



ANNUAL REPORT 2000

Picanol Group

PICANOL
why weavers win



THE POSITIVE RESULTS CONTINUE!

After the recession that depressed the market for weaving machines in the past few years, to the lowest level in the last two decades, the first signs of an approaching upturn made themselves felt towards the middle of 1999. This was confirmed by the level of activity in the first half of 2000, and the recovery continued in the second half.

Our production rate was increased accordingly during the second half of last year, and by the end of 2000 our order book stood at a record level. As a result, the last year of the 20th century was also a reasonable good year for Picanol. The operating loss of BEF 204 million in 1999 was largely made up, and part of the extraordinary losses resulting from the restructuring could be recovered. In operational terms, Picanol NV made a profit of BEF 317 million on normal business operations in 2000, together with a consolidated profit before taxes of BEF 294 million on normal business operations.

The new OMNI*plus* airjet machine was received enthusiastically by the market, giving us a further advantage for the future. Our "Why Weavers Win" strategy was further extended, and now provides us with an excellent foundation for meeting the challenges that face us in this cyclic and consolidating market.

In this way we have already made significant progress for financial year 2001. Our well-filled order book, our products that score well, our enthusiastic customers and suppliers, and finally our motivated personnel should guarantee an excellent result, well above the 2000 figure.

Finally, in the sphere of corporate governance I have decided to give up day-to-day management and to nominate Jan Coene as President & CEO. Mr. Coene became a director of the company two years ago. I myself will remain as Chairman of the Board. I am confident that Jan Coene's experience and professionalism will keep the company profitable and expanding.

Patrick Steverlynck



The new Management Team

From l. to r.: Philip De Bie (BU Manager Papier), Geert Ostyn (BU Manager Airjet), Kris Vansacker (BU Manager Technical), Bertrand Florizoone (BU Manager Parts), Peter Degraeve (BU Manager Manufacturing), Jan Coene (President & CEO), Dimitri Totolidis (BU Manager Proferro), Jan Hillewaert (Chief Financial Officer), Dirk Verly (Chief Resources Officer), Eckhard Thometschek (BU Manager Mechatronics), Johan Verstraete (BU Manager Household), Stefaan Dewulf (BU Manager Appareil)

Board of Directors

HONORARY CHAIRMAN

Mr. Emmanuel Steverlynck

Term of office

CHAIRMAN, MANAGING DIRECTOR

PASMA N.V. (BE 466.125.382)

Meenseweg 150, 8900 Ieper

Represented by Mr. Patrick Steverlynck

Meenseweg 150, 8900 Ieper

2002

VICE-CHAIRMAN, MANAGING DIRECTOR

Mr. Michel Steverlynck

Meenseweg 564, 8902 Zillebeke-Ieper

2002

DIRECTORS

Mr. Yves Steverlynck

Kleine Ieperstraat 10, 8980 Geluveld-Zandvoorde

2001

Mr. Alec Gevaert

Wijnsbergstraat 15, 8570 Anzegem-Vichte

2001

Mr. Herwig Bamelis

Zeedijk 472/0104, 8670 Koksijde ODK

2001

Seneca N.V. (BE 439.751.379)

Eikeldreef 11A, 9830 Sint-Martens-Latem

Represented by Mr. L. De Bruyckere

Eikeldreef 11A, 9830 Sint-Martens-Latem

2001

Corporate Advice N.V.

Magere Schorre 87, 8300 Knokke-Heist

Represented by Mr. Jan Coene

Philippartpad 6, 8301 Heist-aan-Zee

2001

Mr. Luc Van Nevel

Berchemweg 129, 9700 Oudenaarde

2001

AUDITOR

DELOITTE & TOUCHE BEDRIJFSREVISOREN (BE 429.053.863)

Louizalaan 240, 1050 Brussel 5

Represented by Mr. Philippe Roelants

2003

At the Board meeting of 8 March 2001, PASMA N.V, represented by Mr. Patrick Steverlynck, and Mr. Michel Steverlynck both resigned as Managing director. However, their term of office continues until the Annual General Meeting in 2002.

Mr. Jan Coene has been nominated as President & CEO.

Report by the Board of Directors of Picanol N.V.

TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF 25 APRIL 2001 FOR THE FINANCIAL YEAR 2000

Results as at 31.12.2000

The positive results continued in the second half of the year.

After a first half year that showed earnings before income tax of BEF 181 million (3.1% of the turnover of BEF 5 765 million), the second half of 2000 brought confirmation of this result, with earnings before income tax of BEF 161 million on a turnover of BEF 5 347 million. For the year 2000 as a whole, this yielded earnings before income tax of BEF 342 million on a turnover of BEF 11,112 million, or 3.1% of turnover. Post-tax earnings amounted to BEF 352 million. At 23.95%, the net return on equity is the highest in five years. The simplified cash-flow (earnings + depreciation) amounts to BEF 575 million, while the net cash-flow comes to BEF 517 million.

The reasons underlying this development are to be found in the positive trend which made itself felt in the textile machine sector towards the end of 1999, especially in China and the Far East. This trend, together with the strong dollar, led to pressure easing off prices, so that reasonable sales margins could be achieved once more. Orders for weaving machines increased by no less than 65% in 2000 compared with 1999, while the number of machines produced was 12% higher. This resulted in a very well-filled order book on 31.12.2000, so that the results for 2001 continue to develop favourably.

Picanol generated total liquidities of BEF 1,142 million. BEF 575 million of this comes from cash-flow (earnings + depreciation), BEF 536 million from a decrease in amounts

Key figures in BEF million

	2000	1999	Difference (%)
Operating income	11,651	9,755	+ 19.4%
Turnover	11,112	9,728	+ 14.2%
Operating costs	11,421	10,056	+ 13.6
Operating result	230	- 301	NA
Financial result	87	97	-10.3%
Current result	317	-204	NA
Result before taxes	342	-538	NA
Net result	352	-509	NA
Total depreciation & amortisation	223	269	-17.1%

receivable within one year, and BEF 131 million from a decrease in amounts receivable after one year. These resources were many devoted to raising the levels of stocks of finished products and orders in progress (BEF 356 million), reducing amounts payable within one year (BEF 202 million) and long-term debt (BEF 183 million), and investing in assets (BEF 131 million). In addition, the liquidities position improved by BEF 294 million, BEF 59 million has been set aside for dividends, and BEF 17 million was spent on miscellaneous items.

INNOVATIONS AND ACHIEVEMENTS IN 2000

OMNIPLUS: THE BEST AIRJET EVER!!!

This was the slogan with which Picanol introduced the OMNI*plus* weaving machine. Six hundred European customers were invited for a two-day seminar. Similar scenarios were followed in the USA and in the Far East, along with presentations at the CITME trade show in the People's Republic of China and the ITME show in India. The benefits offered by this new airjet weaving machine include lower weaving costs, higher fabric quality, greater flexibility and more ease of use for the weaver. These improvements have been achieved by far-reaching digitisation of the weaving process, with Picanol's Sumo technology playing an essential role.

That the OMNI*plus* lives up to its reputation as "The Best Airjet Ever" is confirmed by the enormous sales success in 2000.



WEAVE UP

Picanol's strategy is to be a partner with added value for the weavers. Specifically, this means that Picanol continues to act as a partner for the whole lifetime of weaving machines. In line with this principle, Picanol created the Weave-Up Value Packs in 1999 for retro-fitting Picanol machines with new or improved functions. The intention is to improve the efficiency of installed machines, lower the energy consumption and/or raise the quality of the fabric. The Value Pack concept reflects Picanol's commitment to keep the investment in its machines competitive, now and in the long term. Additional Value Packs were developed in the course of 2000 in close collaboration with our customers. In the meantime, the list continues to grow: the solutions that Picanol now offers on its new

machines are also being translated into customised Value Packs. The mission of the Weave Up programme is to guarantee the competitiveness of our customers by offering them new or improved functions for their existing machines.



PICANOL MACHINES: READY FOR THE INFORMATION FLOW OF THE FUTURE

In the present age where everything is dominated by information and communication technology, Picanol is working resolutely towards machines without compromise. The new man-machine interface on the OMNI*plus* is undoubtedly a key step towards the goal of total integration.

REPURCHASE OF OWN SHARES

Following a decision made by the Board of Directors on 20 October 2000, Picanol purchased 1,261 of its own shares for a total amount of BEF 19.1 million. This is a preparatory step towards developing a stock option plan for the company's management personnel. These 1,261 shares represent 0.85% of the capital. The Board of Directors has decided to suspend entitlement to dividends, and to reduce the profit available for appropriation on the basis of the number of share certificates held. The dividend coupons will remain attached to the shares, and the amounts that would have been paid out will be kept in custody until the shares are sold along with the dividend coupons.

PROSPECTS FOR 2001

Although orders for machines rose by 65%, so that the order book volume doubled in 2000, there is still no reason for euphoria. The market is expected to contract in all parts of the world, following the slowdown in the North American economy. Indeed, demand from European customers has already been declining in the past few months. The financial crisis in Turkey will dampen the strong demand experienced in 2000, and the Chinese market is also thought to have passed its peak.

The crisis of 1999 has left deep tracks, despite the economic recovery in 2000. The movement towards consolidation that appeared several years ago is continuing unabated, and the number of world-class players in weaving machine manufacturing is expected to be reduced by half in a few years' time. New entrants are faced by a saturated market, and with the exception of a few Chinese manufacturers will not have much chance of success. Against this background, Picanol's Chinese subsidiary PST offers interesting prospects.

Production of the OMNI and DELTA machines is being halted in 2001, in favour of the OMNI*plus*, so that henceforth the Picanol range will comprise the OMNI*plus* on the airjet technology side and the Gamma on the rapier technology side. This will reduce both the complexity and costs, which together with the well-filled order book will permit more streamlined production.

With the arrival of Jan Coene as the new President and CEO, a new organisational structure will also be introduced. The chain of command will be made much shorter, and everyone in the company will be required to help bring Picanol "closer to the customer." The new organisation is not a radical change; it is actually a further development of the existing "Value Partner" strategy. Under this strategy, Picanol aims to develop market-oriented technologies and services that meet the specific requirements of its customers. These include upgrading existing machines, weaveroom control, consulting etc.

To further develop this strategy, the organisation of the company will be built up on the basis of five main principles, namely an organisation which 1) is concentrated around customer segments, 2) offers total solutions for the customer, 3) operates through independent, focused business units, 4) has minimum central overhead structures, and 5) is multicultural in its composition.

Specifically, this means that as of 2 April, the group has 9 business units, each of which is highly customer-oriented. It should be noted that in addition to the units concentrating on technology, production, products and systems, there are also three units concentrating on the specific markets of apparel, household and interior textiles, and technical textiles. Together with the CFO, the CRO and the President & CEO, the nine Business Unit managers form the Management Team, responsible for the day-to-day management of Picanol. With its management thus strongly reinforced for the new millennium, Picanol has full confidence in the future.

Report by the Board of Directors

ON THE CONSOLIDATED ANNUAL ACCOUNTS PRESENTED TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF 25 APRIL 2001 FOR THE FINANCIAL YEAR 2000

Results as at 31 December 2000

In 2000 the Picanol group made a consolidated net profit (including minority interests' share) of BEF 310 million on a turnover of BEF 13,353 million (i.e. 2.3% of turnover). Apart from Picanol of Korea and Guenne, all the textile subsidiaries showed a positive result. In the case of the non-textile subsidiaries, only Proferro had a bad year: many technical problems and a shortage of manpower led to a significant loss in the second half of the year. The group's net return on equity amounts to 24.6%, the highest figure for the past five years. The simplified cash-flow (earnings + depreciation) amounts to BEF 701 million, while the net cash-flow (excluding the minority interests' share) comes to BEF 633 million (as against BEF -62 million in 1999). The group invested BEF 210 in tangible and intangible fixed assets in 2000. Depreciation on tangible fixed assets amount to BEF 374 million, while positive consolidation differences were amortised by BEF 17 million.

The key figures are as follows:

	2000	1999	Difference (%)
Operating income	13,765	11,202	+ 22.9%
Turnover	13,353	11,293	+ 18.2%
Operating costs	13,465	11,572	+ 16.4%
Operating result	300	-370	NA
Financial result	-6	59	NA
Current result	294	-311	NA
Result before taxes	323	-727	NA
Net result	309	-704	NA
Total depreciation and amortisation	391	426	-8.2%

PROFERRO

The upturn in the economy had a surprisingly large effect on Proferro, as none of the customers had provided for this in their budget. Furthermore, it came as a time when the workforce had been significantly reduced as a result of the restructuring that began in July 1999.

Since the availability of personnel on the labour market was practically non-existent, Proferro was not able to satisfy the enormous rise in demand too quickly enough. Despite this, the first half of the year closed with a slightly positive operating result.

In the second half of the year there were new activities on top of all this, which had been started up in late 1999 and early 2000 to implement the new strategy of offering parts with high added value (nodular cast iron with finishing and pre-assembly). This was accompanied by large start-up costs. The combination of the structural growth and the upturn in the economy, which continued during the second half of the year, coincided with a number of serious breakdowns. The consequences were as might be expected: a sudden inflation of the delivery backlog and an explosion in

production, repair and shipping costs. This all resulted in exceptionally high losses in the last five months of the year leading to a net loss of BEF 129 million (BEF 97 million in 1999) on a turnover of BEF 1,161 million (BEF 1,014 million in 1999).



The repaired facilities have been working at full capacity since the middle of January, and the backlog has been worked off. In the meantime, demand remains high.

A new metalworking line representing an investment of nearly 600 million will be delivered and installed at the end of 2001, and will come into operation in the course of 2002, giving Proferro additional modern facilities that will make it possible to meet the expected growth. This also fits in with the new strategy of offering complete solutions with high added value.

PST (WEAVING MACHINE PRODUCTION IN CHINA)

After a few extremely difficult years, our Chinese manufacturing subsidiary PST was able to profit significantly from the revival in the Chinese market. Further great efforts were put into improving the productivity and the cost structure. The turnover rose by 73% to RMB 90 million, with a net result of RMB 6.5 million. This compares with a loss of RMB 3.8 million in 1999. However, margins remain under pressure from the continuing high level of the RMB, which is coupled to the dollar, making imports relatively cheap compared with local production. Furthermore, the first signs of the Chinese market cooling off are starting to make themselves apparent. While PST activities and result for the first half of 2001 will certainly still be reasonable, a question mark hangs over the second half.

MELOTTE

Melotte N.V. in Zonhoven specialises in design and production of complex dies, tools, precision-engineered machine parts, automation projects and space-worthy devices. Its turnover rose significantly in 2000, from BEF 327 million to BEF 388 million, an increase of 18.7%. The net earnings were up from BEF 3.8 million to BEF 4.4 million in 2000.

Gereedschapsmakerij Melotte for its part made a turnover of BEF 49.3 million, 2.9% higher than the 1999 figure of BEF 47.9 million. The net profit rose by 14.6% to BEF 1.4 million, up from BEF 1.6 million in 1999.

This company is concentrating increasingly on design and production of high-precision parts with greater added value. Apart from the aerospace sector, a good turnover was made in the semiconductor market in 2000. A small cleanroom for dust-free assembly of small structures was put into use, and the high-speed milling, spark erosion and coordinate grinding capacities were further extended. To continue expanding in the field of high-precision technology, it will be necessary in the future to extend the workshop, including a climatized room.

___ GUENNE (WEAVING MACHINE PRODUCTION IN GERMANY)

The integration of Guenne with the Picanol organisation and the reorganisation of the German branch was further continued and completed. This resulted in a loss of DEM 781 thousand in financial year 2000, on a turnover of DEM 17.6 million. The corresponding figures in 1999 where a loss of DEM 2.3 million on a turnover of DEM 13.2 million. Particular attention was paid to product renewal. The TERRY*plus*, the new terry machine, is a combination of the Terryflex and OMNI*plus*. From the Terryflex it has inherited the sound mechanical structure, while from the OMNI*plus* it has acquired the Sumo drive, electronics, air insertion etc. The TERRY*plus* has scored a big hit in its particular market; several large weavers have chosen this machine, and Picanol-Guenne has acquired a significant share of the terry market as a result. Meanwhile Picanol-Guenne remains a market leader in the field of tyre cord, and the share of the velvet market is being extended.



_____ PROTRONIC AND PSICONTROL

The goal of the mechatronics division is to achieve rapid growth on the European OEM market through exploitation of technology. This is one of the areas into which the new Picanol organisation seeks to diversify, so as to be less sensitive to the cyclic textile market. This division is made up of two parts:

- **Psi Control ab** was set up in February 1999 as a joint venture between Picanol and the Swedish company Aros, with the aim of marketing the complementary skills in motor and actuator technology, and in electrical, electronic and mechanical integration (hardware and software). Psi Control supplies total solutions, covering the European OEM market through a partnership approach. The objective is to obtain four new projects this year. Psi Control made a slightly positive result in 2000.

- **Protronic** became a 79%-owned Picanol subsidiary in September 2000. The skills offered by this electronics company include:

- Fast delivery of tested prototypes of printed circuits, using the most advanced techniques and resources. The organisation will be further extended in the near future;
- Repair of printed circuits;
- Supply of printed circuits for small and medium series, and of fully assembled and test systems.

Protronic made a slight loss in 2000. The turnover for the following year is estimated at around BEF 190 million.



CONSOLIDATED FIGURES 1996-2000 (in BEF million)

	2000	1999	1998	1997	1996
Net turnover	13,353	11,293	13,364	13,499	12,912
Operating result	300	-370	11	344	524
Financial result	-6	62	23	30	-47
Extraordinary result	29	-416	-30	-4	31
Result before taxes	323	-727	4	370	508
Net result	310	-704	-39	212	338
Investments	210	342	392	432	509

KEY SHARE DATA, IN EUROS(except for No. of shares and average trading volume)

Number of shares	147,500	147,500	147,500	147,500	147,500
Share price					
High	400.00	448.00	793.26	840.98	446.83
Low	300.00	327.00	386.71	408.40	322.26
Average daily trading volume	36	30	45	75	40

RETURN

Net earnings of Picanol N.V.	59.16	85.56	15.18	35.21	47.29
Net earnings of group (incl. minority interests)	52.02	-118.24	-6.54	35.71	56.83
Net dividend	7.44	0	7.44	7.44	7.44

CAPITAL STRUCTURE

Group equity	210,65	174,97	286,77	305,47	272,82
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Consolidated balance

(IN THOUSANDS OF BELGIAN FRANGS)

ASSETS	31.12.2000	31.12.99
FIXED ASSETS	1,085,805	1,272,644
I. FORMATION EXPENSES	-	754
II. INTANGIBLE ASSETS	71,759	79,127
III. POSITIVE CONSOLIDATION DIFFERENCES	34,199	46,583
IV. TANGIBLE ASSETS	802,428	944,391
A.Land and buildings	235,247	252,291
B.Plant, machinery and equipment	478,441	594,923
C.Furniture and vehicles	69,573	81,879
D.Leasing and other similar rights	11,024	10,632
E.Other tangible assets	750	858
F. Assets under construction and advance payments	7,393	3,808
V. FINANCIAL ASSETS	177,419	201,789
A.Enterprises accounted for using the equity method	65,358	87,631
1. Participating interests	65,358	87,631
B.Other enterprises	112,061	114,158
1. Participating interests and shares	8,217	4,129
2. Amounts receivable	103,844	110,029
CURRENT ASSETS	5,052,681	4,390,304
VI. AMOUNTS RECEIVABLE AFTER ONE YEAR	8,310	3,280
B.Other amounts receivable	8,310	3,280
VII. STOCKS AND CONTRACTS IN PROGRESS	1,840,538	1,463,572
A.Stocks	1,838,123	1,459,233
1. Raw materials and consumables	569,203	545,870
2. Work in progress	538,977	418,792
3. Finished goods	723,827	494,571
6. Advance payments	6,116	4,339
B.Contracts in progress	2,415	-
VIII. AMOUNTS RECEIVABLE WITHIN ONE YEAR	2,484,913	2,372,119
A.Trade debtors	2,246,478	2,166,290
B.Other amounts receivable	238,435	205,829
IX. INVESTMENTS	80,506	130,106
A.Own shares	19,076	-
B.Other investments and deposits	61,430	130,106
X. CASH AT BANK AND IN HAND	614,681	397,118
XI. DEFERRED CHARGES AND ACCRUED INCOME	23,733	24,109
TOTAL ASSETS	6,138,486	5,662,948

(IN THOUSANDS OF BELGIAN FRANCS)

LIABILITIES	31.12.2000	31.12.99
CAPITAL AND RESERVES	1,253,369	1,041,075
I. CAPITAL	298,515	295,000
A. Issued capital	298,515	295,000
II. SHARE PREMIUM ACCOUNT	53,750	53,750
IV. CONSOLIDATED RESERVES	857,902	612,723
VI. TRANSLATION DIFFERENCES	39,532	76,019
VII. INVESTMENT GRANTS	3,670	3,583
MINORITY INTERESTS	46,242	42,760
VIII. MINORITY INTERESTS	46,242	42,760
PROVISIONS, DEFERRED TAX AND LATENT TAXATION LIABILITIES	531,549	641,078
IX. A. Provisions for liabilities and charges	529,766	638,673
1. Pensions and similar obligations	420,695	492,680
4. Other liabilities and charges	109,071	145,993
B. Deferred tax and latent taxation liabilities	1,783	2,405
CREDITORS	4,307,326	3,938,035
X. AMOUNTS PAYABLE AFTER ONE YEAR	48,777	72,213
A. Financial debts	48,777	72,213
4. Credit institutions	48,777	72,213
XI. AMOUNTS PAYABLE WITHIN ONE YEAR	4,164,572	3,758,164
A. Current portion of amounts payable after one year	32,881	30,780
B. Financial debts	121,730	148,907
1. Credit institutions	121,730	148,907
C. Trade debts	2,861,214	2,543,775
1. Suppliers	2,348,700	2,081,792
2. Bills of exchange payable	512,514	461,983
D. Advances received on contracts in progress	661,815	571,738
E. Amounts payable regarding taxes, remuneration and social security	408,190	438,529
1. Taxes	29,758	33,444
2. Remuneration and social security	378,432	405,085
F. Other amounts payable	78,742	24,435
XII. ACCRUED CHARGES AND DEFERRED INCOME	93,977	107,658
TOTAL LIABILITIES	6,138,486	5,662,948

Consolidated income statement

(IN THOUSANDS OF BELGIAN FRANCS)

	31.12.2000	31.12.99
I. OPERATING INCOME	13,764,731	11,202,172
A. Turnover	13,353,184	11,292,537
B. Increase (+); Decrease (-) in stocks of finished goods, work and contracts in progress	313,444	(156,871)
C. Fixed assets - own construction	5,124	-
D. Other operating income	92,979	66,506
II. OPERATING CHARGES	(13,464,970)	(11,572,361)
A. Raw materials, consumables and goods for resale	7,636,155	6,269,128
1. Purchases	7,636,155	6,269,128
B. Services and other goods	2,393,820	2,145,961
C. Remuneration, social security costs and pensions	3,044,824	2,841,744
D. Depreciation of and other amounts written off forma- tion expenses, intangible and tangible fixed assets	374,811	402,986
E. Amounts written of stocks, contracts in progress and trade debtors	36,868	39,239
F. Provisions for liabilities and charges	(64,591)	(171,786)
G. Other operating charges	43,083	45,089
III. OPERATING PROFIT / LOSS	299,761	(370,189)
IV. FINANCIAL INCOME	91,823	155,898
A. Income from financial fixed assets	1,074	6,581
B. Income from current assets	78,722	96,303
C. Other financial income	12,027	53,014
V. FINANCIAL CHARGES	(98,143)	(96,846)
A. Interests and other debt charges	14,874	19,632
B. Amounts written on positive consolidation differences	16,841	23,405
D. Other financial charges	66,428	53,809
VI. PROFIT / LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	293,441	(311,137)

(IN THOUSANDS OF BELGIAN FRANCS)

	31.12.2000	31.12.99
VII. EXTRAORDINARY INCOME	44,928	36,528
D. Adjustments to provisions for extraordinary liabilities and charges	38,600	-
E. Gain on disposal of fixed assets	1,265	988
F. Other extraordinary income	5,063	35,540
VIII. EXTRAORDINARY CHARGES	(15,544)	(452,340)
D. Provisions for extraordinary liabilities and charges	-	337,491
E. Loss on disposal of fixed assets	462	2,088
F. Other extraordinary charges	15,082	112,761
IX. PROFIT / LOSS FOR THE FINANCIAL PERIOD BEFORE TAXATION	322,825	(726,949)
X. A. TRANSFER FROM DEFERRED TAX AND LATENT TAXATION LIABILITIES	1,338	8,907
B. TRANSFER TO DEFERRED TAX AND LATENT TAXATION LIABILITIES	(254)	-
XI. INCOME TAXES	(14,244)	12,794
A. Income taxes	(22,576)	(7,117)
B. Adjustment of income taxes and write-back of tax provisions	8,332	19,911
XII. PROFIT / LOSS FOR THE FINANCIAL PERIOD	309,665	(705,248)
XIII. SHARE IN THE RESULT OF THE ENTERPRISES ACCOUNTED FOR USING THE EQUITY METHOD	(166)	1,699
A. Profits	213	1,814
B. Losses	(379)	(115)
XIV. CONSOLIDATED PROFIT / LOSS	309,499	(703,549)
A. Share of third parties	1,413	(10,206)
B. Share of the group	308,086	(693,343)

Corporate Governance

COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors is made up of not more than eight members, as follows:
the Chairman of the Board,
the President & CEO,
three independent directors holding senior positions with leading international companies,
three directors representing the shareholders.

RULES FOR THE APPOINTMENT OF DIRECTORS AND THE RENEWAL OF THEIR TERM OF OFFICE

According to the Articles of Association, the directors, whether shareholders or otherwise, are nominated by the Board of Directors and appointed by the General Meeting of Shareholders for a maximum period of six years. Director's terms of office may be renewed. Directors may be dismissed at any time by the General Meeting of Shareholders.
The age limit is 65 years at the time of appointment.

FUNCTIONING OF THE BOARD OF DIRECTORS

The Board of Directors is empowered to carry out all acts necessary to achieve the objects of the company, except those reserved by law to the General Meeting of Shareholders.

Each year, five meetings of the Board of Directors are scheduled, one of them specially devoted to strategy. The members receive all the relevant information at least one week before the meeting, in order to prepare for it thoroughly.

Further, the Board must be convened whenever the interests of the company demand, or whenever at least two directors ask for a meeting.

At each meeting, the Board receives information concerning the various activities and all aspects of the company.

On the proposal of one of its members, the full Board may decide to obtain advice from an external consultant or an advisory committee, with a specific timing and mandate.

DECISION-MAKING BY THE BOARD OF DIRECTORS

Meetings of the Board or Directors are chaired by the Chairman.

In the absence of the latter, the meeting is chaired by the President & CEO. The Board may only deliberate and take decisions on items on the agenda, and then only on condition that at least half the directors are present or represented (except as provided for in article 60 of the Companies Act). Items not on the agenda may not be deliberated or decided upon unless all directors are present or represented and agree to this.

Each director may appoint one of his colleagues, by any means of communication, to represent him at a particular meeting.

Decisions of the meeting are taken by a simple majority. In case of a tie, the chairman of the meeting has the deciding vote.

MAIN SUBJECTS DEALT WITH BY THE BOARD

The Board of Directors discusses the vision, mission and strategy of the company the business plan and the budget, the quarterly, half-yearly and annual results, financing, matters of company law, and mergers and acquisitions, both for the company itself and for subsidiaries.

Other important subjects such as organisational changes, senior appointments, external communication, special remuneration, dividends, special investments or IT projects are also presented to the Board and discussed and approved by it. The most important item on the agenda is customers, their satisfaction and success, their new requirements and their wishes for the future.

SUPERVISION BY THE BOARD OVER DAY-TO-DAY MANAGEMENT

The President & CEO is in charge of day-to-day management. He is assisted in this task by his Management Team with responsibility for particular functions. The managers of the various activities have extensive powers under the supervision of the President & CEO. These managers also report regularly to the Board of Directors.

POWER TO COMMIT THE COMPANY

The company can be validly committed in law by two directors acting jointly. As regards day-to-day management, the company can also be validly represented in law, in or out of court, by two people, namely a combination of directors, managers or other signing executives, within the limits of the authority granted to them.

There are also internal regulations regarding financial commitments (such as purchases, investments etc.).

COMMITTEES SET UP BY THE BOARD OF DIRECTORS

The Audit Committee supervises the financial reporting and compliance with administrative, legal, taxation and other procedures. Specific tasks such as examining entrepreneurial risks, etc., can form part of this. The committee has a supervisory role.

The Audit Committee is made up of the three independent directors, and reports directly to the Board of Directors. The Audit Committee can involve the company auditor or any other person it considers useful, to help it in its work, and/or may invite them to attend its meetings.

The Strategy Committee prepares strategy, on behalf of the Board of Directors. This committee is made up of the President & CEO, an external consultant and a member of the Management Team. Other persons who can make a contribution may also be invited to attend. The vision, mission and strategy are proposed by the Strategy Committee, acting in an advisory capacity; the final decision and responsibility lie with the Board of Directors.

The HR Committee determines the remuneration policy for senior company personnel. This committee is made up of the Chairman of the Board, an external consultant and one independent director. The committee consults on the main lines of the HRM policy and makes proposals to the Board of Directors. Other persons who can make a contribution may also be invited to attend.

The Board may also set up ad hoc committees to deal with particular matters.

Business Ethics

PICANOL AND BUSINESS ETHICS

Our way of working and acting ensures that Picanol enjoys an excellent reputation. Our customers and other stakeholders expect us to give high priority to ethical standards; they also expect us to honour our obligations and to behave in a completely honest way

Rigid adherence to business ethics forms part of Picanol's values, and characterises our way of doing business. We strive to be honest in every situation, and to be ethical in all our business practices.

Any deviation from this principle, however slight, has a direct effect on our reputation.

Every company and all employees in the Picanol group must respect our business ethics. All Picanol managers and persons in authority must play an active role in implementing these business ethics and ensuring that they are made known and maintained.

PICANOL'S BUSINESS ETHICS STANDARDS

Strongly developed business ethics and integrity form a guarantee of our credibility. All companies in the Picanol group and all employees observe the relevant laws and regulations in the countries in which they operate, and meet their obligations in a reliable way. They insist on honesty and justice in all aspects of business, and they expect the same of their partners.

Picanol itself shows the same responsibility in complying with the business principles that form a guideline for the company's activities and relations throughout the world.

Picanol further subscribes to the basic principles laid down by the International Chamber of Commerce (ICC) in its International Code of Direct Selling (1999 Edition), and the OECD Convention of 1997.

BUSINESS ETHICS

Picanol expects its employees to act according to the highest standards of integrity and ethical behaviour. We are convinced that ethical and economic values go hand-in-hand, and that the business world must constantly strive to operate within the accepted standards laid down by national and international authorities.

Guidelines

- Show "zero tolerance" when it comes to implementing local and international laws and regulations, as well as Picanol's ethical standards.
- Ensure that all business transactions carried out by Picanol are fully and accurately recorded, in accordance with the company's accounting principles.
- Ensure that employees are continually trained in the correct ways of dealing with ethical questions, receive timely support and advice, and are made aware of the issues involved.
- Carry out regular reviews of ethical behaviour, and ensure that there are sufficient resources for employees or others to report any violations.

CONFLICTS OF INTEREST

Picanol employees must at all times avoid getting into situations where their personal or financial interests conflict with those of the Picanol group.

No Picanol employee may accept or solicit any payment, personal gift or form of entertainment when it can be reasonably supposed that this could influence the business transactions or does not fall within the limits of normal business hospitality.

Picanol expects a high degree of loyalty towards the company on the part of its employees. This means among other things that persons with access to confidential information must observe the principles of non-competition.

CONFIDENTIALITY AND PROTECTION OF COMPANY RESOURCES

Trade secrets and other proprietary information concerning Picanol, its business activities, technology, other intellectual property, financial situation or personnel, together with all information concerning customers, suppliers and partners of Picanol, must be treated as confidential. Such information must not be made available to persons who do not belong to the group, or to employees who do not have the necessary authorisation. The obligation to keep this information confidential continues after the relationship of employment has entered.

Treating such information correctly also means that it may not be destroyed or misused in any way.

INSIDER TRADING

Picanol is a listed company, and as such it has agreements with the stock exchange on which its shares are listed, concerning the provision of information. The relevant laws, aimed at ensuring the integrity of the securities market and public confidence in it, apply in various countries.

The Picanol group retains a strict policy regarding insider trading. Furthermore, Picanol has strict procedures governing the distribution of information that can have an influence on the market valuation of our shares.

BRIBERY AND CORRUPTION

No company or employee in the Picanol group may offer or procure any inappropriate monetary or other inducement for any person or persons, including civil servants or customers, in conflict with the law and the legal obligations of civil servants or employees, with the purpose of obtaining or maintaining certain business agreements.

POLITICAL CONTRIBUTIONS

No contributions may be made to political parties or committees, or to individual politicians.

ANTI-TRUST COMPLIANCE

Picanol maintains open and honest competition on markets all over the world. Picanol companies and employees must not in any circumstances indulge in unfair competition, such as illegal price setting, market agreements or other actions that hinder, limit or impair fair competition, and thus violate the applicable anti-trust legislation.

DISCLOSURE AND DOCUMENT MANAGEMENT

All company transactions must be fully and correctly recorded, in accordance with Picanol's accounting principles and other relevant requirements. Incorrect or fraudulent documentation or reporting is in conflict with Picanol's requirements and policy.

VIOLATION OF COMPANY GUIDELINES

Each individual employee is responsible for ensuring that his or her behaviour, and the behaviour of persons under his or her responsibility, is in compliance with the company's policy in matters of business relations. This compliance – both personal and on the part of colleagues – will be taken into account in the periodic evaluations. Violation of policy in these matters will lead to appropriate action, which if necessary may even include dismissal of the person involved. Any person or persons involved may also have civil or criminal prosecutions brought against them.

RESPONSIBILITY AND IMPLEMENTATION

The standards laid down in the Picanol Business Ethics form the core of the group's culture and obligations. Uniform rules that apply throughout the group are essential: each employee is individually responsible for compliance with our code of conduct.

WELFARE AND THE ENVIRONMENT

Care for the environment and society is one of Picanol's core values, and forms an essential part of its company policy.

Picanol undertakes to protect the welfare of its employees, customers and neighbours, by preventing (or limiting) the negative effects of its activities and products on people and the environment.

This welfare policy is governed by the following guidelines:

The environmental programmes are driven by an active and future-oriented R&D process based on prevention, a source-oriented approach and ongoing improvements.

Process and products must comply with the applicable legislation or even stricter own standards. Protection of employees, customers and neighbours against unacceptable risks takes precedence over economic considerations, and must not be compromised. In case of doubt, the precautionary principle applies.

The welfare policy is integrated into existing processes, operations and systems, taking into account the complete life cycle of the products.

Consumption of energy and raw materials is kept to a minimum.

Waste and remainder products are kept to a minimum, and are reused or recycled as much as possible.

All employees are involved in the welfare policy.

And the environmental programmes and the results must also be communicated in an open and factual manner.

The continual improvement of our environmental protection programme must guarantee that this policy is put into practice.

Each employee is responsible for implementing the action programmes based on this welfare policy.

The result is a contribution to sustainable development.

USE OF ELECTRONIC RESOURCES

The Picanol e-mail service is a valuable and efficient company communication medium, and must be used in a responsible manner.

The Picanol e-mail service is the property of the Picanol group. It is in no sense the private property of any e-mail user. Privacy cannot be associated with Picanol e-mail.

Sending confidential and/or important information via Picanol e-mail services must be done with the necessary caution.

Company-related information must not be distributed and/or sent to just anybody outside the company who makes use of the Picanol e-mail service.

Important or confidential messages or information can be sent by e-mail to certain members of personnel within Picanol. These persons in turn are expected to keep such messages and information confidential; the information must not under any circumstances be passed on, either internally or outside the company.

Picanol expects its e-mail users to comply with the applicable legislation and the company's policy. Picanol will ensure that this policy is observed, and that the standards drawn up in connection with this policy comply with all applicable laws.

Picanol strives to maintain its work floor free of harassment. Picanol does not tolerate any harassment in the form of e-mail regarding somebody's race, skin colour, age, sex, religious beliefs, origins, civil status, family circumstances, emotional or sexual orientation, handicap or seniority.

Picanol's e-mail service may not be used for sending, copying or storing material of an immoral, pornographic or sexually explicit nature. The same applies to material that is or can be humiliating, contemptuous or insulting.

It is forbidden to use the Picanol e-mail service to intimidate or annoy other persons, irrespective of whether or not these persons are users of the Picanol e-mail service.

It is forbidden to use the Picanol e-mail service for sending, copying or storing copyright-protected software and/or documents.

The Picanol e-mail service may not be used for personal commercial activities.

Picanol services may not be used for purposes that may overload or any other Picanol e-mail service or that may interfere with Picanol e-mail users.

