

5. Income statement items and other comprehensive income

5.1. Operating result (EBIT) by function

in thousands of €	2011	2012	variance
Sales	3 339 957	3 460 624	120 667
Cost of sales	-2 688 542	-2 981 782	-293 240
Gross profit	651 415	478 842	-172 573
Selling expenses	-148 947	-157 772	-8 825
Administrative expenses	-134 443	-134 419	24
Research and development expenses	-90 146	-69 449	20 697
Other operating revenues	14 691	18 287	3 596
Other operating expenses	-11 712	-17 668	-5 956
Operating result before non-recurring items (REBIT)	280 858	117 821	-163 037
Non-recurring items ¹	8 427	-167 101	-175 528
Operating result (EBIT)	289 285	-49 280	-338 565

¹ Gains on business disposals (€ +20.9 million in 2011) have been reclassified from other financial income to non-recurring items. See adjusted 'Non-recurring items' section in note 2.4. 'Income statement items'.

Sales and gross profit in thousands of €	2011	2012	variance (%)
Sales	3 339 957	3 460 624	3.6%
Cost of sales	-2 688 542	-2 981 782	10.9%
Gross profit	651 415	478 842	-26.5%
Gross profit in % of sales	19.5%	13.8%	

Bekaert's consolidated sales increased with 3.6% compared to 2011. Both the 9.6% net impact of acquisitions and disposals (integration of the Inchalam group, Qingdao and Southern Wire, partly offset by divestments of the Specialty Films and Industrial Coatings activities) and 4.9% of currency movements (mainly due to a stronger USD and CNY) contributed to the sales growth. Organic sales decreased by 10.8%: (i) 80% is due to sawing wire with much lower volumes and a further 60% average price decrease as a consequence of the solar market collapse, and (ii) 20% is related to the other product groups with stable volumes but lower prices due to lower wire rod prices and price pressure in a global competitive environment.

The 26.5% decrease of gross profit is the result of 7.2% increase from acquisitions and currency movements, and 33.7% decrease in the organic business which is almost fully concentrated in sawing wire. The gross profit of the other product groups remained stable in spite of the very competitive environment.

Overheads in thousands of €	2011	2012	variance (%)
Selling expenses	-148 947	-157 772	5.9%
Administrative expenses	-134 443	-134 419	0.0%
Research and development expenses	-90 146	-69 449	-23.0%
Total	-373 536	-361 640	-3.2%

The increase in selling expenses reflects the inclusion of new businesses (a.o. in Chile) and exchange rate movements, partly offset by less bad debt provisions and cost savings. Administrative expenses remain flat as the net increase due to new businesses and exchange rate movements is offset by cost reductions. The decrease in research and development expenses is the result of the restructuring of the sawing wire related activities (mainly in Belgium).

Other operating revenues in thousands of €	2011	2012	variance
Royalties received	10 018	10 618	600
Gains on disposal of PP&E and intangible assets	669	1 307	638
Realized exchange results on sales and purchases	-1 439	1 055	2 494
Government grants	3 143	1 617	-1 526
Miscellaneous	2 300	3 690	1 390
Total	14 691	18 287	3 596

Government grants relate mainly to subsidies in China (€ 1.6 million). There are no indications that the conditions attaching to those grants will not be complied with in future and therefore it is not expected that subsidies may have to be refunded.

Other operating expenses in thousands of €	2011	2012	variance
Losses on disposal of PP&E and intangible assets	-2 300	-2 157	143
Amortization of intangible assets	-651	-226	425
Bank charges	-2 851	-2 651	200
Miscellaneous	-5 910	-12 634	-6 724
Total	-11 712	-17 668	-5 956

The increase of Miscellaneous is mainly due to the inclusion of new businesses and currency movements, as well as one-time transition costs related to a change of service provider. Miscellaneous also includes tax related expenses (other than income taxes), which remained relatively stable (€ 2.6 million).

Non-recurring items in thousands of €	2011	2012	variance
Restructuring - impairment losses	-4 812	-82 159	-77 347
Restructuring - other revenues	239	23	-216
Restructuring - other expenses	-3 895	-100 149	-96 254
Other impairment losses	-1 342	-12 244	-10 902
Gains on business disposals ¹	20 853	13 392	-7 461
Gains on step acquisitions	-	21 717	21 717
Other revenues	5 676	4 494	-1 182
Other expenses	-8 292	-12 175	-3 883
Total	8 427	-167 101	-175 528

¹ Gains on business disposals (€ +20.9 million in 2011) have been reclassified from other financial income to non-recurring items. See adjusted 'Non-recurring items' section in note 2.4. 'Income statement items'.

Out of the total of € -167 million non-recurring items, € -117 million relates to the sawing wire restructuring program and the remainder (€ -50 million) relates to other business realignment measures and gains from M&A activities.

The € -82 million restructuring impairment losses includes € -68 million for sawing wire (of which € -40 million in China), and the other € -14 million mainly relates to the realignment of the other Belgian manufacturing sites which were part of the 2012 restructuring program.

Restructuring – other expenses mainly includes (i) € -73 million lay-off costs for the implementation of the realignment program in Belgium and the global cost reduction program in 2012 and 2013, as well as (ii) other costs relating to the collapse of the sawing wire business and the restructuring program in Belgium (of which about half of the costs in China and half in Belgium).

Other impairment losses mainly reflect the goodwill and PP&E impairments in the steel wire plant in Canada.

The gains on business disposals in 2011 relate to the sale of the Specialty Films activities and in 2012 it mainly relates to the sale of the Industrial Coatings activities.

The gain on step acquisitions relates to the remeasurement to fair value of the 50% equity interest held in the Inchalam group prior to the business combination, and to the recycling of the cumulative translation adjustments recognized in equity prior to the business combination (see note 7.2. 'Effect of new business combinations and business disposals').

The other revenues mostly originate from the disposal of PP&E. The other expenses mainly include provisions for environmental liabilities and one-time effects in the initial accounting for the business combinations.

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 €	2011		2012	
Sales	3 339 957	100%	3 460 624	100%
Non-recurring revenues ¹	26 768	-	39 626	-
Other operating revenues	14 691	-	18 288	-
Total operating revenues	3 381 416	-	3 518 537	-
Own construction of PP&E	99 084	3.0%	32 941	1.0%
Raw materials	-1 329 163	39.8%	-1 385 513	40.0%
Semi-finished products and goods for resale	-112 549	3.4%	-240 418	6.9%
Change in work-in-progress and finished goods	36 938	-1.1%	-33 243	1.0%
Staff costs	-618 556	18.5%	-711 721	20.6%
Depreciation and amortization	-200 835	6.0%	-229 103	6.6%
Impairment losses	-6 470	0.2%	-94 987	2.7%
Transport and handling of finished goods	-135 624	4.1%	-147 769	4.3%
Consumables and spare parts	-286 369	8.6%	-205 829	5.9%
Utilities	-193 503	5.8%	-208 048	6.0%
Maintenance and repairs	-51 104	1.5%	-47 804	1.4%
Expenses operating leases	-22 709	0.7%	-21 182	0.6%
Commissions in selling expenses	-4 814	0.1%	-5 559	0.2%
Export VAT and export customs duty	-34 057	1.0%	-27 413	0.8%
ICT costs	-26 784	0.8%	-30 615	0.9%
Advertising and sales promotion	-8 686	0.3%	-5 924	0.2%
Travel, restaurant & hotel	-39 935	1.2%	-37 320	1.1%
Consulting and other fees	-29 404	0.9%	-21 053	0.6%
Office supplies and equipment	-13 796	0.4%	-15 281	0.4%
Venture capital funds R&D	-1 617	0.0%	-772	0.0%
Temporary or external labor	-19 792	0.6%	-17 003	0.5%
Insurance expenses	-4 851	0.1%	-7 230	0.2%
Miscellaneous	-87 535	2.6%	-106 972	3.1%
Total operating expenses	-3 092 131	92.6%	-3 567 817	103.1%
Operating result (EBIT)	289 285	8.7%	-49 280	1.4%

¹ Gains on business disposals (€ +20.9 million in 2011) have been reclassified from other financial income to non-recurring items. See adjusted 'Non-recurring items' section in note 2.4. 'Income statement items'. The other revenues and restructuring – other revenues (€ 5.9 million in 2011) have been reclassified in this table from miscellaneous to non-recurring items.

5.3. Interest income and expense

in thousands of €	2011	2012
Interest income on financial assets not classified as at FVTPL	7 521	8 711
Interest income	7 521	8 711
<i>Interest expense on interest-bearing debt not classified as at FVTPL</i>	-66 826	-74 919
<i>Interest expense adjustments from economic hedges</i>	-1 111	-5 903
Interest expense	-67 937	-80 822
Interest element of interest-bearing provisions	-5 378	-6 963
Interest expense	-73 315	-87 785
Total	-65 794	-79 074

The increase in interest expense is mainly due to the dual tranche bond totaling € 400 million issued in November 2011, which caused the average interest-bearing debt to be substantially higher than the year before. 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 interest expense net of the expected return on plan assets of defined-benefit plans (see note 6.15. 'Employee benefit obligations').

5.4. Other financial income and expenses

in thousands of €	2011	2012
<i>Value adjustments to derivatives</i>	-26 672	43 659
<i>Value adjustments to hedged items</i>	574	-741
<i>Exchange results on hedged items</i>	39 300	-44 194
Impact of derivatives	13 202	-1 276
Other exchange results	11 362	6 155
Impairment losses on available-for-sale financial assets	-	-7 906
Gains and losses on disposal of investments ¹	2 048	2 197
Dividends from other shares	343	388
Other	-529	-2 437
Total	26 426	-2 879

¹ Gains on business disposals (€ +20.9 million in 2011) have been reclassified from other financial income to non-recurring items. See adjusted 'Non-recurring items' section in note 2.4. 'Income statement items'.

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'.

An impairment loss of € 7.9 million has been recognized on the Group's investment in Shougang Concord Century Holdings Ltd at 30 June 2012, based on its prolonged decline in fair value.

A change in the classification of gains and losses on investments has been applied, to the effect that these now relate to the sale of non-consolidated investments only. Gains and losses on disposal of consolidated investments have been reclassified to non-recurring items within EBIT. In 2011, this related to the sale of the Specialty Films activity (€ +20.9 million).

5.5. Income taxes

in thousands of €	2011	2012
Current income taxes	-98 296	-47 305
Deferred taxes	30 163	-20 410
Total tax expense	-68 133	-67 715

Relationship between tax expense and accounting profit

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

in thousands of €	2011	2012
Accounting profit	249 917	-131 233
Tax expense at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	-63 407	44 371
Tax expense related to distribution of retained earnings	-9 110	1 896
Total theoretical tax expense	-72 517	46 267
Theoretical tax rate	-29.0%	-35.3%
Tax effect of:		
<i>Non-deductible items</i>	-13 076	-15 833
<i>Other tax rates and special tax regimes</i>	17 082	4 752
<i>Non-recognition of deferred tax assets</i>	-18 074	-120 483
<i>Utilization of deferred tax assets not previously recognized</i>	4 357	12 741
<i>Tax adjustments relating to prior periods</i>	5 202	4 600
<i>Exempted income</i>	5 820	11 345
<i>Other</i>	3 073	-11 104
Total tax expense	-68 133	-67 715
Effective tax rate	-27.3%	N/A

The theoretical tax rate is impacted by losses in some countries. As a result the theoretical tax rate is not representative.

Other tax rates and special tax regimes reflect temporary tax holidays and notional interest deduction. The exempted income of 2012 is mainly related to gains on business disposals whereas in 2011 this item included mainly tax impact on financial income in Hong Kong holdings.

5.6. Share in the results of joint ventures and associates

The results of the Brazilian joint ventures were nearly stable when compared to last year. The negative result in BOSFA Pty Ltd was mainly caused by an impairment loss on the building formerly used for manufacturing steel cord.

in thousands of €		2011	2012
Joint ventures			
BOSFA Pty Ltd	Australia	225	-1 460
Belgo Bekaert Arames Ltda and subsidiary ¹	Brazil	15 694	15 932
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda	Brazil	-29	344
Inchalam group ²	Chile	9 261	-
Bekaert Faser Vertriebs GmbH	Germany	62	33
Bekaert (Xinyu) Metal Products Co Ltd ³	China	210	-4 466
Total		25 423	10 383

¹ As from 1 March 2012, Belgo Bekaert Arames Ltda has absorbed its subsidiary (Belgo Bekaert Nordeste SA).

² As from 1 January 2012, the Inchalam group has been fully consolidated. See note 7.2. 'Effect of new business combinations and disposals'.

³ Bekaert (Xinyu) Metal Products Co Ltd has been acquired on 15 December 2011. The 2012 result was adversely influenced by asset impairments.

Refer to note 7.8. 'Subsidiaries, joint ventures and associates' for the list of legal entities related to this note.

5.7. Earnings per share

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 €)	-194 940	-194 940
Earnings per share (in €)	-3.301	-3.296

2011	Number	
Weighted average number of ordinary shares (basic)	58 933 624	
Dilution effect of subscription rights and options	395 126	
Weighted average number of ordinary shares (diluted)	59 328 750	
	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders (in thousands €)	192 643	192 643
Earnings per share (in €)	3.269	3.247

The weighted average closing price during 2012 was € 22.59 per share (2011: € 54.69 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	20.02.2006	23.795	212 298	10 215
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	210 450
SOP 2010-2014 - options	14.02.2011	77.000	360 925	350 925
SOP 2010-2014 - options	20.02.2012	25.140	287 800	287 800

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

5.8. Total comprehensive income

The following table analyzes the deferred taxes booked in equity by item of other comprehensive income.

in thousands of €	2011	2012
Exchange differences	-831	2 463
Other exchange differences	-831	2 463
Cash flow hedges	-222	-816
Fair value changes recycled to profit or loss	-832	495
Other movements in cash flow hedges	610	-1 311
Actuarial gains and losses on defined-benefit plans	2 948	486
Other	-8	-
Total deferred tax reported in OCI	1 887	2 133
Attributable to the Group	1 684	1 677
Attributable to non-controlling interests	203	456