioneering role in the industry, and it is one of the current world leaders in weaving machine production. All development & production related activities of the weaving machines are concentrated in Ypres (Belgium) and Suzhou (China).

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. Picanol sells weaving machines, spare parts and weaving accessories to weaving mills worldwide in various textile segments. There are three main segments for fabric products, namely apparel (clothing), household textiles and technical textiles (e.g. airbags, medical textile, parachute and tire cord). Due to a continued focus on achieving a maximum production rate in combination with a minimum consumption of raw materials and energy, Picanol has managed to consolidate 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 GT-Max 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.

## PRODUCTS & SERVICES

**OMNI*plus* Summum**

The latest airjet weaving machine for the higher market segments.

**OptiMax**

Rapier weaving machine for the higher segments and niche applications, including technical textiles.

**OMNI*plus* 800**

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

**OptiMax (guided positive gripper)**

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

**OMNI*plus*-X**

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

**GT-Max**

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.

**OMNI*plus* 800TC**

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

**TERRY*plus* 800**

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

Picanol also offers its customers upgrade kits and spare parts. In addition, it also brings a number of weaving accessories on the market such as (air) reeds, frames and heddles. 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. The ambition of Proferro is to offer engineered casting solutions for medium sized series (500 to 20,000 pieces) in a long-term, value-driven 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 lamellar and nodular cast iron. 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 other 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***

**ACTIVITEITEN**

With locations in Ypres (Belgium) and Rasnov (Romania), PsiControl concentrates on design, development, production and support for electronic and mechatronic systems.

**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 Belgium and Rasnov.

**MARKET REVIEW**

PsiControl concentrates mainly on customers in sectors where reliable performance is crucial. PsiControl currently acts as 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 has specialized know-how in DDM and NNSM technologies in metals, concentrating on titanium, Inconell, cobalt-chromium, ceramics, tool steel and aluminum. The range is completed by related support services such as reverse engineering and modeling, magnesium molding, laser scanning, optical measurement and thermodynamic analysis.

**MARKET REVIEW**
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, systems and services, giving customers a lead over competitors and creating added value. At the end of 2013 the Picanol Group worldwide employed 1,990 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 more 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. The Picanol Group began its WCM program in 1998 to obtain its purpose. 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,

We can look back on the best year in the Picanol Group history. As previously announced, the Picanol Group realized a consolidated turnover of 559.98 million euros over the full financial year, representing an increase of 21% compared to revenues of 2012.

The Weaving Machines division experienced a record breaking year in 2013. Picanol had a strong start to 2013 based on the well-filled order book at the end of 2012. The high global demand for Picanol weaving machines in the first half of the year resulted in the production of a record number of weaving machines, whereby increased attention was paid to handling the various production peaks. The second half of the year was characterized by an increasing pressure on volumes and margins, partly due to the strong euro and the slowdown in major textile markets. The sale of parts and accessories followed the positive trend of the weaving machines.

Industries also had a fantastic year and was able to continue the positive recent trend by successfully focusing on its engineered casting solutions (Proferro) and controller competences (PsiControl). The increased turnover in 2013 was due to the high demand from Weaving Machines and projects for customers in other sectors.

The Picanol Group closed the year 2013 with a net profit of 73.17 million euros, compared to 55.30 million euros in 2012.

Dividend

The Board of Directors will propose to the General Meeting on 16 April 2014 not to pay out a dividend for the 2013 financial year.

Participation in Tessenderlo Chemie NV

SNPE SA and Picanol Group (NYSE Euronext: PIC) have signed on 25 July 2013 an agreement for the sale by SNPE SA to the Picanol Group of a stake held by SNPE SA in Tessenderlo Chemie NV. As a result of the transaction, the Picanol Group is now holding 27.52% of the share capital of Tessenderlo Chemie NV or the equivalent of 8,744,069 shares. With its participation in Tessenderlo Chemie NV, the Picanol Group wants to increase the diversity and geographical spread of its activities, in order to better protect itself against the cyclical weaving machine business in which it operates today. Another objective of the participation is to secure a stable shareholding for Tessenderlo Chemie NV and to promote the development of the strategies used by Tessenderlo Chemie NV.

Investment plan

Innovation, technology and ongoing R&D efforts remain crucial for the international success of the Picanol Group. It is still the ambition of Picanol to continue to strengthen its role as technological market leader by expanding the product range of its weaving machines and by offering applications for new market segments. In combination with a global sales and service network, Picanol strongly focuses on (weaving) performance, quality, energy consumption, robustness, waste reduction and the ease of use of its weaving machines.

Since improving the competitiveness through further productivity and quality improvements and targeted investments is a top priority, the Board of Directors approved investments at Ypres for an amount of 17.5 million euros in 2013. This investment plan includes a new test area for weaving machines, the expansion of the HWS molding line and the purchase of several production machines.

The construction of a new test area and new training center for weaving machines in Ypres remains on schedule. According to the planning, construction in Ypres should be completed by the summer of 2014.

Outlook

The Picanol Group expects a significant slowdown in the global weaving machine market for 2014, partly as a result of lower growth expectations and currency fluctuations in major textile markets in Asia. Despite signs of recovery in the U.S. and Europe, the Weaving Machines division expects a more difficult 2014, with a considerably weaker order book than at the start of 2013. Due to the expected slowdown in the weaving machine market, Industries is mainly aiming for further growth with customers in other markets in 2014. For the first half of 2014 the Picanol Group expects to realize a turnover below that of 2013, more in line with the first half of 2012.

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

On behalf of the Board of Directors, we would like to thank our employees for their commitment, flexibility and enthusiasm during 2013. 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 | Stefaan Haspeslagh |
| Managing Director | Chairman |

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

## ACTIVITIES REPORT WEAVING MACHINES

The year 2013 was a record year for the Weaving Machines division.

The Weaving Machines division had a strong start to 2013 based on the well-filled order book at the end of 2012. The first half of the year was characterized by a persistent high global demand for Picanol weaving machines. This resulted in the production of a record number of weaving machines, whereby increased attention was paid to handling the various production peaks. The sale of parts and accessories followed the positive trend of the weaving machines. The second half of the year was characterized by an increasing pressure on volumes and margins, which was partly due to the strong euro.

In 2013, Picanol successfully participated in a number of international trade fairs, where it profiled itself as the technological market leader in rapier and airjet weaving machines. Among other events, it participated in the Dhaka International Textile & Garment Machinery Exhibition (Bangladesh), Tecnotextil Sao Paulo (Brazil), Indo InterTex Jakarta (Indonesia), ITM Istanbul (Turkey), TechTextil Frankfurt (Germany), CAITME Uzbekistan and TechTextil Mumbai (India). Picanol focused mainly on the new weaving machines – the OMNI*plus* Summum and positive rapier OptiMax – as well as its added value in the weaving of technical textiles.

In 2013, Picanol started with the construction of a new test area and shipping zone in Ypres, whereby logistics will be adapted to meet the flexibility needs of the market even better. In addition, the construction of a new training center has started in Ypres, where technicians of customers from all over the world can be trained in optimal conditions. According to the schedule, the new buildings will be completed and put into use by the summer of 2014.

Picanol also invested in the further expansion of its international network. For instance, a new logistics zone for weaving machines was put into use at the production facility in Suzhou (China) in early 2013. In March, Picanol opened its new U.S. headquarters in Greenville (South Carolina). Still in 2013, Picanol was the first European weaving machine manufacturer to achieve the status of Authorized Economic Operator, a customs standard awarded to companies that meet strict standards in the field of control systems for supply chain and financial ratios.

<u>Outlook</u>

The Picanol Group expects a significant slowdown in the global weaving machine market for 2014, partly as a result of lower growth expectations and currency fluctuations in major textile markets in Asia. Despite signs of recovery in the U.S. and Europe, the Weaving Machines division expects a more difficult 2014, with a considerably weaker order book than at the start of 2013.

Innovation, technology and ongoing R&D efforts remain crucial for the international success of the Picanol. Also in 2014, Picanol will continue to expand its role as technological market leader by increasing the product range of its weaving machines and by offering applications for new market segments. The main challenge remains to strengthen the (weaving) performance, quality and cost competitiveness of the customer. With regard to, product development, sourcing and assembly, Picanol will increase its efforts to improve both productivity and process efficiency, as well as to support the customers in their needs.

## ACTIVITIES REPORT INDUSTRIES

The Industries division experienced a strong year in 2013 thanks, to an increase in demand from Weaving Machines and projects for customers in other sectors. Both Proferro and PsiControl were commercially successful, both with new customers and new orders from existing customers.

Proferro

In 2013, 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 2013 with new customers in both casting and for the finishing of castings. Which resulted in an increase in activities in the markets for compressors, agricultural machinery and construction machinery. In 2013, Proferro also invested further in its foundry and its mechanical finishing department. For instance, a new Laempe core shooter was put into use, which will significantly increase the productivity of the core-making workshop. With the purchase of additional molding boxes and the installation of more cooling lines, the production capacity of the HWS molding line was considerably increased. 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.

PsiControl

The past year, PsiControl focused strongly on its custom made controllers and its expertise in Electronic Manufacturing Services (EMS). This resulted in an increase in both the R&D activities and the electronics assemblies with a positive impact on the production facilities in Ypres and Rasnov. The production of large-volume series in Romania has become an important trump card of PsiControl. PsiControl achieved a major milestone in 2013 by mounting over 100 million components for the first time. In 2013, PsiControl continued to invest in the renewal and modernization of its technology and production facilities, including a new conformal coating line and a new X-ray machine. PsiControl also achieved several breakthroughs on the R&D front. PsiControl is responding to the increasing demand for interfaces based on touch technology with its new user interface SwipeStat. Due to the 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 an industrial machine controller. Furthermore, the R&D team of PsiControl was strengthened in 2013 with 10 new engineers.

Melotte

In 2013, Melotte took further steps in the transition from analog production towards ‘direct digital manufacturing’. This included introducing a fully digitized solution on the market for customized eyeglasses. This fundamental change in the market environment offers opportunities to further diversify our customer portfolio. Due to the increasing interest in 3D printing, Melotte is frequently asked for advice. However, responding to this from the orientation of a manufacturing company requires a switchover. In 2013, Melotte won the Energy Globe Award, which is a recognition from the United Nations of Melotte's impact on sustainability in the manufacturing industry.

Outlook

Due to the expected slowdown in the weaving machine market, Industries is mainly aiming for further growth with customers in other markets in 2014. The year will also see Industries aim to use a strengthened sales teams and achieve a broad presence in the market to gain new customers and explore new segments. To this end, PsiControl will introduce the SwipeStat platform at various trade fairs in 2014, which will open up a lot of opportunities for touch user interfaces in industrial environments. In 2014, Industries will continue to automate and robotize its activities through targeted investments. As a part of this, Proferro will invest in, among other things, new mill-turn centers for larger diameters and PsiControl will invest in the further expansion of its testing facilities (AOI).

## 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 2013.

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

### I. BOARD OF DIRECTORS

#### I.1. Composition of the Board of Directors

| | |
|---|---|
| Mr. Stefaan Haspeslagh (1) | Chairman |
| Mr. Luc Tack (1) | Managing Director |
| Baron Hugo Vandamme<br>*permanent representative of HRV NV (2)* | Chairman of the Nomination & Remuneration Committee<br>Member of the Audit Committee |
| Mr. Frank Meysman,<br>*permanent representative of M.O.S.T. BVBA (2)* | Chairman of the Audit Committee<br>Member of the Nomination & Remuneration Committee |
| Mr. Jean Pierre Dejaeghere<br>*permanent representative of NV Kantoor Torrimmo (2)* | Member of the Audit Committee<br>Member of the Nomination & Remuneration committee |
| Mr. Patrick Steverlynck (1),<br>permanent representative of Pasma NV | Director |

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

**Company secretary & Compliance Officer**
Mss. Karen D'Hondt, Group Controller

The Board of Directors is made up of six members, three 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.

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

The Board of Directors met five times in 2013. Mr. Frank Meysman was excused once.
In 2013 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 2014 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.

### 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:

- Assess the operation of the Board;
- Examine whether the topics are thoroughly prepared;
- Assess the actual contribution of each Director;
- Examine the current composition of the Board in the light of the desired composition.

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 Messrs. 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 2013. Mr. Frank Meysman was once excused.
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 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. The following subjects were discussed, among others:

- Remuneration of the Management Committee;
- Explanation on the HR policy;
- Remuneration of the Directors.

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 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 of the Companies Code.

## 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 remuneration of non-executive directors was adjusted in 2013. The fixed remuneration was increased from 10,000 to 15,000 euros per year. The attendance fees remained unchanged (2,000 euros per meeting).

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 executive managers 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. Executive managers do 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 | Attendance fees | Other | Total 2013 |
|---|---|---|---|---|---|
| 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 | 8,000 | - | 23,000 |
| Hugo Vandamme, as representative of HRV NV | non-executive | 15,000 | 10,000 | - | 25,000 |
| Jean Pierre Dejaeghere, as representative of NV Kantoor Torrimmo | non-executive | 15,000 | 10,000 | - | 25,000 |

* Chairman of the Board of Directors

Several financial services were billed by Findar BVBA for 220 kEur in regard to the 2013 financial year. This company is a related party in the sense that Mr. Stefaan Haspeslagh is also a director.

**IV.4. Evaluation criteria of the performance-based fees of executive managers**

With the exception of executive directors, executive managers receive a variable fee based on company results. The criteria for the 2012 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 Remuneration Committee.

### IV.5. Remuneration of the Managing Director

| In EUR | |
|---|---|
| Name | Luc Tack |
| Fixed remuneration | - |
| Variable remuneration | - |
| **Total** | **-** |
| 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

| In EUR | |
|---|---|
| Fixed remuneration | 851,776 |
| Variable remuneration | 313,086 |
| **Total** | **1,164,862** |
| Pension | Fixed contribution: 59,431 |
| Other benefits* | 13,365 |

* Remuneration company 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 Executive Management

Neither the Managing Director nor the members of the Executive Management 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.

## VI. AUDITOR'S REMUNERATION

The auditor received an amount of 141,400 euros for performance of his audit task in 2013
During the course of 2013, the auditor and the auditor related parties charged 11,096 euros for tax and legal advice.

## VII. 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.

### VII.1. Control environment

**Organization of internal control:**

The Audit Committee is charged with monitoring the efficacy of the 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).

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.

### VII.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 2013 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 very difficult years 2008 and 2009, the demand for new weaving machines experienced a strong revival between 2010 and 2013. Picanol however acknowledges the possibility that 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 81% of its turnover in 2013 – 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 15% of its turnover.

***Risks associated with exposure to credit risks on trade accounts receivable.***
Picanol is exposed to credit risks on trade accounts receivable from certain co-contractors.
Should one of the present or future large co-contractors not be able to meet its trade debts, then the company could suffer 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 four 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 3 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. More information concerning the booked provisions can be found under the section III.7.14. in this annual report.

**VII.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.

### VII.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.

### VII.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.

## VIII. SHAREHOLDER STRUCTURE AND AGREEMENTS, AND CERTIFICATE HOLDER AGREEMENTS

| HOLDERS OF VOTING RIGHTS | NUMBER OF VOTES | % OF VOTES |
|---|---|---|
| Patrick Steverlynck | 550 | 0.00% |
| Artela NV (formerly Oostrotex NV) | 11,480,246 | 64.86% |
| Symphony Mills NV | 4,172,996 | 23.58% |
| Manuco International NV | 0 | 0.00% |
| Pasma NV | 0 | 0.00% |
| **TOTAL** | **15,653,792** | **88.44%** |

Mr. Luc Tack controls Symphony Mills NV and Artela NV (formerly Oostrotex NV). Mr. Patrick Steverlynck controls Pasma NV and Manuco International NV.

In 2013, the parties continued to implement the agreements mentioned in the Annual Report for 2012 to structure the participation of Patrick Steverlynck and the companies associated with him, in Picanol into Oostrotex. The entry of Manuco International NV, controlled by Patrick Steverlynck, to the capital of Oostrotex NV (the name of which has changed to Artela NV) has taken place. In parallel, the shares in Picanol NV held directly by the companies controlled by Patrick Steverlynck, Pasma NV and Manuco International NV, were transferred to Symphony Mills NV. As a result, the participation of Manuco International NV fell below the transparency threshold of 5%. Mr. Patrick Steverlynck has become a co-shareholder in Artela NV through Manuco International.

## IX. 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.

## X. APPLICATION OF ART. 523 OF THE COMPANY CODE

There were no new transactions in 2013 that required the application of Article 523.

## Xb. APPLICATION OF ART. 524 OF THE COMPANY CODE

There were no new transactions in 2013 that required the application of Article 524.

## XI. Declaration concerning the information given in this annual report for the 12 months ending on the 31 December 2013

The undersigned declare that:

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

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

# CONSOLIDATED FINANCIAL STATEMENTS

# I. DEFINITIONS

| | |
|---|---|
| Associated companies | Companies in which Picanol has a significant influence and which are accounted for under the equity method. |
| Shareholders’ equity | Shareholders’ equity, including minority interests, for the calculation of ratios. |
| Joint ventures | Entities under joint control and which are proportionally consolidated. |
| EBIT | Operating result |
| EBITDA | EBIT + depreciation and impairment of assets<br>+ adjustments of write-offs on inventories and trade receivables<br>+ adjustments of other provisions. |
| Subsidiaries | Entities under the control of Picanol and which are fully consolidated. |
| Working capital | + Non-current receivables<br>+ Inventories and contracts in progress<br>+ Trade receivables<br>+ Other receivables<br>- Trade payables<br>- 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 25 February 2014.

## II.1. CONSOLIDATED INCOME STATEMENT

| PICANOL GROUP ( in '000 euros) | NOTES (*) | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| Sales | III.5. | 559,979 | 461,751 |
| Cost of sales | | -422,569 | -358,659 |
| **GROSS PROFIT** | | **137,411** | **103,092** |
| ***Gross profit % on sales*** | | ***24.5%*** | ***22.3%*** |
| General and administrative expenses | | -17,349 | -16,077 |
| Selling and marketing expenses | | -16,779 | -15,165 |
| Other operating income | III.6.1. | 377 | 558 |
| Other operating expenses | III.6.2. | -4 | -133 |
| **OPERATING RESULT** | **III.6.3.** | **103,656** | **72,275** |
| Total interest income | III.6.4. | 4,590 | 3,997 |
| Total interest expenses | III.6.4. | -1,963 | -1,233 |
| Other financial income | III.6.4. | 1,022 | 942 |
| Other financial expenses | III.6.4. | -917 | -914 |
| **RESULT BEFORE TAXES** | | **106,387** | **75,067** |
| Income taxes | III.6.5. | -30,830 | -19,766 |
| **RESULT AFTER TAXES (CONSOLIDATED COMPANIES)** | | **75,556** | **55,302** |
| Share in the results of associated companies | III.7.6 | -2,387 | |
| **PROFIT OR LOSS** | | **73,168** | **55,302** |
| | | | |
| **SHARE OF THE GROUP IN PROFIT OR LOSS** | | **73,168** | **55,302** |

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

**EARNINGS PER SHARE**

| PICANOL GROUP (in '000 euros) | NOTES | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| | | | |
| Basic earnings per share | III.6.7. | 4.13 | 3.12 |
| Diluted earnings per share | III.6.8. | 4.13 | 3.12 |

**CONSOLIDATED INCOME STATEMENT**

| PICANOL GROUP (in '000 euros) | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **PROFIT/(LOSS) FROM THE PERIOD** | **73,168** | **55,302** |
| | | |
| **Total other comprehensive income** | | |
| *Items that will not be subsequently transferred to profit and loss:* | | |
| Actuarial gains / (losses) | -111 | |
| Actuarial gains / (losses) at associated companies | -736 | |
| *Items that will subsequently be transferred to profit and loss if specific conditions are met:* | | |
| Exchange rate differences | -1,265 | -469 |
| Currency exchange differences as a result of the conversion of foreign operations at associated companies | -460 | |
| Share of other comprehensive income of associated companies | 270 | |
| **Total other comprehensive income after taxes** | **-2,302** | **-469** |
| | | |
| **TOTAL RESULT** | **70,866** | **54,833** |

## II.2. CONSOLIDATED BALANCE SHEET

| **PICANOL GROUP** (in '000 euros) | **NOTES (*)** | **31/12/2013** | **31/12/2012** |
|---|---|---|---|
| | | | |
| **FIXED ASSETS** | | **247,159** | **59,365** |
| Intangible assets | III.7.1. | 3,655 | 4,733 |
| Goodwill | III.7.2. | 0 | 0 |
| Tangible fixed assets | III.7.3. & III.7.4. | 53,050 | 51,162 |
| Participation in associated companies | III.7.6. | 189,056 | 0 |
| Other financial investments | III.7.6. | 58 | 58 |
| Non-current receivables | III.7.7. | 481 | 1,329 |
| Deferred tax assets | III.6.5. | 859 | 2,083 |
| **CURRENT ASSETS** | | **173,796** | **290,447** |
| Inventories and contracts in progress | III.7.8. | 52,723 | 48,300 |
| Trade receivables | III.7.9. | 50,380 | 62,982 |
| Other receivables | III.7.9. | 30,222 | 33,839 |
| Cash and cash equivalents | III.7.10. | 40,471 | 145,326 |
| **TOTAL ASSETS** | | **420,955** | **349,812** |
| | | | |
| **SHAREHOLDERS' EQUITY** | **II.4.** | **288,527** | **217,661** |
| Share capital | III.7.11. | 21,720 | 21,720 |
| Share premiums | III.7.12. | 1,518 | 1,518 |
| Reserves | | 262,128 | 189,997 |
| Translation differences | | 3,161 | 4,426 |
| *Equity attributable to the shareholders of the group* | | *288,527* | *217,661* |
| Minority interests | | 0 | 0 |
| **NON-CURRENT LIABILITIES** | | **20,998** | **22,482** |
| Employee benefit obligations | III.7.13. | 7,350 | 8,602 |
| Provisions | III.7.14. | 1,617 | 1,699 |
| Deferred tax liabilities | III.6.5. | 9,198 | 7,708 |
| Interest-bearing debt | III.7.15. | 2,833 | 4,473 |
| Financial leases | III.7.16. | 2,744 | 4,220 |
| Credit institutions | III.7.15. | 89 | 253 |
| Other liabilities | | 0 | 0 |
| **CURRENT LIABILITIES** | | **111,429** | **109,668** |
| Employee benefit obligations | III.7.13. | 1,945 | 1,631 |
| Provisions | III.7.14. | 6,382 | 6,752 |
| Interest-bearing debt | III.7.15. | 10,757 | 5,705 |
| Trade payables | III.7.18. | 51,894 | 56,077 |
| Income taxes payable | III.7.18. | 2,570 | 2,636 |
| Other current liabilities | III.7.18. | 37,881 | 36,867 |
| **TOTAL LIABILITIES** | | **420,955** | **349,812** |

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

## II.3. CONSOLIDATED CASH FLOW STATEMENT

| **PICANOL GROUP** (in '000 euros) | **NOTES (*)** | **31/12/2013** | **31/12/2012** |
|---|---|---|---|
| | | | |
| **Operating result** | | **103,656** | **72,275** |
| Depreciation on intangible and tangible fixed assets | III.7.1. & III.7.3. | 8,858 | 9,098 |
| Impairment losses on assets | | 0 | 21 |
| Write-offs on current assets | | -1,077 | -1,173 |
| Changes in provisions | III.7.13. & III.7.14. | -1,501 | -437 |
| (Profit)/loss on the disposal of fixed assets | | 257 | 128 |
| **Gross cash flow from operating activities** | | **110,193** | **79,912** |
| Changes in working capital* | | 10,552 | -22,835 |
| **Cash flow from operating activities** | | **120,745** | **57,077** |
| Paid income taxes | | -28,218 | -18,832 |
| **Net cash flow from operating activities** | | **92,527** | **38,245** |
| Investment in an associated company | | -192,370 | 0 |
| Interest received | | 4,588 | 3,997 |
| Acquisitions of intangible fixed assets | III.7.1. | -227 | -797 |
| Acquisitions of tangible fixed assets | III.7.3. | -10,043 | -6,794 |
| Income from sales of tangible fixed assets | | | 100 |
| **Net cash flow from investment activities** | | **-198,052** | **-3,494** |
| Interest paid | | -1,963 | -1,233 |
| Increase/(decrease) of export financing | | 4,888 | 3,108 |
| Repayments of interest-bearing financial debt | | -1,476 | -1,667 |
| **Cash flow from finance activities** | | **1,449** | **208** |
| Effect of exchange rate fluctuations | | -779 | -256 |
| **Adjustments to cash and cash equivalents** | | **-104,855** | **34,703** |
| Net cash position - opening balance | | 145,326 | 110,623 |
| Net cash position - closing balance | | 40,471 | 145,326 |
| | | **-104,855** | **34,703** |

* 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 December 2013**

| **PICANOL GROUP** (in '000 euros) | **Share capital** | **Share premiums** | **Reserves** | **Translation differences** | **Total before minority interests** | **Minority interests** | **Total after minority interests** |
|---|---|---|---|---|---|---|---|
| **At the end of the preceding period** | **21,720** | **1,518** | **189,996** | **4,426** | **217,661** | **0** | **217,661** |
| Changes in scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Result over the reporting period | 0 | 0 | 73,168 | 0 | 73,168 | 0 | 73,168 |
| 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 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Total recognized profits and losses* | *0* | *0* | *72,132* | *-1,265* | *70,866* | *0* | *70,866* |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **At the end of the reporting period** | **21,720** | **1,518** | **262,127** | **3,161** | **288,527** | **0** | **288,527** |

**Per 31 December 2012**

| **PICANOL GROUP** (in '000 euros) | **Share capital** | **Share premiums** | **Reserves** | **Translation differences** | **Total before minority interests** | **Minority interests** | **Total after minority interests** |
|---|---|---|---|---|---|---|---|
| **At the end of the preceding period** | **21,720** | **1,518** | **134,695** | **4,895** | **162,828** | **0** | **162,828** |
| Changes in scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Result over the reporting period | 0 | 0 | 55,302 | 0 | 55,302 | 0 | 55,302 |
| Translation differences | 0 | 0 | 0 | -469 | -469 | 0 | -469 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Total recognized profits and losses* | *0* | *0* | *55,302* | *-469* | *54,833* | *0* | *54,833* |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **At the end of the reporting period** | **21,720** | **1,518** | **189,997** | **4,426** | **217,661** | **0** | **217,661** |

The negative impact of the currency exchange differences is due to the depreciation of most of the functional currency of the subsidiaries against the euro during the financial year.

## III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2013

### 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.1.1. 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 2013, 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 2013:

**Standards and interpretations applicable for the annual period beginning on 1 January 2013:**
- IFRS 13 *Fair Value Measurement* (applicable for annual periods beginning on or after 1 January 2013)
- Improvements to IFRS (2009-2011) (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (applicable for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 Income Taxes – *Deferred Tax: Recovery of Underlying Assets* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 19 *Employee Benefits* (applicable for annual periods beginning on or after 1 January 2013)

**Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2013**
- IFRS 9 *Financial Instruments and subsequent amendments* (not yet endorsed in EU)
- 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)
- Improvements to IFRS (2010-2012) (normally applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)
- Improvements to IFRS (2011-2013) (normally applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)
- 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 19 *Employee Benefits – Employee Contributions* (applicable for annual periods beginning on or after 1 July 2014, but not yet endorsed in EU)
- 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 Asset* (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)
- IFRIC 21 – *Levies* (applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)

The application of the standards published, but not yet of use for the beginning of the financial year on 1 January 2013, 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. Control means that Picanol NV has the power to control the financial and operational strategy of the entity in order to benefit from its activities. Such control is supposed to exist when Picanol NV holds, either directly or indirectly, over 50% of the voting rights of the entity. The existence and effect of potential voting rights, practicable or convertible at that time, are taken into consideration when evaluating if the group has the power to control the financial and operational strategy of another entity.
Subsidiaries are those companies in which Picanol NV holds, either directly or indirectly, more than 50% of the voting rights or in which Picanol NV can exert, either directly or indirectly, a deciding influence on company strategy.
Acquisitions of subsidiaries are accounted for on the basis of the purchase 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 minority interest in the acquired party will be recognized at the minority share of the net fair value of the identifiable assets, liabilities and contingent liabilities.

The financial statements of the subsidiaries are recognized in the consolidation scope from the moment that Picanol NV acquires control until the date on which this control ceases.

The financial statements of the subsidiaries bear the same reporting date as that of the parent company. These financial statements are compiled on the basis of uniform principles for financial reporting for comparable transactions and other events in similar circumstances. Balances and transactions, profits and losses within the group are totally eliminated.

Associated companies

Associated companies are companies in which the group has significant influence and which are neither a subsidiary nor a joint venture. They are included in the consolidation using the equity method from the date the significant influence commences until the date that significant influence disappears. When the group's share of losses exceeds the carrying amount of the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has guaranteed obligations of the associated company.

### III.1.2. 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 of 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 and 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.

If redundancy payments are due only after 12 months after the balance sheet date, they will 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:

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.

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.

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.1.3. 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 not the taxable profit or loss (taxable loss).

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

The carrying amount of the deferred tax assets is reviewed at each balance sheet and reduced to the extent that 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 2013 in comparison with the financial year 2012.

## III.4. CHANGES IN SCOPE OF CONSOLIDATION

In 2013, the winding-up proceedings were started for the subsidiaries Günne Webmaschinenfabrik GmbH and Günne Webmaschinenfabrik GmbH & CO, KG.

## 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.

Segmented information on these divisions can be found hereafter.

**For the year ending on 31 December 2013**

| | 2013 | | | |
|---|---|---|---|---|
| **PICANOL GROUP** (in '000 euros) | **Weaving Machines** | **Industries** | **Eliminations** | **Consolidated** |
| | | | | |
| External sales | 491,920 | 68,060 | | 559,979 |
| Inter-segment sales | 1,169 | 75,323 | -76,492 | 0 |
| **TOTAL SALES** | **493,089** | **143,383** | **-76,492** | **559,979** |
| | | | | |
| **OPERATING PROFIT** | **90,448** | **13,208** | | **103,656** |
| Financial result | | | | 2,731 |
| **RESULT BEFORE TAXES** | | | | **106,387** |
| Income taxes | | | | -30,830 |
| **RESULT AFTER TAXES (CONSOLIDATED COMPANIES)** | | | | **75,556** |
| Share in the results of associated companies | | | | -2,387 |
| Share of minority interests | | | | 0 |
| **SHARE OF THE GROUP** | | | | **73,168** |

**For the year ending on 31 December 2012**

| | 2012 | | | |
|---|---|---|---|---|
| **PICANOL GROUP** (in '000 euros) | **Weaving Machines** | **Industries** | **Eliminations** | **Consolidated** |
| | | | | |
| External sales | 400,428 | 61,323 | | 461,751 |
| Inter-segment sales | 1,031 | 56,972 | -58,003 | 0 |
| **TOTAL SALES** | **401,459** | **118,295** | **-58,003** | **461,751** |
| | | | | |
| **OPERATING PROFIT** | **67,059** | **5,216** | | **72,275** |
| Financial result | | | | 2,792 |
| **RESULT BEFORE TAXES** | | | | **75,067** |
| Income taxes | | | | -19,766 |
| **RESULT AFTER TAXES (CONSOLIDATED COMPANIES)** | | | | **55,302** |
| | | | | |
| Share of minority interests | | | | 0 |
| **SHARE OF THE GROUP** | | | | **55,302** |

The consolidated turnover increased in 2013 by 21% compared to the previous year.
The operating profit increased by 43% following the increase in the gross profit margin (from 22% to 25%) and because the fixed costs included in cost of sales rose less sharply than sales. On the other hand, we saw an increase in administrative and selling expenses, through targeted investments in Sales & Services, R&D and IT, and due to the costs associated with the participation in Tessenderlo Chemie.

In the Weaving Machines segment, the annualized sales increased by 23%, driven by a strong order book in the first half of the year. Meanwhile, in the second half of the year the demand for weaving machines fell and sales were in line with the second half of 2012. The sale of parts and accessories followed the positive trend of the weaving machines. The profit ratio remained almost stable (18% versus 17% in 2012) and operating profit increased from 67.1 million euros to 90.4 million euros.

The Industries segment saw its sales rise by 21%. The increase in revenue was mainly driven by a strong demand from the Weaving Machines division, but sales to external customers also increased by 11%. As the fixed costs did not increase in line with the turnover, the profit margin increased from +4% in 2012 to 9% in 2013, while operating profit rose from 5.2 million euros to 13.2 million euros.

The financial result remains stable at 2.7 million euros.

The share of profit of associated companies concerns the participation in Tessenderlo Chemie (see section III.7.6.).

Taxes on the profit increased from 26% in 2012 to 29% in 2013 due to an increase in the tax rate in China.

**OTHER INFORMATION**

**For the year ending on 31 December 2013**

| 2013 | | | |
|---|---|---|---|
| **PICANOL GROUP** (in '000 euros) | **Weaving Machines** | **Industries** | **Consolidated** |
| | | | |
| Depreciation and amortization | 5,225 | 3,633 | 8,858 |
| Impairment losses recognized in profit or loss | | | 0 |
| Acquisitions | 4,923 | 5,347 | 10,270 |
| | | | |
| Total cost of financing | 1,656 | 308 | 1,963 |
| Total interest income from financial receivables and cash | 4,560 | 31 | 4,590 |

**For the year ending on 31 December 2012**

| 2012 | | | |
|---|---|---|---|
| **PICANOL GROUP** (in '000 euros) | **Weaving Machines** | **Industries** | **Consolidated** |
| | | | |
| Depreciation and amortization | 5,681 | 3,455 | 9,135 |
| Impairment losses recognized in profit or loss | | | 0 |
| Acquisitions | 4,498 | 3,093 | 7,591 |
| | | | |
| Total cost of financing | 837 | 396 | 1,233 |
| Total interest income from financial receivables and cash | 3,968 | 29 | 3,997 |

**BALANCE SHEET**

| **PICANOL GROUP** (in '000 euros) | **Weaving Machines** | **Industries** | **Non-segment** | **Eliminations** | **Consol-idated** |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Total consolidated assets | 133,082 | 75,576 | 230,025 | -17,728 | 420,955 |
| Total consolidated liabilities | 94,206 | 42,982 | 301,495 | -17,728 | 420,955 |
| **2012** | | | | | |
| Total consolidated assets | 164,364 | 68,298 | 136,984 | -19,833 | 349,812 |
| Total consolidated liabilities | 96,820 | 35,704 | 237,121 | -19,833 | 349,812 |

The consolidated non-segment assets as at 31 December 2013 primarily consist of the participation in Tessenderlo Chemie NV.

### 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**

| **PICANOL GROUP** (in '000 euros) | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Europe, America and Africa | 165,099 | 149,017 |
| Far & Middle East | 394,880 | 312,734 |
| **TOTAL** | **559,979** | **461,751** |

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**

| **PICANOL GROUP** (in '000 euros) | **Net carrying value** | | **Acquisitions** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Europe, America en Africa | 47,242 | 45,981 | 9,309 | 5,731 |
| Far & Middle East | 9,463 | 9,914 | 961 | 1,860 |
| **TOTAL** | **56,705** | **55,895** | **10,270** | **7,591** |

## III.6. INCOME STATEMENT

### III.6.1. OTHER OPERATING INCOME

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| Handling of the sale of Steel Heddle activities of GTP Greenville | | 225 |
| Net capital gain on sale assets Günne | 234 | |
| Other | 143 | 333 |
| **TOTAL** | **377** | **558** |

### III.6.2. OTHER OPERATING EXPENSES

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| Other | 4 | 133 |
| **TOTAL** | **4** | **133** |

### III.6.3. OPERATING RESULT

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---:|---:|
| Sales | 559,979 | 461,751 |
| Purchases of goods and changes in inventories | -291,910 | -238,995 |
| Amortization, depreciation and impairment | -8,858 | -9,119 |
| Amounts written off on inventories | 65 | 226 |
| Amounts written off on receivables | 1,012 | 947 |
| Other goods and services | -63,887 | -56,651 |
| Personnel costs | -94,620 | -86,746 |
| Provisions | 1,501 | 437 |
| Other operating income | 377 | 558 |
| Other operating expenses | -4 | -133 |
| **TOTAL OPERATING RESULT** | **103,656** | **72,275** |

Sales increased by 21% compared with 2012. The ratio of purchases of goods and changes in inventory to sales remained stable at 52%.

Personnel costs and the other goods and services that are part of the cost of sales, increased due to the higher turnover. In addition, these expenses increased through targeted expenditure in Sales & Services, R&D and IT, and due to the costs associated with the participation in Tessenderlo Chemie.

The reversal of provisions involves a decrease in the provision for pensions (see III.7.13) and in the provision for product warranties (as a result of the continuous quality focus).

### III.6.4. FINANCIAL RESULT

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---:|---:|
| Interest on export finance | -1,549 | -761 |
| Interest on other loans | -49 | -18 |
| Interest on financial leases | -366 | -454 |
| ***Total interest expenses*** | **-1,963** | **-1,233** |
| Interest income from bank deposits | 1,911 | 2,357 |
| Interest income from financial receivables | 2,680 | 1,639 |
| ***Total interest income from financial receivables & cash and cash equivalents*** | **4,590** | **3,997** |
| **Interest income / (-expenses)** | **2,627** | **2,764** |
| Exchange rate differences | 1,016 | 853 |
| Profit on revaluation of derivatives | 6 | 89 |
| ***Other financial income*** | ***1,022*** | ***942*** |
| Exchange rate differences | -917 | -914 |
| Loss on revaluation of derivatives | 0 | 0 |
| ***Other financial expenses*** | ***-917*** | ***-914*** |
| **Other financial result** | **104** | **28** |
| **FINANCIAL RESULT** | **2,730** | **2,792** |

The interest costs on export financing, on the one hand, and the interest income from financial assets, on the other hand, grew due to the increasing 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.
Interest income on bank deposits dropped due to the decrease of the funds.

## III.6.5. INCOME TAXES

### *INCOME TAX EXPENSE*

**Recognized in the income statement**

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| (a) Current tax | -28,152 | -19,178 |
| (b) Adjustments included in the reporting period for payable and deductible taxes of prior periods. | 0 | 0 |
| (c) Deferred tax relating to the recognition and reversal of temporary differences. | 327 | 544 |
| (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. | -3,096 | -1,170 |
| (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. | 91 | 38 |
| **TOTAL INCOME TAXES** | **-30,830** | **-19,766** |

**Effective tax rate reconciliation**

| **PICANOL GROUP (in '000 euros)** | **2013** | **%** | **2012** | **%** |
|---|---|---|---|---|
| **Profit before tax and before income from associates** | **106,387** | | **75,067** | |
| **Tax at the domestic tax rate of 33.99%** | **-36,161** | **33.99%** | **-25,502** | **33.99%** |
| Tax effects of non-deductible expenses | | | | |
| Non-tax-deductible expenses | -834 | -0.78% | -718 | -0.96% |
| Other | -371 | -0.35% | -500 | -0.67% |
| Tax effects of tax-exempt revenues | | 0.00% | | 0.00% |
| Non-taxable financial and other income | 3,170 | 2.98% | 2,058 | 2.74% |
| Notional interest deduction | 1,228 | 1.15% | 1,014 | 1.35% |
| Other | 0 | 0.00% | 144 | 0.19% |
| Deferred tax effect resulting from a change in tax rates | 0 | 0.00% | 0 | 0.00% |
| Tax effects of corrections to deferred and current tax of previous periods | | 0.00% | | 0.00% |
| Effects of different tax rates of group entities in other jurisdictions | 1,865 | 1.75% | 3,664 | 4.88% |
| Tax effect of utilization of tax losses not previously recognized | 0 | 0.00% | 75 | 0.10% |
| Valuation allowance on deferred tax assets | | 0.00% | | 0.00% |
| **Tax expense and effective tax rate for the period** | **-30,830** | **-28.98%** | **-19,766** | **-26.35%** |

The increase in "non-taxable financial and other income" is the result of the increase in the deduction for patent income. The decrease in the effect of different tax rates is the result of the increase in the tax rate applied in China.

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

In 2013 no deferred tax credits were directly included in the equity.

## DEFERRED TAX
### Recognized deferred tax

| **PICANOL GROUP** (in '000 euros) | **31/12/2013** | | **31/12/2012** | |
|---|---|---|---|---|
| | **DEFERRED TAX ASSETS** | **DEFERRED TAX LIABILITIES** | **DEFERRED TAX ASSETS** | **DEFERRED TAX LIABILITIES** |
| Intangible assets | 0 | -788 | 0 | -1,072 |
| Tangible fixed assets | 0 | -4,628 | 0 | -5,202 |
| Inventories | 1,118 | 0 | 1,333 | 0 |
| Other assets | 20 | -496 | 61 | -760 |
| Employee benefit obligations | 34 | 0 | 33 | 0 |
| Other provisions | 14 | -770 | 0 | -533 |
| Other liabilities | 16 | -1,426 | 30 | -1,087 |
| Tax loss carryforwards/ tax credits | 163 | 0 | 3,168 | 0 |
| Notional interest deduction carryforwards | 0 | 0 | 0 | 0 |
| Other adjustments | 0 | -1,595 | 0 | -1,597 |
| **TOTAL** | **1,365** | **-9,703** | **4,624** | **-10,250** |
| Valuation allowance | | | | |
| Offset (*) | -505 | 505 | -2,542 | 2,542 |
| **TOTAL (as reported in the balance sheet)** | **859** | **-9,198** | **2,083** | **-7,708** |

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

The change in deferred tax between 31/12/2013 and the end of 2012 is primarily due to the decrease in deferred tax assets as a result of the decrease in the tax loss carried forward of Proferro NV and PsiControl NV.

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.

### NOT-RECOGNIZED TAX LOSS CARRYFORWARDS, CLASSIFIED BY EXPIRY DATE

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| Within 1 year | 0 | 0 |
| Within 2 years | 0 | 0 |
| Within 3 years | 0 | 0 |
| Within 4 years | 0 | 0 |
| Within 5 years or more | 0 | 0 |
| Without time limit | 0 | 2,996 |

The unrecognized tax losses carried forward in 2012 concerned Günne GMBH. The liquidation of this company was started in 2013 and the tax losses were not realized.

**DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT 31 DECEMBER 2013:**

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 48.8 million euros and 3.0 million euros respectively at 31 December 2013. As at 31 December 2012, these figures were 41.2 million euros and 3.0 million euros respectively.

### III.6.6. DIVIDENDS

In 2013, no dividend was paid for the financial year 2012.
The Board of Directors will propose to the Annual General Meeting of 16 April 2014 not to pay a dividend.

### III.6.7. BASIC EARNINGS PER SHARE

**From continuing and discontinued operations**
The calculation of the basic and diluted earnings per share is based on the following data:

| **PICANOL GROUP** | **2013** | **2012** |
|---|---|---|
| (in '000 euros) | | |
| Net profit or loss over the period | 73,168 | 55,302 |
| Net profit or loss from continuing operations | 73,168 | 55,302 |
| | **2013** | **2012** |
| (number of shares) | | |
| 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** |
| | **2013** | **2012** |
| (in euros) | | |
| Basic earnings per share | 4.13 | 3.12 |
| Basic earnings per share from continuing operations | 4.13 | 3.12 |

### III.6.8. DILUTED EARNINGS PER SHARE

The diluted earnings per share of the Picanol Group are equivalent to the basic earnings per share, for both 2013 and 2012.

| **PICANOL GROUP** | **2013** | **2012** |
|---|---|---|
| (in '000 euros) | | |
| Net profit or loss over the period | 73,168 | 55,302 |
| **Profit or loss attributable to the ordinary shareholders of the company** | **73,168** | **55,302** |
| **Weighted average number of outstanding ordinary shares** | **17,700,000** | **17,700,000** |
| | | |
| **Weighted average number of shares for the diluted earnings per share** | **17,700,000** | **17,700,000** |
| (in euros) | | |
| Diluted earnings per share | 4.13 | 3.12 |
| Diluted earnings per share from continuing operations | 4.13 | 3.12 |

## III.7. BALANCE SHEET

### III.7.1. INTANGIBLE ASSETS

| Acquisitions | Development expenses | Concessions, Patents and Licenses | Goodwill | Other Intangible assets | Assets under Construction and Advance Payments | Total |
|---|---|---|---|---|---|---|
| **For the year ending on 31 December 2011** | **9,613** | **12,421** | | | | **22,034** |
| Acquisitions | 298 | 499 | | | | 797 |
| Disposals | - | -148 | | | | -148 |
| Transfers | 6 | -6 | | | | 0 |
| Exchange rate profits and losses (-) | - | 2 | | | | 2 |
| **For the year ending on 31 December 2012** | **9,918** | **12,767** | | | | **22,685** |
| Acquisitions | 136 | 91 | | | | 227 |
| Disposals | - | -84 | | | | -84 |
| Transfers | - | - | | | | - |
| Exchange rate profits and losses (-) | - | -14 | | | | -14 |
| **For the year ending on 31 December 2013** | **10,054** | **12,760** | | | | **22,814** |

| Depreciation and impairment losses | Development expenses | Concessions, Patents and Licenses | Goodwill | Other Intangible assets | Assets under Construction and Advance Payments | Total |
|---|---|---|---|---|---|---|
| **For the year ending on 31 December 2011** | **-5,594** | **-11,134** | | | **-** | **-16,728** |
| Depreciation of the financial year | -940 | -446 | | | | -1,386 |
| Impairment losses | - | - | | | | - |
| Disposals | - | 148 | | | | 148 |
| Transfers | -6 | -6 | | | | - |
| Exchange rate profits and losses (-) | - | 14 | | | - | 14 |
| **For the year ending on 31 December 2012** | **-6,540** | **-11,412** | | | **-** | **-17,952** |
| Depreciation of the financial year | -924 | -383 | | | | -1,307 |
| Impairment losses | - | - | | | | - |
| Disposals | - | 95 | | | | 95 |
| Transfers | - | - | | | | - |
| Exchange rate profits and losses (-) | - | 6 | | | - | 6 |
| **For the year ending on 31 December 2013** | **-7,464** | **-11,694** | | | **-** | **-19,158** |
| | | | | | | |
| **Net book value for the year ending on 31/12/2012** | **3,378** | **1,356** | | | | **4,733** |
| **Net book value for the year ending on 31/12/2013** | **2,590** | **1,065** | | | | **3,655** |

Acquisitions of intangible fixed assets in the Picanol Group in 2013 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 12.9 million euros in 2013 (10.7 million euros in 2012).

The total net book value of 3.7 million euros of the intangible assets as at 31 December 2013 consists primarily of the following components:

- Capitalized development expenses of Picanol NV with a net book value of 2.3 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 2013 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 2013 or in 2012. Goodwill recognized in the past was fully depreciated during 2009.

### III.7.3. TANGIBLE FIXED ASSETS

| Acquisitions | Land and Buildings | Plant, Equipment And Machinery | Furniture and Vehicles | Other Tangible Fixed Assets | Assets under Construction and Advance Payments | Total |
|---|---|---|---|---|---|---|
| **For the year ending on 31 December 2011** | **34,345** | **171,891** | **10,801** | **1,580** | **2,762** | **221,380** |
| Acquisitions | 1,211 | 3,092 | 777 | 174 | 1,539 | 6,794 |
| Disposals | - | -1,928 | -481 | -595 | -16 | -3,019 |
| Transfers | 804 | 1,873 | -7 | - | -2,670 | - |
| Gains/losses | -119 | -46 | -39 | -0 | -41 | -246 |
| **For the year ending on 31 December 2012** | **36,241** | **174,883** | **11,051** | **1,160** | **1,574** | **224,908** |
| 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 |
| Gains/losses | -315 | -98 | -109 | -20 | 14 | -529 |
| **For the year ending on 31 December 2013** | **35,993** | **178,748** | **12,347** | **1,156** | **2,946** | **231,191** |

| Depreciation and impairment losses | Land and buildings | Plant, equipment and machinery | Furniture and vehicles | Other tangible fixed assets | Assets under construction and advance payments | Total |
|---|---|---|---|---|---|---|
| **For the year ending on 31 december 2011** | **-14,584** | **-143,891** | **-9,269** | **-1,153** | **-** | **-168,896** |
| Depreciation of the financial year | -1,519 | -5,504 | -631 | -58 | - | -7,712 |
| Impairment losses | - | - | - | - | - | - |
| Disposals | - | 1,746 | 473 | 567 | - | 2,786 |
| Transfers | - | - | - | - | - | - |
| Exchange rate profits and losses (-) | 18 | 20 | 35 | 3 | - | 76 |
| **For the year ending on 31 december 2012** | **-16,084** | **-147,628** | **-9,392** | **-641** | **-** | **-173,746** |
| Depreciation of the financial year | -1,626 | -5,152 | -692 | -81 | - | -7,551 |
| Impairment losses | - | - | - | - | - | - |
| Disposals | 1,526 | 1,208 | 182 | 47 | - | 2,964 |
| Transfers | -2 | - | - | 2 | - | - |
| Exchange rate profits and losses (-) | 50 | 49 | 79 | 14 | - | 192 |
| **For the year ending on 31 december 2013** | **-16,136** | **-151,523** | **-9,823** | **-659** | **-** | **-178,141** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net book value per 31/12/2012** | **20,156** | **27,254** | **1,659** | **519** | **1,574** | **51,162** |
| **Net book value per 31/12/2013** | **19,857** | **27,225** | **2,524** | **498** | **2,946** | **53,050** |

The total acquisitions of tangible fixed assets amount to 10.0 million euros compared with 6.8 million euros in the previous period.

Acquisitions in 2013 of installations, machinery and equipment predominantly pertain to investments in new machining centers for Proferro NV and Picanol NV. The acquisitions in furniture and rolling stock mainly include forklifts in Proferro NV and Picanol NV. The acquisitions of assets under construction and advanced prepayments include the construction of the new production facilities in Ypres.

The sales and decommissioning of land and buildings include the sale of land and buildings of Günne GMBH (which was then placed into liquidation). The sold or decommissioned machines and equipment concern old production machines of Günne GMBH, Burcklé and PsiControl NV. The net book value of the sold and decommissioned assets was 0.3 million euros.

### III.7.4. ASSETS UNDER FINANCIAL LEASE

| **PICANOL GROUP** (in ‘000 euros) | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Land and buildings - Gross value | 0 | 0 |
| Land and buildings - Accumulated depreciation | 0 | 0 |
| **Land and buildings - Net book value** | **0** | **0** |
| Plant, equipment and machinery - Gross value | 13,843 | 13,843 |
| Plant, equipment and machinery - Accumulated depreciation | -5,319 | -4,301 |
| **Plant, equipment and machinery - Net book value** | **8,524** | **9,542** |
| Furniture and vehicles - Gross value | 0 | 0 |
| Furniture and vehicles - Accumulated depreciation | 0 | 0 |
| **Furniture and vehicles - Net book value** | **0** | **0** |
| Intangible assets - Gross value | 0 | 0 |

| | | |
|---|---|---|
| Intangible assets - Accumulated depreciation | 0 | 0 |
| **Intangible assets - Total** | **0** | **0** |
| | | |
| **Total assets under financial lease** | **8,524** | **9,542** |

The assets under financial leasing reported in 'plant, equipment and machinery' include primarily a molding line and a machining center at Proferro NV.
During the financial year 2013, no new financial lease contracts were concluded.

### III.7.5. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

| | | Shareholding % 2013 | 2012 |
|---|---|---|---|
| **1. FULLY CONSOLIDATED ENTITIES** | | | |
| ***Belgium*** | | | |
| Proferro NV | Steverlyncklaan 15 , 8900 Ypres | 100.00% | 100.00% |
| PsiControl NV | Steverlyncklaan 15, 8900 Ypres | 100.00% | 100.00% |
| Verbrugge NV | Steverlyncklaan 15, 8900 Ypres | 100.00% | 100.00% |
| Melotte NV | Industrieweg 2019 , 3520 Zonhoven | 100.00% | 100.00% |
| ***France*** | | | |
| Burcklé ET CIE SAS | Rue de Bourbach-le-haut 9 , 68290 Bourbach-Le-Bas | 100.00% | 100.00% |
| ***Turkey*** | | | |
| Picanol Tekstil Makinalari | Merkez Mah., Yildirim Beyazid Cad. 179/2 | 100.00% | 100.00% |
| ***Romania*** | | | |
| PsiControl Mechatronics Srl | Campului Street 1, 505400 Rasnov, Brasov County | 100.00% | 100.00% |
| ***People's Republic of China*** | | | |
| Picanol (Suzhou Ind. Park) Textile Machinery Co. Ltd. | Fengting Road/ Songzhuan Road, SIP, Suzhou | 100.00% | 100.00% |
| Picanol (Suzhou) Trading Co. Ltd. | Fengting Avenue/ Songzhuan Road, SIP, Suzhou | 100.00% | 100.00% |
| ***Indonesia*** | | | |
| PT Picanol Indonesia | Jl. Moh. Toha KM 5.3 , 56 40261 Bandung | 100.00% | 100.00% |
| ***United States*** | | | |
| Picanol of America | Kitty Hawk Road 65, Greenville S.C. 29605 | 100.00% | 100.00% |
| ***Mexico*** | | | |
| GTP Mexico SA DE CV | Avena 475 Col. Granjas, Iztacalco, 08400, Mexico D.F. | 100.00% | 100.00% |
| ***Brazil*** | | | |
| Picanol Do Brasil | Rua Treze de Maio,164, CEP13471-030 Americana/SP | 100.00% | 100.00% |
| ***India*** | | | |
| Picanol India Private Limited | Block B-1, Janak Puri, Community Centre, New Delhi 110058 | 100.00% | 100.00% |
| **2. ASSOCIATED COMPANIES** | | | |
| ***Belgium*** | | | |
| Tessenderlo Chemie NV | Troonstraat 130, 1050 Brussels | 27.52% | 0% |
| **3. OTHER NON-CONSOLIDATED ENTITIES** | | | |
| ***Belgium*** | | | |
| 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% |

## III.7.6. 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 | |
|---|---|---|---|---|
| | | | 2013 | 2012 |
| Tessenderlo Chemie NV | Chemicals | Belgium | 27.52% | 0.00% |
| | | | | |

In 2013, Picanol acquired 27.52% of the shares of Tessenderlo Chemie for the sum of 192.4 million euros.

The assets, liabilities and results of the associated company are summarized below on the acquisition date and on 31 December 2013:

| Opening balance sheet at the acquisition date (6 November 2013) | | | | |
|---|---|---|---|---|
| (in '000 euros) | Before the fair value adjustment | The fair value adjustment | After the fair value adjustment | Group share |
| Fixed assets | 590,283 | 297 | 590,581 | 162,528 |
| Current assets | 493,748 | 21,244 | 514,992 | 141,726 |
| Non-current liabilities | -387,565 | -19,352 | -406,917 | -111,983 |
| Current liabilities | -427,018 | -10,188 | -437,205 | -120,319 |
| Net assets held for sale | -866 | -792 | -1,658 | -456 |
| **Total net assets** | **268,583** | **-8,791** | **259,792** | **71,495** |

| Balance sheet at 31 December 2013 | | | | |
|---|---|---|---|---|
| (in '000 euros) | Before the fair value adjustment | The fair value adjustment | After the fair value adjustment | Group share |
| Fixed assets | 594,964 | | 594,964 | 163,734 |
| Current assets | 486,160 | 11,951 | 498,111 | 137,080 |
| Non-current liabilities | -432,362 | | -432,362 | -118,986 |
| Current liabilities | -409,407 | -4,063 | -413,471 | -113,787 |
| Net assets held for sale | 509 | | 509 | 140 |
| **Total net assets** | **239,863** | **7,888** | **247,751** | **68,181** |

| Period from acquisition date to 31 December 2013 | | | | |
|---|---|---|---|---|
| (in '000 euros) | Before the fair value adjustment | The fair value adjustment | After the fair value adjustment | Group share |
| Revenue | 200,652 | | 200,652 | 55,219 |
| Operating profit (EBIT) | -13,417 | 4,635 | -8,782 | -2,417 |
| **Result for the period** | **-15,705** | **7,029** | **-8,675** | **-2,387** |
| Other comprehensive income | -13,015 | 9,649 | -3,366 | -926 |
| **Overall result for the period** | **-28,720** | **16,678** | **-12,041** | **-3,314** |

The fair value adjustments that were made to the net assets of the associated companies relate primarily to value adjustments on inventories, the revaluation of an onerous electricity contract, a provision for a burdensome lease and an adjustment to the valuation of assets held for sale. The fair value adjustment with regard to the tangible and intangible assets have not yet been included in the opening balance sheet since this data is not yet available. According to the applicable IFRS rules, a period of one year following the acquisition is provided for this.

***Related goodwill:***

| | 31/12/2013 | Acquisition date |
|---|---|---|
| Share of the net assets of the associated companies | 68,181 | 73,490 |
| Unrealized gains on fixed assets * | p.m. | p.m. |
| Net book value of associated companies | 189,056 | 192,370 |
| **Net book value of the related goodwill** | **120,875*** | **120,875*** |

* The fair value adjustment with regard to the tangible and intangible assets have not yet been included in the opening balance sheet since this data is not yet available.

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 58,000 euros) are investments in unlisted entities. These investments are carried at cost, less any impairment losses.

### III.7.7. NON-CURRENT RECEIVABLES

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

| **PICANOL GROUP** (in '000 euros) | **31/12/2013** | | **31/12/2012** | |
|---|---|---|---|---|
| | Intrestbearing trade receivables | Guarantees | Intrestbearing trade receivables | Guarantees |
| **At the end of the previous reporting period** | | | | |
| Gross value | 1,132 | 197 | 731 | 180 |
| Accumulated amounts written off | | | | |
| **Net book value** | **1,132** | **197** | **731** | **180** |
| **Movement during the reporting period** | | | | |
| Changes in the consolidation scope | | | | |
| Acquisitions | 337 | 0 | 828 | 17 |
| Discount effect | | | | |
| Reimbursement | | -149 | | |
| Write-off | | | | |
| Write-back | | | | |
| Transfers | -1,036 | | -427 | |
| Exchange rate differences | | | | |
| Other | | | | |
| **At the end of the reporting period** | | | | |
| Gross value | 433 | 48 | 1,132 | 197 |
| Accumulated amounts written off | 0 | 0 | 0 | 0 |
| **Net book value** | **433** | **48** | **1,132** | **197** |

The interest-bearing trade receivables consist entirely of the export financings accorded by Picanol NV.

Interest-bearing receivables at the end of the reporting period consist of an amount denominated in euros of 0.3 million euros, and an amount denominated in Yen of 0.1 million euros. These outstanding Yen amounts are covered with commitments to the bank in the same currency.

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 2013 or 11% of the total outstanding amount of interest-bearing trade receivables.
The interest-bearing trade receivables at 31 December 2012 include an amount denominated in euros of 0.9 million euros and an amount denominated in Yen of 0.2 million euros. These outstanding Yen amounts are covered with commitments to the bank in the same currency. The non-current interest-bearing trade receivables at 31 December 2012 were insured for a total of 1.1 million euros, resulting in a total outstanding risk from 0.05 million euros at 31 December 2012 or 4% of the total interest-bearing trade receivables.

None of the non-current interest-bearing trade receivables are past due.

### III.7.8. INVENTORIES

| **PICANOL GROUP** | (in '000 euros) | **31-12-2013** | **31-12-2012** |
|---|---|---|---|
| Raw materials and auxiliaries | Gross value | 51,702 | 50,398 |
| Raw materials and auxiliaries | Amounts written off | -21,521 | -21,877 |
| **Raw materials and auxiliaries** | | **30,181** | **28,522** |
| Goods in progress | Gross value | 8,523 | 8,930 |
| Goods in progress | Amounts written off | -106 | -113 |
| **Goods in progress** | | **8,417** | **8,817** |
| Finished goods | Gross value | 17,988 | 14,486 |
| Finished goods | Amounts written off | -3,955 | -3,657 |
| **Finished goods** | | **14,033** | **10,829** |
| Trade goods | Gross value | 0 | 0 |
| Trade goods | Amounts written off | 0 | 0 |
| **Trade goods** | | **0** | **0** |
| Downpayments | Gross value | 92 | 132 |
| Downpayments | Amounts written off | 0 | 0 |
| **Downpayments** | | **92** | **132** |
| Contracts in progress | Gross value | 0 | 0 |
| Contracts in progress | Amounts written off | 0 | 0 |
| **Contracts in progress** | | **0** | **0** |
| **Total inventories** | | **52,723** | **48,300** |

Due to the higher production volume in 2013, the raw and auxiliary materials increased (+1.3 million euros) while the work in process remained practically stable. The increase was situated mainly at Picanol NV. The inventory of finished goods also rose by 3.5 million euros due to the higher number of weaving machines ready for shipment on 31 December 2013. The depreciations on inventories included in the balance sheet remained stable at 25.6 million euros.

At 31 December 2013, 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 2013.

### III.7.9. TRADE AND OTHER RECEIVABLES

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

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| Trade receivables | 50,380 | 62,982 |
| Other receivables | | |
| Recoverable VAT | 2,984 | 2,798 |
| Prepaid taxes | 1,192 | 714 |
| Deferred expenses | 765 | 1,231 |
| Miscellaneous receivables | 25,282 | 29,097 |

The decrease in trade receivables is mainly due to the discounting of trade receivables in order to strengthen the cash resources.

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 54.6 million euros (2012: 68.2 million euros). An allowance has been created for irrecoverable amounts from the sale of goods to the value of 4.2 million euros (2012: 5.2 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:

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| **At the end of the previous reporting period** | **5,200** | **6,147** |
| Write-downs recorded | 271 | 400 |
| Utilizations or reversals of write-downs | -1,251 | -1,347 |
| Translation differences | -32 | -1 |
| **At the end of the reporting period** | **4,187** | **5,200** |

The outstanding short-term trade receivables on 31 December 2013 before impairment are interest-bearing for a total of 11.4 million euros, which represents 21% of the total outstanding gross short-term trade receivables.

The outstanding short-term trade receivables on 31 December 2012 before impairment are interest-bearing for a total of 7.2 million euros, which represents 11% of the total outstanding gross short-term trade receivables.

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

| **PICANOL GROUP** (in '000 euros) | **Net book value** | **Not yet due** | **Overdue < 1 year** | **Overdue > 1 year** |
|---|---|---|---|---|
| **2013** | | | | |
| Short-term trade receivables | 50,380 | 41,901 | 8,480 | 0 |
| **2012** | | | | |
| Short-term trade receivables | 62,982 | 47,243 | 15,739 | 0 |

**Other receivables** comprise 24.2 million euros for bank notes of subsidiary PST (27.8 million euros in 2012). 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 2013, and at the end of December 2012. The deferred expenses mainly consist of prepaid expenses.

**Credit risk**
General information on the credit risk can be found under III.8.9.

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 66% (72% in 2012) of the consolidated gross trade receivables, or 36.5 million euros. Of these, 5.4 million euros (2.4 million euros in 2012) or 9.8 % of the gross trade receivables are not covered through credit insurance. The gross trade receivables of P(SIP)T represent 3% (6.9% in 2012) of consolidated trade receivables, which are not exposed to any risk, given the general rule of delivery against payment. A provision of 4.2 million euros (2012: 5.2 million euros) has been provided against the total uninsured consolidated open risk. The uncovered long-term credit risk is discussed in III.7.7.

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:

| **PICANOL GROUP** (in '000 euros) | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Cash in bank and in hand | 40,471 | 145,326 |
| **Total cash and cash equivalents** | **40,471** | **145,326** |

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

### III.7.11. SHARE CAPITAL

| **PICANOL GROUP** (in '000 euros) | **31/12/2013** | **31/12/2012** |
|---|---|---|
| | | |
| **Issued shares** | | |
| 17,700,000 ordinary shares without nominal value | 21,720 | 21,720 |
| **Fully paid-up shares** | | |
| 17,700,000 ordinary shares without nominal value | 21,720 | 21,720 |

### III.7.12. SHARE PREMIUM

| **PICANOL GROUP** (in '000 euros) | |
|---|---|
| | |
| **Balance at 31 December 2012** | **1,518** |
| Premium on the issue of shareholders' equity in 2013 | 0 |
| Expenses on the issue of shareholders' equity in 2013 | 0 |
| **Balance at 31 December 2013** | **1,518** |

## III.7.13. EMPLOYEE BENEFIT OBLIGATIONS

Various entities within the Picanol Group have defined benefit plans and/or defined contribution plans.

Defined benefit plans which typically provide retirement benefits in proportion with the remuneration level and service time exist only in the Belgian entities. These plans are insured.

**DEFINED CONTRIBUTION PLANS**

The defined contribution plans are funded by Picanol through insurance companies or pension funds. Once the contributions have been paid, Picanol has no further obligations. The amounts paid are expensed in the period in which the liability was incurred. With regard to the minimum return required by the relevant legislation in Belgium, the risk is in essence supported by the external insurance companies. Since there are no material deficiencies in relation to these minimum guaranteed returns, no provisions have been recorded on the balance sheet date.

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| Paid contributions | 931 | 838 |

In 2013 and 2012, premium payments consist only of recurrent amounts.

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

| **PICANOL GROUP** (in '000 euros) | **2013** | **2012** |
|---|---|---|
| **Balance** | | |
| Pensions and similar obligations – long term | 7,350 | 8,602 |
| Pensions and similar obligations – short term | 1,945 | 1,631 |
| **Total balance sheet** | **9,295** | **10,233** |
| **Of which:** | | |
| Early retirement pensions | 6,111 | 6,723 |
| Other long-term employee benefits | 1,089 | 901 |
| Immaterial provisions at other branches | 262 | 265 |
| **Defined benefit plans** | **1,834** | **2,344** |

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 1.5 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.

| **PICANOL GROUP** (in '000 euros) | **Retirement benefit obligation** | **Fair value of plan assets** | **Net liability** |
|---|---|---|---|
| **On 1 January 2012** | **3,594** | **-1,449** | **2,146** |
| **Charged to the profit and loss account:** | **177** | **-43** | **133** |
| Current service costs | 49 | | 49 |
| Interest costs (income) | 128 | -43 | 85 |
| Plan changes | | | |
| **Charged to shareholders' equity:** | **217** | **-152** | **65** |
| Actuarial (profits)/ losses | | | |
| (profits)/ losses due to demographic assumptions | 217 | | |
| Return on plan assets | | -152 | |
| **Other:** | **-166** | **166** | **0** |
| Paid benefit obligations | -166 | 166 | 0 |
| **On 31 December 2012** | **3,822** | **-1,477** | **2,344** |
| Funded obligations | 1,564 | -1,477 | 87 |
| Unfunded obligations | 2,257 | | 2,257 |
| **Total** | **3,822** | **-1,477** | **2,344** |

| **PICANOL GROUP** (in '000 euros) | **Retirement benefit obligation** | **Fair value of plan assets** | **Net liability** |
|---|---|---|---|
| **On 1 January 2013** | **3,822** | **-1,477** | **2,344** |
| **Charged to the profit and loss account:** | **-973** | **353** | **-620** |
| Current service costs | | | |
| Interest costs (income) | 132 | -44 | 88 |
| Plan changes | -1,105 | 397 | -708 |
| **Charged to shareholders' equity:** | **262** | **-152** | **111** |
| Actuarial (profits)/ losses | | | |
| (profits)/ losses due to demographic assumptions | 262 | | 262 |
| Return on plan assets | | -152 | -152 |
| **Other:** | **-197** | **196** | **-1** |

| | | | |
|---|---|---|---|
| Paid benefit obligations | -197 | 196 | -1 |
| **On 31 December 2013** | **2,914** | **-1,080** | **1,834** |
| Funded obligations | 1,366 | -1,080 | 286 |
| Unfunded obligations | 1,548 | | 1,548 |
| **Total** | **2,914** | **-1,080** | **1,834** |

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):**

| | **2013** | **2012** |
|---|---|---|
| Discount rate | 3.00% | 3.00% |
| Estimated rate of salary increases | 2.00% | 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:

| in '000 euros | **0.25% increase** | **0.25% decrease** |
|---|---|---|
| Gross liability | -52 | 54 |

## III.7.14. PROVISIONS

**For the year ending on 31 December 2013**

| **PICANOL GROUP** (in '000 euros) | Product warranties | Environ-mental risks | Restructuring costs | Litigation | Other risks | Total |
|---|---|---|---|---|---|---|
| **At the start of the reporting period** | **5,321** | **1,630** | **0** | **0** | **1,500** | **8,451** |
| **Movements during the reporting period** | | | | | | |
| Additions | 1,204 | 0 | 0 | 0 | 300 | 1,504 |
| Utilizations | -1,653 | -119 | 0 | 0 | -214 | -1,986 |
| Reversals | -9 | 0 | 0 | 0 | 43 | 34 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | -4 | 0 | 0 | 0 | 0 | -4 |
| **At the end of the reporting period** | **4,859** | **1,511** | **0** | **0** | **1,629** | **7,999** |
| More than 1 year | 55 | 1,511 | 0 | 0 | 51 | 1,617 |
| Up to 1 year | 4,806 | 0 | 0 | 0 | 1,576 | 6,382 |
| **Total** | **4,861** | **1,511** | **0** | **0** | **1,627** | **7,999** |

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. Since the discussions regarding the aforementioned other obligations are ongoing, no further explanations will be provided.

**For the year ending on 31 December 2012**

| **PICANOL GROUP** (in '000 euros) | Product warranties | Environ-mental risks | Restructuring costs | Litigation | Other risks | Total |
|---|---|---|---|---|---|---|
| **At the start of the reporting period** | **5,530** | **1,738** | **0** | **0** | **1,438** | **8,707** |
| **Movements during the reporting period** | | | | | | |
| Additions | 1,644 | 0 | 0 | 0 | 228 | 1,872 |
| Utilizations | -1,815 | 0 | 0 | 0 | -157 | -1,972 |
| Reversals | -36 | -109 | 0 | 0 | -9 | -153 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | -2 | 0 | 0 | 0 | 0 | -2 |
| **At the end of the reporting period** | **5,321** | **1,630** | **0** | **0** | **1,500** | **8,451** |
| More than 1 year | 62 | 1,630 | 0 | 0 | 8 | 1,699 |
| Up to 1 year | 5,260 | 0 | 0 | 0 | 1,492 | 6,752 |
| **Total** | **5,321** | **1,630** | **0** | **0** | **1,500** | **8,451** |

### III.7.15. INTEREST-BEARING DEBT

**For the year ending on 31 December 2013**

| **PICANOL GROUP** (in '000 euros) | Due within 1 year | Due between 1 and 5 years | Due after more than 5 years | Total long-term |
|---|---|---|---|---|
| Financial leases | 1,476 | 2,744 | 0 | 2,744 |
| Credit institutions | 0 | 0 | 0 | 0 |
| Export finance | 9,281 | 89 | 0 | 89 |
| **Total interest-bearing debt > 1 year** | **10,757** | **2,833** | **0** | **2,833** |
| Credit institutions | 0 | | | |
| **Total interest-bearing debt < 1 year** | **0** | | | |
| **Total short-term** | **10,757** | | | |

**For the year ending on 31 December 2012**

| **PICANOL GROUP** (in '000 euro) | Due within 1 year | Due between 1 and 5 years | Due after more than 5 years | Total long-term |
|---|---|---|---|---|
| Financial leases | 1,476 | 4,220 | 0 | 4,220 |
| Credit institutions | 0 | 0 | 0 | 0 |
| Export finance | 4,229 | 253 | 0 | 253 |
| **Total interest-bearing debt > 1 year** | **5,705** | **4,473** | **0** | **4,473** |
| Credit institutions | 0 | | | |
| **Total interest-bearing debt < 1 year** | **0** | | | |
| **Total short-term** | **5,705** | | | |

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 group’s interest-bearing loans amount to 13.6 million euros, compared with 10.2 million euros at the end of 2012. Since the export financing is a mirror image of the financed trade amounts receivable, and the agreed interest rates are the same, the net market value of this item is zero.

The increase in interest-bearing loans compared to 2012 is the result of the increase in export financing. The export financing includes obligations for which the corresponding trade receivable has already been discounted by Delcredere, but for which the risk has not yet been fully transferred.

Long-term export financing is entered into at fixed rates. The outstanding balance is denominated for 0% (9% in 2012) in EUR and a 100% in Yen (91% in 2012). The average remaining term at 31 December 2013 was 17 months.

Total future interest charges are payable as follows from 01/01/2014 onwards:

| | Due within 1 year | Due between 1 and 5 years | Due after more than 5 years | |
|---|---|---|---|---|
| Financial leases | 193 | 83 | 0 | 276 |
| Credit institutions | | | | 0 |
| Export finance | 2 | 1 | | 3 |
| **TOTAL** | **195** | **84** | **0** | **279** |

Total future interest charges were payable as follows from 01/01/2013 onwards:

| | Due within 1 year | Due between 1 and 5 years | Due after more than 5 years | |
|---|---|---|---|---|
| Financial leases | 277 | 276 | 0 | 553 |
| Credit institutions | | | | 0 |
| Export finance | 7 | 4 | | 11 |
| **TOTAL** | **284** | **280** | **0** | **564** |

The majority of the group's financial obligations are entered into and managed centrally by Picanol NV.

Financial debts do not include borrowings subject to debt covenants.

### III.7.16. OBLIGATIONS UNDER FINANCIAL LEASES

| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value minimum lease payments |
|---|---|---|---|---|
| **PICANOL GROUP** (in '000 euros) | **31/12/2013** | **31/12/2013** | **31/12/2012** | **31/12/2012** |
| Lease payments due within the year | 1,669 | 1,476 | 1,753 | 1,476 |
| Between 1 and 5 years | 2,827 | 2,744 | 4,496 | 4,220 |
| After 5 years | 0 | 0 | 0 | 0 |
| Total lease payments | 4,496 | 4,220 | 6,249 | 5,696 |
| Future interest charges | -276 | 0 | -553 | 0 |
| Present value of the lease obligations | 4,220 | 4,220 | 5,696 | 5,696 |
| Less payments due within the year | | -1,476 | | -1,476 |
| Payments due after 1 year | | 2,744 | | 4,220 |

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 8.5 million euros at the end of 2013 compared with 9.5 million euros on 31 December 2012.

## III.7.17. 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 at 31 December 2013:**

| **PICANOL GROUP** (in '000 euros) | **Notional amount (*)** | **Marked-to- market** |
|---|---|---|
| Forward sales contracts < 6 months | 363 | 6 |
| Forward sales contracts > 6 months | 0 | 0 |
| **Subtotal forward sales contracts** | **363** | **6** |
| Interest Rate Swaps (IRS) | 0 | 0 |
| **Subtotal Interest Rate Swaps** | **0** | **0** |
| | | |
| **TOTAL** | **363** | **6** |

As of 31 December 2012, Picanol had no current forward exchange contracts.

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.7.18. TRADE AND OTHER PAYABLES

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

| PICANOL GROUP (in '000 euros) | 2013 | 2012 |
|---|---|---|
| Trade payables | 51,894 | 56,077 |
| Other payables | | |
| Income taxes payable | 2,570 | 2,636 |
| Downpayments received | 17,447 | 17,357 |
| Remuneration & social security | 16,548 | 15,202 |
| Accrued expenses and deferred income | 3,406 | 3,987 |
| Marked-to-market derivatives | -6 | 0 |
| Other liabilities | 486 | 321 |

'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 is the result of the decrease in purchases at the plant in China due to the lower production in the first quarter of 2014.

Both short-term trade and other payables are non-interest-bearing liabilities both as at 31 December 2013, and at the end of 2012.

The maturity schedule of the short term trade payables:

| PICANOL GROUP (in '000 euros) | Net book Value | Affordable - Due within 2 months | Expired - Due within 2 and 4 months | Expired - Due within 4 and 6 months | Expired – > 6 months |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Short-term trade payables | 51,894 | 50,476 | 810 | 71 | 536 |
| **2012** | | | | | |
| Short-term trade payables | 56,077 | 54,147 | 919 | 29 | 983 |

## III.8. MISCELLANEOUS

### III.8.1. OPERATING LEASE AGREEMENTS

| PICANOL GROUP (in '000 euros) | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Payments due within the year | 693 | 587 |
| Between 1 and 5 years | 1,286 | 1,218 |
| After 5 years | | |
| **Minimum future lease payments** | **1,980** | **1,805** |

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 2013, compared with 1.7 million euros in 2012.

### 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**

| In EUR | | Fixed Remuneration | Attendance fees | Total 2013 | Total 2012 |
|---|---|---|---|---|---|
| Stefaan Haspeslagh | executive | 60,000 | - | 60,000 | 60,000 |
| Luc Tack | executive | - | - | - | - |
| Patrick Steverlynck, as representative of Pasma NV | executive | 15,000 | 10,000 | 25,000 | 101,304 |
| Frank Meysman, as representative of M.O.S.T. BVBA | non-executive | 15,000 | 8,000 | 23,000 | 20,000 |
| Hugo Vandamme, as representative of HRV NV | non-executive | 15,000 | 10,000 | 25,000 | 20,000 |
| Jean Pierre Dejaeghere, as representative of NV Kantoor Torrimmo | non-executive | 15,000 | 10,000 | 25,000 | 20,000 |

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**
(in KEUR)

| BALANCE * | TURNOVER | COSTS |
|---|---|---|
| **2013** | | |
| 12 | 519 | -302 |
| **2012** | | |
| 19 | 294 | -296 |

*Outstanding client receivables

The amounts mentioned above include the remunerations chargeable to the Picanol Group for services and various commercial transactions at market conditions in the course of 2013. The amounts above include amongst other remunerations that are also covered in the Corporate Governance section.

### III.8.4. REMUNERATION OF THE MANAGEMENT COMMITTEE

**Remuneration of the Managing Director**

| In EUR | |
|---|---|
| Name | Luc Tack |
| Fixed remuneration | - |
| Variable remuneration | - |
| **Total** | **-** |
| 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 | |
|---|---|
| Fixed remuneration | 851,776 |
| Variable remuneration | 313,086 |
| **Total** | **1,164,862** |
| Pensioen | Fixed contribution: 59,431 |
| Other benefits * | 13,365 |

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 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.

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.8.5. EXCHANGE RATES

| **in euros** | | **Average exchange rates** | | **Closing exchange rates** | |
|---|---|---|---|---|---|
| | **ISO** | **2013** | **2012** | **2013** | **2012** |
| Brazilian Real | **BRL** | 0.3490 | 0.3962 | 0.3070 | 0.3699 |
| Chinese Yuan (Renminbi) | **CNY** | 0.1224 | 0.1224 | 0.1198 | 0.1216 |
| Indonesian Rupee (1000) | **IDR** | 0.0717 | 0.0820 | 0.0596 | 0.0787 |
| Indian Rupee | **INR** | 0.0134 | 0.0145 | 0.0117 | 0.0138 |
| Mexican Peso | **MXN** | 0.0584 | 0.0588 | 0.0553 | 0.0582 |
| Romanian Leu | **RON** | 0.2265 | 0.2250 | 0.2237 | 0.2250 |
| Turkish Lira | **TRY** | 0.3918 | 0.4302 | 0.3378 | 0.4246 |
| US Dollar | **USD** | 0.7522 | 0.7706 | 0.7251 | 0.7579 |

### III.8.6. PERSONNEL

| | **31/12/2013** | | | **31/12/2012** | | |
|---|---|---|---|---|---|---|
| **In units** | **Fully consolidated** | **Proportionally consolidated** | **Total** | **Fully consolidated** | **Proportionally consolidated** | **Total** |
| Management | 6 | 0 | 6 | 6 | 0 | 6 |
| White collars | 590 | 0 | 590 | 575 | 0 | 575 |
| Blue collars | 1,394 | 0 | 1,394 | 1,385 | 0 | 1,385 |
| Average number of personnel employed | 1,997 | 0 | 1,997 | 1,899 | 0 | 1,899 |
| Average number of personnel employed in Belgium | 1,425 | 0 | 1,425 | 1,343 | 0 | 1,343 |
| Remuneration and social charges (in '000 euros) | 94,620 | | 94,620 | 86,746 | | 86,746 |

### III.8.7. AUDIT AND NON-AUDIT SERVICES PROVIDED BY THE AUDITOR

The auditor received an amount of 141,400 euros for performance of his audit task in 2013.

In the course of 2013, the auditor and the auditor related parties charged 11,096 euros for tax and legal advice.

### III.8.8. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group has no material contingent assets and liabilities on 31 December 2013.

### III.8.9. 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.

<u>Currency risk</u>
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.7.17.

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 2013, we give below the sensitivity of a 5% positive/negative fluctuation of the US dollar and Chinese renminbi exchange rates:

| **Company** | **Balance sheet position** | **Amount in local currency** | **Currency** | **Effect + 5%** | **Effect - 5%** |
|---|---|---|---|---|---|
| GTP Greenville (USD) | Trade payables | 908 | EUR | 45.4 | -45.4 |
| P(Sip)T (RMB) | Trade receivables | 1,088 | EUR | -54.4 | 54.4 |
| | Trade payables | 1,404 | EUR | 70.2 | -70.2 |
| GTP Mexico (MPE) | Other payables | 185 | EUR | 9.2 | -9.2 |
| GTP Istanbul (YTL) | Trade receivables | 175 | EUR | -8.7 | 8.7 |
| | Trade payables | 23 | EUR | 1.1 | -1.1 |
| | | | | **62.9** | **-62.9** |

Changes in the euro exchange rate during 2013 within the above-mentioned volatilities would have given a 63 thousand euros higher/lower consolidated profit.

<u>Interest rate risk</u>

By the end of 2013, interest-bearing debt consisted solely of finance leases (fixed rate) and export financing.

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 2013 against which export financing has been concluded at the same fixed interest rate amounts to 0.3 million euros (2012: 0.3 million euros).

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

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

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 (2012: 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 0.2 million euros excluding bank guarantees.

The credit line for bank guarantees amounts to 14.5 million euros (2012: 14.5 million euros), with 8.1 million euros of bank guarantees outstanding at 31 December 2013. The Picanol Group uses these bank guarantees primarily for commercial purposes (tender process delivery guarantee).

### III.8.10. MISCELLANEOUS

Capital management

The capital management of the Picanol Group aims essentially at:

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

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

# STATUTORY FINANCIAL STATEMENTS OF PICANOL NV

| PICANOL NV (in '000 euros) | 2013 | 2012 |
|---|---|---|
| **FIXED ASSETS** | **85,448** | **59,568** |
| Intangible assets | 423 | 613 |
| Tangible fixed assets | 9,122 | 7,013 |
| Financial fixed assets | 75,903 | 51,942 |
| **CURRENT ASSETS** | **240,022** | **192,072** |
| **TOTAL ASSETS** | **325,470** | **251,640** |
| **SHAREHOLDERS' EQUITY** | **227,168** | **163,078** |
| Share capital | 22,200 | 22,200 |
| Share premium account | 1,518 | 1,519 |
| Reserves | 45,136 | 45,136 |
| Profit/(loss) carried forward | 158,313 | 94,223 |
| Investment grants | 0 | 0 |
| **PROVISIONS AND DEFERRED TAXES** | **14,583** | **15,232** |
| **LIABILITIES** | **83,719** | **73,330** |
| Amounts payable after one year | 89 | 253 |
| Amounts payable within one year plus accrued expenses and deferred income | 83,630 | 73,078 |
| **TOTAL LIABILITIES** | **325,470** | **251,640** |
| SALES | 431,919 | 329,454 |
| OPERATING RESULT | 73,427 | 47,213 |
| FINANCIAL RESULTS | 12,274 | 7,055 |
| EXTRAORDINARY RESULTS | -417 | 273 |
| TAXES | -21,194 | -14,554 |
| PROFIT FOR THE FINANCIAL YEAR | 64,090 | 39,987 |

## 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 73.8 million euros, from 251.6 million euros at the end of 2012 to 325.5 million euros at 31 December 2013. This increase was primarily due to the increase in capital and an authorized loan to Verbrugge NV in relation to the participation in Tessenderlo Chemie NV.

The turnover of Picanol NV increased by 31% in 2013 compared with 2012, from 329.4 million euros to 431.9 million euros. The gross margin (operating revenue less the purchases of raw materials and auxiliaries, services and various goods) slightly increased from 83.4 million euros in 2012 to 114.4 million euros in 2013. The gross margin, as a percentage of turnover increased from 25.3% in 2012 to 26.5% in 2013. The operating result rose by 26.2 million euros to 73.4 million euros at the end of 2013.

The net financial result increased by 5.2 million euros, mainly due to more dividends paid out by both Chinese companies.

The net extraordinary items amounted to -0.5 million euros.

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.

**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 2013**

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 2013, 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 421 million EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 73 million EUR.

**Responsibility of the board of directors for the preparation of the consolidated financial statements**
The board of directors is responsible for the preparation and fair presentation of 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 of 31 December 2012, 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, 25 February 2014
The statutory auditor

DELOITTE Bedrijfsrevisoren
BV o.v.v.e. CVBA
Represented by Mario Dekeyser

# INFORMATION FOR SHAREHOLDERS

## SHARES AND LISTING

| | |
|---|---|
| NYSE 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. NYSE 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 2013, the share capital was represented by 17,700,000 Picanol shares. During the course of 2013 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 2013.

The stock exchange capitalization on 31 December 2013 amounted to 433.83 million euros.

**Shareholder structure**

The shareholder structure is shown on page 24.

**Financial calendar**

| | |
|---|---|
| Annual General Meeting | 16/04/2014 |
| Trading update Q1 | 30/04/2014 (after stock exchange close) |
| Announcement of half-yearly results | 27/08/2014 (before opening of the stock exchange) |
| Trading update Q3 | 29/10/2014 (before opening of the stock exchange) |
| Announcement of annual results 2014 | 25/02/2015 (before opening of the stock exchange) |
| Annual General Meeting | 15/04/2015 |

**DIVIDEND**

The Board of Directors will propose to the General Meeting on 16 April 2014 not to pay out a dividend for the 2013 financial year.

## GLOSSARY

| | |
|---|---|
| CNC | Computer Numerical Control. This refers to the computer controlled system of the machine tool |
| Conformal coating line | Machine used to apply a coating or protection on printed circuit boards. |
| 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 castings |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| Frame | *see weaving frame* |
| Lamellar or grey cast iron | An alloy based on iron and carbon with at least 2.0% but usually more than 3.0% carbon. It is the most common sort of cast iron |
| Nodular cast iron | Grey cast iron where the graphite is in the form of spherical nodules. Nodular cast iron has much better mechanical properties than lamellar cast iron, it is tougher and very resistant to cracking. |
| R&D | Research & Development |
| 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 |

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

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

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

Responsible editor: Luc Tack
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