

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 6.16. 'Employee benefit obligations') and therefore these pre-retirement schemes are treated as defined-benefit plans using the projected unit credit method. The obligation amounted to € 10.4 million (2018: € 11.2 million).
- » 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 7.7. 'Subsidiaries, joint ventures and associates' for a comprehensive list of entities and their functional currency. As regard to its Venezuelan operations, management concluded that the bolivar soberano is no longer the functional currency, but instead the US dollar is the functional currency. This decision is based on the facts that an important part of the operative income is denominated in US dollar; that the main part of the costs structure also takes as reference US dollar and is payable using this reference exchange rate; and that as from May 2019, banks can act as intermediaries in foreign currency transactions through 'exchange tables', a measure that makes the exchange control that operated since 2003 and that gave the State a monopoly in currency management, more flexible.
- » Management assessed that it is still controlling the Venezuelan subsidiaries. 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 2019, 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.

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 a reviewed profit restoration plan. This plan was prepared following the appointment of a new divisional CEO for the BBRG business. 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 2019

uncertain tax positions recognized as income taxes payable amounted to € 64.7 million (2018: € 64.7 million). See note 6.21. 'Tax positions'.