

24 May 2002

Building the future

Engineering & Machinery

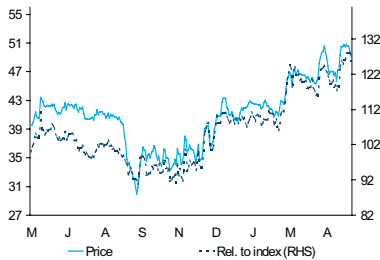
Belgium

Current price € 49.16

Target price € 55.00

Accumulate

Unchanged



Source: Thomson Financial Datastream

FY/e 31.12	2000	2001	2002E	2003E
Sales (€m)	1,756	1,796	1,901	1,953
EBITDA(€m)	246	192	240	260
Pre-Tax* (€m)	92	34	62	94
Adj EPS* (€)	4.66	2.38	3.47	5.05
EPS (€)	4.20	2.15	3.12	4.69
DPS (€)	1.68	1.68	1.68	1.75
P/E* (x)	10.6	20.6	14.1	9.7
Yield (%)	3.4	3.4	3.4	3.6
EV/EBITDA(x)	5.6	8.3	5.8	4.9

Source: KBC Securities

*Adjusted for goodwill and exceptionals

Reuters BERTt.BR
Bloomberg BEKB BB

www.bekaert.com

Market Cap EUR 1,096.3m
Shares outst. 22.30m
Volume (daily) € 1.06m
Free float 59.7%

Next corporate event

Results 1H 02 on 29 July 2002

Performance over	1m	3m	12m
Absolute	-3%	18%	24%
Rel. BEL20	1%	13%	25%
Rel. sector	-2%	10%	33%
12-m Hi/Lo	€ 50.80/29.94		

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Bekaert is the world's leader in steel cord and steel wire products and is a fast grower in Advanced Materials, the focus of development of the group.

Bekaert's traditional core businesses, steel cord and steel wire, will benefit strongly from the upswing in the economy, which is already underway in the US and due to spread to Europe later this year. Bekaert Advanced Materials, the new focus of development, will keep growing and add more to the bottom line profitability in the future.

- Bekaert is the world's leader in steel cord and steel wire (including merchant products) – early cyclical products which should post strong(er) results from this year on.
- Bekaert Advanced Materials is Bekaert's focus of development, where the group combines its core competences in metal transformation and coating technologies. Bekaert Specialty Films (window films) and Bekaert ECD (solar energy) will add considerably to the bottom line from 2003 onwards.
- The window film market is growing 15% per annum. Bekaert ECD will most likely breakeven in 2003-2004 depending the sales level. The expectations here are particularly high as renewable energies is a business that will keep growing rapidly for at least another decade (or more). The question is whether Bekaert is best placed to capitalise on its current growth path.
- We value the stock € 55.0 per share taking into account the book value for the solar energy business (low visibility).
- The optimism regarding the economic upturn and the high hopes for Advanced Materials warrant an Accumulate rating with a new 12 month price target of € 55.0.

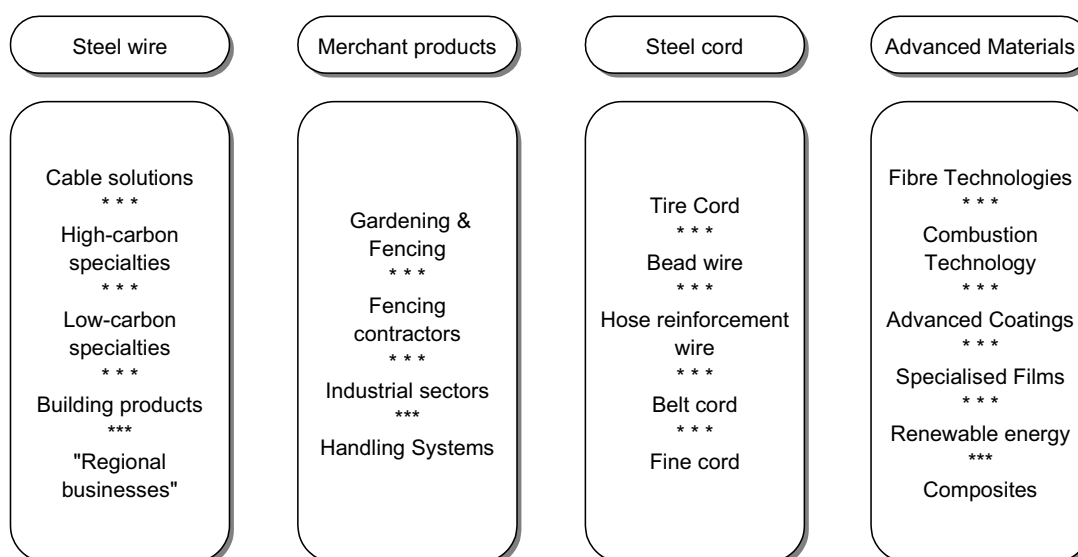
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Business description

Leading and independent

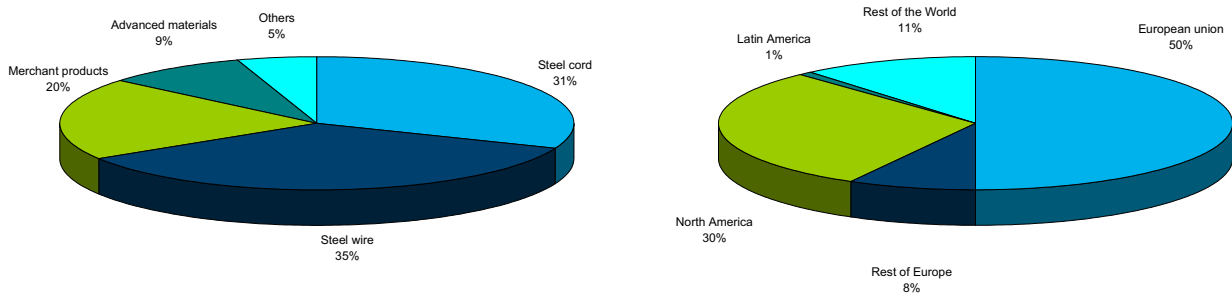
Bekaert is the world's **leading** manufacturer of steel wire, steel cord and merchant products (fences) and is a fast growing manufacturer of advanced materials capitalising on the core skills of the group, namely **metal transformation** and a wide variety of **coating technologies**. Bekaert is a worldwide group with 96 production sites in 29 countries and (total group) turnover in excess of € 2.8bn. The group employs over 17,000 people.



4 business units

- **Steel wire:** wire products for the protection and support of power transmission and telecom cables, products used in automotive, offshore oil production and the building industry as well as commercial products like staple wire, bookbinding wire, weaving wire, champagne cork wire etc.
- **Merchant products:** woven and welded mesh products for the garden and agricultural markets, security fencing systems and products for industrial applications and material handling systems.
- **Steel cord:** products for polymer reinforcement, e.g. for the reinforcement of truck and car tyres but also high-pressure hose reinforcement wire, conveyor belt cord, woven steel cord, fine cord for transmission belts and sawing wire.
- **Bekaert Advanced Materials (BAM)** is the focus of development. In *BAM*, Bekaert develops products, which combine Bekaert's core skills in metal transformation and coating technologies with *new* technology. The new products are used in areas like filtration, electromagnetic screening, electrostatic dissipation, flexible electrical circuit boards, theft prevention, seawater desalination, and energy saving and health care. We will discuss the "new" BAM unit in more detail below.

Consolidated sales breakdown

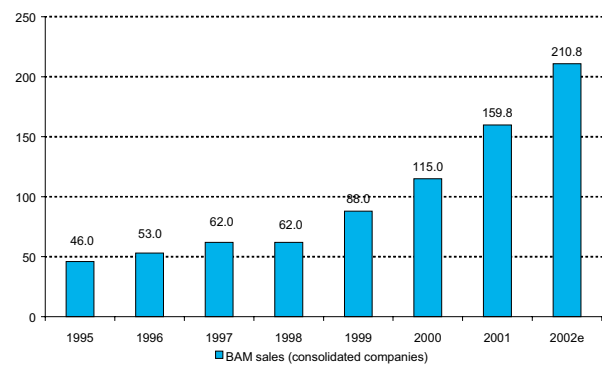
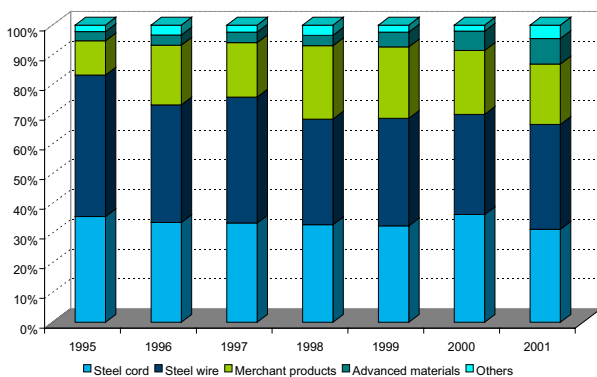


Source: Bekaert annual report

Steel wire and steel cord still dominate

Bekaert's risk profile in terms of geographical presence is low. The BAM unit is to underpin Bekaert's future growth but *Steel Wire* and *Steel Cord* remain, in terms of sales, the dominant units for the time being. *BAM* (still "only" 8.6% of consolidated sales) is growing fast, however.

Bekaert Advanced Materials



Source: Bekaert annual report

Growth in BAM partly driven by acquisitions

The growth in Advanced Materials is partly the result of a number of acquisitions and partnerships (as outlined in the strategy, see below). In 2001 two thirds of the € 45m sales increase was "external". Only one third was organic which, given the growth profile of the unit, corresponded to organic growth of *only* 13% (partly because of adverse economic conditions). The external growth was mainly the acquisition of the film division of Material Science Corp. (incl. the remaining 50% of *Innovative Specialty Films* which Bekaert now wholly controls). We will discuss this in more detail below.

Strategy

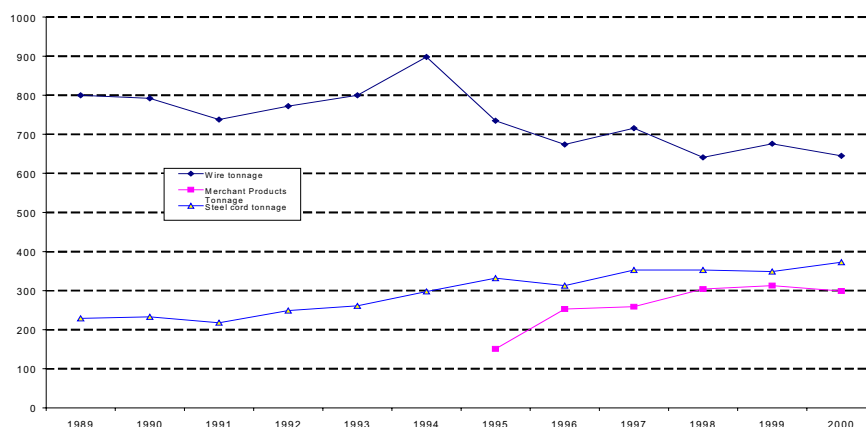
Focus on a renewal process

Bekaert's strategy is based on two pillars. First the group wants to keep its traditional businesses (steel cord and steel wire and merchant products) in top shape (cost effective, competitive, profitable etc.). The second and more important strategic issue today is of course the focus on Advanced Materials. Bekaert is in the middle of a renewal process, which aims at sustainable and profitable growth in the future.

Bekaert's international expansion started in the fifties and sixties and was based on steel cord for radial tyre reinforcement. It is clear however that the traditional businesses can no longer be the focus for future development.

Steel wire is not the growth business anymore

Tonnages 1989-2000



Source: Bekaert annual reports

Existing businesses do not offer enough growth potential

Bekaert omitted tonnages from its 2001 annual report, which is why we only included figures till 2000 in the graph.

The trend in **steel wire** is clearly down (-28% compared to 1994). For a number of reasons obviously (i.a. well considered divestments of volume driven businesses) but there is no reason why this trend should not continue in the years to come.

Steel cord still shows some growth (2.4% p.a. since 1995). Tyre cord remains the main material for tyre reinforcement. With Eastern Europe and Asia (China in particular) breaking through in terms of car sales, demand for tyre cord will probably keep rising. Steel cord, tyre cord in particular, has become a competitive business however (the main competition coming from tyre manufacturers themselves). The business as such is not offering enough growth potential for Bekaert to deserve growth status. On top of that it is partly cyclical (2/3^{ths} of tyre cord aims at the replacement market).

Merchant products, an independent unit since 1995/1996, it is also stabilising in terms of volumes. Bekaert targets upgrading the group's image to become more a contractor - offering turnkey fencing solutions.

Limited segment reporting

Bekaert does not publish separate profits for its different business units (see also below) but we are convinced that these would demonstrate the permanent pressure on margins - in particular in those segments that are volume-driven. This also explains part of the strategy and some recent divestments such as the sale of the Warrington plant and Hylsa-Bekaert, Mexico in 1999, the recent restructuring of the *Low Carbon Speciality Business* because of worldwide overcapacity and insufficient profitability of some product segments, the closure of the Huddersfield site with Joseph Sykes Brothers in 2002 etc.

Striving to renew

Because of market circumstances, Bekaert had to look for another road ahead. However, the renewal process is and will be complex and will include structural changes, which the management of Bekaert hopes to accomplish in years to come (i.a. a more commercial approach focused more on end-products).

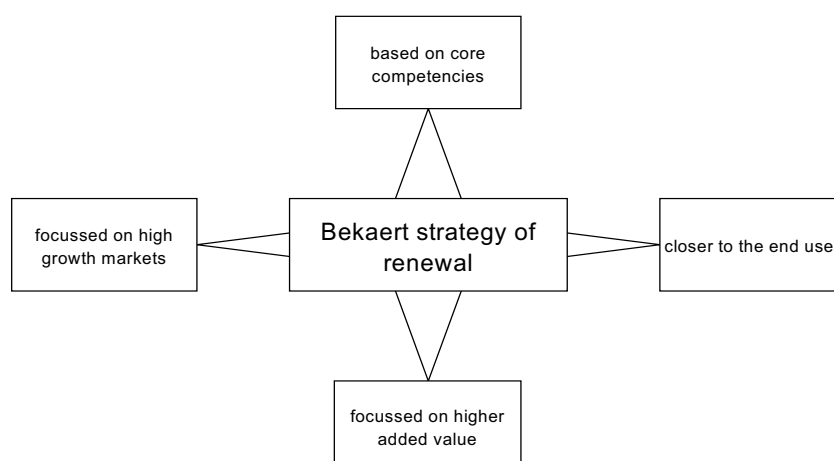
A clear strategy

The strategic process of renewal:

- Is **based on the core competences** of the group, namely metal transformation and coating technologies. Bekaert is avoiding adventures in fields where it lacks knowledge. 'Diversification' entails building on the core expertise built up over a number of decades
- Tries **to move away from volume driven businesses** (cf. some recent divestments) to businesses with higher added value
- Focuses preferably on international **markets with high growth potential**. The expansion in solar energy and in window films are good examples.
- Moves **closer to the end-user** (e.g. Bekaert's position in burners employing fine metal fibres) albeit that this necessitates a cultural switch, as Bekaert has always been a manufacturer of intermediate goods.

All this without denying that **continuous innovation** will (have to) be the engine driving the group forward.

Bekaert's strategy

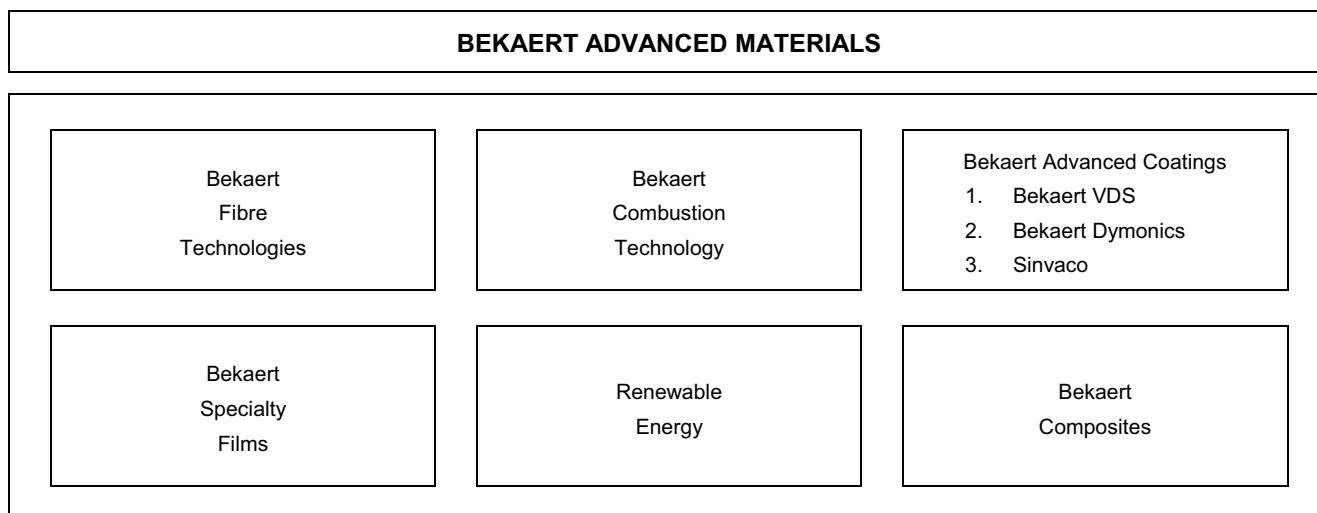


Source: KBC Securities

Bekaert Advanced Materials (BAM)

BAM is the road ahead

BAM is capitalising on the core competencies of the group in metal transformation and coating technologies. This has resulted in 6 independent business units being created in recent years:



6 independent business units

Bekaert Fibre Technologies manufactures fine metal fibres in a range of metal alloys used in filtration media (Bekidisk® for wine filtration) and in metal-fibre textiles (Bekintex® = “intelligent textiles”).

Bekaert Combustion Technology comprises two activity clusters. Acotech is a joint venture with Shell, which produces industrial burners and metal-fibre burner mats. Furigas specializes in environment-friendly burners for domestic and commercial applications.

Bekaert Advanced Coatings: thermal spraying of industrial coatings, diamond-like nanocomposite coatings and manufacture of vacuum-coating equipment.

Bekaert Specialty Films: in 2001, Bekaert acquired the specialty films division of Material Science Corp. We will discuss this acquisition in more detail below.

Renewable energy: Bekaert used its coating know-how to set up a solar energy project with its partner Energy Conversion Devices (ECD US). We will also discuss this project in more detail later in the report.

Bekaert Composites: composites are fibre-reinforced plastics which, because of their fire-resistance and light weight, have shown strong organic growth (15%-20%) over the past few years. Composites are easy to maintain and are breaking through in the transport sector, the construction sector and desalination sector. Bekaert Composites is the European market leader. It is a sort of diversification Bekaert has ruled out for future diversification but Bekaert Composites has good prospects for strong, profitable growth. The new acquisition in Reverse Osmosis, announced recently, should fuel further growth.

No financial details available

Unfortunately, we do not have more details on exactly how BAM is performing. It would help the market to better understand the way Bekaert is evolving. Market watchers often have little idea of progress made by certain acquisitions or partnerships that are part of the renewal process. As Bekaert does not publish earnings figures per business segment, we also do not know how profitable certain activities are. The table below summarizes the comments on the sales evolution from Bekaert in the annual reports. We agree that the sales figure as such is not the most relevant measure but if BAM is to guarantee future growth for Bekaert, it will have to start by lifting sales:

Growth in Advanced Materials				
	1998	1999	2000	2001
Fibre Technologies	Sales turned out close to the 1997 level	Sales growth of 1.7%	18% improvement	Stable sales in 2001
Combustion Technology	/	Total sales went up by over 150% (°)	Sales increased sharply (°°)	Sales in 2001 showed modest growth
Advanced Coatings	Sales growth of just under 10%	Sales up by over 50%	Sales were significantly higher	36% in sales for the three activities
Specialty Films	/	/	Sales increased by almost a third	2001 was a remarkable year
Renewable Energy	/	/	A year of historical significance (p.s.: setting up the project)	Sales doubling in 2001 [...] the emphasis in 2002 will be on stepping up the marketing and sales effort
Composites	Sales were up 15%	With Sales up 30%	Sales up 15%	A 20% increase in sales
BAM Sales in € million	62	88	115	160
% growth	+ 0.0%	+41.9%	+30.7%	+39.0%
€ million growth	0m	+26m	+27m	+45m
Comments Bekaert	Consolidated sales remained stable in 1998	Sales up 41% half of which organic growth	[global sales] +24% half of which due to organic growth	New acquisitions accounted for around two-thirds of this increase
BAM organic growth	n.a.	+21.0%	+15.3%	+13.0%

Source: Bekaert annual reports, KBC Securities

(°) mostly external growth following the acquisition of Combustion Component Holding NV (Furigas) in July 1999

(°°) after the inclusion of a full year of Furigas' sales

Success not necessarily guaranteed

A few additional remarks:

- Bekaert does not give detailed results per business unit but says that the EBITDA margin in BAM is at least 20%. The EBIT margin is at least 15% (under cruising speed conditions). We will use that as guidance in our financial analysis. One critical remark in that respect is that you pay for these higher margins when going for external growth. The above average EBIT margin should not serve as criterion for assessing future profitability.
- Bekaert's strategy in BAM is partly based on acquisitions and alliances. As we have already explained in previous reports, we are not quite sure whether a variety of alliances is the best way forward. Numerous alliances weigh on management time and overheads. The group admittedly has broad experience with joint ventures. And as with ISF (see below) this sometimes leads to a complete takeover later on.
- Long-term "organic" growth in BAM is in our view around 15% (confirmed by Bekaert at its annual meeting recently: > 10%).
- Different units are susceptible to downturns because of dwindling demand (telecom sector last year) despite the fact that they belong to the growth axis of the group. Just to give an example: sales in 1998 remained flat due to a combination of two factors: the continuing decline in the use of fine metal fibres in airbags (→ technological risk) and the impact of the economic downturn in Asia on demand for fine metal fibres for polymer filtration and conductive plastics (→ economic risk). Being the focus of development does not mean that BAM is a business without risk.
- The organic growth in Composites is remarkable. It is not the kind of diversification, which Bekaert would take on today (not based on the core skills). In our view however, Composites is going strong and Bekaert is Europe's leading manufacturer at this moment.

Bekaert's growth in BAM over the past 4 years

	1998	1999	2000	2001
December				
↑	Bekaert Timeda (jv)			Sorevi (a)
↑		Flanders Coating Group (a)	Bekaert-CMTM (jv)	
↑			Frebek (jv)	
↑				
↑		Combustion Component Holding (a)		
June	Bekaert Composites/EPC (jv)			MSC/SFI (a)
↑			Bekaert/Agfa (jv)	
↑		Bekaert/Du Pont (jv)	Bekaert ECD Solar Systems (jv + a)	CPSI (a)
↑		Bekaert Fibre Processing Systems		
↑				
January		Innovative Specialty Films (jv)		

Source: KBC Securities

(a) = acquisition, (jv) = joint venture

We would like to comment on the two most striking investments of the past two years: Bekaert Specialty Films (2001) and Bekaert ECD Solar Systems (2000).

Bekaert Specialty Films

It started in 1999

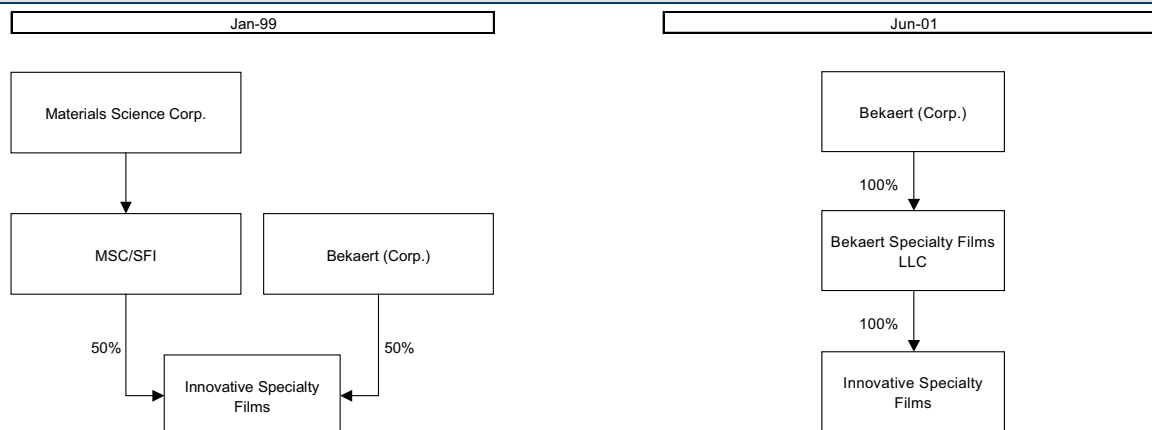
In 1999, Bekaert signed a joint venture, *Innovative Specialty Films (ISF)*, with Material Science Corp. for the development of highly specialized thin sputtered films on flexible polymer materials. ISF operates facilities in the US and Europe and has a sales office in Tokyo.

And continued in 2001

In June 2001, Bekaert acquired *Specialty Films*, a division of Material Science Corp, including its 50% block of ISF shares. Bekaert paid \$ 122m in cash (€ 57.9m goodwill) to acquire the manufacturer of solar control and safety window film as well as industrial film, serving the automotive, building and a variety of other markets. The entity is now called *Bekaert Specialty Films (BSF)* and is one of the pillars of *BAM* producing high performance films that find their way into a wide range of applications:

- Main business line is the *solar control window films* with various sputtered layers that reject heat and reduce glare while maintaining the desirable lighting conditions. These films are primarily applied onto automotive and architectural windows;
- Films used in anti-theft, anti-counterfeit and antenna applications;
- Silver-based films serving as lighting reflectors;
- Films used in touch screens and EL lamps;
- Anti-reflective multi-layer films used in display applications;
- Industrial films for OEM customers.

Bekaert's expansion in window films



Source: KBC Securities

Distribution network

An interesting feature about the acquisition was that Bekaert also bought Material Science's distribution network (17 own distribution centres targeting mainly the professional installer market). Bekaert will be able to use this network when it starts to commercialise its solar energy products later this year.

Window films relatively important

We think that BSF in 2001 has made appr. € 45/50m in sales (6 months) or +/- 30% of *BAM* (€ 160m) - which is relatively high. If the EBIT-margin is at least 15%, then BSF has added appr. € 7.1m to Bekaert's EBIT (12% of total). The unit added € 1.9m to the bottom line (4% of total). *Innovative Specialty Films* was loss-making till mid-2001 (€ 221,000 because of start-up losses).

Positive outlook

The market for window films is estimated at \$ 250-280m; this means that BSF holds appr. 1/3rd of a market, which is growing with 15-20% p.a. (source: Bekaert). We regard this a very interesting position to be in.

The growth in window films is supported by growing concern about:

- Energy savings: keeping the heat inside in the winter and the warmth outside in the summer is just one interesting feature of window films. This will obviously save costs both in heating and in air-conditioning;
- Comfort/Heat management: people pay more and more attention to the quality of their environment. Window films resolve problems with regard to light, reflection etc. and therefore guarantee more comfort;
- Security: certain window films offer greater protection against robberies, harsh weather conditions, earthquakes etc. Unfortunately, the 11th September attacks proved what special window films can do. The films used at the Pentagon, have saved a lot of lives: the Pentagon confirmed that the glass broke but that the film kept the pieces together.

Risk assessment

Not without risks however

The important step forward in window films capitalizes on one of the core skills of Bekaert, namely the know-how with regard to various coating technologies. The acquisition is not without risks of course:

The price paid seems reasonable

Bekaert paid \$ 122m in cash for sales of +/- \$ 85m. 1.4 times sales is in our view not cheap but all depends obviously on the profitability and free cash flows (no details available). Profit before tax amounts to 15% of sales (compared to Bekaert's 4-6% EBIT margin). Bekaert paid 7.5 times EBITDA for the acquisition of MSC/SFI (excl. ISF), which seems, without any details available, reasonable.

Targeting automotive and construction business mainly

The market for window films is mainly targeting the automotive and the construction business (to some extent cyclical). The window films are mostly sold to upgrade existing glass (the biggest market so far). Despite the advantages, Bekaert will therefore have to convince the clients to make the additional cost to upgrade their existing glass. It makes the business model a little bit more complicated.

Competition

Bekaert's main competitor is of course the (flat) glass industry, which also looks for higher quality, more expensive glass with specific characteristics (light, heat... control). The glass manufacturers target off course in the first place the newbuildings. High tech flat glass may save the constructor an extra cost (although flat glass will never incorporate the safety element). As Bekaert targets the existing glass market for the moment, we feel the group may do fine in years to come.

Strategic fit but (long term) prudence

We agree with the strategic fit and the growth potential of the business. Bekaert Specialty Films is well placed to help Bekaert along in its expansion but taking into account a number of risk elements, we have remained prudent in our estimates (see below).

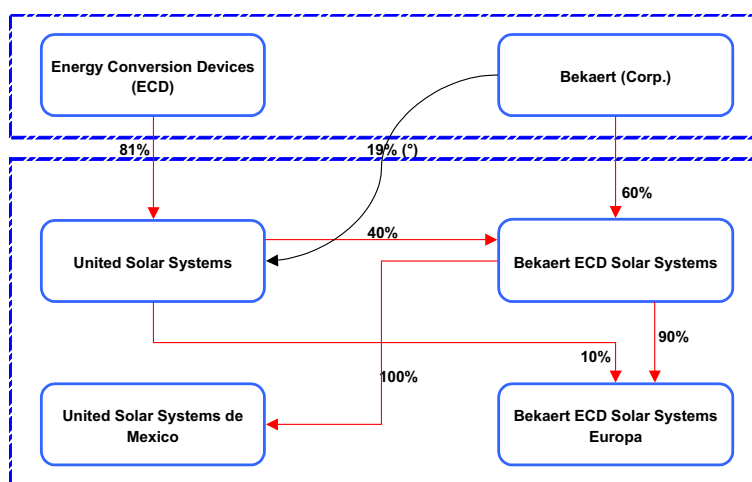
Bekaert ECD Solar Systems

Transaction structure

Embarking on renewable energy too

The other most important project in *BAM* is the solar energy project announced in April 2000. At that time, it was the largest project ever undertaken by Bekaert with an estimated (total) project cost of \$ 84m.

Transaction scheme



Source: KBC Securities

(*) Bekaert holds 19% in United Solar Systems but can acquire the majority not later than in January 2004.

Complicated JV: some background

- Bekaert (60%) and Energy Conversion Devices and its subsidiary United Solar Systems (40%) established the joint venture **Bekaert ECD Solar Systems**. The joint venture is the sales & marketing office, which is to **assemble** and **sell** PV cells & modules which United Solar will manufacture for the **UNI-SOLAR®** brand of solar panels and systems.
- Bekaert acquired a 19% minority stake in **United Solar Systems** with the right to increase its share into a 55% majority share not later than January 2004 (which will cost Bekaert an additional \$ 12m).
- The project cost amounted to **\$ 84m**. The money was used to fund Bekaert ECD, to take the stake in United Solar and to acquire the majority in Jan-04. The money invested in Bekaert ECD was used to finance the new 25MW¹ plant (cost price appr. \$ 55m according to the quarterly reporting by ECD) and the operating requirements.
- The partners also established a sales & marketing organization in Europe called Bekaert Solar Systems ECD Europa (90% Bekaert ECD Solar Systems, 10% United Solar Systems).

Energy Conversion Devices

Energy Conversion Devices is listed on the Nasdaq (ENER US) and is active in alternative energy and advanced information technology. Its market cap amounts to \$ 475m. Its strategy is to finance its operations and growth through **strategic alliances** (joint ventures and partnerships) with third parties (e.g. Bekaert) who

¹ The ongoing trial runs show that the capacity could actually be higher (at 30MW)

can provide financial resources and marketing expertise for the company's technologies and products. ChevronTexaco holds 20% in ECD. DKW believes that some of ECD's products will find a mass market over the next three to four years. This partly refers to the solar energy project set up in collaboration with Bekaert.

General remarks

Growing concern about the environment

We state the obvious when saying that concern about the environment is growing. Industrialization places a tremendous burden on the environment. Global warming and the destruction of forests by acid rain are just two depressing products of the careless use of fossil fuels. The Kyoto treaty (Dec-97) is trying to reduce greenhouse emissions by 2008-12. However customers, although increasingly concerned, may not want to give up their modern lifestyles. Solar energy could in that respect help resolve a number of problems. Every day, the energy equivalent to the world's oil resources reaches the earth from the sun. Each day more energy falls to the earth than the total amount of energy the planet's 5.9 billion inhabitants would consume in 27 years. Against this background, it is no surprise that Bekaert has high hopes with regard to its solar energy project.

The industry has discovered the potential

Major studies predict that, by 2050, renewable energy sources will play an important, if not dominant, role in the world's energy supply. Bekaert is of course not the only one to have noticed the opportunities. The biggest energy and utility groups (e.g. Akzo, BP, Electrabel Nuon, Shell, Siemens) and specialized companies (AstraPower, Kyocera etc.) have already been involved for a number of years. Most of them are also involved in wind energy and other renewable energies. As we will discuss below, the involvement of these major groups is just one concern about Bekaert's future potential in solar energy.

Photovoltaics technology

Crystalline silicon (mono- or polycrystalline)	Thin film
ASE, Astropower, BP Solar, Kyocera, Sharp, Siemens Solar, Shell	ASE, BP Solar, United Solar/Bekaert (amorphous ² silicon) Siemens Solar, Würth Solar (copper indium diselenide)

Source: Bekaert

About the technology

PV systems convert some of the energy in sunlight into energy and are based on solar cells made primarily of **silicon**, the 2nd most abundant element in the earth's crust. When the silicon is combined with one or more other materials, it exhibits unique electrical properties in the presence of sunlight. Electrons are excited by the light and move through the silicon. This is known as the PV effect and results in direct current electricity. There are **two basic categories** of photovoltaic systems, all highly reliable, with several types in each category. Most technologies require 'crystalline' silicon (the most popular solar-cell material for commercial applications), either mono-crystalline or poly-crystalline. The second technology utilizes thin films of doped 'amorphous' silicon:

- **Crystalline silicon** flat plate collectors are the most developed and prevalent type in use today. These include single crystal silicon and polycrystalline silicon, which is either grown or cast from molten silicon and later sliced into its cell size. They are then assembled onto a flat surface;
- **Thin film systems** are cheaper to produce than crystalline silicon but are not as efficient. The thin film technology combines sputtering and other vacuum deposition technologies (core skills of Bekaert!) whereby several thin layers of amorphous silicon (non-crystalline silicon) together with other coatings can be applied to a continuous flexible metals sheet or other substrate.

² amorphous = having an atomic structure that is not periodic

Thin film produces less efficient cells but requires only a film of silicon roughly one fiftieth as thick as mono or poly cells (lower production cost).

Bekaert bets on the “Thin film technology”

Bekaert is active in thin film. The *Uni-Solar* products are based on a sophisticated multi-layer amorphous silicon thin-film solar cell developed by ECD. More than 175 issued U.S. patents protect the process developed by United Solar. Akzo and Shell announced in Oct-2001 a similar initiative in thin film. According to the press release the PV market was to grow at +15-24% p.a. for the next decade. Flexible easy-to-handle solar panels would mean a breakthrough for solar energy in our day-to-day life. Bekaert ECD won the prestigious Bright Light Award from the US Department of Energy in Jan-2001. The price honors the most recent consumer-oriented innovations carried out under the sponsorship of the DOE and serve as an inspiring example of how public investment in innovation can make a difference in our lives.

Market share of thin film will grow

The thin film technology made up only 1% of the PV market in 1999. The crystalline silicon technology was the main technology with 86% of the market. It is expected that thin film will increase its stake to 10% of the market by 2010. Other thin film technologies (technology risk !) are to take 10% of the market too (source: Bekaert).

Success of thin film guaranteed

Overall, the uniqueness of the a-Si technology lends itself to a wide variety of applications and numerous advantages:

- Continuous roll-to-roll process: the traditional silicon and polycrystalline silicon solar cells are made by batch process and are therefore not suited for high volume manufacturing; the thin film does not have this disadvantage whereby high volume manufacturing also allows to bring the average cost down;
- Unbreakable, flexible, lightweight, easy-to-handle: which guarantees in our view a breakthrough in everyday life;
- Durable: 20-30 years Standard photovoltaic modules have a lifetime of over 20 years. In most cases, when installed in non-polluted sites, they are also easy to maintain. When solar panels are set at an angle of greater than 15 degrees, their surface is cleaned naturally by the rain, and loss of efficiency due to dust and other obstructions is minimal;
- Shadow Tolerant: mono-crystalline and polycrystalline output goes down 80/90% in shadow; thin films loses only 40%;
- Cost price: thin film technology has a lower material cost than the traditional production methods. a-Si can be 100x thinner than c-Si, thus reducing material cost. Also, producing the traditional kind of solar cells requires growing a solid crystal, which is an expensive and energy-intensive process.
- Better higher temperature performance, vandal resistant.

- Efficiency: the thin film cells are still less efficient. Mono- and multi-crystalline cells convert up to 15% of the sunlight into energy. This however is not a major disadvantage when installed at roof tops e.g. as the energy is anyhow coming down, the question being to make use of it.

	Typical Efficiencies	Maximum recorded	Maximum recorded laboratory efficiency
Mono crystalline	12-15%	22.7%	24.0%
Multi-crystalline	11-14%	15.3%	18.6%
Amorphous silicon	6-7%	10.2%	12.7%
Cadmium telluride	7-8%	9.2%	16%

Risk analysis

To sum up, it is clear that renewable energy, solar energy in particular, is a growth sector. The vital question is what it will earn Bekaert in terms of profitability and what the risks involved are.

Technology risk

History shows that the transition to another energy source takes 50-100 years. There is still a long way to go. With all major energy and utilities groups involved there is no doubt that the technology will continue to evolve for at least another few decades. Impossible to predict as of today what the future might bring. The current situation looks good for Bekaert. Thin film is to gain market share. The commercial success of the product so far looks guaranteed. But the second 25MW plant is only scheduled in 2005 partly because of the technology risk. Building now would mean that adjustments would have to be made as construction goes on. Bekaert first wants to learn from the plant now under construction. It is also a cast-iron certainty that other companies involved will further develop other competing technologies also. It is impossible as of today to assess what this eventually could mean to Bekaert.

Biggest energy groups involved

Looking at the number and the kind of players involved in solar energy (the biggest energy groups and utilities companies), it is fair to raise some concern about Bekaert's ability to survive in the longer run. Competition is and will be tough. That said, and assuming that the technology works all right, it could in time still be worth considering selling the solar energy technology to a bigger player if an opportunity arose. Of course it is still early days to be firm on that but it is something which Bekaert should consider if it would become clear that it is not able to capitalise fully on the strength and growth potential of its technology.

No distribution network

Bekaert is/was an industrial player and is now moving in the direction of more end-products. This requires a cultural switch in the first place. On the other hand it also means that Bekaert will require a more comprehensive distribution network. Especially when it would sell its solar energy products e.g. to the construction sector (the first market the group will in fact target). It is clear again that the other players (energy groups e.g.) may have more easy access to a world-wide distribution network. Remember that Bekaert's focus in 2002 will be on marketing and sales efforts.

Cost price

Solar energy modules are still pretty expensive although the cost price is gradually coming down (15% p.a.). As long as the products remain too expensive however it will be difficult to compete with the conventional energy sources without governmental support (subsidies).

Heavily dependent on governmental support

Because the products are still too expensive and because of rising concern about the environment, the solar energy is heavily supported by the national governments. Germany, Japan, The Netherlands and Sweden are some countries that are investing heavily in renewable energy technologies.

The governmental support is also linked to the fact that the European governments want to comply with more severe CO₂ emissions standards. The European Commission's White Paper for a Community Strategy sets out a strategy to double the share of renewable energies in gross domestic energy consumption in the European Union by 2010 (from the present 6% to 12%) including a timetable of actions to achieve this objective.

Opportunities

PV energy will continue to grow

Solar energy will keep growing for at least another few decades. Major scenario studies predict that, by the middle of next century, renewable energy sources will play an important, if not dominant, role in the world's energy supply. Industry experts suggest growth rates between 15%-25% p.a. but growth is accelerating others say. The actual growth has in fact outstripped the forecasts time and time again. Being involved in this is thus by definition very promising. According to Entergy Europe, European firms will have to invest between € 200bn and € 300bn in green power over the next 10 years if the European Union is to meet its target of cutting greenhouse gas emissions.

Growing demand for power

More than half the populations of many developing countries are without electric power. Many nations see raising the standard of living in villages as a tool to reduce urban crowding. With dispersed locations and challenging terrain renewable energy technologies are emerging as the most cost-effective and practical option for bringing electrification to these areas. Some industry leaders expect Asia to be the fastest growing solar market in the next five years. The percentage of people without electricity in the following selected developing countries is:

Africa	50%+
Brazil	20%
Central America	55%
China	50%
India	72,000 villages
Indonesia	36,000 villages

Photovoltaic systems have traditionally been economical in remote applications. Most common examples include wireless and cellular communication systems, off-grid homes, recreational vehicles and boats, power for offshore oil rigs, and highway sign lighting and call boxes. Water pumping, vaccine refrigeration, and water purification have all been important factors for PVs in developing countries.

Public opinion

More and more people are expressing a willingness to pay more for environmentally benign technologies over traditional polluting ones. Energy from renewable energy sources is playing a key role in the diversification and sustainability of energy sources and the campaign to combat climate change. In any case, the willingness of the people will mean a great support for the further development of the market for solar energy products.

Financial analysis and outlook

Statement of compliance

Bekaert's 2001 figures are compiled in accordance with the International Financial Reporting Standards (IFRS, previously known as IAS). Bekaert however does not comply fully with IAS 14 about segment reporting. Bekaert says in its annual report that full compliance with IAS 14 would be commercially prejudicial. The only item however that Bekaert does not disclose in Note 2 is the segment result.

Consolidated group vs. Participating interests

Before looking at the Bekaert group as a whole, it is important to know that Bekaert is active as a consolidated group (full consolidation) but has also a significant stake in several companies consolidated using the equity method (in fact mostly active in Latin America). The participations (€ 276.2m) account for 12% of the balance sheet total. The participations are mostly active in Latin America and in steel wire (78.4% of Sales). BAM makes up 8.6% of the consolidated sales but only 6.6% of total group sales.

Sales per business unit

	Consolidated Companies		Participating Interests		CC+PI	
Steel Wire	634.0	35.3%	798.8	78.4%	1432.8	50.9%
Merchant Products	364.6	20.3%	102.7	10.1%	467.3	16.6%
Steel Cord	562.1	31.3%	82.5	8.1%	644.6	22.9%
Advanced Materials	154.4	8.6%	31.3	3.1%	185.8	6.6%
Others	80.8	4.5%	3.6	0.4%	84.4	3.0%
	1795.9	100.0%	1019.0	100.0%	2814.9	100.0%

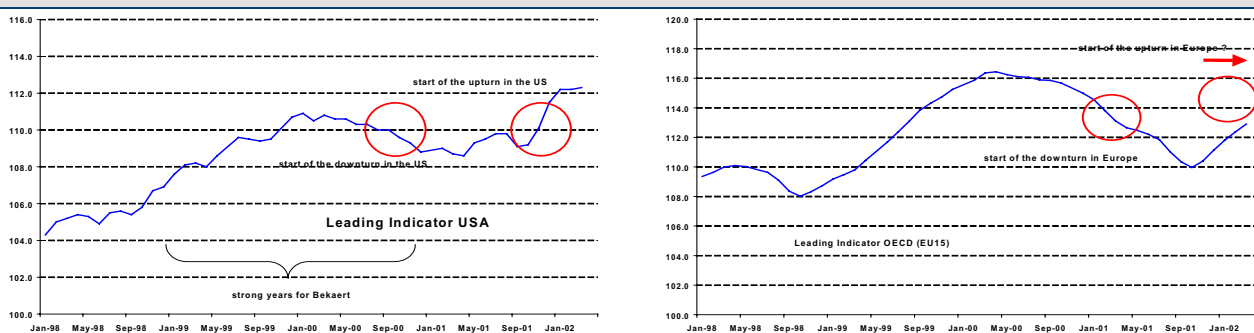
Source: Bekaert annual report, KBC Securities

Consolidated group

An early cyclical company

Bekaert is an early cyclical company meaning that demand for its products goes up or comes down quickly as soon as the trend in economic activity turns around. This is mainly the reason why Bekaert posted poorer results last year with net profit coming down 53% to € 47.8m. According to Bekaert, business started to come down in October 2000 in the US and in March/April 2001 in Europe. Just watch the two following graphs in which we link the up- or downturn in Bekaert's business to the leading indicators (US and EU15):

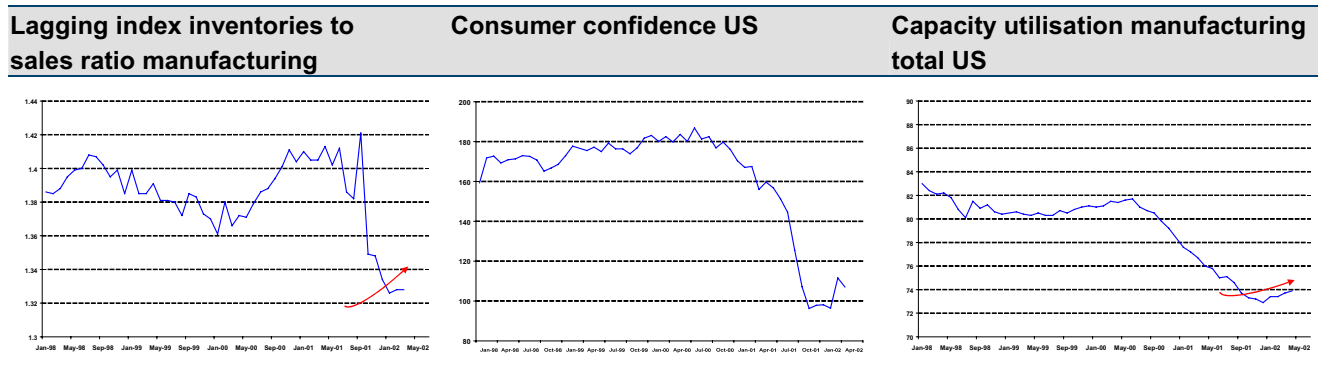
Early cyclical aspect of Bekaert's business



Source: Bloomberg, KBC Securities

Outlook is on the upturn

On the basis of the economic data published over the past few months, we believe that Bekaert will enjoy an upturn in its US activities (confirmed also at the annual meeting recently) and we expect an upturn in the European business later this year. We have added just a few other statistics, which show that the US economy is doing better. Insofar the US economy drives the world economy, this upturn looks promising for Bekaert for the coming 12-18 months.



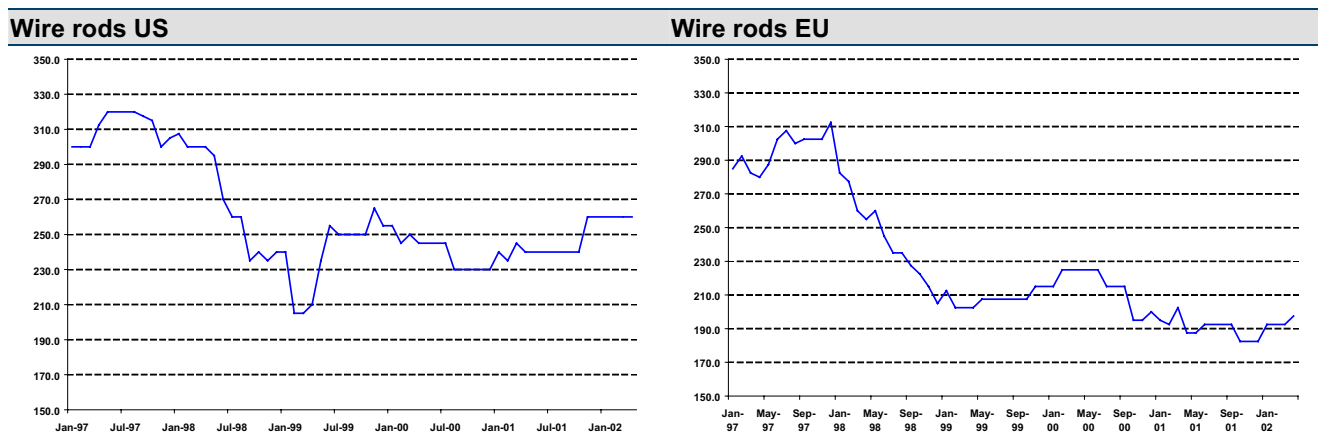
Source: Bloomberg, KBC Securities

Tyre sales up sharply in April

Because steel cord (62% tyre cord and 25% bead wire for the tyre industry) remains an important market for Bekaert, we would like to add that data published by Goodyear and Michelin recently confirmed the positive trend in the European and North American tyre markets. Although caution is still advisable, it just confirms the idea of the upturn.

EBIT margin should improve

A better economic climate will in the first place have an effect on the EBIT margin (higher demand to offset the fixed cost base). On top of that we have to take into account that *BAM* will continue to grow and is posting stronger margins than steel cord and steel wire. The only thing that may spoil the game is the fact that higher steel prices may put pressure on again. There are however no signs of that but the steel industry itself is confident that steel prices will go up later this year. In particular in tyre cord, it remains the question how this will affect the operating result as the contracts in tyre cord are mostly on an annual basis:



Source: Bloomberg

\$ risk exposure

The fact that Bekaert is also active in the US means that the “Euro” group also runs a \$ currency risk although management tries to keep this in line with cash flows. It is assumed that a 10% decline in the \$ rate would cost Bekaert € 2-3m in net profit. The risk as such is therefore only small.

Summary: optimism reigns

In short, optimism reigns:

- Bekaert is building its future by focusing on Advanced Materials, more end-products with higher added value and technology. This strategy will deliver higher earnings in the future.
- Bekaert will benefit from the current upswing in the US economy which is due to spread to Europe later this year and which will also do the Latin American activities much good (see below). 2002 will show a modest recovery in our view but 2003 should again be a strong year.
- The technology status of Bekaert will continue to increase. The solar energy project should break even next year. There too the outlook looks good.

Bekaert projections

		2000	2001	2002	2003	2004	2005
Sales		1,756.3	1,795.9	1,901.4	1,953.0	2,015.0	2,087.1
	Growth	-0.5%	2.3%	5.9%	2.7%	3.2%	3.6%
EBITDA		246.4	191.7	240.0	260.4	259.7	263.0
	EBITDA %	14.0%	10.7%	12.6%	13.3%	12.9%	12.6%
EBIT		115.7	59.5	97.6	121.8	123.0	125.4
	EBIT %	6.6%	3.3%	5.1%	6.2%	6.1%	6.0%
Consolidated profit (group)		102.2	47.8	69.1	104.0	107.8	110.2
Current net profit		104.3	53.0	77.0	112.0	116.1	120.0
Current cash flow		212.1	162.7	204.2	223.6	226.6	232.3
	Growth	14.3%	-23.3%	25.5%	9.5%	1.3%	2.5%
EPS		4.66	2.38	3.47	5.05	5.24	5.41
	Growth	23.2%	-48.8%	45.9%	45.5%	3.7%	3.4%
CFPS		9.47	7.31	9.21	10.09	10.23	10.48
	Growth	14.6%	-22.8%	26.0%	9.5%	1.3%	2.5%

Source: KBC Securities

In line with the guidance given by the company

Just note that our estimates are in line with the guidance given by Bekaert at its annual meeting recently. Net profit 2002 (€ 69.1m part of the group) would end up between the 2000 (€ 102.2m) and the 2001 (€ 47.8m) result. Cash flow 2002 would be closer to the 2000 cash flow (€ 204.2m vs. € 212.1m in our calculations which are on a current basis).

Participating interests

Participating interests

Bekaert’s main participations accounted for under the equity method are the following. It is important to note that Bekaert is not active in Argentina. The main activities in Latin America are situated in Brazil and Chile. We should not neglect neither that Bekaert ECD was part of the participating interests adding a loss of € 6.1m to the result in 2001.

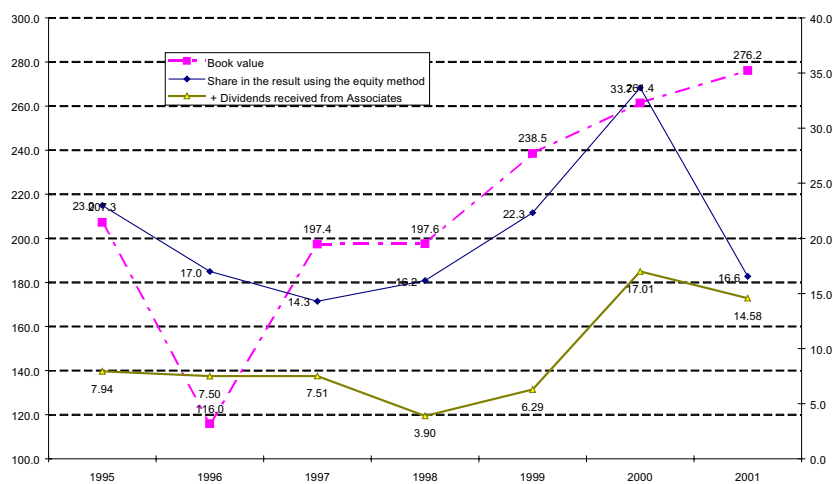
Bekaert's participating interests

	Equity (in € m)	% stake	Country	Net result 01 (Bekaert %)	Net result 00 (Bekaert %)	Change
Belgo Bekaert Arames	89.6	45%	Brazil	15.1	17.6	-2.5
Chilean entities	48.9	50%	Chile	4.2	7.6	-3.4
Bekaert ECD Solar Systems	38.9	60%	US	-6.1	-2.4	-3.7
BMB-Belgo Mineira Bekaert Artefatos de Arame	37.3	45%	Brazil	2.9	6.2	-3.3
Vicson	25.7	50%	Venezuela	2.1	1.0	+1.1
Total						
...	
Total	276.2			16.6	33.7	-17.1

Source: Bekaert annual report

A historic overview of the results of these participations:

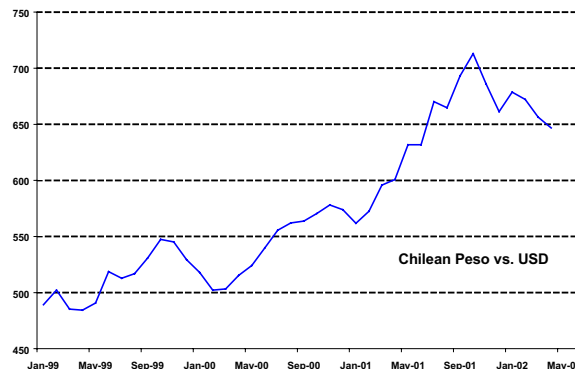
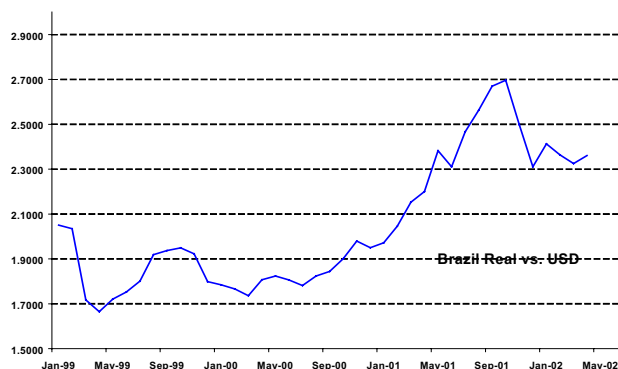
Results of the Participating Interests



Source: Bekaert annual report

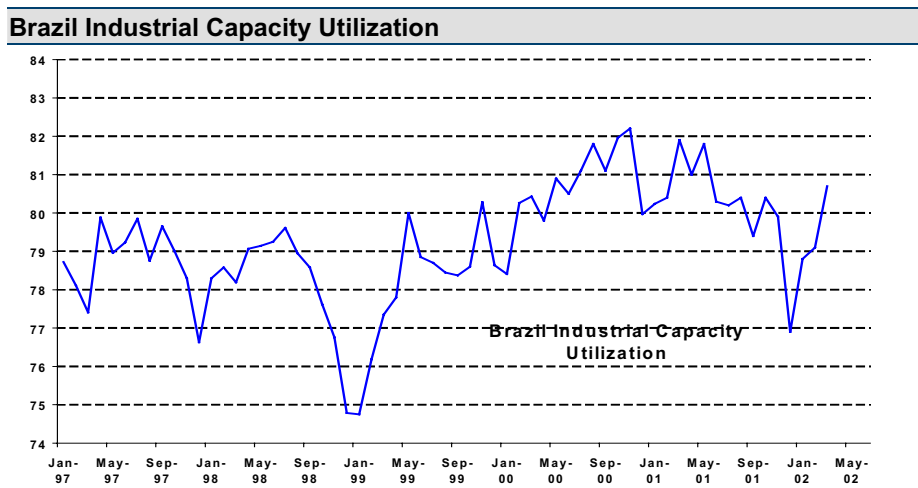
2001 was disappointing as the Latin American economies further weakened. The result from the equities came down 50% to € 16.6m. Business wise, Latin America did not perform that badly. Bekaert suffered also from weakening currencies:

Brazilian Real and Chilean Peso (vs. \$)



Source: Bloomberg

It is clear that these two currencies that are important for Bekaert show no signs of further weakening (on the contrary). The upturn in the US economy should further support the Brazilian and the Chilean economy too. That already shows in the capacity utilization in Brazil:



Source: Bloomberg

Outlook

Based on this, we assume Bekaert's participating interests will perform better in the course of 2002 (and 2003). Especially if, as expected, the US economy continues to perform better. Chile and Brazil should be the first to benefit. We have taken into account a result of € 23.1 for this year - up from € 16.6 in 2001. Another positive factor is that Bekaert ECD Solar Systems is probably to break even next year whereas we still foresee a € 6.0m loss this year (cf. 2001).

Valuation

Consolidated group

We have drawn up a business model for Bekaert taking into account that Advanced Materials will continue to grow posting higher margins than steel cord and steel wire. We have used a 15% EBIT margin as guideline and this leads to higher EBIT margins over time (up to 8.1% compared to +/- 4-6% today). Our assumptions lead to the following DCF scheme that served as the basis for our DCF valuation. Please note that Bekaert ECD Solar Systems is not part of this valuation as Bekaert ECD is consolidated using the equity method.

Financial projections											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EBIT	95.7	120.9	122.5	124.0	136.1	146.2	160.0	176.5	195.5	217.9	244.0
- Taxes on EBIT	-23.9	-30.2	-30.6	-31.0	-34.0	-36.5	-40.0	-44.1	-48.9	-54.5	-61.0
Tax rate	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
NOPLAT	71.8	90.7	91.9	93.0	102.1	109.6	120.0	132.3	146.6	163.5	183.0
Depreciations	124.5	137.5	133.6	131.7	132.5	137.9	135.2	130.2	137.5	142.9	149.3
Gross cash flow	196.3	228.2	225.5	224.7	234.7	247.6	255.2	262.5	284.1	306.3	332.3
- Capex	-110.1	-104.8	-107.8	-113.4	-121.8	-128.6	-134.2	-142.3	-153.0	-165.4	-180.2
- WC	-5.7	22.3	-1.3	-43.0	-10.7	-15.9	-13.6	-15.9	-19.9	-24.5	-26.8
Free cash flow	80.4	145.7	116.3	68.3	102.2	103.1	107.4	104.3	111.2	116.5	125.3

Source: KBC Securities

We have used the following parameters, which resulted in a capital cost of 8.2%, to discount the free cash flows:

Discount parameters			
Risk free rate	5.00%	Gross cost of debt	6.7%
Beta	1.2	Tax rate	25.0%
Market risk premium	4.0%		
Cost of Equity	9.8%	Cost of debt	5.0%
Weight	66.0%	Weight	34.0%

Source: KBC Securities

DCF value of € 55.0 per share

The value of Bekaert under these assumptions is € 55.0 per share taking into account the book value for the participations (€ 327.3m).

Bekaert's investments		
	2001	
Investments accounted for under the equity method	276.2	Bekaert ECD: € 38.9m
Available for sale investments	46.3	United Solar: € 39.3m
Amounts receivable from investments	<u>4.8</u>	
Total	327.3	Bekaert "Solar Energy": € 78.2m (or € 3.5 per share)

Source: Bekaert annual report

What is Bekaert's stake in United Solar worth

The question is what Bekaert's stake in Bekaert ECD is worth as of today. The project is clearly a loss making start up in a very promising sector. We have tried to figure out what the market is today paying for companies active in photovoltaics. An overview:

Companies active in solar energy

Company name	Market cap	1 year return	Net result 2001	Expected Sales 02	Expected Sales 03
Evergreen Solar	\$ 25.6m	-83%	\$ -12.5m	\$ 8.8m	\$ 17.3m
Solarworld	€ 88.6m	-74%	€ -3.5m (2000)	€ 80.6m	€ 117.4
Sunways	€ 28.8m	-70%	€ -2.1m	€ 20.1m	€ 32.9m
AstroPower	\$ 486.0m	-35%	\$ 3.5m	\$ 110.5m	\$ 158.7m

Source: KBC Securities

Low visibility

The numbers show that there is low transparency as to what the market is currently paying for solar energy. Most of the companies are still loss making (like Bekaert ECD, early stage companies seeking to develop and manufacture new products in a growing and rapidly evolving market) and have performed poorly over the past 12 months. That said, the sales growth foreseen for 2003 is impressive but in line with the expectations for the sector.

AstroPower is the only group with a reasonable market cap. The group targets a year-end 2002 nameplate capacity objective of 110MW (!). Taking into account a Price/Sales ratio of appr. 3.1x to Bekaert's sales target of € 94m in 2005, yields an extra value of € 6.9 per Bekaert share. This is in our view overoptimistic but it shows anyhow the upside potential of the business.

DKW recently valued the solar energy business of Bekaert and ECD at \$ 180m of which in time Bekaert should about take 50%. This is in fact close to the actual book value. Therefore, we have remained prudent and have kept our € 55.0 DCF value. We know that this may possibly underestimate the potential of Bekaert in solar energy but then again we should not neglect the risks related to the business. The € 78.0m which we took into account in the valuation is also in line with the money invested so far (\$ 72.0m) and therefore is a reasonable assumption.

Rating and price target

Based on the early cyclical character of the steel cord and steel wire business and the focus on advanced materials, we feel that Bekaert deserves an Accumulate rating with a € 55 price target. This target represents the following multiples:

Resulting multiples (€ 55 price target)

	P/E	P/CF	EV/EBITDA
2002	15.8	6.0	7.3
2003	10.9	5.4	6.4
2004	10.5	5.4	6.1

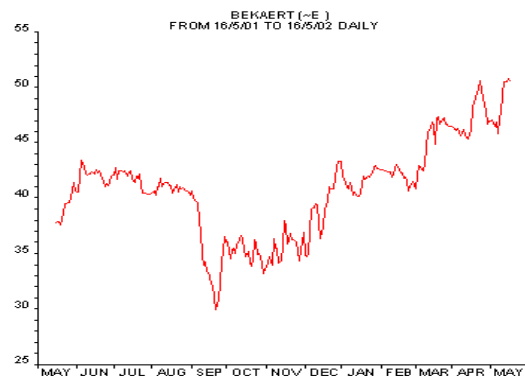
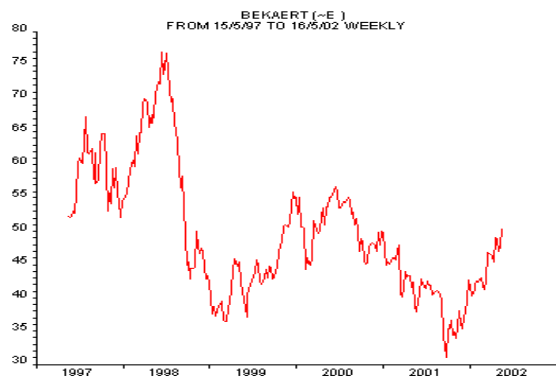
Source: KBC Securities

Although these multiples seem somewhat optimistic for 2002, they are not given that the results 2003 are expected to be stronger again. Therefore, an Accumulate rating is justified for a well-managed group with international airs like Bekaert.

Historical price performance

We would like to present the historical price performance of Bekaert, since a € 55 price target is fully in line with the price performance during economic upturns in the past:

Bekaert's share price evolution



Source: Thomson Financial Datastream

Financial data

INCOME STATEMENT(€m)	2000	2001	2002E	2003E	2004E	2005E
Sales	1,756	1,796	1,901	1,953	2,015	2,087
Other revenue	22	22	19	20	22	23
Personnel costs	489	502	529	545	567	592
Other operating costs	1,021	1,102	1,132	1,148	1,188	1,232
EBITDA	246	192	240	260	260	263
Depreciation and amortisation	-125	-124	-137	-134	-132	-133
Goodwill amortisation	-3	-5	-5	-5	-5	-5
EBIT	116	60	98	122	123	125
Net interest	-31	-34	-40	-33	-29	-27
Other financial result	5	3	0	1	1	0
Associates before tax	0	0	0	0	0	0
Exceptional results	0	0	0	0	0	0
Pre-tax profit declared	89	29	57	89	95	99
Taxes	-23	5	-17	-25	-27	-28
Associates after tax	34	17	0	0	0	0
Minority interests	5	3	-1	-1	-2	-2
Net attributable profit	95	47	41	65	70	73
Retained earnings	57	9	4	27	27	28
Net current result before goodwill	104	53	77	112	116	120
Net current result after goodwill	107	58	82	117	121	125
Current cash flow	212	163	204	224	227	232
BALANCE SHEET(€m)	2000	2001	2002E	2003E	2004E	2005E
Goodwill	48	118	108	103	98	93
Other intangible assets	27	61	59	57	56	55
Tangible assets	841	910	884	855	833	819
Associates	261	276	287	308	328	348
Other financial assets	52	51	51	51	51	51
Inventories	351	343	348	348	360	378
Trade debtors	424	435	461	475	481	496
Other current assets	13	17	20	25	30	35
Cash and equivalents	76	74	60	60	60	60
Short-term liabilities (excl debt)	295	284	313	354	376	371
Provisions for pensions and other	141	139	0	0	0	0
Long-term liabilities (excl debt)	151	134	272	271	272	278
Financial debt	427	664	597	498	426	400
Minorities	49	43	42	41	40	38
Shareholder's equity	1,031	1,021	1,053	1,118	1,183	1,248
Restated net financial debt	351	590	537	438	366	340
Capital employed (restated)	1,375	1,493	1,694	1,674	1,623	1,602
Restated net financial debt / Equity	32.5%	55.4%	49.1%	37.7%	29.9%	26.4%
Restated net financial debt / Equity ex GW	34.0%	62.3%	54.4%	41.4%	32.5%	28.5%
CASH FLOW STATEMENT (€m)	2000	2001	2002E	2003E	2004E	2005E
EBITDA	246	192	240	260	260	263
Change in working capital	-133	-17	-6	22	-1	-43
Change in provisions	80	3	0	1	1	1
Other non-cash items	0	0	0	0	0	0
Gross operating cash flow	194	177	234	283	259	221
Net interest paid	-31	-34	-40	-33	-29	-27
Tax paid	-25	-12	-17	-25	-27	-28
Net operating cash flow	137	132	177	225	204	167
Capital expenditure	-118	-317	-105	-105	-108	-113
Free cash flow	19	-186	72	120	96	53
Disposals	0	0	0	0	0	0
Acquisitions	-48	-12	0	0	0	0
Dividends	-37	-37	-37	-39	-43	-45
FX and others	-25	-3	18	19	19	18
New equity	0	0	0	0	0	0
Change in net debt	-91	-239	52	100	72	26

PER SHARE DATA(€)	2000	2001	2002E	2003E	2004E	2005E
EBITDA per share	11.00	8.61	10.83	11.75	11.72	11.87
EBIT per share	5.16	2.67	4.40	5.50	5.55	5.66
Published EPS	4.20	2.15	3.12	4.69	4.87	4.97
Current EPS before GW (diluted)	4.66	2.38	3.47	5.05	5.24	5.41
Current EPS after GW (diluted)	4.79	2.61	3.70	5.28	5.46	5.64
Current cash flow per share	9.47	7.31	9.21	10.09	10.23	10.48
Gross operating cash flow per share	8.65	7.96	10.58	12.79	11.70	9.98
Free cash flow per share	0.86	-8.35	3.24	5.42	4.33	2.40
Net dividend	1.26	1.26	1.26	1.31	1.46	1.54
NBV per share	46.24	46.10	47.53	50.48	53.40	56.32
PERFORMANCE CRITERIA	2000	2001	2002E	2003E	2004E	2005E
EBITDA margin	14.0%	10.7%	12.6%	13.3%	12.9%	12.6%
EBIT margin	6.6%	3.3%	5.1%	6.2%	6.1%	6.0%
EPS annual growth	23.2%	-48.8%	45.9%	45.5%	3.7%	3.4%
CFPS annual growth	2.9%	-22.8%	26.0%	9.5%	1.3%	2.5%
Pay-out ratio	-39.5%	-79.7%	-90.8%	-59.2%	-61.6%	-62.0%
EPS CAGR 3y historic	15.9%	-0.1%	-2.8%	2.8%	30.0%	15.9%
CFPS CAGR 3y historic	5.1%	6.6%	0.0%	2.1%	11.8%	4.4%
Return on invested capital	10.5%	3.8%	7.6%	9.5%	9.9%	10.2%
Return on equity	10.9%	5.2%	7.5%	10.8%	10.7%	10.4%
VALUATION DATA	2000	2001	2002E	2003E	2004E	2005E
Financial year high(€)	56.70	49.95	50.80	-	-	-
Financial year low(€)	44.20	29.94	40.20	-	-	-
Reference market capitalisation(€ m)	957	871	1,111	1,111	1,111	1,111
Enterprise value(€ m)	1,236	1,365	1,404	1,282	1,188	1,141
PER high	12.2	21.0	14.6	-	-	-
PER low	9.5	12.6	11.6	-	-	-
PER reference	10.9	17.1	14.3	9.9	9.5	9.2
P/Cf	5.3	5.6	5.4	4.9	4.9	4.8
P/Bookvalue	1.1	0.9	1.0	1.0	0.9	0.9
Gross dividend yield	3.3%	4.1%	3.4%	3.5%	3.9%	4.1%
EV/EBITDA	5.0	7.1	5.8	4.9	4.6	4.3

Source: KBC Securities

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