

## 5. Income statement items and other comprehensive income

### 5.1. Operating result (EBIT) by function

in thousands of €	2013	2014	variance
Sales	3 185 628	3 215 714	30 086
Cost of sales	-2 703 316	-2 729 995	-26 679
<b>Gross profit</b>	<b>482 312</b>	<b>485 719</b>	<b>3 407</b>
Selling expenses	-128 207	-138 126	-9 919
Administrative expenses	-124 924	-126 894	-1 970
Research and development expenses	-62 429	-59 261	3 168
Other operating revenues	12 502	21 978	9 476
Other operating expenses	-13 337	-19 009	-5 672
<b>Operating result before non-recurring items (REBIT)</b>	<b>165 917</b>	<b>164 407</b>	<b>-1 510</b>
Non-recurring items	-28 647	6 847	35 494
<b>Operating result (EBIT)</b>	<b>137 270</b>	<b>171 254</b>	<b>33 984</b>

Sales and gross profit in thousands of €	2013	2014	variance (%)
Sales	3 185 628	3 215 714	0.9%
Cost of sales	-2 703 316	-2 729 995	1.0%
<b>Gross profit</b>	<b>482 312</b>	<b>485 719</b>	<b>0.7%</b>
Gross profit in % of sales	15.1%	15.1%	

Bekaert's consolidated sales increased by almost 0.9% versus last year. The net impact of this year's acquisitions (integration of ropes activities in Brazil and wire activities in Costa Rica) and prior year's divestment (advanced filtration activities) explained 0.5% of the sales increase. The organic growth of sales by 2.8% was mainly realized in EMEA and in Asia Pacific. However, unfavorable currency movements (especially related to CLP) almost entirely offset the organic increase (-2.4%).

Gross profit was almost stable in nominal terms. Compared to last year, the organic business in EMEA and to a lesser degree also North America contributed positively to gross profit. The gain from organic growth was offset by negative currency movements (€ -12.0 million).

Overheads in thousands of €	2013	2014	variance (%)
Selling expenses	-128 207	-138 126	7.7%
Administrative expenses	-124 924	-126 894	1.6%
Research and development expenses	-62 429	-59 261	-5.1%
<b>Total</b>	<b>-315 560</b>	<b>-324 281</b>	<b>2.8%</b>

Apart from the impact of currency movements, the increase in selling expenses mainly relates to the significant reversal of bad debt provisions in 2013, while this was not the case in 2014. Administrative expenses increased due to the incurred expenses related to the acquisition transactions. Research and development expenses decreased following more cost effective project initiatives.

Other operating revenues in thousands of €	2013	2014	variance
Royalties received	11 225	10 189	-1 036
Gains on disposal of PP&E and intangible assets	457	478	21
Realized exchange results on sales and purchases	-6 131	2 146	8 277
Government grants	2 286	5 084	2 798
Miscellaneous	4 665	4 081	-584
<b>Total</b>	<b>12 502</b>	<b>21 978</b>	<b>9 476</b>

Government grants mainly relate to subsidies in China. There are no indications that the conditions attached to those grants will not be complied with in the future and therefore it is not expected that subsidies may have to be refunded.

**Other operating expenses**

in thousands of €

	2013	2014	variance
Losses on disposal of PP&E and intangible assets	-991	-1 597	-606
Amortization of intangible assets	-340	-474	-134
Bank charges	-2 456	-2 475	-19
Tax related expenses (other than income taxes)	-1 465	-3 112	-1 647
Miscellaneous	-8 085	-11 351	-3 266
<b>Total</b>	<b>-13 337</b>	<b>-19 009</b>	<b>-5 672</b>

The increase of Miscellaneous mainly relates to impairment losses of individual PP&E items.

**Non-recurring items**

in thousands of €

		2013	2014	variance
Restructuring - impairment losses	(a)	-1 027	-6 971	-5 944
Restructuring - other revenues	(b)	3 225	3 673	448
Restructuring - other expenses	(b)	-15 125	-6 289	8 836
Other impairment losses	(a)	-6 621	-6 853	-232
Gains on business disposals		1 231	310	-921
Losses on business disposals	(c)	-50	-1 474	-1 424
Gains on step acquisitions	(c)	-	1 804	1 804
Negative goodwill on business combinations	(c)	-	10 893	10 893
Other revenues	(d)	1 481	30 815	29 334
Other expenses	(d)	-11 761	-19 061	-7 300
<b>Total</b>		<b>-28 647</b>	<b>6 847</b>	<b>35 494</b>

Non-recurring items amounted to € +6.8 million compared with € -28.6 million last year.

- (a) In 2014, a net impairment loss in the amount of € -13.8 million was recorded. This amount includes the impairment losses of the Industrial Steel Wire business in South East Asia (Malaysia and Indonesia), of the Special Steel Wire business in India and in respect of the current economic and geopolitical risk exposure in Russia. Impairment losses have been reversed with respect to some production equipment in China, which was previously considered redundant but has been redeployed in 2014.
- (b) The restructuring and closure programs announced in 2012 and in 2013 were further implemented resulting in incurring costs offset by write-backs of provisions recorded in the previous years.
- (c) In accordance with IFRS 3 (revised 2008), the transaction in which the Group acquired the majority of the shares of the ArcelorMittal steel wire plant in Costa Rica and raised its share from 45% to 100% in the Cimaf ropes plant in Brazil, was accounted for as a business combination. This resulted not only in the recognition of a negative goodwill, but also in the recognition of a loss from the reclassification of cumulative translation adjustments and a gain on step acquisition, both related to the increased shareholding in the Cimaf ropes plant.
- (d) In November, a fire hit the Rome plant (USA), resulting in the loss of fixed assets and inventory, in significant clean-up costs and in business interruption losses. As on the one hand the Group will further incur costs to bring the affected production operational again in 2015, but on the other hand IFRS requires to recognize already the total estimated compensations from the insurance company in the books of 2014, a net gain was recorded in 2014. The remainder of the other revenues and expenses mainly relate to the gains on the sale of property and the reversal of the environmental provisions largely due to the transfer of the environmental clean-up obligations to the buyer.

## 5.2. Operating result (EBIT) by nature

The table below provides information on the major items contributing to the operating result (EBIT), categorized by nature.

in thousands of €	2013		2014	
Sales	3 185 628	100%	3 215 714	100%
Non-recurring revenues	5 937	-	47 495	-
Other operating revenues	12 502	-	21 978	-
<b>Total operating revenues</b>	<b>3 204 067</b>	<b>-</b>	<b>3 285 187</b>	<b>-</b>
Own construction of PP&E	31 636	1.0%	48 800	1.5%
Raw materials	-1 209 885	-38.0%	-1 242 818	-38.6%
Semi-finished products and goods for resale	-218 430	-6.9%	-246 866	-7.7%
Change in work-in-progress and finished goods	9 757	0.3%	38 795	1.2%
Staff costs	-603 619	-18.9%	-610 121	-19.0%
Depreciation and amortization	-151 071	-4.7%	-164 610	-5.1%
Impairment losses	-8 650	-0.3%	-16 962	-0.5%
Transport and handling of finished goods	-136 104	-4.3%	-151 649	-4.7%
Consumables and spare parts	-204 889	-6.4%	-219 200	-6.8%
Utilities	-211 686	-6.6%	-219 001	-6.8%
Maintenance and repairs	-42 460	-1.3%	-52 430	-1.6%
Expenses operating leases	-20 124	-0.6%	-20 406	-0.6%
Commissions in selling expenses	-4 718	-0.1%	-3 414	-0.1%
Export VAT and export customs duty	-26 852	-0.8%	-28 842	-0.9%
ICT costs	-23 890	-0.7%	-25 074	-0.8%
Advertising and sales promotion	-6 085	-0.2%	-6 792	-0.2%
Travel, restaurant & hotel	-31 427	-1.0%	-33 760	-1.0%
Consulting and other fees	-20 078	-0.6%	-25 725	-0.8%
Office supplies and equipment	-11 327	-0.4%	-11 425	-0.4%
Venture capital funds R&D	-1 422	0.0%	-982	0.0%
Temporary or external labor	-18 160	-0.6%	-20 696	-0.6%
Insurance expenses	-4 349	-0.1%	-6 459	-0.2%
Miscellaneous	-152 962	-4.8%	-94 296	-2.9%
<b>Total operating expenses</b>	<b>-3 066 797</b>	<b>-96.3%</b>	<b>-3 113 933</b>	<b>-96.8%</b>
<b>Operating result (EBIT)</b>	<b>137 270</b>	<b>4.3%</b>	<b>171 254</b>	<b>5.3%</b>

### 5.3. Interest income and expense

in thousands of €	2013	2014
Interest income on financial assets not classified as at FVTPL	6 449	5 291
<b>Interest income</b>	<b>6 449</b>	<b>5 291</b>
<i>Interest expense on interest-bearing debt not classified as at FVTPL</i>	<i>-55 770</i>	<i>-54 801</i>
<i>Other debt-related interest expense</i>	<i>-8 645</i>	<i>-7 336</i>
Interest expense	-64 415	-62 137
Interest element of interest-bearing provisions	-5 739	-6 078
<b>Interest expense</b>	<b>-70 154</b>	<b>-68 215</b>
<b>Total</b>	<b>-63 705</b>	<b>-62 924</b>

Although gross debt increased with € 355 million, interest expense remained at the same level due to an average lower interest rate on the gross debt. Interest expense on interest-bearing debt not classified as at fair value through profit or loss (FVTPL) relates to all debt instruments of the Group, other than hedging instruments, hedged items and interest-rate risk mitigating derivatives designated as economic hedges.

The interest element of interest-bearing provisions mainly relates to the defined-benefit liability (see note 6.15. 'Employee benefit obligations') and to provisions recognized on the business combinations with ArcelorMittal (€ 0.6 million) and Maccaferri (€ 0.1 million).

### 5.4. Other financial income and expenses

in thousands of €	2013	2014
<i>Value adjustments to derivatives</i>	<i>-1 550</i>	<i>-18 991</i>
<i>Value adjustments to hedged items</i>	<i>-494</i>	<i>4 829</i>
<i>Exchange results on hedged items</i>	<i>-2 479</i>	<i>23 749</i>
Net impact of derivatives and hedged items	-4 523	9 587
Other exchange results	-12 249	-6 213
Impairment losses on available-for-sale financial assets	-1 284	-157
Inflation accounting effects	1 814	2 655
Dividends from non-consolidated equity investments	254	147
Bank charges and taxes on financial transactions	-990	-2 877
Impairments and impairment reversals of loans and receivables	-1 374	-6 039
Other	-1 470	-833
<b>Total</b>	<b>-19 822</b>	<b>-3 730</b>

Value adjustments include changes in the fair value of all derivatives, other than those designated as cash flow hedges, and of all debt hedged by fair value hedges. A fair value gain of € 13.4 million has been recognized in 2014 on the conversion option relating to the convertible debt issued in June 2014 (refer to the 'Financial instruments by fair value measurement hierarchy' section in note 7.3. 'Financial risk management and financial derivatives'). The net impact of derivatives and hedged items presented here does not include any impacts recognized in other income statement elements, such as interest expense, cost of sales or other operating revenues and expenses. For more details on the impact of derivatives and hedged items, refer to note 7.3. 'Financial risk management and financial derivatives'.

Inflation accounting effects relate to the Venezuelan operations. Bank charges and taxes on financial transactions increased mainly in China, Brazil and Belgium. An impairment loss of € 5.7 million was recognized on receivables from the Venezuelan authorities. After an impairment loss of € 1.3 million was recognized on the Group's investment in Shougang Concord Century Holdings Ltd in 2013, a further impairment loss of € 0.2 million was recognized at 30 June 2014, as the share price had declined again on the Hong Kong Stock Exchange. By the end of the year, the share price had risen again, which resulted in a fair value gain of € 1.4 million being recognized through equity (see note 6.5. 'Other non-current assets').

## 5.5. Income taxes

in thousands of €	2013	2014
Current income taxes - current year	-60 491	-57 142
Current income taxes - prior periods	-3 890	-135
Deferred taxes - due to changes in temporary differences	16 532	15 570
Deferred taxes - due to changes in tax rates	-67	-669
<b>Total tax expense</b>	<b>-47 916</b>	<b>-42 376</b>

### *Relationship between tax expense and accounting profit*

In the table below, accounting profit is defined as the result before taxes.

in thousands of €	2013	2014
Accounting profit	53 743	104 600
Tax expense at the theoretical domestic rates applicable to results of taxable entities in the countries concerned <sup>1</sup>	-2 676	-28 857
Tax expense related to distribution of retained earnings	-11 018	-2 171
Total theoretical tax expense	-13 694	-31 028
Theoretical tax rate	-25.5%	-29.7%
Tax effect of:		
<i>Non-deductible items</i>	-16 635	-10 991
<i>Other tax rates and special tax regimes</i>	4 845	4 766
<i>Non-recognition of deferred tax assets</i> <sup>2</sup>	-14 057	-12 205
<i>Utilization of deferred tax assets not previously recognized</i>	14 342	8 566
<i>Tax relating to prior periods</i>	-18 650	-8 687
<i>Exempted income</i>	2 552	4 589
<i>Other</i>	-6 619	2 614
<b>Total tax expense</b>	<b>-47 916</b>	<b>-42 376</b>
Effective tax rate	-89.2%	-40.5%

<sup>1</sup> The expense for 2013 is low since the value disclosed is an aggregation of positive accounting results in countries with lower tax rates and negative accounting results in countries with higher tax rates which are offsetting each other.

<sup>2</sup> Non-recognition of deferred tax assets mainly relates to losses in China, Malaysia and India.

Other tax rates and special tax regimes reflect temporary tax holidays and notional interest deduction.

## 5.6. Share in the results of joint ventures and associates

The operating results of the Brazilian joint ventures were adversely affected by the ailing Brazilian economy. Additional financials relating to the Brazilian joint ventures are provided under note 6.4. 'Investments in joint ventures and associates'. The Chinese joint venture with Xinyu Steel is still struggling to realize a turnaround, and took a hit on deferred tax assets.

in thousands of €		2013	2014
<b>Joint ventures</b>			
BOSFA Pty Ltd	Australia	688	183
Belgo Bekaert Arames Ltda	Brazil	28 515	26 754
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda	Brazil	1 526	-368
Bekaert Faser Vertriebs GmbH	Germany	15	-
Bekaert Xinyu Metal Products Co Ltd	China	-500	-1 240
<b>Total</b>		<b>30 244</b>	<b>25 329</b>

## 5.7. Earnings per share

2014	Number
<b>Weighted average number of ordinary shares (basic)</b>	<b>57 599 873</b>
Dilution effect of subscription rights and options	274 966
Dilution effect of convertible bond issued in 2014	1 001 473
<b>Weighted average number of ordinary shares (diluted)</b>	<b>58 876 312</b>

in thousands of €	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders	87 176	87 176
Effect on earnings of convertible bond issued in 2014 <sup>1</sup>	-	-8 668
<b>Earnings</b>	<b>87 176</b>	<b>78 508</b>
<b>Earnings per share (in €)</b>	<b>1.513</b>	<b>1.333</b>

<sup>1</sup> Not to be reported if the effect of the convertible bond is anti-dilutive, i.e. if its effect is such that it would improve the EPS (see below).

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share. Basic EPS is calculated as the result for the period attributable to the Group divided by the weighted average number of shares outstanding during the year. Diluted EPS reflects any commitments the Group has to issue shares in the future. In 2014, these comprised subscription rights, options and the convertible bond issued in June 2014. Subscription rights and options are only dilutive to the extent that their exercise price is lower than the average closing price of the period. The dilution effect of subscription rights and options is limited to the weighted average number of shares to be used in the denominator of the EPS ratio; there is no effect on the earnings to be used in the numerator of the EPS ratio. The convertible bond tends to affect both the denominator and the numerator of the EPS ratio. The dilution effect of the convertible bond on the earnings (to be used in the numerator of the EPS ratio) consists of a reversal of all income and expenses directly related to the convertible bond and having affected the 'basic' earnings for the period. Following income statement items were affected by the convertible bond:

- (a) the effective interest expense (€ -4.4 million), consisting of nominal interest being accrued (€ -1.2 million) and interest expense from amortized cost remeasurement (€ -3.2 million),
- (b) transaction costs (€ -0.3 million) and
- (c) fair value gains on the derivative liability representing the conversion option (€ 13.4 million).

The convertible bond is anti-dilutive if it causes the diluted EPS ratio to improve, i.e. if the diluted profit per share goes up or the diluted loss per share goes down. To calculate the impact, it is assumed that all dilutive subscription rights and options are exercised and that the conversion option of the convertible bond is exercised in its entirety at the beginning of the period, or, if the instruments were issued during the period, at the issue date. The features of the conversion option are such that only the share price increase over and above the conversion price is convertible into shares, and that Bekaert has a call option on the conversion option when the share price exceeds the conversion price by 32.5%. The amount of shares to be converted has thus been capped at 1 868 033. Consequently, management decided to buy back as many shares (1 868 033) as could possibly be converted to counter any dilution effect resulting from the convertible bond issuance. The buy-back program started in June and was finalized by the end of September, resulting in a reduction of the basic weighted average number of shares by 780 102 and an increase in both basic and diluted earnings per share of € 0.02.

2013	Number
<b>Weighted average number of ordinary shares (basic)</b>	<b>58 519 782</b>
Dilution effect of subscription rights and options	179 647
<b>Weighted average number of ordinary shares (diluted)</b>	<b>58 699 429</b>

in thousands of €	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders (in thousands €)	24 574	24 574
<b>Earnings</b>	<b>24 574</b>	<b>24 574</b>
<b>Earnings per share (in €)</b>	<b>0.420</b>	<b>0.419</b>

The weighted average closing price during 2014 was € 27.15 per share (2013: € 24.93 per share). The following options and subscription rights were out of the money, and therefore antidilutive, for the period presented:

Antidilutive instruments	Date granted	Exercise price (in €)	Number granted	Number outstanding
SOP2 - options	19.02.2007	30.175	37 500	10 000
SOP2 - options	18.02.2008	28.335	43 500	19 500
SOP2 - options	15.02.2010	33.990	49 500	49 500
SOP 2005-2009 - subscription rights	19.02.2007	30.175	182 010	10 270
SOP 2005-2009 - subscription rights	18.02.2008	28.335	229 200	118 850
SOP 2005-2009 - subscription rights	15.02.2010	33.990	225 450	191 850
SOP 2010-2014 - options	14.02.2011	77.000	360 925	314 925

For more information about subscription rights and options, please refer to 6.12. 'Ordinary shares, treasury shares, subscription rights and share options'.