

**Picanol Group
Annual report 2010**




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, spare parts and service contracts. For seventy-five years, Picanol has played a pioneering role in the industry worldwide, and is one of the current world leaders in weaving machine production.

Division Industries:

Proferro comprises all foundry activities and the group's machining activities. It produces cast iron parts for e.g. compressors, pumps and agricultural machinery, and parts for Picanol weaving machines. Through PsiControl Mechatronics, the group specializes in the design, development, manufacturing and support of technological components, services and mechatronical system solutions for original equipment manufacturers in various industries. Melotte develops and produces innovative product solutions using Direct Digital Manufacturing (DDM) and Near-to-Net-Shape Manufacturing (NNSM) technologies.

The Picanol Group employees operate all over the world to serve their customers. The 2,082 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, Europe and the United States, linked to its own worldwide sales and service network.

In 2011, the Picanol Group will celebrate its 75th anniversary.

The Picanol Group in 2010

| | |
|-------------------------|--|
| Consolidated turnover: | 395.77 million euros |
| Employment | 2,082 |
| NYSE Euronext Brussels: | PIC |
| Web | www.picanolgroup.com |

CONTENTS

| | |
|---|-----------|
| PRESENTATION OF THE PICANOL GROUP | 4 |
| ▪ At the service of customers worldwide | 4 |
| ▪ Organizational chart of the group | 4 |
| ▪ Profile Weaving Machines | 5 |
| ▪ Profile Industries | 7 |
| ▪ Human Resources | 8 |
| ○ Environment, Health & Safety | |
| ○ Quality & World Class Manufacturing | |
| REPORT BY THE BOARD OF DIRECTORS | 9 |
| ▪ Letter to the Shareholders | 9 |
| ▪ Main events 2010 | 10 |
| ▪ Activities report Weaving Machines | 11 |
| ▪ Activities report Industries | 12 |
| ▪ Corporate Governance | 13 |
| CONSOLIDATED FINANCIAL STATEMENTS | 30 |
| ▪ Definitions | 31 |
| ▪ Financial statements | 32 |
| ▪ Notes to the consolidated financial statements | 37 |
| STATUTORY FINANCIAL STATEMENTS OF PICANOL NV | 81 |
| REPORT BY THE AUDITOR | 83 |
| INFORMATION FOR SHAREHOLDERS | 85 |
| ▪ Shares & listing | 85 |
| ▪ Yearly information | 86 |
| ▪ Glossary | 87 |
| ▪ Addresses | 88 |

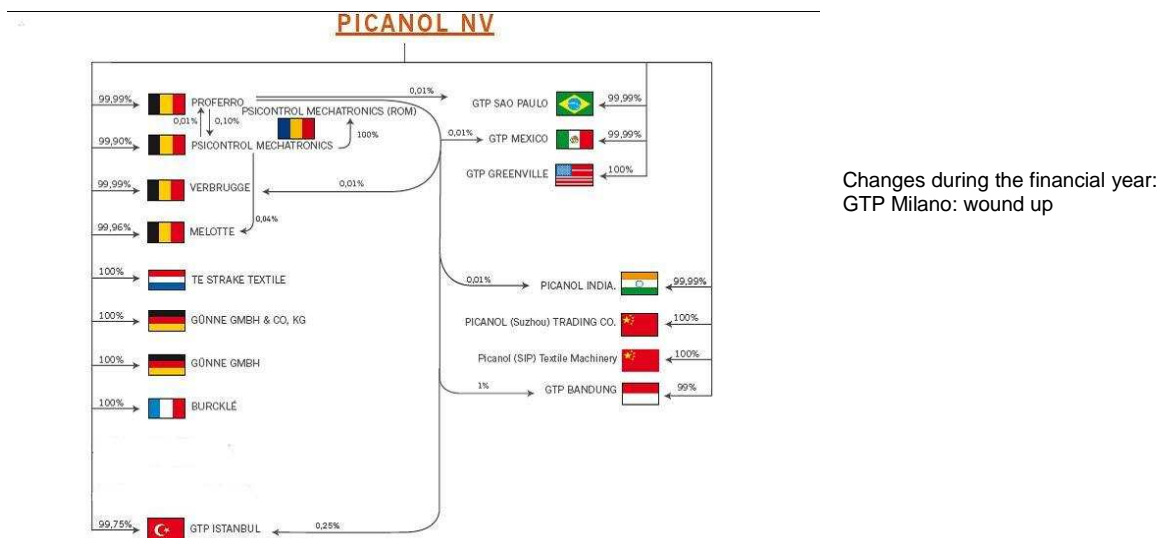
PRESENTATION OF THE PICANOL GROUP

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 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

Weaving Machines (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 air (airjet) or rapier technology (rapier). For seventy-five years, Picanol has played a pioneering role in the industry worldwide, and it is one of the current world leaders in weaving machine production. 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.

PRODUCTS & SERVICES

Weaving machines

OptiMax: rapier weaving machine for the higher segments and niche applications, including technical textiles.

OMNIplus 800: airjet weaving machine for the higher segments, combining high versatility with maximum production speeds.

OMNIplus 800 TC: airjet machine specially equipped for weaving *tire cord*, a technical fabric used for making vehicle tires. This machine is based on the OMNIplus 800 series.

TERRYplus 800: airjet weaving machine specially designed for weaving of terry cloth, based on the OMNIplus 800 series.

GT-Max: rapier weaving machine with universal application for the (upper) middle segment of the market.

GTXplus: rapier weaving machine with universal application for the middle segment of the market.

OMNIplus-X: airjet weaving machine for the upper middle segment of the market.

OMNIjet: airjet weaving machine for the middle segment of the market.

Picanol also offers its customers amongst others upgrade kits, spare parts, preventive maintenance programs and service contracts. In addition, it also brings a number of weaving accessories on the market.

- **Frames, heddles and dropwires:** these are marketed under the Steel Heddle brand.
- **Reeds:** reeds and reedwires are manufactured and marketed under the brand name Burcklé. In addition, reeds are assembled in the *gravity points* in Greenville (US) and Mexico City (Mexico) for the respectively local markets.

MARKET OVERVIEW

Picanol has for many decades served 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. Weaving accessories are sold both to (other) weaving machine constructors as to weaving mills. Picanol supplies weaving machines 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*). In the past ten years the apparel segment has migrated from West to East, so that nowadays the majority of apparel textiles are produced in Asia. Picanol historically has a strong position in this segment, and a large part of the weaving machine sales has shifted to these regions. Within the household segment, Picanol was able to strengthen its position through the successful introduction of the OptiMax for weavers of interior textiles. Picanol's more recent – but strongly expanding – presence in the technical textiles segment offers attractive growth niches in countries with higher wage levels (mostly in Europe but increasingly also in Asia or America). The technical requirements in this sector are high, putting Picanol in a stronger competitive situation. In the past ten years more than half of all textile machines (not just for weaving) produced in the world have been sold into China. It is expected that Asia will continue to be the largest market for several years to come, not only driven by an increasing export, but mainly because of a steady growth of the local demand for textile products due to the rising purchasing power.

PROFILE INDUSTRIES

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

PROFERRO

ACTIVITIES

Proferro comprises the foundry and the machining activities (Engineered Casting Solutions) 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 cast iron (lamellar and nodular) parts for compressors, pumps and agricultural machinery, and parts for Picanol weaving machines. 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 MECHATRONICS

ACTIVITIES

Mechatronics covers PsiControl Mechatronics with locations in Ypres (Belgium), Rasnov (Romania) and Suzhou (China). PsiControl Mechatronics concentrates on design, development, production and support for electronic and mechatronic systems.

PRODUCTS & SERVICES

PsiControl Mechatronics 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 Mechatronics has R&D and prototyping departments in Ypres and procurement, production and service activities in its branches in Belgium, Rasnov and Suzhou.

MARKET REVIEW

PsiControl Mechatronics concentrates mainly on original equipment manufacturers in sectors where reliable performance is crucial. PsiControl Mechatronics currently acts as supplier to various sectors such as textile machinery, compressors 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 2010 the Picanol Group worldwide employed 2,082 people.

VISION

The Picanol Group is convinced that its employees are what 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 with a view 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 and health, 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.

REPORT BY THE BOARD OF DIRECTORS

LETTER TO THE SHAREHOLDERS

Dear shareholder,

Following the difficult years of 2008 and 2009, 2010 was once again a good year for the Picanol Group. In line with the previously outlined forecast, the Picanol Group realized a consolidated turnover of 395.77 million euros in 2010, an increase in turnover of 58% compared to 250.23 million euros in 2009.

The Weaving Machines division experienced a strong year in 2010, mainly as a result of the quicker than expected recovery of the weaving machine market in Asia. It all started in late 2009 in China, where the local textile market saw the tail of the crisis. Thanks to its strong offer in weaving machines, Picanol's Suzhou (China) plant could take particular advantage of the recovery. From the second quarter, exporting textile companies were also running at a cruising speed. This resulted in a recovery in the demand for weaving machines produced in Ypres. In the second half of 2010, the market remained good, which was also due to the favorable exchange rate of the Euro. In the fourth quarter of 2010, the Chinese demand for weaving machines slowed down; one of the reasons being the continuously increasing price of cotton and the volatile exchange rates. However, this effect was compensated for by an increasing demand from other regions in the world. Sales of spare parts and weaving accessories also profited from a favorable market in 2010.

Also activities not related to weaving machines experienced a strong growth in 2010. After a difficult first quarter, the Industries division showed a clear recovery from the second quarter of 2010, profiting from a gradually improving economic climate. This all resulted in a rise in activities in various sectors, such as compressors, earthmoving equipment and textile machines.

As a result of the strong increase in turnover in both divisions, continued efforts to keep the cost price low, a strict monitoring of the fixed costs and improved productivity in the Industries division, the Picanol Group managed to close the 2010 financial year with a net profit of 35.24 million euros, compared to a net loss of -23.52 million euros in 2009.

DIVIDEND

As the losses transferred from 2008 and 2009 have not yet been eliminated, on 20 April 2011 the Board of Directors will propose to the General Meeting not to pay out a dividend for 2010.

Outlook

The Picanol Group expects the international market for weaving machines to remain at the same level in 2011 as in 2010. The order book for the first months of 2011 has been filled up nicely. The second half of the year is less clear, as the economic recovery in the western world is still quite hesitant, and as the increased prices for energy and raw materials (such as cotton), currency developments or the political situation in North Africa are causes of uncertainty. This might influence decisions to invest in new weaving machines.

The Picanol Group is aiming to further grow its Industries division in 2011, albeit differentiated in the various target areas, by making full use of the advantages of the new molding line (Proferro) and the further expansion of its controller competencies (PsiControl Mechatronics).

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

In 2011 the Picanol Group will celebrate its 75th anniversary. It is thanks to its staff that over the past seventy-five years, the Picanol Group was able to grow into the key world player that it is today. And now more than ever, the basis of the company's success lies in the quality and dedication of its employees around the globe. The Board of Directors therefore wishes to thank its

entire staff for the great efforts, flexibility and commitment they have shown in the past. The Picanol Group is convinced that in line with its commitment to realize the strong results of 2010, all employees are highly driven to fulfill the objectives for 2011.

Luc Tack
Managing Director

Stefaan Haspeslagh
Chairman

MAIN EVENTS IN 2010

- In the first six months of 2010, Picanol's product offering was extended with a new airjet weaving machine, the *OMNIplus-X*. R&D and product innovation continue to play a central role in the further development of the high-tech activities.
- In June 2010, the 300,000th weaving machine reached the end of the assembly line since production started in Ypres. This was another milestone in the long history of Picanol, which started on 22 September 1936.
- As a result of the improved market conditions, the Picanol Group launched a recruitment campaign in 2010 to hire 200 extra temporary workers for its production plant in Ypres.
- In August 2010, the Picanol Group concentrated all Ypres activities and its registered office in the Karel Steverlyncklaan, where its main production and R&D activities are based.

WEAVING MACHINES ACTIVITIES REPORT

The Weaving Machines division experienced a strong year in 2010, mainly as a result of the quicker than expected recovery of the weaving machine market in Asia.

The end of 2009 clearly showed a recovery in the demand for textile products on the domestic Chinese market. And it is here that Picanol's Suzhou subsidiary took particular advantage of the upturn with its local weaving machine offer. Starting from the second quarter of 2010, the exporting companies also bounced back and with it, the demand for machines that are produced in Ypres increased.

The market remained at a high level during the second half of 2010, partly due to the favorable exchange rate of the euro. Volatile currency rates and the continuous increase in the cotton price were some of the factors causing a slight drop in demand for Picanol weaving machines in the last quarter of 2010. However, this effect was compensated for by an increasing demand from other regions in the world. Sales of spare parts and weaving accessories also profited from a favorable market in 2010.

In June Picanol's product offering was extended with a new airjet weaving machine, the OMNI*plus*-X, a new airjet weaving machine for the upper middle segment of the market. Furthermore, 2010 saw the reintroduction of the Picanol TERRY*plus* 800 machine for weaving terry cloth fabric. In June 2010, the 300,000th weaving machine reached the end of the assembly line since production started in Ypres. This was another milestone in the long history of Picanol, which started on 22 September 1936.

Throughout 2010 the company further expanded its product offer with new market oriented features that mainly aim at a more efficient use of raw materials and energy - given their constantly rising prices - and anticipate the growing scarcity of people who are prepared to work in the textile industry.

In 2010 Picanol also participated in several international trade fairs, where it was able to position itself as technological market leader in both rapier and airjet weaving machines. In 2010 Picanol took part in amongst others the Dhaka International Textile & Garment Machinery Exhibition (Bangladesh), Bandungtex (Indonesia), Inlegmash Moscow (Russia), Caitme Uzbekistan and ITMA-CITME Shanghai (China).

At the beginning of 2009, Picanol launched its plan to concentrate all development-related and production-related weaving machine activities in Ypres and Suzhou (China). As a result, both the production at Te Strake Textile (the Netherlands) and assembly at Günne (Germany) were shut down in early 2010. The company also paid extra attention to ways of absorbing the production peaks caused by the large amount of orders.

Outlook

The Picanol Group expects the international market for weaving machines to remain at the same level in 2011 as in 2010. The order book for the first months of 2011 has been filled up nicely. The second half of the year is less clear, and investment decisions might be delayed due to the increased prices for energy and raw materials (such as cotton) or the slower growth of the western economies. For 2011, Picanol is looking to further expand its technological leadership by enhancing the product reach of weaving machines and offering applications for new market segments. At the ITMA 2011 textile machine exhibition in Barcelona, Picanol will once again demonstrate that it is still the leader in technology, as well as the best guarantee for the future.

INDUSTRIES ACTIVITIES REPORT

Also the activities not related to weaving machines experienced a strong growth in 2010. After a difficult first quarter, the Industries division showed a clear recovery from the second quarter of 2010, profiting from a gradually improving economic climate. This all resulted in a rise in activities in various sectors, such as compressors, earthmoving equipment and textile machines.

Proferro

In 2010, Proferro successfully implemented a new molding line, with larger molds and an automated cast iron transport. Proferro's new Seiatsu-molding machine EFA-SD7 (HWS) works with molds of 1600x1200x400/400+60 and has a capacity of up to 50 molds an hour. This modern technology provides products in both large and small series, and can handle casting molds weighing 100kg to 500kg. Its marketing activities of the new molding line and a broader presence in the market allowed Proferro to find new segments and new clients.

PsiControl Mechatronics

2010 also saw increased activities for PsiControl Mechatronics, particularly in the markets of compressors, textile machines and HVAC (heating, ventilation and air conditioning), where the company reported a rise in R&D projects and greater demand for electronics and assembly products. Due to the recovering economy, PsiControl Mechatronics had a hard time balancing the demand and supply of electronics components, a fact that was further emphasized by changing currencies.

Melotte

Melotte enjoyed a strong 2010, with considerable growth in both analog and digital businesses. The expansion of its digital activities strengthened Melotte's market position and had a cross-fertilizing effect. In 2010, Melotte became an ambassador of Cleantech and thus took the next step in the realization of a contemporary business model. Mario Fleurink, Melotte's CEO, was nominated as Young Entrepreneur of the Year in the spring of 2010.

Outlook

For 2011, the group foresees further growth in the Industries activities, albeit differentiated in the various markets. Through targeted investments in automation and robotization, the Picanol Group will expand its Industries activities in 2011. This enables Proferro to provide its clients with a complete solution: from development to ready-for-use subassemblies. Investments planned for 2011 include the purchase of new CNC machines. PsiControl Mechatronics will focus its endeavors in 2011 on the further expansion of its R&D and engineering activities and customized controllers. It also plans investments in additional SMD capacity. Melotte expects a stable growth in its activities in 2011, and increased international presence in new markets.

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 2010.

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

**HONORARY
CHAIRMAN**

Mr. Emmanuel Steverlynck

| | | |
|---------------------------|--|--|
| BOARD OF DIRECTORS | | |
| Chairman | Mr. Stefaan Haspeslagh (1) | |
| Directors | Mr. Luc Tack (1) | Managing Director |
| | Mr. Luc Van Nevel, <i>permanent representative of The Marble BVBA (2)</i> | Chairman of the Audit Committee Member of the Nomination & Remuneration Committee |
| | Mr. Frank Meysman, <i>permanent representative of M.O.S.T. BVBA (2)</i> | Member of the Audit Committee Member of the Nomination & Remuneration Committee |
| | Baron Hugo Vandamme <i>permanent representative of HRV NV (2)</i> | Chairman of the Nomination & Remuneration Committee Member of the Audit Committee |
| | Mr. Patrick Steverlynck (1), <i>permanent representative of Pasma NV</i> | Director |

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

Company secretary & Compliance Officer

Mss. Karen D'Hondt, Group Controller, from 1 May 2010

Mr. Dirk Verly, Vice-President Human Resources & Administration, until 30 April 2010.

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.

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

The Board of Directors met five times in 2010, with full attendance each time. In 2010 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 Annual General Meeting;
- The 2011 budget, the business plan and the long-term strategy;
- The reports of the Audit Committee and the Nomination & Remuneration Committee;
- Conflicts of interest in accordance with the articles 523 and 524 of the Company Code

I.3. Evaluation of the Board

The Board of Directors, lead by the Chairman, makes an annual self-assessment to determine the efficient operating of itself 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. Luc Van Nevel (as permanent representative of The Marble BVBA), Frank Meysman (as permanent representative of M.O.S.T. BVBA) and Baron Hugo Vandamme (as permanent representative of HRV NV).

In accordance with art. 526 bis of the Company Code, the Picanol Group declares that the Chairman of the Audit Committee, Mr. Luc Van Nevel, 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 2010, with all members being present on each occasion. Special attention was paid to:

- The half-yearly and annual results, with the auditor's report;
- The internal audit report;
- Risk analysis of the company

After each meeting the Audit Committee reported through its Chairman Luc Van Nevel (as permanent representative of The Marble BVBA) to the Board of Directors about the above-mentioned matters, and gave its advice with a view to 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. Luc Van Nevel (as permanent representative of The Marble BVBA), Frank Meysman (as permanent representative of M.O.S.T. BVBA) and Baron Hugo Vandamme (as permanent representative of HRV NV).

Meetings of the Nomination & Remuneration Committee

The Committee met three times during the report year. The following subjects were discussed, among others:

- Remuneration of the Management Committee
- Remuneration of the Directors
- Management and sales incentive plan

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
- Cathy Defoor, Vice-President Industries
- Geert Ostyn, Vice-President Weaving Machines
- Dirk Verly, Vice-President Human Resources & Administration, until 30 April 2010
- 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.

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, in 2010 the Board of Directors reviewed the remunerations of non-executive directors. They were approved by the General Meeting in its session on 20 April 2011.

At the proposal of the Nomination and Remuneration Committee, in 2010, 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 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 | Management remuneration | Other | Total 2010 |
|---|---------------|--------------------|-----------------|-------------------------|--------|------------|
| Stefaan Haspeslagh * | executive | 40,000 | - | | - | 40,000 |
| Luc Tack | executive | - | - | | 10,800 | 10,800 |
| Patrick Steverlynck, as representative of Pasma NV | executive | | - | 240,000 | - | 240,000 |
| Frank Meysman, as representative of M.O.S.T. BVBA | non-executive | 10,000 | 10,000 | | - | 20,000 |
| Hugo Vandamme, as representative of HRV NV | non-executive | 10,000 | 9,000 | | - | 19,000 |
| Luc Van Nevel, as representative of The Marble BVBA | non-executive | 18,750 | 8,000 | | - | 26,750 |
| Johan Tack, as representative of Tacan BVBA | | 2,500 | 2,500 | | | 5,000 |
| Chris Dewulf, as representative of Christulf BVBA | | 15,000 | | | 49,641 | 64,641 |

* Chairman of the Board of Directors

In view of a consultancy agreement 166 KEUR was charged by Findar BVBA in the financial year 2010. This company is a related party with respect to Mr. Stefaan Haspeslagh.

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 2010 variable fee are laid down in a contract and are based on: the results of the group: 100%

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 | 10,800 |

* remuneration company car

The Managing Director doesn't receive long-term cash incentive plans.

IV.6. Remuneration of the other members of the Executive Management

| | |
|-----------------------|-----------------------------|
| In EUR | |
| Fixed remuneration | 900,000 |
| Variable remuneration | 320,000 |
| Total | 1,220,000 |
| Pension | Fixed contribution : 59,431 |
| Other benefits | 7,855 |

* remuneration company car

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

The other members of the 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.

The Board of Directors will request the Annual General Meeting to permit payment of the bonuses in one single installment, based on the realization of the objectives for 2010.

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 Annual General Meeting of Shareholders to be held on 20 April 2011, the shareholders will be asked to vote on a deviation from the Corporate Governance rules as regards the provisions about bonuses.

VI. AUDITOR'S REMUNERATION

The auditor received an amount of 125,000 euros for performance of his audit task in 2010.

During the course of 2010 no additional tasks were carried out by the auditor and related parties for Picanol and its subsidiaries.

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, it carried out a re-evaluation of the risk analysis undertaken in 2008. All of the key employees were asked to review their risk assessment and the evolution of several risk factors was determined. An estimate 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 was evaluated 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 as 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 trade marks, patents, domain names, trade secrets and know-how. Picanol has managed to register various trade marks and patents to cover its brands and products, and it has applied to register other trade marks 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 trade marks 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 trade marks 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 2010 Picanol earned the majority of its income from countries that use currency other than the euro. Consequently, since Picanol presents its consolidated results in euros, any fluctuation in the exchange rates between the operating currencies of its competitors 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 attendant upon 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

The Picanol Group does not have any customers that account for more than 10% of its turnover, and so is not exposed to specific customer risk.

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 development 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 - to a lesser extent - 2009 the demand for new weaving machines experienced a strong revival in 2010, which is largely to continue in 2011. 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 70% of its turnover in 2010 – 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 customers 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. While 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 future. Furthermore, certain types of loss e.g. due to war, terrorist attack or act of God 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. Production 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 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 claims against it for the supply of goods and services. During the past three years one claim was awarded against it, amounting to USD 125,000. This claim was covered by product liability insurance, with the company only having to pay the deductible of USD 25,000.

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 company is dependent on its three largest suppliers for 11% 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 three 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 in-house estimate is based on the last known indicative soil survey, adjusted for inflation. The 2 other disputes concern a claim concerning the execution of a sales contract and a possible dispute on an environmental issue. The management considers these claims unjust and therefore hasn't constructed a provision.

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 periodical 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 associated 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 |
|--|------------------------|-------------------|
| Mr. Patrick Steverlynck | 550 | 0.00% |
| Oostrotex NV | 10,649,021 | 60.16% |
| Symphony Mills NV | 1,637,251 | 9.25% |
| Stichting Administratiekantoor Picanol | 3,262,461 | 18.43% |
| TOTAL | 15,549,283 | 87.84% |

Oostrotex NV is controlled by Mr. Luc Tack. Mr. Luc Tack controls Symphony Mills NV, that together with Sofines BV and Pasma NV (both controlled by Mr. Patrick Steverlynck) jointly controls STAK Picanol.

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

Board of Directors of Picanol NV of 27 August 2010:

Prior agenda item: application of art. 523 of the Company Code:

1. Prior to the commencement of the first agenda item, Pasma NV, and Mr. Patrick Steverlynck in his capacity as representative and majority shareholder of Pasma NV ask to take the floor.

They state that in their capacity as director (and his authorized representative) of Picanol NV, and given the fact that Pasma NV is the recipient of the relevant management fee and that Mr. Patrick Steverlynck is a majority shareholder of Pasma NV, they have an interest of a proprietary nature in the decision on this item that may be in conflict with the company's interest as defined in art. 523 of the Company Code.

They request that in accordance with art. 523 of the Company Code, their statement be included in the minutes of the meeting of the Board of Directors.

They state that by virtue of art. 523, §1 (4) of the Company Code, they will not participate in the deliberations or the vote on the first agenda item.

They undertake to inform the Statutory Auditor of the company about the application of art. 523 of the Company Code immediately after the meeting of the Board of Directors.

They state that the action to be ratified/approved is in the interest of Picanol NV.

2. Next, Mr. Stefaan Haspeslagh asks to take the floor.

He states that as a director of Picanol NV and given the fact that he is a shareholder of Findar BVBA, he has an interest of a proprietary nature in the decision on the second agenda item that may be in conflict with the company's interest as defined in art. 523 of the Company Code.

He requests that in accordance with art. 523 of the Company Code, his statement be included in the minutes of the meeting of the Board of Directors.

He states that by virtue of art. 523, §1 (4) of the Company Code, he will not participate in the deliberations or the vote on the second agenda item.

He undertakes to inform the Statutory Auditor of the company about the application of art. 523 of the Company Code immediately after the meeting of the Board of Directors. He states that the action to be ratified/approved is in the interest of Picanol NV.

First agenda item: ratification of the management fee of Pasma NV

1. Prior to the commencement of this agenda item, Mr. Patrick Steverlynck leaves the meeting.
2. The Chairman explains that as stated at the Board of Directors meeting on 8 March 2010, a management agreement has been concluded between Picanol NV and Pasma NV. The Board of Directors is now requested to retroactively ratify this management agreement.
3. The proprietary consequences for Picanol NV consist of monthly management fees amounting to 20,000 euros. It has been agreed that Pasma NV will not enjoy any additional directors' remunerations.
4. The Directors unanimously agree that the related management fee is in conformity with current market trends and that the services offered by PASMA NV are in the interest of the company.
5. Decision: The Board of Directors unanimously ratifies the management agreement of 17 February 2010 between Picanol NV and Pasma NV as included in Appendix I of these minutes, as well as the management fees that have already been paid under this agreement.

Second agenda item: ratification of the consultancy agreement with Findar BVBA

1. Prior to commencement of this agenda item, Mr. Stefaan Haspeslagh leaves, and Mr. Patrick Steverlynck rejoins the meeting.
2. The Vice-Chairman explains that between 2 December 2009 and 30 April 2010, the company purchased several services from Findar BVBA for an amount of 83,755.48 euros, and that the company also wishes to be able to call on the professional services of Findar BVBA in the future. The Board of Directors is requested to approve the daily rate charged for these services and to ratify the amount invoiced for the services already delivered.
3. The proprietary consequences for Picanol are as follows:
 - 83,755.48 euros to be paid (and already allocated) for services delivered between 2 December 2009 and 30 April 2010;
 - Daily rate for future assignments between 700 euros and 1,000 euros.
4. The Directors unanimously agree that the stipulated consultancy fees are in line with the current market trend and that it is in the interest of the company to be able to call on the services offered by Findar NV in the future.
5. Decision: The Board of Directors unanimously ratifies the amount of the services already delivered by Findar BV (83,755.48 euros), as well as the agreed daily rate for future assignments (between 700 euros and 1,000 euros).

Board of Directors of Proferro NV of 30 August 2010:

Prior agenda item: application of art. 523 of the Company Code:

1. Prior to commencement of the first agenda item, Comm VA Berlau, represented by the M.S.T. Consult bvba, in turn represented by Mr. Michel Steverlynck, who is also its Chairman, asks to take the floor.

They state that in their capacity as director of Proferro NV, and given the fact that Comm VA Berlau is the recipient of the relevant management fee and that Mr. Michel Steverlynck is a majority shareholder of M.S.T. Consult bvba, they have an interest of a proprietary nature in the decision on this item that may be in conflict with the company's interest as defined in art. 523 of the Company Code.

They request that in accordance with art. 523 of the Company Code, their statement be included in the minutes of the meeting of the Board of Directors. They state that by virtue of art. 523, §1 (4) of the Company Code, they will not participate in the deliberations or the vote on the first agenda item. They undertake to inform the Statutory Auditor of the company about the application of art. 523 of the Company Code immediately after the meeting of the Board of Directors. They state that the action to be ratified/approved is in the interest of Proferro NV.

First agenda item: ratification of the management fee of Comm VA Berlau.

1. Prior to the commencement of this agenda item, Mr. Michel Steverlynck leaves the meeting.
2. The Vice-Chairman explains that on 26 February 2010, a service provision agreement was concluded between Proferro NV and Comm VA Berlau. The Board of Directors is now requested to retroactively ratify this service provision agreement.
3. The proprietary consequences for Proferro NV consist of monthly management fees of 1,000 euros. It has been agreed that Comm VA Berlau will not enjoy any additional directors' remunerations. This agreement is concluded for a definite period of time. It will enter into force on 1 January 2010 and terminate on 31 December 2011.
4. The Directors unanimously agree that the stipulated management fee is in line with current market trends and that it is in the interest of the company to be able to call on the services offered by Comm VA Berlau.
5. Decision: The Board of Directors unanimously ratifies the management agreement of 26 February 2010 between Proferro NV and Comm VA Berlau as described in Appendix I of these minutes, as well as the management fees that have already been paid under this agreement.

Xb. APPLICATION OF ART. 524 OF THE COMPANY CODE

Meeting of the Board of Directors of Picanol NV of 4 March 2011:

Prior agenda item: application of art. 523 of the Company Code:

1. Prior to the commencement of any agenda items, Mr. Luc Tack asks to take the floor.
2. He declares that as a director and/or shareholder of Picanol NV and given the fact that he is the majority shareholder of all of the lenders, he has an interest of a proprietary nature in the decision listed on the agenda that may be in conflict with the company's interest as defined in art. 523 of the Company Code.
3. He requests that in accordance with art. 523 of the Company Code, his statement be included in the minutes of the meeting of the Board of Directors. He declares that in accordance with art. 523, § 1 (4) of the Company Code, he will not participate in the deliberations or the vote on the two agenda items that address subjects that according to his statement, constitute a conflict of interest of a proprietary nature. He undertakes to inform the Statutory Auditor of the company about the application of art. 523 of the Company Code immediately after the meeting of the Board of Directors.
4. He states that the action to be ratified/approved is in the interest of Picanol NV.

After the aforementioned statements, Mr. Luc Tack states that in view of his conflict of interest as a director by virtue of art. 523 of the Company Code, he is not allowed to participate in the deliberation or the decision on the two agenda items

After having delivered the aforementioned statement and prior to the commencement of the two agenda items, he leaves the meeting. The other directors state that the aforementioned director will not participate in the deliberations or the vote on the two agenda items.

First agenda item: application of art. 524 of the Company Code:

1. The Chairman states that article 524 of the Company Code will be applied to the second agenda item.
2. Assisted by an independent expert as defined in section 524, § 2 of the Company Code, namely the firm 'A&F bedrijfsrevisoren' (*A&F company auditors*), represented by Geert van Hemelryck, the Committee of Independent Directors has advised as follows:

"(...)

Decision: Assisted by an independent expert as defined in art. 524, § 2 of the Company Code, namely the firm 'A&F bedrijfsrevisoren', represented by Geert van Hemelryck, the Committee of Independent Directors issues the following advice with respect to the actions mentioned below that require approval by virtue of art. 524 of the Company Code:

- Approval in compliance with art. 524 of the Company Code of the credit facility agreement signed by Picanol NV, Proferro NV and PsiControl Mechatronics NV and Ter Molst International NV and Vyrolat spol. s.r.o.
- Authorization, in compliance with art. 524, § 5 of the Company Code, of the Belgian subsidiaries of Picanol NV to ratify the credit facility agreement.

Taking into account the submitted documents, i.e. a credit facility agreement and the documents received from the independent expert by virtue of art. 524 of the Company Code, the Committee of Independent Directors states that the proposed action, as provided in the credit facility agreement, is in the interest of Picanol NV and its subsidiaries. It states that the action is acceptable and that it has the following proprietary consequences:

Possibility of taking out a straight loan for an amount of 11 million euros (Proferro NV: 6.5 million euros; PsiControl Mechatronics NV: 4.5 million euros);

Interest rate EONIA + 160 points;

Interest payable per week;

Repayment to be agreed between debtor and creditor;

No financial guarantees to be furnished.

(...)"

The Committee states that the actions are legitimate.

3. Having heard the advice of the Committee of Independent Directors, the directors who are allowed to vote decide to adopt said advice.

A copy of the advice of the Committee of Independent Directors, and in appendix, the documentation of the independent expert as defined in art. 524, § 2 of the Company Code, i.e. 'A&F bedrijfsrevisoren', represented by Geert van Hemelryck, is added to the minutes in Appendix I.

Second agenda item: Ratification of the credit facility agreement in compliance with art. 524 of the Company Code

1. The Chairman states that Picanol NV, Proferro NV and PsiControl Mechatronics NV have concluded a credit facility agreement with the lenders for an amount of no more than 11,000,000 euros (straight loan - Proferro NV: 6.5 million euros; PsiControl Mechatronics NV: 4.5 million euros). A copy of the agreement is attached to the minutes in Appendix I.

2. The Board of Directors of the Company discusses the proposed ratification of the transaction and decides that the transaction is in the interest of the Company. The transaction produces the following proprietary consequences:

Possibility of taking out a straight loan for an amount of 11 million euros (Proferro NV: 6.5 million euros; PsiControl Mechatronics NV: 4.5 million euros);

Interest rate EONIA + 160 points;

Interest payable per week;

Repayment to be agreed between debtor and creditor;

No financial guarantees to be furnished.

This credit facility enables the company, at its simple request, to avail of funds to bridge any temporary liquidity needs without having to furnish security and at an interest rate that corresponds with the market trend.

Decision: the directors unanimously and retrospectively ratify the credit facility agreement between Picanol NV, Proferro NV and PsiControl Mechatronics NV as borrowers and Ter Molst International NV and Vyrolat spol. s.r.o. as lenders, as well as the withdrawals already made under this agreement in 2009 and 2010.

Third agenda item: Authorization of the Belgian subsidiaries of Picanol NV to ratify the credit facility agreement, in compliance with art. 524, § 5 of the Company Code.

The Chairman states that the Belgian subsidiaries of Picanol NV (Proferro NV and PsiControl Mechatronics) are also borrowers under the credit facility agreement. He notes that these companies may only approve the credit facility agreement after having been duly authorized by Picanol NV in accordance with art. 524, § 5 of the Company Code.

Decision: in view of the advice of the Committee of Independent Directors, as mentioned under the second agenda item, and the further analysis under the same agenda item, the directors unanimously decide to authorize the Boards of Directors of Proferro NV and PsiControl Mechatronics to ratify the credit facility agreement in accordance with art. 524, § 5 of the Company Code.

Board of Directors of Proferro NV of 4 March 2011:

Prior agenda item: application of art. 523 of the Company Code:

1. Prior to the commencement of any agenda items, the aforementioned Mr. Luc Tack asks to take the floor.

2. He states that as the representative of a director of Proferro NV and given the fact that he is the majority shareholder of all of the lenders, he has an interest of a proprietary and operational nature in the decision listed on the agenda that may be in conflict with the company's interest as defined in art. 523 of the Company Code.

3. He requests that in accordance with art. 523 of the Company Code, his statement be included in the minutes of the meeting of the Board of Directors. He states that in accordance with art. 523, § 1 (4) of the Company Code, he will not participate in the deliberations or the vote on the two agenda items that address subjects that, according to his statement, constitute a conflict of interest of a proprietary nature. He undertakes to inform the Statutory Auditor of the company about the application of art. 523 of the Company Code immediately after the meeting of the Board of Directors.

4. He states that the action to be ratified/approved is in the interest of Proferro NV.

After the aforementioned statements, Mr. Luc Tack states that in view of his conflict of interest as a director by virtue of art. 523 of the Company Code, he is not allowed to participate in the deliberation or the decision on the two agenda items.

After having delivered the aforementioned statement and prior to the commencement of the two agenda items, he leaves the meeting. The other directors state that the aforementioned director will not participate in the deliberations or the vote on the two agenda items.

First agenda item: Authorization of the Belgian subsidiaries of Picanol NV to ratify the credit facility agreement, in compliance with art. 524, § 5 of the Company Code.

The Chairman states that the Board of Directors of Picanol NV has on 4 March 2011, unanimously and retrospectively ratified the credit facility agreement between Picanol NV, Proferro NV and PsiControl Mechatronics NV as borrowers and Ter Molst International NV and Vyrolat spol. s.r.o. as lenders, as well as the withdrawals already made under this agreement in 2009 and 2010. The Chairman also states that the Board of Directors of Picanol NV has decided to authorize the Board of Directors of Proferro NV to ratify said credit facility agreement by virtue of art. 524, § 5 of the Company Code.

Second agenda item: Ratification of the credit facility agreement in compliance with art. 524 of the Company Code

1. The Chairman states that Proferro NV has concluded a credit facility agreement with the lenders for an amount of no more than 6,500,000 euros (straight loan). A copy of the agreement is attached to the minutes in Appendix I.

2. The Board of Directors of the Company discusses the proposed ratification of the transaction and decides that the transaction is in the interest of the Company.

The transaction produces the following proprietary consequences:

Possibility of taking out a straight loan for a maximum of 6.5 million euros;

Interest rate EONIA + 160 points;

Interest payable per week;

Repayment to be agreed between debtor and creditor;

No financial guarantees to be furnished.

This credit facility enables the company, at its simple request, to avail of funds to bridge any temporary liquidity needs without having to furnish security and at an interest rate that corresponds with the market trend.

Decision: the directors unanimously and retrospectively ratify the credit facility agreement between Proferro NV as borrower and Ter Molst International NV and Vyrolat spol. s.r.o. as lenders, as well as the withdrawals already made under this agreement in 2010.

Board of Directors of PsiControl Mechatronics NV of 4 March 2011:

Prior agenda item: application of art. 523 of the Company Code:

1. Prior to the commencement of any agenda items, the aforementioned Mr. Luc Tack asks to take the floor.

2. He states that as the representative of a director of PsiControl Mechatronics NV and given the fact that he is the majority shareholder of all of the lenders, he has an interest of a proprietary and operational nature in the decision listed on the agenda that may be in conflict with the company's interest as defined in art. 523 of the Company Code.

3. He requests that in accordance with art. 523 of the Company Code, his statement be included in the minutes of the meeting of the Board of Directors.

He states that in accordance with art. 523, § 1 (4) of the Company Code, he will not participate in the deliberations or the vote on the two agenda items that address subjects that, according to his statement, constitute a conflict of interest of a proprietary nature. He undertakes to inform the Statutory Auditor of the company about the application of art. 523 of the Company Code immediately after the meeting of the Board of Directors.

4. He states that the action to be ratified/approved is in the interest of PsiControl Mechatronics NV.

After the aforementioned statements, Mr. Luc Tack states that in view of his conflict of interest as a director by virtue of art. 523 of the Company Code, he is not allowed to participate in the deliberation or the decision on the two agenda items.

After having delivered the aforementioned statement and prior to the commencement of the two agenda items, he leaves the meeting. The other directors state that the aforementioned director will not participate in the deliberations or the vote on the two agenda items.

First agenda item: Authorization of the Belgian subsidiaries of Picanol NV to ratify the credit facility agreement, in compliance with art. 524, § 5 of the Company Code.

Mrs. Cathy Defoor states that the Board of Directors of Picanol NV has on 4 March 2011 unanimously and retrospectively ratified the credit facility agreement between Picanol NV, Proferro NV and PsiControl Mechatronics NV as borrowers and Ter Molst International NV and Vyrolat spol. s.r.o. as lenders, as well as the withdrawals already made under this agreement in 2009 and 2010.

Mrs. Cathy Defoor also states that the Board of Directors of Picanol NV has decided to authorize the Board of Directors of PsiControl Mechatronics NV to ratify said credit facility agreement by virtue of art. 524, § 5 of the Company Code.

Second agenda item: Ratification of the credit facility agreement in compliance with art. 524 of the Company Code

1. Mrs. Cathy Defoor states that PsiControl Mechatronics NV has concluded a credit facility agreement with the lenders for an amount of no more than 4,500,000 euros (straight loan). A copy of the agreement is attached to the minutes in Appendix I.

2. The Board of Directors of the Company discusses the proposed ratification of the transaction and decides that the transaction is in the interest of the Company.

The transaction produces the following proprietary consequences:

Possibility of taking out a straight loan for a maximum of 4.5 million euros;

Interest rate EONIA + 160 points;

Interest payable per week;

Repayment to be agreed between debtor and creditor;

No financial guarantees to be furnished.

Thanks to this credit facility, the company may at its simple request, avail of funds to bridge any temporary liquidity needs without having to furnish security and at an interest rate that corresponds with the market trend.

Decision: the directors unanimously and retrospectively ratify the credit facility agreement between PsiControl Mechatronics NV as borrower and Ter Molst International NV and Vyrolat spol. s.r.o. as lenders, as well as the withdrawals already made under this agreement in 2010.

XI. OBLIGATIONS TO PROVIDE PERIODIC INFORMATION AS A RESULT OF THE DISCLOSURE GUIDELINES IN FORCE AS OF 1 JANUARY 2009

Declaration concerning the information given in this report for the 12 months ending on 31 December 2010.

The undersigned declare that:

- The quarterly 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 the reporting company and of the enterprises included in the consolidation;
- The report for the 12 months ending on 31 December 2010 gives a true picture of the company's results and developments, and of the position of the reporting company 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 | 31 |
| II. FINANCIAL STATEMENTS | 32 |
| <u>II.1.</u> CONSOLIDATED INCOME STATEMENT | 32 |
| <u>II.2.</u> CONSOLIDATED BALANCE SHEET | 34 |
| <u>II.3.</u> CONSOLIDATED CASH FLOW STATEMENT | 35 |
| <u>II.4.</u> STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY | 36 |
| III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2010 | 37 |
| <u>III.1.</u> SUMMARY OF THE VALUATION RULES | 37 |
| <u>III.2.</u> CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION CERTAINTY | 47 |
| <u>III.3.</u> CHANGES IN ACCOUNTING PRINCIPLES APPLIED | 47 |
| <u>III.4.</u> CHANGES IN SCOPE OF CONSOLIDATION | 47 |
| <u>III.5.</u> SEGMENT INFORMATION | 48 |
| <u>III.6.</u> INCOME STATEMENT | 51 |
| <u>III.7.</u> BALANCE SHEET | 57 |
| <u>III.8.</u> MISCELLANEOUS | 76 |
| STATUTORY FINANCIAL STATEMENTS OF PICANOL NV | 81 |
| STATUTORY AUDITOR'S REPORT | 83 |
| INFORMATION FOR SHAREHOLDERS | 85 |

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. |
| Net assets | Net liabilities + shareholders' equity |
| EBIT | Operating result |
| EBITDA | EBIT + depreciation and impairment of assets + adjustments of write-offs on inventories and trade receivables + adjustments of other provisions. |
| Subsidiaries | Entities under the control of Picanol and which are fully consolidated. |
| Working capital | Inventories + trade receivables – trade payables – down payments received – remuneration and social security contributions – taxation at source on remuneration. |
| Gross margin | Sales – cost of sales |
| Export finance | Bank loans to refinance credit granted to our customers, secured by bills of exchange or promissory notes accepted by our customers. |

II. FINANCIAL STATEMENTS

The consolidated financial statements were approved for publication by the Board of Directors on 4 March 2011.

II.1. CONSOLIDATED INCOME STATEMENT

| PICANOL GROUP (in '000 euros) | NOTES (*) | 31/12/2010 | 31/12/2009 |
|---|------------------|-------------------|-------------------|
| Sales | III.5. | 395,774 | 250,232 |
| Cost of sales | | -313,832 | -226,608 |
| GROSS PROFIT | | 81,942 | 23,625 |
| Gross profit % on sales | | 20.7% | 9.4% |
| General and administrative expenses | | -18,011 | -23,373 |
| Selling and marketing expenses | | -16,337 | -14,593 |
| Other operating income | III.6.1. | 609 | 59 |
| Other operating expenses | III.6.2. | -1,474 | -13,896 |
| OPERATING RESULT | III.6.3. | 46,730 | -28,178 |
| Total interest income | III.6.4. | 1,077 | 825 |
| Total interest expenses | III.6.4. | -1,116 | -1,529 |
| Other financial income | III.6.4. | 1,178 | 502 |
| Other financial expenses | III.6.4. | -978 | -1,092 |
| PROFIT OR LOSS BEFORE TAXES | | 46,891 | -29,472 |
| Income taxes | III.6.5. | -11,648 | 5,945 |
| PROFIT OR LOSS | | 35,244 | -23,527 |
| SHARE OF THE GROUP IN PROFIT OR LOSS | | 35,244 | -23,527 |

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

EARNINGS PER SHARE

| PICANOL GROUP (in '000 euros) | NOTES | 31/12/2010 | 31/12/2009 |
|--------------------------------------|--------------|-------------------|-------------------|
| Basic earnings per share | III.6.7. | 1.99 | -2.03 |
| Diluted earnings per share | III.6.8. | 1.99 | -2.03 |

CONSOLIDATED INCOME STATEMENT

| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2009 |
|---|-------------------|-------------------|
| PROFIT/(LOSS) FROM THE PERIOD | 35,244 | -23,527 |
| Other elements of the total result from the period | 2,771 | -744 |
| Exchange rate differences | 2,771 | -744 |
| Other elements of the total result after taxes from the period | 2,771 | -744 |
| TOTAL RESULT | 38,015 | -24,271 |

II.2. CONSOLIDATED BALANCE SHEET

| PICANOL GROUP (in '000 euros) | NOTES (*) | 31/12/2010 | 31/12/2009 |
|---|------------------------|----------------|----------------|
| FIXED ASSETS | | 67,032 | 76,501 |
| Intangible assets | III.7.1. | 5,902 | 5,941 |
| Goodwill | III.7.2. | 0 | 0 |
| Tangible fixed assets | III.7.3. & III.7.4. | 55,215 | 59,068 |
| Other financial investments | III.7.6. | 79 | 77 |
| Non-current receivables | III.7.7. | 3,693 | 3,281 |
| Deferred tax assets | III.6.5. | 2,143 | 8,134 |
| CURRENT ASSETS | | 153,639 | 104,770 |
| Inventories and contracts in progress | III.7.8. | 47,741 | 39,418 |
| Trade receivables | III.7.9. | 56,473 | 32,796 |
| Other receivables | III.7.9. | 21,662 | 13,711 |
| Cash and cash equivalents | III.7.10. | 27,763 | 18,845 |
| TOTAL ASSETS | | 220,671 | 181,271 |
| SHAREHOLDERS' EQUITY | II.4. | 98,948 | 60,934 |
| Share capital | III.7.11. | 21,720 | 21,720 |
| Share premiums | III.7.12. | 1,518 | 1,518 |
| Reserves | | 73,683 | 38,440 |
| Translation differences | | 2,027 | -744 |
| <i>Equity attributable to the shareholders of the group</i> | | <i>98,948</i> | <i>60,934</i> |
| Minority interests | | 0 | 0 |
| NON-CURRENT LIABILITIES | | 22,559 | 23,852 |
| Employee benefit obligations | III.7.13. | 10,076 | 10,631 |
| Provisions | III.7.14. | 1,754 | 1,780 |
| Deferred tax liabilities | III.6.5. | 2,209 | 173 |
| Interest-bearing debt | III.7.15. | 8,520 | 11,268 |
| Financial leases | III.7.17. | 7,363 | 9,153 |
| Credit institutions | III.7.15. | 1,157 | 2,115 |
| Other liabilities | III.7.16. | 0 | 0 |
| CURRENT LIABILITIES | | 99,167 | 96,486 |
| Employee benefit obligations | III.7.13. | 1,276 | 1,322 |
| Provisions | III.7.14. | 5,741 | 7,385 |
| Interest-bearing debt | III.7.15. | 4,073 | 14,584 |
| Trade payables | III.7.19. | 49,386 | 43,737 |
| Income taxes payable | III.7.19. | 2,778 | 1,050 |
| Other current liabilities | III.7.19. | 35,913 | 28,408 |
| TOTAL LIABILITIES | | 220,671 | 181,271 |

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

II.3. CONSOLIDATED CASH FLOW STATEMENT

| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2009 |
|--|-------------------|-------------------|
| Operating result | 46,730 | -28,178 |
| Depreciation on intangible and tangible fixed assets | 9,176 | 11,272 |
| Impairment losses of assets | 260 | 1,490 |
| Write-offs on assets | 2,020 | 5,075 |
| Changes in provisions | -2,271 | 8,114 |
| (Profit)/loss on the disposal of assets | 324 | -10 |
| Income from associated companies | | |
| Gross cash flow from operating activities | 56,239 | -2,237 |
| Changes in working capital * | -29,228 | 28,789 |
| Changes in non-current receivables | -412 | 3,902 |
| Changes in stocks and work-in-progress | -11,280 | 14,056 |
| Changes in short-term receivables | -22,739 | -2,448 |
| Changes in other receivables | -7,951 | -1,348 |
| Changes in trade receivables | 5,649 | 11,752 |
| Other current liabilities | 7,505 | 2,875 |
| Cash flow from operating activities | 27,011 | 26,552 |
| Income taxes | -1,815 | -13 |
| Net cash flow from operating activities | 25,196 | 26,538 |
| Interest received | 1,077 | 825 |
| Acquisitions of intangible fixed assets | -1,055 | -1,166 |
| Acquisitions of tangible fixed assets | -3,722 | -3,889 |
| Proceeds from disposals of tangible fixed assets | | 80 |
| Net cash flow from investment activities | -3,700 | -4,150 |
| Interest paid | -1,116 | -1,529 |
| Dividend paid | 0 | |
| Capital increase | 0 | 14,259 |
| Increase/(decrease) of export financing | -3,451 | -5,412 |
| Acquisitions of interest-bearing financial debt | 200 | 440 |
| Repayments of interest-bearing financial debt | -10,007 | -23,295 |
| Cash flow from finance activities | -14,374 | -15,537 |
| Effect of exchange rate fluctuations | 1,796 | -1,109 |
| Adjustments to cash and cash equivalents | 8,918 | 5,742 |
| Net cash position - opening balance | 18,845 | 13,103 |
| Net cash position - closing balance | 27,763 | 18,845 |
| | 8,918 | 5,742 |

* The changes in working capital in 2010 are mainly an increase of trade receivables by 24.1 million euros, due to an increase in sales. The decrease of the working capital in 2009 was mainly caused by a decrease in stocks by 14.4 million euros.

II.4. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ending on 31 December 2010

| PICANOL GROUP (in '000 euros) | Share capital | Share premiums | Retained earnings | Translation differences | Total before minority interests | Minority interests | Total after minority interests |
|--|---------------|----------------|-------------------|-------------------------|---------------------------------|--------------------|--------------------------------|
| At the end of the preceding period | 21,720 | 1,518 | 38,440 | -744 | 60,934 | 0 | 60,934 |
| Changes in scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Result over the reporting period | 0 | 0 | 35,244 | 0 | 35,244 | 0 | 35,244 |
| Translation differences | 0 | 0 | 0 | 2,771 | 2,771 | 0 | 2,771 |
| other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total recognized profits and losses</i> | <i>0</i> | <i>0</i> | <i>35,244</i> | <i>2,771</i> | <i>38,015</i> | <i>0</i> | <i>38,015</i> |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At the end of the reporting period | 21,720 | 1,518 | 73,684 | 2,027 | 98,949 | 0 | 98,948 |

For the year ending on 31 December 2009

| PICANOL GROUP (in '000 euros) | Share capital | Share premiums | Retained earnings | Translation differences | Total before minority interests | Minority interests | Total after minority interests |
|--|---------------|----------------|-------------------|-------------------------|---------------------------------|--------------------|--------------------------------|
| At the end of the preceding period | 7,400 | 1,332 | 61,967 | 125 | 70,824 | 0 | 70,824 |
| Changes in scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Result over the reporting period | 0 | 0 | -23,527 | 0 | -23,527 | 0 | -23,527 |
| Translation differences | 0 | 0 | 0 | -869 | -869 | 0 | -869 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total recognized profits and losses</i> | <i>0</i> | <i>0</i> | <i>-23,527</i> | <i>-869</i> | <i>-24,396</i> | <i>0</i> | <i>-24,396</i> |
| dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital increase* | 14,320 | 186 | | | 14,506 | | 14,506 |
| At the end of the reporting period | 21,720 | 1,518 | 38,440 | -744 | 60,934 | 0 | 60,934 |

The increase in the translation differences is due to the positive evolution of the RMB (both Chinese plants) and the USD (subsidiary GTP Greenville) compared to the historic exchange rates.

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2010

III.1. SUMMARY OF THE VALUATION RULES

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

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

III.1.2. GENERAL PRINCIPLES

Basis of presentation

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

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

The valuation rules have consistently been applied to the year 2010, 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 2010.

Standards and interpretations applicable for the financial year starting on 1 January 2010

- IFRS 3 Business combinations (applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). This standard replaces IFRS 3 Business Combinations as issued in 2004.
- Improvements to IFRS (2008-2009) (applicable for financial years as of 1 January 2010).
- Amendment of IFRS 1 First application of IFRS – Additional exemptions from IFRS 7 (applicable for financial years as of 1 January 2010).
- Amendment of IFRS 2 Share-based payments (amendments applicable for financial years as of 1 January 2010).
- Amendment of IAS 27 Consolidated and separate financial statements (amendments applicable for financial years as of 1 July 2009). This standard is an amendment of IAS 27 Consolidated and separate financial statements (revised in 2003).
- Amendment of IAS 39 Financial instruments: Recognition and measurement – Instruments for which hedging is permitted (applicable for financial years as of 1 July 2009).
- IFRIC 12 Service Concession Arrangements (applicable for financial years as of 1 April 2009)
- IFRIC 15 Agreements for the construction of real estate (applicable for financial years as of 1 January 2010).
- IFRIC 16 Hedging of investments in foreign activities (applicable for financial years as of 1 July 2009).
- IFRIC 17 Distribution of non-cash assets to owners (applicable for financial years as of 1 November 2009).
- IFRIC 18 Transfer of assets from customers (applicable for financial years as of 1 November 2009).

Standards and interpretations published, but not yet applicable for the financial year starting on 1 January 2010

- IFRS 9 Financial instruments (applicable for financial years as of 1 January 2013).
- Improvements to IFRS (2009-2010) (applicable for financial years as of 1 January 2011).
- Amendment of IFRS 1 First application of IFRS – Exemptions from IFRS 7 (applicable for financial years as of 1 July 2010).
- Amendment of IFRS 1 First application of IFRS – Severe hyperinflation and removal of fixed transition dates for first-time adopters (applicable for financial years as of 1 July 2011)
- Amendment of IFRS 7 Financial instruments: Disclosures – Derecognition (applicable for financial years as of 1 July 2011).
- Amendment of IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets (applicable for financial years as of 1 January 2012)
- Amendment of IAS 24 Related party disclosures (applicable for financial years as of 1 January 2011). This standard replaces IAS 24 Related party disclosures, issued in 2003.
- Amendment of IAS 32 Financial instruments: Presentation - Classification of claim issues (applicable for financial years as of 1 February 2010).
- IFRIC 19 Extinguishing financial liabilities with equity instruments (applicable for financial years as of 1 July 2010)
- Amendment of IFRIC 14 IAS 19 – Limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayment of a minimum funding requirement (applicable for financial years as of 1 January 2011).

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.

III.1.3. BALANCE SHEET

Intangible assets

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

Internally generated intangible assets

Research expenditure is charged to the income statement when incurred.

Internally 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 licences

The costs of acquired patents and licences 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 recognise 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 of 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.

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.

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 selling expenses.

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 held 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 Mechatronics 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. With regard to the minimal return because of 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 discounted value of the gross liability in respect of defined benefit plans at the balance sheet date;
- (b) less the fair value at the balance sheet date of any investment funds, from which the liabilities must be directly settled;
- (c) plus any actuarial gains (less any actuarial losses) that have not been recognized as a result of the application of the 'corridor' approach;
- (d) less any unrecognized pension costs of past service.

The corridor approach entails that the actuarial gains and losses which, at the end of the previous reporting period, exceeded the larger of 10% of the discounted value of the gross liability in respect of the defined benefit rights on that date and 10% of the fair value of the fund investments on that date, are recognized in the income statement over the expected average remaining service life of the plan participants involved.

The discounted value of the gross liability in respect of defined benefit plans is calculated by discounting the gross liabilities at a discount rate which is based on the market yield of high quality company bonds at the balance sheet date.

A provision for current early retirements is recognized as a liability and as a charge if the entity has demonstrably committed itself to either:

- (a) the termination of the employment of an employee or a group of employees prior to the normal pension date; or
- (b) the making of redundancy payments as a result of an offer made to employees to encourage voluntary redundancy.

If redundancy payments are due only 12 months at least after the balance sheet date, they will be discounted. If an offer is made to encourage voluntary redundancy, the valuation of the redundancy payments will be based on the number of employees who are expected to accept the offer.

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

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

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.

Available-for-sale financial assets

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 depreciation.

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) which 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 realizable 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 another book value of the asset or liability.

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

III.1.4. REVENUE

General

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

Sale of goods

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

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

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

Delivery of services

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

Interest income from loans and export finance

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

Dividend income

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

Income taxes

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

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

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

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

The carrying amount of the deferred tax assets is reviewed at each balance sheet and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the tax assets to be recovered.

Deferred taxes are calculated at the tax rates which will probably be applied to the period in which the liability is settled or the assets are realized. Deferred taxes will be debited or credited in the income statement, except if 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 recognized 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. KEY 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.

The realizable value of Picanol's global business is based upon a business value approach. The projections used in the model for discussing this business value are based on a 5-year period. In this context management revised its business plan to arrive at the best possible estimate for the following years. The plan foresees volumes equal to those in 2010 for the division Weaving Machines and a continuing growth increase for the division Industries in 2011. A growth rate of 3% a year is assumed from 2012 onwards. The residual value is determined on the basis of cash flows to perpetuity with a general growth of 1.5%. The discount rate used in the model is 10% after taxes, based on a WACC model, taking into account the specific industrial data. This calculation shows the realizable value of our global businesses to exceed the net carrying value of the fixed assets by 287 million euros or respectively 170 million euros concerning the Weaving segment and 117 million euros concerning the Industries segment. As sensitivity analysis of the Industries segment, the realizable value decreases with 14,149 euros for every one percent rise in the discount rate and with 38,836 euros for every one percent fall of the ratio EBITDA/Sales.

The assumptions contained in the business plan were used in assessing the risks for the purpose of asset valuation. The main assets, of which the valuation is impacted by the assumptions of the business plan are deferred tax assets, intangible assets (more particularly capitalized development costs), tangible fixed assets and goodwill.

III.3. CHANGES IN ACCOUNTING PRINCIPLES APPLIED

There were no changes in accounting principles applied in the financial year 2010 in comparison with the financial year 2009,.

III.4. CHANGES IN SCOPE OF CONSOLIDATION

The liquidation of GTP Milano was completed in 2010. This does not have any impact on the consolidated accounts.

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 pillars can be found hereafter.

For the year ending on 31 December 2010

| PICANOL GROUP (in '000 euros) | Weaving Machines | Industries | Eliminations | Consoli- dated |
|--------------------------------------|-----------------------------|-------------------|---------------------|---------------------------|
| External sales | 340,734 | 55,040 | | 395,774 |
| Inter-segment sales | 2,282 | 52,344 | -54,626 | 0 |
| TOTAL SALES | 343,016 | 107,384 | -54,626 | 395,774 |
| OPERATING PROFIT | 46,670 | 70 | | 46,730 |
| Financial result | | | | 161 |
| PROFIT OR LOSS BEFORE TAXES | | | | 46,891 |
| Income taxes | | | | -11,648 |
| PROFIT OR LOSS AFTER TAXES | | | | 35,244 |
| Share of minority interests | | | | 0 |
| SHARE OF THE GROUP | | | | 35,244 |

For the year ending on 31 December 2009

| PICANOL GROUP (in '000 euros) | Weaving Machines | Industries | Eliminations | Consoli- dated |
|--------------------------------------|-----------------------------|-------------------|---------------------|---------------------------|
| External sales | 214,220 | 36,012 | | 250,231 |
| Inter-segment sales | 1,450 | 41,462 | -42,912 | 0 |
| TOTAL SALES | 215,670 | 77,474 | -42,912 | 250,231 |
| OPERATING PROFIT | -11,563 | -16,615 | | -28,178 |
| Financial result | | | | -1,293 |
| PROFIT OR LOSS BEFORE TAXES | | | | -29,472 |
| Income taxes | | | | 5,945 |
| PROFIT OR LOSS AFTER TAXES | | | | -23,527 |
| Share of minority interests | | | | 0 |
| SHARE OF THE GROUP | | | | -23,527 |

The increase of the total group operating profit is a result of steep profits realized in the Weaving Machine division (+ 58.2 million euros) and the Industries division (+ 16.7 million euros). The positive profit development is the result of strong turnover growth. In addition, the profit from business operations in 2009 included costs linked to the reorganization of 12 million euros (10.3 million euros charged to the Weaving Machine segment and 1.7 million euros charged to the Industries segment).

The Weaving Machines segment realized a 59% increase in turnover that – also as a result of the reorganization costs, which no longer exist – translates into a steep profit surge. The profit ratio (exclusive of the reorganization costs) rose from 0% in 2009 to 14% in 2010 as a result of continuous efforts to contain material costs, as well as strict control of fixed costs. The key non-recurrent costs or income in the Weaving Machines division in 2010 involve a provision for performance warranties of 1.4 million euros.

In the Industries segment, the strong growth in the external turnover (+ 53% vs. 2009) was the main reason behind the improved results. Thanks to increased productivity and as costs did not rise in proportion with the increase in turnover, the profit ratio rose from -19% in 2009 to 0% in 2010. The result includes non-recurrent costs of 0.7 million euros.

OTHER INFORMATION

For the year ending on 31 December 2010

| PICANOL GROUP (in '000 euros) | Weaving Machines | Industries | Consolidated |
|--|-----------------------------|-------------------|---------------------|
| Depreciation and amortization | 5,020 | 4,156 | 9,176 |
| Impairment losses recognized in profit or loss | | 260 | 260 |
| Acquisitions | 3,590 | 1,187 | 4,777 |

For the year ending on 31 December 2009

| PICANOL GROUP (in '000 euros) | Weaving Machines | Industries | Consolidated |
|--|-----------------------------|-------------------|---------------------|
| Depreciation and amortization | 7,944 | 3,329 | 11,272 |
| Impairment losses recognized in profit or loss | 1,134 | 356 | 1,490 |
| Acquisitions | 3,765 | 8,645 | 12,410 |

BALANCE SHEET

| PICANOL GROUP (in '000 euros) | Weaving Machines | Industries | Non- segment | Elimina- tions | Consoli- dated |
|---|-----------------------------|-------------------|-------------------------|---------------------------|---------------------------|
| 2010 | | | | | |
| Total consolidated assets | 147,972 | 62,930 | 34,956 | -25,186 | 220,671 |
| Total consolidated liabilities | 76,777 | 30,326 | 138,740 | -25,173 | 220,671 |
| 2009 | | | | | |
| Total consolidated assets | 112,868 | 51,785 | 40,270 | -23,654 | 181,271 |
| Total consolidated liabilities | 54,113 | 30,182 | 120,630 | -23,654 | 181,271 |

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.

The table below shows the sales and fixed assets of the Picanol Group by geographical market.

SALES

| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2009 |
|--------------------------------------|-------------------|-------------------|
| Europe, America and Africa | 125,916 | 94,377 |
| Far & Middle East | 269,858 | 155,856 |
| TOTAL | 395,774 | 250,232 |

INTANGIBLE ASSETS – TANGIBLE FIXED ASSETS

| PICANOL GROUP (in '000 euros) | Net carrying value | | Acquisitions | |
|--------------------------------------|---------------------------|---------------|---------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Europe, America and Africa | 52,448 | 57,176 | 3,760 | 11,170 |
| Far & Middle East | 8,669 | 7,833 | 1,018 | 1,940 |
| TOTAL | 61,117 | 65,009 | 4,777 | 13,110 |

The company does not have customers that realize more than 10% of the turnover.

III.6. INCOME STATEMENT

III.6.1. OTHER OPERATING INCOME

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|---|-------------|-------------|
| Reversal of unused provision reorganization costs | 426 | |
| Other | 184 | 59 |
| TOTAL | 609 | 59 |

In 2009 and 2010 no substantial other operating income was realized.

III.6.2. OTHER OPERATING EXPENSES

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--------------------------------------|--------------|---------------|
| Extraordinary write-downs | | 1,490 |
| Provision for onerous contracts | 850 | |
| Loss on the disposal of assets | 324 | |
| Reorganization costs | 108 | 12,021 |
| Other | 192 | 384 |
| TOTAL | 1,474 | 13,896 |

The extraordinary write-downs in 2010 include provisions for leases of unused company spaces in Ypres and Romania and an exceptional valuation allowance of a production machine.

The extraordinary write-downs in 2009 relate to impairment of goodwill, mainly in Verbrugge NV. The reorganization costs in 2009 include the restructuring costs for the companies Picanol NV, Proferro NV, PsiControl Mechatronics NV and Verbrugge NV, together with the redundancy costs for the planned closure of Te Strake Textile and Günne.

III.6.3. OPERATING RESULT

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--|---------------|----------------|
| Sales | 395,774 | 250,232 |
| Purchases of goods and changes in inventories | -199,160 | -125,655 |
| Amortization, depreciation and impairment | -9,436 | -9,782 |
| Amounts written off on inventories & receivables | -2,020 | -5,075 |
| Other goods and services | -51,360 | -50,447 |
| Personnel costs | -83,515 | -74,423 |
| Provisions | -2,689 | 819 |
| Other operating income | 609 | 59 |
| Other operating expenses | -1,474 | -13,896 |
| TOTAL OPERATING RESULT | 46,730 | -28,178 |

Sales increased by 58% compared with 2009. The ratio of purchases of goods and changes in inventory to sales remained stable at 50%

The fall of the amortization on assets is due to the additional depreciation on the stock of maintenance materials of 5.0 million euros in 2009.

Personnel costs and to a lesser extent the other goods and services that form part of the costs of sales, rose as a result of the strongly increased volume. Personnel costs and other goods and services that form part of the general and administrative costs decreased as compared to the previous fiscal year as a result of the 2009 reorganization and revision of key service contracts.

The increase in provisions mainly involves contracts under performance guarantees (1.4 million euros) and product guarantees (0.6 million euros).

The reversal of the provision for reorganization costs (4.6 million euros) is included in the other operating income, where it is compensated by the paid reorganization costs of 4.2 million euros.

III.6.4. FINANCIAL RESULT

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|---|---------------|---------------|
| Interest on export finance | -201 | -226 |
| Interest on other loans | -208 | -1,290 |
| Interest on financial leases | -708 | -460 |
| Total interest expenses | -1,116 | -1,976 |
| Interest income from bank deposits | 138 | 147 |
| Interest income from financial receivables | 939 | 1,124 |
| Total interest income from financial receivables & cash and cash Equivalents | 1,077 | 1,272 |
| Interest income / (-expenses) | -39 | -704 |
| Exchange rate differences | 1,178 | 294 |
| Profit on revaluation of derivatives | 0 | 0 |
| Other financial income | 1,178 | 294 |
| Exchange rate differences | -943 | -883 |
| Loss on revaluation of derivatives | -35 | |
| Other financial expenses | -978 | -883 |
| Other financial result | 200 | -589 |
| FINANCIAL RESULT | 161 | -1,293 |

The consolidated interest cost kept decreasing in 2010 by 0.8 million euros compared to 2009, mainly due to a further reduction of the recorded straight-loans.

III.6.5. INCOME TAXES

INCOME TAX EXPENSE

Recognized in the income statement

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|---|----------------|--------------|
| Current tax: | | |
| TOTAL | -3,543 | -13 |
| Deferred tax: | | |
| (Under)/ over provision in previous year | 0 | 0 |
| Recognition and reversal of temporary differences | -3,257 | 1,584 |
| Utilization of previous year's losses | | |
| Impairments on deferred taxes on losses of current and previous reporting periods | -38 | -4,289 |
| Use deferred tax assets | -5,057 | -154 |
| Inclusion deferred tax assets | 247 | 8,818 |
| TOTAL | -8,105 | 5,959 |
| TOTAL INCOME TAXES | -11,649 | 5,946 |

Effective tax rate reconciliation

| PICANOL GROUP (in '000 euros) | 2010 | % | 2009 | % |
|--|---------|--------|---------|---------|
| Profit before tax and before income from associates | 46,891 | | -29,115 | |
| Tax at the domestic tax rate of 33.99% | -15,938 | 33.99% | 9,896 | 33.99% |
| Tax effects of non-deductible expenses | | | | |
| Non-deductible depreciation on goodwill and intangible assets | 0 | 0.00% | 0 | 0.00% |
| Non-tax-deductible expenses | -783 | 1.67% | -1,003 | -3.45% |
| Other | -98 | 0.21% | 60 | 0.21% |
| Tax effects of tax-exempt revenues | | | | |
| Non-taxable dividends received from non-consolidated entities | 0 | 0.00% | 0 | 0.00% |
| Non-taxable financial and other income | 248 | -0.53% | 67 | 0.23% |
| Notional interest deduction | 135 | -0.29% | 352 | 1.21% |
| Other | 0 | 0.00% | 0 | 0.00% |
| Deferred tax effect resulting from a change in tax rates | 0 | 0.00% | 96 | 0.33% |
| Tax effects of corrections to deferred and current tax of previous periods | -72 | 0.15% | -761 | -2.61% |
| Effects of different tax rates of group entities in other jurisdictions | 4,591 | -9.79% | 2,542 | 8.73% |
| Tax effect of utilization of tax losses not previously recognized | 308 | -0.66% | 54 | 0.19% |
| Valuation allowance on deferred tax assets | -38 | 0.08% | -5,358 | -18.40% |
| Tax expense and effective tax rate for the period | -11,648 | 24.84% | 5,945 | 20.42% |

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

In 2010 no deferred tax credits were directly included in the equity.

DEFERRED TAX

Recognized deferred tax

| PICANOL GROUP (in '000 euros) | 31/12/2010 | | 31/12/2009 | |
|---|------------------------|--------------------------------|------------------------|--------------------------------|
| | DEFERRED TAX ASSETS | DEFERRED TAX LIABILITIES | DEFERRED TAX ASSETS | DEFERRED TAX LIABILITIES |
| Intangible assets | 0 | -1,521 | 0 | -1,374 |
| Tangible fixed assets | 0 | -5,899 | 54 | -6,415 |
| Inventories | 328 | 0 | 1,209 | -128 |
| Other assets | 12 | -54 | 17 | -143 |
| Employee benefit obligations | 66 | 0 | 485 | 0 |
| Other provisions | 983 | 0 | 1,052 | 0 |
| Other liabilities | 0 | -1,367 | 0 | -1,086 |
| Tax loss carryforwards/ tax credits | 12,236 | 0 | 18,898 | 0 |
| Notional interest deduction carryforwards | 673 | 0 | 807 | 0 |
| Other adjustments | 0 | -1,101 | 0 | -1,126 |
| TOTAL | 14,298 | -9,942 | 22,520 | -10,274 |
| Valuation allowance | -4,422 | 0 | -4,289 | 0 |
| Offset (*) | -7,733 | 7,733 | -10,101 | 10,101 |
| TOTAL (as reported in the balance sheet) | 2,143 | -2,209 | 8,131 | -173 |

(*) 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 31/12/2010 and the end of 2009 is primarily due to:

- The decrease in deferred tax assets as a result of the decrease in the tax loss carried forward of mainly Picanol NV for an amount of 6.6 million euros.
- The decrease of deferred tax assets on stocks due to an equalization of the statutory valuation rules with the group valuation rules for the Belgian companies.

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) | 2010 | 2009 |
|--------------------------------------|-------------|-------------|
| 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 | 2,129 | 1,825 |
| Without time limit | 18,996 | 18,564 |

DEFERRED TAX ASSETS ON WHICH VALUATION ALLOWANCES WERE TAKEN AT 31 DECEMBER 2010:

| PICANOL GROUP (in '000 euros) | GROSS AMOUNT | TOTAL DEFERRED TAX ASSETS | RECOGNIZED DEFERRED TAX ASSETS | NON-RECOGNIZED DEFERRED TAX ASSETS |
|--------------------------------------|---------------------|----------------------------------|---------------------------------------|---|
| Tax loss carryforward | 21,125 | 7,180 | 0 | 7,180 |
| Inventories | | 0 | 0 | 0 |
| Other temporary differences | | 0 | 0 | 0 |
| TOTAL | 21,125 | 7,180 | 0 | 7,180 |

DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT 31 DECEMBER 2010:

No liabilities or assets were recognized for temporary differences relating to non-calculated or 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. Furthermore no reversal will be executed in the near future. Undistributed reserves of subsidiaries and the related unrecognized deferred tax liability amount to 29.2 million euros and 7.6 million euros respectively at 31 December 2010.

III.6.6. DIVIDENDS

In 2010, no dividend was paid for the annual period 2009.

The Board of Directors will propose to the Annual General Meeting of 20 April 2011 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 | 2010 | 2009 |
|---|-------------------|-------------------|
| (in '000 euros) | | |
| Net profit or loss over the period | 35,244 | -23,527 |
| Net profit or loss from continuing operations | 35,244 | -23,527 |
| | 2010 | 2009 |
| (number of shares) | | |
| Ordinary shares per 01/01 | 17,700,000 | 5,900,000 |
| Capital increase 08/07/2009 | | 11,800,000 |
| Ordinary shares per 31/12 | 17,700,000 | 17,700,000 |
| Weighted average number of outstanding ordinary shares | 17,700,000 | 11,605,495 |
| | 2010 | 2009 |
| (in euros) | | |
| Basic earnings per share | 1.99 | -2.03 |
| Basic earnings per share from continuing operations | 1.99 | -2.03 |

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 2010 and 2009.

| PICANOL GROUP | 2010 | 2009 |
|--|-------------------|-------------------|
| (in '000 euros) | | |
| Net profit or loss over the period | 35,244 | -23,527 |
| Profit or loss attributable to the ordinary shareholders of the company | 35,244 | -23,527 |
| Weighted average number of outstanding ordinary shares | 17,700,000 | 11,605,495 |
| Weighted average number of shares for the diluted earnings per share | 17,700,000 | 11,605,495 |
| | 2010 | 2009 |
| (in euros) | | |
| Diluted earnings per share | 1.99 | -2.03 |
| Diluted earnings per share from continuing operations | 1.99 | -2.03 |

III.7. BALANCE SHEET

III.7.1. INTANGIBLE ASSETS

For the year ending on 31 December 2010:

| | Development expenses | Concessions, Patents and Licences | Goodwill | Other Intangible Assets | Assets under Construction and Advance Payments | Total |
|--|----------------------|-----------------------------------|------------|-------------------------|--|--------------|
| PICANOL GROUP (in '000 euros) | | | | | | |
| At the end of the previous reporting period | | | | | | |
| Gross book value | 8,288 | 17,772 | 113 | 0 | 0 | 26,173 |
| Accumulated depreciation | -4,265 | -15,279 | -91 | 0 | 0 | -19,635 |
| Accumulated impairment losses | -64 | -533 | 0 | 0 | 0 | -597 |
| Net book value | 3,958 | 1,960 | 22 | 0 | 0 | 5,941 |
| Movements during the reporting period | | | | | | |
| Acquisitions | 985 | 70 | 0 | 0 | 0 | 1,055 |
| Investments resulting from business combinations | | | 0 | | | 0 |
| Expensed depreciation | -533 | -595 | -24 | 0 | 0 | -1,151 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals and retirements | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 0 | 56 | 2 | | | 58 |
| At the end of the reporting period | 452 | -469 | -22 | 0 | 0 | -38 |
| Gross book value | 9,273 | 17,884 | 122 | 0 | 0 | 27,278 |
| Accumulated depreciation | -4,798 | -15,859 | -122 | 0 | 0 | -20,779 |
| Accumulated impairment losses | -64 | -533 | 0 | 0 | 0 | -597 |
| Net book value | 4,411 | 1,491 | 0 | 0 | 0 | 5,902 |

Acquisitions of intangible assets in the Picanol Group in 2010 consist mainly of the further capitalization of development expenses at Picanol NV.

The 2010 acquisitions contain 1.0 million euros of own production. This own production comprises the fully capitalized development costs within Picanol NV regarding a new control system: VGS. This project concerns development of a new control box for airjet and rapier weaving machines, which is due to be completed and put on the market in 2011. The related costs for development of this platform were capitalized since 2008 but have not yet been amortized.

The amount for research & development and engineering posted as costs in the Income Statement was 8.0 million euros in 2010.

Capitalized development costs are subject to an impairment test according to the assumptions included in the business plan (see III.2)

The total net book value of 5.9 million euros of the intangible assets at 31 December 2010 consists primarily of the following components:

- Capitalized development expenses of Picanol NV with a net book value of 4.4 million euros. These development costs are being depreciated over 5 years.
- Capitalized software at Picanol NV, including a capitalized ERP package, with a total net book value of 0.8 million euros at 31 December 2010. This ERP package was capitalized mainly in 2005 and 2006 and is being depreciated over five years.

The depreciation of the intangible assets is recognized under the depreciation heading, partly as a component of the cost of sales and partly under general and administrative costs, whereas the impairment losses are recognized in other operating income/expenses.

At the end of 2010 there are no contractual commitments for the purchase of intangible assets.

For the year ending on 31 December 2009:

| | Development expenses | Concessions, Patents and Licences | Goodwill | Other Intangible Assets | Assets under Construction and Advance Payments | Total |
|--|----------------------|-----------------------------------|------------|-------------------------|--|--------------|
| PICANOL GROUP (in '000 euros) | | | | | | |
| At the end of the previous reporting period | | | | | | |
| Gross book value | 7,356 | 17,680 | 117 | 0 | 0 | 25,153 |
| Accumulated depreciation | -3,276 | -14,547 | -55 | 0 | 0 | -17,878 |
| Accumulated impairment losses | -64 | -533 | 0 | 0 | 0 | -597 |
| Net book value | 4,016 | 2,600 | 62 | 0 | 0 | 6,678 |
| Movements during the reporting period | | | | | | |
| Acquisitions | 932 | 235 | 0 | 0 | 0 | 1,166 |
| Investment due to business combination | | | 0 | | | 0 |
| Expensed depreciation | -989 | -857 | -39 | 0 | 0 | -1,885 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals and retirements | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 0 | -17 | -1 | | | -18 |
| At the end of the reporting period | -57 | -640 | -40 | 0 | 0 | -737 |
| Gross book value | 8,288 | 17,772 | 113 | 0 | 0 | 26,173 |
| Accumulated depreciation | -4,265 | -15,279 | -91 | 0 | 0 | -19,635 |
| Accumulated impairment losses | -64 | -533 | 0 | 0 | 0 | -597 |
| Net book value | 3,958 | 1,960 | 22 | 0 | 0 | 5,941 |

III.7.2. GOODWILL

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--|-------------|---------------|
| At the end of the previous reporting period | | |
| Net book value | 0 | 1,490 |
| Movements during the reporting period | | |
| Acquisitions and entering the consolidation scope | 0 | 0 |
| Impairment losses | 0 | -1,490 |
| Disposals and leaving the consolidation scope | 0 | 0 |
| Mergers and asset deals | 0 | 0 |
| Exchange rate differences | 0 | 0 |
| At the end of the reporting period | 0 | -1,490 |
| Net book value | 0 | 0 |

There were no changes in the net book value in 2010.

In 2009 an impairment was recorded on the goodwill, mainly in Verbrugge NV. On the basis of the then current cash forecast – based on the then most recent financial plan – the goodwill was no longer sustainable.

III.7.3. TANGIBLE FIXED ASSETS

For the year ending on 31 December 2010:

| | Land and Buildings | Plant, Equipment and Machinery | Furniture and Vehicles | Other Tangible Fixed Assets | Assets under Construction and Advance Payments | Total |
|--|--------------------------|---|------------------------------|--------------------------------------|---|---------------|
| PICANOL GROUP (in '000 euros) | | | | | | |
| <u>At the end of the previous reporting period</u> | | | | | | |
| Gross value | 33,686 | 174,972 | 10,710 | 1,722 | 188 | 221,278 |
| Accumulated depreciations | -12,003 | -140,362 | -9,120 | -725 | 0 | -162,209 |
| Accumulated impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Net book value | 21,683 | 34,610 | 1,590 | 997 | 188 | 59,069 |
| <u>Movements during the reporting period</u> | | | | | | |
| Changes in the consolidation scope | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisitions | 0 | 2,493 | 550 | 71 | 607 | 3,722 |
| Investments resulting from business combinations | | | | | | 0 |
| Expensed depreciations | -1,473 | -5,633 | -691 | -227 | 0 | -8,025 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals and retirements | -23 | -334 | -200 | -24 | -4 | -584 |
| Transfers | 332 | 279 | 2 | 84 | -697 | 0 |
| Exchange rate differences | 514 | 345 | 96 | 71 | 6 | 1,034 |
| | -650 | -2,850 | -242 | -24 | -88 | -3,853 |
| <u>At the end of the reporting period</u> | | | | | | |
| Gross value | 34,599 | 176,728 | 10,925 | 1,998 | 100 | 224,349 |
| Accumulated depreciations | -13,565 | -144,968 | -9,576 | -1,025 | 0 | -169,134 |
| Accumulated impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Net book value | 21,033 | 31,760 | 1,348 | 973 | 100 | 55,215 |

The total acquisitions of tangible fixed assets amount to 3.7 million euros compared with 11.2 million euros in the previous period.

Acquisitions in 2010 in plant, equipment and machinery consist primarily of production equipment and molds in Picanol NV and Proferro NV (1.1 million euros) and the acquisition of new production machines at Melotte NV (0.6 million euros) and at PST (0.5 million euros).

Acquisitions under construction and advance payments consist primarily of a new production machine amounting to 0.6 million euros.

No additional impairment losses were recognized during 2010.

Tangible fixed assets included at 31 December 2010 own produced assets for an amount of 0.6 million euros. This regards own produced molds.

For the year ending on 31 December 2009:

| | Land and Buildings | Plant, Equipment and Machinery | Furniture and Vehicles | Other Tangible Fixed Assets | Assets under Construction and Advance Payments | Total |
|--|--------------------|--------------------------------|------------------------|-----------------------------|--|---------------|
| PICANOL GROUP (in '000 euros) | | | | | | |
| <u>At the end of the previous reporting period</u> | | | | | | |
| Gross value | 32,913 | 189,093 | 11,193 | 1,798 | 4,921 | 239,918 |
| Accumulated depreciations | -10,793 | -161,937 | -9,033 | -557 | 0 | -182,320 |
| Accumulated impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Net book value | 22,120 | 27,156 | 2,160 | 1,241 | 4,921 | 57,598 |
| <u>Movements during the reporting period</u> | | | | | | |
| Changes in the consolidation scope | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisitions | 0 | 9,373 | 238 | 8 | 1,625 | 11,244 |
| Investments resulting from business combinations | | | | | | 0 |
| Expensed depreciations | -1,468 | -6,988 | -726 | -205 | 0 | -9,387 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals and retirements | 0 | 44 | -69 | -26 | -18 | -69 |
| Transfers | 1,194 | 5,133 | 3 | 0 | -6,330 | 0 |
| Exchange rate differences | -162 | -107 | -16 | -21 | -10 | -316 |
| | -437 | 7,455 | -570 | -244 | -4,733 | 1,471 |
| <u>At the end of the reporting period</u> | | | | | | |
| Gross value | 33,686 | 174,972 | 10,710 | 1,722 | 188 | 221,278 |
| Accumulated depreciations | -12,003 | -140,362 | -9,120 | -725 | 0 | -162,209 |
| Accumulated impairment losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Net book value | 21,683 | 34,610 | 1,590 | 997 | 188 | 59,069 |

III.7.4. ASSETS UNDER FINANCIAL LEASE

| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2009 |
|---|-------------------|-------------------|
| 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 | 15,972 | 19,013 |
| Plant, equipment and machinery - Accumulated depreciation | -3,137 | -2,872 |
| Plant, equipment and machinery - Net book value | 12,835 | 16,141 |
| Furniture and vehicles - Gross value | 0 | 2,613 |
| Furniture and vehicles - Accumulated depreciation | 0 | -2,613 |
| Furniture and vehicles - Net book value | 0 | 0 |
| Intangible assets - Gross value | 0 | 177 |
| Intangible assets - Accumulated depreciation | 0 | -177 |
| Intangible assets - Net book value | 0 | 0 |
| Total assets under financial lease | 12,835 | 16,141 |

The assets under financial leasing reported in 'plant, equipment and machinery' include primarily a molding line at Proferro NV, a machining center at Proferro and an automation line at Verbrugge NV.

During 2010 several lease contracts for machines at PsiControl ended, and no new financial lease contracts were concluded.

III.7.5. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

| | | Shareholding % | |
|---|--|----------------|---------|
| | | 2010 | 2009 |
| 1. FULLY CONSOLIDATED ENTITIES | | | |
| Belgium | | | |
| Proferro NV | Karel Steverlyncklaan 15, 8900 Ypres | 100.00% | 100.00% |
| PsiControl Mechatronics NV | Karel Steverlyncklaan 15, 8900 Ypres | 100.00% | 100.00% |
| Verbrugge NV | Karel Steverlyncklaan 15, 8900 Ypres | 100.00% | 100.00% |
| Melotte NV | Industrieweg 2019 , 3520 Zonhoven | 100.00% | 100.00% |
| France | | | |
| Burckle ET CIE SAS | Rue de Bourbach-le-haut 9 , 68290 Bourbach-Le-Bas | 100.00% | 100.00% |
| Netherlands | | | |
| Te Strake Textile BV | Dr. H. Van Doorneweg 26 , 5753 PM Deurne | 100.00% | 100.00% |
| Germany | | | |
| Günne Webmaschinenfabrik GmbH & CO, KG | Möhnestrasse 2 , 59519 Möhnese-Günne | 100.00% | 100.00% |
| Günne Webmaschinenfabrik GmbH | Möhnestrasse 2 , 59519 Möhnese-Günne | 100.00% | 100.00% |
| Turkey | | | |
| GTP Istanbul | Merkez Mah., Yildirim Beyazid Cad. 179/2 34197 Yenibosna – Istanbul | 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 GTP Bandung | Jl. Moh. Toha KM 5.3 , 56 40261 Bandung | 100.00% | 100.00% |
| United States | | | |
| GTP Greenville Inc | 1801 Rutherford Road , Greenville S.C. 29609 | 100.00% | 100.00% |
| Mexico | | | |
| GTP Mexico SA DE CV | Avena 475 Col. Granjas, Iztacalco, 08400, Mexico D.F. | 100.00% | 100.00% |
| Brazil | | | |
| GTP São Paulo | 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. NON-CONSOLIDATED ENTITIES | | | |
| Belgium | | | |
| Symatex CVBA | A. Reyerslaan 80 , 1030 Brussels | 34.00% | 34.00% |
| Bedrijvencentrum Westhoek | Albert Dehemlaan 31, 8900 Ypres | 12.82% | 12.82% |

III.7.6. OTHER FINANCIAL INVESTMENTS

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|---|-----------|-----------|
| Fair value at the end of the previous reporting period | 79 | 79 |
| Movements during the reporting period | | |
| Changes in the consolidation scope | 0 | 0 |
| Acquisitions | 0 | 0 |
| Disposals and retirements | 0 | 0 |
| Reductions in fair value | 0 | 0 |
| Exchange rate differences | 0 | 0 |
| Fair value at the end of the reporting period | 79 | 79 |

This heading contains all the non-consolidated investments, which are also non-listed entities. The fair value equals the historical cost corrected with impairment losses.

III.7.7. NON-CURRENT RECEIVABLES

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

| PICANOL GROUP (in '000 euros) | 31/12/2009 | | 31/12/2008 | |
|---|------------------------------------|------------|------------------------------------|------------|
| | Interest-bearing trade receivables | Guarantees | Interest-bearing trade receivables | Guarantees |
| <u>At the end of the previous reporting period</u> | | | | |
| Gross value | 3,127 | 154 | 6,964 | 217 |
| Accumulated amounts written off | - | - | - | - |
| Net book value | 3,127 | 154 | 6,964 | 217 |
| <u>Movement during the reporting period</u> | | | | |
| Changes in the consolidation scope | | | | |
| Acquisitions | 2,850 | | 1,834 | |
| Discount effect | | | | |
| Reimbursement | | -19 | | -63 |
| Write-off | | | | |
| Write-back | | | | |
| Transfers | -2,419 | | -5,671 | |
| Exchange rate differences | | | | |
| Other | | | | |
| <u>At the end of the reporting period</u> | | | | |
| Gross value | 3,558 | 135 | 3,127 | 154 |
| Accumulated amounts written off | 0 | 0 | 0 | 0 |
| Net book value | 3,558 | 135 | 3,127 | 154 |

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

Interest-bearing receivables at the end of the reporting period consist of 2.91 million euros, an amount in Yen of 0.52 million denominated in euros and an amount in USD of 0.13 million denominated in euros. These outstanding Yen and USD amounts are covered with commitments to the bank in the same currency.

The non-current interest-bearing trade receivables are insured for a total amount of 3.1 million euros, giving a total outstanding risk of 0.5 million euros at 31 December 2010, or 13% of the total interest-bearing trade receivables.

Interest-bearing trade receivables at 31 December 2009 consisted of 2.99 million euros denominated in euros and 0.14 million euros denominated in USD, 4.3% of total interest-bearing trade receivables.

The non-current interest-bearing trade receivables at 31 December 2009 were insured for a total amount of 2.9 million euros, giving a total outstanding risk of 0.2 million euros at 31 December 2009, or 6.55% of the total interest-bearing trade receivables.

None of the non-current interest-bearing trade receivables have passed their due dates.

III.7.8. INVENTORIES

| PICANOL GROUP | | (in '000 euros) | 31-12-2010 | 31-12-2009 |
|--------------------------------------|---------------------|-----------------|---------------|---------------|
| Raw materials and auxiliaries | Gross value | | 50,612 | 42,041 |
| Raw materials and auxiliaries | Amounts written off | | -22,527 | -19,368 |
| Raw materials and auxiliaries | | | 28,085 | 22,673 |
| Goods in progress | Gross value | | 10,111 | 10,261 |
| Goods in progress | Amounts written off | | -273 | -594 |
| Goods in progress | | | 9,838 | 9,667 |
| Finished goods | Gross value | | 13,573 | 10,644 |
| Finished goods | Amounts written off | | -3,824 | -3,703 |
| Finished goods | | | 9,750 | 6,941 |
| Trade goods | Gross value | | 0 | 0 |
| Trade goods | Amounts written off | | 0 | 0 |
| Trade goods | | | 0 | 0 |
| Downpayments | Gross value | | 67 | 137 |
| Downpayments | Amounts written off | | 0 | 0 |
| Downpayments | | | 67 | 137 |
| Contracts in progress | Gross value | | 0 | 0 |
| Contracts in progress | Amounts written off | | 0 | 0 |
| Contracts in progress | | | 0 | 0 |
| Total inventories | | | 47,741 | 39,418 |

Due to the sharp increase in sales, the consolidated stock increased by 8.3 million euros.

The increase in raw materials and auxiliaries is due to a rise in the gross stock value (+8.6 million euros), partly compensated by an increase in write-downs (by 3.2 million euros). The rise in gross stocks is a direct result of a large increase in sales. Because the devaluation rules were refined the impairments rose. When we used to look at the fluctuation of the stocks, combined with the excess rule, we now look at the age balance of the stocks.

The higher amount of finished products is largely due to the sharp increase in the activities of Proferro and PST.

The total increase of depreciated inventories recognized in the income statement during 2010 amounts to 3.0 million euros.

At 31 December 2010, 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 2010.

III.7.9. TRADE AND OTHER RECEIVABLES

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

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--------------------------------------|-------------|-------------|
| Trade receivables | 56,473 | 32,796 |
| Other receivables | | |
| Recoverable VAT | 3,265 | 2,261 |
| Prepaid taxes | 423 | 706 |
| Deferred expenses and accrued income | 449 | 491 |
| Miscellaneous receivables | 17,525 | 10,254 |

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

A reclassification was done on the 2009 figures for our subsidiary PST :

- from deferred expenses and accrued income to trade receivables: 4.367 KEUR (invoices to be issued)
- from trade receivables to miscellaneous receivables : 8.689 KEUR (assets from endorsed bills)

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 56.5 million euros (2009: 32.8 million euros). An allowance has been created for irrecoverable amounts from the sale of goods to the value of 5.8 million euros (2009: 6.7 million euros). This allowance has been determined based on historical data concerning non-payments, applying group valuation rules.

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) | 2010 | 2009 |
|--|--------------|--------------|
| At the end of the previous reporting period | 6,719 | 7,012 |
| Write-downs recorded | 464 | 925 |
| Utilizations or reversals of write-downs | -1,435 | -1,213 |
| Translation differences | 33 | -5 |
| At the end of the reporting period | 5,782 | 6,719 |

7.3 million euros of the trade receivables at 31 December 2010 before write-offs are interest-bearing which represents 12% of the total outstanding gross short term trade receivables.

13.8 million euros of the trade receivables at 31 December 2009 before write-offs were interest-bearing which represents 31.4% of the total outstanding gross short term trade receivables at this date. This includes the short-term trade receivables without impairment of doubtful debtors.

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 |
|--------------------------------------|-----------------------|--------------------|----------------------------|----------------------------|
| 2010 | | | | |
| Short-term trade receivables | 56,473 | 47,373 | 8,701 | 399 |
| 2009 | | | | |
| Short-term trade receivables | 37,118 | 30,759 | 6,360 | 0 |

The **other receivables** are interest-bearing for an amount of 16.3 million and consist solely of receivables which did not pass their due dates, at end-December 2010 and at end-December 2009.

The deferred expenses and accrued income consist mainly 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 67.8% (54.8% in 2009) of the consolidated gross trade receivables, or 44.6 million euros. Of these, 5.2 million euros (3.5 million euros in 2009) or 11.7% of the gross trade receivables are not covered through credit insurance. The gross trade receivables of P(SIP)T represent 4.1% (11.6% in 2009) of consolidated trade receivables, which are not exposed to any risk, given the general rule of delivery against payment. A provision of 5.8 million euros has been provided against the total uninsured consolidated open risk (2009: 6.7 million euros). The uncovered long-term credit risk is discussed in III.7.7.

As at 31 December 2010 off-balance sheet receivables amounting to 10.5 million euros were included, since they had been transferred to Delcredere. Picanol retains only a risk of 5% until the customer pays the first installment of the outstanding receivable.

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) | 31/12/2010 | 31/12/2009 |
|--|-------------------|-------------------|
| Cash in bank and in hand | 27,763 | 18,845 |
| Total cash and cash equivalents | 27,763 | 18,845 |

III.7.11. SHARE CAPITAL

| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2009 |
|--|-------------------|-------------------|
| Issued shares | | |
| 17,700,000 ordinary shares without nominal value | 21,720 | |
| Fully paid-up shares | | |
| 17,700,000 ordinary shares without nominal value | 21,720 | |

III.7.12. SHARE PREMIUM

| PICANOL GROUP (in '000 euros) | |
|---|--------------|
| Balance at 31 December 2008 | 1,332 |
| Premium on the issue of shareholders' equity in 2009 | 186 |
| Expenses on the issue of shareholders' equity in 2009 | 0 |
| Balance at 31 December 2009 | 1,518 |
| Premium on the issue of shareholders' equity in 2010 | 0 |
| Expenses on the issue of shareholders' equity in 2010 | 0 |
| Balance at 31 December 2010 | 1,518 |

III.7.13. EMPLOYEE BENEFIT OBLIGATIONS

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

Defined benefit plans which typically provide retirement benefits related to remuneration and service are included only in the Belgian entities. These plans are insured.

DEFINED CONTRIBUTION PLANS

Amounts contributed by the Picanol Group to the defined contribution plans:

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--------------------------------------|-------------|-------------|
| Paid contributions | 681 | 799 |

In 2010 and 2009, premium payments consist only of recurrent amounts.

DEFINED BENEFIT PLANS

Reconciliation between the recorded provision for employee benefits and net liability for defined benefit plans:

| PICANOL GROUP (in '000 euros) | 2010 | 2009 * |
|--|---------------|---------------|
| Balance sheet | | |
| Provisions – employee benefits – long-term | 10,076 | 6,555 |
| Provisions – employee benefits – short-term | 1,276 | 1,322 |
| Provisions recorded in subsidiaries, but not included in the notes given their immateriality | 312 | 508 |
| Net liability for defined benefit plans | 11,040 | 7,369 |

* A reclassification was made on the 2009 figures for the provisions for early retirement constructed in 2009 in view of the restructuring: from provision restructuring to retirement and similar obligations : 4,076 KEUR.

The amounts recognized in the balance sheet in respect of the defined benefit plans:

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--|---------------|--------------|
| Present value of funded obligations | 2,137 | 5,084 |
| Fair value of plan assets | 2,060 | -4,675 |
| Deficit for funded plans | 77 | 409 |
| Defined benefit obligations – unfunded plans | 10,963 | 7,602 |
| Unrecognized actuarial profits and losses | | -642 |
| Net liability at balance sheet date | 11,040 | 7,369 |
| Recorded in the balance sheet | | |
| Net liability at balance sheet date | 11,040 | 7,369 |

The amounts recognized in the income statement in respect of the defined benefit plans:

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|--|--------------|--------------|
| Current service costs | 158 | 142 |
| Interest costs | 752 | 618 |
| Expected return on plan assets | -139 | -230 |
| Amortization of the actuarial losses (profits) | 420 | -141 |
| Past service costs | | 837 |
| Integration of subsidiaries' defined benefit plans | | 0 |
| Curtailement (gain)/loss recognized | | 0 |
| Settlement (gain)/loss recognized | | 0 |
| Total pension cost recognized in the income statement | 1,191 | 1,225 |
| Actual return on plan assets in the current period | 139 | 195 |

Changes in the benefit obligations:

| PICANOL GROUP (in '000 euros) | 2010 | 2009 |
|---|---------------|---------------|
| Benefit obligations at the beginning of the financial year | 17,599 | 12,945 |
| Current service costs | 158 | 142 |
| Interest costs | 752 | 618 |
| Contribution of the participants | 0 | 28 |
| Past service costs | 0 | 837 |
| Reclassification from restructuring costs | 0 | 4,076 |
| Actuarial (losses)/profits | -1,058 | 667 |
| Paid benefit obligations | -4,322 | -1,684 |
| Paid premiums | -28 | -29 |
| Plan curtailments | 0 | 0 |
| Plan settlements | 0 | 0 |
| Benefit obligations at the end of the financial year | 13,100 | 17,599 |

Changes in the fair value of plan assets:

| PICANOL GROUP (in '000 euro) | 2010 | 2009 |
|---|--------------|--------------|
| Fair value of plan assets at the beginning of the year | 4,675 | 4,792 |
| Expected return on plan assets | 139 | 230 |
| Actuarial (profits)/losses on plan assets | 0 | -5 |
| Employer contributions | 1,597 | 1,343 |
| Member contributions | 0 | 28 |
| Paid benefit obligations | -4,322 | -1,684 |
| Paid premiums | -29 | -29 |
| Plan settlements | 0 | 0 |
| Fair value of plan assets at the end of the year | 2,060 | 4,675 |

The underlying assets consist of assets with fixed interest rates.

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

| | 2010 | 2009 |
|------------------------------------|-------------|-------------|
| Discount rate | 4.00% | 5.00% |
| Expected return on plan assets | 4.00% | 4.50% |
| Estimated rate of salary increases | 2.00% | 2.88%-7.03% |

The expected return on plan assets is based on the interest rate guaranteed by the insurer and the expected profit sharing on insurance contracts.

Defined – benefit obligations

| PICANOL GROUP (in '000 euros) | 2010 | 2009 | 2008 | 2007 |
|--|-------------|-------------|-------------|-------------|
| Defined – benefit obligations – funded plans | 2,137 | 5,084 | 5,253 | 4,890 |
| Fair value of plan assets | 2,060 | 4,675 | 4,792 | 4,084 |
| Deficit for funded plans | 77 | 409 | 461 | 806 |

III.7.14. PROVISIONS

For the year ending on 31 December 2010

| PICANOL GROUP (in '000 euros) | Product warranties | Environmental risks | Restructuring costs | Litigation | Other risks | Total |
|--|--------------------|---------------------|---------------------|------------|--------------|--------------|
| At the start of the reporting period | 2,520 | 1,738 | 4,857 | 20 | 29 | 9,165 |
| Movements during the reporting period | | | | | | |
| Increases | 1,973 | 0 | 0 | 0 | 1,023 | 2,996 |
| Utilizations | 0 | 0 | -4,236 | 0 | 0 | -4,236 |
| Reversals | -130 | 0 | -312 | 0 | -20 | -462 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 33 | 0 | 0 | 0 | 0 | 33 |
| At the end of the reporting period | 4,396 | 1,738 | 309 | 20 | 1,031 | 7,495 |
| Non-current provisions | 16 | 1,738 | 0 | 0 | 0 | 1,754 |
| Current provisions | 4,381 | 0 | 309 | 20 | 1,031 | 5,741 |
| Total | 4,396 | 1,738 | 309 | 20 | 1,031 | 7,495 |

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. In 2010 an additional provision was made for the performance warranties for 1.4 million euros based on an individual analysis of the outstanding performance warranties.

The provision for environmental risks only covers pollution risks associated with land located in Belgium.

The provision for restructuring costs at the end of 2009 includes provisions for redundancy payments and early retirement pensions for the restructuring operations carried out for Picanol NV, Proferro NV, PsiControl NV and Verbrugge NV. These provisions are mostly spent in 2010.

Additional other provisions were made for 1.0 million euros; mainly for leases of unused spaces.

For the year ending on 31 December 2009

| PICANOL GROUP (in '000 euros) | Product warranties | Environmental risks | Restructuring costs | Litigation | Other risks | Total |
|--|--------------------|---------------------|---------------------|------------|-------------|---------------|
| At the start of the reporting period | 2,934 | 1,738 | 0 | 20 | 130 | 4,823 |
| Movements during the reporting period | | | | | | |
| Increases | 35 | 0 | 8,933 | 0 | 0 | 8,968 |
| Utilizations | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversals | -437 | 0 | 0 | 0 | -102 | -539 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | -11 | 0 | 0 | 0 | 0 | -11 |
| At the end of the reporting period | 2,520 | 1,738 | 8,933 | 20 | 29 | 13,241 |
| Non-current provisions | 21 | 1,738 | 0 | 0 | 20 | 1,780 |
| Current provisions | 2,499 | 0 | 8,933 | 20 | 8 | 11,461 |
| Total | 2,520 | 1,738 | 8,933 | 20 | 29 | 13,241 |

III.7.15. INTEREST-BEARING DEBT

For the year ending on 31 December 2010

| 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 | 1,790 | 7,363 | 0 | 7,363 |
| Credit institutions | 0 | 6 | 0 | 6 |
| Export finance | 2,083 | 1,151 | 0 | 1,151 |
| Total interest-bearing debt > 1 year | 3,872 | 8,520 | 0 | 8,520 |
| Credit institutions | 200 | | | |
| Total interest-bearing debt < 1 year | 200 | | | |
| Total short-term interest-bearing debt | 4,073 | | | |

For the year ending on 31 December 2009

| 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 | 2,889 | 6,410 | 2,744 | 9,153 |
| Credit institutions | 69 | 11 | 0 | 11 |
| Export finance | 4,582 | 2,103 | 0 | 2,103 |
| Total interest-bearing debt > 1 year | 7,539 | 8,524 | 2,744 | 11,269 |
| Credit institutions | 6,990 | | | |
| Total < 1 year interest-bearing debt | 6,990 | | | |
| Total short-term interest-bearing debt | 14,529 | | | |

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 12.6 million euros, compared with 25.8 million at the end of 2009. 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 fall in the amount of interest-bearing loans compared with 2009 is due to the decrease in straight loans from credit institutions, together with the further decline in leasing debt.

Long-term export financings are entered into at fixed rates. The outstanding balance is denominated 57.8% (95.7% in 2009) in EUR and for 42.2 % in Yen (4.3% in USD in 2009). The average remaining term at 31 December 2010 was 20 months (12 months in 2009) for the borrowings in EUR, and 36 months for the borrowings in Yen.

Total future interest charges were payable as follows from 1 January 2011 onwards:

| | Due within 1 year | Due between 1 and 5 years | Due after more than 5 years | Total future interest charges |
|---------------------|----------------------|------------------------------|-----------------------------------|-------------------------------------|
| Financial leases | 463 | 918 | 0 | 1,381 |
| Credit institutions | | | | 0 |
| Export finance | 330 | 35 | | 365 |
| TOTAL | 793 | 953 | 0 | 1,746 |

Total future interest are payable as follows from 1 January 2010 onwards:

| | Due within 1 year | Due between 1 and 5 years | Due after more than 5 years | Total future interest charges |
|---------------------|----------------------|------------------------------|-----------------------------------|-------------------------------------|
| Financial leases | 588 | 1,297 | 83 | 1,968 |
| Credit institutions | | | | 0 |
| Export finance | 386 | 272 | | 658 |
| TOTAL | 974 | 1,569 | 83 | 2,626 |

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 of minimum lease payments |
|--|------------------------------|--|------------------------------|--|
| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2010 | 31/12/2009 | 31/12/2009 |
| Lease payments due within the year | 2,253 | 1,790 | 3,531 | 2,943 |
| Between 1 and 5 years | 8,281 | 7,363 | 7,707 | 6,410 |
| After 5 years | 0 | 0 | 2,827 | 2,744 |
| Total lease payments | 10,534 | 9,153 | 14,065 | 12,097 |
| Future interest charges | -1,381 | 0 | -1,968 | 0 |
| Present value of the lease obligations | 9,153 | 9,153 | 12,097 | 12,097 |
| Less payments due within the year | | -1,790 | | -2,943 |
| Payments due after 1 year | | 7,363 | | 9,153 |

The consolidated financial leases primarily relate to the plant and equipment of Proferro NV and Verbrugge NV. The total interest charges vary between 4.7% and 5.9% per annum. The fair value of the underlying assets amounted to 12.8 million euros at the end of 2010 compared with 16.1 million euros at 31 December 2009.

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 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 2010:

| PICANOL GROUP (in '000 euros) | Notional Amount (*) | Marked-to-market |
|--|---------------------|------------------|
| Forward sales contracts < 6 months | 2,104 | -35 |
| Forward sales contracts > 6 months | 0 | 0 |
| Sub-total forward sales contracts | 2,104 | -35 |
| Interest Rate Swaps (IRS) | 0 | 0 |
| Sub-total Interest Rate Swaps (IRS) | 0 | 0 |
| TOTAL | 2,104 | -35 |

Overview of forward exchange contracts at 31 December 2009:

| PICANOL GROUP (in '000 euros) | Notional Amount (*) | Marked-to-market |
|--|---------------------|------------------|
| Forward sales contracts < 6 months | 66 | -1 |
| Forward sales contracts > 6 months | 0 | 0 |
| Sub-total forward sales contracts | 66 | -1 |
| Interest Rate Swaps (IRS) | 376 | -5 |
| Sub-total Interest Rate Swaps | 376 | -5 |
| TOTAL | 442 | -6 |

* The notional value is determined by multiplying the underlying value in the foreign currency by the exchange rate at closing date.

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) | 2010 | 2009 |
|--------------------------------------|--------|--------|
| Trade payables | 49,386 | 43,737 |
| Other payables | | |
| Income taxes payable | 2,778 | 1,050 |
| Downpayments received | 18,246 | 12,843 |
| Remuneration & social security | 14,166 | 12,329 |
| Accrued expenses and deferred income | 3,268 | 2,148 |
| Marked-to-market derivatives | 35 | 6 |
| Other liabilities | 198 | 1,082 |

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

The maturity schedule of the short term trade payables can be summarized as follows:

| PICANOL GROUP (in '000 euros) | Net book value | Due within 2 months | Due within 2 and 4 months | Due within 4 and 6 months | Due within 6 and 12 months |
|-------------------------------|----------------|---------------------|---------------------------|---------------------------|----------------------------|
| 2010 | | | | | |
| Short-term trade payables | 49,386 | 48,581 | 436 | 18 | 350 |
| 2009 | | | | | |
| Short-term trade payables | 43,737 | 42,309 | 660 | 632 | 137 |

The 14.9 million euros increase in trade and other payables in 2010 compared with 2009 is due primarily to an increase in trade payables (+5.6 million euros) and to other payables, in particular the downpayments received (+5.4 million euros).

The increase in trade accounts receivable and downpayments received is mainly due to the higher production mainly at Picanol NV and Proferro NV.

Both the short-term trade and other payables were non-interest-bearing liabilities at 31 December 2010 and 2009.

III.8. MISCELLANEOUS

III.8.1. OPERATING LEASE AGREEMENTS

| PICANOL GROUP (in '000 euros) | 31/12/2010 | 31/12/2009 |
|--------------------------------------|-------------------|-------------------|
| Payments due within the year | 1,759 | 3,013 |
| Between 1 and 5 years | 1,049 | 3,623 |
| After 5 years | | |
| Minimum future lease payments | 2,808 | 6,635 |

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

An amount of 2.4 million euros was recognized as a rental cost in the income statement in 2010, compared with 2.8 million euros in 2009.

III.8.2. EVENTS AFTER THE BALANCE SHEET DATE

There are no important events after balance sheet date.

III.8.3. RELATED PARTY TRANSACTIONS

| COUNTERPARTY | BALANCE SHEET POSITION | INCOME STATEMENT | COSTS |
|------------------------------------|-------------------------------|-------------------------|--------------|
| Affiliated parties to the STAK | 27,290 | 298,765 | -860,269 |
| Non-affiliated parties to the STAK | | | -166,228 |

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 2010. The amounts above include amongst other remunerations that are also covered in the corporate governance sections. For the remunerations of the Board of Directors, see page 16.

III.8.4. REMUNERATION OF THE MANAGEMENT COMMITTEE

Remuneration of the Managing Director

| | |
|-----------------------|----------|
| In EUR | |
| Name | Luc Tack |
| Basic remuneration | - |
| Variable remuneration | - |
| Total | - |
| Pension | - |
| Other benefits * | 10,800 |

* remuneration company car

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

Remuneration of the other members of the Executive Management

| | |
|-----------------------|-----------------------------|
| In EUR | |
| Basic remuneration | 900,000 |
| Variable remuneration | 320,000 |
| Total | 1,220,000 |
| Pension | Fixed contribution : 59,431 |
| Other benefits * | 7,855 |

* remuneration company car

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

The other members of the 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.

The Board of Directors will request the Annual General Meeting to permit payment of the bonuses in one single installment, based on the realization of the objectives for 2010.

III.8.5. EXCHANGE RATES

| In euros | Average exchange rates | | | Closing exchange rates | |
|-------------------------|------------------------|--------|--------|------------------------|--------|
| | ISO | 2010 | 2009 | 2010 | 2009 |
| Brazilian Real | BRL | 0.4311 | 0.3622 | 0.4509 | 0.3982 |
| Chinese Yuan (Renminbi) | CNY | 0.1121 | 0.1050 | 0.1134 | 0.1017 |
| Indonesian Rupee (1000) | IDR | 0.0834 | 0.0693 | 0.0833 | 0.0734 |
| Indian Rupee | INR | 0.0166 | 0.0149 | 0.0167 | 0.0149 |
| Mexican Peso | MXN | 0.0599 | 0.0528 | 0.0604 | 0.0528 |
| Romanian Leu | RON | 0.2374 | 0.2386 | 0.2346 | 0.2361 |
| Turkish Lira | TRY | 0.5002 | 0.4599 | 0.4832 | 0.4641 |
| US Dollar | USD | 0.7573 | 0.7193 | 0.7484 | 0.6942 |

III.8.6. PERSONNEL

| In units | 31/12/2010 | | | 31/12/2009 | | |
|---|--------------------|-----------------------------|--------|--------------------|-----------------------------|--------|
| | Fully consolidated | Proportionally consolidated | Total | Fully consolidated | Proportionally consolidated | Total |
| Management | 6 | 0 | 6 | 6 | 0 | 6 |
| White collars | 599 | 0 | 599 | 685 | 0 | 685 |
| Blue collars | 1,477 | 0 | 1,477 | 1,292 | 0 | 1,292 |
| Average number of personnel employed | 2,008 | 0 | 2,008 | 2,112 | 0 | 2,112 |
| Average number of personnel employed in Belgium | 1,288 | 0 | 1,288 | 1,316 | 0 | 1,316 |
| Remuneration and social charges (in '000 euros) | 83,515 | | 83,515 | 74,423 | | 74,423 |

III.8.7. AUDIT AND NON-AUDIT SERVICES PROVIDED BY THE AUDITORS

The auditor received an amount of 125,000 euros for performance of his audit task in 2010.

During the course of 2010 no additional tasks were carried out by the auditor and related parties for Picanol and its subsidiaries.

III.8.8. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group has no material contingent assets and liabilities at 31 December 2010.

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.

Currency risk

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

The Picanol Group manages a portfolio of derivatives which match the currency risks deriving from business and financial activities. These are discussed in III.7.17.

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 2010, we give below the sensitivity of a 5% positive/negative fluctuation of the US dollar and renminbi exchange rates:

| Company | Balance sheet position | Amount in local currency | | Effect +5% | Effect - 5% |
|----------------------|------------------------|--------------------------|----------|-------------|--------------|
| | | Amount | Currency | | |
| Picanol NV | Other receivables | 1,705 | USD | 63.8 | -63.8 |
| GTP Greenville (USD) | Trade receivables | 1,021 | EUR | 51.0 | -51.0 |
| P(SIP)T (RMB) | Trade receivables | 3,467 | EUR | -173.4 | 173.4 |
| | Trade payables | 1,332 | EUR | 66.6 | -66.6 |
| GTP Mexico (MPE) | Other payables | 300 | EUR | 15.0 | -15.0 |
| GTP Istanbul (YTL) | Trade receivables | 104 | EUR | -5.2 | 5.2 |
| | Trade payables | 446 | EUR | 22.3 | -22.3 |
| | | | | 40.2 | -40.2 |

Changes in the euro exchange rate during 2010 within the above-mentioned volatilities would have given a 0.04 million euros higher/lower consolidated profit.

Interest rate risk

The interest rate risk of the Picanol Group is limited to an interest risk existing within Melotte NV. For a discussion of this risk, see III.7.15.

Sensitivity analysis of a 1% interest rate fluctuation:

| Credit institutions (in '000 euros) | | | | | |
|---|----------------|--------|----------|------------|------------|
| Term | Fixed/floating | Amount | Currency | Effect +1% | Effect -1% |
| Payable within 1 year | Floating | 200 | EUR | - 2 | + 2 |
| Payable > 1 year | Fixed | 6 | EUR | - 2 | + 2 |

Given the fixed interest rates on the long-term receivables, and due to the fact that the export financing is simultaneously concluded with the correspondent accounts receivable, the interest rate sensitivity is nil. The volume of interest-bearing trade receivables outstanding at 31 December 2010 against which export financing has been concluded at the same fixed interest rate amounts to 3.2 million euros (2009: 6.7 million euros).

Credit risk

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

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

Liquidity risk

In order to guarantee its liquidity and financial flexibility at all times, the Picanol Group has various unutilized 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 to it of 121.1 million euros (2009: 119.4 million euros) of which export financing is representing 78.8 million euros and 33.1 million euros straight loans. At balance sheet date the credit lines were used for an amount of 3.2 million euros excluding bank guarantees.

The credit line for bank guarantees amounts to 14.0 million euros (2009: 13.8 million euros), with 7.9 million euros of bank guarantees outstanding at 31 December 2010. 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 distribution of an appropriate dividend to the shareholders.

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) | 2010 | 2009 |
|---|----------------|----------------|
| FIXED ASSETS | 62,446 | 52,739 |
| Intangible assets | 847 | 1,325 |
| Tangible fixed assets | 7,749 | 8,536 |
| Financial fixed assets | 53,850 | 42,878 |
| CURRENT ASSETS | 79,490 | 60,179 |
| TOTAL ASSETS | 141,936 | 112,918 |
| SHAREHOLDERS' EQUITY | 59,601 | 36,475 |
| Share capital | 22,200 | 22,200 |
| Share premium account | 1,519 | 1,519 |
| Reserves | 43,656 | 43,656 |
| Profit/(loss) carried forward | -7,774 | -30,900 |
| Investment grants | 0 | 0 |
| PROVISIONS AND DEFERRED TAXES | 12,698 | 11,433 |
| LIABILITIES | 69,637 | 65,010 |
| Amounts payable after one year | 1,151 | 2,103 |
| Amounts payable within one year plus accrued expenses and deferred income | 68,486 | 62,907 |
| TOTAL LIABILITIES | 141,936 | 112,918 |

| | | |
|-------------------------------|---------|---------|
| SALES | 264,085 | 170,213 |
| OPERATING RESULT | 21,023 | -16,749 |
| FINANCIAL RESULTS | 2,057 | 5,668 |
| EXTRAORDINARY RESULTS | 50 | -2,548 |
| TAXES | -3 | -1 |
| PROFIT FOR THE FINANCIAL YEAR | 23,127 | -13,630 |

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 29 million euros, from 112.9 million euros at the end of 2009 to 141.9 million euros at 31 December 2010. This increase was mainly due to a considerable increase in financial fixed assets (due to a capital increase in Proferro NV and PsiControl Mechatronics NV of 11 million euros) and an increase in trade receivables due to the higher turnover.

The turnover of Picanol NV increased by 55.2% in 2010 compared with 2009, from 170.2 million euros to 264.1 million euros. This evolution in turnover is mainly caused by an increase in the volume of machines sold. The gross margin (operating revenue less the purchases of raw materials and auxiliaries, services and various goods) increased from 28.0 million euros in 2009 to 61.7 million euros in 2010. The gross margin, as a percentage of turnover increased from 16.5% in 2009 to 23.4% in 2010. The operating result rose from 37.7 million euros to 21.0 million euros at the end of 2010.

Net extraordinary results amounted to 0.05 million euros during 2010.

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 geo-political situations that our 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.

Financial instruments

Picanol NV practices foreign currency hedges through forward contracts. These forward contracts have a total nominal value of 2.1 million euros and a positive marked-to-market of -0.0 million euros at 31 December 2010. This marked-to-market is recognized in the income statement of the company at 31 December 2010 to the extent that it relates to balance sheet positions existing at 31 December 2010. Forward contracts for which no underlying balance sheet position existed at 31 December 2010 are treated as cash flow hedges. These positions are justified by orders received but not yet invoiced. For the financial year 2010, all outstanding forward contracts are cash flow hedges. 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 unqualified opinion on the statutory financial statements of Picanol NV.

STATUTORY AUDITOR'S REPORT

Statutory auditor's report on the consolidated financial statements for the year ended 31 December 2010 to the shareholders' meeting

To the shareholders

As required by law and the company's articles of association, we are pleased to report to you on the audit assignment which you have entrusted to us. This report includes our opinion on the consolidated financial statements together with the required additional comment.

Unqualified audit opinion on the consolidated financial statements

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. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 220,671 (000) EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 35,244 (000) EUR.

The financial statements of several significant entities included in the scope of consolidation which represent total assets of 12,244 (000) EUR and a total profit of 1,692 (000) EUR have been audited by other auditors. Our opinion on the accompanying consolidated financial statements, insofar as it relates to the amounts contributed by those entities, is based upon the reports of those other auditors.

The Board of Directors of the company is responsible for the preparation of the consolidated financial statements. This responsibility includes among other things: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we have considered 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 effectiveness of the group's internal control. We have assessed the basis of the accounting policies used, the reasonableness of accounting estimates made by the company and the presentation of the consolidated financial statements, taken as a whole. Finally, the Board of Directors and responsible officers of the company have replied to all our requests for explanations and information. We believe that the audit evidence we have obtained, together with the reports of other auditors on which we have relied, provides a reasonable basis for our opinion.

In our opinion, and based upon the reports of other auditors, the consolidated financial statements give a true and fair view of the group's financial position as of 31 December 2010, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and with the legal and regulatory requirements applicable in Belgium.

Additional comment

The preparation and the assessment of the information that should be included in the directors' report on the consolidated financial statements are the responsibility of the Board of Directors.

Our responsibility is to include in our report the following additional comment which does not change 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 and is in agreement with the consolidated financial statements. However, we are unable to express an opinion on the description of the principal risks and uncertainties confronting the group, or on the status, future evolution, or significant influence of certain factors on its future development. We can, nevertheless, confirm that the information given is not in obvious contradiction with any information obtained in the context of our appointment.

Kortrijk, 7 March 2011

The statutory auditor
DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by

Kurt Dehoorne

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 its Double Fixing, in the C compartment. Based on its market capitalization Picanol has been included in the B compartment since 24 January 2011.

On 31 December 2010, the share capital was represented by 17,700,000 Picanol shares. During the course of 2010 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 2010.

The stock exchange capitalization on 31 December 2010 amounted to 189.21 million euros.

Shareholder structure

The shareholder structure is shown on page 23.

Financial calendar

| | |
|-------------------------------------|--|
| Annual General Meeting | 20 April 2011 |
| Trading update Q1 | 20 April 2011 (after stock exchange close) |
| Announcement of half-yearly results | 30 August 2011 |
| Trading update Q3 | 21 October 2011 (after stock exchange close) |
| Announcement of annual results 2011 | 7 March 2012 |
| Annual General Meeting | 18 April 2012 |

DIVIDEND

The dividend policy of the Picanol Group is based on an annual judgment concerning the return for shareholders, maintaining a free cashflow and opportunities for financing further growth.

ANNUAL INFORMATION

In accordance with the Act of 16 June 2006 here follows a summary of the 'annual information' as laid down in art. 66 of this Act. This 'annual information' is a summary of all the information published by the Picanol Group in the period from 1 January 2010 to 31 December 2010. The full document mentioned in the summary can be found at www.picanolgroup.com under the heading Investor Relations. The Picanol Group points out that some of the information contained in certain documents mentioned therein may now be out of date.

Information to the shareholders

On 21 April 2010, the General Meeting took place. As part of this, the following information was published:

- Minutes General Meeting
- Presentation General Meeting
- Agenda of the General Meeting
- Power of attorney

Periodic information

- Press release 10 March 2010: Consolidated & audited results 2009
- Press release 21 April 2010: Trading update first quarter 2010
- Press release 31 August 2010: Half-yearly information 2010
- Press release 22 October 2010: Trading update 2010

Occasional information

- Press release 30 March 2010: Disclosure of the received notification in accordance with the provisions of the act of 2 may 2007
- Press release 5 July 2010: Picanol Group to recruit an additional 150 temporary workers in Ypres
- Notification in accordance with art. 74 §7 of the act of 1 April 2007 on takeover bids (31 August 2010)

Annual reports – the annual reports of the Picanol Group are published on <http://www.picanolgroup.com/PICGROUPE/EN/INVESTORS/DOWNLOADS/>

Statutory annual account – the statutory annual account of the Picanol Group is published on <http://www.picanolgroup.com/PICGROUPE/EN/INVESTORS/STATUTORY+ANNUAL+ACCOUNT/S/>

Financial calendar – the financial calendar of the Picanol Group is regularly updated <http://www.picanolgroup.com/PICGROUPE/EN/INVESTORS/FINANCIAL+CALENDAR/Investor+News.htm>

Articles of association – After each change in the articles of association, a new version is published on the website <http://www.picanolgroup.com/PICGROUPE/EN/INVESTORS/ONTWERPEN/Statuten.htm>

Shareholder structure – the shareholder structure of the company is published on <http://www.picanolgroup.com/PICGROUPE/EN/INVESTORS/SHAREHOLDERS+STRUCTURE/>

GLOSSARY

| | |
|----------------------------|---|
| CNC | Computer Numerical Control. This refers to the computer controlled system of the machine tool. |
| Features | Machine characteristics (standard or as option) |
| Heddle | Each warp runs through a heddle. The heddles are mounted in groups on the weaving frame |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| Frame | <i>see weaving frame</i> |
| Dropwire | Steel strip which is suspended from the warp thread. When a warp thread breaks, the dropwire drops due to its own weight activating the switch that stops the machine. |
| 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. |
| OEM | Original Equipment Manufacturer, i.e. a manufacturer that supplies products or components used in another company's products |
| 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' |
| SMD | Surface mounted device (mounted directly on the surface of printed circuit boards.) |
| Tire cord | Fabric used as reinforcement in vehicle tires |
| Versatility | Ability of a weaving machine to produce different types of fabric |
| 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:
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