# 3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These judgments, estimates and assumptions are reviewed on an ongoing basis.

## 3.1. Critical judgments in applying the entity's accounting policies

The following are the critical judgments made by management, apart from those involving estimations (see note 3.2. below), that have a significant effect on the amounts reported in the consolidated financial statements.

- Management assessed that a constructive obligation exists to provide pre-retirement schemes for employees as from the first day of service (see note 6.15. 'Employee benefit obligations') and therefore these pre-retirement schemes are treated as defined-benefit plans using the projected unit credit method.

- Management concluded that the criteria for capitalizing development expenditure were not met (see note 6.1. 'Intangible assets').

- Management concluded that the functional currency of Bekaert Izmit Celik Kord Sanayi ve Ticaret AS (Turkey) is the euro, consistent with the current economic substance of the transactions relevant to that entity. For the same reasons, management concluded that the functional currency of Productos de Acero Cassadó SA (Peru) is the US dollar.

- As regarding its Venezuelan operations, management decided to use the economic exchange rate for translating the VEF financial statements to the reporting currency for consolidation as from 31 December 2012. In view of the restrictions on dividend repatriation for overseas investors introduced in 2009, and given the ongoing dramatic decline in the economic exchange rate (from 17.2 VEF/USD at year-end 2012 to 56.7 VEF/USD at year-end 2013), combined with inflation accounting, management concluded that this is the best choice for providing a fair view of the contribution of the Venezuelan operations to the consolidated financial statements.
  The impact on sales and gross profit is detailed in note 5.1. 'Operating result (EBIT) by function'.

  When accounting for foreign currency transactions in its single entity financial statements, Vicson SA has used the SITME rate (5.4 VEF/USD) for several years and has recognized a realized exchange result when a transaction was settled at another rate. From 13 February 2013 onwards, the authorities announced a devaluation of the VEF to 6.3 VEF/USD. Since that date, Vicson SA uses the official rate (6.3 VEF/USD) to account for foreign currency transactions. As of early 2014, it has become known that the 6.3 VEF/USD will no longer be the official rate. Expectations are that it will be replaced by the SICAD rate, which now amounts to 11.80 VEF/USD.

- Management concluded that Bekaert, given its non-controlling interest of 13.0% at year-end 2013, has no significant influence in Shougang Concord Century Holdings Ltd and therefore the investment is a financial asset available for sale accounted for at fair value through equity. As any significant or prolonged decline in fair value provides objective evidence for impairment, management agreed to consider any decline in fair value (a) exceeding 30% of the cost as significant and (b) continuing for more than one year as prolonged.

- Given its global presence, Bekaert is exposed to tax risks in many jurisdictions. Tax authorities in those jurisdictions conduct regular tax audits which may reveal potential tax issues. While the outcome of such tax audits is not certain, management is convinced that Bekaert, based on an overall evaluation of potential tax liabilities, has recorded adequate tax liabilities in its consolidated financial statements.

- Management concluded that the Company has control over Bekaert Ansteel Tire Cord (Chongqing) Co Ltd and accordingly consolidates this entity.

- Although the guaranteed return on defined-contribution plans in Belgium has recently been lowered by the insurance companies and now falls short of the legal threshold (3.25%), management concluded that there is no material risk at the balance sheet date. This conclusion is supported by a recent valuation of the plan related reserves held by the insurance companies, which pointed out a deficit of € 0.2 million. Hence, these plans are still accounted for as defined-contribution plans and not as defined benefit plans.

## 3.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and the other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

- At closing of 2013, the economic situation of the sawing wire business confirms the assumptions based on which the impairment was recorded in 2012.

- Deferred tax assets are recognized for the carry-forward of unused tax deductible losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax deductible losses and unused tax credits can be utilized. In making its judgment, management takes into account elements such as long-term business strategy and tax planning opportunities (see note 6.6. 'Deferred tax assets and liabilities').

- Based on the expected economic life of specific product lines, which is expected to be significantly shorter than average, higher depreciation rates are applied to dedicated assets which are not expected to be reallocated to another product line. Consequently, depreciation percentages ranging from 10% to 25% are used instead of 8% for plant, machinery and equipment. R&D testing equipment dedicated to specific product lines is also depreciated at 25% p.a. Other R&D testing equipment is depreciated at 16.7% p.a.

- Credit risk related to customers: management closely reviews the outstanding trade receivables, also considering ageing, payment history and credit risk coverage. Specific and general bad debt allowances recognized are based on management's best estimates at the balance sheet date (see note 6.7. 'Operating working capital').

- Employee benefit obligations: the defined-benefit obligations are based on actuarial assumptions such as discount rate and salary increases, which are extensively detailed in note 6.15. 'Employee benefit obligations'.

- Provisions for environmental issues: at each year-end an estimate is made of future expenses to remediate soil pollution, based on the advice of an external expert (see note 6.16. 'Provisions').

- Impairment: the Group performs annual impairment tests on goodwill and on cash-generating units for which there are indicators that the carrying amount might be higher than the recoverable amount. This analysis is based upon assumptions such as market evolution, market share, margin evolution and discount rates (see note 6.2. 'Goodwill').

- According to Chinese tax legislation and regulation, certain entities of the Group which enjoy preferential treatment in the form of a reduced income tax rate are granted a gradual transition to the statutory tax rate over a five year period. Based on current practice, management judges that the investments comply with the conditions for this tax incentive. Should the tax regulation or practice change in this area, the Company may be required to update its tax liabilities or provisions.

- Tax receivable (ICMS) in Brazil: recovery of the tax receivables of Belgo Bekaert Arames Ltda and BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda is deemed highly probable as several action plans have already been successfully implemented. Other tax claims in Brazil, including claims relating to the taxability of ICMS incentives received by Belgo Bekaert Arames Ltda, have not been provided for, supported by legal advice (see note 6.4. 'Investments in joint ventures and associates').

- Fair value adjustments for business combinations: in accordance with IFRS 3, Business Combinations, Bekaert remeasures the assets, liabilities and contingent liabilities acquired through a business combination to fair value. Similarly, consideration (including consideration in shares), contingent consideration and any stake in the acquiree held prior to the business combination are also measured at fair value. When significant influence is acquired in an associate, or joint control is acquired in a joint venture, Bekaert also remeasures its share in the assets, liabilities and contingent liabilities in that associate or joint venture to its acquisition-date fair value. Where possible, fair value adjustments are based on external appraisals or valuation models, e.g. for contingent liabilities and intangible assets which were not recognized by the acquiree. Internal benchmarks are often used for valuing specific production equipment. All of these valuation methods rely on various assumptions such as estimated future cash flows, remaining useful economic life etc.