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Annual results 2017

Presentation 28 February 2018

M. Taylor, Chief Executive Officer
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Bekaert delivers 10% sales growth and € 301 million underlying EBIT

- Consolidated sales of € 4.1 billion (+10%) and combined sales of € 4.8 billion (+11%)
- Underlying gross profit of € 704 million (17.2% margin) compared with € 690 million (18.6% margin) in 2016
- Underlying EBIT of € 301 million (7.3% margin) compared with € 305 million (8.2%)
- EBIT of € 318 million (7.8% margin) compared with € 260 million (7.0% margin)
- Underlying EBITDA of € 497 million (12.1% margin) compared with € 513 million (13.8%)
- Underlying ROCE of 11.2% compared with 11.8%
- € 273 million capital expenditure (PP&E) vs € 159 million in 2016, in support of future growth
- Net debt of € 1 151 million. Net debt on U-EBITDA was 2.3, higher than last year (2.1). Excluding Bridon-Bekaert Ropes Group, net debt on underlying EBITDA was 1.5
- Result for the period attributable to the Group: € 185 million, up 76% from € 105 million in 2016
- EPS: € 3.26 compared with € 1.87

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Consolidated sales FY2017

- 10% sales growth, driven by 9% organic growth
- exceeding the € 4 billion consolidated sales mark for the first time in history

Consolidated sales	2016	2017	Share	Variance	Organic	FX	M&A
EMEA	1 148	1 273	31%	+11%	+11%	-	-
North America	512	552	14%	+8%	+10%	-2%	-
Latin America	682	673	16%	-1%	+3%	+1%	-6%
Asia Pacific	1 052	1 145	28%	+9%	+12%	-3%	-
BBRG	320	455	11%	+42%	+5%	-1%	+38%
Total	**3 715**	**4 098**	**100%**	**+10%**	**+9%**	**-1%**	**+2%**

Underlying EBIT performance

Underlying EBIT: € 301 million, down 1% from 2016 – with a margin of 7.3%

The main factors contributing to the results were:

+ firm demand from automotive, industrial steel wire and construction markets;
+ better profitability in North America;
+ incremental benefits from the transformation programs

The margin was down from last year due to:

- the incorporation of the Bridon activities for the full year;
- the divestment of Sumaré as from H2 onwards;
- the time needed to pass on continuously increasing wire rod prices;
- a deterioration of Latin American markets due to political and economic instability;
- fast declining loose abrasive sawing wire business in H2.

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Consolidated income statement: key figures

	Underlying		Reported	
(in mio €)	**2016**	**2017**	**2016**	**2017**
Sales	3 715	4 098	3 715	4 098
Cost of sales	(3 025)	(3 394)	(3 058)	(3 396)
Gross profit	**690**	**704**	**657**	**702**

- Sales growth of 10.3 %
  - +3.4 % organic volume growth
  - +5.5 % net of passed-on higher wire rod prices and price-mix
  - +3.3 % incremental sales from the Bridon merger
  - - 1.0 % less sales from the Sumaré disposal
  - - 0.9 % unfavorable impact of exchange rate movements.

- Gross Profit growth of € 14.3 million (+2.1 %) at a margin of 17.2%:
  - Organic growth: € +4 million
  - the added contribution of the merger with Bridon (FY 2017 vs HY2 2016): € +23 million
  - the disposal effect of Sumaré (since HY2 2017): € -10.7 million
  - An unfavorable impact from exchange rates : € -2 million

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Consolidated income statement: key figures

(in mio €)	Underlying 2016	Underlying 2017	Reported 2016	Reported 2017
Gross profit	**690**	**704**	**657**	**702**
Selling expenses	(175)	(179)	(176)	(180)
Administrative expenses	(140)	(162)	(152)	(164)
R&D expenses	(64)	(63)	(63)	(63)
Other operating revenue and expenses	(7)	1	(7)	23
EBIT	**305**	**301**	**260**	**318**

- Overheads as a percentage on sales dropped from 10.4% to 9.8%
- The increase in selling expenses (€ 4.1 million) reflects to a large extent the adverse impact of M&A (€ 9.2 million), partly offset by positives including the reversal in bad debt allowances and FX
- The administrative expenses increased by € 22.3 million; the increase largely equates to the impact of M&A (€ 14.6 million) and an increase in consulting fees (€ 7.5 million)
- R&D expenses, including M&A, decrease slightly due to higher grants. Gross spend remained unchanged.
- Reported other operating results increased by € 30 million, mainly reflecting the gain on the sale of 55.5% of the shares in the formerly wholly-owned subsidiary in Sumaré (€ 25.8 million).

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Consolidated income statement: key figures

(in mio €)	Underlying		Reported	
	2016	**2017**	**2016**	**2017**
EBIT	305	301	260	318
EBIT margin	8.2%	7.3%	7.0%	7.8%
EBITDA	513	497	481	510
EBITDA margin	13.8%	12.1%	13.0%	12.4%
ROCE	11.8%	11.2%	10.0%	11.8%

Underlying operating performance:

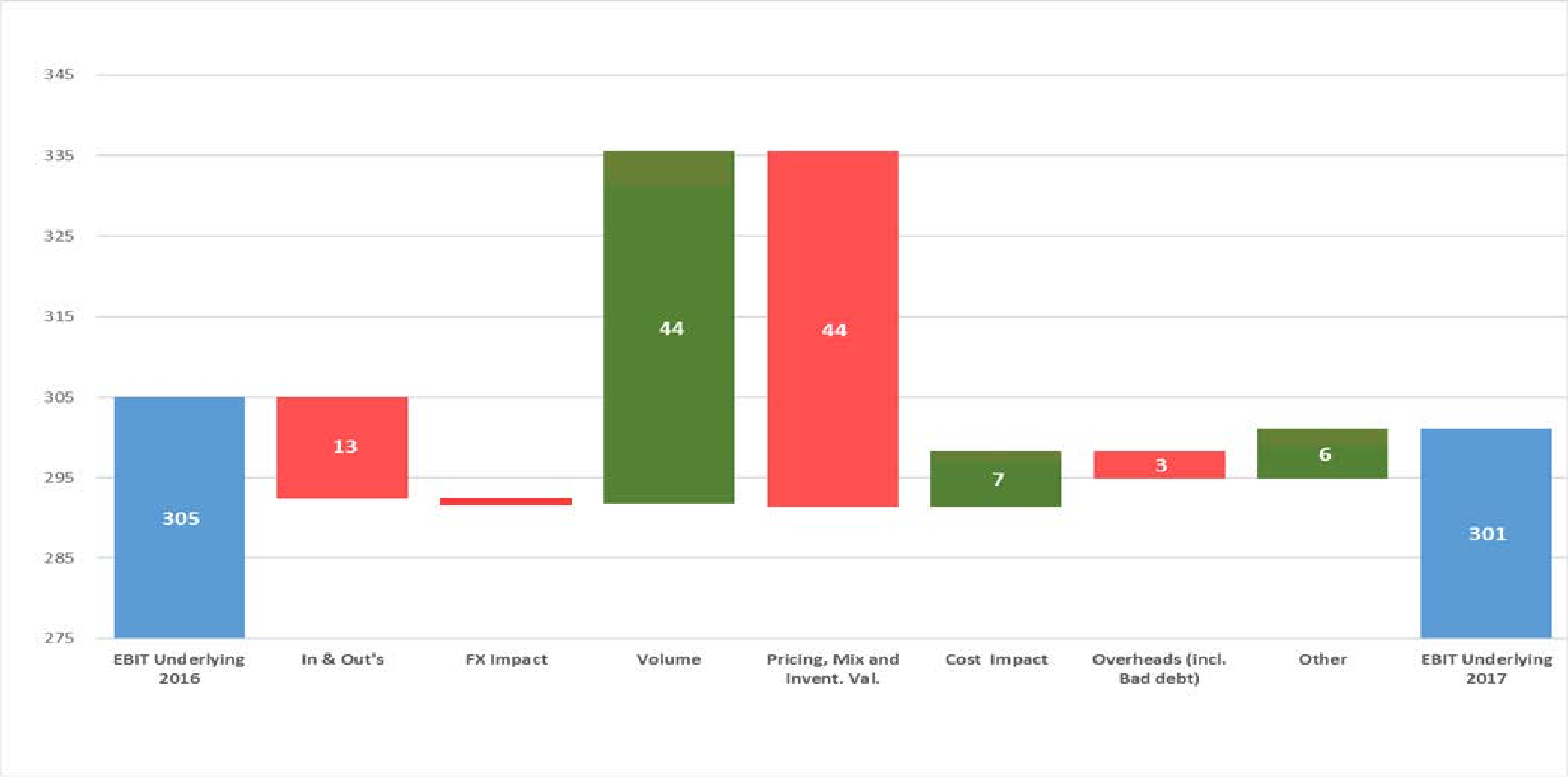
- Underlying EBIT 1% down to € 301 million, resulting in a margin of 7.3%
- Underlying EBITDA 3% down, reflecting a margin of 12.1%
- ROCE above 11%, slight decrease due to lower U-EBIT and increased capital employed

Reported operating performance: Reported EBIT increased by € 58 million:

- In 2017, the one-off EBIT elements included € +17 million. This was the net effect of the gain on the sale of 55.5% of the shares in the formerly wholly-owned subsidiary in Sumaré (€ +25.8 million) and other items adding up to a net expense of € -8.8 million.
- 2016 included € -45 million net expenses related to restructuring expenses in different countries (€ -27 million), impairment losses on PP&E in China (€ -16 million), M&A transaction fees (almost € -9 million) and other items adding up to a net positive effect of € +7 million.

EBIT-underlying bridge

In millions of €



Segment reporting: EMEA

(in mio €)	Underlying				Reported	
	2016	2017	H1/2017	H2/2017	2016	2017
Consolidated sales	1 148	1 273	653	621	1 148	1 273
EBIT	141	141	81	60	136	144
EBIT margin	12.2%	11.1%	12.3%	9.7%	11.8%	11.3%
Depreciation, amortization and impairment losses	59	62	31	31	58	58
EBITDA	200	203	111	91	194	202
EBITDA margin	17.4%	15.9%	17.1%	14.7%	16.9%	15.9%
ROCE	22.1%	20.8%			21.3%	21.2%

- Sales increase of 11%, driven by solid organic volume growth (+7%), a limited positive currency impact (+0.3%) and the aggregate of price/mix effects and higher, passed-on wire rod prices (+3.5%).
- Strong sales with volume increases in all segments except Specialty Wires.
- Performance in H2 was less strong compared to H1, because of the usual seasonality, some delay in passing on wire rod price increases, and additional costs of hiring and training personnel for the ongoing expansion programs in CEE.
- We repeated the record Underlying EBIT of last year in absolute numbers; at a lower margin (-1%, reaching 11.1%).
- EBIT includes € +3 million reversal of previous impairment losses.

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Segment reporting: North America

(in mio €)	Underlying				Reported	
	2016	**2017**	**H1/2017**	**H2/2017**	**2016**	**2017**
Consolidated sales	512	552	287	265	512	552
EBIT	26	33	21	13	26	33
EBIT margin	5.1%	6.0%	7.2%	4.8%	5.1%	6.0%
Depreciation, amortization and impairment losses	13	13	7	6	13	13
EBITDA	39	47	28	19	39	47
EBITDA margin	7.6%	8.5%	9.6%	7.2%	7.6%	8.5%
ROCE	11.7%	14.9%			11.7%	14.9%

- Sales increased by almost 8%, mainly due the aggregate effect of price/mix and passed-on higher wire rod prices (+6%) and because of solid organic volume growth (+3%). The currency impact was -2% for the full year.
- The transformation programs put in place had a material impact on the underlying EBIT performance. The combined approach in implementing manufacturing, supply chain and commercial excellence have led to a stronger organization, better segmentation, and increased cost competitiveness. U-EBIT increased by 28% to € 33 million at a margin of 6%.
- H2 was lower due to seasonality effects and the weaker USD in H2 had a significant unfavorable impact on both sales and profitability, year-on-year.
- ROCE further improved and reached almost 15%.

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Segment reporting: Latin America

(in mio €)	Underlying				Reported	
	2016	**2017**	**H1/2017**	**H2/2017**	**2016**	**2017**
Consolidated sales	682	673	356	317	682	673
EBIT	67	55	28	26	67	80
EBIT margin	9.8%	8.2%	8.0%	8.4%	9.8%	11.9%
Depreciation, amortization and impairment losses	22	20	11	8	22	20
EBITDA	89	74	40	35	88	100
EBITDA margin	13.0%	11.1%	11.1%	11.0%	12.9%	14.8%
ROCE	16.6%	14.8%			16.5%	21.6%

- Consolidated sales decreased -1% as a result of the combined effect of the Sumaré disposal (-5.5%) and lower volumes (-5.6%), partially offset by the aggregate of price/mix effects and higher wire rod prices (+8.7%) and a limited favorable currency impact (+1.1%).
- Underlying EBIT decreased by 18% due to weak market conditions and cost inflation, amongst other due to protective measures against wire rod imports in various countries. The cancellation of the obligations under an onerous supply contract offset the divestment impact of the high-margin Sumaré entity. The underlying EBIT margin reached 8.2% for the full year.
- Reported EBIT includes the gain on the sale of 55.5% of the shares in the formerly wholly-owned steel cord plant in Sumaré.
- Underlying ROCE decreased to 14.8% and reported ROCE reached more than 21% because of the Sumaré deal.

Segment reporting: Asia Pacific

(in mio €)	Underlying				Reported	
	2016	2017	H1/2017	H2/2017	2016	2017
Consolidated sales	1 052	1 145	565	580	1 052	1 145
EBIT	119	107	61	46	100	104
EBIT margin	11.3%	9.3%	10.7%	7.9%	9.5%	9.1%
Depreciation, amortization and impairment losses	103	90	47	43	119	89
EBITDA	222	196	108	89	219	193
EBITDA margin	21.1%	17.1%	19.0%	15.3%	20.8%	16.8%
ROCE	12.2%	10.9%			10.3%	10.7%

- Sales increase of 8.8% driven by solid organic volume growth (+6.1%) and the aggregate effect of price/mix and passed-on higher wire rod prices (+5.8%); partly offset by adverse currency movements (-3.1%).
- Underlying EBIT was below the outstanding result of 2016: the continuous price increases of raw materials hampered an immediate effective pricing response in the fierce competitive environment in China. In Q4, we were better able to pass on wire rod prices without adversely affecting our sales volumes. Demand for loose abrasive sawing wire declined sharply in HY2 due to an acceleration of the technology shift towards fixed abrasive. Finally, the ongoing expansion programs in the region generated additional costs related to hiring and training personnel.
- Reported EBIT includes restructuring expenses relating to the Huizhou and the Jining plants in China (€ -7 million), partly offset by the reversal of previous impairments on PP&E in China (€ +4 million).

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Segment reporting: BBRG

(in mio €)	Underlying				Reported	
	2016	2017	H1/2017	H2/2017	2016	2017
Consolidated sales	320	455	234	221	320	455
EBIT	13	15	11	4	(9)	12
EBIT margin	4.1%	3.3%	4.7%	1.8%	-2.7%	2.7%
Depreciation, amortization and impairment losses	21	26	11	15	22	26
EBITDA	35	41	22	19	13	38
EBITDA margin	10.8%	9.0%	9.4%	8.6%	4.0%	8.4%
ROCE	3.4%	3.1%			-2.3%	2.5%

- Bridon entities entered in H2 2016.
- Sales increase of 42%, as a result of FY incorporation of the Bridon entities (+37.7%), organic volume growth (+3.7%), the aggregate effect of price/mix effects and higher wire rod prices (+1.1%) and almost neutral currency impact (-0.5%).
- The weak results reflect the difficult conditions in steel rope markets (mainly affecting the Oil & Gas dependent operations in EMEA and Brazil. The operations in North America, Australia and Chile are mining market dependent and performed a bit better).The advanced cords business activities have performed strongly throughout the year.
- The projected recovery of Bridon-Bekaert Ropes Group is taking longer than anticipated due to the absence of a rebound in offshore oil & gas activities and the slow reconversion and entry process into more diversified market segments.

Consolidated income statement: key figures

(in mio €)	2016	2017
EBIT	**260**	**318**
Interest income / expense	(73)	(87)
Other financial income and expenses	(37)	(6)
Result before taxes	149	225
Income taxes	(62)	(69)
Result after taxes (consolidated companies)	**87**	**156**

- Higher net interest expense mainly due to the full-year impact on the net debt incurred at the Bridon merger transaction.
- Other financial results include the adjustment in fair value of the conversion option embedded in the convertible bonds (€ +17.7 million in 2017 vs € -37.4 million in 2016).
- The higher income tax expense is amongst others due to the effect of lower enacted tax rates on the deferred tax asset positions in Belgium and in the USA.
- The Effective Tax Rate decreased to 30.8%.

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Consolidated income statement: key figures

(in mio €)	2016	2017
Result after taxes (consolidated companies)	87	156
Share in the results of joint ventures and associates	25	27
Result for the period	**112**	**183**
Attributable to non-controlling interests	7	-2
Attributable to the Group	**105**	**185**

- As a result of its partial disposal, Sumaré became a joint venture and was later (1 November 2017) merged into the existing Brazilian rubber reinforcement joint venture (BMB), explaining the increase of the share in the results of joint ventures and associates.
- Results attributable to non-controlling interests reflects the lower profitability in the companies where minority stakes are held by third parties; this relates mainly to the companies in Chile and in Peru and to BBRG (full year impact in 2017).
- The result for the period attributable to the Group was € 185 million, up 76% and resulting in EPS of € 3.26.

Cash flow: key figures

(in mio €)	**2016**	**2017**
Gross cash flows from operations	376	356
Cash flows from operations	400	244
Cash flows from investment activities	(100)	(226)
Cash flows from financing activities	(302)	47

- Gross cash flows from operations were down € 20 million due to lower EBITDA.
- Cash flows from operations also reflect the cash-out impact of the higher working capital (almost € +110 million in 2017, while in 2016 € 16 million of cash-in impact was realized).
- Cash-outs from investment activities increased by € 126 million. Capital expenditure (€ 277 million) was substantially higher compared to last year (€ +111 million) while net cash-ins from acquisitions and disposals dropped from € 41 million in 2016 (cash acquired in the BBRG transaction) to € 20 million in 2017.
- Cash flows from financing activities were positive in 2017. Net cash-outs from gross financial debt in 2016 reflected the repayment of a long-term loan, offset by the extra cash received from the Convertible Bond Exchange.

Working capital: key figures

(in mio €)	2016	2017
Inventories	724	780
Accounts receivable	819	910
Accounts payable	(701)	(802)
Working capital	843	888

- The nominal increase in Working Capital by € 45 million was mainly the result of higher outstanding trade receivable balances, while the organic increase in inventories was more than offset by the increase in trade payables.
- Average working capital on sales was 21.4%, down from 22.6% at year-end 2016.

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Consolidated balance sheet: key figures

(in mio €)	2016	2017
Non-current assets	2 137	2 124
Current assets	2 168	2 321
Total assets	4 304	4 445
Equity	1 598	1 583
Non-current liabilities	1 504	1 449
Current liabilities	1 202	1 413
Total equity and liabilities	4 304	4 445

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Balance sheet: key figures

(in mio €)	2016	2017
Net financial debt	1 068	1 151
Gearing (net debt to equity)	66.8%	72.7%
Net debt on EBITDA (underlying)	2.1	2.3
Net debt on EBITDA (reported)	2.2	2.3

- Net financial debt excluding debt related to BBRG would have been € 694 million, versus € 632 million last year.
- Gearing further increased due to the increase in net debt.
- Net debt on EBITDA was 2.3 – excluding BBRG, the ratio was 1.5 (underlying).

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Ratios: key figures

	Underlying		Reported	
	2016	2017	2016	2017
Gross profit margin	18.6%	17.2%	17.7%	17.1%
EBITDA margin	13.8%	12.1%	13.0%	12.4%
EBIT margin	8.2%	7.3%	7.0%	7.8%
Sales on capital employed (asset rotation)	1.4	1.5	1.4	1.5
Return on capital employed (ROCE)	11.8%	11.2%	10.0%	11.8%
Return on equity (ROE)			7.2%	11.5%

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Key figures per share

(in €)	2016	2017
Share price	38.49	36.45
Number of existing shares	60 347 525	60 373 841
Book value	24.31	24.64
Earnings per share (EPS)	1.87	3.26
Weighted average number of shares	56 263 172	56 741 126

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Outlook (1/3)

We project broad economic strength in most parts of the world in 2018, with the exception of Latin America. We anticipate good demand in our automotive markets, particularly driven by growth in truck tire markets, and in mining and construction markets. Prospects for the oil & gas sector may improve as oil prices continue to increase.

We recognize that the same factors that affected our performance at some point last year, with a margin impact particularly in the second half, will continue to weigh on the profitability of the first half of 2018. This includes:

- the difficult business climate in Latin America
- the divestment of Sumaré in Brazil
- continued volatility of wire rod prices and other inflationary costs
- continued low demand for loose abrasive sawing wire
- the slow recovery of Bridon-Bekaert Ropes Group

The only added caution for 2018 relates to the potential outcome and impact of the changes to fiscal and trade policies in the US.

Outlook

However, we will **progressively improve on all controllable factors** in 2018:

- During Q4 2017, we have been better able to pass on wire rod price increases without adversely affecting sales volumes. We expect **continued margin recovery** in 2018.
- We have made a **breakthrough in the development of fixed abrasive sawing wire**. All key customers have tested and approved the samples and we will build manufacturing capacity to start delivering a positive contribution in the 2nd half of 2018.
- Bridon-Bekaert Ropes Group has started to roll out the same transformation tools that we have implemented successfully within Bekaert. These programs will help create a turnaround in cost effectiveness, sales growth and margin capability and should **steadily improve our performance** over the coming years.
- The global transformational programs supporting our vision and strategies are expected to **gain further ground**.
- In addition, we will start to see some benefits from the ongoing **expansion investments**.

Outlook (3/3)

That is why we are confident we will **improve our profitability progressively** during 2018 to achieve the same profitability level of 2017.

We continue to believe that the improvements we are making throughout our business will allow us to move towards a 10% underlying EBIT margin over the medium term.

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Our transformation journey

Our transformation journey includes:

BeCare
No harm to anyone @Bekaert

BMS
Install manufacturing excellence

a manufacturing excellence program aimed at gaining competitiveness by improving the company's safety, quality, delivery performance and productivity;

BCE
Drive customer excellence

a customer excellence program to drive growth and margin performance;

Supply Chain
Supply Chain Management

a supply chain excellence program to improve our planning and inventory management capability;

Fit for Growth
From good to great to best in class

and a global program aimed at building business capabilities to enable the growth ambitions of the Group.

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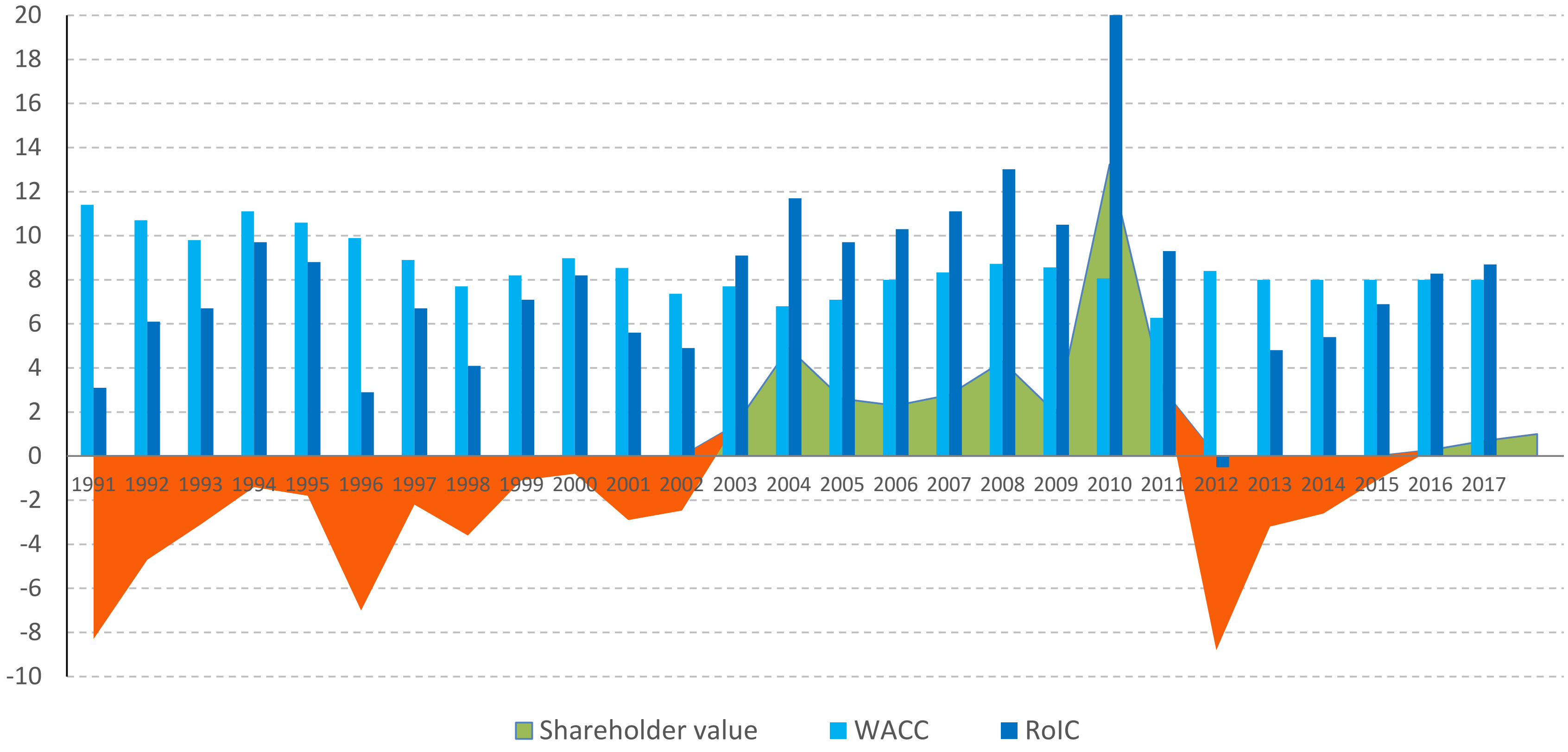
Shareholder value: ROIC (8.7%) > WACC (8.0%) in 2017



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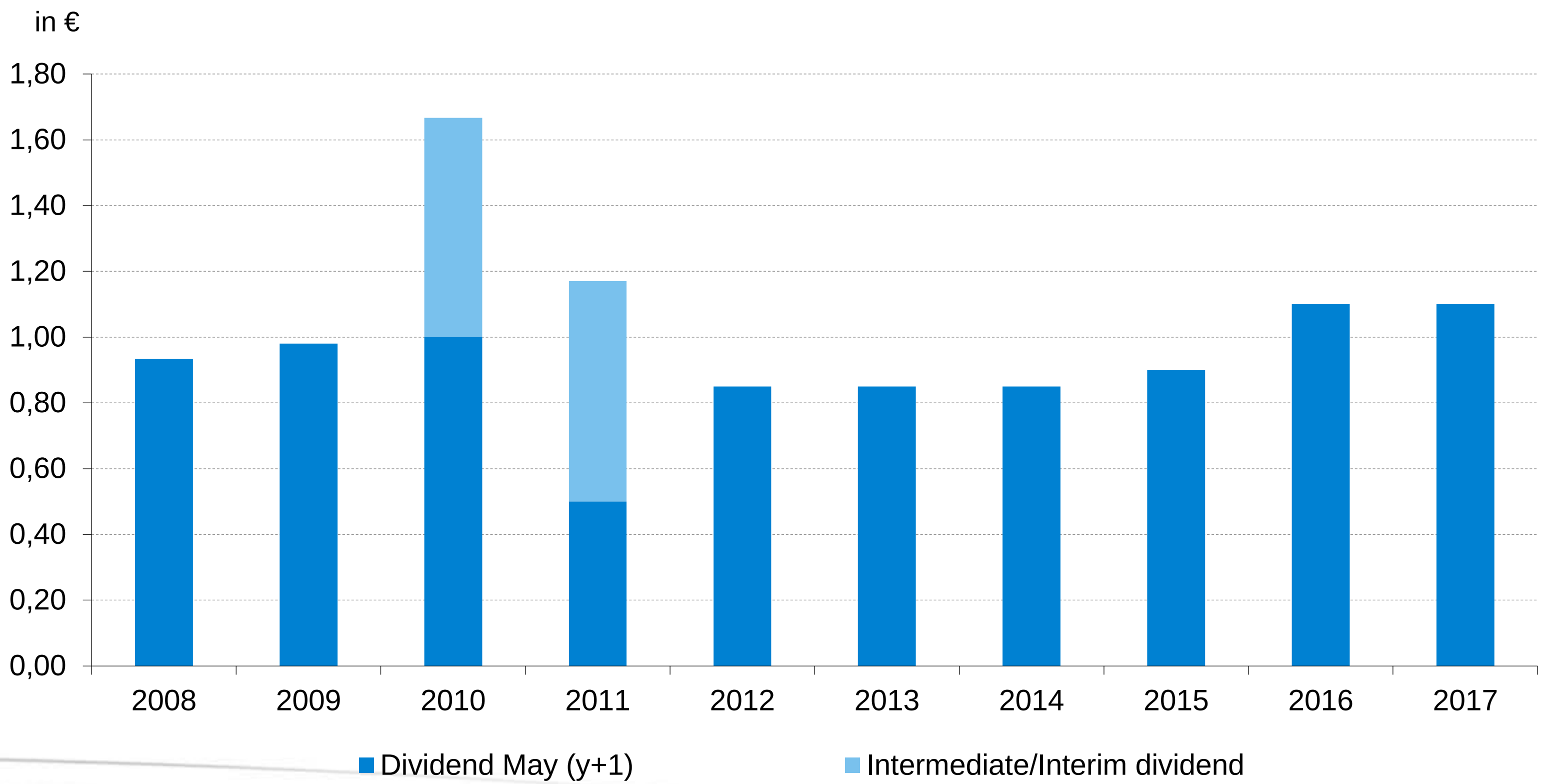
Dividend proposal

The Board of Directors confirms its confidence in the strategy and future perspectives of the company and will propose to the Annual General Meeting of Shareholders to distribute a gross dividend of € 1.10 per share, unchanged from last year.



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Nomination of new Director

The Board of Directors of NV Bekaert SA is proud to announce the nomination of Mr Colin Smith for appointment by the Annual General Meeting of Shareholders of 9 May 2018. He will replace Mr Alan Begg whose term of office will expire and who is not seeking re-election.

Colin P. Smith

- Career spanning more than 40 years with Rolls Royce
- Was appointed Group President of Rolls Royce in 2016
- Authority in aerospace Engineering & Technology

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