

5. Income statement items and other comprehensive income

5.1. Operating result (EBIT) by function

in thousands of €	2012	2013	variance
Sales	3 460 624	3 185 628	-274 996
Cost of sales	-2 981 872	-2 703 316	278 556
Gross profit	478 752	482 312	3 560
Selling expenses	-157 772	-128 207	29 565
Administrative expenses	-134 984	-124 924	10 060
Research and development expenses	-69 449	-62 429	7 020
Other operating revenues	18 287	12 502	-5 785
Other operating expenses	-17 668	-13 337	4 331
Operating result before non-recurring items (REBIT)	117 166	165 917	48 751
Non-recurring items	-167 101	-28 647	138 454
Operating result (EBIT)	-49 935	137 270	187 205

Sales and gross profit in thousands of €	2012	2013	variance (%)
Sales	3 460 624	3 185 628	-7.9%
Cost of sales	-2 981 872	-2 703 316	-9.3%
Gross profit	478 752	482 312	0.7%
Gross profit in % of sales	13.8%	15.1%	

Bekaert's consolidated sales decreased with 7.9% compared to 2012. The application of inflation accounting and valuation at the economic exchange rate for the activities in Venezuela from the beginning of 2013 impacted sales negatively by 3.2% (approx. € 110 million). Other currency movements (mainly USD, CLP, INR and JPY) reinforced this decrease with another 2.4% (approx. € 81 million). The net impact of acquisitions (integration of Southern Wire) and divestments (Industrial Coating activities) resulted in an increase of 0.9%. Organic sales decreased with 3.3%, resulting from lower prices due to lower wire rod prices and price pressure in a global competitive environment, offset by a slight volume increase.

Gross profit was almost stable in nominal terms. The negative currency impact of the activities in Venezuela amounted to almost € 25 million. Other currency movements resulted in a further decrease by € 10.5 million. Compared to last year the organic business in sawing wire contributed positively to gross profit, while almost all product groups in North America were less contributing than the previous year.

Overheads in thousands of €	2012	2013	variance (%)
Selling expenses	-157 772	-128 207	-18.7%
Administrative expenses	-134 984	-124 924	-7.5%
Research and development expenses	-69 449	-62 429	-10.1%
Total	-362 205	-315 560	-12.9%

Apart from the impact of currency movements, the decrease in selling expenses mainly relates to the reversal of bad debt provisions in 2013, as opposed to extra provisions in 2012. Administrative and research and development expenses decrease due to cost savings.

Other operating revenues in thousands of €	2012	2013	variance
Royalties received	10 618	11 225	607
Gains on disposal of PP&E and intangible assets	1 307	457	-850
Realized exchange results on sales and purchases	1 055	-6 131	-7 186
Government grants	1 617	2 286	669
Miscellaneous	3 690	4 665	975
Total	18 287	12 502	-5 785

Government grants relate mainly to subsidies in China. There are no indications that the conditions attached to those grants will not be complied with in the future and therefore it is not expected that subsidies may have to be refunded.

Other operating expenses in thousands of €	2012	2013	variance
Losses on disposal of PP&E and intangible assets	-2 157	-991	1 166
Amortization of intangible assets	-226	-340	-114
Bank charges	-2 651	-2 456	195
Tax related expenses (other than income taxes)	-2 647	-1 465	1 182
Miscellaneous	-9 987	-8 085	1 902
Total	-17 668	-13 337	4 331

The decrease of Miscellaneous is mainly due to one-time transition costs related to a change of service provider in 2012.

Non-recurring items in thousands of €	2012	2013	variance
Restructuring - impairment losses	-82 159	-1 027	81 132
Restructuring - other revenues	23	3 225	3 202
Restructuring - other expenses	-100 149	-15 125	85 024
Other impairment losses	-12 244	-6 621	5 623
Gains on business disposals	13 392	1 231	-12 161
Loss on business disposals	-	-50	-50
Gains on step acquisitions	21 717	-	-21 717
Other revenues	4 494	1 481	-3 013
Other expenses	-12 175	-11 761	414
Total	-167 101	-28 647	138 454

Out of the total of € -29 million non-recurring items, € -13 million relates to restructuring programs, of which the closing of the operations in the steel wire plant of Bekaert Canada and the site re-development at Cold Drawn Products (UK) represent the biggest portion. The programs announced in 2012 were further implemented resulting in incurring costs offset by write-backs of provisions recorded in the previous year.

Other impairment losses relate to PP&E impairments in the stainless steel operation of Bekaert Mukand Wire Industries (India) and to the future upgrade project of the Rome plant (USA) in 2014.

The gains on business disposals in 2012 mainly relate to the sale of the Industrial Coating activities and in 2013 mainly to the Advanced Filtration line of business.

The other expenses mainly include the adjustment of the provisions for environmental liabilities and several smaller one-time effects.

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 €	2012		2013	
Sales	3 460 624	100%	3 185 628	100%
Non-recurring revenues	39 626	-	5 937	-
Other operating revenues	18 288	-	12 502	-
Total operating revenues	3 518 537	-	3 204 067	-
Own construction of PP&E	32 941	1.0%	31 636	1.0%
Raw materials	-1 385 513	-40.0%	-1 209 885	-38.0%
Semi-finished products and goods for resale	-240 418	-6.9%	-218 430	-6.9%
Change in work-in-progress and finished goods	-33 243	-1.0%	9 757	0.3%
Staff costs ¹	-712 376	-20.6%	-603 619	-18.9%
Depreciation and amortization	-229 103	-6.6%	-151 071	-4.7%
Impairment losses	-94 987	-2.7%	-8 650	-0.3%
Transport and handling of finished goods	-147 769	-4.3%	-136 104	-4.3%
Consumables and spare parts	-205 829	-5.9%	-204 889	-6.4%
Utilities	-208 048	-6.0%	-211 686	-6.6%
Maintenance and repairs	-47 804	-1.4%	-42 460	-1.3%
Expenses operating leases	-21 182	-0.6%	-20 124	-0.6%
Commissions in selling expenses	-5 559	-0.2%	-4 718	-0.1%
Export VAT and export customs duty	-27 413	-0.8%	-26 852	-0.8%
ICT costs	-30 615	-0.9%	-23 890	-0.7%
Advertising and sales promotion	-5 924	-0.2%	-6 085	-0.2%
Travel, restaurant & hotel	-37 320	-1.1%	-31 427	-1.0%
Consulting and other fees	-21 053	-0.6%	-20 078	-0.6%
Office supplies and equipment	-15 281	-0.4%	-11 327	-0.4%
Venture capital funds R&D	-772	0.0%	-1 422	0.0%
Temporary or external labor	-17 003	-0.5%	-18 160	-0.6%
Insurance expenses	-7 230	-0.2%	-4 349	-0.1%
Miscellaneous	-106 972	-3.1%	-152 962	-4.8%
Total operating expenses	-3 568 472	-103.1%	-3 066 797	-96.3%
Operating result (EBIT)	-49 935	-1.4%	137 270	4.3%

¹ IAS 19R restatement effect in 2012: € -0.7 million.

5.3. Interest income and expense

in thousands of €	2012	2013
Interest income on financial assets not classified as at FVTPL	8 711	6 449
Interest income	8 711	6 449
<i>Interest expense on interest-bearing debt not classified as at FVTPL</i>	<i>-74 919</i>	<i>-55 770</i>
<i>Interest expense adjustments from economic hedges</i>	<i>-5 903</i>	<i>-8 645</i>
Interest expense	-80 822	-64 415
Interest element of interest-bearing provisions ¹	-8 244	-5 739
Interest expense	-89 066	-70 154
Total	-80 355	-63 705

¹ IAS 19R restatement effect in 2012: € -1.3 million.

The decrease in interest expense is mainly due to an important decrease of the gross debt with € 186 million and 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, except interest-rate risk mitigating derivatives designated as economic hedges (see note 7.3. 'Financial risk management and financial derivatives'). The interests paid or received from the latter are reported as interest expense adjustments from economic hedges.

The interest element of interest-bearing provisions relates mainly to the net interest on the net defined-benefit liability/(asset) (see note 6.15. 'Employee benefit obligations').

5.4. Other financial income and expenses

in thousands of €	2012	2013
<i>Value adjustments to derivatives</i>	<i>43 659</i>	<i>-1 550</i>
<i>Value adjustments to hedged items</i>	<i>-741</i>	<i>-494</i>
<i>Exchange results on hedged items</i>	<i>-44 194</i>	<i>-2 479</i>
Impact of derivatives	-1 276	-4 523
Other exchange results	6 155	-12 249
Impairment losses on available-for-sale financial assets	-7 906	-1 284
Inflation accounting effects	-	1 814
Gains and losses on disposal of non-consolidated equity investments	2 197	10
Dividends from non-consolidated equity investments	388	254
Bank charges and taxes on financial transactions	-226	-990
Impairments and impairment reversals of loans and receivables	46	-1 374
Other	-2 257	-1 480
Total	-2 879	-19 822

Value adjustments include changes in the fair value of all derivatives, other than those designated as cash flow hedges, and of all debt hedged by fair value hedges. The impact of derivatives 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, refer to note 7.3. 'Financial risk management and derivatives'.

After an impairment loss of € 7.9 million was recognized on the Group's investment in Shougang Concord Century Holdings Ltd in 2012, a further impairment loss of € 1.3 million was recognized at 30 June 2013, as the share price had declined again on the Hong Kong Stock Exchange. By the end of the year, the share price had risen again, which resulted in a fair value gain of € 0.6 million being recognized through equity (see note 6.5. 'Other non-current assets').

5.5. Income taxes

in thousands of €	2012	2013
Current income taxes - current year	-45 988	-60 491
Current income taxes - prior periods	-1 317	-3 890
Deferred taxes - due to changes in temporary differences	-21 065	16 532
Deferred taxes - due to changes in deferred tax rates	655	-67
Total tax expense	-67 715	-47 916

Relationship between tax expense and accounting profit

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

in thousands of €	2012	2013
Accounting profit ¹	-133 169	53 743
Tax expense at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned ²	44 371	-2 676
Tax expense related to distribution of retained earnings	1 896	-11 018
Total theoretical tax expense	46 267	-13 694
Theoretical tax rate	-34.7%	-25.5%
Tax effect of:		
<i>Non-deductible items</i>	-15 833	-16 635
<i>Other tax rates and special tax regimes</i>	4 752	4 845
<i>Non-recognition of deferred tax assets</i>	-120 483	-14 057
<i>Utilization of deferred tax assets not previously recognized</i>	12 741	14 342
<i>Tax relating to prior periods</i>	4 600	-18 650
<i>Exempted income</i>	11 345	2 552
<i>Other</i>	-11 104	-6 619
Total tax expense	-67 715	-47 916
Effective tax rate	N/A	-89.2%

¹ IAS 19R restatement effect in 2012: € -1.9 million.

² The expense for 2013 is low since the value disclosed is an aggregation of positive accounting results in countries with lower tax rates and negative accounting results in countries with higher tax rates which are offsetting each other.

Other tax rates and special tax regimes reflect temporary tax holidays and notional interest deduction.

5.6. Share in the results of joint ventures and associates

The 2013 results of the Brazilian joint ventures were fueled by higher sales and cost improvements (see note 6.4. 'Investments in joint ventures and associates'). The loss of BOSFA Pty Ltd in 2012 was mainly caused by an impairment loss on the building formerly used for manufacturing steel cord. The result of Bekaert Xinyu Metal Products Co Ltd in 2012 was also negatively affected by asset impairments.

in thousands of €		2012	2013
Joint ventures			
BOSFA Pty Ltd	Australia	-1 460	688
Belgo Bekaert Arames Ltda	Brazil	15 932	28 515
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda	Brazil	344	1 526
Bekaert Faser Vertriebs GmbH	Germany	33	15
Bekaert Xinyu Metal Products Co Ltd	China	-4 466	-500
Total		10 383	30 244

5.7. Earnings per share

2013	Number	
Weighted average number of ordinary shares (basic)	58 519 782	
Dilution effect of subscription rights and options	179 647	
Weighted average number of ordinary shares (diluted)	58 699 429	
	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders (in thousands €)	24 574	24 574
Earnings per share (in €)	0.420	0.419

2012	Number	
Weighted average number of ordinary shares (basic)	59 058 520	
Dilution effect of subscription rights and options	93 267	
Weighted average number of ordinary shares (diluted)	59 151 787	
	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders (in thousands €)	-196 876	-196 876
Earnings per share (in €)	-3.334	-3.328

The weighted average closing price during 2013 was € 24.93 per share (2012: € 22.59 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	182 010	10 270
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	191 850
SOP 2010-2014 - options	14.02.2011	77.000	360 925	350 925
SOP 2010-2014 - options	20.02.2012	25.140	287 800	285 200

For more information about subscription rights and options, please refer to 6.12. 'Ordinary shares, treasury shares, subscription rights and share options'.