

# Notes to the consolidated financial statements

## 1. General information

NV Bekaert SA (the 'Company') is a company domiciled in Belgium. The Company's consolidated financial statements include those of the Company and its subsidiaries (together referred to as the 'Group' or 'Bekaert') and the Group's interest in joint ventures and associates accounted for using the equity method. The consolidated financial statements were authorized for issue by the Board of Directors of the Company on 25 March 2014.

## 2. Summary of principal accounting policies

### 2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) which have been endorsed by the European Union. These financial statements are also in compliance with the IFRSs as issued by the IASB.

#### New and amended standards and interpretations

##### **Standards, interpretations and amendments effective in 2013**

The following new and revised standards and interpretations adopted in the current period have affected the amounts reported and/or the disclosures in these financial statements.

- IFRS 10, Consolidated Financial Statements (effective from 1 January 2013). IFRS 10 replaces the parts of IAS 27, Consolidated and Separate Financial Statements, that deal with consolidated financial statements. SIC 12, Consolidation – Special Purpose Entities, has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, the only basis for consolidation is control. A new definition of control is introduced which contains three elements (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.
- IFRS 12, Disclosures of Interests in Other Entities (effective from 1 January 2013). This standard requires more extensive disclosures, including summarized financial information for material joint ventures and subsidiaries with material non-controlling interests.
- IFRS 13, Fair Value Measurement (effective from 1 January 2013). IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.
- IAS 1 (Amendment), Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective from 1 January 2013). The amendments require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.
- IAS 19 (Revised 2011), Employee Benefits (effective from 1 January 2013). The amendments change the accounting for defined-benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined-benefit obligations and plan assets. Under the new amendments, which eliminate the corridor approach and accelerate the recognition of past service costs, such changes should be recognized when they occur. Furthermore, when determining the net benefit expense of a defined-benefit plan, the interest cost and expected return on plan assets are replaced by a net interest on the net defined-benefit liability/asset which is based on a single discount rate. As Bekaert had already elected not to apply the corridor approach anymore before the revised IAS 19 came into effect, the mandatory retrospective application had limited restatement effects (see note 7.9. 'Restatement effects').
- IFRS 7 (Amendment), Financial Instruments: Disclosures (effective 1 January 2013), relating to Offsetting financial assets and financial liabilities, published in December 2011. The amendment

requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements in order to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

The following revised standards have also been adopted in these financial statements. Their adoption has not had any impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

- IFRS 11, Joint Arrangements (effective from 1 January 2013). IFRS 11 replaces IAS 31, Interests in Joint Ventures. It deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC 13, Jointly Controlled Entities – Non-monetary Contributions by Venturers, has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, whereas IAS 31 provided three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method. Since Bekaert already accounts for its joint ventures using the equity method, the latter requirement did not have an effect on its consolidated financial statements.
- IAS 28 (Amendment), Investments in Associates and Joint Ventures (effective from 1 January 2013). The amendment mainly relates to the accounting treatment of joint ventures in accordance with the equity method.
- Annual Improvements to IFRSs (2009-2011 Cycle) (effective 1 January 2013), published in May 2012. These improvements relate to IFRS 1, First-time Adoption of International Financial Reporting Standards, permitting the repeated application of IFRS 1, borrowing costs on certain qualifying assets; IAS 1, Presentation of Financial Statements, clarifying the requirements for comparative information; IAS 16, Property, Plant and Equipment, clarifying the classification of servicing equipment; IAS 32, Financial Instruments: Presentation, clarifying that any tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12, Income Taxes; IAS 34, Interim Financial Reporting, clarifying interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8, Operating Segments.
- IFRS 9, Financial instruments (effective date not communicated). All recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value. Only debt investments acquired with the intention of collecting the contractual cash flows until their maturity are measured at amortized cost. Other debt investments and all equity investments are measured at fair value. With regard to the measurement of financial liabilities designated at fair value through profit or loss, IFRS 9 requires that the change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, except if such treatment would create or enlarge an accounting mismatch in profit or loss. IFRS 9 also modifies the requirements with respect to hedge accounting.
- Amendments to IAS 36, Impairment of Assets (effective 1 January 2014), published in May 2013. These amendments relate to recoverable amount disclosures for non-financial assets.
- Annual Improvements to IFRSs (2010-2012 Cycle) (effective 1 January 2014), published in December 2013. These improvements relate to IFRS 2, Share-based payment, defining vesting conditions; IFRS 3, Business Combinations, clarifying how to account for contingent consideration in a business combination; IFRS 8, Operating Segments, clarifying when to aggregate operating segments and how to reconcile the total of the reportable segments' assets to the entity's assets; IFRS 13, Fair Value Measurement, elaborating on short-term receivables and payables; IAS 16, Property, Plant and Equipment, clarifying the proportionate restatement of accumulated depreciation when applying the revaluation method; IAS 24, Related Party Disclosures, clarifying the definition of key management personnel; and IAS 38, Intangible Assets, clarifying the proportionate restatement of accumulated amortization when applying the revaluation method.
- Annual Improvements to IFRSs (2011-2013 Cycle) (effective 1 January 2014), published in December 2013. These improvements relate to IFRS 1, First-time Adoption of International Financial Reporting Standards, clarifying the meaning of 'effective IFRSs'; IFRS 3, Business Combinations, specifying scope exceptions for joint ventures; IFRS 13, Fair Value Measurement, clarifying the scope of portfolio exceptions; and IAS 40, Investment Property, clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.
- IFRIC 21, Levies (effective 1 January 2014), published in May 2013. This interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

**Standards, amendments and interpretations that are not yet effective in 2013 and have not been early adopted**

The Group did not elect for early application of the following new or amended standards, which could have an impact when applied:

At this stage, the Group does not expect first adoption of any other amendments to standards and new interpretations to have a material impact on the financial statements, such as:

- Amendments to IFRS 10, IFRS 12 and IAS 27 (effective from 1 January 2014), defining an investment entity and requiring a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure them at fair value through profit or loss.
- Amendments to IAS 32 (effective 1 January 2014), clarifying the requirements relating to the offset of financial assets and financial liabilities.
- Amendments to IAS 19, Employee Benefits (effective for annual periods beginning on or after 1 July 2014), published in November 2013. These amendments clarify the accounting for contributions to defined-benefit plans by employees or third parties.
- Amendments to IAS 39, Financial Instruments, Recognition and Measurement (effective for annual periods beginning on or after 1 January 2014), published in June 2013. These amendments clarify when to discontinue hedge accounting for hedging relationships in which a derivative has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty following the introduction of a new law or regulation.

## 2.2. General principles

### Basis of preparation

The consolidated financial statements are presented in thousands of euros, under the historical cost convention, except for investments held for trading and available for sale, which are stated at their fair value. Financial assets which do not have a quoted price in an active market and the fair value of which cannot be reliably measured are carried at cost. Unless explicitly stated, the accounting policies are applied consistently with the previous year.

### Principles of consolidation

#### **Subsidiaries**

Subsidiaries are entities over which NV Bekaert SA exercises control, which is the case when the Company is exposed, or has rights, to valuable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date when the Group acquires control until the date when control is relinquished. All intercompany transactions, balances with and unrealized gains on transactions between Group companies are eliminated;

unrealized losses are also eliminated unless the impairment is permanent. Equity and net result attributable to non-controlling shareholders are shown separately in the balance sheet and income statement, respectively. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity. When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the carrying amount of the assets (including goodwill), liabilities and any non-controlling interests of the subsidiary before its disposal.

#### **Joint arrangements and associates**

A joint arrangement exists when NV Bekaert SA has contractually agreed to share control with one or more other parties, which is the case only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement can be treated as a joint operation (i.e. NV Bekaert SA has rights to the assets and obligations for the liabilities) or a joint venture (i.e. NV Bekaert SA has rights to the net assets). Associates are companies in which NV Bekaert SA, directly or indirectly, has a significant influence and which are neither subsidiaries nor joint arrangements. This is presumed if the Group holds at least 20% of the voting rights attaching to the shares. The financial information included for these companies is prepared using the accounting policies of the Group. When the Group has acquired joint control in a joint venture or significant influence in an associate, the share in the acquired assets, liabilities and contingent liabilities is initially remeasured to fair value at the acquisition date and accounted for using the equity method. Any excess of the purchase price over the fair value of the share in the assets, liabilities and contingent liabilities acquired is recognized as goodwill. When the goodwill is negative, it is immediately recognized in profit or loss. Subsequently, the consolidated financial statements include the Group's share of the results of joint ventures and associates accounted for using the equity method until the date when joint control or significant influence ceases. If the Group's share of the losses of a joint venture or associate exceeds the carrying amount of the investment, the investment is carried at nil value and recognition of additional losses is limited to the extent of the Group's commitment. Unrealized gains arising from transactions with joint ventures and associates are set against the investment in the joint venture or associate concerned to the extent of the Group's interest. The carrying amounts of investments in joint ventures and associates are reassessed if there are indications that the asset has been impaired or that impairment losses

recognized in prior years have ceased to apply. The investments in joint ventures and associates in the balance sheet include the carrying amount of any related goodwill.

### Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional and the Group's presentation currency. Financial statements of foreign entities are translated as follows:

- assets and liabilities are translated at the closing exchange rate of the European Central Bank or, in the case of the Venezuelan bolivar fuerte, at the economic rate that is deemed representative for dividend repatriations at the balance sheet date;
- income, expenses and cash flows are translated at the average exchange rate for the year, or, for the Venezuelan entities, at the economic rate at the balance sheet date, as required for entities whose functional currency is the currency of a hyperinflationary economy in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates;
- shareholders' equity is translated at historical exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, joint ventures and associates at the closing exchange rates are included in shareholders' equity under 'cumulative translation adjustments'. On disposal of foreign entities, cumulative translation adjustments are recognized in the income statement as part of the gain or loss on the sale. In the financial statements of the parent company and its subsidiaries, monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date, thus giving rise to unrealized exchange results. Unrealized and realized foreign-exchange gains and losses are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Goodwill is treated as an asset of the acquiree and is accordingly accounted for in the acquiree's currency and translated at the closing rate.

## 2.3. Balance sheet items

### Intangible assets

Intangible assets acquired in a business combination are initially measured at fair value; intangible assets acquired separately are initially measured at cost. After initial recognition, intangible assets are measured at cost or fair value less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of

their useful lives. The amortization period and method are reviewed at each financial year-end. A change in the useful life of an intangible asset is accounted for prospectively as a change in estimate. Under the provisions of IAS 38, intangible assets may have indefinite useful lives. If the useful life of an intangible asset is deemed indefinite, no amortization is recognized and the asset is reviewed at least annually for impairment.

### Licenses, patents and similar rights

Expenditure on acquired licenses, patents, trademarks and similar rights is capitalized and amortized on a straight-line basis over the contractual period, if any, or the estimated useful life, which is normally considered to be not longer than ten years.

### Computer software

Generally, costs associated with the acquisition, development or maintenance of computer software are recognized as an expense when they are incurred, but external costs directly associated with the acquisition and implementation of acquired ERP software are recognized as intangible assets and amortized over five years on a straight-line basis.

### Rights to use land

Rights to use land are recognized as intangible assets and are amortized over the contractual period on a straight-line basis.

### Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technological knowledge and understanding is recognized in the income statement as an expense when it is incurred.

Expenditure on development activities where research findings are applied to a plan or design for the production of new or substantially improved products and processes prior to commercial production or use is capitalized if, and only if, all of the recognition criteria set out below are met:

- the product or process is clearly defined and costs are separately identified and reliably measured;
- the technical feasibility of the product is demonstrated;
- the product or process is to be sold or used in house;
- the assets are expected to generate future economic benefits (e.g. a potential market exists for the product or, if for internal use, its usefulness is demonstrated); and
- adequate technical, financial and other resources required for completion of the project are available.

In most cases, these recognition criteria are not met. Capitalized development costs are amortized from the commencement of commercial production of the product on a straight-line basis over the

period during which benefits are expected to accrue. The period of amortization does not normally exceed ten years. An in-process research and development project acquired in a business combination is recognized as an asset separately from goodwill if its fair value can be measured reliably.

#### **Emission rights**

In the absence of any IASB standard or interpretation regulating the accounting treatment of CO<sub>2</sub> emission rights, the Group has applied the 'net approach', according to which:

- the allowances are recognized as intangible assets and measured at cost (the cost of allowances issued free of charge being therefore zero); and
- any short position is recognized as a liability at the fair value of the allowances required to cover the shortfall at the balance sheet date.

#### **Other intangible assets**

Other intangible assets mainly include customer lists and other intangible commercial assets, such as brand names, acquired separately or in a business combination. These are amortized on a straight-line basis over their estimated useful life.

#### **Goodwill and business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date. Goodwill is measured as the difference between:

- (i) the sum of the following elements:
  - consideration transferred;
  - amount of any non-controlling interests in the acquiree;
  - fair value of the Group's previously held equity interest in the acquiree (if any); and
- (ii) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, this difference is negative ("negative goodwill"), it is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and any resulting gain or loss is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

#### **Impairment of goodwill**

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit's value may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit in proportion to the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

#### **Property, plant and equipment**

The Group has opted for the historical cost model and not for the revaluation model. Property, plant and equipment acquired separately is initially measured at cost. Property, plant and equipment acquired in a business combination is initially measured at fair value, which thus becomes its deemed cost. After initial recognition, property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all direct costs and all expenditure incurred to bring the asset to its working condition and location for its intended use. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Depreciation is provided over the estimated useful lives of the various classes of property, plant and equipment on a straight-line basis.

The useful life and depreciation method are reviewed at least at each financial year-end. Unless revised due to specific changes in the estimated economic useful life, annual depreciation rates are as follows:

- land	0%
- buildings	5%
- plant, machinery and equipment	8%-25%
- R&D testing equipment	16.7%-25%
- furniture and vehicles	20%
- computer hardware	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (see section on 'Impairment of assets' below). Gains and losses on disposal are included in the operating result.

## Leases

### **Finance leases**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Items of property, plant and equipment acquired by way of finance lease are stated at the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine it; otherwise the Company's incremental borrowing rate is used. Initial direct costs are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for owned depreciable assets.

### **Operating leases**

Leases under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized, on a straight-line basis, as a reduction of rental expense over the lease term. Improvements to buildings held under operating leases are depreciated over their expected useful lives, or, where shorter, the term of the relevant lease.

## Government grants

Government grants relating to the purchase of property, plant and equipment are deducted from the cost of those assets. They are recognized in the balance sheet at their expected value at the time of initial government approval and corrected, if necessary, after final approval. The grant is amortized over the depreciation period of the underlying assets.

## Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

### **Financial assets at fair value through profit or loss (FVTPL)**

Financial assets are classified as at fair value through profit or loss if they are held for trading. Financial assets at FVTPL are stated at fair value, with any resultant gains or losses recognized in profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as at FVTPL unless they are designated and effective as hedges.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. The Group's loans and receivables category comprises, unless stated otherwise, trade and other receivables, bills of exchange received, short-term deposits and cash and cash equivalents in the balance sheet. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

### **Bills of exchange received**

Payment by means of bills of exchange (bank acceptance drafts) is a widespread practice in China. Bills of exchange received are either settled at maturity date, discounted before the maturity date or transferred to a creditor to settle a liability. Discounting is done either with recourse or without recourse. With recourse means that the discounting bank can claim reimbursement of the amount paid in case the issuer defaults. When a bill is discounted with recourse, the amount received is not deducted from the outstanding bills of exchange received, but a liability is recognized in 'current interest-bearing debt' until the maturity date of that bill.

### **Cash & cash equivalents and short-term deposits**

Cash equivalents and short-term deposits are short-term investments that are readily convertible to known amounts of cash. They are subject to insignificant risk of change in value. Cash equivalents are highly liquid and have original maturities of three months or less, while short-term deposits have original maturities of more than three months and less than one year.

### **Available-for-sale financial assets**

Non-current available-for-sale assets include investments in entities which were not acquired principally for the purpose of selling in the short term, and which are neither consolidated nor accounted for using the equity method. Assets classified in this category are stated at fair value, with any resultant gains or losses recognized directly in equity. In the case of an impairment loss, the accumulated loss is recycled from equity to the income statement. However, they are stated at cost if they do not have a quoted price in an active market and their fair value cannot be reliably measured by alternative valuation methods.

### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are tested for impairment when there is objective evidence that they could be impaired. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost provides objective evidence of impairment. The Group defines a significant decline as exceeding 30% of the cost and a prolonged decline as continuing for more than one year. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to the income statement as an impairment loss. For trade receivables and bills of exchange received, amounts deemed uncollectible are written off against the corresponding allowance account at each balance sheet date. Additions to and recoveries from this allowance account are reported under 'selling expenses' in the income statement.

### **Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. For processed inventories, cost means full cost including all direct and indirect production costs required to bring the inventory items to the stage of completion at the balance sheet date. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and costs necessary to make the sale.

### **Share capital**

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares (treasury shares) are presented in the balance sheet as a deduction from equity. The result on the disposal of treasury shares sold or cancelled is recognized in retained earnings.

### **Non-controlling interests**

Non-controlling interests represent the shares of minority or non-controlling shareholders in the equity of subsidiaries which are not fully owned by the Group. At the acquisition date, the item is either measured at its fair value or at the non-controlling shareholders' proportion of the fair values of net assets recognized on acquisition of a subsidiary (business combination). Subsequently, it is adjusted for the appropriate proportion of subsequent profits and losses. The losses attributable to non-controlling shareholders in a consolidated subsidiary may exceed their interest in the equity of the subsidiary. A proportional share of total comprehensive income is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### **Provisions**

Provisions are recognized in the balance sheet when the Group has a present obligation (legal or constructive) as a result of a past event, which is expected to result in an outflow of resources embodying economic benefits which can be reliably estimated. Each provision is based on the best estimate of the expenditure required to settle the present obligation at the balance sheet date. When appropriate, provisions are measured on a discounted basis.

### **Restructuring**

A provision for restructuring is only recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly before the balance sheet date. Restructuring provisions include only the direct expenditure arising from the restructuring which is necessarily incurred on the restructuring and is not associated with the ongoing activities of the entity.

### **Site remediation**

A provision for site remediation in respect of contaminated land is recognized in accordance with the Group's published environmental policy and applicable legal requirements.

### **Employee benefit obligations**

The parent company and several of its subsidiaries have pension, death benefit and health care benefit plans covering a substantial part of their workforce.

### **Defined-benefit plans**

Most pension plans are defined-benefit plans with benefits based on years of service and level of remuneration. For defined-benefit plans, the amount recognized in the balance sheet (net liability or asset) is the present value of the defined-benefit obligation less the fair value of any plan assets. The present value of the defined-benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The present value of the defined-benefit obligation and the related current and past service costs are calculated using the projected unit credit method. The discount rate used is the yield at balance sheet date on high-quality corporate bonds with remaining terms to maturity approximating those of the Group's obligations. In case the fair value of plan assets exceeds the present value of the defined-benefit obligations, the net asset is limited to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The net interest on the net defined-benefit liability/asset is based on the same discount rate. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. Past service cost is the change in the present value of the defined-benefit obligation for employee service in prior periods and resulting in the current period from a plan amendment or a curtailment. Past service cost are recognized immediately through profit or loss. Remeasurements of the net defined-benefit liability (asset) comprise (a) actuarial gains and losses, (b) the return on plan assets, after deduction of the amounts included in net interest on the net defined-benefit liability (asset) and (c) any change in the effect of the asset ceiling, after deduction of any amounts included in net interest on the net defined-benefit liability (asset). Remeasurements are recognized immediately through equity. A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined-benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

In the income statement, current and past service cost, including gains or losses from settlements are included in the operating result (EBIT), and the net interest on the net defined-benefit liability (asset) is included in interest expense, under interest on interest-bearing provisions. Pre-retirement pensions in Belgium and plans for medical care in the United States are also treated as defined-benefit plans.

### **Defined-contribution plans**

Obligations in respect of contributions to defined-contribution pension plans are recognized as an expense in the income statement as they fall due. Although supplementary pension plans in Belgium are legally subject to a minimum guaranteed return,

the Belgian supplementary pension plans are accounted for as defined-contribution plans, since the legally required return is basically guaranteed by the insurance company. For death and disability benefits covered by external insurance policies, the annual premiums are charged to the income statement.

### **Other long-term employee benefits**

Other long-term employee benefits, such as service awards, are accounted for using the projected unit credit method. However, the accounting method differs from the method applied for post-employment benefits, as actuarial gains and losses are recognized immediately through profit or loss.

### **Share-based payment plans**

The Group issues equity-settled and cash-settled share-based payments to certain employees. Stock option plans which allow Group employees to acquire shares of NV Bekaert SA are of the equity-settled type.

Share appreciation rights plans are of the cash-settled type, as they entitle Group employees to receive payment of cash bonuses, the amount of which is based on the price of the Bekaert share on the Euronext stock exchange.

Equity-settled share-based payments are recognized at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed, with a corresponding increase in equity (retained earnings), on a straight-line basis over the vesting period, based on the Group's estimate of the stock options that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Cash-settled share-based payments are recognized as liabilities at fair value, which is remeasured at each reporting date and at the date of settlement. Changes in fair value are recognized in the income statement. The Group uses a binomial model to determine the fair value of the share-based payment plans.

### **Interest-bearing debt**

Interest-bearing debt includes loans and borrowings which are initially recognized at the fair value of the consideration received net of transaction costs incurred. In subsequent periods, they are carried at amortized cost using the effective interest-rate method, any difference between the proceeds (net of transaction costs) and the redemption value being recognized in the income statement over the period of the liability. If financial liabilities are hedged using derivatives qualifying as a fair value hedge, the hedging instruments are carried at fair value and the hedged items are remeasured for fair value changes due to the hedged risk (see accounting policies for derivatives and hedging).

### Trade payables and other current liabilities

Trade payables and other current liabilities, except derivatives, are stated at cost, which is the fair value of the consideration payable.

### Income taxes

Income taxes are classified as either current or deferred taxes. Current income taxes include expected tax charges based on the accounting profit for the current year and adjustments to tax charges of prior years. Deferred taxes are calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for pensions, pre-pensions and other postretirement benefits, undistributed earnings and tax deductible losses carried forward. Deferred taxes are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled, based on tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized; this criterion is reassessed at each balance sheet date. Deferred tax on temporary differences arising on investments in subsidiaries, associates and joint ventures is provided for, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

### Derivatives, hedging and hedging reserves

The Group uses derivatives to hedge its exposure to foreign-exchange and interest-rate risks arising from operating, financing and investing activities. The net exposure of all subsidiaries is managed on a centralized basis by Group Treasury in accordance with the aims and principles laid down by general management. As a policy, the Group does not engage in speculative or leveraged transactions.

Derivatives are initially and subsequently measured and carried at fair value. The fair value of traded derivatives is equal to their market value. If no market value is available, the fair value is calculated using standard financial valuation models, based upon the relevant market rates at the reporting date.

The Group applies hedge accounting in accordance with IAS 39 to reduce income statement volatility. Depending on the nature of the hedged risk, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign entity.

Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets and liabilities. The derivatives classified as fair value

hedges are carried at fair value and the related hedged items (assets or liabilities) are remeasured for fair value changes due to the hedged risk. The corresponding changes in fair value are recognized in the income statement. When a hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged interest-bearing financial instrument is recognized as income or expense and will be fully amortized over the remaining period to maturity of the hedged item.

Cash flow hedges are hedges of the exposure to variability in future cash flows related to recognized assets or liabilities, highly probable forecast transactions or currency risk on unrecognized firm commitments. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized directly in shareholders' equity (hedging reserve). The ineffective portion is recognized immediately in the income statement. If the hedged cash flow results in the recognition of a non-financial asset or liability, all gains and losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. For all other cash flow hedges, gains and losses initially recognized in equity are transferred from the hedging reserve to the income statement when the hedged firm commitment or forecast transaction results in the recognition of a profit or loss. When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively and the accumulated gain or loss is retained in equity until the committed or forecast transaction occurs. If the forecast transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is transferred to the income statement.

If a net investment in a foreign entity is hedged, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in the income statement. The cumulative remeasurement gains and losses on the hedging instrument, that had previously been recognized directly in equity, and the gains and losses on the currency translation of the hedged item are recognized in the income statement only on disposal of the investment.

In order to comply with the requirements of IAS 39 regarding the use of hedge accounting, the strategy and purpose of the hedge, the relationship between the financial instrument used as the hedging instrument and the hedged item and the estimated (prospective) effectiveness are documented by the Group at the inception of the hedge. The effectiveness of existing hedges is monitored on a quarterly basis. Hedge accounting for ineffective hedges is discontinued immediately.

The Group also uses derivatives that do not satisfy the hedge accounting criteria of IAS 39 but provide effective economic hedges under the Group's risk

management policies. Changes in the fair value of any such derivatives are recognized immediately in the income statement.

### Impairment of assets

Goodwill and intangible assets with an indefinite useful life or not yet available for use are reviewed for impairment at least annually; other tangible and intangible fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized in the income statement as and when the carrying amount of an asset exceeds its recoverable amount (being the higher of its fair value less costs to sell and its value in use). The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs to sell, while value in use is the present value of the future cash flows expected to be derived from an asset. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the assets belong. Reversal of impairment losses recognized in prior years is included as income when there is an indication that the impairment losses recognized for the asset are no longer needed or the need has decreased, except for impairment losses on goodwill, which are never reversed.

## 2.4. Income statement items

### Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the entity and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts. Revenue from the sale of goods is recognized when delivery takes place and the transfer of risks and rewards is completed. When it can be measured reliably, revenue from construction contracts is recognized by reference to the stage of completion. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of the contract costs incurred that are likely to be recoverable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. No revenue is recognized on barter transactions involving the exchange of similar goods or services. Interest is recognized on a time-proportional basis that reflects the effective yield on the asset. Royalties are recognized on an accrual basis in accordance with the terms of agreements. Dividends are recognized when the shareholder's right to receive payment is established.

### Non-recurring items

Operating income and expenses that are related to restructuring programs, impairment losses, business

combinations, business disposals, environmental provisions or other events and transactions that have a one-time effect are presented on the face of the income statement as non-recurring items. Restructuring programs mainly include lay-off costs, gains and losses on disposal, and impairment losses of assets involved in a shut-down, major reorganization or relocation of operations. When not related to restructuring programs, only impairment losses resulting either from testing Cash-Generating Units or from intragroup transfers qualify as non-recurring items. Non-recurring items from business combinations mainly include: negative goodwill, gains and losses on step acquisition, and recycling of CTA on the interest previously held. Non-recurring items from business disposals include gains and losses on the sale of businesses that do not qualify as discontinued operations. These disposed businesses may consist of integral, or parts (disposal groups) of, subsidiaries, joint-ventures and associates. Besides environmental provisions, other events or transactions that have a one-time effect mainly include sales of investment property and significant litigations. Bekaert believes that the separate presentation of non-recurring items is essential for the readers of its financial statements who want to analyze comparable figures.

## 2.5. Statement of comprehensive income and statement of changes in equity

The statement of comprehensive income presents an overview of all income and expenses recognized both in the income statement and in equity. In accordance with IAS 1 Presentation of Financial Statements, an entity can elect to present either a single statement of comprehensive income or two statements, i.e. an income statement immediately followed by a comprehensive income statement. The Group elected to do the latter. A further consequence of presenting a statement of comprehensive income is that the content of the statement of changes in equity is confined to owner-related changes only.

## 2.6. Miscellaneous

### Non-current assets held for sale and discontinued operations

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. A discontinued operation is a component of an entity which the entity has disposed of or which is classified as held for sale, which represents a

separate major line of business or geographical area of operations and which can be distinguished operationally and for financial reporting purposes.

For a sale to be highly probable, the entity should be committed to a plan to sell the asset (or disposal group), an active program to locate a buyer and complete the plan should be initiated, and the asset (or disposal group) should be actively marketed at a price which is reasonable in relation to its current fair value, and the sale should be expected to be completed within one year from the date of classification. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs necessary to make the sale. Any excess of the carrying amount over the fair value less costs to sell is included as an impairment loss. Depreciation of such assets is discontinued as from their classification as held for sale. Comparative balance sheet information for prior periods is not restated to reflect the new classification in the balance sheet.

### **Contingencies**

Contingent assets are not recognized in the financial statements. They are disclosed if the inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements, except if they arise from a business combination. They are disclosed unless the possibility of a loss is remote.

### **Events after the balance sheet date**

Events after the balance sheet date which provide additional information about the company's position as at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date which are not adjusting events are disclosed in the notes if material.