

5. Income statement items and other comprehensive income

5.1. Operating result (EBIT) by function

in thousands of €	2015	2016	variance
Sales	3 671 081	3 715 217	44 136
Cost of sales ¹	-3 073 407	-3 025 225	48 182
Gross profit	597 674	689 992	92 318
Selling expenses	-156 106	-175 340	-19 234
Administrative expenses ¹	-140 679	-139 558	1 121
Research and development expenses	-64 597	-63 590	1 007
Other operating revenues ¹	85 516	24 376	-61 140
Other operating expenses ¹	-102 422	-76 226	26 196
Operating result (EBIT)	219 386	259 654	40 268
EBIT - Underlying	231 482	304 952	73 470

¹ See note 2.7. 'Restatement and reclassification effects'.

Sales and gross profit in thousands of €	2015	2016	variance (%)
Sales	3 671 081	3 715 217	1.2%
Cost of sales ¹	-3 073 407	-3 025 225	-1.6%
Gross profit	597 674	689 992	15.4%
Gross profit in % of sales	16.3%	18.6%	

¹ See note 2.7. 'Restatement and reclassification effects'.

Bekaert's consolidated sales increased by 1.2% versus last year. The organic volume growth of 4.1% over the year (net of Vicson) stemmed from firm demand in global automotive markets and steadily increasing sales volumes in industrial steel wire and construction markets. This growth was largely offset in Bekaert's top line by the lower wire rod prices and price-mix effects (-3.4%). The net impact of this year's acquisitions (integration of Bridon ropes plants) and divestments (stainless steel activities) explained 2.6% of the sales increase. Unfavorable currency movements (-2.2%) (mainly related to Chinese renminbi, Chilean and Colombian peso) weakened this evolution.

Gross profit increased by 15.4% compared to 2015, resulting in a margin of 18.6%, mainly reflecting the success of the transformation programs which are driving excellence, cost savings and value creating growth. The newly acquired businesses contributed for 2.4% and there is also a small impact of negative currency movements (-0.3%).

Overheads in thousands of €	2015	2016	variance (%)
Selling expenses	-156 106	-175 340	12.3%
Administrative expenses ¹	-140 679	-139 558	-0.8%
Research and development expenses	-64 597	-63 590	-1.6%
Total	-361 382	-378 488	4.7%

¹ See note 2.7. 'Restatement and reclassification effects'.

The overheads slightly increased to 10.2% of sales. The increase in selling expenses (€ 19.2 million) reflects to a large extent the impact of acquisitions/divestments (€ 9.6 million) and consultancy costs related to the 'Customer Excellence program' (€ 7.8 million); partly offset by a positive impact from currency movements (€ 2.8 million). Administrative expenses slightly decreased (€ 1.1 million). The impact of acquisitions/divestments (€ 13.7 million) was more than offset by overhead cost reductions. Among others, consultancy costs related to the Manufacturing Excellence program were reduced to a minimum (€ 6.7 million savings). R&D expenses (€ 1.0 million) decreased as a result of better project management.

Other operating revenues ¹ in thousands of €	2015	2016	variance
Royalties received	9 227	8 996	-231
Gains on disposal of PP&E and intangible assets	610	565	-45
Realized exchange results on sales and purchases	-950	-1 258	-308
Government grants	415	915	500
Reversal impairment losses (restructuring and other)	1 469	2 146	677
Restructuring - other revenues	5 005	3 975	-1 030
Reversal write-down inventories/trade receivables	-	1 077	1 077
Gains on business disposals	16 553	-	-16 553
Negative goodwill on business combinations	340	-	-340
Other revenues	52 847	7 960	-44 887
Total	85 516	24 376	-61 140

¹ See note 2.7. 'Restatement and reclassification effects'.

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 revenues' in 2015 mainly report the outcome of the final assessment on the compensations from the insurance company following the fire in the Rome plant (USA) in 2014.

Other operating expenses ¹ in thousands of €	2015	2016	variance
Royalties paid	-2 762	53	2 815
Losses on disposal of PP&E and intangible assets	-1 970	-1 490	480
Amortization of intangible assets	-2 970	-2 849	121
Bank charges	-3 019	-2 933	86
Tax related expenses (other than income taxes)	-2 705	-2 360	345
Impairment losses (restructuring and other)	-12 595	-17 886	-5 291
Restructuring - other expenses	-24 863	-27 487	-2 624
Losses on business disposals	-3 292	-	3 292
Losses on step acquisitions	-1 098	-	1 098
Acquisition-related expenses ¹	-9 326	-8 639	687
Other expenses	-37 822	-12 635	25 187
Total	-102 422	-76 226	26 196

¹ See note 2.7. 'Restatement and reclassification effects'.

Other operating expenses mainly related to restructuring expenses in Turkey, Malaysia and Bridon-Bekaert Ropes Group (€ -27.1 million), impairment losses on PP&E in Huizhou, China (€ -16.2 million) and M&A transaction fees (€ -8.6 million).

'Other expenses' in 2015 mainly relate to business interruption losses due to the fire in the Rome plant (USA) in 2014.

Reconciliation Underlying EBIT in thousands of €	2015	2016	variance
Operating result (EBIT)	219 386	259 654	40 268
Reversal impairment losses (restructuring and other)	1 469	2 146	677
Restructuring - other revenues	5 005	3 975	-1 030
Reversal write-down inventories/trade receivables	-	1 077	1 077
Gains on business disposals	16 553	-	-16 553
Negative goodwill on business combinations	340	-	-340
Other revenues	45 029	4 697	-40 332
Impairment losses (restructuring and other)	-12 595	-17 886	-5 291
Restructuring - other expenses	-24 863	-27 487	-2 624
Losses on business disposals	-3 292	-	3 292
Losses on step acquisitions	-1 098	-	1 098
Acquisition-related expenses	-9 326	-8 639	687
Other expenses	-29 318	-3 181	26 137
EBIT - Underlying	231 482	304 952	73 470

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 €	2015		2016	
Sales	3 671 081	100%	3 715 217	100%
Other operating revenues	84 047	-	22 230	-
Total operating revenues	3 755 128	-	3 737 447	-
Own construction of PP&E	53 014	1.4%	53 859	1.4%
Raw materials	-1 279 035	-34.8%	-1 182 873	-31.8%
Semi-finished products and goods for resale	-256 000	-7.0%	-282 910	-7.6%
Change in work-in-progress and finished goods	-15 031	-0.4%	5 657	0.2%
Staff costs ¹	-743 590	-20.3%	-772 547	-20.8%
Depreciation and amortization	-208 401	-5.7%	-203 917	-5.5%
Impairment losses	-13 262	-0.4%	-17 862	-0.5%
Transport and handling of finished goods	-165 922	-4.5%	-159 342	-4.3%
Consumables and spare parts	-260 683	-7.1%	-266 388	-7.2%
Utilities	-264 203	-7.2%	-255 285	-6.9%
Maintenance and repairs	-60 260	-1.6%	-60 975	-1.6%
Expenses operating leases	-23 286	-0.6%	-26 955	-0.7%
Commissions in selling expenses	-3 690	-0.1%	-6 170	-0.2%
Export VAT and export customs duty	-30 428	-0.8%	-30 271	-0.8%
ICT costs	-29 595	-0.8%	-32 728	-0.9%
Advertising and sales promotion	-7 203	-0.2%	-7 191	-0.2%
Travel, restaurant & hotel	-25 239	-0.7%	-28 150	-0.8%
Consulting and other fees	-40 456	-1.1%	-41 799	-1.1%
Office supplies and equipment	-12 863	-0.4%	-13 071	-0.4%
Venture capital funds R&D	-1 819	0.0%	-2 180	-0.1%
Temporary or external labor	-25 619	-0.7%	-27 031	-0.7%
Insurance expenses	-8 768	-0.2%	-6 989	-0.2%
Miscellaneous	-113 402	-3.1%	-112 675	-3.0%
Total operating expenses	-3 535 742	-96.3%	-3 477 793	-93.6%
Operating result (EBIT)	219 386	6.0%	259 654	7.0%

¹ See note 2.7. 'Restatement and reclassification effects'.

5.3. Interest income and expense

in thousands of €	2015	2016
Interest income on financial assets not classified as at FVTPL	8 585	6 325
Interest income	8 585	6 325
<i>Interest expense on interest-bearing debt not classified as at FVTPL</i>	<i>-55 864</i>	<i>-64 581</i>
<i>Other debt-related interest expense</i>	<i>-8 123</i>	<i>-7 673</i>
Interest expense	-63 987	-72 254
Interest element of interest-bearing provisions ¹	-6 771	-7 239
Interest expense	-70 758	-79 493
Total	-62 173	-73 168

¹ See note 2.7. 'Restatement and reclassification effects'.

The higher gross debt in the second half of 2016 (Bridon-Bekaert Ropes Group) and a higher average interest rate explains the increase in interest expense. 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 and interest-rate risk mitigating derivatives designated as economic hedges.

The interest element of interest-bearing provisions mainly relates to the defined-benefit liabilities (see note 6.15. 'Employee benefit obligations') and other provisions (see note 6.16 'Provisions').

5.4. Other financial income and expenses

in thousands of €	2015	2016
<i>Value adjustments to derivatives</i>	<i>14 973</i>	<i>-30 916</i>
<i>Value adjustments to hedged items</i>	<i>-2 424</i>	<i>-</i>
<i>Exchange results on hedged items</i>	<i>-29 784</i>	<i>-14 556</i>
Net impact of derivatives and hedged items	-17 235	-45 472
Other exchange results	-7 172	-8 088
Impairment losses on available-for-sale financial assets	-302	-591
Inflation accounting effects	5 280	5 818
Gains and losses on disposal of financial assets	-76	1
Gains and losses on settlement of financial liabilities	-	-2 467
Dividends from non-consolidated equity investments	742	374
Bank charges and taxes on financial transactions	-5 388	-2 540
Impairments of loans and receivables	-9 235	12
Reversal of impairments of loans and receivables	-	16 326
Other	-424	-831
Total	-33 810	-37 458

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. 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'.

A fair value loss of € 42.7 million has been recognized in 2016 (2015: gain of € 2.1 million) on the conversion option relating to the convertible debt settled in June 2016 (refer to the 'Financial instruments by fair value measurement hierarchy' section in note 7.3. 'Financial risk management and financial derivatives'), while the conversion option on the new convertible debt generated a fair value gain of € 5.3 million. In addition to that, a loss on the settlement of financial liabilities of € 2.5 million was incurred on the repurchase of old convertible bonds not exchanged for new ones.

Inflation accounting effects relate to the Venezuelan operations. During 2016, a provision for a corporate guarantee of € 16.3 million relating to Vicson SA (Venezuela) has been reversed (2015: € -9.2 million). In addition, exchange losses of € -9.8 million were incurred on intercompany receivables on Vicson SA. Last year, bank charges and taxes on financial transactions included a stamp duty of € 3.2 million on the business combination with Arrium.

5.5. Income taxes

in thousands of €	2015	2016
Current income taxes - current year	-55 725	-91 970
Current income taxes - prior periods	2 473	-1 034
Deferred taxes - due to changes in temporary differences	16 518	43 628
Deferred taxes - due to changes in tax rates	347	-395
Deferred taxes - adjustments to tax losses of prior periods	128	-12 281
Total tax expense	-36 259	-62 052

Relationship between tax expense and accounting profit

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

in thousands of €	2015	2016
Result before taxes ¹	123 403	149 028
Tax expense at the theoretical domestic rates applicable to results of taxable entities in the countries concerned ¹	-26 958	-37 302
Tax expense related to distribution of retained earnings	-1 965	-5 240
Total theoretical tax expense ¹	-28 923	-42 542
Theoretical tax rate ²	-23.4%	-28.5%
Tax effect of:		
Non-deductible items	-16 903	-14 722
Other tax rates and special tax regimes ³	139	7 837
Non-recognition of deferred tax assets ⁴	-21 849	-11 913
Utilization of deferred tax assets not previously recognized ⁵	34 684	18 135
Tax relating to prior periods	2 473	-13 315
Exempted income ⁶	2 432	68
Other ⁷	-8 312	-5 600
Total tax expense	-36 259	-62 052
Effective tax rate	-29.4%	-41.6%

¹ See note 2.7. 'Restatement and reclassification effects'.

² The theoretical tax rate is computed as a weighted average. The increase in 2016 vs 2015 is mainly generated by higher profit before tax in countries with higher tax rates.

³ In 2016, the special tax regimes mainly relate to tax incentives in Belgium, the Netherlands, Slovakia and Peru.

⁴ In 2016, the non-recognition of deferred tax assets mainly relates to impairment of assets in China, losses in the United States and a restructuring provision in Norway while in 2015 it mainly relates to losses in China, Malaysia and India.

⁵ In 2016, the utilization of deferred tax assets not previously recognized mainly relates to losses carried forward in entities becoming profitable and from an expected transaction in 2017. In 2015, it includes an effect of € 20.1 million of a reorganization in anticipation of the Bridon-Bekaert Ropes Group transaction generating taxable profits in the foreseeable future.

⁶ Relates in 2015 mainly to the disposal of the Carding Solutions activities and the deconsolidation of Bekaert (Xinyu) New Materials Co Ltd and Bekaert Xinyu Metal Products Co Ltd.

⁷ Relates in 2016 as well as in 2015 mainly to withholding taxes on royalties, interests, services and dividends. Furthermore, it includes in 2015 € -5.0 million taxes related to a gain on an intercompany share transfer in Chile.

5.6. Share in the results of joint ventures and associates

Additional information relating to the Brazilian joint ventures is provided under note 6.4. 'Investments in joint ventures and associates'.

in thousands of €		2015	2016
Joint ventures			
BOSFA Pty Ltd ¹	Australia	43	-
Belgo Bekaert Arames Ltda	Brazil	21 725	20 574
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda	Brazil	2 543	4 871
Bekaert (Xinyu) New Materials Co Ltd ²	China	-4 404	-
Bekaert Xinyu Metal Products Co Ltd ²	China	-1 587	-
Total		18 320	25 445

¹ As from 12 June 2015, Bekaert acquired control in BOSFA Pty Ltd (Australia).

² As from year-end 2015, Bekaert lost significant influence in Bekaert (Xinyu) New Materials Co Ltd and Bekaert Xinyu Metal Products Co Ltd.

5.7. Earnings per share

2016	Number
Weighted average number of ordinary shares (basic)	56 263 172
Dilution effect of subscription rights and options	623 410
Dilution effect of convertible bonds	-
Weighted average number of ordinary shares (diluted)	56 886 582

in thousands of €	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders	105 166	105 166
Effect on earnings of convertible bonds ¹	-	-
Earnings	105 166	105 166
Earnings per share (in €)	1.869	1.849

¹ 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. These comprise subscription rights, options and the convertible bonds. 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 bonds tend to affect both the denominator and the numerator of the EPS ratio. The dilution effect of the convertible bonds 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 bonds and having affected the 'basic' earnings for the period. Following income statement items were affected by the convertible bonds:

- the effective interest expense of € -7.7 million (2015: € -8.3 million),
- transaction costs of € -3.0 million (2015: none),
- fair value losses of € -37.4 million on the derivative liability representing the conversion option (2015: € 2.1 million).

The convertible bonds were anti-dilutive in 2016, since their effect caused the diluted EPS ratio to improve. To calculate the impact, it is assumed that all dilutive subscription rights and options are exercised and that the conversion option of the convertible bonds 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 30.0%. The amount of shares to be converted has thus been capped at 1 711 069. Management already bought back as many shares as could possibly be converted under the old convertible bond (1 868 033) to limit potential cash-outs resulting from the convertible bond issuance. Therefore no extra buy-back program needed to be started.