

CHAIRMAN'S MESSAGE

The least that can be said about the previous year of 1998 is that it was very turbulent. Whereas in the first half of the year we managed to maintain a full order book and a high rate of production, in the second half we had to significantly throttle back due to the crisis in Asia. The first figures available for 1998 indicate a worldwide contraction in the market for weaving machines by a factor of one third compared with 1997. The permanent overcapacity in the market for weaving machines has this year led to a number of consolidations, thus reshaping the competitive landscape. The crisis in the Far East brought payment difficulties, so that the provision for doubtful debts had to be increased by more than BEF 60 million. The foundry sector also experienced a significant contraction in demand.

Altogether, these factors led to a negative result in the second half of 1998, so that the profit forecasts could not be achieved. A provision in the extraordinary expenditure to allow for a possible claim has also negatively influenced the result.

All these elements together with the weak order position mean that 1999 will be a difficult year. Although there are signs that the crisis in Asia has already passed its low point, the prospects in other parts of the world are not exactly rosy, and in the short term there is no real improvement to be expected in activity.

In these difficult times we will more than ever have to earn our customers. This can be done by investing further in fast and efficient development of customer-oriented products and services, by stimulating the customer-oriented basis of our organisation, and by a competence-based personnel policy. The fact that we are in a position to do this is evidence of our success during the previous year, both in airjet and in rapier technology, with Picanol's market share significantly increasing in both of these areas. Our acquisition of a majority stake in the German company Guenne further reinforces our position in the market for weaving machines. In these difficult circumstances, it is essential to follow the correct strategy in the long term. For this reason we have collaborated with McKinsey in redefining our strategy, so that the necessary measures can be taken as of 1999 to assure the future of Picanol in the coming millennium.

Patrick Steverlynck
Chairman, Picanol N.V.



BOARD OF DIRECTORS

HONORARY CHAIRMAN

Mr. Emmanuel Steverlynck

Term of office

CHAIRMAN, MANAGING DIRECTOR

Mr. Patrick Steverlynck
Oudenaardestraat 86, 8570 Anzegem-Vichte

2000

VICE-CHAIRMAN, MANAGING DIRECTOR

Mr. Michel Steverlynck
Meenseweg 564, 8902 Zillebeke-leper

2000

DIRECTORS

Irvan N.V. (BE 431.452.238)
Kleine Grippe 4, 2630 Aartselaar
Represented by R. Vandemoortele
Zwinlaan 9-11, 8300 Knokke

2000

Mr. Yves Steverlynck
Kleine Ieperstraat 10, 8980 Geluveld-Zandvoorde
(nominated for reappointment until 2001)

1999

Mr. Alec Gevaert
Wijnsbergstraat 15, 8570 Anzegem-Vichte
(nominated for reappointment until 2001)

1999

Mr. Herwig Bamelis
Zeedijk 472/0104, 8670 Koksijde ODK
(nominated for reappointment until 2001)

1999

Advisam N.V. (BE 432.719.374)
Denneboslaan 17, 1180 Brussel18
Represented by G. Warlop
Denneboslaan 17, 1180 Brussel 18
(nominated for reappointment until 2001)

1999

Seneca N.V. (BE 439.751.379)
Eikeldreef 11A, 9830 Sint-Martens-Latem
Represented by L. De Bruyckere
Eikeldreef 11A, 9830 Sint-Martens-Latem
(nominated for reappointment until 2001)

1999

AUDITOR

Mr. Jean Pierre Dejaeghere
PARTNER in B.V. o.v.v. C.V.
DELOITTE & TOUCHE BEDRIJFSREVISOREN
Sint-Crispijnstraat 43-45, 8870 Izegem

2001

REPORT OF THE BOARD OF DIRECTORS

ON THE CONSOLIDATED ANNUAL ACCOUNTS PRESENTED TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON 28 APRIL 1999.

The consolidated net result of the Picanol group – minority interests included – fell in 1998 to a loss of BEF 39 million. The group's share amounts to minus BEF 12 million, compared with a profit of BEF 209 million in 1997. The gross cash-flow fell by 26% to BEF 629 million (BEF 855 million in 1997). The group's turnover for its part decreased by 1% to BEF 13,364 million (BEF 13,499 in 1997). The market for textile machines – Picanol's main area of operation – is difficult to predict. Activities and results can experience large fluctuations in the short term. After a first half year in which demand was unrealistically high, the problems began to pile up as of the third quarter. The reduced level of activity by Picanol N.V. naturally had a negative impact on the results of the companies below it. The group as a whole invested BEF 392 million and depreciated BEF 458 million in 1998: BEF 439 million in tangible fixed assets and BEF 19 million in positive consolidation differences. The main figures are summarised in the table below.

PICANOL

In technological terms, 1998 brought a strong market for airjet machines and a much weaker one for rapier machines. But despite this, Picanol managed to expand its market share in both fields. In geographical terms, Asia continued to perform weakly, North America took a clear step backwards, and Europe too showed some signs of weakening. The order portfolio at the end of 1997 led to a very high level of activity during the first half of 1998. However, incoming orders dived spectacularly in the second half of the year, so that production had to be significantly reduced and our capacity could not be used to the full.

Production will continue to be below capacity in the first half of 1999, and Picanol does not expect to see a recovery in the second half either. The investment behaviour of our customers will probably become clear at the four-yearly ITMA textile machinery exhibition, due to be held in Paris in June this year. But whatever the case it will be difficult to equal the 1998 results.

in BEF million	1993	1994	1995	1996	1997	1998
Turnover	9,610	10,866	11,321	12,912	13,499	13,364
Gross cash flow	328	624	658	946	855	629
Net result	-207	135	180	338	212	-39
Gross CF/turnover	3.4%	5.7%	5.8%	7.3%	6.3%	4.7%
Stocks	1,154	994	1,191	1,442	1,615	1,508
Investments in tangible fixed assets	243	575	369	509	432	392
Total depreciations	425	406	369	432	436	458

PROFERRO

Picanol's lower level of activity in the second half of 1998 also had an effect on Proferro. At the same time, demand from other customer sectors also declined, so that Proferro's turnover fell by 10% to BEF 1,146 million (BEF 1,280 million in 1997). The gross cash-flow amounted to

BEF 83 million, compared with BEF 150 million in 1997, a drop of 45%.

This all resulted in a post-tax loss of BEF 9 million. A total of BEF 33 million was invested, while depreciations amounted to BEF 83 million.

P.S.T.

The crisis in the Far East significantly affected the activities of our Chinese subsidiary, which produces rapier weaving machines for the local market. Whereas 1997 still yielded a profit, 1998 was a crisis year, resulting in a

loss of BEF 37.4 million for the group. Large write-downs on the value of stocks and claims were booked in the process of acquiring 100% control over this former joint venture. At the same time a new management team was appointed, with the task of assuring the future of this subsidiary.

MELOTTE

The turnover of Melotte N.V. in Zonhoven rose by 31% to BEF 316 million (BEF 240 million in 1997). The gross cash-flow swelled to BEF 22 million, 31% higher than in 1997 (BEF 15 million). This produced a net result of BEF 2 million (compared with a loss of BEF 2 million in 1997). Gereedschapmakerij Melotte for its part made a turnover of BEF 44 million, 76% higher than in 1997 (BEF 25 million). The gross cash-flow came to BEF 2 million and the net profit to BEF 1 million.

GUENNE

Picanol acquired a majority stake in Guenne Webmaschinenfabrik GmbH & Co. KG on 29 December 1998. For technical reasons, Guenne's assets and liabilities were not booked to the respective asset and liability headings in the consolidated balance sheet for 1998; instead, the acquisition cost was booked to financial fixed assets and positive consolidation differences respectively. Guenne will be fully consolidated in 1999.

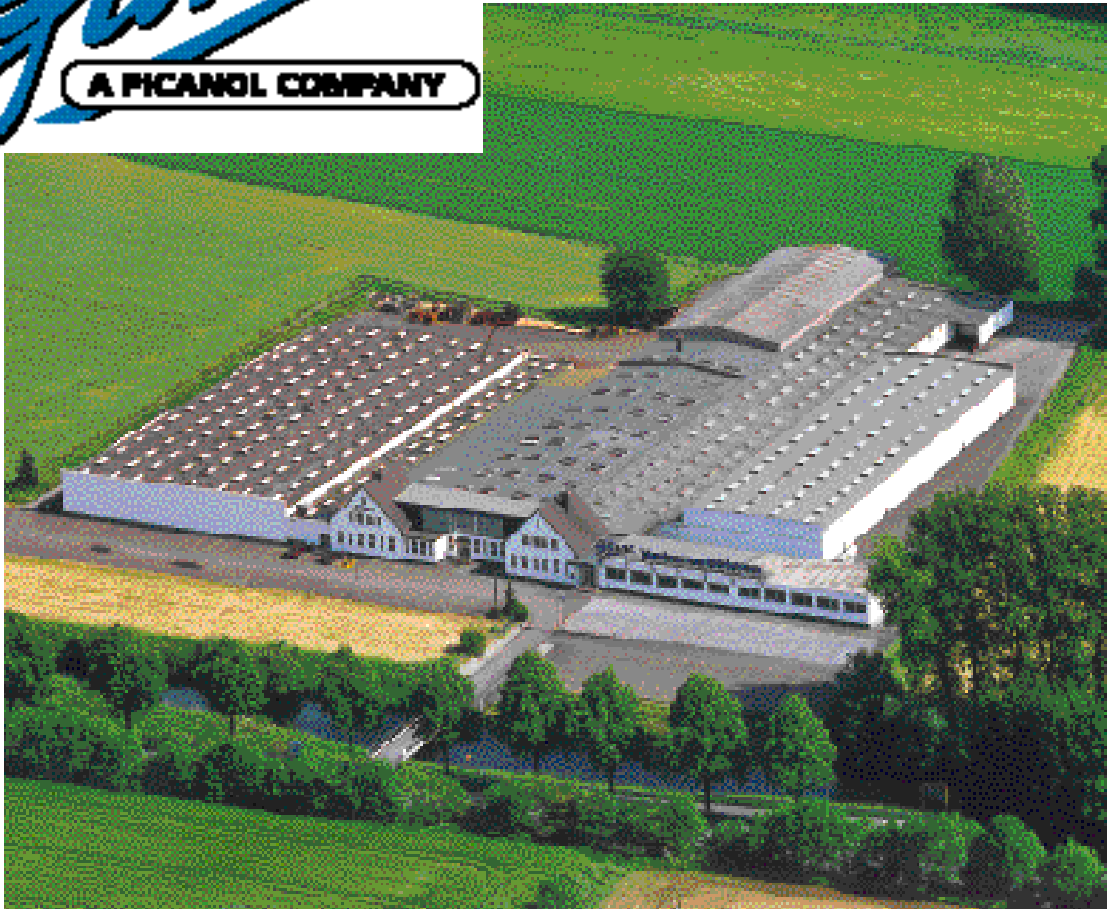
OTHER

As a result of the Asian crises, all marketing subsidiaries in the Far East made a loss for the year. Only Picanol of America performed well, thanks to the strong North-American market.

CONSOLIDATED KEY FIGURES 1994-1998

(in BEF million)

	1994	1995	1996	1997	1998
TURNOVER _____	10,866	11,321	12,912	13,499	13,364
OPERATING RESULT _____	93	271	524	344	11
FINANCIAL RESULT _____	57	(11)	(47)	30	23
EXTRAORDINARY RESULT _____	11	(2)	31	(4)	(30)
RESULT BEFORE TAX _____	161	258	508	370	4
NET RESULT _____	135	180	338	212	(39)
GROSS CASH FLOW _____	624	658	946	855	629
INVESTMENTS _____	575	369	509	432	392



The acquisition of a majority stake in the German company Guenne further reinforces our position in the market for weaving machines.

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS OF BELGIAN FRANCS)

ASSETS	31.12.98	31.12.97
FIXED ASSETS	1,434,671	1,323,077
I. FORMATION EXPENSES	2,101	3,746
II. INTANGIBLE ASSETS	48,482	38,387
III. CONSOLIDATION DIFFERENCES	50,909	34,440
IV. TANGIBLE ASSETS	1,021,201	1,075,166
A. Land and buildings	235,281	244,807
B. Plant, machinery and equipment	668,828	731,260
C. Furniture and vehicles	82,278	60,729
D. Leasing and other similar rights	10,845	13,447
E. Other tangible assets	535	1,106
F. Assets under construction and advance payments	23,434	23,817
V. Financial assets	311,978	171,338
A. Enterprises accounted for using the equity method	85,932	42,287
1. Participating interests	85,932	37,287
2. Amounts receivable	-	5,000
B. Other enterprises	226,046	129,051
1. Participating interests and shares	106,830	5,181
2. Amounts receivable	119,216	123,870
CURRENT ASSETS	4,198,258	5,441,395
VI. AMOUNTS RECEIVABLE AFTER ONE YEAR	66,784	5,307
A. Trade debtors	49,786	-
B. Other amounts receivable	16,998	5,307
VII. STOCKS AND CONTRACTS IN PROGRESS	1,508,041	1,615,937
A. Stocks	1,508,041	1,615,937
1. Raw materials and consumables	487,837	528,176
2. Work in progress	481,071	525,666
3. Finished goods	538,593	554,509
6. Advance payments	540	7,586
VIII. AMOUNTS RECEIVABLE WITHIN ONE YEAR	1,940,384	2,797,710
A. Trade debtors	1,669,287	2,500,167
B. Other amounts receivable	271,097	297,543
IX. INVESTMENTS	131,668	347,897
B. Other investments and deposits	131,668	347,897
X. CASH AT BANK AND IN HAND	536,241	639,030
XI. DEFERRED CHARGES AND ACCRUED INCOME	15,140	35,514
TOTAL ASSETS	5,632,929	6,764,472

(IN THOUSANDS OF BELGIAN FRANCS)

LIABILITIES	31.12.98	31.12.97
CAPITAL AND RESERVES	1,706,307	1,817,597
I. CAPITAL	295,000	295,000
A. Issued capital	295,000	295,000
II. SHARE PREMIUM ACCOUNT	53,750	53,750
IV. CONSOLIDATED RESERVES	1,306,066	1,385,780
VI. TRANSLATION DIFFERENCES	44,975	73,225
VII. INVESTMENT GRANTS	6,516	9,842
MINORITY INTERESTS	44,650	73,992
VIII. MINORITY INTERESTS	44,650	73,992
PROVISIONS, DEFERRED TAX AND LATENT TAXATION LIABILITIES	462,019	393,661
IX. A. Provisions for liabilities and charges	457,770	387,214
1. Pensions and similar obligations	230,958	202,385
4. Other liabilities and charges	226,812	184,829
B. Deferred tax and latent taxation liabilities	4,249	6,447
CREDITORS	3,419,953	4,479,222
X. AMOUNTS PAYABLE AFTER ONE YEAR	93,645	172,213
A. Financial debts	93,645	172,213
3. Leasing and other similar obligations	780	2,213
4. Credit institutions	92,865	170,000
XI. AMOUNTS PAYABLE WITHIN ONE YEAR	3,198,704	4,170,370
A. Current portion of amounts payable after one year	141,433	142,012
B. Financial debts	-	66,396
1. Credit institutions	-	66,396
C. Trade debts	2,085,934	2,911,166
1. Suppliers	1,750,002	2,452,488
2. Bills of exchange payable	335,932	458,678
D. Advances received on contracts in progress	512,836	592,238
E. Amounts payable regarding taxes, remuneration and social security	367,613	372,407
1. Taxes	27,711	18,598
2. Remuneration and social security	339,902	353,809
F. Other amounts payable	90,888	86,151
XII. ACCRUED CHARGES AND DEFERRED INCOME	127,604	136,639
TOTAL LIABILITIES	5,632,929	6,764,472

CONSOLIDATED INCOME STATEMENT

(IN THOUSANDS OF BELGIAN FRANCS)

	31.12.98	31.12.97
I. OPERATING INCOME	13,421,802	13,606,859
A. Turnover	13,363,554	13,498,538
B. Increase, decrease in stocks of finished goods, work and contracts in progress	(36,256)	23,789
C. Fixed assets - own construction	18,665	33,690
D. Other operating income	75,839	50,842
II. OPERATING CHARGES	(13,410,328)	(13,263,091)
A. Raw materials, consumables and goods for resale	7,525,109	7,664,947
1. Purchases	7,525,109	7,664,947
B. Services and other goods	2,329,891	2,190,062
C. Remuneration, social security costs and pensions	2,973,559	2,903,216
D. Depreciation of and other amounts written off formation expenses, intangible and tangible fixed assets	438,896	423,682
E. Increase, decrease in amounts written off stocks, contracts in progress and trade debtors	78,119	1,882
F. Increase, decrease in provisions for liabilities and charges	29,857	41,015
G. Other operating charges	34,897	38,287
III. OPERATING PROFIT	11,474	343,768
IV. FINANCIAL INCOME	130,088	75,640
A. Income from financial fixed assets	3,805	678
B. Income from current assets	104,398	32,753
C. Other financial income	21,885	42,209
V. FINANCIAL CHARGES	(107,477)	(45,648)
A. Interests and other debt charges	23,136	24,324
B. Amounts written on positive consolidation differences	19,590	12,417
D. Other financial charges	64,751	8,907
	31.12.98	31.12.97
VI. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	34,085	373,760

(IN THOUSANDS OF BELGIAN FRANCS)

VII. EXTRAORDINARY INCOME	12,040	15,296
C. Adjustments to amounts written off consolidation differences	587	-
E. Gain on disposal of fixed assets	9,277	2,879
F. Other extraordinary income	2,176	12,417
VIII. EXTRAORDINARY CHARGES	(42,250)	(19,163)
D. Provisions for extraordinary liabilities and charges	38,600	-
E. Loss on disposal of fixed assets	3,245	19,125
F. Other extraordinary charges	405	38
IX. PROFIT FOR THE FINANCIAL PERIOD BEFORE TAXATION	3,875	369,893
X. A. TRANSFER FROM DEFERRED TAX AND LATENT TAXATION LIABILITIES	7,350	4,499
XI. INCOME TAXES	(63,760)	(163,646)
A. Income taxes	(63,760)	(163,686)
B. Adjustment of income taxes and write-back of tax provisions	-	40
XII. PROFIT (LOSS) FOR THE FINANCIAL PERIOD	(52,535)	210,746
XIII. SHARE IN THE RESULT OF THE ENTERPRISES ACCOUNTED FOR USING THE EQUITY METHOD	13,645	1,734
A. Profits	13,645	1,734
XIV. CONSOLIDATED PROFIT (LOSS)	(38,890)	212,480
A. Share of third parties	(26,605)	3,156
B. Share of the group	(12,285)	209,324