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Bekaert First Half Year 2018 Results

Press Conference – Analyst Conference
Brussels, 27 July 2018

Matthew Taylor, Chief Executive Officer

Bekaert reports € 111 million underlying EBIT on higher sales

- Consolidated sales of € 2.2 billion (+3%) and combined sales of € 2.5 billion (+5%)
- Currency impact: € -95 million (-4.5%) on consolidated sales; € -151 million (-6.2%) on combined sales
- Underlying gross profit of € 311 million (14% margin) versus € 382 million (18% margin)
- Underlying EBIT of € 111 million (5.1 % margin) versus € 176 million (8.4% margin)
- EBIT of € 101 million (4.7% margin) compared with € 197 million (9.4% margin)
- Underlying EBITDA of € 214 million (9.9% margin) versus € 277 million (13.2% margin)
- EBITDA of € 204 million (9.5% margin) compared with € 297 million (14.2% margin)
- Underlying ROCE of 8.1% versus 13.1% and ROCE of 7.4% versus 14.6%
- Net debt of € 1 339 million. Net debt on underlying EBITDA was 3.1, versus 2.2 for the same period last year and 2.3 at year-end 2017.
- Combined sales are sales of consolidated companies plus 100% of sales of joint ventures and associates after intercompany elimination.

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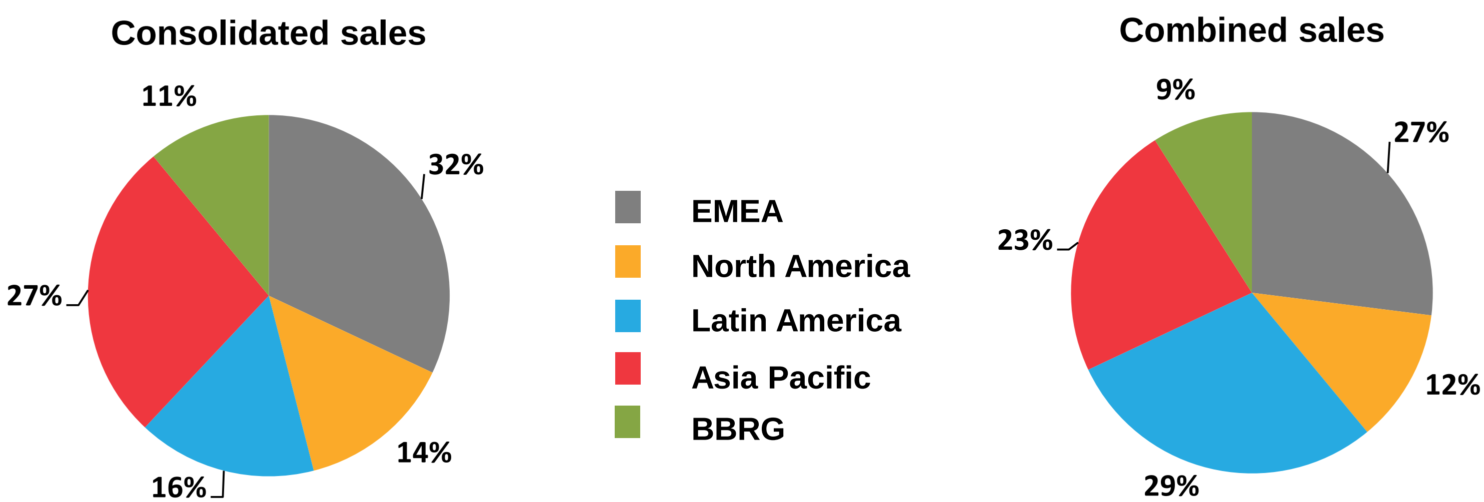
Consolidated sales H1 2018

Consolidated sales	1H 2017	1H 2018	Share	Variance	Organic	FX	M&A
EMEA	653	693	32%	+6%	+6%	-	-
North America	287	300	14%	+5%	+15%	-10%	-
Latin America	356	344	16%	-3%	+14%	-6%	-11%
Asia Pacific	565	593	27%	+5%	+10%	-5%	-
BBRG	234	227	11%	-3%	+3%	-6%	-
Total	**2 095**	**2 157**	**100%**	**+3%**	**+9%**	**-4%**	**-2%**



Consolidated revenue: H1 comparison year-on-year

Segment	Total sales evolution	Organic growth			FX impact	Impact M&A + divestments
		sales	volumes	Wire rod + price-mix		
EMEA	+6%	+6%	=	+6%	-	-
NAM	+5%	+15%	+7%	+8%	-10%	-
LAM	-3%	+14%	-3%	+17%	-6%	-11%
APAC	+5%	+10%	+10%	=	-5%	-
BBRG	-3%	+3%	+8%	-5%	-6%	-
TOTAL	**+3%**	**+9%**	**+4%**	**+5%**	**-4%**	**-2%**

Main drivers of consolidated sales growth:

- \+ Organic volume growth Asia Pacific
- \+ Pricing capability Latin America
- \+ Double-digit organic sales growth except in EMEA/BBRG
- − Adverse currency movements
- − Sumaré disposal

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Underlying EBIT performance

Underlying EBIT: € 111 million, -37% compared to H1 last year

A number of factors have weighed on our profitability since the second half of 2017:

- Continued raw material price increases
- The impact of changes to trade policies
- The slow recovery of Bridon-Bekaert Ropes Group
- Continued low demand for loose abrasive sawing wire
- Delayed investment activity in our oil and gas markets
- Higher than anticipated start-up costs in the plant expansions in EMEA and APAC
- The loss making activities in Figline Valdarno, Italy
- Inflationary costs in general
- The difficult business climate in Latin America
- The divestment of Sumaré in Brazil

Consolidated income statement: key figures

(in mio €)	Underlying 1H 2017	Underlying 1H 2018	Reported 1H 2017	Reported 1H 2018
Sales	2 095	2 157	2 095	2 157
Cost of sales	(1 714)	(1 845)	(1 717)	(1 864)
Gross profit	**382**	**311**	**378**	**292**

- Sales increased by 2.9%:
  - +3.9 % organic volume growth
  - +5.4 % net of passed-on higher wire rod prices and price-mix
  - -1.9 % less sales from the Sumaré disposal
  - -4.5 % unfavorable impact of exchange rate movements.
- Gross profit decreased by € 70 million (-18.4 %) resulting in a margin on sales of 14.4%:
  - The decrease from last year's disposal of Sumaré accounted for € -12 million
  - Unfavorable impact from exchange rates: € -23.5 million
  - Adverse elements affecting organic performance, including:
    - A deterioration of the loose abrasive sawing wire business
    - Delays in passing through raw material price increases
    - Weakly performing businesses and operational inefficiencies

Consolidated income statement: key figures

(in mio €)	Underlying 1H 2017	Underlying 1H 2018	Reported 1H 2017	Reported 1H 2018
Gross profit	**382**	**311**	**378**	**292**
Selling expenses	(95)	(91)	(95)	(91)
Administrative expenses	(80)	(82)	(81)	(87)
R&D expenses	(32)	(35)	(32)	(37)
Other operating revenue and expenses	2	7	27	24
EBIT	**176**	**111**	**197**	**101**

- Overheads were stable in absolute numbers and declined as a percentage on sales to 9.7% (versus 9.9% in 1H 2017)
- The decrease in selling expenses (€ -4 million) was from FX effects (€ -4.5 million) and a lower bad debt allowance (€ -0.5 million), partly offset by a spend increase of € 1 million.
- The administrative expenses increased by € 2 million. Last year's numbers included a cost reduction as a result of the impact of the change in pension age in Belgium on long-term employee benefit plans. On the other side, the 2018 FX effects drove expenses down by € -3 million. The one-off expenses in 2018 related mainly to the support provided to BBRG and to the announced closure of the plant in Figline (Italy).
- The R&D expenses were € 3 million higher due to resources allocated to R&D projects. The one-offs in 2018 relate to the restructuring of the R&D operations in Italy.
- Reported other operating results included the gain on the sale of land and buildings after the closing of the Huizhou (China) and Shah Alam (Malaysia) operations. The 2017 number included the estimated result of the sale of 55.5% of the shares in Sumaré (Brazil).

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Consolidated income statement: key figures

(in mio €)	Underlying		Reported	
	1H 2017	1H 2018	1H 2017	1H 2018
EBIT	176	111	197	101
EBIT margin	8.4%	5.1%	9.4%	4.7%
EBITDA	277	214	297	204
EBITDA margin	13.2%	9.9%	14.2%	9.5%
ROCE	13.1%	8.1%	14.6%	7.4%

Underlying operating performance:

- Underlying EBIT decreased to € 111 million, reflecting a margin of 5.1% (8.4% in 2017)
- Underlying EBITDA decreased by approximately the same amount (€ -63 million).
- ROCE declined to 8.1% due to declined profitability and increased average capital employed.

Reported operating performance:

- In 2018, reported EBIT included € -10 million one-off items. These included the gain on the sale of land and buildings following the closing of the Huizhou (China) and Shah Alam (Malaysia) operations and incurred and accrued costs related to the closure of the Figline (Italy) plant.
- In 2017 one-off items were € +21 million positive and included the estimated result on the sale of 55.5% of the shares in Bekaert Sumaré, partly offset by expenses related to restructuring programs.

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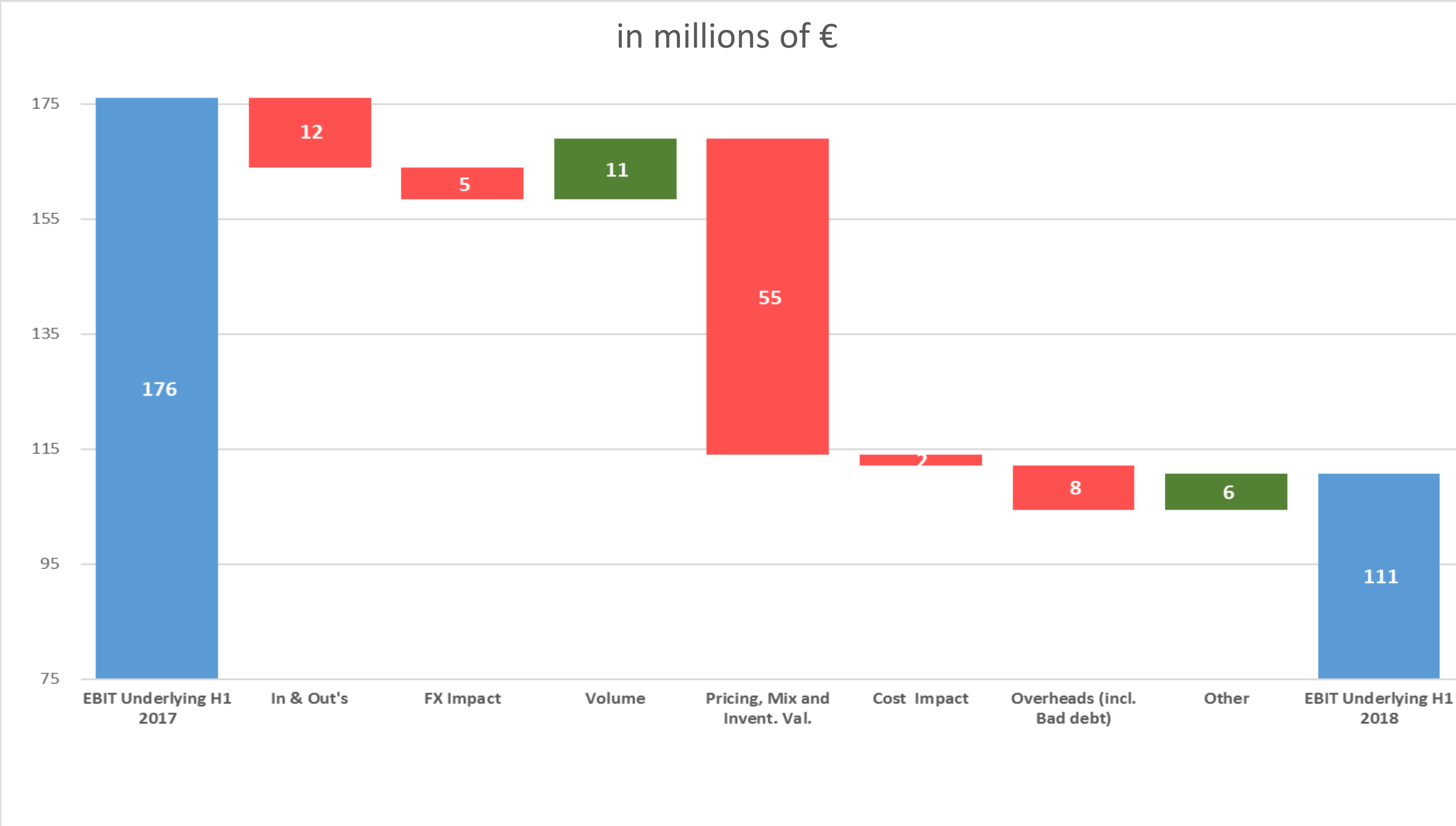
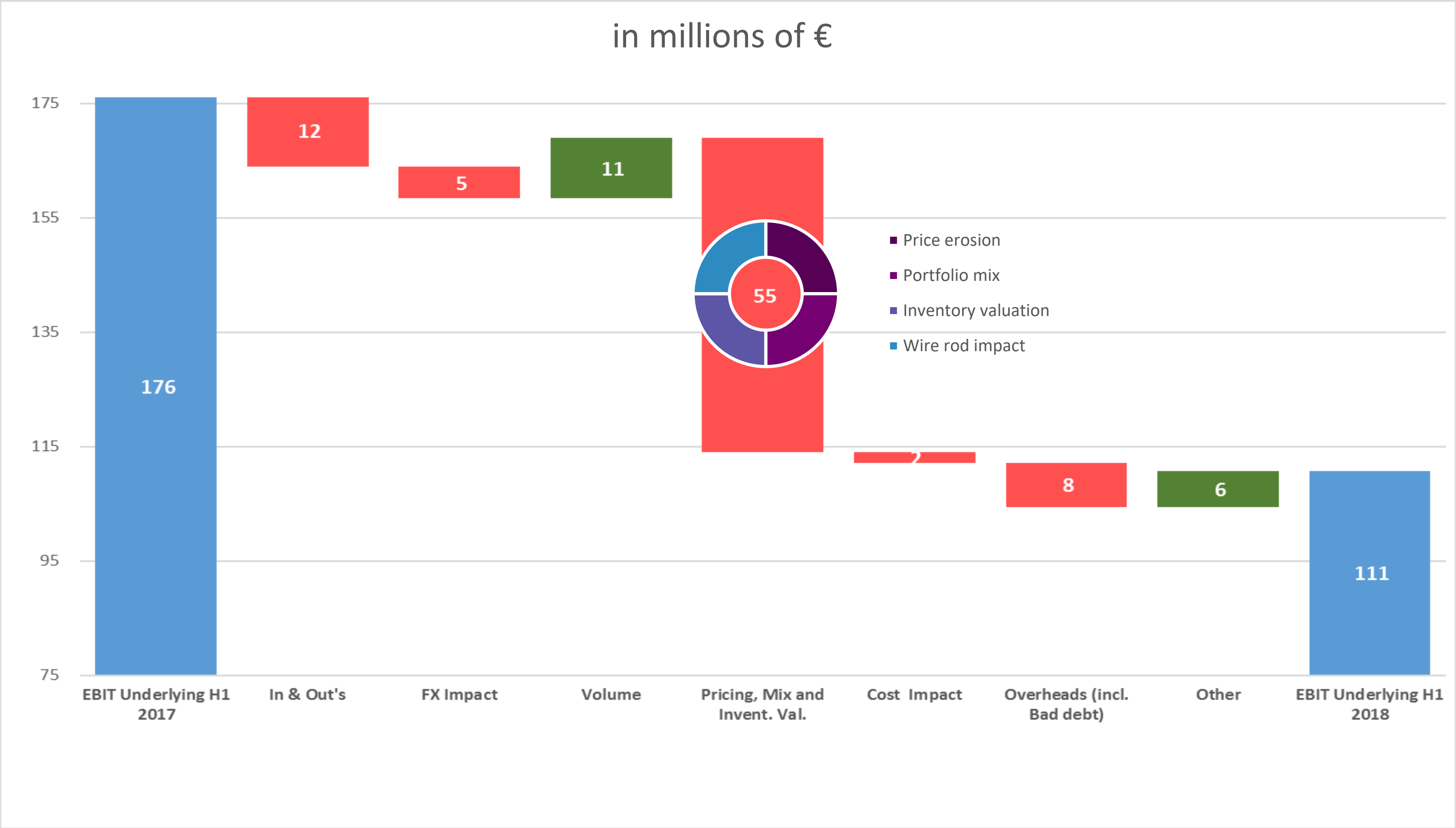
EBIT-underlying bridge



EBIT-underlying bridge



Segment reporting: EMEA

(in mio €)	Underlying		Reported	
	1H 2017	**1H 2018**	**1H 2017**	**1H 2018**
Consolidated sales	653	693	653	693
EBIT	81	68	80	34
EBIT margin	12.3%	9.8%	12.3%	5.0%
Depreciation, amortization and impairment losses	31	32	31	43
EBITDA	111	100	111	78
EBITDA margin	17.1%	14.4%	17.0%	11.2%
ROCE	24.1%	18.7%	23.9%	9.4%

- Sales increase of +6%, resulting from the aggregate effect of passed-on wire rod price increases and price-mix (+6%) on stable volumes. The volume growth in rubber reinforcement activities was offset by a decrease in others.
- The underlying EBIT margin decrease to 10% reflected increased price pressure, the higher losses in Figline (Italy), and start-up costs in the plants with expansion programs in Central and Eastern Europe.
- The ‘reported’ data include the operational losses incurred since the announcement of the closure of the Figline plant, the impairment losses of its assets and accrued closure expenses.

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Segment reporting: North America

(in mio €)	Underlying		Reported	
	1H 2017	1H 2018	1H 2017	1H 2018
Consolidated sales	287	300	287	300
EBIT	21	14	21	14
EBIT margin	7.2%	4.6%	7.2%	4.6%
Depreciation, amortization and impairment losses	7	7	7	7
EBITDA	28	21	28	21
EBITDA margin	9.6%	6.9%	9.6%	6.9%
ROCE	17.9%	12.6%	17.9%	12.6%

- Sales increased by +5% and reflected strong organic volume growth (+7%) and a positive effect of passed-on higher wire rod prices and price-mix (+8%). The adverse FX effects (-11%) offset a large part of the growth.
- The volume growth was from strong demand in tire and equipment markets benefiting the rubber reinforcement platform. Volumes in other platforms were stable in the aggregate.
- Profitability was affected by increased costs from domestic wire rod price increases (about +30%) and other cost inflation (eg, transport costs) which are difficult to pass on in competition with integrated players and import flows of finished products. FX changes had an additional adverse impact of € -3 million. Rubber reinforcement plants were not yet affected by the new duties in the first half but duty-free imports from Brazil are no longer possible in H2.

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Segment reporting: Latin America

(in mio €)	Underlying		Reported	
	1H 2017	**1H 2018**	**1H 2017**	**1H 2018**
Consolidated sales	356	344	356	344
EBIT	28	23	54	23
EBIT margin	8.0%	6.6%	15.1%	6.6%
Depreciation, amortization and impairment losses	11	9	11	9
EBITDA	40	32	65	32
EBITDA margin	11.1%	9.3%	18.2%	9.3%
ROCE	16.9%	13.7%	32.1%	13.6%

- Our Latin American activities achieved strong organic consolidated sales growth (+14%). The efforts to pass on price increases of raw materials to customers and improvement to product-mix were highly successful (+17%) and achieved on somewhat lower volumes (-3%). This robust organic growth was, however, more than offset by the disposal effect (-11.5%) of Sumaré (Brazil) and adverse currency movements (-6%), resulting in a -3% lower topline.
- At constant exchange rates and scope of consolidation (excluding the impact of Sumaré) and provisions, the underlying EBIT increased by about +20%. This significant improvement reflects the impact of the transformation programs we have implemented in the region. Including all elements, underlying EBIT decreased to € 23 million, reflecting a margin of 6.6%. Reported EBIT was significantly lower than in the same period of 2017 which included the gain on the sale of 55.5% of the shares of the Sumaré plant in Brazil.

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Segment reporting: Asia Pacific

(in mio €)	Underlying		Reported	
	1H 2017	**1H 2018**	**1H 2017**	**1H 2018**
Consolidated sales	565	593	565	593
EBIT	61	40	57	67
EBIT margin	10.7%	6.8%	10.1%	11.2%
Depreciation, amortization and impairment losses	47	47	47	36
EBITDA	108	87	105	102
EBITDA margin	19.0%	14.7%	18.5%	17.2%
ROCE	12.5%	7.6%	11.7%	12.7%

- We delivered 10% organic sales growth in Asia Pacific, all of which was driven by strong volumes. Consolidated sales growth was tempered due to unfavorable currency movements (-5%).
- Underlying EBIT decreased to € 40 million at a margin of 6.8%, below our performance of the first half of 2017. Several developments hindered us from repeating the margin performance of the same period last year: the strong deterioration of the loose abrasive sawing wire business and additional start-up costs in expansion programs.
- Reported EBIT included the gain on the sale of land and buildings following the closing of the Huizhou (China) and Shah Alam (Malaysia) operations.

Segment reporting: Bridon-Bekaert Ropes Group (BBRG)

(in mio €)	Underlying		Reported	
	1H 2017	**1H 2018**	**1H 2017**	**1H 2018**
Consolidated sales	234	227	234	227
EBIT	11	2	11	(1)
EBIT margin	4.7%	0.8%	4.5%	-0.3%
Depreciation, amortization and impairment losses	11	14	11	14
EBITDA	22	16	21	14
EBITDA margin	9.4%	7.1%	9.1%	6.0%
ROCE	4.3%	0.8%	4.1%	-0.3%

- BBRG reported a sales decline of -3% compared with the first half of 2017. Significant currency movements (-6%) more than offset the organic growth (+3%) which resulted from increased volumes (+7.5%) and an unfavorable price-mix (-5%).
- Underlying EBIT was € 1.8 million, further down from previous reporting periods due to the weak performance of the ropes business. The advanced cords business activities continued to perform well.
- Reported EBIT and EBITDA included the cost of services to support the turnaround of the business (€ -3 million).

Consolidated income statement: key figures

(in mio €)	1H 2017	1H 2018
EBIT	**197**	**101**
Interest income / expense	(41)	(45)
Other financial income and expenses	(35)	(0)
Result before taxes	120	56
Income taxes	(42)	(23)
Result after taxes (consolidated companies)	**78**	**33**

- Net interest expenses were higher than last year due to an increase of gross debt.
- Difference in ‘other financial results’ entirely related to the adjustment in fair value of the conversion option embedded in the convertible bonds (€ +17 million in 2018 versus € -21 million in 2017).
- The lower income tax expense was from lower profitability in various tax paying entities (including the effect of the disposed Sumaré business) and from a higher withholding tax on foreign dividends incurred in 2017. The effective tax rate was 40.5%.

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Consolidated income statement: key figures

(in mio €)	1H 2017	1H 2018
Result after taxes (consolidated companies)	78	33
Share in the results of joint ventures and associates	9	12
Result for the period	**88**	**45**
Attributable to non-controlling interests	1	(10)
Attributable to the Group	**87**	**54**

- The share in the results of joint ventures and associates increased because of the integration of Sumaré into the joint venture partnership from the second half of 2017 onwards, and from an improved performance of the steel wire activities in Brazil. The depreciation of the real (-20% compared to HY 2017) had a significant adverse translation effect.
- Results attributable to non-controlling interests reflect the lower profitability in the companies where minority stakes are held by third parties.

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Cash flow: key figures

(in mio €)	1H 2017	1H 2018
Gross cash flows from operations	205	147
Cash flows from operations	6	(17)
Cash flows from investment activities	(64)	(54)
Cash flows from financing activities	(0)	(60)

- Gross cash-ins from operations were € 58 million lower due to a decline in underlying EBITDA.
- The cash-out impact of the higher working capital amounted to € 148 million in 2018. This resulted in € -23 million lower cash flows from operations.
- Following IAS7, the Purchase of the Non Controlling Interest in 2017 was reclassified from Cash Flows from Investment Activities to Cash Flows from Financing Activities (€ 17 million).
- Cash-outs from investment activities were € -10 million lower in 2018. Capital expenditure (€ 95 million) was slightly lower compared to last year (€ -8 million). The 2018 proceeds from the sale of land and buildings in China and Malaysia were € +3 million higher than the proceeds of the Sumaré business transaction in 2017.
- Cash flows from financing activities totaled € -60 million versus € -0.3 million in 2017, due to lower proceeds from gross debt (€ -64 million), higher expenditure on treasury shares (€ -19 million) and lower expenditure on purchases of non-controlling interests (€ +17 million).

Working capital: key figures

(in mio €)	1H 2017	Year-end 2017	1H 2018
Inventories	783	780	904
Accounts receivable	918	910	1 011
Accounts payable	(715)	(802)	(884)
Working capital	985	888	1 031

- The nominal increase in Working Capital by € 143 million versus year-end 2017 was the result of higher outstanding trade receivable balances, while the organic increase in trade payables balances did not offset the increase in inventories.
- Movements in FX closing rates drove Working Capital up by € +5 million.
- Average working capital on sales was 22.3% (versus 22.5% same period last year), up from 21.4% at year-end 2017.

Consolidated balance sheet: key figures

(in mio €)	Year-end 2017	1H 2018
Non-current assets	2 124	2 103
Current assets	2 321	2 442
Total assets	4 445	4 545
Equity	1 583	1 543
Non-current liabilities	1 449	1 415
Current liabilities	1 413	1 588
Total equity and liabilities	4 445	4 545

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Balance sheet: key figures

(in mio €)	1H 2017	Year-end 2017	1H 2018
Net financial debt	1 230	1 151	1 339
Gearing (net debt to equity)	81.7%	72.7%	86.8%
Net debt on EBITDA (underlying)	2.2	2.3	3.1
Net debt on EBITDA (reported)	2.1	2.3	3.3

- Net debt on EBITDA (underlying) was 3.1 as net debt increased and EBITDA-underlying decreased.

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Ratios: key figures

	Underlying		Reported	
	1H 2017	**1H 2018**	**1H 2017**	**1H 2018**
Gross profit margin	18.2%	14.4%	18.1%	13.6%
EBITDA margin	13.2%	9.9%	14.2%	9.5%
EBIT margin	8.4%	5.1%	9.4%	4.7%
Sales on capital employed (asset rotation)	1.6	1.6	1.6	1.6
Return on capital employed (ROCE)	13.1%	8.1%	14.6%	7.4%
Return on equity (ROE)			11.3%	5.7%

Outlook

We recognize that our performance has been affected more than projected and we will accelerate our actions to progressively improve our profitability level. These actions include measures that we have announced before as well as other elements that will enable us to step up our performance.

- Turning around the profitability of weaker performing businesses and other restructuring actions include measures that take time.
  The related business plans are:
  - in development: eg, Bridon-Bekaert Ropes Group turn-around
  - in implementation: eg, Bekaert Figline Valdarno plant closure
  - implemented: eg, the sale of the weaker performing drying activities.

  We are also determining the remediation steps for other underperforming entities and continue to review the potential of all our activities in order to improve our business portfolio.

- The benefits from the ongoing expansion investments in EMEA and Asia Pacific are currently restricted at the profit level due to higher than anticipated start-up costs. We are implementing actions aimed at solving the issues and will achieve the intended margin improvement towards the end of the year.

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Outlook

- Passing on raw material price increases without delay continues to be a major challenge, but we are stepping up our efforts and are deploying new pricing tools to improve the pass-through more effectively.

  We are cautious about the cost inflation facing our US operations as a direct or indirect consequence of the imposed trade barriers:

  - Rubber Reinforcement: wire rod cost increase from 1 August 2018 onwards: +50%
    - Changes in sourcing
    - Wire rod price trend
    - Import duties
    - Anti-dumping tariffs
  - Other activities: domestic wire rod price increases: H1 2018 versus H1 2017: +30%
    - More difficult to pass on in competition with integrated players and import flows finished goods

- The launch of fixed abrasive (diamond) sawing wire, postponed two months as a result of recently enacted environmental regulations and audits in China, will enable us to restore our position in solar wafer markets.
  - Ramping up production lines
  - Compliant to the new environmental regulations
  - Market introduction being prepared

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Outlook

- Cash generation actions are being put in place to bring net debt/underlying EBITDA to around 2.5 at year-end 2018. This includes:
  - improvement of the operating result (underlying EBIT)
  - strict working capital control measures
  - a thorough review of all capital expenditure needs.

    We will continue to invest in future growth. Capital expenditure (PP&E) amounted to € 95 million in the first half of 2018 and we project to invest approximately € 200 million for the total of 2018 (versus € 273 million last year).

From today's perspective, we will not be able to achieve the same profitability level of last year for FY2018.

Despite the projected normal seasonality of the second half of the year and the time needed to restore the margin impact from all factors that have been weighing on our profitability, we do expect to increase our underlying EBIT over the course of the second half.

We also remain confident about our underlying strategy and the impact of our transformation actions, which are strengthening the fundamentals of our organization. We believe that these will allow us to move towards sustainable margin improvement over the coming years.

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Q&A

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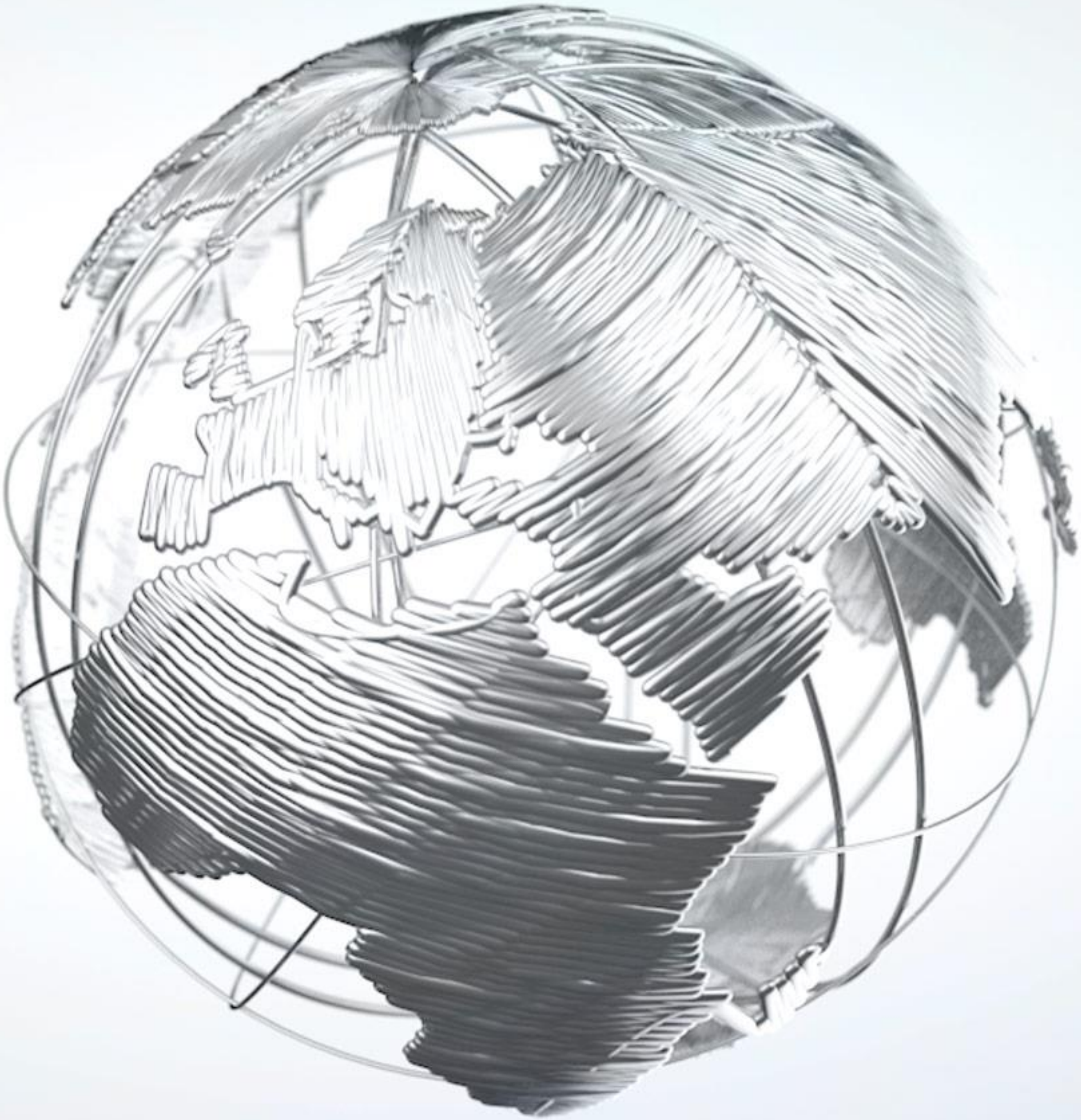

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