

## 5. Income statement items and other comprehensive income

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

in thousands of €	2014	2015	variance
Sales	3 215 714	3 671 081	455 367
Cost of sales	-2 729 995	-3 072 673	-342 678
<b>Gross profit</b>	<b>485 719</b>	<b>598 408</b>	<b>112 689</b>
Selling expenses	-138 126	-156 106	-17 980
Administrative expenses	-126 894	-150 005	-23 111
Research and development expenses	-59 261	-64 597	-5 336
Other operating revenues	21 978	17 120	-4 858
Other operating expenses	-19 009	-21 931	-2 922
<b>Operating result before non-recurring items (REBIT)</b>	<b>164 407</b>	<b>222 889</b>	<b>58 482</b>
Non-recurring items	6 847	-2 769	-9 616
<b>Operating result (EBIT)</b>	<b>171 254</b>	<b>220 120</b>	<b>48 866</b>

Sales and gross profit in thousands of €	2014	2015	variance (%)
Sales	3 215 714	3 671 081	14.2%
Cost of sales	-2 729 995	-3 072 673	12.6%
<b>Gross profit</b>	<b>485 719</b>	<b>598 408</b>	<b>23.2%</b>
Gross profit in % of sales	15.1%	16.3%	

Bekaert's consolidated sales increased by 14.2% versus last year. The net impact of this year's acquisitions (integration of Pirelli's steel cord plants, Arrium's ropes business in Australia and the step acquisition of BOSFA Pty Ltd) and divestments (Carding Solutions activities) explained 9.1% of the sales increase. Favorable currency movements (8.4%) (mainly related to CNY and USD) further strengthened this evolution. The organic growth of 1.5% over the year was the result of positive price-mix effects (+3.8%), a slight volume decline (-1.3%) and minor price erosion (-1.0%). Top line growth was tempered by significantly lower raw material prices (-4.7%), passed on to our customers.

Gross profit increased by 23.2% compared to 2014. While the biggest part of this positive evolution is due to the contribution of the newly acquired businesses (+10.2%) and positive currency movements (8.5%), the organic business in EMEA continued to contribute positively. The other segments contributed positively as well, though to a lesser degree.

Overheads in thousands of €	2014	2015	variance (%)
Selling expenses	-138 126	-156 106	13.0%
Administrative expenses	-126 894	-150 005	18.2%
Research and development expenses	-59 261	-64 597	9.0%
<b>Total</b>	<b>-324 281</b>	<b>-370 708</b>	<b>14.3%</b>

Apart from the impact of currency movements, the increase in selling expenses mainly relates to the movement in bad debt provisions in 2015, while this was not the case in 2014. Administrative expenses increased due to the acquisitions and the incurred expenses related to the realized and anticipated acquisition transactions. Research and development expenses increased due to the acquisitions.

Other operating revenues in thousands of €	2014	2015	variance
Royalties received	10 189	9 227	-962
Gains on disposal of PP&E and intangible assets	478	610	132
Realized exchange results on sales and purchases	2 146	-950	-3 096
Government grants	5 084	415	-4 669
Miscellaneous	4 081	7 818	3 737
<b>Total</b>	<b>21 978</b>	<b>17 120</b>	<b>-4 858</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. Miscellaneous contains the compensations received for claims which increased with € 1.6 million in 2015.

<b>Other operating expenses</b> in thousands of €	<b>2014</b>	<b>2015</b>	<b>variance</b>
Losses on disposal of PP&E and intangible assets	-1 597	-1 970	-373
Amortization of intangible assets	-474	-2 970	-2 496
Bank charges	-2 475	-3 019	-544
Tax related expenses (other than income taxes)	-3 112	-2 705	407
Miscellaneous	-11 351	-11 267	84
<b>Total</b>	<b>-19 009</b>	<b>-21 931</b>	<b>-2 922</b>

The increase in amortization of intangible assets is due to the intangible assets acquired as part of the business combinations with Pirelli and Maccaferri.

<b>Non-recurring items</b> in thousands of €		<b>2014</b>	<b>2015</b>	<b>variance</b>
Restructuring - impairment losses	(a)	-6 971	-1 930	5 041
Restructuring - other revenues	(b)	3 673	5 005	1 332
Restructuring - other expenses	(b)	-6 289	-24 863	-18 574
Other impairment losses	(a)	-6 853	-9 196	-2 343
Gains on business disposals	(c)	310	16 553	16 243
Losses on business disposals	(c)	-1 474	-3 292	-1 818
Gains on step acquisitions	(c)	1 804	-	-1 804
Losses on step acquisitions	(c)	-	-1 098	-1 098
Negative goodwill on business combinations	(c)	10 893	340	-10 553
Other revenues	(d)	30 815	45 029	14 214
Other expenses	(d)	-19 061	-29 317	-10 256
<b>Total</b>		<b>6 847</b>	<b>-2 769</b>	<b>-9 616</b>

Non-recurring items amounted to € -2.8 million compared with € +6.8 million last year.

- (a) In 2015, a net impairment loss of € -11.1 million was recorded. This amount includes the impairment losses of the Industrial Steel Wire business in China. Further impairment losses have been recorded as a consequence of the decision to step out of the external round stainless steel wire market, mainly affecting assets located in India.
- (b) The restructuring and closure programs announced in previous years were further implemented resulting in additional costs after write-backs of provisions recorded in the previous years. Moreover 'Other revenues' also relate to the result on asset divestments (mainly Canada), while 'Other expenses' include write-down on inventories in businesses under restructuring, as well as the impact of further adjusting the Group overheads.
- (c) In 2015, the Group sold its Carding Solutions activities to Groz-Beckert, resulting in a net gain (after recycling of CTA loss) of € 9.5 million. Furthermore a net gain (after recycling of CTA gain) was recognized on the loss of control in Bekaert (Xinyu) New Materials Co Ltd and the loss of joint control in Bekaert Xinyu Metal Products Co Ltd. Finally the Group also executed a step acquisition of BOSFA Pty Ltd (Australia), resulting in a net loss of € -1.1 million.
- (d) 'Other revenues' 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, while 'Other expenses' relate to business interruption losses.

## 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 €	2014		2015	
Sales	3 215 714	100%	3 671 081	100%
Non-recurring revenues	47 495	-	66 927	-
Other operating revenues	21 978	-	17 120	-
<b>Total operating revenues</b>	<b>3 285 187</b>	<b>-</b>	<b>3 755 128</b>	<b>-</b>
Own construction of PP&E	48 800	1.5%	53 014	1.4%
Raw materials	-1 242 818	-38.6%	-1 279 035	-34.8%
Semi-finished products and goods for resale	-246 866	-7.7%	-256 000	-7.0%
Change in work-in-progress and finished goods	38 795	1.2%	-15 031	-0.4%
Staff costs	-610 121	-19.0%	-742 856	-20.2%
Depreciation and amortization	-164 610	-5.1%	-208 401	-5.7%
Impairment losses	-16 962	-0.5%	-13 262	-0.4%
Transport and handling of finished goods	-151 649	-4.7%	-165 922	-4.5%
Consumables and spare parts	-219 200	-6.8%	-260 683	-7.1%
Utilities	-219 001	-6.8%	-264 203	-7.2%
Maintenance and repairs	-52 430	-1.6%	-60 260	-1.6%
Expenses operating leases	-20 406	-0.6%	-23 286	-0.6%
Commissions in selling expenses	-3 414	-0.1%	-3 690	-0.1%
Export VAT and export customs duty	-28 842	-0.9%	-30 428	-0.8%
ICT costs	-25 074	-0.8%	-29 595	-0.8%
Advertising and sales promotion	-6 792	-0.2%	-7 203	-0.2%
Travel, restaurant & hotel	-33 760	-1.0%	-25 239	-0.7%
Consulting and other fees	-25 725	-0.8%	-40 456	-1.1%
Office supplies and equipment	-11 425	-0.4%	-12 863	-0.4%
Venture capital funds R&D	-982	0.0%	-1 819	0.0%
Temporary or external labor	-20 696	-0.6%	-25 619	-0.7%
Insurance expenses	-6 459	-0.2%	-8 768	-0.2%
Miscellaneous	-94 296	-2.9%	-113 403	-3.1%
<b>Total operating expenses</b>	<b>-3 113 933</b>	<b>-96.8%</b>	<b>-3 535 008</b>	<b>-96.3%</b>
<b>Operating result (EBIT)</b>	<b>171 254</b>	<b>5.3%</b>	<b>220 120</b>	<b>6.0%</b>

### 5.3. Interest income and expense

in thousands of €	2014	2015
Interest income on financial assets not classified as at FVTPL	5 291	8 585
<b>Interest income</b>	<b>5 291</b>	<b>8 585</b>
<i>Interest expense on interest-bearing debt not classified as at FVTPL</i>	<i>-54 801</i>	<i>-55 864</i>
<i>Other debt-related interest expense</i>	<i>-7 336</i>	<i>-8 123</i>
Interest expense	-62 137	-63 987
Interest element of interest-bearing provisions	-6 078	-6 954
<b>Interest expense</b>	<b>-68 215</b>	<b>-70 941</b>
<b>Total</b>	<b>-62 924</b>	<b>-62 356</b>

The higher average gross debt during 2015 was compensated by a lower average interest rate. 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 liability (see note 6.15. 'Employee benefit obligations').

### 5.4. Other financial income and expenses

in thousands of €	2014	2015
<i>Value adjustments to derivatives</i>	<i>-18 991</i>	<i>14 973</i>
<i>Value adjustments to hedged items</i>	<i>4 829</i>	<i>-2 424</i>
<i>Exchange results on hedged items</i>	<i>23 749</i>	<i>-29 784</i>
Net impact of derivatives and hedged items	9 587	-17 235
Other exchange results	-6 213	-7 172
Impairment losses on available-for-sale financial assets	-157	-302
Inflation accounting effects	2 655	5 280
Gains and losses on disposal of financial assets	-	-76
Dividends from non-consolidated equity investments	147	742
Bank charges and taxes on financial transactions	-2 877	-5 388
Impairments of loans and receivables	-6 039	-9 235
Other	-833	-425
<b>Total</b>	<b>-3 730</b>	<b>-33 811</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 € 2.1 million has been recognized in 2015 (2014: gain of € 13.4 million) 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. An impairment loss of € 9.2 million was recognized on receivables from the Venezuelan authorities (2014: € 5.7 million). Bank charges and taxes on financial transactions included a stamp duty of € 3.2 million on the business combination with Arrium (cf. note 7.2. 'Effect of business combinations and disposals').

## 5.5. Income taxes

in thousands of €	2014	2015
Current income taxes - current year	-57 142	-55 725
Current income taxes - prior periods	-135	2 473
Deferred taxes - due to changes in temporary differences	15 570	16 518
Deferred taxes - due to changes in tax rates	-669	347
<b>Total tax expense</b>	<b>-42 376</b>	<b>-36 387</b>

### Relationship between tax expense and accounting profit

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

in thousands of €	2014	2015
Accounting profit	104 600	123 953
Tax expense at the theoretical domestic rates applicable to results of taxable entities in the countries concerned	-28 857	-27 086
Tax expense related to distribution of retained earnings	-2 171	-1 965
Total theoretical tax expense	-31 028	-29 051
Theoretical tax rate <sup>1</sup>	-29.7%	-23.4%
Tax effect of:		
Non-deductible items	-10 991	-16 903
Other tax rates and special tax regimes	4 766	139
Non-recognition of deferred tax assets <sup>2</sup>	-12 205	-21 849
Utilization of deferred tax assets not previously recognized <sup>3</sup>	8 566	34 684
Tax relating to prior periods	-8 687	2 473
Exempted income <sup>4</sup>	4 589	2 432
Other <sup>5</sup>	2 614	-8 312
<b>Total tax expense</b>	<b>-42 376</b>	<b>-36 387</b>
Effective tax rate	-40.5%	-29.4%

<sup>1</sup> The theoretical tax rate is computed as a weighted average. The decrease in 2015 vs 2014 is mainly generated by higher profit before tax in countries with lower tax rates.

<sup>2</sup> In 2015 as well as in 2014, the non-recognition of deferred tax assets mainly relates to losses in China, Malaysia and India.

<sup>3</sup> Includes in 2015 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.

<sup>4</sup> Relates in 2015 mainly to the disposal of the Carding Solutions activities and the deconsolidation as a consequence of the loss of control in Bekaert (Xinyu) New Materials Co Ltd (formerly a subsidiary) and the loss of joint control in Bekaert Xinyu Metal Products Co Ltd (formerly a joint venture).

<sup>5</sup> 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

Despite the ailing economy, the Brazilian joint ventures managed to record comparable or even better operating results than last year but their net results in euros came out lower due the substantial depreciation of the real. Additional information relating to the Brazilian joint ventures is provided under note 6.4. 'Investments in joint ventures and associates'.

The result presented for BOSFA in 2015 relates to the first five months of the year, since Bekaert acquired the remaining interests on 12 June (cf. note 7.2. 'Effect of business combinations and disposals').

As Bekaert lost control in Bekaert (Xinyu) New Materials Co Ltd on 1 April, retaining only a significant influence, this former subsidiary has been accounted for using the equity method as from that date. In addition to its ongoing operating losses, its results went further down by non-recurring impairment losses on production equipment recognized in the fourth quarter.

in thousands of €		2014	2015
<b>Joint ventures</b>			
BOSFA Pty Ltd	Australia	183	43
Belgo Bekaert Arames Ltda	Brazil	26 754	21 725
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda	Brazil	-368	2 543
Bekaert (Xinyu) New Materials Co Ltd	China	-	-4 404
Bekaert Xinyu Metal Products Co Ltd	China	-1 239	-1 587
<b>Total</b>		<b>25 330</b>	<b>18 320</b>

## 5.7. Earnings per share

2015	Number
<b>Weighted average number of ordinary shares (basic)</b>	<b>55 841 843</b>
Dilution effect of subscription rights and options	218 834
Dilution effect of convertible bond issued in 2014	-
<b>Weighted average number of ordinary shares (diluted)</b>	<b>56 060 677</b>

in thousands of €	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders	101 969	101 969
Effect on earnings of convertible bond issued in 2014 <sup>1</sup>	-	-
<b>Earnings</b>	<b>101 969</b>	<b>101 969</b>
<b>Earnings per share (in €)</b>	<b>1.826</b>	<b>1.819</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. These comprise 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:

- the effective interest expense of € -8.3 million (2014: € -4.4 million),
- transaction costs (only in 2014: € -0.3 million) and
- fair value gains of € 2.1 million on the derivative liability representing the conversion option (2014: € 13.4 million).

The convertible bond was anti-dilutive in 2015, since it 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 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 2014 and was finalized by the end of September 2014.

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).

The weighted average closing price during 2015 was € 26.12 per share (2014: € 27.15 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	153 810	9 670
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	172 950
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, share options and performance shares'.