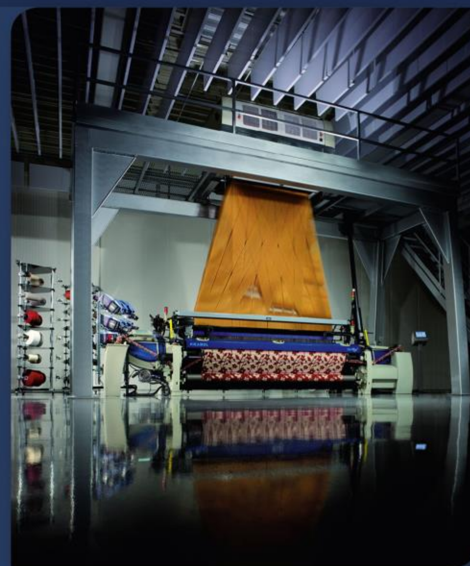


Annual report 2012

PICANOL GROUP

COMPANY PROFILE

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

Division Weaving Machines:
Picanol develops, manufactures and sells high-tech weaving machines based on air (airjet) or rapier technology. Picanol supplies weaving machines to weaving mills worldwide, and also offers to its customers products and services as weaving accessories, training, upgrade kits and spare parts. For more than seventy-five years, Picanol has played a pioneering role in the industry worldwide, and is one of the current world 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 and agricultural machinery, and parts for Picanol weaving machines. PsiControl Mechatronics designs, develops, manufactures and supports among other things controllers in various industries. Melotte develops and produces innovative product solutions using Direct Digital Manufacturing (DDM) and Near-to-Net-Shape Manufacturing (NNSM) technologies.

The Picanol Group employees operate all over the world to serve their customers. The 1,958 employees together cover a wide range of high-tech products, systems and services, giving customers a lead over their competitors and creating added value.

In addition to the head office in Ypres (Belgium), the Picanol Group has production facilities in Asia and Europe, linked to its own worldwide sales and service network.

The Picanol Group was founded in 1936 and celebrated its 75th anniversary in 2011

The Picanol Group in 2012:

Consolidated turnover:	461.75 million euros
Employment	1,958
NYSE Euronext Brussels:	PIC
Web	www.picanolgroup.com

IN MEMORIUM

On Saturday 14 April 2012, Emmanuel Steverlynck passed away at the age of 89.

He was the second son of Charles Steverlynck (1888-1984), who founded Picañol in 1936.

Emmanuel Steverlynck took over the commercial management of the company and the sales of Picañol weaving machines in 1952. Under his leadership and with the help of Charles and his brother Bernard Steverlynck (1920-1976), the company overcame all of the difficulties of the earlier years and became a world player.

Familiar with the world of textiles thanks to the family weaving mills in Vichte, and blessed with an enormous talent, Emmanuel Steverlynck succeeded in building up a worldwide sales organization and thus truly put Picañol on the map.

In 1987, Emmanuel Steverlynck passed the torch to the next generation, but as an Honorary Chairman of the Picanol Group, he remained connected to the company, his employees and his customers.

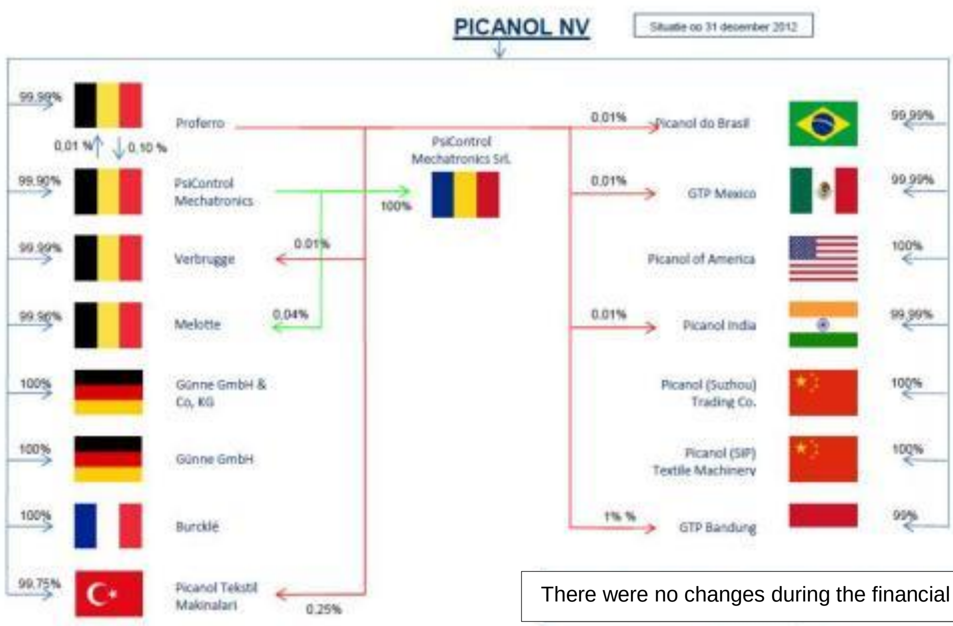
CONTENTS

PRESENTATION OF THE PICANOL GROUP

AT THE SERVICE OF CUSTOMERS WORLDWIDE

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

ORGANIZATIONAL CHART



There were no changes during the financial year

PROFILE WEAVING MACHINES

ACTIVITIES

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

The division Weaving Machines consists of three parts:

- **Marketing, Sales & Services** markets weaving machines to customers all over the world, and is in charge of spare parts sales and aftermarket services. In Brazil, China, India, Indonesia, Mexico, Turkey and the US, this is organized through own local organizations.

- **Product Development** comprises all integrated R&D activities.

- **Operations** comprises all activities concerning sourcing, logistics, quality and assembly

MARKET REVIEW

Picanol has 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. Picanol sells weaving machines, spare parts and weaving accessories to weaving mills worldwide in various textile segments. There are three main segments for fabric products, namely apparel (clothing), household textiles and technical textiles (e.g. airbags, medical textile, parachute and tire cord). Due to a continued focus on achieving a maximum production rate in combination with a minimum consumption of raw materials and energy, Picanol has managed to consolidate a solid market share in the apparel segment. Within the household segment, Picanol was able to strengthen its position, especially with the successful launch of the OptiMax and GTMax for weavers of interior textiles. Picanol's growing presence in the technical textiles segment offers attractive growth niches, thanks to significant investments in the development of customized machines.

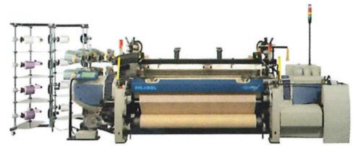
PRODUCTS & SERVICES

OMNI*plus* Summum

The latest airjet weaving machine for the higher market segments.

OptiMax

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

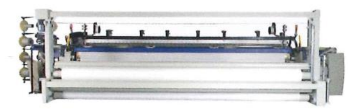


OMNI*plus* 800

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

OptiMax (guided positive gripper)

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



OMNI*plus*-X

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

GT-Max

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

GTX*plus*

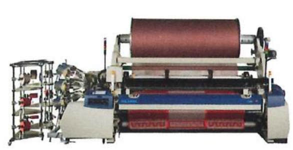
Rapier weaving machine with universal application for the middle segment of the market.

OMNI*plus* 800TC

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

TERRY*plus* 800

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



Picanol also offers its customers upgrade kits and spare parts. In addition, it also brings a number of weaving accessories on the market such as (air) reeds, frames and heddles. The production of these accessories takes place in Belgium, France and Mexico under the brand names Burcklé and GTP.

PROFILE INDUSTRIES

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

PROFERRO

ACTIVITIES

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

PRODUCTS & SERVICES

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

MARKET REVIEW

Proferro supplies other original equipment manufacturers in various market segments worldwide such as agricultural machinery, earthmoving equipment, compressors, textile machinery and general engineering. By combining casting, mechanical finishing, assembly and co-design it is able to cater successfully to the growing demand for larger, more technically difficult core-intensive parts.

PSICONTROL MECHATRONICS

ACTIVITIES

PsiControl Mechatronics covers 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 2012 the Picanol Group worldwide employed 1,958 people.

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, health and safety and the environment. Various management audits are held on an annual basis, with the management of the different departments following the implementation of WCM. The Picanol Group also has a suggestion system that enables employees to put forward proposals for work-related improvements. In recent years, further steps have been taken in the implementation of self-managing teams within the Picanol Group.

REPORT BY THE BOARD OF DIRECTORS

LETTER TO THE SHAREHOLDERS

Dear shareholder,

We can look back on a good year for the Picanol Group. As previously announced, the Picanol Group realized a consolidated turnover of 461.75 million euros over the full financial year, in line with the turnover of 2011.

As was the case in 2011, the Weaving Machines division experienced a strong year. Despite a hesitant start resulting from the weaker order book at the end of 2011, 2012 was characterized by a high global demand for Picanol weaving machines. This was due to, amongst others, the success of new Picanol weaving machines, the favorable exchange rate of the euro against the yen and the strong global sales and services network. In order to handle production peaks, Picanol had to focus strongly on both quality and flexibility in 2012.

Following ITMA Barcelona in September 2011, Picanol successfully participated in a number of international trade fairs in 2012, where it profiled itself as the technological market leader in rapier and airjet weaving machines. Picanol focused mainly on the new weaving machines – the OMNI*plus* Summum and positive rapier – as well as its added value in the weaving of technical textiles. The ambition of Picanol will remain to further develop its technological market leadership. Picanol strongly focuses on (weaving) performance, quality, energy consumption, robustness, waste reduction and the ease of use of its weaving machines.

In 2012, the Picanol Group also invested in the further expansion of its global sales and services network, including a new headquarters in India and a new office for Picanol of America. Furthermore, a new warehouse was built at the production site in Suzhou (China) to optimize logistics.

In 2012, the Industries division was commercially successful with its engineered casting solutions and customized controllers, both with new customers and new orders from existing customers. From the second half of the year, the activities came under pressure due to the increasing economic and financial uncertainty among customers, despite the well-filled order book for the Weaving Machines division.

The Picanol Group managed to close 2012 with a net profit of 55.30 million euros, compared to a net profit of 61.01 million euros in 2011 (including non-recurring income of 9.5 million euros realized by the sale of the Steel Heddle activities).

Dividend
The Board of Directors will propose to the General Meeting on 17 April 2013 not to pay out a dividend for the 2012 financial year.

Outlook
For the first six months of 2013, the order books for both divisions are well-filled. The outlook for the second half is less clear, since exchange rate changes and/or volatile energy and commodity prices may cause uncertainty in the market.

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

Innovation, technology and ongoing R&D efforts remain crucial to the international success of Picanol. In 2013, Picanol will continue to expand its role as technological market leader by increasing the product range of its weaving machines and by offering applications for new market segments. The Industries division will increase its activities on the market in 2013. In addition, increasing the competitiveness through further productivity and quality improvements, and targeted investments is a top priority in 2013.

To this end, the Board of Directors approved investments at Ypres for an amount of 12 million euros. The plan includes the construction of a new test area for weaving machines, the expansion of the HWS molding line and the purchase of several production machines.

On behalf of the Board of Directors, we would like to thank our employees for their commitment, flexibility and enthusiasm during 2012. The basis of the success of the Picanol Group now more than ever rests on the quality, motivation and the commitment of our dedicated employees.

Luc Tack Managing Director	Stefaan Haspeslagh Chairman

Note: For the report of the Board of Directors on the statutory financial statements of Picanol NV, we refer to page 76 of this annual report.

MAIN EVENTS IN 2012

- On Saturday 14 April 2012, Emmanuel Steverlynck, Honorary Chairman of the Picanol Group, sadly passed away.
- In early July 2012, the Picanol Group announced that it was recruiting 50 additional temporary workers for the production site in Ypres to handle production peaks.
- In August 2012, the new Indian headquarters in New Delhi was inaugurated in the presence of Mr. Didier Reynders, Deputy Prime Minister and Minister of Foreign Affairs, Foreign Trade and European Affairs.

ACTIVITIES REPORT WEAVING MACHINES

The year 2012 was a very good year for the Weaving Machines division.

Despite a hesitant start resulting from the weaker order book at the end of the previous year, 2012 was characterized by a high global demand for Picanol weaving machines. As of the second quarter the demand for Picanol weaving machines improved. This was due to, amongst others, the success of new Picanol weaving machines, the favorable exchange rate of the euro against the yen and the strong global sales and services network. The demand for new Picanol weaving machines also remained high during the second half of 2012.

In 2012, this resulted in a strong demand for weaving machines produced in Ieper, whereby increased attention was paid to handling the various production peaks resulting from the strong order book.

Following ITMA Barcelona in September 2011, Picanol successfully participated in a number of international trade fairs in 2012, where it profiled itself as the technological market leader in rapier and airjet weaving machines. Picanol participated in among others Dhaka International Textile & Garment Machinery Exhibition (Bangladesh), Inlegmash Moscow (Russia), Indo InterTex (Indonesia), ITM Istanbul (Turkey), ITMA-CITME Shanghai (China), Igatex (Pakistan) and ITME Mumbai (India). Picanol focused mainly on the new weaving machines – the OMNI*plus* Summum and positive rapier – as well as its added value in the weaving of technical textiles. The ambition of Picanol will remain to further develop its technological market leadership. Picanol strongly focuses on (weaving) performance, quality, energy consumption, robustness, waste reduction and the ease of use of its weaving machines.

In 2012, the Picanol Group also invested in the further expansion of its global international network. The strong global sales and services network is an important advantage for Picanol. At the beginning of august the new Indian headquarter was inaugurated in the presence of H.E. Mr. Didier Reynders, Deputy Prime Minister and Minister of Foreign Affairs, Foreign Trade and European Affairs of Belgium. In the United States Picanol of America moved to a new location in (South-Carolina). A new warehouse was built at the production site in Suzhou (China)

Outlook

For the first six months of 2013, the order book of Picanol is well-filled. The main challenges remain quality, flexibility and delivery times. The outlook for the second half is less clear, since exchange rate changes and/or volatile energy and commodity prices may cause uncertainty in the market.

Innovation, technology and ongoing R&D efforts remain crucial to the international success of Picanol. In 2013, Picanol will continue to expand its role as technological market leader by increasing the product range of its weaving machines and by offering applications for new market segments. The main challenge remains to strengthen the performance, quality and cost competitiveness of our customers. In terms of product development, sourcing and assembly, Picanol will increase its efforts to improve both productivity and process efficiency. In this context, Picanol will invest in 2013 in among others a new test area for weaving machines and in various production machines.

ACTIVITIES REPORT INDUSTRIES

Both Proferro and PsiControl were commercially successful, both with new customers and new orders from existing customers. From the second half of the year, the activities came under pressure due to the increasing economic and financial uncertainty among customers, despite the well-filled order book for the Weaving Machines division.

Proferro

By strongly focusing on a broader presence in the market, Proferro managed to expand its customer portfolio in 2012 in both casting and the finishing of castings. The 3-pillar strategy of casting-finishing-assembly, the HWS molding line and the engineered casting solutions that Proferro offers, are increasingly appreciated by the market. This resulted in an increase in the activities in several sectors, such as agriculture, compressors and construction. In 2012, Proferro invested heavily in the expansion of its mechanical finishing department. Two five-axis multitasking machining centers and a new five-axis milling-turning center for large castings were installed. With the latter multi-tasking machining center, Proferro can process larger castings in nodular as well as lamellar cast iron, with a diameter of up to 1200 mm and a height of 1000 mm. This allows Proferro to offer the customer a total solution, from development to subassemblies that are ready to be assembled.

PsiControl Mechatronics

In 2012, PsiControl Mechatronics again focused strongly on its customized controllers for new customers and growth sectors, as well as on its expertise in Electronic Manufacturing Services (EMS). This resulted in an increase in both the R&D activities and the electronics assemblies, with a positive impact on the production facilities in Ypres (Belgium) and Rasnov (Romania). The production of large-volume series in Romania has become an important trump card of PsiControl Mechatronics. In 2012, a lot of attention went towards the implementation of the machinery that was acquired from TBP Electronics Belgium NV in 2011. This acquisition allowed PsiControl Mechatronics to significantly upgrade its technology and manufacturing facilities in Ypres as well as Rasnov, thus realizing a strong increase in capacity.

Melotte

2012 was a difficult year for Melotte. As a result of the financial and economic crisis, Melotte was unable to realize the expected growth, despite the fact that the customers have high expectations of 3D-printing for their industry. The expansion of the digital activities has strengthened Melotte's market position and has a cross-fertilizing effect. In 2012, Melotte was given the Award for Social Innovation by the Prof 3.0 consortium.

Outlook

The order book is well-filled for the first half of the year, but for the second half the outlook is unclear. Next to increasing its marketing efforts, increasing the competitiveness through further productivity and quality improvements, and realizing a strict cost control are top priorities in 2013. In 2013, Industries will continue on the path of further expanding its activities through targeted investments in automation and robotics. In 2013, Proferro will invest in the further expansion of the HWS molding line and in a core shooter for larger sand cores; PsiControl Mechatronics will expand its test facilities. In 2013 Melotte expects its turnover to stabilize.

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 2012.
For the general operations of the Board of Directors, the subcommittees of the Board of Directors and the Management Committee as far as they relate to corporate governance policy, readers are referred to the Corporate Governance Charter on the website www.picanolgroup.com.

I. BOARD OF DIRECTORS

I.1. Composition of the Board of Directors

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

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

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

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

Under the guidance of the Chairman the directors assessed the operation of the Board of Directors and the collaboration with the Management Committee, in order to ensure that it functions efficiently.

As regards the inclusion of women in the Board of Directors, with the required competencies according to our Corporate Governance-rules, the Picanol Group will comply with the statutory regulations and deadlines and will therefore undertake the necessary steps.

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

The Board of Directors met five times in 2012, under the full presence of the directors
In 2012 the Board of Directors dealt with among others the following matters:

- The monthly reporting, the quarterly and half-year figures, the annual accounts, the annual report and the agenda for the General Meetings;
- The 2013 budget, the business plan and the long-term strategy;
- The reports of the Audit Committee and the Nomination & Remuneration Committee;
- Transactions with related parties
- Investment and divestments projects

I.3. Evaluation of the Board

The Board of Directors, led by the Chairman, makes an annual self-assessment to determine the efficient operating of the Board and its committees. The evaluation has following objectives:

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

The Nomination and Remuneration Committee receives notes from the Directors and annually reports to the Board of Directors with an assessment of the operating of the Board.

II. SUBCOMMITTEES OF THE BOARD OF DIRECTORS

II.1. Audit committee

Composition of the Audit Committee
The members of the Audit Committee are Messrs. Frank Meysman (as permanent representative of M.O.S.T. BVBA), Baron Hugo Vandamme (as permanent representative of HRV NV) and Jean Pierre Dejaeghere (as permanent representative of NV Kantoor Torrimmo)

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

Meetings of the Audit Committee
The Committee met four times in 2012, under the full presence of the directors.
Special attention was paid to:

- The half-yearly and annual results, with the auditor’s report;
- The internal audit report
- Management letter of the auditor
- Procedures and risk evaluations

After each meeting the Audit Committee reported through its Chairman to the Board of Directors about the above mentioned matters, and gave its advice on decisions by the Board.

Evaluation of the Audit Committee
Each year, the Chairman of the Committee reports to the Board of Directors on the operation of the Audit Committee, which is checked against the Corporate Governance Charter and other relevant criteria approved by the Board of Directors.

II.2. Nomination & Remuneration committee

The members of the Nomination & Remuneration Committee are Mr. Frank Meysman (as permanent representative of M.O.S.T. BVBA), Baron Hugo Vandamme (as permanent representative of HRV NV) and Jean Pierre Dejaeghere (as permanent representative of NV Kantoor Torrimmo).

Meetings of the Nomination & Remuneration Committee
The Committee met two times during the report year. The following subjects were discussed, among others:
- Remuneration of the Management Committee
- Profit-sharing plans for employees
- Remuneration of the Directors

The Chairman of the Nomination & Remuneration Committee reported on these matters to the Board of Directors after the meetings, and gave its advice with a view to decisions by the Board.

Evaluation of the Nomination & Remuneration Committee
Each year, the Chairman of the Committee reports to the Board of Directors on the operation of the Nomination & Remuneration Committee, which is checked against the Corporate Governance Charter and other relevant criteria approved by the Board of Directors.

III. MANAGEMENT AND DAY-TO-DAY MANAGEMENT

The Management Committee is made up as follows:

- Luc Tack, Managing Director
- Findar BVBA, represented by Mr. Stefaan Haspeslagh, CFO
- Cathy Defoor, Vice-President Industries
- Geert Ostyn, Vice-President Weaving Machines
- Johan Verstraete, Vice-President Marketing, Sales & Service
- VOF Pretium Plus, represented by Mr. Philip De Bie, Vice-President Accessories & IT.

The Management Committee meets weekly to determine the day-to-day management of the company. The Board Committee is not a management committee within the meaning of Art. 524bis of the Companies Code.

IV. REMUNERATION REPORT

IV.1. Procedure for the development of a remuneration policy and establishment of the remuneration levels for the Board of Directors and executive managers.

The procedure for developing a remuneration policy and establishment of the remuneration levels for the members of the Board of Directors and the Management Committee is defined by the Board at the proposal of the Nomination & Remuneration Committee.
The remuneration of the non-executive directors remained unchanged in 2012 and 2011.

At the proposal of the Nomination and Remuneration Committee, the remunerations of the members of the Executive Management were approved by the Board of Directors in so far as they involved changes to the running contracts.

IV.2. Remuneration policy

The remuneration of non-executive directors comprises a fixed annual fee plus fees for attendance at Committee and Board meetings.

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

On 1 March 2012, the fee for Pasma NV, represented by Mr. Patrick Steverlynck, was adjusted from a fixed management fee to one that is in accordance with the non-executive directors (fixed annual remuneration plus attendance fees). A daily allowance is also paid for services rendered in accordance with the existing service agreement.

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 Remun-eration	Attendance fees	Manag-ement Remun-eration	Other	Total 2012
Stefaan Haspeslagh *	executive	60,000	-		-	60,000
Luc Tack	executive	-	-		-	-
Patrick Steverlynck, as representative of Pasma NV	executive	8,333	8,000	84,971	-	101,304
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	10,000		-	20,000
Jean Pierre Dejaeghere, as representative of NV Kantoor Torrimmo	non-executive	10,000	10,000		-	20,000

* Chairman of the Board of Directors

Several financial services were billed by Findar BVBA for 220 kEur in regard to the 2012 financial year. This company is a related party in the sense that Mr. Stefaan Haspeslagh is also a director.

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

With the exception of executive directors, executive managers receive a variable fee based on company results. The criteria for the 2012 variable fee are laid down in a contract and are based on:
The results of the group: 65%
Divisional and individual results: 35%

The criteria are established and evaluated annually, whereby the performance-related criteria are based on the group budget. The evaluation of the performance criteria is carried out by the Managing Director in consultation with the Remuneration Committee.

IV.5. Remuneration of the Managing Director

In EUR	
Name	Luc Tack
Fixed remuneration	-
Variable remuneration	-
Total	**-**
Pension	-
Other benefits	-

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

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

In EUR	
Fixed remuneration	848,110
Variable remuneration	320,000
Total	**1,168,110**
Pension	Fixed contribution: 60,184
Other benefits *	14,377

* 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.

IV.7. Shares awarded to the Executive Management

Neither the Managing Director nor the members of the Executive Management are awarded shares or share options. No share option plans for the Managing Director or the other executive managers exist at present.

IV.8. Termination compensation

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

IV.9. Deviation

At the General Meeting of Shareholders on 20 April 2011, the shareholders proposed to vote on a deviation from the provisions set out in the Corporate Governance, with regard to provisions on bonuses. Furthermore, the shareholders approved the Board of Directors to deviate from the provisions of the Corporate Governance in relation to provisions on the distribution of bonuses in time. The bonuses of the other members of the executive management were therefore paid out in one sum.

VI. AUDITOR’S REMUNERATION

The auditor received an amount of 140,000 euros for performance of his audit task in 2012.

In the course of 2012 the auditor and the Auditor related parties charged 5,991.30 euros for tax and legal advice.

VII. RISK MANAGEMENT AND INTERNAL CONTROL

The Picanol Group internal control system aims at safeguarding:

- achievement of the company goals;
- reliability of the company’s financial and non-financial information;
- compliance with the rules and regulations.

Internal control is built on five pillars: the control environment; risk analysis and control activities; information and communication and finally, supervision and corrective action.

VII.1. Control environment

Organization of internal control:

The Audit Committee is charged with monitoring the efficacy of the control and risk management systems. The responsibilities of the Audit Committee as regards financial reporting, internal control and risk management are detailed in the Corporate Governance Charter (available on the website www.picanolgroup.com).

The Audit Committee also supervises the activities of the Internal Auditor. The latter prepares an annual planning based on a risk analysis and carries out specific audit assignments at the request of the Management Committee or the Board of Directors. He reports his findings and recommendations directly to the Audit Committee.

Management information control is the competence of the controlling team. The compliance function is performed by the Company Secretary.

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

Company ethics:

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

VII.2. Risk analysis

Picanol performs regular analyses of the risks involved in its activities. In 2010, a risk analysis was carried out. All of the key employees were asked to review their risk assessment and the evolution of several risk factors was determined. An assessment of the risks according to their impact and company vulnerability subsequently resulted in action plans that are regularly monitored by the Management Committee. The entire set of risk factors and action plans 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 trademarks, patents, domain names, trade secrets and know-how. Picanol has managed to register various trademarks and patents to cover its brands and products, and it has applied to register other trademarks and patents to cover its newly developed brands and products, and expects to apply for further brand names and patents in future. However, Picanol cannot be certain of obtaining registration of the trademarks and patents applied for. There is also the risk of Picanol failing to renew a trade mark or patent in time, or competitors being able to invalidate or circumvent any existing or future trademarks or patents granted to Picanol or licensed by it. Picanol cannot be certain that the steps taken by it to protect its portfolio of intellectual property rights (including trade mark registrations and domain names) will be sufficient, or that third parties will not violate these property rights or illegally appropriate them. Furthermore, some countries in which Picanol operates offer less protection for intellectual property rights than in Europe. If Picanol is unable to protect its property rights against violation or misappropriation, this could have a significant negative impact on its activities, operating results, cash flows or financial situation, and in particular Picanol's ability to further develop its activities.

Picanol's operating results are influenced by exchange rate fluctuations.

In 2012 Picanol earned the majority of its income from countries that use currency other than the euro. Also the competitors of Picanol use a different currency than the Euro. In addition, since Picanol presents its consolidated results in euros, any fluctuation in the exchange rates between the operating currencies of its subsidiaries and the euro has an impact on its consolidated income statement and balance sheet when the results of these operating companies are converted into euros for reporting purposes. In addition to the exchange rate risk, Picanol is exposed to currency transaction risks whenever one of its operating companies carries out transactions in a currency other than its own operating currency; this includes sale and purchase operations, as well as the issuing or creation of debt. In particular, part of Picanol's operating costs (including raw materials costs) are expressed in or linked to the US dollar. Falls in the value of the operating currencies used by Picanol's operating companies, against the currencies in which their costs and expenditure are expressed, generally result in higher costs and expenditures for these operating companies and have a negative effect on their operating margins. The company manages a portfolio of derivatives in order to hedge against exchange rate-related risks arising from operational and financial activities. Currency risks are hedged to the extent that they affect the company's cash flows. However, the company cannot guarantee that this policy will offer effective cover against the effects of exchange rates, especially in the longer term. Risks arising from the translation of the assets and obligations of foreign activities into the company's reporting currency are not hedged against.

Risks associated with dependency on particular customers
Picanol does not have any customers that account for more than 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 2009 the demand for new weaving machines experienced a strong revival in 2010 and 2011 and stabilization in 2012. 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 78% of its turnover in 2012 – 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 the future. Furthermore, certain types of loss e.g. due to war, terrorist attack or natural disasters are usually not insured, because insurance to cover them is either unobtainable or economically unfeasible. Indeed, insurance companies are increasingly unwilling to cover these types of events. If an uninsured loss occurs, or if the amount of the loss is greater than the cover, then this may negatively impact the activities, operating results and financial situation of Picanol.

The company depends on outsourcing arrangements
The company depends on outsourcing arrangements for certain activities, mainly in IT. Although the company always strives to contract out its activities only to reputable companies with the relevant specialist experience, it has no or only limited control over such third parties, and so cannot guarantee that they will meet their obligations in full and in good time. Should such third parties fail to meet their obligations, then this could have a significant negative impact on Picanol's activities.

Picanol may not be able to obtain the necessary financing to meet its future capital and refinancing requirements
Picanol may be obliged to raise additional financing to meet its future capital needs or to refinance its present debt burden, by means of public or private financing, strategic relationships or other agreements. There is no guarantee that the financing – should it be necessary – will be available at attractive conditions, or even available at all. Furthermore, any debt financing – if available – may result in restrictive conditions being imposed. Should Picanol be unable to carry out a capital increase or to finance its debt whenever necessary, this could negatively impact its activities, operating results and financial situation.

Risks involved in supplying products and services

The solutions offered by Picanol incorporate various products (hardware and/or software), technologies and services (hardware and/or software) which may contain hidden production defects. Since these products, technologies and services represent substantial investments and changes to operating activities on the part of customers, any serious defects or faults could damage the company's reputation. Furthermore, the company might be required to carry out expensive, time-consuming repairs. Product defects or malfunctions could also lead to losses being suffered by customers, in which case the customers could demand compensation from Picanol. Defending against such claims could be time-consuming and expensive, as well as generating adverse publicity, causing the company to lose customers. Although the company’s sales & service agreements generally contain clauses intended to limit its exposure to product liability claims, certain laws or unfavorable court decisions could impair the effectiveness of such liability limitation. The company has product liability insurance which it considers commensurate with practice in the industry, but it cannot guarantee that its present coverage is sufficient to meet potential product liability claims against it, or that it will be able to obtain or maintain sufficient insurance at acceptable conditions in the future. The company currently does not have any outstanding substantial claims against it for the supply of goods and services. During the past 3 years no claims were pronounced at the expense of the company

Risks associated with suppliers

Picanol’s products are made up of materials and components from various suppliers. To be able to produce, sell and deliver its products, Picanol has to rely on correct and timely delivery by third parties. Should the company's suppliers fail to supply correctly, in time or indeed at all, this could lead to Picanol's deliveries in turn being delayed or incomplete, which could lead to lower turnover. For some key components Picanol is dependent on a single supplier, but in all such cases the supplier is an established company that can be relied upon not to stop production of the products concerned or to make changes to its product range. The company has fully charted all these key components and evaluated their criticality. For the most critical of these it tries to line up a second supplier, so as to limit the company’s dependence on suppliers. Although the company has identified alternative suppliers, there is no guarantee against these suppliers stopping production of the products concerned or making changes to their product range, or against Picanol being able to obtain alternative products at acceptable conditions. The group is dependent on its three largest suppliers for 12% of its turnover.

Risks associated with exposure to credit risks on trade accounts receivable

Picanol is exposed to credit risks on trade accounts receivable from certain co-contractors.
Should one of the present or future large co-contractors not be able to meet its trade debts, then the company could suffer loss as a result. There is no certainty of the company being able to limit its potential losses of income from customers who are not able to pay in time.

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

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

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VII.3. Control activities

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

Operational risks are safeguarded through periodic audits carried out by an Internal Auditor, who also monitors compliance with processes and procedures. Special attention is given to the security of IT systems, segregation of duties, clear job descriptions for all employees and the existence of distinct procedures and guidelines.

VII.4. Information and communication

In order to provide reliable financial information, Picanol uses a globally standardized reporting structure as well as globally applied IFRS valuation rules (which are published in the annual report). The controlling team is responsible for checking the coherence of the reported figures submitted by the subsidiary firms.

The information system for financial data management is backed up on a daily basis and access to the system is limited.

VII.5. Supervision and control

Supervising authority is vested in the Board of Directors and executed through the Audit Committee via control of the quarterly reports, validation of the internal audit program and evaluation of the risk factors and related action plans.

VIII. SHAREHOLDER STRUCTURE AND AGREEMENTS, AND CERTIFICATE HOLDER AGREEMENTS

HOLDERS OF VOTING RIGHTS	NUMBER OF VOTES	% OF VOTES
Mr. Patrick Steverlynck	550	0.00%
Oostrotex NV	11,480,246	64.86%
Symphony Mills NV	2,239,330	12.65%
Manuco NV	1,566,240	8.85%
Pasma NV	360,040	2.03%
TOTAL	**15,646,406**	**88.40%**

Oostrotex NV and Symphony Mills NV are controlled by Mr. Luc Tack. Manuco NV and Pasma NV are both controlled by Mr. Patrick Steverlynck.

At the end of 2012 there was a modification of the agreement by mutual consent that existed since 26 June 2005 between the persons mentioned above. The parties have agreed to dissolve STAK (Stichting Administratiekantoor) Picanol and to structure the participation of Patrick Steverlynck (and the persons associated with him) in Picanol NV into Oostrotex NV, that will formerly become a party to the agreement by mutual consent. The conversion of certificates in underlying shares of Picanol NV following the dissolving of STAK Picanol has already taken place and is reflected in the acquisition of voting securities by Pasma NV, Manuco International NV and Symphony Mills NV. In addition, Symphony Mills NV transferred 831,225 shares of Picanol NV to Oostrotex NV. The entry of Patrick Steverlynck into the capital of Oostrotex NV will be realized in the second quarter of 2013 without a change in the control of Oostrotex NV.

IX. INSIDER TRADING AND MARKET RIGGING

The Trading Regulations lay down the conditions under which shares in the company can be acquired or disposed of by directors and key employees, in compliance with the relevant legislation. The Trading Regulations are being explained in the Corporate Governance Charter available on the website www.picanolgroup.com.

X. APPLICATION OF ART. 523 OF THE COMPANY CODE

There were no new transactions in 2012 that required the application of Article 523.

Xb. APPLICATION OF ART. 524 OF THE COMPANY CODE

There were no new transactions in 2012 that required the application of Article 524.

XI. Declaration concerning the information given in this annual report for the 12 months ending on the 31 December 2012

The undersigned declare that:

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

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

CONSOLIDATED FINANCIAL STATEMENTS

I. DEFINITIONS

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

II. FINANCIAL STATEMENTS

The consolidated financial statements were approved for publication by the Board of Directors on 22 February 2013.

II.1. CONSOLIDATED INCOME STATEMENT

PICANOL GROUP (in '000 euros)	NOTES (*)	31/12/2012	31/12/2011
Sales	III.5.	461,751	466,953
Cost of sales		-358,659	-365,814
GROSS PROFIT		**103,092**	**101,139**
Gross profit % on sales		***22.3%***	***21.7%***
General and administrative expenses		-16,077	-17,538
Selling and marketing expenses		-15,165	-16,337
Other operating income	III.6.1.	558	9,721
Other operating expenses	III.6.2.	-133	-916
OPERATING RESULT	**III.5.2.**	**72,275**	**76,069**
Total interest income	III.6.4.	3,997	1,138
Total interest expenses	III.6.4.	-1,233	-750
Other financial income	III.6.4.	942	892
Other financial expenses	III.6.4.	-914	-621
PROFIT OR LOSS BEFORE TAXES		**75,067**	**76,728**
Income taxes	III.6.5.	-19,766	-15,716
PROFIT OR LOSS		**55,302**	**61,013**
SHARE OF THE GROUP IN PROFIT OR LOSS		**55,302**	**61,013**

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

EARNINGS PER SHARE

PICANOL GROUP (in '000 euros)	NOTES	31/12/2012	31/12/2011
Basic earnings per share	III.6.7.	3.12	3.45
Diluted earnings per share	III.6.8.	3.12	3.45

CONSOLIDATED INCOME STATEMENT

PICANOL GROUP (in '000 euros)	31/12/2012	31/12/2011
PROFIT/(LOSS) FROM THE PERIOD	**55,302**	**61,013**
Other elements of the total result from the period	**-469**	**2,868**
Exchange rate differences	-469	2,868
Other elements of the total result after taxes from the period	**-469**	**2,868**
TOTAL RESULT	**54,833**	**63,881**

II.2. CONSOLIDATED BALANCE SHEET

PICANOL GROUP (in '000 euros)	**NOTES (*)**	**31/12/2012**	**31/12/2011**
FIXED ASSETS		**59,365**	**62,386**
Intangible assets	III.7.1.	4,733	5,306
Goodwill	III.7.2.	0	0
Tangible fixed assets	III.7.3. & III.7.4.	51,162	52,484
Other financial investments	III.7.6.	58	79
Non-current receivables	III.7.7.	1,329	911
Deferred tax assets	III.6.5.	2,083	3,606
CURRENT ASSETS		**290,447**	**225,877**
Inventories and contracts in progress	III.7.8.	48,300	43,996
Trade receivables	III.7.9.	62,982	46,703
Other receivables	III.7.9.	33,839	24,555
Cash and cash equivalents	III.7.10.	145,326	110,623
TOTAL ASSETS		**349,812**	**288,263**
SHAREHOLDERS' EQUITY	**II.4.**	**217,661**	**162,828**
Share capital	III.7.11.	21,720	21,720
Share premiums	III.7.12.	1,518	1,518
Reserves		189,997	134,695
Translation differences		4,426	4,895
Equity attributable to the shareholders of the group		*217,661*	*162,828*
Minority interests		0	0
NON-CURRENT LIABILITIES		**22,482**	**25,778**
Employee benefit obligations	III.7.13.	8,602	9,138
Provisions	III.7.14.	1,699	1,790
Deferred tax liabilities	III.6.5.	7,708	8,618
Interest-bearing debt	III.7.15.	4,473	6,232
Financial leases	III.7.17.	4,220	5,696
Credit institutions	III.7.15.	253	536
Other liabilities	III.7.16.	0	0
CURRENT LIABILITIES		**109,668**	**99,657**
Employee benefit obligations	III.7.13.	1,631	1,276
Provisions	III.7.14.	6,752	6,917
Interest-bearing debt	III.7.15.	5,705	2,506
Trade payables	III.7.19.	56,077	49,676
Income taxes payable	III.7.19.	2,636	2,290
Other current liabilities	III.7.19.	36,867	36,992
TOTAL LIABILITIES		**349,812**	**288,263**

II.3. CONSOLIDATED CASH FLOW STATEMENT

PICANOL GROUP (in '000 euros)	NOTES (*)	31/12/2012	31/12/2011 *
Operating result		**72,275**	**76,069**
Depreciation on intangible and tangible fixed assets	III.7.1. & III.7.3.	9,098	8,951
Impairment losses on assets		21	438
Write-offs on current assets		-1,173	-385
Changes in provisions	III.7.13. & III.7.14.	-437	274
(Profit)/loss on the disposal of fixed assets		128	1,815
(Profit)/loss on the disposal of financial assets	III.6.1.		-9,466
Gross cash flow from operating activities		**79,912**	**77,696**
Changes in working capital**		-22,835	8,430
Cash flow from operating activities		**57,077**	**86,125**
Paid income taxes		-18,832	-11,561
Net cash flow from operating activities		**38,245**	**74,564**
Divestments financial fixed assets		0	16,194
Interest received		3,997	1,138
Acquisitions of intangible fixed assets	III.7.1.	-797	-552
Acquisitions of tangible fixed assets	III.7.3.	-6,794	-6,874
Income from sales of tangible fixed assets		100	
Net cash flow from investment activities		**-3,494**	**9,906**
Interest paid		-1,233	-750
Increase/(decrease) of export financing		3,108	-1,860
Repayments of interest-bearing financial debt		-1,667	-1,995
Cash flow from finance activities		**208**	**-4,605**
Effect of exchange rate fluctuations		-256	2,994
Adjustments to cash and cash equivalents		**34,703**	**82,860**
Net cash position - opening balance		110,623	27,763
Net cash position - closing balance		145,326	110,623
		34,703	**82,860**

*Adjustments were made on the figures of the 2011 financial year regarding the sale of the Steel Heddle activities of GTP Greenville.

Adjustments in the consolidated cash flow statement on the financial year 2011:

PICANOL GROUP (in '000 euros)	**Initially**	**adjusted**	**content**
(Profit)/loss on the disposal of financial assets		-9,466	Capital gain on sale
Changes in working capital	5,692	8,430	
Divestments	9,466	16,194	Selling price

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

II.4. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ending on 31 December 2012

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**	**134,695**	**4,895**	**162,828**	**0**	**162,828**
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	55,302	0	55,302	0	55,302
Translation differences	0	0	0	-469	-469	0	-469
Other	0	0	0	0	0	0	0
Total recognized profits and losses	*0*	*0*	*55,302*	*-469*	*54,833*	*0*	*54,833*
Dividends	0	0	0	0	0	0	0
At the end of the reporting period	**21,720**	**1,518**	**189,997**	**4,426**	**217,661**	**0**	**217,661**

For the year ending on 31 December 2011

PICANOL GROUP (in '000 euros)	**Share capital**	**Share premiums**	**Share premiums**	**Translation differences**	**Total before minority interests**	**Minority interests**	**Total after minority interests**
At the end of the preceding period	**21,720**	**1,518**	**73,683**	**2,027**	**98,948**	**0**	**98,948**
Changes in scope of consolidation	0	0	0	0	0	0	0
Result over the reporting period	0	0	61,013	0	61,013	0	61,013
Translation differences	0	0	0	2,868	2,868	0	2,868
Other	0	0	0	0	0	0	0
Total recognized profits and losses	*0*	*0*	*61,013*	*2,868*	*63,881*	*0*	*63,881*
Dividends	0	0	0	0	0	0	0
At the end of the reporting period	**21,720**	**1,518**	**134,696**	**4,895**	**162,829**	**0**	**162,829**

The translation differences decreased slightly due to the limited depreciation of the RMB (for both Chinese plants) during the financial year.

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE YEAR ENDING 31 DECEMBER 2012

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 2012, 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 2012:

Standards and interpretations applicable for the annual period beginning on 1 January 2012
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* (applicable for annual periods beginning on or after 1 July 2011)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2012
- IFRS 9 *Financial Instruments* and subsequent amendments (normally applicable for annual periods beginning on or after 1 January 2015)
- IFRS 10 *Consolidated Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 11 *Joint Arrangements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 12 *Disclosures of Interests in Other Entities* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 13 *Fair Value Measurement* (applicable for annual periods beginning on or after 1 January 2013)
- IAS 27 *Separate Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 28 *Investments in Associates and Joint Ventures* (applicable for annual periods beginning on or after 1 January 2014)
- Improvements to IFRS (2009-2011) (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Government Loans* (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Consolidated Financial Statements and Disclosure of Interests in Other Entities: Investment Entities* (applicable for annual periods beginning on or after 1 January 2014)

- Amendments to IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (applicable for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 19 *Employee Benefits* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (applicable for annual periods beginning on or after 1 January 2014)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (applicable for annual periods beginning on or after 1 January 2013)

The application of the standards published, but not yet of use for the beginning of the financial year on 1 January 2012, will not have any material impact on the annual accounts

Foreign currency

The presentation currency of the Picanol Group is EUR.

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transaction. At each balance sheet date, any monetary assets and liabilities that are expressed in foreign currency are translated at the closing rate.
Any non-monetary assets and liabilities carried at fair value and denominated in a foreign currency are translated at the rate of exchange applicable at the time when their fair value was determined. Any profits and losses which result from these transactions are recognized in the income statement as part of the financial result.

Assets and liabilities of the group's foreign operations are translated at the closing rate. Profits and losses are translated at the average exchange rate over the period. Any currency exchange differences resulting from this will be recognized in shareholders' equity, under 'translation differences'. Upon disposal of the foreign operation, the accumulated exchange rate differences as recorded in equity, will be recognized in the income statement

Consolidation principles

Subsidiaries

The consolidated financial statements include all subsidiaries of which the group has acquired control. Control means that Picanol NV has the power to control the financial and operational strategy of the entity in order to benefit from its activities. Such control is supposed to exist when Picanol NV holds, either directly or indirectly, over 50% of the voting rights of the entity. The existence and effect of potential voting rights, practicable or convertible at that time, are taken into consideration when evaluating if the group has the power to control the financial and operational strategy of another entity.
Subsidiaries are those companies in which Picanol NV holds, either directly or indirectly, more than 50% of the voting rights or in which Picanol NV can exert, either directly or indirectly, a deciding influence on company strategy. Acquisitions of subsidiaries are accounted for on the basis of the purchase method.

The transferred remuneration of a business combination is valued at the total fair value on the date of the acquisition, of transferred assets, liabilities entered into or taken over, and the equity interests issued by the acquirer. As of 2010 the transfer related costs are being charged to the results. The identifiable assets, liabilities and contingent liabilities of the acquirer that meet the conditions for recognition under IFRS 3 Business combinations are recognized at the fair value on the purchase date with the exception of the fixed assets (or groups of assets disposed of) classified as held for sale in accordance with IFRS 5 Fixed assets held for resale and discontinued operations. Each minority interest in the acquired party will be recognized at the minority share of the net fair value of the identifiable assets, liabilities and contingent liabilities.

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

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

III.1.3. BALANCE SHEET

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

Internally generated intangible assets
Research expenditure is charged to the income statement when incurred.
Internal generated development expenses are only recognized as intangible assets if they meet the following criteria:
- An identifiable asset has been created.
- It is probable that the created asset will generate economic benefits that will flow to the entity.
- The development cost of the asset can be measured reliably
- It is technically possible for internally-generated intangible fixed assets to be produced in such a way that they are available at a later date for use or sale.
- The intention – and the ability – exists to use or sell these intangible assets.
- The necessary technical, financial and other resources are available to complete their development and to assist in their use or sale.

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

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

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

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

The cash generating unit to which goodwill is allocated is checked every year for impairment, and whenever there is an indication that the unit has experienced impairment. The impairment test is performed by comparing the book value of a unit with the realizable value. If the realizable value is lower than the book value, the impairment is first imputed against the goodwill allocated to the unit, and then to the other assets of the unit in direct proportion to the book value of each asset in the unit. An impairment loss recorded for goodwill cannot be reversed at a later date.

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

(a) The identification and the valuation of the identifiable assets, liabilities and contingent liabilities of the acquired party and the cost valuation of the business combination will be assessed; and

(b) Any surplus remaining after that assessment will immediately be recognized in the income statement.

Tangible fixed assets

Tangible fixed assets are recognized in the balance sheet at the historical cost of acquisition less accumulated depreciation and any impairment. The historical cost of acquisition includes the actual purchase price plus any incidental costs incurred to bring the asset to its working condition and location for it 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.

Export financing
The company does not act as lessor. On the other hand it permits long-term repayment of trade debts. These debts are financed by means of export financing and are guaranteed by Delcredere.
Accounting processing of the export financing:
When a loom contract is invoiced, the client receivable (which is spread over several years) is booked under "receivables over more than one year" and "trade receivables". There are several options to finance these long-term receivables. If Picanol takes out a parallel supplier credit with a bank, this debt will be booked under "Interest-bearing financial liabilities" (short and long term). Picanol may also decide to proceed with discounting client receivables through a bank or a credit insurer. In this case, the client receivables will be settled the moment the risk of the asset is transferred. The discount costs are included in the profit and loss account under "interest expense”. The income related to re-invoicing the interest costs to the customer is included in the income statement under “interest income".

Impairment of tangible and intangible assets with the exception of goodwill
The assets of the Picanol Group, other than inventories, deferred tax assets, employee benefits and financial instruments, are reviewed for impairment whenever if there are indications that the carrying amount of an asset or a cash generating unit is possibly no longer recoverable. These indicators are at least yearly revised.

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

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

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

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

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

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

The Picanol Group uses an inventory valuation method which approaches the FIFO method. This approach involves a method in which the stock is valued at regular intervals at the most recent purchase price. In view of the rapid stock rotation of raw materials on the one hand, and the strict application of write-downs of slow-rotating stock items on the other, this valuation method is a reasonable approximation of the FIFO method. Furthermore write-downs are being recognized depending on the age of the items. This method ensures that there is no over-valuation of stock.

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

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

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

Employee benefit obligations
The group has primarily defined contribution plans, as well as defined benefit plans in Picanol NV, Proferro NV, PsiControl 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);
(d) less any unrecognized pension costs of past service.

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 after 12 months 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, as a result of which 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.

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

Available-for-sale financial assets

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

Financial liabilities and equity instruments

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

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

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

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

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

Cash flow hedges protect against the effect of foreign currency fluctuations on the fair value of recognized assets and liabilities. The profit and loss from both the revaluation of the hedging instrument (e.g. forward contracts) and the revaluation of the hedged assets and liabilities are immediately recognized through the income statement.

Cash flow hedges protect against any variation in cash flow which (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable expected future transaction and (ii) 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 under “loss of sales”. These accrued charges are included under "other liabilities" on the liabilities side of the balance sheet.

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

Interest income from loans and export finance
Interest is recognized in accordance with the effective interest method (IAS39).

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

Income taxes
The tax expense of the period represents the sum of the current tax expense and deferred tax expense. The current tax expense is based on the taxable profit of the financial year. Taxable profit differs from the net profit as stated in the income statement because it excludes income or expenditure that is taxable or deductible in other years, and it further excludes components which will never be taxable or deductible. The Picanol Group’s liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.
Deferred taxes are taxes payable or recoverable on the differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit, and these are recognized on the basis of the balance sheet liability method.
Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not

recognized when the temporary differences originate from goodwill (or negative goodwill) or from the initial recognition of an asset or of a liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit not the taxable profit or loss (taxable loss).

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

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

Deferred taxes are calculated at the tax rates which will probably be applied to the period in which the liability is settled or the assets are realized. Deferred taxes will be debited or credited in the income statement, except if it relates to components which are directly debited or credited in shareholders' equity, in which case the deferred taxes will also be recognized in shareholders' equity.

Deferred tax assets and liabilities are netted if they relate to income tax levied by the same tax authority and if the group has the intention to settle its current tax assets and liabilities on a net basis.

III.2. ASSESSMENT CRITERIA AND ESTIMATES IN THE APPLICATION OF VALUATION RULES

In some cases, the application of valuation rules requires an accounting assessment. In the course of the current fiscal year, the group has not had to make any accounting assessments.

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

III.3. CHANGES IN ACCOUNTING PRINCIPLES APPLIED

There were no changes in accounting principles applied in the financial year 2012 in comparison with the financial year 2011.

III.4. CHANGES IN SCOPE OF CONSOLIDATION

There were no changes in the scope of consolidation in the financial year 2012 in comparison with the financial year 2011.

III.5. SEGMENT INFORMATION

III.5.1. BUSINESS SEGMENTS

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

The supporting Corporate, Finance, IT and HR activities are allocated to the business segments on the basis of various factors (activity, contribution to turnover %, etc.), in accordance with the management reporting.

Segmented information on these divisions can be found hereafter.

For the year ending on 31 December 2012

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

For the year ending on 31 December 2011

2011				
PICANOL GROUP (in '000 euros)	**Weaving Machines**	**Industries**	**Eliminations**	**Consolidated**
External sales	403,420	63,532		466,953
Inter-segment sales	904	57,158	-58,062	0
TOTAL SALES	**404,324**	**120,691**	**-58,062**	**466,953**
OPERATING PROFIT	**68,523**	**7,546**		**76,069**
Financial result				659
PROFIT OR LOSS BEFORE TAXES				**76,728**
Income taxes				-15,716
PROFIT OR LOSS AFTER TAXES				**61,013**
Share of minority interests				0
SHARE OF THE GROUP				**61,013**

The consolidated turnover decreased in 2012 by 1% compared to the previous year.
The operating profit decreased with 3.8 million euros, due to the fact that the result in 2011 includes other income related to the sale of the Steel Heddle activities of GTP Greenville for an amount of 9.5 million euros. The recurrent profit (excluding other operating income and expenses) increased by 4.6 million euros despite the lower turnover. This is mainly due to the depreciation of the euro compared to the currencies of different markets in which Picanol operates, and a further decrease of fixed costs. The result of 2012 does not include material non-recurrent costs or profits

The turnover of the Weaving Machines segment decreased with 1% as a result of a weaker first half year and due to the loss of sales of the Steel Heddle activities (which were sold on 1 September 2011). If the Steel Heddle activities were excluded the turnover would have increased by 1%. Even though there was a lower turnover, the profit ratio (excluding revenue from the sale of the Steel Heddle activities) rose slightly from 15% in 2011 to 17% in 2012

The Industries segment realized a slight decrease in the turnover (-2% vs. 2011) due to the difficult economic situation. As fixed costs could not be reduced in proportion with the decreasing turnover, the profit ratio decreased from 6% in 2011 to +4% in 2012.

The financial result increases with 2.1 million euro due the increase of the interests on investments in accordance with the higher cash position.

Taxes increased from 20% in 2011 to 26% in 2012 as the capital gain of the sale of the Steel Heddle activities from GTP Greenville was not taxable in 2011.

OTHER INFORMATION

For the year ending on 31 December 2012

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

For the year ending on 31 December 2011

2011			
PICANOL GROUP (in '000 euros)	**Weaving Machines**	**Industries**	**Consolidated**
Depreciation and amortization	5,988	2,963	8,951
Impairment losses recognized in profit or loss		438	438
Acquisitions	3,536	3,889	7,426
Total cost of loans	251	498	750
Total interest income from financial receivables and cash	742	396	1,138

BALANCE SHEET

PICANOL GROUP (in '000 euros)	**Weaving Machines**	**Industries**	**Non-segment**	**Eliminations**	**Consolidated**
2012					
Total consolidated assets	164,364	68,298	136,984	-19,833	349,812
Total consolidated liabilities	96,820	35,704	237,121	-19,833	349,812
2011					
Total consolidated assets	129,981	63,824	109,314	-14,857	288,263
Total consolidated liabilities	78,294	31,231	193,594	-14,857	288,263

III.5.2. GEOGRAPHICAL SEGMENTS

The group's activities can mainly be divided between Europe, America & Africa on the one hand, and Far & Middle East on the other. It is impossible to have a further geographical breakdown based on the current report structure.
The table below shows the sales and fixed assets of the Picanol Group by geographical market.

SALES

PICANOL GROUP (in '000 euros)	**31/12/2012**	**31/12/2011**
Europe, America en Africa	149,017	170,370
Far & Middle East	312,734	296,582
TOTAL	**461,751**	**466,953**

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

INTANGIBLE ASSETS – TANGIBLE FIXED ASSETS

PICANOL GROUP (in '000 euros)	**Net carrying value**		**Acquisitions**	
	2012	**2011**	**2012**	**2011**
Europe, America en Africa	45,981	48,520	5,731	6,307
Far & Middle East	9,914	9,270	1,860	1,119
TOTAL	**55,895**	**57,790**	**7,591**	**7,426**

III.6. INCOME STATEMENT

III.6.1. OTHER OPERATING INCOME

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Net capital gain on sale Steel Heddle activities of GTP Greenville	225	9,466
Other	333	256
TOTAAL	**558**	**9,721**

III.6.2. OTHER OPERATING EXPENSES

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Extraordinary write-downs		438
Provision for onerous contracts		264
Other	133	214
TOTAL	**133**	**916**

The extraordinary write-downs in 2011 include impairment losses on fixed assets in Picanol of America and Verbrugge NV.

III.6.3. OPERATING RESULT

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Sales	461,751	466,953
Purchases of goods and changes in inventories	-238,995	-243,620
Amortization, depreciation and impairment	-9,119	-9,389
Amounts written off on inventories & receivables	1,173	385
Other goods and services	-56,651	-59,356
Personnel costs	-86,746	-87,436
Provisions	437	-274
Other operating income	558	9,721
Other operating expenses	-133	-916
TOTAL OPERATING RESULT	**72,275**	**76,069**

Sales dropped by 1% compared with 2011. The ratio of purchases of goods and changes in inventory to sales remained stable at 52%.

The decrease in depreciations on inventories and receivables mainly concern a decrease in inventories provisions at the subsidiary PST for 0.5 million euros (due to improved stock rotation) and a decrease in depreciations on trade receivables at Picanol NV (of 0.8 million euros).

Personnel costs and the other goods and services that are part of the cost of sales, decreased due to the lower turnover. These costs further decreased due to the cost of Steel Heddle ceasing to exist as a result of the sale of these activities in 2011.

The strong decrease in other operating income was related to the sale of the Steel Heddle activities of GTP Greenville in 2011.

III.6.4. FINANCIAL RESULT

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Interest on export finance	-761	-168
Interest on other loans	-18	-23
Interest on financial leases	-454	-559
Total interest expenses	**-1,233**	**-750**
Interest income from bank deposits	2,357	396
Interest income from financial receivables	1,639	742
Total interest income from financial receivables & cash and cash Equivalents	**3,997**	**1,138**
Interest income / (-expenses)	**2,764**	**388**
Exchange rate differences	853	892
Profit on revaluation of derivatives	89	0
Other financial income	***942***	***892***
Exchange rate differences	-914	-566
Loss on revaluation of derivatives	0	-55
Other financial expenses	***-914***	***-621***
Other financial result	**28**	**271**
FINANCIAL RESULT	**2,792**	**659**

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

III.6.5. INCOME TAXES

INCOME TAX EXPENSE

Recognized in the income statement

PICANOL GROUP (in '000 euros)	**2012**	**2011**
(a) Current tax	-19,178	-11,073
(b) Adjustments included in the reporting period for payable and deductible taxes of prior periods.	0	0
(c) Deferred tax relating to the recognition and reversal of temporary differences.	544	-2,201
(e) The benefit from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense.	-1,170	-7,844
(f) The benefit from a previously unrecognized tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense.	38	5,403
TOTAL INCOME TAXES	**-19,766**	**-15,716**

Effective tax rate reconciliation

PICANOL GROUP (in '000 euros)	2012	%	2011	%
Profit before tax and before income from associates	**75,027**		**76,728**	
Tax at the domestic tax rate of 33.99%	**-25,502**	**33.99%**	**-26,080**	**33.99%**
Tax effects of non-deductible expenses				
Non-tax-deductible expenses	-718	-0.96%	-727	-0.95%
Other	0	0%	-1,579	-2.06%
Tax effects of tax-exempt revenues		0.00%		0.00%
Non-taxable financial and other income	2,058	2.74%	2,078	2.71%
Notional interest deduction	1,014	1.35%	330	0.43%
Other	-356	-0.47%	3,517	4.58%
Deferred tax effect resulting from a change in tax rates	0	0.00%	0	0.00%
Tax effects of corrections to deferred and current tax of previous periods		0.00%		0.00%
Effects of different tax rates of group entities in other jurisdictions	3,664	4.88%	2,196	2.86%
Tax effect of utilization of tax losses not previously recognized	75	0.10%	4,551	5.93%
Valuation allowance on deferred tax assets		0.00%		0.00%
Tax expense and effective tax rate for the period	**-19,766**	**-26.35%**	**-15,716**	**-20.48%**

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

In 2012 no deferred tax credits were directly included in the equity.

DEFERRED TAX
Recognized deferred tax

PICANOL GROUP (in '000 euros)	**31/12/2012**		**31/12/2011**	
	DEFERRED TAX ASSETS	**DEFERRED TAX LIABILITIES**	**DEFERRED TAX ASSETS**	**DEFERRED TAX LIABILITIES**
Intangible assets	0	-1,072	0	-1,377
Tangible fixed assets	0	-5,202	0	-5,557
Inventories	1,333	0	997	0
Other assets	61	-760	59	-296
Employee benefit obligations	33	0	23	0
Other provisions	0	-533	5	-467
Other liabilities	30	-1,087	8	-1,103
Tax loss carryforwards/ tax credits	3,168	0	4,299	0
Notional interest deduction carryforwards	0	0	0	0
Other adjustments	0	-1,597	0	-1,602
TOTAL	**4,624**	**-10,250**	**5,391**	**-10,403**
Valuation allowance				
Offset (*)	-2,542	2,542	-1,785	1,785
TOTAL (as reported in the balance sheet)	**2,083**	**-7,708**	**3,606**	**-8,618**

(*) 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 31/12/2012 and the end of 2011 is primarily due to the decrease in deferred tax assets as a result of the decrease in the tax loss carried forward of Proferro NV and PsiControl NV.

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

NOT-RECOGNIZED TAX LOSS CARRYFORWARDS, CLASSIFIED BY EXPIRY DATE

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Within 1 year	0	0
Within 2 year	0	0
Within 3 year	0	0
Within 4 year	0	0
Within 5 year or more	0	271
Without time limit	2,996	3,084

DEFERRED TAX ASSETS ON WHICH VALUATION ALLOWANCES WERE TAKEN AT 31 DECEMBER 2012:

PICANOL GROUP (in '000 euros)	**GROSS AMOUNT**	**TOTAL DEFERRED TAX ASSETS**	**RECOGNIZED DEFERRED TAX ASSETS**	**NON-RECOGNIZED DEFERRED TAX ASSETS**
Tax loss carryforward	2,996	1,018	0	1,018
Inventories		0	0	0
Other temporary differences		0	0	0
TOTAL	**2,996**	**1,018**	**0**	**1,018**

DEFERRED TAX LIABILITIES NOT RECOGNIZED BY THE GROUP AND RELATING TO THE FOLLOWING ELEMENTS AT 31 DECEMBER 2012:

No liabilities or assets were recognized for temporary differences relating to non-distributed earnings of subsidiaries and joint ventures controlled by the group as the group determines itself the timing of the reversal of the temporary differences. Undistributed reserves of subsidiaries and the related unrecognized deferred tax liability amount to 41.2 million euros and 3.0 million euros respectively at 31 December 2012.

III.6.6. DIVIDENDS

In 2012, no dividend was paid for the financial year 2011.
The Board of Directors will propose to the Annual General Meeting of 17 April 2013 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	**2012**	**2011**
(in '000 euros)		
Net profit or loss over the period	55,302	61,013
Net profit or loss from continuing operations	55,302	61,013
	2012	**2011**
(number of shares)		
Ordinary shares per 01/01	17,700,000	17,700,000
Ordinary shares per 31/12	17,700,000	17,700,000
Weighted average number of outstanding ordinary shares	**17,700,000**	**17,700,000**
	2012	**2011**
(in euros)		
Basic earnings per share	3.12	3.45
Basic earnings per share from continuing operations	3.12	3.45

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 2012 and 2011.

PICANOL GROUP	**2012**	**2011**
(in '000 euros)		
Net profit or loss over the period	55,302	61,013
Profit or loss attributable to the ordinary shareholders of the company	55,302	**61,013**
Weighted average number of outstanding ordinary shares	**17,700,000**	**17,700,000**
Weighted average number of shares for the diluted earnings per share	**17,700,000**	**17,700,000**
	2012	**2011**
(in euros)		
Diluted earnings per share	**3.12**	**3.45**
Diluted earnings per share from continuing operations	3.12	3.45

III.7. BALANCE SHEET

III.7.1. INTANGIBLE ASSETS

Acquisitions	Development expenses	Concessions, Patents and Licenses	Goodwill	Other Intangible assets	Assets under Construction and Advance Payments	Total
For the year ending on 31 December 2010	**9,273**	**17,884**	**122**			**27,279**
Acquisitions	340	212				552
Disposals		-5,720	-122			-5,842
Transfers						-
Exchange rate profits and losses (-)		45				45
For the year ending on 31 December 2011	**9,613**	**12,421**				**22,034**
Acquisitions	298	499				797
Disposals	**-**	-148				-148
Transfers	6	-6				0
Exchange rate profits and losses (-)	**-**	2				2
For the year ending on 31 December 2012	**9,918**	**12,767**				**22,685**

Depreciation and impairment losses	Development expenses	Concessions, Patents and Licenses	Goodwill	Other Intangible Assets	Assets under Construction and Advance Payments	Total
For the year ending on 31 December 2010	**-4,862**	**-16,393**				**-21,255**
Depreciation of the financial year	-732	-451				-1,183
Impairment losses	-	-				-
Disposals	-	5,720				5,720
Transfers	-	-3				-3
Exchange rate profits and losses (-)	-	-6			-	-6
For the year ending on 31 December 2011	**-5,594**	**-11,134**			**-**	**-16,728**
Depreciation of the financial year	-940	-446				-1,386
Impairment losses	-	-				-
Disposals	-	148				148
Transfers	-6	6				0
Exchange rate profits and losses (-)	-	14			-	14
For the year ending on 31 December 2012	**-6,540**	**-11,412**			**-**	**-17,952**

Net book value fort the year ending on 31/12/2011	**4,019**	**1,287**				**5,306**
Net book value for the year ending on 31/12/2012	**3,378**	**1,356**				**4,733**

Acquisitions of intangible fixed assets in the Picanol Group in 2012 are mainly due to the activation of the development costs within Melotte NV and activated software licenses within Picanol NV. The acquisitions include internally generated production for an amount of 0.3 million euros. This internally generated production includes all the activated development costs within Melotte NV related to Digital Manufacturing projects.

The amount for research & development and engineering posted as costs in the income statement was 10.7 million euros in 2012 (10.2 million euros in 2011).

The total net book value of 4.7 million euros of the intangible assets at 31 December 2012 consists primarily of the following components:

- Capitalized development expenses of Picanol NV with a net book value of 3.1 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 0.6 million euros at 31 December 2012. 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 (which concerns activated development costs) and partly under general and administrative costs (which concerns activated software), whereas the impairment losses are recognized in other operating income/expenses.

At the end of 2012 there are no contractual commitments for the purchase of intangible assets.

III.7.2. GOODWILL

No goodwill is recognized in the consolidated financial statements on 31 December 2012 or in 2011. Goodwill recognized in the past was fully depreciated during 2009.

III.7.3. TANGIBLE FIXED ASSETS

Acquisitions	**Land and Buildings**	**Plant, Equipment and machinery**	**Furniture And Vehicles**	**Other Tangible Fixed Assets**	**Assets under Construction and Advance Payments**	**Total**
Per 31 December 2010	**34,599**	**176,728**	**10,925**	**1,998**	**100**	**224,349**
Acquisitions	128	3,121	818	70	2,737	6,874
Disposals	-882	-7,873	-1,044	-517	-44	-10,360
Transfers	-	-37	18	-	19	-
Gains/losses	500	-31	68	30	-50	517
Per 31 December 2011	**34,345**	**171,892**	**10,801**	**1,580**	**2,762**	**221,380**
Per 31 December 2011	**34,345**	**171,891**	**10,801**	**1,580**	**2,762**	**221,380**
Acquisitions	1,211	3,092	777	174	1,539	6,794
Disposals	-	-1,928	-481	-595	-16	-3,019
Transfers	804	1,873	-7	-	-2,670	0
Gains/losses	-119	-46	-39	-0	-41	-246
Per 31 December 2012	**36,241**	**174,883**	**11,051**	**1,160**	**1,574**	**224,908**

Depreciation and impairment losses	Land and Buildings	Plant, Equipment and machinery	Furniture and Vehicles	Other Tangible Fixed Assets	Assets under Construction and Advance Payments	Total
Per 31 December 2010	**-13,565**	**-144,970**	**-9,576**	**-1,025**	**-**	**-169,136**
Depreciation of the financial year	-1,510	-5,473	-634	-151	-	-7,768
Impairment losses	-	-	-	-438	-	-438
Disposals	615	6,416	1,002	513	-	8,545
Transfers		16	-16			-
Exchange rate profits and losses (-)	-124	120	-44	-52	-	-99
Per 31 December 2011	**-14,584**	**-143,891**	**-9,269**	**-1,153**	**-**	**-168,896**
Per 31 December 2011	**-14,584**	**-143,891**	**-9,268**	**-1,153**	**-**	**-168,896**
Depreciation of the financial year	-1,519	-5,504	-631	-58	-	-7,712
Impairment losses	-	-	-	-	-	-
Disposals	-	1,746	473	567	-	2,786
Transfers	-	-	0	-	-	0
Exchange rate profits and losses (-)	18	20	35	3	-	76
Per 31 December 2012	**-16,084**	**-147,628**	**-9,392**	**-641**	**-**	**-173,746**
Net book value per 31/12/2011	**19,761**	**28,001**	**1,532**	**428**	**2,762**	**52,484**
Net book value per 31/12/2012	**20,156**	**27,254**	**1,659**	**519**	**1,574**	**51,162**

The total acquisitions of tangible fixed assets amount to 6.8 million euros compared with 6.9 million euros in the previous period.
Acquisitions in 2012 of land and buildings mainly relate to the purchase of a new building for Picanol of America. Acquisitions of installations, machinery and equipment predominantly pertain to investments in new machining centers for Proferro NV and Picanol NV. The acquisitions in furniture and rolling stock mainly include IT equipment for Picanol NV. The acquisitions of assets under construction and advanced prepayments include the construction of a new office building on the existing grounds at PST (China), and additional investments in production machinery for Proferro NV and Picanol NV.

Disposals include disused machinery and equipment of Melotte NV, Verbrugge NV and PsiControl NV and the write-off of leasehold improvements in the leased premises of Picanol of America following the move to a new building. The net book value of the sold and decommissioned assets was 0.2 million euros.

The assets produced on own account included under tangible fixed assets have been fully depreciated as of 31 December 2012.

III.7.4. ASSETS UNDER FINANCIAL LEASE

PICANOL GROUP (in '000 euros)	**31/12/2012**	**31/12/2011**
Land and buildings- Gross value	0	0
Land and buildings – Accumulated depreciation	0	0
Land and buildings – Net book value	**0**	**0**
Plant, equipment and machinery - Gross value	13,843	13,843

Plant, equipment and machinery - Accumulated depreciation	-4,301	-3,283
Plant, equipment and machinery - Net book value	**9,542**	**10,559**
Furniture and vehicles - Gross value	0	0
Furniture and vehicles - Accumulated depreciation	0	0
Furniture and vehicles - Net book value	**0**	**0**
Intangible assets - Gross value	0	0
Intangible assets - Accumulated depreciation	0	0
Intangible assets - Total	**0**	**0**
Total assets under financial lease	**9,542**	**10,559**

The assets under financial leasing reported in 'plant, equipment and machinery' include primarily a molding line and a machining center at Proferro NV.
During the financial year 2012, no new financial lease contracts were concluded.

III.7.5. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

		Shareholding % 2012	Shareholding % 2011
1. FULLY CONSOLIDATED ENTITIES			
Belgium			
Proferro NV	Steverlyncklaan 15 , 8900 Ypres	100.00%	100,00%
PsiControl Mechatronics NV	Steverlyncklaan 15, 8900 Ypres	100.00%	100.00%
Verbrugge NV	Steverlyncklaan 15, 8900 Ypres	100.00%	100.00%
Melotte NV	Industrieweg 2019 , 3520 Zonhoven	100.00%	100.00%
France			
Burckle ET CIE SAS	Rue de Bourbach-le-haut 9 , 68290 Bourbach-Le-Bas	100.00%	100.00%
Germany			
Günne Webmaschinenfabrik GmbH & CO, KG	Möhnestrasse 2 , 59519 Möhnesee-Günne	100.00%	100.00%
Günne Webmaschinenfabrik GmbH	Möhnestrasse 2 , 59519 Möhnesee-Günne	100.00%	100.00%
Turkey			
Picanol Tekstil Makinalari	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			
Picanol of America	Kitty Hawk Road 65, Greenville S.C. 29605	100.00%	100.00%
Mexico			
GTP Mexico SA DE CV	Avena 475 Col. Granjas, Iztacalco, 08400, Mexico D.F.	100.00%	100.00%
Brazil			
Picanol Do Brazil	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			
Syndicaat van Belgische textielmachinebouwers (Symatex)	A. Reyerslaan 80 , 1030 Brussels	34.00%	34.00%
Bedrijvencentrum Westhoek	Albert Dehemlaan 31, 8900 Ypres	12.82%	12.82%

III.7.6. OTHER FINANCIAL INVESTMENTS

PICANOL GROUP (in '000 euros)	**2012**	**2011**
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	-21	0
Reductions in fair value	0	0
Exchange rate differences	0	0
Fair value at the end of the reporting period	**58**	**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 and guarantees:

PICANOL GROUP (in '000 euros)	**31/12/2012**		**31/12/2011**	
	Interest-bearing trade receivables	Guarantees	Interest-bearing trade receivables	Guarantees
<u>At the end of the previous reporting period</u>	-		-	
Gross value	731	180	3,558	135
Accumulated amounts written off				
Net book value	**731**	**180**	**3,558**	**135**
<u>Movement during the reporting period</u>	-		-	
Changes in the consolidation scope				
Acquisitions	828	17	50	45
Discount effect				
Reimbursement				
Write-off				
Write-back				
Transfers	-427		-2,877	
Exchange rate differences				
Other				
<u>At the end of the reporting period</u>	-		-	
Gross value	1,132	197	731	180
Accumulated amounts written off	0	0	0	0
Net book value	**1,132**	**197**	**731**	**180**

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

Picanol NV.

Interest-bearing receivables at the end of the reporting period consist of an amount denominated in euros of 0.9 million euros, and an amount denominated in Yen of 0.2 million euros. These outstanding Yen amounts are covered with commitments to the bank in the same currency.

The non-current interest-bearing trade receivables are insured for a total of 1.1 million, resulting in a total outstanding risk from 0.05 million euros at 31 December 2012 or 4% of the total outstanding amount of interest-bearing trade receivables.

The interest-bearing trade receivables at 31 December 2011 include an amount denominated in euros of 0.4 million euros and an amount denominated in Yen of 0.3 million euros. These outstanding Yen amounts are covered with commitments to the bank in the same currency. The non-current interest-bearing trade receivables at 31 December 2011 were insured for a total of 0.6 million, resulting in a total outstanding risk from 0.1 million at 31 December 2011 or 20% of the total interest-bearing trade receivables.

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

III.7.8. INVENTORIES

PICANOL GROUP	(in '000 euros)	**31-12-2012**	**31-12-2011**
Raw materials and auxiliaries	Gross value	50,398	48,584
Raw materials and auxiliaries	Amounts written off	-21,877	-22,644
Raw materials and auxiliaries		**28,522**	**25,940**
Goods in progress	Gross value	8,930	6,861
Goods in progress	Amounts written off	-113	-73
Goods in progress		**8,817**	**6,788**
Finished goods	Gross value	14,486	14,189
Finished goods	Amounts written off	-3,657	-3,156
Finished goods		**10,829**	**11,033**
Trade goods	Gross value	0	0
Trade goods	Amounts written off	0	0
Trade goods		**0**	**0**
Downpayments	Gross value	132	235
Downpayments	Amounts written off	0	0
Downpayments		**132**	**235**
Contracts in progress	Gross value	0	0
Contracts in progress	Amounts written off	0	0
Contracts in progress		**0**	**0**
Total inventories		**48,300**	**43,996**

Due to the increase of the production in the second half of 2012 we see an increase of raw materials and auxiliaries (+1.8 million) and of the goods in progress (+2.0 million). The increase is mainly related to Picanol NV and to different subsidiaries which are suppliers of the production in Ypres. The stock of finished goods remained stable.

The impairment on the stock included in the balance remained fairly stable on 25.6 million euros.

At 31 December 2012, 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 2012.

III.7.9. TRADE AND OTHER RECEIVABLES

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

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Trade receivables	62,982	46,703
Other receivables		
Recoverable VAT	2,798	3,031
Prepaid taxes	714	3,672
Deferred expenses and accrued income*	1,231	808
Miscellaneous receivables	29,097	17,043

The increase in trade receivables is mainly due to higher volume in the last months of 2012 compared to end 2011.

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

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 68.2 million euros (2011: 52.9 million euros). An allowance has been created for irrecoverable amounts from the sale of goods to the value of 5.2 million euros (2011: 6.1 million euros). This allowance has been determined based on historical data concerning non-payments, applying group valuation rules and individual assessment. Movements in the provision for doubtful debtors are included in the income statement under ‘selling and marketing expenses’.

Movements in the provision for doubtful debtors during the reporting period can be summarized as follows:

PICANOL GROUP (in '000 euros)	**2012**	**2011**
At the end of the previous reporting period	**6,147**	**5,782**
Write-downs recorded	400	1,358
Utilizations or reversals of write-downs	-1,347	-971
Translation differences	-1	-22
At the end of the reporting period	**5,200**	**6,147**

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

4.1 million euros of the trade receivables on 31 December 2011 before write-offs were interest bearing which represents 9% of the total outstanding gross short term trade receivables at this date.

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**
2012				
Short-term trade receivables	62,982	47,243	15,739	0
2011				
Short-term trade receivables	46,703	30,340	16,303	61

Other receivables comprise 27.8 million euros for bank notes of subsidiary PST (15.9 million euros in 2011). The bank notes are claims against financial institutions with a maturity of more than 3 months and are interest-bearing for an amount of 28.2 million and include only non-due receivables at the end of December 2012, and at the end of December 2011.

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 72% (65% in 2011) of the consolidated gross trade receivables, or 50.0 million euros. Of these, 2.4 million euros (3.0 million euros in 2011) or 4.6 % of the gross trade receivables are not covered through credit insurance. The gross trade receivables of P(SIP)T represent 6.9% (4% in 2011) of consolidated trade receivables, which are not exposed to any risk, given the general rule of delivery against payment. A provision of 5.2 million euros has been provided against the total uninsured consolidated open risk (2011: 6.1 million euros). The uncovered long-term credit risk is discussed in III.7.7.

The credit risk on cash is limited, being linked to traditional bank deposits placed with banks.

III.7.10. CASH AND CASH EQUIVALENTS

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

PICANOL GROUP (in '000 euros)	**31/12/2012**	**31/12/2011**
Cash in bank and in hand	145,326	110,623
Total cash and cash equivalents	**145,326**	**110,623**

III.7.11. SHARE CAPITAL

PICANOL GROUP (in '000 euros)	**31/12/2012**	**31/12/2011**
Issued shares		
17 700 000 ordinary shares without nominal value	21,720	21,720
Fully paid-up shares		
17,700,000 ordinary shares without nominal value	21,720	21,720

III.7.12. SHARE PREMIUM

PICANOL GROUP (in '000 euros)	
Balance at 31 December 2011	**1,518**
Premium on the issue of shareholders' equity in 2012	0
Expenses on the issue of shareholders' equity in 2012	0
Balance at 31 December 2012	**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 time 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)	**2012**	**2011**
Paid contributions	838	777

In 2012 and 2011, 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)	**2012**	**2011**
Balance sheet		
Provisions – employee benefits – long-term	8,602	9,138
Provisions – employee benefits – short-term	1,631	1,276
Provisions recorded in subsidiaries, but not included in the notes given their immateriality	265	226
Net liability for defined benefit plans	**9,968**	**10,188**

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

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Present value of funded obligations	1,564	1,533
Fair value of plan assets	1,477	1,448
Deficit for funded plans	87	85
Defined benefit obligations – unfunded plans	9,881	10,103
Unrecognized actuarial profits and losses		
Net liability at balance sheet date	**9,968**	**10,188**
Recorded in the balance sheet		
Net liability at balance sheet date	**9,968**	**10,188**

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

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Current service costs	140	113
Interest costs	309	578
Expected return on plan assets	-43	-66
Amortization of the actuarial losses (profits)	1,096	301
Past service costs		
Integration of subsidiaries' defined benefit plans		
Curtailment (gain)/loss recognized		
Settlement (gain)/loss recognized		
Total pension cost recognized in the income statement	**1,502**	**926**
Actual return on plan assets in the current period	**43**	**66**

Changes in the benefit obligations:

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Benefit obligations at the beginning of the financial year	**11,637**	**13,100**
Current service costs	140	113
Interest costs	309	578
Contribution of the participants	0	0
Past service costs	0	0
Reclassification from restructuring costs	0	0
Actuarial (losses)/profits	1,096	302
Paid benefit obligations	-1,722	-2,432
Paid premiums	-15	-24
Plan curtailments	0	0
Plan settlements	0	0
Benefit obligations at the end of the financial year	**11,445**	**11,637**

Changes in the fair value of plan assets:

PICANOL GROUP (in '000 euros)	**2012**	**2011**
Fair value of plan assets at the beginning of the year	**1,449**	**2,060**
Expected return on plan assets	43	66
Actuarial (profits)/losses on plan assets	0	0
Employer contributions	1,722	1,778
Member contributions	0	0
Paid benefit obligations	-1,722	-2,431
Paid premiums	-15	-24
Plan settlements	0	0
Fair value of plan assets at the end of the year	**1,477**	**1,449**

The underlying assets consist of assets with fixed interest rates.

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

	2012	**2011**
Discount rate	3.00%	4.00%
Expected return on plan assets	3.00%	4.00%
Estimated rate of salary increases	2.00%	2.00%

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)	**2012**	**2011**	**2010**	**2009**	**2008**
Defined – benefit obligations – funded plans	1,564	1,533	2,137	5,084	5,253
Fair value of plan assets	1,477	1,449	2,060	4,675	4,792
Deficit for funded plans	87	84	77	409	461

III.7.14. PROVISIONS

For the year ending on 31 December 2012

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

The provisions for product warranties primarily relate to warranties associated with the sale of weaving machines. The provisions are calculated on the basis of historical costs of product warranties related to the supply of goods and services. They are recalculated annually on the basis of actual costs incurred in the previous financial year.

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

The other risks and charges include provisions for onerous contracts , for a pending dispute and other obligations regarding taxes and the environment under the sales agreement of the Steel Heddle activities of GTP Greenville. Since the discussions regarding the aforementioned other obligations are ongoing, no further explanations will be provided.

For the year ending on 31 December 2011

PICANOL GROUP (in '000 euros)	Product warranties	Environ-mental risks	Restructuring costs	Litigation	Other risks	Total
At the start of the reporting period	**4,396**	**1,738**	**309**	**20**	**1,031**	**7,495**
Movements during the reporting period *						
Additions	2,405	0	0	0	786	3,191
Utilizations	-862	0	-309	-20	-219	-1,410
Reversals	-430	0	0	0	-160	-590
Transfers	0	0	0	0	0	0
Exchange rate differences	21	0	0	0	0	21
At the end of the reporting period	**5,530**	**1,738**	**0**	**0**	**1,438**	**8,707**
More than 1 year	43	1,738	0	0	9	1,790
Up to 1 year	5,487	0	0	0	1,429	6,916
Total	**5,530**	**1,738**	**0**	**0**	**1,438**	**8,707**

* Part of the movement during the reporting period was presented as a net addition and is now split between additions and utilizations.

III.7.15. INTEREST-BEARING DEBT

For the year ending on 31 December 2012

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

For the year ending on 31 December 2011

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	1,667	5,696	0	5,696
Credit institutions	0	1	0	1
Export finance	839	535	0	535
Total interest-bearing debt > 1 year	**2,505**	**6,232**	**0**	**6,233**
Credit institutions	0			
Total < 1 year interest-bearing Debt	**0**			
Total short-term interest-bearing debt	**2,505**			

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 10.2 million euros, compared with 8.7 million at the end of 2011. Since the export financing is a mirror image of the financed trade amounts receivable, and the agreed interest rates are the same, the net market value of this item is zero.

The increase in interest-bearing loans compared to 2011 is the result of the increase in export financing. The export financing includes obligations for which the corresponding trade receivable has already been discounted by Delcredere, but for which the risk has not yet been fully transferred.

Long-term export financing is entered into at fixed rates. The outstanding balance is denominated 9% (26% in 2011) in EUR and for 91% in Yen (74% in 2011). The average remaining term at 31 December 2012 was 16 months (18 months in 2011) for the borrowings in EUR, and 24 months for the borrowings in Yen.

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

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

Total future interest charges are payable as follows from 01/01/2012 onwards:

	Due within 1 year	Due between 1 and 5 years	Due after More than 5 years	
Financial leases	365	553	0	918
Credit institutions				0
Export finance	80	13		93
TOTAL	**445**	**566**	**0**	**1.011**

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

Financial debts do not include borrowings subject to debt covenants.

III.7.16. OBLIGATIONS UNDER FINANCIAL LEASES

	Minimum Lease payments	Present value of minimum lease payments	Minimum Lease payments	Present value Minimum Lease Payments
PICANOL GROUP (in '000 euros)	**31/12/2012**	**31/12/2012**	**31/12/2011**	**31/12/2011**
Lease payments due within the year	1,753	1,476	2,031	1,667
Between 1 and 5 years	4,496	4,220	6,249	5,696
After 5 years	0	0	0	0
Total lease payments	6,249	5,696	8,281	7,363
Future interest charges	-553	0	-918	0
Present value of the lease obligations	5,696	5,696	7,363	7,363
Less payments due within the year		-1,476		-1,667
Payments due after 1 year		4,220		5,696

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 10.3 million euros at the end of 2012 compared with 10.6 million euros at 31 December 2011.

III.7.17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The Picanol Group manages a portfolio of derivatives in order to cover risks relating to exchange rate fluctuations resulting from operating and financial activities. Currency risks are hedged in so far as they influence the group's cash flows. Risks resulting from the conversion of assets and liabilities of the foreign activities into the presentation currency of the Picanol Group are not hedged.

It is the company policy not to engage in speculative or leveraged transactions or to hold or issue derivatives for trading purposes.

Picanol NV has once in a while foreign currency hedges in the form of forward contracts. These primarily concern forward sales contracts related to expected cash inflows, whereby the USD is sold forward. The change in market value is recognized in the income statement. The marked-to-market value of these forward contracts for which no underlying assets or liabilities exist is justified by orders placed but not yet invoiced.

The valuation method is based on the valuation models as defined by the banks with which the forward contracts are placed.

The marked-to-market value of the derivative financial instruments is presented on the liabilities side of the balance sheet 'other current liabilities.

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

Overview of forward exchange contracts at 31 December 2011:

PICANOL GROUP (in '000 euros)	**Notional amount (*)**	**Marked-to-market**
Forward sales contracts < 6 months	2,150	-89
Forward sales contracts > 6 months	0	0
Sub-total forward sales contracts	**2,150**	**-89**
Interest Rate Swaps (IRS)	0	0
Sub-total Interest Rate Swaps (IRS)	**0**	**0**
TOTAL	**2,150**	**-89**

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)	**2012**	**2011**
Trade payables	56,077	49,676
Other payables		
Income taxes payable	2,636	2,290
Downpayments received	17,357	18,319
Remuneration & social security	15,202	14,697
Accrued expenses and deferred income	3,987	3,690
Marked-to-market derivatives	0	89
Other liabilities	321	197

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

The increase of the trade payables is due to the high production in the last quarter of 2012, in comparison with the same period last year.

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**	**Expired - > 6 months**
2012					
Short-term trade payables	56,077	54,147	919	29	983
2011					
Short-term trade payables	49,676	48,903	284	131	359

Both the short-term trade and other payables are non-interest bearing liabilities both at 31 December 2011 as at end 2010.

III.8. MISCELLANEOUS

III.8.1. OPERATING LEASE AGREEMENTS

PICANOL GROUP (in '000 euros)	**31/12/2012**	**31/12/2011**
Payments due within the year	587	1,251
Between 1 and 5 years	1,218	983
After 5 years		
Minimum future lease payments	**1,805**	**2,234**

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

An amount of 1.7 million euros was recognized as a rental cost in the income statement in 2012, compared with 2.1 million euros in 2011.

III.8.2. EVENTS AFTER THE BALANCE SHEET DATE

There are no important events after balance sheet date.

III.8.3. RELATED PARTY TRANSACTIONS

Remuneration and other fees of directors

In EUR		Fixed Remun-eration	Attendance fees	Manag-ement Remun-eration	Other	Total 2012
Stefaan Haspeslagh	executive	60,000	-		-	60,000
Luc Tack	executive	-	-		-	-
Patrick Steverlynck, as representative of Pasma NV	executive	8,333	8,000	84,971	-	101,304
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	10,000		-	20,000
Jean Pierre Dejaeghere, as representative of NV Kantoor Torrimmo	non-executive	10,000	10,000		-	20,000

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

Services and various commercial transactions
(in Euros)

BALANCE*	TURNOVER	COSTS
19,170	293,981	-295,503

*client receivables

The amounts mentioned above include the remunerations chargeable to the Picanol Group for services and various commercial transactions at market conditions in the course of 2012. The amounts above include amongst other remunerations that are also covered in the corporate governance sections.

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	-

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

Remuneration of the other members of the Executive Management

In EUR	
Basic remuneration	848,110
Variable remuneration	320,000
Total	**1,168,110**
Pension	Fixed contribution: 60,184
Other benefits *	14,377

* 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.

At the General Meeting of Shareholders of 20 April 2011, the shareholders approved the Board of Directors proposal to deviate from the provisions of the Corporate Governance in relation to provisions on the distribution of bonuses in time. The bonuses of the other members of the executive management were therefore paid out in one sum.

III.8.5. EXCHANGE RATES

in euros		Average exchange rates		Closing exchange rates	
	ISO	2012	2011	2012	2011
Brazilian Real	BRL	0.3962	0.4261	0.3699	0.4139
Chinese Yuan (Renminbi)	CNY	0.1224	0.1114	0.1216	0.1226
Indonesian Rupee (1000)	IDR	0.0820	0.0815	0.0787	0.0852
Indian Rupee	INR	0.0145	0.0152	0.0138	0.0146
Mexican Peso	MXN	0.0588	0.0573	0.0582	0.0554
Romanian Leu	RON	0.2250	0.2359	0.2250	0.2313
Turkish Lira	TRY	0.4302	0.4269	0.4246	0.4093
US Dollar	USD	0.7706	0.7195	0.7579	0.7729

III.8.6. PERSONNEL

In units	31/12/2012 Fully consolidated	31/12/2012 Proportionally consolidated	31/12/2012 Total	31/12/2011 Fully consolidated	31/12/2011 Proportionally Consolidated	31/12/2011 Total
Management	6	0	6	6	0	6
White collars	575	0	575	561	0	561
Blue collars	1,385	0	1,385	1,348	0	1,348
Average number of personnel employed	1,899	0	1,899	2,036	0	2,036
Average number of personnel employed in Belgium	1,343	0	1,343	1,356	0	1,356
Remuneration and social charges (in '000 euros)	86,746		86,746	87,436		87,436

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

The auditor received an amount of 140,000 euros for performance of his audit task in 2012.

In the course of 2012 the auditor and the auditor related parties charged 5,991.30 euros for tax and legal advice.

III.8.8. CONTINGENT ASSETS AND LIABILITIES

The Picanol Group has no material contingent assets and liabilities at 31 December 2012.

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 2011, we give below the sensitivity of a 5% positive/negative fluctuation of the US dollar and Chinese renminbi exchange rates:

(in '000 euros)					
Company	**Balance sheet position**	**Amount in local currency**	**Currency**	**Effect + 5%**	**Effect - 5%**
Picanol of America (USD)	Trade payables	1,466	EUR	73.3	-73.3
P(Sip)T (RMB)	Trade receivables	1,288	EUR	-64.4	64.4
	Trade payables	3,634	EUR	181.7	-181.7
GTP Mexico (MPE)	Other payables	183	EUR	9.2	-9.2
GTP Istanbul (YTL)	Trade receivables	187	EUR	-9.4	9.4
	Trade payables	0	EUR	0.0	0.0
				190.4	**-190.4**

Changes in the euro exchange rate during 2012 within the above-mentioned volatilities would have given a 190 thousand euros higher/lower consolidated profit.

Interest rate risk
By the end of 2012 interest-bearing debt consisted solely of finance leases (fixed rate) and export financing.

Given the fixed interest rates on the long-term receivables, and due to the fact that the export financing is simultaneously concluded with the related accounts receivable, the interest rate sensitivity is nil. The volume of interest-bearing trade receivables outstanding at 31 December 2012 against which export financing has been concluded at the same fixed interest rate amounts to 0.3 million euros (2011: 1.4 million euros).

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

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

Liquidity risk
In order to guarantee its liquidity and financial flexibility at all times, the Picanol Group has various uncommitted credit lines in euros in amounts that are considered adequate to current and future financial needs. The Picanol Group has total credit lines excluding bank guarantees available for 54.6 million euros (2011: 67.1 million euros) of which export financing is representing 20.0 million euros and 34.6 million euros straight loans. At balance sheet date the credit lines were used for an amount of 0.9 million euros excluding bank guarantees.

The credit line for bank guarantees amounts to 14.5 million euros (2012: 14.0 million euros), with 9.9 million euros of bank guarantees outstanding at 31 December 2012. The Picanol Group uses these bank guarantees primarily for commercial purposes (tender process delivery guarantee).

III.8.10. MISCELLANEOUS

Capital management
The capital management of the Picanol Group aims essentially at:

- protecting the capital to ensure continuous business operations resulting in a continuous shareholder value, and benefits for other stakeholders

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

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

STATUTORY FINANCIAL STATEMENTS OF PICANOL NV

PICANOL NV (in '000 euros)	**2012**	**2011**
FIXED ASSETS	**59,568**	**60,136**
Intangible assets	613	646
Tangible fixed assets	7,013	7,576
Financial fixed assets	51,942	51,913
CURRENT ASSETS	**192,072**	**143,289**
TOTAL ASSETS	**251,640**	**203,425**
SHAREHOLDERS' EQUITY	**163,078**	**123,091**
Share capital	22,200	22,200
Share premium account	1,519	1,518
Reserves	45,136	45,136
Profit/(loss) carried forward	94,223	54,236
Investment grants	0	0
PROVISIONS AND DEFERRED TAXES	**15,232**	**15,807**
LIABILITIES	**73,330**	**64,527**
Amounts payable after one year	253	535
Amounts payable within one year plus accrued expenses and deferred income	69,387	63,992
TOTAL LIABILITIES	**251,640**	**203,425**
SALES	329,454	348,869
OPERATING RESULT	47,213	44,072
FINANCIAL RESULTS	7,055	10,089
EXTRAORDINARY RESULTS	273	16,161
TAXES	-14,554	-6,832
PROFIT FOR THE FINANCIAL YEAR	39,987	63,490

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 48.2 million euros, from 203.4 million euros at the end of 2011 to 251.6 million euros at 31 December 2012. This increase was mainly due to a considerable increase of the receivables up to 1 year and an increase in cash.

The turnover of Picanol NV decreased by 5.6% in 2012 compared with 2011, from 348.8 million euros to 329.4 million euros. The gross margin (operating revenue less the purchases of raw materials and auxiliaries, services and various goods) slightly decreased from 86.6 million euros in 2011 to 83.4 million euros in 2012. The gross margin, as a percentage of turnover increased from 24.9% in 2011 to 25.3% in 2012. The operating result rose by 3.1 million euros to 47.2 million euros at the end of 2012.

The net financial result decreased by 3.0 million euros, mainly due to less dividends paid out by both Chinese companies.

Net extraordinary items decreased by 15.9 million euro. In 2011 the Steel Heddle activities of GTP Greenville were sold.

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

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

Financial instruments
Picanol NV practices foreign currency hedges through forward contracts. As of 31 December 2012, however, there were no current forward exchange contracts. Under no circumstances derivative instruments are used for speculative purposes. The company otherwise uses no other form of financial instruments whatsoever.

Branch offices
The company has no branch offices.

Conflicts of interest
See chapter 'Corporate Governance' in this annual report.

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

STATUTORY AUDITOR'S REPORT

Statutory auditor's report to the General Meeting about the consolidated financial statements for the year ended 31 December 2012

To the shareholders

As required by law, we report to you on the statutory audit mandate which you have entrusted to us. This report includes our report on the consolidated financial statements as defined below together with our report on other legal and regulatory requirements.

Report 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. These consolidated financial statements comprise the consolidated balance as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance shows total assets of 350 million EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 55 million EUR.

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

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion
In our opinion, the consolidated financial statements of Picanol NV give a true and fair view of the group's net equity and financial position as of 31 December 2012, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements
The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

In the framework of our mandate, our responsibility is to verify, for all significant aspects, the compliance with some legal and regulatory requirements. On this basis, we provide the following additional comment which does not modify the scope of our audit opinion on the consolidated financial statements: The directors' report on the consolidated financial statements includes the information required by law, is, for all significant aspects, in agreement with the consolidated financial statements and is not in obvious contradiction with any information obtained in the context of our mandate.

Kortrijk, 25 February 2013
The statutory auditor
DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Mario Dekeyser

INFORMATION FOR SHAREHOLDERS

SHARES AND LISTING

NYSE Euronext, Brussels code:	BE0003807246
Mnemo:	PIC

ICB Sector classification:

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

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

On 31 December 2012, the share capital was represented by 17,700,000 Picanol shares. During the course of 2012 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 2012.

The stock exchange capitalization on 31 December 2012 amounted to 328.512 million euros.

Shareholder structure

The shareholder structure is shown on page 25.

Financial calendar

Annual General Meeting	17/04/2013
Trading update Q1	17/04/2013 (after stock exchange close)
Announcement of half-yearly results	27/08/2013 (before opening of the stock exchange)
Trading update Q3	29/10/2013 (before opening of the stock exchange)
Announcement of annual results 2013	25/02/2014 (before opening of the stock exchange)
Annual General Meeting	16/04/2014

DIVIDEND

The Board of Directors will propose to the General Meeting on 17 April 2013 not to pay out a dividend for the 2012 financial year.

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 2012 to 31 December 2012. 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 20 April 2012, the General Meeting and an Extraordinary General Meeting took place. On 29 May 2012 an Extraordinary General Meeting took place. As part of this, the following information was published:

Annual General Meeting and Extraordinary General Meeting 18 April 2012
- Minutes of the General Meeting
- Presentation General Meeting
- Minutes of the Extraordinary General Meeting
- Presentation Extraordinary General Meeting
- Special report of the Board of Directors cf. art. 604 of the Company Code
- Agenda of the General Meeting
- Agenda of the Extraordinary General Meeting
- Power of attorney General Meeting
- Power of attorney Extraordinary General Meeting

Extraordinary General Meeting 29 May 2012
- Minutes of the Extraordinary General Meeting
- Agenda of the Extraordinary General Meeting
- Power of attorney Extraordinary General Meeting

Periodic information
- Press release 7 March 2012: Consolidated & audited results 2011
- Press release 18 April 2012: Trading update first quarter 2012
- Press release 28 August 2012: Half-yearly information 2012
- Press release 30 October 2012: Trading update third quarter 2012

Occasional information
- Press release 4 July 2012: Picanol Group to recruit 50 additional workers in Ypres
- Notification in accordance with art. 74 § 8 of the Law of 1 April 2007 on takeover bids (29 Augustus 2012)

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

Statutory annual account – the statutory annual account of the Picanol Group is published on
http://www.picanolgroup.com/PICGROUPSITE/EN/INVESTORS/STATUTORY+ANNUAL+ACCOUNTS/

Financial calendar – the financial calendar of the Picanol Group is regularly updated (http://www.picanolgroup.com/PICGROUPSITE/EN/INVESTORS/FINANCIAL+CALENDAR/)

Articles of association – After each change in the articles of association, a new version is published on the website (http://www.picanolgroup.com/PICGROUPSITE/EN/INVESTORS/ONTWERPEN/)

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

GLOSSARY

CNC	Computer Numerical Control. This refers to the computer controlled system of the machine tool
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
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'
Tire cord	Fabric used as reinforcement in vehicle tires
WCM	World Class Manufacturing
Weaving machine	Machine on which a fabric is made using two groups of threads. The threads running lengthwise are known as warp threads, those running perpendicular to the warp threads are the weft threads
Weaving frame	The weaving frame or frame moves a warp thread up and down in a weaving machine

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Investor Relations

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

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

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

Responsible editor:
Luc Tack
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