

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These judgments, estimates and assumptions are reviewed on an ongoing basis.

3.1. Critical judgments in applying the entity's accounting policies

The following are the critical judgments made by management, apart from those involving estimations (see note 3.2. 'Key sources of estimation uncertainty' below), that have a significant effect on the amounts reported in the consolidated financial statements.

- » Management assessed that a constructive obligation exists to provide pre-retirement schemes for employees as from the first day of service (see note 6.15. 'Employee benefit obligations') and therefore these pre-retirement schemes are treated as defined-benefit plans using the projected unit credit method.
 - » Management assessed that the various steps in which the acquisition of the Non-Controlling Interest ('NCI') in BBRG was effected is one transaction between owners, the effect of which was recognized directly in equity. Bekaert considers that the extinguishment of OTPP's shareholders' loan by issuing shares is in substance a component of the transaction in which Bekaert purchases the NCI from OTPP. The latter is a transaction between owners in their capacity as owners and constitutes an exemption from IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. Consequently, this transaction does not affect profit or loss.
 - » Management continued to conclude that the criteria for capitalization were not met and hence recognized development expenditure through profit or loss.
 - » Management makes judgments in defining the functional currency of Group entities based on economic substance of the transactions relevant to these entities. By default the functional currency is the one of the country in which the entity is operating. See note 7.8. 'Subsidiaries, joint ventures and associates' for a comprehensive list of entities and their functional currency.
 - » As regards its Venezuelan operations, management decided to use the economic exchange rate for translating the Bolivar Soberano financial statements to the reporting currency for consolidation as from 31 December 2012. In view of the restrictions on dividend repatriation for overseas investors introduced in 2009, and given the ongoing dramatic decline in the economic exchange rate, combined with hyperinflation, management concluded that this is the best choice for providing a fair view of the contribution of the Venezuelan operations to the consolidated financial statements. Applying the economic exchange rate to the Venezuelan operations has further reduced the significance of their contribution to the consolidated financials ever since.
- In spite of the political and monetary instability, management was able to keep the company operational and hence concluded that it is still in control. At year-end 2018, the cumulative translation adjustments ('CTA') amount to € -59.7 million, which - in case of loss of control - would be recycled to income statement. Apart from the CTA, the contribution of the Venezuelan operations to the consolidated accounts is immaterial.
- » Management concluded that Bekaert, given its non-controlling interest of 13.0% at year-end 2018, has no significant influence in Shougang Concord Century Holdings Ltd and therefore the investment is carried at fair value through OCI.
 - » Management concluded that the Company has control over Bekaert Maccaferri Underground Solutions BVBA. The contractual arrangements of the shareholders' agreement, including a put option entitling Maccaferri to sell its interests under certain conditions and a call option entitling Bekaert to purchase Maccaferri's interests under certain conditions, indicate that (a) Bekaert has the ability to direct the activities that most significantly affect the returns of the investee, i.e. the supply of manufactured goods to the commercial joint venture (cf. IFRS 10.13) and (b) Bekaert is the only logical party to continue the entity's activities, should the parties agree to discontinue their partnership.

3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and the other key sources of estimation uncertainty at the end of the reporting period that have a risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

- » Management performed the annual impairment test on the goodwill related to BBRG on the basis of the profit restoration plan. This plan was prepared as part of the dialogue with the lenders' syndicate about the running financing structure of BBRG. Management is convinced this plan represents an ambitious, but realistic scenario which will bring the projected results conditional to a strict execution and implementation of the various initiatives included in the plan. (see Note 6.2. 'Goodwill')
- » Impairment analyses are based upon assumptions such as market evolution, margin evolution and discount rates. The ability of an entity to pass on changes in raw material prices to its customers (either through contractual arrangements or through commercial negotiations) is included in the margin evolution assumption. Sensitivity analyses for reasonable changes in these assumptions are presented as part of Note 6.2. 'Goodwill'.
- » Given its global presence, Bekaert is exposed to tax risks in many jurisdictions. On the one hand, the application of tax law in the different jurisdictions can be complex and requires judgement to assess risk and estimate outcomes, which is a major source of uncertainty. On the other hand, tax authorities of the jurisdictions conduct regular tax audits that may reveal potential tax issues. As the tax audits can require many years to resolve, this further adds to the uncertainty. While the outcome of such tax audits is not certain, Bekaert has considered the merits of its filing positions of the matters subject to each tax audit in an overall evaluation of potential tax liabilities, and concludes that the Group has adequate liabilities recorded in its consolidated financial statements for exposures on these matters. Accordingly, Bekaert considers it unlikely that potential tax exposures over and above the amounts currently recorded as liabilities in the consolidated financial statements will be material to its financial condition. In most of the tax audit cases, Bekaert expects that a favorable outcome can probably be achieved, be it through time-consuming administrative and judicial procedures or other remedies, e.g. according to the relevant tax treaties. Consequently, both the timing and the position taken by the tax authorities in the different jurisdictions give rise to the uncertainty and risk of resulting in an adjustment to the carrying amounts of income tax payable related to uncertain tax positions within the next financial year. At year-end 2018 uncertain tax positions recognized as income taxes payable amount to € 64.7 million (2017: € 65.4 million). See note 6.20. 'Tax positions'.
- » Deferred tax assets are recognized for the carry-forward of unused tax losses, unused tax credits and temporary differences to the extent that it is probable that taxable profit will be available in the foreseeable future. In

making its judgment, management takes into account elements such as long-term business strategy and tax planning opportunities (see note 5.5. 'Income taxes' and 6.6. 'Deferred tax assets and liabilities').

- » Employee benefit obligations: the defined-benefit obligations are based on actuarial assumptions such as discount rate and salary increases, which are extensively detailed in note 6.15. 'Employee benefit obligations'.