# 7. Miscellaneous items

## 7.1. Notes to the cash flow statement

| **Summary**<br>in thousands of € | 2012 | 2013 |
|---|---|---|
| Cash from operating activities | 438 853 | 305 763 |
| Cash from investing activities | -81 196 | -71 966 |
| Cash from financing activities | -271 942 | -192 416 |
| **Net increase or decrease in cash and cash equivalents** | **85 715** | **41 381** |

Further information about the main elements contributing to the cash from operating activities is provided in following notes: 4. 'Segment reporting', 5.1. 'Operating result (EBIT) by function', 5.2. 'Operating result (EBIT) by nature', 5.5. 'Income taxes' and 6.7. 'Operating working capital'. Information about movements in provisions can be found in 6.15. 'Employee benefit obligations' and 6.16. 'Provisions'.
The following table presents more details about selected operating items:

| **Details of selected operating items**<br>in thousands of € | 2012 | 2013 |
|---|---|---|
| **Non-cash items included in operating result** | | |
| Depreciation and amortization | 229 103 | 151 071 |
| Impairment losses on assets | 94 987 | 8 650 |
| Gains (-) and losses on step acquisitions | -21 717 | - |
| Employee benefits: set-up / (reversal of amounts not used) | 63 550 | 13 499 |
| Provisions: set-up / (reversal of amounts not used) | 18 385 | 15 771 |
| CTA recycled on business disposals | -698 | -463 |
| Equity-settled share-based payments | 4 178 | 4 356 |
| **Total** | **387 788** | **192 884** |
| **Investing items included in operating result** | | |
| Gains (-) and losses on business disposals | -12 694 | -718 |
| Gains (-) and losses on disposals of intangible assets | 22 | 295 |
| Gains (-) and losses on disposals of PP&E | -2 666 | 903 |
| **Total** | **-15 338** | **480** |
| **Amounts used on provisions and employee benefit obligations** | | |
| Employee benefits: (amounts used) | -54 427 | -33 230 |
| Provisions: (amounts used) | -4 057 | -12 099 |
| **Total** | **-58 484** | **-45 329** |
| **Income taxes paid** | | |
| Current income taxes | -47 305 | -64 381 |
| Increase or decrease (-) in net income taxes payable | -11 881 | 12 874 |
| **Total** | **-59 186** | **-51 507** |
| **Other operating cash flows** | | |
| Movements in other current assets and liabilities | 2 755 | -9 382 |
| Realized exchange results | 7 041 | 5 354 |
| Other | -2 601 | -2 498 |
| **Total** | **7 195** | **-6 526** |

More information about the main elements contributing to the cash from investing activities is provided in following notes: 7.2. ‘Effect of business disposals’ and, concerning capital expenditure on tangible and intangible fixed assets, in 4. ‘Segment reporting’. No business combinations or portfolio investments were effected in 2013. The following table presents more details on selected investing cash flows:

| **Details of selected investing items**<br>in thousands of € | **2012** | **2013** |
|---|---|---|
| **Other investing cash flows** | | |
| Proceeds from disposal of intangible assets | 264 | 3 166 |
| Proceeds from disposal of property, plant and equipment | 8 380 | 1 308 |
| Other | 86 | - |
| **Total** | **8 730** | **4 474** |

More information about the main elements contributing to the cash from financing activities is provided in following notes: 5.3. ‘Interest income and expense’, 6.9. ‘Cash & cash equivalents and short-term deposits’, 6.17. ‘Interest-bearing debt’ and, regarding treasury shares transactions, in 6.13. ‘Retained earnings and other Group reserves’. The swings in current financial assets are mainly due to short-term deposits having been converted to cash equivalents in anticipation of bond repayments. The following table presents more details about selected financing items:

| **Details of selected financing items**<br>in thousands of € | **2012** | **2013** |
|---|---|---|
| **Other financing cash flows** | | |
| New shares issued following exercise of subscription rights | 410 | 1 048 |
| Capital paid in by minority interests | 10 435 | - |
| Increase (-) or decrease in current and non-current loans and receivables | 12 609 | 5 484 |
| Increase (-) or decrease in current financial assets | 278 035 | 94 455 |
| Impact of unrealized exchange results on financing items | -35 040 | 2 018 |
| **Total** | **266 449** | **103 005** |

# 7.2. Effect of business disposals

On 3 December 2013, Bekaert sold its Advanced Filtration activities to Clarcor, a company based in Tennessee, USA. By this transaction, the manufacturing activities and personnel of Bekaert Advanced Filtration in Sprimont, Belgium and in Karawang, Indonesia and the global sales network are transferred to the Clarcor Group.

The table below presents the net assets disposed by balance sheet caption. It also clarifies the amount shown in the consolidated cash flow statement as ‘Proceeds from disposals of investments’.

| in thousands of € | **Advanced Filtration activities** | **Other disposals** | **Total disposals** |
|---|---|---|---|
| Intangible assets | 199 | - | 199 |
| Property, plant and equipment | 1 862 | - | 1 862 |
| Investments | - | 1 901 | 1 901 |
| Other non-current assets | 4 | - | 4 |
| Deferred tax assets | 1 467 | - | 1 467 |
| Inventories | 1 478 | - | 1 478 |
| Trade receivables | 1 560 | - | 1 560 |
| Advances paid | 103 | - | 103 |
| Other receivables | 299 | - | 299 |
| Cash and cash equivalents | 887 | 7 | 894 |
| Other current assets | 24 | - | 24 |
| Non-current employee benefit obligations | -457 | - | -457 |
| Provisions | -103 | - | -103 |
| Deferred tax liabilities | -37 | - | -37 |
| Trade payables | -727 | - | -727 |
| Advances received | -206 | - | -206 |
| Current employee benefit obligations | -649 | - | -649 |
| Other current liabilities | -193 | - | -193 |
| **Total net assets disposed** | **5 511** | **1 908** | **7 419** |
| Gain or loss (-) on business disposals | 723 | 459 | 1 182 |
| CTA recycled on disposal (non-cash) | -242 | -221 | -463 |
| Cash disposed | -887 | -7 | -894 |
| Gain or loss (-) on non-consolidated investments | - | 10 | 10 |
| Deferred proceeds | -825 | 239 | -586 |
| **Proceeds from disposals of investments** | **4 280** | **2 388** | **6 668** |

The other disposals mainly relate to following transactions:

- A price adjustment relating to the sale of the Flaring business (€ 0.2 million) in 2012;
- A deferred payment relating to the sale of the Industrial Coatings activities (€ 0.2 million) in 2012;
- A non-consolidated investment in Chile (€ 1.9 million).

The contribution of the Advanced Filtration activities to the consolidated sales (before disposal) and to the result for the period (excluding the result on disposal) is shown below:

| in thousands of € | **Date of disposal** | **Net sales for the period** | **Result for the period** |
|---|---|---|---|
| Advanced Filtration activities | 3 December 2013 | 14 678 | -2 076 |

# 7.3. Financial risk management and financial derivatives

**Principles of financial risk management**

The Group is exposed to risks from movements in exchange rates, interest rates and market prices that affect its assets and liabilities. Financial risk management within the Group aims at reducing the impact of these market risks through ongoing operational and financing activities. Selected derivative hedging instruments are used depending on the assessment of risk involved. The Group mainly hedges the risks that affect the Group's cash flows. Derivatives are used exclusively as hedging instruments and not for trading or other speculative purposes. To reduce the credit risk, hedging transactions are generally only concluded with financial institutions whose credit rating is at least A.

The guidelines and principles of the Bekaert financial risk policy are defined by the Audit and Finance Committee and overseen by the Board of the Group. Group Treasury is responsible for implementing the financial risk policy. This encompasses defining appropriate policies and setting up effective control and reporting procedures. The Audit and Finance Committee is regularly kept informed as to the currency and interest-rate exposure.

**Currency risk**

The Group's currency risk can be split into two categories: translational and transactional currency risk.

***Translational currency risk***

A translation risk arises when the financial data of foreign subsidiaries are converted into the Group's presentation currency, the euro. The main currencies are Chinese renminbi, US dollar, Czech koruna, Brazilian real, the Chilean peso and the Venezuelan bolivar. Since there is no impact on the cash flows, the Group usually does not hedge against such risk.

***Transactional currency risk***

The Group is exposed to transactional currency risks resulting from its investing, financing and operating activities.

Foreign currency risk in the area of investment results from the acquisition and disposal of investments in foreign companies, but also from dividends receivable from foreign investments. Transactional currency risks typically arise from administrative delay in the settlement of dividend payments from Chinese subsidiaries. The group enters into non-deliverable forward contracts (NDFs) with various financial institutions to hedge these risks. These NDFs typically are not elected for hedge accounting.

Foreign currency risk in the financing area results from financial liabilities in foreign currencies. In line with its policy, Group Treasury hedges these risks. Cross-currency interest-rate swaps and forward exchange contracts are used to convert financial obligations denominated in foreign currencies into the entity's functional currency. At the reporting date, the foreign currency liabilities for which currency risks were hedged mainly consisted of Eurobonds and intercompany loans mainly in euro and US dollar.

Foreign currency risk in the area of operating activities arises from commercial activities with sales and purchases in foreign currencies, as well as payments and receipts of royalties. The Group uses forward exchange contracts to hedge the forecasted cash inflows and outflows for the coming three months. Significant exposures and firm commitments beyond that time frame may also be covered.

***Currency sensitivity analysis***

**Currency sensitivity relating to the operating activities**

The table below summarizes the Group's net foreign currency positions of trade receivables and trade payables at the reporting date for the most important currency pairs. The net currency positions are presented before intercompany eliminations. Positive amounts indicate that the Group has a net future cash inflow in the first currency. In the table, the 'Total exposure' column represents the position on the balance sheet, while the 'Total derivatives' column includes all financial derivatives hedging those balance sheet positions as well as forecasted transactions. The annualized volatility is based on the daily movement of the exchange rate of the reported year, with a 95% confidence interval.

| **Currency pair - 2013** in thousands of € | **Annualized volatility in %** | **Total exposure** | **Total derivatives** | **Open position** |
|---|---|---|---|---|
| AUD/USD | 16.34% | 4 328 | -2 505 | 1 823 |
| CAD/USD | 10.00% | 1 332 | - | 1 332 |
| CNY/EUR | 12.38% | 3 514 | - | 3 514 |
| CZK/EUR | 9.67% | -269 | 611 | 342 |
| EUR/CNY | 12.38% | -8 560 | -1 847 | -10 407 |
| EUR/GBP | 12.03% | 654 | - | 654 |
| EUR/INR | 20.64% | -1 363 | - | -1 363 |
| EUR/RUB | 11.44% | -1 016 | - | -1 016 |
| GBP/CZK | 16.15% | 1 074 | - | 1 074 |
| GBP/EUR | 12.03% | 2 169 | -2 533 | -364 |
| IDR/USD | 19.62% | -1 985 | - | -1 985 |
| JPY/CNY | 20.38% | 5 359 | -696 | 4 663 |
| JPY/EUR | 22.82% | 52 | -195 | -143 |
| NZD/USD | 18.28% | 802 | -314 | 488 |
| USD/CAD | 10.00% | 1 920 | - | 1 920 |
| USD/CLP | 14.38% | 3 751 | - | 3 751 |
| USD/CNY | 2.10% | 27 216 | -48 824 | -21 608 |
| USD/COP | 12.38% | -2 545 | - | -2 545 |
| USD/EUR | 12.69% | 18 496 | -17 332 | 1 164 |
| USD/INR | 21.22% | -4 864 | - | -4 864 |
| USD/MYR | 18.80% | -2 314 | - | -2 314 |
| USD/MXN | 12.47% | -830 | - | -830 |

| **Currency pair - 2012** in thousands of € | **Annualized volatility in %** | **Total exposure** | **Total derivatives** | **Open position** |
|---|---|---|---|---|
| AUD/USD | 15.55% | 2 172 | -2 606 | -434 |
| CNY/EUR | 13.37% | 2 518 | - | 2 518 |
| CZK/EUR | 10.44% | -3 870 | 2 634 | -1 236 |
| EUR/CNY | 13.37% | -2 308 | -9 203 | -11 511 |
| EUR/GBP | 9.23% | 1 248 | - | 1 248 |
| EUR/INR | 16.11% | -2 249 | - | -2 249 |
| GBP/CZK | 15.74% | 1 287 | - | 1 287 |
| GBP/EUR | 9.23% | 3 262 | - | 3 262 |
| GBP/USD | 10.30% | 1 280 | - | 1 280 |
| IDR/USD | 9.87% | -1 630 | - | -1 630 |
| JPY/CNY | 11.96% | 1 145 | -880 | 265 |
| JPY/EUR | 18.53% | 118 | -256 | -138 |
| NZD/USD | 17.02% | 554 | -112 | 442 |
| USD/CLP | 16.15% | 4 284 | - | 4 284 |
| USD/CNY | 3.75% | 23 955 | -29 534 | -5 579 |
| USD/EUR | 13.87% | 15 623 | 32 | 15 655 |
| USD/INR | 16.74% | -7 245 | - | -7 245 |
| USD/MXN | 18.48% | -1 838 | - | -1 838 |

If rates had weakened/strengthened by the above estimated possible changes with all other variables constant, the result for the period before taxes would have been € 1.4 million lower/higher (2012: € 0.01 million).

### Currency sensitivity in relation to hedge accounting

Some derivatives are also part of effective cash flow hedges to hedge the currency risk relating to the Eurobond issued in 2005. Exchange rate fluctuations in the currencies involved (US dollar and euro) affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. If the euro had weakened/strengthened by the above estimated possible changes, with all other variables constant, the hedging reserve in shareholders' equity would have been € 0.3 million higher/lower (2012: € 0.6 million).

**Interest-rate risk**

The Group is exposed to interest-rate risk, mainly on debt denominated in US dollar, Chinese renminbi and euro. To minimize the effects of interest-rate fluctuations in these regions, the Group manages the interest-rate risk for net debt denominated in the respective currencies of these countries separately. General guidelines are applied to cover interest-rate risk:

- The target average life of long-term debt is four years.
- The allocation of long-term debt between floating and fixed interest rates must remain within the defined limits approved by the Audit and Finance Committee.

Group Treasury uses interest-rate swaps and cross-currency interest-rate swaps to ensure that the floating and fixed portions of the long-term debt remain within the defined limits. The Group also may purchase forward starting interest-rate options to convert fixed and floating-rate long-term debt to capped long-term debt. By such interest-rate options, the Group intends to protect itself against adverse fluctuations in interest rates while still having the ability to benefit from decreasing interest rates.

The following table summarizes the weighted average interest rates at the balance sheet date.

| | Long-term | | | | |
|---|---|---|---|---|---|
| **2013** | **Fixed rate** | **Floating rate** | **Total** | **Short-term** | **Total** |
| US dollar | 5.27% | - | 5.27% | 1.10% | 1.91% |
| Chinese renminbi | 5.86% | 5.73% | 5.84% | 5.14% | 5.69% |
| Euro | 4.84% | - | 4.84% | 0.51% | 4.65% |
| Other | 7.58% | 3.00% | 7.33% | 4.79% | 5.66% |
| **Total** | **5.13%** | **5.30%** | **5.14%** | **1.84%** | **3.81%** |

| | Long-term | | | | |
|---|---|---|---|---|---|
| **2012** | **Fixed rate** | **Floating rate** | **Total** | **Short-term** | **Total** |
| US dollar | 5.41% | 6.37% | 5.41% | 1.91% | 2.48% |
| Chinese renminbi | 5.76% | 5.98% | 5.82% | 5.29% | 5.59% |
| Euro | 5.01% | - | 5.01% | 1.10% | 4.86% |
| Other | 7.70% | 3.00% | 7.35% | 5.65% | 6.20% |
| **Total** | **5.25%** | **5.56%** | **5.26%** | **2.63%** | **4.05%** |

***Interest-rate sensitivity analysis***

**Interest-rate sensitivity of the financial debt**

As disclosed in note 6.17. ‘Interest-bearing debt’, the total financial debt of the Group as of 31 December 2013 amounted to € 1 003.9 million (2012: € 1 189.7 million). The following table shows the currency and interest rate profile, i.e. the percentage distribution of the total financial debt by currency and by type of interest rate (fixed, floating, capped).

| **Currency and interest rate profile** | Long-term | | | Short-term | |
|---|---|---|---|---|---|
| **2013** | **Fixed rate** | **Floating rate** | **Capped rate** | **Floating rate** | **Total** |
| US dollar | 7.20% | - | - | 30.00% | 37.20% |
| Chinese renminbi | 4.60% | 1.00% | - | 1.20% | 6.80% |
| Euro | 43.30% | - | - | - | 43.30% |
| Other | 3.30% | 0.20% | - | 9.20% | 12.70% |
| **Total** | **58.40%** | **1.20%** | **-** | **40.40%** | **100.00%** |

| **Currency and interest rate profile** | Long-term | | | Short-term | |
|---|---|---|---|---|---|
| **2012** | **Fixed rate** | **Floating rate** | **Capped rate** | **Floating rate** | **Total** |
| US dollar | 6.80% | - | - | 34.80% | 41.60% |
| Chinese renminbi | 3.40% | 1.20% | - | 3.60% | 8.20% |
| Euro | 39.80% | - | - | 1.60% | 41.40% |
| Other | 2.50% | 0.30% | - | 6.00% | 8.80% |
| **Total** | **52.50%** | **1.50%** | **-** | **46.00%** | **100.00%** |

On the basis of the annualized daily volatility of the 3-month Interbank Offered Rate in 2013 and 2012, the reasonable estimates of possible interest rate changes, with a 95% confidence interval, are set out in the table below for the main currencies.

| Currency | Interest rate at 31 Dec 2013 | Annualized volatility in % | Range interest rate |
|---|---|---|---|
| Chinese renminbi[1] | 5.38% | 16.45% | 4.50%-6.27% |
| Euro | 0.29% | 29.87% | 0.20%-0.37% |
| US dollar | 0.25% | 11.83% | 0.22%-0.28% |

| Currency | Interest rate at 31 Dec 2012 | Annualized volatility in % | Range interest rate |
|---|---|---|---|
| Chinese renminbi[1] | 3.58% | 16.45% | 2.99%-4.17% |
| Euro | 0.19% | 31.35% | 0.13%-0.25% |
| US dollar | 0.31% | 10.44% | 0.27%-0.34% |

[1] *For the Chinese renminbi, the interest rate is the PBOC benchmark interest rate for lending up to six months.*

Applying the estimated possible changes in the interest rates to the floating and capped rated debt, with all other variables constant, the result for the period before tax would have been € 0.5 million higher/lower (2012: € 1.2 million higher/lower).

### Interest-rate sensitivity in relation to hedge accounting

Changes in market interest rates in relation to derivatives that are part of effective cash flow hedges to hedge payment fluctuations resulting from interest movements affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Applying the estimated possible increases of the interest rates to these transactions, with all other variables constant, the hedging reserve in shareholders' equity would have been € 0.03 million higher (2012: € 0.09 million). Applying the estimated possible decreases of the interest rates to these transactions, with all other variables constant, the hedging reserve in shareholders' equity would have been € 0.03 million lower (2012: € 0.09 million).

### Credit risk

The Group is exposed to credit risk from its operating activities and certain financing activities. In respect of its operating activities, the Group has a credit policy in place, which takes into account the risk profiles of the customers in terms of the market segment to which they belong. Based on activity platform, product sector and geographical area, a credit risk analysis is made of customers and a decision is taken regarding the covering of the credit risk. The exposure to credit risk is monitored on an ongoing basis and credit evaluations are made of all customers. In terms of the characteristics of some steel wire activities with a limited number of global customers, the concentration risk is closely monitored and, in combination with the existing credit policy, action is taken as and when needed. In accordance with IFRS 8 §34, none of the specified disclosures on individual customers (or groups of customers under common control) are required, since none of the Group's customers' accounts for more than 10% of its revenues. At 31 December 2013, 64.4 % (2012: 65.2 %) of the credit risk exposure was covered by credit insurance policies and by trade finance techniques. In respect of financing activities, transactions are normally concluded with counterparties that have at least an A credit rating. There are also limits allocated to each counterparty which depend on their rating. Due to this approach, the Group considers the risk of counterparty default to be limited in both operating and financing activities.

### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding. To ensure liquidity and financial flexibility at all times, the Group, in addition to its available cash, has several uncommitted short-term credit lines at its disposal in the major currencies and in amounts considered adequate for current and near-future financing needs. These facilities are generally of the mixed type and may be utilized, for example, for advances, overdrafts, acceptances and discounting. The Group also has committed credit facilities at its disposal up to a maximum equivalent of € 68.1 million (2012: € 75.0 million) at floating interest rates with fixed margins. A credit facility of € 50 million matures in 2016 and a credit facility of USD 25 million matures in 2014. At year-end, nothing was outstanding under these facilities (2012: € 3.5 million). In addition, the Group has a commercial paper and medium-term note program available for a maximum of € 123.9 million (2012: € 123.9 million). At the end of 2013, no commercial paper notes were outstanding (2012: none). At year-end, none of the Group's outstanding debt was subject to debt covenants (2012: none).

The following table shows the Group's contractually agreed (undiscounted) outflows in relation to financial liabilities. Only net interest payments and principal repayments are included.

| **2013**<br>in thousands of € | **2014** | **2015** | **2016-2018** | **2019 and thereafter** |
|---|---|---|---|---|
| Financial liabilities - principal | | | | |
| *Trade payables* | *-338 864* | *-* | *-* | *-* |
| *Other payables* | *-135 255* | *-186* | *-* | *-* |
| *Interest-bearing debt* | *-321 907* | *-101 787* | *-534 598* | *-45 614* |
| *Derivatives - gross settled* | *-461 093* | *-102 929* | *-11 667* | *-* |
| Financial liabilities - interests | | | | |
| *Interest-bearing debt* | *-45 147* | *-32 065* | *-59 728* | *-14 100* |
| *Derivatives - net settled* | *-2 003* | *-1 602* | *-* | *-* |
| *Derivatives - gross settled* | *-8 945* | *-4 967* | *-1 149* | *-* |
| **Total undiscounted cash flow** | **-1 313 214** | **-243 536** | **-607 142** | **-59 714** |

| **2012**<br>in thousands of € | **2013** | **2014** | **2015-2017** | **2018 and thereafter** |
|---|---|---|---|---|
| Financial liabilities - principal | | | | |
| *Trade payables* | *-321 760* | *-* | *-* | *-* |
| *Other payables* | *-112 154* | *-248* | *-* | *-* |
| *Interest-bearing debt* | *-342 549* | *-219 280* | *-331 753* | *-296 114* |
| *Derivatives - gross settled* | *-641 845* | *-14 797* | *-122 428* | *-* |
| Financial liabilities - interests | | | | |
| *Interest-bearing debt* | *-53 390* | *-41 382* | *-66 298* | *-24 069* |
| *Derivatives - net settled* | *-2 023* | *-2 124* | *-1 641* | *-* |
| *Derivatives - gross settled* | *-16 399* | *-6 217* | *-6 884* | *-* |
| **Total undiscounted cash flow** | **-1 490 120** | **-284 048** | **-529 004** | **-320 183** |

All instruments held at the reporting date and for which payments had been contractually agreed are included. Forecasted data relating to future, new liabilities is not included. Amounts in foreign currencies have been translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the applicable forward interest rates.

## Hedging

All financial derivatives the Group enters into, relate to an underlying transaction or forecasted exposure. In function of the expected impact on the income statement and if the stringent IAS 39 criteria are met, the Group decides on a case-by-case basis whether hedge accounting will be applied. The following sections describe the transactions whereby hedge accounting is applied and transactions which do not qualify for hedge accounting but constitute an economic hedge.

### *Hedge accounting*

Depending on the nature of the hedged exposure, IAS 39 makes a distinction between fair value hedges, cash flow hedges and hedges of a net investment. Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets and liabilities or unrecognized firm commitments. Cash flow hedges are hedges of the exposure to variability in future cash flows related to recognized assets or liabilities, highly probable forecasted transactions or, when the hedge relates to currency risk, unrecognized firm commitments. Hedges of a net investment are hedges of the exposure to variability of the net investment in the assets of an entity with a different functional currency.

### Fair value hedges

In 2005, Bekaert Corporation, a USA based entity, issued a fixed rated 100.0 million Eurobond. Simultaneously, the entity also entered into two € 50.0 million cross-currency interest-rate swaps to convert half of the fixed euro payments into floating US dollar payments and the other half of the fixed euro payments into fixed US dollar payments. During 2005, the entity reduced its floating US dollar exposure from € 50.0 million to € 30.9 million.

The Group has designated the portion of € 30.9 million from the 2005 Eurobond as a hedged item in a fair value hedge (the remaining € 69.1 million is treated as a hedged item in a cash flow hedge – see next section). The changes in the fair values of the hedged items resulting from changes in the spot rate USD/EUR are offset against the changes in the value of the cross-currency interest-rate swaps. Credit risks are not addressed or covered by this hedging.

The Group has designated cross-currency interest-rate swaps with an aggregate notional amount of € 29.3 million (2012: € 30.9 million) as fair value hedges as at 31 December 2013, the fair value amounting to € 2.7 million (2012: € 2.3 million). The change in fair value of the hedging instruments during 2013 resulted in a gain of € 0.5 million (2012: € 0.7 million gain) which was recognized in other financial income and expenses. The remeasurement of the hedged items resulted in a loss of € 0.5 million (2012: € 0.7 million loss), which was also recognized in other financial income and expenses. Interest expense adjustments arising from fair value hedges amounted to a gain of € 0.8 million (2012: gain of € 0.8 million).

**Cash flow hedges**
The currency risk resulting from the remaining € 69.1 million of the 2005 Eurobond (see previous section on fair value hedges) has been hedged using a cross-currency interest-rate swap for € 50.0 million and a combination of a cross-currency interest-rate swap and an interest-rate swap for € 19.1 million. These financial derivatives convert fixed euro payments into fixed US dollar payments. The Group has designated the related portion of the Eurobond as a hedged item. The objective of the hedge is to eliminate the risk from payment fluctuations as a result of changes in the exchange and interest rates. Credit risks are not addressed or covered by this hedging.

As at 31 December 2013, the Group has designated cross-currency interest-rate swaps and interest-rate swaps with notional amounts totaling € 83.7 million (2012: € 88.2 million) as cash flow hedges, the fair value amounting to € 2.8 million (2012: € -1.0 million). During 2013, gains totaling € 4.0 million (2012: € 3.5 million gains) resulting from the change in fair values of cross-currency and interest-rate swaps were taken directly to equity (hedging reserve). These changes represent the effective portion of the hedge relationship. A total amount of € 3.1 million was debited to equity (hedging reserve) against other financial income and expenses to offset the unrealized exchange losses (2012: losses of € 1.4 million) recognized on the remeasurement of the Eurobond at closing rate. Interest expense adjustments arising from cash flow hedges amounted to a loss of € 0.8 million (2012: a loss of € 0.9 million).

**Hedges of a net investment**
Throughout 2013 and 2012, the Group has not concluded or settled any net investment hedges.

**Economic hedging**
The Group also uses financial instruments that represent an economic hedge but for which no hedge accounting is applied, either because the criteria to qualify for hedge accounting defined in IAS 39 ‘Financial Instruments: Recognition and Measurement’ are not met or because the Group has elected not to apply hedge accounting. These derivatives are treated as free-standing instruments held for trading.

- The Group uses cross-currency interest-rate swaps and forward exchange contracts to hedge the currency risk on intercompany loans involving two entities with different functional currencies. Until now, the Group has elected not to apply hedge accounting as defined in IAS 39 since nearly all cross-currency interest-rate swaps are floating-to-floating and, hence, the fair value gain or loss on the financial instruments is expected to offset the foreign-exchange result arising from the remeasurement of the intercompany loans. The Group has entered into cross-currency interest-rate swaps with notional amounts totaling € 472.8 million (2012: € 679.6 million), the fair value amounting to € 19.4 million (2012: € 15.8 million). The major currencies involved are US dollars, Canadian dollars and Russian rubles. Foreign-exchange contracts represented a notional amount of € 310.6 million (2012: € 95.6 million) with a fair value of € -7.8 million (2012: € 0.3 million). During 2013, a loss of € 3.7 million (2012: gain of € 36.8 million) resulting from changes in the fair values of cross-currency interest-rate swaps and forward exchange contracts was recognized under other financial income and expenses. A loss of € 4.2 million (2012: loss of € 40.8 million) has been recognized under unrealized exchange results arising on the remeasurement of the intercompany loans at spot rate. Realized exchange gains on hedged intercompany loans amounting to € 0.7 million (2012: € 5.0 million gains) have been recognized in other financial income and expenses. Interest expense adjustments arising from cross-currency interest-rate swaps used as economic hedges for currency risk amounted to a loss of € 6.1 million (2012: € 4.5 million loss).

- To manage its interest-rate exposure, the Group uses interest-rate swaps, forward rate agreements and interest-rate options to convert its floating-rate debt to a fixed and/or capped rate debt. Except for an interest-rate swap for USD 25.0 million, none of these interest-rate derivatives were designated as hedges as defined in IAS 39. As at 31 December 2013, the interest-rate exposure of debt was hedged using interest-rate swaps for a total gross amount of € 29 million (2012: € 30.3 million). No forward rate agreements and no interest rate options were outstanding at 31 December 2013 (2012: none). The fair value at year-end of the interest-rate swaps amounted to € -1.5 million (2012: € -2.8 million). During 2013, a gain of € 1.3 million (2012: € 0.8 million gain) resulting from the changes in fair values was recognized under other financial income and expenses. Interest expense adjustments arising from interest-rate swaps used as economic hedges amounted to a loss of € 1.4 million (2012: loss of € 1.4 million).

- The Group uses forward exchange contracts to limit currency risks on its various operating and, financing activities. Since the Group has not designated its forward exchange contracts as cash flow hedges, the fair value change is recorded immediately under other financial income and expenses. As at 31 December 2013, the notional amount of the forward exchange contracts relating to commercial transactions was € 41.8 million (2012: € 49.3 million). The fair value at year-end amounted to € 0.4 million (2012: € 0.1 million), with a gain of € 0.4 million (2012: € 0.1 million loss). A loss of € 7.5 million (2012: € 11.7 million gain) was incurred from unrealized exchange losses on receivables and payables. However, the forward exchange contracts also relate to forecasted commercial transactions, for which there is no offsetting position on the balance sheet. Realized exchange results on hedged operating and financial payables and receivables amounted to a gain of € 4.0 million (2012: loss of € 12.8 million).

**Derivatives**
The following table analyzes the notional amounts of the derivatives according to their maturity date:

| **2013**<br>in thousands of € | **Due within one year** | **Due between one and 5 years** | **Due after more than 5 years** |
|---|---|---|---|
| Interest-rate swaps | - | 47 132 | - |
| Forward exchange contracts | 352 403 | - | - |
| Cross-currency interest-rate swaps | 461 093 | 114 596 | - |
| **Total** | **813 496** | **161 728** | **-** |

| **2012**<br>in thousands of € | **Due within one year** | **Due between one and 5 years** | **Due after more than 5 years** |
|---|---|---|---|
| Interest-rate swaps | - | 49 265 | - |
| Forward exchange contracts | 132 231 | 12 440 | - |
| Cross-currency interest-rate swaps | 643 390 | 137 224 | - |
| **Total** | **775 621** | **198 929** | **-** |

The following table summarizes the fair values of the various derivatives carried. A distinction is made depending on whether these are part of a hedging relationship as set out in IAS 39 (fair value hedge or cash flow hedge).

| **Fair value of current and non-current derivatives** | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| in thousands of € | **2012** | **2013** | **2012** | **2013** |
| **Financial instruments** | | | | |
| Forward exchange contracts | | | | |
| *Held for trading* | *1 035* | *543* | *603* | *7 931* |
| Interest-rate swaps | | | | |
| *Held for trading* | - | - | *2 879* | *1 515* |
| *In connection with cash flow hedges* | - | - | *1 687* | *885* |
| Cross-currency interest-rate swaps | | | | |
| *Held for trading* | *18 210* | *21 473* | *2 409* | *2 033* |
| *In connection with fair value hedges* | *2 277* | *2 671* | - | - |
| *In connection with cash flow hedges* | *1 408* | *3 638* | *757* | - |
| **Total** | **22 930** | **28 325** | **8 335** | **12 364** |
| Non-current | 7 954 | 14 760 | 5 324 | 2 022 |
| Current | 14 976 | 13 565 | 3 011 | 10 342 |
| **Total** | **22 930** | **28 325** | **8 335** | **12 364** |

The Group has no financial assets and financial liabilities that are presented net in the balance sheet due to set-off in accordance with IAS 32. The Group enters into ISDA master agreements with its counterparties for all of its derivatives, allowing the counterparties to net derivative assets with derivative liabilities when settling in case of default. Under these agreements, no collateral is being exchanged, neither in cash nor in securities.

The potential effect of the netting of derivative contracts is shown below:

| **Effect of enforceable netting agreements**<br>in thousands of € | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2012** | **2013** | **2012** | **2013** |
| Total derivatives recognized in balance sheet | 22 930 | 28 325 | 8 335 | 12 364 |
| Enforceable netting | -6 899 | -5 372 | -6 899 | -5 372 |
| **Net amounts** | **16 031** | **22 953** | **1 436** | **6 992** |

The table below shows how the use of derivatives mitigated the impact of the underlying risks on the income statement:

| **2013**<br>in thousands of € | **Hedged item** | **Hedging instrument** | **Other** | **Recognized in profit or loss** |
|---|---|---|---|---|
| Fair value hedges | Fair value changes | Fair value changes | Interest expense adjustments | |
| *Currency and interest-rate risk on financing cash flows* | *-494* | *512* | *842* | *860* |
| Cash flow hedges | | | | |
| *Interest expense adjustments and amortization of discontinued hedges (recycled from equity)* | *-* | *-* | *-803* | *-803* |
| | **Underlying risk** | **Financial derivative** | | |
| Held for trading | Unrealized exchange results | Fair value changes | Realized exchange results | |
| *Currency risk on financing cash flows* | *-4 162* | *-3 737* | *687* | *-7 212* |
| *Currency risk on operating and investing cash flows* | *-7 519* | *387* | *3 956* | *-3 176* |
| | | | Interest expense adjustments | |
| *Interest-rate risk* | *-* | *1 288* | *-7 481* | *-6 193* |
| **Total** | **-12 175** | **-1 550** | **-2 799** | **-16 524** |

Of the total income statement effect in 2013, € -4.5 million is recognized in other financial income and expenses, € -4.6 million in other operating revenues and expenses (i.e. realized exchange results on operating cash flows) and € -7.4 million in interest expense.

| **2012**<br>in thousands of € | **Hedged item** | **Hedging instrument** | **Other** | **Recognized in profit or loss** |
|---|---|---|---|---|
| Fair value hedges | Fair value changes | Fair value changes | Interest expense adjustments | |
| *Currency and interest-rate risk on financing cash flows* | *-741* | *719* | *763* | *741* |
| Cash flow hedges | | | | |
| *Interest expense adjustments and amortization of discontinued hedges (recycled from equity)* | *-* | *-* | *-930* | *-930* |
| | **Underlying risk** | **Financial derivative** | | |
| Held for trading | Unrealized exchange results | Fair value changes | Realized exchange results | |
| *Currency risk on financing cash flows* | *-40 817* | *36 839* | *4 985* | *1 007* |
| *Currency risk on operating and investing cash flows* | *-5 408* | *5 256* | *-1 946* | *-2 098* |
| | | | Interest expense adjustments | |
| *Interest-rate risk* | *-* | *845* | *-5 903* | *-5 058* |
| **Total** | **-46 966** | **43 659** | **-3 031** | **-6 338** |

Of the total income statement effect in 2012, € -1.3 million is recognized in other financial income and expenses, € +1.1 million in other operating revenues and expenses (i.e. realized exchange results on operating cash flows) and € -6.1 million in interest expense.

Cash flow hedges also directly affect equity via other comprehensive income, as shown below:

| **2013**<br>in thousands of € | **Hedged item** | **Hedging instrument** | **Other** | **Recognized in equity (OCI)** |
|---|---|---|---|---|
| Cash flow hedges | Spot price changes | Fair value changes | | |
| *Currency and interest-rate risk on financing cash flows* | *-3 107* | *3 889* | *-* | *782* |
| *Amortization of discontinued hedges (recycled to profit or loss)* | *-* | *-* | *72* | *72* |

| **2012**<br>in thousands of € | **Hedged item** | **Hedging instrument** | **Other** | **Recognized in equity (OCI)** |
|---|---|---|---|---|
| Cash flow hedges | Spot price changes | Fair value changes | | |
| *Currency and interest-rate risk on financing cash flows* | *-1 371* | *3 426* | *-* | *2 055* |
| *Amortization of discontinued hedges (recycled to profit or loss)* | *-* | *-* | *78* | *78* |

**Additional disclosures on financial instruments by class and category**

The following tables list the different classes of financial assets and liabilities with their carrying amounts in the balance sheet and their respective fair value and analyzed by their measurement category in accordance with IAS 39, Financial Instruments: Recognition and Measurement or IAS 17, Leases.

Cash and cash equivalents, short-term deposits, trade and other receivables, bills of exchange received, loans and receivables primarily have short terms to maturity; hence, their carrying amounts at the reporting date approximate the fair values. Furthermore, the Group has no exposure to collateralized debt obligations (CDOs). Trade and other payables also generally have short times to maturity and, hence, their carrying amounts also approximate their fair values.

The following categories and abbreviations are used in the table below:

| **Abbreviation** | **Category in accordance with IAS 39** |
|---|---|
| L&R | Loans & Receivables |
| AfS | Available for Sale |
| FAFVTPL | Financial Assets at Fair Value Through Profit or Loss |
| FLMaAC | Financial Liabilities Measured at Amortized Cost |
| Hedge accounting | Hedge accounting |
| FLFVTPL | Financial Liabilities at Fair Value Through Profit or Loss |
| n.a. | Not applicable |

| 2013<br>in thousands of € | Category in accordance with IAS 39 | Carrying amount 2013 | Amounts recognized in balance sheet in accordance with IAS 39 at Amortized cost | Fair value through equity | Fair value through profit or loss | Amounts recognized in balance sheet in accordance with IAS 17 | Fair value 2013 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | L&R | 391 857 | 391 857 | - | - | - | 391 857 |
| Short-term deposits | L&R | 10 172 | 10 172 | - | - | - | 10 172 |
| Trade receivables | L&R | 584 455 | 584 455 | - | - | - | 584 455 |
| Bills of exchange received | L&R | 110 218 | 110 218 | - | - | - | 110 218 |
| Other receivables | L&R | 83 781 | 83 781 | - | - | - | 83 781 |
| Loans and receivables | L&R | 31 748 | 31 748 | - | - | - | 31 748 |
| Available-for-sale financial assets | AfS | 8 713 | 975 | 7 738 | - | - | 8 713 |
| Derivative financial assets | | | | | | | |
| - without a hedging relationship | FAFVTPL | 22 016 | - | - | 22 016 | - | 22 016 |
| - with a hedging relationship | Hedge accounting | 6 309 | - | 3 638 | 2 671 | - | 6 309 |
| **Liabilities** | | | | | | | |
| Interest-bearing debt | | | | | | | |
| - finance leases | n.a. | 196 | - | - | - | 196 | 196 |
| - credit institutions | FLMaAC | 258 837 | 258 837 | - | - | - | 258 837 |
| - bonds | Hedge accounting | 101 118 | 69 107 | - | 32 011 | - | 103 619 |
| - bonds | FLMaAC | 650 000 | 650 000 | - | - | - | 676 637 |
| Trade payables | FLMaAC | 338 864 | 338 864 | - | - | - | 338 864 |
| Other payables | FLMaAC | 135 441 | 135 441 | - | - | - | 135 441 |
| Derivative financial liabilities | | | | | | | |
| - without a hedging relationship | FLFVTPL | 11 479 | - | - | 11 479 | - | 11 479 |
| - with a hedging relationship | Hedge accounting | 885 | - | 885 | - | - | 885 |
| **Aggregated by category in accordance with IAS 39** | | | | | | | |
| Loans and receivables | L&R | 1 212 231 | 1 212 231 | - | - | - | 1 212 231 |
| Available-for-sale financial assets | AfS | 8 713 | 975 | 7 738 | - | - | 8 713 |
| Financial assets - hedge accounting | Hedge accounting | 6 309 | - | 3 638 | 2 671 | - | 6 309 |
| Financial assets at fair value through profit or loss | FAFVTPL | 22 016 | - | - | 22 016 | - | 22 016 |
| Financial liabilities measured at amortized cost | FLMaAC | 1 383 142 | 1 383 142 | - | - | - | 1 409 779 |
| Financial liabilities - hedge accounting | Hedge accounting | 102 003 | 69 107 | 885 | 32 011 | - | 104 504 |
| Financial liabilities at fair value through profit or loss | FLFVTPL | 11 479 | - | - | 11 479 | - | 11 479 |

| 2012<br>in thousands of € | Category in accordance with IAS 39 | Carrying amount 2012 | Amounts recognized in balance sheet in accordance with IAS 39 at: Amortized cost | Fair value through equity | Fair value through profit or loss | Amounts recognized in balance sheet in accordance with IAS 17 | Fair value 2012 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | L&R | 352 312 | 352 312 | - | - | - | 352 312 |
| Short-term deposits | L&R | 104 792 | 104 792 | - | - | - | 104 792 |
| Trade receivables | L&R | 589 109 | 589 109 | - | - | - | 589 109 |
| Bills of exchange received | L&R | 162 734 | 162 734 | - | - | - | 162 734 |
| Other receivables | L&R | 84 325 | 84 325 | - | - | - | 84 325 |
| Loans and receivables | L&R | 35 363 | 35 363 | - | - | - | 35 363 |
| Available-for-sale financial assets | AfS | 11 305 | 3 360 | 7 945 | - | - | 11 305 |
| Derivative financial assets | | | | | | | |
| - without a hedging relationship | FAFVTPL | 19 245 | - | - | 19 245 | - | 19 245 |
| - with a hedging relationship | Hedge accounting | 3 685 | - | 1 408 | 2 277 | - | 3 685 |
| **Liabilities** | | | | | | | |
| Interest-bearing debt | | | | | | | |
| - finance leases | n.a. | 257 | - | - | - | 257 | 257 |
| - credit institutions | FLMaAC | 340 273 | 340 273 | - | - | - | 340 273 |
| - bonds | Hedge accounting | 102 069 | 691 087 | - | 32 962 | - | 106 697 |
| - bonds | FLMaAC | 750 000 | 750 000 | - | - | - | 791 175 |
| Trade payables | FLMaAC | 321 760 | 321 760 | - | - | - | 321 760 |
| Other payables | FLMaAC | 112 402 | 112 402 | - | - | - | 112 402 |
| Derivative financial liabilities | | | | | | | |
| - without a hedging relationship | FLFVTPL | 5 891 | - | - | 5 891 | - | 5 891 |
| - with a hedging relationship | Hedge accounting | 2 444 | - | 2 444 | - | - | 2 444 |
| **Aggregated by category in accordance with IAS 39** | | | | | | | |
| Loans and receivables | L&R | 1 328 635 | 1 328 635 | - | - | - | 1 328 635 |
| Available-for-sale financial assets | AfS | 11 305 | 3 360 | 7 945 | - | - | 11 305 |
| Financial assets - hedge accounting | Hedge accounting | 3 685 | - | 1 408 | 2 277 | - | 3 685 |
| Financial assets at fair value through profit or loss | FAFVTPL | 19 245 | - | - | 19 245 | - | 19 245 |
| Financial liabilities measured at amortized cost | FLMaAC | 1 524 435 | 1 524 435 | - | - | - | 1 565 610 |
| Financial liabilities - hedge accounting | Hedge accounting | 104 513 | 691 087 | 2 444 | 32 962 | - | 109 141 |
| Financial liabilities at fair value through profit or loss | FLFVTPL | 5 891 | - | - | 5 891 | - | 5 891 |

### Financial instruments by fair value measurement hierarchy

The fair value measurement of financial assets and financial liabilities can be characterized in one of the following ways:

- *'Level 1'* fair value measurement: the fair values of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices in active markets for identical assets and liabilities. This mainly relates to available-for-sale financial assets such as the investment in Shougang Concord Century Holdings Ltd (see note 6.5. 'Other non-current assets').
- *'Level 2'* fair value measurement: the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. This mainly relates to derivative financial instruments. Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts. Interest-rate swaps, forward rate agreements and interest-rate options are measured at the present value of future cash flows estimated and discounted using the applicable yield curves derived from quoted interest rates. The fair value measurement of cross-currency interest-rate swaps is based on discounted estimated cash flows using quoted forward exchange rates, quoted interest rates and applicable yield curves derived therefrom.
- *'Level 3'* fair value measurement: the fair values of the remaining financial assets and financial liabilities are derived from valuation techniques which include inputs which are not based on observable market data. As at the balance sheet date, no 'Level 3' techniques were used to determine the fair value of any financial assets or financial liabilities.

The fair value of all financial instruments measured at amortized cost in the balance sheet, either in accordance with IAS 39 or with IAS 17 (see previous table in this disclosure), has been determined using 'Level 2' fair value measurement techniques. The following table provides an analysis of financial instruments measured at fair value in the balance sheet, in accordance with the fair value measurement hierarchy described above:

| **2013**<br>in thousands of € | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets - hedge accounting | | | | |
| *Derivative financial assets* | *-* | *6 309* | *-* | *6 309* |
| Financial assets at fair value through profit or loss | | | | |
| *Derivative financial assets* | *-* | *22 016* | *-* | *22 016* |
| Available-for-sale financial assets | | | | |
| *Equity investments* | *7 248* | *490* | *-* | *7 738* |
| **Total assets** | **7 248** | **28 815** | **-** | **36 063** |
| Financial liabilities - hedge accounting | | | | |
| *Interest-bearing debt* | *-* | *32 011* | *-* | *32 011* |
| *Derivative financial liabilities* | *-* | *885* | *-* | *885* |
| Financial liabilities at fair value through profit or loss | | | | |
| *Derivative financial liabilities* | *-* | *11 479* | *-* | *11 479* |
| **Total liabilities** | **-** | **44 375** | **-** | **44 375** |

| **2012**<br>in thousands of € | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets - hedge accounting | | | | |
| *Derivative financial assets* | *-* | *3 685* | *-* | *3 685* |
| Financial assets at fair value through profit or loss | | | | |
| *Derivative financial assets* | *-* | *19 245* | *-* | *19 245* |
| Available-for-sale financial assets | | | | |
| *Equity investments* | *7 945* | *-* | *-* | *7 945* |
| **Total assets** | **7 945** | **22 930** | **-** | **30 875** |
| Financial liabilities - hedge accounting | | | | |
| *Interest-bearing debt* | *-* | *32 962* | *-* | *32 962* |
| *Derivative financial liabilities* | *-* | *2 444* | *-* | *2 444* |
| Financial liabilities at fair value through profit or loss | | | | |
| *Derivative financial liabilities* | *-* | *5 891* | *-* | *5 891* |
| **Total liabilities** | **-** | **41 297** | **-** | **41 297** |

There were no transfers between Level 1 and 2 in the period.

## Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the net debt and equity balance. The Group's overall strategy remains unchanged from 2012.

The capital structure of the Group consists of net debt, which includes the elements disclosed in note 6.17. 'Interest-bearing debt', and equity (both attributable to the Group and to non-controlling interests).

### *Gearing ratio*

The Group's Audit and Finance Committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 50% determined as the proportion of net debt to equity.

| **Gearing**<br>in thousands of € | **2012** | **2013** |
|---|---|---|
| Net debt | 700 197 | 574 016 |
| Equity | 1 603 593 | 1 503 876 |
| **Net debt to equity ratio** | **43.7%** | **38.2%** |

## 7.4. Off-balance-sheet commitments

As at 31 December, the important commitments were:

| in thousands of € | 2012 | 2013 |
|---|---|---|
| Guarantees given to third parties on behalf of subsidiaries | 240 168 | 185 293 |
| Commitments to purchase fixed assets | 5 339 | 12 718 |
| Commitments to invest in venture capital funds | 7 454 | 6 669 |

The decrease in guarantees given to third parties mainly relates to the lower draw-downs by the Chinese companies. The amount contains guarantees related to loans (€ 19.5 million) taken out by Vicson SA (Venezuela); this company is exposed to restrictions on the repatriation of cash due to foreign exchange regulations in Venezuela.
The Group has entered into several rental contracts classified as operating leases mainly with respect to vehicles and buildings, predominantly in Europe. A large portion of the contracts contain a renewal clause, except those relating to most of the vehicles and the equipment. The assets are not subleased to a third party.

| **Future payments**<br>in thousands of € | 2012 | 2013 |
|---|---|---|
| Within one year | 13 327 | 12 338 |
| Between one and five years | 23 740 | 22 899 |
| More than five years | 4 367 | 4 024 |
| **Total** | **41 434** | **39 261** |

| **Expenses**<br>in thousands of € | 2012 | 2013 |
|---|---|---|
| Vehicles | 10 720 | 9 498 |
| Industrial buildings | 3 030 | 2 854 |
| Equipment | 1 876 | 2 385 |
| Offices | 4 480 | 4 135 |
| Land | -34 | 387 |
| Other | 1 061 | 832 |
| **Total** | **21 133** | **20 091** |

| **2012**<br>in years | Weighted average lease term | Weighted average fixed period of rental |
|---|---|---|
| Vehicles | 4 | 4 |
| Industrial buildings | 4 | 3 |
| Equipment | 4 | 4 |
| Offices | 4 | 4 |
| Land | 9 | 9 |
| Other | 1 | 1 |

| **2013**<br>in years | Weighted average lease term | Weighted average fixed period of rental |
|---|---|---|
| Vehicles | 4 | 4 |
| Industrial buildings | 4 | 3 |
| Equipment | 4 | 4 |
| Offices | 4 | 4 |
| Land | 5 | 5 |
| Other | 1 | 1 |

No major contingent assets or liabilities have been identified, which relate to the fully consolidated companies. The entities of the Group are subjected to regular tax audits in their jurisdictions. While the ultimate outcome of tax audits is not certain, Bekaert has considered the merits of its filing positions in an overall evaluation of potential tax liabilities and concludes that the Group has adequate liabilities recorded in its consolidated financial statements for exposures on these matters. Accordingly, Bekaert also considers it unlikely that potential tax exposures over and above the amounts currently recorded as liabilities in the consolidated financial statements will be material to its financial condition (see note 6.4. 'Investments in joint ventures and associates' for tax contingencies relating to the Brazilian joint ventures).

## 7.5. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated in the consolidation and are accordingly not disclosed in this note. Transactions with other related parties are disclosed below.

| **Transactions with joint ventures**<br>in thousands of € | **2012** | **2013** |
|---|---|---|
| Sales of goods | 16 054 | 26 863 |
| Purchases of goods | 10 654 | 11 264 |
| Royalties and management fees received | 10 579 | 10 891 |
| Interest and similar income | 48 | 152 |
| Dividends received | 7 207 | 12 509 |

| **Outstanding balances with joint ventures**<br>in thousands of € | **2012** | **2013** |
|---|---|---|
| Trade receivables | 7 017 | 12 446 |
| Other current receivables | 999 | - |
| Trade payables | 1 639 | 2 315 |

None of the related parties have entered into any other transactions with the Group that meet the requirements of IAS 24, Related Party Disclosures.

Key Management includes the Board of Directors, the CEO, the members of the Bekaert Group Executive (see last page of the Financial Review) and Senior Management (see last page of the Financial Review).

| **Key Management remuneration**<br>in thousands of € | **2012** | **2013** |
|---|---|---|
| Number of persons | 34 | 33 |
| Short-term employee benefits | | |
| *Basic remuneration* | *6 595* | *6 284* |
| *Variable remuneration* | *2 395* | *249* |
| *Remuneration as directors of subsidiaries* | *955* | *989* |
| Post-employment benefits | | |
| *Defined-benefit pension plans* | *559* | *609* |
| *Defined-contribution pension plans* | *536* | *541* |
| Share-based payment benefits | 2 341 | 2 913 |
| **Total gross remuneration** | **13 381** | **11 585** |
| Average gross remuneration per person | 394 | 351 |
| Number of options and stock appreciation rights granted[1] | 165 000 | 442 000 |

[1] *The number for 2013 includes an exceptional grant of options and stock appreciation rights.*

The disclosures relating to the Belgian Corporate Governance Code are included in the Corporate Governance Statement of this annual report.

## 7.6. Events after the balance sheet date

- On 19 February 2014, the authorities of Venezuela published a new law on Foreign Currency Transactions (Alternative systems), permitting individuals and legal entities to purchase foreign currency, outside of the Cencoex system, offered by (1) individuals and legal entities in the private sector; (2) Petróleos de Venezuela SA ("PDVSA"); (3) the Venezuelan Central Bank; and (4) other public entities approved by the Ministry of Finance. More regulation is still pending, which will allow companies to participate in the new system. When the new system comes into effect, this will affect the financial statements of Vicson SA and its subsidiary InverVicson SA (see also note 3.1. 'Critical judgments in applying the entity's accounting policies').

- A fourth regular offer of 382 200 options was made on 19 December 2013 under the terms of the SOP 2010-2014 stock option plan. 373 450 of those options were accepted, and were granted on 17 February 2014. Their exercise price is € 25.38. The granted options represent a fair value of € 3.0 million.

- Under the terms of the USA SAR plans, a regular offer of 36 800 Stock Appreciation Rights was made on 19 December 2013. All of those rights were accepted, and will be granted when the acceptance term expires on 31 March 2014. Their exercise price is € 25.66. The granted rights represent a fair value of € 0.3 million.

- Under the terms of the other SAR plans, a regular offer of 54 800 Stock Appreciation Rights was made on 19 December 2013. All of those rights were accepted, and were granted on 17 February 2014. Their exercise price is € 25.38. The granted rights represent a fair value of € 0.4 million.

- On February 28, 214, Bekaert has reached an agreement with Pirelli for the acquisition of Pirelli's steel cord activities. As part of this transaction, Bekaert and Pirelli will enter into a long-term supply agreement of tire cord to Pirelli. The acquisition agreement includes the purchase by Bekaert of Pirelli's steel cord manufacturing sites in Figline Valdarno (Italy), Slatina (Romania), Izmit (Turkey), Yanzhou (China) and Sumarè (Brazil). The deal includes all of the personnel and assets of the respective entities. The transaction is estimated to add approximately € 300 million to Bekaert's consolidated sales on an annual basis. The deal has an enterprise value of € 255 million and is subject to customary closing conditions.

- In February 2014, Bekaert, through its Canadian affiliate Wire Rope Industries, started manufacturing steel ropes in a production facility in Belton, Texas.

## 7.7. Services provided by the statutory auditor and related persons

During 2013, the statutory auditor and persons professionally related to him performed additional services for fees amounting to € 1 350 800.

These fees relate essentially to further assurance services (€ 75 000), tax advisory services (€ 1 111 000) and other non-audit services (€ 164 800).

The additional services were approved by the Audit and Finance Committee.

The audit fees for NV Bekaert SA and its subsidiaries amounted to € 1 591 197.

# 7.8. Subsidiaries, joint ventures and associates

## Companies forming part of the Group as at 31 December 2013

### *Subsidiaries*

| *Industrial companies* | *Address* | *%* |
|---|---|---|
| **EMEA** | | |
| Bekaert Bohumín sro | Bohumín, Czech Republic | 100 |
| Bekaert Carding Solutions Ltd | Bradford, United Kingdom | 100 |
| Bekaert Carding Solutions NV | Deerlijk, Belgium | 100 |
| Bekaert Combustion Technology BV | Assen, Netherlands | 100 |
| Bekaert Hlohovec as | Hlohovec, Slovakia | 100 |
| Bekaert Izmit Celik Kord Sanayi ve Ticaret AS | Izmit, Turkey | 100 |
| Bekaert Petrovice sro | Petrovice, Czech Republic | 100 |
| Bekaert Sardegna SpA | Assemini, Italy | 100 |
| Bekaert Slovakia sro | Sládkovičovo, Slovakia | 100 |
| Bekintex NV | Wetteren, Belgium | 100 |
| Cold Drawn Products Ltd | Bradford, United Kingdom | 100 |
| Industrias del Ubierna SA | Burgos, Spain | 100 |
| OOO Bekaert Lipetsk | Gryazi, Russian Federation | 100 |
| Solaronics SA | Armentières, France | 100 |
| **North America** | | |
| Bekaert Canada Ltd | Surrey, Canada | 100 |
| Bekaert Corporation | Wilmington (Delaware), United States | 100 |
| Wire Rope Industries Ltd | Pointe-Claire, Canada | 52 |
| **Latin America** | | |
| Acma SA | Santiago, Chile | 52 |
| Acmanet SA | Talcahuano, Chile | 52 |
| Bekaert Costa Rica SA | San José-Santa Ana, Costa Rica | 100 |
| Ideal Alambrec SA | Quito, Ecuador | 80 |
| Industrias Chilenas de Alambre - Inchalam SA | Talcahuano, Chile | 52 |
| Procables SA | Callao, Peru | 50 |
| Productora de Alambres Colombianos Proalco SAS | Bogotá, Colombia | 80 |
| Productos de Acero Cassadó SA | Callao, Peru | 38 |
| Productos de Acero SA Prodinsa | Maipú, Chile | 52 |
| Vicson SA | Valencia, Venezuela | 80 |
| **Asia Pacific** | | |
| Bekaert Ansteel Tire Cord (Chongqing) Co Ltd | Chongqing, China | 50 |
| Bekaert Binjiang Advanced Products Co Ltd | Jiangyin (Jiangsu province), China | 90 |
| Bekaert Binjiang Steel Cord Co Ltd | Jiangyin (Jiangsu province), China | 90 |
| Bekaert Carding Solutions Pvt Ltd | Pune, India | 100 |
| Bekaert (China) Technology Research and Development Co Ltd | Jiangyin (Jiangsu province), China | 100 |
| Bekaert (Huizhou) Steel Cord Co Ltd | Huizhou (Guangdong province), China | 100 |
| Bekaert Industries Pvt Ltd | Taluka Shirur, District Pune, India | 100 |
| Bekaert-Jiangyin Wire Products Co Ltd | Jiangyin (Jiangsu province), China | 82 |
| Bekaert Mukand Wire Industries Pvt Ltd | Pune, India | 94 |
| Bekaert New Materials (Suzhou) Co Ltd | Suzhou (Jiangsu province), China | 100 |
| Bekaert (Qingdao) Wire Products Co Ltd | Qingdao (Shandong province), China | 100 |
| Bekaert (Shandong) Tire Cord Co Ltd | Weihai (Shandong province), China | 100 |
| Bekaert Shenyang Advanced Products Co Ltd | Shenyang (Liaoning province), China | 100 |
| Bekaert Southern Speciality Wire Sdn Bhd | Kuala Lumpur, Malaysia | 55 |
| Bekaert Southern Wire Sdn Bhd | Kuala Lumpur, Malaysia | 55 |
| Bekaert Toko Metal Fiber Co Ltd | Tokyo, Japan | 70 |
| Bekaert (Xinyu) New Materials Co Ltd | Xinyu City (Jiangxi province), China | 75 |
| China Bekaert Steel Cord Co Ltd | Jiangyin (Jiangsu province), China | 90 |
| PT Bekaert Indonesia | Karawang, Indonesia | 100 |
| PT Bekaert Southern Wire | Karawang, Indonesia | 55 |
| Shanghai Bekaert-Ergang Co Ltd | Shanghai, China | 70 |
| Wuxi Bekaert Textile Machinery and Accessories Co Ltd | Wuxi (Jiangsu province), China | 75 |

| Sales offices, warehouses and others | Address | % |
|---|---|---|
| **EMEA** | | |
| Barnards Unlimited | Bradford, United Kingdom | 100 |
| Bekaert AS | Vejle, Denmark | 100 |
| Bekaert Carding Solutions SAS | Armentières, France | 100 |
| Bekaert Combustion Technology Ltd | Solihull, United Kingdom | 100 |
| Bekaert Emirates LLC | Dubai, United Arab Emirates | 49 |
| Bekaert France SAS | Antony, France | 100 |
| Bekaert Ges mbH | Vienna, Austria | 100 |
| Bekaert GmbH | Neu-Anspach, Germany | 100 |
| Bekaert Ltd | Bradford, United Kingdom | 100 |
| Bekaert Middle East LLC | Dubai, United Arab Emirates | 49 |
| Bekaert Norge AS | Frogner, Norway | 100 |
| Bekaert Poland Sp z oo | Warsaw, Poland | 100 |
| Bekaert (Schweiz) AG | Baden, Switzerland | 100 |
| Bekaert Svenska AB | Gothenburg, Sweden | 100 |
| Bekaert Tarak Aksesuarlari ve Makineleri Ticaret AS | Istanbul, Turkey | 100 |
| Lane Brothers Engineering Industries | Bradford, United Kingdom | 100 |
| Leon Bekaert SpA | Trezzano Sul Naviglio, Italy | 100 |
| OOO Bekaert Wire | Moscow, Russian Federation | 100 |
| Rylands-Whitecross Ltd | Bradford, United Kingdom | 100 |
| Sentinel (Wire Products) Ltd | Bradford, United Kingdom | 100 |
| Sentinel Wire Fencing Ltd | Bradford, United Kingdom | 100 |
| Scheldestroom NV | Zwevegem, Belgium | 100 |
| Solaronics GmbH | Achim, Germany | 100 |
| Tinsley Wire Ltd | Bradford, United Kingdom | 100 |
| Twil Company | Bradford, United Kingdom | 100 |
| **North America** | | |
| Bekaert Carding Solutions Inc / Bekaert Solutions de Cardage Inc | Saint John, Canada | 100 |
| Bekaert Specialty Films de Mexico SA de CV | Monterrey, Mexico | 100 |
| Bekaert Trade Mexico S de RL de CV | Mexico City, Mexico | 100 |
| Specialty Films de Services Company SA de CV | Monterrey, Mexico | 100 |
| Wire Rope Industries Inc | Wilmington (Delaware), United States | 52 |
| **Latin America** | | |
| Bekaert Guatemala SA | Ciudad de Guatemala, Guatemala | 100 |
| Bekaert Trade Latin America NV | Curaçao, Netherlands Antilles | 100 |
| Prodac Contrata SAC | Callao, Peru | 38 |
| Prodac Selva SAC | Ucayali, Peru | 38 |
| Prodalam SA | Santiago, Chile | 52 |
| Prodinsa Ingeniería y Proyectos SA | Santiago, Chile | 52 |
| **Asia Pacific** | | |
| Bekaert Advanced Products (Shanghai) Co Ltd | Shanghai, China | 100 |
| Bekaert Japan Co Ltd | Tokyo, Japan | 100 |
| Bekaert Korea Ltd | Seoul, Korea | 100 |
| Bekaert Management (Shanghai) Co Ltd | Shanghai, China | 100 |
| Bekaert Singapore Pte Ltd | Singapore | 100 |
| Bekaert Taiwan Co Ltd | Taipei, Taiwan | 100 |
| Cempaka Raya Sdn Bhd | Kuala Lumpur, Malaysia | 55 |
| PT Bekaert Trade Indonesia | Karawang, Indonesia | 100 |

.

| Financial companies | Address | % |
|---|---|---|
| Acma Inversiones SA | Talcahuano, Chile | 52 |
| Becare Ltd | Dublin, Ireland | 100 |
| Bekaert Building Products Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Carding Solutions Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Coördinatiecentrum NV | Zwevegem, Belgium | 100 |
| Bekaert do Brasil Ltda | Contagem, Brazil | 100 |
| Bekaert Holding Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Ibérica Holding SL | Burgos, Spain | 100 |
| Bekaert Ideal SL | Burgos, Spain | 80 |
| Bekaert Investments NV | Zwevegem, Belgium | 100 |
| Bekaert Investments Italia SpA | Trezzano Sul Naviglio, Italy | 100 |
| Bekaert North America Management Corporation | Wilmington (Delaware), United States | 100 |
| Bekaert Sàrl | Luxemburg, Luxemburg | 100 |
| Bekaert Services Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Southern Wire Pte Ltd | Singapore | 55 |
| Bekaert Specialty Films Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Specialty Wire Products Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Stainless Products Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Steel Cord Products Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Strategic Partnerships Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Wire Products Hong Kong Ltd | Hong Kong, China | 100 |
| Bekaert Xinyu Hong Kong Limited | Hong Kong, China | 100 |
| Impala SA | Panama, Panama | 52 |
| Industrias Acmanet Ltda | Talcahuano, Chile | 52 |
| InverVicson SA | Valencia, Venezuela | 80 |
| Sentinel Garden Products Ltd | Bradford, United Kingdom | 100 |

## Joint ventures

| Industrial companies | Address | % |
|---|---|---|
| **Latin America** | | |
| Belgo Bekaert Arames Ltda | Contagem, Brazil | 45 |
| BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda | Vespasiano, Brazil | 45 |
| **Asia Pacific** | | |
| Bekaert Xinyu Metal Products Co Ltd | Xinyu City (Jiangxi province), China | 50 |

| Sales offices, warehouses and others | Address | % |
|---|---|---|
| **EMEA** | | |
| Bekaert Faser Vertriebs GmbH | Idstein, Germany | 50 |
| Netlon Sentinel Ltd | Blackburn, United Kingdom | 50 |
| **Asia Pacific** | | |
| Bekaert Engineering (India) Pvt Ltd | New Delhi, India | 40 |
| BOSFA Pty Ltd | Port Melbourne, Australia | 50 |

## Changes in 2013

### 1. New investments

| *Subsidiaries* | *Address* | *%* |
|---|---|---|
| Bekaert Costa Rica SA | San José-Santa Ana, Costa Rica | 100 |
| PT Bekaert Trade Indonesia | Karawang, Indonesia | 100 |

### 2. Disposals

| *Advanced Filtration* | *Address* | |
|---|---|---|
| Bekaert Advanced Filtation SA | Sprimont, Belgium | From 100 to 0 |
| PT Bekaert Advanced Filtration | Karawang, Indonesia | From 100 to 0 |

### 3. Changes in ownership without change in control

| *Subsidiaries* | *Address* | |
|---|---|---|
| Bekaert Mukand Wire Industries Pvt Ltd | Pune, India | From 93 to 94 |

### 4. Mergers / conversions

| *Subsidiaries* | *Merged into* |
|---|---|
| Bekaert Carding Solutions Inc | Bekaert Corporation |
| Bekaert Holding BV | Bekaert Combustion Technology BV |

### 5. Closed down

| *Companies* | *Address* |
|---|---|
| Alambres Andinos SA (Alansa) | Quito, Ecuador |
| Bekaert Industrial Coatings Hong Kong Ltd | Hong Kong, China |
| Bekaert Romania SRL | Bucharest, Romania |
| Bekaert Specialty Films (SEA) Pte Ltd | Singapore |
| Solaronics AB | Vänersborg, Sweden |
| Solaronics Oy | Vantaa, Finland |

In accordance with Belgian legislation, the table below lists the registered numbers of the Belgian companies.

| *Companies* | *Company number* |
|---|---|
| Bekaert Advanced Filtration SA | TVA BE 0430.104.631 RPM Liège |
| Bekaert Carding Solutions NV | BTW BE 0405.443.271 RPR Kortrijk |
| Bekaert Coördinatiecentrum NV | BTW BE 0426.824.150 RPR Kortrijk |
| Bekaert Investments NV | BTW BE 0406.207.096 RPR Kortrijk |
| Bekintex NV | BTW BE 0452.746.609 RPR Dendermonde |
| NV Bekaert SA | BTW BE 0405.388.536 RPR Kortrijk |
| Scheldestroom NV | BTW BE 0403.676.188 RPR Kortrijk |

## 7.9. Restatement effects

The 2012 comparative information has been restated due to the retrospective application of IAS 19R, Employee Benefits. The limited effects of this restatement on each of the financial statements have been summarized below:

| **Restated items**<br>in thousands of € | **Restatement effects**<br>**FY 2012** |
|---|---|
| **Consolidated income statement** | |
| *Cost of sales* | *-90* |
| Gross profit | -90 |
| *Administrative expenses* | *-565* |
| Operating result before non-recurring items (REBIT) | -655 |
| Operating result (EBIT) | -655 |
| *Interest expenses* | *-1 281* |
| Result before taxes | -1 936 |
| Result after taxes (consolidated companies) | -1 936 |
| Result for the period | -1 936 |
| Attributable to the Group | -1 936 |
| Attributable to non-controlling interests | - |
| Earnings per share (in € per share) | |
| Result for the period attributable to the Group | |
| Basic | -0.03 |
| Diluted | -0.03 |
| | |
| **Consolidated statement of comprehensive income** | |
| *Remeasurement gains and losses on defined-benefit plans* | *1 815* |
| OCI not to be reclassified to profit or loss in subsequent periods, after tax | 1 815 |
| Other comprehensive income for the period | 1 815 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | -121 |
| Attributable to the Group | -121 |
| Attributable to non-controlling interests | - |
| | |
| **Consolidated balance sheet** | |
| *Retained earnings* | *-1 936* |
| *Other Group reserves* | *1 815* |
| Equity attributable to the Group | -121 |
| *Employee benefit obligations* | *121* |
| Non-current liabilities | 121 |
| Total | - |
| | |
| **Consolidated cash flow statement** | |
| *Operating result (EBIT)* | *-655* |
| *Non-cash items included in operating result* | *655* |
| Gross cash flows from operating activities | - |
| Cash flows from operating activities | - |