5. Income statement items and other comprehensive income

5.1. Operating result (EBIT) by function

in thousands of €	2010	2009	variance
Sales	3 262 496	2 437 328	825 168
Cost of sales	-2 358 225	-1 903 161	-455 064
Gross profit	**904 271**	**534 167**	**370 104**
Selling expenses	-128 998	-105 401	-23 597
Administrative expenses	-135 830	-110 621	-25 209
Research and development expenses	-79 330	-63 430	-15 900
Other operating revenues	15 978	15 442	536
Other operating expenses	-13 602	-13 392	-210
Operating result before non-recurring items (REBIT)	**562 489**	**256 765**	**305 724**
Non-recurring items	-28 221	-24 574	-3 647
Operating result (EBIT)	**534 268**	**232 191**	**302 077**

Sales and gross profit in thousands of €	2010	2009	variance (%)
Sales	3 262 496	2 437 328	33.9%
Cost of sales	-2 358 225	-1 903 161	23.9%
Gross profit	**904 271**	**534 167**	**69.3%**
Gross profit in % of sales	27.7%	21.9%	

Bekaert's consolidated sales increased with 34% compared to 2009, which was impacted by a weak market demand, primarily in the first half. The sales growth reflects an organic growth of 32% resulting from (i) a strong volume increase in all regions, (ii) a positive product mix effect, and (iii) some price increases reflecting higher raw material prices. Exchange rate fluctuations and the net effect of acquisitions and disposals each add about 1%.

The substantially higher gross profit is driven by higher volumes and related better capacity utilization, as well as innovative products driving a further mix improvement.

Sustained recovery and further improvement in product mix resulted in higher sales and profits across all activity platforms in EMEA, with the exception of building products.

In North America, market demand in the automotive sector picked up strongly in 2010, while the industrial and agricultural applications continued to perform well. Profitability increased as a result of better capacity utilization driven by higher volumes in most activities, while highly competitive market circumstances put margins under pressure.

Sales in Latin America decreased with 5% reflecting an organic growth of 23%, which is more than off-set by a negative exchange rate impact of 28% reflecting the use of a more open market exchange rate in Venezuela. In general, a strong business growth is realized in all markets and an acceptable activity level is obtained in Venezuela.

The sales and profit growth in Asia Pacific reflects a solid demand driven by strong industrial development across the region. This applies to most product groups and respective markets, with the automotive and utilities sectors as fast developing markets.

Overheads in thousands of €	**2010**	**2009**	**variance (%)**
Selling expenses	-128 998	-105 401	22.4%
Administrative expenses	-135 830	-110 621	22.8%
Research and development expenses	-79 330	-63 430	25.1%
Total	**-344 158**	**-279 453**	**23.2%**

Selling and administrative (S&A) expenses increased with 23% to support the global business growth. Thanks to further economies of scale, the S&A expenses decreased from 8.9% to 8.1% on sales.

Research and development increased with 25% to support our innovation program across all regions and sectors.

Other operating revenues in thousands of €	**2010**	**2009**	**variance**
Royalties received	10 014	7 543	2 471
Gains on disposal of PP&E and intangible assets	3 259	145	3 114
Realized exchange results on sales and purchases	-437	-1 245	808
Tax rebates	-	123	-123
Government grants	1 238	5 502	-4 264
Miscellaneous	1 904	3 374	-1 470
Total	**15 978**	**15 442**	**536**

Government grants relate mainly to subsidies in China (€ 1.1 million) and Belgium (€ 0.2 million). There are no indications that the conditions attaching to those grants will not be complied with in future and therefore it is not expected that subsidies may have to be refunded.

Other operating expenses in thousands of €	**2010**	**2009**	**variance**
Losses on disposal of PP&E and intangible assets	-3 328	-1 278	-2 050
Amortization of intangible assets	-2 025	-1 941	-84
Personnel charges	-1	-2 480	2 479
Bank charges	-2 757	-1 886	-871
Miscellaneous	-5 492	-5 807	315
Total	**-13 603**	**-13 392**	**-211**

Amortization of intangible assets mainly relates to intangibles recognized during the initial accounting for the acquisition of Cold Drawn Products Ltd (€ 1.7 million, same as in 2009) and Bekaert (Huizhou) Steel Cord Co Ltd (€ 0.2 million). As from 2010, all personnel charges have been allocated to the appropriate function in the income statement.

Non-recurring items in thousands of €	**2010**	**2009**	**variance**
Restructuring	428	-14 820	15 248
Impairment losses	-17 723	-8 845	-8 878
Other	-10 926	-909	-10 017
Total	**-28 221**	**-24 574**	**-3 647**

Restructuring reflects a broad range of minor events, which have been more than offset by a gain on the sale of land. The 2010 impairment losses relate to (i) a partial impairment of plant assets in Vicson – Venezuela (€ 12.4 million), (ii) machinery in Indonesia (€ 3.1 million), and (iii) assets in advanced filtration (€ 1.4 million). Based on the unfavorable and fluctuating economic conditions in Venezuela, as well as the uncertainty for the near future, an impairment test was performed on Vicson. The resulting impairment loss is based on the value in use, using a discount rate of 11.6%. The impairment of machinery in Indonesia is a consequence of a decision to move to new technology (see note 6.3. 'Property, plant and equipment').
The other non-recurring costs mainly relate to provisions for environmental liabilities.

5.2. Operating result (EBIT) by nature

The table below provides information on the major items contributing to the operating result (EBIT), categorized by nature.

in thousands of €	2010		2009	
Sales	3 262 496	100%	2 437 328	100%
Other operating revenues	15 978	-	15 442	-
Total operating revenues	**3 278 474**	**-**	**2 452 770**	**-**
Own construction of PP&E	105 536	3.2%	68 760	2.8%
Raw materials	-1 156 941	35.5%	-876 914	36.0%
Semi-finished products and goods for resale	-104 423	3.2%	-63 226	2.6%
Change in work-in-progress and finished goods	72 717	-2.2%	-110 810	4.5%
Staff costs	-596 923	18.3%	-499 070	20.5%
Depreciation and amortization	-173 026	5.3%	-139 841	5.7%
Impairment losses	-17 980	0.6%	-13 506	0.6%
Transport and handling of finished goods	-120 873	3.7%	-84 440	3.5%
Consumables and spare parts	-261 833	8.0%	-142 298	5.8%
Utilities	-183 803	5.6%	-136 125	5.6%
Maintenance and repairs	-47 613	1.5%	-36 838	1.5%
Expenses operating leases	-21 983	0.7%	-18 850	0.8%
Commissions in selling expenses	-5 821	0.2%	-4 261	0.2%
Export VAT and export customs duty	-27 555	0.8%	-14 401	0.6%
ICT costs	-21 778	0.7%	-18 612	0.8%
Advertising and sales promotion	-9 470	0.3%	-6 584	0.3%
Travel, restaurant & hotel	-40 812	1.3%	-31 297	1.3%
Consulting and other fees	-30 113	0.9%	-28 030	1.2%
Office supplies and equipment	-12 941	0.4%	-10 964	0.4%
Venture capital funds R&D	-1 440	0.0%	-1 042	0.0%
Temporary or external labor	-12 655	0.4%	-5 802	0.2%
Insurance expenses	-4 794	0.1%	-3 559	0.1%
Miscellaneous	-69 683	2.1%	-42 869	1.8%
Total operating expenses	**-2 744 206**	**84.1%**	**-2 220 579**	**91.1%**
Operating result (EBIT)	**534 268**	**16.4%**	**232 191**	**9.5%**

5.3. Interest income and expense

in thousands of €	2010	2009
Interest income on financial assets carried at amortized cost	9 305	6 253
Interest income	**9 305**	**6 253**
Interest expense on financial liabilities carried at amortized cost	*-48 973*	*-48 903*
Interest expense on financial liabilities carried at fair value	*-4 287*	*-5 051*
Interest and similar expense	-53 260	-53 954
Interest element of interest-bearing provisions	-6 096	-8 979
Interest expense	**-59 356**	**-62 933**
Total	**-50 051**	**-56 680**

The increase in interest income originates mainly from short-term investments of cash surpluses generated in Asia Pacific. The average quarterly financial debt hardly moved and is reflected by the status quo in interest and similar expense. Interest expense on financial liabilities carried at amortized cost relates to all interest-bearing debt which is not hedged by a fair value hedge. Interest expense on financial liabilities carried at fair value relates both to interest-bearing debt hedged by a fair value hedge and to interest-rate risk mitigating derivatives (see note 7.3. 'Financial risk management and financial derivatives'). Since interest-rate risk mitigating derivatives were used in connection with financial liabilities only, all interest expense adjustments from those derivatives are recorded as interest expense on financial liabilities at fair value.

The interest element of interest-bearing provisions relates mainly to the interest expense net of the expected return on plan assets of defined-benefit plans (see note 6.14. 'Employee benefit obligations'). Its decrease is mainly related to the favorable effect of higher returns on plan assets.

5.4. Other financial income and expenses

in thousands of €	2010	2009
Value adjustments to derivatives	*-515*	*-39 429*
Value adjustments to hedged items	*1 982*	*37 140*
Unrealized exchange results on underlying items of derivatives held for trading	*2 918*	*-265*
Impact of derivatives (see note 7.3)	4 385	-2 554
Other unrealized exchange results	23 073	7 107
Realized exchange results	-9 345	-14 406
Translation gain on Vicson SA	134	1 569
Gains and losses on disposal of financial assets	-1 105	293
Dividends from other shares	1 063	3
Write-downs and write-down reversals of loans and receivables	-427	-1 087
Other	-84	131
Total	**17 694**	**-8 944**

Value adjustments include changes in the fair value of all derivatives, other than those designated as cash flow hedges, and of all debt hedged by fair value hedges (see note 7.3. 'Financial risk management and financial derivatives'). Unrealized exchange results relate to the effect of translating monetary balance sheet items at closing rates and realized exchange results relate to transactions other than normal trading sales and purchases. 'Translation gain on Vicson SA' represents the effect of translating the monetary items of Vicson at the SITME rate (2009: parallel rate) against the bolivar fuerte at balance sheet date (see note 3.2. 'Critical judgments in applying the entity's accounting policies').

5.5. Income taxes

in thousands of €	2010	2009
Current taxes for the year	-170 315	-60 986
Adjustment to current taxes in respect of prior periods	3 455	2 276
Deferred taxes	27 396	24 808
Total tax expense	**-139 464**	**-33 902**

Relationship between tax expense and accounting profit

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

in thousands of €	2010	2009
Accounting profit	501 911	166 567
Tax expense at the theoretical domestic rates applicable to profits of taxable entities in the countries concerned	-124 290	-28 168
Tax expense related to distribution of retained earnings	-21 022	-15 917
Total theoretical tax expense	-145 312	-44 085
Theoretical tax rate	-29.0%	-26.5%
Tax effect of:		
Non-deductible items	*-15 934*	*-15 754*
Other tax rates and special tax regimes	*29 947*	*38 735*
Non-recognition of deferred tax assets	*-16 401*	*-38 656*
Utilization of deferred tax assets not previously recognized	*2 609*	*1 913*
Tax adjustments relating to prior periods	*7 673*	*-934*
Changes in distribution of retained earnings	*-*	*27 247*
Other	*-2 046*	*-2 368*
Total tax expense	**-139 464**	**-33 902**
Effective tax rate	-27.8%	-20.4%

Other tax rates and special tax regimes reflect temporary tax holidays and notional interest deduction. In 2009, the difference between theoretical and effective tax expense was impacted by a one-time positive impact due to changes in cash repatriation strategy for € 27.2 million.

5.6. Share in the results of joint ventures and associates

The results for the Brazilian joint ventures were adversely affected by the strengthening of the Brazilian real, which entailed lower prices and eroding margins. In Chile, the consequences of the earthquake of 27 February were felt throughout the year, as import competition was fueled by domestic material shortages and production standstills. By year-end however, Inchalam managed to regain part of its lost market share.

in thousands of €		2010	2009
Joint ventures			
BOSFA Pty Ltd	Australia	123	-336
Belgo Bekaert Arames Ltda and subsidiary	Brazil	23 924	25 953
BMB-Belgo Mineira Bekaert Artefatos de Arame Ltda	Brazil	4 131	3 188
Inchalam group	Chile	7 886	8 264
Bekaert Handling Group AS [1]	Denmark	-	704
Total		**36 064**	**37 773**

[1] *Bekaert Handling Group AS has been liquidated early January 2010.*

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

5.7. Earnings per share

2010	Number
Weighted average number of ordinary shares (basic)	59 249 600
Dilution effect of subscription rights	309 064
Weighted average number of ordinary shares (diluted)	59 558 664

	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders (in thousands €)	367 647	367 647
Earnings per share (in €)	**6.205**	**6.173**

2009	Number
Weighted average number of ordinary shares (basic)	59 220 618
Dilution effect of subscription rights	135 312
Weighted average number of ordinary shares (diluted)	59 355 930

	Basic	Diluted
Result for the period attributable to the Group and to ordinary shareholders (in thousands €)	151 792	151 792
Earnings per share (in €)	**2.563**	**2.557**

In November 2010, the Bekaert share was split in three. Consequently, and in accordance with IAS 33, Earnings per Share, comparative figures for 2009 have been restated to an after-split situation. The weighted average closing price during 2010 was € 53.82 per share (2009: € 25.14 per share). None of the outstanding options and subscription rights were out of the money, and therefore antidilutive, for the period presented. For more information about subscription rights, please refer to 6.11. Ordinary shares, treasury shares, subscription rights and share options.

5.8. Total comprehensive income

Total comprehensive income includes both the result of the period recognized in the income statement and the other comprehensive income recognized in equity. Other comprehensive income includes all changes in equity other than owner-related changes, which are analyzed in the statement of changes in equity.

The exchange differences (€ 125.4 million) mainly relate to foreign entities reporting in Chinese renminbis (€ 68.6 million), Brazilian reais (€ 22.5 million), US dollars (€ 12.6 million) and Chilean pesos (€ 11.1 million).