

## 5. Income statement items

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

in thousands of €	2016	2017	variance
Sales	3 715 217	4 098 247	383 030
Cost of sales	-3 058 093	-3 396 431	-338 338
<b>Gross profit</b>	<b>657 124</b>	<b>701 816</b>	<b>44 692</b>
Selling expenses	-175 769	-180 100	-4 331
Administrative expenses	-151 727	-164 411	-12 684
Research and development expenses	-63 322	-62 670	652
Other operating revenues	14 657	48 863	34 206
Other operating expenses	-21 309	-25 436	-4 127
<b>Operating result (EBIT)</b>	<b>259 654</b>	<b>318 062</b>	<b>58 408</b>
<b>EBIT - Underlying</b>	<b>304 952</b>	<b>301 095</b>	<b>-3 857</b>

Sales and gross profit in thousands of €	2016	2017	variance (%)
Sales	3 715 217	4 098 247	10.3%
Cost of sales	-3 058 093	-3 396 431	11.1%
<b>Gross profit</b>	<b>657 124</b>	<b>701 816</b>	<b>6.8%</b>
Gross profit in % of sales	17.7%	17.1%	

Bekaert's consolidated sales increased by 10.3% versus last year. Organic volume growth boosted sales by 3.4% and the aggregate effect of passed-on higher wire rod prices and price-mix added 5.5%. The net effect of mergers, acquisitions and divestments explained 2.2% of the sales increase. Unfavorable currency movements (-0.9%) (mainly related to Chinese renminbi and US dollar) weakened this evolution.

Gross profit increased by 6.8% compared to 2016, resulting in a margin of 17.1% compared to 17.7% in 2016. Cost of sales includes the cancellation of the obligations under an onerous supply contract for which a provision was recorded as part of the purchase price allocation at the time of acquisition (€ 10.4 million) (see note 6.16. 'Provisions'). The net effect of mergers, acquisitions and divestments accounted for 1.9% and there was also a small impact of negative currency movements (-0.2%).

Overheads in thousands of €	2016	2017	variance (%)
Selling expenses	-175 769	-180 100	2.5%
Administrative expenses	-151 727	-164 411	8.4%
Research and development expenses	-63 322	-62 670	-1.0%
<b>Total</b>	<b>-390 818</b>	<b>-407 181</b>	<b>4.2%</b>

The increase in selling expenses (€ 4.3 million) reflects to a large extent the impact of acquisitions/divestments (€ 9.2 million), a significant decrease in bad debt reserve (€ -5.6 million), higher costs related to higher organic sales (€ 2.0 million) and by a positive impact from currency movements (€ -1.3 million).

Administrative expenses increased (€ 12.7 million). The impact of acquisitions/divestments (€ 8.6 million) and consulting costs related to transformation programs (€ 7.5 million) was slightly offset by a positive impact from currency movements (€ -0.8 million). Research and development expenses amounted to € 63 million, about stable from last year.

In terms of percentage on sales overheads slightly decreased to 9.9%.

**Other operating revenues**

in thousands of €	2016	2017	variance
Royalties received	8 996	7 871	-1 125
Gains on disposal of PP&E and intangible assets	565	684	119
Realized exchange results on sales and purchases	-1 258	-1 241	17
Government grants	915	2 333	1 418
Restructuring - other revenues	319	416	97
Reversal write-down inventories/trade receivables	934	-	-934
Gains on business disposals (portion sold)	-	18 149	18 149
Gains on business disposals (portion retained)	-	14 552	14 552
Other revenues	4 186	6 100	1 914
<b>Total</b>	<b>14 657</b>	<b>48 863</b>	<b>34 207</b>

**Other operating expenses**

in thousands of €	2016	2017	variance
Royalties paid	53	-	-53
Losses on disposal of PP&E and intangible assets	-1 490	-2 083	-593
Amortization of intangible assets	-2 849	-	2 849
Bank charges	-2 933	-2 809	124
Tax related expenses (other than income taxes)	-2 360	-3 166	-806
Restructuring - other expenses	-722	-3 436	-2 714
Losses on business disposals (CTA recycling)	-	-6 895	-6 895
Other expenses	-11 008	-7 047	3 961
<b>Total</b>	<b>-21 309</b>	<b>-25 436</b>	<b>-4 127</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.

The gains and losses on business disposals relate to the disposal of the majority stake in the rubber reinforcement plant Sumaré (Brazil) (see note 7.2. 'Effect of business disposals'), as the CTA recycling is presented separately as a loss of € -6.9 million.

**Reconciliation Underlying EBIT**

in thousands of €	2016	2017	variance
<b>Operating result (EBIT)</b>	<b>259 654</b>	<b>318 062</b>	<b>58 408</b>
Reversal impairment losses (restructuring and other)	-2 146	-8 216	-6 070
Restructuring - other revenues	-870	-532	338
Reversal write-down inventories/trade receivables	-4 182	-1 331	2 851
Gains on business disposals (portion sold)	-	-18 149	-18 149
Gains on business disposals (portion retained)	-	-14 552	-14 552
Other revenues	-4 697	-4 061	636
Impairment losses (restructuring and other)	17 886	4 814	-13 072
Restructuring - other expenses	27 487	11 693	-15 794
Losses on business disposals (CTA recycling)	-	6 895	6 895
Acquisition-related expenses	8 639	509	-8 130
Other expenses	3 181	5 963	2 782
<b>EBIT - Underlying</b>	<b>304 952</b>	<b>301 095</b>	<b>120 673</b>

In accordance with the ESMA guidelines on the use of non-GAAP terminology, as from 2016 the non-GAAP terms 'recurring' and 'non-recurring' are no longer used and recurring EBIT is no longer presented more prominently than EBIT in the income statement. The one-off items (previously reported separately under 'non-recurring') were initially reclassified to other operating expenses and revenues in the 2016 annual report. As from this year onwards, one-off items have been assigned to the applicable functional line items (cost of sales, administrative expenses, selling expenses, R&D, ...) in the income statement and comparative figures for 2016 have been restated accordingly. EBIT, excluding the one-off items, is referred to as EBIT-underlying.

<b>EBIT Reported and Underlying</b> in thousands of €	<b>2016</b> <b>as published</b>	<b>2016</b> <b>reported</b>	<b>2016</b> <b>one-offs</b>	<b>2016</b> <b>underlying</b>	<b>2017</b> <b>reported</b>	<b>2017</b> <b>one-offs</b>	<b>2017</b> <b>underlying</b>
Sales	3 715 217	3 715 217		3 715 217	4 098 247		4 098 247
Cost of sales	-3 025 225	-3 058 093	32 868	-3 025 225	-3 396 431	2 453	-3 393 978
<b>Gross profit</b>	<b>689 992</b>	<b>657 124</b>	<b>32 868</b>	<b>689 992</b>	<b>701 816</b>	<b>2 453</b>	<b>704 269</b>
Selling expenses	-175 340	-175 769	429	-175 340	-180 100	700	-179 400
Administrative expenses	-139 558	-151 727	12 169	-139 558	-164 411	2 506	-161 905
Research and development expenses	-63 590	-63 322	-268	-63 590	-62 670	30	-62 640
Other operating revenues	24 376	14 657	-2 176	12 481	48 863	-34 585	14 278
Other operating expenses	-76 226	-21 309	2 276	-19 033	-25 436	11 929	-13 507
<b>Operating result (EBIT)</b>	<b>259 654</b>	<b>259 654</b>	<b>45 298</b>	<b>304 952</b>	<b>318 062</b>	<b>-16 967</b>	<b>301 095</b>
<b>EBIT - Underlying</b>	<b>304 952</b>						

## 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 €	2016		2017	
Sales	3 715 217	100%	4 098 247	100%
Other operating revenues	22 230	-	48 863	-
<b>Total operating revenues</b>	<b>3 737 447</b>	<b>-</b>	<b>4 147 110</b>	<b>-</b>
Own construction of PP&E	53 859	1.4%	99 713	2.4%
Raw materials	-1 182 873	-31.8%	-1 497 872	-36.5%
Semi-finished products and goods for resale	-282 910	-7.6%	-309 173	-7.5%
Change in work-in-progress and finished goods	5 657	0.2%	58 254	1.4%
Staff costs	-772 547	-20.8%	-819 628	-20.0%
Depreciation and amortization	-203 917	-5.5%	-194 952	-4.8%
Impairment losses	-17 862	-0.5%	3 411	0.1%
Transport and handling of finished goods	-159 342	-4.3%	-184 078	-4.5%
Consumables and spare parts	-266 388	-7.2%	-297 126	-7.3%
Utilities	-255 285	-6.9%	-253 511	-6.2%
Maintenance and repairs	-60 975	-1.6%	-66 496	-1.6%
Expenses operating leases	-26 955	-0.7%	-29 793	-0.7%
Commissions in selling expenses	-6 170	-0.2%	-6 309	-0.2%
Export VAT and export customs duty	-30 271	-0.8%	-32 793	-0.8%
ICT costs	-32 728	-0.9%	-40 353	-1.0%
Advertising and sales promotion	-7 191	-0.2%	-11 107	-0.3%
Travel, restaurant & hotel	-28 150	-0.8%	-33 501	-0.8%
Consulting and other fees	-41 799	-1.1%	-40 446	-1.0%
Office supplies and equipment	-13 071	-0.4%	-10 700	-0.3%
Venture capital funds R&D	-2 180	-0.1%	-1 504	0.0%
Temporary or external labor	-27 031	-0.7%	-35 178	-0.9%
Insurance expenses	-6 989	-0.2%	-7 290	-0.2%
Miscellaneous	-112 675	-3.0%	-118 616	-2.9%
<b>Total operating expenses</b>	<b>-3 477 793</b>	<b>-93.6%</b>	<b>-3 829 048</b>	<b>-93.4%</b>
<b>Operating result (EBIT)</b>	<b>259 654</b>	<b>7.0%</b>	<b>318 062</b>	<b>7.8%</b>

### 5.3. Interest income and expense

in thousands of €	2016	2017
Interest income on financial assets not classified as at FVTPL	6 325	3 117
<b>Interest income</b>	<b>6 325</b>	<b>3 117</b>
<i>Interest expense on interest-bearing debt not classified as at FVTPL</i>	<i>-64 581</i>	<i>-75 050</i>
<i>Other debt-related interest expense</i>	<i>-7 673</i>	<i>-8 102</i>
Debt-related interest expense	-72 254	-83 152
Interest element of interest-bearing provisions	-7 239	-6 699
<b>Interest expense</b>	<b>-79 493</b>	<b>-89 852</b>
<b>Total</b>	<b>-73 168</b>	<b>-86 735</b>

The higher gross debt, due to the merger of Bridon-Bekaert Ropes Group as from the second half of 2016, and a higher average interest rate explain 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.

Of the interest element of interest-bearing provisions, € 4.4 million (2016: € 5.6 million) relates to the defined-benefit liabilities (see note 6.15. 'Employee benefit obligations') and € 2.3 million (2016: € 1.6 million) relates to other provisions (see note 6.16. 'Provisions').

### 5.4. Other financial income and expenses

in thousands of €	2016	2017
<i>Value adjustments to derivatives</i>	<i>-30 916</i>	<i>17 527</i>
<i>Exchange results on hedged items</i>	<i>-14 556</i>	<i>-14 180</i>
Net impact of derivatives and hedged items	-45 472	3 347
Other exchange results	-8 088	-7 435
Impairment losses on available-for-sale financial assets	-591	-
Inflation accounting effects	5 818	-16
Gains and losses on settlement of financial liabilities	-2 467	-
Dividends from non-consolidated equity investments	374	1 062
Bank charges and taxes on financial transactions	-2 540	-2 873
Impairments of loans and receivables	12	-67
Reversal of impairments of loans and receivables	16 326	-
Other	-831	-426
<b>Total</b>	<b>-37 458</b>	<b>-6 408</b>

Value adjustments include changes in the fair value of all derivatives, other than those designated as cash flow hedges. Exchange results on hedged items also relate to economic hedges only. 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, see note 7.3. 'Financial risk management and financial derivatives'.

Value adjustments to derivatives include a fair value gain of € 17.6 million in 2017 (2016: loss of € 37.4 million) on the conversion option relating to the convertible debt issued in June 2016 (see the 'Financial instruments by fair value measurement hierarchy' section in note 7.3. 'Financial risk management and financial derivatives'). In 2016 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 an impairment loss of € 16.3 million relating to corporate guarantees for Vicson SA (Venezuela) has been reversed. In addition, exchange losses of € -1.5 million (2016: € -9.8 million) were incurred on intercompany receivables on Vicson SA., and reported in other exchange results.

## 5.5. Income taxes

in thousands of €	2016	2017
Current income taxes - current year	-91 970	-70 903
Current income taxes - prior periods	-1 034	1 617
Deferred taxes - due to changes in temporary differences	25 493	-21 885
Deferred taxes - due to changes in tax rates	-395	-16 229
Deferred taxes - adjustments to tax losses of prior periods	-12 281	-6 526
Deferred taxes - utilization of deferred tax assets not previously recognized	18 135	44 650
<b>Total tax expense</b>	<b>-62 052</b>	<b>-69 276</b>

### Relationship between tax expense and accounting profit

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

in thousands of €	2016	2017
Result before taxes	149 028	224 919
Tax expense at the theoretical domestic rates applicable to results of taxable entities in the countries concerned	-37 302	-65 178
Tax expense related to distribution of retained earnings	-5 240	-4 811
Total theoretical tax expense	-42 542	-69 989
Theoretical tax rate <sup>1</sup>	-28.5%	-31.1%
Tax effect of:		
Non-deductible items	-14 722	-13 697
Other tax rates and special tax regimes <sup>2</sup>	7 837	5 824
Non-recognition of deferred tax assets <sup>3</sup>	-11 913	-16 038
Utilization of deferred tax assets not previously recognized <sup>4</sup>	18 135	44 650
Deferred tax due to change in tax rates <sup>5</sup>	-395	-16 229
Tax relating to prior periods	-13 315	-4 909
Exempted income <sup>6</sup>	68	6 423
Other <sup>7</sup>	-5 205	-5 311
<b>Total tax expense</b>	<b>-62 052</b>	<b>-69 276</b>
Effective tax rate	-41.6%	-30.8%

<sup>1</sup> The theoretical tax rate is computed as a weighted average. The increase in 2017 vs 2016 is mainly generated by higher profit before tax in countries with higher tax rates.

<sup>2</sup> In 2017, the special tax regimes mainly relate to tax incentives in Belgium and the Netherlands whereas in 2016 also Slovakia and Peru contributed next to Belgium and the Netherlands.

<sup>3</sup> In 2017, the non-recognition of deferred tax assets mainly relates to losses carried forward in Brazil, Chile, China, Colombia, Costa Rica, Germany, Malaysia and the UK while in 2016, it mainly relates to impairment of assets in China, losses in the USA and a restructuring provision in Norway.

<sup>4</sup> In 2017, the increase is highly explained by a one-off asset transaction.

<sup>5</sup> Applicable in Belgium (€ -12.6 million) and the USA (€ -3.1 million). In Belgium the tax rate gradually shifts from 33.99% to 25% and in the USA from 40% to 24.25%.

<sup>6</sup> Relates in 2017 mainly to the disposal of the majority stake in the rubber reinforcement plant in Sumaré (Brazil).

<sup>7</sup> Relates in 2017 as well as in 2016 mainly to withholding taxes on royalties, interests, services and dividends.

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

Operating results in Brazil were negatively affected by the uncertain political and economic climate, weak demand in the construction market, a weaker US dollar and competitive price pressure. Additional information relating to the Brazilian joint ventures is provided under note 6.4. 'Investments in joint ventures and associates'.

in thousands of €		2016	2017
<b>Joint ventures</b>			
Belgo Bekaert Arames Ltda	Brazil	20 574	19 712
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda <sup>1</sup>	Brazil	4 871	5 424
ArcelorMittal Bekaert Sumaré Ltda <sup>2</sup>	Brazil	-	1 721
<b>Total</b>		<b>25 445</b>	<b>26 857</b>

<sup>1</sup> Includes November-December contribution from ArcelorMittal Bekaert Sumaré Ltda, due to merger on 1 November 2017.

<sup>2</sup> Relates to July-October, due to the partial disposal to ArcelorMittal on 21 June 2017 and subsequent merger with BMB on 1 November 2017.

## 5.7. Earnings per share

2017	Number
<b>Weighted average number of ordinary shares (basic)</b>	<b>56 741 126</b>
Dilution effect of subscription rights and options	560 669
Dilution effect of convertible bonds	9 125 704
<b>Weighted average number of ordinary shares (diluted)</b>	<b>66 427 499</b>

in thousands of €	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders	184 720	184 720
Effect on earnings of convertible bonds <sup>1</sup>	-	-7 249
<b>Earnings</b>	<b>184 720</b>	<b>177 471</b>
<b>Earnings per share (in €)</b>	<b>3.255</b>	<b>2.672</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).

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

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 bond <sup>1</sup>	-	-
<b>Earnings</b>	<b>105 166</b>	<b>105 166</b>
<b>Earnings per share (in €)</b>	<b>1.869</b>	<b>1.849</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 of the Group 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:

- (a) the effective interest expense of € -10.4 million (2016: € -7.7 million),
- (b) transaction costs: nil in 2017 (2016: € -3.0 million),
- (c) fair value gains of € 17.7 million on the derivative liability representing the conversion option (2016: losses of € -37.4 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. Bekaert has the option to settle the notional amount of the bonds in ordinary shares or in cash, but any share price increase over and above the conversion price should be settled in shares. Bekaert has a call option on the conversion option when the share price exceeds the conversion price by 30.0%, which caps the amount of shares to be converted at 1 711 069. Management does not intend to settle the notional amount in shares and has already bought back enough shares to cover the call option. Nevertheless, in accordance with IAS 33 'Earnings per share', the number to be added to the denominator equates to the 7 414 634 potential shares corresponding with the notional amount of the bond divided by the conversion price, plus the 1 711 069 potential shares arising from an additional 30% upswing in share price. This results in a total dilution effect of € -0.58 per share, of which € -0.55 relates to the convertible bonds and € -0.03 to the subscription rights and options.

The average closing price during 2017 was € 42.05 per share (2016: € 37.07 per share). The following options were out of the money, and therefore antidilutive, for the period presented:

<b>Antidilutive instruments</b>	<b>Date granted</b>	<b>Exercise price (in €)</b>	<b>Number granted</b>	<b>Number outstanding</b>
SOP 2010-2014 - options	14.02.2011	77.000	360 925	295 725

For more information about subscription rights and options, please refer to 6.12. 'Ordinary shares, treasury shares and equity-settled share-based payments'.