

# Bekaert

22 May 2008

## Speeding up capacity expansion

-Engineering & Machinery

Belgium

Current Price € 105.25

Target Price € 115.00

**Accumulate**

Rating Unchanged



Source: Thomson Financial Datastream

FY/e 31.12	2007	2008E	2009E	2010E
Sales (€m)	2,173.6	2,364.5	2,482.5	2,601.9
REBITDA (€m)	310.3	333.0	345.4	360.4
Net earnings (€m)	152.9	152.5	155.8	161.3
Diluted adj. EPS (€)	8.05	8.27	8.42	8.68
Dividend (€)	2.76	3.00	3.00	3.25
P/E	12.2	12.7	12.5	12.1
EV/REBITDA	7.2	7.8	7.4	7.0
Free cash flow yield	2.7%	1.5%	3.9%	4.4%
Dividend yield	3.1%	2.9%	2.9%	3.1%

Source: KBC Securities

\*Adjusted for goodwill and exceptionals

Reuters BEKB.BR  
Bloomberg BEKB BB

[www.bekaert.com](http://www.bekaert.com)

Market Cap € 2,070m  
Shares outst. 19.7m  
Volume (Daily) € 5.27m  
Free float 61.43%

Next corporate event

Results 1H08: 1 August 2008

Performance over	1m	3m	12m
Absolute	14%	16%	2%
Rel. BEL20	18%	15%	28%

12-m Hi/Lo € 113.40/76.54

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**Bekaert impressed with its first quarter trading update pointing to 15.3% y/y growth in consolidated sales. Steel cord China remains the key growth driver, recording an impressive 75.7% y/y increase in combined sales.**

- Expectations are that demand for tire cord in China will exceed 800k tons this year, an increase of over 25% y/y.
- Last year, Bekaert increased its tire cord production capacity in China from approximately 200k to 250k tons p.a. For the current year, the initial guidance was for a similar increase to 300k tons. But it seems that Bekaert has accelerated the rate of capacity expansion, given that capacity has already risen to 275k tons.
- It has taken Bekaert three years to fully make up for the revenue shortfall caused by the Fencing disposal. The main driver was the expansion in steel cord, where Bekaert has almost doubled production in five years.
- 2007 was also the first year for Bekaert in which the BRIC countries accounted for over 50% of combined sales. However, Bekaert is also recording rapid growth in sales of products with high-added value such as flat and profiled wire for the reinforcement of flexible pipes for the offshore industry and metal fibers for diesel particulate filters.
- Last year, Bekaert returned over €100m to shareholders through substantial share buybacks, thus optimizing the balance sheet. These buybacks will further boost EPS growth this year.
- Following a revision of our scenario, we have increased our target price for Bekaert from € 110 to € 115 per share.

## Executive summary

Bekaert is an international group built around two core areas of expertise: **advanced metal transformation** and **advanced materials and coatings**. In pursuit of its goal of sustainable profitable growth, Bekaert has built a global strategy based on market and technological leadership with the aim of becoming the world number one or two.

### *Shareholder value creation*

The main financial objective is to generate a RoIC that exceeds the average cost of capital through the cycle. In recent years, heavy investment in the product mix has yielded structurally higher margins. The group has pursued a strategy combining divestments and the closure of businesses deemed unable to meet the group's financial objectives with selective acquisitions and investments in the core business.

### *Loss in Fencing revenues offset in less than three years*

Bekaert has made significant efforts to optimise its product mix. The most visible example of this was the divestment in 2005 of Fencing systems Europe. Although the disposal of this business took away approximately €450m in annual sales, Bekaert has fully offset the loss in Fencing revenues in less than three years.

### *Steel cord volumes roughly doubled in five years!*

Heavy investments have been made in the steel cord business, with Bekaert almost doubling its production of steel cord in the space of five years to just under 500k tons last year. Most of the growth came at steel cord China, where production (tire cord + bead wire) was boosted from just over 40k tons in 2002 to over 250k tons last year.

Last year, Bekaert invested approximately €100m in the expansion of its Chinese steel cord production capacity by approximately 50k tons p.a. to around 250k tons. These investments have enabled Bekaert to restore its market leadership with an estimated market share of over 35% in China.

### *Chinese steel cord demand growth exceeding expectations*

The China Rubber Industry Association expects demand for radial tire cord in China to exceed 800k tons this year, an increase of over 25% y/y. This implies even faster growth than the most optimistic forecasts.

### *... stimulating Bekaert to step up its capacity expansion plans*

For the current year, Bekaert has said it will invest approximately €100m in steel cord China, lifting its annual production capacity of tire cord to 300k tons. However, at the first quarter trading update, management indicated that it had already increased tire cord capacity in China to 275k tons. Bekaert is therefore boosting capacity even faster than we had expected and we would not be surprised to see the company announce new increases in investment.

### *Product mix also improved through increased sales of high value-added products*

With all attention going to the expansion of the steel cord business, we should note forget that the product mix has also been optimised through rising sales of products with high added-value such as shaped wires for the reinforcement of flexible pipes for the offshore industry, reinforcing wires for cables, wires for hoisting cables, sawing wires and metal fibres for diesel particulate filters.

Bekaert impressed with a first quarter trading update pointing to 15.3% y/y growth in consolidated sales. Steel cord China remains the main growth driver, recording an impressive 75.7% increase y/y in combined sales.

Bekaert returned last year over € 100m to shareholders through substantial share buybacks, optimizing the balance sheet. These share buybacks will further support EPS growth this year.

*Target price increased*

In order to reflect our newly-revised scenario, we have increased our target price for Bekaert from € 110 to € 115 per share.

## Shareholders

In 2007, Bekaert repurchased and cancelled 1,157,645 treasury shares. A further 161k shares have been repurchased and cancelled so far this year, thus reducing the number of outstanding shares to 19,670k at the time of writing.

*Free float of approximately 60%*

The 'Stichting Administratiekantoor Bekaert', acting in concert with some individuals and companies linked to the family, owns 7,586,570 shares or 38.57% of the total number of outstanding shares, leaving a free float of 61.43%. Bekaert estimates institutional shareholdings at over 40% of the outstanding shares. Over the past five years, the proportion of international institutional investors in the capital has increased dramatically.

## SWOT analysis

Strengths		Weaknesses	
<ul style="list-style-type: none"> <li>• Strong balance sheet and free cash flow generation</li> <li>• Leading market positions and technological edge</li> <li>• Wide product range</li> <li>• Focus on sustainable profitable growth and shareholder value creation ...</li> <li>• ... also via share buybacks</li> <li>• Good track record</li> </ul>	<ul style="list-style-type: none"> <li>• Limited visibility</li> <li>• Cyclical, although reduced through geographical spread</li> </ul>		
Opportunities		Threats	
<ul style="list-style-type: none"> <li>• Geographic expansion</li> <li>• Defend or even expand market share in tire cord</li> <li>• Acquisitions in core business</li> <li>• Further optimize product mix</li> </ul>	<ul style="list-style-type: none"> <li>• Sharp fluctuations in raw material prices</li> <li>• Currency impact</li> <li>• Increasing competition in Asia</li> <li>• Build-up of overcapacity</li> </ul>		

## Business description

### Introduction

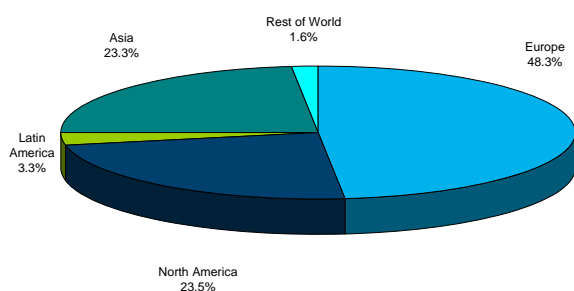
*Built on expertise in two core areas: advanced metal transformation and advanced coatings*

Bekaert is an international group built on two core areas of expertise: **advanced metal transformation** and **advanced materials and coatings**. In pursuit of its goal of sustainable profitable growth, Bekaert has built a global strategy aimed at achieving market and technological leadership and becoming the world number one or two.

*Three reporting segments: advanced wire products, advanced materials and advanced coatings*

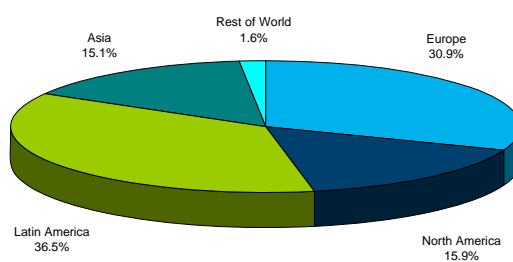
Bekaert is the world's largest independent steel cord and steel wire products manufacturer. The group is also involved in high-tech applications based on thin metal fibres and sputtered films. The activities are divided into three reporting segments: advanced wire products, advanced materials and advanced coatings. Early in 2005, Bekaert sold its European fencing division to Gilde.

#### Consolidated sales by region (2007)



Source: Company data

#### Combined sales by region (2007)

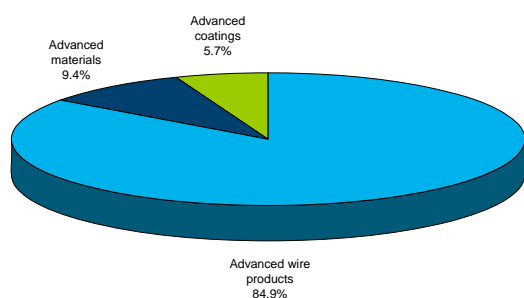


Source: Company data

*Over 50% of combined sales generated in BRIC countries*

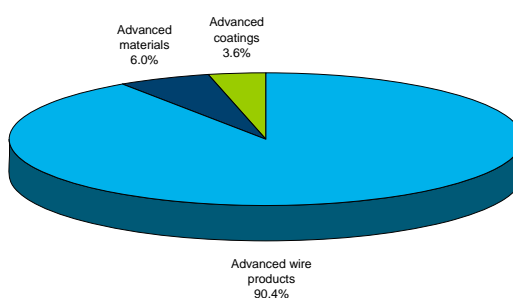
In 2007, Bekaert generated sales of €2.2bn and employed 20,400 people. Adding Bekaert's participating interests (mainly in Latin America), 'combined sales' amounted to about €3.4bn. While the EU accounts for almost half of consolidated sales, combined sales offer a more accurate picture of Bekaert's regional exposure, with Latin America accounting for 36.5%. 2007 was the first time the BRIC countries accounted for over 50% of combined sales.

#### Consolidated sales by activity (2007)



Source: Company data

#### Combined sales by activity (2007)



Source: Company data

*Present in different market segments*

With its wide product portfolio, Bekaert is present in different market segments. About 35% of sales are generated in the automotive sector. Other market segments include construction, telecom, offshore, components, energy and textiles.

Bekaert is committed to a process of strategic renewal based on its core expertise. The group is evolving from a volume-driven producer into a manufacturer of higher-margin products offering greater added value. The strategy is to focus on selected international market segments with high inherent growth potential and to move closer to the end-user. The aim is to increase shareholder value and secure sustainable and profitable growth.

*Optimising the product mix*

In order to improve its product mix, Bekaert has followed a strategy of optimisation programmes, divestments, selective acquisitions, substantial investments in greenfield projects and R&D. Over the past few years, several units whose growth profiles and profitability no longer matched Bekaert's objectives have been divested or discontinued. The most visible example was the divestment of Fencing systems Europe in 2005.

Bekaert aims to achieve a RoIC that exceeds the cost of capital over the length of the cycle. New investments and potential acquisitions are being evaluated on this basis. Certain product lines, which did not have the potential to meet these profitability requirements, have already been discontinued and, for the same reason, others have been transferred to regions where they can be produced at a lower overall operating cost. The different product lines are evaluated periodically and, where necessary, optimised.

*Geographical expansion of the core business*

In terms of future expansion, Bekaert is focusing on growth regions where it sees possibilities to market the products that are already sold in Europe and North America. The best example of this geographic expansion is the development of steel cord China. In just five years, Bekaert roughly doubled its steel cord production to reach just under 500k tons in 2007. This was achieved through an aggressive expansion of production capacity in China. In 2007, Bekaert produced over 250k tons of steel cord in China, up from around 40k tons in 2002.

*Bekaert to start production of steel cord in Russia via green field project*

In 2007, Bekaert announced plans to enter the Russian steel cord market through the construction of a green field plant in Lipetsk. Bekaert is to invest approximately €100m over 2008 to 2013 with first production planned for 2010. In the first phase, Bekaert is targeting production capacity of 15k tons p.a., processing half-products from other Bekaert sites. At a later stage, Bekaert intends to double capacity to 30k tons in-line with market demand and the site to start production of half-products.

*Acquiring full ownership of Beksa, Turkey*

Early 2008, Bekaert reached an agreement to buy the remaining 50% of Beksa (Turkey) for €40.3m. The deal effectively gives Bekaert full ownership of the company.

Beksa is located in Izmit and produces steel cord products and Dramix. The company employs about 330 people with a turnover of approximately €80m.

*Buying-out partners in Latin America*

In September 2007, Bekaert announced that it has taken full ownership of Vicson (Venezuela) after paying approximately \$ 35.5m for the remaining 50% stake. The company produces wire products for industrial, construction and agricultural applications with an annual capacity of about 100k tons, has a workforce of 650 people and generates sales of around €100m p.a. The move also means that Bekaert indirectly acquires Vicson's 75% stake in Proalco (Colombia). Combined with Bekaert's 12.5% stake, Bekaert became an 87.5% shareholder of Proalco, which produces similar products. The company employs 340 people generating annual sales of €50m.

*Optimisation efforts continue*

Also in 2007, Bekaert continued its efforts to optimise production. The company closed its carding production facilities in Cleckheaton (UK) and Roubaix (France) to concentrate its European carding operations in Zwevegem (Belgium). Bekaert and its partner OneSteel, decided to close down their steel cord production plant in Geelong (Australia). With annual production of around 5k tons, this production site lacked critical mass.

*Spending about 3% of sales on R&D*

Bekaert pursues growth by constantly reinforcing its technological leadership through a process of continuous innovation. Bekaert spends about 2.5% to 3% of sales on R&D, which amounted to about €58m in 2007. For the current year, Bekaert guided for R&D expenditure over €60m. Bekaert seeks to maintain a judicious balance between new and maturing products in its portfolio.

*Rising sales of value-added products*

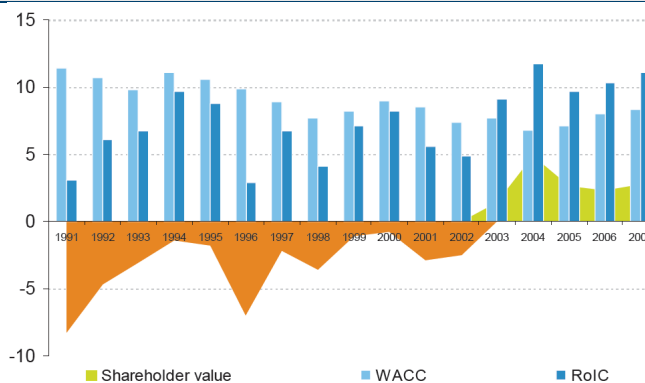
These R&D efforts are paying off, as the product mix is also optimised through rising sales of newer, high added-value products such as shaped wires for the reinforcement of flexible pipes for the offshore industry, reinforcing wires for cables, wires for hoisting cables, sawing wires and metal fibres for diesel particulate filters.

The revenue shortfall caused by the divestment of fencing systems Europe (€450m) has been fully offset in under three years. In addition, the geographic exposure is shifting increasingly towards the BRIC countries, which in 2007 surpassed the level of 50% of Bekaert's combined sales.

*Earning a RoIC above WACC since 2003*

The strategy of recent years has proved successful. While in the past, profitability was insufficient to cover the cost of capital, Bekaert has managed to earn a RoIC in excess of its cost of capital since 2003.

**Shareholder value creation**

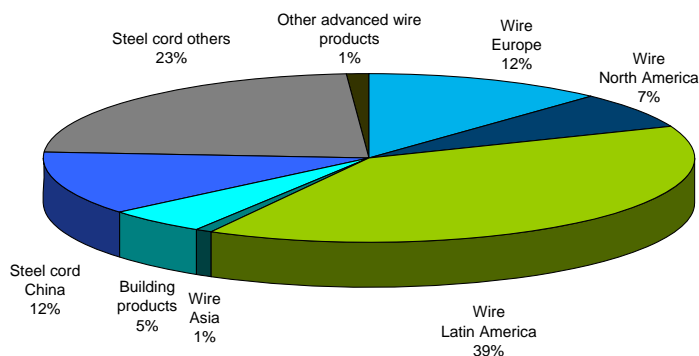


Source: Company presentation

## Advanced wire products

Generating 84.9% and 90.4% of the past year's consolidated and combined sales, Advanced wire products is by far the largest business segment. The wide product range includes steel cord for reinforcement of radial tires, coated wires and Dramix for concrete reinforcement.

### Combined sales Advanced wire products (2007)



Source: Company data

The business segment is split into eight activity platforms. Wire Europe, Wire North America, Wire Latin America and Wire Asia generated respectively 12%, 7%, 39% and 1% of advanced wire products' combined 2007 sales, while Steel cord others and steel cord China accounted for 23% and 12%. Building products and other advanced wire products represent 5% and 1% of sales.

### Bekaert steel cord volumes (tons)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
<b>Steel cord China</b>	12,780	18,028	22,535	26,824	41,470	57,741	73,715	105,168	152,602	254,337	
y/y		20.4%	41.1%	25.0%	19.0%	54.6%	39.2%	27.7%	42.7%	45.1%	66.7%
<b>Steel cord Others</b>	231,010	231,735	235,860	204,962	217,800	256,796	290,415	297,125	256,264	236,882	
y/y		5.2%	0.3%	1.8%	-13.1%	6.3%	17.9%	13.1%	2.3%	-13.8%	-7.6%
<b>TOTAL</b>	<b>243,790</b>	<b>249,763</b>	<b>258,395</b>	<b>231,786</b>	<b>259,270</b>	<b>314,537</b>	<b>364,130</b>	<b>402,293</b>	<b>408,866</b>	<b>491,218</b>	
y/y		<b>5.9%</b>	<b>2.5%</b>	<b>3.5%</b>	<b>-10.3%</b>	<b>11.9%</b>	<b>21.3%</b>	<b>15.8%</b>	<b>10.5%</b>	<b>1.6%</b>	<b>20.1%</b>

Source: Company data, KBC Securities

*The world's largest independent producer of steel cord for tire reinforcement*

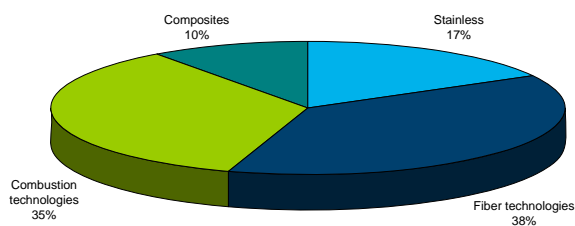
More than one in every five tires is reinforced with Bekaert steel cord products, making the group the world's largest independent tire cord (used for reinforcement of radial tires) producer.

Further growth could come from new markets where heavy investments in infrastructure are expected to boost tire radialisation.

## Advanced materials and coatings

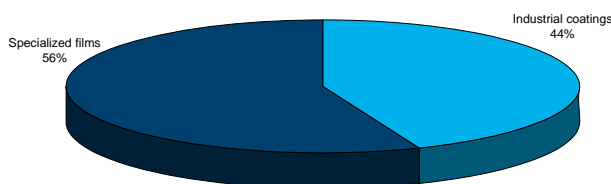
**Advanced materials** accounted for 9.4% and 6.0% of the 2007 consolidated and combined sales. The business segment has three activity platforms: fibre technologies, combustion technologies and composites.

Consolidated sales Advanced materials (2007)



Source: Company data

Consolidated sales Advanced coatings (2007)



Source: Company data

- **Stainless**

The production of stainless wires was transferred from Advanced wire products to the Advanced materials business group in 2007.

- **Fibre technologies**

Manufactures fine fibres in a range of metal alloys, mainly stainless steel, and products incorporating metal fibres in various forms.

- **Combustion technologies**

Products mainly based on metal fibres technology and metal fibres media for environmentally friendly gas burners.

- **Composites**

High-pressure vessels for reverse osmosis (water desalination). This activity should be regarded as non-core.

**Advanced coatings** accounted for 5.7% and 3.6% of the 2007 consolidated and combined sales. The business segment has two activity platforms: specialised films and industrial coatings.

- **Industrial coatings**

Coatings applied to various materials using vacuum techniques or thermal spraying, including diamond-like coatings.

- **Specialized films**

Coatings applied by sputtering or by a wet-coating process whereby a plastic film is coated with a liquid chemical.



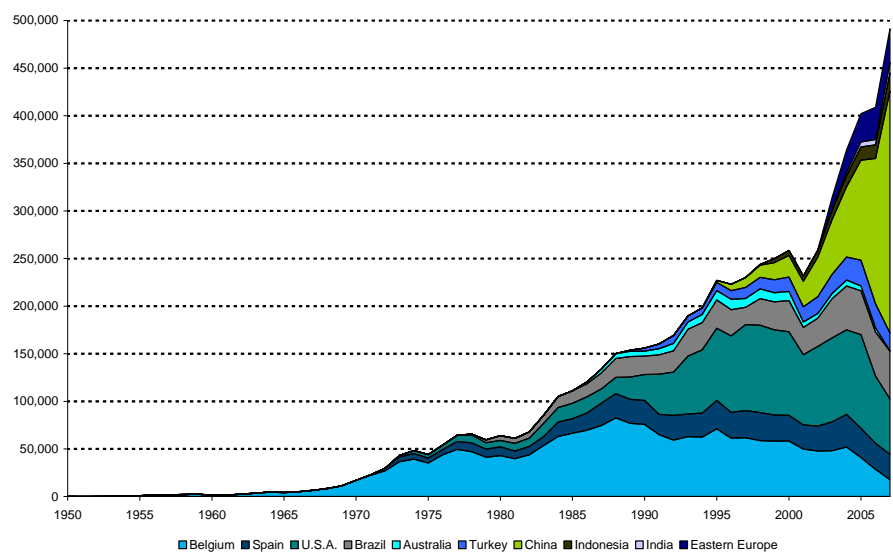
# Capturing Chinese growth

## Aggressive expansion in steel cord

Bekaert has been present in the Chinese tire cord market since 1992 and effectively started production in 1995. In May 2003, management announced plans to increase steel cord capacity from approximately 45k tons p.a. to 125k tons p.a. by the end of 2005. The total investment can be estimated at between €180 and €200m and consisted of the expansion of the two existing plants and the building of a new plant at Weihai.

*In five years, Bekaert almost doubled its steel cord production to just under 500k tons in 2007*

**Bekaert steel cord supplies (in tons)**

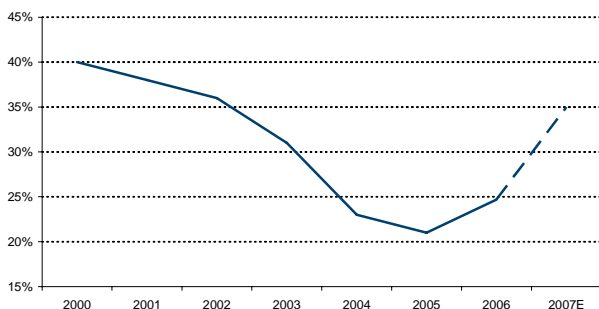


Source: Company data

*Market share has been restored to over 30%*

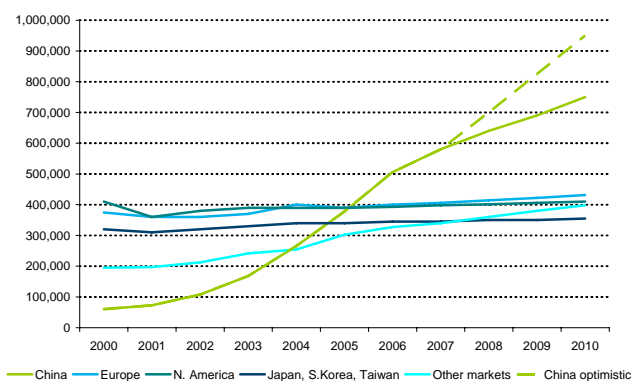
In the following years, Bekaert has invested approximately €100m p.a. in further expansion of its production capacity in China to approximately 200k tons by the end of 2006 and approximately 250k tons by the end of last year. Hence, Bekaert has restored its market share in China to an estimated 35%.

**Bekaert's market share in Chinese tire cord market**



Source: Company data, KBC Securities

**Tire cord market growth projections (in tons)**



Source: Company data

As of today, Bekaert has three tire cord plants in China located in Weihai, Jiangyin and Shenyang. In the medium to long term, Bekaert will have to decide whether to invest in a fourth tire cord plant. This might be located further inland, depending on the location of new tire production facilities.

Bekaert owns 100% of the newest plant located in Weihai, 90% in the Jiangyin plant and 98% in the Shenyang plant. Bekaert's partner in the China Bekaert Steel Cord Co. is the Fasten Group, which also holds 10% stakes in other production sites in the Binjiang Economic Development Zone in Jiangyin.

*Bekaert participated in a capital increase at Shougang...*

In September 2006, Bekaert announced the acquisition of 250,000 new shares in Shougang Concord Century Holdings (Bloomberg: 103 HK). Bekaert has paid HK\$ 0.65 per share or a total of around € 16.5m for the 18.06% stake.

Shougang is the mother company of Jiaying Eastern Steel Cord (JESC), which has a tire cord capacity of approximately 30k tons p.a. The proceeds from the capital increase have been used to double capacity to approximately 60k tons p.a., via the construction of a new plant which is expected to start operations at the end of the second quarter of the current year. At a later stage, there are plans to increase capacity to approximately 80k tons p.a.

*... and signed two co-operation agreements*

The deal was accompanied by two co-operation agreements. The first is a service contract for the planning and design of the capacity increase at JECS. The second is a supply contract in which Bekaert will provide certain materials (including brass-coated wire) required for the production of steel cord for a period of at least three years. Last year a further agreement was signed, which appointed Bekaert as the exclusive commercial agent for the sale of steel cord in certain regions.

#### Key figures Jiaying Eastern Steel Cord Company Ltd. (in HK\$ '000s)

	2004	2005	1H06	2H06	2006	1H07	2H07	2007
Revenues	266,262	411,865	198,259	195,467	393,726	200,311	236,456	436,767
Operating result	83,060	77,095	35,417	30,251	65,668	25,266	27,538	52,804
margin	31.2%	18.7%	17.9%	15.5%	16.7%	12.6%	11.6%	12.1%

Source: Company data

## Bekaert responding to accelerating growth

*Steel cord demand in China forecasted to expand by more than 25% this year*

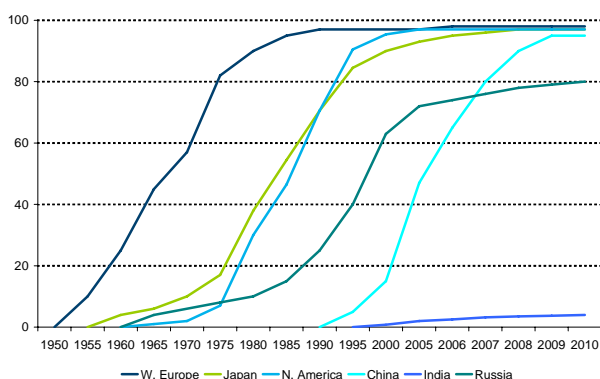
The Chinese tire cord market still has excellent growth prospects. The China Rubber Industry Association expects demand for radial tire cords in China to exceed 800k tons in 2008, up more than 25% y/y. These growth figures even outstrip the most optimistic forecasts.

### Chinese steel cord production

	Xingda			Bekaert			Jiaxing Eastern Steel Cord Cy.		
	2007	2006	y/y	2007	2006	y/y	2007	2006	y/y
Radial Tire Cord	198,200	167,000	18.7%	n.a.	n.a.	n.a.	32,375	29,513	9.7%
- For truck	162,300	133,900	21.2%	n.a.	n.a.	n.a.	25,086	22,780	10.1%
- For passenger car	35,900	33,100	8.5%	n.a.	n.a.	n.a.	7,289	6,733	8.3%
Bead Wire	36,200	27,000	34.1%	n.a.	n.a.	n.a.	693	305	127.2%
<b>Total steel cord</b>	<b>234,400</b>	<b>194,000</b>	<b>20.8%</b>	<b>254.337</b>	<b>152.602</b>	<b>66.7%</b>	<b>33,068</b>	<b>29,818</b>	<b>10.9%</b>

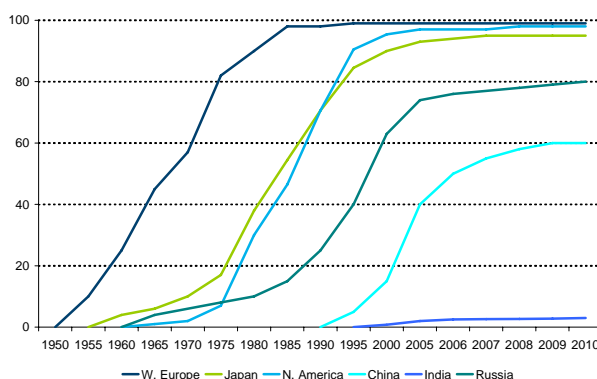
Source: Company data, KBC Securities

### Radialisation (passenger cars)



Source: Company data

### Radialisation (trucks)



Source: Company data

The main drivers for tire cord demand are the rise in tire production in China (as tire makers shift capacity from North America or Europe to China) and increased demand for tires in China itself. Last year, China's total tire output was 330m units, of which 230m radial tires, an increase of 28% y/y. More than 141m units were exported, up 27% y/y,

Looking at the output of Xingda, the main rival, Bekaert regained its market leadership last year. Xingda raised production in 2007 by 20.8% y/y to 234.4k tons, while Bekaert's total output (tire cord + bead wire) exploded by 66.7% to 254.3k tons.

### Capacity increases stepped up

For the current year, Bekaert intended to increase its tire cord production capacity from approximately 250k tons to 300k tons, representing investments of about €100m. However, Bekaert appears to have already dramatically stepped up capacity, with a 275k ton increase in the first quarter. Bekaert could therefore reach 300k tons of production capacity by as early as this summer, making the announcement of further capacity increases very likely.

## Financials

### Solid FY07 results

Consolidated and combined sales increased last year by respectively 8.2% and 7.0% to €2,174m and €3,419m. Consolidated sales grew 8.0% from organic growth, partially offset by a 2.3% negative impact from currency movements, but boosted by a 2.5% net gain in acquisitions and divestments.

Consolidated and combined 2007 sales by business segment (€m)				
	Consolidated		Combined	
Advanced wire products	1,844	+9.2%	3,095	+8.4%
Advanced materials	204	+10.4%	204	+10.4%
Advanced coatings	124	-8.9%	124	-8.9%
Inter-segment sales and others	2		-4	
<b>Total</b>	<b>2,174</b>	<b>+8.2%</b>	<b>3,419</b>	<b>+7.0%</b>

Source: Company data

#### Improving product mix

Bekaert reported a recurring EBIT of €186.3m, up from €162.7m in 2006 and beating our €182.1m forecast. The recurring EBIT margin firmed from 8.1% in 2006 to 8.6% last year. The improvements are driven by the strong sales growth, particularly in China, and rising sales of products with high added-value such as reinforcing wire for cables and flat and profiled wire for flexible pipes, wires for hoisting cables, sawing wire and steel cord for heavy off-road equipment. Recurring EBIT from Advanced wire products, Advanced materials and Advanced coatings amounted to respectively €215m, €17m and €3m, all either up or stable compared to €189m, €16m and €3m in 2006.

#### Bottom line helped by tax holidays

The group's consolidated net result amounted to €152.9m, far exceeding our estimate of €141.5m. The reason for this outperformance was much lower-than-forecast taxes of €19.1m (€31.3m expected), helped by tax holidays. It seems that we should also take into account a lower-than-normal tax rate for 2008.

Bekaert: key figures (€m)							
	1H06	2H06	FY06	1H07	2H07	FY07	FY08E
<b>Sales</b>	<b>1,009.0</b>	<b>1,001.0</b>	<b>2,010.0</b>	<b>1,065.0</b>	<b>1,108.6</b>	<b>2,173.6</b>	<b>2,364.5</b>
Advanced wire products	870.0	854.0	1,724.0	897.0	947.0	1,844.0	2,028.4
Advanced materials	74.0	82.0	156.0	101.0	103.0	204.0	218.3
Advanced coatings	68.0	68.0	136.0	64.0	60.0	124.0	117.8
Others	-3.0	-3.0	-6.0	3.0	-1.0	2.0	0.0
<b>REBIT</b>	<b>80.0</b>	<b>82.8</b>	<b>162.7</b>	<b>90.3</b>	<b>96.0</b>	<b>186.3</b>	<b>204.0</b>
<b>REBIT margin %</b>	<b>7.9%</b>	<b>8.3%</b>	<b>8.1%</b>	<b>8.5%</b>	<b>8.7%</b>	<b>8.6%</b>	<b>8.6%</b>
Result from operations (after restructuring)	76.0	70.0	145.9	86.5	88.1	174.6	189.0
Interest income & expenses	-12.2	-19.5	-31.7	-16.7	-24.3	-41.0	-41.9
Income taxes	-15.5	-2.6	-18.1	-14.9	-4.2	-19.1	-28.4
Result from ordinary activities after taxes	48.2	47.9	96.1	55.0	59.5	114.5	118.7
Share in the result of joint ventures and associates	27.8	23.2	51.0	23.4	23.7	47.1	42.5
Minority interests	-0.5	-4.3	-4.8	-5.8	-3.0	-8.7	-8.7
<b>Consolidated net result of the group</b>	<b>75.5</b>	<b>66.8</b>	<b>142.3</b>	<b>72.6</b>	<b>80.2</b>	<b>152.9</b>	<b>152.5</b>

Source: Company data, KBC Securities' estimates

### Re-leveraging balance sheet

Net financial debt (Bekaert definition) increased from €375m to €448m, mainly due to the share buy-back program (€111m in 2007) and heavy CAPEX (€192.4m). In 2007, Bekaert repurchased and cancelled 1,157,645 treasury shares, thus reducing the number of outstanding shares to 19,831,000 at the end of 2007. So far this year, Bekaert has repurchased and cancelled a further 161k shares setting the number of outstanding shares at 19,670k. For 2008, management is guiding for CAPEX around €200m. The AGM approved a gross dividend of €2.76 per share (up from €2.50), payable as from 21 May.

#### Combined 2007 sales by geographic region (€m)

Europe	1,057	+5.1%
North America	544	-14.6%
Latin America	1,248	+12.2%
Asia	517	+33.9%
Other regions	53	-0.5%
<b>Total</b>	<b>3,419</b>	<b>+7.0%</b>

Source: Company data

#### Advanced wire products

Combined sales of **Advanced wire products** increased by 8.4% y/y to €3,095m. The adverse effect of currency movements amounted to 2.1%. EBITDA firmed from €276m to €314m (margin from 16.4% to 17.0%), recurring EBIT increased from €189m in 2006 to €215m, last year (margin from 10.5% to 11.3%). The significant sales growth and **improving product mix** are the main drivers behind the strong increase in operating profit.

### Strong demand for flat and profiled wires for reinforcement of flexible pipes

European wire products sales increased by 9.9% y/y, thanks to an improved product mix. Strong growth was recorded in applications for the offshore sector, which generated strong demand for flat and profiled wires for reinforcement of flexible pipes. Bekaert's wire activities in North America held up well (sales -2.1% y/y), given the 8.0% negative effect on sales from the softer US\$ exchange rate.

Combined sales of Wire Latin America increased by a solid 11.6% y/y, although sales in Brazil and Chile were restrained by heightened competition.

In 2007, sales of steel cord China increased by a spectacular 48.3% y/y, partially at the expense of steel cord others (-6.4% y/y), which was anticipated given the capacity changes in North America.

#### Advanced materials

### Breakthrough with metal fibres for diesel particulate filters

Combined sales of **Advanced materials** increased by 10.4% in 2007. EBITDA and recurring EBIT increased slightly y/y from €24m to €26m (margin from 13.1% to 12.6%) and from €16m to €17m. Sales growth of the stainless activities (+21.3% y/y) came largely on the back of higher prices, reflecting the higher prices of nickel-based wire rod. Sales growth in fibre technologies (+8.8% y/y) was mainly a reflection of the breakthrough marked by Bekaert's metal fibres application for diesel particulate filters. Sales of composites were down by 4.1% y/y although capacity utilisation improved in 4Q. The strong sales growth (+11.9% y/y) in combustion technologies was partially explained by the integration of Aluheat.

### Advanced coatings

Sales in **Advanced coatings** were down by 8.9% y/y. In specialized films (-10.7% y/y), the company experienced weaker demand in North America. This adverse effect was compounded by exchange rate movements, but partially offset by higher sales in Asia and Europe. Sales of industrial coatings were down by 6.5% y/y and the market remained extremely competitive. EBITDA declined from €12m to €11m (margin from €8.5% to €9.0m) while recurring EBIT was unchanged at €3m.

Combined 2007 sales by activity platform			
Advanced wire products	+8.4%	Advanced materials	+10.4%
Wire Europe	+9.9%	Stainless	+21.3%
Wire North America	-2.1%	Fibre technologies	+8.8%
Wire Latin America	+11.6%	Combustion technologies	+11.9%
Wire Asia	+14.1%	Composites	-4.1%
Building products	+10.9%		
Steel cord China	+48.3%	<b>Advanced coatings</b>	<b>-8.9%</b>
Steel cord others	-6.4%	Industrial coatings	-6.5%
Other advanced wire products	-1.9%	Specialized films	-10.7%

Source: Company data

### Supportive first quarter trading update

Bekaert released a supportive trading update. Consolidated and combined sales for the quarter amounted to €593m and €903m, up respectively 15.3% and 11.4% y/y. Consolidated sales rose 13.5% from organic growth and 7.1% from the net movement in acquisitions and divestments, while adverse currency movements had a negative effect of 5.3%. Sales growth exceeded our forecast to give a 10.3% increase y/y in consolidated sales. Also note that approximately half of the growth is explained by the price hikes introduced to cover higher raw material costs.

Consolidated and combined 1Q08 sales (€m)				
	Consolidated sales		Combined sales	
Advanced wire products	517	+18.4%	829	+12.9%
Advanced materials	47	-0.2%	47	-0.2%
Advanced coatings	28	-9.3%	28	-9.3%
Inter-segment sales and others	1	-	-1	-
<b>Total</b>	<b>593</b>	<b>+15.3%</b>	<b>903</b>	<b>+11.4%</b>

Source: Company data

#### Sales of steel cord China increased by 75.7% y/y

The strong performance was driven entirely by the **Advanced wire products**, which saw combined sales growth of 12.9%. Sales of steel cord China increased by 75.7% while steel cord others' sales declined by 7.4%. Bekaert indicates that it has already raised its Chinese steel cord capacity to approximately 275k tons p.a. Combined sales of wire North America declined by 1%, but would have increased by 13.2% at constant currencies.

*Strong demand for metal fibres  
for diesel particulate filters*

Revenues from **Advanced materials** were stable at -0.2%. After a strong 1Q07, revenues of the stainless activities were down by 26.6% y/y. By contrast, revenues from fibre technologies were up by 12.1%, driven by strong demand for metal fibres for diesel particulate filters. Combined sales of **advanced coatings** were down by 9.3%, partially explained by adverse currency movements.

<b>Combined sales by activity platform</b>			
<b>Advanced wire products</b>	<b>+12.9%</b>	<b>Advanced materials</b>	<b>-0.2%</b>
Wire Europe	+6.2%	Stainless	-26.6%
Wire North America	-1.0%	Fibre technologies	+12.1%
Wire Latin America	+18.4%	Combustion technologies	-8.7%
Wire Asia	+24.7%	Composites	+43.6%
Building Products	+16.0%		
Steel cord China	+75.7%	<b>Advanced coatings</b>	<b>-9.3%</b>
Steel cord others	-7.4%	Industrial coatings	-19.8%
Other advanced wire products	-22.2%	Specialised films	-0.3%

Source: Company data

## Outlook

*Increased EPS forecasts*

With regards to the outlook, Bekaert expects “to achieve strong sales growth in the first half of the year”. Following a revision of our scenario, we have increased our adjusted EPS forecasts for 2008, 2009 and 2010 from €8.03, €7.85 and €7.68 to €8.27, €8.42 and €8.68.

For the current year, we now bank on an 8.8% y/y increase in consolidated sales. Recurring EBIT is forecast to firm from €186.3m to €204.0m. However, our forecast for the net result stands at €152.5m, unchanged from last year’s level. This is explained by higher taxes and lower contribution from associates following the full acquisition of Vicson. Last year’s share buybacks are supporting EPS growth though.

## Valuation

Our DCF valuation of Bekaert makes the following assumptions:

- Beta: 1.05;
- Risk premium: 4%;
- Risk free rate: 4.5%;
- Ke of 8.70%;
- Terminal growth rate: 2%.

*DCF points to € 111.8 per share*

Our DCF valuation points to a theoretical equity value of €2,187.8m or €111.8 per share. Our 6-month target price has been raised from €110 to €115 per share following the supportive trading update and upward revision of our scenario.

<b>DCF valuation</b>					
€m	OCF	CAPEX	WCR	FOCF	Disc. FOCF
2008	284.9	-200.0	-51.1	33.8	32.2
2009	291.1	-175.0	-31.6	84.5	74.7
2010	299.1	-175.0	-32.0	92.1	75.5
2011	303.0	-150.0	-26.7	126.2	95.9
2012	314.1	-150.0	-27.8	136.3	96.0
2013	324.4	-150.0	-25.6	148.8	97.1
2014	333.7	-150.0	-23.1	160.6	97.1
2015				189.3	106.1
					Residual value (LT growth = 2%)
					1,835.3
					Total value
					2,509.8
					Net debt
					-502.2
					Provisions & minorities
					-337.8
					Associates
					518.1
					<b>Value of Equity</b>
					<b>2,187.8</b>

*Source: KBC Securities estimates*



## Financial data

<b>Income statement (€m)</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Sales	2,009.6	2,173.6	2,364.5	2,482.5	2,601.9
COGS	-1,614.7	-1,739.7	-1,906.1	-2,003.5	-2,099.6
Gross profit	394.9	433.9	458.4	479.0	502.4
Operating costs	-241.6	-251.5	-273.6	-287.3	-301.1
Other income & costs	-7.4	-7.8	4.3	4.5	4.7
EBIT	145.9	174.6	189.0	196.3	206.0
Net interest	-31.7	-41.0	-41.9	-40.8	-38.7
Other non-operating	-	-	-	-	-
Pre-tax earnings	114.2	133.6	147.1	155.4	167.3
Taxes	-18.1	-19.1	-28.4	-34.1	-41.0
Associates	51.0	47.1	42.5	43.4	44.2
Discontinued & other	-	-	-	-	-
Consolidated earnings	147.1	161.6	161.2	164.7	170.5
Minority interests	-4.8	-8.7	-8.7	-8.9	-9.2
Net earnings	142.3	152.9	152.5	155.8	161.3
Depreciation and amortisation	-116.2	-124.0	-128.9	-134.1	-139.5
Amortisation other intangibles/ Impairments	-	-	-	-	-
Non recurring elements included in EBIT	-16.8	-11.7	-15.0	-15.0	-15.0
REBITDA	279.0	310.3	333.0	345.4	360.4
EBITDA	262.2	298.6	318.0	330.4	345.4
REBITA	162.7	186.3	204.0	211.3	221.0
EBITA	145.9	174.6	189.0	196.3	206.0
Net earnings from continued operations	142.3	152.9	152.5	155.8	161.3
Adjusted net earnings	156.0	162.4	164.2	167.2	172.3
<b>Balance sheet (€m)</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Intangible assets	134.5	122.0	122.0	122.0	122.0
Tangible assets	824.2	917.6	988.7	1,029.6	1,065.1
Financial assets	328.3	290.4	290.4	290.4	290.4
Other assets	27.2	33.4	33.4	33.4	33.4
Inventories	368.8	385.4	419.3	440.2	461.4
Receivables	452.7	490.4	533.5	560.1	587.1
Cash & equivalents	81.2	73.2	0.4	-27.9	-45.7
<b>TOTAL ASSETS</b>	<b>2,216.9</b>	<b>2,312.6</b>	<b>2,387.7</b>	<b>2,447.8</b>	<b>2,513.8</b>
Equity	1,072.5	1,098.2	1,190.6	1,295.1	1,387.6
Minorities	48.9	48.4	48.4	48.4	48.4
Provisions	251.7	241.8	241.8	241.8	241.8
LT financial debt	274.4	322.5	297.5	272.5	247.5
Other liabilities	60.5	55.0	55.0	55.0	55.0
Payables	291.0	293.8	319.5	335.5	351.6
ST financial debt	218.0	253.0	228.0	203.0	178.0
<b>TOTAL LIABILITIES</b>	<b>2,216.9</b>	<b>2,312.6</b>	<b>2,380.8</b>	<b>2,451.3</b>	<b>2,509.9</b>
Net working capital	530.5	582.1	633.3	664.9	696.8
Capital employed	1,428.6	1,566.7	1,688.9	1,761.4	1,829.0
Net debt	411.2	502.2	525.1	503.4	471.1
Net debt, incl. off-balance items	411.2	502.2	525.1	503.4	471.1
<b>Cash flow statement (€m)</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Consolidated earnings	147.1	161.6	161.2	164.7	170.5
Depreciation, amortisation & impairment	116.2	124.0	128.9	134.1	139.5
Other cash flow from operations	-94.1	6.1	-7.2	-11.5	-11.7
Change in working capital	-25.4	-51.6	-51.1	-31.6	-32.0
<b>CASH FLOW FROM OPERATIONS</b>	<b>143.9</b>	<b>240.1</b>	<b>231.8</b>	<b>255.7</b>	<b>266.3</b>
Net capital expenditure	-152.8	-192.4	-200.0	-175.0	-175.0
Acquisitions / disposals	-51.3	-17.9	0.0	0.0	0.0
Other cash flow from investments	11.4	3.7	0.0	0.0	0.0
<b>CASH FLOW FROM INVESTMENTS</b>	<b>-192.6</b>	<b>-206.6</b>	<b>-200.0</b>	<b>-175.0</b>	<b>-175.0</b>
Dividend payments	-74.1	-57.2	-54.7	-59.0	-59.0
Shares issues	-54.4	-110.0	0.0	0.0	0.0
New borrowings / reimbursements	-41.6	83.1	-50.0	-50.0	-50.0
Other cash flow from financing	77.3	42.6	0.0	0.0	0.0
<b>CASH FLOW FROM FINANCING</b>	<b>-92.8</b>	<b>-41.5</b>	<b>-104.7</b>	<b>-109.0</b>	<b>-109.0</b>
Fx and changes to consolidation scope	-	-	-	-	-
<b>CHANGE IN CASH &amp; EQUIVALENTS</b>	<b>-141.5</b>	<b>-7.9</b>	<b>-72.9</b>	<b>-28.3</b>	<b>-17.7</b>
Free cash-flow	-8.9	47.7	31.8	80.7	91.3
Change in net debt	100.0	91.0	22.9	-21.7	-32.3

Performance criteria	2006	2007	2008E	2009E	2010E
Sales growth	5.0%	8.2%	8.8%	5.0%	4.8%
Gross profit growth	0.7%	9.9%	5.6%	4.5%	4.9%
REBITDA growth	-3.5%	11.2%	7.3%	3.7%	4.4%
EBITDA growth	1.8%	13.9%	6.5%	3.9%	4.6%
REBITA growth	-10.4%	14.5%	9.5%	3.6%	4.6%
EBIT growth	7.1%	19.6%	8.3%	3.8%	5.0%
Pe-tax earnings growth	-5.6%	17.0%	10.1%	5.7%	7.6%
Net earnings growth	-25.0%	7.4%	-0.3%	2.2%	3.5%
Earnings growth from continued operations	4.9%	7.4%	-0.3%	2.2%	3.5%
Adjusted earnings growth	-8.9%	4.1%	1.1%	1.8%	3.1%
Gross margin	19.7%	20.0%	19.4%	19.3%	19.3%
REBITDA margin	13.9%	14.3%	14.1%	13.9%	13.9%
EBITDA margin	13.0%	13.7%	13.4%	13.3%	13.3%
REBITA margin	8.1%	8.6%	8.6%	8.5%	8.5%
EBIT margin	7.3%	8.0%	8.0%	7.9%	7.9%
Net working capital / sales	26.4%	26.8%	26.8%	26.8%	26.8%
CAPEX/ Sales	7.6%	8.9%	8.5%	7.0%	6.7%
FCF / Sales	-0.4%	2.2%	1.3%	3.3%	3.5%
Depreciation / Capital Expenditure	76.1%	64.4%	64.5%	76.6%	79.7%
Capital expenditure / EBITDA	58.3%	64.4%	62.9%	53.0%	50.7%
Net debt / Equity + Minorities	36.7%	43.8%	42.4%	37.5%	32.8%
Net debt / EBITDA	1.6	1.7	1.7	1.5	1.4
EBITDA / net interest	8.3	7.3	7.6	8.1	8.9
Pay-out ratio	36.8%	35.8%	38.7%	37.9%	39.6%
Net earnings margin	7.1%	7.0%	6.4%	6.3%	6.2%
x CE turnover (Sales / avg. CE)	1.4	1.5	1.5	1.4	1.4
x Leverage (avg. CE / avg. equity)	1.3	1.4	1.4	1.4	1.3
= Return on Equity (avg)	13.2%	14.1%	13.3%	12.5%	12.0%
Return on Equity - adjusted (avg)	14.5%	15.0%	14.3%	13.4%	12.8%
Return on Capital Employed (avg)	8.8%	10.0%	9.6%	9.1%	8.9%
Return on Capital Employed - adjusted (avg)	9.8%	10.7%	10.3%	9.8%	9.5%
Per share data (€)	2006	2007	2008E	2009E	2010E
weighted average # shares (m)	21.49	20.04	19.70	19.67	19.67
weighted average # shares, diluted (m)	21.60	20.17	19.85	19.85	19.85
Basic EPS	6.62	7.63	7.74	7.92	8.20
Adjusted EPS	7.26	8.10	8.34	8.50	8.76
Diluted EPS	6.59	7.58	7.68	7.85	8.12
Diluted, adjusted EPS	7.22	8.05	8.27	8.42	8.68
Diluted EPS: y/y growth	-24.7%	15.0%	1.3%	2.2%	3.5%
Diluted EPS: CAGR 3Y	-12.2%	19.1%	7.2%	8.7%	15.5%
Adjusted, diluted EPS: y/y growth	-8.4%	11.5%	2.7%	1.8%	3.1%
Adjusted, diluted EPS: CAGR 3Y	1.6%	5.2%	2.5%	2.4%	4.5%
REBITDA / share	12.92	15.39	16.77	17.39	18.15
EBITDA / share	12.14	14.80	16.01	16.64	17.40
REBITA/share	7.53	9.24	10.28	10.64	11.13
EBIT/ share	6.76	8.66	9.52	9.89	10.37
Net book value / share	51.20	55.38	60.53	65.84	70.54
Free cash flow / share	-0.41	2.38	1.62	4.10	4.64
Dividend (€)	2.50	2.76	3.00	3.00	3.25
Valuation data	2006	2007	2008E	2009E	2010E
Max share price (€)	99.60	113.40	109.37	-	-
Min share price (€)	69.35	84.46	76.54	-	-
Reference share price (€)	82.18	98.17	105.25	105.25	105.25
Reference market capitalisation (€)	1,721.4	1,946.8	2,070.3	2,070.3	2,070.3
Enterprise value (€ m)	2,088.2	2,431.7	2,580.5	2,558.8	2,526.5
P/E	11.4	12.2	12.7	12.5	12.1
EV/sales	1.1	1.0	1.1	1.0	1.0
EV/REBITDA	8.0	7.2	7.8	7.4	7.0
EV/EBITDA	8.5	7.5	8.1	7.7	7.3
EV/REBITA	13.7	12.0	12.6	12.1	11.4
EV/EBIT	15.2	12.8	13.7	13.0	12.3
EV/Capital employed	1.6	1.4	1.5	1.5	1.4
P/ NBV	1.7	1.6	1.7	1.6	1.5
Free cash flow yield	-0.5%	2.7%	1.5%	3.9%	4.4%
Dividend yield	2.8%	3.1%	2.9%	2.9%	3.1%

Source: KBC Securities

\*Historic valuation data are based on historic prices

## Disclosure & Disclaimers section

The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

Stock rating	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities discloses the recommendations of its reports to the issuers before their dissemination. In case the recommendation has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	53.10%	0.00%
ACCUMULATE	36.70%	0.00%
HOLD	3.90%	0.00%
REDUCE	5.50%	0.00%
SELL	0.80%	0.00%

Bekaert is an international group with core expertise in metal transformation and coating technologies.

The price target for Bekaert is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples, Peer Group Multiples

The risks which may impede the achievement of our price target are: Evolution on the raw materials markets, currencies, global economic outlook, capacity additions

Any reference made to a DCF valuation for Bekaert is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1.5% and a calculated WACC of 8.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
19-MAY-08	Accumulate	€ 115.00

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